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Legislative Oversight on Public Sector Borrowing, Fiscal Discipline, and Macroeconomic Stability Under Nigeria's Inflation-Targeting Transition

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Executive Summary

The Central Bank of Nigeria has called on state governments to reduce their dependence on overdrafts and short-term borrowing as Nigeria transitions toward an inflation-targeting monetary policy framework. According to the CBN, excessive and unpredictable fiscal behaviour at the subnational level could undermine efforts to stabilise inflation, strengthen monetary policy credibility, and maintain macroeconomic stability.

During engagements with state officials through the Nigerian Governors' Forum Secretariat, the CBN highlighted the importance of strong coordination between fiscal and monetary authorities in a federal system. The Bank noted that borrowing patterns, supplementary budgets, rising debt accumulation, expenditure expansion, and weak cash management practices at the state level contribute directly to inflationary pressures and liquidity expansion.

However, the concerns extend beyond subnational governments. Nigeria's broader public finance environment continues to face significant fiscal sustainability challenges, particularly at the federal level, where borrowing through domestic debt issuance, external loans, deficit financing, and recurrent fiscal deficits remains substantial. Rising debt servicing obligations and increasing reliance on borrowing to finance public expenditure continue to generate concerns regarding inflation, exchange rate stability, and long-term economic resilience.

The situation highlights deeper structural weaknesses in Nigeria's fiscal governance framework, including weak fiscal discipline, growing public debt exposure, excessive dependence on short-term financing mechanisms, poor coordination between fiscal and monetary authorities, and insufficient prioritisation of productive, growth-enhancing investments.

The transition toward inflation targeting therefore presents an important opportunity for proactive legislative oversight aimed at strengthening fiscal discipline, improving debt sustainability, and enhancing macroeconomic governance across all tiers of government.

Accordingly, the National Assembly, through its Committees on Finance and National Planning and Economic Development, may consider:

- Inviting the CBN, Debt Management Office, Federal Ministry of Finance, Budget Office, and Fiscal Responsibility Commission to provide detailed briefings on the implications of public sector borrowing for inflation, debt sustainability, and macroeconomic stability.

- Undertaking a comprehensive review of borrowing patterns across federal and state governments, including deficit financing, overdrafts, external debt exposure, and debt servicing obligations.
- Assessing the relationship between fiscal deficits, liquidity expansion, inflationary pressures, exchange rate instability, and the effectiveness of Nigeria's inflation-targeting framework.
- Encouraging stronger institutional coordination between the Federal Government, state governments, and the CBN to improve policy alignment and macroeconomic management.
- Strengthening oversight of supplementary budgets, recurrent expenditure growth, and unplanned spending to improve fiscal discipline and budget credibility.
- Promoting public borrowing for productive sectors such as infrastructure, industrial development, and long-term economic growth rather than recurrent expenditure financing.
- Supporting periodic public disclosure of debt profiles, contingent liabilities, borrowing plans, and fiscal risks across all levels of government.

The concerns raised by the CBN underscore broader structural challenges within Nigeria's public finance management system. While subnational borrowing remains an important issue, sustainable inflation control and macroeconomic stability require disciplined fiscal conduct across all tiers of government, including the Federal Government itself.

Proactive legislative engagement by the National Assembly will be critical in strengthening fiscal accountability, improving debt sustainability, reinforcing investor confidence, and supporting a more stable and resilient Nigerian economy.

Background:

The Central Bank of Nigeria (CBN) has called on state governments to reduce their dependence on overdrafts and short-term borrowing as Nigeria transitions toward an inflation-targeting monetary policy framework. According to the CBN, excessive and unpredictable fiscal behaviour at the subnational level could undermine efforts to stabilise inflation, strengthen monetary policy credibility, and maintain macroeconomic stability[1].

During an engagement with state officials facilitated through the Nigerian Governors' Forum Secretariat, the CBN emphasised that inflation management in a federal system requires strong coordination between monetary and fiscal authorities. The Bank noted that state borrowing patterns, supplementary budgets, debt accumulation, expenditure expansion, and cash management practices directly influence inflationary pressures and liquidity conditions[2].

[1] Tunji, S. (2026, May 10). CBN urges states to curb reliance on short-term borrowing. Punch. https://punchng.com/cbn-urges-states-to-curb-reliance-on-short-term-borrowing/

[2] ibid

However, beyond subnational borrowing, broader concerns also exist regarding Nigeria's overall public sector debt profile and fiscal sustainability at the federal level. The Federal Government remains the country's largest borrower through domestic debt issuance, external loans, fiscal deficits, and deficit financing mechanisms. Rising debt servicing obligations, recurrent expenditure pressures, and reliance on borrowing to finance budget deficits continue to raise concerns about inflationary risks and long-term fiscal sustainability.

Recent data from the Debt Management Office (DMO) also show rising external debt exposure among states despite increased FAAC allocations, further highlighting growing fiscal pressures across all tiers of government[3].

The CBN's warning therefore presents not only a concern about subnational borrowing but also an opportunity for broader legislative oversight on public sector fiscal discipline, debt sustainability, inflation management, and macroeconomic governance in Nigeria.

Issue:

Nigeria's transition toward an inflation-targeting monetary framework has exposed broader structural concerns regarding fiscal management and borrowing practices across all levels of government.

Key concerns include:

- Heavy reliance on borrowing and deficit financing by both federal and state governments
- Increasing public debt levels and rising debt servicing obligations
- Excessive dependence on overdrafts and short-term financing mechanisms
- Weak fiscal discipline, supplementary budgeting, and expenditure unpredictability
- Poor coordination between fiscal and monetary authorities
- Inflationary pressures linked to public sector spending and liquidity expansion
- Weak internally generated revenue (IGR) systems in several states
- Risks that expansionary fiscal behaviour may undermine inflation-targeting objectives and macroeconomic stability

While the CBN's engagement focused primarily on state governments, effective inflation control and fiscal sustainability require responsible borrowing, disciplined expenditure management, and stronger accountability across all tiers of government, including the Federal Government.

Rationale for Legislative Actions:

[3] ibid

Public sector borrowing and fiscal management have direct implications for inflation, exchange rate stability, investor confidence, economic growth, and national development outcomes.

The transition to inflation targeting presents an important opportunity for the National Assembly to strengthen fiscal governance, improve debt accountability, and promote sustainable economic management nationwide.

Legislative oversight is required to ensure that:

- Borrowing practices across all tiers of government remain sustainable and transparent
- Fiscal deficits and deficit financing mechanisms do not undermine monetary policy objectives
- Public debt accumulation aligns with national debt sustainability thresholds
- Budgeting processes become more realistic, disciplined, and development-focused
- Stronger coordination exists between fiscal authorities and the Central Bank
- Excessive recurrent expenditure and unplanned spending are reduced
- Public borrowing is prioritised toward productive and growth-enhancing investments
- Inflation management efforts are supported by responsible fiscal conduct at both federal and state levels

Without stronger fiscal discipline and coordinated governance, rising public debt and expansionary spending may continue to weaken macroeconomic stability and undermine Nigeria's broader economic reform efforts.

Recommendations to the National Assembly:

Through its Committees on Finance and National Planning and Economic Development the National Assembly is respectfully urged to:

1. Invite the Central Bank of Nigeria (CBN), Debt Management Office (DMO), Federal Ministry of Finance, Budget Office and the Fiscal Responsibility Commission to provide a detailed briefing on the implications of public sector borrowing for inflation, debt sustainability and macroeconomic stability.
2. Undertake a comprehensive review of borrowing patterns across all tiers of government, including Federal Government deficit financing, state overdrafts, external debt exposure, and debt servicing obligations.
3. Assess the impact of fiscal deficits on inflation and monetary policy by examining the relationship between fiscal deficits, liquidity expansion, inflationary pressures, exchange rate instability, and the effectiveness of Nigeria's inflation-targeting framework.

4. Encourage institutional coordination mechanisms between the Federal Government, state governments, and the CBN to improve policy alignment and macroeconomic management.

5. Strengthen oversight on supplementary budgets and public expenditure by reviewing the increasing use of supplementary budgets, unplanned spending, and recurrent expenditure growth to ensure fiscal discipline and improved budget credibility.

6. Encourage public borrowing to focus on infrastructure, productive investments, industrial development, and long-term economic growth rather than recurrent expenditure financing.

7. Support periodic public disclosure of debt profiles, borrowing plans, contingent liabilities, and fiscal risks across all levels of government.

Conclusion:

The concerns raised by the Central Bank of Nigeria regarding borrowing practices and fiscal discipline highlight broader structural challenges within Nigeria's public finance management system.

While subnational borrowing poses important risks, sustainable inflation control and macroeconomic stability require responsible fiscal conduct across all tiers of government, including the Federal Government.

The current transition toward inflation targeting presents a strategic opportunity for proactive legislative oversight aimed at strengthening fiscal discipline, improving debt sustainability, enhancing policy coordination, and promoting long-term economic stability.

Timely intervention by the National Assembly can help reinforce public confidence, improve economic governance, and support a more stable and resilient Nigerian economy.

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