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Deescalating The Crises of Government Borrowing: Can Fiscal Retrenchment Redress Public Debt Constraints in Nigeria?

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Abstract The extraordinary rise in public debt in many nations during the recent global recession has reignited interest in the mechanisms of debt buildup. This circumstance has been especially disturbing in the Eurozone, where markets have questioned the viability of debt for those nations facing higher borrowing costs because of rising bond rates. Governments and supranational organisations implemented concerted fiscal consolidation measures in response to the perceived threats of contagion, with the goal of gaining control and solvency over stretched public budgets. Fiscal retrenchment is designed for governments to manage their public finances in times of economic/financial crises. This study examines the potency of fiscal retrenchment as an instrument of public debt management in Nigeria. The theory of Expansionary Fiscal Contraction (EFC) was adopted for the study. A documentary research design was used in the study. Findings of the study revealed that government borrowing to fund deficit-budgets has not corrected Nigeria's fiscal problems but rather led to a vicious cycle of debts, that have spillover effects on present and future revenue prospects. The study recommends a reduction in government spending and an increase in taxes as appropriate fiscal measures to resolve the public debt crises in Nigeria.

Keywords debt management · deficit-budgets · fiscal policy · fiscal retrenchment · public debts

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Deescalating The Crises of Government Borrowing: Can Fiscal Retrenchment Redress Public Debt Constraints in Nigeria?

The extraordinary rise in public debt in many nations during the recent global recession has reignited interest in the mechanisms of debt buildup. This has been especially concerning in the Eurozone, where markets have questioned the sustainability of debt for those nations facing higher borrowing costs because of rising bond rates. In Europe, the perceived risks of contagion prompted governments and supranational organisations to establish coordinated fiscal consolidation measures (like fiscal retrenchment) with the aim of gaining both solvency and control over stretched public budgets. Even though it falls short of a broad scientific consensus, the effectiveness of these fiscal arrangements—which is partially supported by the hypothesis of expansionary fiscal contractions (Alesina & Ardagna, 2010, s.35-40; Giavazzi & Pagano, 1996, s.75-78) —has drawn a lot of attention in recent macroeconomic research (Beqiraj et al., 2021, s.1; Guajardo et al., 2014, s.949-950; Ramey, 2011, s.677; Romer & Romer, 2010, s.765).

The necessity of fiscal retrenchment is generally not a subject for argument, but how quickly to do so is a contentious issue that presents a significant challenge for policymakers in many nations (Corsetti, 2012, s.5; Rawdanowicz, 2014, s.92). Some contend that delaying retrenchment will improve the fiscal position because a significant upfront adjustment may slow GDP growth. Such effects are more likely when there are significant output and unemployment gaps, which is the situation for many OECD countries at the moment, when interest rates are close to zero, when credit constraints tighten, and when monetary policy is less effective (Auerbach & Gorodnichenko, 2012, s.1-3; Christiano et al., 2009, s.1-6; Gali et al., 2007, s.234-235; Woodford, 2011, s.1-2). From a longer-term perspective, retrenchment-induced slowdowns may diminish potential GDP through hysteresis effects (De Long & Summers, 2012, s.234 & 253-254; Rawdanowicz, 2014, s.92).

On the other hand, delaying retrenchment could erode market confidence in a government's solvency, potentially resulting in slower growth in the best-case scenario due to higher sovereign risk being passed on to private sector borrowing costs and, in the worst-case scenario, a disruptive sovereign default. Therefore, the final long-term goal of fiscal policy and market conditions play a critical role in determining the best retrenchment path. Determining the ideal rate of retrenchment is difficult because of the interplay of financial markets, fiscal policy, and economic expansion. There could be several equilibria because of these interactions, which are probably non-linear. As a result, it is quite difficult to quantify them (Rawdanowicz, 2014, s.92).

The study explores the debt status of Nigeria and the performance of its debt management strategies in containing rising debts. It also presents fiscal retrenchment, which has been an effective option for countries in times of severe budgetary pressure, to ascertain its instrumentality in public debt management in Nigeria. Lastly, the study determines the most appropriate fiscal retrenchment path for Nigeria to observe in managing its economic crises.

Objectives of The Study

This study aims to assess the impact of fiscal retrenchment on public debt management in Nigeria. Specifically, the study aims to:

(1) Examine the debt profile of Nigeria.
(2) Evaluate the debt management strategies adopted to manage public debts in Nigeria.
(3) Explore the efficacy of fiscal retrenchment as a mechanism of public debt management in Nigeria.

Conceptual Review

Fiscal Retrenchment

According to Pammer (1990) and Jimenez (2014, s.923-926), fiscal retrenchment is the process of developing, approving, and putting into action plans in response to a budget crisis. Naturally, there are other causes of retrenchment, including advancements in technology and politics (Jimenez, 2016, s.2; Levine, 1978, s.316-318). Riley (2009, s.1) argues that fiscal retrenchment is the process by which a government implements deflationary fiscal policies aimed at lowering the level of borrowing and debt that was accrued during the recession and subsequent financial and economic crises. One of two approaches can ultimately be used to achieve fiscal retrenchment: either increase direct and indirect taxes or reduce actual government spending. Cuts to government spending must affect the supply of public services, and tax increases may stifle any modest rebound. Both techniques are harsh, but fiscal retrenchment is an inevitable result of governments losing control over their own finances.

Public Debt

Public debt, sometimes also referred to as government debt, denotes the total outstanding debt (bonds and other instruments) of a country's government. It is often expressed as a ratio of the Gross Domestic Product (GDP). Public debt can be raised from both internal and external sources; internal debt is the government's debt to domestic lenders, and external debt is the debt owing to lenders outside the nation. A government can fund public spending and close budget gaps in part by using the proceeds from public debt. The public debt to GDP ratio is typically used to measure a government's capacity to pay its future debts (FocusEconomics, 2024, s.1).

Public Debt Management

The process of creating and implementing a plan to manage the government's debt to raise the necessary funds, meet its cost and risk objectives, and accomplish any other objectives the government may have set, like creating and sustaining a competitive market for government securities, is known as public debt management. Within a more comprehensive macroeconomic framework for public policy, governments aim to guarantee that the quantity and pace of increase in their public debt are essentially sustainable and can be repaid in a variety of scenarios while fulfilling cost and risk objectives. The interests of fiscal and monetary policy advisors on the sustainability of public sector indebtedness and the existence of a viable plan to lower excessive debt levels are shared by public debt managers. Debt managers ensure that fiscal authorities are informed about how borrowing costs are affected by government funding requirements and debt levels. The public sector debt service ratio and the ratios of public debt to GDP and tax income are a few examples of statistics that deal with the topic of debt sustainability (International Monetary Fund [IMF], 2001, s.2-3).

Review of The Related Literature

Debt Burdens and Debt Management

The restricted enforcement mechanisms are what characterise public debt. This sets public debt apart from private debt, both domestic and foreign. A private agency or business, at least technically, is always subject to legal authority. Not all sovereign nations are. Bank loans and international bonds are usually contracted or issued in a major financial centre. They are therefore governed by the laws of the place of issue. If a sovereign debtor fails to fulfil a stipulated payment, creditors have little legal remedy, relying primarily on overseas legal tools and reputational factors. The processes by which governments are compelled to

fulfil the terms of contracts and the implications of weak enforcement for risk-sharing, growth, and other macroeconomic outcomes are key subjects of discourse in public debt (Aguiar & Amador, 2014, s.647).

Public debt performance and fiscal performance typically go hand in hand. A nation with a budget surplus often has a low level of public debt. Conversely, nations experiencing fiscal deficits would need additional financing sources, and while borrowing money from abroad and domestically would seem like a simple solution, the end result would be a build-up of public debt. Public debt and a significant budget deficit are therefore frequently positively connected. Public debt would rise in nations with significant budget deficits. Numerous negative effects of having significant debt and deficits on an economy have been documented in numerous studies (Ardagna et al., 2007, s.1-2; Bohn, 1998, s.949-953; Cavanugh, 1996; Kumar & Woo, 2010, s.4-6; Sutherland, 1997, s.147-148; Woodford, 1990, s.382-383). The definition of public debt, as stated by the IMF (2012, s.1) is "gross general government debt," represented as a percentage of GDP.

Based on past performance, the world economies with the weakest debt are those in Africa and Central America, which are also the smaller global economies. While it is true that smaller nations typically possess fewer natural resources, it is also important to consider the policies these nations have implemented, such as their poor performance in terms of economic freedom and openness, their incompetent political systems, and their low level of competitiveness with regard to foreign investment because of unsustainable factors and a sizable informal economy. When these governments overspent and found themselves unable to pay it back, growth would be constrained and debt might readily mount. These nations essentially survived on debt. The more debt they have, the less able they are to pay it back, necessitating greater borrowing or outside help. A vicious cycle of "debt-breeds-debt" would occur when loans were taken out to cover the earlier debt. Repaying these obligations would take millennia, if at all conceivable. If these governments chose to default, things would get worse because there would be less chance of support from the international community (Li, 2017, s.87-100).

The capacity of the economy to repay is a prerequisite for eliminating public debt. The rise of debt is most often a sign that the current generation has overspent relative to future generations. The moral dilemma is whether it is justifiable for the current generation to overspend when the financial burden falls on future generations. Instead of overspending, especially if it was done for welfare, it would be wiser to look into what could be done to improve an economy's resource endowments so that greater growth would occur. It is necessary to determine if the debt was incurred for "demand-driven" reasons or whether the resource endowment could not support the economy through "supply-driven" channels. Similarly, debt has been funded by foreign and international aid. To encourage countries to lower the level of their public debt, international agents offering assistance to debt-prone countries should see that borrowing was designed to enhance the country's economic capability and not use the new borrowing to pay for the prior debt (Li, 2017, s.87-100).

Fiscal Retrenchment in Public Financial Management

Public infrastructure and various services provided by governments are essential to people's health, safety, and well-being (Jimenez, 2015, s.628-632). Governments' ability to continuously deliver essential public services depends on how they handle financial challenges. The literature on public budgeting and administration has coined some phrases to describe how governments handle financial strain. Levine (1979, s.182) cited in Jimenez (2014, s.923-924) uses the phrase "cutback management," defined as "managing organisational change towards lower levels of resource consumption and organisational activity." Levine (1978), cited in Jimenez (2014, s.923-924), however, does not limit his discussion of organisational decline reasons/factors to economic stress alone. He also discusses organisational entropy and political vulnerability. Fiscal retrenchment is another concept that appears in the literature. According to Levine et al. (1981), cited in

Jimenez (2022, s.2), fiscal retrenchment reactions are the strategies that governments employ when they are under financial strain.

To explain the choice of fiscal retrenchment solutions, various model groups have been presented and investigated in the literature (for more thorough studies, see Bordeaux, 2018; Justice & Yang, 2018; Maher & Deller, 2007; Raudla et al., 2015). One group, known as the decremental perspective, contends that decremental budgeting is the main driver of retrenchment. Governments that practise incrementalism grow programme funds gradually, while those that practise decrementalism cut spending at the margins. According to the decremental model, the retrenchment process will primarily involve across-the-board cuts because they facilitate decision-making simplification and reduce political conflict by fostering a sense of justice and equity among budgetary claimants (Levine, 1978; Levine et al., 1981; Schick, 1980, all cited in Jimenez, 2022, s.2-3). Empirical research has offered mixed results regarding the validity of this prediction. According to studies by Levine (1985) and Lewis (1984), both cited in Jimenez (2022, s.3), governments rely on general cutbacks to address budgetary issues, or they use a combination of general and targeted cuts (Dougherty & Klase, 2009, s.598-601; Hendrick, 2011, s.185-190). According to other studies (Bartle, 1996, s.38-40; Jimenez, 2014, s.924-926; Jimenez, 2015, s.607;Justice & Yang, 2018, s.111-115; Maher & Deller, 2007, s.1551-1552), targeted cutting is the most common response.

A second category of theories, known as the "stages" approach, contends that governments react to budgetary stress in a predictable and hierarchical manner through several phases. The degree of resource shortage influences the retrenchment measures that are used. In particular, organisations are compelled to make significant changes to their budget and services when revenues sharply decrease, but they are able to prevent extremely disruptive administrative reactions in the early phases of scarcity (Jimenez, 2022, s.3). Available empirical data reveals that there is no rigid hierarchy of steps for retrenchment (Bartle, 1996, s.38-40; Justice & Yang, 2018, s.111-115; Pammer, 1990). However, some note that, in part, retrenchment follows a phased-in response pattern, with more drastic measures taken as financial strain increases (Bourdeaux, 2018, s.4-6; Hendrick, 2011, s.185-190; Klase, 2018, s.40-45).

A third category of models is predicated on the garbage can theory of Cohen, March, and Olsen, which contends that decisions are frequently the result of chance and that the decision-making process is unstructured (Jimenez, 2022 s. 3-4). Finding no coherent explanations for how municipal governments select among various retrenchment solutions, Pammer (1990), Bartle (1996, s. 38-40), and Maher and Deller (2007, s. 1551-1552) conclude that the decision-making process is essentially random. Justice and Yang (2018, s. 111-120) contest this finding, maintaining that the political and social climate of each municipality and government affects the decisions made. There is no reason to assume that governments will adopt a comparable or uniform set of solutions if local conditions vary.

Theoretical Framework

The theory of Expansionary Fiscal Contraction (EFC) was adopted for the study. The reasons why budgetary adjustments may have an expansionary effect can be mainly explained by two non-exclusive perspectives. The initial one, put up by Giavazzi and Pagano (1990, s.75-76) and further investigated by Bertola and Drazen (1993, s.11-13) and Sutherland (1997, s.147-149), highlights the impact of wealth on consumption and the anticipation of future tax obligations. Furthermore, private demand responds to how credible the adjustment is seen to be. The second perspective, put forward by Alesina and Ardagna (1998, s.489-493) and Alesina and Perotti (1997a, s.210-2015; 1997b, s.921-927), stresses how labour market mechanisms acting through fiscal adjustment policies have supply-side consequences.

The supply and demand sides are involved in how fiscal changes are implemented. On the demand side, there could be two mechanisms at play: (1) wealth effects on consumption and (2) credibility impacts on interest rates. Consumers expect a permanent decrease in the tax burden and a permanent boost in their lifetime disposable incomes when budget cuts are seen as lasting. Therefore, the wealth effect predicts that when government spending is reduced, private consumption would rise, in opposition to the Keynesian scenario. The lack of customers with liquidity constraints and the effectiveness of the financial markets determine how much private spending will rise. Similarly, while a tax rise should diminish private demand and be contractionary, sometimes it can be expansionary. This might be the case if consumers perceive that tax hikes now signal a shift in the fiscal regime and that future higher tax increases will not be required (Bhattacharya & Mukherjee, 2012, s.1).

The credibility argument on interest rates is the second source of the expansionary consequences of fiscal consolidations. Public debt may have a large interest rate premium at high or rapidly rising levels because of default or inflation risks. Real interest rates can drop considerably because of a successful and long-lasting fiscal consolidation. Here too early conditions are critical. According to Alesina et al. (1992, s.429-433), risk premia are expected to become important only when the debt-to-GDP ratio moves beyond a certain threshold. The widely mentioned situations of Ireland and Denmark may stand alone, as shown by recent IMF research, and the "credibility" effect of fiscal consolidation on interest rates may not hold true more generally (IMF, 2010, s.93-96)

The nature of monetary policy will also affect how fiscal adjustment measures affect the macroeconomic environment. According to the standard Keynesian model, if a fiscal contraction is coupled with a sufficiently loose monetary policy—which in a small open economy can mean devaluation—it might be either expansionary or neutral. Specifically, a devaluation at the start of fiscal adjustment can support export growth and so offset, at least partially, the contractionary effect of any decline in domestic demand brought on by the fiscal consolidation measures, helping to maintain (or even increase) aggregate demand (Bhattacharya & Mukherjee, 2012, s.2).

Methodology

The study adopted a documentary research design. In a documentary research design, existing documents—such as reports, newspapers, government publications, and other materials (whether published or unpublished)—are systematically analysed to gather information and comprehend a specific topic, event, or social phenomenon. These documents are frequently used to evaluate their historical or social value by critically analysing them for patterns and insights. In essence, it is a method of study where the main source of data is pre-existing documents.

Thus, documented sources consisting mainly of publications of both government and non-governmental agencies were used for data collection. Data were derived from quarterly, bi-annual and annual reports of government agencies such as the Central Bank of Nigeria (CBN), the Debt Management Office (DMO), the Federal Ministry of Finance, Budget and National Planning (FMFB&NP), as well as international organisations such as the International Monetary Fund (IMF), the World Bank (WB), and the Organisation for Economic Cooperation and Development (OECD).

Data analysis was done using quantitative and qualitative content analysis. Content analysis is a kind of systematic analysis of data in which the latent values and meanings of the text are tried to be identified, described, and interpreted (Sheydayi & Dadashpoor, 2023, s.1-2). Essentially, content analysis is a quantitative technique that entails creating categories and calculating the frequency with which each category occurs in a corpus of data. Nonetheless, the technique is also utilized in qualitative research, where qualitative

textual data is categorized into meaningful clusters (categories or themes) using systematic classification processes (Figgou & Pavlopoulos, 2015, s.545). Qualitative content analysis is more interpretive than quantitative content analysis, and it is interested not just in the 'manifest' meaning of words or phrases, but also in their 'latent' underlying meaning (Mayring, 2000, s.1-2).

Discussions and Findings

Public Debt Profile of Nigeria

The total public debt, which includes the obligations of the Federal and State Governments, increased by 16.9% from the end of 2021 to ₦46,250.37 billion, or 22.9% of GDP, by the end of December 2022. Promissory notes were issued to satisfy the FGN's contractual obligations, and new borrowing by the federal and subnational governments to partially finance the deficit in the 2022 Appropriations Act and project execution were cited as the reasons for the increase. Of the total outstanding debt, the FGN owed 84.1%, with the remaining 15.9% coming from the State governments. According to section 47(3) of the Fiscal Responsibility Act of 2007, the FGN guarantees States' external borrowing; as a result, the States' portion of their external debt continued to be a contingent liability of the FGN.

Table 1

Total public debt (₦' Billion)

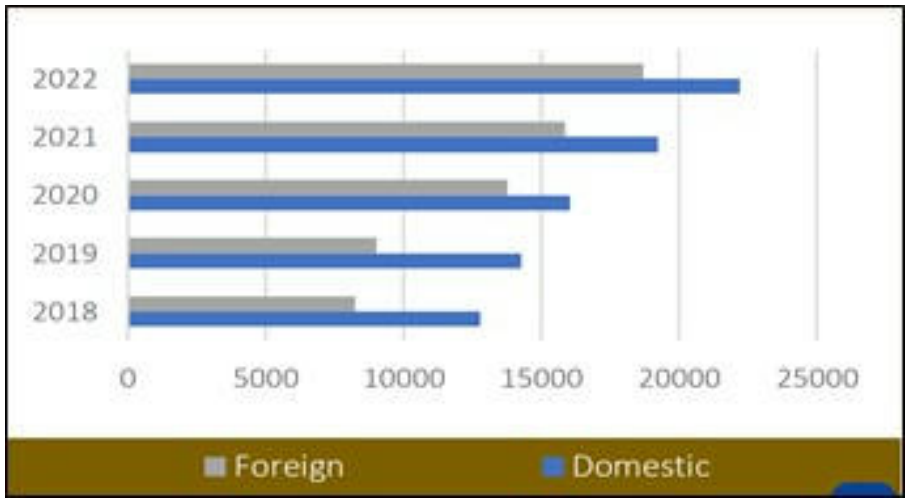
Type	2020	2021	2022
External Debt	**12,705.62**	**15,855.23**	**18,702.25**
Of which:			
FGN	10,948.18	13,884.76	16,703.35
States and FCT	1,757.44	1,970.47	1,998.90
Domestic Debt	**20,209.90**	**23,700.80**	**27,548.12**
Of which:			
FGN	16,023.89	19,242.56	22,210.36
States and FCT	4,186.01	4,458.24	5,337.75
Total	**32,915.51**	**39,556.03**	**46,250.37**

Source: DMO, 2022; CBN Annual Economic Report, 2022

The 2020-2023 MTDS, which describes the borrowing plan, limit, and makeup of government borrowing, calls for a 70:30 ideal domestic-external debt ratio and a 75:25 long-to-short-term domestic debt ratio with regard to Federal Government debt. As a result, external debt was 15.7% over the 30.0% threshold, while domestic debt, at 54.3% of the total, was below the target of 70.0%. At ₦40,912.62 billion, or 28.7% of GDP, as of the end of December 2022, the consolidated debt stock of the FGN was 16.6% over the 2021 level and within the 40.0% of GDP threshold outlined in the MTDS (CBN, 2022, s.103).

Figure 1

Composition of the Federal Government debt stock (₦'Billion)

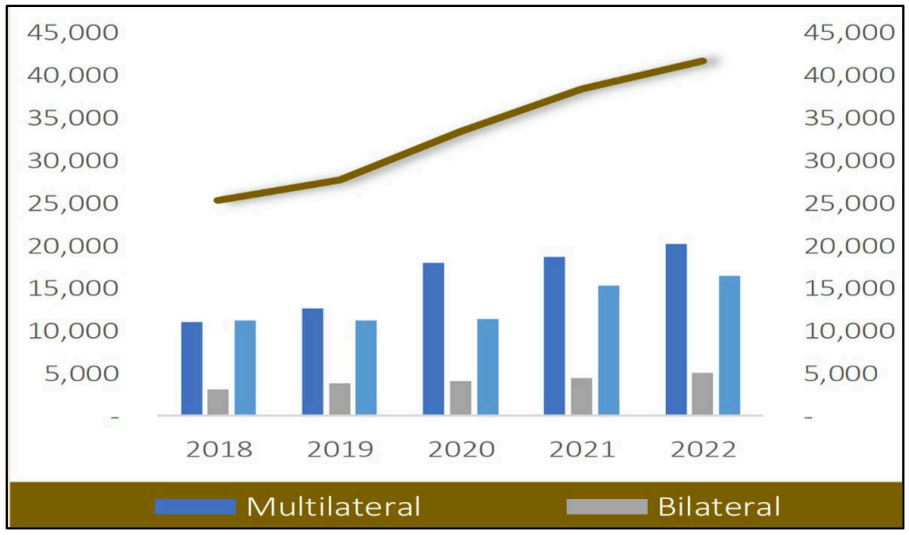


Source: DMO, 2022; CBN Annual Economic Report, 2022

Analysis of the domestic debt portfolio showed that longer-tenored instruments were preferred; the FGN bond continued to dominate at 73.9% of the total, followed by Promissory Notes / FGN Sukuk (5.7%) and others (19.4%). Short-tenored Treasury Bills made up 19.9% of the portfolio. The debt portfolio composition aligned with the FGN's goal of reducing its exposure to refinancing risk by holding a higher proportion of long-term domestic debt instruments than short-term ones. Multilateral, commercial, and bilateral loans made up 48.5%, 39.4%, and 12.2% of the total amount of external debt, as revealed by the holdings of that debt. The cost of financing, tenor, and borrowing terms and conditions all have a significant impact on the mix.

Figure 2

Breakdown of external debt stock (US$'Billion)

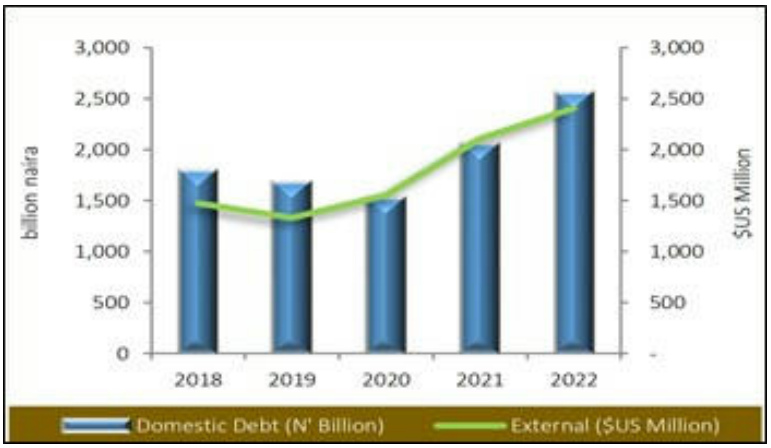


Source: DMO, 2022; CBN Annual Economic Report, 2022

In 2022, the total amount paid towards debt payment was ₦3,639.75 billion, or 1.8% of GDP. Debt service was 24.4% higher at this point than it was at the end of December 2021. The noticeably higher domestic principal repayments caused the increase. In 2022, debt servicing obligations made up 28.8% of gross revenue, 64.8 percent of non-debt expenditures, and 64.8 percent of FGN retained revenue (CBN, 2022, s. 104).

Figure 3

Breakdown of the total debt service



Source: DMO, 2022; CBN Annual Economic Report, 2022

Debt Management Strategies for Public Debt Management in Nigeria

Following the debt management plan's expiration in 2019, Nigeria's Debt Management Strategy (DMS), 2020–2023, was developed to direct the government's borrowing activities in the medium term. The World Bank (WB) and International Monetary Fund (IMF) standard practise serves as the foundation for the creation and implementation of a Debt Management Strategy, which is one of the cornerstones of best practises in public debt management. Consequently, rating agencies, development partners, and investors see Nigeria's public debt practises more favourably when a debt management strategy is in place and being implemented.

Various factors were taken into account when developing the DMS, which covered the years 2020–2023. These factors included the 2020 draft budget, the Economic Recovery and Growth Plan (ERGP), 2017–2020, the 2020–2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP), and meeting the government's financing needs at the lowest possible cost and level of risk. It also acknowledged that to draw in foreign investors and provide the public and private sectors with access to long-term funding, it was necessary to continue fostering the growth of the home capital market. The 2016–2019 Debt Management Strategy results and difficulties were also considered in the strategy (DMO, 2020, s.8-9).

Table 2

Performance review of Nigeria's Debt Management Strategy, 2016-2019

Indicator	2015	2016	2017	2018	2019	Target
Total Public Debt-to-GDP (%)	13.02	16.40	18.20	19.09	19.00	Max. 25
Total Public Debt Composition Ratio: Domestic to External	84:16	80:20	73:27	68:32	67:33	60:40
External Debt Composition: Concessional to Non-Concessional	83:17	83:17	59:41	51:41	53:47	To maximize concessional financing
FGN Domestic Debt Mix: Long-Term to Short-Term	69:31	70:30	72:28	79:21	81:19	Min. 75: Max. 25
Debt Maturing within 1-year/ Total Debt Portfolio (%)	29.15	23.86	23.53	15.38	13.77	Not more than 20
Average Time-to-Maturity (ATM) for Total Debt (years)	7.17	9.54	11.55	10.50	10.50	Min. 10 years

Source: DMO, 2020

It is important to highlight that the late passage of the 2019 Appropriations Act hindered access to the International Capital Market in 2019, which made it difficult to finance external debt. This hindered the strategy's implementation and prevented the goal of having a 60:40 debt portfolio split between domestic and foreign debt. With the issuing of 30-year FGN bonds in 2019, the domestic debt structure also saw an improvement. Despite the strategy's assumption of access to concessional funds, Nigeria's limited financial resources stemmed from its designation as a Lower Middle-Income country in 2016.

The following criteria were taken into account in the MTDS, 2020–2023 review: a significant decline in government revenue as a result of decreased oil demand and price shocks related to the COVID-19 pandemic, which limited government funding and required additional borrowing; the COVID-19 pandemic rendered access to the ICM unfeasible in 2020; Nigeria had limited access to concessional funding from multilateral creditors; and domestic interest rates were predicted to gradually increase in light of higher inflation rates (DMO, 2020, s.10).

To provide enough space for additional money needed to support infrastructure development and to accommodate the planned securitisation of the government's outstanding commitments and arrears, the strategy targets were evaluated in MTDS, 2020–2023. These goals were used to evaluate the status of public debt performance and identify areas for review where necessary. The goals for the four years (2020 to 2023) are outlined in Table 3.

Table 3

Nigeria's Debt Management Strategy and targets by end-2023

In preparing the new MTDS, the DMO intends to continue:

- Meeting the financial needs of the Government from the domestic market, and maximizing available funds to Nigeria from the Concessional and Semi-Concessional sources, in order to access cheaper and long-tenored funds, whilst taking cognizance of Nigeria's limited funding envelopes;
- Lengthening the maturity profile of the debt portfolio through:
  - Long-term external financing from Multilateral and Bilateral creditors, and the International Financial Markets; as well as,
  - Continued issuance of longer-maturity domestic bonds.

MTDS Targets for the period 2020-2023:

		2016-2019 Target	2019 Target	2020-2023 Target
Portfolio Composition				
	Domestic: External	60:40	67:33	Max.70: Min.30[1]
	Domestic Debt Mix:			
	Long: Short	75:25	81:19	Min.75: Max. 25[1]
Risks ratios				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	13.77%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min.10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A	2.98%	Less than 5%
Fiscal Sustainability ratios				
	Debt as % of GDP	25%	19.00%	40%[2]
	Deficit to GDP (%)			3%[3]
	Sovereign Guarantees as % of GDP	N/A[4]	1.98%	Max.5%

Source: DMO, 2020

Notes:

1. The introduction of New Domestic Debt from the Issuance of Promissory Notes and expectations of the inclusion of Ways and Means Advances and SOEs' debts in the FGN's Debt Stock will result in an increase in the Domestic Debt and may also result in more short-tenored Debt in the Debt Stock.
2. Increased to accommodate New Borrowings to Fund Budget, issuance of more Promissory Notes and the proposal to transfer some SOEs' debts, including AMCON to the FGN's Balance Sheet in line with the IMF's guidelines, and proposed inclusion of Ways and Means.
3. This Limit is provided in Section 12(1) of the Fiscal Responsibility Act (FRA), 2007, and efforts are to be made to ensure compliance, except if in the opinion of the President, there is good reason to exceed the threshold, as further provided in Section 12(2) of the Act.
4. N/A – No Targets indicated in the MTDS, 2016-2019.

Efficacy of Fiscal Retrenchment As A Mechanism of Public Debt Management

Even though debt is necessary for structural transformation and development, Nigeria's capacity to invest for development, manage crises, and produce adequate growth has been hampered by the rate at which the nation's debt is increasing. Nigeria incurred $108.3 billion in debt as of 2023. At a rate almost six times the country's GDP growth rate, this indicates a 123% increase since 2012. Several interrelated elements associated with subpar macroeconomic management have contributed to Nigeria's rising debt. Most of the additional debt has been externally obtained, leading to an increase in the possibility of the weight of that debt being unsustainable. This is because pressures from the global financial system have depreciated local currencies and raised interest rates, which has increased the actual cost of debt payment. Between 2012 and 2022, Nigeria's external debt climbed from 14% to 40% of its total debt (Ekeruche et al., 2023, s.1).

The spiralling debt profile of Nigeria makes fiscal retrenchment a critical option in stopping the "debt-cycle" and its concomitant consequences. Fiscal retrenchment reduces growing debt by increasing government revenue so it can perform its operations without taking on additional debt. This is accomplished by raising taxes (direct and indirect) and cutting back on spending or spending wisely. To show how spending cuts/sensible spending works, it is vital to realise that the cost of governance is related to the operation of the government. Stated differently, it refers to the expenditure that the government bears while supplying the people with products and services. It can be separated into capital and recurrent expenditure. It is important to point out that when recurrent spending (as a percentage of total government spending) exceeds capital spending, it will have a detrimental effect on investment, industrial growth, infrastructure development, and the expansion of the economy's real sectors (RMAFC, 2019, s.1-3). Long-term recurrent over capital spending reduces government revenue, necessitating increased borrowing to cover fiscal deficits.

Regarding tax increases, it is argued that tax revenues are essential for nations to make space in their budgets for public investment and social service spending. Considering the recent substantial rise in public debt, tax revenue increases represent the most growth-friendly means of debt stabilisation. More generally, any feasible development plan to satisfy the continuous demands for increasing health and education services as well as covering large infrastructure gaps must revolve around increasing the nation's tax capacity (Gaspar & Selassie, 2017, s.1-2). Raising taxes may face political opposition, but there is not much economic evidence that doing so would be a poor solution to the budgetary problems. In actuality, there are several benefits to tax increases as the preferred means of reducing the deficit, especially when viewed from a progressive angle that prioritises equity. Taxes enable a more focused and fair strategy for reducing the deficit. Most of the federal expenditure is very progressive, offering low- and moderate-income families enormous benefits. Using taxes as the lever to make any necessary reductions in budget deficits should be a

priority in controlling fiscal deficits and public indebtedness, given the importance of existing government spending for achieving progressive goals (Zhang, 2023, s.1-3).

Summary of The Findings

(1) Government borrowing (public debts) to fund deficit budgets has not corrected Nigeria's fiscal problems.

(2) Increased public debts have rather led to a vicious cycle of debts, that have spillover effects on present and future revenue prospects.

(3) Spending cuts (reduction in government expenditure) and tax hikes (increase in direct and indirect taxes) are appropriate fiscal measures to resolve the public debt crises in Nigeria.

Conclusion

Nigeria and many other nations have witnessed increases in fiscal deficits and public debts in recent years, frequently reaching all-time highs. Such positions are not sustainable, and fiscal retrenchment has become a necessity. Merely maintaining the existing high levels of debt necessitates a significant adjustment, and a larger and longer adjustment is required to bring debt down to more sensible levels (OECD, 2012, s.2-3). The latter option is preferable because excessive debt can hinder economic growth, make a country more vulnerable to changes in market sentiment, reduce the amount of space available to accommodate future negative shocks, and exacerbate budgetary issues brought on by the anticipated rise in government spending (Rawdanowicz, 2014, s.92).

Recommendations

(1) To improve the growth platform and lessen vulnerability, the government should work to reduce debt levels. Research indicates that nations may demonstrate their resolve to avoid defaulting or inflating their debt by streamlining their public finances and strengthening their key balances. This would lower borrowing costs and increase credit worthiness (Amo-Yartey et al., 2012, s.37).

(2) It is important for policy makers to understand that cutting back on low-priority spending makes budget adjustments easier. This is because these cuts lessen the pressure on discretionary spending and slow the rate at which public spending is growing (Amo-Yartey et al., 2012, s.37-38).

(3) To increase the likelihood that fiscal consolidation would be successful, the government should concentrate more of its reduction efforts on non-productive and non-priority spending, especially on transfers, subsidies, and general goods and services. Reductions in government wage expenditures and transfer programmes are more successful than reductions in capital expenditures (Alesina & Perotti, 1997a, s.210-2015; 1997b, s.921-927).

(4) Finally, it might be necessary to raise more tax revenue. Empirical research shows that tax-based debt consolidation is less effective than successful debt consolidation based on spending reductions. Raising taxes, however, may lead to more sustainable debt reductions in cases where adjustment demands are high (Baldacci et al., 2010, s.21).

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