



DEBT MANAGEMENT OFFICE
NIGERIA



PUBLIC DEBT MANAGEMENT IN NIGERIA: PRACTICES & INITIATIVES

A PRESENTATION

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I. Background

- ❑ Prior to the establishment of the DMO in 2000, the challenges of Public Debt Management included:
 - ✓ Inadequate debt data recording system and poor information flow across agencies.
 - ✓ Complicated and inefficient debt service arrangements, which led to penalties that added to the debt stock.
 - ✓ Lack of consistent well-defined borrowing policies and public debt management strategies.

- ❑ Grossly underdeveloped and weak domestic debt market, characterized by structural and systemic defects.

- ❑ These aggravated the country's debt management challenges, thereby leading to unsustainable debt profile.

- ❑ Following the historic Paris and London Club debt exit of 2005 and 2006, topmost in the DMO's priorities was the need to articulate a domestic debt management strategy for the government, which include:
 - ✓ Using a market-based approach to raise finance in the domestic debt market, to meet government's borrowing needs at minimal cost and prudent degree of risks;
 - ✓ Funding the nation's budget deficit in a non-inflationary manner, without recourse to monetary financing;
 - ✓ Creating a market for long-term debt instruments, which the private sector can build upon to raise funds for the funding of long-term investment in real sector; and,
 - ✓ Develop the domestic bond market as part of the overall programme for the development of the financial sector.



II. Strategic Perspectives

- The Debt Management Office (DMO) has been driven by well articulated set of Strategic Plans in the discharge of its mandate:
 - ✓ First Strategic Plan, 2002-2006
 - ✓ Second Strategic Plan, 2008-2012
 - ✓ Third Strategic Plan, 2013-2017
- The current Strategic Plan, 2013-2017, is hinged on the need to consolidate on the gains of the previous Plans, finalize on-going initiatives, explore new areas and maintain a steady focus on the delivery of the Office's mandate.
- **Vision:** To be one of the leading Public Debt Management institutions, in terms of best practice and contribution to national development.
- **Mission Statement:** To manage Nigeria's debt as an asset for growth, development and poverty reduction, while relying on a well motivated professional workforce and state-of-the-art technology.
- **Broad Objective:** To ensure efficient public debt management in terms of a comprehensive, well diversified and sustainable portfolio, supportive of Government and private sector needs.



III. Analytical and Policy Initiatives

- **Conduct of the annual Debt Sustainability Analysis (DSA):**

Since 2005, the DMO has sustained the conduct of the annual DSA, the last of which was done in July, 2016.

This is an exercise that evaluates the country's capacity to finance its programmes and service the ensuing debts without undue adjustments that may compromise its macroeconomic stability, overall growth and development; benchmarking against internationally established debt sustainability thresholds for Nigeria's peer group. The next exercise is slated for July, 2017.

- **National Debt Management Framework (NDMF), 2013-2017:** The NDMF provides Guidelines for External and Domestic Borrowing for all tiers of Government and their Agencies, including the enabling laws guiding public borrowing. The document is usually approved by the highest decision making body of the country – the Federal Executive Council (FEC).

- **Nigeria's Medium-Term Debt Management Strategy (MTDS), 2016-2019:** Approved by the FEC - aims to meet government's financing needs at minimum cost, achieve optimal portfolio mix and balance in cost-risk trade-off, with set targets. The maiden MTDS was for the period 2012-2015.



IV. Domestic Bond Market Development

- Pursuit of an aggressive domestic debt market transformation initiatives, including amongst others:
 - ✓ tenor elongation and establishment of sovereign yield curve of 3 months to 20 years, thereby creating a market for long-term funds;
 - ✓ the diversification of the holding structure of FGN securities to achieve over 85 percent private sector holding;
 - ✓ streamlining and restructuring of the different types of outstanding debt instruments; and,
 - ✓ regular issuances of, and active secondary market for FGN Bonds.
- The achievements recorded in the development of the domestic debt market led to the recognition and endorsement of the FGN Bond market by reputable international financial institutions, notably:
 - ✓ IFC's issuance of Naira-denominated bonds in Nigeria's bond market (equivalent of about US\$76 million) in 2013.



Domestic Bond Market Development...Cont'd

- These developments have led to several benefits, including:
 - ✓ Increased foreign exchange inflows, which contributed to the growth in external reserves and stability of the domestic currency;
 - ✓ Increase in the relative share of foreign investors' holdings in FGN securities - while foreign investor accounted for almost 0% in Q1 of 2011, their share peaked at about 15% as at the end of 2012, and declined to about 3% by end-2015, and went down further to 1.5% by end-2016;
 - ✓ Growth and further diversification of the investor-base for FGN securities; and,
 - ✓ Creation of more borrowing space for other domestic borrowers to access funds in the local market, which addresses the perceived notion of crowding-out the private sector.



Domestic Bond Market Development...Cont'd

Table 1: Progression of tenor Elongation of Sovereign (FGN) Bonds

Tenor	Testing Phase	Smoothing Phase	Regular Monthly Issuance Phase									
	2003	2004	2005	2006	2007	2008 - 2010	2011	2012	2013	2014	2015	2016
2-Year	-	-	√									
3-Year	√	-	√	√	√	√	√		√			
5-Year	√	-		√	√	√	√	√			√	√
7-Year	√	-		√	√			√				
10-Year	√	-			√	√	√	√		√	√	√
20-Year	√	-				√	-			√	√	√



Domestic Bond Market Development...Cont'd

Table 2: Transformation of the Debt Stock by Instruments (N' Billion)

Instrument	2002		2009		2015		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Fed. Govt of Nigeria Bonds <i>(Sovereign)</i>	Nil	Nil	1,974.93	61.18	5,808.14	65.73	7,564.94	68.41
Nigerian Treasury Bills (NTBs)	733.76	62.93	797.48	24.70	2,772.87	31.38	3,277.28	29.64
Treasury Bonds	430.61	36.93	392.07	12.15	255.99	2.90	215.99	1.94
Promissory Note	Nil	Nil	63.03	1.95	Nil	Nil	Nil	Nil
Development Stocks	1.63	0.14	0.52	0.02	Nil	Nil	Nil	Nil
Total	1,166.00	100	3,228.03	100	8,837.00	100	11,058.21	100



Domestic Bond Market Development...Cont'd

Table 3: Transformation of the Domestic Debt Outstanding by Category of Holders (N' Bn)

Holder	2002		2009		2015		2016	
	Amount Outstanding	%	Amount Outstanding	%	Amount Outstanding	%	Amount Outstanding	%
Central Bank of Nigeria	532.5	45.67	323.18	10.01	877.30	9.93	1,688.20	15.27
Banks & Discount Houses	460.2	39.47	1,274.58	39.48	3,284.01	37.16	3,736.02	33.79
Non-Bank Public	173.3	14.86	1,345.55	41.48	4,513.49	51.07	5,493.54	49.68
Sinking Funds	Nil	Nil	284.72	8.82	162.20	1.84	140.45	1.27
Total	1,166.00	1000	3,228.03	100	8,837.00	100	11,058.21	100



V. Opening Access to the International Capital Market (ICM)

External: To open up access to international financial market and set benchmarks for Nigeria Corporates.

Table 4: Nigeria's Eurobonds: Price & Yields

6.75% US\$500Million JAN 2021	5.125% US\$500Million JUL 2018	6.375% US\$500Million JUL 2023	7.785% US\$1 Billion FEB 2023
Issuer: FGN	Issuer: FGN	Issuer: FGN	Issuer: FGN
Amount: US\$500m	Amount: US\$500m	Amount: US\$500m	Amount: US\$1 Billion
Tenor: 10 years	Tenor: 5 years	Tenor: 10 years	Tenor: 15 years
Coupon: 6.75%	Coupon: 5.125%	Coupon: 6.375%	Coupon: 7.785%
Issue Yield: 7.00%	Issue Yield: 5.375%	Issue Yield: 6.625%	Issue Yield: 7.785%
Issue Date: January 28, 2011	Issue Date: July 12, 2013	Issue Date: July 12, 2013	Issue Date: February 9, 2017
Maturity: January 28, 2021	Maturity: July 12, 2018	Maturity: July 12, 2023	Maturity: February 9, 2032



VI. Sub-national Debt Management Development Initiatives

- In recognition of Nigeria's Fiscal Federalism, and the need to maintain macroeconomic stability, the DMO commenced the implementation of the strategic objective of: ***"assisting the States of the Federation to develop debt management institutions and capabilities"***, as part of its 5-year Strategic Plan (2008 – 2012).
- The goal: To forestall a relapse into debt unsustainability, as was experienced by the country before its successful exit from the Paris and London Club debts overhang.
- The strategy: To redress the very weak debt management institutions, structures and practices at the Sub-national level towards a more effective coordination of public debt management.
- Result: For the first time in 2011, the country had actual and comprehensive debt data of the entire Federation, with framework put in place for regular updates.



Sub-national Debt Management Dev...Cont'd

Other Major Milestones Achieved

	ACTIVITY	MILESTONES ACHIEVED
a)	Establishment of Debt Management Departments (DMDs)	<ul style="list-style-type: none"> ▪ DMDs established in all the 36 States and the FCT
b)	Strengthening of the legal and institutional frameworks for debt management	<ul style="list-style-type: none"> ▪ Passage by the States of appropriate laws (Fiscal Responsibility/Public Debt Management Laws) to govern debt management and engender fiscal discipline
c)	Building of capacities and competencies for public debt management in the States and the FCT	<ul style="list-style-type: none"> ▪ Hosting by the DMO of Attachment Programmes to expose debt managers to an overview of best practice debt management – for all the States. ▪ Training of sub-national debt managers on the principles and practices necessary for sound debt management.
d)	Solicitation, facilitation and coordination of donor intervention to enhance sub-national debt management	<ul style="list-style-type: none"> ▪ Provision of ICT equipment provided by Canadian International Development Agency (CIDA); and other IT firms
e)	Maintenance of comprehensive and accurate debt records	<ul style="list-style-type: none"> ▪ Completion of the Debt Data Reconstruction (DDR) Exercise in all the 36 States of the Federation and the FCT



VII. Nigeria's Public Debt Sustainability

Total Public Debt Stock & Sustainability Ratios as at end-December, 2016

Debt Category	US\$' Million	NGN' Million
External Debt (FGN + States & FCT)	11,406.28	3,478,915.40
Domestic Debt (FGN only)	36,256.41	11,058,204.30
Domestic Debt (States + FCT) ¹	9,728.84	2,822,889.88
Total (A+B+C)	57,391.53	17,360,009.57
Debt Indicators	Applicable Thresholds (%)	Actual (%)
NPV of Debt/GDP²	19.39	16.27 (Ext. = 3.26 & Dom. = 13.01)
NPV of Debt/Revenue	350.00	346.12
NPV of External Debt/Exports³	150.00	40.93
NPV of Debt Service/Revenue⁴	28.00	33.94
External Debt Service/Exports³	20.00	1.11

Notes:

¹States and FCT Domestic Debt is the Actual Amount Outstanding against the 36 States & the FCT as at end-September, 2016

²Country-specific threshold up to end of 2017. The internationally specified peer-group threshold is 56%

³Applicable only to External Debt

⁴FGN & States Revenues combined



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