

External Debt Servicing, Exchange Rate Volatility, and Construction Sector Performance in Nigeria: Macro-Financial Transmission Channels and Sectoral Vulnerability

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Abstract- *This study investigates the critical relationship between Nigeria's escalating external debt servicing obligations, extreme exchange rate volatility, and the resultant impact on the performance of the construction sector. The Nigerian construction industry, a vital engine for economic growth and infrastructure development, is subjected to intense macroeconomic pressure due to fiscal fragility and monetary instability. Furthermore, the extreme depreciation of the Naira (which plummeted from N460.70 per US dollar in May 2023 to N1,738.74 per US dollar in November 2024) acts as a shock multiplier, dramatically increasing the local currency cost of servicing foreign debt. This monetary instability is transmitted to the supply side via a strong exchange rate pass-through, causing debilitating input cost inflation. This cost shock is exacerbated by policy, as key construction inputs (including cement and steel products) are restricted from the official foreign exchange window, forcing the sector to rely on the parallel market. The findings demonstrated that this interdependent vulnerability where debt amplifies foreign exchange risk and foreign exchange instability institutionalizes cost inflation undermines project viability and inhibits the sector's capacity to close the nation's infrastructure deficit. Strategic policy responses require structural revenue diversification, adherence to risk-mitigating debt management strategies, and a critical review of foreign exchange restrictions on essential construction materials to stabilize costs and foster sustainable sectoral growth.*

Keywords: *Debt Servicing, Exchange rate, Volatility, Construction Sector*

I. INTRODUCTION

I.A. Background and Economic Significance of the Construction Sector

The construction sector is a vital component of the Nigerian economy, serving as a critical engine for job creation, infrastructural development, and overall gross domestic product (GDP) expansion (Adeniji, 2025). Statistical data confirms its substantial contribution, showing that GDP from Construction in

Nigeria averaged NGN 605,557.09 Million between 2010 and 2024. This output has demonstrated resilience, reaching an all-time high of NGN 778,695.90 Million in the fourth quarter of 2024, representing an increase from NGN 672,885.38 Million in the preceding quarter (Ebele & Ihuarulam, 2025).

However, despite these growth figures and an expected real terms expansion of 2.8 percent in 2024, the sector operates under the shadow of a massive infrastructure deficit (Esechie, 2025). Nigeria's total infrastructure stock is estimated to be only 30% of its GDP, falling significantly short of the 70% benchmark set by the World Bank. Bridging this gap is essential for sustaining economic development, especially given Nigeria's rapid population growth, which is expected to reach 400 million people by 2050 (Okeowo & Japinye, 2025). The sector is responsible for addressing pervasive national challenges, including insufficient road networks linking commercial centers and severe shortfalls in affordable housing stock. Consequently, the performance of the construction sector is inextricably linked to the nation's ability to achieve sustainable economic growth and poverty reduction targets (Asuako, 2025).

I.B. Problem Statement: The Macroeconomic Headwinds

The robust potential of the Nigerian construction sector is currently constrained by severe macroeconomic headwinds characterized by a crippling external debt burden and debilitating exchange rate volatility. Nigeria's fiscal profile is strained by aggressive borrowing, weak fiscal discipline, and the diversion of a large portion of government revenue toward debt service payments (Farounbi *et al.*, 2021).

This fiscal fragility is compounded by extreme monetary instability. Between 2023 and 2024, Nigeria experienced unprecedented erosion of the Naira's value against major foreign currencies, a situation triggered by the introduction of a floating exchange rate regime and compounded by underlying foreign exchange shortages. The exchange rate plummeted from approximately N460.70 per US dollar in May 2023 to an all-time low of N1,738.74 per US dollar in November 2024, reflecting systemic dislocations to domestic and foreign commerce (Ebele & Ihuarulam, 2025).

The core research concern lies in understanding the complex causal nexus connecting external debt servicing obligations, amplified by exchange rate volatility, to the performance, investment capacity, and cost structure of the import-dependent construction sector. The analysis must determine how sovereign financial decisions (specifically, debt management and foreign exchange policies) translate into real sector outcomes in a critical developing economy (*ibid.*).

I.C. Research Objectives and Contribution

This research article aims to address three primary objectives:

- A. To rigorously analyze the scale and transmission of external debt servicing into constraints on Nigeria's fiscal space, detailing the phenomenon commonly referred to as fiscal crowding-out.
- B. To investigate the dynamic drivers and consequences of recent Naira volatility, explicitly focusing on how currency depreciation exacerbates the burden of foreign currency debt.
- C. To empirically assess the dual macroeconomic shocks the demand-side constraint (reduced public capital expenditure) and the supply-side shock (input cost inflation) on the viability and performance trajectory of the Nigerian construction sector.

The primary contribution of this research is the provision of a comprehensive framework that explicitly links sovereign debt and exchange rate policies to structural vulnerabilities in a high-priority, real-sector industry. This framework offers novel insights essential for crafting integrated macroeconomic stabilization policies and targeted sectoral development strategies for developing economies facing similar debt-FX linkages.

II. THEORETICAL FRAMEWORKS: DEBT, CURRENCY MISMATCH, AND SECTORAL INVESTMENT

A rigorous analysis of Nigeria's macroeconomic challenges requires grounding the discussion in established theoretical principles regarding sovereign debt, exchange rate dynamics, and investment behavior. Three major theoretical constructs are particularly relevant: the debt overhang hypothesis, the currency mismatch model, and the exchange rate pass-through mechanism.

II.A. The Debt Overhang and Fiscal Crowding-Out Hypotheses

The Debt Overhang Theory posits that when a country's debt stock is so large that expected future debt service obligations exceed the country's future repayment capacity, there is a rational expectation among investors that future returns from new projects will be appropriated by existing creditors. This expectation discourages both public and private agents from undertaking productive investment, leading to reduced overall economic activity and constrained capital accumulation (Umeaduma & Dugbartey, 2023).

The immediate consequence of an elevated debt stock is the "Fiscal Crowding-Out Mechanism". Escalating debt service payments consume a disproportionately large share of government revenue, significantly restricting the fiscal space available for essential productive public investment (Loescher & Kaltenbrunner, 2025). For Nigeria, this constraint is severe, as empirical studies confirm that debt servicing costs have a significant negative effect on federal capital expenditure, specifically infrastructure development. When funds are diverted to cover massive debt obligations, the government's ability to invest in physical infrastructure the primary source of demand for the construction sector is curtailed, effectively crowding out real sector growth (Hamzat *et al.*, 2025).

II.B. Currency Mismatch, Depreciation, and Sovereign Risk

For developing countries like Nigeria, which rely heavily on foreign currency-denominated external debt, the interaction between debt composition and exchange rate movement is critical. The theoretical model developed by Asonuma highlights that a large share of foreign currency debt exposes the sovereign

to a crucial financial vulnerability where real exchange rate depreciation can act as a trigger for default risk (Asonuma, 2016).

The transmission mechanism unfolds in a sequence: when the debtor sovereign receives negative income shocks (such as low oil prices or reduced tradable goods output), it tends to accumulate more debt and faces increased default risk. This situation necessitates a real exchange rate depreciation. Because a significant portion of Nigeria's public debt is external, this real exchange rate depreciation dramatically increases the burden of debt service payments when measured in local currency terms, increasing fiscal pressure and default probability (Eschrich, 2025).

This mechanism creates a detrimental feedback loop. Fiscal weakness, often driven by low revenue, necessitates external borrowing, which, in turn, increases the country's exposure to foreign currency debt risk. If global commodity prices fall, the Naira depreciates. This depreciation automatically translates into a much higher local currency cost of servicing the external debt (Keane *et al.*, 2021; Saif-Alyousfi, 2025). This sudden, policy-independent spike in servicing costs further strains the fiscal balance, necessitating deeper revenue diversion and thereby accelerating the initial crowding-out effect on capital expenditure for infrastructure. Thus, monetary instability becomes a direct amplifier of fiscal distress (Saif-Alyousfi, 2025).

II.C. Exchange Rate Pass-Through and Sectoral Cost Dynamics

The construction sector's high dependence on imported equipment and materials makes it inherently vulnerable to currency fluctuation. This vulnerability is explained by the Exchange Rate Pass-Through Effect, which describes how changes in the exchange rate influence the domestic price of imported goods (Umeaduma, 2024).

Empirical evidence specific to the Nigerian context confirms a strong positive relationship between exchange rate movement and input costs. Specifically, a unit increase in the foreign exchange rate was found to cause the price of building materials to increase positively by exchange rate values of 0.807 in the interbank market and 0.705 in the parallel market (Alemu & Mulugeta, 2025; Gafsi, 2025). This quantifiable linkage establishes the primary supply-side channel: volatility in the

exchange rate translates directly into surging input costs, which compresses project profitability, increases construction inflation, and ultimately constrains sectoral investment and housing affordability (Alemu & Mulugeta, 2025).

III. NIGERIA'S EXTERNAL DEBT CRISIS AND FISCAL SPACE CONTRACTION

Nigeria's public debt profile has reached a critical juncture, characterized less by its ratio to GDP and more by the crippling proportion of revenue consumed by servicing costs, a factor that directly impacts the government's ability to fund essential infrastructure (Akadiri & Ozkan, 2025).

III.A. Historical Trajectory and Current Debt Profile
Following its successful exit from the Paris and London Club of Creditors, Nigeria's external borrowing accelerated rapidly, driven in part by frequent Eurobond offerings. External debt surged from \$4.1 billion in 2012 to \$17.8 billion in 2018. By the end of 2024, the total public debt stock, encompassing both external and domestic obligations, had reached 52.25% of GDP, surpassing the country-specific benchmark of 40%. This aggressive borrowing trend, coupled with Naira devaluation and weak fiscal discipline, remains a key factor driving fiscal strain. The country's total public debt is projected to hit \$97.2 billion by 2025 (Diaz & Collin, 2025; Akadiri & Ozkan, 2025).

III.B. The Critical Debt Service-to-Revenue Ratio
The most alarming indicator of fiscal distress in Nigeria is the ratio of debt servicing costs to government revenue. As revenue sources, particularly oil exports, become more volatile, the debt service obligation consumes an unsustainable share of fiscal resources (Jamal *et al.*, 2025). Data from 2017 showed that the Federal Government's debt servicing payments amounted to 145.50% of its oil revenue, meaning oil proceeds alone were insufficient to cover the debt costs. In recent estimates (2023), approximately 90% of total government revenue is reported to be devoted solely to debt servicing, leaving minimal resources for development projects (Ranger *et al.*, 2025).

This immense servicing pressure has pervasive macroeconomic implications that extend beyond the federal budget. The high domestic debt servicing requirement, which grew from N485 billion in 2011

to N1.45 trillion in 2017, forces the government to rely heavily on domestic borrowing, primarily through securities issuance. This increased demand for local funds drives up risk-free rates, which have recently been as high as 17%, consequently pushing commercial bank lending rates into the range of 24–26% (Bayale *et al.*, 2025). This structural effect constitutes a secondary crowding-out effect on the construction sector. As the government competes for

scarce local funds to service its domestic debt, the cost of credit becomes prohibitively expensive for private construction firms seeking project financing, thereby inhibiting private investment and growth (Jamal *et al.*, 2025).

The following table summarizes the evolution of Nigeria's fiscal strain, illustrating the unsustainability of current debt dynamics.

Table 1: Evolution of Nigeria's Debt and Fiscal Strain (Selected Metrics)

Metric	2012	2017	2024(Actual/Estimated)	Implication
External Debt Stock (Approx. USD Bn)	4.1	17.8	97.2 (2025 proj.)	Rapid, aggressive growth in external exposure.
FG Debt Servicing to Oil Revenue Ratio (%)	38.49%	145.50%	N/A (General Revenue ratio estimated 90%)	Unsustainable servicing burden relative to key income source.
Total Public Debt-to-GDP Ratio (%)	N/A	N/A	52.25%	Exceeds national target, signaling fiscal distress.
Commercial Lending Rate (%)	N/A	Up to 24-26%	Rising (due to monetary policy and high domestic rates)	High private sector financing cost due to crowding-out.

(DMO, 2025)

III.C. Direct Impact on Capital Expenditure (CE)

The most tangible transmission of the debt crisis to the construction sector is the continuous reduction in the government's capacity for capital expenditure (CE). The mandate to service debt often results in the diversion of productive funds, limiting the government's ability to provide basic infrastructures that benefit the populace. Studies covering the period 1999–2022 explicitly demonstrate that the continuous rise in debt servicing allocations has significantly affected funding for capital projects, constraining the provision of critical infrastructure such as roads, power supply, and sanitation (Ogonegbu & Kagwaini, 2025).

For instance, while the government allocated \$922.2 million for road construction in the 2024 budget, along with capital allocations for health and education, these budgets are continually under threat (Akadiriri & Ozkan, 2025). The rising public debt burden restricts the government's ability to pursue more productive investment programs, hindering the effort to bridge the estimated 40% gap needed to achieve the World Bank's infrastructure benchmark. This structural retraction of public investment constitutes the primary demand-side constraint on the construction sector (Obiekwe & Edokobi, 2025).

IV. EXCHANGE RATE VOLATILITY: THE SHOCK MULTIPLIER

Monetary instability, characterized by extreme exchange rate volatility, does not merely represent a parallel challenge to the debt crisis; it acts as a powerful shock multiplier that immediately amplifies the fiscal burden and creates intense cost uncertainty in the real sector (Umoh, 2025).

IV.A. The Drivers of Naira Instability (2023–2024)

Nigeria's foreign exchange market has historically suffered from volatility, leading to periods of comprehensive exchange controls. The period between 2023 and 2024, however, saw unprecedented instability. The introduction of a floating exchange rate regime in May 2023, while aiming for market efficiency and unification of multiple exchange rate windows, initially led to a dramatic unraveling of the Naira's value (Asielue, 2024).

The currency plummeted from N460.70 per US dollar in May 2023 to N1,390.00 in May 2024, culminating in an all-time low of N1,738.74 per US dollar by November 2024, coinciding with an inflation rate of 34.8%. Key drivers of this extreme depreciation included large volumes of Naira in

circulation, heavy speculation by unlicensed entities, severe shortages of foreign exchange, and the concurrent removal of the fuel subsidy, which added inflationary pressure. These compounded factors signal a profoundly dysfunctional economy, creating uncertainty that deters both foreign and domestic investment (Umoh, 2025).

IV.B. Oil Price Dependence and Reserve Dynamics

The fundamental vulnerability of Nigeria's exchange rate remains its deep reliance on crude oil export earnings for official foreign exchange receipts. A decline in global oil prices inevitably translates into a reduction in the supply of foreign exchange. This creates excess demand in the foreign exchange market, putting immediate pressure on the exchange rate and leading inexorably to the depreciation of the domestic currency (Adeniji *et al.*, 2025).

This dynamic illustrates how monetary shock instantly translates into a higher fiscal burden. The

Debt Management Office (DMO) explicitly recognizes exchange rate volatility as an external risk, noting that Naira depreciation results in "Higher Naira costs of servicing External Debt". Because the debt stock is denominated in foreign currencies, a 277% erosion of the Naira's value, as seen between 2023 and 2024, directly increases the local currency equivalent needed for principal and interest payments. This mechanism ensures that successful debt management is unattainable without strict exchange rate stability (Aladejare & Musa, 2024).

The severity of the crisis and the resultant amplification of the debt burden have necessitated significant attempts by the monetary authorities to stabilize the Naira, including clearing vast overhangs of Nigeria's due dollar obligations, which are essential steps toward improving liquidity and policy consistency (Aladejare & Musa, 2024).

Table 2: Recent Naira Volatility and Debt Risk Amplification (2023–2024)

Indicator	May 2023 (Pre-Reform)	Nov 2024 (Peak Instability)	Mechanism of Impact
Official Exchange Rate (NGN/USD)	N460.70	N1,738.74	Amplifies local currency cost of dollar-denominated external debt.
Inflation Rate (%)	N/A	34.8%	Increases cost of all inputs (imported and local), reducing real investment. ⁴
External Risk Level (DMO Assessment)	N/A	Medium	Highlights risk of Balance of Payment shocks and increased need for external borrowing.

(DMO, 2025)

IV.C. Currency Depreciation as a Real-Sector Constraint

For the construction sector, instability creates prohibitive operational and financial risks. High debt burdens generate capital flight risk by fostering the expectation of devaluation, prompting investors to protect the real value of their financial assets. More directly, the extreme and unpredictable nature of the exchange rate makes the pricing and execution of large, long-term construction and infrastructure projects highly uncertain. Project profitability can be erased overnight due to currency mismatch between revenue (often local currency) and critical input costs (foreign currency). This instability dampens private sector appetite for the massive investment required to tackle Nigeria's infrastructure deficit (Aminaho, 2025).

V. SECTORAL IMPACT ON CONSTRUCTION PERFORMANCE: SUPPLY AND DEMAND SHOCKS

The macroeconomic instability stemming from external debt servicing and exchange rate volatility is transmitted to the construction sector through two powerful and mutually reinforcing channels: a contraction in public demand and a severe shock to input supply costs (Asaolu *et al.*, 2025).

V.A. Demand-Side Constraint: Public Investment Retraction

The contraction in public capital expenditure (CE) due to fiscal crowding-out represents a direct negative demand shock on the construction sector. Since the government is the main initiator and financier of large-scale infrastructure (roads, rail,

power), the diversion of resources toward debt servicing fundamentally stunts the sector's growth potential (Aladejare & Musa, 2024).

Empirical analyses affirm that debt servicing and exchange rate volatility exert significant negative effects on infrastructural development in Nigeria. While the GDP contribution from construction grew in nominal terms to NGN 778,695.90 Million in Q4 2024, this nominal growth rate must be viewed in the context of high domestic construction inflation driven by FX volatility (Abimboye *et al.*, 2025). The actual growth in real value and the sector's capacity to close the 70% infrastructure gap are structurally limited by the persistent lack of guaranteed public funding streams. The inability to deploy budgeted capital allocations consistently inhibits long-term planning and investment in specialized equipment and skilled labor by construction firms (*ibid.*).

V.B. Supply-Side Constraint: Import Dependency and Cost Shock

The Nigerian construction sector maintains a critical reliance on imported inputs. While the country has substantial capacity in materials like concrete, equipment and specialized materials that are not available locally must be imported. U.S. equipment, for example, is highly valued for its durability and reliability. The persistent failure of import substitution policies means that local production capacity for many intermediate and finished construction goods remains structurally insufficient (Ikenna-Ononugbo, 2025).

This high import dependency makes the sector acutely susceptible to the Naira's rapid depreciation. The sharp devaluation observed (e.g., the N1,738.74/\$ rate in late 2024) translates directly into surging input costs. This exchange rate pass-through

significantly increases the overall cost of housing projects and civil works (Nduka & Ajoku, 2025).

V.C. Policy-Induced Vulnerability: CBN FX Restrictions

Arguably the most critical policy linkage amplifying input cost inflation is the regulatory stance of the Central Bank of Nigeria (CBN) regarding foreign exchange access. The CBN has designated several critical construction inputs as ineligible for procurement via the official foreign exchange window (Asaolu *et al.*, 2025).

The list of inputs restricted from accessing the official, potentially lower and more stable, exchange rate includes materials vital for structural construction and finishing: cement, cold rolled steel sheets, galvanized steel sheets, roofing sheets, steel pipes, wire rods, iron rods and reinforcing bars, wire mesh, and steel nails (*ibid.*).

This policy creates a structural, policy-mandated reality of guaranteed cost inflation. By deeming these indispensable inputs ineligible for official FX, the CBN effectively compels the construction sector to source the necessary foreign currency in the volatile and considerably more expensive parallel market (Asaolu *et al.*, 2025). This action institutionalizes high material cost inflation, leading to systemic project cost overruns, delays, and a decline in project viability. Therefore, the cost shock transmitted to the construction sector is not solely a market failure; it is a direct consequence of macro-financial policy decisions concerning FX management and allocation (Umoh, 2025).

The table below illustrates the institutionalized risk stemming from the CBN's FX restrictions on the construction sector:

Table 3: Construction Input Materials, FX Status, and Risk Exposure

Material/Input Category	Ineligibility Status (CBN Official FX)	Resulting Market Exposure	Impact on Project Viability
Cement	Ineligible	Parallel Market Rates (PMR)	Direct inflation of foundational costs; reduced affordability.
Iron Rods/Reinforcing Bars	Ineligible	PMR	Increased structural costs; amplified exposure to volatility.
Steel Sheets/Pipes/Drums	Ineligible	PMR	Higher operational and fixed costs for fabricated structures.

Imported Equipment/Machinery	Variable (Often restricted/special windows)	PMR/High Cost of Capital	Deterrence of long-term capital investment due to replacement/maintenance cost uncertainty.
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(DMO, 2023)

VI. POLICY RESPONSES AND MITIGATION STRATEGIES

Addressing the constraints on the construction sector requires integrated policies that tackle the root causes of fiscal and monetary instability. Current efforts show recognition of the risks, but deep structural adjustments are necessary.

VI.A. Current Debt Management Strategies (DMO and CBN)

The Debt Management Office (DMO), in collaboration with international financial institutions, has articulated Nigeria's Medium-Term Debt Management Strategy (MTDS) for 2024–2027. The MTDS aims to meet financing needs while optimizing the cost and risk trade-offs of the debt portfolio to ensure debt sustainability (Obiekwe & Edokobi, 2025).

Key strategic targets focus explicitly on mitigating exchange rate risk through compositional changes. The MTDS plans a shift in the debt portfolio mix from 48:52 (Domestic:External) toward a 55:45 ratio in favor of domestic debt. This structural shift is crucial because increasing the domestic component reduces immediate exposure to foreign currency fluctuations and, therefore, hedges against the amplification of the debt service burden caused by Naira depreciation (Ebele & Ihuarulam, 2025). Furthermore, the DMO prioritizes extending the average debt maturity, increasing the concessional debt-to-commercial debt ratios, and using guaranteed/insured market instruments to access more affordable, long-term capital (Umoh, 2025).

The Central Bank of Nigeria (CBN) has also undertaken bold reforms since mid-2023, including the unification of the exchange rate and efforts to clear significant backlogs of foreign exchange obligations. These steps have garnered moderate confidence from bodies like the IMF, which acknowledged the improved investor sentiment resulting from these actions (Asuako, 2025).

VI.B. Strategic Policy Recommendations

Despite ongoing reforms, the systemic vulnerabilities linking debt service, exchange rate volatility, and construction sector performance demand specific, targeted policy interventions (Esechie, 2025).

1. Fiscal Prioritization and Revenue Diversification

The sustainability of Nigeria's economy hinges on establishing a diversified and robust revenue base that can sustainably meet debt obligations without relying excessively on borrowing. Greater revenue efficiency, particularly in the non-oil sector, must be pursued vigorously (Hamzat *et al.*, 2025). Crucially, the government must adhere to the principle that external borrowing should be acquired exclusively for economic, revenue-generating projects, rather than being diverted for non-productive political or social purposes. This discipline is essential to halt the unproductive increase of the foreign debt stock and maximize the return on borrowed capital (Hamzat *et al.*, 2025; Gafsi, 2025).

2. Targeted FX Policy Review for Construction Inputs

To stabilize construction costs and restore viability to infrastructure projects, the CBN must critically review the list of construction-related items currently ineligible for access to the official foreign exchange window. Inputs confirmed as essential structural elements such as iron rods, specialized steel, and specific types of equipment, especially where immediate local production capacity remains constrained should be granted conditional, supervised access to official FX (Keane *et al.*, 2021). This action would bypass the highly volatile parallel market, dramatically reducing the structural risk premium embedded in project pricing and stabilizing inflationary pressures within the sector. Maintaining the current restrictions effectively guarantees high cost inflation, defeating the goal of affordable infrastructure and housing development (Hamzat, 2025; Umoh, 2025).

3. Debt Portfolio Restructuring for Risk Mitigation

The DMO's strategy to shift the debt mix towards domestic dominance (55:45) is commendable, as it mitigates exchange rate risk. However, this shift must be meticulously managed to avoid exacerbating the domestic crowding-out effect—the pressure on interest rates that raises the cost of private sector credit. Continued aggressive pursuit of concessional, low-interest, long-term debt and guaranteed market instruments is vital to reduce the overall cost of borrowing and minimize foreign currency exposure (Alemu & Mulugeta, 2025).

4. Enhancing Local Manufacturing Capacity

Ultimately, the construction sector's structural vulnerability to exchange rate shocks can only be eliminated by reducing import dependency. Policymakers must move beyond rhetoric and provide targeted, consistent incentives such as subsidized energy, improved transport logistics, or strategic allocation of FX for essential imported machinery to domestic manufacturers of key construction materials (e.g., steel, processed wood, and specialized components). This approach will insulate sectoral performance from global currency dynamics and foster long-term, sustainable growth (Diaz & Collin, 2025; Gafsi, 2025).

VII. CONCLUSION

The performance of the Nigerian construction sector is critically compromised by a complex, interdependent macroeconomic trifecta involving external debt servicing obligations, persistent exchange rate volatility, and structural import dependence.

The negative impact is transmitted via a dual mechanism: first, the demand channel, where escalating debt service payments effect a severe fiscal crowding-out, shrinking the government's capacity for critical public infrastructure capital expenditure. Second, the supply channel, where the combination of high import dependency and policy-induced restrictions on official foreign exchange access forces the sector to bear the full brunt of Naira depreciation, leading to catastrophic exchange rate pass-through and debilitating input cost inflation. Moreover, the intrinsic link between foreign currency debt and Naira depreciation creates a detrimental feedback loop: monetary shocks immediately amplify the local currency cost of debt

servicing, exacerbating fiscal fragility and reinforcing the initial crowding-out effect.

Sustainable expansion of the Nigerian construction sector, essential for bridging the 70% infrastructure deficit, requires not just economic reform but a strategic overhaul of macro-financial policy. Success depends on achieving policy consistency and efficiency, shifting the debt profile toward lower risk (concessional and domestic) compositions, and implementing targeted FX policies that de-risk critical sectoral inputs, thus breaking the vicious cycle linking sovereign financial vulnerability to real sector under-performance.

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