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## Nigeria: The Long Road from Stabilization to Development

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**Abstract:** Abstract: In 2023, the Tinubu administration inherited a fragile economic situation, as Nigeria entered the COVID-19 crisis still bearing the scars of the 2014 oil shock. The sustained weakening of economic growth compared to the period of strong expansion associated with the commodity supercycle (2003–2014), along with the deterioration of macroeconomic fundamentals, was exacerbated by a deterioration of economic policies and the business climate since 2015. This deterioration was driven by counterproductive protectionist measures (foreign exchange controls and import-substitution industrialization strategies), generating shortages, inflationary pressures, and recessionary dynamics, with significant socio-political and socio-economic spillovers (violence, insecurity, poverty, and inequality).

Upon taking office in May 2023, President Tinubu announced the flexibilization and unification of the exchange rate and the removal of fuel subsidies. His mandate has thus been placed under the banner of reforms, including reducing import barriers, restoring monetary orthodoxy, ending monetary financing of public deficits, implementing tax reform, and strengthening banking prudential regulations and the anti-money laundering and counter-terrorism financing (AML/CFT) framework. These reforms, combined with a rebound in the hydrocarbon sector (production and refining), have fostered cautious optimism, supported by a set of positive signals: stabilization of the naira, disinflation, recovery in economic activity, and a strengthening of the external position. Despite the expected cost-of-living crisis—stemming from imported inflation following a 73% devaluation of the naira, a sixfold increase in fuel prices, and monetary tightening—there has been no major social mobilization or socio-political destabilization. While public finances have benefited from the removal of costly subsidies, they remain dependent on oil revenues, and the tax reform has yet to demonstrate its effectiveness in boosting weak domestic revenue mobilization and consolidating favorable public debt dynamics.

Uncertainty remains regarding the transformation of the current rebalancing/stabilization phase into sustained macro-financial consolidation and a meaningful acceleration of economic growth capable of generating employment and supporting an inclusive development trajectory. Oil and gas revenues remain structurally central to the economy, with both production (domestic actors and international majors) and refining capacity trending positively. The mining sector also holds significant potential, particularly in critical minerals. However, these sectors are capital-intensive rather than labor-intensive and, in the absence of a welfare state, do not generate “trickle-down” effects conducive to inclusiveness through redistribution mechanisms. Within what some describe as a form of “wild capitalism,” the expansion of the technology sector, financial services, and cultural and creative industries reflects the dynamism of the private sector, a strong entrepreneurial spirit, and notable innovation capacity. However, this dynamism does not

generate substantial spillover effects at the national level; on the contrary, it may even exacerbate a form of “economic separatism.” The national elite is well educated and often binational, as is the large diaspora, which represents both a strength (through remittances and investment) and an indicator of insufficient domestic opportunities. The business environment remains constrained by insecurity, corruption bordering on state capture, infrastructure deficits, and dysfunctions in the electricity sector, all of which limit attractiveness for foreign investors. Reducing informality, investing heavily in education, healthcare, climate adaptation, and developing the agricultural and manufacturing sectors are key challenges to escaping the “poverty trap” and addressing food insecurity in Africa’s most populous country, where demographic growth constitutes a “ticking time bomb.”

**Thematic area:** macroeconomics

**Geographical area:** Nigeria

## Key indicators

	2019	2020	2021	2022	2023	2024	2025*	2026*
<b>Political and socio-economic context</b>								
Population (million inhabitants)								
Estimate 2026			242,6 M					
Projection 2050			359,2 M					
Population growth rate 2025–2026			2,1 %					
HDI (rank/193 countries)	165	165	162	164	164	-	-	-
Poverty rate (USD 4.20/day, PPP)	55,1	55,1	55,1	64,0	63,7	68,8	70,5	71,0
Gini index	35,1	35,1	35,1	33,9	33,9	33,9	-	-
World Bank governance quality (rank/198 countries)	175	176	177	179	172	171	-	-
Liberal democracy score (rank/177 countries)	91	91	98	96	95	96	-	-
Fragile States Index (rank/179 countries)	165	165	168	164	165	165	-	-
<b>Economic model</b>								
GDP (USD bn)	668,2	598,7	609,5	645,7	487,3	252,1	285,0	334,3
GDP per capita (current USD)	3190	2798	2789	2893	2139	1084	1200	1378
Real GDP growth rate (%)	2,2	-6,4	1,1	4,3	3,3	4,1	3,9	4,2
Investment (% of GDP)	20,4	21,1	19,2	18,1	17,6	16,8	17,6	18,5
Domestic savings (% of GDP)	18,3	18,4	18,7	18,6	18,9	23,6	23,3	22,1
<b>Public finances</b>								
Government revenues (% of GDP)	5,6	4,7	5,1	6,6	7,3	10,8	9,6	9,1
Government expenditures (% of GDP)	8,9	8,7	9,1	10,6	10,4	12,3	12,5	12,8
Fiscal balance (% of GDP)	-3,3	-4,0	-4,0	-4,0	-3,1	-1,6	-2,9	-3,7
Public debt (% of GDP)	21,4	25,7	26,6	29,8	36,3	39,3	36,4	35,0
Public debt interest payments (% of revenues)	24,1	36,4	35,3	25,0	39,0	23,0	27,4	27,9
<b>External accounts</b>								
Current account balance (% of GDP)	-2,0	-2,7	-0,5	0,2	1,3	6,8	5,7	3,6
External debt (% of GDP)	17,3	19,3	20,6	20,6	21,0	-	-	-
Foreign exchange reserves (months of imports)	6,3	6,5	6,3	6,7	6,9	5,7	6,1	6,2
Exchange rate change vs. USD (%)	0,6	-5,1	-7,3	-8,1	-50,1	-42,0	7,0	5,7
<b>Financial system and monetary policy</b>								
Average annual inflation (%)	11,4	13,2	17,0	18,8	24,7	31,4	23,0	22,0
Credit to the private sector (% of GDP)	7,4	8,1	8,8	9,5	13,1	-	-	-
Banks' sovereign exposure (% of assets)	11,2	8,0	7,6	8,6	8,9	9,8	-	-
Capital adequacy ratio (%)	14,6	15,1	14,6	13,8	13,0	15,3	11,7	-
Return on equity (%)	25,3	23,4	16,0	17,2	37,9	40,0	27,5	-
Non-performing loans (% of gross loans)	6,0	6,0	4,9	4,0	4,4	4,9	8,0	-
Net NPLs (% of capital)	3,2	1,5	0,3	1,6	2,9	4,9	19,6	-
Liquid assets (% of short-term liabilities)	44,8	41,0	37,7	37,4	40,7	47,1	57,6	-
<b>Climate</b>								
ND-Gain vulnerability index (rank/187 countries)	129	128	127	123	125	-	-	-
GHG emissions (global rank/186 countries)	26	27	27	27	27	26	-	-
GHG emissions per capita (global rank/186 countries)	148	150	152	155	154	153	-	-
GHG emissions / GDP (global rank/186 countries)	93	101	104	105	105	102	-	-

Source: IMF (WEO Oct. 2025, FSI); World Bank; European Commission; EIU; United Nations; V-Dem; local sources; calculations: AFD/ECO.

\* Forecasts or estimates as of the latest available date

## 1. Institutional stability and rapid reform implementation

From the outset of President Tinubu's inauguration in May 2023, and despite the risk of social unrest, the announcement of exchange rate flexibilization and unification<sup>[1]</sup> and the removal of fuel subsidies (considered the only "tangible public service"), in place since the 1970s, set the tone for a mandate underpinned by structural reforms. In this respect, it marked a break from the inertia of the Buhari administration (2015–2023, from the same All Progressives Congress party). The full removal of fuel subsidies was ultimately implemented only in August 2024, fueling a severe socio-economic shock that had begun with a more than 70% devaluation/depreciation of the naira between June 2023 and February 2024. Supported by the IMF–World Bank duo, this dual reform enabled the disbursement of USD 800 million in World Bank financing for a direct cash transfer program targeting the most vulnerable populations, which took time to be implemented and did not offset the loss of purchasing power.

**Fears of widespread social unrest ultimately did not materialize, contained by the authorities and a state willing to**

**exercise its "monopoly on legitimate violence."**<sup>[2]</sup> Since 1999, Nigeria's contemporary political history has unfolded within a democratic and federal institutional framework and a largely bipartisan parliamentary system, with limited ideological divergence on economic and social policy orientations.<sup>[3]</sup> Nevertheless, protest movements continue to be repressed (e.g., the #EndSARS movement in October 2020 against a special police unit), leading to strong public reluctance to express grievances in the streets.<sup>[4]</sup>

**Socio-political risk factors therefore remain pronounced, given fragile national cohesion and ethnic, religious, and regional antagonisms that fuel violence and insecurity.** While the country's main cities are relatively safe, large parts of the territory remain outside effective control, despite extensive administrative coverage (36 states, 774 local units, and 8,809 wards) and the state of emergency declared in October 2025. Nigeria faces farmer–herder conflicts (North and Center), banditry (trafficking, kidnappings, expropriation of local populations), Islamist terrorism (rival factions of Boko Haram and the Islamic

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[1] The COVID-19 crisis and the war in Ukraine confirmed the failure of the protectionist strategy based on restricting access to foreign exchange and import substitution, implemented following the abandonment of a managed float regime in favor of a dollar peg combined with import barriers in 2015, in the context of the oil price shock. Under pressure from development partners (IMF and World Bank), Nigerian authorities have, since spring 2020, communicated on plans to liberalize the exchange rate regime and unify exchange rates. The official rate (used for Treasury and energy sector transactions) was abolished in April 2021 in favor of the I&E rate (Investors and Exporters window, also known as the NAFEX rate, introduced in 2016), which remained tightly managed by the Central Bank of Nigeria (CBN), as did the supply of foreign exchange. Successive devaluations (2016, 2017, 2020) failed to fully correct the real appreciation and overvaluation of the naira.

[2] In his work *The Scholar and the Politician* (1919), Max Weber defines the "monopoly of the legitimate use of force" as a tacit agreement between the state and its population. Once the state is perceived as legitimate, it is entitled to use physical force within its territory or delegate its use.

[3] Nigeria is classified as an "electoral democracy in the grey zone" by V-Dem (97th out of 179), ranks 140th out of 180 on Transparency International's Corruption Perceptions Index, 122nd out of 180 on the Reporters Without Borders (RSF) Press Freedom Index, 127th out of 208 on the Freedom House Freedom Index, and 117th out of 140 on the World Justice Project Rule of Law Index.

[4] The recent demolition of the waterfront settlement of Makoko on the Lagos lagoon was presented by the government as an urban planning and security measure, but it triggered large-scale population displacement, protests, and significant controversy.

State's West Africa Province [ISWAP] in the Northeast),<sup>[5]</sup> sabotage of oil infrastructure, and persistent secessionist movements (Southeast, Biafra).

**Although Nigeria is one of Africa's leading economies and a regional giant, it lacks a coherent doctrine or strong leadership in foreign policy and is not immune to regional and global instability.** The complete reshuffling of the military high command in October 2025 amid coup rumors (16 soldiers arrested) had little resonance in Nigerian society. In December 2025, Economic Community of West African States (ECOWAS) forces, including Nigerian troops, supported the loyalist Beninese army against a coup attempt and restored constitutional order. Following developments in Venezuela and Greenland, the United States conducted a targeted military strike at Christmas, raising concerns about potential interest from the Trump administration in Nigeria's natural resources under the pretext of protecting Christian populations, aimed at appealing to a conservative MAGA base. U.S. military equipment purchases may not suffice to satisfy Washington, particularly given China's strong local presence as a key partner.

**Ultimately, in a country where voter turnout is low and distrust in institutions is high, President Tinubu appears well positioned for reelection in 2027,<sup>[6]</sup> even if the benefits of reforms are not yet tangible for the population.** The dominance of the ruling APC party across federated states and the rallying of opposition figures are seen as signals of political continuity. Nevertheless, efforts to build public understanding of reforms and to construct a social contract (rights, duties, accountability, trust) remain essential. Two factors, however, cannot be overlooked: concerns about Bola Tinubu's health and potential interference from the Trump administration.

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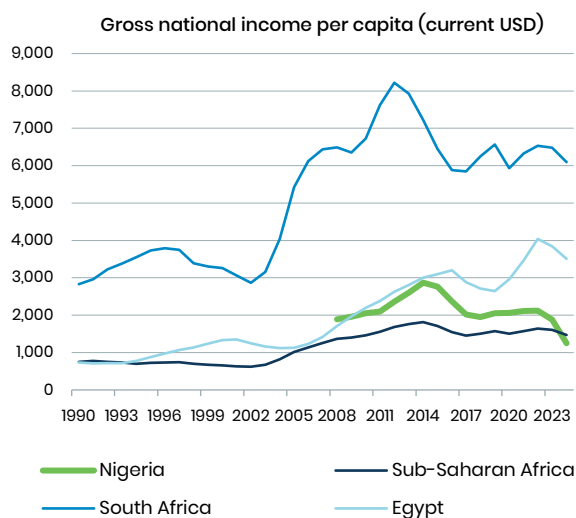
[5] According to ACLED (Nsaibia 2026), terrorist attacks increased by 86% between 2024 and 2025, while the number of fatalities rose by 262%.

[6] Presidential and legislative elections are scheduled for January 16, 2027, followed by gubernatorial and state assembly elections on February 6, 2027, preceded by five months of official campaigning.

## 2. ...Despite a weak welfare state, the “poverty trap”, and demographic pressures

**Nigeria’s loss of its position as Africa’s largest economy in 2023—due to the sharp decline in nominal GDP expressed in USD (not fully offset by a 34% upward GDP revision in 2024 following rebasing)—symbolizes a development trajectory constrained by modest and insufficiently inclusive growth, compounded by weak social protection systems and inflationary and demographic pressures.** While no official national census has been conducted since 2006, the population is estimated at over 230 million, with 63% under the age of 25. According to the United Nations, in the absence of family and education policies capable of accelerating the demographic transition, Nigeria’s population could approach 400 million by 2050, making it the third most populous country in the world. The prospect of a demographic dividend is constrained by a very high dependency ratio,<sup>[7]</sup> reflecting a young population with a median age of 18 and a fertility rate of 4.8 children per woman in 2024 according to the last Nigeria Demographic and Health Survey 2024.

Figure 1 – Nigeria’s relative decline at the continental level



Source: World Bank (Atlas method).

**The succession of exogenous and endogenous shocks experienced over the past decade has resulted in widespread multidimensional impoverishment.** Gross national income (GNI) per capita has more than halved, reaching USD 1,250 in 2024, largely eroded by exchange rate effects, and now stands slightly below the Sub-Saharan African (SSA) average. In purchasing power parity (PPP) terms, however, GDP per capita continues to increase and remains significantly above the SSA average (USD 9,100 compared to USD 5,913). Nevertheless, approximately 70% of the population lives below the

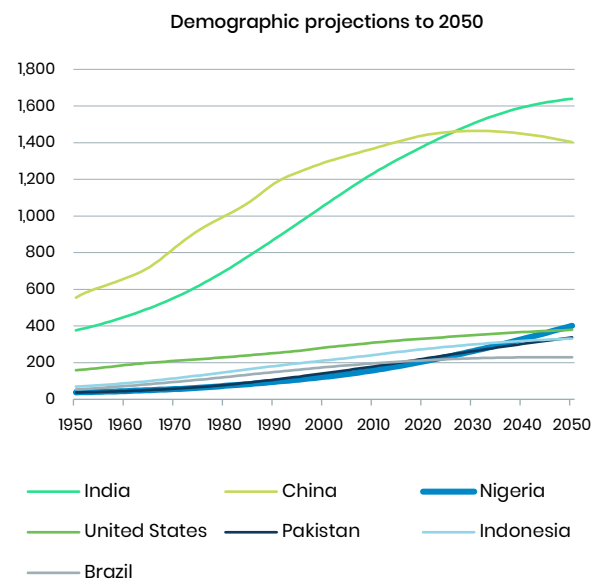
[7] According to the United Nations Population Fund, “a country in which the share of young people in the population increases and fertility rates decline can benefit from a ‘demographic dividend,’ a phenomenon of increased economic productivity that occurs when the ratio of the working-age population to dependents rises.” The demographic dependency ratio is defined as the ratio of individuals assumed to depend on others for their daily needs—youth and the elderly—to those

capable of supporting them (population aged 0–14 plus 65 and over divided by the population aged 15–64, multiplied by 100). In Nigeria, this ratio is estimated at 79% in 2024 according to the World Bank, in line with the Sub-Saharan African average. By comparison, it stands at around 50% in emerging Asia and Latin America and is increasing in advanced economies (57% in Europe and 70% in Japan) due to population aging.

lower-middle-income poverty line set at USD 4.20 (PPP) per day (World Bank estimate), and 63% of the population is considered to be in “multidimensional poverty,”<sup>[8]</sup> according to the National Bureau of Statistics (NBS). The Gini index, which measures inequality, has declined slightly since 2015 (to 33.9 in 2022). However, it remains difficult to interpret given the pronounced income disparities within the population. Spatial inequalities are significant, particularly between major urban areas and rural regions in the Center and the North. According to World Bank estimates, the so-called “middle class”—defined as individuals with daily income levels above poverty thresholds but still well below those observed in advanced economies—has been shrinking in recent years and is estimated at no more than 3.5 million people, or 1.5% of the population. The relatively small size of the addressable domestic consumer market therefore limits the country’s attractiveness to investors. Nigeria ranks 164th out of 193 countries on the Human Development Index (HDI), and its World Bank Human Capital Index is the seventh lowest globally. The education and vocational training system is underperforming and underfunded. Public spending on education accounts for only 6% to 9% of the budget, compared to an estimated benchmark of 20% recommended by UNESCO. Elites are often educated abroad, contributing to significant brain drain (ranked 141st out of 179 countries according to the Fund for Peace Brain Drain Index).

Approximately one-quarter of school-age children are not enrolled in school, particularly for security-related reasons in the central and northern regions of the country. This already concerning situation is further exacerbated by the suspension of funding from the United States Agency for International Development (USAID). In 2024, such funding amounted to USD 876 million (0.3% of GDP) and was primarily directed toward the health sector (epidemic and HIV control, maternal and child health) and the fight against malnutrition, particularly among children (estimated at 40%).

Figure 2 – Strong demographic pressure



Source: United Nations.

[8] According to the United Nations Sustainable Development Goal 1 (No Poverty), “poverty is not only a lack of income and resources to ensure sustainable livelihoods. It also manifests itself in hunger and malnutrition, limited access to

education and other basic services, social discrimination and exclusion, as well as a lack of participation in decision-making.”

### 3. A three-speed economy in search of a diversified and inclusive growth model

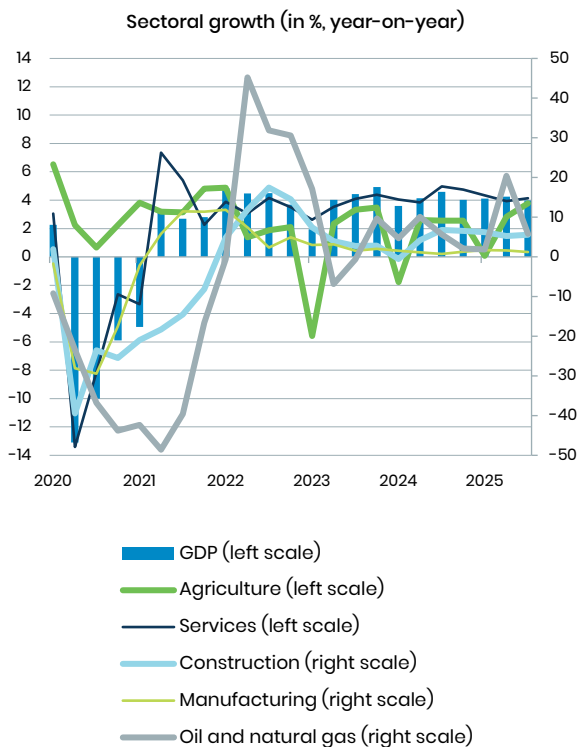
**After a decade of stagnation, the oil and gas sector is experiencing a renewed upturn.** Between 2012 and 2023 (with the exception of the 2017–2019 period), it made a negative contribution to economic growth: its economic weight was reduced threefold, accounting for only 5.5% of GDP. Nevertheless, the sector remains structurally central and critical to the economy (88% of exports and 34% of fiscal revenues on average over the past five years). Although the country holds the world's 11th-largest oil reserves and 10th-largest natural gas reserves according to BP, chronic underinvestment, sabotage, and oil theft have halved crude oil production over the past decade, while natural gas output has stagnated. The rebound in oil production—approaching the OPEC+ quota of 1.5 million barrels per day in 2025—has been supported by maintenance efforts and improved security of installations. The overhaul of the legal and fiscal framework<sup>[9]</sup> to attract and retain both domestic and foreign investors has also begun to yield results. The government aims to double crude oil production by 2030. Major international oil companies (ExxonMobil, Shell, and TotalEnergies) are gradually divesting from onshore operations due to environmental concerns, declining returns, and tensions with communities in the Niger Delta, while remaining active offshore, particularly in natural gas. At the same time, relations appear to be stabilizing between the Nigerian National Petroleum Corporation (NNPC), the state-owned company operating as a monopsonist in upstream activities, and Dangote, a new dominant player in downstream operations. In September 2025, the two entities renewed

for two years their “naira-for-crude” agreement to supply the Dangote refinery, inaugurated in 2024. Plans to double its capacity to 1.4 million barrels per day by 2028 would make it the largest refinery in the world. These developments mark a significant turning point in terms of the country's strategic autonomy. However, uncertainties remain regarding the willingness of the group owned by Africa's wealthiest individual to prioritize the general interest by serving domestic demand rather than exports. This is particularly relevant given concerns over the profitability and financial sustainability of a USD 20 billion project financed in foreign currency and supported by an aggressive commercial dumping strategy (previously implemented in cement and sugar markets), which contributed to a 12% decline in fuel prices in 2025.

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[9] Petroleum Industry Act (PIA) of 2021 and the Upstream Petroleum Operations Cost Efficiency Incentives Order of 2025.

Figure 3 – A three-cylinder growth engine: hydrocarbons, formal services, and the informal sector (including agriculture)



Source: NBS, AFD calculations.

**The domestic economy relies heavily on the informal sector, which accounts for approximately 90% of employment according to the World Bank and 42% of GDP according to the National Bureau of Statistics (NBS). The country's agricultural potential is substantial, and the sector remains fundamental (22% of GDP and 35% of employment), particularly in central and northern regions.** However, it is unable to ensure food self-sufficiency due to insecurity leaving land uncultivated, climate-related shocks (droughts and floods), logistical constraints (storage and transport), which lead to significant post-harvest losses (35–40%, particularly for fruits and vegetables), and restrictions on imported inputs.

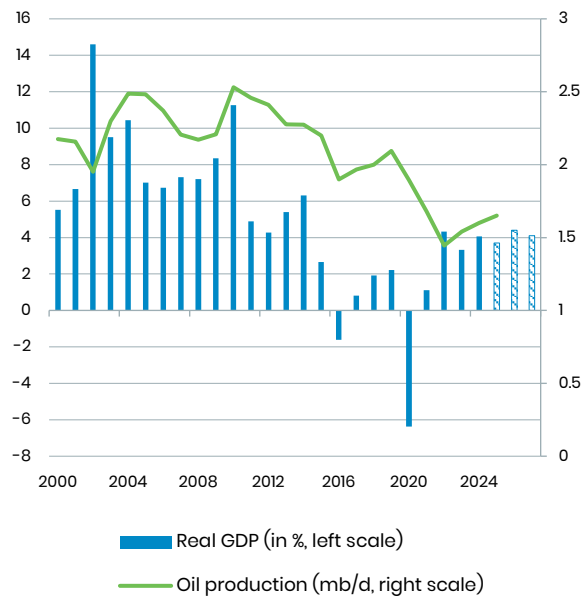
**The services sector remains the primary engine of the economy, and the expansion of an innovative and creative ecosystem highlights strong entrepreneurial dynamism and a deep pool of skills, particularly in Lagos, which accounts for around 10% of the population and 22% of national GDP.** The share of the tertiary sector in value added has increased significantly since 2000, rising from 32% to 54% of GDP, driven notably by finance and telecommunications. With five unicorns (valued at over USD 1 billion), primarily concentrated in fintech, Nigeria leads the African continent, ahead of other innovation hubs such as Egypt, South Africa, Morocco, and even Rwanda.

**Since the 2014 oil shock, economic growth has remained subdued but is regaining momentum.** After averaging 7.7% over 2000–2014, economic activity slowed to just 1.2% in 2015–2019, followed by a sharp recession in 2020 (–6.4% compared to –1.8% prior to GDP rebasing)<sup>[10]</sup> and a gradual recovery. In 2024, the dynamism of the services sector—particularly financial services—and the rebound in oil (+5.4%) and gas (+19.2%) production supported GDP growth (4.1%). Despite a highly uncertain global environment, quarterly data indicate sustained and stable real GDP growth over the first three quarters of 2025, at 4.1% year-on-year, driven by services (finance and telecommunications), construction, and hydrocarbons (+9% y/y). In January 2026, the IMF revised its annual growth forecast upward from 3.9% to 4.2%.

[10] The methodological revision announced in January 2025 (the previous one dating from 2014) involved updating the statistical base year (GDP rebasing)

from 2010 to 2019, as well as adjusting sectoral weights and incorporating new sectors.

Figure 4 – Relatively favorable growth prospects



Source: IMF, BP.

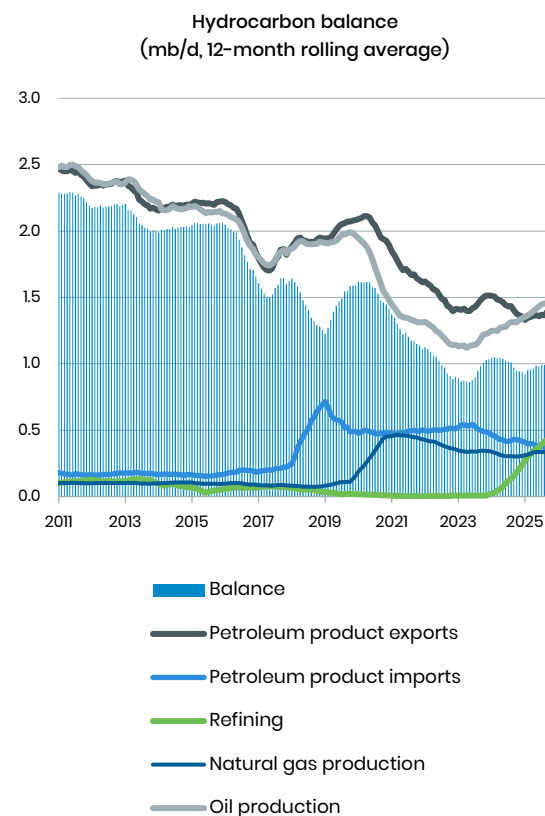
**Pending the publication of the new National Development Plan (NDP 2026–2030), addressing the structural shortcomings of the Nigerian economy remains a major challenge in order to accelerate private sector-led growth capable of generating sufficient formal employment to absorb new labor market entrants (approximately 4.5 million per year by 2030 according to the Nigerian Economic Summit Group [NESG]).** The low level of investment (17% of GDP) and the

limited manufacturing sector (9% of GDP), which remains weakly integrated into global value chains, reflect deficiencies in human capital and infrastructure (transport and electricity), regulatory complexity, administrative inefficiencies (customs clearance delays of up to 90 days in Lagos compared to 10 days in Lomé), high logistics costs, corruption, lack of competition (including in public procurement), insecurity, and difficulties in accessing credit (particularly for SMEs) and importing intermediate goods, despite the easing of import restrictions. Growth drivers have been identified in hydrocarbons, mining (including critical minerals such as lithium, coltan, graphite, and rare earth elements, particularly in the North-Central and Southwest regions), agriculture (production and processing), road and port infrastructure (including the Lekki deep-sea port), manufacturing, and services. In the short term, IMF growth forecasts (January) remain positive at 4.4% for 2026, although growth could slow ahead of elections. Medium-term potential growth has been revised upward by the IMF from 3.5% to 4%. According to these projections, by 2030 Nigeria would remain the third-largest economy on the continent, with a nominal GDP of USD 444 billion (compared to USD 252 billion in 2024), behind Egypt and South Africa, and still far from the authorities’ objective of reaching USD 1 trillion with annual growth of 7%.

## 4. Preserving external stability and attracting investment in a volatile global environment

The current account surplus regained in 2022 is expected to gradually narrow over the medium term, after reaching a 17-year high in 2024 (6.8% of GDP) and remaining robust in 2025 (over the first nine months). This performance reflects resilient exports despite a moderation in oil prices to around USD 60 per barrel, a decline in imports—particularly petroleum products—and record remittance inflows from the diaspora, supported by the issuance of new licenses to money transfer operators. The expansion of domestic refining capacity could, over time, meet most local demand and generate exportable surpluses, as already evidenced by Dangote’s exports (fuel and kerosene to West Africa and the United States in particular), thereby supporting the external position and the naira. Exports remained dynamic in 2025 (+15% year-on-year over nine months). The 2023–2024 depreciation of the naira improved competitiveness in the agricultural (+29%) and manufacturing (+16%) export bases, albeit from a still limited base. However, Nigeria has not fully capitalized on the evolving geopolitical and energy landscape following the war in Ukraine to expand exports to the European Union, due to insufficient production capacity.

Figure 5 – Improvement in the oil trade balance



Source: JODI, AFD calculations.

**Nigeria has historically maintained a relatively protectionist stance, with a moderate degree of trade openness (25%), although foreign exchange restrictions on 43 product categories have been lifted since October 2023. The country appears to have been only marginally affected directly by the trade tensions initiated by the United States.** The average effective tariff rate on Nigerian imports is around 11%, although certain goods (sensitive or luxury products) may be taxed up to 35% under the ECOWAS Common External Tariff. The “Nigeria First” directive (May 2025) prioritizes local content in public procurement. Negotiations on the Economic Partnership Agreement (EPA)

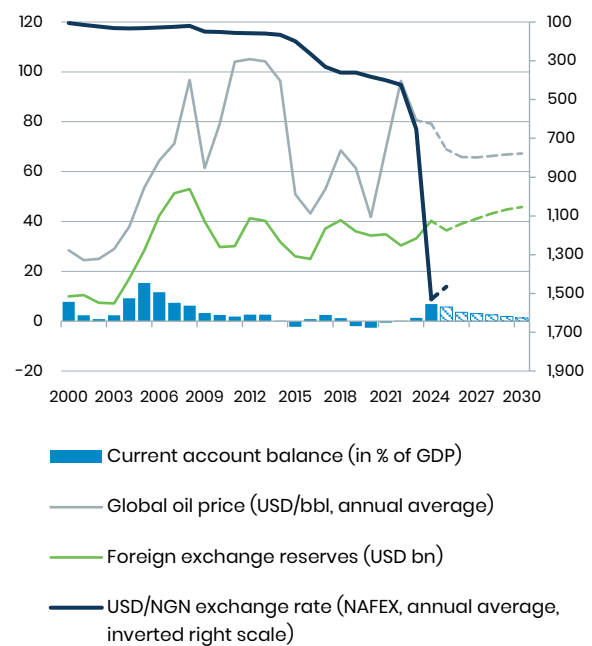
between ECOWAS and the EU, launched in 2004, remain stalled, largely due to Nigeria’s concerns over agricultural and industrial competition. Despite the ECOWAS framework, and pending the effective implementation of the African Continental Free Trade Area (AfCFTA), regional (excluding informal trade) and intra-African trade remain limited. The EU is Nigeria’s main trading partner (42% of total exports in 2024 and 58% of the stock of foreign direct investment [FDI]). Nigeria’s exposure to the United States is primarily through remittances and previously through USAID, with limited exposure via exports (13%) and FDI (16%). The country has been notified of a 15% tariff by the United States, which remains largely inconsequential in practice given that petroleum products are exempt.<sup>[11]</sup> China is Nigeria’s leading supplier (23% of imports) and accounts for 7% of the stock of FDI.

**FDI inflows remain structurally low (0.5% of GDP over the past decade) and concentrated in extractive industries, while portfolio investment flows remain inherently volatile.** The recent improvement in investor confidence has yet to translate into major announcements of renewed Western investment (outside the energy sector), although a memorandum of understanding has recently been signed with South Korea for the establishment of an electric vehicle manufacturing plant. Since the signing of a cooperation agreement in September 2024, China has announced USD 20 billion in investments across agriculture, automotive, energy, and mining sectors. The latter is particularly strategic in the context of global trade tensions, and Chinese firms are reported to have invested more than USD 1.3 billion in lithium processing in Nigeria since 2023.

[11] Nigeria is also among the 32 African countries benefiting from the African Growth and Opportunity Act (AGOA), which allows exports (textiles, oil, agriculture, etc.) to the United States duty-free. This

At the same time, portfolio investment inflows, which were strong in 2024 (USD 13.3 billion), weakened in 2025 (USD -5 billion in the first quarter before rebounding). U.S. policy developments, the onset of the pre-election period, security challenges in the North, and regional instability all constitute risk factors that may trigger foreign capital outflows.

Figure 6 – Strengthening of the external position after a turbulent decade



Source: IMF, World Bank, CBN, AFD calculations.

**External liquidity and solvency indicators are now broadly adequate for an economy operating under a flexible exchange rate regime, with occasional interventions by the Central Bank of Nigeria (CBN) to limit volatility or mitigate external shocks (de facto floating regime according to the IMF, compared to a managed float until 2023).** A current account surplus exceeding external debt amortization (around 2% of GDP) generates a negative

agreement was extended by one year on December 31, 2025.

external financing requirement in the short term. The stock of external debt has remained broadly stable in recent years (around USD 100 billion). However, due to exchange rate effects—partially offset by the upward revision of nominal GDP—the external debt ratio is estimated to have increased to 40.5% of GDP in 2024. External liquidity conditions have improved significantly, supported by the accumulation of foreign exchange reserves (USD 46 billion in January 2026,<sup>[12]</sup> the highest level since 2018), reflecting strong external accounts, the issuance of Eurobonds in late 2024 and late 2025, and lower domestic demand for foreign currency. This level of reserves provides coverage of more than six months of imports of goods and services. The currency swap agreement with China was renewed for three years in December 2024 (CNY 15 billion for NGN 3,280 billion), with the aim of strengthening financial cooperation and promoting the use of the renminbi and the naira in bilateral transactions.

**The flexibilization of the exchange rate regime, the strengthening of external liquidity, and the reduction of import barriers and foreign exchange and capital controls are contributing to a decline in transfer and convertibility risks.** These positive developments follow a decade of ineffective—if not counterproductive—protectionist policies implemented since the 2014 oil shock, including restrictions on access to foreign exchange for import financing, import barriers under an import-substitution strategy, mandatory repatriation of export proceeds by domestic firms, and constrained foreign exchange supply by the CBN.

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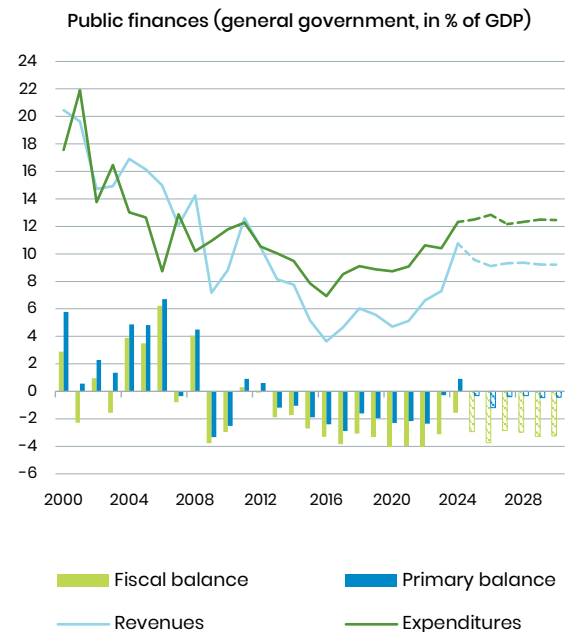
[12] Data on net reserves, excluding swap and forward operations, are published only sparingly by the CBN.

They stood at USD 23 billion in April 2025, when gross reserves amounted to USD 37 billion.

## 5. Fiscal and budgetary reforms: welcome adjustments amid significant public finance constraints

The removal of fuel price subsidies (August 2024) and the tax reform (June 2025) have alleviated pressure on public finances. Similarly, the discontinuation of monetary financing of fiscal deficits represents another positive signal, bringing an end to fiscal dominance and its associated inflationary effects. The succession of exogenous shocks over the past decade has underscored Nigeria's strong dependence on hydrocarbon revenues and its very low level of domestic revenue mobilization (the seventh-lowest revenue-to-GDP ratio globally). Long regarded by Nigerians as the only “tangible public service,” the full removal of fuel subsidies in 2024 is estimated to have generated savings equivalent to 2.6 percentage points of GDP (prior to GDP rebasing). For its part, the tax reform, which came into effect on January 1, 2026, aims to broaden the tax base, strengthen domestic revenue mobilization, improve equity and formalization, attract investment, and reduce dependence on oil revenues. It raises exemption thresholds for small and medium-sized enterprises (SMEs) and low-income households, introduces a minimum effective tax rate for large corporations, and establishes a centralized tax administration to enhance tax collection and compliance through digitalization (TaxPro Max and e-services).

Figure 7 – Public finances constrained by very low revenue mobilization



Source: IMF.

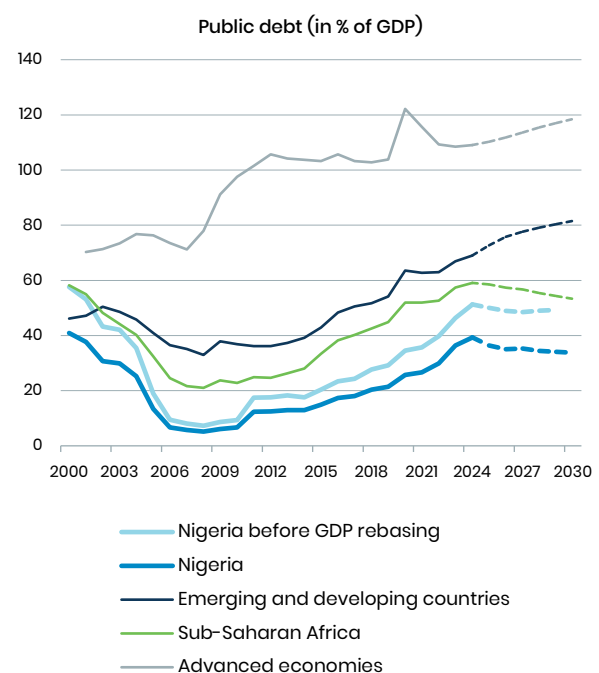
Fiscal prospects are improving, although uncertainties remain regarding the sustainability of consolidation, given substantial spending needs in social services, security, and infrastructure, as well as a heavy debt burden (around 30% of revenues are allocated to interest payments), which exceeds the combined expenditure on these three priority areas. Budget preparation remains a highly political process, framed by the *Medium-Term Expenditure Framework and Fiscal Strategy Paper* (MTEF) for 2025–2027. In practice, however, a pragmatic approach tends to align expenditures with available revenues, thereby limiting fiscal slippages. In 2025, half of the savings generated from subsidy removal—transferred by the Nigerian National Petroleum Corporation (NNPC) to the government—was partially redirected toward social programs (notably cash transfers, which have proven difficult

to implement and are now less prioritized) and infrastructure. The remaining share was reportedly used by NNPC to clear arrears owed to foreign suppliers, according to the World Bank (Nigeria Development Update, May 2025). The renegotiation of several oil production-sharing contracts in 2025 and the reassertion of state control over financial flows previously managed by NNPC in 2026 illustrate the government’s intention to “recentralize” resource rents without deterring investors. Nevertheless, caution remains warranted regarding the implementation of the tax reform and the expected revenue gains. The government aims to raise the revenue-to-GDP ratio to 18% by 2030, in line with the current Sub-Saharan African (SSA) average. A realistic trajectory likely lies between this highly ambitious target and the IMF’s more conservative—if not skeptical—projection of a ratio remaining around 10% of GDP over the same horizon. Overall, the fiscal deficit, reduced to 1.6% of GDP in 2024 (3.4% prior to rebasing), with a slight primary surplus, and estimated at 2.9% of GDP in 2025, is expected to stabilize at around 3% of GDP over the medium term, according to the IMF. However, a moderate fiscal slippage in the pre-election period cannot be ruled out: the IMF projects a deficit of around 3.7% of GDP in 2026, while the draft 2026 budget (expected to be adopted by March 31) targets a deficit of NGN 23.8 trillion, or approximately 4.3% of GDP based on the underlying macroeconomic assumptions, compared to 3.7% in the MTEF.

**Based on pre-rebasing data, the latest Debt Sustainability Analysis (IMF, Article IV, July 2025) revised Nigeria’s short-term sovereign stress risk assessment from high (DSA 2024) to moderate, reflecting improved external conditions and renewed investor confidence, while maintaining a high level of risk over the medium term, given the volatility of oil revenues and uncertainty surrounding fiscal reforms. Notably, unlike many Sub-Saharan African**

countries under IMF-supported programs, Nigeria’s most recent IMF program dates back to 2001 (undisbursed), although the Rapid Financing Instrument (RFI) was mobilized during the COVID-19 crisis (USD 3.4 billion in April 2020). Public debt declined mechanically from 52% to 39% of GDP by end-2024 (IMF data) following GDP rebasing. The exchange rate effect—previously a key driver of adverse debt dynamics in 2022–2023 (with a 10 percentage point increase in the debt-to-GDP ratio and a rise in the share of foreign currency-denominated debt from one-third to one-half in 2024)—has since been neutralized. According to the CBN, the debt ratio stood at 34% of GDP in mid-2025 and is expected to stabilize at around 35% of GDP in 2026, in line with IMF projections of a broadly stable debt trajectory through 2030. Interest payments are expected to remain above 30% of government revenues in the medium term, although overall financing needs appear manageable (around 7% of GDP), with external debt service below 2% of GDP.

Figure 8 – Public debt expected to remain under control



Source: IMF.

**The Treasury's debt management strategy (Nigeria's Medium-Term Debt Management Strategy 2024–2027) prioritizes domestic financing, complemented by access to international capital markets (with spreads narrowing to around 330 basis points, the lowest since 2015) and support from development partners for reform implementation.** Following the end of monetary financing of deficits, sovereign liquidity continues to be supported by the domestic market, where around 80% of public debt is held by residents (banks, pension funds, and insurance companies). This frontier market also offers carry trade opportunities for foreign investors, supported by attractive yields, with competition between the Treasury and the CBN, which offers high returns on its open market operations (around 20–22%, compared to 15–18% for the Treasury) as part of its monetary and macroeconomic stabilization policy. Development partners remain highly engaged (with approximately half of external debt on concessional terms), particularly the World Bank.

The European Bank for Reconstruction and Development (EBRD) has also recently announced its first financing operation in Africa, in Nigeria (USD 100 million). Nigeria's return to international capital markets in late 2024 (after no issuance since 2022) took place under relatively costly conditions (9.625% over 6.5 years and 10.375% over 10 years). Financing conditions improved in 2025, with the Treasury raising USD 2.35 billion at year-end (8.63% over 10 years and 9.13% over 20 years), supported by an order book exceeding USD 13 billion, reflecting sustained investor confidence despite geopolitical tensions. Since 2017, three local-currency green bonds have been issued, and the Treasury continues to issue *sukuk* annually, while the potential issuance of panda bonds remains under consideration. In this context, in 2025, the three major credit rating agencies revised Nigeria's sovereign ratings positively: Fitch upgraded the rating to B (stable), Moody's to B3 (stable), and S&P revised its outlook from stable to positive (B-).

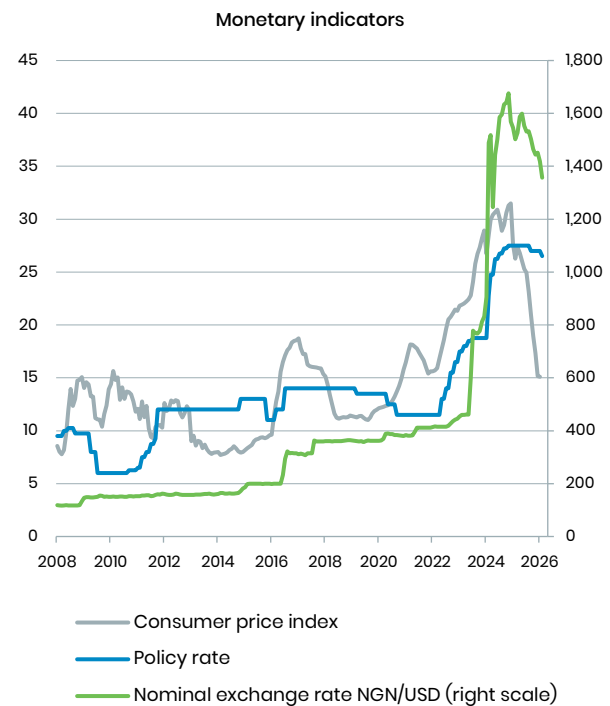
## 6. Major monetary and financial sector stabilization efforts

The shift in monetary and exchange rate policy initiated in 2023 has begun to yield results, with the naira showing relative stability over the past year. The liberalization and unification of the exchange rate regime in June 2023 were followed by changes in CBN governance in September, a significant monetary tightening from February 2024 onward (with a 900 basis point increase in the policy rate to 27.5% and a rise in the cash reserve ratio from 32.5% to 50%), and a clean-up of the foreign exchange market. Amid a dual process of devaluation and depreciation, the NGN/USD exchange rate declined by 73%, converging toward the parallel market rate (with a remaining premium of around 5%). The CBN has reduced its interventions in foreign exchange markets (both spot and derivatives, including the removal of its exchange rate hedging instruments), allowing greater reliance on market forces through newly established trading platforms.

The inflationary shock following the devaluation has given way to a gradual disinflation process, the continuation of which toward a single-digit target remains a key challenge for monetary policy credibility, social acceptance of reforms, and broader socio-economic development. Nigeria has experienced double-digit inflation since 2016, peaking at 34% in mid-2024 prior to the rebasing of the Consumer Price Index (CPI). Beyond methodological changes introduced at end-2024, disinflation is underway (15.1% year-on-year in January 2026), supported by a slowdown in food price inflation (which accounts for 40% of the revised CPI basket) and a 12% decline in fuel prices in 2025, following a sixfold increase over 2023–2024. Within its transitional inflation-targeting framework and efforts to anchor expectations, the CBN aims to bring

inflation to 16.5%  $\pm$  2 percentage points in 2026 and 13%  $\pm$  2 percentage points in 2027 (CBN *Macroeconomic Outlook*, December 2025). The pre-election period—traditionally associated with rising inflation and exchange rate volatility—will be closely monitored, and sustained monetary stability will be critical to fostering an investment-friendly environment, promoting inclusiveness, and reducing poverty.

Figure 9 – Signs of monetary stabilization



Source: CBN, AFD calculations.

### Caution remains warranted, and monetary policy continues to be restrictive.

Following the easing initiated in September (-50 basis points to 27%), market expectations of further rate cuts in November alone triggered capital outflows, prompting the CBN to intervene in the foreign exchange market. At the same time, the CBN adjusted the interest rate corridor from  $\pm$ 250 basis points to +50/-450 basis

points, a measure intended to support credit expansion and redirect excess banking sector liquidity toward private sector financing, while real interest rates remain very high (around 10%).

**The strengthening of prudential regulations and the bank recapitalization program aimed at compliance with Basel III by 2026 are expected to reinforce the banking sector. Nigeria was also removed from the Financial Action Task Force (FATF) AML/CFT “grey list” in October 2025.** Low credit penetration to the private sector (14% of GDP, roughly half the Sub-Saharan African average) and more conservative risk management practices since the 2009 banking crisis and the 2014 oil shock help mitigate systemic risks, despite a high concentration of assets, particularly in the oil sector. Aggregate financial soundness indicators remain broadly satisfactory in terms of profitability and liquidity (liquidity ratio of 57.6% compared to a regulatory threshold of 30%). However, despite the capital strengthening program launched in 2024 and set to conclude on March 31, 2026, both the Capital Adequacy Ratio (CAR) and asset quality deteriorated in 2025 following the withdrawal of COVID-related regulatory forbearance measures and the impact of exchange rate movements on foreign currency-denominated assets and liabilities.<sup>[13]</sup> Specifically, the banking sector’s aggregate CAR declined by nearly 4 percentage points in 2025, reaching 11.7% in the third quarter, while remaining above the regulatory minimum of 10%. One banking license was withdrawn in 2024, and three banks were placed under enhanced

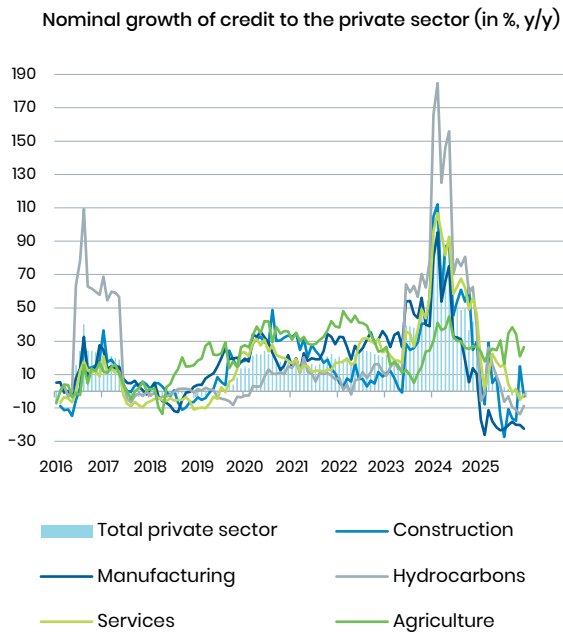
supervision, with the objective of strengthening market discipline and reducing moral hazard (previously associated with a perceived implicit CBN guarantee until 2023). This decline in the CAR coincided with an increase in the non-performing loan (NPL) ratio from 4.9% (the prudential ceiling is set at 5%) to nearly 8%, raising the ratio of unprovisioned NPLs to capital to 19.6%, compared to 4.9% at end-2024. Banks tightened credit conditions to the private sector in 2025, with outstanding loans declining by 3.2% year-on-year in nominal terms by December 2025. In addition, the asset management company AMCON, established in 2010, continues to impose an operating cost on banks (around 0.5% of their assets) and still manages approximately NGN 4 trillion in non-performing assets, equivalent to only 0.1% of GDP.

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[13] Until end-2023, the net open position (NOP) of the Nigerian banking system was positive (long), reflecting a speculative strategy against the naira, which was widely expected to be devalued or depreciated. Since then, banks’ NOP has turned negative, mainly due to macroprudential measures implemented by the CBN to eliminate long foreign exchange positions held by banks following exchange rate liberalization. The introduction of a

prudential limit on NOP relative to capital (0% long FX and a maximum of 20% short FX) forced banks to sell foreign currency assets while retaining their foreign currency liabilities, whose naira value increased. At the same time, the deterioration in asset quality required higher provisioning, ultimately putting pressure on capital adequacy ratios.

Figure 10 – Sharp slowdown in bank credit to the private sector



Source: CBN, AFD calculations.

**A gradual restoration of confidence among economic agents, combined with digitalization, should support increased formalization of commercial and financial transactions and savings, enhance liquidity, and contribute to a process of de-dollarization observed over the past year (with approximately one-third of loans and deposits denominated in foreign currency), as well as broaden the deposit base.** However, deposits remain predominantly short-term, creating maturity mismatches between assets and liabilities, which partly explains the short maturities of financing available to the private sector, particularly for SMEs. Crowding-out effects from banks' holdings of government securities appear limited, as

sovereign exposure does not exceed 10% of total banking assets. However, insufficient collateral continues to constrain credit expansion to microenterprises, SMEs, and households, despite the establishment in 2025 of the National Credit Guarantee Company (NCGC). Public financial institutions (such as the Development Bank of Nigeria [DBN] and the Bank of Industry [BOI]) play an active role in addressing financing gaps through loans and guarantees in priority sectors (agro-industry, technology, manufacturing, renewable energy, healthcare, and cultural and creative industries), although their scale remains limited (0.6% of GDP in 2024). While BOI's total assets quadrupled between 2021 and 2024, this increase largely reflects holdings of debt securities—particularly central bank instruments—which account for around 70% of its assets.

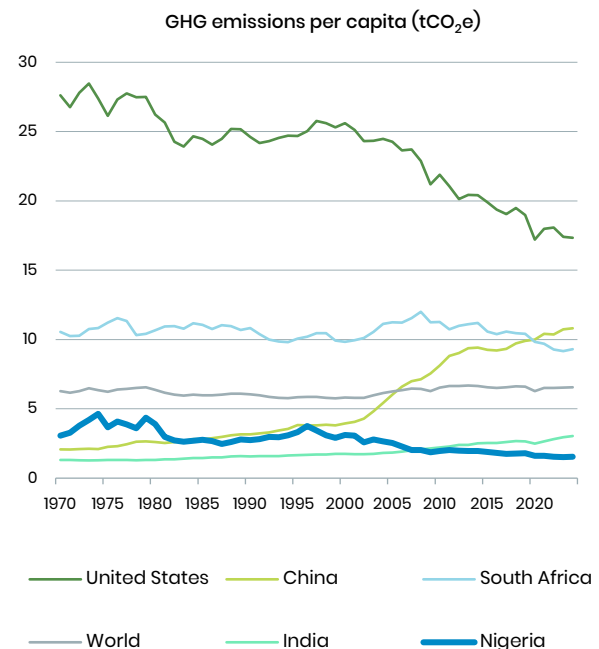
**Financial inclusion has nonetheless expanded significantly (74% in 2024), driven notably by the rapid growth of fintech.** Nigeria has established a dedicated regulatory framework, including for crypto-assets, reflecting strong domestic demand for alternative financial instruments. The country ranks as the world's second-largest market for cryptocurrencies (including stablecoins), largely driven by younger populations with low to middle incomes, using these instruments for transactions, savings, investment, and as a hedge against inflation and naira depreciation. In response to the rise of private digital currencies and associated risks (speculation, money laundering), the central bank digital currency project (e-naira) has struggled to gain traction.

## 7. Significant adaptation and mitigation challenges in the face of climate change and biodiversity preservation

**Nigeria appears highly vulnerable to climate change and insufficiently prepared to address its impacts.** Episodes of heavy rainfall and flood risks are expected to intensify in the coming years, particularly in coastal areas (notably the Niger Delta), while the rainy season is projected to become increasingly delayed. Temperatures are also expected to rise significantly, especially in the northern Sahelian regions, where agriculture remains predominant, thereby exacerbating security risks and food insecurity in a context of strong demographic pressure.

**Despite being a relatively low emitter of greenhouse gases (GHGs), Nigeria is highly exposed to the global low-carbon transition over the medium to long term, due to its macroeconomic and energy dependence on hydrocarbons.** National GHG emissions have been relatively contained over the past two decades (+3%, compared to +55% globally) and account for only 0.7% of global emissions. Both the carbon intensity and energy intensity of GDP have improved, outperforming the Sub-Saharan African average. Domestic energy production relies on biomass (46%), oil (40%), and gas (13%). The electricity mix is almost entirely gas-based (with hydropower accounting for 12%), in a country where the electrification rate is officially around 60%, but supply remains unreliable.

Figure 11 – A low-emitting country highly exposed to the energy transition



Source: European Commission (EDGAR).

**Nigeria's updated Nationally Determined Contribution (NDC 3.0), adopted in September 2025, combines more ambitious mitigation and adaptation commitments than NDC 2.0 (2021), although implementation capacity—financial, technical, and human—remains limited.** The strategy includes strengthened adaptation measures in areas such as food security, water access, health, resilient infrastructure, livelihoods, and ecosystem protection. Pending the publication of the World Bank's first Country Climate and Development Report (CCDR) for Nigeria, the IMF (IMF African Department 2025b) estimates that adaptation investment needs could reach approximately 1% of GDP annually, with post-disaster reconstruction costs of up to 1.5% of GDP per year and coastal damages related to sea-level rise (particularly around Lagos) ranging from 0.1% to 0.4% of GDP annually.

The NDC also targets a reduction in GHG emissions of 29% by 2030 and 32% by 2035 (relative to 2018 levels), alongside a just transition toward carbon neutrality by 2060. Key measures include ending gas flaring by 2030 and significantly reducing fugitive emissions from the oil and gas sector (by 60% by 2035). The strategy also promotes the development of a carbon market (launched in October) and the acceleration of renewable energy, with a gradual phase-down of gas from 2040–2045 onward. In the interim, improving the reliability of the electricity grid remains a critical challenge (with 14 GW of installed capacity but only around 4 GW delivered on average, frequent grid collapses, and widespread reliance on generators or off-grid systems), as does the financial sustainability of the sector, which has been privatized but remains unprofitable due to significant payment arrears from end users. Regarding climate finance and green taxonomy, the CBN is still developing the regulatory framework applicable to the financial system. Nigerian banks are progressively integrating environmental, social, and governance (ESG) strategies, generally adopting a gradual compliance approach that allows clients time to meet evolving standards.

**Biodiversity preservation has not yet emerged as a major national priority, although the country has adopted its National Biodiversity Strategy and Action Plan (NBSAP 2025–2030), with the primary objective of halting and reversing biodiversity loss by 2030, in alignment with the Kunming-Montreal Global Biodiversity Framework.** Available indicators on biodiversity are highly degraded, with already concerning levels of biodiversity loss (species extinction and declining forest cover), in a country where vegetation cover accounts for only 35% of land area and 53% of the territory is cultivated. Macroeconomic aggregates are significantly exposed to both physical and transition risks associated with biodiversity degradation, particularly in relation to the export sector and, consequently, the external accounts. However, the country's capacity to provide ecosystem services does not appear to be significantly below the global average.

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## List of acronyms and abbreviations

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AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AMCON	Asset Management Corporation of Nigeria
APC	All progressives Congress
BOI	Bank of Industry
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CCDR	Country Climate and Development Report
CNY	renminbi
CPI	Consumer Price Index
DBN	Development Bank of Nigeria
EBRD	European Bank for Reconstruction and Development
ECOWAS	Economic Community of West African States
ESG	environmental, social, and governance
FATF	Financial Action Task Force
FDI	foreign direct investment
GDP	gross domestic product
GHG	greenhouse gases
GNI	gross national income
HDI	Human Development Index
IMF	International Monetary Fund
ISWAP	Islamic State's West Africa Province
MAGA	Make America Great Again
MTEF	Medium-Term Expenditure Framework & Fiscal Strategy Paper
NBS	National Bureau of Statistics
NBSAP	National Biodiversity Strategy and Action Plan
NCGC	National Credit Guarantee Compagny
NDC	Nationally Determined Contribution
NDP	National Development Plan
NESG	Nigerian Economic Summit Group
NGN	naira
NNPC	Nigerian National Petroleum Corporation

<b>NPL</b>	non-performing loan
<b>PPP</b>	purchasing power parity
<b>RFI</b>	Rapid Financing Instrument
<b>SME</b>	small and medium-sized enterprises
<b>SSA</b>	Sub-Saharan Africa
<b>USAID</b>	United States Agency for International Development
<b>USD</b>	dollar
<b>y/y</b>	year-on-year

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