

# **NIGERIA'S PUBLIC DEBT STOCK AND ITS SUSTAINABILITY**

**A PRESENTATION**

**BY**

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# 1. Introduction

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- This Presentation has been prepared for the Lagos Chamber of Commerce and Industries (LCCI)'s its roundtable discussions on Nigeria's Debt Sustainability.
- The Report has attempted to explain the growth in Nigeria's Public Debt Stock and its sustainability.

## **2. New Borrowing and Public Debt Stock**

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The Nigerian Government's borrowing activities driven by: its revenues over the years had not been enough in addressing the developmental and infrastructural challenges the country faces. Hence, Government has been operating Deficit Budgeting for several years and relies mostly on borrowing to fill the financing gap. These new borrowings impact on the existing Public Debt Stock, given that Public debt accumulation is cumulative.

## ***2. New Borrowing and Public Debt Stock...Cont'd***

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Huge developmental infrastructural challenges

- Government's Expenditure out weight its Revenues
- Hence, Government has been operating Deficit Budgeting
- Relies mostly on Borrowing to fill the financing gap
- Thus, impacting on Public Debt Stock, given that Public debt accumulation is cumulative

## *2. New Borrowing and Public Debt Stock...Cont'd*

Table I shows the trend in Budget Deficits and the amount of new Borrowings.

**Table I: Budget Deficit and New Borrowings: 2000 – 2018 (N'billion)**

	2000	2005	2010	2015	2017	2018
Budget Deficit	103.78	161.41	1,235.00	1,616.01	2,356.28	1,954.46
New Borrowing	103.45	143.5	1,185.53	1,457.12	2,321.77	1,643.46
% of Deficit Funded	99.68	88.90	96.00	90.16	98.54	84.09

Source: Appropriation Acts

## 2. New Borrowing and Public Debt Stock...Cont'd

Table II highlights the growth in Public Debt Stock.

**Table II: Nigeria's Public Debt Stock, 2000-2017 and June 30, 2018 (₦' billion)**

	2000	2005	2010	2015	2016	2017	June 30, 2018
External Debt	3,111.52	2,641.66	683.02	2,111.53	3,478.92	5,787.51	6,750.91
Domestic Debt	972.01	1,525.91	4,551.82	8,836.99	11,058.20	12,589.49	12,151.44
States' Domestic Stock	-	-	-	1,655.18	2,822.89	3,348.77	3,477.32
Total Public Debt	4,083.52	4,167.57	5,234.84	12,603.71	17,360.01	21,725.77	22,379.67
Ratio of Total Public Debt to GDP (%)	84.14	27.5	17.20	13.02	16.27	18.20	18.68

Source: Debt Management Office

Notes:

(i). CBN official Exchange rates used were at year end-2000(US\$/N110.05); 2005(US\$/129.00); 2010(US\$/149.19); 2015(US\$/197.00); 2016(US\$/305.00); 2017(US\$/306.00);

(ii). States' Domestic debt became part of the Total Public Debt as from 2011

Note:

- Part of the key planks of the Administration's Economic Agenda – The Economic Recovery and Growth Plan (ERGP), is the need to borrow in the short-term to make up for the revenue shortfalls.
- Such borrowings are to be invested in infrastructure, in order to create jobs, and stimulate economic recovery and growth.

## 3. Nigeria's Debt Management Strategy

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Nigeria's Debt Management Strategy, 2016-2019, was based on the current economic realities, and the need to address the structure of the Debt Portfolio.

This would require:

- An increase in external financing with a view to rebalancing the public debt portfolio in favour of relatively cheaper long-term external financing, in order to reduce the cost of borrowing and lengthen the maturity profile of the portfolio.
- Further lengthening of the maturity profile of the domestic debt portfolio through the reduction in the issuance of new short-dated instruments or refinancing of maturing Nigerian Treasury Bills (NTBs) with external financing.



### ***3. Nigeria's Debt Management Strategy...Cont'd***

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Some of the Targets in the Debt Management Strategy and Achievements as at June 30, 2018 are shown in Table III.

**Table III: Debt Management Strategy: Targets and Achievements**

	Target	Achievement
Ratio of Domestic Debt to External Debt	60:40	69.83:30.17
Domestic Portfolio: Long-term Debt to Short-term Debt	75:25	75.70:24.30
Average Tenor of Portfolio	10 years	11.55 years

## 4. Public Debt Sustainability

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- Nigeria's Total Public Debt relative to the Gross Domestic Product (GDP), has remained sustainable.
- At about 18.68% of GDP as at June 30, 2018, Nigeria has one of the lowest Debt to GDP, which compares favourably with the international benchmark of 56% for countries in Nigeria's peer group, as prescribed by the World Bank and International Monetary Fund (IMF).
- The Government recognizes that the ratio of Debt Service to Revenue is high (about 57% in 2017), largely because of Nigeria's low Revenue base. This is evident from the Tax to GDP ratio of about 5% as at December 31, 2017, which places Nigeria among the lowest in the World.

## 5. Some Fiscal Reforms and Initiatives to Shore up Government's Revenue

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Government has ensured that its prudent fiscal policy holds Budget Deficits below the threshold of 3.0% of GDP, as stipulated in the Fiscal Responsibility Act, 2007.

The Reforms and Policy initiatives, which are geared towards revenue generation include the following:

### **i. Resources Efficiencies:**

- Treasury Single Account implementation
- Integrated Payroll Personnel System (IPPIS) - which is implemented across MDAs, to enhance efficiency and eliminate unjustified payroll entries.
- Establishment of the Efficiency Unit to cut costs and block leakages

### **ii. Financial Stability**

- Adoption of a 22-point Fiscal Sustainability Plan (FSP), with the States as one of the measures to tackle the 2015-2016 fiscal crisis at the sub-national level following the decline in revenue.
- Presidential Initiative on Continuous Audit (PICA)
- Tighter performance management framework for State Owned Enterprises (SOEs).

## ***5. Some Fiscal Reforms and Initiatives to Shore up Government's Revenue.....Cont'd***

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### **iii. Improving Non-Oil Revenues**

- Improving Value Added Tax (VAT) collection
- Introduction of a Policy on Tax on select luxury items
- Increase in Excise Taxes on Alcohol and Tobacco
- Reforms of pioneer Tax incentive regimes.

### **iv. Improving Tax Revenues**

- Broaden tax base and improve revenues (Federal and State Governments), which resulted in the number of taxpayers rising from about 13 million to 19 million.
- Implementation of the Voluntary Assets and Income Declaration Scheme (VAIDS) – A Time-limited opportunity for tax payers to regularise their tax status.

## 6. Conclusion

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- Government Revenues can hardly address its developmental and Infrastructural challenges – Hence, Deficit Budgeting becomes inevitable.
- Government's current borrowing mostly targeted at capital and investment projects – for growth and development.
- Given the limited resources, and the need to curtail growth in Public Debt, Government has put in place the machinery to fully explore the use of Off-Balance Sheet Financing arrangement, for addressing its infrastructural challenges