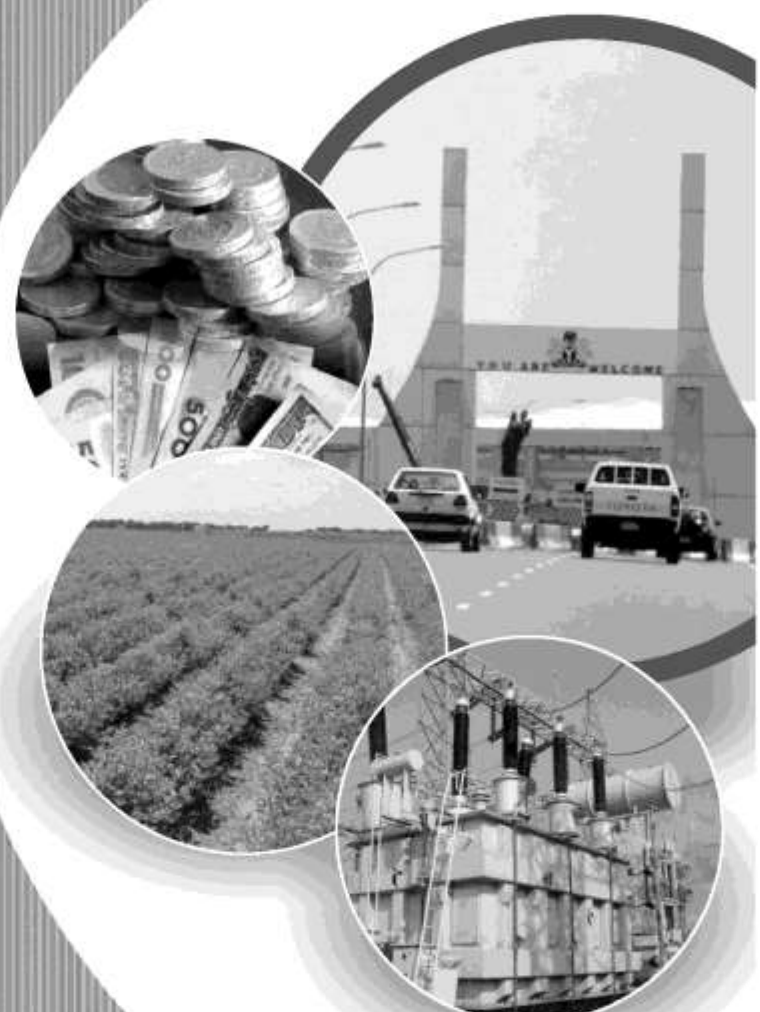
DMO 2013 Annual Report

DEBT MANAGEMENT OFFICE
NIGERIA



2013
Annual Report and Statement of Accounts

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NIGERIA

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His Excellency
DR. GOODLUCK E. JONATHAN, GCFR
President and Commander-in-Chief of the Armed Forces
Federal Republic of Nigeria

His Excellency
ARC. MOHAMMED NAMADI SAMBO, GCON
Vice President
Federal Republic of Nigeria

DR. (MRS.) NGOZI OKONJO-IWEALA, CFR
Coordinating Minister for the Economy/
Honourable Minister of Finance
Federal Republic of Nigeria

DR. YERIMA LAWAL NGAMA
Honourable Minister of State for Finance
Federal Republic of Nigeria

DMO SUPERVISORY BOARD

ARC. MOHAMMED NAMADI SAMBO, GCON
Vice President, Federal Republic of Nigeria
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Coordinating Minister for the Economy/Hon. Min. of Finance
VICE-CHAIRMAN

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Attorney-General of the Federation and Hon. Minister of Justice
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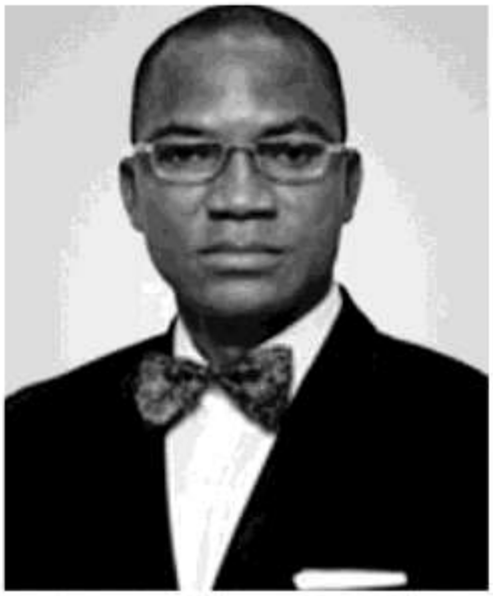
Dr. Nwanze Okidegbe
Chief Economic Adviser to the President
MEMBER

Mallam Sanusi Lamido Sanusi
Governor, Central Bank of Nigeria
MEMBER

Mr. Jonah Ogunniyi Otunla, FCA
Accountant-General of the Federation
MEMBER

Dr. Abraham Nwankwo
Director-General, DMO
MEMBER/SECRETARY

DMO MANAGEMENT TEAM



Dr. Abraham Nwankwo
Director-General

Ms. Patience Oniha
Director, Market Development Department

Mrs. Asma'u Mohammed
Director, Strategic Programmes Department

Mr. Miji Amidu
Director, Portfolio Management Department

Mrs. Hannatu Suleiman
Director, Debt Recording & Settlement Department

Mr. Joe Ugoala
Head, Policy, Strategy & Risk Management Department

Mr. Atiku S. Dambatta
Head, Organisational Resourcing Department

MANAGEMENT STAFF OF THE DMO

S/N	NAME	RANK	DEPARTMENT/UNIT
1	Abraham Nwankwo (Dr.)	Director-General	
2	Magaji B. Mahmoud (Dr.)	Director	On Secondment
3	Patience Oniha (Ms.)	Director	Market Development Department (MDD)
4	Asma'u M. Mohammed (Mrs.)	Director	Strategic Programmes Department (SPD)
5	Miji Amidu (Mr.)	Director	Portfolio Management Department (PMD)
6	Hannatu Suleiman (Mrs.)	Director	Debt Recording & Settlement Department (DRSD)
7	Godson Dinneya (Dr.)	Deputy Director	On Secondment
8	Joe Ugoala (Mr.)	Head of Department	Policy, Strategy and Risk Management Department (PSRMD)
9	Atiku S. Dambatta (Mr.)	Head of Department	Organisational Resourcing Department (ORD)
10	Janet O. Jiya (Mrs.)	Deputy Director	Team Leader, Market Supervision & Regulation Unit (MDD)
11	Johnson O. Amadi (Mr.)	Deputy Director	Team Leader, Domestic Debt Unit (DRSD)
12	Afolabi O. Oladipo (Mr.)	Deputy Director	Team Leader, Market Planning Unit (MDD)
13	Mahmoud Nasir (Mr.)	Assistant Director	Team Leader, External Support Unit (SPD)
14	Nicholas Eleri (Dr.)	Assistant Director	Team Leader, Policy & Strategy Unit (PSRMD)
15	Ekpenyong Elizabeth E. (Ms.)	Assistant Director	Team Leader, Task Compliance & Operational Risk Management Unit (PSRMD)
16	Ibrahim Natagwandu (Mr.)	Assistant Director	Team Leader, Sub-National Debt Unit (DRSD)

S/N	NAME	RANK	DEPARTMENT/UNIT
17	Ekpokoba Ikem H. (Mr.)	Assistant Director	Team Leader, Human Resource Unit (ORD)
18	Anukposi N. Alfred (Mr.)	Assistant Director	Team Leader, Institutions and Skill Development Unit (SPD)
19	Odo Joseph U. (Mr.)	Assistant Director	Team Leader, IT/IS Unit (DG'S Office)
20	Maraizu Nwankwo (Mr.)	Assistant Director	Team Leader, Statistics, Analysis and Risk Management Unit (PSRMD)
21	Elizabeth Kwaghbulah (Mrs.)	Assistant Director	Team Leader, External Debt and Special Account's Unit (DRSD)
22	Olaitan Aiyesimoju (Mr.)	Assistant Director	Team Leader, Internal Audit & Compliance Unit (DG'S Office)
23	Monday Usaide (Mr.)	Assistant Director	Team Leader, Loans & Other Financing Products Unit (PMD)

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GLOSSARY

ABED	Arab Bank for Economic Development
ADB	African Development Bank
AFD	French Development Agency
AfDF	African Development Fund
AMCON	Asset Management Cooperation
ASI	All-Share Index
ATM	Average Time-to-Maturity
ATR	Average-Time-Refixing
BDC	Bureau De Change
BOA	Bank of Agriculture
BOF	Budget Office of the Federation
BOI	Bank of Industry
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CHF	Swiss Franc
CME/HMF	Coordinating Minister for the Economy/Honourable Minister of Finance
CPIA	Country Policy and Institutional Assessment
CRR	Cash Reserve Ratio
CSCS	Central Securities Clearing System
CS-DRMS	Commonwealth Secretariat-Debt Recording & Management System
DAO	Departmental Administrative Officer
DAS	Dutch Auction System
DDR	Debt Data Reconstruction
DeMPA	Debt Management Performance Assessment
DFID	Department for International Development
DMDs	Debt Management Departments
DMO	Debt Management Office
DRI	Debt Relief International
DRSD	Debt Recording and Settlement Department
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DSF-LICs	Debt Sustainability Framework for Low Income Countries
ECFA	External Creditors Funding Account
EDF	European Development Fund
EIB	European Investment Bank
EM	Emerging Market
EM-LCBI	Emerging Markets Local Currency Bond Index
EOI	Expression of Interest
EUR	Euro
FCT	Federal Capital Territory
FDI	Foreign Direct Investment

FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FMDQ	Financial Market Dealers Quotation
FMF	Federal Ministry of Finance
FICAN	Financial Correspondents Association of Nigeria
FRA	Fiscal Responsibility Act
FRN	Federal Republic of Nigeria
FSS	Financial System Strategy
GBP	Great Britain Pound
GDN	Global Depository Note
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICM	International Capital Market
ICT	Information & Communication Technology
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IS	Information System
IT	Information Technology
JPY	Japanese Yen
LCDs	Local Contractors Debts
M_2	Broad Money Supply
MC	Market Capitalization
MDAs	Ministries, Departments and Agencies
MDD	Market Development Department
MENA	Middle East and North Africa
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MS	Microsoft
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
NASS	National Assembly
NBS	National Bureau of Statistics
NDMF	National Debt Management Framework
NGN	Nigerian Naira
NPC	National Planning Commission
NPV	Net Present Value
NSE	Nigerian Stock Exchange

NTBs	Nigerian Treasury Bills
OAGF	Office of the Accountant-General of the Federation
ORD	Organizational Resourcing Department
ORM	Operational Risk Management
OTC	Over the Counter
PDMMs	Primary Dealer Market Makers
PMD	Portfolio Management Department
PPA	Public Procurement Act
PSRMD	Policy, Strategy and Risk Management Department
PV	Present Value
RDAS	Retail Dutch Auction System
RFP	Request for Proposal
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SND	Sub-national Debt
SPD	Strategic Programmes Department
SPV	Special Purpose Vehicle
TBs	Treasury Bonds
TC&ORM	Task Compliance and Operational Risk Management
UAE	United Arab Emirate
UNDESA	United Unions Department for Economic Affairs
USD	United States Dollar
USA	United States of America
UK	United Kingdom
WAIFEM	West African Institute for Financial and Economic Management
WAMZ	West African Monetary Zone
WDAS	Wholesale Dutch Auction System
WEO	World Economic Outlook

DEBT MANAGEMENT OFFICE

Vision

To be one of the leading Public Debt Management institutions in the world, in terms of best practice and contribution to national development

Mission

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.

Core Values

EXCITE:

- *Ex* - Excellence: We deliver what we promise and add value
- *C* - Commitment: We are willing to work hard and give our energy and time to work
- *I* - Integrity: We will display transparent honesty in all our working relationships with our colleagues, internal and external stakeholders
- *T* - Teamwork: We will strive to work well together as a team, respecting one another
- *E* - Efficiency: We will use our time, human resources, technology to perform our tasks, producing more with given resources.

MANDATE OF THE DEBT MANAGEMENT OFFICE

The mandate of the Debt Management Office as articulated in Part III, Section 6 of the Debt Management (Establishment) Act 2003, specifies that the DMO shall:

a. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;

b. Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;

c. Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realizing these objectives;

d. Verify and service external debts guaranteed or directly taken by the Federal Government;

e. On an agency basis, service external debts taken by State Governments and any of their agencies, where such debts are guaranteed by the Federal Government;

f. Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;

g. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;

h. Advise the Minister on the terms and conditions on which monies, whether in the currency of Nigeria or in any other currency, are to be borrowed;

i. Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;

j. Prepare a schedule of any other Federal Government obligations such as trade debts and other contingent liabilities, both explicit and implicit and provide advice on policies and procedures for their management;

k. Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;

l. Collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board;

m. Carry out such other functions which may be delegated to it by the Minister or by Act of the National Assembly; and

n. Perform such other functions which in the opinion of the Office are required for the effective implementation of its functions under the Act.

The DMO Act also provides that the Office shall:

a. Administer the debt conversion programme of the Federal Government;

b. Perform the functions of the Minister with regard to the development fund rules;

c. and, Supervise the operation of the development fund under the Finance (Control and Management) Act, 1958 (as amended).

The DMO Act further provides that the Office shall have powers to:

a. Issue and manage Federal Government loans publicly issued in Nigeria upon such terms and conditions as may be agreed between the Federal Government and the Office;

b. Issue, from time to time, guidelines for the smooth operation of the debt conversion programmes of the Federal Government; and,

c. Do such other things, which in the opinion of the Board relate to the management of the external debts of the Federal Government.

DIRECTOR-GENERAL'S STATEMENT

It is my pleasure to present the Annual Report and Statement of Accounts of the Debt Management Office (DMO) for the year ended December 31, 2013. The Report covers the major activities and achievements of the DMO, as well as an overview of the major relevant economic and financial developments in both the local and global operating environments. The Audited Financial Statements and Accounts of the Office for the year, have, as is the practice, been presented in the report.

The global economy remained on the recovery path, albeit moderately, driven by growth in the advanced economies, especially the United States, Japan and a few European countries. Rebound of exports in some emerging economies has also supported recovery. According to the International Monetary Fund (IMF) in its January, 2014 edition of the World Economic Outlook, global growth, which strengthened during the second half of 2013 is projected to increase from 3 percent in 2013 to about 3.7 percent in 2014, and rising to 3.9 percent in 2015. Euro-area's recovery was modest, and it is expected to remain slow and fragile, as it gradually emerges from deep financial crisis. China's economy weakened in the early part of the year, but rebounded in the second half of 2013 to 7.7 percent, due largely to investment in real estate and rapid credit expansion. However, policy measures aimed at slowing credit growth and raising the cost of capital is expected to moderate growth to about 7.5 percent in 2014. Sub-Saharan African economies recorded a significant improvement in 2013, aided by strong domestic demand and resource-based investments. The

global inflation is projected to rise to 2.7 percent in 2014, from 2.3 percent in 2013, due to expected acceleration in economic activities. As the global economy is yet to witness full recovery, African economies, including Nigeria, still need to sustain their various domestic economic reforms aimed at broadening their revenue bases by prioritizing measures to promote sustainable export growth and to diversify their export markets.

The Nigerian economy remained resilient in 2013, due to improved agricultural production, on-going reforms in the key growth sectors of the economy and stable macroeconomic environment. The National Bureau of Statistics (NBS) estimated the rebased nominal GDP at N80.222 trillion (US$509.97 billion) in 2013, and the real GDP growth rate (post-rebasing) at 7.41 percent. The result of the rebasing exercise indicated that agriculture, industry, services, and telecommunication and information services sectors contributed about 21.97, 25.64, 51.89 and 8.69 percent of the total nominal rebased GDP in 2013, respectively. The IMF has also estimated a growth rate of 7.3 percent for Nigeria in 2014, up from 6.4 percent in 2013, compared with the projected growth rate of 6.1 percent for Sub-Saharan Africa. The non-oil sector has remained the major growth driver, accounting for about 86 percent of the total nominal GDP (post-rebasing) in 2013.

In recognition, of the robust performance of the Nigerian economy over the years, the World Bank reclassified Nigeria as a Lower-Middle-Income country in 2013. This development was as a result of the increase in the Nigeria's per capita income from US$1,496 in 2011, to US$1,565 in 2012. The implications of this development include, moving Nigeria to a 'blend' country status from an IDA-only status on the borrowing windows of the World Bank Group, which would entail reduced access to concessional sources of finance.

The year-on-year headline inflation rate stood at 8.0 percent as at end-December, 2013, lower than 12.0 percent recorded in the corresponding period of 2012 and the West African Monetary Zone (WAMZ) convergence inflation threshold of 10.0 percent. In the first half of the year, it oscillated between 8.4 and 9.0 percent before dropping to 7.8 percent at the end of the third quarter. Inflation rate is expected to experience further downward pressure in 2014, owing to anticipated bumper agricultural output, while threat of a fiscal expansion in the run-up to the general election in 2015, is expected to pose potential risks to inflation.

Against the budget benchmark price of US$79/barrel, the year-on-year average price of Nigeria's crude oil in 2013 (year-on-year) was US$107.67 per barrel compared to US$113.63 per barrel in 2012. The gross external reserves stood at US$42.85 billion as at end-December, 2013, a decrease of US$0.98 billion or 2.2 percent compared with US$43.83 billion as at end-December, 2012. The decrease in the reserve level was mainly attributed to higher capital outflows in the third and fourth quarters of 2013, which led to increased funding of the foreign exchange market by the CBN to stabilize the exchange rate. The average exchange rate of the Naira relative to United States dollar at the Retail Dutch Auction System (RDAS) segment of the foreign exchange market opened at ₦157.33 per US dollar and closed at ₦157.26, representing an appreciation of 0.04 percent.

The main thrusts of monetary policy in 2013 were price and financial sector stability. While the Monetary Policy Rate (MPR) and Liquidity Ratio remained unchanged at 12 and 30 percent, respectively, during the review period, the Monetary Policy Committee (MPC) of the CBN introduced 50 percent Cash Reserve Ratio (CRR) on public sector deposits, at its meeting of July, 2013. The average Inter-bank Call Rates, NTBs rates and prime lending rates as at end-December, 2013 were 10.75, 10.97 and 17.01 percent, compared with 11.88, 11.77 and 16.54 percent recorded in 2012, respectively. According to the CBN, Broad money supply (M_2) contracted by 4.82 percent in December, 2013 over the level recorded as at end-December, 2012, owing largely to decrease of 5.86 percent in net foreign assets of the banking system.

The overall fiscal operations of the government were anchored on the Medium-Term Expenditure Framework (MTEF), 2013-2016. The 2013 budget was based on a benchmark crude oil price of US$79/barrel, while crude oil production was set at 2.53 million per day. The fiscal deficit for the year was projected at N912 billion or 1.9 percent of GDP, which is within the West African Monetary Zone's (WAMZ) 4.0 percent target. The portion of fiscal deficit appropriated for financing through domestic borrowing was ₦577.07 billion and this was raised through the issuance of FGN securities in the domestic debt market. The amount borrowed from the domestic market in 2013 to partly fund the budget deficit was about 22.48 percent lower than the sum of ₦744.44 billion appropriated in 2012 for the same purpose.

The Market Capitalization of the domestic bond market, that is the total market value of bonds traded in the year under review (excluding AMCON Bonds), rose slightly by 0.52 percent, from ₦5.82 trillion in 2012 to ₦5.85 trillion in 2013. The relative share of FGN Bonds declined marginally from 85.34 percent in 2012 to 84.75 percent in 2013, while the share of State Governments' issuance increased from 10.42 percent in 2012 to 11.52 percent in 2013. The share of corporate bonds fell to 3.4 percent in 2013, from 4.2 percent in 2012. The domestic bond market witnessed the issuance of Nigeria's first Sukuk, which was issued by Osun State Government. In recognition of the growth in the domestic debt market, a supra-national entity, the International Finance Corporation (IFC), (a member of the World Bank Group), issued a 5-year Naira-denominated bond with a face value of ₦12 billion (US$76 million) in March, 2013, thereby setting a benchmark for other prospective issuers.

The secondary market for FGN Bonds remained active in 2013. The Number of Transactions grew by 2.04 percent from 44,822 in 2012 to 45,735 in 2013, while the Face Value of Trades was ₦7.859 trillion or about 7 percent higher than the ₦7.345 trillion recorded in 2012. The Total Consideration, that is the cumulative monthly market value of the transactions in 2013, which was ₦8.914 trillion, was 25.64 percent higher than the corresponding figure of ₦7.095 trillion in 2012. In the same vein, the FGN Bonds recorded oversubscription in most of the issuances in 2013, demonstrating continuous growth in the size of the domestic bond market. The international recognitions of the domestic bond market through the inclusion of selected FGN Bonds in the **JP Morgan's Government Bond Index-Emerging Markets (GBI-EM)** in October, 2012, and that of **Barclays Capital's Emerging Markets–Local Currency Bond Index (EM-LCBI)** in March, 2013, contributed to the increase in market activities recorded in 2013. The equities segment of the capital market also witnessed significant improvements in market activities as market capitalization and NSE All-Share Index of quoted equities, closed at ₦13, 226.00 billion and 41,329.19 in 2013 compared with ₦8, 974.00 billion and 28,078.81 in 2012, respectively.

The nominal value of total public debt outstanding as at the end-December, 2013 (external debt of FGN and States and securitized domestic debt of the Federal Government) was US$54,544.31 million. The debt stock increased by US$6,048.07 million or 12.47 percent over the sum of US$48,496.24 million recorded at the end of 2012. The increase arose from both the external and domestic components of the total debt stock. The external debt component increased to US$8,821 million in 2013, from US$6,527.07 million in 2012. The increment was largely on account of additional disbursements on existing loans and Eurobonds Issuance of US$1 billion in July, 2013. The increase of the domestic debt stock from US$41,696.16 million in 2012 to US$45,722.41 million in 2013 was attributable to increase in the net issuances of domestic debt instruments to finance the 2013 appropriated budget deficit. Based on the 2013 rebased GDP estimates of ₦80.222 trillion (US$509.97 billion), the ratio of Public Debt-to-GDP dropped significantly from 22.84 percent (pre-rebasing) to 12.65 percent (post-rebasing), thus, creating an illusion of an expanded borrowing space for the country. However, given that an improvement in the GDP does not automatically translate to enhanced capacity to service the debt, it would be imperative to establish applicable thresholds that reflect the country's current realities.

The DMO conducted the annual National Debt Sustainability Analysis (DSA) workshop, in conjunction with other stakeholders in 2013, to update the 2012 DSA, set new borrowing limits for government, advice on funding options and provide inputs into the Medium-Term Expenditure Framework. The result of the DSA shows that the country has remained at a low risk of debt distress, considering all the debt burden indicators. The projected debt-to-GDP ratio under the baseline, using the total public debt of the Federal and State Governments, was 22.4 percent in 2013, compared to global threshold of 56 percent, for countries in Nigeria's peer group. The DMO also commenced the review of the Medium-Term Debt Strategy (MTDS), 2012-2015, in 2013.

At the sub-national front, following the conclusion of the Domestic Debt Data Reconstruction (DDR) exercise for all the States in the Federation and the Federal Capital Territory (FCT) in 2012, the total domestic debt of the States and FCT, increased by about 25 percent (₦318 billion) from the 2011 baseline figure of ₦1.233 trillion to ₦1.551 trillion in 2012. The DMO, in January 2013 flagged off another round of training programme for the States' debt managers, part of which included organizing training workshops on Sub-National Debt Sustainability Analysis (DSA) for States' Debt Management Departments (DMDs) to strengthen their capacity for effective and efficient debt recording, reporting and analysis of debt portfolio at the sub-national level. As part of the initiatives to institute a culture of quarterly submission of domestic stock and debt service reports by the DMDs to the DMO, the Office designed and circulated to all States, user-friendly, MS-Excel driven template for the submission of debt data on a quarterly basis.

The year 2013 marked the beginning of the implementation of the Second Strategic Plan, 2013–2017, and the National Debt Management Framework, 2013–2017, both of which have helped to guide the operations of the DMO in the discharge of its core mandate. During the year, the DMO recorded landmark achievements, notable among these, was the conferment of the EMEA Finance 2013 best Sovereign Bond in Africa award for the US$1 billion Eurobonds issued by Nigeria in July 2013. It would be recalled that on July 2, 2013, Nigeria successfully priced two Eurobonds in tenors of 5 and 10 years, each for US$500 million and recorded total subscription of US$3,995 million (4 times). The EMEA Finance award emerged out of a total of five (5) sovereign Eurobonds issued by African countries in 2013.

In conclusion, I would like to express my appreciation to: the Chairman of our Supervisory Board, His Excellency, Arc. Mohammed Namadi Sambo, GCON, the Vice-President of the Federal Republic of Nigeria; the Vice Chairman, Dr. (Mrs.) Ngozi Okonjo-Iweala, CFR, the Coordinating Minister for the Economy and Honourable Minister of Finance; as well as, all the other distinguished members of the Board for their immense support and guidance during the year. I wish to express my sincere gratitude to all our other stakeholders, including the Federal Ministry of Finance, Central Bank of Nigeria, National Planning Commission, Budget Office of the Federation, National Bureau of Statistics, Office of the Accountant-General of the Federation, and the West African Institute for Financial and Economic Management. My special appreciation is due to the UK Department for International Development (DFID) for providing development assistance in the last fourteen (14) years, which was formally concluded in 2013. The Management and Staff of the DMO deserve my sincere thanks for their commitment and hard work that led to the achievements in 2013.

Abraham Nwankwo
Director-General
June 16, 2014

CHAPTER ONE

THE ECONOMIC ENVIRONMENT

CHAPTER ONE

THE ECONOMIC ENVIRONMENT

The global economy continued in its recovery path in 2013, albeit moderately, driven by growth in the advanced economies, and a rebound of exports in some emerging economies. Euro-area's, economic recovery was modest, although sluggish and fragile, following deep financial crisis. Developing and emerging economies experienced slight drop in output growth, while Sub-Saharan Africa economies recorded significant improvements in 2013, supported by strong domestic demand and resource-based investments. The Nigerian economy has remained resilient, owing to improved agricultural production, sustained on-going reforms in the key growth sectors of the economy and stable macroeconomic environment.

1.1 The Global Economy

The global economy continued in its recovery path in 2013, albeit at a modest pace, as a result of growth in the advanced economies, especially in the United States, Japan and a few European countries and rebound of exports in some emerging economies. The International Monetary Fund (IMF)'s World Economic Outlook (January, 2014) indicated that global growth rate is projected to increase from 3 percent in 2013 to about 3.7 percent in 2014, and rising to 3.9 percent in 2015. In the same vein, data from the United Nations Department for Economic and Social Affairs' (UNDESA) has projected 3 percent growth rate for 2014.

United States' economy recorded a slower growth rate of 1.9 percent in 2013, from a higher rate of 2.8 percent in 2012, owing to adverse effects of temporary government shut down and political crisis surrounding the extension of debt limit in October, 2013. The labour market has become resilient with acceleration in the pace of job creation and there was improvement of consumer sentiments in the fourth quarter of 2013,economic activity is expected to grow by 2.8 percent in 2014. Japan's economy grew from 1.4 percent in 2012 to 1.7 percent in 2013, accentuated by fiscal stimulus and structural reforms. However, growth is expected to remain relatively stable in 2014. United Kingdom experienced robust economic growth, as real GDP increased from 0.3 percent in 2012 to 1.7 percent in 2013, driven by domestic demand.

Euro-area's recovery was modest and it is expected to remain sluggish and fragile, as it gradually emerges from deep financial crisis. The financial market conditions improved in 2013, due to enhanced macroeconomic and sustained low interest rate environment, however, impediments to growth, though slowly receding, include high debt, financial fragmentation, uncertainty and difficult internal and external adjustments through structural reform. The GDP growth was -0.4 percent in 2013, and growth rate is projected to 1.0 and 1.4 percent in 2014 and 2015, respectively.

Emerging market and developing economies' output growth rate declined to 4.7 percent in 2013, from 4.9 percent in 2012, as a result of weaker domestic demand reflecting tighter financial condition, and political uncertainty. China witnessed weakening of economy in the early part of the year, but higher growth rebounded in the second half of 2013 to 7.7 percent, driven largely by investment in real estate and rapid credit expansion. However, policy measures aimed at slowing credit growth and raising the cost of capital is expected to moderate growth to about 7.5 percent in 2014. In Middle East and North Africa (MENA), Latin America and the Caribbean, growth decelerated to 2.4 and 2.6 percent in 2013, compared with 4.1 and 3.0 percent in 2012, respectively. There were signs of weaknesses in Russia, as growth rate declined to 1.5 percent in 2013 compared with 3.4 percent in 2012. Central and Eastern Europe witnessed growth as output grew from 1.4 percent in 2012 to 2.5 percent in 2013, and growth is projected at 2.8 and 3.1 percent in 2014 and 2015, respectively.

Sub-Saharan Africa economies recorded a significant improvement in 2013, supported by strong domestic demand and resource-based investments. The real GDP for the region grew by 5.1 percent, compared to 4.9 percent in 2012, except South Africa, which declined to 1.8 percent, from 2.5 percent in 2012. Foreign Direct Investment (FDI) has continued to flow into the region, but poverty and unemployment have remained high in many countries. The main risks to the region include decline in portfolio inflows, adverse weather conditions, political instability, and security problems in some parts of the region.

The global inflation is projected to rise to 2.7 percent in 2014, from 2.3 percent in 2013, due to expected acceleration in global economic activities. Inflation rates in most advanced economies remained below 2.0 percent, while in emerging market and developing economies, inflation marginally increased from 6.0 percent in 2012 to 6.1 percent, in 2013.

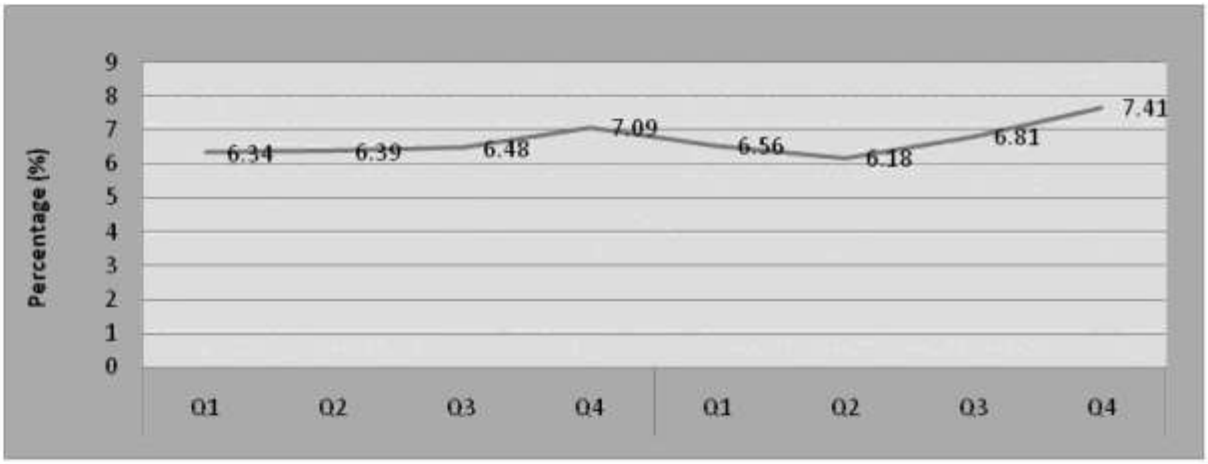
1.2 The Nigerian Economy and Policy Environment in 2013

1.2.1 Output and Prices

The Nigerian economy remained resilient in 2013, as a result of improved agricultural production, on-going reforms in the key growth sectors of the economy and stable macroeconomic environment. The National Bureau of Statistics (NBS) has estimated the rebased nominal GDP at ₦80.222 trillion (US$509.97 billion)in 2013, while the real GDP growth rate (post-rebasing) is estimated at 7.41 percent. The non-oil sector continued to be the main driver of growth accounting for about 86 percent of the total rebased nominal GDP in 2013. Also, the NBS's data revealed new major sectors of the economy in 2013 in terms of their contributions to the rebased GDP, which include, Services (51.89 percent), Industry (25.64 percent), and Agriculture (21.97 percent), Telecommunication and Information Services (8.69 percent). The contribution of oil GDP, which comprised Crude Petroleum and Natural Gas, declined from 15.89 in 2012 to 14.40 percent in 2013 due to supply disruption, which hampered crude oil production. The IMF has also estimated a growth rate of 7.3 percent for Nigeria in 2014, up from 6.4 percent in 2013, compared with the projected growth rate of 6.1 percent for Sub-Saharan Africa. On a quarterly basis, the real GDP pre-rebasing grew by 6.56, 6.18 and 6.81 percent in Q1,Q2 and Q3 in 2013, compared to 6.34,6.39 and 6.48 percent for corresponding quarters of 2012.

In recognition, of the robust performance of the Nigerian economy over the years, the World Bank reclassified Nigeria as a Lower-Middle-Income country in 2013. This development was due to the growth of Nigeria's per capita from US$1,496 in 2011, to US$1,565 in 2012. The implications of this development include, moving Nigeria to a 'blend' country status from an IDA-only status for borrowings from the World Bank, which means reduced access to concessional sources of finance. Figure 1.1 shows the growth rate of the Nigerian economy in 2013.

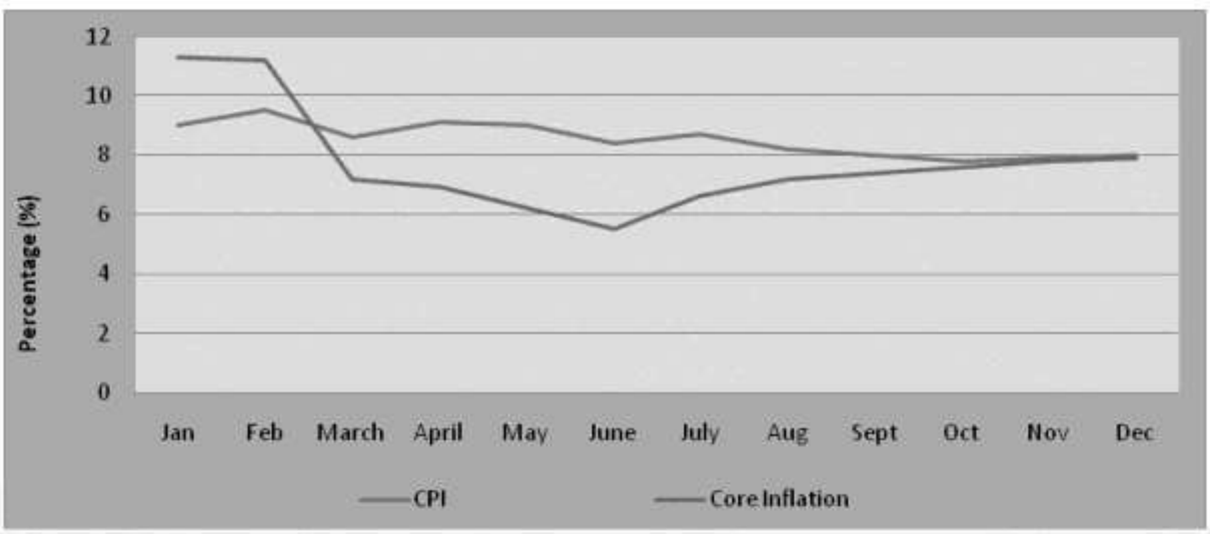
Figure 1.1: Growth Rate of the Nigerian Economy (Quarterly)



Source: National Bureau of Statistics (NBS); *Q4 is a projection

Inflation rates moderated in 2013,largely due to the fiscal consolidation programme, tight monetary policies and relatively stable exchange rate regime. The year-on-year headline inflation rate stood at 8.0 percent as at end-December, 2013, lower than 12.0 percent recorded in the corresponding period of 2012 and WAMZ convergence inflation rate threshold of 10.0 percent. In the first half of the year, it oscillated between 8.4 and 9.0 percent before dropping to 7.8 percent as at the end of the third quarter. Inflation rate is expected to experience further decline in 2014 owing to anticipated bumper agricultural output, however, threat of fiscal expansion in the run-up to the general election in 2015, is expected to pose potential risks to inflation. Figure 1.2 shows the trends of the Consumer Price Index and Core Inflation in 2013.

Figure 1.2: The Consumer Price Index and Core Inflation in 2013



Source: NBS

1.2.2 Monetary, Credit and Financial Market Development

Broad money supply(M_2) contracted by 4.82 percent in December, 2013 over the level at end-December, 2012, owing largely to decrease of 5.86 percent in net foreign assets of the banking system. While the Monetary Policy Rate (MPR) and Liquidity Ratio remained unchanged at 12 and 30 percent, respectively, during the review period, the Monetary Policy Committee (MPC) of the CBN introduced 50 percent Cash Reserve Ratio (CRR) on public sector deposits, at its meeting of July, 2013. The average Inter-bank Call Rates, NTBs rates and prime lending rates as at end-December, 2013 were 10.75, 10.97 and 17.01 percent, compared with 10.58, 13.38 and 18.01 percent recorded in 2012, respectively.

External Sector Development

The gross external reserves stood at US$42.85 billion as at end-December, 2013 representing a decrease of US$0.98 billion or 2.2 percent compared with US$43.83 billion as at end-December, 2012. The decrease in reserves level was mainly attributed to deceleration in portfolio and FDI flows in the fourth quarter of 2013, which led to increased funding of the foreign exchange market by the CBN to stabilize the exchange rate. The average exchange rate of the Naira relative to the United States Dollar at Retail Dutch Auction System segment of the foreign exchange market opened at ₦157.33 per US dollar and closed at ₦157.26 per US dollar, representing an appreciation of 0.04 percent. Similarly, at the Inter-bank and BDC segments, the Naira depreciated by 2.34 and 7.84 percent from their respective levels of ₦156.25 and ₦159.50 per US dollar in the corresponding quarter of 2012 to ₦159.90 and ₦172 per US dollar in 2013, respectively.

Table 1: Macroeconomic Indicators

Description	2008	2009	2010	2011	2012	2013
Real GDP Growth Rate	8.95	8.32	7.98	7.36	6.77	7.41
CPI Inflation (end-period)	15.1	13.9	11.8	10.3	12.0	8.0
Budget Deficit as % of GDP	-0.2	-3.27	-3.25	-2.96	-2.56	-1.9
Overall Fiscal Balance as % GDP	0.81	-6.31	-4.35	0.13	1.2	-5.1
External Reserves (US$'bn)	53	42.38	32.34	54.26	43.83	42.85
Market Capitalization (N'bn)	9,535.80	7,030.80	9,918.20	10,275.30	14,800.90	19,080.00

Sources: NPC, NBS, BoF, CBN, SEC

1.2.3 Fiscal Development

The overall fiscal operations of the government were anchored on Medium-Term Expenditure Framework, 2013-2015. The 2013 budget was based on benchmark crude oil price of US$79/barrel, while crude oil production was set at 2.53 million barrels per day. The fiscal deficit for the year was projected at N912 billion or 1.9 percent of GDP, which is within the West African Monetary Zone's (WAMZ) 4.0 percent target. The portion of fiscal deficit appropriated for financing through domestic borrowing was ₦577.07 billion and this was raised through the issuance of FGN securities in the domestic capital market. The amount borrowed from the domestic market in 2013 to partly fund the budget deficit was about 22.48 percent lower than the sum of ₦744.44 billion appropriated in 2012 for the same purpose.

1.2.4 Stock Market

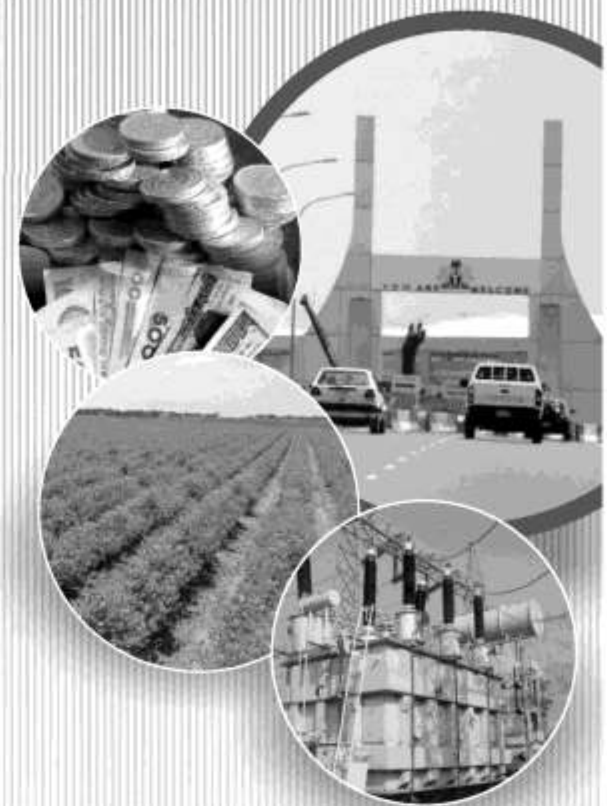
The capital market witnessed significant improvements in 2013, as the All-Share Index (ASI) increased by 47.2 percent from 28,078.81 points at end-December, 2012 to 41,329.19 points as at end - December, 2013. Market Capitalization (MC) also recorded an increase by 47.4 percent from ₦8.97 trillion to ₦13.23 trillion during the same period. The development was attributed to improved earnings and investors' confidence in macro economic management, as well as, substantial portfolio inflows.

1.2.4.1 Developments in the Domestic Bond Market

The size of the Domestic Bond Market in terms of Face Value of Bonds outstanding as at December 31, 2013 was ₦4,981.88 billion which represents an increase of ₦200.40 billion or 4.19 percent over the figure as at December 31, 2012. The increase was from FGN Bonds – ₦141.56 billion, State Government Bonds – ₦75.9 billion and Supranationals ₦12 billion. The size of the Corporate segment decreased by ₦29.06 billion due to redemptions and conversions to shares.

In the primary market, six (6) State Governments accessed the market for a total of ₦125.9 billion while three (3) Corporates issued Bonds with a total Face Value of ₦10.58 billion. Major developments in the primary market were: the Issuance of a Sukuk by a State Government (Osun State – ₦11.4 billion) and the issuance of a bond in the domestic market by a Supranational (International Finance Corporation – ₦12 billion) for the first time.

Other significant developments in the bond market in 2013 were: the introduction by the Financial Markets Dealers Association of an electronic platform for trading fixed income securities and foreign exchange known as the Financial Markets Dealers Quotation OTC (FMDQ OTC) and the introduction by the Central Bank of Nigeria of a platform for Auctions and Settlement of fixed income securities – Scripless Securities Settlement System (S4).



CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

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As in the previous years, the external debt management strategy has continued to focus on accessing funds mainly from the concessional windows, while ensuring that borrowing from other external sources are undertaken on competitive terms. As at end-December, 2013, concessional debt accounted for 80.93 percent of the total external debt stock, while the loans obtained from non-concessional window constituted 19.07 percent. Similarly, the domestic debt management strategy is to further deepen the government securities market in order to ensure that it remains a reliable source of funding to the government, as well as create a benchmark for future borrowing by other economic agents in the country. In 2013, IFC issued a 5-year Naira denominated bond with a face value of ₦12 billion (US$76 'million), while Six (6) States, namely: Ekiti, Kogi, Lagos, Nassarawa, Niger and Osun raised a total of ₦125.90 billion from the domestic bond market, including ₦11.40 billion sukuk by Osun State.

2.1 Introduction

The National Debt Management Framework (NDMF), 2013-2017, and the DMO's Strategic Plan (2013-2017), clearly capture the primary objectives of public debt management as, to efficiently meet government's financing needs; minimize borrowing costs and risks for the government, support the development of the domestic debt market, and ensure long-term sustainability of the public debt portfolio. To achieve these objectives, a Medium-Term Debt Management Strategy (MTDS), 2012-2015, was adopted during the course of the financial year 2013, aimed at creating an appropriate borrowing strategy that meets government financing needs at the lowest cost, consistent with prudent degree of risk. Also, to achieve an optimal debt portfolio mix of 60:40 for the domestic and external debt, respectively and to attain a 75:25 ratio for long and short-term in the domestic debt portfolio.

In line with sound practices in debt management, an appraisal of the debt management strategy was carried out, based on the Debt Management Performance Assessment (DeMPA) indicators. The appraisal was aimed at ascertaining the extent to which the DMO's debt management activities conformed to its medium-term debt management strategy.

2.2 External Debt Management Strategy

The broad objective of Nigeria's external debt management strategy is to use concessional borrowing to finance development. Within this broad context, the strategy was expanded to include borrowing from the International Capital Market in order to diversify the government's funding sources, reduce debt service cost and create opportunities for other economic agents to access external financing from the ICM. Given that, Nigeria was reclassified in 2013 from IDA-only to Lower-Middle-Income country, which implies that, in addition to IDA loans, it can now access the commercial windows of the multilateral lenders, Nigeria's commercial borrowing may increase over time.

2.2.1 Concessional Borrowing

Government sustained its external borrowing policy of using concessional window to funds external borrowing requirements. As at end-December, 2013, the total concessional loans contracted from multilateral and bilateral institutions by Nigeria amounted to US$0.275 billion representing 71.13 percent of the total external debt portfolio, while the balance of US$0.521 billion or 17.24 percent constituted non-concessional bilateral and commercial loans.

2.2.2 Issuance of Eurobonds

Nigeria successfully priced a dual tranche US$1 billion Eurobond in the ICM on July 2013. Details of the Eurobonds are: 5-year US$500 million due 2018 at a Coupon of 5.125 percent and 10-year US$500 million due 2023 at a Coupon of 6.375 percent. These two (2) Eurobonds brought the total Eurobonds issued by Nigeria in the ICM to three (3) as at December 2013, thus, creating three (3) benchmark Yields (five, seven and ten years) in the ICM against which other Nigerian entities who seek to raise capital in the ICM can be priced. Nigeria's first Eurobond in the ICM was a ten (10) year Bond issued in January 2011 at a Coupon of 6.75 percent.

The US$1 billion dual tranche Eurobond which was issued at a time of uncertainty and volatility in the international financial markets attracted a total subscription of US$4 billion (four (4) times the offer amount) from diverse investors across the globe. The Eurobond was awarded the EMEA Finance 2013 best Sovereign Eurobond in Africa in February, 2014 due to the huge subscription it attracted at a time when the international financial markets were very volatile.

2.3 Domestic Debt Management Strategy

The domestic debt management strategy seeks to further deepen the government securities market to enhance its liquidity, while also encouraging the development of a robust domestic bond market that provides access to long term capital for other borrowers and investment opportunities to domestic and foreign investors.

2.3.1 Issuance Activity

The DMO's FGN Bonds Issuance activities as in previous years, were aimed at extending the average tenor of the Domestic Debt Stock, increasing the volumes of benchmark bonds to support trading and meeting the portfolio needs of its major investor groups. Consequently, the DMO re-opened Benchmark Bonds in tenors of three (3) to twenty (20) years except in August 2013 when a new 3-year Benchmark Bond was introduced. The Face Value of FGN Bonds issued in 2013 was ₦1,044.54 billion, which was an increase of 5 percent over the ₦994.85 billion issued in 2012.

2.4 FGN Bond Market Development

In the first half of 2013, ten (10) FGN Bonds were included in the Barclays Capital's Emerging Markets Local Currency Bond Index (EM-LCBI). Also, two (2) FGN Bonds were added to the J.P. Morgan's Emerging Markets Government Bond Index (EM-GBI) which brought to five (5), the number of FGN Bonds included in the EM-GBI. Three (3) FGN Bonds had been included in the EM-GBI on October 1, 2012.

2.5 Sub-National Debt Management Strategy and Development

In 2013, the DMO sustained the building of initiatives for the effective debt management at the sub-national level. Aside the regular updates of the States' domestic debt data, it conducted special training for nine (9) States and the FCT to further strengthen the technical capacity and reinforced the skills of the staff of the Debt Management Departments (DMDs). In addition, two (2) workshops for top policy makers in the thirty-six (36) States and the FCT were conducted to reinforce mutual and cordial relationship between them and the DMDs for effective management of the States' debts, and prompt reporting of debt data.

CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

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Total public debt outstanding increased by 12.47 percent from US$48,496.24 million in 2012, to US$54,544.31 million in 2013. This was largely attributed to additional borrowing from both external and domestic sources. The increase in external debt was on account of additional disbursements of existing loans and issuance of Eurobonds in the ICM. The stock of external debt continued to be in the long-term category. The increase in the domestic debt portfolio was due to the part funding of 2013 appropriated budget deficit and the refinancing of maturing obligations.

3.1 Total Public Debt Outstanding

Nigeria's total public debt (external and securitized domestic debt of the Federal Government) outstanding stood at US$54,544.31 million as at end-December, 2013, compared with US$48,496.24 million in 2012. The increase, which was US$6,048.07 million or 12.47 percent over the 2012 figure, arose from additional borrowing from both external and domestic debt sources.

The increase of US$2,294.83 million in the external debt outstanding in 2013, compared to that of the preceding year was primarily on account of additional disbursements on existing/new loans and the issuance of US$1 billion Eurobond in the International Capital Market, as well as, exchange rate fluctuations, during the year. On the domestic front, the increase of US$4,026.25 million is explained by net issuances of domestic debt instruments, which were used to finance the 2013 appropriated budget deficit and refinancing of maturing obligations (Table 3.1).

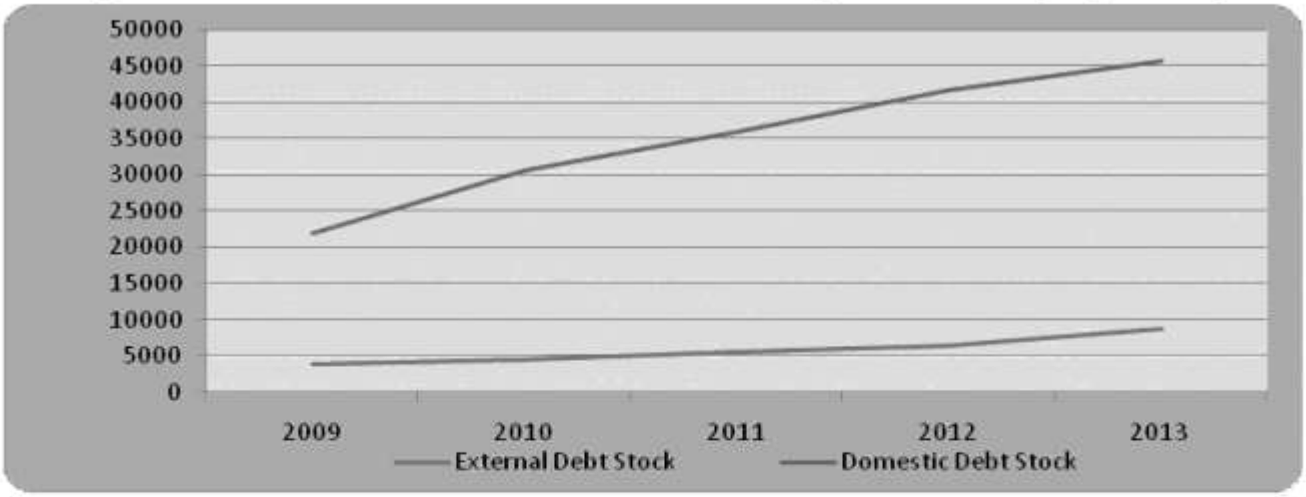
Table 3.1: Total Public Debt Outstanding, 2009-2013 (US$' Million)

	2009	2010	2011	2012	2013
External Debt Stock	3,947.30	4,578.77	5,666.58	6,527.07	8,821.90
(% share of total)	(15.29)	(13.05)	(13.64)	(13.46)	(16.17)
Domestic Debt Stock	21,870.12	30,514.33	35,882.86	41,696.16	45,722.41
(% share of total)	(84.71)	(86.95)	(86.36)	(86.54)	(83.83)
TOTAL (% share of total)	**25,817.42** (100.00)	**35,093.1** (100.00)	**41,549.44** (100.00)	**48,496.24** (100.00)	**54,544.31** (100.00)

Official CBN Exchange Rate of ₦155.70/US$1 as at 31/12/13 was used for 2013 figure

Figure 3.1 shows a five- year (2009-2013) trend of the total public debt stock, depicting that the share of the domestic debt stock has continued to dominate that of the external debt stock since 2009.

Figure 3.1: Trends in Total Public Debt Outstanding, 2009 - 2013 (US$'Million)



3.1.1 Total Public Debt Outstanding by Original Maturity

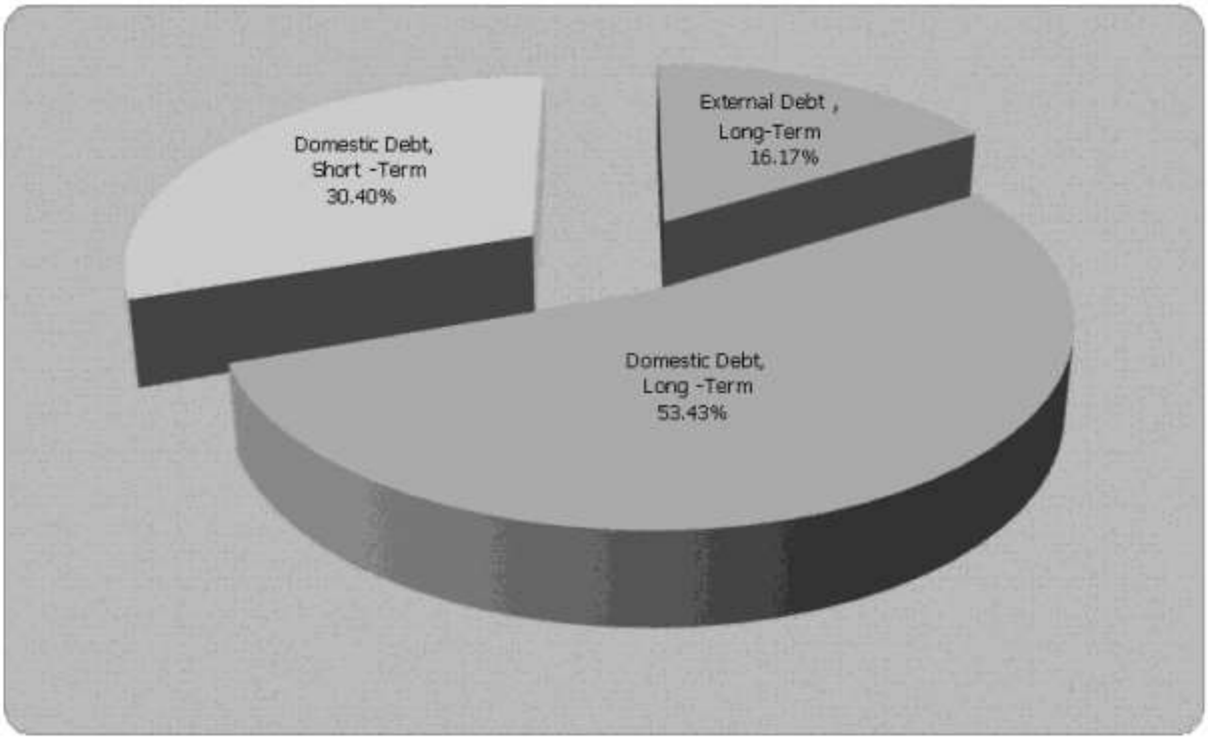
As at end-December, 2013, Nigeria's total public debt stock by original maturity showed that long-term debts have continually dominated the external debt profile, since the exit from the Paris and London Club debts in 2005/2006 (Table 3.2 and Figure 3.2). Similarly, the domestic debt portfolio in the last five years has constituted a higher proportion of long-term debt instruments, and stood at US$29,142.12 million or 53.43 percent as at end-December, 2013.

Table 3.2: Total Public Outstanding by Original Maturity, 2009-2013 (US$' Million)

Type	Category	2009	2010	2011	2012	2013
External Debt Stock	Short – term[2]	0.00	0.00	0.00	0.00	0.00
	Long-term (% of share total)	3,947.30 (15.29)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (13.46)	8,821.9 (16.17)
	Sub-Total	3,947.30	4,578.77	5,666.58	6,527.07	8,821.90
Domestic Debt Stock	Short-term[3] (% of share total)	5,403 (20.93)	8,561.38 (24.39)	11,026.89 (26.54)	13,628.6 (28.10)	16,580.29 (30.40)
	Long-term (% of share total)	16,467.12 (63.78)	21,952.95 (62.56)	24,855.97 (59.82)	28,340.56 (58.44)	29,142.12 (53.43)
	Sub-Total (% of share total)	21,870.12 (84.71)	30,514.33 (86.95)	35,882.86 (86.36)	41,969.16 (86.54)	45,722.41 (83.83)
Total	**(% of share total)**	**25,817.42 (100)**	**35,093.10 (100)**	**41,549.43 (100)**	**48,496.23 (100)**	**54,544.31 (100)**

[1] Official CBN Exchange Rate of ₦155.70/US$1 as at 31/12/2013 was used for 2013 figures
[2] Short-term external debt is debt with less than 1 year original maturity
[3] Short-term domestic debt consist of 91, 182 and 364 days Treasury Bills. Long-term domestic debt consists of Treasury Bonds and FGN Bonds of 3 or more years

Figure 3.2: Total Public Debt Outstanding by Original Maturity as at end-December, 2013



3.2 Total Public Debt Service

Total debt service increased from US$4,918.72 million in 2012, to US$5,397.51 million as at end-December, 2013, representing about 9.73 percent of the total debt stock (Table 3.3). The increase (US$4.78 million) in the amount of debt service in the year under review was mainly due to increase in stock as a result of additional issuances of new FGN securities. The shares of the external and domestic debt service in 2013, as a percentage of the total public debt service were 5.51 and 94.49 percent, compared to 5.96 and 94.04 percent recorded in 2012, respectively.

Table 3.3: Total Public Debt Service, 2009-2013 (US$' Million)

Type	2009	2010	2011	2012	2013
External Debt Service (% share of Total)	428.04 (18.33)	354.42 (13.00)	351.62 (9.30)	293.00 (5.96)	297.32 (5.51)
Domestic Debt Service (% share of total)	1,907.45 (81.67)	2,373.98 (87.00)	3,429.42 (90.70)	4,625.72 (94.04)	5,100.19 (94.49)
TOTAL	**2,335.30** (100)	**2,728.40** (100)	**3,781.04** (100)	**4,918.72** (100)	**5,397.51** (100)

Official CBN Exchange Rate of ₦155.70/US$1 as at 31/12/2013, was used for 2013

Figure 3.3: Total Debt Service as at end-December, 2013

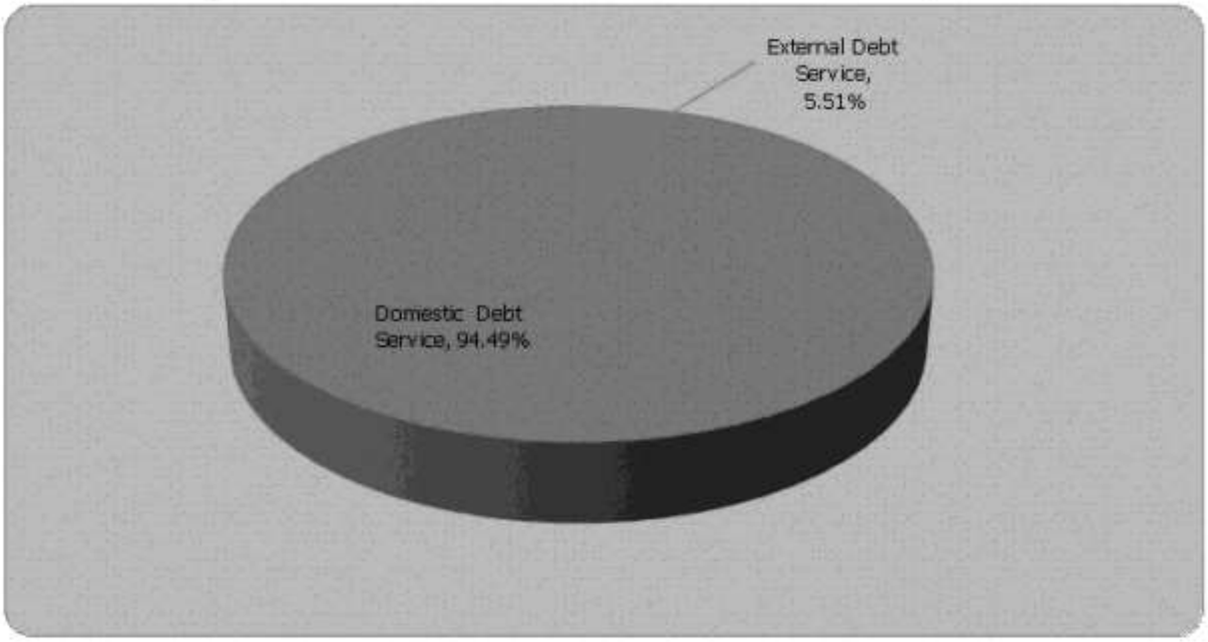


Figure 3.4 shows that external debt service has maintained a downward trend since 2009, while there was upward movement in domestic debt service for the same period. The decline in external debt service reflected largely the country's adherence to the debt management strategy of borrowing mainly from concessional sources of funding with long amortization periods, and full repayments of some existing loans, while the rising domestic debt service indicated active use of domestic debt market to meet the large chunk of the Federal Government's borrowing requirements.

Figure 3.4: Trends in Total Debt Service, 2009-2013

	2009	2010	2011	2012	2013
Ext-Debt-Service	18.33	13.00	9.3	5.96	5.51
Dom-Debt-Service	81.67	87.00	90.7	94.04	94.49

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

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NIGERIA'S EXTERNAL DEBT

Nigeria's external debt outstanding amounted to US$8,821.90 million as at end-December, 2013. The composition reflected that a higher proportion of external debt was owed to the Official Creditors and sourced at concessional rates. The funds were largely utilized to finance development of projects and programmes in various sectors of the economy. The outstanding non-concessional loans were sourced from bilateral and private creditors. The stock of external debt by remaining maturity was in the long-term category. The increase in the net inflow of resources was largely on account of additional disbursements from multilateral and bilateral creditors.

4.1 External Debt Stock

Nigeria's external debt stock outstanding stood at US$8,821.90 million as at end-December, 2013 (Table 4.1). This showed an increase of US$2,294.83 or 35.16 percent from US$6,527.07 recorded in 2012. The increase was mainly due to additional disbursements from existing/new loans, net adverse cross exchange rate movements between the different currencies in the external loan portfolio, as well as, the issuance of US$1 billion Eurobonds in the International Capital Market. Nigeria's external debt stock has witnessed an upward trend over the five-year period ending 2013, indicating a gradual increase, with the highest annual increment of 35.16 percent occurring in 2013 (Figure 4.1).

4.1.1 Official Creditors

Table 4.2 shows that the Nigeria's external debt stock was dominated by debts owed to the Official Creditors, which accounted for US$7,300.90 million or 82.76 percent, while US$1,521.00 was owed to Private Creditors as at end-December, 2013. The Official Creditors consist of Multilateral and Bilateral Creditors, which constituted of 71.13 and 11.63 percent of total Official Creditors, respectively.

Figure 4.1: Trends in External Debt Stock, 2009–2013 (US$' Million)

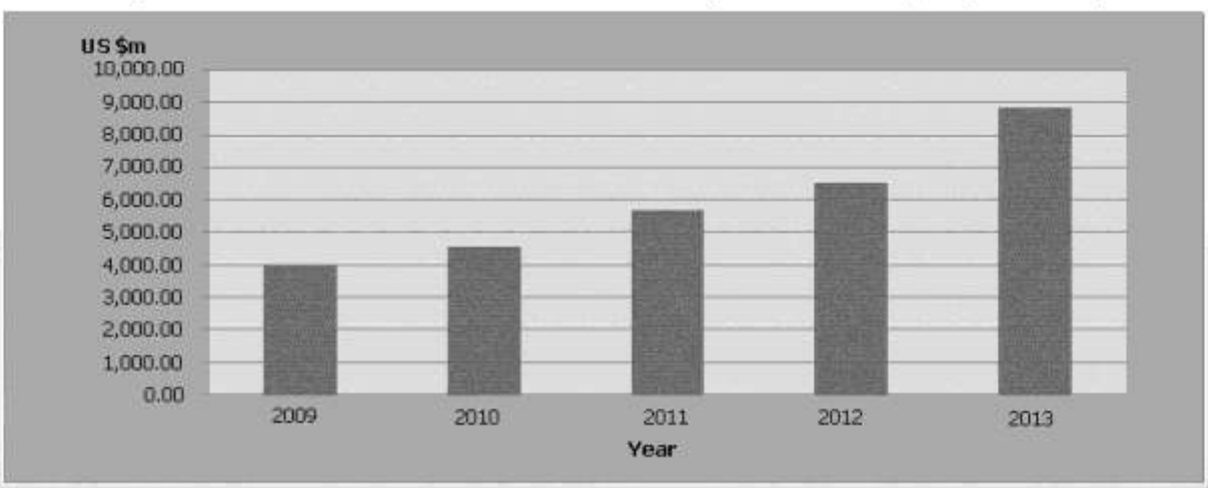


Table 4.1: External Debt Stock by Source as at end-December, 2013 (US$' Million)

Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
Multilateral – WB Group					
IDA	5,329.50	0	0	5,329.50	
IFAD	92.20	0	0	92.20	
ADB Group					
- ADB	161.10	0	0	161.10	
- ADF	571.40	0	0	571.40	
Other Multilaterals					
ABEDA	3.30	0	0	3.30	
EDF	103.20	0	0	103.20	
IDB	14.50	0	0	14.50	
SUB-TOTAL	**6,275.20**	**0**	**0**	**6,275.20**	**71.13%**
Bilateral					
Exim Bank of China	966.70	0	0	966.70	
French Development Agency (AFD)	59.00			59.00	
SUB-TOTAL	**1,025.70**	**0**	**0**	**1,025.70**	**11.63%**
Commercial					
ZTE	11.80			11.80	
CMEC	9.2	0	0	9.2	
- EURO-BONDS	1500.00	0	0	1500.00	
SUB-TOTAL	**1,521.00**	**0.00**	**0.00**	**1,521.00**	**17.24%**
GRAND TOTAL	**8,821.90**	**0**	**0**	**8,821.90**	**100.00%**

Based on official CBN exchange rate of ₦155.70/US$1as at 31/12/2013

4.1.2 Bilateral

The bilateral creditors comprised China and France, whose loans were contracted on semi-concessional terms. The stock of bilateral debts from the bilateral creditors increased from US$703.03 million in 2012 to US$1,025.70 million in 2013.

4.1.3 Multilateral

As at end-December, 2013, the multilateral loans constituted the highest proportion of the external debt portfolio accounting for US$6,275.20 million or 71.13 percent (Table 4.2). The trend analysis of the external debt stock between 2009 and 2013 showed that the share of multilateral debt decreased marginally from 80.70 percent in 2012 to 71.13 percent in 2013, due to redemption of maturing loans and sourcing of semi-concessional funds from the bilateral window.

4.1.4 Commercial

The commercial (non-concessional) loans as at end-December, 2013, were China loans, amounting to US$21.00 million, that were obtained from ZTE and CMEC, and US$1 billion dual-tranche Eurobonds of US$500 million 5-year Bond and US$500 million 10-year Bond issued at coupons of 5.125 percent and 6.375 percent p.a., respectively in July, 2013. The share of Commercial debts declined from 11.36 percent in 2011 to 8.53 percent in 2012, owing largely to principal repayments, but witnessed an upward trend to 17.24 percent in 2013, following the issuance of the US$1 billion Eurobonds (Table 4.2).

Table 4.2: External Debt Outstanding by Source, 2009-2013 (US$' Million)

SOURCE	2009	2010	2011	2012	2013
A. Official:					
1. Bilateral					
Non-Paris Club	181.6	163.2	453.83	703.03	1,025.70
2. Multilateral	3,504.51	4,217.76	4,568.92	5,267.42	6,275.20
Sub-Total	**3,686.11**	**4,380.96**	**5,022.75**	**5,970.45**	**7,300.90**
B. Private:					
1. Eurobonds	0	0	500	500	1,500.00
2. Other Commercial	261.19	197.81	143.82	56.63	21
Sub-Total	**261.19**	**197.81**	**643.82**	**556.63**	**1,521.00**
Grand Total	**3,947.30**	**4,578.77**	**5,666.57**	**6,527.07**	**8,821.90**
	Creditor Category as % of Total				
A. Official:					
1. Bilateral					
Non-Paris Club	4.6	3.56	8.01	10.77	11.63
2. Multilateral	88.78	92.12	80.63	80.7	71.13
Sub-Total	**93.38**	**95.68**	**88.64**	**91.47**	**82.76**
B. Commercial:					
1. Eurobonds	0	0	8.82	7.66	17.00
2. Other Commercials	6.62	4.32	2.54	0.87	0.24
Sub-Total	**6.62**	**4.32**	**11.36**	**8.53**	**17.24**
Grand Total	**100**	**100**	**100**	**100**	**100.00**

Based on Official CBN exchange rate of US$1/₦155.70 as at 31/12/2013

4.2 Currency Composition of External Debt

Table 4.3 and Figure 4.2 show the external debt stock by currency composition as at December 31, 2013. It depicts that Special Drawing Rights (SDR) had the largest share in the portfolio, constituting 61.40 percent of external debt stock. This was followed by the US Dollars with 34.89 percent of the total, the Euro with 3.05 percent and other currencies (Japanese Yen, GBP, IDB Units and Swiss Francs) accounted for the balance of 0.65 percent. The dominance of SDR in the currency composition reduced the exchange rate vulnerability of the debt portfolio, as only 38.59 percent of the portfolio was held in other currencies.

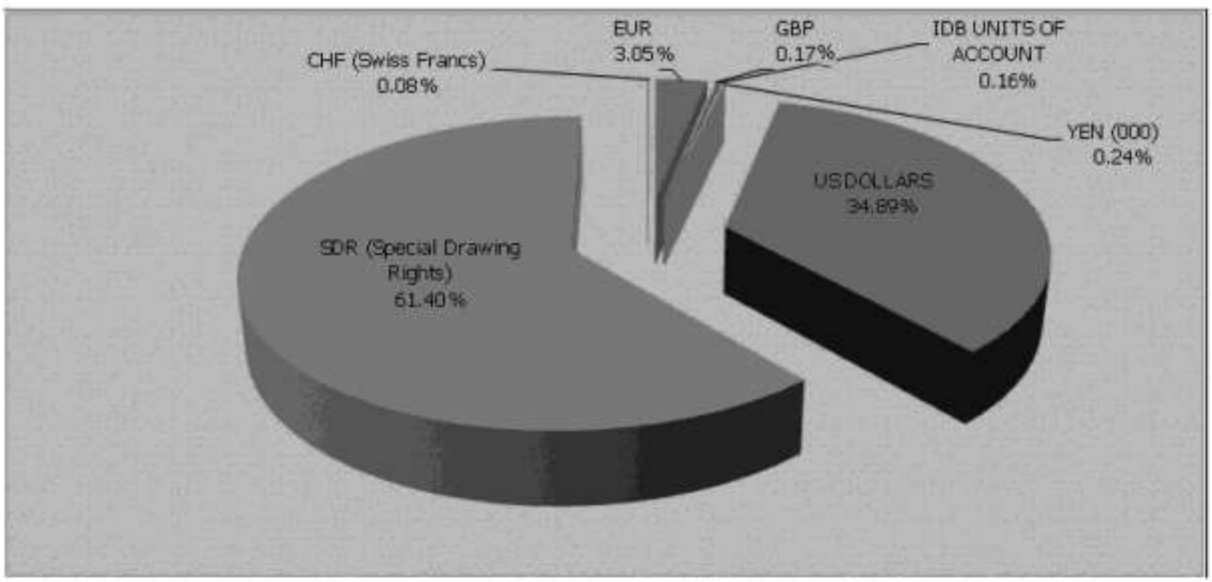
Table 4.3: External Debt Stock by Currency Composition as at end-December, 2013 (US$ 'Million)

S/No	Currency	Debt Stock in Original Currency	Naira Exchange Rate	Debt Stock in Naira	US$ Exchange Rate to the Naira	Debt Stock in USD	Percentage of Total
1	CHF (Swiss Francs)	6,668,325.13	174.73	1,165,142,446.48	155.70	7,483,252.71	0.08%
2	EUR	195,171,466.04	214.41	41,847,592,304.71	155.70	268,770,663.49	3.05%
3	GBP	8,933,856.38	257.48	2,300,299,167.96	155.70	14,773,918.87	0.17%
4	IDB UNITS OF ACCOUNT	9,479,577.81	238.86	2,264,291,956.00	155.70	14,542,658.68	0.16%
5	YEN (000)	2,265,481.04	1,483.4	3,360,614,574.74	155.70	21,583,908.64	0.24%
6	US DOLLARS	3,078,070,311.77	155.70	479,255,547,542.59	155.70	3,078,070,311.77	34.89%
7	SDR (Special Drawing Rights)	3,517,550,466.66	239.76	843,376,342,007.52	155.70	5,416,675,285.85	61.40%
	Total			**1,373,569,830,000**		**8,821,900,000**	**100.00%**

Based on Official CBN exchange rate of US$1/₦155.70 as at 31/12/2013

Note: SDR is a virtual currency, disbursements and repayments could be in GBP, EUR, JPK and USD

Figure 4.2: External Debt Stock by Currency Composition as at end-December, 2013 (US$' Million)



4.3 External Debt by Original and Remaining Maturities

Table 4.4 shows external debt outstanding by remaining maturity. It indicates that the bulk of external debt, which constituted about 99.63 percent had remaining maturity of more than three years as at end of 2013. The remaining 0.37 percent was due to mature within one year.

4.4 Sectoral Allocation of External Debt

Table 4.5 shows the uses of external debt by various sectors of the economy, indicating that large chunk of Nigeria's external debt was utilized to support infrastructure and human capital development in areas such as, telecoms, water, energy (electricity and gas), transportation (rail, road and air), housing, education, health, social welfare and agriculture. The sectoral allocations were in line with the developmental objectives and priorities of the government.

Table 4.4: External Debt Outstanding by Remaining Maturity as at end-December, 2013 (US$' Million)

Source	Short Term (0-1 yr)	Medium Term (>1-3 yrs)	Long Term (Over 3 years)
1. Multilateral	**11.91**	**0**	**6,263.39**
IDA	1.20	0	5,329.50
IFAD	0	0	92.20
ADB	10.71	0	161.10
ADF	0	0	571.40
ABEDA	0	0	3.30
IDB	0	0	14.50
EDF	0	0	103.20
2. Bilateral	**0**	**0**	**1,025.70**
Exim Bank of China	0	0	966.70
French Development Agency	0	0	59.00
3. Commercial	**20.94**	**0**	**0**
ZTE	11.75	0	0
CMEC	9.19	0	0
Eurobonds	0	0	1,500.00
Total	**32.85**	0	**8,789.05**
Grand-Total			**8,821.90**

Table 4.5: Sectoral Allocation of External Debt in 2013 (US$' Million)

Economic Sector	Amount Outstanding (USD' Million)	% of Total
Agriculture	832.50	9.44%
Air Transport	34.27	0.39%
Education & Training	575.07	6.52%
Energy-Electricity	1,516.21	17.19%
Environment	352.79	4.00%
Rail Transport	477.16	5.41%
Road Transport	743.41	8.43%
Health & Social Welfare	1,029.60	11.67%
Housing & Urban Develop.	130.58	1.48%
Water Supply	509.59	5.78%
Policy Support (Monetary)	147.05	1.67%
Rural Development	150.90	1.71%
Scientific & Tech Equipment	511.73	5.80%
Telecommunications	11.75	0.13%
Multi-sector/Others	1,799.29	20.40%
Total	**8,821.90**	**100.00%**

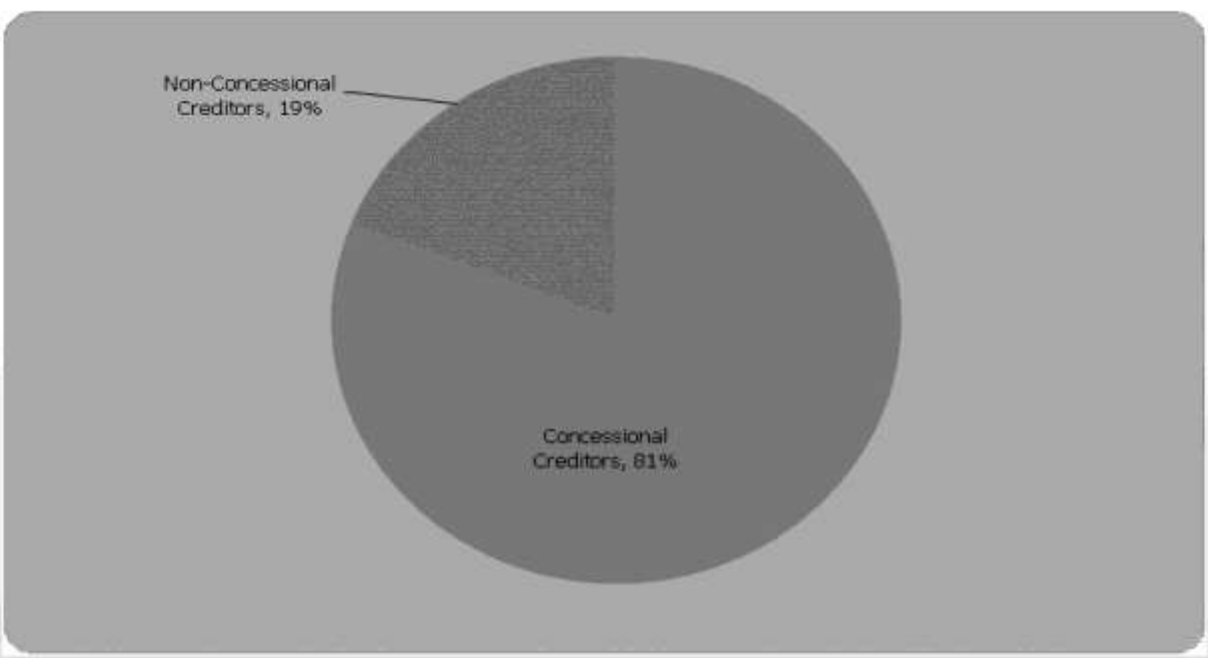
4.5 External Debt by Concessionality

Table 4.6 and Figure 4.3 show that 80.93 and 19.07 percent of Nigeria's external debt portfolio comprised debts contracted from concessional and non-concessional windows, respectively, in conformity with the external debt management strategy. The International Development Association (IDA) remained the largest creditor in 2013 contributing 60.41 percent of the country's concessional debt, compared with 70.8 percent in 2012.

Table 4.6: Concessional/Non-Concessional External Loans as at end-December, 2013 (US$' Million)

S/N	Funding Sources	Amount Outstanding	% of Total Debt
	Concessional Creditor Categories – Multilateral and Bilateral		
1	International Development Association (IDA)	5,329.50	60.41
2	International Fund for Agricultural Development (IFAD)	92.20	1.05
3	European Development Fund (EDF)	103.2	1.17
4	African Development Fund (ADF)	571.4	6.48
5	Islamic Development Bank (IDB)	14.5	0.16
6	Arab Bank for Economic Development (ABED)	3.3	0.04
7	Non-Paris Club Bilateral	1,025.70	11.63
	Sub-Total	**7,139.80**	**80.93**
	Non-Concessional Categories		
1	African Development Bank (ADB)	161.1	1.83
2	Commercial (China)	21	0.24
3	Eurobonds	1,500.00	17.00
	Sub-Total	**1,682.10**	**19.07**
	Grand Total	**8,821.90**	**100.00**

Figure 4.3: External Debt Stock by Concessionality as at end-December,2013



4.6 External Debt Flows

4.6.1 External Debt Service

The external debt service increased marginally from US$293.0 million in 2012, to US$297.32 million in 2013, representing an increase of US$4.33 million or 1.48 percent. Table 4.7 shows that the highest debt service of US$142.89 million or 48 percent of the total debt service was made to the Multilateral creditors in 2013, while the sum of US$41.08 million or 14 percent went to the Bilateral creditors. The sum of US$41.72 million or 14 percent, was paid in respect of Oil Warrants, while US$33.75 million or 12 percent was paid to the holders of the 6.75 percent US$500.00 million 2021 Eurobond and the remaining US$37.88 or 13 percent was payment made to other Commercial creditors. Table 4.7 shows the detailed breakdown of debt service by creditor category.

Table 4.7: External Debt Service, 2009 – 2013 (US$' Million)

SOURCE	2009	2010	2011	2012	2013
A. Official:					
1. Bilateral:					
Paris Club	0	0	0	0	0
Non-Paris Club	12.66	24.18	51.52	45.28	41.08
2. Multilateral	260.52	212.61	172.27	126.92	142.89
Sub-Total	273.18	236.79	223.79	172.2	183.97
B. Commercial:					
1. Oil Warrants[1]	41.72	41.72	41.72	41.72	41.72
2. Others (including commercial from China)	113.13	75.9	69.23	45.32	37.88
3. Eurobonds	0	0	16.87	33.75	33.75
Sub-Total	154.85	117.62	127.82	120.79	117.2
Grand Total	**428.04**	**354.41**	**351.61**	**293**	**297.32**

[1]Outstanding Oil Warrants, which were associated with the London Club debt exited in 2007.

4.6.2 Waivers

The Federal Government of Nigeria obtained the sum of US$0.75804 million as waivers as a result of timely remittance of debt service in 2013. The waivers were for the payments made to IFAD and IDA, amounting to US$0.00042 million and US$0.758 million, respectively (Table 4.8).

4.6.3 External Debt Service Projections (2014–2023)

Table 4.9 shows external debt service projections over a 10-year period. The table shows that a total debt service of US$8,620.27 million would be made over the 10 year-period. It further reveals that the highest debt service payment would be made for payment of interest and repayment of principal amounting to US$1,479.87 million and US$1,435.92 million in 2021 and 2023 respectively, when the debut 6.75 percent US$500 million 10-year Eurobond issued in 2011, and 6.375 percent US$500 million 10-year Eurobond issued in 2013, would be due for redemption.

Table 4.8: Breakdown of External Debt Service by Source in 2013 (US$ 'Million)

CATEGORY		Interest/	Deferred	Deferred	Penalty	Waiver/	Commitment	Other Charges		Percentage
	Principal	Service fee	Principal	Interest	Interest	Credit	Charges		Total	of Total
MULTILATERAL	**98,978.24**	**41,667.22**	**(4.33)**	**476.97**	**-**	**(758.04)**	**2,528.22**	**0.75**	**142,889.04**	**48%**
A.D.B	21,508.68	2,193.45	0.00	0.00	0.00	-	0.00	-	23,702.13	
IFAD	2,819.29	686.74	(19.74)	(5.06)	0.00	(0.42)	0.00	0.75	3,481.55	
A.D.F	7,518.21	3,067.67	0.00	0.00	0.00	-	2,528.22	-	13,114.10	
IDA	61,640.75	34,672.23	15.17	482.03	0.00	(757.62)	0.00	-	96,052.55	
EDF/EIB	5,491.33	1,032.55	0.25	0.00	0.00	-	0.00	-	6,524.12	
BADEA	0.00	14.60	0.00	0.00	0.00	0.00	0.00	0.00	14.60	
BILATERAL	**20,000.00**	**19,445.35**	**0.00**	**6.21**	**0.00**	**0.00**	**810.72**	**820.52**	**41,082.80**	**14%**
NIGCOMSAT	20,000.00	3,192.50	0.00	2.50	0.00	-	0.00	-	23,195.00	
NIGERIAN RAILWAY MODERN PROJ. IDU-KADUNA	0.00	3,396.68	0.00	0.00	0.00	0.00	405.02	820.52	4,622.21	
NIGERIAN NAT. PUBLIC SEC. SYSTEM PROJ.	0.00	9,902.72	0.00	0.00	0.00	0.00	17.88	0.00	9,920.60	
NIG ABUJA LIGHT RAIL	0.00	2,716.18	0.00	0.00	0.00	0.00	360.60	0.00	3,076.78	
NIG ICT INFRAST. BACKBONE PROJECT	0.00	0.00	0.00	0.00	0.00	0.00	27.22	0.00	27.22	
FRENCH DEVELOPMENT AGENCY (AFD)	0.00	237.27	0.00	3.71	0.00	0.00	0.00	0.00	240.98	
COMMERCIAL	**35,681.16**	**2,195.05**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**37,876.21**	**13%**
Omotosho	18,389.52	1,379.21	0.00	0.00	0.00	-	0.00	-	19,768.73	
ZTE	11,750.28	718.86	0.00	0.00	0.00	-	0.00	-	12,469.14	
ARCATEL	5,541.36	96.97	0.00	0.00	0.00	-	0.00	-	5,638.33	
EUROBOND (2021)	**0.00**	**33,750.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**33,750.00**	**11%**
OTHERS	**0.00**	**41,731.26**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**41,731.26**	**14%**
Bank of England/CITIBANK(Lazards Agency Fees)	-	12.00	0.00	0.00	0.00	-	0.00	-	12.00	
Oil Warrant	-	41,719.26	0.00	0.00	0.00	-	0.00	-	**41,719.26**	**14%**
TOTAL	**154,659.40**	**138,788.88**	**(4.33)**	**483.18**	**-**	**(758.04)**	**3,338.94**	**821.27**	**297,329.30**	**100%**

Based on Official CBN exchange rate of US$1/₦155.70 as at 31/12/2013

4.6.4 External Debt Disbursements

Table 4.10 shows the disbursements of external debt by creditors from 2009 to 2013. External debt disbursements (excluding grants) totaled US$2,367.60 million in 2013, representing an increase of US$1,564.00 million or 194.62 percent, over the level as at end-December, 2012. The increase was mainly as a result of issuance of US$1 billion Eurobonds and disbursements from major sources such as the IDA, in 2013 accounting for about 42.24 and 30.24 percent of the total, respectively.

Table 4.9: External Debt Service Projections (US$ 'Million)

Category of Debt	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
MULTILATERAL										
ADF										
Principal	9.92	9.10	9.10	11.00	13.30	15.10	16.90	20.40	23.30	24.10
Interest	5.08	4.40	4.60	4.80	4.90	5.10	5.10	5.00	4.90	4.80
ADB										
Principal	12.55	0.00	0.00	0.00	10.00	20.00	20.00	20.00	20.00	20.00
Interest	0.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IFAD										
Principal	3.20	2.80	2.80	3.70	3.70	3.70	3.70	4.20	4.20	4.20
Interest	0.86	0.70	0.80	0.80	0.80	0.80	0.80	0.70	0.70	0.70
IDA										
Principal	81.63	82.00	91.00	100.00	113.00	142.30	153.90	170.90	192.80	218.30
Interest	44.80	42.10	43.60	45.00	46.00	46.30	46.30	46.20	45.70	45.00
EDF										
Principal	6.52	5.80	5.90	6.00	6.00	6.10	6.10	6.20	6.30	6.30
Interest	1.15	1.00	0.90	0.80	0.80	0.70	0.70	0.60	0.50	0.50
ABFEDA (BADE)										
Principal	0.00	0.00	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Interest	0.05	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
IDB										
Principal	1.76	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
Interest	0.25	0.20	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	**168.23**	**150.00**	**161.10**	**174.40**	**200.80**	**242.40**	**255.80**	**276.50**	**300.70**	**326.20**
Bilaterals										
Principal	20.00	20.00	20.00	20.00	83.00	76.90	123.00	237.20	237.20	237.20
Interest	25.31	93.20	147.40	198.90	250.20	300.20	349.80	377.10	347.20	317.20
Sub-Total	45.31	113.20	167.40	218.90	333.20	377.10	472.80	614.30	584.40	554.40
Commercial										
Principal	20.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	**21.53**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Eurobonds and Diaspora Bond										
Principal	0.00	0.00	0.00	0.00	500.00	0.00	0.00	500.00	0.00	500.00
Interest	108.59	108.59	108.59	108.59	108.59	82.97	82.97	65.63	31.88	31.88
Sub-Total	**108.59**	**108.59**	**108.59**	**108.59**	**608.59**	**82.97**	**82.97**	**565.63**	**31.88**	**531.88**
Others										
Oil Warrants										
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	41.72	41.20	41.20	41.20	41.20	41.20	41.20	0.00	0.00	0.00
Financial Service Fee	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00
New Financing	23.44	23.44	23.44	23.44	23.44	23.44	23.44	23.44	23.44	23.44
Sub-Total	**65.17**	**64.65**	**64.65**	**64.65**	**64.65**	**64.65**	**64.65**	**23.44**	**23.44**	**23.44**
Total Principal	**179.97**	**144.94**	**154.44**	**166.34**	**754.64**	**289.74**	**349.24**	**984.54**	**509.44**	**1,035.74**
Total Interest	**228.84**	**291.50**	**347.30**	**400.20**	**452.60**	**477.38**	**526.98**	**495.33**	**439.98**	**400.18**
TOTAL	**408.81**	**436.44**	**501.74**	**566.54**	**1,207.24**	**767.12**	**876.22**	**1,479.87**	**940.42**	**1,435.92**

Based on Official CBN exchange rate of US$1/₦155.70 as at 31/12/2013

Table 4.10: Disbursements by Source, 2009-2013 (USD' Million)

Source	2009	2010	2011	2012	2013
Multilateral:					
IDA	512.58	946.98	355.56	509.22	716.10
IFAD	3.1	3.5	20.4	14.66	9.50
ADB	0	0	0	0	150.00
ADF	17.15	22.68	48.12	37.56	166.10
IDB	0	1.97	1.63	-	-
ABADE	-	-	-	2.13	0.60
Sub-Total	**532.83**	**975.13**	**425.71**	**563.6**	**1,042.30**
Bilateral	0	0	313.2	240.03	325.30
Private-ICM (Eurobonds)	0	0	500	-	1,000.00
TOTAL	**532.83**	**975.13**	**1,238.91**	**803.6**	**2,367.60**

Disbursements exclude Grants.

4.6.5 Net Resource Flows on External Debt

Table 4.11 shows both the net resource flow on external debt and net transfers by source in 2013. The breakdown revealed a net resource flow of US$2,212.95 million in 2013, as against the US$644.95 million recorded in 2012. The inflow was mainly on account of disbursements from the Multilateral and Bilateral creditors, as well as, from the US$1 billion Eurobonds issued in July, 2013. The net transfer stood at US$2,070.28 million, signifying an overall net inflow of resources into the country in 2013.

Table 4.11: Net Flows and Net Transfers on External Debt by Source in 2013 (US$' Million)

Creditor Category	Disbursements in 2013	Principal Repayments in 2013	Net resource flow in 2013	Interest paid in 2013	Net Transfers in 2013
	(A)	(B)	C (A-B)	(D)	E(C-D)
Multilateral	1,042.30	98.97	943.33	43.92	899.41
Bilateral	325.30	20.00	305.30	21.08	284.22
Commercial	0.00	35.68	-35.68	2.20	-37.88
Oil Warrants	0.00	0.00	0.00	41.72	-41.72
Eurobonds	1,000.00	0.00	1,000.00	33.75	966.25
Citibank Agency Fees	0.00	0.00	0.00	0.01	-0.01
Total	**2,367.60**	**154.65**	**2,212.95**	**142.67**	**2,070.28**

(i) Net resource flow equals disbursements less principal repayments
(ii) Net transfers equals net resource flow less Interest payments.

4.7 Matured and Fully Repaid External Loans in 2013

Table 4.12 shows a China loan that was contracted in 2002 from ALCATEL for Nigeria Local Government Rural Telephone project amounting to US$77.58 million, that matured and was fully repaid in 2013.

Table 4.12: Matured and Fully Repaid Debts in 2013 (US$)

S/N	PROJECT TITLE	DATE SIGNED	CURRENCY	MATURITY DATE	ORIGINAL AND FULLY REPAID AMOUNT
1	Nigeria Local Government Rural Telephone	7/5/2002	USD	6/30/2013	77,579,034.40

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

The domestic debt outstanding stood at₦7,118.97 billion as at end-December, 2013, representing an increase of 8.89 percent lower than 16.27 percent recorded in 2012. The increase was largely on account of new borrowings to part fund the appropriated budget deficit and the refinancing of maturing debt instruments. The breakdown of domestic debt by category of holders showed that Banks and Discount Houses held the highest proportion of about 46 percent, followed closely by Non-Bank Public with 45 percent, while the CBN accounted for 2 percent of the total debt portfolio as at end-December, 2013. Total domestic debt service was ₦794.10 billion in 2013, compared with ₦720.55 billion in 2012. All FGN Bond issuances in the primary market were oversubscribed indicating appreciable liquidity in the domestic capital market. The FGN Bond secondary market has continued to witness growth and increased participation of institutional investors in 2013, reflecting the salutary impact of the inclusion of FGN bonds in the J.P. Morgan (GBI-EM) and Barclays Capital (EM-LCBI).

5.1 Domestic Debt Stock

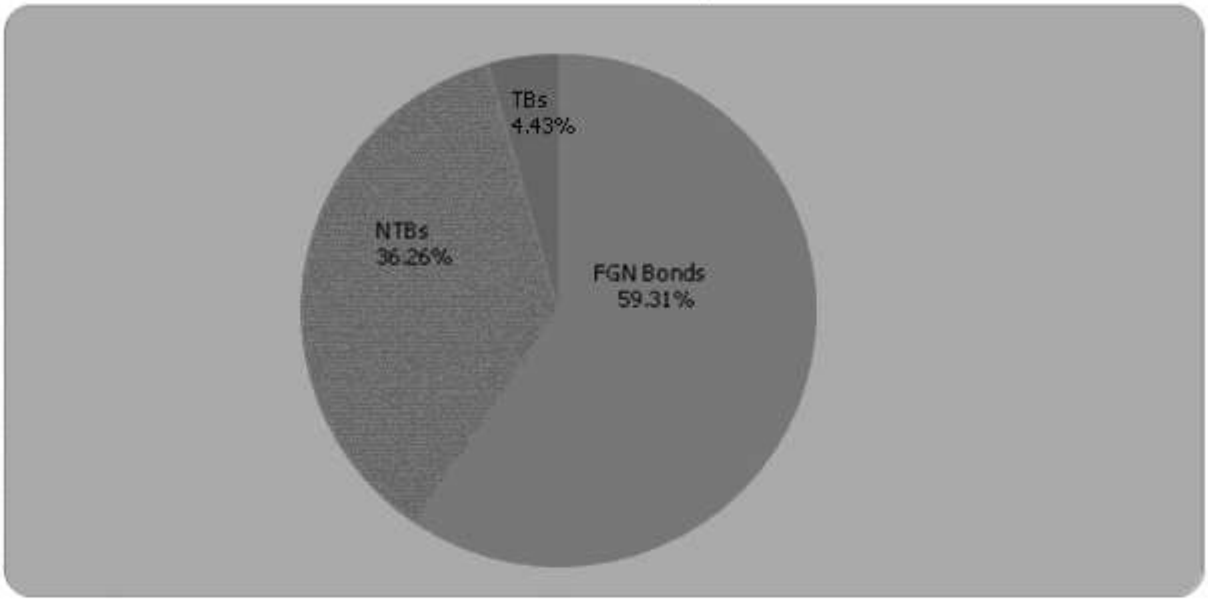
The securitized Federal Government domestic debt stock stood at ₦7,118.97 billion as at end-December, 2013, representing an increase of ₦581.43 billion or 8.89 percent, compared to ₦6,537.54 billion in 2012 (Table 5.1). The increase in the stock of domestic debt was as a result of the net issuance of FGN Bonds worth ₦1,044.60 billion and ₦2,581.55 billion, respectively, which was used to finance appropriated budget deficit in 2013 and refinancing of matured securities.

Table 5.1 and Figure 5.1 show that 59.31 percent or ₦4,222.03 billion of the total domestic debt stock was sourced through the issuance of FGN bonds, representing an increase of 3.48 percent above the level in 2012. The share of Nigerian Treasury Bills (NTBs) was 36.26 percent, up from the 32.47 percent in 2012, while the share of Treasury Bonds dropped marginally from 5.12 percent in 2012 to 4.43 percent in 2013.

Table 5.1: Domestic Debt Outstanding by Instruments, 2012 & 2013 (₦' Billion)

INSTRUMENT	2012	2013
FGN Bonds (% share of Total)	4,080.05 (62.41)	4,222.03 (59.31)
Nigerian Treasury Bills (% share of total)	2,122.93 (32.47)	2,581.55 (36.26)
Treasury Bonds (% share of total)	334.56 (5.12)	315.39 (4.43)
Total (% share of total)	**6,537.54** (100)	**7,118.97** (100)

Figure 5.1: Composition of Domestic Debt Stock by Instruments as at end-December, 2013



5.2 Trend and Composition of Domestic Debt Outstanding by Instruments

Table 5.2 shows the composition of domestic debt by instruments from 2009 to 2013. The stock of FGN Bonds has remained on an upward trend from ₦1,974.93 billion in 2009, to ₦4,222.03 billion in 2013. Similarly, the stock of NTBs increased from ₦797.48 billion in 2009 to ₦2,581.55 in 2013. On the other hand, the quantum of Treasury Bonds has continued to further decrease from ₦392.07 billion in 2009, to ₦315.39 billion in 2013. The final redemption of Promissory Notes and Development Stock were completed in 2009 and 2010, respectively. It is important to emphasize that the upward trajectory in the domestic debt stock is due to the rise in Government's expenditure occasioned by consistent increase in overheads and other recurrent expenditures, which have necessitated an increase in the proportion of the fiscal deficit funded through domestic borrowing.

Table 5.2: Trend in Domestic Debt Outstanding by Instruments, 2009 – 2013 (₦' Billion)

INSTRUMENTS	2009	2010	2011	2012	2013
FGN Bonds	1,974.93	2,901.60	3,541.20	4,080.05	4,222.03
NTBs	797.48	1,277.10	1,727.91	2,122.93	2,581.55
Treasury Bonds	392.07	372.90	353.73	334.56	315.39
Development Stock	0.52	0.22	-	-	-
Promissory Note	63.03	-	-	-	-
TOTAL	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.54**	**7,118.97**

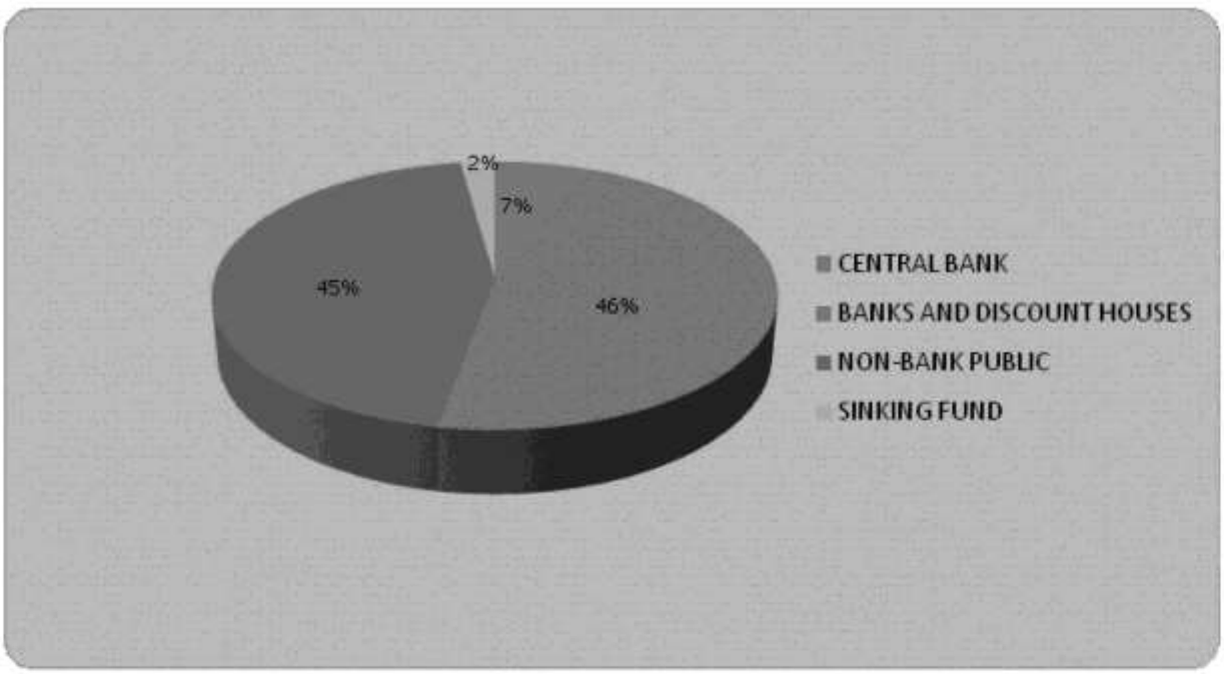
5.3 Domestic Debt Stock by Category of Holders

Table 5.3 and Figure 5.2 show domestic debt outstanding by holder's category as at end-December, 2013. The breakdown revealed that Banks and Discount Houses and Non-Bank Public hold the largest portion of the domestic debt stock, accounting for ₦3,293.83 billion or 46.27 percent and ₦3,197.69 billion or 44.92 percent, respectively. This was followed by the Central Bank of Nigeria (CBN) with a share of ₦468.86 billion or 6.59 percent of the total debt stock, while the balance of ₦158.59 billion or 2.23 percent was held in Sinking Fund.

Table 5.3: Domestic Debt Outstanding by Holders as at end-December, 2013 (₦' Billion)

Instruments	Central Bank	Banks and Discount Houses	Non-Bank Pubic	Sinking Fund	Amount Outstanding
FGN Bonds	68.89	1,955.51	2,197.63	-	4,22.03
Nigerian Treasury Bills (NTBs)	234.17	1,338.32	1,000.06	-	2,581.55
Treasury Bonds	156.8	-	-	158.59	315.39
Total	**468.86**	**3,293.83**	**3,197.69**	**158.59**	**7,118.97**
% of Total	**6.59%**	**46.27%**	**44.92%**	**2.23%**	**100%**

Figure 5.2: Composition of Domestic Debt Outstanding by Holders as at end-December, 2013



The trend analysis showed that the holding of the CBN increased from ₦323.18 billion in 2009 to ₦468.86 billion in 2013 (Table 5.4). Similarly, the holding of Banks and Discount Houses, as well as, the Non-Bank Public has maintained a relatively stable increase since 2009. This analysis, however, reflects the increased level of activity in the secondary market for FGN Bonds and the rising investors' interest in the domestic bond market.

Table 5.4: Domestic Debt Outstanding by Holders Category, 2009-2013 (₦' Billion)

Investor-Type	2009	2010	2011	2012	2013
CBN	323.18	343.14	348.84	398.27	468.86
Banks and Discount Houses	1,274.54	2,605.01	3,790.90	3,580.42	3,293.83
Non-Bank Public	1,345.55	1,459.30	1,336.61	2,398.52	3,197.69
Sinking Fund	284.72	144.37	146.49	160.32	158.59
Total	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.53**	**7,118.97**

5.4 Domestic Debt by Residual Maturity

Table 5.5 shows the maturity structure of domestic debt as at end-December, 2013. The debt instruments with maturities of over 3 years (long-term debt) constituted about 45.17 percent of total domestic debt portfolio, while 11.28 percent are debt instruments maturing between 1 and 3 years. This ratio of 44:56 for short and long-term domestic debt instruments in the domestic debt portfolio is in contrast to the DMO's preferred 25:75 ratio. The trend analysis of the total domestic debt outstanding by residual maturity between 2009 and 2013 shows that the quantum of long-term debts have maintained an upward trend from ₦2,030.28 billion in 2009 to ₦4,018.26 billion in 2013.

Table 5.5: Maturity Structure of Domestic Debt as at end-December, 2013

Residual Maturity (Years)	% Share of Outstanding Debt
< 1 Year	43.55
⩾ 1-3 Years	11.28
> 3 Years	45.17
Total	**100.00**

Table 5.6: Domestic Debt Outstanding by Residual Maturity, 2009 – 2013 (₦' Billion)

Year	Short Term[1]	Medium-Long Term [2]	Total
2009	1,197.75	2,030.28	3,228.03
2010	1,520.16	3.031.66	4,551.82
2011	2,203.08	3,419.76	5,622.84
2012	3,044.75	3,419.76	5,622.84
2013	3,100.72	4,018.26	7,118.98

Notes:

1.Instruments with up to 1 year remaining maturity

2.Instruments with more than 1 year remaining maturity

5.5 Domestic Debt Service

The total domestic debt service for 2013 rose marginally by 11.15 percent, from ₦720.55 billion in 2012 to ₦794.10 billion, in 2013.In terms of proportionate shares, the FGN bonds debt service accounted for 60.75 percent of the total debt service payment, while payments in respect of the NTBs, and Treasury Bonds constituted 33.09 percent and 6.16 percent, respectively (Figure 5.3). The total domestic debt service (interest only) as a percentage of the total domestic debt stock outstanding was 12.48 percent in 2013, which was higher than the 11.02 percent recorded in 2012. The increase in the ratio of debt service-to-debt stock was due to the rise in the cost of borrowing in the domestic market and the increase in the domestic debt stock in 2013. The trend analysis in Table 5.7 reveals a consistent increase in domestic debt service payments from 2009 to 2013.

Figure 5.3: Composition of Domestic Debt Service, 2013

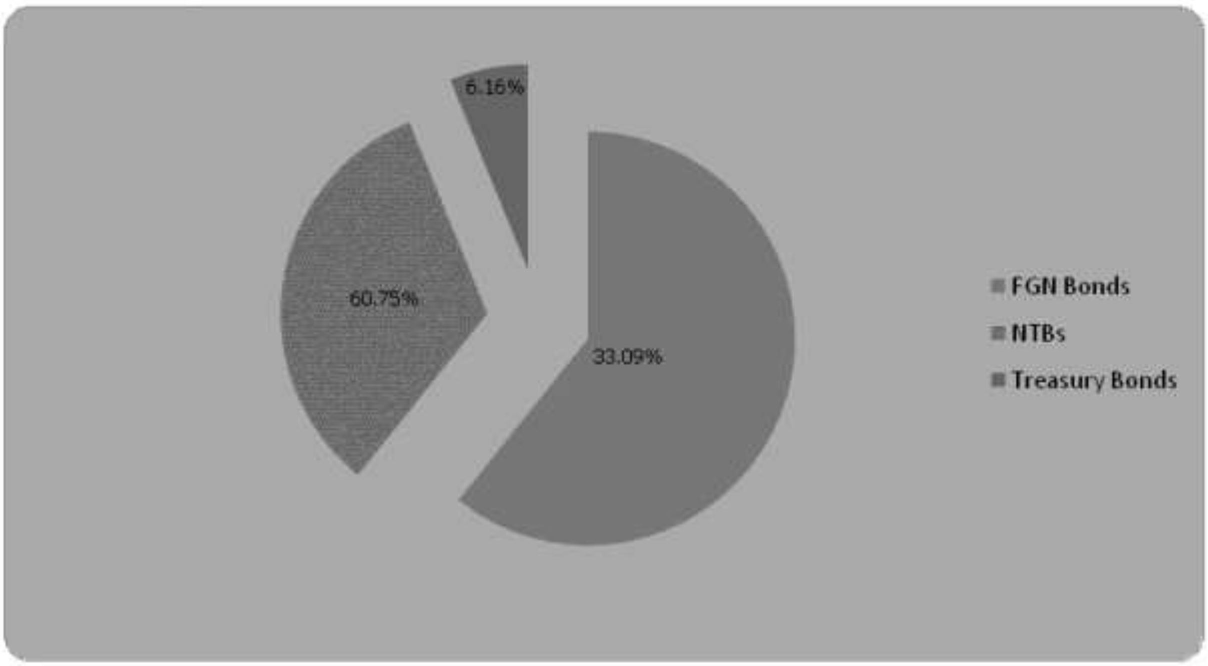


Table 5.7: Trends in Domestic Debt Service, 2009-2013 (₦' Billion)

YEAR	DEBT SERVICE
2009	281.54
2010	354.13
2011	537.39
2012	720.55
2013	794.10

5.6 The Domestic Bond Market

The domestic bond market in 2013 maintained its growth momentum of previous years. Among the significant developments in the market was the Issuance of ₦12 billion 5-year Bond by the International Finance Corporation (IFC) in February 2013, which was the first time a supra-national, would issue Bonds in Nigeria's debt market. Other major developments were the inclusion of FGN Bonds in the Barclays Capital's Emerging Markets Local Currency Bond Index (EM–LCBI), the Issuance of a Sukuk bond by Osun State Government, the appointment of Fixed Income Market makers by The Nigerian Stock Exchange (NSE or Exchange) and the introduction of an Over-the-Counter (OTC) fixed Income securities trading platform-Financial Market Dealers Quotations (FMDQ), which is registered by the Securities and Exchange Commission (SEC).

5.6.1 Size and Composition of the Domestic Bond Market

The domestic bond market, in terms of Face Value of outstanding Bonds grew by 4.19 percent, from ₦4,781.48 billion in 2012 to ₦4,981.88 billion in 2013. The relative share of FGN Bonds declined marginally from 85.34 percent in 2012 to 84.75 percent in 2013. State Governments Bonds rose by ₦75.96 billion to ₦573.9 billion in 2013 resulting in an increase in their relative share from 10.42 per cent in 2012 to 11.52 percent. The outstanding Corporate Bonds declined from ₦203 billion in 2012 to ₦173.94 billion in 2013.Their share at 3.49 percent in 2013, was lower than the 4.25 percent recorded in 2012. Supra-nationals (IFC only) accounted for 0.24 percent of the domestic bond market in 2013 (Table 5.8).

Table 5.8: Size and Composition of Domestic Bond Market, 2012 - 2013

	2012		2013	
Issuer	**Amount Outstanding (₦'billion)**	**% of Total**	**Amount Outstanding (₦'Billion)**	**% of Total**
Federal Government of Nigeria	4,080.48	85.34	4,222.04	84.75
State Governments	498	10.42	573.90	11.52
Corporates	203	4.25	173.94	3.49
Supranationals	-	-	12	0.24
	4,781.48	**100.00**	**4,981.88**	**100.00**

Source: Securities and Exchange Commission and Debt Management Office
Note: AMCON Bonds are not included in 2012 and 2013

5.6.2 Primary Market

The Face Value of new issues in 2013 was ₦1,044.79 billion. This dropped from ₦1,183.89 billion in 2012, with a decline recorded in all issuer category. New issues by the Federal Government of Nigeria, State Governments and Corporates were ₦99.01 billion, ₦41.10 billion and ₦29.33 billion lower than their respective figures in 2012. The Federal Government of Nigeria through its regular monthly Bond Auction, was the largest issuer with a share of over 86 percent. IFC's ₦12 billion, bond issuance, was 1.16 percent of the total new bond issues in 2013 (Table 5.9).

Table 5.9: Summary of New Issues, 2012 - 2013

	2012		2013	
Issuer	**Amount Outstanding (₦'Billion)**	**% of Total**	**Amount Outstanding (₦'Billion)**	**% of Total**
Federal Government of Nigeria	994.85	84.03	1,044,643.14	86.61
State Governments	157	13.26	125.90	11.21
Corporates	32.04	2.71	10.58	1.02
Supra-National	0	0	12	1.16
Total	**1,183.89**	**100**	**1,044,791.62**	**100**

Source: Debt Management Office and Securities and Exchange Commission

5.6.3 FGN Primary Market Activities

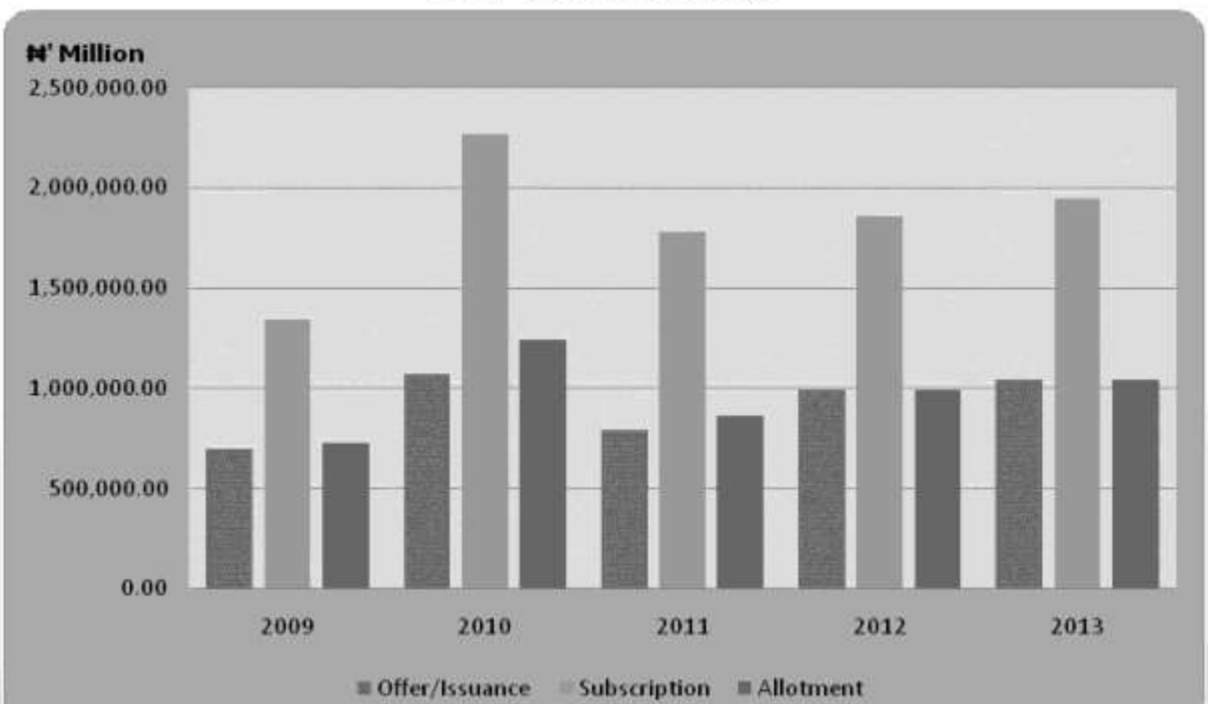
The FGN primary market activities indicated that 3, 5, 7, 10 and 20-year benchmark FGN Bonds were offered during the year. A total of ₦1,044.64 billion was offered and allotted from the total subscription of ₦1,948.11 billion in 2013. The year 2013, recorded a higher subscription level of ₦1,948.11 billion which was 4.2 per cent higher than that of the previous year. (Table 5.10 and Figure 5.4). Out of the amount allotted to the bidders, the sum of ₦148.80 billion was allotted on non-competitive basis to institutional investors.

Table 5.10 and Figure 5.4 further revealed that FGN Bonds have consistently been oversubscribed in the last 5 years, thus confirming the success of the various initiatives adopted by the DMO and other stakeholders to develop the FGN Bond Market and the domestic bond market in general. The initiatives include: the use of benchmark FGN Bonds to support liquidity; amendment to existing guidelines or issuance of new guidelines by regulators to simplify the bond issuance process, reduction in issuance and transaction costs and enlarge the investor base; and sensitization of potential bond issuers and investors.

Table 5.10: FGN Bonds Primary Market Issuance, 2009 – 2013 (₦' Million)

Year	Offer/Issuance	Subscription	Allotment
2009	694,000.00	1,340,891.46	726,500.00
2010	1,073,120.00	2,267,760.41	1,244,439.79
2011	791,268.42	1,781,621.68	863,268.42
2012	994,850.00	1,858,188.06	994,850.00
2013	1,044,643.14	1,948,108.48	1,044,643.14

Figure 5.4: Summary of Yearly FGN Bonds Offer, Subscription & Allotment, 2009-2013 (₦' Million)



5.6.4 Allotment of FGN Bonds by Residency Classification

A breakdown of the allotments of the FGN Bonds by Residency Classification shows that resident investors accounted for ₦884,262.33 million or 84.65 percent of bonds allotted in 2013, compared with ₦890,631.48 million or 89.52 percent in 2012. On the other hand, non-resident investors accounted for ₦160,380.81 million or 15.35 percent of bonds allotted in 2013, compared with 10.48 percent in 2012 (Table 5.11). The proportion of allotment by non-residents has steadily increased over the years. This can be attributed to continuous interest in the FGN Bonds by foreign investors due to the attractive yields offered by the market.

Table 5.11: Allotment of FGN Bonds by Residency Classification 2012 & 2013 (₦' Million)

	2012		2013	
Classification	**Amount**	**% of Total**	**Amount**	**% of Total**
Residents	890,631.48	89.52	884,262.33	84.65
Non-Residents	104,218.52	10.48	160,380.81	15.35
Total	**994,850.00**	**100**	**1,044,643.14**	**100**

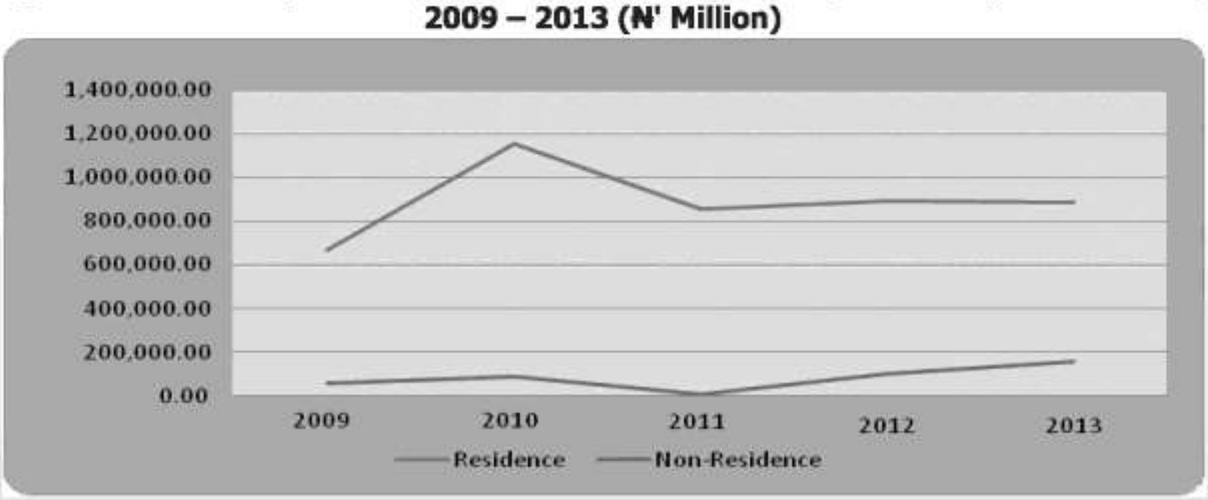
5.6.5 Trend Analysis of FGN Bonds Allotment by Residency

The trend analysis of FGN Bonds allotments by residency shows an increasing interest by non-resident investors in FGN Bonds. The share of non-resident investors trended upward from ₦104,281.52 million in 2012 to ₦160,380.81 million in 2013, while the proportion of resident investors dropped from ₦890,631.40 million in 2012 to ₦884,262.33 million in 2013 (Table 5.12 and Figure 5.5).

Table 5.12: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2009 – 2013 (₦' Million)

Year	Residents	Non-Residents	Total
2009	668,121.65	58,378.35	726,500.00
2010	1,156,237.82	88,201.97	1,244,439.79
2011	857,196.62	6,071.80	863,268.42
2012	890,631.48	104,218.52	994,850.00
2013	884,262.33	160,380.81	1,044,643.14

Figure 5.5: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2009 – 2013 (₦' Million)



5.6.6 Analysis of FGN Bond Auction by Tenor

The analysis of the FGN bonds Auction by tenor offered in 2013, shows that bonds with tenors of 3, 5, 7, 10 and 20 years were issued (Table 5.13). The 3-year and 5-year bonds accounted for 19.38 and 26.45 percent of FGN Bonds offered, while 7-year, 10-year and 20-year tenors accounted for 13.05, 13.91 and 27.21 percent, respectively. Furthermore, Tables 5.14 and 5.15 show the breakdown of monthly FGN Bonds offered by tenor, and monthly FGN Bond Issuance, Subscriptions and Allotments in 2013. The trend of monthly issuance activity is shown in Figure 5.6.

Table 5.13: Analysis of FGN Bonds Issuance by Tenor, 2013 (₦' Million)

Tenor*	Amount (₦' Million)	% of Total
3-years	202,474.70	19.38
5-years	276,303.11	26.45
7-years	136,300.00	13.05
10-years	145,300.00	13.91
20-years	284,265.33	27.21
Total	**1,044,643.14**	**100.00**

* Represents original Issuance tenor

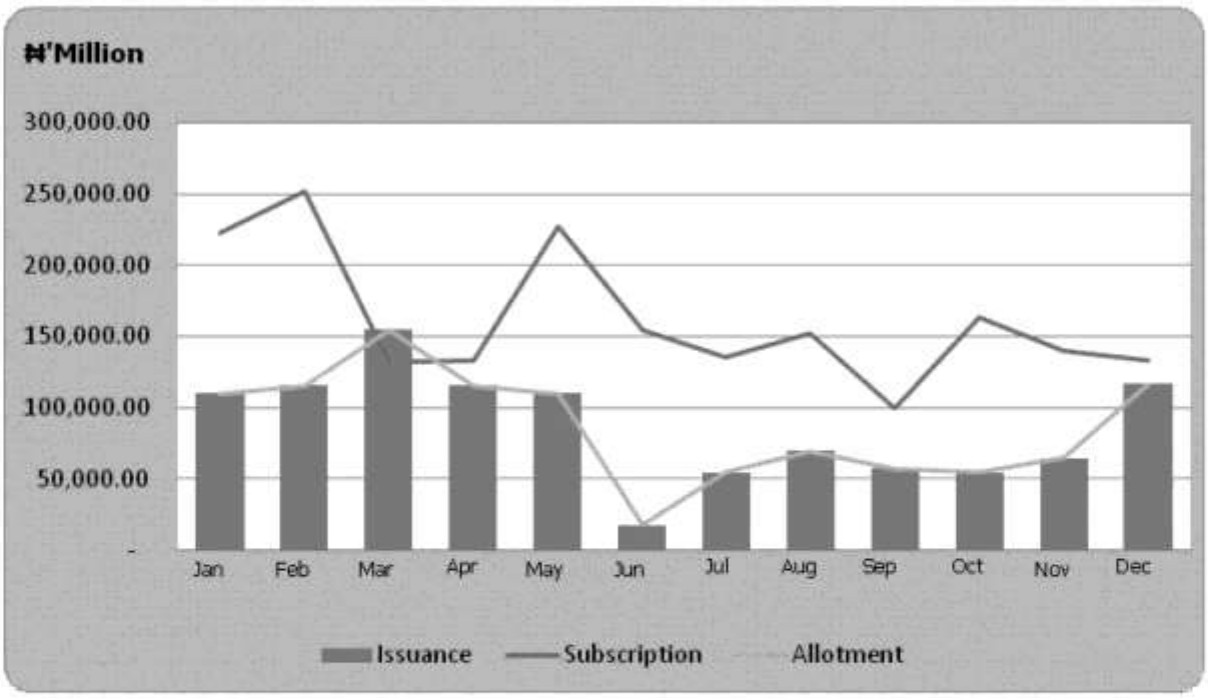
Table 5.14: Monthly Analysis of FGN Bonds Issuance by Tenor, 2013 (₦' Million)

Month	3 Year	5 Year	7 Year	10 Year	20 Year	Total
January		35,000.00	30,000.00	45,000.00		110,000.00
February		35,000.00	35,000.00	30,500.00	15,000.00	115,500.00
March		20,000.00	-	35,000.00	-	155,000.00
April		-	46,300.00	34,800.00	35,000.00	116,100.00
May		50,000.00	25,000.00		35,000.00	110,000.00
June		16,303.11			2,006.00	18,309.11
July		20,000.00			35,000.00	55,000.00
August	35,000.00				35,000.00	70,000.00
September	25,474.70				32,259.33	57,734.03
October	25,000.00				30,000.00	55,000.00
November	35,000.00				30,000.00	65,000.00
December	82,000.00				35,000.00	17,000.00
Total	**202,474.70**	**276,303.11**	**136,300.00**	**145,300.00**	**284,265.33**	**1,044,643.14**

Table 5.15: Monthly FGN Bonds Issuance, Subscription & Allotment, 2013 (₦' Million)

Month	Offer	Subscription	Allotment
January	110,000.00	223,048.93	110,000.00
February	115,500.00	251,910.80	115,500.00
March	155,000.00	132,179.21	155,000.00
April	116,100.00	133,338.30	116,100.00
May	110,000.00	227,508.97	110,000.00
June	18,309.11	154,535.62	18,309.11
July	55,000.00	135,926.25	55,000.00
August	70,000.00	152,455.80	70,000.00
September	57,734.03	100,134.03	57,734.03
October	55,000.00	163,891.80	55,000.00
November	65,000.00	139,796.63	65,000.00
December	117,000.00	133,382.14	117,000.00
Total	**1,044,643.14**	**1,948,108.48**	**1,044,643.14**

Figure 5.6: Summary of Monthly FGN Bonds Issuance, Subscription & Allotment, 2013 (₦' Million)



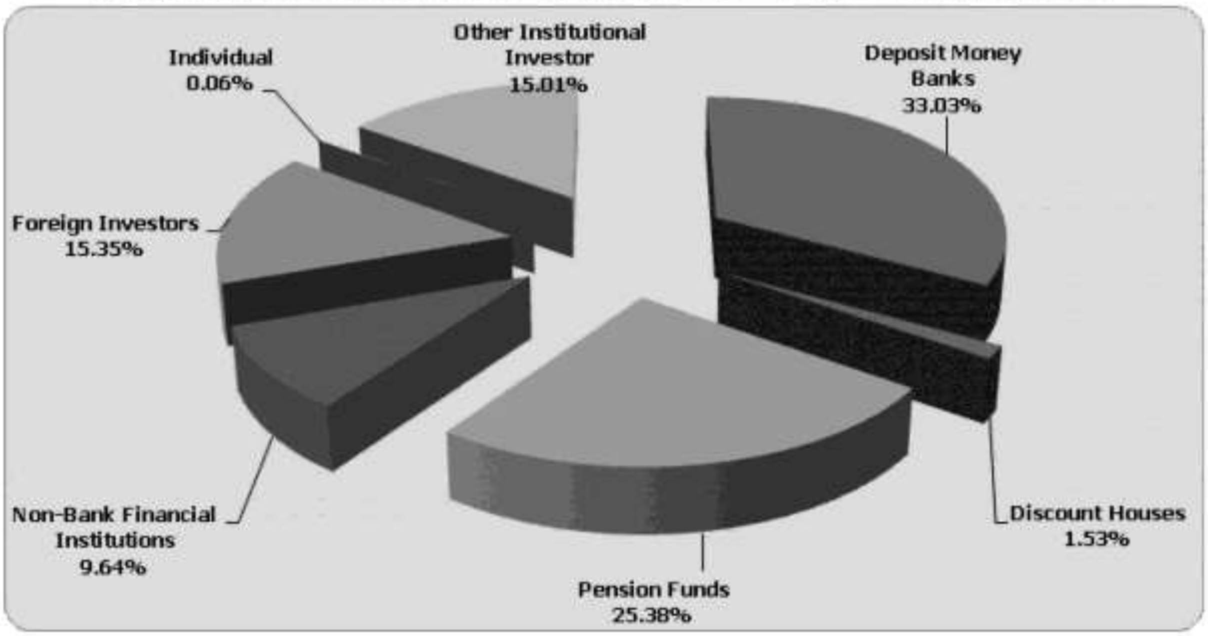
5.6.7 Allotment of FGN Bonds Issuance by Investor-Type, 2013

The analysis of FGN Bonds allotments by investor-type depicts that the Deposit Money Banks accounted for 33.03 percent of the total FGN Bonds allotted in the year 2013. This was followed by the Pension Fund Administrators, Foreign Investors and Other Institutional Investors accounting for 25.38, 15.35 and 15.01 percent of total allotment, respectively (Table 5.16 and Figure 5.7)

Table 5.16: Details & Allotment of FGN Bonds Issuance by Investor-Type, 2013 (₦' Million)

DESCRIPTION	AMOUNT	RESULT
Total Amount Offered		1,044,643.14
Total Subscription		1,948,108.48
Range of Bids (%)		6.00% - 16.50%
Range of Marginal Rates (%)		10.6775% - 13.7990%
Range of Coupons (5)		4% - 16.39%
		% OF TOTAL ALLOTMENT
Deposit Money Banks	345,068.63	33.03
Discount Houses	16,000.39	1.53
Pension Funds	265,114.38	25.38
Non-Bank Financial Institutions	100,680.34	9.64
Foreign Investors	160,380.81	15.35
Individuals	623.11	0.06
Other Institutional Investors	156,775.49	15.01
TOTAL ALLOTMENT	**1,044,643.15**	**100.00**

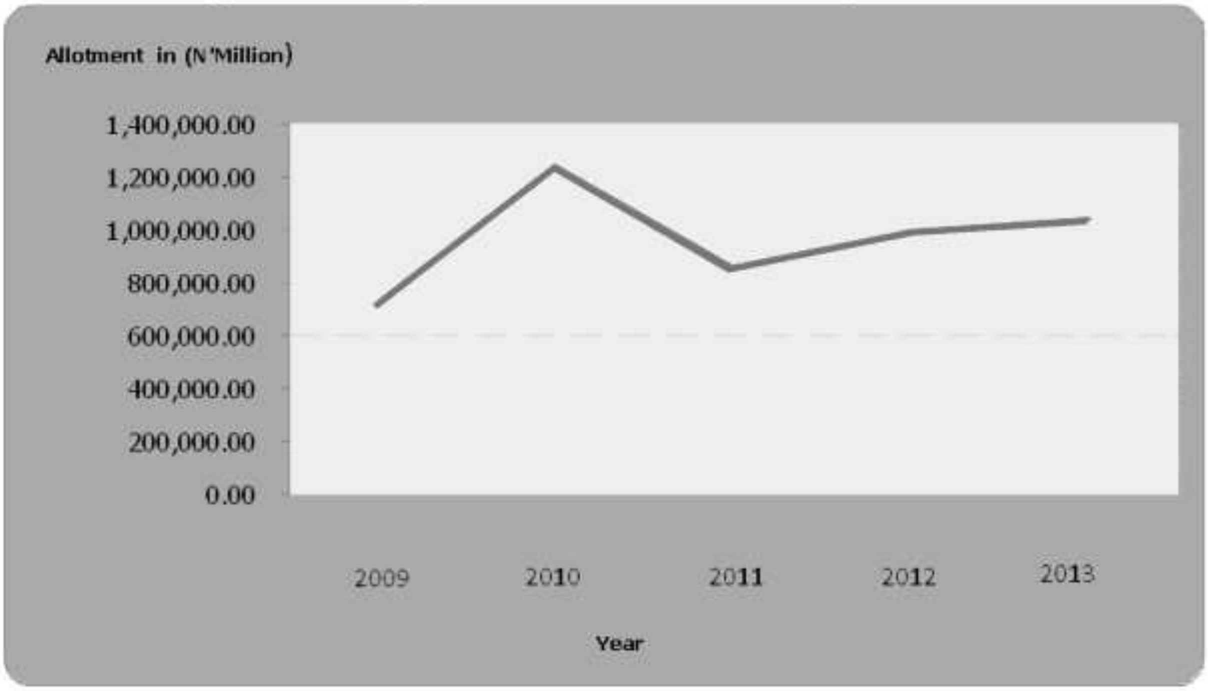
Figure 5.7: Allotment of FGN Bonds Issuance by Investor-Type, 2013



5.6.8 Trend Analysis of FGN Bonds Allotment

Figure 5.8 shows the trend of allotments of the FGN Bonds from 2009 to 2013. It reflects a rising trend, and the highest allotment of ₦1,244.43 billion was recorded in year 2010, when the offer amount was the highest.

Figure 5.8: Analysis of FGN Bonds Allotments, 2009-2013



5.6.9 Sub-national Bond Issuances in 2013

The number of States that issued Bonds in 2013 were six (6) compared to four (4) in 2012. The total issuance in terms of Face Value in 2013, was ₦125.90 billion, and represented 19.81 percent lower than the ₦157 billion issued in 2012.

Table 5.17: Sub-National Bond Issuances, 2012-2013

2012		2013	
Bond Issuer	**Amount (₦' Billion)**	**Bond Issuer**	**Amount (₦' Billion)**
Ondo State	27	Ekiti State	5
Gombe State	20	Kogi State	5
Nassarawa State	0	Nassarawa State	5
Niger State	0	Niger State	12
Lagos State	80	Lagos State	87.50
Osun State	30	Osun State (Sukuk)	11.40
Total	**157**	**Total**	**125.90**

Source: Securities and Exchange Commission

5.6.10 Corporate Bond Issuances in 2013

The year 2013, was relatively quiet in terms of new issues by corporates, as only three (3) companies issued bonds amounting to ₦10.58 billion. The comparative figures for 2012, were four (4) corporates and ₦32.04 billion (Table 5.18). The number of corporate issuers and the amount issued in each of the years 2012 and 2013 were much lower than the seven (7) corporates, who issued a total of ₦71.43 billion in Bonds in 2011. The reduced activity by corporates in the primary market may have been due to the relatively high interest rates which prevailed in 2012 and 2013.

Table 5.18: Corporate Bond Issuances, 2012-2013

2012		2013	
Bond Issuer	**Amount (₦'Billion)**	**BondIssuer**	**Amount (₦'Billion)**
Chellarams Plc	0.54	FSDH Funding Special Project Vehicle Plc	5.53
C& I Leasing Plc	0.94	The La Casera Company Plc	3
Federal Mortgage Bank of Nigeria (Series 2 Notes)	6	Nigerian Aviation Handling Company Plc	2.05
Federal Mortgage Bank of Nigeria (Series 3 Notes)	24.56	-	-
Total	**32.04**		**10.58**

Source: Securities and Exchange Commission

5.7 FGN Bond Secondary Market Activities

5.7.1 Over-The-Counter Market

With an increase in the number and diversity of players in the FGN Bond market and the regular issuance by the DMO of benchmark bonds, the level of OTC trading in terms of Number of Transactions, Face Value and Consideration, grew when compared to their respective levels in 2012. The Number of Transactions grew by 2.04 percent from 44,822 in 2012 to 45,735 in 2013, while the Face Value of Trades was ₦7.859 trillion or about 7 percent higher than the ₦7.345 trillion recorded in 2012. At ₦8.914 trillion in 2013, Total Consideration was 25.64 percent higher than the corresponding figure of ₦7.095 trillion in 2012 (Table 5.19).

The average monthly Number of Transactions, Face Value of Trades and Consideration in 2013, were 3811, ₦655 billion and ₦743 billion, respectively. These were all significantly higher than their respective figures of 3735, ₦612 billion and ₦591 billion in 2012.

Table 5.19: OTC Trading Activities in FGN Bonds, 2012-2013*

2012				2013		
Period	**Number of Transactions**	**Face Value (N)**	**Consideration (N)**	**Number of Transactions**	**Face Value (N)**	**Considerations (N)**
January	1,961	395,002,082,000	349,867,247,897	4,841	769,163,939,000	878,083,623,588.49
February	5,313	660,460,633,000	558,016,963,432	4,407	819,530,732,000	984,984,817,063.63
March	3,881	472,266,477,000	398,035,690,292	4,691	797,588,042,000	990,398,819,009.62
April	3,384	509,919,734,000	444,587,638,311	3,925	672,495,342,000	815,967,748,621.64
May	3,091	514,201,502,000	469,701,279,424	5,065	772,208,385,000	890,765,021,336.55
June	2,767	551,643,080,000	516,672,567,585	5,224	948,460,124,000	1,081,512,601,645.63
July	4,292	596,013,955,000	560,144,511,269	4,982	709,653,665,000	770,622,127,490.43
August	3,686	638,226,824,000	618,789,039,722	3,406	542,954,400,000	561,006,418,384.65
September	4,132	890,677,765,000	924,113,417,526	2,132	470,748,591,000	486,573,568,085.68
October	4,332	723,451,019,000	794,553,817,064	2,932	517,379,879,000	562,093,266,498.99
November	4,954	873,461,344,000	903,300,982,680	2,778	558,365,869,000	597,045,664,100.62
* December	3,029	520,022,847,000	557,586,207,322	1,352	280,091,580,000	294,737,121,276.57
Total	**44,822**	**7,345,347,262,000**	**7,095,369,362,522**	**45,735**	**7,858,640,548,000**	**8,913,790,797,102.48**

Source: Central Securities Clearing System

*Figures are for Jan. 1 – Dec. 19, 2013

5.7.2 Over-The-Counter and Exchange Trades

In November 2012, the DMO appointed Stanbic IBTC Stockbrokers Limited, as the Government Stockbroker. This initiative, whose principal purpose is to encourage retail participation in FGN Bonds by providing liquidity for the Bonds on the Floor of the NSE, resulted in some level of trading on the Exchange. In 2013, this initiative recorded modest success as 551 Transactions with Face Value and Consideration of ₦190.123 million and ₦199.1 million were traded on the Exchange. Although, these numbers are small relative to those on the OTC market, the development is a giant stride in the DMO's goal towards increasing the level of retail participation in FGN Bonds. The numbers are expected to grow as the level of awareness increases.

Merging the Trading statistics in the OTC Market and the Exchange together, the Total Number of Transactions, Face Value of Transactions and Consideration in 2013, were 46,286, ₦7.859 trillion and ₦8.914 trillion, respectively (Table 5.20).

Table 5.20: FGN Bonds Secondary Market Trades - OTC and Exchange Trading in 2013

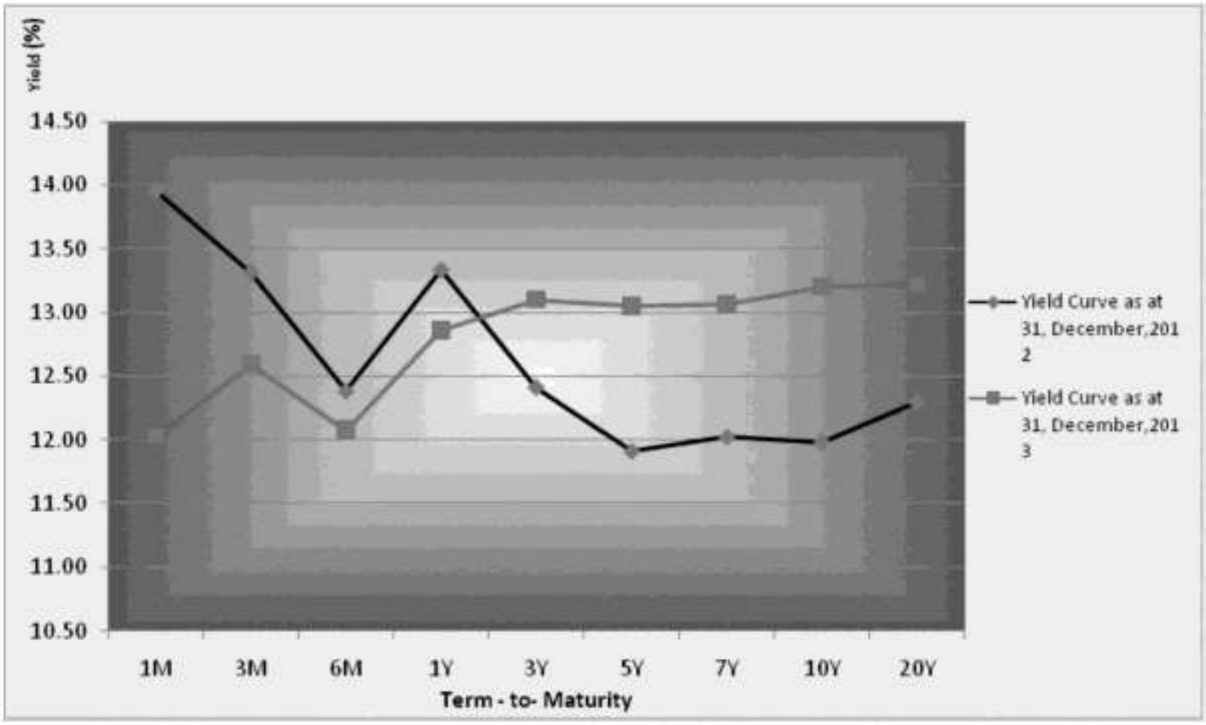
Period	Number of Transactions - OTC	Number of Transactions - Exchange	Number of Transactions	Face Value - OTC (₦)	Face Value - Exchange (₦)	Total Face Value (₦)	Consideration - OTC (₦)	Consideration - Exchange (₦)	Total Consideration (₦)
Jan	4,841	0	4,841	769,163,939,000	0	769,163,939,000	878,083,623,588.49	0	878,083,623,588.49
Feb	4,407	150	4,557	819,530,732,000	25,530,000.00	819,556,262,000	984,984,817,063.63	31,822,902.55	985,016,639,966.18
Mar	4,691	77	4,768	797,588,042,000	7,503,000.00	797,595,545,000	990,398,819,009.62	9,287,503.59	990,408,106,513.21
April	3,925	83	4,008	672,495,342,000	12,770,000.00	672,508,112,000	815,967,748,621.64	15,908,141.31	815,983,656,762.95
May	5,065	28	5,093	772,208,385,000	2,770,000.00	772,211,155,000	890,765,021,336.55	3,283,570.61	890,768,304,907.16
June	5,224	55	5,279	948,460,124,000	6,850,000.00	948,466,974,000	1,081,512,601,645.63	7,832,114.18	1,081,520,433,759.81
July	4,982	54	5,036	709,653,665,000	56,420,000.00	709,710,085,000	770,622,127,490.43	49,389,350.56	770,671,516,840.99
Aug	3,406	36	3,442	542,954,400,000	10,095,000.00	542,964,495,000	561,006,418,384.65	9,612,972.67	561,016,031,357.32
Sept	2,132	30	2,162	470,748,591,000	17,855,000.00	470,766,446,000	486,573,568,085.65	19,462,794.90	486,593,030,880.58
Oct	2,932	9	2,941	517,379,879,000	5,700,000.00	517,385,579,000	562,093,266,498.99	5,805,330.08	562,099,071,829.07
Nov	2,778	16	2,794	558,365,869,000	32,491,000.00	558,398,360,000	597,045,664,100.62	34,804,941.85	597,080,469,042.47
* Dec	1,352	13	1,365	280,091,580,000	12,139,000.00	280,103,719,000	294,737,121,276.57	11,881,146.51	294,749,002,423.08
Total	**45,735**	**551**	**46,286**	**7,858,640,548,000**	**190,123,000.00**	**7,858,830,671,000**	**8,913,790,797,102.48**	**199,090,768.81**	**8,913,989,887,871.31**

Source: Central Securities Clearing System
Note: OTC Trades are for Jan. 1 - December 19, 2013

5.7.3 The Sovereign Yield Curve

The Sovereign Yield Curve (Figure 5.9) shows that, as at end-December, 2013, the Yields on short-dated Federal Government of Nigeria Securities, were relatively lower than their corresponding Yields as at end-December, 2012. On the other hand, the Yields on the medium to long-dated securities as at year-end 2013, were higher than their levels in 2012. The trend reflects the stronger demand for short-dated securities due to the monetary tightening policies of the Central Bank of Nigeria and the announcement of a possible tapering by the U.S Federal Reserve Bank in May, 2013. The latter led to a reduction in the participation of foreign investors and a shift in their demand to short dated securities. The Federal Reserve Bank eventually in December 2013 took the decision to cut back its Quantitative Easing Programme by US$10 billion monthly with effect from January, 2014.

Figure 5. 9: The Sovereign Yield Curve as at end December, 2012 and 2013



Source: Financial Market Dealers Association

5.8 Inclusion of FGN Bonds in Global Bond Indices

5.8.1 Barclays Capital's Emerging Markets-Local Currency Bond Index

In November, 2012, Barclay's Capital announced that it would admit selected FGN Bonds into its Emerging Markets Local Currency Bond Index (EM – LCBI). Following this announcement, a total of ten (10) FGN Bonds were included in the EM – LCBI in March, 2013. The ten (10) Bonds are shown in Table 5.21

Table 5.21: FGN Bonds in the Barclays Capital's EM – LCBI

No	Bond Name
1	9.25% FGN September 2014
2	4% FGN April 2015
3	15.1% FGN April 2017
4	10.7% FGN May 2018
5	16% FGN June 2019
6	7% FGN October 2019
7	16.39% FGN January 2022
8	12.49% FGN May 2029
9	8.5% FGN November 2029
10	10.0% FGN July 2030

Source: Barclays Capital

5.8.2 Additional Bonds in the J. P. Morgan's Emerging Markets- Government Bond Index

On October 1, 2012, three (3) FGN Bonds were included in the J.P. Morgan's Emerging Markets Government Bond Index (EM – GBI). In 2013, two (2) additional FGN Bonds were added bringing the total to five (5). The five (5) FGN Bonds included in the index are shown in Table 5.22.

Table 5.22: FGN Bonds in the J.P. Morgan's GBI – EM

As at October 1, 2012	As at April 1 2013
4% FGN April 2015	4% FGN April 2015
7% FGN October 2019	7% FGN October 2019
16.39% FGN January 2022	16.39% FGN January 2022
-	15.10% FGN April 2017
-	16% FGN June 2019

Source: J.P. Morgan

5.8.3 Number of DMO-Licensed Primary Dealer Market Makers in FGN Bonds

In 2013, the number of Primary Dealer Market Makers (PDMMs) in FGN Bonds reduced to sixteen (16) from eighteen (18) in 2012. The two (2) institutions whose PDMM licences were revoked by the DMO were: Express Discount Ltd., whose discount house licence was revoked by the CBN, and Consolidated Discount Ltd., who were a subject of CBN's investigation. The two (2) incidents occurred in the third quarter of 2013. Also, First Securities Discount House Ltd, converted to a merchant bank in the course of the year. The list of PDMMs as at December 31, 2013, is as follows:

Commercial Banks

Access Bank Plc
Citibank Nigeria Ltd
Diamond Bank Plc
Ecobank Nigeria Ltd
Fidelity Bank Nigeria Plc
First Bank of Nigeria Plc
First City Monument Bank Plc

Merchant Bank

FSDH Merchant Bank Ltd

Guaranty Trust Bank Plc
Stanbic IBTC Bank Plc
Standard Chartered Bank Nigeria Ltd
Union Bank of Nigeria Plc
United Bank for Africa Plc
Zenith Bank Plc.

Discount Houses

Associated Discount House Ltd
Kakawa Discount House Ltd

5.9 Recent Developments in the Domestic Bond Market

5.9.1 Introduction of New Trading Platforms

As part of the efforts to promote securities trading, stakeholders introduced new trading platforms in 2013, which are presented in sections 5.9.2 to 5.9.4.

5.9.2 Financial Market Dealers Quotation OTC (FMDQ OTC)

The Financial Market Dealers Association (FMDA) introduced an Over-the-Counter Securities Exchange during the year known as the Financial Markets Dealers Quotation OTC Plc (FMDQ OTC). The FMDQ OTC, which is registered with SEC provides an electronic platform for the trading of Fixed Income securities, including FGN Bonds and Nigerian Treasury Bills, other Money Market instruments and Foreign Exchange. The platform is owned by Nigerian banks, Discount houses, the CBN and the NSE. It represents a major improvement on the OTC market on which FGN Bonds were previously traded, as it provides a more robust platform for price discovery, transparency and dissemination of information.

5.9.3 NASD Plc

NASD Plc launched an electronic platform for the trading of unquoted securities in 2013. The platform provides a regulated platform for holders of securities that are not listed on the NSE to trade them by offering an avenue for liquidity of their investment accompanied by a more open method of price discovery. The NASD Plc is an initiative of stockbroking and securities firms.

5.9.4 Scripless Securities Settlement System (S4)

The CBN in December, 2013, introduced a Scripless Securities Settlement System (S4) to achieve full automation of securities auctions, improve securities settlement and upgrade its registrar's capability.

5.9.5 The Nigerian Stock Exchange

In relation to Bonds, the NSE introduced two (2) new initiatives in 2013, which are presented in nos. 5.9.5.1 and 5.9.5.2.

5.9.5. 1 Introduction of X-Gen

The NSE commenced trading activities on a new platform known as X-Gen during the year. According to The NSE, the X-Gen is an ultra-modern platform based on advanced technology, which will improve market transparency and governance.

5.9.5.2 Appointment of Fixed Income Market Makers

The NSE appointed six (6) stockbroking firms as Fixed Income Market Makers in 2013. This followed the NSE's appointment of market makers for equities and the DMO's appointment of Stanbic IBTC Stockbrokers Limited as the Government Stockbroker both in 2012. The Fixed Income Market Makers are expected to enhance liquidity in the trading of fixed income securities on the NSE, especially for sub-national and corporate bonds.

5.10 Consensus Building in the Domestic Bond Market

The DMO continued to engage with stakeholders in Nigeria's financial markets during the year for collaboration on initiatives to drive the growth of the domestic bond market. Such engagements were undertaken through:

i. Strategic Sessions held with the stakeholders in the FGN Bond Market, which were organised by the DMO.
ii. Meetings of the Monetary and Fiscal Policy Coordinating Committee, a Committee comprising institutions responsible for fiscal and monetary policies, to ensure mutual understanding and harmonisation of policies, where possible for which the DMO serves as the Secretariat.
iii. Meetings of the Capital Market Committee of the Securities and Exchange Commission and its sub-committees.
iv. Participation in the programmes of the Financial System Strategy, 2020 (FSS 2020).
v. Participation in the Sub-committees of the Financial Services Regulation Coordinating Committee.
vi. Continuous interactions with stakeholders such as the Central Bank of Nigeria, the Primary Dealer Market Makers (PDMMs) in FGN Bonds, the Pension Operators Association of Nigeria, Securities and Exchange Commission, National Pension Commission, the National Insurance Commission, the Federal Inland Revenue Service, The Nigerian Stock Exchange and the Central Securities Clearing System.

5.11 Assessment of the Domestic Bond Market in 2013

As in previous years, the Domestic Bond Market (excluding AMCON Bonds) grew in 2013. However, the growth of 4.19 percent in 2013 was much lower than the growth of 17.97 percent recorded between

2011 and 2012. However, the market recorded some landmark achievements, which are expected to increase activities in the primary and secondary market in terms of volumes and new products. The landmark achievements were:

- The Issuance of bond by a Supranational in the domestic bond market for the first time;
- The issuance of a Sukuk Bond by a State Government also for the first time;
- The introduction of a SEC-registered OTC Market for fixed income securities and foreign exchange (FMDQ OTC); and,
- The introduction of a Scripless Securities Settlement System (S4) by the CBN.

5.12 Outlook for the Domestic Bond Market

The developments in the market in 2013, as highlighted in 5.11 and the likely introduction of Bond Switches, Bond Buybacks and Securities Lending by the DMO, all suggest that the Bond Market will grow and become more robust in the near term.

5.13 The International Capital Market

5.13.1 New Eurobonds Issued by Nigeria

In the first quarter of 2013, approval was received for Nigeria to access the International Capital Market (ICM) through the issuance of US$1 billion in Eurobond(s). To actualize this approval, Nigeria successfully priced two (2) Eurobonds, each for US$500 million in tenors of five (5) and ten (10) years on July 2, 2013. The Bonds recorded a total subscription of about US$4 billion or four (4) times the amount offered from a diverse group of investors across several continents. While the success of the issuance confirms the demand for Nigeria's sovereign securities in the ICM, it also demonstrated the benefits of the Roadshows in the ICM embarked upon by Nigerian in 2011,(when the first Eurobond was issued), 2012 and 2013. The specific benefits of the issuance of the two (2) Eurobonds to Nigeria are:

i. The creation of two (2) additional benchmark sovereign yields in the ICM bringing the total to three (3): 5 years (2018), 7 years (2021) and 10 years (2023).
ii. Further diversification of the Total Debt Stock thereby contributing towards the DMO's target of a debt stock comprising 60 percent in domestic debt and 40 percent in external debt.
iii. A reduction in Debt Service as the cost of borrowing and interest rates are lower in the ICM.

The US$1 billion Eurobond Issuance was recognized as the **EMEA Finance Best 2013 Sovereign Bond in Africa.**

Nigeria successfully accesses the International Capital Market even in these turbulent times

On July 2, 2013 Nigeria successfully returned to the markets with a US$1 billion dual-tranche international Bond offering: US$500 million 5-year Bond and US$500 million 10-year Bond at coupons of 5.125 percent and 6.375 percent p.a., respectively. The issuance came on the back of highly volatile international financial markets, which saw sharp drops in prices of equities and bonds following expectations of a tapering of Quantitative Easing by the U.S. Federal Reserve Bank. The anticipation of reduced liquidity and higher interest rates, saw investors sell-off some assets especially those from the Emerging Markets (EM) sector. During this period of market turmoil, investors became averse to EM risk, switching significant portion of their holdings into cash and near-cash assets and away from tenured assets.

The success level of the two new Nigeria international bonds against the backdrop of volatile financial markets, in which only a few new deals were priced, is further captured in the high levels of subscription recorded for each of the two new issues and the ability to tap both the medium and long-term parts of the yield curve. The two tranche offering gave Nigeria the opportunity to achieve an overall cheaper cost of borrowing (the 5-year Bond was priced 125 basis points (bps) cheaper than the 10-year Bond), while also creating new 5-year and 10-year Sovereign Benchmark reference points. The issue summary is as follows:

Amount	*US$500million*	*US$500million*
Coupon (Fixed)	*5.125%*	*6.375%*
Yield	*5.375%*	*6.625%*
Issue Date	*July 12, 2013*	*July 12, 2013*
Maturity Date	*July 12, 2018*	*July 12, 2023*
Security	*Senior Unsecured Debt*	*Senior Unsecured Debt*
Rating (Fitch and S&P)	*BB-*	*BB-*
Type	*144A/Reg S*	*144A/Reg S*
Tenor	*5 years*	*10 years*
Interest payment	*Semi-annually*	*Semi-annually*
Listing	*London Stock Exchange*	*London Stock Exchange*
Total Subscription	*US$1,730mn*	*US$2,225.50mn*

Investor Distribution

The two Eurobonds attracted demand from a wide range of investors, both by geography and investor category, as shown in tables 5.23 and 5.24.

Table 5.23: Allocation by Geographical Location

Location	5-year Eurobond	10-year Eurobond
	% Allocation	
United States of America	57%	73%
United Kingdom	25%	16%
Other Europe	12%	8%
Middle East and North Africa	2%	1%
Others	4%	2%
Total	**100%**	**100%**

Source: Citibank and Deutsche Bank

Table 5.24: Allocation by Investor Category

Investor Category	5-year Eurobond	10-year Eurobond
	% Allocation	
Fund Managers	79%	85%
Private Banks/Banks	13%	5%
Hedge Funds	6%	3%
Pension/Insurance Funds	2%	7%
Total	**100%**	**100%**

Source: Citibank and Deutsche Bank

The strong sponsorship and demand for Nigeria's sovereign debt securities in the International Capital Market (ICM) was evident during the Roadshows in Europe and the U.S., where top institutional investors considered Nigeria to be one of the top performers among EM countries and certainly one of the only a few African countries with the appropriate credit story for investors. In addition, they acknowledged that Nigeria had been consistent in implementing macro-economic and structural reforms over the past ten (10) years, leading to landmark achievements in the banking, power and agricultural sectors, as well as, the establishment of the Sovereign Wealth Fund. This perception was already reflected in the price of Nigeria's debut international bond in 2011, where the secondary market performance even in volatile conditions was stronger than the bonds of a number of EM countries. The transaction marked the largest international public benchmark bond issuance from a sub-Saharan African Sovereign in 2013, year-to-date and testifies to investors on-going interest in the unlocked potentials in Nigeria.

5.14 Performance of Nigeria's Eurobonds in the Secondary Market

Nigeria's debut Eurobond, the 6.75 percent July 2021 traded above par continuously in 2013. The 5.375 percent 2018 and 6.125 percent 2023, which were issued in July, 2013, were also actively traded, and rose above their issue price soon after they were priced. As with other emerging market securities, the Yields on Nigeria's three (3) Eurobonds were affected by policy statements and decisions of major Central Banks notably the United States Federal Reserve Bank, the European Central Bank, and the Bank of England.

Table 5.25 shows the trends in the Bond Prices and Yields of Nigeria's three (3) Eurobonds in 2013, while Figure 5.10 shows their month-end Yields in 2013.

Table 5.25: Trends in Nigeria's Eurobonds Prices and Yields (January – December, 2013)

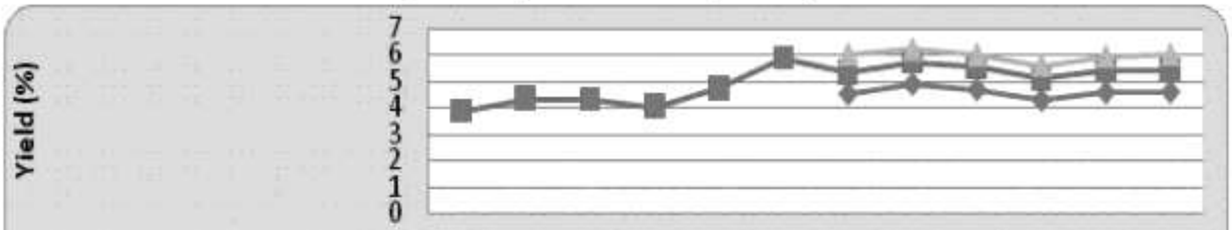
Date	Nigeria 5.125% JUL 2018*		Nigeria 6.75% JAN 2021		Nigeria 6.375% JUL 2023*	
	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)
31-Jan-13			119.563	3.876		
28-Feb-13			115.964	4.340		
29-Mar-13			116.130	4.297		
30-Apr-13			117.766	4.048		
31-May-13			112.745	4.742		
28-Jun-13			105.200	5.888		
31-Jul-13	102.292	4.530	108.593	5.341	102.690	6.011
30-Aug-13	101.041	4.895	105.973	5.746	101.253	6.202
30-Sep-13	101.848	4.687	107.102	5.554	102.755	5.997
31-Oct-13	103.440	4.288	109.717	5.123	105.796	5.591
29-Nov-13	102.307	4.572	107.663	5.440	103.222	5.929
31-Dec-13	102.122	4.599	107.414	5.469	102.642	6.006

* The Bonds were issued on July 12, 2013
Source: Thomson Reuters

5.14.1 Comparative Performance of other African Sovereigns Eurobonds

The trends in the Yields of Nigeria's three (3) Eurobonds were similar to those of other African sovereign Eurobonds as shown in figures 5.10, 5.11 and 5.12. In addition, the Yield Curves show that Nigeria's Eurobonds were competitively priced on the basis of Nigeria's credit story, when compared to those of other countries with higher credit ratings than Nigeria (South Africa and Namibia) or lower ratings (Ghana, Senegal, Zambia and Rwanda).

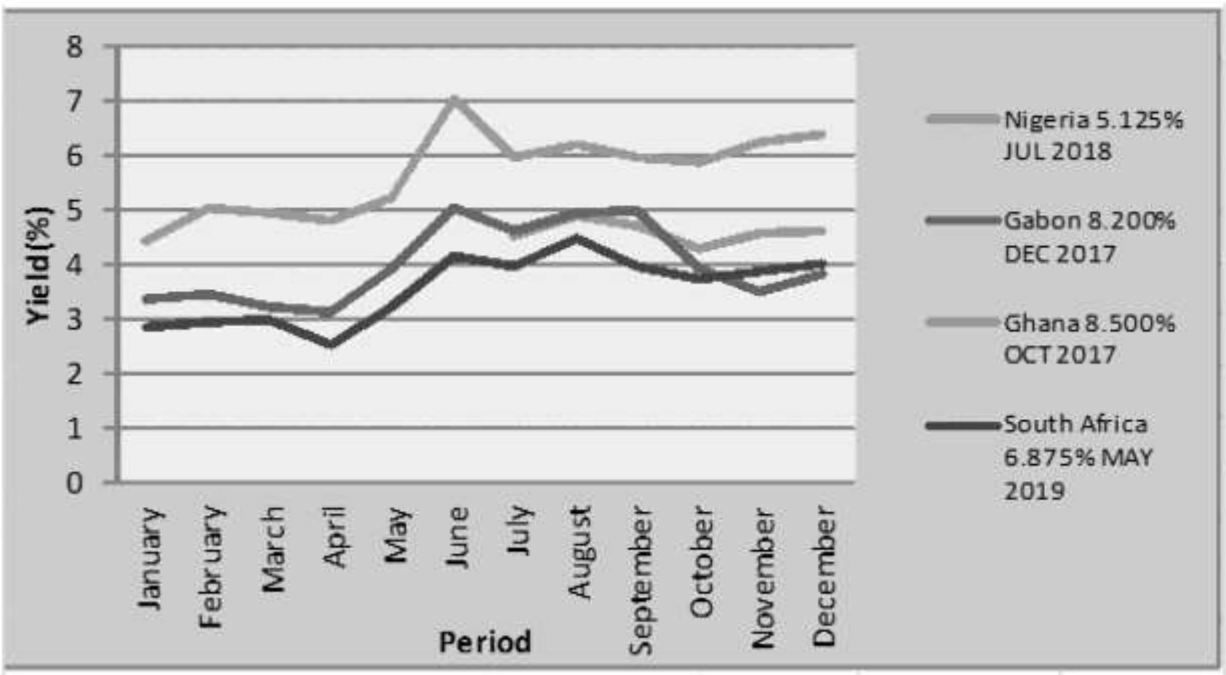
Figure 5.10: Trends In Nigeria's Eurobonds Yields (January - December, 2013)



	31-Jan-13	28-Feb-13	29-Mar-13	30-Apr-13	31-May-13	28-Jun-13	31-Jul-13	30-Aug-13	30-Sep-13	31-Oct-13	29-Nov-13	31-Dec-13
Nigeria 5.125% JUL 2018* Closing Yield (%)							4.530	4.895	4.687	4.288	4.572	4.599
Nigeria 6.75% JAN 2021 Closing Yield (%)	3.876	4.340	4.297	4.048	4.742	5.888	5.341	5.746	5.554	5.123	5.440	5.469
Nigeria 6.375% JUL 2023* Closing Yield (%)							6.011	6.202	5.997	5.591	5.929	6.006

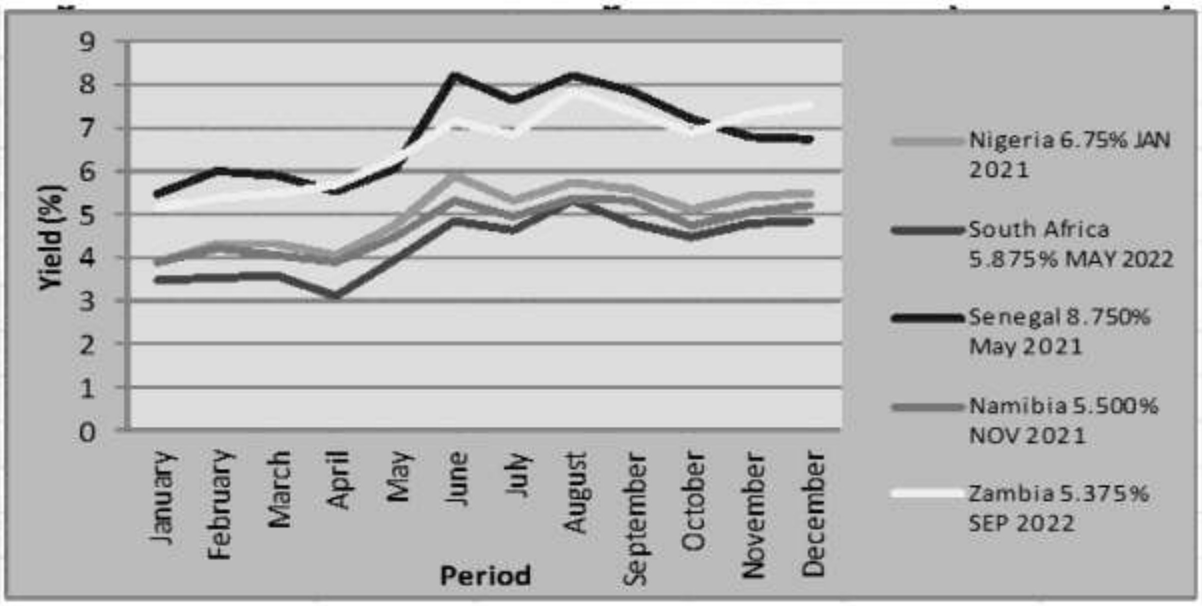
* The Bonds were issued on July 12, 2013
Source: Thomson Reuters

Figure 5.11: Yields on African Sovereign Eurobonds in 2013 (5-Year Tenor)



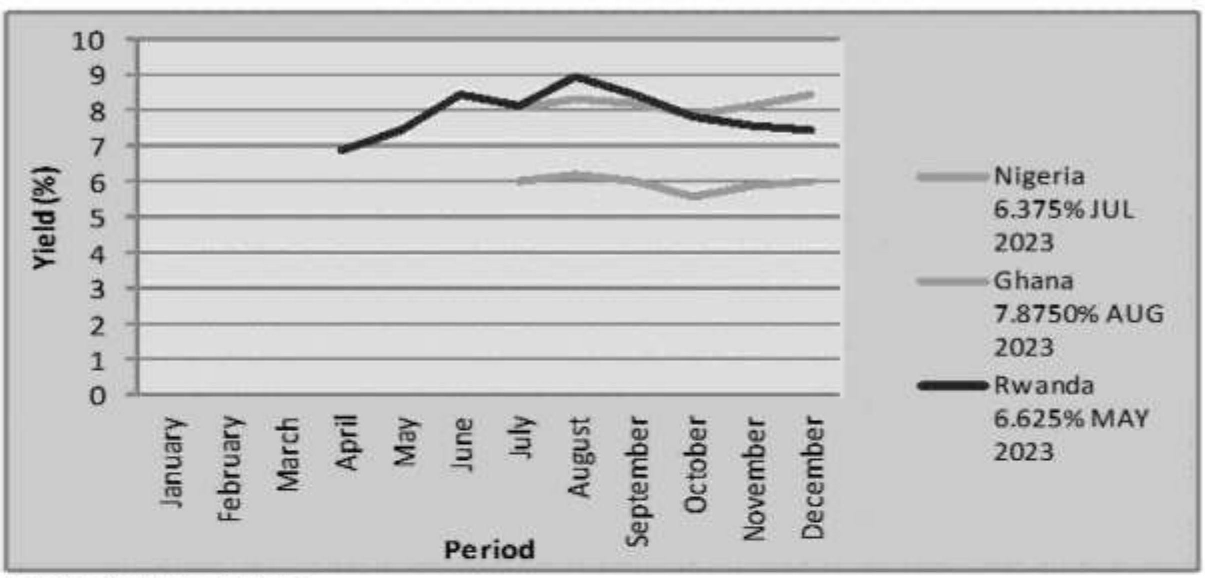
Source: Thomson Reuters

Figure 5.12: Yields on African Sovereign Eurobonds in 2013 (7-Year Tenor)



Source: Thomson Reuters

Figure 5.13: Yields on African Sovereign Eurobonds in 2013 (10-Year Tenor)



Source: Thomson Reuters

5.14.2 Eurobonds issued by African Sovereigns in 2013

Apart from Nigeria, that issued two Eurobonds for US$1 billion, the other countries that issued Eurobonds were: Rwanda (US$400 million), Ghana (US$750 million) and Gabon (US$1.5 billion). For Rwanda, it was a debut issuance, while Ghana and Gabon had each previously issued Eurobonds in 2007. The details of new issues by African sovereigns in 2013 are shown in Table 5.26.

Table 5.26: Eurobonds Issued by African Sovereigns in 2013

Country	Rating			Date Issued	Amount (US$ Million)	Tenor (Yrs)	Coupon (%)	Yield (%)
	Fitch	S&P	Moody's					
Rwanda*	B	B		May, 2013	400	10	6.875	6.875
Nigeria*	BB-	BB-		July, 2013	500	5	5.125	5.375
Nigeria*	BB-	BB-		July, 2013	500	10	6.375	6.625
Ghana	B1	B	B	July, 2013	750	10	7.875	8.000
Gabon*	BB-	BB-		December, 2013	1.500	10	6.375	6.375

Source: Thomson Reuters
* Not rated by Moody's

Tanzania also accessed the ICM for capital in March,2013 through the issuance of US$600 million, 7-year Floating Rate Notes (6 months Libor+ 600 bps). The Notes (not a Eurobond) were offered through a private placement.

5.14.3 Eurobonds Issued by Nigerian Corporates in 2013

Four (4) Nigerian corporates accessed the ICM in 2013, through Eurobonds compared to only one (Access Bank Plc) in 2012. These were Fidelity Bank Plc – a first time issuer (US$300 million), First Bank of Nigeria Plc – through a Special Purpose Vehicle (US$300 million), Guaranty Trust Bank Plc (US$400 million) and Afren Plc – an operator in the oil sector (US$360 million). The total amount raised in 2013, was US$1.36 billion, compared to US$300 million in 2012. The success of these issues are a fulfillment of one of the principal objectives for which Nigeria in its sovereign capacity, issued Eurobonds in 2011 and 2013, which is: to facilitate borrowing by Nigerian entities in the ICM.

5.15 Outlook for the International Capital Market

The strong reception (as evidenced by the high levels of subscription) for the African Sovereigns and corporates who have accessed the ICM through Eurobonds since 2011, are indicative that the international markets are now open to a more diversified base of issuers. This trend is expected to be sustained in 2014. However, the level of liquidity and interest rates in the ICM will depend on the monetary policies of the major central banks, which in turn will depend on economic trends in their respective countries or economic zones. The decision of the U.S. Federal Reserve Bank in December, 2013 to reduce its monthly Quantitative Easing Programme by US$10 billion from January, 2014 and recent statements about modest recovery in some Eurozone countries such as Britain are some developments that would shape the ICM in terms of the level of interest rates and liquidity in 2014.

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

The 2013 DSA result showed that Nigeria has remained at a low risk of debt distress, as the various debt indictors showed that the public debt portfolio was within the sustainable limits. The debt-to-GDP ratios were at sustainable levels over the period under review, even when various shocks were applied to the baseline scenario. However, all the solvency and liquidity indicators under the fiscal sustainability analysis showed that the debt portfolio was vulnerable to revenue shocks, especially when crude oil price was set below US$50.00pb.

6.1 Introduction

The 2013 Annual Debt Sustainability Analysis (DSA) workshop was held on May 8 - 13, 2013, by the DMO, in collaboration with all the relevant stakeholders in debt management operations, namely: Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), Office of the Accountant-General of the Federation (OAGF) and the National Bureau of Statistics (NBS).The West African Institute for Financial and Economic Management (WAIFEM) provided technical support. The DSA was conducted using the latest version of the World Bank/IMF Debt Sustainability Framework for Low Income Countries (DSF-LICs) analytical tool. The World Bank/IMF under the Country Policy and Institutional Assessment (CPIA) Index rates Nigeria as a Medium Performer with a 3-year-long score of 3.44 points over a 6.0 index mark.

The main objectives of the DSA exercise include:

(i) Updating the 2012 DSA;

(ii) Setting new borrowing limits for the Government and advising on funding options for the 2014 fiscal year; and,

(iii) Providing inputs necessary for the updating of Medium-Term Expenditure Framework (MTEF).

The medium to long-term debt sustainability of the country was analysed under three different scenarios, namely: the Baseline, Optimistic and Pessimistic scenarios. The Baseline Scenario adopted assumptions of the 2013 Fiscal Budget, the MTEF (2013-2015), which assumed a stable macroeconomic environment, occasioned by the on-going fiscal consolidation and tight monetary policy, as well as, the continuation of the reforms in the key growth sectors of the economy: agriculture, energy, transport, housing etc. The Optimistic Scenario was premised on the successful implementation of the present administration's Transformation Agenda, which is expected to produce robust growth in the medium to long-term. The Pessimistic Scenario assumed a persistent shock in crude oil price and set the price at a minimal level of US$50pb throughout the projection period.

The scope of the 2013 DSA covered both the external and domestic debts of the Federal and State Governments, as well as the FCT. In addition, the exercise captured the contingent liabilities of the Federal Government, which consisted of the guaranteed AMCON bonds, contractors' obligations and pension arrears, and for the first time the private sector external debt was included in the analysis.

6.2 Baseline Scenario

The Baseline Scenario results analysis is presented in two parts: FGN's debt sustainability, which also includes the external debt of State Governments (all external debts are borrowed by the FGN and on-lent to the States) and FGN and State Governments' debt sustainability.

6.2.1 FGN Debt Sustainability

6.2.1.1 External Debt Sustainability (FGN and States External Debt)

Table 6.1 shows the indicative debt burden thresholds of the country's peer group and the relative simulation results for each of the indicators. The Present Value (PV) of External Debt-to-GDP ratio was estimated at 3.2 percent in 2013. Based on the projected external borrowings, it was expected to increase to 4.9 percent in 2017. The PV in the medium-term (2013-2024) averaged 5.2 percent, while the long-term ratio (2025-2032) stood at 3.2 percent. These were within the indicative threshold.

Nigeria's stock of external reserves is assumed to support more than six months of its import requirements as in the previous years, against the standard international requirements of three (3) months. The PV of debt–to-exports ratio was projected at 8.9 percent for 2013 compared to 6.1 percent in 2012. It was expected to rise to 15.6 percent in 2017. The medium and long-term average ratios were 9.1 and 16.6 percent, respectively. All these indicate a strong debt sustainability outlook, when compared to the 150 percent threshold.

In addition, the PV of debt-to-revenue ratio based on the assumption of a budget oil price of US$79pb shows a favourable outlook. The projected ratio for 2013 was 34.6 percent compared to 30.1 percent in 2012. The medium and long-term PV of debt-to-revenue ratios were all within the indicative threshold of 250 percent.

Table 6.1: External Debt Sustainability Indicators in Percent

Descriptions		Threshold	2013	2014	2015	2016	2017	2018-2024 Average	2025-2032 Average
Solvency Indicators	PV of Debt/GDP	40	3.2	3.8	4.3	4.7	4.9	5.0	3.2
	PV of Debt/Exports	150	8.9	11.0	12.8	14.4	15.6	19.1	16.6
	PV of Debt/Revenue	250	34.6	30.8	38.0	45.4	50.0	56.7	63.3
Liquidity Indicators	Debt Service/Exports	20	0.5	0.4	0.6	0.6	0.7	1.1	1.5
	Debt Service/Revenue	20	1.9	1.2	1.7	2.0	2.2	3.2	5.9

6.2.1.2 Fiscal Sustainability (FGN's External & Domestic Debt)

The results from the fiscal sustainability block indicate that the FGN is at a low risk of debt distress with respect to its external and domestic debt. The PV of Debt/GDP ratio was estimated at 22.4 and 18.4 percent in 2013 and 2014, respectively, compared to the international threshold of 56 percent and country-specific policy threshold of 25 percent (Table 6.2). The result shows a declining trend based on the assumption of gradual reduction in the size of fiscal deficit over time.

Table 6.2: Fiscal Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2014 Average	2025-2032 Average
PV of Debt/GDP	56	22.4	18.4	17.2	16.7	15.4	11.7	5.7
PV of Debt/Revenue	n/a	240.6	148.2	152.9	162.6	158.4	132.7	110.1
Debt Service/Revenue	n/a	34.2	24.1	26.7	21.6	27.7	19.2	15.1

6.2.1.3 FGN, States and FCT Debt Sustainability

This section included States' and FCT's domestic debt data, Federally Collectible Revenue, States' and FCT's Internally Generated Revenue (IGR) and expenditure. The results obtained further indicated that Nigeria was at low risk of debt distress.

6.2.1.4 External Debt Sustainability

Table 6.3 indicated much higher debt sustainability position for the consolidated FGN, States and the FCT debt portfolio under the Baseline Scenario. The result showed that as revenue improved significantly, PV of Debt/Revenue is projected at 17.5 percent lower that the projected figure of 34.6 percent for FGN only.

Table 6.3: External Debt Sustainability Indicators (FGN, States & FCT) in Percent

Descriptions		Threshold	2013	2014	2015	2016	2017	2018-2024 Average	2025-2032 Average
Solvency Indicators	PV of Debt/GDP	40	3.2	3.8	4.3	4.7	4.9	5.0	3.2
	PV of Debt/Exports	150	8.9	11.0	12.8	14.4	15.6	19.1	16.6
	PV of Debt/Revenue	250	17.5	23.2	28.2	32.7	37.4	42.6	33.5
Liquidity Indicators	Debt Service/Exports	20	0.5	0.4	0.6	0.6	0.7	1.1	1.5
	Debt Service/Revenue	20	1.0	0.9	1.3	1.4	1.7	2.4	3.0

6.2.1.5 Fiscal Sustainability (FGN, States & FCT External and Domestic Debt)

The result obtained showed that the solvency indicator, PV of Debt/GDP ratio, which is the only international threshold in the fiscal block, is within sustainable limit. It dropped continuously from the peak of 25.3 percent in 2013, to an average of 7.2 percent in 2025-2032 (Table 6.4). The PV of Debt/Revenue ratio trended downward from the peak of 137 percent in 2013 to average of 124.4 percent in 2014-2017 and 73.9 percent in 2018-2024. The downward trending and lower ratio obtained for PV of Debt/GDP is due to the assumptions of decreasing fiscal deficits and rising output.

Table 6.4: Fiscal Sustainability Indicators (FGN, States & FCT) in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2014 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	25.3	20.8	18.9	17.8	16.0	12.5	7.2
PV of Debt/Revenue	n/a	137.0	124.3	124.7	122.7	120.9	106.9	73.9
Debt Service/Revenue	n/a	22.8	24.1	26.1	22.1	27.8	18.4	14.8

6.2.1.6 Standard Stress Test

When compared with the Baseline results of the FGN's only, the results obtained under the sensitivity analysis of the consolidated FGN, States and the FCT debt, with respect to revenue indicators showed some higher degree of sustainability. The most extreme shock of the variables in 2014 also displayed similar pattern, as with the Baseline results, dropping from a peak of 184.2 percent to average of 163.2 percent in 2018-2024.

6.3 Optimistic Scenario (FGN only)

The central assumption of the Optimistic Scenario is the successful implementation of the present administration's Transformation Agenda, which major components include fiscal consolidation, macroeconomic stability, as well as, reforms in key growth sectors of the economy, such as agriculture, energy, oil and gas, housing, solid minerals and transportation. It is also anchored on reduced imports and more favourable current account position in the medium to long-term.

6.3.1 External Debt Sustainability

All the debt burden indicators (solvency and liquidity) under the Optimistic Scenario are far below the established thresholds (Table 6.5). The PV of Debt/GDP ratio remained below 5 percent mark throughout the projection period indicating a very healthy outlook. Similarly, the PV of Debt/Revenue, though rose gradually from 20.1 percent to average of 51.1 percent in 2018-2024 indicates a high degree of sustainability. Impliedly, the successful implementation of the key aspects of the Transformation Agenda will have positive impact on Nigeria's debt sustainability during the projection period, ceteris paribus.

Table 6.5: External Debt Sustainability Indicators in Percent

Descriptions		Threshold	2013	2014	2015	2016	2017	2018-2024 Average	2025-2032 Average
Solvency Indicators	PV of Debt/GDP	40	3.2	3.8	4.3	4.6	4.8	4.8	3.0
	PV of Debt/Exports	150	9.1	11.3	14.8	15.9	17.7	18.7	15.2
	PV of Debt/Revenue	250	20.1	28.2	33.1	39.3	43.7	51.1	53.5
Liquidity Indicators	Debt Service/Exports	20	0.5	0.4	0.6	0.7	0.8	1.0	1.3
	Debt Service/Revenue	20	1.1	1.1	1.4	1.7	1.9	2.8	4.7

6.3.2 Fiscal Sustainability

The total debt sustainability of the FGN under the Optimistic Scenario shows a robust trend. Compared to the threshold of 56 percent, the PV of Debt/GDP ratio dropped from its highest value of 22.4 percent in 2013, to an average of 5.3 percent in 2032. The PV of Debt/Revenue and Debt Service/Revenue ratios, against which there are no international thresholds, fluctuated initially before trending downward to a low average of 91.8 and 12.1 percent in 2025-2032, respectively (Table 6.6).

Table 6.6: Fiscal Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2014 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	22.3	18.2	16.9	16.4	15.0	11.1	5.3
PV of Debt/Revenue	n/a	138.5	134.3	131.2	138.8	137.4	117.0	91.8
Debt Service/Revenue	n/a	19.5	21.8	22.8	18.3	23.9	16.7	12.1

6.4 Pessimistic Scenario (FGN Only)

The Pessimistic Scenario is a customized, revenue-specific scenario. The major difference between this scenario and the Baseline Scenario is that it assumes an immediate and persistent shock in the international price of Nigeria's crude oil from its current price of over US$100pb to as low as US$50pb, as witnessed in 2008, when oil prices suddenly crashed to about US$45pb from an all-time high of US$147pb between July and December of that year. In this regard, the Pessimistic Scenario is revenue-specific in its assumptions and projections.

6.4.1 External Debt Sustainability

The results reveal a rising trend for all the debt burden indicators throughout the projection period, meaning that Nigeria is highly vulnerable to revenue shocks in the medium to long-term relative to the Baseline. The PV of Debt/Revenue and Debt Service/Revenue rose sharply from 34.7 and 2.0 percent in 2013 to 273 and 9.5 percent in 2017, respectively (Table 6.7). The former breached the threshold within a very short period (that is, in 2017) indicating debt distress in the medium-term. The prolonged sustenance of sustainability in the Debt Service/Revenue ratio is mainly due to the low cost (interest) on the current external debt portfolio based on the fact that about 88 percent are from the concessional windows of multilateral financial institutions. The PV of Debt/GDP, PV of Debt/Exports and Debt Service/Exports ratios assumed below trends, but remained below the thresholds throughout the projection period. The PV of Debt/GDP reached its peak towards the end of the projection period, but remained within sustainable limit.

Table 6.7: External Debt Sustainability Indicators in Percent

Descriptions		Threshold	2013	2014	2015	2016	2017	2018-2024 Average	2025-2032 Average
Solvency Indicators	PV of Debt/GDP	40	3.3	5.1	7.6	10.1	12.3	17.7	18.5
	PV of Debt/Exports	150	10.6	16.8	26.0	35.5	45.5	83.5	121.0
	PV of Debt/Revenue	250	34.7	64.5	114.5	209.4	273.0	365.4	380.9
Liquidity Indicators	Debt Service/Exports	20	0.6	0.6	0.9	1.2	1.6	3.8	9.2
	Debt Service/Revenue	20	2.0	2.2	4.0	7.3	9.5	16.3	28.8

6.4.2 Fiscal Sustainability

The results under the fiscal block, which comprise external and domestic debt of the FGN, including external debt of the States and the FCT, show higher degree of stress with respect to all the ratios relative to the Baseline. Table 6.8 shows that the PV of Debt/GDP increased from 22.5 percent in 2015 to an average of 30.6 percent in 2018-2024, before declining to an average of 26.0 percent in 2025-2032.

The PV of Debt/Revenue and Debt Service/Revenue ratios, against which there are no internationally established thresholds, also reached their peaks between 2018 and 2024 before declining in a fluctuating manner towards the end of the projection period. This trend is based on the assumption that in the long-run, the Government would have been able to develop viable alternatives to crude oil as a major source of revenue, and thereby reduce the impact of the persistent shock in its price. The high and rising PV of Debt/GDP ratio points clearly to the danger of relying solely on one main source of revenue, which on its own, is volatile.

Table 6.8: Fiscal Sustainability Indicators in Percent

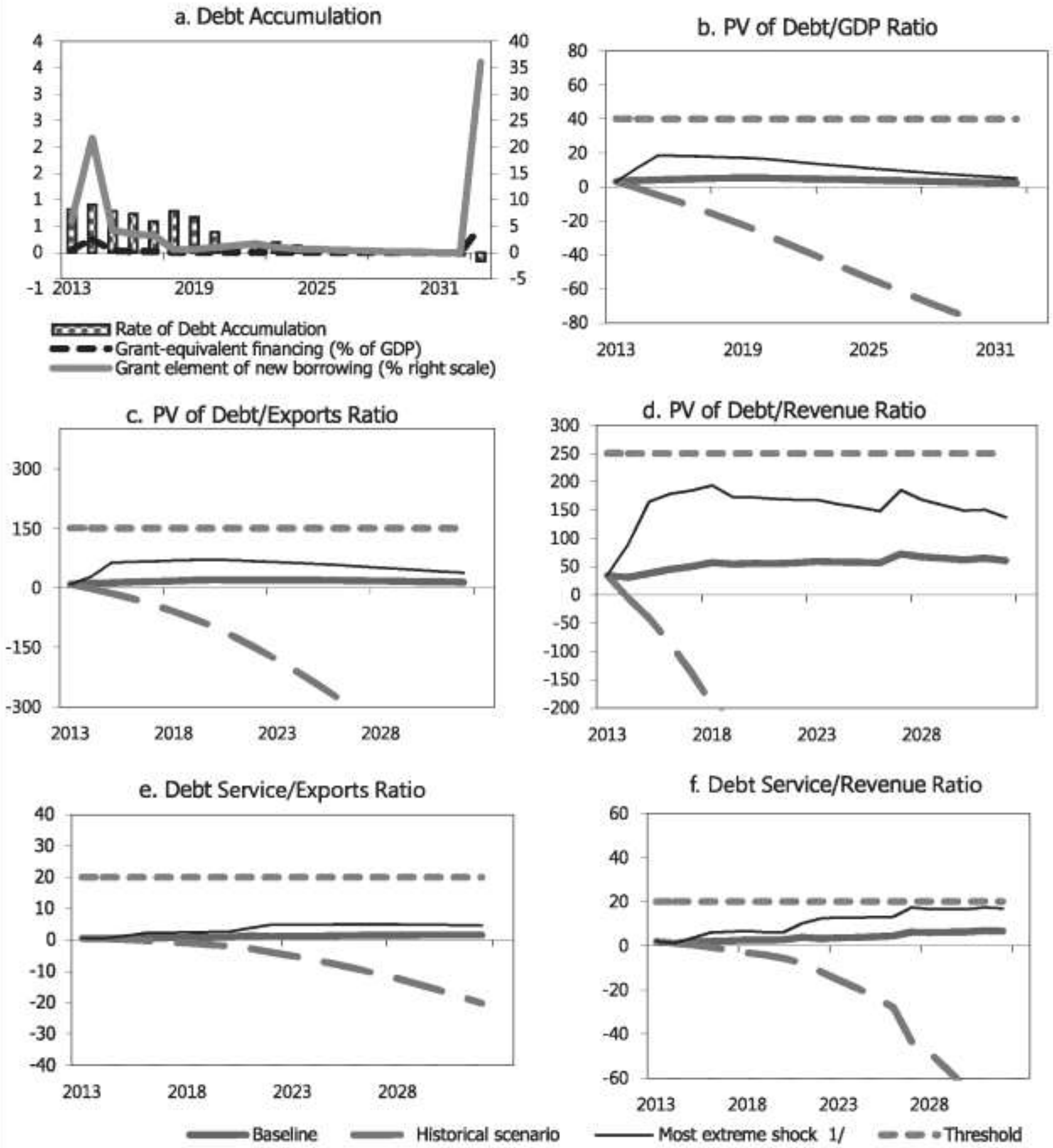
Description	Threshold	2013	2014	2015	2016	2017	2018-2014 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	22.8	20.7	22.5	25.0	26.7	30.6	26.0
PV of Debt/Revenue	n/a	239.1	262.8	338.1	520.4	591.8	630.6	529.5
Debt Service/Revenue	n/a	34.3	40.2	50.8	57.5	78.8	72.8	59.7

To address this, the authorities need to pay closer attention to the development of other traditional sources of government revenue, which are mainly from taxation, and make the tax legislations relatively flexible in line with current realities and circumstances. There is the need to further ensure that any tier of government vested with the responsibility to administer any tax has the requisite capacity to do so, particularly, property tax or tenement rates, which is administered by the third tier of government.

6.5 Conclusion of the 2013 DSA

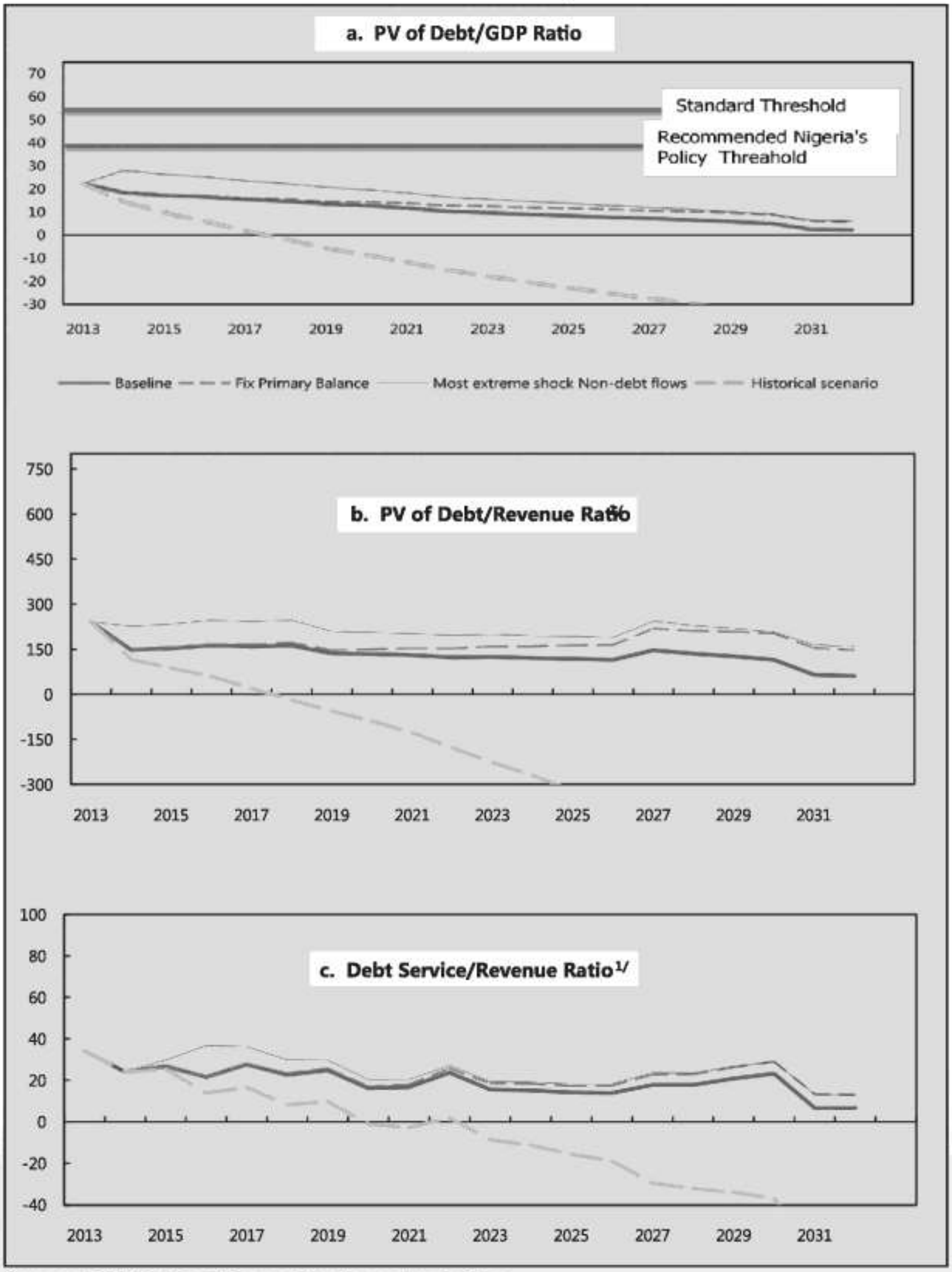
The results of the 2013 DSA show that Nigeria still remains at a low risk of debt distress. This is consistent with the result of 2012 DSA. The standardized stress tests under the Baseline and Optimistic Scenarios show that Nigeria's debt outlook still remains robust in the medium to long-term. However, under the Pessimistic Scenario or customized revenue-specific scenario, which simulates a persistent shock in the price of crude oil, all revenue indicators deteriorated when compared to the Baseline results. The customized scenario also show that without significant compensating revenue sources, a prolonged shock in the price of crude oil or deterioration in the current account balance could undermine the progress made in achieving macroeconomic and debt sustainability. The analysis is further strengthened by the fact that this year's DSA considered both the domestic and external debt of the FGN, States and the FCT, contingent liabilities and for the first time, the private sector external debts.

Figure 6.1: Nigeria's Indicators of Public & Publicly Guaranteed External Debt under Alternative Scenarios, 2013-2032



Sources: DSA Technical Team estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a Non-debt flows shock

Figure 6.2: Nigeria's Indicators of Public Debt Under Alternative Scenarios, 2012-2013



Sources: DSA Technical Team estimates and projections.

1/ Revenues are defined inclusive of grants.

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

Total States' external debt stock stood at US$2,816.02 million as at end-December, 2013, representing 31.92 percent of the total public external debt stock of the country. States' external debts comprised FGN's on-lent loans obtained from multilateral sources on concessional terms. The loans were used to fund projects and programmes in various sectors of the economy, such as, education, health, water supply, housing and sanitation. The total debt service of States was US$76.23 million. The DMO further enhanced the debt management capabilities at the sub-national level. As at December 31, 2013, a total of nine (9) States had participated in the special training programmes designed to strengthen debt management practices at the sub-national level.

7.1 States' and FCT's External Debt Stock

State Governments' external debt stock amounted to US$2,816.02 million, or 31.92 percent of the total public external debt stock as at end-December, 2013. The debts were mainly loans that were obtained by the Federal Government from multilateral sources (IDA, IFAD, EDF, IDB, ADB and ADF) and on-lent to the State Governments to fund specific projects. The loans were mostly applied by the recipient State Governments in the financing of critical projects in education, health, water supply housing and sanitation sectors. Total external debts of the States showed an increase of US$431.84 million or 15.34 percent over the 2012 figure. The increase was attributable among others to, disbursements on other existing loans. Table 7.1 and Figure 7.1 show an increasing trend in the external debt stock of States from 2009 to 2013.

Table 7.1: Trend in States' & FCT's External Debt Stock, 2009 – 2013 (US$' Million)

Years	2009	2010	2011	2012	2013
States' External Debt Stock	1,835.64	2,000.70	2,165.30	2,384.18	2,816.02

Figure 7.1: Trend in States' & FCT's External Debt Stock, 2009 – 2013 (US$' Million)

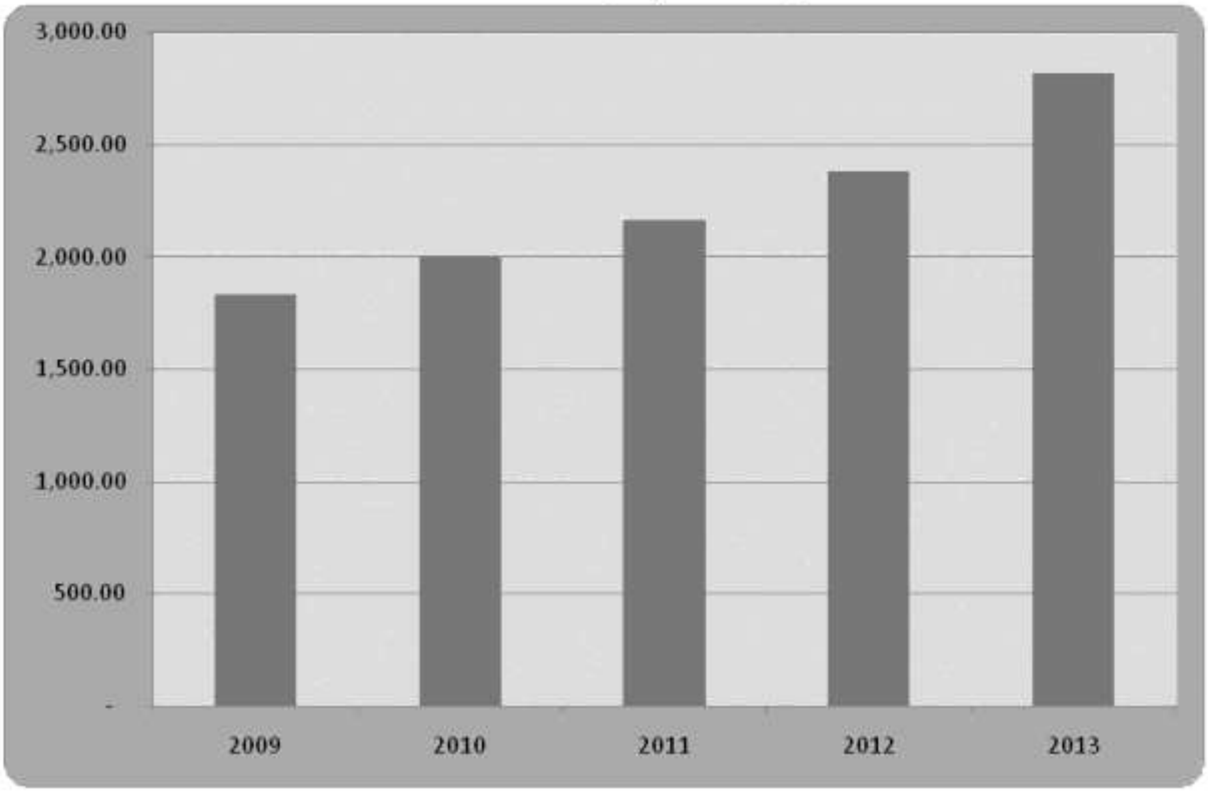
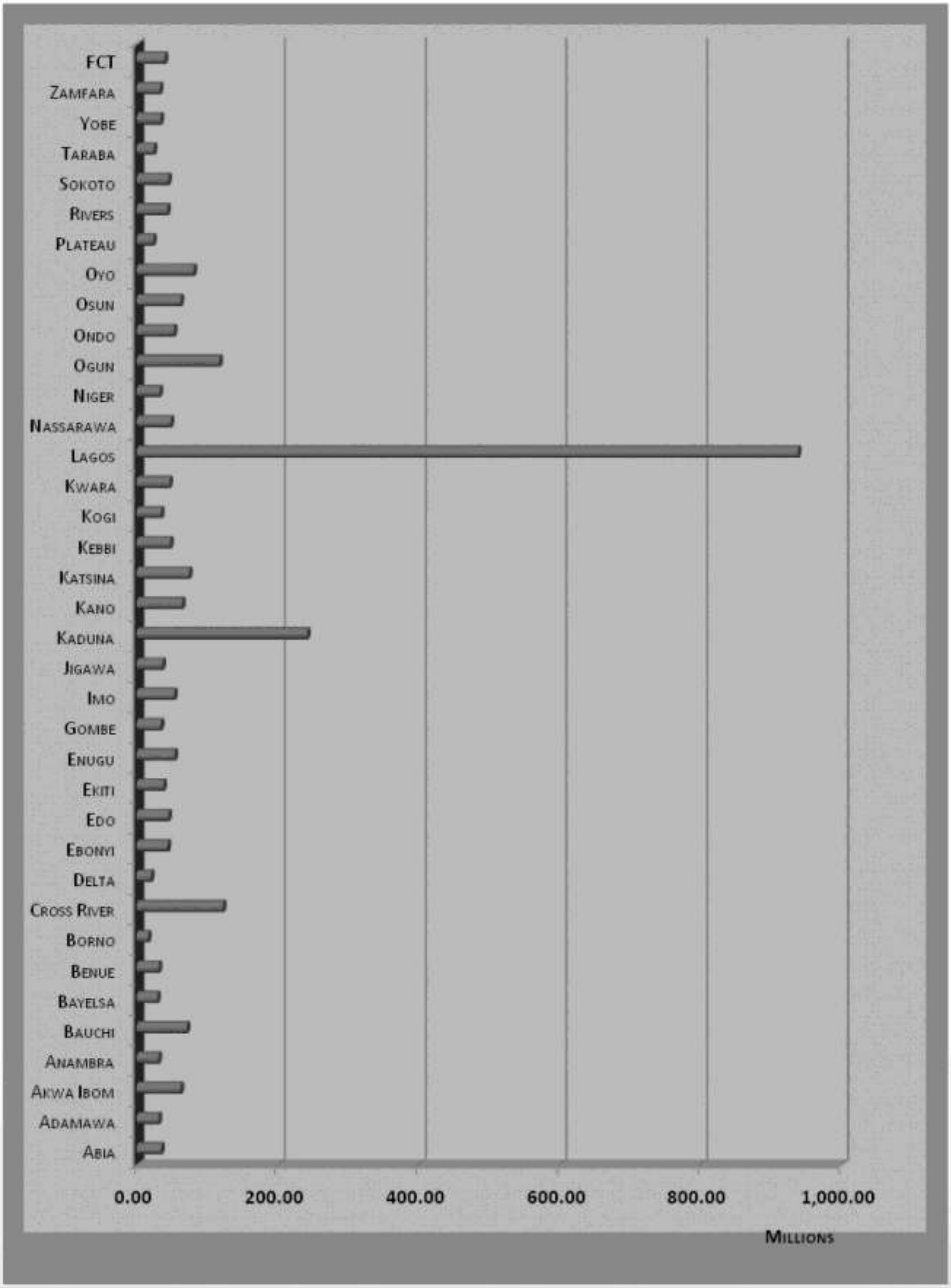


Table 7.2 and Figure 7.2 also show the external debt stock for each of the thirty six (36) States of the Federation and the Federal Capital Territory (FCT) as at end-December, 2013. As was the case in 2012, the detailed breakdown revealed that Lagos, Kaduna and Cross-River had the highest external debt stock of US$938.14 million (33.31 percent), US$241.31 million (8.57 percent) and US$121.97 million (4.33 percent), respectively. The States with the lowest external debt stock were Borno, Delta and Plateau, having US$15.59 million, US$19.67 million and US$22.67 million, representing 0.55 percent, 0.70 percent and 0.81 percent, respectively, of the total States and the FCT external debt stock.

Table 7.2: External Debt Stock of States' & FCT as at end-December, 2013 (US$)

S/N	State	Multilateral	Bilateral (AFD)	% of Total
1	Abia	34,180,112.33		1.21%
2	Adamawa	30,556,441.13		1.09%
3	Akwa Ibom	61,841,809.85		2.20%
4	Anambra	30,323,574.40		1.08%
5	Bauchi	70,582,915.21		2.51%
6	Bayelsa	28,662,160.25		1.02%
7	Benue	30,722,987.68		1.09%
8	Borno	15,585,332.20		0.55%
9	Cross River	121,966,922.51		4.33%
10	Delta	19,665,800.31		0.70%
11	Ebonyi	43,314,886.43		1.54%
12	Edo	44,292,718.14		1.57%
13	Ekiti	37,237,967.18		1.32%
14	Enugu	53,166,642.89		1.89%
15	Gombe	33,652,015.79		1.20%
16	Imo	52,712,924.49		1.87%
17	Jigawa	35,846,252.03		1.27%
18	Kaduna	241,309,864.17		8.57%
19	Kano	63,897,444.17		2.27%
20	Katsina	73,725,662.92		2.62%
21	Kebbi	46,855,525.42		1.66%
22	Kogi	33,960,974.29		1.21%
23	Kwara	45,871,785.31		1.63%
24	Lagos	879,131,927.81	59,003,590.00	33.31%
25	Nassarawa	47,648,079.92		1.69%
26	Niger	31,750,342.66		1.13%
27	Ogun	116,802,098.95		4.15%
28	Ondo	52,134,726.59		1.85%
29	Osun	61,838,048.10		2.20%
30	Oyo	80,201,551.16		2.85%
31	Plateau	22,674,216.60		0.81%
32	Rivers	42,690,633.60		1.52%
33	Sokoto	44,111,989.86		1.57%
34	Taraba	23,554,326.97		0.84%
35	Yobe	33,033,729.59		1.17%
36	Zamfara	32,292,716.69		1.15%
37	FCT	39,218,574.39		1.39%
	Sub Total	**2,757,015,681.99**	**59,003,590.00**	
	Total	**2,816,019,271.99**		**100**

Figure 7.2: External Debt Stock of States' & FCT as at end-December, 2013 in (US$' Million)



7.2 States' and FCT's External Debt Service

The total external debt service of the States and FCT stood at US$76.32million, which represents a cost of 2.71 percent of the total external debt stock of the States and the FCT as at end-December, 2013, and, a decline of 0.60 percent over the amount spent in 2012, as shown in Table 7.3 below.

Table 7.3: External Debt Service of States' & FCT, 2009 – 2013 (US$' Million)

S/N	STATES	2009	2010	2011	2012	2013
1	ABIA	0.94	1.28	2.03	0.96	1.03
2	ADAMAWA	0.86	0.70	0.43	0.49	0.49
3	AKWA IBOM	6.84	8.06	4.53	6.19	5.33
4	ANAMBRA	3.23	0.77	0.88	0.48	0.54
5	BAUCHI	5.77	7.35	3.56	1.50	1.14
6	BAYELSA	0.85	1.14	0.73	1.00	0.92
7	BENUE	0.89	1.33	0.78	0.61	0.66
8	BORNO	0.99	1.45	0.69	0.58	0.66
9	CROSS RIVER	11.86	9.53	11.85	9.95	9.23
10	DELTA	4.61	6.23	0.99	1.12	0.79
11	EBONYI	1.75	0.9	1.28	1.15	1.25
12	EDO	5.86	6.79	0.82	1.47	1.33
13	EKITI	1.86	1.97	1.65	1.55	1.51
14	ENUGU	2.53	1.56	1.64	0.80	0.84
15	GOMBE	0.78	1.24	1.4	0.79	0.45
16	IMO	1.66	2.07	1.44	1.50	1.40
17	JIGAWA	1.98	3.03	1.56	1.29	0.87
18	KADUNA	3.93	4.80	3.87	4.59	5.12
19	KANO	6.44	6.73	5.32	3.72	1.60
20	KASTINA	4.87	4.68	3.21	3.23	3.92
21	KEBBI	2.37	3.08	2.63	2.02	1.19
22	KOGI	3.27	2.25	1.28	1.19	1.00
23	KWARA	4.64	1.84	1.09	1.12	1.00
24	LAGOS	17.25	9.51	7.59	9.84	13.88
25	NASSARAWA	3.88	4.92	4.51	0.85	0.93

S/N	STATES	2009	2010	2011	2012	2013
26	NIGER	5.12	1.26	1.84	0.44	0.52
27	OGUN	1.82	1.64	1.12	1.39	1.25
28	ONDO	2.59	2.91	1.75	1.97	1.90
29	OSUN	2.59	4.04	2.68	2.72	4.06
30	OYO	14.43	16.04	10.66	3.72	4.55
31	PLATEAU	7.86	8.58	7.4	1.29	0.71
32	RIVERS	2.39	2.96	1.78	1.80	1.63
33	SOKOTO	1.57	1.97	1.66	1.77	1.19
34	TARABA	0.88	0.78	0.44	0.38	0.54
35	YOBE	0.86	1.11	1.2	0.89	0.82
36	ZAMFARA	0.89	1.17	0.99	1.08	0.75
37	FCT	*	0.36	0.71	1.34	1.34
	SUB TOTAL	**140.90**	**136.04**	**97.99**	**76.78**	**76.32**

*FCT's debt service payments were not disaggregated from the FGN in 2009

7.3 Review of the Status of DMDs in the States

7.3.1 Capacity Building for Sub-national Debt Managers

With the conclusion in 2012, of the Domestic Debt Data Reconstruction (DDR) Exercise for all States of the Federation and the Federal Capital Territory (FCT), the DMO in January 2013, flagged off its second phase of activities with the Sub-national debt managers, with training workshops on Sub-national Debt Sustainability Analysis (DSA) for States' Debt Management Departments (DMDs). Two batches of the Sub-national DSA workshops were organized by the DMO, in collaboration with the DFID to consolidate on DMO's achievement in strengthening capacity for effective and efficient debt recording, reporting and analysis at the sub-national level. The Sub-national DSA workshops were also targeted at training participants on the adopted Joint World Bank and IMF Fiscal and Debt Sustainability Template with the view of assisting sub-national debt managers conduct a comprehensive DSA, using each State's live data. A total of thirty-three (33) States and the FCT participated in the Sub-national DSA workshops.

As additional boosters to efforts at strengthening the capacity of the States, a special training programme was initiated in July, 2013 for States identified to have encountered major challenges with regards to the debt management knowledge and skills of their staff. Such States were grouped into two major categories, namely:

- States, where the DMDs have been re-structured, and or had new staff posted and as such were in need of training; and,
- States that have obvious skill gaps necessary for debt recording and reporting.

For the States identified in the first category, a two (2) week special training exercise was conducted by the Special Programme Department's Team, while each State in the second category had a one (1) week special training exercise.

A total of fifteen (15) States and the FCT were identified for the special training exercise, namely: Abia, Akwa-Ibom, Bayelsa, Borno, Ebonyi, Enugu, Gombe, Imo, Jigawa, Kebbi, Osun, Nasarawa, Zamfara and FCT. Two (2) other States, namely; Plateau and Yobe were included in the special training exercise, due to their identified skill gaps.

At the request of the Honourable Minister of the FCT, a structured training was also organized for the staff of the FCT's Debt Management Unit on the *Mastering of Debt Recording and Reporting using MS Excel.*

As at December 31, 2013, a total of nine (9) States (Abia, Akwa-Ibom, Borno, Imo, Kebbi, Enugu, Plateau, Yobe and Nasarawa) and the FCT had participated in the special training exercises.

7.3.2 Workshop on Effective Sub-national Debt Management for Top Policy Makers in the 36 States of the Federation

In August 2013, two (2) workshops on effective sub-national debt management were organized to address institutional and capacity challenges for effective public debt management practices at the State DMDs. The objective was to ensure that the achievements recorded in the sub-national debt management over the last five (5) years were consolidated, sustained and improved upon. They were also aimed at collectively identifying and addressing outstanding areas of weaknesses and challenges encountered by the States. The workshops were targeted at the top policy makers, specifically Commissioners for Finance, Permanent Secretaries in the Ministries of Finance, and Accountants-General in the States of the Federation. For effective participation, two (2)batches were held in the northern and southern part of Nigeria. Calabar, in Cross River State was the venue for the south and Sokoto, in Sokoto State for the north. In total, seventy one (71) participants from twenty-eight (28) States and the FCT attended the two workshops.

7.3.3 Submission of updated Domestic Debt Data to the DMO by the States' DMDs

As part of the initiative to institute a culture of quarterly submission of domestic debt stock and debt service reports by the DMDs to the DMO, the Office designed and circulated to all States, user-friendly, MS Excel driven Template for the submission of debt data on a quarterly basis with effect from January, 2013. With the full cooperation of all the States and the FCT, the DMO, by the end of the first half of the year under review, was in possession of the 2012 updated, signed-off comprehensive domestic debt stock and debt service reports, obtained from the States and the FCT.

CHAPTER EIGHT

RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

CHAPTER EIGHT

RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

The country's total Debt/GDP ratio stood at 22.84 percent pre-rebasing (which becomes 12.65 percent post-rebasing), as at end-December 2013. Interest rates and foreign exchange risks were relatively low due to the dominance of fixed rate debts and low proportion of external debts in the total public debt portfolio, respectively. However, refinancing risk was relatively high in the domestic debt portfolio, due to the large proportion of short-term debt instruments. The percentage of FGN contingent liabilities to the GDP was 3.63 percent of the GDP (pre-rebasing) as at end-December, 2013.

8.1 Introduction

The primary objective of public debt management is to meet government's financing needs and its payment obligations at the lowest possible cost and prudent risk. This chapter provides the analysis of the costs and risks associated with the total public debt portfolio. The risks in focus are: interest rate, refinancing, exchange rate, credit and contingent liabilities risks.

8.2 Costs and Risks of Total Public Debt

The total public Debt-to-GDP stood at 22.84 percent of GDP (pre-rebasing) as at end-December, 2013 (which if, States' Domestic debt are not included becomes about 19 percent). This ratio is still within the Country's specific limit of 25 percent and far below the CPIA's threshold of 56 percent for countries in Nigeria's peer-group. Given the 2013, rebased GDP estimate of about N80,222.12 billion (US$509.90 billion), the ratio of Public Debt-to-GDP dropped significantly from 22.84 percent of GDP (pre-rebasing) to 12.65 percent (post-rebasing).

As at end-December, 2013, the average interest rate for total debt was 13.28 percent, the average interest rates for domestic and external debts were 2.13 percent and 11.15 percent, respectively. The share of concessional debt at about 80.93 percent of external debt portfolio helped to lower the average interest rate of external debt portfolio in particular and overall cost of debt in general. However, the high average interest rate of domestic debt portfolio was attributed to CBN's high monetary policy rate, which remained at 12 percent throughout the year. Table 8.1 shows the costs and risks indicators of the total public debt as at end-December, 2013.

Table 8.1: Costs and Risks Indicators for Total Public Debt Portfolio as at end-December, 2013

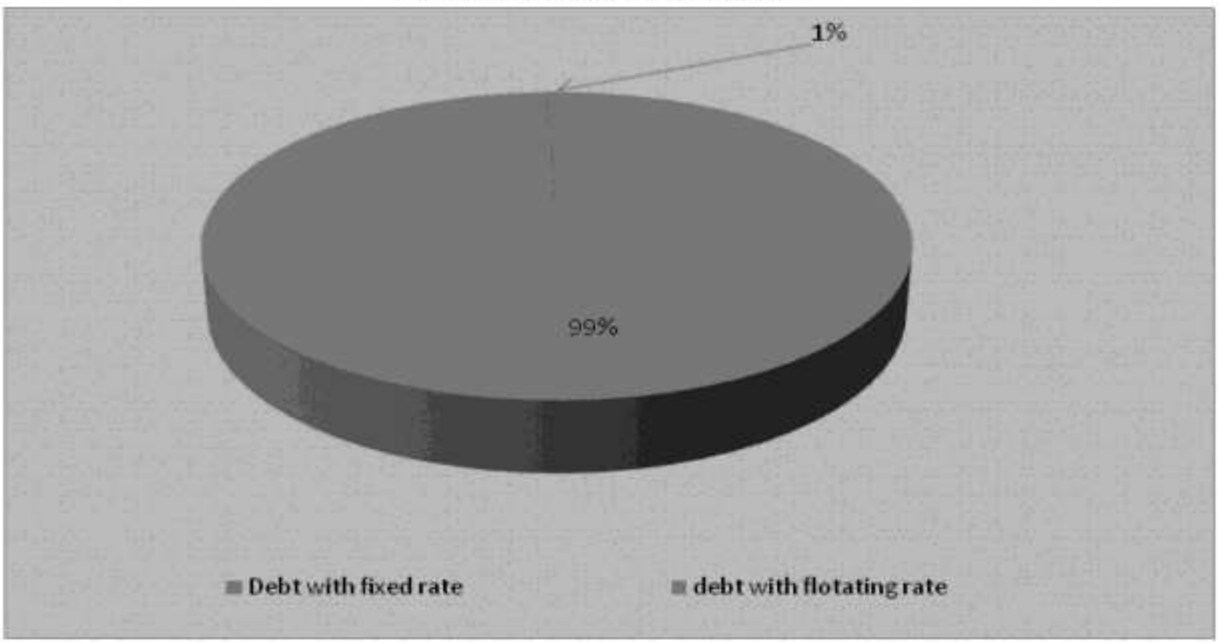
Risk indicators		External Debt	Domestic Debt	Total Debt
Amount (in million of US$)		8,821.90	44,390.69	54,544.31
PV of debt as % of GDP (Excluding States Domestic Debts)*		3.12	16.19	19.31
PV of debt as % of GDP (Including States Domestic Debts)*		3.12	19.72	22.84
Cost of debt	Average Interest Rate (%)	2.13	11.15	13.28
Refinancing Risk	ATM (years)	14.4	4.6	5.8
	Debt Maturing in 1 yr (% of Total)	0.2	34.80	35.0
Interest Rate Risk	ATR (years)	14.4	4.6	5.8
	Debt re-fixing in 1 yr (% of Total)	0.4	34.96	35
	Fixed rate debt (% of Total)	96.68	100	99.41
Foreign Exchange Risk	FX debt (% of Total)	-	-	16.17

*Computation of ratios is based on pre-rebased GDP

8.3 Interest Rate Risk

The Average Time-to-Refixing (ATR) of the total debt portfolio is 5.8 years; ATR for domestic debt is 4.6 years, while external debt is 14.4 years. This implies a low interest rate risk exposure for the total public debt portfolio. It reflects high proportion of fixed rate debt in the portfolio, which stood at 99.41 percent, relative to 0.59 percent of floating rate debt as at end-December, 2013.

Figure 8.1: Interest Rate Composition of Total Public Debt as at end-December, 2013



Furthermore, Table 8.1 also shows that the portion of total public debt that is maturing in one year and subject to interest rate re-fixing was 35.0 percent in 2013 - that is, 34.96 percent for domestic debt and 0.40 percent for external debt. The exposure to interest rate risk appears more significant in the domestic debt portfolio on account of high proportion of short-term debt instruments (NTBs). In this regard, to attain the strategic objective of 75:25 ratio for long and short-term debt instruments in the domestic debt portfolio, there is need to gradually reduce the issuance of short-term debt instruments in the domestic debt market in favour of longer term securities.

8.4 Refinancing Risk

The Average Time-to-Maturity (ATM) of the total public debt portfolio is 5.8 years, reflecting the impact of the weight of short-term debt instruments in the portfolio. The longer ATM (14.4 years) of the external debt portfolio indicates the dominance of concessional loans with original maturity periods of up to 40 years, while the ATM of 4.6 years for the domestic debt portfolio is due to the presence of large proportion of short-term debt instruments. Table 8.1 also shows that the proportion of total public debt maturing in one year was 35.0 percent in 2013. This was made up of domestic debt of 34.80 percent and 0.2 percent for external debt. This means that about 34 percent of the domestic debt component of the total public debt portfolio was required to be refinanced at a new interest rate in the next one year. This indicates a relatively high refinancing risk, which necessitates the need to restructure the domestic debt portfolio, as well as, reduce the issuance of short-term debt instruments to attain the debt strategy of 75:25 for long and short-term debt instrument, respectively.

8.5 Redemption Profile

Figure 8.2 shows the redemption profile of the external debt of the country. It indicates a smooth profile except for larger amount of repayment obligations in 2018, 2021, and 2023, when the debut 6.75 percent US$500 million 10-year Eurobond issued in 2011, will be maturing, as well as, the US$1 billion dual-tranche Eurobond, of 5.125 percent US$500 million 5-year and 6.375 percent US$500 million 10-year Eurobonds issued in 2013. Similarly, Figure 8.3 shows the redemption profile for domestic debt. It indicates that large chunk of domestic debt (constituting high proportion of NTBs) would mature and be redeemed in 2014, which points to significant refinancing risks.

Figure 8.2: External Debt Redemption Profile (US$' Million)

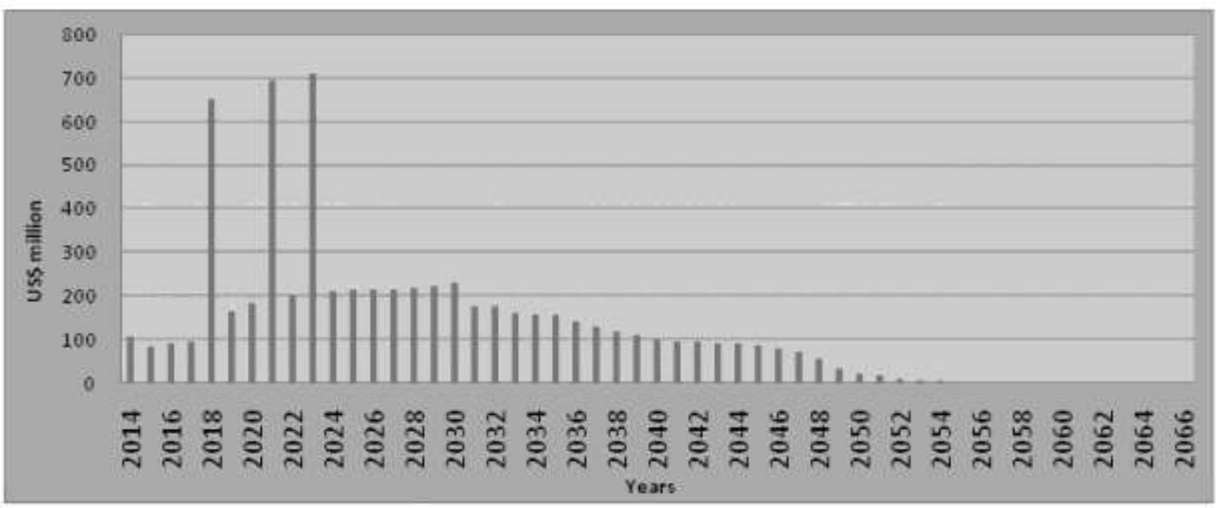
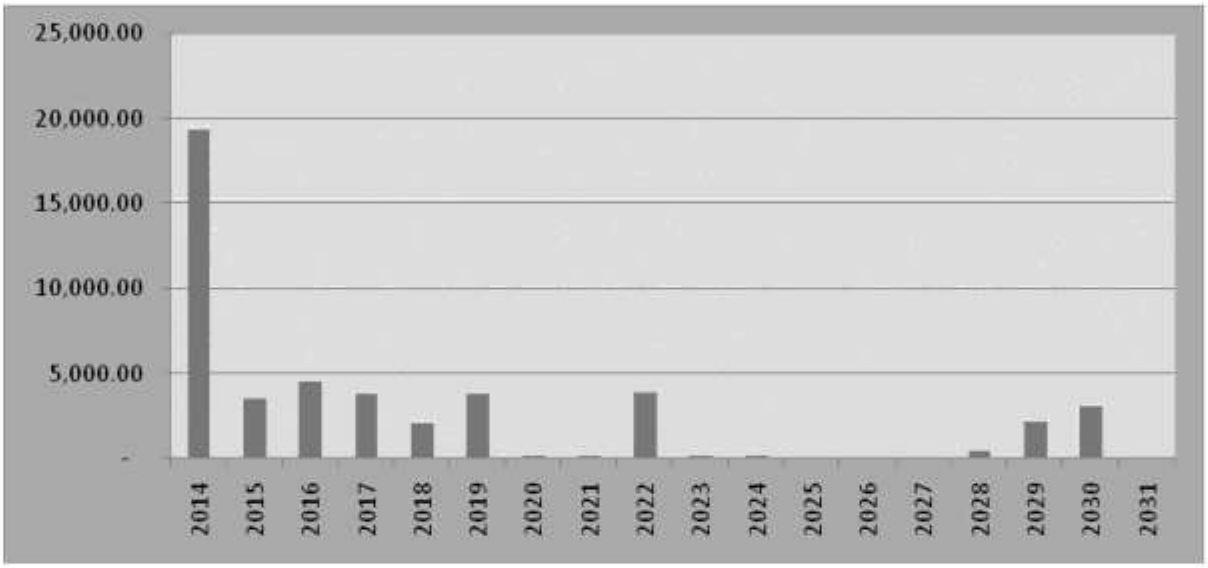


Figure 8.3: Domestic Debt Redemption Profile (₦' Million)



8.6 Exchange Rate Risk

The existing total public debt portfolio shows that the shares of domestic and external debt were 83.83 and 16.17 percent, respectively. This indicates that there was a change in debt composition, when compared to the respective proportion of 86.34 and 13.46 percent recorded in 2012. The increase in the proportion of external debt was as a result of the issuance of the US$1 billion Eurobonds in the ICM. This development indicates that the debt composition deviates from the government's preference of a more balanced ratio of 60:40 for domestic and external debt, respectively.

Figure 8.4: Currency Composition of Public Debt Portfolio as at end-December, 2013

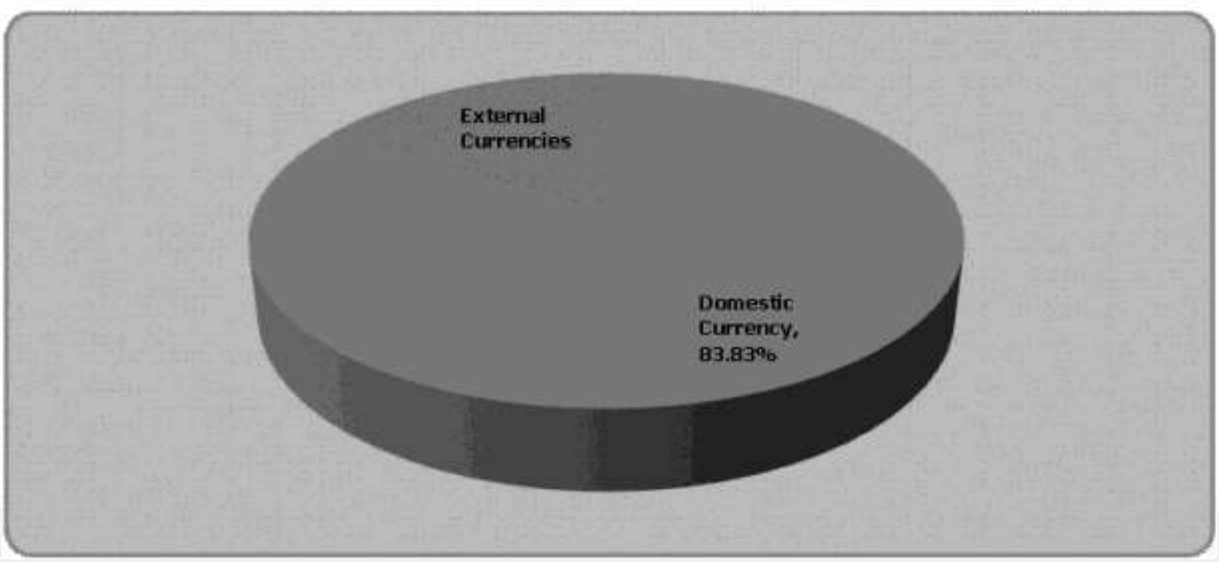


Figure 8.5: Currency Composition of External Debt as at end-December, 2012

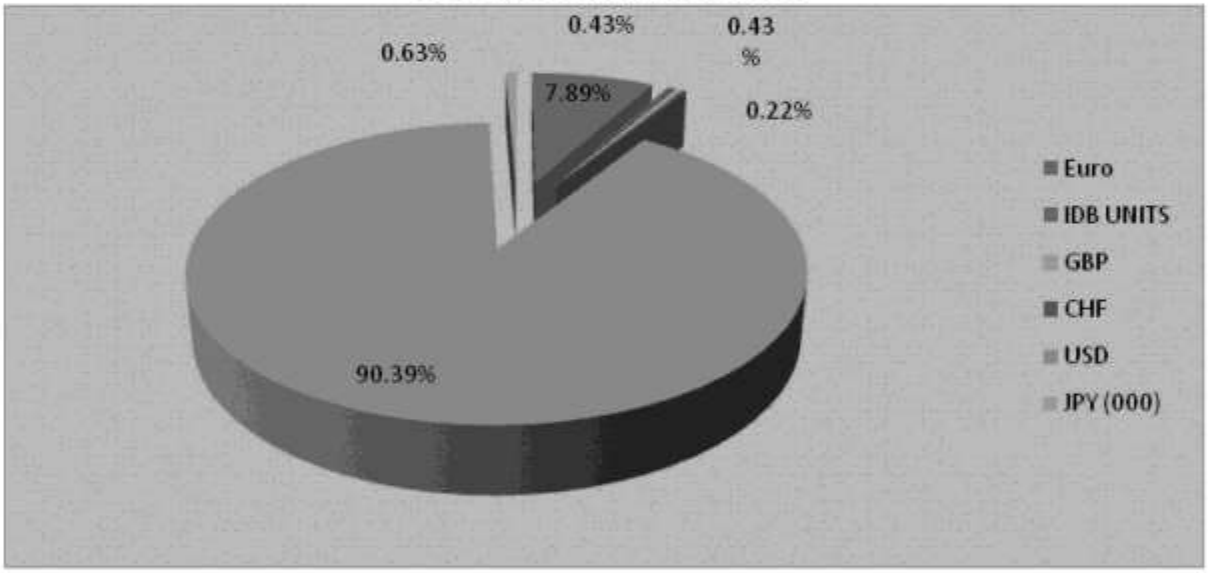
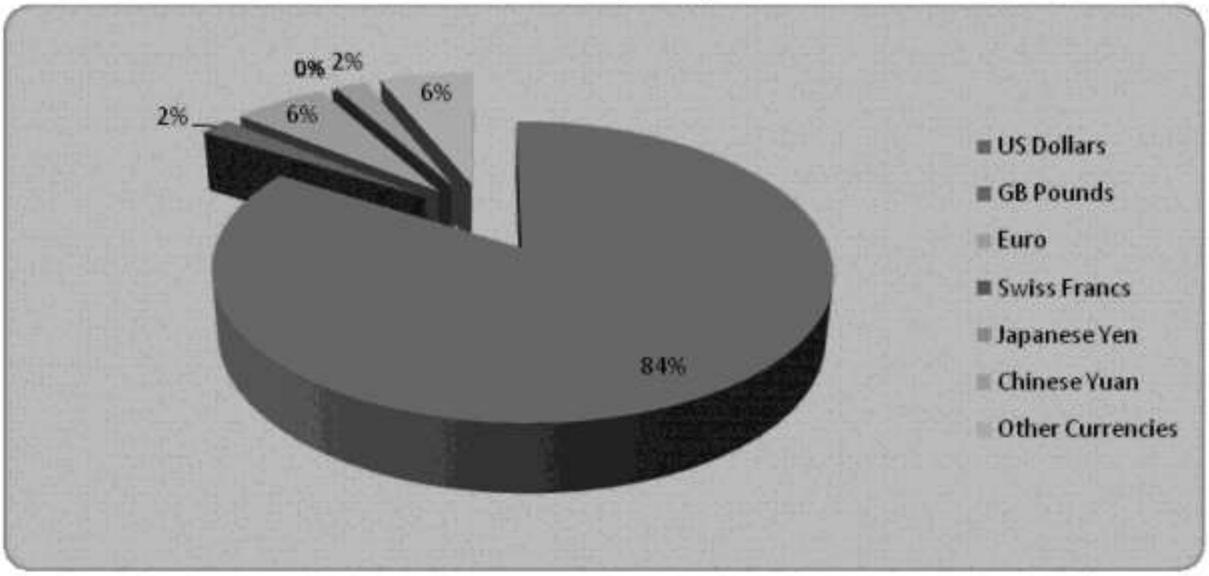


Figure 8.5 further shows that external debt portfolio comprised debts, which are denominated in US dollar (US$), British Pound Sterling (GBP), Euro, Swiss Franc (CHF), Japanese Yen (JPY) and others, which respectively constituted 90.39, 0.43, 7.89, 0.22, 0.63 and 0.43 percent in 2013. The analysis reveals that the debt portfolio is highly insulated from adverse changes in exchange rates in 2013. In addition, the external debt service, which is funded through the External Creditors Funding Account (ECFA) and denominated in US Dollars as at December 2013, further provided strong cushion against exchange rate risk.

Table 8.2: Currency Composition of External Reserve Assets as at end-December, 2013

Currency	USD Equivalent	% of Total
US Dollars	35,940,442,753.23	83.8803
GB Pounds	891,877,436.53	2.0815
Euro	2,525,962,004.88	5.8953
Swiss Francs	1,603,424.26	0.0037
Japanese Yen	12,155,840.30	0.0284
Chinese Yuan	895,425,771.90	2.0898
Other Currencies	2,579,843,415.86	6.021
TOTAL	**42,847,310,646.96**	**100**

Figure 8.6: Currency Composition of External Reserves as at end-December, 2013



As at end-December, 2013, the total foreign reserves assets stood at US$42.85 billion, while the total external debt was US$8.82 billion. This gives adequate protection and cover against capital losses that could result from currency fluctuations. The proportion of currency components of the foreign reserve assets were US$ (83.88 percent), GBP (2.08 percent), Euro (5.90 percent), CHF (0.004 percent), JPY (0.03 percent) and other currencies (8.11 percent) (Table 8.2 and Figure 8.5). Comparing the structure of external debt portfolio and currency composition of the country's external reserves, it shows some exchange rate risks associated with some currencies, due to disparities (Table 8.3). There would be the need to increase the proportionate shares of these currencies in the country's external reserves currency basket to cushion the effect of any exchange rate fluctuations relating to those currencies in the debt portfolio.

Table 8.3: Composition of External Debt & Reserve Assets as at end-December, 2013

Currencies	US$	GBP	EURO	CHF	JPY	Others
External Debt: Currency Composition (%)	90.39	0.43	7.89	0.22	0.63	0.43
External Reserve: Currency Composition (%)	83.88	2.08	5.90	0.004	0.03	8.11

8.7 Credit Risk

As at end-December, 2013, there were eleven (11) on-lent loans amounting to ₦191.38 billion owed the FGN by different MDAs. The loans were extended by the FGN to fund infrastructural development and special projects in key sectors of the economy. Repayments of the loans by the MDAs have been stable during the year under review.

8.8 Contingent Liability Risk

Table 8.4 shows that contingent liabilities recorded a significant reduction from ₦3,671.94 billion in 2012 to ₦1,537.00 billion in 2013, representing a decline of 58.14 percent. As a percentage of the GDP, the outstanding contingent liability of the FGN was 3.63 percent of GDP (pre-rebasing) in 2013 (1.92

percent of the GDP post-rebasing), as against 9.32 percent recorded in 2012. The decrease in the level of contingent liabilities was largely on account of redemption of the AMCON 3-year zero coupon bond with face value of ₦1,742 billion in 2013. With respect to Local Contractors' debts, the FGN had set up a private sector driven Special Purpose Vehicle (SPV) to issue a 5-year split-coupon bond with a face value of ₦233.94 billion, which was guaranteed by the FGN in favour of the bondholders in 2012. There is an arrangement by the FGN to redeem the bond at maturity through annual budgetary provisions.

Table 8.4: FGN Contingent Liabilities (₦' Billion)

S/N	Liability Type	2010	2011	2012	2013
1	Pension Liabilities*	1,499.66	1,401.98	1,322.42	1,271.06
2	Local Contractor's Debts**	5.64	226.52	233.94	233.94
3	Pending Litigations	83.37	92.00	92.00	-
4	Federal Mortgage Bank of Nigeria	-	-	32.00	32.00
5	Guarantee of Agriculture Loans	0.00	15.88	249.58	-
6	FGN AMCON Guaranteed Bonds***	1,000.00	1,742.00	1,742.00	-
	Total	**2,588.67**	**3,478.38**	**3,671.94**	**1,537.00**

Note:

*Data provided by PENCOM.

**The figure represents the face value of the bonds issued to Local Contractors.

***The FGN Guarantee to AMCON in respect of the ₦1.742 trillion 3-year Zero-coupon AMCON Bonds and Tradable.Bond expired on December 31, 2013, following the redemption of AMCON Bonds which was not renewed.

CHAPTER NINE

FEDERAL GOVERNMENT OF NIGERIA'S BORROWING AND ON-LENT LOANS

CHAPTER NINE

FEDERAL GOVERNMENT OF NIGERIA'S BORROWING AND ON-LENT LOANS

The DMO borrowed the sum of ₦577.07 billion from the domestic bond market to fund part of the 2013 Budgeted Deficit of ₦887.066 billion. The FGN negotiated and signed twenty (20) loan agreements in line with the approved MTEF, 2012-2014, out of which fourteen (14) became effective during the year. Total outstanding on-lent loans to various MDAs to support development projects across the different sectors of economy was ₦189.70 billion as at end-December, 2013. As at end-December 2013, the total amount of on-lent loans that have been converted to FGN equityin Bank of Industry and Bank of Agriculture stood at ₦110.00 billion.

9.1 Introduction

The Debt Management Office ensured that its statutory mandate of borrowing to meet Government's financing needs and obligations at the lowest possible cost, consistent with a prudent degree of risk, while ensuring high level of budget implementation were carried out in 2013. The Federal Government of Nigeria's (FGN) total budgeted expenditure in 2013, was ₦4,987.741 billion, with a deficit of ₦887.066 billion, which represents about 22 percent decrease when compared to 2012 budget deficit figure of ₦1.136 trillion. The gradual decrease in the Government's budget deficit can be attributed to the Government's Fiscal Consolidation Policy, which is aimed at scaling down on Government's spending and reducing budget deficits.

9.2 External Borrowing Programme

Table 9.1 shows that the FGN negotiated and signed twenty (20) loan agreements in 2013, in accordance with the Medium-Term External Borrowing Programme, 2012–2014, approved by the National Assembly to finance several economic and social development projects and programme across the Federation. It is important to state that fourteen (14) out of the twenty (20) became effective during the year under review.

Table 9.1: External Debt Loans Negotiated and Signed in 2013 (US$' Million)

S/N	Project	Agreement Date	Creditor	Loan Amount (In Millions)	Original Loan Currency
1	Nigeria ICT Infrastructure Backbone Project	5-Jan-13	Exim Bank of China	100.00	USD
2	Nigeria Edo State First Development Policy Operation	1-Apr -13	IDA	48.4	XDR
3	Nigeria Youth Employment & Social Support Operation	16-Apr-13	IDA	194.7	XDR
4	Nigeria Erosion & Watershed Management Project	16-Apr-13	IDA	321.4	XDR
5	State Employment & Expenditure for Result Project	16-Apr-13	IDA	126.20	XDR
6	Polio Eradication Support Project	16-Apr-13	IDA	61.30	XDR
7	Nigerian State Health Investment Project	16-Apr-13	IDA	96.40	XDR
8	Nigeria State Education Program Investment Project	16-Apr-13	IDA	97.40	XDR
9	Transport Sector & Governance Reform Agenda	27-May-13	ADB	300.00	USD
10	Growth & Employment Project	24-Jun-13	IDA	102.50	XDR
11	Nigeria Four Airport Terminal Expansion Project *	10-Jul-13	Exim Bank of China	500.00	USD
12	Zaria Water Supply Expansion and Sanitation Project	29-Jul-13	ADF	63.92	FUA
13	First Agriculture Development Policy Financing	30-Jul-13	IDA	66.30	XDR
14	Additional Financial Third National Fadama Dev. Project	9-Sep-13	IDA	132.60	XDR
15	Nigeria Zungeru Hydroelectric Project *	28-Sep-13	Exim Bank of China	984.32	USD
16	Construction & Equipping of 300 Beds Specialist Hospital *	27-Oct-13	IDB	43.15	USD
17	Zaria Water Supply Expansion Project *	27-Oct-13	IDB	6.50	IDB
18	Zaria Water Supply Expansion project (ISTISNA'A AGREEMENT) *	27-Oct-13	IDB	46.10	IDB
19	Construction & Equipping of Four Science Secondary School (Kaduna) Project *	2-Dec-13	IDB	17.32	USD
20	Housing Finance Project	18-Dec-13	IDA	199.50	XDR

*Yet to commence disbursement

9.3 Domestic Borrowing Programme

The 2013 Appropriation Act provided for a budget deficit of ₦887.066 billion, out of which the sum of ₦577.07 billion was required to be funded through domestic borrowing. This was fully funded by the DMO from the domestic bond market through issuance of FGN Bonds.

9.4 Analysis of On-Lent Loans to MDAs

As part of the Government's efforts to fund key projects of selected MDAs that would impact positively on growth and development of the economy, the DMO raised funds from the domestic bond market and on-lent to various MDAs. These loans were utilized in the development of key sectors of the economy, such as roads, railway and Agriculture, Transport, Education, Textile among others. By the end of December 2013, there were eleven (11) on-lent loans with principal outstanding amount of ₦189.70 billion to various MDAs (Table 9.1). Furthermore, three (3) loans originally on-lent to the Bank of Industry (BOI) and Bank of Agriculture (BOA) were converted into FGN equity in the two Government-owned banks (Table 9.2).

Table 9.2: Total Outstanding On-lent Loans to MDAs as at end-December, 2013 (₦)

S/N	MDA	FACILITY	LOAN AMOUNT (₦)	PRINCIPAL AMOUNT OUTSTANDING (₦)
1	Federal Capital Territory Administration (FCTA)	₦15 Billion FGN Funding of Health and Education Projects in the FCT	15,000,000,000.00	10,333,949,234.78
2	Federal Ministry of Finance (FMF)	₦6.3 Billion Pioneer Consumer Car Finance Scheme for Public Servants	6,300,000,000.00	3,406,992,949.84
3	Federal Ministry of Transport (FMoT)	₦2.5 Billion Nig. Railway Revitalization (25 Locomotives)	12,500,000,000.00	12,500,000,000.00
4	Ministry of Defence	₦35 Billion Funding of Peace Keeping Operations	35,000,000,000.00	13,442,811,323.45
5	Ministry of Mines and Steel Development	₦2.24 Billion Ajaokuta/NIOMCO Staff Salary Arrears	2,239,175,144.72	2,239,175,144.72
6	Nigerian Television Authority (NTA)	₦4.5 Billion Loan for Upgrading of NTA's Broadcast Equipments	4,500,000,000.00	2,786,312,827.93
7	Federal Capital Territory Administration (FCTA)	₦20 Billion Seed Money for Infrastructural Development of Four Districts of the FCT	20,000,000,000.00	20,000,000,000.00
8	Federal Mortgage Bank of Nigeria (FMBN)*	₦5 Billion Roll-over Loan to FMBN	5,000,000,000.00	5,000,000,000.00
9	Bureau of Public Enterprises (BPE)	Settlement of ₦63.03 Billion Loan Facility granted to Transcorp Plc	63,030,000,000.00	63,030,000,000.00
10	Bureau of Public Enterprises (BPE)	NITEL/MTEL Terminal Benefits	54,552,000,000.00	54,552,000,000.00
11	Bank of Indutry (BOI)	Indebtedness of the defunct Nig. Bank for Commerce and Industry to the FGN	2,500,711,000.00	2,410,293,267.05
		TOTAL	**220,621,886,144.72**	**189,701,534,747.77**

Note: * The ₦5 Billion Loan to FMBN was converted to a non-interest bearing facility.

The principal amount of on-lent loans outstanding as at December 31, 2013, was ₦189.70 billion (Table 9.2). Meanwhile, the ₦5 billion Loan to Federal Mortgage Bank of Nigeria (FMBN), which is a part of the ₦189.70 billion outstanding, was converted to a non-interest bearing facility. The loan will be converted to equity when FMBN increases its Authorized Share Capital. As at end-December 2013, the total amount of on-lent loans that have been converted to FGN equity based on approval received from appropriate Authorities was ₦110.00 billion, as indicated in Table 9.3

Table 9.3: Total Outstanding On-lent Loans Converted into FGN Equity as at end-December, 2013 (₦)

S/N	MDA	LOAN AMOUNT (₦)	AMOUNT CONVERTED TO EQUITY (₦)
1	Bank of Industry (BOI)	5,000,000,000.00	5,000,000,000.00
2	Bank of Agriculture (BOA) – Formerly Nigerian Agricultural Cooperative & Rural Development Bank (NACRDB)	5,000,000,000.00	5,000,000,000.00
3	Bank of Industry (BOI)	100,000,000,000.00	100,000,000,000.00
	Total in Naira	**110,000,000,000.00**	**110,000,000,000.00**

CHAPTER TEN

INSTITUTIONAL ISSUES

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INSTITUTIONAL ISSUES

To enhance the effective implementation of the DMO's Third Strategic Plan (2013-2017), the year 2013 commenced with repositioning of the DMO's Departments and Work Units. Various capacity building programmes for staff and key stakeholders were also undertaken to scale up skills and competencies. The approval of the Federal Government was obtained for the implementation of Nigeria's First Medium-Term Debt Management Strategy (MTDS), 2012-2015. Stakeholder events were organized which include Deal Roadshows for issuing of US$1 billion Eurobonds in the International Capital Market. The DMO received international recognition from EMEA Finance as the Best Sovereign Eurobond in Africa, out of the total of five (5) sovereign Eurobonds issued by African Countries in 2013 for the success recorded in the US$1 billion offer, which was over subscribed four times by foreign investors, at a period of grave market uncertainty. Also during the period, Operational risk activities were reviewed, in which risk occurrence and impact assessment levels of the existing twenty-three (23) operational risk areas were retained, for further test of their efficacy on improving the DMO's work environment.

10.1 DMO's Third Strategic Plan, 2013 - 2017

The expiration of the second Strategic Plan, 2008 – 2012, and in view of the need to consolidate on the gains of previous Plans, finalize on-going initiatives, explore new areas and maintain a steady focus on the delivery of the Office's mandate, necessitated the formulation of the DMO's third Strategic Plan, 2013 – 2017. The third Strategic Plan is aimed at ensuring efficient public debt management in terms of a comprehensive, well diversified and sustainable portfolio, supportive of Government and private sector needs. It should be noted that among the key features of the DMO's third Strategic Plan is a re-definition of the organization's Vision and Mission Statements, as well as, an elaboration of the parameters on which the Office would assess the effective application of its Core Values.

The Strategic Plan is broken down into Seven (7) Strategic Objectives as follows:

1. To further develop capacity and strengthen sound debt management at the sub-national level towards achieving total public debt sustainability.
2. To sustain the maintenance of a comprehensive and reliable national and sub-national debt database with prompt and accurate debt servicing for effective debt management.
3. To develop innovative approaches for optimally accessing domestic and external finance.
4. To deepen and broaden the FGN securities market in order to sustain the development of other segments of the bond market and support Government's financing needs.
5. To develop and implement an effective system for contracting, recording and monitoring Contingent Liabilities, as well as, a process for managing the associated risks.
6. To institute systems and processes for proactively tracking, monitoring and evaluating debt management activities to ensure effective and quality compliance with international best practice.

7. To continuously enhance the skills and maintain a well motivated professional workforce, as well as, deploy state-of-the-art technology, towards making Nigerian a major destination for out-sourced debt management skills and services.

Among the major accomplishments and recognitions by the Office in the first year of implementation of the third plan include:

Achievements

- Approval of the Federal Government for the implementation of the Medium-Term Debt Management Strategy (MTDS), 2012-2015, which is aimed at achieving an optimal composition of external and domestic debt structure, to ensure low cost of Government debt with prudent level of risk;
- Successful revision of the Medium-Term Debt Management Strategy (MTDS), 2012-2015, in view of the developments in both domestic and global economic environments that could have potential impact on the cost and risk profile of public debt portfolio;
- Conclusion of the review of the National Debt Management Framework (NDMF), 2008-2012, and publication of the revised (2nd) NDMF, 2013-2017;
- Successfully priced the **US$1 billion** dual-tranche Eurobond on July 2, 2013, of US$500 million 5-year and US$500 million 10-year at coupons of 5.125 percent and 6.375 percent p.a., respectively;
- Issuance for the first time by a supra-national (the International Finance Corporation (IFC) - (a member of the World Bank Group), of a 5-year Naira denominated bond with a face value of **₦12 billion** (US$76 million) in March, 2013,in the domestic debt market and thereby establishing a benchmark for other international bond issuers to tap the growing Naira bond market, a feat obtained in recognition of the growth in the domestic debt market;
- Institutionalization of a framework to ensure regular updates of the States' domestic debt data in a structured manner, and to further strengthen the skills and capacities of sub-national debt managers; and,
- Enhancement of debt management capability at the sub-national levels by conducting special workshops for States' officials on Sub-national Debt Sustainability Analysis and special training for nine (9) States and the FCT to strengthen debt management processes.

International Recognitions

- 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; **J.P. Morgan** and **Barclay's Capital,** which included selected FGN Bonds in their Emerging Markets-Government Bond Index (EM – GBI) and Emerging Markets-Local Currency Bond Index (EM-LCBI) respectively; and,
- Selection of Nigeria's US$1 billion Eurobonds by **EMEA Finance** as the **Best Sovereign Bond in Africa,** out of a total of five (5) sovereign Eurobonds issued by African Countries in 2013, in recognition of the high level of subscription recorded (about US$4 billion) by the Offer and the fact that the Eurobond was issued during the period of market uncertainty.

10.2 DMO's Supervisory Board Activities

The DMO's Supervisory Board held its 13th and 14th Meetings at the Office of the Vice President and Chairman of the Board on Friday, March 15, 2013, and, on Friday, July 26, 2013, respectively.

10.3 Debt Sustainability Analysis (2013)

The DMO completed the annual Debt Sustainability Analysis (DSA, 2013).The 2013, DSA workshop which was organized by the DMO from May 8 - 19, 2013, and comprised officials drawn from all the relevant stakeholders in debt management operations, namely: the Federal Ministry of Finance, Central Bank Nigeria, National Planning Commission, Budget Office of the Federation (BOF), National Bureau of Statistics and the Office of the Accountant-General of the Federation (OAGF), while the West African Institute for Financial and Economic Management (WAIFEM) provided technical support. The results showed that Nigeria has remained at a low risk of debt distress, which is consistent with the results of the 2012, DSA.

10.4 Medium-Term Debt Management Strategy, 2013 – 2016

The workshop for the revision of the current Medium-Term Debt Management Strategy (MTDS), 2012-2015, was conducted by the DMO in collaboration with other stakeholders namely: Federal Ministry of Finance, Central Bank of Nigeria, National Planning Commission, Budget Office of the Federation, National Bureau of Statistics and Office of Accountant-Generation of the Federation, to provide a quantitative and qualitative guide for effective public debt management in the country. The West African Institute for Finance and Economic Management (WAIFEM) team provided technical support during the workshop that produced the MTDS, 2013-2016. The revision was necessitated by current developments in both domestic and global economic environments that could have potential impact on the cost and risk profile of the public debt portfolio.

10.5 Staffing Issues

10.5.1 Recruitment of New Staff

In 2013, the DMO engaged the services of a new Special Assistant (SA) to the Director-General, who resumed duty after expiration of the contract of the former SA, in October, 2013.

10.5.2 Repositioning/Redeployment Exercise

After the Director-General's annual briefing in January, 2013, a general reorganization/repositioning of the Office was undertaken. The reorganization resulted in realignment of some Units, creation of new ones and the restructuring of some Departments.

- **The Director-General's Office**
  The Director-General's Office which comprised the DG's Office, Executive Unit and Special Duties Unit, was restructured to form new units, namely: Executive Services Unit, to handle the DG's secretarial and administrative services, the Public Affairs Unit, to handle matters relating to publicity, and the Monitoring & Evaluation and Special Duties Unit (M & E and SDU), to cover Special assignments and Board matters. In addition, the IT & IS Unit of the ORD was moved to the Director-General's office.

- **Portfolio Management Department (PMD)**
  The PMD was restructured to create a new Unit - the Contingent Liability & Risk Asset Management Unit (CL & RAMU), to handle AMCON, Local Contractors' Debts and similar matters, which were hitherto handled by the Special Project Group (SPG); and domestic on-lending transactions. As a result of the dissolution of the SPG, the Bond auction (IT) System functions were moved to the Securities Issuance Unit of the PMD.

- **Market Development Department (MDD)**
  On the disbandment of the Special Projects Group, its operations on Nigeria Diaspora Bond, issuance of Sukuk and similar products and functions were moved to the MDD.

- **Strategic Programmes Department (SPD)**
  The SPD had the Debt Management Training (DMT) and External Support (ES) Units added to the Institutional and Skills Development, Northern and Southern Zone Units. The Public Debt Management Institute was transferred to SPD, and renamed the Debt Management Training Unit, while retaining its job schedules. The External Support Unit of the ORD was moved to the SPD, and it retained all job schedules of the Unit.

- **Policy, Strategy and Risk Management Department (PSRMD)**
  The Monitoring and Compliance Unit of the PSRMD was re-designated as the Task Compliance & Operational Risk Management (TC & ORM) unit. The Unit would handle issues related to tasks compliance alongside the DMO's operational risk management activities.

- **Organizational Resourcing Department (ORD)**

The External Support Unit of the ORD was moved to the SPD, while the IT&IS Unit was also moved to the DG's Office.

The restructuring and realignment of Units and Departments was done with re-deployment of staff cutting across different grade levels, as well as, all departments.

In order to cater for the emerging needs of the DMO, another staff re-deployment exercise involving four (4) members of staff only was also carried out in May, 2013. In this regard, the Departmental Administrative Officer (DAO) in IT Unit of the Director-General's office was redeployed to take the place of the DAO attached to the office of the Director, DRSD, who was proceeding on maternity leave.

In addition, three (3) other staff were redeployed, two (2) from the ORD and one (1) from SPD, in August, 2013. The benefitting departments were ORD (ACOO, ISD South), SPD (POO, HR) and PMD (DAO). An Assistant Director, who returned from leave of absence, was deployed to the PSRMD, as Team Leader, Policy and Strategy Unit.

10.5.3 Senior Management Movement

With the retirement from service of a few Directors, the year 2013, commenced with the restructuring of the Senior Management Team as follows:

a. The Director, ORD, was moved to SPD as Director;
b. The Head, SPG, was moved to PMD as Director;
c. The Head, PDMI, was moved to PSRMD as Head; and,
d. The Head, PMD, was moved to ORD as Head.

10.5.4 Promotion and Merit Award

As part of the staff advancement and motivational policy, the DMO, in 2013, promoted a total of seven (7) staff members, two (2) on regular promotion and five (5) on special promotion for their outstanding performance at work. Four (4) other staff members received merit awards also for their performance in the course of the year. The staff on regular promotions included one (1) staff, who was elevated to the rank of Assistant Chief Operations Officer, GL 13 and a Driver to GL 06.

The staff on special promotion included one (1) Deputy Director (GL 16) promoted to a Director (GL 17), an Assistant Director (GL 15) to Deputy Director (GL 16), a Chief Operations Officer (GL 14) to Assistant Director (GL 15), an Operations Officer II (GL 08) to Operations Officer I (GL 09) and an Office Assistant II (GL 05) to Office Assistant I (GL 06). In addition to the special promotion, this category of staff also was accorded special training programmes offshore.

The four (4) staff that earned Merit Awards included One (1) Assistant Chief Operations Officer (GL 13), One (1) Principal Operations Officer (GL 12) and two (2) Departmental Administrative Officers (GL 08). They were rewarded with three (3) steps salary increment and a Special Training programme offshore. In addition to these, they got letters of commendation signed by the Director-General.

10.6 Scholarship Programme (Masters Degree Support Programme)

There were no approvals for study leave in 2013; however, one (1) officer with approval for Masters Degree programme, supported by the DMO, in 2011, resumed duty after successfully completing a Master of Science degree programme in Computing and Information Technology.

10.7 Stakeholder Events

i. The Office organized a Due Diligence (DD) exercise in the form of an interactive session between the Transaction Parties and officials of relevant MDAs involved in the issuance of US$1 billion Eurobond issued in July, 2013. The exercise took place in the Transcorp Hilton, Abuja, from May 8-9, 2013;

ii. An International Press Conference on the achievements recorded in Public Debt Management by the DMO was held in Enugu, Enugu State, from May 28-31, 2013;

iii. The DMO organized Deal Road shows, which were held in United Kingdom, Germany and United States of America, in respect of the US$ 1 Billion Eurobond issued by the DMO on behalf of the Federal Government of Nigeria. The Nigerian delegation was led by the Coordinating Minister for the Economy and Honourable Minister of Finance (CME & HMF), with members drawn from the Presidency, National Assembly, Federal Ministry of Justice, Federal Ministry of Finance, Central Bank of Nigeria and the Debt Management Office. The event took place from June 19 – 27, 2013. The Deal Roadshows were aimed at enabling Nigerian official delegates engage directly with some of the major institutional investors in Europe, Germany and the United States of America, who are investors in the securities issued by the Federal Government of Nigeria. As part of the programme of activities for the Deal Roadshows, the CME & HMF had an interactive session with Nigerians in the Diaspora. The Diaspora event was held on June 21, 2013, at the Nigeria House, New York.

iv. The DMO also organized a Retreat for members of the Financial Correspondent of Nigeria (FICAN), Lagos Branch. The event was held on August, 15-16, 2013, in Lagos. The main objective of the retreat was to enlighten Financial Correspondents and Investment Journalists on the Opportunities for Private Sector from Public Debt Management Achievements;

v. The DMO organized two workshops for Top Policy Makers, namely: the Hononourable Commissioners of Finance, Permanent Secretaries in the Ministries of Finance and Accountants-General in the thirty-six (36) States of the Federation and the Federal Capital Territory (FCT). The first workshop was conducted on August 22, 2013, at the Tinapa Lakeside Hotel, Calabar, Cross River State, for participants in the South-East, South-West and South-South States of the Federation. The second workshop was held on August 29, 2013, at Giginya Hotel Sokoto, Sokoto State, for participants in the North-Central, North-East and North-Western States of the Federation and the FCT. The workshops were used as a medium to reach out to policy makers in the States, to address all institutional bottlenecks for effective public debt management practices at the sub-national level and to agree on the way forward;

vi. Similarly, a retreat was organized by the DMO for members of the Finance Correspondents of Nigeria (FICAN) and Investments Journalists, Abuja Branch. The theme for the retreat was "Opportunities for the Private Sector from Public Debt Management Achievements". The event took place on October 04, 2013, at the Crystal Garden Hotel, Kaduna State.

vii. During the year under review, the DMO organized a Retreat for the distinguished Senators and Staff of the Senate Committee on Local and Foreign Debts. The event took place on October 23-25, 2013, at Benin City, Edo State. The Retreat was used as a channel for the continuous enlightenment and sensitization of the Committee members on the past, current and future activities of the Debt Management Office; and,

viii. The Office also organized a 3-day retreat for members of the House Committee on Aids, Loans and Debt Management from November 29 - December 1, 2013, at Ada, Osun State. The retreat was used as an avenue to further equip the Committee's members with requisite knowledge to enable them effectively and efficiently carry out their oversight functions in a professional and proficient manner.

10.8 Training for DMO's Stakeholders

Fifteen (15) external stakeholders were also trained during the year. Seven (7) of the external stakeholders were from the Federal Ministry of Finance, four (4) from the Office of the Vice President and the remaining four (4) were from the National Assembly.

10.9 Staff Capacity Building Initiatives

In 2013, training in DMO continued to focus on building the capacity of its officers in areas relating to the DMO's core mandates and relevant specialist skills required in delivering on its core mandates. As a result, the staff training programme for the year focused on the following:

Course	Number of Participants
Intermediate Microsoft (MS) Excel	21
Financial Analysis and Modeling	24
Macroeconomics of Debt Management	12
Fundamentals of MATLAB Operations	11
Essential concepts and Principles of Public Debt Management	4
Debt Sustainability Analysis	11
Attachment to China	2
Driving Under Challenging Severe Conditions	16
Security Management	2
CS-DRMS 2000+ External & Domestic Debt Recording	8
Other unstructured Specialist Skills Training (MTDS, DeMPA, etc)	7

- MS Office Training (Advanced Word, Excel and Intermediate PowerPoint) was organized for all staff in collaboration with Project Development Support Services, a consulting firm;
- Special training in Dubai, United Arab Emirate (UAE) was undertaken by eight (8) staff, who earned special promotions and merit awards in the, 2013, promotion exercise;
- In addition, all Directors/HODs were exposed to special leadership development programmes.

10.10 Operational Risk Management

As part of the series of initiatives to institutionalize operational risk management in its everyday transactions, the DMO in February, 2013, developed its Operational Risk Management Framework. Operational Risk, as defined by Basel Committee (2004) is *"the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".* Approved by Management, the ORM Framework details the organization's risk awareness culture, the identification of the Risk Champion and the Departmental Risk Monitors, the definition of the Scope and Mandate of the ORM Committee (composed of the Risk Champion, Departmental Risk Monitors and a Representative of Management), as well as, the Frequency and Channels for the ORM reporting process.

Using the baseline data generated from the 2012 Risk Mapping Exercise, the ORM Committee had, by the end of the first half of the year, completed an extensive review of all forty one (41) operational risk areas identified in the 2012 register. The result was a drastic reduction in the number of operational risk areas to twenty eight (28), in view of the duplications observed, arising from among others, the re-organizations undertaken in the Office and the relevance of some of the dropped activities to the DMO's 2013 work operations. Two (2) newly identified potential high risks areas were also incorporated to the Risk Register, thereby conferring on the DMO a total of thirty (30) High to Low risk areas, with potential impact ranging from severe to catastrophic on DMO's overall work operations, reputation and resources.

In view of the high level of ORM activities witnessed in 2013, by the end of the year under review, DMO's operational risk exposures experienced a further reduction to twenty three (23). This was due largely to Management's approval obtained in August, 2013, for the delisting from the ORM register of activities considered as low risk with little or no material impact on the organization's operations and in recognition of:

- The deliberate attempts by all DMO Departments to minimize risks associated with the work environment through continuous monitoring and implementation of proactive measures;
- The continued strengthening of efforts to improve data storage and other information technology and information system driven issues in the work environment with a view to improving business continuity, as well as, enhance disaster recovery; and,
- The continued efforts by the organization to shore up skills and competencies of staff to deliver on their mandate.

ORM in the DMO is transforming to a dynamic process that is continuously reviewed, assessed, updated and reported upon. In 2013, ORM activities were concluded with the retention of the Risk Occurrence and/Impact Assessment levels of the current twenty three (23) operational risk areas, as to further test of the efficacy of the on-going work environment improvement initiatives by the DMO.

10.11 ICT Infrastructure

In furtherance of the ICT drive to be an enabler for DMO business processes, a framework for Information Lifecycle Management was developed. Network monitoring applications were successfully installed, thereby ensuring a system Uptime of more than 95 percent for the year, 2013.

The upgrade of Access Control System and CCTV System were concluded to improve the monitoring of movement of persons, including visitors within the DMO. To improve the ease of access to the time attendance system, an additional "Time Attendance Machine" was installed on the ground floor wing of the DMO's office space, while the CCTV System upgrade was effected successfully in the DMO Data Centre, IFEMIS Centre, DMO Archive Centre and the DMO's reception.

The procurement of 3 in 1 Multifunction Systems with ability to copy, scan and print was undertaken as part of the deliberate road map towards the document digitization of all information and correspondences used in the DMO. The administration of the Disaster Recovery Systems situated within Galaxy backbone facilities was also ensured all through the year in review, thus contributing significantly to the uptime achieved in the year 2013.

10.12 SERVICOM in the Debt Management Office

In compliance with the directives of the Federal Executive Council (FEC), on the revitalization of the SERVICOM initiative by all MDAs, a re-constitution of the DMO's SERVICOM Committee was undertaken, with the Director-General as Chairman and the Head (Policy, Strategy and Risk Management Department (PSRMD) as Alternate Chair. The activities of the SERVICOM Committee were also incorporated into the work structure of the PSRMD's Task Compliance and Operational Risk Management Unit. Notable accomplishments of the SERVICOM Committee in 2013, include:

i. The printing and distribution to key internal and external stakeholders of the DMO's revised Client Service Charter;
ii. The hosting of an All-Staff SERVICOM Awareness Seminar to enlighten staff on the principles, concepts and structure of SERVICOM, in relation to a compact-sized organization such as the DMO;

iii. The hosting by the DMO of the Federal Ministry of Finance (FMF) Ministerial SERVICOM Committee (MSC) meeting in June, 2013, with sixty (60) SERVICOM Officers from the eleven (11) agencies in the FMF SERVICOM cluster participating; and,

iv. The design and administration of a Service Improvement Questionnaire to members of staff as a means of gauging staff's assessment of DMO's internal operations, work culture and work attitude. This was with a view to identifying and determining specific areas of service delivery that would need to be addressed and improved upon by the Committee in the fiscal year, 2014, as part of the DMO's Service Excellence agenda.

10.13 DFID's Capacity Building Support to the DMO

The DMO has continued to coordinate the activities of donor agencies intervention in the States to ensure effective utilization of donor funds. The DFID support project to DMO, which comprised three (3) phases, which started in 1998, comprising of three (3) phase,was concluded in March, 2013. Between January and March, 2013, the DFID provided support to the DMO's operations in the following areas:

i. Training on MATLAB and a Train-the-trainer workshop on DSA; and,
ii. Employee Shared Services Portal for the DMO.

10.14 FGN Guarantee in favour of the Bondholders of the ₦1.742 trillion 3-Year Zero Coupon 2013 AMCON Tradable Bonds

The DMO continued to maintain regular interface with AMCON and monitor its activities in respect of the:

- Successful refinancing of AMCON Bonds through the issuance of 10-year Redeemable Exchange Notes to the CBN and the redemption of maturing bonds in 2013, as well as, early redemption of some bonds due in 2014;
- Implementation of the provisions of the Agreement relating to the FGN Guarantee on ₦1.742 trillion AMCON Tradable Bonds;
- Recovery of the Non-Performing Loans (NPLs), Disposal of some acquired assets & General resolution of the banking sector crisis; and,
- Contributions to the Sinking Fund by the CBN and Eligible Financial Institutions.

10.15 Settlement and Securitization of the Federal Government of Nigeria's Local Contractors' Debt through the Design and Implementation of a Resolution Model

The DMO is working closely with the Budget Office of the Federation (BOF) towards the conclusion of the Implementation of the Resolution Model for the settlement of the Local Contractors Debts (LCDs).

Also, the DMO, together with the BOF, CBN and the Financial Advisers, is working towards the management of the Sinking Fund for the redemption of the LCDs Bonds.

10.16 Bond Auction System

In compliance with the requirements of the Public Procurement Act (PPA), 2007 and with the guidance of the Bureau for Public Procurement (BPP), request for expression of interest (EOI) was advertised, to which a number of companies responded and the pre-qualified bidding companies were given Requests for Proposal (RFP). As part of the technical evaluation of the responses to the RFP, site visits were undertaken to verify the submissions made by the companies that responded to the RFP, seek clarifications on certain documentations and validate the capabilities of systems they proposed.

Following from the result of the evaluation of the technical submissions of the response to the RFP, the DMO considered it pertinent to seek the approval of the BPP for a competent local company to provide the services found to be "out of scope" of the proposals by the companies. The DMO, therefore, sought and obtained the said approval of the BPP and an agreement has been firmed up with a local company.

The DMO's Tenders Board is expected to consider and take a decision on the report of the Technical Evaluation Sub-Committee, after which a report will be forwarded to the BPP for its Due Process Certificate of "No Objection" to award contract.

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

11.1 BUDGET ALLOCATION AND IMPLEMENTATION PROFILE

11.1.1 Budget Allocation

The total approved Budget of the Debt Management Office for the year 2013 was ₦697 million, representing a decrease of 3.66 percent relative to the amount appropriated for the organisation in the preceding financial year. Most of the cuts came from the Personnel Emoluments vote which declined substantially from ₦503 million in 2012, to ₦432 Million in 2013, a decrease of 14 percent. Conversely, Capital appropriation increased from ₦18 million in 2012 to ₦40.5 Million in 2013, representing a 125 percent increase in budgetary allocation. Overhead allocation, on the other hand only increased marginally, from ₦201 million in 2012, to ₦224 Million in 2013, a raise of 11.44 percent year on year. Overall, the 3.66 percent drop in total budgetary allocations to the DMO in 2013 is less significant compared to the 13 percent decline recorded in 2012, when total budgetary allocation fell from ₦842 million in 2011 to ₦723.50 million in 2012.

11.1.2 Budget Implementation

The DMO received the sum of ₦417 million for Personnel Emolument in 2013, comprising of the sum of ₦385.6 million for payment of staff salaries and allowances (including employee pension contributions), and ₦31.67 million for social costs (employer pension contributions and National Health Insurance Scheme deductions). Payments of staff salaries and allowances were effected directly by the Office of the Accountant-General of the Federation (OAGF), through the Integrated Payroll and Personnel Information System (IPPIS).

The 2012 approved Overhead budget of ₦224 million was fully released to the DMO by the Office of the Accountant-General of the Federation (OAGF). Out of this amount, the sum of ₦223.83 million was utilized for funding various operations of the DMO, while the unspent balance of ₦0.24 million was returned to the Sub-Treasury of the Federation at the end of the fiscal year.

From the approved Capital Expenditure Budget of ₦40.5 million for 2013, only the sum of ₦19.75 million, representing 49 percent of Capital budget appropriation for the year, was released to the DMO. This amount was sufficient to finance only part of the capital protects earmarked for the year. The DMO, therefore, had to scale down its capital development plans in the light of this budgetary constraint.

In addition to the statutory budget releases of amounting to ₦660.7 million during the year under review, the DMO also received a total of ₦39.1 million from Service Wide Vote to finance the payment of other approved obligations of the organization. These obligations include payments for the Audit of Debt Management Operations, Salary Arrears of officers' promoted during the year, as well as the emoluments of the Technical Adviser on Policy, Strategy and Risk Management.

11.2 AUDITED ACCOUNTS AND FINANCIAL STATEMENTS

11.2.1: CORPORATE INFORMATION

Supervisory Board	
Chairman	**Arc. Mohammed Namadi Sambo, (GCON)** - Vice President, Federal Republic of Nigeria
Vice Chairman	**Dr. (Mrs.) Ngozi Okonjo-Iweala, CFR** - CME/Hon. Minister of Finance
Member	**Mr. Mohammed Bello Adoke, SAN** - Attorney General/Minister of Justice
Member	**Dr. Nwanze Okidegbe** - Chief Economic Adviser to the President
Member	**Mr. Jonah Otunla** - Accountant-General of the Federation
Member	**Mallam Sanusi Lamido Sanusi** - Governor, Central Bank of Nigeria
Member/Secretary	**Dr. Abraham E. Nwankwo** - Director-General/Chief Executive
Registered Office	1st Floor, NDIC Building, Plot 447/448, Constitution Avenue, Central Business District, Abuja.
Independent Auditors	Sada, Idris & Co., Chartered Accountants, 2nd Floor, B. Wing, FMBN Building, Central Business District, Abuja
Bankers	Central Bank of Nigeria, Garki - Abuja

Principal Officers:

Dr. Abraham E. Nwankwo	-	Director–General
Ms. Patience Oniha	-	Director, Market Development Department
Mrs. A. M. Mohammed	-	Director, Strategic Programme Department
Mr. Miji Amidu	-	Director, Portfolio Management Department
Mrs. Hannatu Suleiman	-	Director, Debt Recording & Settlement Department.
Mr. Joe Ugoala	-	Head, Policy, Strategy & Risk Management Department.
Mr. Atiku Saleh Dambatta	-	Head, organizational Resourcing Department

11.3 STATEMENT OF DIRECTORS' RESPONSIBILITIES

DEBT MANAGEMENT OFFICE

Annual Report and Financial Statements
For the Year Ended 31st December 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies and Allied Matters Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Office at the end of the year and of its income and expenditure. The responsibilities include ensuring that the Debt Managment Office (DMO):

(a) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Debt Management Office and comply with the requirements setting up the Establishment;

(b) establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and,

(c) prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, and are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with Nigerian Accounting Standards and Financial Regulations, Extant Circulars, the Financial Reporting Council of Nigeria etc.

The directors are of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Debt Management Office and of its Income and Expenditure. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Debt Management Office will not remain a going concern for at least twelve months from the date of this statement.

Dr. Abraham. E. Nwankwo	Atiku Saleh Dambatta
Director-General	Head, Organisational Resourcing Dept.
June 16, 2014	16/6/2014

11.4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. **Basis of Preparation**
The financial statements are prepared in compliance with Nigerian Statements of Accounting Standards (SAS). The financial statements are presented in the functional currency, Nigerian Naira (₦), and prepared under the historical cost convention.

2. **Revenue**
Receipts represent the total votes received from the Federal Government and other special sources during the year under review

3. **Fixed Assets**
Fixed Assets are stated at cost. Depreciation of Fixed assets is computed for notional purposes only as the accounts are prepared on cash accounting and are expensed in the year of purchase. However, Annexure in the Supplementary Information at page 103 was prepared for management information and could be useful in decision making.

4. **Taxation**
There was no provision for both Income and Education Taxes during the period ended 31st December, 2013 because the Office is a non-profit making organization.

5. **Staff Retirement Benefits**
Debt Management Office operates a defined retirement benefit plan for its staff. The Office and the employees contribute 7.5% each of staff consolidated salaries and allowances.

6. **Grants and Aids**
These are receipts from Development Partners and Donor Agencies mainly for funding specific programmes and capacity building. They are accounted for in the year they are received.

7. **Foreign Currency Translation**
Transactions in foreign currencies during the year are converted into the functional currency, Nigeria Naira, using the exchange rates prevailing at the dates of the transactions.

11.5 REPORT OF INDEPENDENT AUDITORS

Sada, Idris & Co.
Chartered Accountants
Audit • Tax • Consulting

Report of Independent Auditors to the Members of the Supervisory Board
Debt Management Office (DMO)

We have audited the accompanying financial statements of Debt Management Office (DMO) which comprise the balance sheet as at 31st December, 2013 the income and expenditure accounts, the statement of cash flows for the year then ended, summary of significant accounting policies and other explanatory notes.

Respective Responsibilities of the Board of Directors

The DMO Board is responsible for the preparation and fair presentation of these financial statements in accordance with the relevant standards issued by the Financial Reporting Council of Nigeria, the provisions of the Companies and Allied Matters, CAP C20 Laws of the Federation of Nigeria 2004 and for such internal control as the DMO determines necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for the audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Debt Management Office as at 31st December, 2013, and of the DMO's financial performance and cash flows for the period then ended in accordance with the relevant standards issued by Financial Reporting Council of Nigeria, provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Maters Act, CAP C20 Laws of the Federation of Nigeria 2004, we confirm that:

i We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii In our opinion, proper books of account have been kept by the DMO, so far as appears from our examination of those books;

iii The DMO's Balance Sheet and Income and Expenditure account are in agreement with the books of account.

Sada Idris & Co

Abuja, Nigeria
Date:

Chartered Accountants
FRC/2014/ICAN/00000001794

A 630203

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Federal Mortgage Bank Building
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11.6 INCOME AND EXPENDITURE ACCOUNT

	NOTE	2013 ₦	2012 ₦
RECEIPTS			
Subventions	1	661,107,718	662,078,603
Service Wide Vote	2	39,121,173	56,910,363
OTHER FUNDING:			
FGN Floatation Receipts	3	3,027,307,270	850,123,010
Grants & Aids Receipts	4	22,922,895	45,010,709
Other Income	5	5,225,838	319,593
		3,755,684,894	**1,614,442,278**
EXPENDITURE			
Recurrent Expenditure	6	640,928,275	633,690,590
Service Wide Vote Expenses	7	25,523,355	56,286,413
FGN Bond Floatation Expenses	8	1,751,032,141	797,417,878
Grants & Aids Expenses	9	24,481,700	53,294,717
Finance Charges	10	260,540	4,472,687
		2,442,226,011	1,545,162,285
Excess of Income over Expenditure		1,313,458,883	69,279,993
Refund to Consolidated Revenue Fund	11	(15,624,896)	(332,007,085)
Excess/(Deficit) of Income over Expenditure after return to Consolidated Revenue Fund		**1,297,833,987**	**(262,727,092)**

11.7 BALANCE SHEET AS AT 31ST DECEMBER, 2013

DEBT MANAGEMENT OFFICE

Financial Statements
For the Year Ended 31st December 2013

BALANCE SHEET as at 31st DECEMBER 2013	NOTE	2013 ₦	2012 ₦
NON CURRENT ASSETS			
Fixed Assets	12	510,131,787	490,390,017
CURRENT ASSETS			
Bank and Cash Balances	13	1,823,531,544	545,439,328
TOTAL ASSETS		**2,333,663,331**	**1,035,829,345**
FINANCED BY:			
Accumulated Fund	14	**2,333,663,331**	**1,035,829,345**

The financial statements and notes to the accounts were approved by the Senior Management Committee on June 16, 2014 and signed on its behalf by:

Dr. Abraham E. Nwankwo
Director-General/Chief Excutive
June 16, 2014

Atiku Saleh Dambatta
Head, Organisational Resourcing Dept.
16/6/2014

11.8 CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DEC 2013

STATEMENT OF CASHFLOW	2013 ₦	2012 ₦
Cashflow from Operating Activities		
Surplus/(Deficit) of Revenue over Expenditure	1,313,458,8830	69,279,9930
Adjustment for Non-Cash Item: Depreciation	0	0
Operating Surplus for the Year	**1,313,458,883**	**69,279,993**
Cashflow from Investing Activities		
Purchase of Fixed Assets	(19,741,770)	(25,853,973)
Net Cashflow from Investing Activities	**(19,741,770)**	**(25,853,973)**
Cashflow from Financing Activities		
Return to Consolidated Fund	(15,624,896)	(332,007,085)
Net Cashflow from Financing Activities	**(15,624,896)**	**(332,007,085)**
Net Increase/(Decrease) Cash and Cash Equivalent	1,278,092,217	(288,581,065)
Cash and Cash Equivalent at the Beginning of the Year	545,439,328	834,020,393
Cash and Cash Equivalent at the End of the Year	**1,823,531,545**	**545,439,328**

11.9 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2013

Note		2013 ₦	2012 ₦
1.	**SUBVENTIONS**		
	Recurrent – Overheads	224,078,096	202,256,867
	Personnel	417,274,753	441,821,736
	Capital Fund	19,754,869	18,000,000
		661,107,718	**662,078,603**
2.	**SERVICE WIDE VOTE**		
	Promotion Arrears	7,622,658	56,910,363
	Debt Management Audit	31,498,515	0
		39,121,173	**56,910,363**
3.	**FGN BOND FLOATATION RECEIPTS**		
	FGN Bond Floatation	797,901,800	527,798,250
	WHT on FGN Bond Commission	306,783,740	322,324,760
	International Capital Market (ICM) Operational Fund	1,255,020,000	0
	IT System Platform for FGN Bonds	667,601,730	0
		3,027,307,270	**850,123,010**
4.	**GRANTS & AIDS RECEIPTS**		
	Debt Data Reconstruction (DFID Sponsored)	0	23,679,000
	DDR – States Sponsored	0	14,000,000
	DFID Sponsored Training	22,922,895	7,331,709
		22,922,895	**45,010,709**
5.	**OTHER INCOME**		
	Sales of Scraps and Stock Items	377,800	21,950
	Contract Registration Fees	0	80,000
	Salaries Returned in Lieu of Notice	545,050	217,643
	Others – Reversal of Bank Error of 2012	4,302,988	0
		5,225,838	**319,593**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2013 ₦	2012 ₦
6.	**RECURRENT EXPENDITURE:**		
	Personnel Cost	417,274,753	432,230,718
	Administrative Overheads[Supplementary Information]	217,134,939	191,485,292
	Repairs and Maintenance [Supplementary Information]	6,518,583	9,974,580
		640,928,275	**633,690,590**
7.	**SERVICE WIDE VOTE EXPENSES**		
	Debt Operations Audit [Supplementary Information]	20,674,931	0 0
	Staff Promotion/Other Personnel Cost	4,848,424	56,286,413
		25,523,355	**56,286,413**
8.	**FGN BOND FLOATATION EXPENSES**		
	Domestic Bond Floatation	920,081,748	467,233,064
	International Capital Market Issuance	390,048,207	0
	Bond IT System Platform	114,812,999	0
	WHT on FGN Bond Commission	326,089,187	330,184,814
		1,751,032,141	**797,417,878**

Significant increase was due to increased level of activities as a result of new issues of FGN Bonds in 2013.[Details in Supplementary Information]

		2013	2012
9.	**GRANTS & AIDS EXPENSES**		
	Capacity Building - Local	321,600	2,877,784
	Debt Data Reconstruction (DFID Sponsored)	0	22,505,467
	Debt Data Reconstruction (States Sponsored)	0	17,121,275
	DFID Sponsored Training	22,746,450	7,638,562
	Defined Benefit Pension Scheme	0	3,151,629
	Refund to Crown Agent	1,413,650	0
		24,481,700	**53,294,717**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2013	2012
		₦	₦
10.	**FINANCE CHARGES**		
	FGN Bond Operations	74,400	4,302,987
	Overhead	180,180	169,700
	Grants / Aids	5,960	0
		----------	----------
		260,540	**4,472,687**
		=====	=====
11.	**RETURN TO CONSOLIDATED REVENUE FUND**		
	Capital Fund	13,099	8,555
	Overheads	244,394	627,295
	Personnel Emolument	0	9,591,018
	Service Wide Vote	13,597,817	623,950
	FGN Bond Issuance Accounts	0	320,836,674
	Grants /Aids	57,236.00	0
	Other Receipts	1,712,350.00	319,593
		15,624,896	**332,007,085**
		=======	=======

12. **FIXED ASSETS**

	Opening Balance ₦	Addition during the year ₦	Closing Balance ₦	2012 ₦
Land and Building	120,037,177	0	20,037,177	120,037,177
Motor Vehicles	102,297,468	0	102,297,468	102,297,468
Computer and ICT Equipment	145,949,324	2,398,998	148,348,322	145,949,324
Furniture, Fittings and Equipment	122,106,048	17,342,772	139,448,820	122,106,048
	----------------	--------------	----------------	----------------
	490,390,017	19,741,770	510,131,789	490,390,017
	=======	======	=======	=======

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)	2013	2012
	₦	₦
13. BANK AND CASH BALANCES		
CBN Paris Club Redemption Proceeds	0	1,719,390
Zenith Bank Plc (Miscellaneous Account II)	0	2,411,501
Central Bank of Nigeria (FGN Bond Account)	1,823,531,544	541,308,437
	1,823,531,544	**545,439,328**
14. Accumulated Fund		
Balance Brought Forward 01/01/2013	1,035,829,345	1,298,556,437
Excess/Deficit for the year	1,297,833,987	(262,727,092)
Balance Carried Forward	2,333,663,332	1,035,829,345

15. CONTINGENT LIABILITIES

There were no pending litigations involving the DMO for which no provision was made in financial statements.

16. COMPARATIVE FIGURES

Certain figures have been restated in line with current year's presentation to make more meaningful comparison.

11.10 STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31ST DECEMBER, 2013

	2013 ₦	%	2012 ₦	%
SUBVENTIONS	661,107,718		662,078,603	
Add:				
Other and Grants and Aids	3,089,351,338		952,044,082	
Other Income	5,225,838		319,593	
	3,755,684,894		**1,614,442,278**	
Less:				
Administrative Cost	(217,134,939)		(148,025,699)	
FGN Bond Operations	(1,246,170,935)		(797,417,878)	
Capacity Building Expenditure	(24,481,700)		(53,294,717)	
Service Wide Vote Expenditure	(25,523,355)		(56,286,413)	
Repairs and Maintenance	(6,518,583)		(9,974,580)	
Refund to Consolidated Revenue	(15,624,896)		(332,007,085)	
Brought in Goods/Services	**(1,535,454,408)**		**(1,397,006,372)**	
VALUE ADDITION	**2,220,230,486**		**217,435,906**	
Percentage of Added Value to Gross Inflow		**59%**		**13%**
APPLIED AS FOLLOWS: **To Pay Employees as :**				
Salaries, Wages and Other Staff Charges	417,274,753	19	432,230,718	199
To Pay Providers of Banking Services	260,540	0	4,472,687	2
To Provide for Expansion	504,861,206	23	43,459,593	20
Surplus /(Deficit) for the Year after refund to Federal Sub-Treasury	1,297,833,987	58	(262,727,092)	(121)
	2,220,230,486	100	**217,435,906**	100

11.11 FIVE-YEAR FINANCIAL STATEMENTS SUMMARY

Balance Sheet	2013	2012	2011	2010	2009
	₦	₦	₦	₦	₦
Non-Current Asset	510,131,787	490,390,017	464,536,044	292,199,901	247,989,244
Bank and Cash Balance	1,823,531,544	545,439,328	834,020,393	977,683,082	35,888,014
	2,333,663,331	1,035,829,345	1,298,556,437	1,269,882,983	283,877,258
General Reserve					
Accumulated Fund	2,333,663,331	1,035,829,345	1,298,556,437	1,269,882,983	283,877,258
Income and Expenditure Accounts					
Subvention	659,395,368	662,078,603	752,302,163	913,233,545	570,482,137
Grant	3,091,070,728	952,044,082	1,146,139,075	1,691,861,697	470,277,764
Other Income	6,015,338	319,593	519,500	79,996,545	35,074,548
	3,756,481,434	1,614,442,278	1,898,960,738	2,685,091,787	1,075,834,449
Personnel Cost	417,274,753	432,230,718	416,149,931	318,885,991	305,830,600
Administrative Cost	217,395,479	195,957,978	269,803,665	525,977,605	264,526,203
Repairs and Maintenance	6,518,583	9,974,580	25,509,669	0	0
Services Wide Votes	25,523,355	56,286,413	7,629,079	0	47,160,748
FGN Bond Operations	1,426,662,345	467,233,065	713,727,115	558,155,392	268,470,210
Grants / Aids Expenses	24,481,700	53,294,717	75,598,564	73,691,150	54,433,839
WHT on FGN Bond Commission	326,089,187	330,184,814	331,672,812	221,522,600	93,989,548
Paris Club Redemption Precedes	0	0	0	0	47,357,938
	2,443,945,402	1,545,162,285	1,840,090,835	1,698,232,738	1,081,769,086
Excess/Deficit	1,312,536,032	69,279,993	58,869,903	986,859,049	(5,934,637)
Refund to Federal Sub-Treasury	14,402,046	332,007,083	30,196,449	853,325	2,410,742
	1,297,833,986	(262,727,090)	28,673,454	986,005,724	(8,345,379)

11.12 SUPPLEMENTARY INFORMATION

	2013	2012
	₦	₦
a. **PERSONNEL COST**		
Total Salaries Emoluments paid during the year	**417,274,753**	**432,230,718**
b. **ADMINISTRATIVE OVERHEADS**		
Local Travel and Transport : Training	59,700,336	32,829,690
International Travels and Transport : Training	74,028,212	82,938,288
Telephone and Postages	3,993,476	5,314,300
Magazine/Books and Periodical	843,290	1,056,020
Computer Materials and Supplies	17,124,949	22,537,100
Printing of Non-Security Documents	5,474,805	10,070,400
Drugs and Materials Supplies	150,000	148,000
Uniforms and Other Clothing	304,000	293,500
Teaching Aid / Instructional Materials	0	1,498,917
Entertainment	11,321,309	9,826,050
Security Services	480,000	358,000
Office Rent	15,320,900	12,195,599
Financial Consulting	3,675,000	2,584,000
Information Technology Consulting	5,049,201	4,061,620
Legal and Other Professional Charges	0	172,758
Insurance	718,064	1,300,300
Motor Vehicle Maintenance	4,793,102	4,300,750
Honorarium and Sitting Allowance	3,495,100	0
Welfare Packages	7,289,863	0
Subscription to Professional Bodies	500,000	0
Publicity and Advertisement	873,332	0
Sporting Activities	2,000,000	0
	217,134,939	**191,485,292**
c. **REPAIRS AND MAINTENANCE**		
Motor Vehicles	3,990,209	2,475,060
Office Furniture and Fittings	488,718	1,020,320
Office Building	547,233	1,074,000
Computers and IT Equipment	1,492,423	5,405,200
	6,518,583	**9,974,580**

SUPPLEMENTARY INFORMATION (Continued)

	2013	2012
d. SERVICE WIDE VOTE - EXPENSES	₦	₦
Office Rent	0	3,125,944
Consultancy Services	20,674,931	21,831,402
Computer Equipment	0	5,184,217
Office Equipment	0	19,925,000
Staff Promotion Arrears	,848,424	6,219,850
	25,523,355	**56,286,413**
	======	======
e. DOMESTIC BOND FLOATATION		
Local Travels and Transport	98,220,128	36,795,974
Int'l Travels and Transport	45,978,182	94,599,910
Entertainment	882,547	6,367,250
Publicity and Ad vertisements	644,645,437	300,621,424
Stock Brokers Fees	20,000,000	2,000,000
Other Professional Services	5,355,454	6,848,506
Listing Fees (FGN Bond)	105,000,000	20,000,000
	920,081,748	**467,233,064**
	=======	======
f. INTERNATIONAL CAPITAL MARKET (ICM) OFFERINGS EXPENDITURE		
Local Travels and Transport	916,000	0
International Travels and Transport	69,901,558	0
International Training	7,544,355	0
Publicity and Advertisement	21,630,550	0
Refreshment and Meal	23,921,140	0
Financial Advisory Services	133,720,016	0
Legal Advisory Services	70,726,223	0
Rating Fee	61,688,365	0
	390,048,207	0
	=======	====
g. FGN BOND IT SYSTEM PLATFORM		
International Travels and Transport	12,179,572	0
Publicity and Advertisement	20,554,600	0
Refreshment and Meal	7,285,500	0
Consultancy on Information Tech Platform for FGN Bonds	74,793,327	0
	114,812,999	0
	=======	======

SUPPLEMENTARY INFORMATION (Continued)

h. **NON CURRENT ASSETS**

	Land & Building ₦	Motor Vehicle ₦	Computer/IT Equipment ₦	Office Equipment ₦	Total ₦
COST					
At 1st January, 2013	120,037,177	102,297,468	145,949,324	122,106,048	490,390,017
Additions During the Year	0	0	2,398,998	17,342,772	19,741,770
At 31st December, 2013	120,037,177	102,297,468	148,348,322	139,448,820	510,131,787
DEPRECIATION					
At 1st January, 2013	0	102,297,458	132,359,189	106,166,048	340,822,695
Charge for the year	0	0	14,189,875	19,408,554	33,598,429
At 31st December, 2013	0	102,297,458	146,549,064	125,574,602	374,421,124
NET BOOK VALUE At 31st December, 2013	120,037,177	10	1,799,259	13,874,218	135,710,663
At 31st December, 2012	120,037,177	10	13,590,135	15,940,000	149,567,322

Amount spent so far is for procurement of land for the construction of office complex for DMO. Construction work has however not commenced.

DEBT MANAGEMENT OFFICE
The Presidency

NDIC Building (1st Floor),
Plot 447/448, Constitution Avenue,
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