A REVIEW OF PUBLIC AND PRIVATE DEBT DYNAMICS IN NIGERIA

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Abstract

Trends in public and private debt are raising concerns among policy makers in Nigeria. In view of recent debt relief and various bank reforms, economists wonder if trends in public and private debt are negatively affecting financial and macroeconomic stability even when authorities are achieving or close to achieving set macroeconomic objectives. In this regard, this paper explores the dynamics of public and private debt in Nigeria, using an exploratory review approach, while also appraising their success and failure for the past 37 years. The study findings reveal that continuous fiscal dominance, cost of borrowing, deterioration in export earnings, and fiscal and monetary policies coordination contributed largely to significant changes in total public debt portfolio. Fiscal dominance and Deposit Money Banks’ (DMBs) adverse selection in private sector credit allocation largely affect changes in domestic credit to the private sector. Despite growth in the management of public and private debt, some challenges still exist, especially in the area of changes in public debt stock closely linked to continuous expansionary fiscal deficit, and fiscal dominance. For private debt, increased domestic borrowings by government from the banks remained a threat to private sector credit because of the “crowding-out” effect. In view of this, the study recommends the pursuit of fiscal adjustment policies that are sufficient to put public debt on a declining path, and strengthen autonomous central bank free from political interference in the effective implementation of monetary policy and private sector crowd-in policy.

Keywords: Nigeria; public debt; private debt; fiscal dominance; policy coordination.

JEL Classification: E52, E62, H63.
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1. Introduction

The importance of public and private debt cannot be over-emphasised because of its clear link with fiscal and monetary policy in affecting financial and macroeconomic stability (Togo, 2007). Studies after the 2008 global financial crisis revealed that prudent debt management and effective coordination of debt management, fiscal and monetary policies are crucial for financial and macroeconomic stability; hence, the alignment of debt management with overall macroeconomic framework in ensuring effectiveness (Englama et al., 2014). The Nigerian public and private debt, like that of many developing economies, has changed significantly in the past decades. For instance, between 1980 and 2017, nominal total public debt to Gross Domestic Product (GDP) ratio averaged 33.0%, while growth in nominal total public debt averaged 30.0%. DMBs’ credit to the private sector as a percentage of GDP averaged 9.8%, while DMBs’ credit to the private sector nominal growth averaged 25.4% for the same period (Central Bank of Nigeria (CBN), 2001, 2017 and Debt Management Office (DMO), 2018).

The position of debt dynamics is very crucial for Nigeria, especially at times of expansionary fiscal policies, even though debt indicators are pointing at sustainable levels. The country is facing challenges in diversifying its revenue sources, and coordinating effectively debt management, fiscal and monetary policies in order to improve fiscal deficit management to levels sufficient to put public debt on a declining path.

The major reasons for changes in Nigerian’s public debt stock were as a result of slow economic growth characterised by fiscal imbalance, lower commodity prices, narrowing tax base and higher borrowing costs. Fiscal imbalance for the study period is largely responsible for rapid changes in total public debt stock, with government spending rising faster than revenue and the excess financed mainly through borrowing (Essien et al., 2016).

Nominal DMBs’ credit to the private sector since 1980 to 2017 had been on the increase, with the highest growth for this period largely due to the deregulation of the financial sector in the 1990s and the implementation of indirect control monetary policy regime. Under this regime, the market is left to determine interest rates and allocate credit, while market instruments are used to limit banks’ credit creating capacity (Nnanna, 2001). For instance, the three highest nominal growth rates for DMBs’ credit to the private sector were recorded during this regime in 1992, 1994, and 2007 at 75.3%, 76.0% and 84.8% respectively (CBN, 2001, 2017).

Debt management requires extensive coordination with fiscal and monetary authorities in achieving financial and macroeconomic stability. Coordination is required to avoid high cost of borrowing which may be harmful to the economy (Englama et al., 2014). Policy coordination ensures the commitment of decision makers to mutually agree on macroeconomic objectives, especially in preventing build-up of unsustainable debt and to ensure that macroeconomic stability is enhanced through mutual supportive information sharing. External borrowing coordination requires paying attention to existing aggregate debt levels, reserve levels, cost and risk implications of new borrowing and due compliance with borrowing guidelines, among others. Domestic borrowing by government requires coordination with existing stock of government securities,
current level of inflation, level of private sector investment and cost of external borrowing, among others (Ekpo and Omoruyi, 2013).

Against this background, this paper focuses on public debt and DMBs’ credit to the private sector (private debt) in Nigeria for the past 37 years. In this study, since public debt is largely created from fiscal imbalances and private debt from banks’ credit to the private sector, the current economic outlook for Nigeria makes it impossible to avoid fiscal deficit funding and private sector credit in the short-run in meeting its financial and macroeconomic objectives. It is, therefore, important for authorities to pay equal attention to the causes and changes in public debt stock and DMBs’ credit to the private sector as it affect financial and macroeconomic stability and economic growth. This paper, therefore, using exploratory review approach, aims to review the dynamics of public and private debt in Nigeria, while also appraising relative successes and failures in its management.

The rest of the paper is organised as follows: Section 2 covers the evolution of public debt, public debt management strategy, and debt management, fiscal and monetary policies coordination in Nigeria. Section 3 focuses on developments in DMBs’ credit to the private sector, and its management in Nigeria. Section 4 discusses trends in public and private debt in Nigeria. Section 5 highlights policy challenges affecting public and private debt management in Nigeria. Section 6 concludes the paper.

2. Public Debt Dynamics in Nigeria

2.1. The Evolution of Public Debt in Nigeria

The level, structure and management of Nigeria’s public debt has evolved substantially over the past decades. Public debt can be traced back to the pre-independence period in Nigeria. Nigeria’s total public debt before 1978 was small and comprised mainly long-term loans from multilateral and official sources such as the World Bank and Nigeria’s major trading partners, and was not a burden to the economy as loans were mainly obtained on soft terms. Nigeria approached the International Capital Market (ICM) in 1977/78 to raise the country’s first huge loan of more than US$1.0 billion due to falling oil prices and oil receipts to finance various medium- to long-term infrastructural projects which did not directly yield returns for its amortisation (DMO, 2002). In 1982, the economy suffered considerable strains such that the production and consumption patterns that emerged during the oil boom could not be sustained with dwindling foreign exchange earnings from oil receipts. Instead of addressing the problem of decreasing foreign exchange revenue, both the Federal and State governments embarked on huge external borrowings from the ICM to meet this problem. Total nominal public debt to GDP ratio rose from 2.1% in 1977 to 13.9% in 1978 and 19.8% in 1980 to 23.8% in 1984 (DMO, 2002). The deterioration of the debt profile started in 1985 due to persistent inability to meet external debt service obligations. In December 1986, March 1989, January 1991 and January 2000, government was able to secure restructuring arrangements with the Paris Club, providing for the capitalisation and restructuring of accumulated debt service arrears, penalties, late and moratorium interests as well as maturities within the consolidated periods (DMO, 2002). Nigeria defaulted on these rescheduling agreements due to high debt service obligations and an adverse cash flow position, which contributed to the increase in its debt profile even when no new loans were contracted (DMO, 2002).

Prior to 2000, the management of Nigeria’s public debt was ineffective, with debt to GDP ratio reaching a maximum of 79.4% between 1980 and 2000. This led to a regime of unsustainable debt that resulted in debt crises. No national debt sustainability analysis was ever carried out to feed into a debt management strategy throughout this period (DMO, 2008). Debt management challenges
were often not supported by appropriate analysis. The strategies adopted, and the institutional arrangements in place were inadequate to achieve a sustainable debt regime for Nigeria. This resulted in rapid growth of total public debt to GDP ratio from 19.8% to about 57.9% in 2000 (DMO, 2008).

Nigeria had relied on external debt for several decades. The establishment of the Debt Management Office in 2000 influenced the shift away from non-concessionary external sources for meeting government-funding needs to domestic and external concessionary sources. The period around 2000s also marked the commencement of centrally structured and coordinated public debt management, with Nigeria securing external debt relief from its Paris Club and London Club group of creditors in 2005 and 2006 respectively (DMO, 2007).

Nigeria’s total public debt was unsustainable for the periods 1989 to 1993 and 1999, meaning its debt service obligations were not met in full with recourse to rescheduling or accumulation of arrears (Shakira and Prizzon, 2015). Public debt was briefly sustainable from 1994 to 1998. During this period, Nigeria was able to meet its debt service obligations in full without recourse to debt relief, rescheduling or accumulation of arrears. Total public debt since 2000 remained sustainable up until 2017 (DMO, 2006, 2008b, 2017 and 2018). It is, however, important to note that the prevailing macroeconomic environment may make this ratio susceptible to unfavorable changes in the near future. Hence, maintaining ratios below the 60.0% West Africa Monetary Zone (WAMZ) threshold should be centred on credible and sustained fiscal consolidation, supported by appropriate debt management and economic growth strategy.

2.2. Public Debt Management Strategy in Nigeria

Public debt management has a relationship with fiscal and monetary policies. Debt servicing costs have clear implications for the management of fiscal risks. It is also relevant for the conduct of monetary policy as it influences the composition of assets available to the public in terms of money and government paper, in particular, by affecting banks’ reserve balances. Public debt is, therefore, an important variable in macroeconomic analysis (The Public Debt Management Network, 2018). The need for effective debt management strategy and its coordination with fiscal and monetary policy cannot be over-emphasised for Nigeria (Togo, 2007).

During the study period (1980-2017), between 1980 and 2000, the management of Nigeria’s public debt was ineffective, with debt to GDP ratio reaching a maximum of 79.4% in 1992. This period witnessed a regime of unsustainable debt that resulted in debt crisis. No national Debt Sustainability Analysis (DSA) was ever carried out to feed into a debt management strategy throughout this period (DMO, 2008b). Debt management challenges were often not supported by appropriate analysis. The strategies adopted, and the institutional arrangements in place were inadequate to achieve a sustainable debt regime for Nigeria. This resulted in rapid growth of total public debt to GDP ratio from 19.8% in 1980 to 23.5% in 1985 to 76.6% in 1990 to 41.3% in 1995 and 57.9% in 2000 (DMO, 2008b and CBN, 2018).

Since its establishment in 2000, the DMO has been centrally responsible for coordinating public debt management for Federal and State government, analysing and confirming Federal government’s external and domestic borrowings together with State government’s borrowings guaranteed by the Federal government based on clear criteria and guidelines (Essien et al., 2016). Debt management policy is formulated by the Debt Management Office in conjunction with other stakeholders to include the Federal Ministry of Finance (FMF) and the Central Bank that participate.
equally in Debt Sustainability Analysis and Medium-Term Debt Strategy workshops that determine debt management policies (DMO, 2013).

Debt Management Strategy in Nigeria covers external public debt financing needs of Federal and State governments and Federal government’s domestic public debt financing needs. The strategy is based mainly on how to best fund Federal government’s primary balance excluding debt service and taking cognisance of likely changes in macroeconomic and market variables, such as inflation rate, exchange rates, interest rates, external reserves, and real gross domestic product (DMO, 2016b). Nigeria’s debt management strategy sets out government’s strategies in managing its domestic public debt, external public debt and other financial liabilities (DMO, 2008b). The strategy does not cover State government’s funding gaps (DMO, 2016b).

The maiden National Debt Strategy Workshops were conducted in both 2006 and 2007. The outcome of the workshops fed into the first National Debt Management Framework (NDMF) 2008-2012, which sets the policy guidelines for debt management in Nigeria. The Framework was adopted soon after Nigeria’s Paris and London Club debts overhang exit. The Framework centred largely on strategies for sustainable external, domestic and sub-national debt management (DMO, 2008b). External debt strategy focused on the need to encourage fiscal discipline at all tiers of government to avoid a relapse into an unsustainable debt position, by reducing the cost of foreign currency funding of government’s deficit by accessing new finance with concessional terms and enabling private sector participation in the funding of critical infrastructure projects using various methods, including Public-Private Partnership (PPP) models (DMO, 2008b). Domestic debt strategy, on the other hand, for this period was focused on covering government borrowing needs in the domestic bond market, funding domestic debt in a non-inflationary way, attain a minimum cost for government’s debt at a prudent level of risk, facilitate the development of the domestic capital market, access the International Capital Market for debts denominated in Naira and foreign currency, develop instruments for Agency and Sub-national Bond Markets, meet market needs in the development of instruments, and facilitate appropriate debt management and monetary policy coordination (DMO, 2008b).

The sub-national debt management strategy was to provide support for the establishment and operation of Debt Management Departments (DMDs) in the States, and to build capacity for effective public debt management at the sub-national level. This would ensure that fiscal autonomy by sub-national governments aligned with the pursuit of economic development strategies without excessive fiscal expansion that will compromise national debt sustainability and macroeconomic stability (DMO, 2008b).

In December 2011, Medium Term Debt Strategy (MTDS) 2012-2015 was developed and approved by the Federal Executive Council (FEC) and spanned 2012–2015 (DMO, 2015). The MTDS analyses the impact of changes in macroeconomic variables on debt financing strategies and moves the economy towards a debt portfolio with minimum cost and a prudent level of risk. The macroeconomic forecast for the 2012-2015 MTDS was based on GDP growth rate, inflation rate, overall fiscal deficit-to-GDP ratio, and allowing for more growth in the banking system’s credit to the private sector in supporting the realisation of planned growth in GDP (DMO, 2015).

The DMO in 2016 prepared its Debt Management Strategy for the period 2016-2019. The strategy is focused on rebalancing of total public debt portfolio by increasing external finance in favour of cheaper long-term external finance from concessional and semi-concessional sources that would help reduce debt service cost and lengthen maturity profile. More so, the strategy further increase domestic public debt maturity profile by reducing the issuance of new short-term debt instruments or refinancing of maturing National Treasury Bills (NTBs) with external financing or both. The strategy, like others, is subject to updating on an annual basis, based on debt portfolio performance and the prevailing macroeconomic environment (DMO, 2016b).
Considering trends in total public debt to GDP ratio for Nigeria and the World Bank’s Country Policy and Institutions Assessment (CPIA) ranking for debt policy, Nigeria’s rating averaged 4.2 between 2005 and 2017 (out of 1=low to 6=high), and was 4 as at end 2017. The assessment for this ranking was based on whether debt management strategy is conducive to minimising budgetary risks and ensuring long-term debt sustainability (CPIA, World Bank Data Bank, 2018). The ranking shows that authorities in Nigeria appreciate the importance of effective public debt management and its impact on overall economic performance. More so, the ranking is an indication that authorities are actively engaged in debt management operations. Nonetheless, there is room for further improvement.

2.3. Debt Management, Fiscal and Monetary Policy Coordination in Nigeria

There is a clear statutory division of functions and responsibilities between public debt management, monetary and fiscal operatives in Nigeria. The responsible agencies share the same macroeconomic policy goals (DMO, 2013). Policy coordination in Nigeria involves communication between fiscal and monetary authorities at various levels. Coordination was conducted through bilateral communication between heads of the fiscal and monetary institutions and through various formal committee meetings. The policy coordination framework has the fiscal and monetary authorities making inputs into major policy documents or issues including the budget, debt sustainability analysis, among others. Fiscal policies are designed to be consistent with monetary targets such that the main objective of fiscal and monetary policy coordination is to achieve stable, non-inflationary economic growth (Englama et al., 2014).

The Monetary and Fiscal Policy Coordination Committee (MFPCC) was established on 13 October 2004 for creating a platform for the harmonisation of monetary, fiscal and debt policies with a view to promoting stability in the financial system. More so, is to ensure certain activities and responsibilities required in meeting these goals, and to make sure that debt management, fiscal and monetary policies targets are properly synchronised to be complementary while eliminating distortions (CBN, 2011c, DMO, 2013 and Englama et al., 2014). The Committee is chaired by the Director-General of the Debt Management Office or his representative within the rank of a Director. Membership of the MFPCC are drawn from the DMO, the Central Bank of Nigeria, the Federal Ministry of Finance, the Office of the Accountant-General of the Federation (OAGF), the Budget Office of the Federation (BOF), the National Bureau of Statistics (NBS) and the National Planning Commission (NPC) (CBN, 2011c and DMO, 2013).

3. Private Debt Dynamics in Nigeria

3.1. Private Debt Developments in Nigeria

For the purpose of this study, private debt is defined as deposit money banks’ credit to the private sector. This measure of domestic credit to the private sector by banks in Nigeria is in line with Levine et al. (1998); Beck et al. (1999); and Dembiermont et al.’s (2013) description for domestic banks’ credit to the private sector system. Nigeria has a fragile private sector system and the performance of credit allocation had been mixed. For instance, between 1994 and 2000, credit to private sector declined sharply from 76.0% in 1994 to 46.6% in 1995 to 26.6% in 1997 and 34.5% in 2000. However, it only stayed below target benchmark three times within this period (CBN, 2001).
Developments in Nigeria’s private sector credit were usually influenced by the monetary policy stance of the CBN. In the 1980s, credit expansion mostly reflected the flow of credit to priority/preferred sectors. Private sector credit represented the dominant share of domestic credit. Credit to the private sector was classified into the preferred sectors (agriculture, solid minerals, exports, and manufacturing), less preferred sectors (real estate, public utilities, transport and communications, finance and insurance, government, and import and domestic trade), and unclassified/others (CBN, 2011b). The flow of credit to preferred sectors for this period did not meet the objective of monetary policy, impacting negatively on output, investment and domestic price level. More so, banks tended to practise adverse selection in credit allocation (Nnanna, 2001). The policies of directed credit and interest rate ceiling had caused some imperfections in the operations of the financial market (Adedoyin and Femi, 1992).

For the period 1980-2000, available statistics on the maturity structure of deposit money bank’s credit to the domestic economy shows that the majority of aggregate credit was short-term, with loans channelled mainly to general commerce and trade (CBN, 2001). Medium- to long-term lending to the productive sectors of the economy was encouraged to expand and diversify the production base in the economy. For instance, between 1972 and 1985, banks’ aggregate loans to the productive sector averaged 40.7% of total credit (CBN, 2001; Nnanna, 2001). In this regard, the CBN adopted, in 2002, the Rediscounting and Refinancing Facility (RRF) for medium- to long-term credit at concessionary interest rates to support medium- to long-term bank lending to the productive sectors of the economy. Under the facility, deposit money banks can issue Promissory Notes based on their loans and advances with maturities of not less than five years, for agricultural production, semi-manufacturing and manufacturing, solid minerals and information technology. The RRF was designed to provide temporary relief to banks, which face liquidity problems as a result of having committed their resources to long-term financing of the specified productive sectors (CBN, 2002).

With the adoption in 2002 by the CBN of a medium-term perspective monetary policy framework with a two-year period, unlike the earlier programmes, which were designed for one year, monetary policy implementation was freed from the problem of time inconsistency and minimised over-reaction due to temporary shocks (CBN, 2002). The stance of monetary policy is to promote a more competitive financial environment that will enhance greater access to credit by the private sector. Beginning 2002, only banks that met the following criteria were permitted to grant new credit facilities: specified cash reserve requirement; specified liquidity ratio; prudential guidelines; statutory minimum paid-up capital requirement; prescribed capital adequacy ratio; and sound corporate governance (CBN, 2002). The position of banks against these criteria was monitored on a continuous monthly basis and banks failing to meet the requirements were not allowed to grant further credit until the compliance was achieved. In addition, banks were enjoined to always allow borrowers adequate grace periods on agricultural loans in line with gestation periods of various agricultural products (CBN, 2002).

Banking reforms within the study period (1980-2017), among others, were also meant to provide cheap credit to the real sector, and financial accommodation for small and medium-scale enterprises (Akpansung and Gidigbi, 2014).

### 3.2. Domestic Credit to Private Sector Management in Nigeria

The environment for the conduct of monetary policy in Nigeria was largely un-conducive, due to continued expansionary fiscal operations of the government, resulting in large injections of liquidity into the economy and inducing rapid monetary growth and intensified inflationary pressures (CBN, 2011e). Monetary policy was confronted with the problem of managing credit
expansion in Nigeria, and its management can be classified under two different regimes, with each regime having an effect on the supply and demand of DMBs’ credit to the private sector. Since 1980 the CBN have taken several policy measures to enhance the growth of private sector credit in Nigeria (Nnanna, 2001). Private sector credit in Nigeria between 1980 and 1992 was under a direct control regime, with the flow of credit mainly to priority sectors at rates not determined by market forces (CBN, 2011e).

The indirect monetary control regime for private sector credit was adopted in 1993 and has been in use since its inception (Nnanna, 2001). The conduct of monetary policy is through the indirect or market-based approach anchored on the use of market instruments in monetary management. This was informed by the desire to eliminate distortions and inefficiencies in the financial system caused by the prolonged use of administrative controls and the need to stimulate competition among banks and other operators in the financial system. The Central Bank embarked on a selective removal of all credit ceilings for banks that met some pre-set criteria under the Basel Committee’s prescribed prudential guidelines (CBN, 2011e). The operational framework for indirect monetary policy management involves the use of market-based indirect instruments to regulate the growth of major monetary aggregates. The major instrument of indirect monetary control is the Open Market Operation (OMO), complemented by Cash Reserve Ratio (CRR), Liquidity Ratio (LR), Discount Window Operations (DWO), Monetary Policy Rate (MPR) as well as moral suasion for enhanced effectiveness to influence interest rates and credit conditions, among others, in Nigeria (CBN, 2011e).

To ensure the overall effectiveness of CBN’s credit and financial policies, licensed finance companies and development banks in Nigeria were to submit to the CBN quarterly returns on their operations, including statements of assets and liabilities, total credit granted with details of sectoral utilisation, investments and money market transactions, non-performing credits, and interest rate structure (CBN, 2002).

Considering the World Bank’s Country Policy and Institutions Assessment (CPIA) ranking for financial sector and macroeconomic management, based on available data, Nigeria’s rating for financial sector averaged 3.3 between 2005 and 2017 (out of 1 = low to 6 = high), and was 2.5 as at end 2017. The assessment for the ranking was based on the structure of the financial sector, policies and regulations that affect it, while macroeconomic management ranking averaged 3.9 between 2005 and 2017 (out of 1 = low to 6 = high), with 3 as at end 2017. The assessment of this ranking was based on monetary exchange rate, and an aggregate demand policy framework (CPIA, World Bank Data Bank, 2018). These rankings show that authorities in Nigeria appreciate the importance of effective domestic credit management and its impact on monetary policy transmission, and overall economic performance. More so, the rankings are an indication that authorities are actively engaged in credit and monetary policy management operations in Nigeria. Nonetheless, there is room for further improvement.


4.1. Public Debt

Nigeria’s total public debt stock has evolved in the last three decades. The nominal amount increased from N10.08 billion in 1980 to a maximum of N18,376.99 billion in 2017. As a percentage of GDP, this represents a decrease from 19.8% in 1980 to 16.2% in 2017, with a minimum of 5.2% in 2001 and a maximum of 79.4% in 1992. The ratio between 1980 and 2004
before external public debt relief averaged 42.5%, compared to 10.7% between 2007 and 2017 after external public debt relief (DMO, 2002; 2018).

As noted by Burnside (2005), debt sustainability analysis using total nominal public debt to GDP ratio evolution provides a backward looking analysis that gives useful outlook on the future in identifying steps a country might have to take in order to resolve its debt problems. Using this ratio for the study period, Nigeria had six episodes of unsustainable total public debt to GDP ratios, with ratios elevated above WAMZ’s internationally recognised total public debt to GDP ratio threshold of 60.0%. During these episodes Nigeria was unable to meet its debt service obligations in full without recourse to debt relief, rescheduling or accumulation of arrears (Shakira and Prizzon, 2015). On the other hand, the country maintained ratios below this threshold for most of the study period (DMO, 2008a, 2008b, 2015, 2013, 2016b; IMF, 2017; CBN, 2001, 2017). The maintenance of occasional sustainable ratios between 1980 and 2004 was largely as a result of an external public debt reconciliation exercise with creditors to confirm the authenticity of some external claims (Titus, 2003). The maintenance of sustainable ratios between 2005 and 2017 was largely as a result of significant reduction in external public debt stock from external debt relief in 2005 and 2006. Total nominal public debt to GDP ratio after the debt deal fell significantly from 36.1% in 2004 to 19.0% in 2005 and further to 7.7% in 2006.

**Figure 1: Trends in External, Domestic and Total Public Debt to GDP Ratio in Nigeria (1980-2017)**

![Graph](Source: DMO Annual Reports and CBN Annual Statistical Bulletin – author’s compilation using Excel.)

From Figure 1, trends in total nominal public debt to GDP ratio tracked largely movement in external public debt to GDP ratio, especially between 1981 and 2006. From 2006 to 2014, total public debt to GDP ratio tracked largely movement in domestic public debt to GDP ratio. Beyond 2014, total public debt to GDP ratio tracked movement in both external and domestic public debt to GDP ratios.

**Figure 2: Trends in the Composition of Total Public Debt Stock in Nigeria (1980-2017)**
The composition of Nigeria’s total public debt stock in 2017 was made up of 68.5% domestic public debt stock and 31.5% of external public debt stock, compared to 81.5% of domestic public debt stock and 18.5% of external public debt stock in 1980. As indicated in Figure 2, the proportional share of these two sources alternated since 1980. From 1980 to 1985 it was largely dominated by domestic public debt stock and from 1986 to 2005 it was largely dominated by external public debt stock. Starting 2006, it reverted to domestic public debt stock having the dominant share up until 2017.

Total external debt to GDP ratio in Figure 1 grew from 3.7% in 1980 to 57.3% in 1989 before reaching its peak in 1990 and 1992 at 59.8%. However, there was a significant reduction in the ratio to 1.3% in 2007 shortly after external debt relief in 2005 and 2006. Between 1980 and 2017 external public debt to GDP ratio only exceeded, the IMF external debt to GDP ratio thresholds of 40.0% and 45.0% for Nigeria in 9 episodes as indicated in Figure 1. The changes in external debt stock reflected the effects on foreign exchange receipt in supporting the finance of infrastructure projects and the fall in international crude oil price in the 1980s (DMO, 2007 and Essien et al., 2016). However, a decrease was recorded in 1996 as a result of the external debt reconciliation exercise with creditors to confirm the authenticity of some external claims. Thereafter, external public debt stock continued to grow as a result of the capitalisation of defaulted interest payments and accumulation of payment arrears even when no new loans were contracted up until 2005 (DMO, 2007; Titus, 2013). The reduction in 2005 was as a result of the implementation of the first and second phases of the Paris Club debt relief deal, which paid off all the arrears on Paris Club debt reducing the stock by 33.0%. The significant reduction in 2006 was as a result of the implementation of the third phase of the Paris Club debt deal and the exit from London Club debt obligations (DMO, 2007). The growth recorded in 2007 was as a result of US dollar depreciation against other currencies, while in 2008 and 2009 it was the additional disbursements in International Development Association (IDA), African Development Fund (ADF) and International Fund for Agricultural Development (IFAD) loans (DMO, 2010). Thereafter, growth in external public debt stock was mainly as a result of the net negative effect of cross
exchange rate movements within loan portfolio currencies, and the additional disbursements of multilateral and bilateral loans (DMO, 2017).

As shown on Figure 1, the domestic public debt to GDP ratio decreased from 16.2% in 1980 to 11.1% in 2017, with a minimum of 5.2% in 2001 and a maximum of 79.4% in 1992. The ratio between 1980 and 2004, before debt relief, averaged 13.7%, compared to 8.3% between 2005 and 2017, after external debt relief. Growth in domestic public debt stock was largely through the implementation of domestic debt management strategies, especially in the development of the domestic debt market for financing budget deficits, development of the financial market, and the sourcing of investment funds. More so, as a result of government financing needs of high fiscal deficits (DMO, 2006, CBN, 2001, Titus, 2013; Essien et al., 2016).

The changes onward from 2005 of total public debt was largely from domestic debt accumulation, which can be attributed to government deepening of the financial market through the development of financial instruments and domestic debt finance of budget deficits (Titus, 2013).

4.2. Deposit Money Banks’ Credit to the Private Sector

Deposit money banks’ credit to the private sector had evolved in the last three decades in Nigeria with the nominal amount increased from N6.86 billion in 1980 to N16,420.00 billion in 2017. Figure 3 show trends in DMBs’ credit to private sector as a percentage of GDP for Nigeria from 1980 to 2017.

Figure 3: Trends in DMBs’ Credit to the Private Sector as Percentage of GDP in Nigeria (1980-2017)

As shown in Figure 3, the deposit money banks’ credit to the private sector as a percentage of GDP increased from 13.5% in 1980 to 14.42% in 2017, with a minimum of 5.0% in 1993 and a maximum of 21.8% in 2009. DMBs’ credit to the private sector as a percentage of GDP ratio
between 1980 and 1992, when monetary policy was under the direct control regime, averaged 6.8% compared to 11.3% between 1993 and 2017 when monetary policy was under the indirect control regime (CBN, 2001, 2002, 2018). Levine and Zervos (1998) suggest that a high ratio of domestic credit to the private sector by banks as a percentage of GDP would always be preferred because it serves as a good indicator for a developed banking sector and economic growth with increased participation of the private sector. In another study by Dembiermont et al. (2013), they suggest that if this ratio is about 70.0% and more, it is a good indication that the country has a relatively well-developed financial system. In advanced economies, the ratio may exceed 150.0% while in developing economies it could be less than 12.0%. In Nigeria, domestic credit to private sector by banks as a percentage of GDP averaged 9.8% between 1980 and 2017, with the ratio at 14.4% as at end 2017 (CBN, 2018). This ratio is at a low level with room for improvement. Figure 4 illustrates trends in nominal DMBs’ credit to the private sector in Nigeria for the period 1980 to 2017 using annual data. Nominal growth rate in the 1980s averaged 16.6% compared to 34.9% in the 1990s and 25.0% in the 2000s (CBN, 2001, 2002, 2018).

Figure 3: Trends in DMBs' Credit to the Private Sector in Nigeria (1980-2017)

Growth in the 1980s and 1990s was mainly due to surfeit expansion of M2 in the economy (CBN, 2001, 2002, 2017). For instance, private sector credit grew rapidly in the 1990s such that money supply growth was up to 70% (Ujuju and Etale, 2016). This trend continued through into the early 2000s with set monetary aggregates targets exceeded by wide margins. The expansion in broad money (M2) reflected growth in both narrow money (M1) and quasi money. M1 expansion was driven by increases in bank credit to the domestic economy and net foreign assets of the banking system following the continued monetisation of excess crude oil proceeds. The expansion in credit to the private sector reflected the persistent demand pressure in the foreign exchange market during the year. This also highlights the fact that issues involving growth in credit did not border only on the supply side (liquidity condition), but also on the demand side of credit.
Developments in both domestic and global economy influenced macroeconomic outcomes in 2011, with DMBs’ credit to the private sector recording a low growth. It grew by 4.5% in 2011 (CBN, 2012).

5. Policy Challenges Affecting Public and Private Debt Management in Nigeria

In spite of the successes recorded from the establishment of the DMO to manage sovereign debt portfolio, challenges still exist in the effective management of Nigeria’s public debt. The major limitations identified in this study are as follows:

- Export earnings. Revenue from crude oil contributed more than 80.0% to total government revenue generating sufficient foreign exchange through export earnings (Onyekwelу et al., 2014). Volatility in crude oil price and other major commodities export that form the main base of foreign exchange earnings in Nigeria led to deterioration in terms of trade, external shocks and foreign exchange earnings (Onyekwelу et al., 2014);

- Mismanagement and misappropriation of funds. Nigeria has huge chunk of its revenue fizzled away through mismanagement. These funds could have been employed in government infrastructural development projects for which government is always borrowing to fund (Onyekwelу et al., 2014);

- Cost of borrowing. New borrowing needs to be from concessional sources in order to minimise the cost of foreign currency funding of government financing needs. Minimised cost of borrowings would enable government to replace expensive debts with less expensive ones. Debt management operations through effective coordination of monetary, fiscal and debt management policies would further reduce the cost of funding for the government (Nwankwo, 2008).

- Public debt management has suffered setback in Nigeria as a result of inconsistent macroeconomic policies which have encouraged expansionary fiscal policies funded by continuous increase in government borrowings (Onyekwelу et al., 2014);

- Domestic debt market. The need to develop and expand the scope of the domestic debt market to support government financing and developmental needs, as well as provide access for the private sector to long-term funds needed to develop the real sector of the economy (Nwankwo, 2008).

Despite efforts and monetary stances of the CBN some constraining factors still inhibit the efficiency of DMBs’ credit to private sector management in Nigeria. Some of the challenges identified in this study include:

- Changes in domestic credit were largely influenced by government’s domestic borrowing requirements. The growth in monetary aggregates due to the financing of government’s fiscal deficits through the banking system constitute a major source of liquidity growth, with monetary and credit policy efficacy consistently undermined by fiscal dominance (Nnanna, 2001). The banking system borrowing by the government to finance unplanned and inefficient extra budgetary activities due to unrestrained fiscal expansion and uncoordinated budgetary operations of the Federal, State and Local government affect banks’ allocation of credit to the private sector system (Udoka et al., 2014).
As noted by Dada (2016), the major causes of credit and monetary policy failure in Nigeria were as a result of high fiscal dominance, excessive monetary expansion, exchange rate depreciation and poor policy coordination.

The effectiveness of monetary and credit policy during the era of control regime was weak due to lack of instrument autonomy by the CBN. Monetary and credit policies were influenced by growth and developmental objectives, and short-term political considerations dictated by the Ministry of Finance (Nnanna, 2001).

The informal sector in Nigeria accounts for about 30.0% of GDP (Nnanna, 2001). The existence of a large informal credit market and exchange rate markets has had implications in the effective control of money supply by the CBN. This sector had effects on the transmission mechanism of monetary policy (Nnanna, 2001).

6. Conclusion

In this paper, evidence of public and private debt management in Nigeria has been reviewed, using an exploratory review approach, with a focus on their dynamics for the past 37 years, while appraising their relative successes and failures. The findings of this study show that Nigeria experienced fundamental changes in both public and private debt management in the last decades. In particular, the continuous trend in expansionary fiscal deficit, fiscal dominance and volatility in the country’s foreign exchange earnings has caused rapid changes in debt management. It is, however, worth nothing that in order to improve public debt and DMBs’ credit to private sector management, various reforms had been undertaken since 1980s. These include mainly the adoption of indirect monetary control, with indirect instruments used to regulate the growth in major monetary aggregates, and movement in the market left to determine interest rates and allocate credit, and market instruments used to limit banks’ credit creating capacity. In addition, the establishment of the Debt Management Office to manage government’s debt portfolio centrally in a structured and coordinated manner has transformed public debt management in Nigeria. The management of both public and private debt has responded positively to these reforms.

In the 1990s and 2000s, Nigeria benefited from the adopted reforms. As a result, DMBs credit to the private sector changed significantly in 1994 and 2007, such that sectors in the private sector system witnessed increased credit allocation. The establishment of the Debt Management Office in 2000 influenced the shift away from non-concessionary external sources for meeting government-funding needs to domestic and external concessionary sources. The period around 2000s also marked the commencement of centrally structured and coordinated public debt management, with Nigeria securing external debt relief from its Paris Club and London Club group of creditors in 2005 and 2006 respectively.

Evidence based on total public debt and DMBs’ credit to private sector to GDP ratio show that Nigeria maintained total public debt to GDP ratios below the 60.0% WAMZ’s threshold as a result of debt reconciliation exercise and largely from external debt relief. The movement of Deposit Money Banks’ credit to private sector to GDP ratio from a minimum of 5.0% to a maximum of 21.8% within the study period is an indication of development in the banking sector and increased participation of the private sector in economic growth.

Despite growth in the management of public and private debt, some challenges still exist, especially in the area of changes in public debt stock closely linked to continuous expansionary fiscal deficit, and fiscal dominance. For private debt, increased domestic borrowings by government from the banks remained a threat to private sector credit because of the “crowding-out” effect. In
view of this, the study recommends the pursuit of fiscal adjustment policies that are sufficient to put public debt on a declining path, together with strengthened debt, fiscal and monetary policies coordination, and autonomy of the central bank in the implementation of monetary and credit policy that is free from political interference.

References


