DEBT MANAGEMENT OFFICE
NIGERIA

PRESS RELEASE

RESTRUCTURING OF BANKS' LOANS TO STATES INTO FGN BONDS

In line with the commitment of President Muhammadu Buhari to urgently straighten and strengthen the economy, the government has attached high priority to addressing the fiscal imbalance faced by most States of the Federation. The immediate cause of the fiscal imbalance was the structural drop in the international price of crude oil by more than 43% and the resultant drop in the revenue allocation from the distributable pool for all governments in the Federation by about 40%. The Situation constrained the ability of many States to meet their financial obligations, including payment of salaries. Hence, the government's decision for a prompt response.

As one of the salutary options for short-term fiscal stabilisation, the Debt Management Office put forward a proposal for restructuring the short-term bank loans of States into long-term Federal Government of Nigeria (FGN) Bonds. The purpose was to reduce the debt-service outflow of States and free resources for meeting other obligations, particularly, clearance of arrears of salaries and pensions.

As at August 19, 2015, twenty-two States had submitted requests for the bankloan-to-FGNbond restructuring. Out of the twenty-two, the **first eleven** States which had completed and submitted all necessary documentations, including the submission of jointly authenticated balances with banks as at August 14, 2015, had their bank loans restructured into 20-year FGN bonds effective August 17, 2015.

Fourteen banks were involved in this Phase I debt restructuring operation and their total loans to the eleven States which were restructured amounted to ₦322.788 billion.

The restructuring was effected using a re-opening of the FGN Bond issued on July 18, 2014 and maturing on July 18, 2034. The pricing was based on the yield to date of the bond at a 30-day average, resulting in a transaction yield of 14.83%.

Indicators of the impact of the debt management operations include:

i. monthly debt service burden will drop by a minimum of 55% and a maximum of 97%, among the eleven States; and,
ii. **interest rate savings** for the eleven States ranges from 3% to 9% p.a.

More States are concluding their documentation and reconciliation of balances with banks and their debts will be restructured in Phase II in the next couple of weeks.

The restructuring is good not only for the States but also for the banking system because: banks' balance sheets will improve as weak subnational loan assets are replaced with high quality Sovereign assets; the FGN Bonds enjoy enhanced liquidity as they are traded in the secondary market; and, banks would have improved space to lend to other sectors of the economy as they are free to convert their FGN Bond holdings into cash in the secondary market.

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