Nigeria's Debt Sustainability

By Bismarck Rewane

CEO, Financial Derivatives Company Ltd.

November 16th , 2018

Audience Analysis

- Premier Chamber of Commerce in Nigeria
- Founded in 1888
- To promote, support or oppose legislative measures affecting trade and commerce
- Through regular consultations on policies and measures affecting businesses and the economy at large

Outline

Defining Concepts

Nigeria's Debt problem

Way Forward

Defining Concepts

- **Debt sustainability:** ability of a country to meet its debt obligations without requiring debt relief or accumulating arrears
- **Debt trap:** a situation in which a borrower is led into a cycle of re-borrowing/ rolling over
- Key ratios in assessing debt of countries:
  - Debt to GDP ratio
  - Debt service/export ratio
  - Debt to revenue

Debt Vs GDP Growth – The Evidence

Countries with highest foreign debt	Foreign Debt ($'bn) (2015)	GDP growth rate (%) (2015)
China	1,418.3	6.9
Brazil	543.4	-3.5
Hong Kong	491.9	2.4
India	479.6	8.2
Russia	467.7	-2.8
Singapore	465.5	2.2
Mexico	426.3	3.3
Turkey	397.7	6.1
South Korea	376.6	2.8
Poland	331.4	3.8

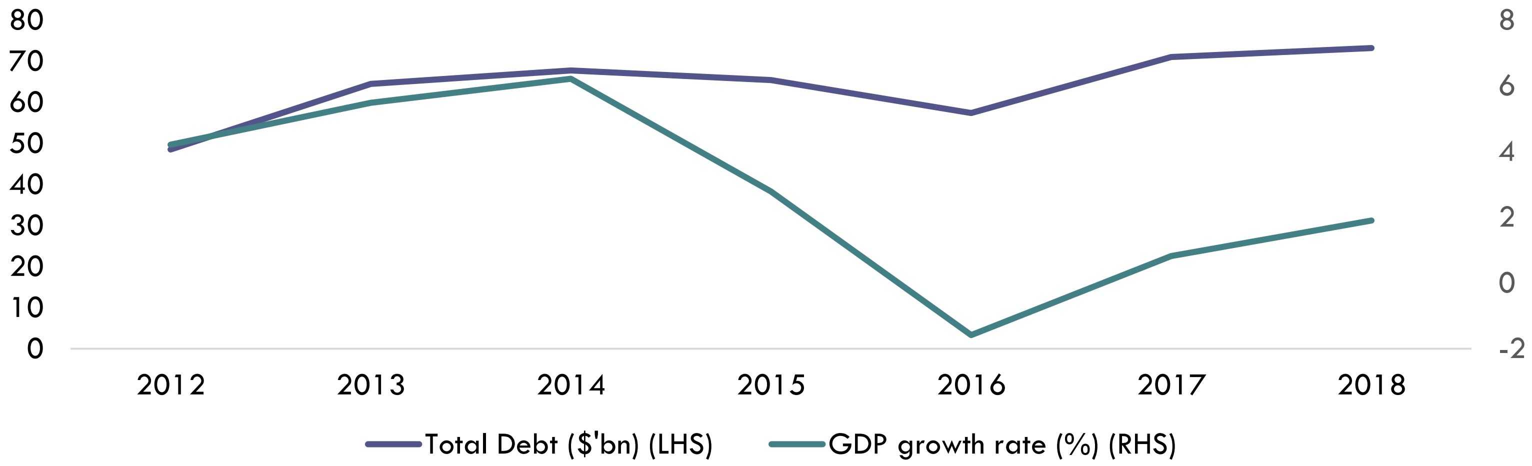
VS

Countries with highest debt service ratios	Debt service ratio	GDP growth rate (%)
Syria	68.4	-
Kazakhstan	63.4	1.2
Venezuela	60.3	-
Jamaica	58.8	0.9
Ukraine	56.9	-9.8
Brazil	37.6	-3.5
Croatia	35.5	2.4
Chile	33.1	2.3
Cuba	32.6	4.4
Mongolia	32.1	2.4

No significant relationship between debt/debt servicing and GDP growth rate

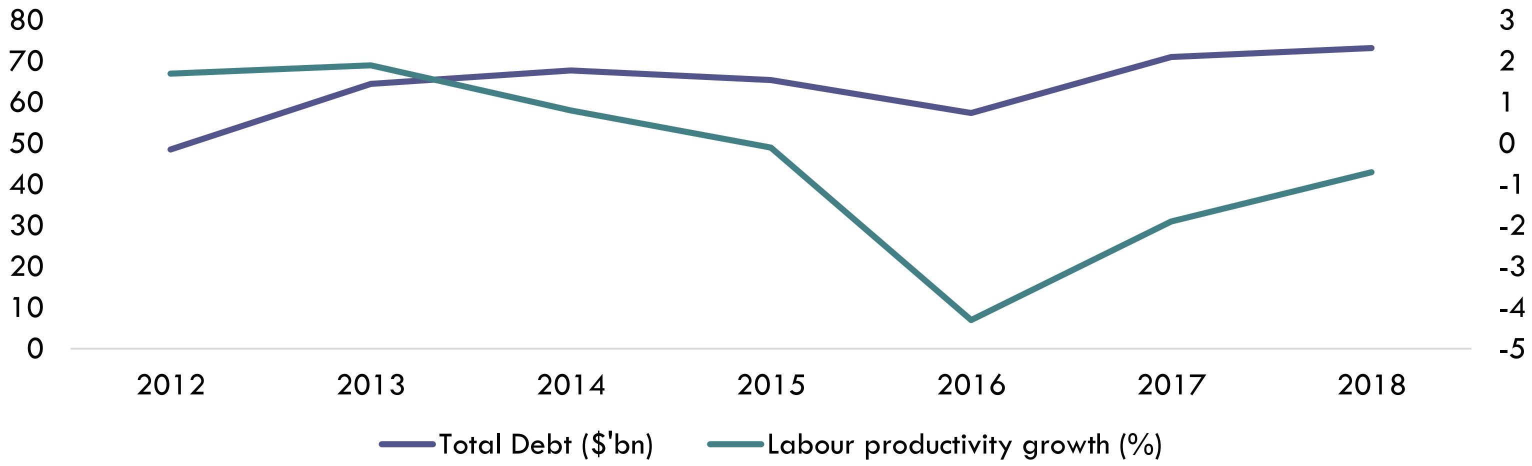

DEBT
Nigeria's Debt Problem

Higher Debt but Slowing GDP Growth Rate



- Slow GDP growth rate at a time of rising debt
- Suggests suboptimal use of borrowed funds
- Borrowed funds should be channelled towards growth drivers (infrastructural development)

Higher Debt But Lower Productivity



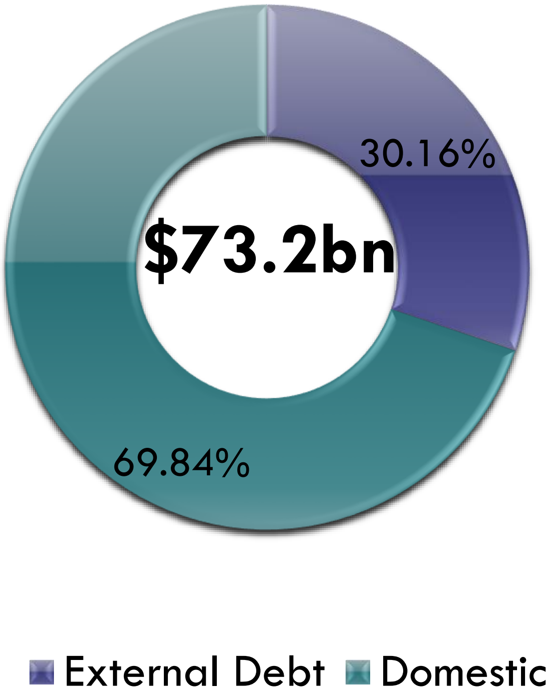
- Productivity is a key determinant of long term economic growth
- Low productivity growth raises concerns about Nigeria's long-term debt sustainability

Is Nigeria in a Debt Trap?

- Nigeria's debt is rising rapidly
  - FGN debt has risen by over 100% under the current administration
- But debt to GDP ratio (21%) is still at a comfortable level
- Compared to
  - Ghana: 70.5%
  - South Africa: 53.10%
- Revenue generation remains the key challenge
- Tax base and collection remains stubbornly low

Nigeria's Debt Profile

Total Debt Stock

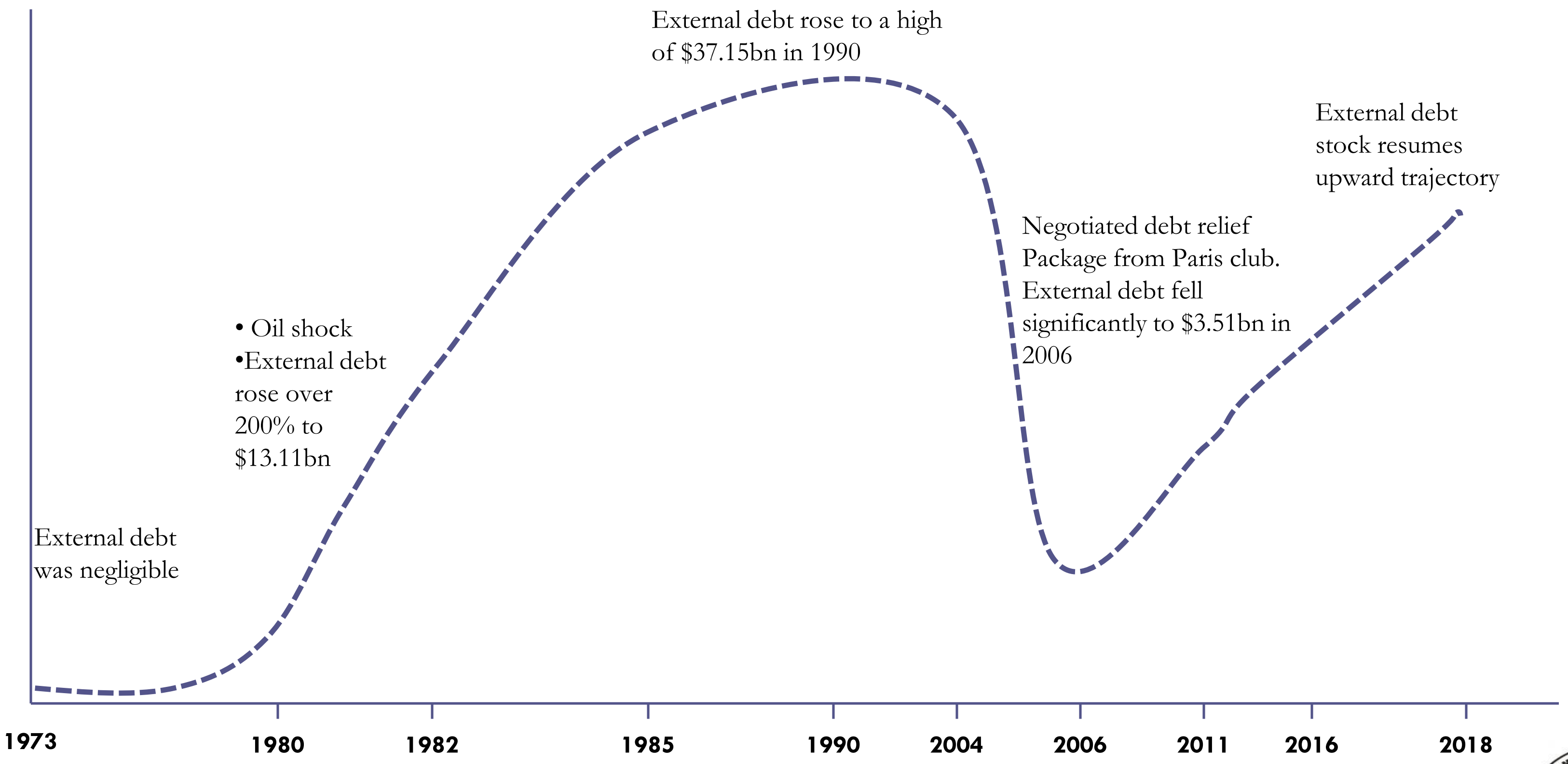


- Total debt ⬆ 50.93% to $73.2bn in H1'18
  - From $48.50bn in 2012
- Shift towards foreign debt to reduce crowding effect
- Foreign debt now 30% of total debt
  - Up from 15% as at December 2012
- Eurobonds constitute 38.49% of total external debt
  - To increase further after the next tranche of Eurobond issue

External Debt Profile

- External debt increased by 16.76% to $22.08bn as H1,18
  - Aftermath of Eurobond issue in Q1
- Multilateral debt accounts for 49.28% of total external debt
- Bilateral debt accounts for 10.87%
  - 79.72% of bilateral debt is owed to China
- Eurobonds constitute 38.49% of total external debt
- **Increased Exchange Rate risk**:
  - A naira depreciation will increase the naira value of external debt
  - And lead to higher debt service costs

External Debt Historical Trend



Domestic Debt Profile

- Domestic debt declined by 1.86% to N15.63trn ($51.12bn) at H1'18
  - Due to fall in Treasury Bonds and Bills
- FGN Bonds constitute the largest share of FG's domestic debt stock at 73.47% (H1'18)
- Treasury Bills declined from 28.43% in FY'17 to 24.31% in H1'18

Nigeria's Borrowing (Cost Vs Advantage)

Opportunity cost

- Fiscal discipline
- Increased efficiency in tax collection
- Increased Internally Generated Revenue (IGR) across states

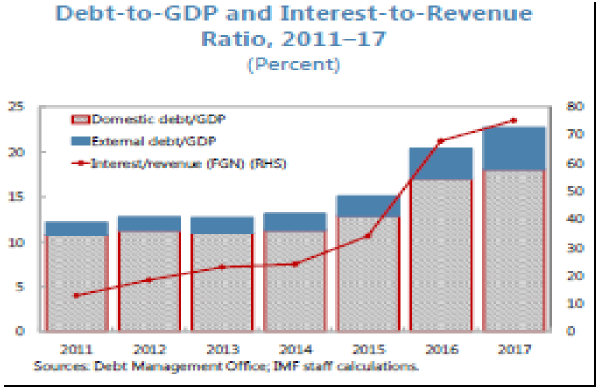
Advantage

- Financing budget deficit
- Clearing backlog of salary arrears

Nigeria's Debt Burden-IMF

Risks

- Higher interest rates increases debt service burden
- Interest payments to FG revenue would average 82% by 2023
- Contingent liability shocks could undermine debt sustainability



Recommendations

- Review external-to-domestic ratio of 40% to reduce exchange rate risks

Debt Problem

Debt crisis

- 60% of independent revenue of FGN used for debt service
- 52.6% export to debt ratio

Peer Comparison

Zambia (High risk of debt distress)

- Total public debt increased to 60.5% of GDP
  - From 20.8% in 2011
  - Reflecting issuance of Eurobond and rapid rise in private sector debt
- GDP growth down to 4.1% in 2017
  - From 5.9% in 2011
- GDP per capita fell to $1,509.80 in 2017
  - From $1,644.62 in 2011

Peer Comparison

Mozambique(Debt distress)

- Total public debt increased to 112% of GDP
  - From 53.1% in 2013
- GDP growth down to 3.7% in 2017
  - From 7.1% in 2011
- GDP per capita fell to $415.72 in 2017
  - From $526.53 in 2011
- Public debt service expected to consume 50% of public revenue from 2019 -2020

Way Forward

What Must Nigeria Do?

- Strengthen tax institutions to increase collections – tax to GDP ratio at 6%; one of the lowest in the world
- Block leakages
- Match borrowing to infrastructure investment


Thank You!