# Flashnotes

Issue 3 | 4 April 2023 | KPMG in Nigeria

## A National Debt Quandary

- **Nigeria's total public debt stock increased by 14.46% between 2022 and 2023, to N46.25 trillion. This excludes another estimated N27.55 trillion 'Ways and Means' loans from the Central Bank and additional debt envisaged in the 2023 annual budgets of States and the Federal Government.**

- **National Debt likely to hit above N77 trillion by end of 2023 and is arguably unsustainable at current Tax/Revenue to GDP and Debt service payments ratios and expenditure patterns.**

- **To avoid enormous challenges in the short, medium and long term, Nigeria will need to introduce substantial fiscal reforms aimed at reducing deficit financing, improve revenue generation and implement a more efficient expenditure framework.**

### Event

The Debt Management office (DMO) Nigeria announced on March 31st, 2023, that Nigeria's total public debt stock reached N46.25 trillion at the end of December 2022, reflecting a 14.46% increase from the previous year's figure of N39.56 trillion. Quarter-on-quarter, the increase amounted to 5 percent from 44.06 trillion in September 2022. The statement issued by the DMO also revealed that the total domestic debt stock amounted to N27.55 trillion, while the total external debt stock was N18.70 trillion.

This does not include the N23.72 trillion loans, reportedly at 19.5%, that the Central Bank has extended to the government in recent years through a facility called "Ways and Means Advances". Given that the most efficient way to deal with these ways and means loans is to securitize them, we might be looking at a total national debt of more than N77 trillion by the end of 2023 especially in view of the additional borrowing envisaged in the Federal and several States 2023 budgets as well as the likelihood of new borrowings not already contained in the 2023 budgets by incoming administrations at the State and Federal level.

### Analysis/Opinion

While Nigeria's debt to GDP ranges at a healthy 30-35%, its tax and revenue to GDP falls between 6-8%, contributing to a debt service to revenue ratio that has risen as high as 80% at some point. The government will need to consider reforms in its expenditure framework which might include discussions on what to do with its subsidy regime in which N3.36 trillion has been set aside for the first 6 months of 2023 and this is more than the combined budgets for health, education and infrastructure for the whole of 2023. With the recent OPEC cuts which have caused a rise in crude oil prices, the government might even need a lot more than budgeted. At the same time, without substantial fiscal reforms aimed at reducing deficit financing and improve revenue generation to increase its revenue/tax to GDP ratio to at least 15% and/or grow the economy from the current 3% to at least 10-15%, Nigeria will continue to face enormous challenges from debt including the following:

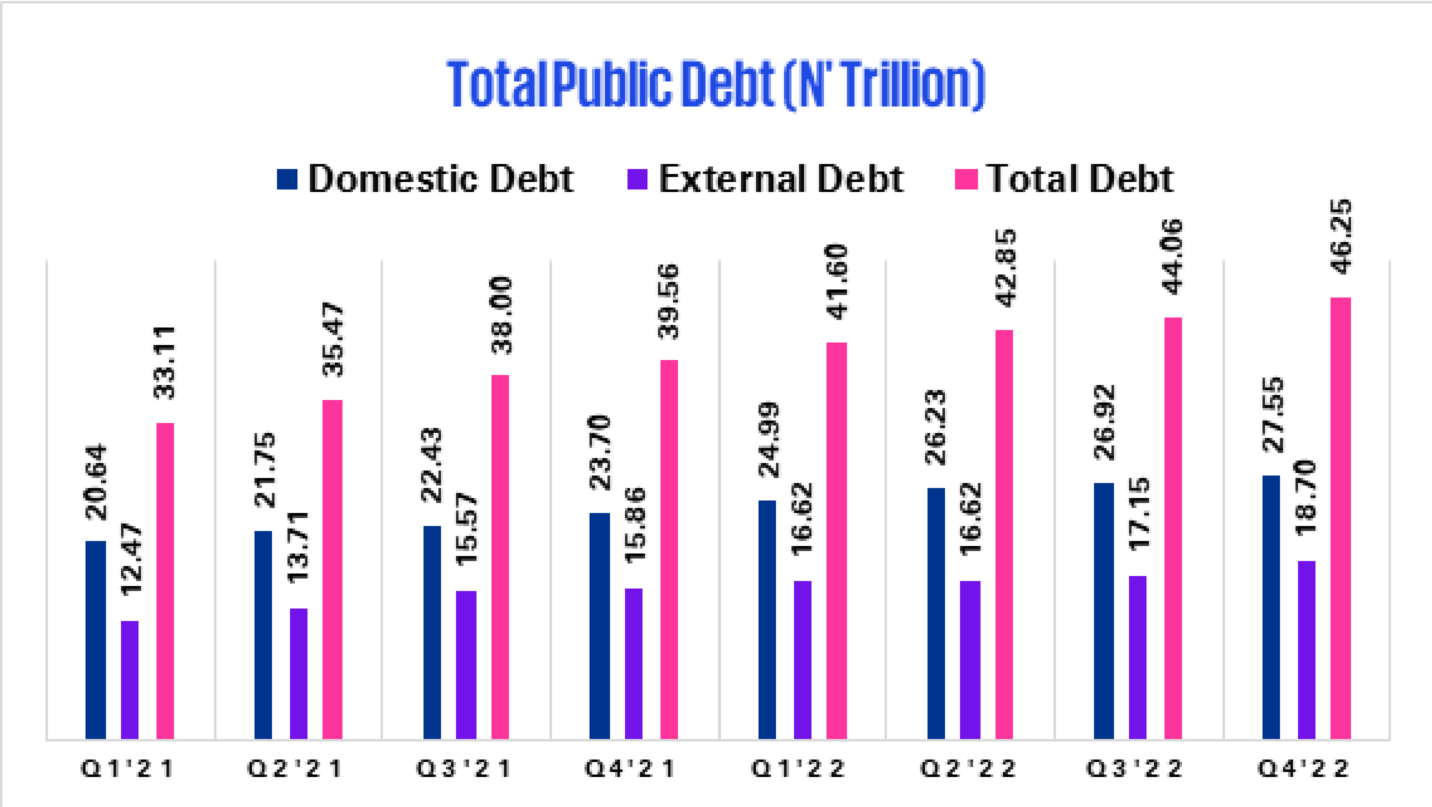
- Absence of adequate Fiscal buffers making the economy vulnerable to economic shocks in a global economy still struggling and susceptible to another recession.

- Potentially high debt servicing costs which could crowd our much-needed funding for infrastructure, social works, and other economic and social sectors.

- Loss of investors' confidence in a country with high debt-to-GDP ratio and high revenue to debt ratio. Already, Moody's has downgraded the country's fiscal and debt position stating it expects it to keep deteriorating, while Standards and Poor's affirmed Nigeria's credit rating, but turned negative on its outlook citing similar issues with debt serving capacity.

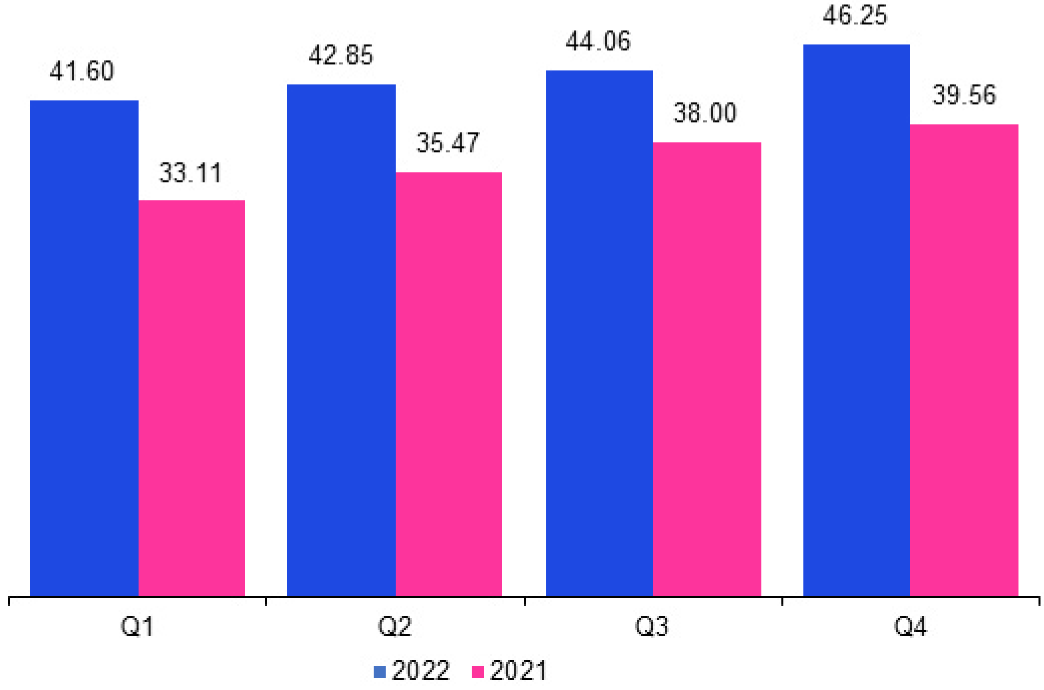
- Low foreign exchange reserves accretion because of reduced capital inflows and foreign investment which can make it more strenuous for Nigeria to finance imports, put pressure on its exchange rate and worsen Cost Push Inflation. Capital importation figures from CBN, for example, already show a persistent decline in capital imported into Nigeria from $23.9 billion in 2019, $9.65 billion in 2020, $6.70 billion in 2021, and $5.32 billion in 2023.

- Higher inflation may in turn instigate higher interest rates and slower economic and employment growth.



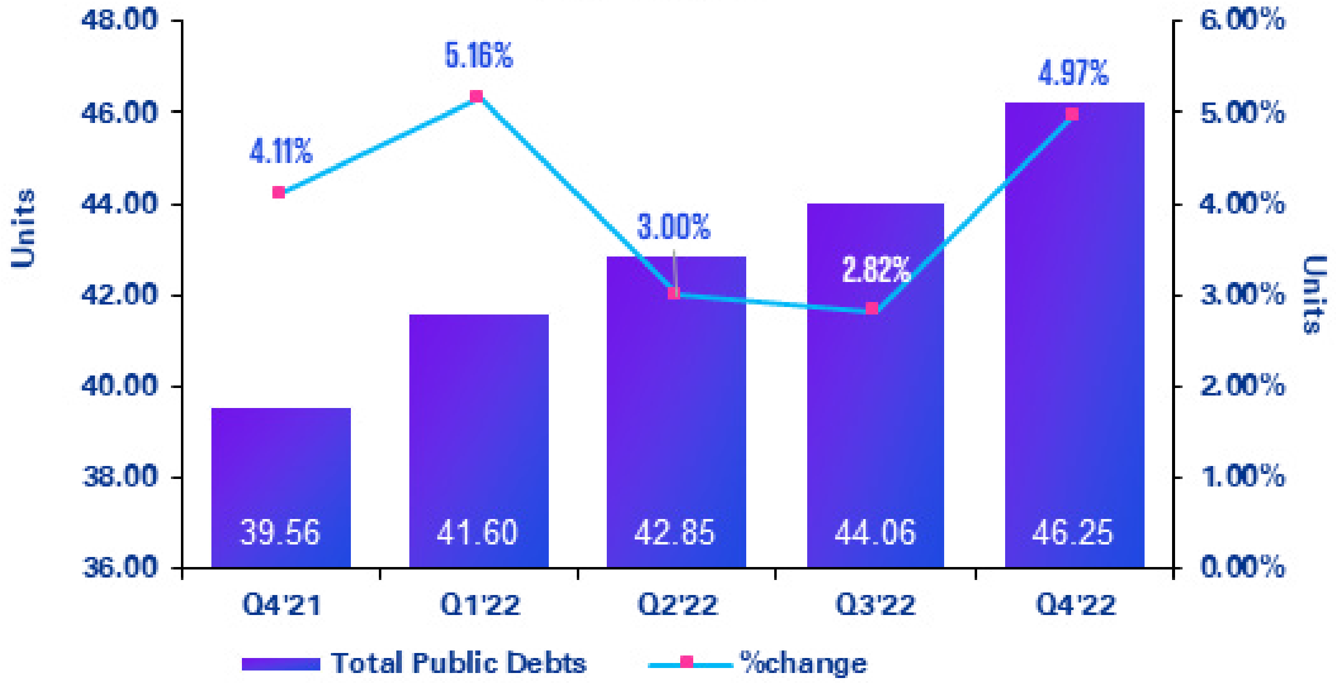

Source: ***National Bureau of Statistics***

# Total Public Debt




Source: ***Debt Management Office (DMO***

# Key Trend

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