



DEBT MANAGEMENT OFFICE NIGERIA

SUMMARY OF NIGERIA'S MEDIUM TERM DEBT MANAGEMENT STRATEGY 2012- 2015

Background

- ❖ **The** main objective of the Medium Term Debt Management Strategy (MTDS) is to develop a strategy that would meet the financing needs of government at minimum cost, maintain risk at a prudent level and support the development of the domestic securities market. The exercise reflects and addresses, amongst other realities, the:
 - disproportionate reliance on the domestic bond market to fund government deficits - the ratio of domestic and external debt stock as at end-2011 was 88:12, whereas the appropriate ratio would be 60:40;
 - high rate of domestic debt accumulation;
 - rising debt service payments occasioned by growing debt stock, coupled with upward pressure on the average cost of funds; and,
 - the risk of crowding out the private sector.

- ❖ **However**, the MTDS also recognizes and reflects the fact that domestic borrowing has been deliberately and purposefully used to develop the domestic bond market, which now has:
 - a market structure and culture for long-term savings and investments;
 - an elongated yield curve of between 3 months and 20 years that has enabled the private sector to commence issuance of long-dated bonds to fund the real sector and infrastructure – a positive transformation from the past when the market was dominated by short-term debt instruments, mainly of 91 days tenor; and,
 - a diversified investor base for debt instruments.

- ❖ **The** transformation has attracted external recognition of achievements of, and progress in, the development of the Nigerian bond market, resulting in the inclusion of FGN Bonds in the tradable indices of leading international financial institutions, such as JP Morgan and Barclays Capital.

The New Debt Strategy

- ❖ **After** building and analysing four different strategies, the Debt Strategy which has been adopted is one that has the following strengths:
 - It will significantly reduce the rate of growth of public debt in general, and domestic debt in particular and ensure debt sustainability;

- It will reduce the amount spent on debt service by achieving an optimal mix between the relatively more expensive domestic debt and less expensive external debt – at present, the difference between the domestic and external average cost of borrowing is about 8% per annum;
- It encourages direct budgetary provisions for the repayment of part of maturing FGN Bond obligations instead of refinancing them and also supports the creating of a sinking fund;
- It will achieve an optimal mix between domestic and external borrowing and arrive at a more balanced public debt portfolio – preferably, in the ratio of 60:40 for domestic and external debt, respectively - whilst allowing adequate liquidity in the domestic bond market to ensure a vibrant fixed-income securities market as an essential component of a robust capital market;
- Within the limited and prudent amount to be borrowed, it will reduce the issuance of short-term domestic debt instruments in favour of long-term instruments to hedge against refinancing and other market risks;
- It will help attain appropriate mix in terms of currency composition, interest rate structure, and concessional versus commercial borrowing;
- It will stabilise and deepen the domestic debt market to attract more foreign investment inflows; and,
- It favours the creating of more borrowing space for the private sector to access long-term funds to grow the real sector, as well as incentivises them to play a more prominent role in the development of commercially viable critical infrastructure projects for economic growth and development, in line with the policy posture of the Transformation Agenda.

Looking Up

- ❖ **The** formulation of Nigeria’s **first** Medium-Term Debt Management Strategy is another step forward in the continuous effort to improve the efficiency and effectiveness of public debt management. Although in the past five years, Nigeria’s debt management operations were adequately guided by other frameworks, for example, The National Debt Management Framework (2008 - 2012), the progression to MTDS brings the country to a relatively advanced analytical status in the field. The advancement reflects the DMO’s vision as captured in its Strategic Plan, 2013-2017: **To be one of the leading Public Debt Management institutions in the World in terms of best practice and contribution to national development.**

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