One Hundred and Eighth Sovereign Debt News Update: Nigeria’s Public Debt to hit N95trn as Senate Approves President Tinubu’s Request to Securitise N7.3 trillion owed to the Central Bank

By:

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On the 30th of December 2023, Nigerian Senate approved the request by President Tinubu for the securitisation of the N7.3 trillion owed by the federal government to the Central Bank of Nigeria (CBN). Put differently, the lawmakers allowed for the conversion of 7.3 trillion Naira (USD$7.98 billion) in overdrafts from the Central Bank to longer-dated bonds that will be added to the country’s debt. According to one source, its inclusion in the debt office’s data will push the country’s public debt stock to at least N95.2 trillion. Nigeria’s public debt profile is predicted to show over eightfold increase in the last 10 years once the Central Bank loan that President Bola Tinubu has been given the green light to securitise is included in the official data.

As highlighted in the Eighty Sixth Sovereign Debt News Update, Nigeria's President Bola Tinubu inherited a debt to GDP ratio of 38% against a 40% limit. President Tinubu has followed his predecessor's footsteps as he made the request seven months after Muhammadu Buhari, converted N22.7 trillion borrowed from the CBN to 40-year bonds at 9 percent interest, with a three-year moratorium. According to Tinubu, the conversion of the 7.3 trillion Naira will reduce the cost of servicing the debt to 9% when compared to the monetary policy rate of plus 3% that it currently attracts, and also improve the transparency of liabilities owed to the banking regulator. In May 2023 before the securitisation, the debt owed to the Central Bank had surged to N26.95 trillion; thereby enabling the N22.7 trillion to be added to the country's public debt stock. According to the Debt Management Office, the total public debt rose to N87.38 trillion in the second quarter of last year from N49.85 trillion in Q1, and it increased to N87.91 trillion at the end of Q3. Data from the CBN showed that the debt owed to it by the federal government was N4.36 trillion as of June 2023. Meanwhile, in a letter to the lawmakers in December 2023, President Tinubu said the outstanding borrowings from the Central Bank stood at N7.3 trillion. This indicates that his government took out N2.94 trillion loan from the CBN in the last six months.

While the law allows the Central Bank to lend to the federal government through Ways and Means Advances (a loan facility used to finance the government in periods of temporary budget shortfalls subject to limits imposed by law), the CBN overdraft is not included in the country's public debt stock, which comprises the debts of the Federal Government, the 36 state governments, and the Federal Capital Territory. According to Section 38 (1) of the CBN Act, borrowing via Ways and Means must be temporary and should only occur "*in respect of temporary deficiency of budget revenue*". This means that the CBN can only lend to the Federal Government when the latter has a temporary revenue shortfall. President Tinubu's request was therefore anchored on an approval given by the Muhammadu Buhari-led administration, after a Federal Executive Council meeting early in May 2023.

Nigeria's economy has not been spared from inflation as well as the currency has been severely affected. According to the Nigerian Bureau of Statistics (NBS), Nigeria currently has an inflation rate of 28.2 percent and as of Q2, 2023 had a public debt of N87.38 trillion, from N49.85 trillion in Q1. At the end of December 2023, Nigeria's foreign exchange reserves had dipped to a six-year low of $32.87 billion as the Central Bank sold dollars to try to prop up the ailing naira currency. According to Kyle Chapman, FX markets analyst at London-based Ballinger & Co., "*the naira's downwards momentum is likely to continue through much of 2024, and its ultimate trajectory will depend on whether the CBN's rhetoric transforms into concrete policy moves that drive up the flow of U.S dollars into Nigeria and shore up trust in the official market*".

The West African country has seen its public debt grow steadily to levels that have left many worried as government revenues remain low. According to a new United Nations World Economic Situation and Prospects (WESP) report for 2024, Nigeria's increasing public debt, persistent inflation as well as its rising cost of living pose serious risks to the country's economic growth this year. The President of the Nigerian Economic Society, Adeola Adenikinju, has also voiced concern, noting that the debt service cost exceeded the budget by N1.68 trillion mainly due to interest on a N1.89 trillion loan accessed through the Ways and Means facility, and generally higher interest rates on borrowings. The professor of economics said the government must be efficient in its usage of debts, adding borrowing from the CBN should be carried out without violating the law. Former President Olusegun Obasanjo has also decried the debt levels in Nigeria and other African countries, noting that "with the level of mismanagement of the previous debts written off for the country, it will be almost impossible for any administration to get a similar gesture in the continent."

It remains imperative for both the executive and lawmakers to find the political will to push for judiciousness in debt management; thus, eliminating the danger of excessive and unproductive debt. The government of Nigeria must adopt responsible borrowing practices in order to arrive at a sustainable debt stock. As it stands, the Ways and Means advances facility may be prone to abuse if Presidents can easily approach the CBN for loans without repaying and transferring the burden to the average citizen. The AfSDJN recommends that the Tinubu administration only approaches the Central Bank as a "lender of last resort" in strict conformity with Section 38 (1) of the CBN Act. The Federal Government must devise more proactive ways of raising revenue to reduce such borrowing activities as it increases Nigeria's debt servicing burden as highlighted.

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