

2026 Budget Analysis

Budget of Consolidation, Renewed Resilience and Shared Prosperity



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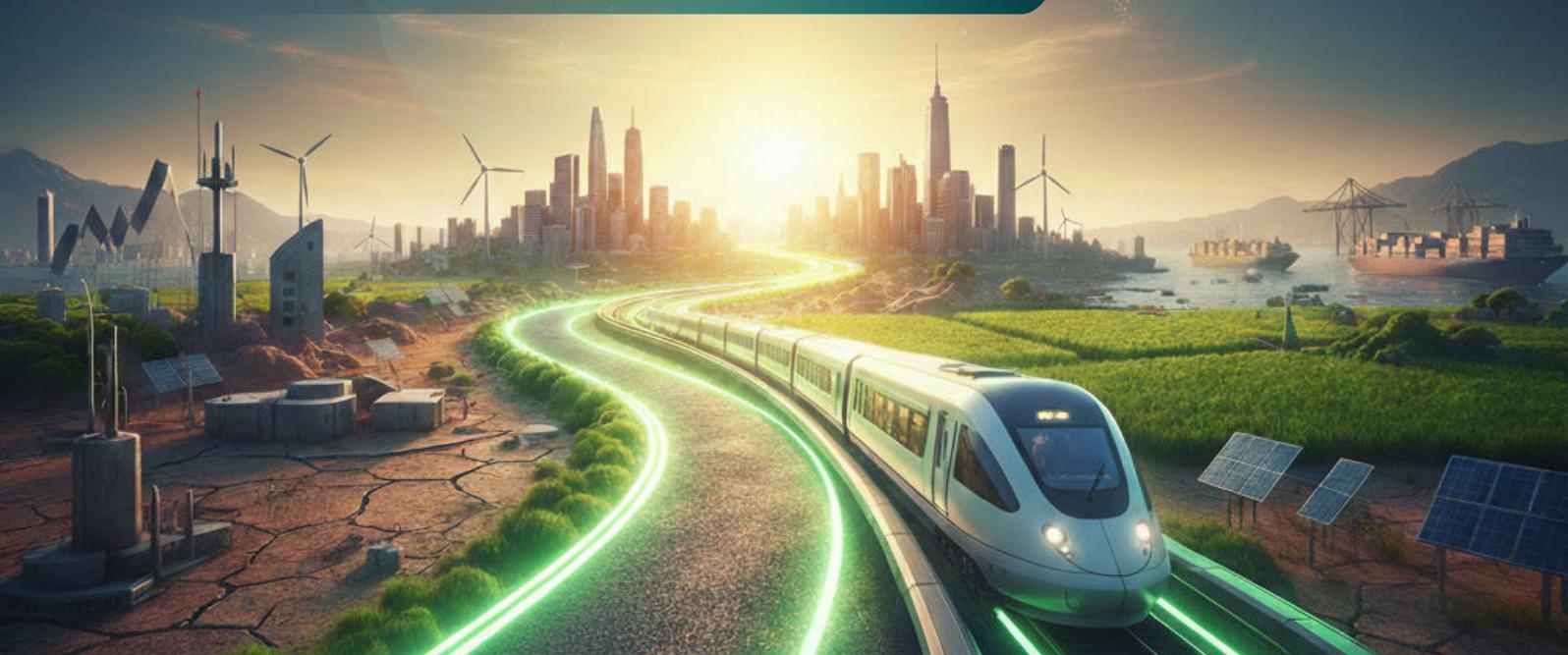
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Executive Summary

Nigeria's 2026 Budget marks a clear departure in tone and assumptions from the optimism that underpinned the 2025 "Budget of Restoration: Securing Peace, Rebuilding Prosperity." The new fiscal framework is more conservative and realism-driven, reflected in lower oil price and production benchmarks—an average oil price of US\$64.85 per barrel and production of 1.84 million barrels per day, compared to US\$75 and 2.06 million barrels per day previously. This recalibration signals a government more attuned to prevailing macroeconomic constraints than aspirational forecasts.

Total expenditure for 2026 is projected at ₦58.47 trillion, against expected revenues of ₦33.20 trillion, resulting in a deficit of ₦25.27 trillion and a fiscal deficit of approximately 4.28% of GDP. While sizeable, this deficit is not out of line with global peers comparable to the United Kingdom's 4.5% and South Africa's 4.0%. However, Nigeria's fiscal challenge is structurally distinct: it is rooted less in excessive spending and more in chronically weak revenue mobilisation.

Government revenue remains below 10% of GDP, materially lower than comparable African economies such as Ghana (17%), Kenya (17%), and South Africa (27%). Nigeria's weak revenue base limits the government's ability to manage its finances effectively, highlighting a key issue: the real challenge to debt sustainability is low revenue, not the size of debt relative to the economy. Despite a relatively moderate debt ratio, the burden of debt servicing continues to crowd out fiscal space, with a significant portion of revenues allocated to servicing obligations.

The Federal Government's share of net federally collected revenue, estimated at ₦20.01 trillion, remains the single largest component of public revenue.

Oil continues to play a central role in the fiscal architecture, historically accounting for 50–60% of revenues, with projected oil receipts of US\$43.56 billion in 2026. Encouragingly, despite the global contraction in development assistance, Nigeria is still expected to receive ₦1.37 trillion in grants and aid, reflecting sustained engagement from bilateral and multilateral partners.

A defining feature of the 2026 Appropriation Bill is its strong stance on capital expenditure. ₦23.21 trillion, nearly 40% of total expenditure, has been earmarked for capital projects, exceeding the 30% benchmark commonly recommended for developing economies. This allocation reinforces the government's stated intent to link borrowing more closely to productive assets, spanning both hard and soft infrastructure.

However, the scale of borrowing remains a concern. The total budget deficit of ₦25.27 trillion exceeds the entire capital budget, implying that the government is effectively borrowing to fund all infrastructure spending and part of recurrent expenditure. Within recurrent spending, national security emerges as the dominant cost driver, accounting for 28% of total recurrent expenditure, reflecting persistent security challenges. External reserves are projected to rise to US\$51 billion, supported by a more stable foreign exchange market, stronger export earnings, and steady diaspora remittances. This improvement suggests firmer external sector fundamentals and better policy coordination.

The 2026 Budget is expansionary, infrastructure-led, and pragmatically calibrated. Its success, however, will hinge less on expenditure execution and more on whether Nigeria can finally address its enduring weakness of a narrow and underperforming revenue base.



Assessment of 2025 Budget

The 2025 National Budget, titled “Budget of Restoration: Securing Peace, Rebuilding Prosperity,” was designed to stabilise Nigeria’s economy through a ₦49.74 trillion expenditure plan. However, the year was defined by a stark contrast between ambitious policy goals and harsh fiscal realities.

Key Budget Assumptions vs. Reality

The fiscal framework relied on optimistic benchmarks that largely went unmet. The oil price was budgeted at \$75/barrel, but prices averaged closer to \$66 by late 2025. Similarly, production was targeted at 2.06 million barrels per day (mbpd), while actual output averaged 1.68 mbpd. This led to a massive revenue gap: while total expected revenue was ₦36.35 trillion, gross oil revenue in the first half of 2025 reached only ₦4.55 trillion.

Revenue Performance and Expenditure

A significant shift occurred in the revenue structure as non-oil revenue provided much-needed fiscal relief. This success was driven by the implementation of the Withholding Tax Regulations and the expansion of digital platforms like TaxPro Max, which modernised tax administration and boosted compliance. While these reforms signalled a promising move toward a diversified economy, they were not yet sufficient to offset the massive shortfalls in the oil sector. Consequently, while

the government prioritised Security (₦4.91 trillion), Infrastructure (₦4.06 trillion), Education (₦3.52 trillion), and Health (₦2.48 trillion), the actual impact of this spending was dampened by high inflation and rising operating costs that hindered capital project delivery.

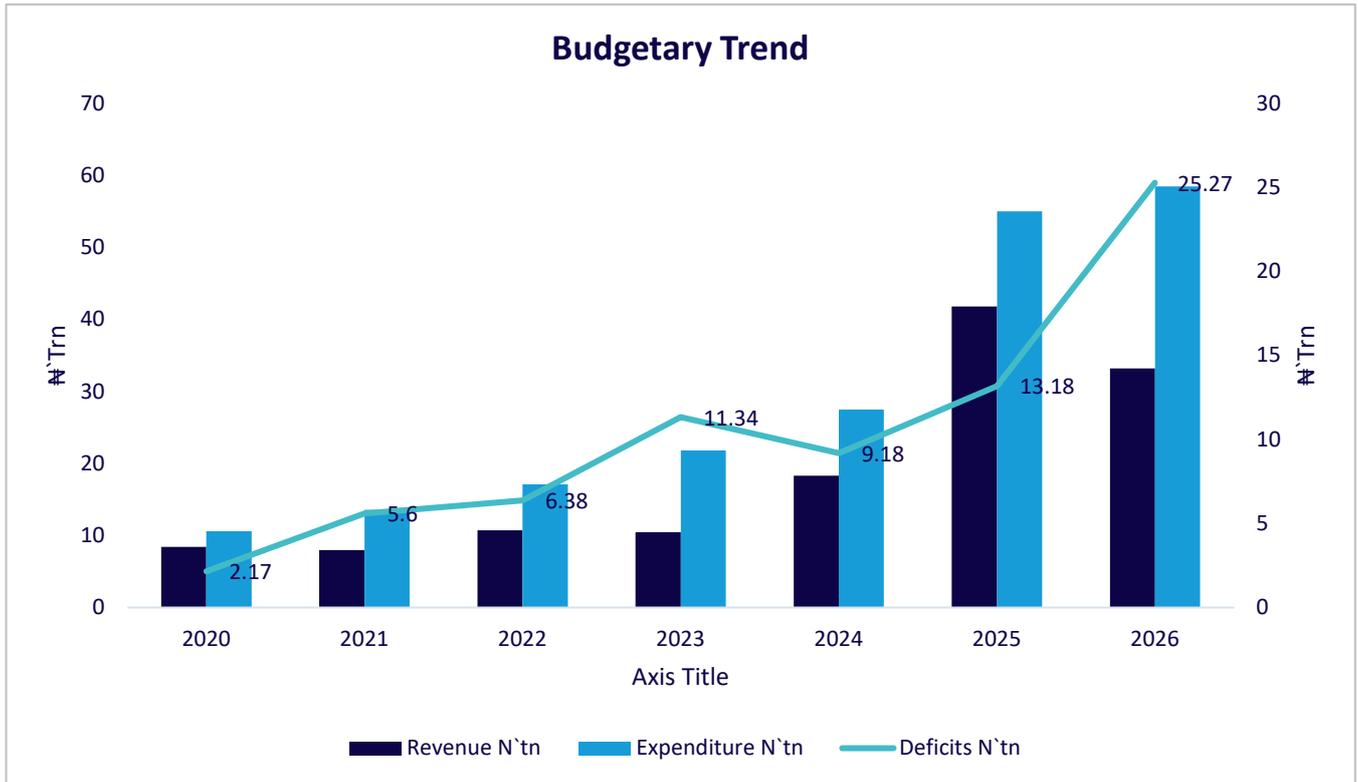
The Debt Challenge

Nigeria’s total public debt climbed to ₦152.40 trillion (approximately 33.98% of GDP) by mid-2025. While the debt-to-GDP ratio remains manageable by international standards, debt servicing now consumes a disproportionate share of revenue. This creates a “fiscal squeeze,” where the cost of borrowing limits the funding available for critical social development and long-term economic growth.

The 2025 fiscal year illustrates the ongoing tension between Nigeria’s bold policy ambitions and its underlying fiscal constraints. While progress in non-oil revenue mobilisation offers a roadmap for future stability, the structural dependence on volatile global oil markets and the heavy burden of debt servicing continue to undermine overall performance. These dynamics will be the defining factors in shaping Nigeria’s macroeconomic prospects and its ability to compete within emerging frontier markets as it moves into the 2026 fiscal cycle.



Historical Budget Analysis



Source: BudgIT, Kreston Pedabo Analysis

Between 2020 and 2026, Nigeria’s fiscal position is characterised by a persistent imbalance between revenue and expenditure, resulting in sustained and, in recent years, widening budget deficits. Government revenue declined slightly from ₦8.42 trillion in 2020 to ₦7.99 trillion in 2021, before recovering modestly in 2022 and stagnating in 2023, reflecting weak revenue mobilisation despite improving macroeconomic conditions. A significant improvement occurred in 2024 and peaked in 2025, driven by major policy reforms and stronger non-oil revenue, although this gain proved fragile as revenue fell again in 2026.

In contrast, expenditure followed a consistently expansionary trajectory throughout the period, rising from ₦10.59 trillion in 2020 to ₦21.83 trillion in 2023, and accelerating sharply thereafter to ₦58.47 trillion by 2026. This growth reflects mounting recurrent obligations, higher debt service costs, and increased social and capital spending.

Consequently, fiscal deficits widened from ₦2.17 trillion in 2020 to ₦11.34 trillion in 2023, narrowed temporarily in 2024 due to improved revenues, and then deteriorated significantly, reaching ₦25.27 trillion in 2026.

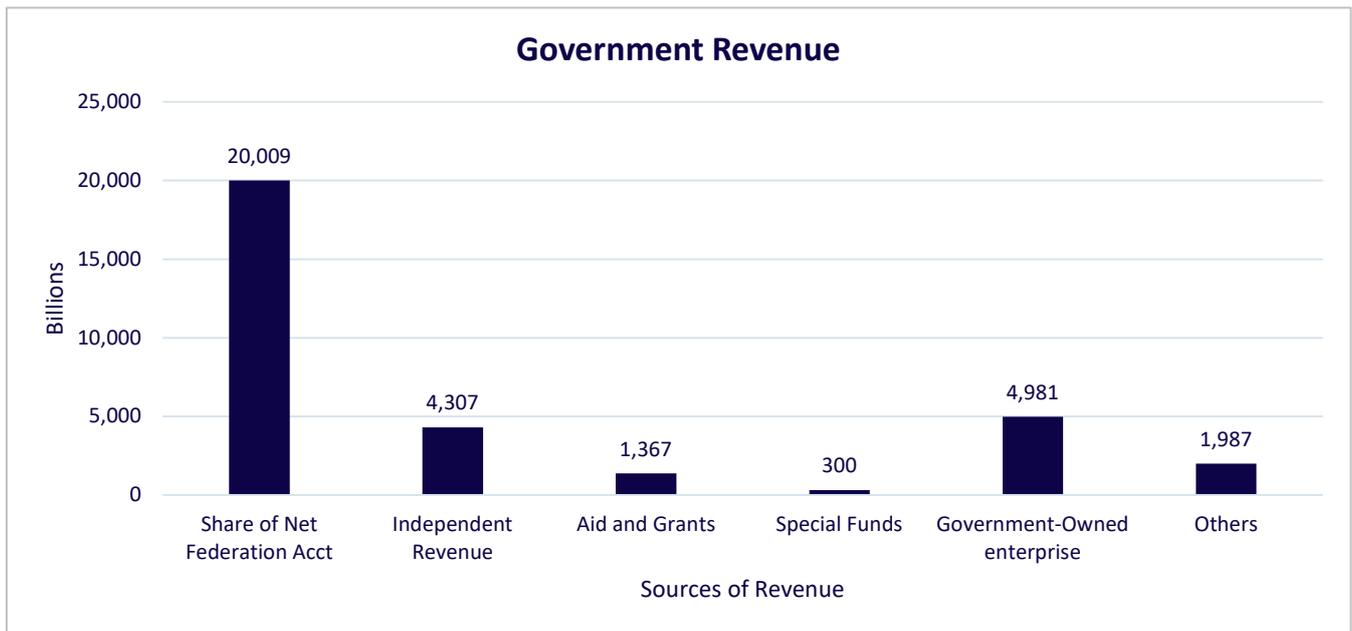
Analysis of 2026 Budget

2026 Budget

Nigeria’s 2026 Federal Budget, with an estimated expenditure of ₦58.47 trillion, reflects a continued attempt by the government to balance macroeconomic stabilisation with growth and development objectives in a fiscally constrained environment.

The structure of the budget highlights the competing pressures of high debt service obligations, the need for sustained capital investment, and growing social and security demands.

A defining feature of the 2026 budget is the scale of debt service, which at ₦15.91 trillion absorbs a significant portion of federal spending. This underscores the limited fiscal space available to the government and reinforces the importance of revenue mobilisation and prudent debt management. From an economic standpoint, the high debt service burden constrains discretionary spending and limits the government’s ability to respond aggressively to shocks, making macroeconomic stability heavily dependent on improved revenue performance and financing conditions.



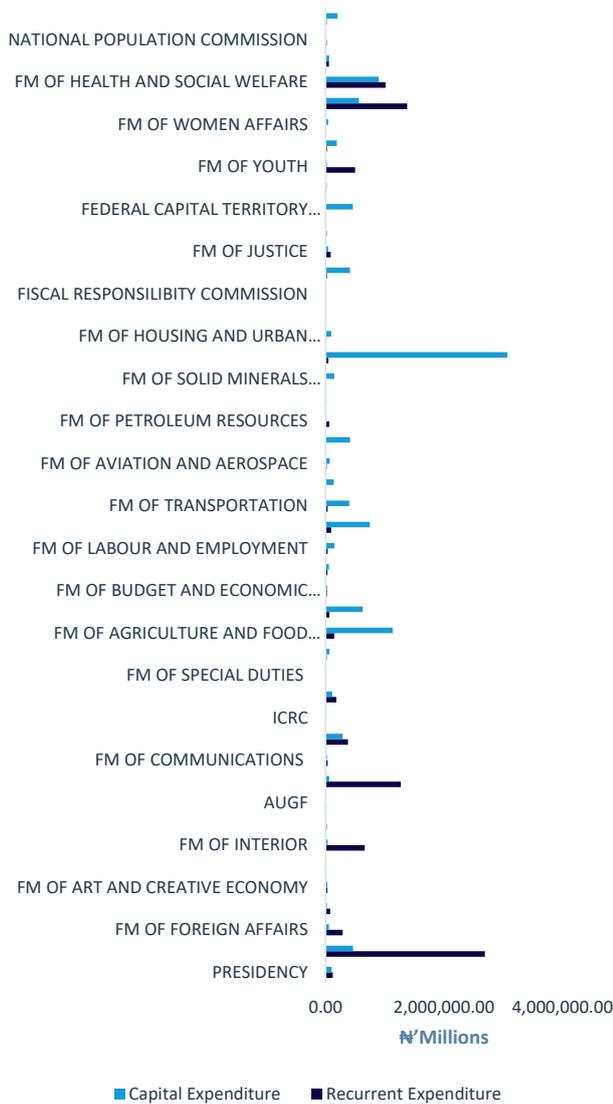
Source: 2026 Appropriation Bills, Kreston Pedabo Analysis

Projected aggregate inflows of ₦33.20 trillion fall well short of planned expenditure, resulting in a ₦25.27 trillion fiscal deficit. The size of this deficit highlights Nigeria’s structural revenue challenge and reinforces the government’s strategic emphasis on borrowing,

asset sales, and external project-tied financing to bridge the gap. While deficit financing allows the government to sustain capital investment and essential services, it also deepens exposure to debt sustainability risks and interest rate pressures.

Analysis of 2026 Budget

Recurrent and Capital Expenditure by Ministry



Despite these constraints, the budget places strong emphasis on capital expenditure, with ₦23.21 trillion allocated to development spending. This signals a clear strategic priority toward infrastructure-led growth, with substantial investments directed at transport, power, works, water resources, agriculture, housing, and other productive sectors. If effectively implemented, this capital-heavy allocation has positive implications for medium-term growth by easing supply-side bottlenecks, improving productivity, and crowding in private investment. However, execution risks remain critical, as the growth impact depends on project completion, efficiency, and value for money.

Recurrent(non-debt)expenditure of ₦15.25 trillion reflects the government’s ongoing commitments to governance, public service delivery, security, education, health, and social programmes. The explicit provision that healthcare investment should not fall below 6% of the budget net of debt service and liabilities points to a policy focus on human capital development, recognising its role in long-term economic resilience.

Sustained spending in education, health, and social protection is expected to support labour productivity and mitigate social pressures, particularly in a period of economic adjustment.

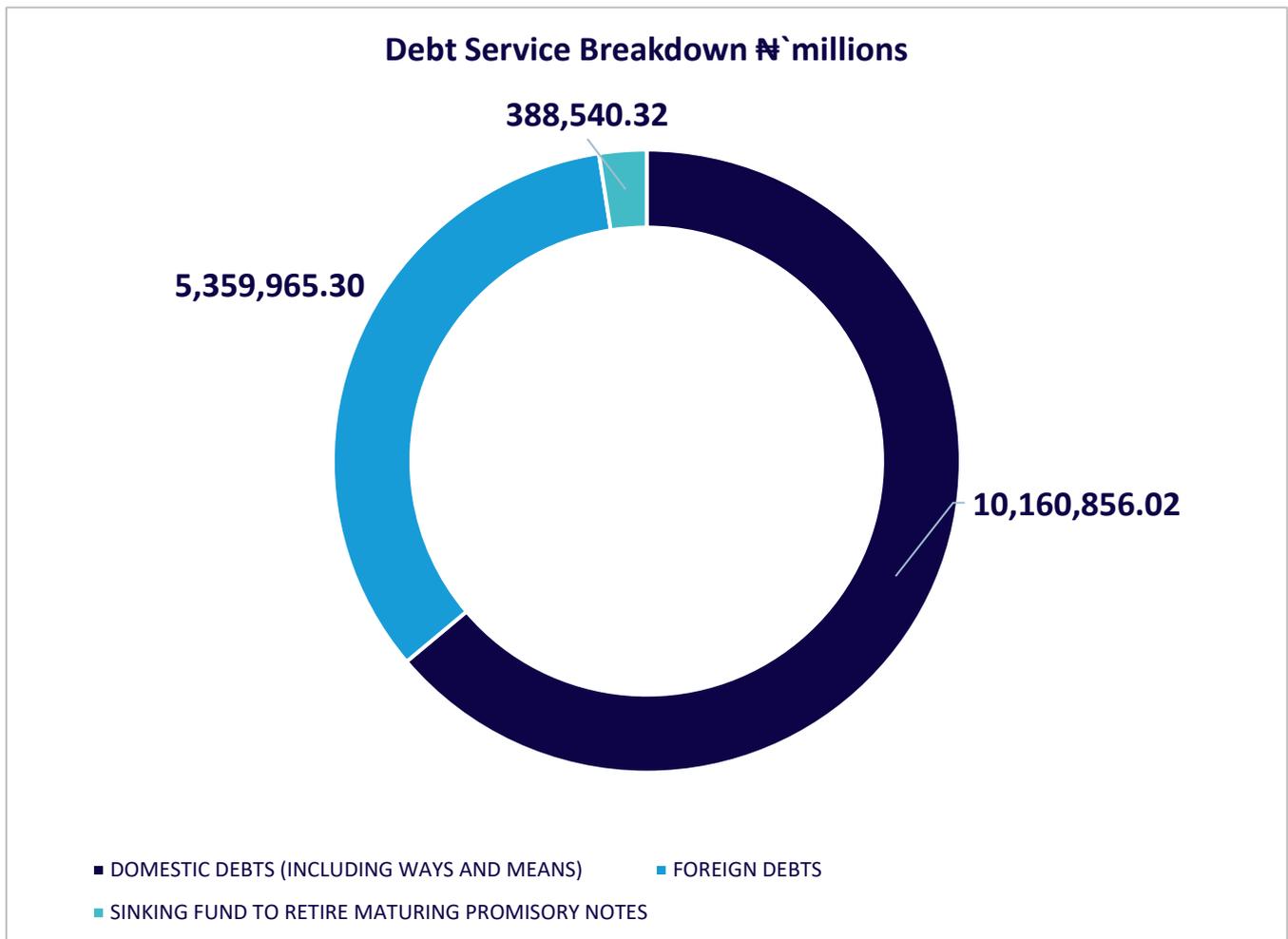
Source: 2026 Appropriation Bills, Kreston Pedabo Analysis



Analysis of 2026 Budget

The reliance on debt financing and multilateral or bilateral project-tied loans suggests a strategic preference for funding development projects while spreading financing risks. This approach aligns with the broader objective of linking borrowing more closely to productive assets, although it places added importance on project selection, implementation discipline, and transparency.

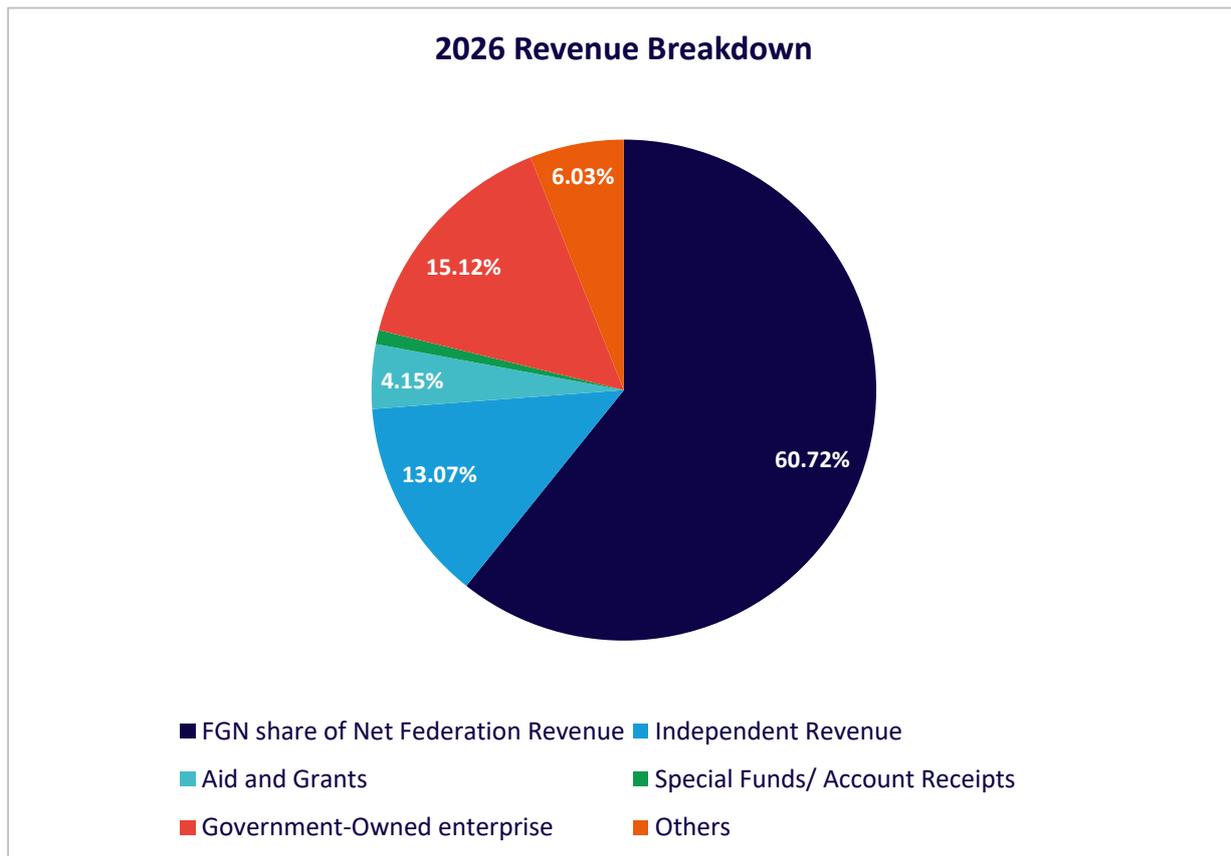
The 2026 budget signals a government strategy centred on infrastructure expansion, human capital development, and security, pursued within tight fiscal limits and a high-debt environment. For the Nigerian economy, the budget’s implications are twofold: in the short term, growth will remain sensitive to financing conditions and execution capacity; in the medium term, successful delivery of capital projects and improved revenue mobilisation could strengthen economic fundamentals and support more durable growth.



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

Sources of Revenue

2026 Budgetary Revenue Breakdown



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

In the 2026 Appropriation Bill, the Federal Government projects total revenue of ₦33.20 trillion, a marked decline from the ₦36.35 trillion projected in the previous year. This reduction is largely attributable to lower oil price assumptions and the appreciation of the naira against the US dollar, which together moderate both oil and foreign-exchange-linked revenue expectations across oil and non-oil sources. While the projected revenue still represents a substantial inflow, it is sufficient to finance only about 57 % of the proposed expenditure of ₦58.47 trillion, resulting in a sizeable fiscal deficit of ₦25.27 trillion.

The Federal Government Share of Net Federation Revenue of ₦20.01 trillion is the largest component

of government revenue. This includes the federal government’s share of statutory allocations from oil and non-oil revenues collected by the Federation Account. Historically, this revenue stream has been the backbone of government financing, reflecting the centralised nature of revenue mobilisation.

Independent revenue, estimated at ₦4.31 trillion, represents internally generated funds collected by ministries, departments, and agencies (MDAs). This includes fees, fines, licenses, and other statutory charges. While smaller than the federation’s share, it provides critical fiscal autonomy for MDAs, enabling them to finance operational activities without solely relying on allocations from the federation account.

Sources of Revenue

Aids and Grants



Despite the ongoing contraction in global development assistance, the Federal Government is projected to receive ₦1.37 trillion in aid and grants, reflecting continued financial support from bilateral and multilateral partners.

These inflows are expected to be largely channelled toward priority sectors such as health, education, and critical infrastructure, thereby supplementing domestic revenue and supporting the delivery of essential public services.

Government – Owned Enterprise



Revenues from government-owned enterprises, estimated at ₦4.98 trillion, arise from dividends, profits, and fees from state-owned corporations such as NLNG, Bank of Industry, Bank of Agriculture, etc.

Others



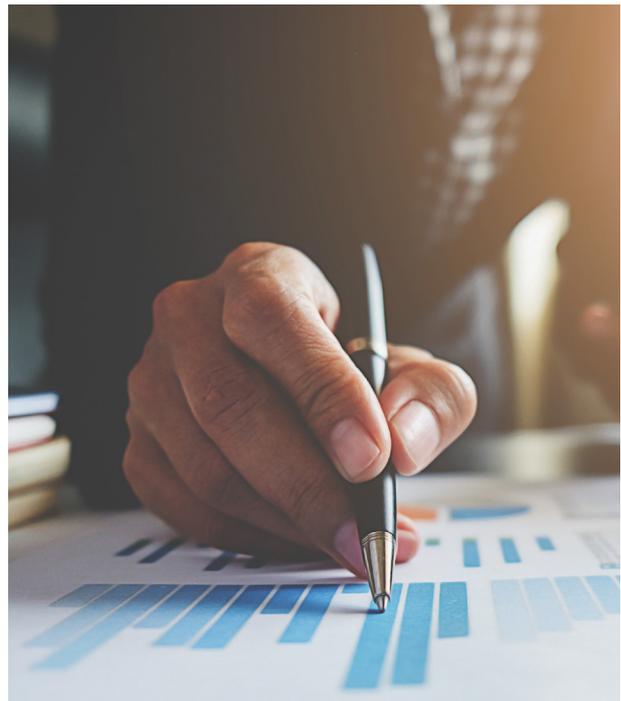
The ‘others’ category, contributing ₦1.99 trillion, encompasses miscellaneous receipts such as fines, penalties, and non-classifiable revenues. Though individually small, collectively they contribute meaningfully to the revenue base and highlight the diversity of funding sources the government leverages.

Special Funds

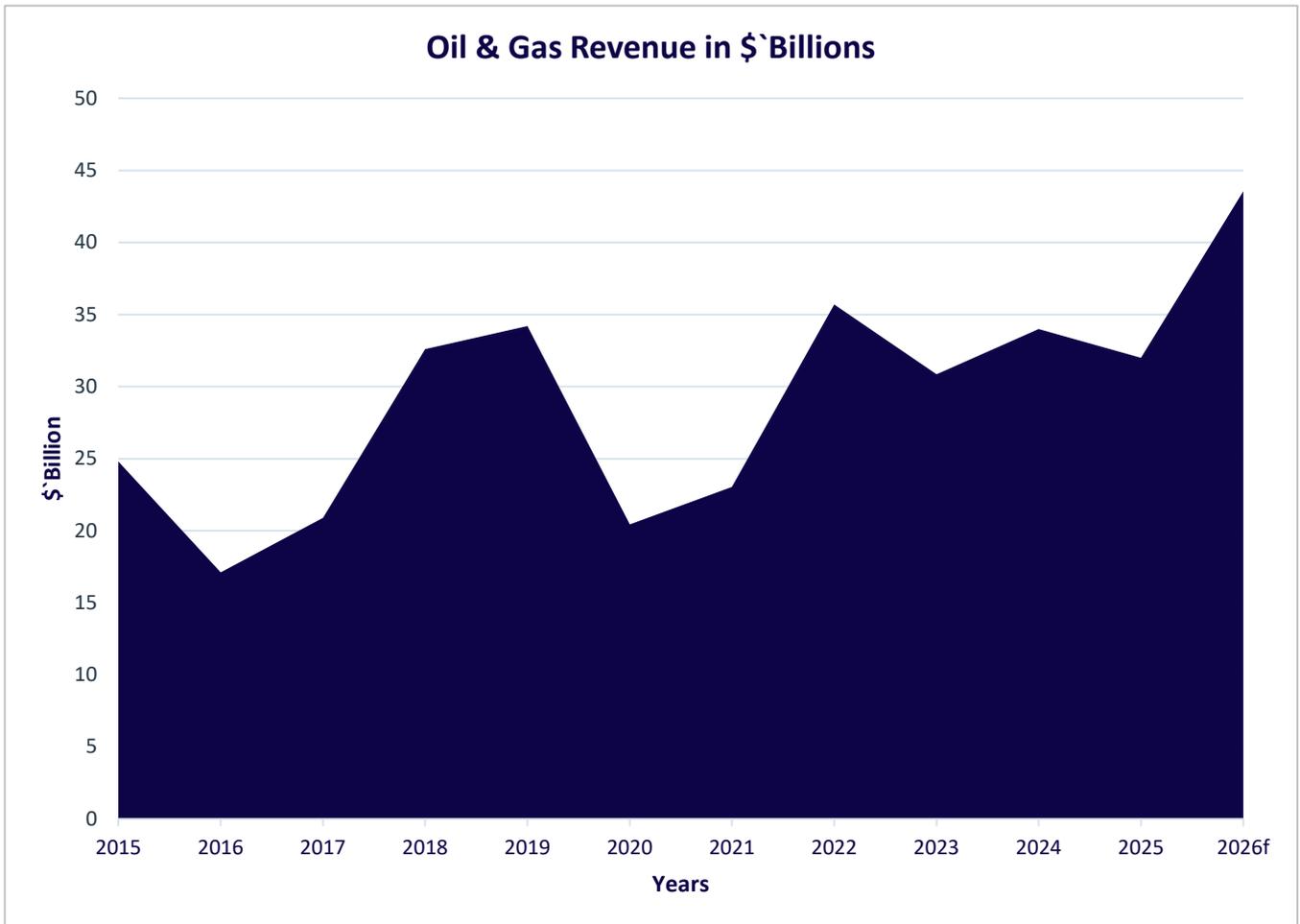


Special funds and account receipts, projected at ₦300 billion, comprise earmarked revenues that are typically for a specific project.

These funds are used to enhance the government’s capacity to finance strategic priorities. However, the publicly available budget documents do not provide a detailed breakdown of the components or sources of this ₦300 billion, as it is presented as a single aggregated line item.



Oil Revenue



Source: NEITI, Kreston Pedabo Analysis

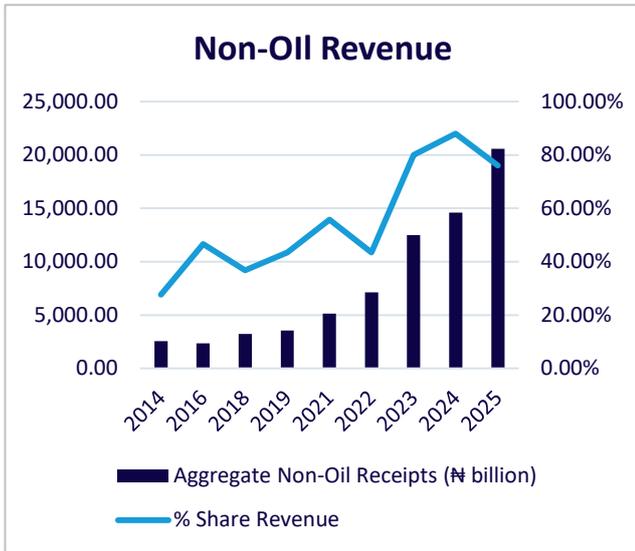
Oil continues to play a central role in Nigeria’s fiscal framework. For 2026, oil production is projected at 1.84 million barrels per day, with a crude oil benchmark price of \$64.85 per barrel, generating approximately \$43.56 billion in revenue.

A historical view of oil and gas revenue highlights its volatility and critical importance:

- » Revenues declined from \$34 billion in 2024 to \$32 billion in 2025, reflecting the impact of weaker global oil prices, but are projected to rebound on a steady upward trajectory, reaching \$43.56 billion by 2026.
- » The sharp projected increase in 2026 reflects both an increase in global oil production and a stable oil price.



Non-Oil Revenue



Source: State House Website, Budget Office, Kreston Pedabo Analysis

Non-oil revenue has become a critical pillar of fiscal stability, reflecting the government’s ongoing efforts to diversify its revenue base away from oil dependence. Non-oil revenue comprises taxes, fees, and other internally generated funds, including company income tax, value-added tax (VAT), customs duties, and independent revenues from ministries, departments, and agencies.

Over the last decade, non-oil revenue has grown substantially both in absolute terms and as a share of total revenue. According to the Central Bank of Nigeria (CBN) fiscal policy reports, non-oil receipts increased from ₦2.57 trillion in 2014 (28% of total revenue) to ₦15.69 trillion in the first half of 2025, reflecting a combination of growth in non-oil economic activities and improvements in tax administration and revenue collection efficiency.

The shift has accelerated in recent years. Interim data from 2023 to 2025 show non-oil revenue becoming the primary driver of fiscal inflows:

- » In 2023, non-oil revenue accounted for approximately 81% of total government receipts.
- » In 2024, estimates indicate non-oil revenue likely represented close to 88% of total receipts, underscoring strong performance across tax and customs collections.
- » In 2025 (January–August), non-oil revenue contributed ₦15.69 trillion, or roughly 76% of total revenue.
- » A major factor supporting this growth in 2026 is the implementation of the Nigeria Tax Act, which consolidates, modernises, and simplifies tax legislation across the country. By harmonising tax laws, removing inconsistencies, and strengthening compliance frameworks, the Act enhances the efficiency of tax administration, broadens the tax base, and reduces opportunities for evasion.

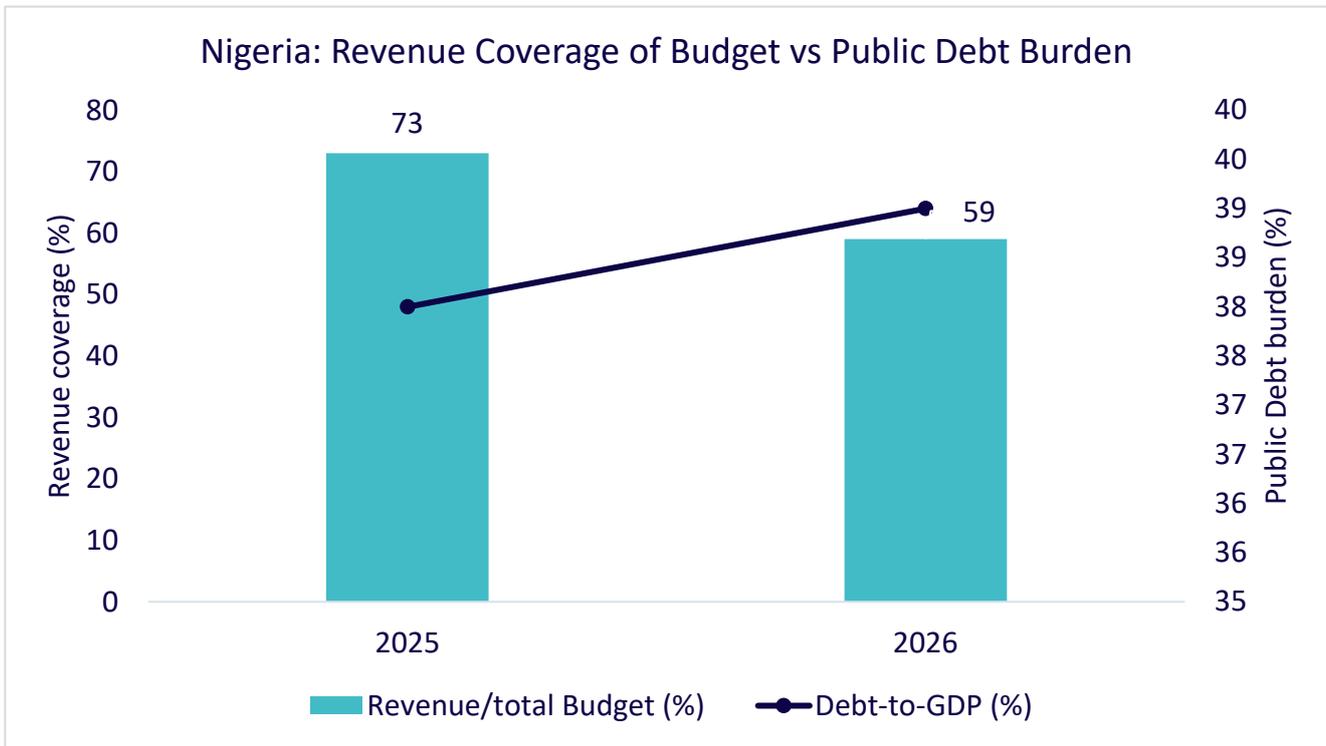
It also clarifies corporate and personal tax obligations, enhances the collection of indirect taxes such as VAT, and facilitates more effective enforcement of customs and excise duties. Collectively, these measures are expected to sustain and accelerate non-oil revenue growth, further reducing dependence on oil receipts.

Non-oil revenue in the future will no longer be a supplementary source but will emerge as the dominant fiscal pillar, reducing Nigeria’s reliance on oil and enhancing budgetary stability.



Nigeria in a Global and Regional Context

Comparative Fiscal Perspective



Source: Fiscal Monitor, Kreston Pedabo Analysis

It is easier to determine whether Nigeria’s fiscal posture is a result of national pressures or more general global tendencies when the country’s 2026 budget is compared to those of other countries. Using information and forecasts from the IMF, World Bank, and government fiscal bodies, a comparison with Ghana, South Africa, the UK, and Kenya reveals significant differences in fiscal capacity, deficit tolerance, and debt sustainability.

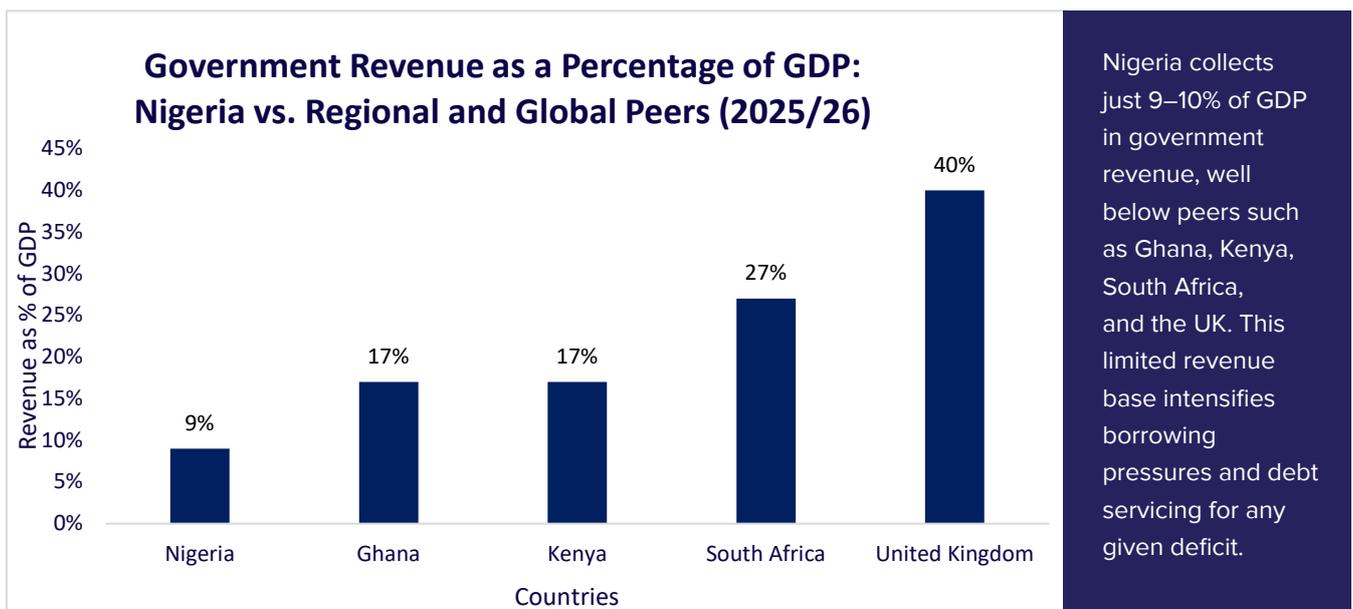
Nigeria’s 2026 budget projects total expenditure of ₦58.47 trillion against revenue of ₦33.20 trillion, resulting in a fiscal deficit equivalent to about 4.28% of GDP. When compared to peer economies, this deficit

level is not out of the ordinary, even though it is higher than Nigeria’s statutory fiscal responsibility benchmark of 3%. The Office for Budget Responsibility projects that the United Kingdom, an advanced economy with sophisticated capital markets, will have a deficit of about 4.5% of GDP in the 2025–2026 fiscal year. In a similar vein, South Africa’s deficit is predicted to stay around 4% of GDP due to ongoing spending pressures, slow growth, and structural limitations. In line with trends seen in many frontier markets, Kenya’s fiscal deficit is also anticipated to be between 4.6 and 4.9 percent of GDP, striking a balance between fiscal consolidation and development demands.

Nigeria in a Global and Regional Context

In contrast, Ghana’s fiscal stance in 2026 appears more conservative. Under an IMF-supported reform framework, Ghana projects a deficit of approximately 2.2 %of GDP on a commitment basis, supported by a targeted primary surplus. This relatively tighter fiscal position reflects the country’s post-debt-restructuring focus on restoring credibility, reducing borrowing needs, and anchoring expectations. Compared with Nigeria, Ghana’s approach places stronger emphasis on consolidation in the near term, even at the cost of constrained fiscal space.

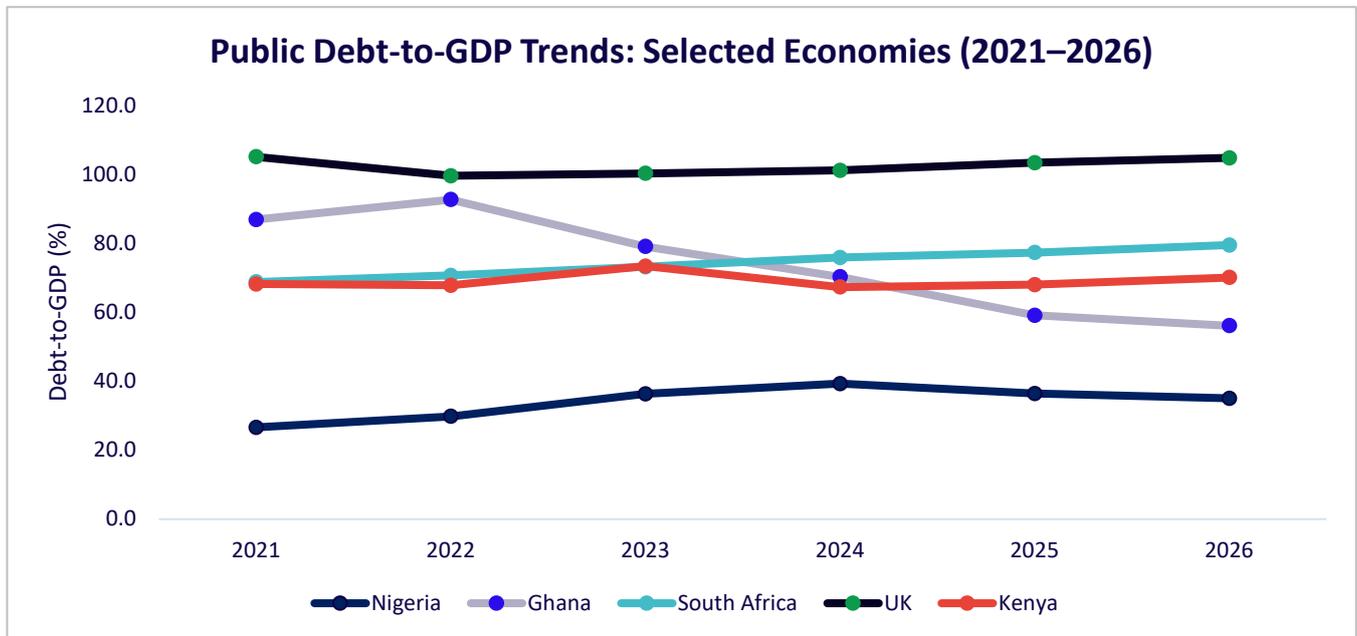
The most notable difference between Nigeria and its contemporaries, aside from headline deficits, is revenue-raising capacity. According to IMF and World Bank data, Nigeria’s general government revenue is still less than 10% of GDP, which is much less than Ghana’s estimated 17%, Kenya’s about 17%, South Africa’s 27%, and the UK’s more than 38%. Due to this structural revenue weakness, Nigeria faces significantly more fiscal strain while funding a comparable or even lower level of spending in relation to GDP. Consequently, similar-sized deficits result in proportionally greater borrowing pressures and debt-servicing obligations.



Source: Fiscal Monitors, Kreston Pedabo Analysis

Debt metrics further reinforce this distinction. Nigeria’s public debt stock, estimated at around 34% of GDP, is substantially lower than that of Ghana, South Africa, Kenya, and the United Kingdom, where debt ratios range between roughly 65 and 96 %of GDP. However, international institutions consistently emphasise that debt sustainability depends less on the debt ratio itself and more on revenue adequacy and debt-servicing capacity. In Nigeria’s case, low revenue levels mean that debt servicing absorbs a large share of government income, limiting fiscal flexibility and crowding out development spending. By comparison, the UK and South Africa, despite higher debt ratios, benefit from broader tax bases and deeper financial markets that reduce rollover and affordability risks.

Nigeria in a Global and Regional Context



Source: 2026 Appropriation Bill, Debt Management Office, Kreston Pedabo Analysis

Nigeria’s debt-to-GDP ratio has remained relatively stable over recent years; however, peer comparisons indicate that revenue capacity, rather than debt levels alone, remains the key constraint to fiscal sustainability.

From a policy perspective, Nigeria’s 2026 budget sits between consolidation and expansion. Compared with Ghana’s tighter adjustment path, Nigeria accepts a wider deficit to support security spending, infrastructure investment, and social services, while adopting more conservative oil price and production assumptions than in previous budgets. In comparison to advanced economies such as the UK, Nigeria operates with significantly narrower fiscal buffers and greater exposure to commodity price volatility. Compared with regional peers like Kenya and South Africa, Nigeria’s core challenge remains revenue mobilisation rather than expenditure excess.

Overall, the cross-country comparison suggests that Nigeria’s fiscal stance in 2026 is not unusually expansionary by global standards, but it is more vulnerable due to structural revenue constraints.

Strengthening non-oil revenue, improving expenditure efficiency, and reducing debt-servicing pressures remain central to aligning Nigeria’s fiscal outcomes more closely with those of its peers over the medium term.

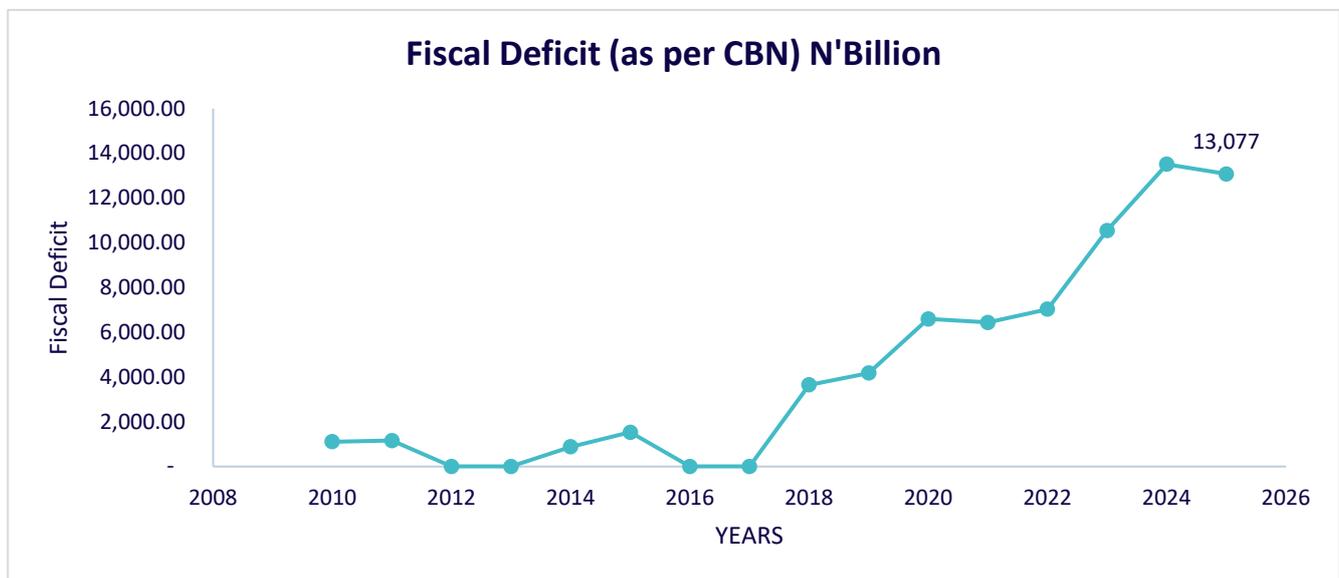


Fiscal Deficit

Nigeria’s fiscal deficit in 2025 moved from a long-standing policy concern into a binding macroeconomic constraint. Years of persistent budget shortfalls culminated in a record deficit of approximately ₦13.08 trillion, underscoring the widening structural gap between government revenue and expenditure.

Government revenues in 2025 from the appropriation bill were ₦36.35 trillion. However, total expenditure was estimated at ₦49.74 trillion, driven largely by rising debt-service obligations, public sector wages, security spending, and other rigid recurrent costs. This resulted in a deficit equivalent to 36% of total revenue, placing Nigeria among the most fiscally constrained emerging economies.

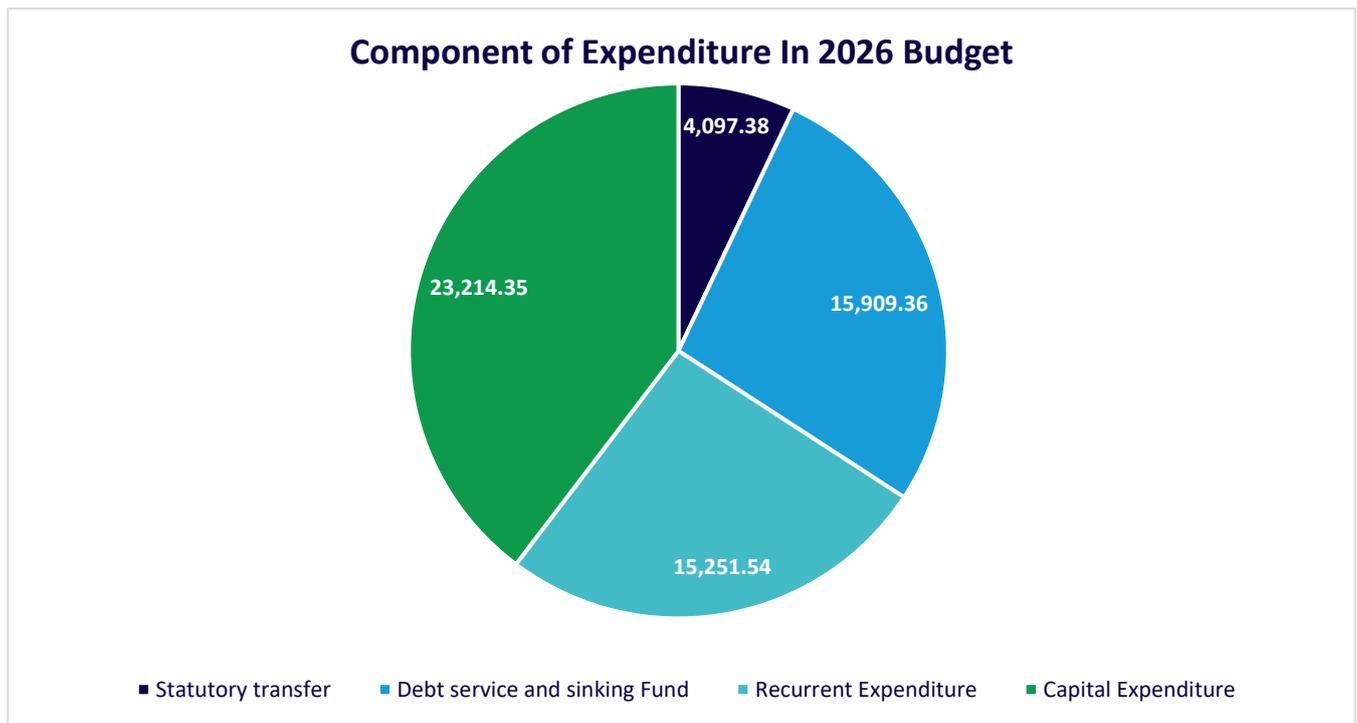
At this scale, fiscal policy shifts from stimulating growth toward managing financing risks and maintaining macroeconomic stability. The government signalled its intention to rely heavily on borrowing to finance future budgets, including projected borrowing. By mid-2025, it was evident that the deficit would remain elevated throughout the year. Financing was largely sourced from domestic markets, increasing pressure on local financial institutions and crowding out private sector credit. This borrowing pattern also complicated monetary policy coordination, as large fiscal deficits tend to weaken the effectiveness of tighter monetary conditions.



Source: CBN, Kreston Pedabo Analysis

Nigeria’s fiscal deficit has risen steadily from about ₦1.1 trillion in 2010 to over ₦13 trillion in 2025, reflecting worsening fiscal pressures. While deficits were relatively low and stable before 2015, they increased sharply thereafter due to the oil price shock, recession, and rising public expenditure, indicating growing structural weaknesses in public finance. The imbalance deepened between 2020 and 2025, with deficits peaking in 2024. The 2026 projection shows a wider gap, as expenditure (₦58.47 trillion) significantly exceeds revenue (₦33.20 trillion), producing a deficit of about ₦25.27trillion. This trend points to a structural fiscal challenge that requires stronger revenue mobilisation and tighter expenditure control.

Expenditure Analysis



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

Capital expenditure constitutes the largest component at ₦23.21 trillion, accounting for roughly 40% of aggregate expenditure. This allocation signals the government’s intention to stimulate economic growth through infrastructure development, including transport, energy, and other productive assets. While this emphasis supports long-term growth objectives, its effectiveness will depend on implementation capacity and value-for-money outcomes.

Debt service and sinking fund obligations amount to ₦15.91 trillion, representing about 27% of total expenditure. This sizable allocation underscores the rising burden of public debt and highlights limited fiscal space, as a substantial portion of government resources is committed to servicing existing obligations rather than financing new development initiatives.

Recurrent expenditure is projected at ₦15.25 trillion (approximately 26% of total spending), reflecting ongoing commitments to wages, overheads, and the routine operations of government. Although necessary for public service delivery, the scale of recurrent spending continues to constrain fiscal flexibility and reinforces concerns around expenditure efficiency.

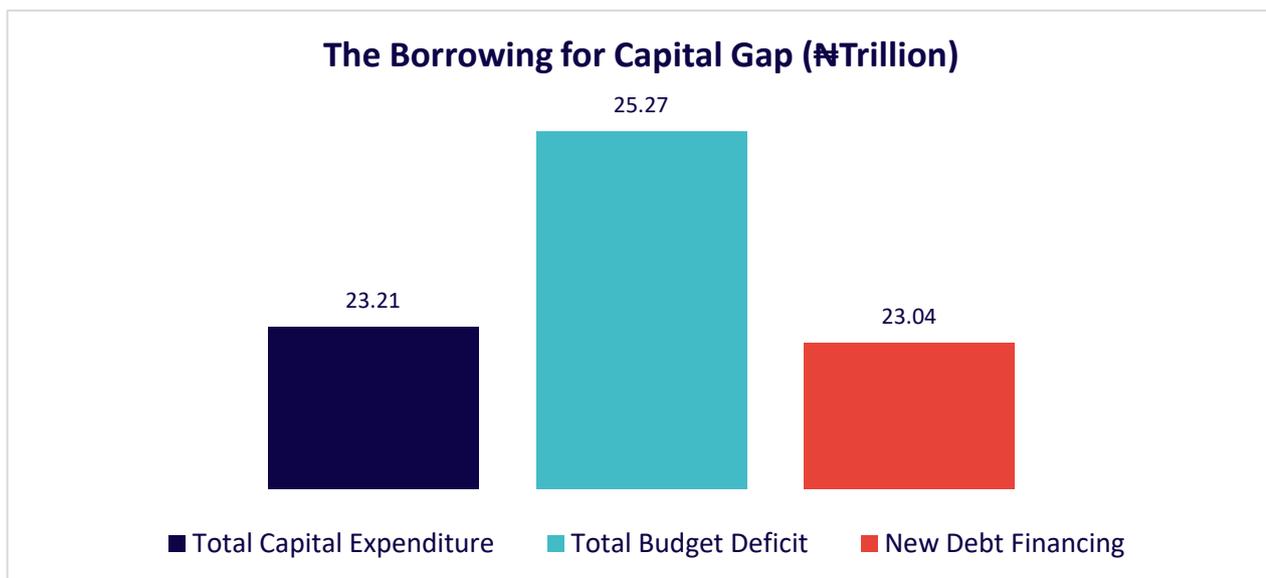
Statutory transfers, at ₦4.10 trillion (around 7% of aggregate expenditure), reflect constitutionally mandated allocations to entities such as the National Assembly, judiciary, and other statutory bodies, limiting the government’s discretion over a portion of budgetary resources.

Capital Expenditure

Capital Allocation Strategy

The standout feature of the 2026 Appropriation Bill is the ₦23.21 Trillion earmarked for Capital Expenditure. This allocation, which constitutes nearly 40% of the aggregate budget, exceeds the 30% international benchmark recommended for developing economies. It signals a clear intent to close Nigeria’s infrastructure deficit. The allocation is likely to be concentrated in

hard infrastructure ministries such as Works, Power, and Housing, alongside soft infrastructure investments in health and education equipment. If fully implemented, this level of capital injection could significantly boost GDP growth by reducing the cost of doing business and improving industrial capacity.



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

The Funding Gap & Sustainability Risks

While the capital ambition is commendable, the funding mechanism reveals a critical vulnerability: the Borrowing for Capital Gap. The total budget deficit is projected at ₦25.27 Trillion, a figure that exceeds the entire Capital Budget of ₦23.21 Trillion.

This implies that the government is effectively borrowing every single Naira it intends to spend on infrastructure, plus a portion of its recurrent obligations. With New Debt Financing projected at ₦23.04

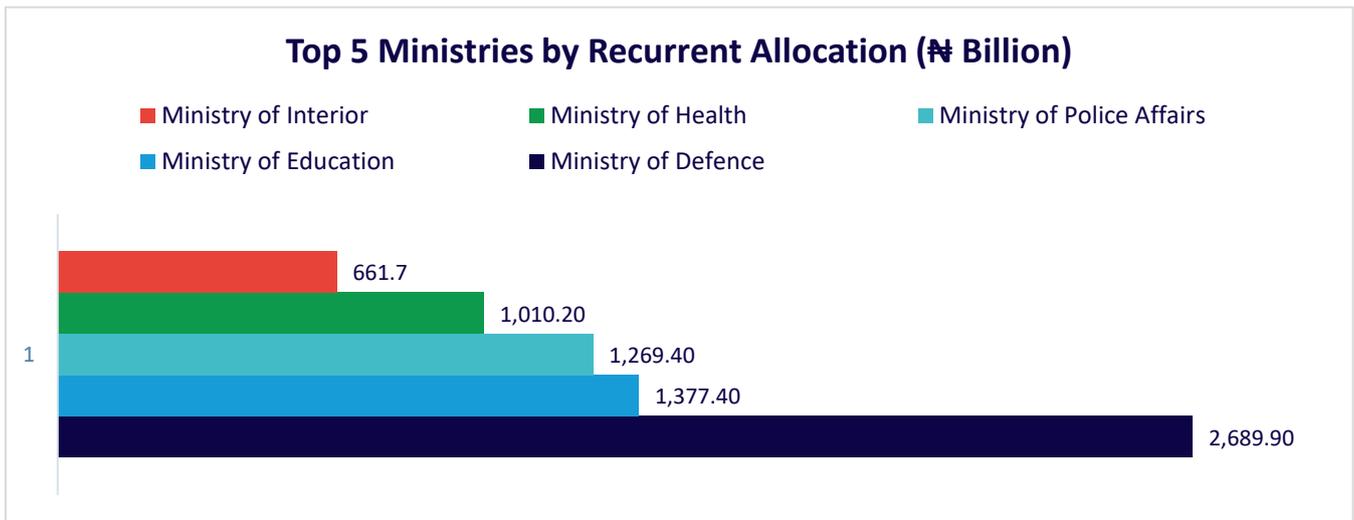
Trillion, the feasibility of the capital program is entirely dependent on the government’s ability to secure loans in a high-interest rate environment. This raises the risk of Capital Rationing, where capital releases are delayed or halted to prioritise mandatory debt service payments, potentially leading to an Implementation Gap where the actual infrastructure built falls far short of the budgeted ambition.

Recurrent Expenditure

Recurrent Expenditure Dynamics

The Recurrent (Non-Debt) allocation of ₦15.25 Trillion reflects the fixed cost of running the Nigerian state. A sectoral dissection of these overheads reveals that national security remains the primary cost driver. The combined recurrent allocations for the Ministry of Defence (₦2.69 Trillion), Ministry of Police Affairs (₦1.27 Trillion), and the Office of the National Security Adviser

(₦377 Billion) indicate that over ₦4.3 Trillion, more than 28% of the entire recurrent budget, is dedicated to the security apparatus. This Militarisation of Expenditure highlights the ongoing security challenges facing the nation and the fiscal cost of maintaining stability.



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

Human Capital & Administrative Allocations

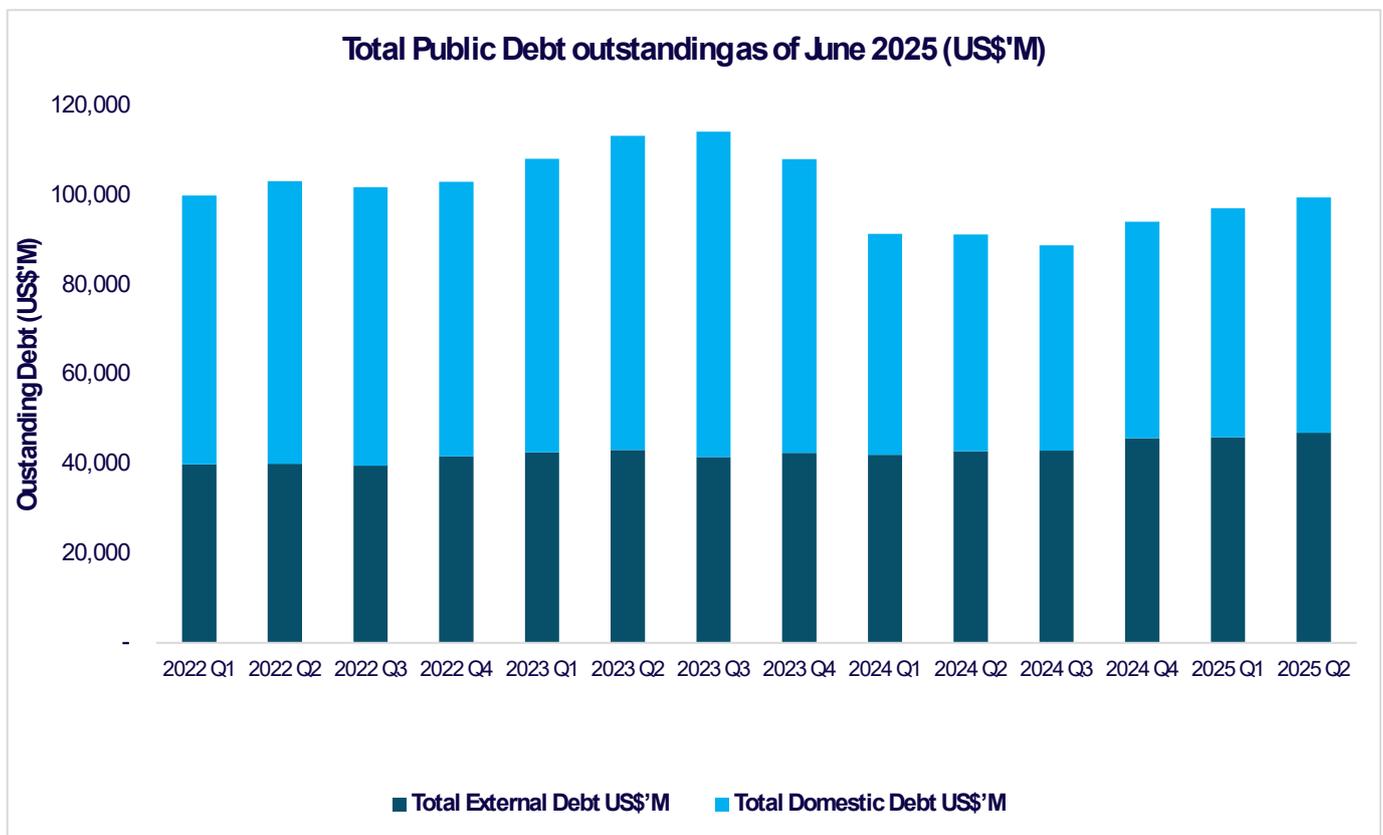
Beyond security, the government has maintained a strong focus on social sectors. The Ministry of Education receives the second-highest recurrent allocation at ₦1.38 Trillion, followed closely by the Ministry of Health at ₦1.01 Trillion. This suggests a commitment to sustaining the operational capacity of schools and hospitals, covering personnel costs and overheads. However, administrative costs remain high, with the Presidency allocated ₦119.4 Billion for operations. Additionally, the Service Wide Vote for Pensions and Gratuities (₦1.38 Trillion) underscores the growing weight of unfunded liabilities and retiree benefits, which now rival the entire recurrent budget of the education sector.



Debt

Nigeria’s public debt position continued to expand in the second quarter of 2025, reflecting ongoing deficit financing amid elevated interest costs and persistent revenue constraints. Total national public debt, comprising both domestic and external obligations, rose to US\$99.65 billion (₦152.39 trillion) as of June 2025, from US\$97.23 billion (₦149.38 trillion) in the previous

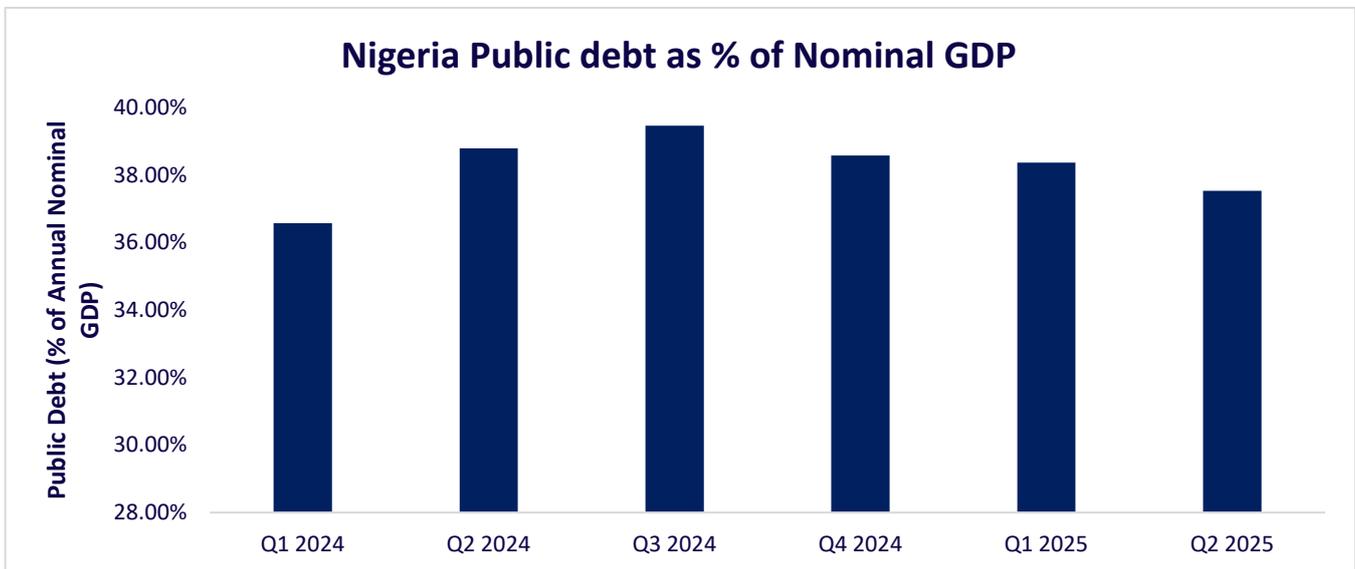
quarter. Domestic debt accounted for US\$52.67 billion (₦80.55 trillion), while external debt stood at US\$46.98 billion (₦71.84 trillion). In naira terms, domestic debt represented 52.86 %of total public debt, compared with 47.14 %for external debt, indicating a broadly balanced but slightly domestic-leaning debt structure.



Source: Debt Management Office, Kreston Pedabo Analysis

Using annual nominal GDP, as is standard for debt sustainability analysis, the Central Bank of Nigeria reports Nigeria’s nominal GDP at ₦227.49 trillion as of Q4 2024. While quarterly nominal GDP in Q2 2025 was approximately US\$63.77 billion, according to CEIC (Comprehensive Macroeconomic and Industry Database) , public debt represented approximately 37.5 %of GDP in June 2025 on an annualised basis, down from 38.4 %in the preceding quarter. The improvement reflects modest nominal GDP expansion relative to the pace of debt accumulation, rather than a contraction in borrowing.

Debt



Source: 2026 Appropriation Bill, Kreston Pedabo Analysis

Nigeria’s public debt-to-GDP ratio declined modestly from 38.4% in Q1 2025 to 37.5% in Q2 2025. While the headline ratio remains moderate by international standards, the improvement largely reflects nominal GDP expansion rather than a reduction in borrowing pressures. Debt sustainability concerns, therefore, remain closely tied to revenue mobilisation and debt-servicing capacity.

At the federal level, FGN external debt stood at US\$42.17 billion, while FGN domestic debt amounted to US\$50.08 billion, underscoring the Federal Government’s dominant role in overall public borrowing. Sub-national debt remains unevenly distributed. Lagos State recorded the highest domestic debt stock at ₦1.04 trillion, followed by Rivers State at ₦364.39 billion, while Jigawa State and Ondo State recorded the lowest domestic debt levels. A similar concentration is evident on the external side, where Lagos State accounted for US\$1.04 billion, followed by Kaduna State at US\$658.70 million, while the Federal Capital Territory and Yobe State recorded the lowest external debt exposures.

The current trend towards domestic borrowing is generally positive from a structural standpoint. Increased domestic debt decreases vulnerability to external refinancing shocks, lessens exposure to exchange-rate volatility, and mitigates the fiscal impact of global monetary tightening. This consideration is particularly important given Nigeria’s exposure to oil price fluctuations and periodic foreign-exchange pressures. In this regard, the 2026 Federal Budget’s ₦23.04 trillion debt finance provision will play a crucial role in determining the dynamics of near-term debt. If it is accompanied by reputable revenue-enhancing changes, a primarily domestic borrowing strategy would assist in reducing foreign exchange risks and enhance budgetary predictability.

However, greater reliance on domestic borrowing is not without trade-offs. Increased domestic issuance has the potential to hinder economic growth by driving up interest rates, increasing the cost of debt servicing, and displacing private sector lending. Therefore, finding the right balance, giving priority to domestic borrowing, judiciously using concessional external funding when

Debt

available, and expediting reforms targeted at expanding the revenue base and enhancing expenditure efficiency constitute the policy challenge. Even a moderate debt-to-GDP ratio will continue to result in severe fiscal strain in the absence of consistent progress on revenue mobilisation.

Overall, Nigeria's public debt profile as of mid-2025 remains manageable in headline terms but fragile in quality. The government's capacity to boost revenue collection, manage debt-servicing constraints, and anchor fiscal policy within a realistic medium-term framework will be more important to the medium-term sustainability of public debt than the rate of borrowing.



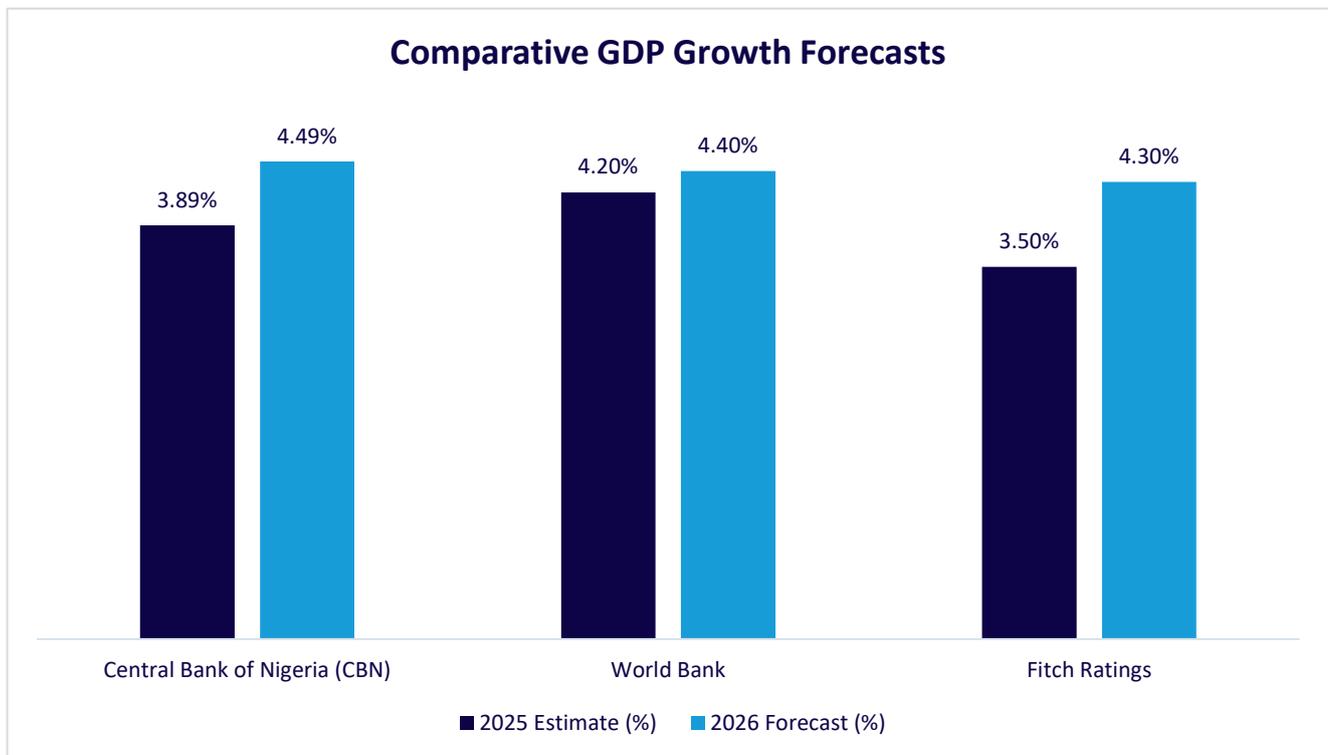
GDP Growth

Economic Expansion Narrative

The 2026 fiscal year is projected to mark a significant turning point for the Nigerian economy, with multiple credible institutions forecasting a return to robust growth after years of sluggish performance. The Central Bank of Nigeria (CBN) projects a GDP growth rate of 4.49%, a notable acceleration from the estimated 3.89% in 2025. This optimistic outlook is corroborated by the World Bank, which recently upgraded its forecast to 4.4%, citing the positive impact of sustained structural reforms and a rebound in the non-oil sector.

production of 1.50 million barrels per day (mbpd), the real engine of growth is expected to be the Services Sector (particularly ICT and Finance) and a recovering Agricultural Sector. The Budget of Consolidation aims to stimulate this growth through heavy infrastructure spending, which is expected to lower logistics costs for businesses. Furthermore, the stabilisation of the Naira and improved foreign exchange liquidity are anticipated to boost investor confidence, leading to increased Foreign Direct Investment (FDI) inflows.

This projected expansion is not reliant solely on the volatile oil sector. While the CBN assumes a stable oil



Source: CBN, Fitch Nigeria , Global Economic prospects 2026, Kreston Pedabo Analysis

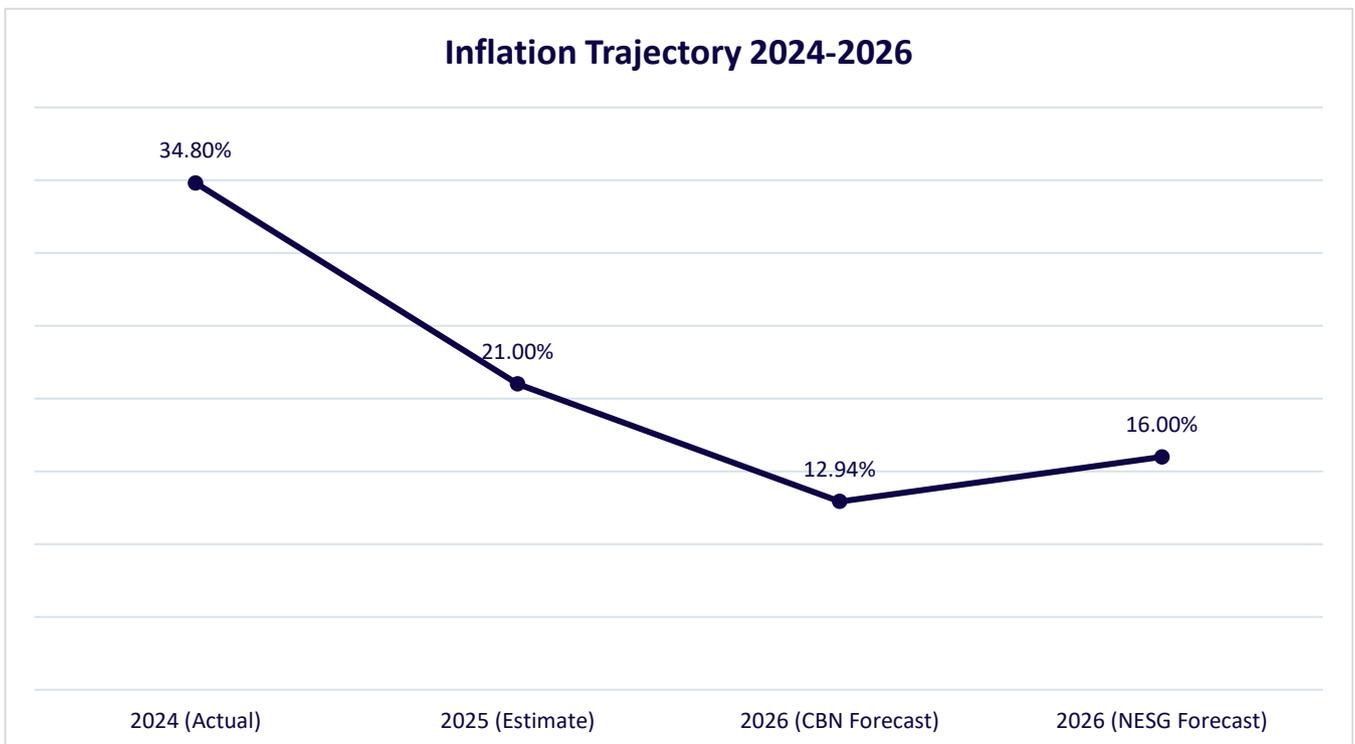
Inflation Rate

Inflationary Pressure Analysis

After battling historic highs in previous years, 2026 is forecasted to be a year of significant Disinflation. The CBN projects that the headline inflation rate will moderate sharply to an average of 12.94% in 2026, down from the estimated average of over 21% in 2025. This ambitious target relies heavily on the Base Effect (where high prices from the previous year make current increases look smaller) and the anticipated stability of energy prices following the full operationalisation of domestic refining capacity.

According to the Nigerian Economic Summit Group (NESG), inflation is expected to moderate under an

optimal fiscal consolidation pathway, declining to 16.0% in 2026 from an estimated 21.0% in 2025. NESG attributes this projected disinflation to effective coordination between countercyclical fiscal policies and monetary policy measures, which together create a complementary policy environment capable of constraining inflationary pressures. This reinforces the view that lasting macroeconomic stability will depend more on consistent policy coordination than on monetary tightening alone, if inflation is to ease sustainably.



Source: CBN, NESG, Kreston Pedabo Analysis

Significant Infrastructure Projects

Forty percent of the projected 2026 expenditure is allocated to capital projects, underscoring the Federal Government's priority to address Nigeria's weak infrastructure base, which has long constrained productive capacity. The table provides a summary of key infrastructure sectors that are critical to driving industrialisation and positioning Nigeria to achieve its \$1 trillion economy target by 2030.

TIMELINE	SECTOR	PROJECT NAME	AIM OF PROJECT	BUDGET	COMPLETION STATUS	IMPACT / IMPLICATION ON ECONOMY
2026	Infrastructure & Transportation	Lagos Green Line Rail Project (Counterpart Funding)	To provide counterpart funding for the development of an urban mass transit rail system in Lagos	₦102.3 billion	Ongoing / Counterpart funding provided	Reduces urban congestion, lowers transport costs, improves labour mobility and productivity
2026	Infrastructure & Transportation	Construction of Six (6) National Bus Terminals	To develop modern bus terminals across the six geopolitical zones	₦142 billion	Approved / Planned	Improves public transport efficiency, enhances inter-state trade and passenger movement
2026	Infrastructure & Transportation	Lafia–9th Mile / Otukpo–Makurdi Road Project	Dualisation and rehabilitation of major federal highways	₦367.9 billion (loan-financed)	Ongoing / Multi-year project	Strengthens regional connectivity, reduces logistics costs, supports agricultural trade
2026	Infrastructure & Transportation	Abuja–Lokoja Road Rehabilitation & Dualisation	To improve safety and capacity on a critical North–South transport corridor	Capital provision (multi-year allocation)	Ongoing	Facilitates trade flows between Northern and Southern Nigeria
2026	Infrastructure & Transportation	Kano–Maiduguri Road (Sections)	Reconstruction of strategic road linking North-West and North-East	Capital provision (multi-year allocation)	Ongoing	Supports security logistics, regional commerce, and post-conflict recovery
2026	Infrastructure & Transportation	Lagos–Calabar Coastal Highway (Phase Works)	Construction of coastal highway to connect South-West, South-South and South-East	Phase-based capital allocation	Early phase / Ongoing	Stimulates coastal trade, tourism, and long-term regional integration
2026	Infrastructure & Transportation	Railway Signalling, Stations & Rolling Stock (Selected Corridors)	To improve safety, capacity, and service quality on existing standard gauge lines	Capital provision	Ongoing	Reduces freight costs, improves passenger mobility, supports modal shift

Conclusion: A Pragmatic Leap Constrained by Structural Reality

The 2026 Budget of Consolidation, Renewed Resilience and Shared Prosperity shows both hope and hard truth for Nigeria. It is a budget with two faces. On one side, it plans to spend a record amount on roads, rails, and power. On the other side, it relies heavily on borrowing to pay for these projects. The government plans to borrow N25.27 trillion, which is actually more than the N23.21 trillion set aside for capital projects. This means every kobo spent on new infrastructure will come from loans. This is the main challenge of the 2026 budget.

To its credit, the government has taken a realistic view of the economy. It has lowered its oil price expectation to \$64.85 per barrel and cut production targets. This is a smart move. In the past, overly hopeful oil forecasts often led to revenue shortfalls and last-minute cuts to spending. By being more careful now, the government protects the budget from sudden shocks. But this caution also shows a simple truth: oil can no longer be trusted to fund Nigeria's future. The good news is that non-oil revenue is growing. Thanks to better tax collection and new tax laws, earnings from sources outside oil are becoming more important. This shift toward a wider revenue base is healthy for the long term. However, Nigeria still collects less than 10% of its GDP in revenue. This is far below countries like Ghana, Kenya, and South Africa. Until this changes,

the government will always struggle to pay its bills.

The budget also makes clear where the money must go. Security takes the largest share of recurrent spending, reflecting the ongoing challenges facing the nation. Debt repayment consumes another huge portion, leaving less room for everything else. Still, the government has chosen to protect funding for education and health. It has also prioritised big infrastructure projects like the Lagos-Calabar Coastal Highway and several rail lines. If these projects are completed on time and without waste, they could lower transport costs, create jobs, and help businesses grow. But this is a big "if." Past budgets have shown that planning is easier than doing. Project delays, high costs, and poor execution remain real risks.

In the end, the 2026 budget is a gamble on the future. It bets that borrowing to build today will pay off tomorrow. This could work if the projects are well managed and the economy grows as expected. But growth alone is not enough. Nigeria must also collect more revenue from its own people and businesses. The budget offers a path toward resilience and shared prosperity, but walking that path will require discipline, honesty, and hard work. The foundation has been laid. Now the government must build on it.



Glossary of Terms

Budget Deficit	The situation where government spending is higher than its revenue within a fiscal year, resulting in the need to borrow to cover the gap.
GDP (Gross Domestic Product)	The total monetary value of all goods and services produced within a country over a specific period, used to measure the size and performance of an economy.
Recurrent Expenditure	Government spending on day-to-day operations such as salaries, pensions, overhead costs, and interest payments.
Capital Expenditure	Government spending on long-term assets and infrastructure such as roads, power projects, schools, and hospitals that support economic growth.
External Reserves	Foreign currency assets held by a country's central bank, used to support the national currency, finance imports, and meet external obligations.
Barrel Per Day (Bpd)	A unit of measurement used to indicate the quantity of crude oil produced or consumed each day.
Nigeria Tax Act	The body of laws governing the assessment, collection, and administration of taxes in Nigeria, including personal, corporate, and consumption taxes.
Debt-to-GDP Ratio	A measure that compares a country's total public debt to its GDP, used to assess debt sustainability and fiscal health.
MDAs (Ministries, Departments, and Agencies)	Government institutions responsible for implementing public policies, delivering services, and executing budgeted programmes.
Government-Owned Enterprise (GOE)	A business entity wholly or majority owned by the government, established to provide public services or operate in strategic sectors of the economy.
Appropriation Bill	A proposed law presented to the legislature seeking approval for government spending for a specific fiscal year.
NESG	Nigerian Economic Summit Group

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Methodology

This report adopts a hybrid research framework that combines quantitative analysis with qualitative expert insights to provide a comprehensive understanding of Nigeria’s fiscal and macroeconomic environment. It draws on diverse secondary sources, including the Central Bank of Nigeria for monetary and reserve data, the National Bureau of Statistics for GDP and fiscal indicators, the World Bank and IMF for cross-country benchmarks, Bloomberg for market trends and oil prices, and the 2026 Appropriation Act for official budget allocations and deficit projections.

Complementing these datasets, insights from structured discussions with finance policy experts contextualise the data, highlight sector-specific risks, and inform the interpretation of policy intentions versus practical implementation.

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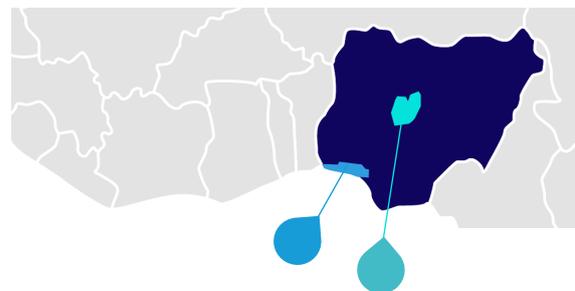
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