Sovereign Debt News Update No. 149: From Domestic Yields to Eurobonds: Navigating Nigeria’s Complex Debt Landscape

By:

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According to Nigeria’s Debt Management Office (DMO), as of the second quarter of 2025, Nigeria's total public debt reached ₦152 trillion (US$190 billion), marking an increase of ₦3 trillion compared to the first quarter of the year. This debt is made up of ₦80.55 trillion (US$ 100.69 billion) in domestic obligations and ₦71.84 trillion (US$89.8 billion) in external liabilities, reflecting both federal and subnational borrowing. The growth in total debt, though significant in nominal terms, is contextualized by projections from the World Bank, which indicate that Nigeria’s debt-to-GDP ratio may decline below 40% by the end of 2025 if current trends in economic growth continue. This potential improvement in debt sustainability reflects an expectation that increased economic activity, improved revenue collection, and a moderate fiscal deficit could help stabilize the country’s debt relative to its GDP. Nevertheless, the sheer magnitude of the debt underscores the ongoing fiscal pressures facing Nigeria and raises questions about the effectiveness of current debt management strategies.

Domestic Debt

Nigeria's domestic debt market continues to be a critical component of its overall financing strategy, but it carries both opportunities and significant risks. Domestic debt instruments, particularly Treasury Bills and Federal Government Bonds, remain in high demand despite the high cost of borrowing, which underscores investor confidence in Nigerian government securities. For example, the Central Bank of Nigeria recently sold ₦1.4 trillion ($$1.75 billion) worth of 249-day Open Market Operation (OMO) bills at yields of 19.89%, demonstrating strong appetite for short-term government instruments even under a high-interest-rate regime. Analysts argue that this demand for high-yielding instruments is double-edged: while it provides necessary liquidity for government operations and helps fund infrastructure and development projects, it also increases the cost of servicing debt, potentially crowding out essential expenditures in education, healthcare, and social programs.

The International Monetary Fund (IMF) has consistently raised concerns regarding Nigeria's growing reliance on domestic debt. The IMF highlights that such dependence increases vulnerability to shifts in interest rates and domestic investor sentiment, which can amplify financial instability during economic shocks. The high cost of domestic borrowing has been flagged as a key challenge, with debt servicing now absorbing a large proportion of government revenue, thereby limiting fiscal space for developmental projects. This scenario paints a picture of a government caught between the necessity of raising funds to sustain operations and the danger of overburdening itself with costly debt obligations that could stifle long-term economic growth. The combination of high yields, heavy domestic borrowing, and limited revenue diversification creates a precarious situation in which fiscal discipline and strategic planning are imperative.

Eurobond Market Performance

The Eurobond segment of Nigeria's debt portfolio has seen mixed performance, reflecting broader global market conditions and investor caution. Recent data indicates that the 9.625% $700 million June 2031 Eurobond closed at $108.401 with a yield of 7.75%, while the 7.875% $1.5 billion February 2032 Eurobond settled at $100.063 with a yield of 7.86%. These variations illustrate how investors are weighing risk, duration, and returns in a context of heightened global financial uncertainty. The preference for shorter-duration bonds indicates that investors are prioritizing liquidity and minimizing exposure to long-term risks in an environment characterized by rising interest rates and potential currency volatility. For the Nigerian government, this mixed performance has important implications: while external borrowing can provide additional resources to fund development projects, the costs associated with Eurobond issuance must be carefully managed to prevent unsustainable debt accumulation.

International Institutional Perspectives

The IMF has consistently emphasized the financial risks posed by Nigeria's reliance on oil revenues and domestic debt. Oil revenues currently make up approximately 30% of total government revenue, exposing Nigeria to shocks from volatile global oil prices. In its analysis, the IMF warns that overdependence on oil and domestic borrowing could exacerbate fiscal pressures, limit the government's ability to invest in key sectors, and reduce resilience to external economic shocks. Furthermore, the Fund projects that Nigeria's revenue-to-output ratio may fall to 9.2% by 2030 unless significant reforms are implemented, highlighting the urgent need for diversification of revenue streams and improved debt management strategies.

The World Bank, on the other hand, offers a cautiously optimistic view. It projects that, with sustained economic growth and prudent fiscal management, Nigeria's debt-to-GDP ratio could drop below 40% by the end of 2025. This indicates that, despite the challenges, there is room for optimism if Nigeria can improve its revenue collection, maintain moderate fiscal deficits, and implement policies that promote economic growth. These projections underline the importance of aligning domestic borrowing strategies, external financing, and macroeconomic policies to ensure overall debt sustainability.

Policy and Legislative Reforms in Focus

On 8 September 2025, the Speaker of Nigeria's House of Representatives, Tajudeen Abbas, called for urgent reforms to address the country's escalating debt burden, describing the current trajectory as unsustainable. Abbas emphasized the need to strengthen fiscal discipline, enhance revenue mobilization, and improve legislative oversight of public borrowing. He urged the executive to ensure greater transparency in debt acquisition and utilization, warning that unchecked borrowing could jeopardize Nigeria's development prospects. His remarks underscore growing domestic recognition that the debt challenge is not only technical but also institutional, requiring governance reforms and stronger accountability mechanisms within the fiscal and budgetary process.

Analyst Insights and Recommendations

Analysts stress that Nigeria's ability to sustain its debt depends heavily on structural reforms aimed at boosting revenue generation and managing fiscal pressures. Institutions such as the National Economic Summit Group (NESG) recommend broadening the non-oil tax base to reduce reliance on volatile oil revenues and ensure more stable funding for government obligations. In its latest *"Macroeconomic Condition Index (MCI)"* report, the group said Nigeria's debt-service-to-revenue ratio was above 100% in 2024, meaning the federal government spent all of its revenue on debt payment. According to the report, the ratio stood at 116.8% in 2024 before easing slightly to 113 percent in the first quarter (Q1) of 2025.

Additionally, high-interest rates on domestic debt instruments, while attracting investors, increase debt service costs and constrain budgetary space, leaving little room for public investments that could stimulate growth. Analysts also highlight the need for careful management of external debt issuance. The mixed performance of Eurobonds illustrates the importance of timing, pricing, and investor confidence in determining successful outcomes. Excessive reliance on short-term domestic borrowing combined with volatile external debt could expose Nigeria to financial shocks, emphasizing the need for integrated debt management strategies that account for both market conditions and long-term fiscal sustainability. Further, the political acknowledgment by Speaker Abbas reinforces calls from analysts and international institutions for a comprehensive overhaul of Nigeria's debt management strategy; one that aligns borrowing with productive investments and prioritizes public welfare.

Conclusion

In conclusion, Nigeria’s debt trajectory can only be effectively managed through strategic coordination of domestic and external financing, fiscal discipline, and structural reforms aimed at strengthening revenue generation and economic resilience. Failure to implement these measures could leave the country exposed to unsustainable debt pressures, high borrowing costs, and diminished fiscal space for critical development priorities.

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