

IS NIGERIA'S DEBT REALLY RISING?

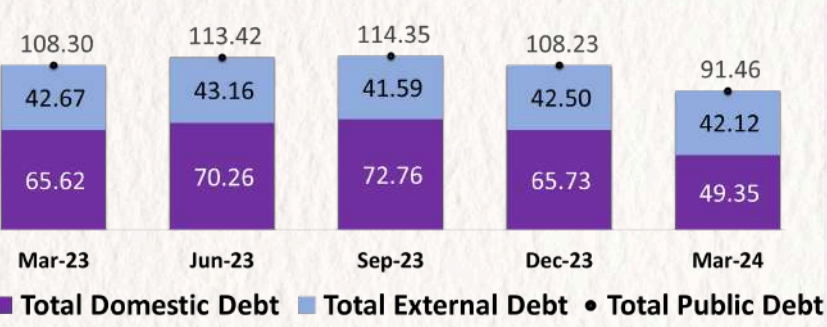
Unpacking the drivers

01-Jul-2024

Total Domestic & External Debt (#'Trn)



Total Domestic & External Debt at Current Exchange Rate (US\$'Bn)



Total Domestic & External Debt at Constant (March, 2023) Exchange Rate (US\$'Bn)



- Nigeria's debt rose to **₦121.67 trn** in March, 2024, and this generated a lot of reactions.
- On the face of it, the country's debt has increased by **₦71.82 trn (i.e. 144%)** from **₦49.85 trn** recorded in March, 2023.
- But it will be incorrect to assume that the government has borrowed an additional **₦71.82 trn** in the last one year,
 - as this increase was due to many factors, including naira devaluation.

- A simple check is to express the country's debt in US dollars.
- Showing that Nigeria's debt fell from **US\$108.30 bn** in March, 2023 to **US\$91.46 bn** in March, 2024, a fall of **15.54%**.
- But this approach also fails to account for new domestic borrowing, and other factors.
- This problem is bigger for a depreciating currency, and may encourage over-borrowing under the guise that dollar debt is falling.

- To solve these problems, economists often apply the price of a base year as a constant.
- Assuming no depreciation, maintaining naira at its pre-devaluation value of **₦460.35/\$1**.
- Domestic debt would increase from **US\$65.62 bn** to **US\$142.60 bn** in this period.
- Implying that Nigeria's total debt (valued at March 2023 exchange rate) effectively rose to **US\$184.72 bn** as of March, 2024.

- An attempt is therefore made to unpack Nigeria's **₦121.67 trn** debt stock.
- It is observed that in addition to the **₦49.85 trn** existing debt, which accounted for **(40.80%)** of the current debt stock:
 - ₦22.70 trn (18.58%)** out of the current debt was also existing in the form of securitised CBN Ways & Means (W&M),
 - ₦12.74 trn (10.42%)** out of the current debt is the new domestic borrowing incurred in the last one year, including new W&M
 - Reduction in external debt lowered the current debt by **₦0.26 trn (0.21%)**, while
 - ₦36.64 trn (29.99%)** of the current debt is as a result of naira devaluation.
 - hence, exchange rate is a major driver of Nigeria's debt, amidst other factors.**

