Eighty Sixth Sovereign Debt News Update: Nigeria's President Bola Tinubu Inherits a Debt to GDP Ratio of 38% Against a 40% Limit

By:

The African Sovereign Debt Justice Network

June 19, 2023

Following Nigeria's presidential elections held in February 2023, on May 29th, President Muhammadu Buhari's administration officially handed over power to President Bola Ahmed Tinubu. While the handover marked another welcome transfer of democratic power in Nigeria since 1999, the handover also signified the transfer of unsustainable debt of about N80 trillion from Former President Muhammadu Buhari's administration to the incumbent President Bola Tinubu's administration. Buhari's administration leaves Nigerians with a debt burden per head that is more than the combined spending on education and health. With Nigeria's debt stock presently standing at about N80 trillion, this leaves a huge deficit of about N217,136 hanging over each citizen. While the responsibility for Nigeria's current debt situation seems to be continuously pinned on Buhari's administration, analysts argue that this is mostly because Nigerians will

remember Buhari for increasing the debt burden, which some argue that former president, Olusegun Obasanjo had worked hard to reduce.

According to the country's Debt Management Office (DMO), Nigeria's debt per citizen increased by 215% from N68.852 in 2015 when Buhari became Nigeria's president, to N217,136 in 2022. In its latest release, the DMO pointed out that "among the reasons for the increase in total public debt stock were new borrowings by the Nigerian government and its state governments, primarily to finance budget deficits and execute projects. The issuance of promissory notes by the country's regime to settle some liabilities also contributed to growth in the debt stock" Nigeria's debt at $103b, GDP wanes as inflation, redundancy rise | Nation. The Debt Management Office (DMO) insisted that Nigeria's debt was sustainable as long as it was within the self-imposed limit of 40% debt to GDP set by the government and the 55% threshold set by the World Bank/International Monetary Fund. Another benchmark is the 70% debt to GDP limit recommended by the Economic Community of West African States (ECOWAS). Patience Oniha, the Director General of Nigeria's DMO, has emphasized the need for Federal Governments and States to increase revenue generation as this is expected to reduce annual budget deficits and the need to borrow. According to the Director General, the likelihood of debt distress can be mitigated by increasing revenues.

Over the years, Nigeria has been struggling with maintaining a sustainable debt service-to-revenue ratio. In a brief released in April 2023, the World Bank revealed that Nigeria used 96.3 per cent of its revenue generated in 2022 to service debt, highlighting that the constant fiscal deficit had aggravated the nation's public debt stock. In January 2023, Nigeria's Minister of Finance, Zainab Ahmed, shared that the country planned on bringing down its debt service-to-revenue ratio to 60% in 2023. However, at the current rate, there have been signs that the administration will likely spend more than 60% in 2023 alone. According to Ari Aisen, IMF's resident representative for Nigeria, the IMF projected that Nigeria may spend almost 100% of its revenue on debt service by 2026 unless the new government reverses the trend. This portends a great threat to the economy as the ratio has been on the rise, with the country facing a dwindling revenue while government expenditures have increased.

Be that as it may, a number of promises have been made and efforts put in towards alleviating the country's debt situation. President Tinubu has pledged to end the subsidy that the Finance Ministry expects to drain $7.2 billion from state finances in the first six months of this year. Its removal would boost revenues but also raise the cost of living for Nigerians already dealing with high inflation, which quickened to an almost 18-year high of 22% in March. Further, the Nigerian Senate amended the Central Bank of Nigeria (CBN) Act to increase the total CBN advances (Ways and Means provision) to the Federal Government from 5% to a maximum of 15%. In May 2023, the National Assembly approved the securitization of N22.7 trillion worth of Ways and Means loans. The securitization is expected to improve debt transparency, reduce debt service costs, and help reduce the budget deficit. According to the latest data from the Debt Management Office, the tenor of the securitization is a whopping forty (40) years with a moratorium on the principal for three years and an interest rate of 9% per annum. Some of the details of the securitization include:

- Tenor: Forty (40) years
- Moratorium (on Principal only): Three (3) years
- Interest Rate: 9% p.a.
- Repayment: Amortising over thirty-seven (37) years
- Holder of the Securities: The Securities will be issued to the Central Bank of Nigeria (CBN) by the Federal Government of Nigeria (FGN).
- The Securities will not be issued to the public by the FGN to raise funds.

Between 2007 and 2015, previous administrations only took a combined total of N869 billion from the Ways and Means window. However, in the last eight years, the current administration has collected N23.7 trillion. At the end of 2022, Nigeria's total public debt stood at N46.25 trillion, while the expected borrowings for 2023 came to N8.8trn (domestic and foreign). With the securitization of the Ways and Means of N22.7 trillion, the total expected public debt for 2023 comes to 77.8 trillion. In turn, the rising of total debt stock to N77.8 trillion will take the country's debt-to-GDP ratio to 38.4%. This increase in public debt already reflects how Nigeria is approaching her public debt ceiling of 40% of GDP contained in the medium-term debt management strategy paper.

It is apparent that Nigeria's Debt to GDP ratio is likely to surpass the DMO's threshold unless urgent steps are taken by the new administration. At the same

time, the country’s debt service-to-revenue ratio continues to increase rapidly. This, undoubtedly, carries adverse impacts on key priorities such as education, healthcare, and social security. There is, therefore, a great need for the incumbent government to implement budgetary reforms, fiscal prudence and revenue innovation for sustainable debt contraction, management, and use as it begins its tenure.

View online: Eighty Sixth Sovereign Debt News Update: Nigeria’s President Bola Tinubu Inherits a Debt to GDP Ratio of 38% Against a 40% Limit

Provided by Afronomicslaw