In focus: Nigeria

Public debt up by a fifth (April 1, 2021)

Nigeria's public debt rose by just over 20% y-o-y to reach N32.9trn at the end of last year, according to official calculations. Some 61.4% was made up of domestic debt and the remaining 38.6% in the form of external liabilities. Of the latter, 54% was in the form of multilateral debt, 12% bilateral debt, and 34% sourced from commercial lenders. Commercial external debt as a proportion of total external debt has more than doubled over the past four years, from around 13% in 2016 to the current figure of just over 34%. In turn, public external debt as a proportion of GDP has increased from under 2% in 2016 to just over 8% last year. Nigerian public debt is becoming increasingly expensive, with a larger proportion of external commercial debt. This debt profile also contains a significant level of currency risk, which is very relevant in the Nigerian context.

Official calculations of the government debt burden use the official exchange rate of N381/$ when converting foreign debt into naira terms. When using the Nafex rate of N400/$ at the end of 2020, the overall debt burden rises to N33.5trn, which is 1.9% higher than the official figure. In turn, when using the parallel market rate of N468/$ presiding at the end of last year, the debt burden increases to N35.8trn – nearly 9% higher than the official figure.

WHY DO WE CARE?

Going by recent statements, the finance ministry and central bank are not on the same page when it comes to the country's exchange rate policy. This complicates the public debt assessment. For instance, if the Nafex rate will be used for certain government transactions, as the finance ministry has stated, oil revenue could be converted into naira at the current Nafex rate of around N408/$ instead of the official rate of N380/$, which would boost revenue. In turn, if there has been no change to the exchange rate regime, as communicated by the central bank, the debt burden is lower and external interest payments more affordable. While the aforementioned scenarios would both benefit government finances, the fact that there is uncertainty over which scenarios will materialise does not instil confidence in the country's fiscal position.

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