DEBT MANAGEMENT OFFICE
NIGERIA

PRESS RELEASE

FURTHER CLARIFICATIONS ON J P MORGAN'S ANNOUNCEMENT ON THE GOVERNMENT BOND INDEX – EMERGING MARKETS

The Debt Management Office (DMO) wishes to make further clarifications in order to put the matter regarding the Announcement by J P Morgan of its proposed phasing out of FGN Bonds in its Government Bond Index – Emerging Markets (GBI –EM) in proper perspective.

It would be recalled that the DMO resuscitated the Domestic Bond Market in 2003 when it first issued FGN Bonds. This landmark achievement was intended to restructure the Government's domestic borrowing which was predominantly short term and to develop the domestic bond market which had been moribund for about 20 years. To achieve these objectives, the DMO in collaboration with other stakeholders introduced several measures to deepen the market amongst which are: regular and transparent FGN Bond Auctions; the appointment of dedicated market makers known as Primary Dealer Market Makers to support the Bond Auctions and ensure an active Secondary Market; a Two-Way Quote based market; existence of Benchmark Bonds; a Sovereign Yield Curve extending to 20 years and, a diversified domestic investor base. **In essence, a strong and well established domestic bond market had been developed through inherent local capacity without any foreign facilitation.**

Based on the above and the existence of an active Two-Way Quote Interbank Foreign Exchange Market, the Nigerian Bond Market received international recognitions through the inclusion of FGN Bonds in Global Bond Indices. The inclusions were recognition that Nigeria was one of the few emerging market countries with a robust domestic bond market. Thus, FGN Bonds were included in J P Morgan's GBI – EM (October, 2012) and Barclays Capital's Emerging Markets – Local Currency Bond Index (March, 2013). **Since these awards came after the Nigerian Bond Market had been developed, it follows therefore, that they were recognitions for achievements already recorded rather than pre-requisites for the development of the market. It is important to note that Nigeria became the only African country after South Africa to be included in the GBI – EM and also that there are several other emerging market countries such as Venezuela whose domestic Bonds are not included in any international Bond Index. Their non-inclusion has not limited their markets or economies.**

Notwithstanding the benefits of the inclusion of FGN Bonds in the GBI – EM, the DMO continued to introduce measures to attract more domestic investors to the Bond market particularly, non-bank institutions and retail investors in order to enlarge and diversify the investor base. The success of these measures and previous initiatives are evidenced by:

- The high subscription levels at the FGN Bond Auctions and sustained activities in the Secondary Market in spite of external developments such as the end of the Quantitative Easing Programme of the US Federal Reserve Bank in October 2014 and the placement of Nigeria on Negative Watchlist by J P Morgan in January 2015.

- The increased participation of non-banks in the FGN Bond Markets. The following statistics are indicative of the level of diversification that has been achieved in the investor base:
    - The share of Allotment of FGN Bonds to Pension Funds at the Auctions grew from 20.28% in 2010 to 33.35% in 2014.
    - The share of Non-Bank Financial Institutions in Allotments at the Auctions rose from 7.08% in 2010 to 20.93% in 2014.

The DMO is convinced that the expected reduction in foreign participation in the FGN Bond Market due to the phasing out from the GBI – EM will not impact the market adversely. Indeed, the share of Allotment at the Auctions to foreign investors dropped from 15.51% in 2013 to 3.34% in 2014, yet the markets remained stable.

While the Announcement by J P Morgan on September 8, 2015 in which it stated that FGN Bonds in the Index will be phased out over one month starting from September 30, 2015 is unwelcome, it does not signify a downturn or collapse of the FGN Bond Market or a downgrade of the Bonds. For this reason, the DMO wishes to make the following clarifications:

- The decision of J P Morgan (as stated in their Announcement), was based on their perception of the FX Market (not FGN Bond Markets) which they claimed ***was lacking in terms of a fully functional two-way FX market and had limited transparency.*** The response of the Central Bank of Nigeria (CBN) who is the agency charged with FX management has been made public.

- The phasing out of FGN Bonds from the Index **does not**:
    - amount to a downgrade of Nigeria or FGN Bonds since J P Morgan is not a credit rating agency.
    - have any impact on the quality of the FGN Bonds. FGN Bonds remain ***risk-free securities that are backed by the full faith and credit of the Federal Government of Nigeria and are charged upon the general assets of Nigeria.***
    - imply that the Bonds are no longer liquid. FGN Bonds are supported by an active Secondary Market which allows investors to buy or sell them on any business day through any of the 13 Primary Dealer Market Makers licensed by the DMO or on The Nigerian Stock Exchange where the Bonds are listed and for which purpose there is a Government Stockbroker.

- imply that foreign investors cannot or will not be allowed to invest in FGN Bonds or the Nigerian financial markets as a whole. While the Index is a strong tool for attracting foreign investors to invest in a domestic market for which Nigeria derived some benefits, **investors who have confidence in the potentials of Nigeria and the reforms targeted at their realisation, will still see Nigeria as an attractive investment destination.**

The DMO and other stakeholders remain committed to further developments of the Nigerian Bond Market due to its strategic role of mobilising long term capital to finance growth and development. The phasing out of FGN Bonds from the GBI – EM by J P Morgan does not dampen this collective resolve. Accordingly, the DMO working with other stakeholders will continue to introduce measures that will sustain the achievements recorded so far in the FGN Bond Primary and Secondary Markets.

More importantly, investors and other participants in the FGN Bond market should continue with their longstanding interest in the market being fully aware that the Bonds remain the very safe and liquid securities they have always been.

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