South Asian Journal of Social Studies and Economics

Volume 21, Issue 6, Page 6-14, 2024; Article no.SAJSSE.116085
ISSN: 2581-821X

Understanding the Nigerian Domestic Debt

Ajayi, Kayode Johnson [a*]

[a] *Nile University of Nigeria, Abuja, Nigeria.*

Authors' contributions

The sole author designed, analyzed, interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/SAJSSE/2024/v21i6826

Open Peer Review History:
This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: https://www.sdiarticle5.com/review-history/116085

Original Research Article

Received: 24/02/2024
Accepted: 26/04/2024
Published: 30/04/2024

ABSTRACT

The portion of a country's overall public debt that is owed to domestic lenders is known as its internal or domestic debt. The public debt profile of a nation is comprised of its external and domestic debt stock. This article provides insights into the various components and major holders of the country's domestic debt. The Country's domestic debt profile, which is currently on the rise, has led to numerous challenges in the economy such as debt overhang, higher debt servicing costs, unstable currency rates, and crowding out impacts on the private sector, among others. Therefore, measures have been recommended to curtail the level of increasing borrowings. The goal of setting up a distinct public debt management agency such as the Debt Management Office (DMO) by the government was to continuously accomplish the benefits of cautiously sourcing financing to cover for government deficits at reasonable rates and with manageable medium to long-term risks.

Keywords: Public debt profile; macroeconomic management; domestic debt; exchange rate instability.

1. INTRODUCTION

The financial reforms implemented by the colonial authority in 1958 are responsible for the emergence of a market for government borrowing systems in Nigeria. The Central Bank of Nigeria (CBN) and marketable public securities were produced as a result of these

**Corresponding author: Email: kayodeajayi11@gmail.com;*

measures to finance the country's budget deficit. The Federal Government and the Bank may agree on terms and conditions for the issuance and management of Federal Government Loans that are publicly issued in Nigeria, as stated in paragraph 35 of the Central Bank of Nigeria (CBN) Ordinance 1958.

Since the beginning of the debt crisis in 1982 which broke out as a result of misjudgments in the conduct of economic policies, there has been a lot of attention given to developing countries' debts, in terms of both total debt burden and governments' ability to repay and service such obligations. A huge public debt profile is one of the biggest economic policy concerns confronting many countries, particularly developing and poor countries around the world. In general, these long-term developments have prompted major concerns among international financial institutions and bilateral lenders, prompting several efforts. Nonetheless, in any given economy, the problem of domestic debt in developing nations can have a major impact on macroeconomic stability, private sector lending, government budgets, and economic growth.

In Nigeria, the domestic debt profile is currently experiencing an upward trend and as such created issues such as debt over-hang, increased debt service, exchange rate instability, and crowding out effects on the private sector, etc. Adebiyi and Olowookere [1].

This can be attributable to why in the recent past, academics, policymakers, and other analysts started focusing interest in the area of domestic debt as it affects growth and development in global economies, particularly the severely externally indebted nations. When the Structural Adjustment Program (SAP) was introduced in 1986, the amount of external debt exceeded the amount of domestic debt for the first time [2]. Since then, there has always been a greater amount of external debt than domestic debt. et al. Alison [3]

However, President Olusegun Obasanjo's government in October 2005 attempted to drastically reduce the country's debt overhang. This was effectively achieved through the exit from the Paris Club of Nations, Ngozi Okonjo-Iweala e'tal [4]. Nigeria's total debt stock was reduced by $30.0 billion, and the debt-to-GDP ratio was lowered, as a consequence of the Paris Club exit and Nigeria announcing a final deal for debt relief of $18.0 billion.

The threshold ratios of debt to Gross Domestic Product (GDP) of countries vary from country to country depending on their debt sustainability. For instance, in Nigeria, according to the 2015 Debt Sustainability Analysis (DSA), the threshold was about 40 percent of GDP in the country and currently attained about 25 percent which was within the range of the threshold at that time. Nigeria's debt-to-GDP ratio as of November 2023 was 38.79 percent, which is still less than the Sub-Saharan African average of 56.3 percent. Adofu and Abula [5].

Nigeria's national debt has an impact on the nation's social and economic advancement as well as its relationships with other nations and international organizations. If this threshold exceeds the threshold, the country could run into domestic debt-servicing problems and the associated effects on other macroeconomic goals. Hence, this will further lead to rescheduling the domestic and public debt on a non-market basis (Guidotti and, 1992). Notwithstanding, countries with GDP ratios that are within the thresholds need to be cautious of the implications of huge debt stock on their economy.

This article, however, provides insights into the structure of Nigeria's domestic debt profile and its various components, including the holders of such debt. It also sheds light on the attendant consequences of rising debt stock on the economy and recommends measures to curtail the rise.

2. WHAT IS DOMESTIC DEBT

The portion of a country's overall government debt that is owed to domestic lenders is known as its internal or domestic debt. The internal and external debt stock makes up a country's public debt profile. The money that a government borrows from its citizens is included in the national debt of the nation. The sources of funding for these debts include commercial banks, other financial institutions, and other members of the public.

Typically, governments borrow money by issuing bills, bonds, and securities. This type of fiat money production involves the government borrowing money instead of printing it. Treasury securities or securities obtained through central bank borrowing represent the money that was created. They can be exchanged, but they won't be used frequently to pay for products and services. As a result, rather than simply printing more money and increasing the amount of more liquid assets, the government's predicted increase in inflation as a result of the increase in national wealth (i.e., the money supply) is reduced. But this is not the same as foreign debt that a nation borrows directly from an international body (like the World Bank or IMF) or governments.

3. TREND IN NIGERIA'S DOMESTIC DEBT PROFILE

After Nigeria's exit from the Paris Club of Nations in 2005, the external Debt began to experience a consistence decline, while the domestic debt stock has grown continuously over the years to date. Nigeria's domestic debt stock in 2000 stood at about N833,382.47 billion, while the external stock was N2,031,897.80 billion. After the exit, both categories of debt declined while the domestic stock grew much more than the external debt. As of the end period of 2015, the domestic debt had risen to about N8,836,995.80 billion from N833,382.47 billion recorded in 2000.

The domestic or internal debt stock at the end of 2020 had risen significantly from N16,023,885.33 billion to about N22,210,364.595 billion at the end of 2022. The figure astronomically rose to about N50,196,102.87 billion as of September 2023. This significant change can be attributable to the securitization policy of the federal government where all outstanding government's Ways and Means Advances issued by the Central Bank over time to the Federal Government were converted to the country's current domestic debt stock.

The external debt as of the end of 2015 stood at about N2,111,530.71 million from the N1,016,721.69 million recorded in 2012. The value, however, rose significantly to about N12,705,618.00 million in 2020, and about N18,702,251.88 million as at the end of 2022. Due to intense borrowing of the government, especially from Multilateral agencies, Nigeria's external debt stock rose to an all-high figure of N31.98 trillion, representing about 36.38 percent of Nigeria's total debt profile.

4. RISING TREND OF RATIO OF DOMESTIC DEBT TO GDP IN NIGERIA

The evolution of domestic debt can be examined by looking at its many components or by analyzing its size. The national output of a country in relation to its debt stock can be used as a proxy to determine how sustainable the country's debt stock is. Nigeria's domestic government debt to GDP ratio has increased significantly since the early 1980s. The percentage of GDP that was in domestic debt by 1964 was 5.5%. By 1974, a decade later, this ratio had marginally increased to 6.9 percent of GDP. However, by 1984, the ratio of domestic debt to GDP was higher than 40%.

It dropped marginally in the 1990s but has increased consistently since 2000. (DMO's Full Report of the Annual National Debt Sustainability Analysis (DSA) [6,7]. The nation's government has been more and more indebted domestically, and the ratio of domestic debt to GDP is distinctly high. For instance, in recent times, the ratio rose from 27.69 percent in 2018 to 29.17 percent in 34.49 percent in 2020. It further experienced a consistent rise from 36.51 percent in 2021 to 36.67 percent in 2022, and 38.79 percent in 2023, respectively.

If this outcome exceeds the threshold, the country could run into domestic debt-servicing problems and its associated effects on other macroeconomic goals.

Table 1. Nigeria's Total Debt Outstanding (2015-2023) N'Million

	2015	2020	2021	2022	2023
Domestic Debt - % of Total	*8,836,995.85*	*16,023,885.33*	*23,700,801.25*	*22,210,364.60*	*50,196,102.87*
External Debt - % of Total	*2,111,530.71*	*12,705,618.00*	*15,858,231.26*	*18,702,251.88*	*31,980,000.00*

Sources: Debt Management Office (DMO)

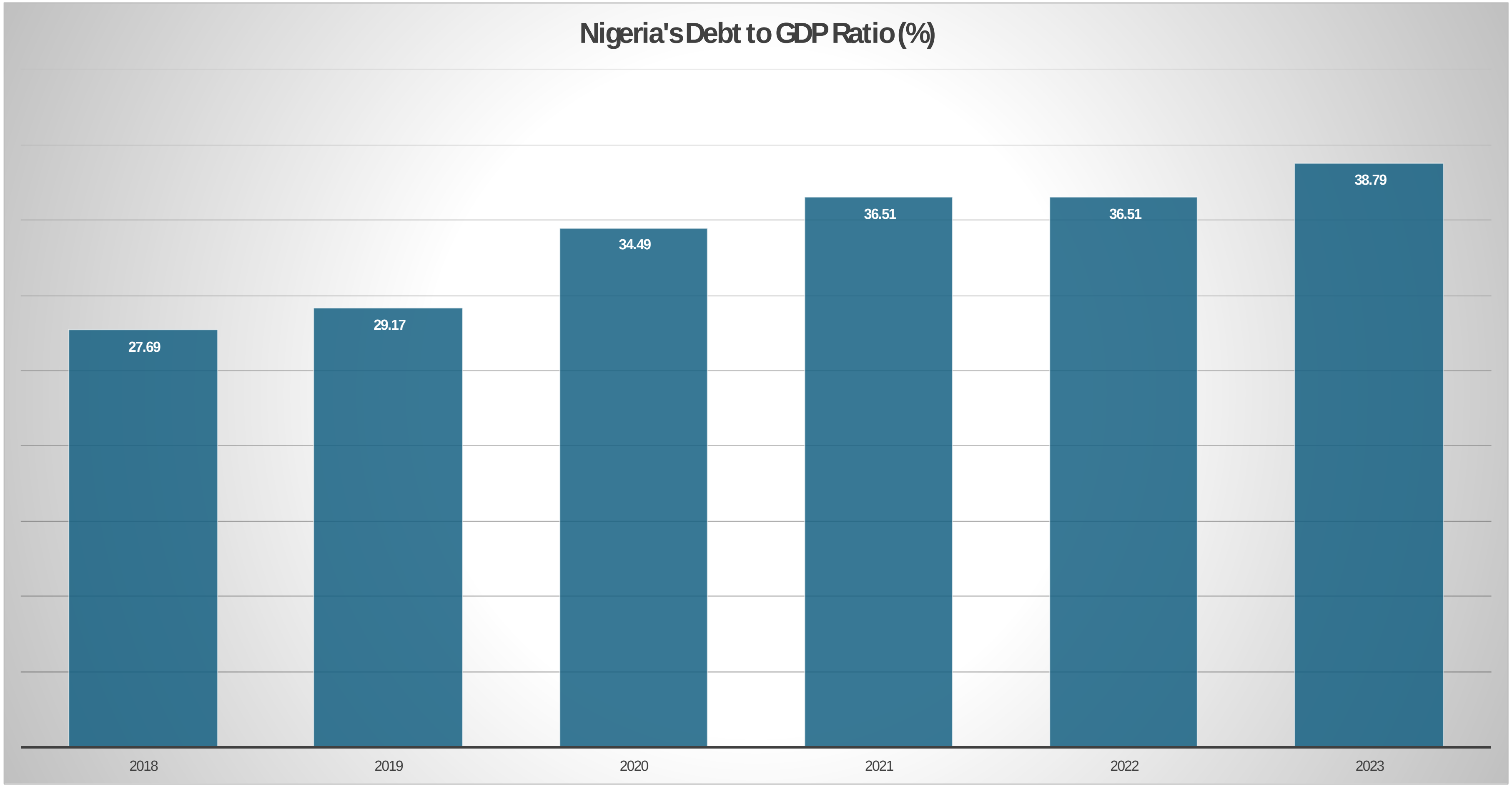

Fig. 1. Nigeria's Debt to GDP Ratio (2018-2023)
Sources: Statista 2024

Table 2. Federal government domestic debt stock by instrument as at September 2023

	Instrument	Amount in naira (n)	% proportion
1	FGN Bonds	43,177,327,421,592.00	86.02
2	Nigerian Treasury Bills	4,722,716,799,999.00	9.41
3	Nigerian Treasury Bonds	25,988,000,000.00	0.05
4	FGN savings Bond	33,924,610,000.00	0.07
5	FGN Sukuk	742,557,000,000.00	1.48
6	Green Bond	15,000,000,000.00	0.03
7	Promissory Notes	1,478,589,036,250.26	2.95
	Total	**50,196,102,866,842.30**	**100**

Source: Debt Management Office

5. COMPONENTS OF DOMESTIC DEBT STOCK IN NIGERIA

The Central Bank of Nigeria (CBN) has historically been in charge of managing domestic debt in Nigeria. However, more recently, the Debt Management Office (DMO) has taken over the regulation of debt instrument issuance, with the CBN serving as both the registrar and the issuing house. Accordingly, contractor loans and government-issued supplier credit are not included in the definition of government domestic debt [8]. The following are the debt instruments included:

5.1 FGN Bond

The FGN Bond makes up the majority percentage of the domestic borrowings of government in recent times, representing a proportion of about 86.02 percent of total domestic debt. In which the commercial banks and discount houses account for the larger share amount of the domestic debt components. While the Central Bank of Nigeria serves as both the issuing house and the registrar for the FGN bonds market, DMO has been in charge of overseeing its operations.

Because the FGN bond is backed by the government's "full faith and credit," it is regarded as the safest investment available in the domestic currency securities market. Since there is no chance of default, an investor may be almost certain that his principal and interest will be paid on time. There are no municipal or state taxes on the interest.

5.2 Nigerian Treasury Bills

The Federal Government of Nigeria issues Treasury Bills, which are short-term debt instruments with an average maturity of little more than a year, through the Central Bank of Nigeria (CBN). The investment is regarded as one of the safest because it is supported by the full confidence and credit of the Federal Government of Nigeria. With a share of 9.41 percent of all debt instruments, this instrument is the second most common debt instrument after the FGN Bond. To cover the short-term portion of the federal budget deficit, the Federal Government of Nigeria issues T-bills through the Central Bank of Nigeria (CBN).

5.3 Promissory Notes

A promissory note, commonly known as a note payable, is a type of debt instrument wherein one party agrees in writing to pay the other a certain amount of money at a future date that will be determined, or at the payee's request, subject to certain terms and conditions. The federal government of Nigeria is continuing to issue promissory notes, which is one of the many factors contributing to the country's rising debt stock.

5.4 FGN Sukuk

An investment certificate known as a sukuk signifies the holder's ownership interest in a certain asset or collection of assets. The certificate gives the possessor the right to get money from using the assets. The Sukuk program is intended to assist in building and maintaining vital economic infrastructure, like as highways, throughout Nigeria's six geographical zones.

5.5 FGN Saving Bond

Eligible investors may purchase Federal Government of Nigeria Savings Bonds (FGNSBs) on the Nigerian Stock Exchange, which are backed by the FGN's entire faith and credit. Units of this offer may only be distributed to investors by certified and licensed stockbrokers like FBNQuest Securities.

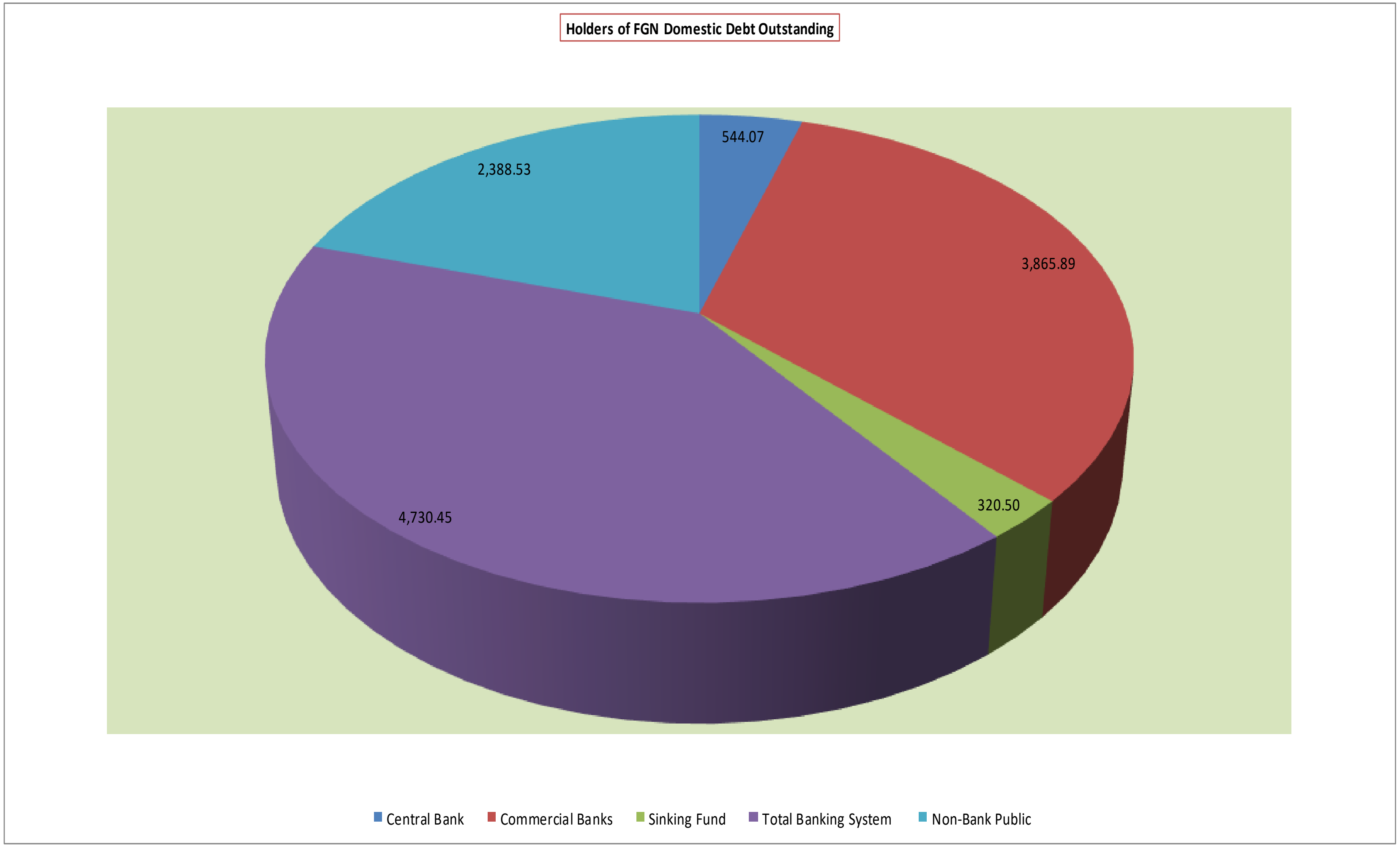

Fig. 2. Holders of Federal Government Domestic Debt

Source: Debt Management Office Annual Report and Statement of Accounts; 2013

5.6 Nigerian Treasury Bond

These are fixed-rate debt securities having long maturities (over ten years) that are issued and supported by the "full faith and credit of the Federal government." T-bonds are thought to be the safest type of marketable investment, in contrast to NTBs, which have a maturity of less than a year. They typically pay semi-annual interest and have a thriving secondary market.

5.7 Green Bond

Unlike other credit instruments, green bonds are a form of debt that is issued by public and private institutions to finance themselves. The proceeds obtained from the issuance of these bonds are committed to being used for environmental or climate change-related projects. The only exception to this is if you are financing or refinancing projects that improve the climate or environment. A climate bond is another name for the bond.

5.8 Ways and Means Advances

These are temporary overdrafts issued to the Federal government by the CBN which are meant to be repayable within a year. Advances in ways and means are owned exclusively by the CBN and are not marketable. Treasury notes and Treasury certificates were floated to finance these advances, which were never covered by the federal government. Only recently all outstanding ways and means owed by the federal government have been converted to a long-term domestic debt instrument through securitization.

6. INSTITUTIONAL FRAMEWORK FOR SUPERVISING AND REGULATION DEBT IN NIGERIA

To centrally coordinate the administration of Nigeria's debt, both foreign and domestic, which was previously being handled by numerous government Agencies in an uncoordinated manner, the Debt Management Office (DMO) was founded in October 2000. The diffused debt management strategy was very cumbersome and inefficient [9]. For instance, before the establishment of the Federal Ministry of Finance (FMF) alone, various units/departments were saddled with the responsibility for managing and servicing external debt such as the Paris Club debts, and other creditor Multilateral Institutions like International Monetary Funds, (IMF), African Development Bank (AFDB), etc. The Central Bank of Nigeria, however, at that time, was also responsible for managing external debt.

Consequently, the establishment of a public debt management office such as the DMO was intended to achieve the following benefits: sound debt management techniques, cautious capital raising to finance government deficits at reasonable rates and with controllable medium- and long-term risks; favorable effects on macroeconomic management in general, including monetary and fiscal policies; etc.

7. REASONS/USES OF GOVERNMENT DOMESTIC BORROWINGS

- **Financing of Government Fiscal Operations (budget deficit financing) -** One of the main ways that governments fund their fiscal operations is through debt. However, governments can also print money to monetize their debt and avoid having to pay interest on it. In most annual budgetary estimates of the federal government, the projected revenue (government receipts) falls below expectation, this is however, often occasioned by continuous huge government obligations in spending on procurement of public utilities. Consequently, the fiscal operations of the Government usually resulted in large deficits. This development often leads to a huge gap between fiscal revenue and expenditure. Hence the a need for the government to sources for financing the gaps. Such appropriations may originate from outside or internal sources. To accelerate economic growth and development, it is imperative to increase domestic investment.
- **Governments also borrow to finance major infrastructure projects** like railways, roads, and public utilities. These investments are expected to have long-term economic benefits that can offset the cost of borrowing, Peter et al [10].
- **Economic Stimulation** - Borrowing can be used to boost economic growth during challenging economic downturns, this is done by injecting borrowed funds into the economy, the government can stimulate demand, create jobs, and support businesses, ultimately leading to increased tax revenue, Anyanwu & Erhijakpor [11].

For instance, during the COVID-19 pandemic, the Nigerian government borrows funds from several multilateral organizations to stimulate the economy.

- **Domestic debt can be used to achieve monetary policy targets -** This is especially true for nations that have a significant balance of payments surpluses, which can be attributed to things like significant oil exports or aid inflows. In certain cases, foreign exchange inflows boost liquidity, which may jeopardize macroeconomic stability. In response, central banks frequently choose to step in and reduce inflationary pressures caused by excess liquidity by selling government or central bank bills. In this instance, public domestic borrowing mobilizes excess money in people's pockets to counteract inflation. The development of the financial sector is another reason for domestic debt, in addition to funding the budget deficit and implementing monetary policy.
- **Develop the financial instrument to deepen the financial markets -** According to Johnson [12], a consistent supply and variety of financial instruments that may be exchanged are necessary for the growth and development of the Nigerian financial markets. The government typically distributes short-term Treasury notes at the start of this process because they give a safe return and increase investor confidence in government debt instruments. Then, by providing longer-dated securities with various interest rate structures, such as fixed and floating rates, financial market deepening can be accomplished.
- **To meet Government Financial needs**; generally, as government revenue declines, the government borrows from the ways and means instruments of the Central Bank. Treasury notes and Treasury certificates were floated to finance these advances, which were never covered by the federal government. To compensate holders of maturing debt instruments, which contribute to the ongoing rise of the debt stock, they are rolled over by issuing new ones.

8. CONCLUSION AND RECOMMENDATIONS

One of the biggest problems with economic policy that many nations, particularly developing nations like Nigeria, are currently facing is the issue of enormous public debt. Generally, these long-term trends of debt issues have caused many international financial institutions and bilateral/multilateral lenders to express serious concerns, hence, leading to the creation of several policy initiatives.

However, the problem of domestic debt in developing nations can have a serious impact on macroeconomic stability, private sector lending (crowding out), financing government budgets, and overall economic growth of economies. For this reason, every government must make an effort to implement measures to reduce the rate at which the nation's public and private debts exponentially increase.

Based on the aforementioned, it is recommended that the:

- *Borrowing should be done on a need and purposeful basis, this implies that any borrowing done by the federal government should be tied to needy projects that will benefit the society.*
- *Borrowing should be channeled to productive ventures such as infrastructure developments that will, in turn, generate revenue for the economy.*
- *Government issuance of debt instruments should be done in a harmonized calendar by the DMO and CBN to avoid prompting liquidity issues. For instance, if the CBN issues debt instruments at the same time as the DMO securities, it will lead to excess liquidity in the banking system, thus posing liquidity management challenges to the Apex Bank.*
- *The government should attempt to restructure borrowings from short-tenured to long-tenured Loan facilities. Long-tenured securities usually take a longer time to redeem to creditors, thus, the government can leverage on the lagged periods and make preparations for repayments.*
- *Reduction in government Spending and cutdown of the government budgeting process. This implies that, when spending is reduced, the government will save more and invariable reduce the wide budget deficits.*
- *Debt refinancing is a strategy whereby a past obligation can be paid off with a new loan or debt instrument that offers better terms. This is a kind of loan restructuring agreement between the debtor and the*

creditor. Here, outstanding loan repayment can be restructured as a new loan to redeem some existing long facilities.

- *Government should employ a determined debt-reduction strategy for the economy. The federal government and state should come up with policy measures targeted at reducing the current level of debts in the Country.*
- *Keeping interest rates low; increase tax income, and boosts the economy, which eventually lowers the national debt. When this happens, there will be a lot of disposable income to expand business in the economy, leading to an increase in economic activities and subsequently growth. At this point, the need to borrow to finance government activities declines.*

COMPETING INTERESTS

The author has declared that no competing interests exist.

REFERENCES

1. Adebiyi WK. Olowookere JK. Managing Nigerian Debt: The Practical Solutions". Research Journal of Finance and Accounting. 2013;4:19.
   ISSN 2222-1697 (Paper) ISSN 2222-2847.
2. Asogwa RC. Domestic Government Debt Structure, Risk Characteristics, and Monetary Policy Conduct; 2008.
   Available:http://www.imf.org/external/np/res/seminers/2005
3. Alison J. Key Issues for Analyzing Domestic Debt Sustainability. Debt Relief International Publication; 2003.
4. Ngozi Okonjo-Iweala, Charles C. Soludo and Mansur Muhtar. The Debt Trap In Nigeria: Towards a Sustainable Debt Strategy. Africa world press incorporation. 2013.
5. Adofu I, Abula M. Domestic Debt and the Nigerian Economy. Current Research Journal of Economic Theory. 2010;2(1):22-26.
6. DMO's Annual Report and Statement of Accounts; 2013.
7. DMO's Full Report of the Annual National Debt Sustainability Analysis (DSA). Available:https://fbnquest.com/securities/solutions/fgn-savings-bond-offer
8. Asogwa RC, Ezema CC. Domestic Government Debt Structure, Risk Characteristics, and Monetary Policy Conduct: Evidence from Nigeria". Final Research Report Submitted for the "International Research Project on Macroeconomic Policy Challenges for Low-Income Countries; 2014.
9. Nigeria's Medium–Term Debt Management Strategy (2012-2023)
10. Peter NM, Denis NY, Chukwuedo SO. Analysis of Domestic Debt: Implication for Economic Growth in Nigeria. Global Journal of Social Sciences. 2013; 12:1-9. Available:www.dmo.gov.ng, ISSN: 1596-6216
11. Anyanwu, JC, and Erhijakpor, AEO. Domestic Debt and Economic Growth: The Nigerian Experience; 2004.
12. Johnson A. Key Issues for Analyzing Domestic Debt Sustainability. Debt Relief International Ltd., London; 2001.

Peer-review history:
The peer review history for this paper can be accessed here:
https://www.sdiarticle5.com/review-history/116085