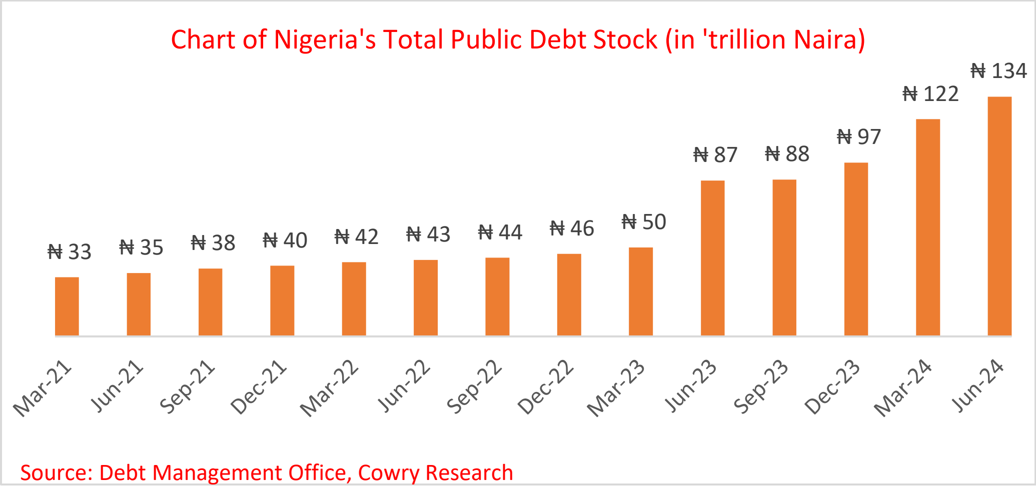
Analyst's Note on: Nigeria's Public Debt – June 2024

Rising Public Debt to N134.3 Trillion Pressures Nigeria; A Call for Cost-Cutting and Reforms…

Latest public debt data from the Debt Management Office (DMO) showed that Nigeria's total public debt reached a record N134.3 trillion ($91.35 billion) as of June 2024, a significant 10.4% increase over the preceding quarter's N121.7 trillion and a staggering 53.7% rise year-on-year compared to N87.4 trillion in June 2023. The amount comprise of N55.9 trillion as FG's portion and N7.2 trillion in sub-nationals' portion of the total external debt while the domestic debt profile saw FG's portion at N66.9 trillion as against the N4.3 trillion for states and FCT.

This upward trend is largely driven by naira volatility, extensive borrowing by federal and state governments to fund budget deficits, and additional obligations incurred in response to revenue shortfalls. Over the past months, escalating debt levels have underscored structural challenges within Nigeria's fiscal framework, straining the economy and intensifying fiscal pressures.



The substantial increase in public debt in 2024 has been primarily influenced by a series of financial and economic pressures. Currency depreciation remains a central factor, as it has inflated the cost of servicing Nigeria's dollar-denominated debts and expanded external debt obligations. The increase in borrowings has largely gone toward funding operational expenses, such as public sector salaries and other recurrent expenditures, as opposed to capital investments that could spur long-term growth. These borrowings are part of the government's efforts to close an N10 trillion gap in the 2024 Appropriation Act, alongside new loans undertaken by state governments and the Federal Capital Territory (FCT) for various projects.

On external debt, deeper analysis shows that federal borrowings account for roughly 89% of the nation's external debt, with the remaining 11% attributed to state governments' multilateral and bilateral obligations, which are federally guaranteed. The dollar component of the debt portfolio, notably impacted by the naira's depreciation, has seen the share of external obligations rise from 38% in mid-2023 to 47% by June 2024, indicating the adverse effects of currency devaluation on dollar-denominated loans. Notably, external debt increased in the second quarter due to a $799 million or 4% increase in debt from multilateral lenders, bringing total external debt from such sources to approximately $21.6 billion. This is reflective of Nigeria's need for international funding to address its liquidity challenges in the face of scarce foreign exchange reserves.

The sharp rise in external debt during this period is partly due to new borrowings, such as a $1.2 billion loan from the World Bank, intended to provide some fiscal relief. A marginal $28 million increase in debt owed to China further contributed to the rise. These increases were slightly offset by a 21% quarter-on-quarter reduction in debt owed to the International Monetary Fund (IMF), which dropped by $419 million to $1.6 billion, and a smaller $13 million decline from other bilateral lenders. Consequently, multilateral and bilateral debts now constitute 50.4% and 13.7% of total external debt, respectively, compared to 49.5% and 14.5% in the previous quarter.

Cowry Research posits that the surge in Nigeria's public debt, particularly in external debt, has been intensified by currency volatility, a weakening naira, and global liquidity challenges as international rates rise. To address these pressures, both federal and state governments need to reduce governance costs, streamline expenditures, and scale down the size of government, which would enable more effective utilisation of available funds while enhancing revenue sources.

Additionally, implementing strong, growth-driven reforms, closing revenue leakages, and revitalising weak institutions are crucial for sustainable public debt management. Without these measures, we think public debt levels are likely to continue rising, particularly as debt servicing consumes an increasing share of government revenue. This concern is underscored by a recent $3.75 billion loan approval from the World Bank, which, along with ongoing naira volatility, adds further pressure to Nigeria's external debt stock.