Sovereign Debt News Update No. 133: The Fruits of the Recent Macroeconomic Reforms in Nigeria

By:

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In 2023, during his inauguration as Nigeria's 16th president, President Bola Ahmed Tinubu famously declared 'fuel subsidy is gone'- a statement which threw the country into a frenzy due to the uncertainty and suddenness of the measure. The government has since then made several adjustments to the country's fiscal framework as well as other public policy initiatives aimed at curbing inflation and the rapid devaluation of the local currency, the Naira. Some of these measures have included increasing debt levels in order to manage pressing budget deficits. This update will examine recent debt policies and their implications. Specifically, it will consider how these policies have shaped the nation's current debt profile and project the country's outlook based on these factors.

Background

Nigeria’s Attempts at Firefighting

Since its inauguration in 2023, the Federal Government has carried out a number of efforts in a bid to manage the dire state of the economy. In the Eighty Sixth Sovereign Debt News Update, indicated that the Tinubu administration inherited a debt-to-GDP ratio of 38% as against a 40% limit, a situation which underscored the already precarious state of the Nigerian economy prior to his administration. However, this ratio would climb to a record 52.9% only a year later, the highest ever recorded in the nation’s history, as documented in the One Hundred and Twentieth Update. This increased debt stock, as will be discussed later, was a result of measures taken by the government to manage budget deficits and provide social safety nets for vulnerable populations. Despite these measures, however, Nigerians have continued to express a deep dissatisfaction with the administration’s attempts, noting that they have either failed to, or fallen short of their intended objectives. This sentiment is perfectly echoed in a speech by an Archbishop of the Catholic Bishops Conference of Nigeria (CBCN) who remarked that ‘[w]hile we recognize the government's efforts in implementing certain reforms, the reality remains that most Nigerians are struggling more than ever before…’

Examining Nigeria’s Reforms

2023 witnessed rather strong changes to the economic fabric of the country. The removal of fossil fuel subsidies is one strong example, which the government has claimed was put in place in order to free up already scarce public funds for social projects. In his inaugural speech, President Tinubu stated that: ‘*The subsidy can no longer justify its ever-increasing costs in the wake of drying resources. We shall instead rechannel the funds into better investment in public infrastructure, education, health care and jobs that will materially improve the lives of millions*.’ The subsidy scheme was also criticized for the avenues it created for large-scale corruption, including the smuggling of subsidized petrol across borders and into neighboring countries where they could be sold at higher prices. As a result of this removal, fuel prices rose from about ₦194 (USD$ 0.12) to about ₦1000 (USD$ 0.64) per litre. This was shortly followed by the government’s abandonment of its naira defense arms, i.e. the floating of the Naira in June 2023 and unification of foreign exchange rates, leading to the Naira depreciating by 95.6% in 2023. This adversely impacted the total external debt stock in Naira terms. The monetary policy was tightened to control inflation, with the policy rate increasing by 1000 basis points from 17.5% in January 2023 to 27.50% in February 2025. However, the monetary policies so far seem to have yielded little benefit to the economy, as made evident by the reduction in foreign exchange reserves despite the apex bank's interventions in the foreign exchange market.

The rapid implementation of these recent policies have triggered inflation, spiraling into a cost of living crisis. According to the African Development Bank''s African Economic Outlook (AEO) 2024, Nigeria's poverty level remains high, with multidimensional poverty at 63% and income poverty at 40%. Income inequality is also lower than in many middle-income countries, with a Gini coefficient of 0.35. However, in what Agusto & Co., a Pan-African credit rating agency, Agusto has described as a 'pivotal statistical recalibration', the National Bureau of Statistics' (NBS) initiated a rebasing of the Consumer Price Index (CPI) to more accurately reflect changes in consumption patterns, and a revision of the Gross Domestic Product (GDP) metrics which would shift the base year from 2010 to 2019, incorporating sectors such as information and communication technology, e-commerce, fintech, the blue economy, and the creative industry, ensuring improved coverage of the informal sector. The rebasing of the CPI led to Nigeria's inflation rate dropping to 24.48% in January 2025 from December's 34.80%. Nevertheless, rising inflation persists as a result of the macroeconomic shocks. Interventions by the government have included a cash transfer program to cushion the effect on citizens, especially the poor and vulnerable. The government has expressed that this would provide 15 million households with 75,000 Naira for a period of three months.

According to the Debt Management Office (DMO), total debt stock at the end of September 2024 stood at ₦142.32 trillion (USD$88.892 billion). This figure is projected to increase to ₦187.79 trillion (USD$122.254 billion) in 2025 as the country grapples with rising borrowing costs, Naira depreciation and aggressive government borrowing. Notably, there have been recent issuances of a USD$2.2 billion Eurobond, treasury bills and bonds. Additionally, the federal government has been a beneficiary of other financing opportunities, particularly from the World Bank, which provided a USD$2.25 billion facility to the country in June 2024 in order to help stabilize the economy and protect the poor, and a USD$1.57 billion facility provided in September 2024 to support strengthening human capital through better health for women, children and adolescents and to build resilience to the effects of climate change.

Analysis

It is imperative to consider the impact of these measures on the economy at large and provide some insight into what the future might look like as a result. The major criticism which these reforms have faced has concerns their ineffectiveness at addressing Nigeria's primary issues of poverty, corruption, insecurity, and inflation.

The removal of fossil fuel subsidies in May 2023 stands as one of the most consequential economic decisions of the Tinubu administration. The government's rationale, articulated in the President's inaugural address, centered on freeing up scarce public funds for critical social infrastructure, a compelling argument given the unsustainable fiscal burden of the subsidy, which had become a breeding ground for corruption and cross-border smuggling. By eliminating the subsidy, the government aimed to redirect resources towards investments in education, healthcare, and job creation, promising a long-term improvement in the lives of millions. However, Nigerians have questioned the rationale behind the continued increment in the government's overall debt stock, and the extent to which the subsidy savings have been used to improve the lives of citizens.

While the government introduced a cash transfer program, promising ₦75,000 (USD $48.10) to 15 million vulnerable households over three months, its effectiveness remains debatable. Firstly, the adequacy of this amount in the face of escalating living costs is questionable. Secondly, concerns persist regarding the transparency and efficiency of the distribution process, raising doubts about whether the aid is reaching the intended beneficiaries. Overall, critics argue that the government failed to adequately anticipate and mitigate the immediate impact of the subsidy removal, lacking a comprehensive strategy to cushion the blow to vulnerable populations.

Conclusion

In conclusion, the fuel subsidy removal, while potentially necessary for long-term fiscal sustainability, has undeniably exacerbated the cost-of-living crisis for many Nigerians. The government's communication regarding the benefits of the reform has not resonated with a population grappling with immediate economic hardship. To regain public trust, the government must demonstrate tangible progress in utilizing the freed-up funds for social development and implement more effective and transparent social safety nets. Moving forward, the government must prioritize a more phased approach to economic reforms, coupled with robust measures to mitigate their immediate impact on the most vulnerable segments of society.

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