Economic Flashnote on Nigeria's Q1:2023 Public Debt Stock

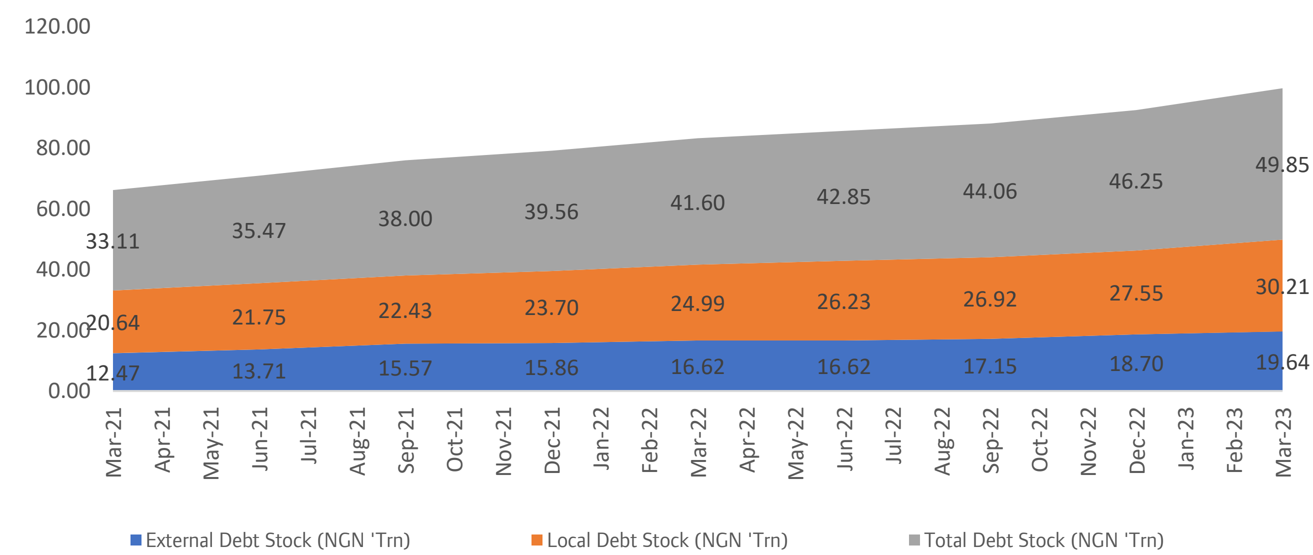
Nigeria's Total Public Debt Stock Rises 7.8% to N49.85 Trillion in Q1'23

Soaring debt levels was driven by…

- Increase in interest rate by the CBN to 18%...
- Continued depreciation of the Naira due to low fx earnings and demand pressure…
- Rising debt-to-GDP ratio which brings about increase in interest payments…
- Q1'23 debt levels do not include the over N22 trillion in Ways & Means to the Federal Government…

The latest report on Nigeria's public debt profile published by the Debt Management Office (DMO) showed that total public debt stood at N49.85 trillion ($108.30 billion) as of March 31, 2023. This is an increase of 7.8% from N46.25 trillion at the end of December 2022 and 19.8% when compared to N41.60 trillion as of March 2022.

Of the increase in the total debt stock, DMO stated that Nigeria's external debt stood at N19.64 trillion ($42.67 billion) as of March 31, 2023. This indicates an increase of 5.04% from the end of December 2022 while the domestic debt rose by 9.7% to stay at N30.21 trillion ($65 billion) from N27.55 trillion at the end of December 2022. The domestic debt comprises the federal government (N24.73 trillion) and the 36 states and FCT (N5.48 trillion) debt portfolios.



Nigeria's Total Public Debt Profile (Amount in N'trn)

Source: Debt Management Office, Cowry Research

Meanwhile, we think the increase in Nigeria's public debt can be attributed government's borrowing to finance the deficit, the naira depreciation, and the rise in interest rates to 18% during the period. Also, the increase is buoyed by the federal government's external debt stock (commercial loans) which rose due to the depreciation of the local currency.

The data further points out that the total debt includes new borrowing by FG to finance its budget deficit, disbursements from multilateral ($20.66 billion), bilateral ($5.16 billion) lenders and commercial loans which took into account the $15.62 billion in Eurobond. Also, there was $931.3 million in non-interest promissory notes issued to settle the arrears of the federal government to local contractors and a $300 million syndicated loan that was arranged by the AFC.

Explicitly, the DMO said in Q1'23, Nigeria had outstanding multilateral loans which account for 48.41% of total debt outstanding to $20.66 billion. This includes $3.3 billion from the IMF, $13.84 billion from the IDA, and $488.5 million from the IBRD. Other loans include $1.57 billion from the African Development Bank, African Development Fund ($972.6 million), Islamic Development Fund ($144 million) and the International Fund for Agricultural Development which stood at $272 million among others.

Elsewhere, the domestic debt stock by instrument comprises N18.42 trillion and N4.72 trillion in FGN Bonds and T-bills during the period accounting for 74.5% and 19.1% of the total N24.73 trillion while FGN Promissory notes (N753.58 billion), FGN Sukuk (N742.56 billion), Nigerian Treasury Bonds (N50.99 billion), the FGN Savings Bond (N27,83 billion) and the Green bond (N15.00 billion) all accounting for a paltry 3.38% of the total domestic debt.

As Nigeria's public debt profile maintains the increases reported so far, the external debt component of the country's public debt has increased at a slower pace than the domestic debt component while the debt-to-GDP ratio has increased slightly. However, it is important to note that Nigeria's public debt is still considered to be sustainable by most international standards such as 50% by the World Bank/IMF and slightly above the self-imposed 40% limit by the federal government.

According to the DMO, the implantation of the Debt Sustainability Analysis (DSA) echoes the need for more FG revenues to keep the public sustainable just as the 2022 report emphasizes the need to grow revenues. Nevertheless, with the recent policy directions and guidelines such as the removal of subsidies to manage expenditure and the focus on revenues through the appointment of a Special Adviser to the President on Revenue by the new administration, the debt office has opined that they are positive steps for public debt sustainability.

The government has said that it is committed to reducing the country's debt burden, but it is unclear how it will achieve this goal. However, the government needs to take steps to reduce the debt burden to avoid a debt crisis in the future. This warrants a sizeable reduction in the debt-to-GDP ratio to mitigate these risks or impending crises. This could include reducing the budget deficit, increasing revenue, and restructuring the debt.