Forty Third Sovereign Debt News Update: Nigeria’s Debt and Debt Management Office in Context

By:

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April 4, 2022

On the Monday, March 21, 2022, the United Nations held a High-Level Meeting on the Role of Credit Rating Agencies in the implementation of the 2030 Agenda for Sustainable Development. Recognizing the important role that credit ratings play in international capital markets and the impact of inaccurate ratings on the cost of borrowing and the stability of the international financial system, the UN explores potential enhancement of the credit rating architecture. It is noteworthy that the Economic and Social Council Forum had a related meeting in 2021 where Member States were enjoined to explore options to engage credit-rating agencies in the context of the COVID-19 recovery and implementation of the 2020 Agenda.

The African Union seeks to establish an African Credit Rating Agency for the continent in 2022 through the African Peer Review Mechanism (APRM). According to Prof Eddy Maloka, the CEO of APRM, the legal and financial structure for establishing the Agency has begun, following a successful feasibility study. The Agency will be established as an independent entity of the African Union to provide alternative and complementing rating opinions.

Under the Development Policy Operation program, the World Bank granted Kenya concessional loans in the sum of $750 million at an interest rate of 3%. This is the fourth time in three years that Kenya will be benefitting from this program, amounting to a total sum of $3.25 billion received so far. The loan is conditioned upon the implementation of certain measures including the transfer of government procurement activities to a new electronic platform in order to promote transparency and stifle corruption.

According to its Debt Management Office (DMO), Nigeria's total public debt as at the last quarter of 2021 was N39.556 trillion ($95.770 billion). The N6.641 trillion ($16 billion) difference represents a 20.2% increase from the previous year. The Director General of the DMO noted that most of the fresh loans are attributed to Eurobonds, Sovereign Sukuk and FGN Bonds. Meanwhile, Nigeria expended the sum of N2.93 trillion ($7.04 billion) in servicing debts during the 2021 period.

As the first African country to access the International Capital Market (ICM), Nigeria issued a N520 billion ($1.250 billion) worth of Eurobond for the term of seven years. According to DMO, the proceeds of the Eurobond would be used to finance critical capital projects within the 2022 Budget, bridge infrastructure deficit and strengthen Nigeria's economic recovery.

The DMO has also projected Nigeria's debt to reach N45 trillion as the authorities propose to borrow an additional sum of N6.39 trillion in order to finance its 2022 budget deficit. According to Patience Oniha, the Director General of DMO, the plan is to borrow N2.57 trillion from domestic sources, N2.57 trillion from foreign sources, N1.16 trillion from multilateral and bilateral sources and N90.7 billion from privatisation proceeds.

To salvage potential loss of cash arising from the fallout of the war in Ukraine, investors seem to have taken to the African hard-currency sovereign debt. A major beneficiary of this is South Africa which despite the downgrade in its sovereign debt rating by S&P Global Ratings, is considered attractive by investors due to its vibrant commodity market.

According to Sosten Gwengwe, Malawi's Finance minister, the Malawi government has started negotiating the restructuring of about $1 billion of its dents with lenders including the African Export-Import Bank and the Eastern and Southern African Trade and Development Bank. This is part of the effort to fulfilling the preconditions to getting an economic program from the International Monetary Fund. Gwengwe further noted that one of the implications of the restructuring is that Malawi may not be able to benefit substantially from G20's Common Framework as they are pursuing the restructuring process directly with the creditors.

The African Development Bank (AfDB) secured the sum of $15.6 billion for the construction of Lagos-Abidjan highway corridor in order to support trade in West Africa, reduce costs and increase intra-regional trade volume. AfDB's president also announced AfDB's intention to establish a $1m AFAWA women advisory facility t o support women with advisory services.

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