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NIGERIA

# FEDERAL GOVERNMENT OF NIGERIA BONDS, THE NIGERIAN DIASPORA AND NATIONAL DEVELOPMENT

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# Outline

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- FGN Bonds: Purpose
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- FGN Bonds: Benefits to Investors
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# FGN Bonds: Definition

- **What are Bonds?**
  - A financial instrument used by governments and corporates to borrow.
  - Usually used to raise capital to finance medium-to-long term projects. Therefore, they are typically issued in tenors of 2 years and above.
- **What are FGN Bonds?**
  - They are debt instruments issued by the Federal Government of Nigeria to borrow from the public.
  - They are, therefore, obligations of the Federal Government of Nigeria, (sovereign obligations) which makes them different from bonds issued by State Governments or companies operating in Nigeria.



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# FGN Bonds: Purpose

- To raise capital to finance deficits in the FGN's Budget.
- To raise funds to execute infrastructural projects such as power, electricity and roads, as well as, social services such as health and education.
- To manage the domestic debt portfolio of the FGN more efficiently by elongating the tenor profile from predominantly short term (NTBs) to a combination of short, medium and long term.



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# FGN Bonds: Purpose (CONTD)

- To contribute to the development of the domestic financial markets through:
  - Introduction of new products to deepen the market
  - Increasing the range of instruments available to borrowers and investors
  - Creation of a sovereign yield curve to derive as a bench mark for other bond issuers.
- To attract foreign investors into the domestic financial markets.
- To contribute to the attainment of goals of President Umaru Musa Yar'Adua's 7- point Agenda and Vision 2020



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# FGN Bonds: Features

- Borrower: The obligor (issuer) is the FGN and the bond backed by the “full faith and credit” of the Federal government.
- Tenors: 3, 5, 10 and 20 years.
- Interest Payment: Every 6 months up till the maturity date of the bond.
- Redemption: The bonds are redeemed at face value at maturity.
- Listing: The bonds are listed on The Nigerian stock Exchange (NSE).
- Liquidity: There is an active secondary market for the bonds through the Primary Dealer Market Maker (PDMM) System introduced by the DMO in 2006.



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# FGN Bonds: Benefits to Investors

- Safety of Principal and Interest as these are guaranteed by the FGN.
- Availability of a range of tenors which provides investors with the opportunity of choosing the bond that matches their investment horizon.
- Relatively high returns.
- The bonds are tax exempt, implying bigger income in the hands of the investors.
- The bonds provide an alternative investment to equities, real estate and bank deposits.



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# FGN Bonds: Benefits to Investors

- Bonds are generally recognized as instruments that can be used to diversify an investors portfolio to achieve stability in value and income.
- The bonds can be used as collateral for borrowing from banks and discount houses.
- The Bonds can be sold either through any of the 21 PDMMs licensed by the DMO or on the floors of the NSE.
- A good instrument to invest in towards a target project such as property, children's education and retirement (or home coming).





# FGN Bonds Statistics: Primary Market

Year	Amount Offered (Nbn)	Subscriptions Received (Nbn)	Subscription Ratio (%)	Amount Allotted (Nbn)
2003	150	72.566	48.38	72.566
2005	140	326.362	233.16	178.274
2006	245	612.979	250.20	282.083
2007	592	1167.597	197.23	592.000
2008	515	845.951	164.26	491.961
2009*	579.560	1069.784	184.59	600.560
Total	2221.56	4095.239	184.34	2217.444

\*2009 Figures are for January – September, only.



## FGN Bonds Statistics: Secondary Market

Year	Numbers of Transactions	% Increase	Face Value of Transactions (Nbn)	% Increase
2006	5482	-	585.411	-
2007	30241	451.64	3947.285	574.28
2008	80135	164.99	10090.236	155.62
2009*	90,132	49.97**	13,030.704	72.19**
Total	205,990		27,653.636	

\*2009 Figures are for January – September, only.

\*\*The percentage changes for 2009 are based on the annualised figures for January to September 2008.



# Investing in FGN Bonds



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- **Who can Invest?**

- Individuals
- Institutions
- Social and religious organizations
- Trade Unions, cooperatives, etc

- **How can I Invest?**

- In the Primary Market through the Monthly Auctions
- In the Secondary Market through any PDMM or on the floor of the NSE.



# Expectation From The Nigerian Diaspora



- Nigeria is at a crucial point in history as it strives to become one of the top 20 most industrialized economies countries by the year 2020.
- To achieve this, a huge amount of capital has to be invested in infrastructure and social services in order to provide an attractive environment for the private sector to invest.
- Massive capital mobilization, through FGN Bonds for example, is, therefore, vital for the achievement of this Vision.
- It is now time for Nigerians in Diaspora to contribute to the development of their fatherland by investing in FGN Bonds.
- I encourage you to invest in FGN Bonds and enjoy the numerous benefits it offers.
- By doing so, you are being a **Good Investor** and a **Good Citizen**.