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POLICY **BRIEF**

NO. **012**

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KEY POINTS

- Nigeria's total public debt stood at N39.56trn at the end of 2021. This is expected to reach N47.54trn at the end of this year.
- In developing economies like Nigeria, with much infrastructure deficit, the government needs to borrow to jumpstart the economy and invest in critical areas.
- Given the current uncertain global environment, wide adoption of technology and environment-friendly processes as well as domestic economic challenges including low productivity and constrained government revenue, Nigeria needs to avoid falling into a debt crisis.

Nigeria's Debt: Where are we Going?

The total public debt of Nigeria stood at N39.56trn at the end of 2021. This has risen considerably by over 300% in the last ten years. If the projected deficit of N6.39trn in the FGN 2022 budget and those of the States and FCT, estimated at N1.6trn, are debt-financed, Nigeria's total public debt at the end of this year is projected to be about N47.54trn (see figure 1a).

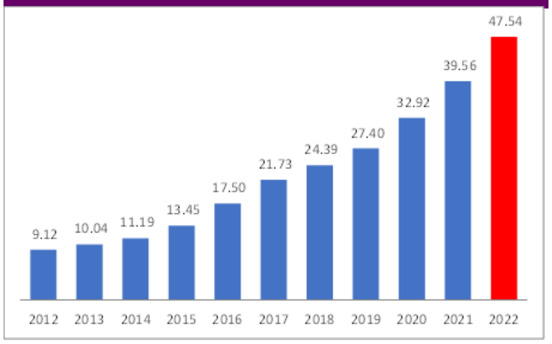
During the first quarter of the 2022, the FGN raised additional USD1.25Billion via Eurobonds, and this further raised the country's external debt. Also, consideration of stock of debt at the CBN and AMCON indicates that Nigeria's total debt stock is well above these figures.

This trend appears worrisome; but as often argued, when compared with the size of the economy, Nigeria's debt-GDP ratio, estimated at around 22.65% at the end of this year, is still far below the 70% distress threshold (see figure 1b).

However, since debts are not paid with GDP, it is important to ensure that a country's revenue is able to, at the minimum, service its debt. Based on this, figure 1c clearly shows that the current trend is not sustainable for the country as it used over 90% of its revenue to service debts in the last two years. Although this is projected to fall to 70% in the year 2022, the ratio is still high.

There are arguments for accumulating debt. A major one being that for a developing economy like Nigeria, with much infrastructure deficit, government needs to borrow to jumpstart the economy and invest in critical areas. Therefore, higher debt is expected to reflect in increased developmental capital projects.

Figure 1a: Trend of Public Debt (Nbn)

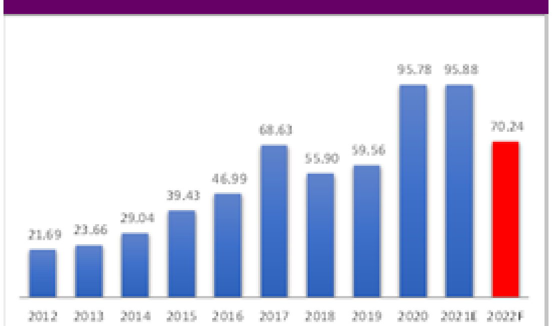


Source: DMO, ADSR Research

Figure 1b: Debt—GDP Ratio (%)

Source: DMO, NBS, ADSR Research

Figure 1c: Debt Service—Revenue Ratio (%)



Source: DMO, BoF, NBS, ADSR Research

The Nigerian government has, in recent times, made significant effort in this direction. There are visible investments in many infrastructure projects across the country, such as rail and road projects. It is however crucial to evaluate the extent to which new borrowings are deployed towards critical infrastructure projects.

Specifically, the volume of new debt incurred should be comparable to the level of capital projects in the country, to guarantee that debts are not incurred for mere recurrent expenditure items. Figure 1d shows that the ratio of capital expenditure to budget deficit fell precipitously in 2016 to 7.88% and has fluctuated widely since then. At the end of 2021, it is estimated that 46.5% of FGN new borrowing were spent on capital project and the forecast is that this will rise to around 50% in 2022.

Not all capital expenditure is spent on infrastructure and/or on productive projects. Thus, while Nigeria needs to increase the trend shown in figure 1d, the share of capital expenditure spent of key infrastructure also needs to increase.

So, where are we going? If history is anything to go by, Nigeria's debt will keep mounting. Given the current uncertain global environment, wide adoption of technology and environment-friendly processes as well as domestic economic challenges including low productivity and constrained government revenue, Nigeria needs to avoid falling into a debt crisis.

The pertinent issue with debt is beyond the figure itself, but the impact felt on the economy. For an economy that is challenged on many fronts, mounting debt levels may add to Nigeria's problem; thereby requiring urgent actions.

Fortunately, there are existing plans to reduce unproductive government expenditure, implement innovative ways of financing infrastructure and free government budget for other key social services.

These plans need to be duly implemented, monitored and evaluated by the government.

A glance at any government document, be it yearly budgets, development plans, sector strategies, regulatory frameworks, among others, shows detailed policies to tackle many of the country's problems, debt inclusive. However, the country is in need of judicious implementation, albeit in a manner that is effective, yet inclusive.

Figure 1d: Capital Expenditure— Deficit Ratio (%)

Source: DMO, BoF, NBS, ADSR Research

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