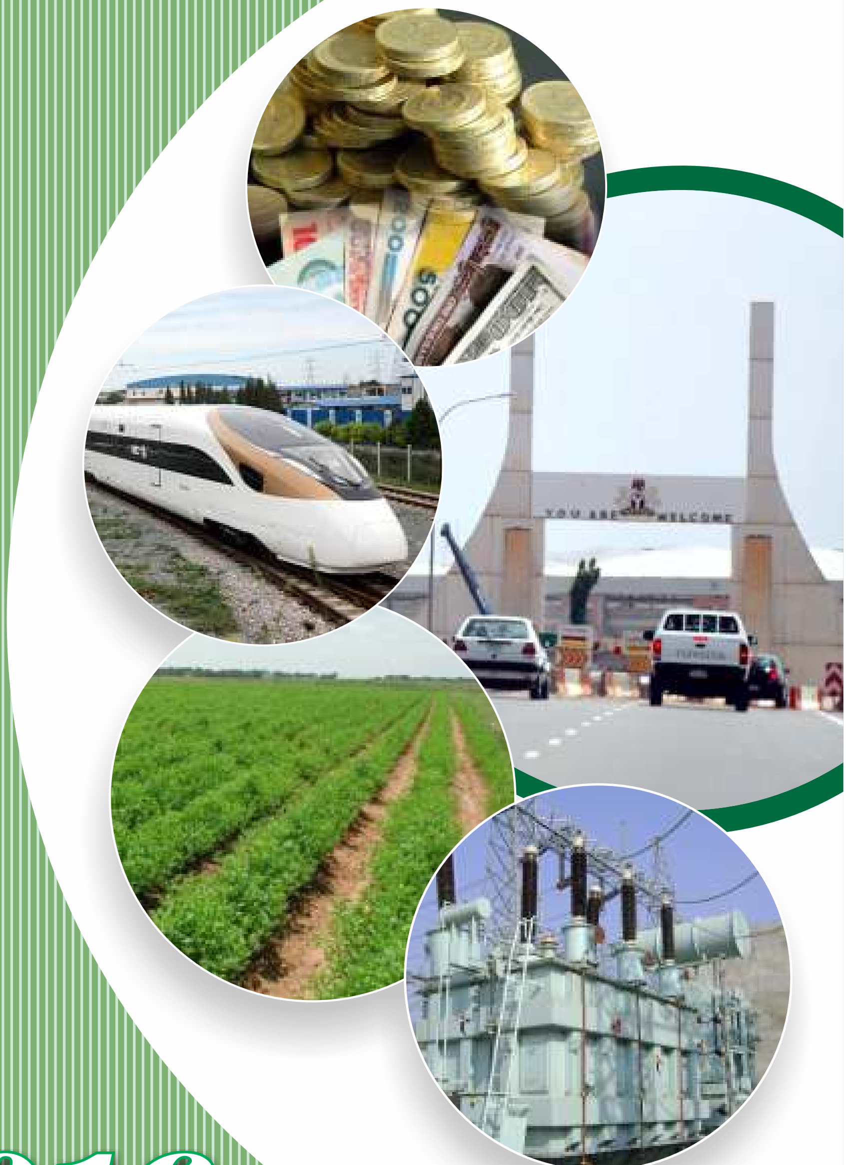
DMO 2016 Annual Report

DEBT MANAGEMENT OFFICE
NIGERIA



2016

Annual Report and Statement of Accounts

DEBT MANAGEMENT OFFICE
NIGERIA

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His Excellency
MUHAMMADU BUHARI, GCFR
President, Commander-in-Chief of the Armed Forces
Federal Republic of Nigeria

His Excellency
PROF. YEMI OSINBAJO, SAN, GCON
Vice President
Federal Republic of Nigeria

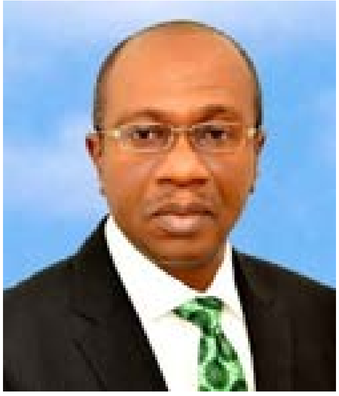
MRS. KEMI ADEOSUN
Honourable Minister of Finance
Federal Republic of Nigeria

DMO SUPERVISORY BOARD

PROF. YEMI OSINBAJO, SAN, GCON
Vice President, Federal Republic of Nigeria
CHAIRMAN

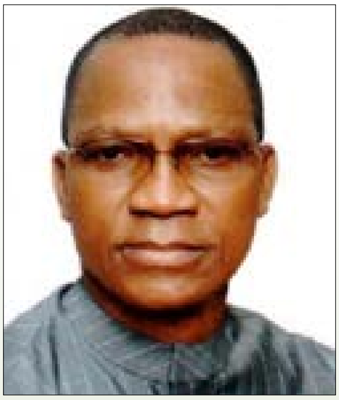
Mrs. Kemi Adeosun
Honourable Minister of Finance
VICE-CHAIRMAN

Alhaji Abubakar Malami, SAN
Attorney-General of the Federation
& Hon. Minister of Justice
MEMBER



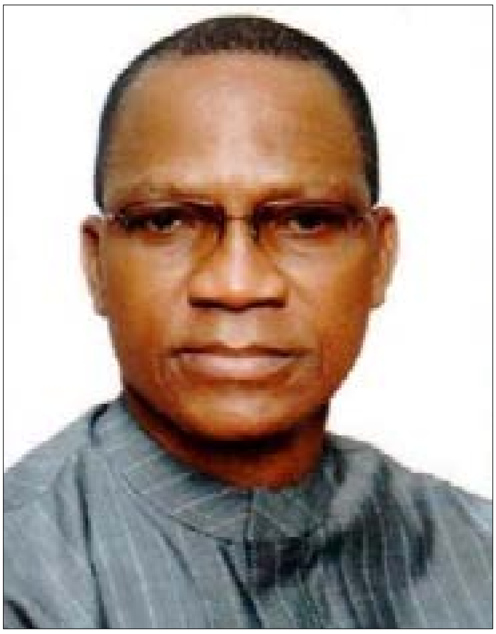
Mr. Godwin I. Emefiele
Governor, Central Bank of Nigeria
MEMBER

Alh. Ahmed Idris, FCNA
Accountant-General of the Federation
MEMBER



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

DMO MANAGEMENT TEAM



Dr. Abraham Nwankwo
Director-General

Mrs. Asma'u Mohammed
Director, Strategic Programmes Department

Mr. Miji Amidu
Director, Special Assignments

Mrs. Hannatu Suleiman
Director, Organisational Resourcing Department

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

Mr. Oladele Afolabi
Director, Portfolio Management Department

Mr. Monday Usiade
Head, Market Development Department

Mrs. Elizabeth Kwaghbulah
Head, Debt Recording & Settlement Department

MANAGEMENT STAFF OF THE DMO

S/N	NAME	RANK	DEPARTMENT/UNIT
1.	Nwankwo, Abraham E. (Dr.)	Director-General	
2.	Mohammed, Asma'u M. (Mrs.)	Director	Strategic Programmes Department (SPD)
3.	Amidu, Miji (Mr.)	Director	Special Assignments
4.	Suleiman, Hannatu (Mrs.)	Director	Organisational Resourcing Department (ORD)
5.	Ugoala, Joe Chiadi (Mr.)	Director	Policy, Strategy and Risk Management Department (PSRMD)
6.	Afolabi, O. Oladele (Mr.)	Director	Portfolio Management Department (PMD)
7.	Usiade, Monday I. (Mr.)	Head of Department	Market Development Department (MDD)
8.	Kwaghbulah, Elizabeth M. (Mrs.)	Head of Department	Debt Recording & Settlement Department (DRSD)
9.	Jiya, Janet O. (Mrs.)	Deputy Director	On Secondment
10.	Amadi, Johnson O. (Mr.)	Deputy Director	Team Leader, Policy & Strategy Unit (PSRMD)
11.	Anukposi, Alfred N. (Mr.)	Deputy Director	Team Leader, Securities Issuance Unit (PMD)
12.	Nwankwo, Maraizu (Mr.)	Deputy Director	Team Leader, Statistics, Analysis & Risk Management Unit (PSRMD)
13.	Mahmoud, Nasir M. (Mr.)	Assistant Director	Team Leader, Institutions & Skills Development Unit- Northern Zone (SPD)
14.	Eleri, Nicholas (Dr.)	Assistant Director	Team Leader, Institutions & Skills Development Unit- Southern Zone (SPD)
15.	Ekpenyong, Elizabeth E. (Ms.)	Assistant Director	Team Leader, Task Compliance & Operational Risk Management Unit (PSRMD)
16.	Ekpokoba, Ikem H. (Mr.)	Assistant Director	Team Leader, Sub-National Debt Unit (DRSD)
17.	Aiyesimoju, Olaitan D. (Mr.)	Assistant Director	Team Leader, Internal Audit & Compliance Unit (DG's Office)
18.	Abubakar, Sani Kulo (Mr.)	Assistant Director	Team Leader, Loans and Other Financing Products & Special Securities Unit (PMD)
19.	Anyanwu, Francis N. (Mr.)	Assistant Director	Team Leader, Debt Management Training Unit (SPD)
20.	Ijagbemi, Susan Y. (Mrs.)	Assistant Director	Team Leader, Human Resources Unit (ORD)
21.	Oluwasile, Wuraola E. (Mrs.)	Assistant Director	Team Leader, Executive Services (DG's Office)

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GLOSSARY

ACOO	Assistant Chief Operations Officer
ADB	African Development Bank
AFD	French Development Agency
AfDF	African Development Fund
AMCON	Asset Management Corporation of Nigeria
ASI	ALL-Share Index
ATM	Average Time-to-Maturity
ATR	Average Time-to-Re-fixing
BADEA	Arab Bank for Economic Development
BAS	Bond Auction System
BDC	Bureau De Change
BOA	Bank of Agriculture
BoE	Bank of England
BOF	Budget Office of the Federation
BOI	Bank of Industry
BPE	Bureau of Public Enterprises
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CFR	Commander of the Federal Republic
CHF	Swiss Franc
CMC	Capital Market Committee
CIS	Collective Investment Scheme
CMLMP	Capital Market Literacy Master Plan
COO	Chief Operations Officer
COM-SEC	Commonwealth Secretariat
CPI	Consumer Price Index
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

DCSS	Direct-Cash Settlement System
DDU	Domestic Debt Unit
DeMPA	Debt Management Performance Assessment
DMDs	Debt Management Departments
DMO	Debt Management Office
DRSD	Debt Recording and Settlement Department
DSA	Debt Sustainability Analysis
DSF-LICs	Debt Sustainability Framework for Low Income Countries
ECA	Excess Crude Account
ECB	European Central Bank
ECFA	External Creditors Funding Account
EDF	European Development Fund
EM	Emerging Market
EM-LCBI	Emerging Markets Local Currency Bond Index
ETF	Exchange Trade Funds
ES	External Support
EUR	Euro
FBN	First Bank of Nigeria
FCT	Federal Capital Territory
FCTA	Federal Capital Territory Administration
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FICAN	Financial Correspondents Association of Nigeria
FMA	Federal Ministry of Aviation
FMBN	Federal Mortgage Bank of Nigeria
FMDA	Financial Markets Dealers Association
FMDQ	Financial Market Dealers Quotation
FMF	Federal Ministry of Finance
FMoT	Federal Ministry of Transport
FOMC	Federal Open Market Committee
FSS	Financial System Strategy
FX	Forex

GBB	Galaxy Backbone
GBP	Great Britain Pound
GBI-EM	Government Bond Index-Emerging Markets
GCFR	Grand Commander of the Federal Republic
GCON	Grand Commander of the Order of the Niger
GDN	Global Depository Note
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICM	International Capital Market
ICT	Information & Communication Technology
ID	Islamic Dinar
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFEM	Inter-Bank Foreign Exchange Market
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IPO	Initial Public Offering
IPSAS	International Public Sector Accounting Standards
IPPIS	Integrated Personnel and Payroll Information System
ISDU	Institutions & Skill Development Unit
IT	Information Technology
JPY	Japanese Yen
LCDs	Local Contractors' Debts
LEI	Legal Entity Identifier
M_2	Broad Money Supply
MC	Market Capitalization
MDAs	Ministries, Departments and Agencies
MDD	Market Development Department

MENAP	Middle East, North Africa, Afghanistan and Pakistan
ME & SD	Monitoring, Evaluation & Special Duties
MFPCC	Monetary and Fiscal Policy Coordinating Committee
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MS	Microsoft
MSCI	Morgan Stanley Capital International
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTN	Medium Term Note
NACRDB	Nigerian Agricultural Cooperative & Rural Development Bank
NBS	National Bureau of Statistics
NBET	Nigerian Bulk Electricity Trading
NDIC	Nigeria Deposit Insurance Corporation
NDMF	National Debt Management Framework
NEXIM	Nigerian Export Import Bank
NFA	Net Foreign Asset
NGN	Nigerian Naira
NICMM	Non-Interest Capital Market Master Plan
NIPF	National Investor Protection Fund
NPC	National Planning Commission
NSE	Nigerian Stock Exchange
NSIA	Nigeria Sovereign Investment Authority
NTBs	Nigerian Treasury Bills
OO	Operations Officer
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
PENCOM	Pension Commission
PMD	Portfolio Management Department

POO	Principal Operations Officer
PenOp	Pension Operators Association of Nigeria
PSRMD	Policy, Strategy and Risk Management Department
PV	Present Value
REIT	Real Estate Investment Trust
rDAS	Retail Dutch Auction System
S4	Scripless Securities Settlement System
SAN	Senior Advocate of Nigeria
SDN	Sovereign Debt Note
SDR	Special Drawing Rights
SEC	Securities & Exchange Commission
SIU	Securities Issuance Unit
SME	Small and Medium Enterprise
SOO	Senior Operations Officer
SNDU	Sub-National Debt Unit
SPD	Strategic Programmes Department
STF	Sub-Treasury of the Federation
TBs	Treasury Bonds
TDR	Trade Data Repository
TL	Team Leader
TSA	Treasury Single Account
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
WB	World Bank
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 - **Ex**cellence: We deliver what we promise and add value

C - **C**ommitment: We are willing to work hard and give our energy and time to work

I - **I**ntegrity: We will display transparent honesty in all our working relationships with our colleagues, internal and external stakeholders

T - **T**eamwork: We will strive to work well together as a team, respecting one another

E - **E**fficiency: 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; and,

c. 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,

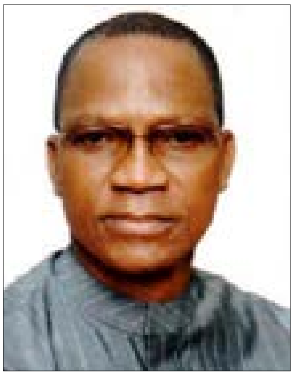
c. Do such other things, which in the opinion of the Board relate to the management of the external debts of the Federal Government.

DIRECTOR-GENERAL'S STATEMENT

I am delighted to present the Annual Report and Statement of Accounts of the Debt Management Office (DMO) for the year ended December 31, 2016. The Report comprises the appraisal of the major economic and financial developments in both the local and global operating environments, which impacted on the operations of the DMO, including developments in the domestic debt market in 2016. In compliance with the relevant public sector financial reporting requirements, the Audited Financial Statements and Accounts of the Office for the year ended December 31, 2016, is also presented in the Report.

The global economy in 2016 continued to experience sluggish growth, amid uncertainties surrounding the Brexit and US Presidential election. This weak growth was particularly apparent in the emerging markets and developing economies, which were also affected by sustained low commodity prices, especially oil, which started its decline by mid-2014, slowing demand and unstable capital flows. According to the International Monetary Fund (IMF), in its January, 2017 Edition of World Economic Outlook (WEO), global output growth rate declined to 3.1 percent in 2016, compared to 3.2 percent in 2015. This was, however, projected to improve at the rate of 3.4 percent in 2017.

The IMF also indicated that the United States of America economy's growth rate declined to 1.6 percent in 2016, from 2.6 percent in 2015, and this was attributed mainly to weak exports and weak investment arising from uncertainties associated with the policies of the new U.S. administration. In the case of Japan, the economy declined to 0.9 percent in 2016, from 1.2 percent in 2015, as private consumption and capital expenditure were reported to have remained weak, in spite of policy stimuli. The Euro-area economies also declined to 1.7 percent in 2016, from 2.0 percent in 2015, on account of concerns about Brexit referendum and its outcome. In the same vein, the Chinese economy experienced marginal deceleration in growth rate to 6.7 percent in 2016, from 6.9 percent in 2015; this was attributed to its economic rebalancing programme, which seeks to shift emphasis from manufacturing to consumption and services, and permitting a greater role to market forces.



The Sub-Saharan African economies also experienced faster deceleration to 1.6 percent in 2016, from 3.4 percent in 2015, arising from slow adjustments following the impact of weak commodity prices, rising inflation and less supporting global economic environment. For instance, the Nigerian economy entered into recession in the second quarter of 2016, the first in over two decades, due mainly to policy uncertainties, foreign currency shortages occasioned by declined crude oil receipts, low power generation and weak investor confidence. South Africa's economy also declined from

1.3 percent output growth in 2015, to 0.3 percent in 2016, as a result of harsh operating economic and socio-political developments. The main risks to the Sub-Saharan region included political instability and conflicts, slow recovery of oil and commodity prices, insurgency and reversal of global financial flows.

According to the National Bureau of Statistics (NBS), Nigeria went into economic recession in 2016, with two consecutive negative GDP growth rates of -0.36 and -2.06 percent in the first and second quarters of 2016, respectively. The country's real GDP contracted on annual basis by 1.51 percent in 2016, as a result of stagflation, shocks in crude oil production, due to the heightened vandalism of oil and gas pipelines, which led to significant falls in output and earnings, and hence, decline in accretion to external reserves, devaluation of the local currency, weak energy sector and poor transport infrastructure. However, the economy recorded a slower contraction in the fourth quarter of 2016 by 1.30 percent compared to the 2.24 percent in the third quarter, mainly due to some improvements in the domestic operating environment, and increase in crude oil price, which rose to about US$50pbl, following the outcome of an arrangement by OPEC and non-OPEC member countries to cut crude oil output, in order to counter the global supply glut. The price of Nigeria's crude oil (the Bonny Light), which started the year at about US$30.40 in January, 2016, closed at US$53.91 per barrel in December, 2016.

Nigeria's year-on-year headline inflation entered into the double-digit range in February, 2016 at 11.38 percent, from the 2015 year-end inflation of 9.55 percent, it went up to 18.55 percent by December, 2016. This was significantly above the recommended threshold of the West African Monetary Zone (WAMZ) convergence inflation rate of 5.0 percent. The rise in inflation was attributed mainly to foreign exchange shortages and hike in energy prices, amidst poor power supply.

Nigeria's gross external reserves stood at US$26.99 billion as at the end of December, 2016, as against US$28.29 billion in December, 2015, representing a decline of US$1.29 billion or 4.56 percent. The introduction of a new foreign exchange policy by the CBN in June, 2016, led to the devaluation of the official exchange rate of the Naira from ₦197/US$1.00 to ₦305.00/US$1.00 by December, 2016, while at the unofficial segment of the market, the rate hovered around ₦490.00/US$1.00, indicating a significant gap of about ₦185.00.

The revenue estimates for the 2016 Appropriation Act were based on a benchmark crude oil price of US$38.00/barrel, while the crude oil production was set at 2.20 million barrels per day. The fiscal deficit for the year was ₦2.204 trillion or 2.14 percent of GDP, out of which ₦1.183 trillion was funded through domestic borrowing, by way of monthly issuances of FGN securities in the domestic capital market. Whereas the price of crude oil remained above the budget projection, the drastic reduction in output, due to pipeline vandalism depressed oil earnings, which worsened the fiscal conditions of both the Federal and the State Governments.

The Federal Government of Nigeria (FGN) Bonds market recorded an impressive performance in 2016, which was demonstrated by the high level of subscriptions in the course of the year. This is an indication of diverse and growing investor base driven by growth in the pension sub-sector of the financial market and increased awareness about bonds as an alternative investment vehicle. Activities in the secondary market for FGN Bonds witnessed a significant improvement during the year, in spite of the economic recession, as investors embraced more of the fixed income instruments to take advantage of higher yields. The market data from the Financial Market Dealers Quotation Over-The-Counter (FMDQ OTC) and Central Securities Clearing System Plc (CSCS) in 2016, showed that the combined OTC market and Exchange Trades in 2016 in terms of Total Face Value of Transactions, Consideration and Number of deals were ₦13.812 trillion, ₦15.745 trillion, and 50,426, respectively. These figures were higher than the corresponding figures of ₦9.493 trillion, ₦9.581 trillion and 46,864 in 2015, by 45.50, 63.34 and 7.79 percent, respectively.

Nigeria's total public debt stock outstanding as at end-December, 2016, was ₦17,360,009.57 million (US$57,391.53 million), compared to ₦12,603,705.28 million (US$65,428.53million) in 2015. In Naira terms, the total debt stock increased by ₦4,756,304.30 million, representing an increase of 37.74 percent. However, in dollar terms, it decreased by US$8,037.00 million, representing 12.00 percent, over the same period: the incongruence in the total public debt stock between the two currencies reflects the difference in the exchange rates for the periods. Nigeria's external debt accounted for ₦3,478,915.40 million (US$11,406.28 million) or 20.04 percent, while the domestic debt accounted for ₦13,881,094.18 million (US$45,985.25 million) or 79.96 percent. About 83.28 percent of the total external debt, were from concessional and semi-concessional sources and these have relatively long-term maturity. The domestic debt stock comprised FGN's debt of ₦11,058,204.30 million (US$36,256.41 million), and the domestic debt of the 36 States and the FCT's portion of ₦2,822,889.88 million (US$9,728.84 million) as at end-September, 2016, as the collation and validation of the domestic debt data occur with some time lag.

Following the expiration of Nigeria's maiden Debt Management Strategy, 2012-2015, the DMO, in conjunction with relevant stakeholders, developed the nation's second Debt Management Strategy, 2016-2019. The primary focus of the debt strategy is to ensure that, in the face of macroeconomic and other financial constraints, the costs and risks profile of the public debt portfolio remain within acceptable limits. The strategy seeks to rebalance the debt portfolio in favour of relatively less expensive long-term external financing in order to reduce the cost of debt and lengthen the maturity profile. It also seeks to lengthen the maturity profile of the domestic debt portfolio by reducing the issuance of short-dated debt instruments in addition to the introduction of new debt instruments into the domestic debt market. The implementation of the debt strategy, which was approved by the Federal Executive Council in June, 2016, would help the Government to restructure the public debt portfolio, reduce the overall cost of debt, finance critical infrastructure at minimum cost, and help to create room for private borrowing in the domestic debt market.

In line with sound public debt management practice, the DMO continued with the conduct of the annual National Debt Sustainability Analysis (DSA) Workshop, which was held in July, 2016, in collaboration with relevant stakeholders. This exercise is aimed at updating the 2015 DSA, set new borrowing limits for the government in 2017, and provides inputs into the Medium-Term Expenditure Framework (MTEF). The results of the DSA under the baseline scenario showed that for the first time, since the exit from the Paris and London clubs debts in 2005 and 2006, respectively, Nigeria's debt position experienced worrisome deterioration, and the debt burden indicators may worsen further in the medium to long-term, if adequate measures are not put in place to raise the revenue profile of the country. Although the level of debt stock is still appreciably low relative to the country's aggregate output, the debt portfolio remains mostly vulnerable to the various shocks associated with revenue, exports and substantial currency devaluation**.** As at end-December, 2016, the ratio of Total Public Debt-to-GDP was 16.27 percent compared to 13.02 percent in 2015. This was still within the country's specific limit of 19.39 percent (up to end-2017), and far below the peer group standard threshold of 56.00 percent, as well as WAMZ convergence threshold of 70.00 percent, respectively. But owing to drastic drop in revenue, the Debt Service-to- Revenue ratio reached an unsustainable level of 33.94 percent. It is expected that with the various reforms and economic diversification initiatives put in place by the Government to boost revenue, this indicator will significantly improve going forward.

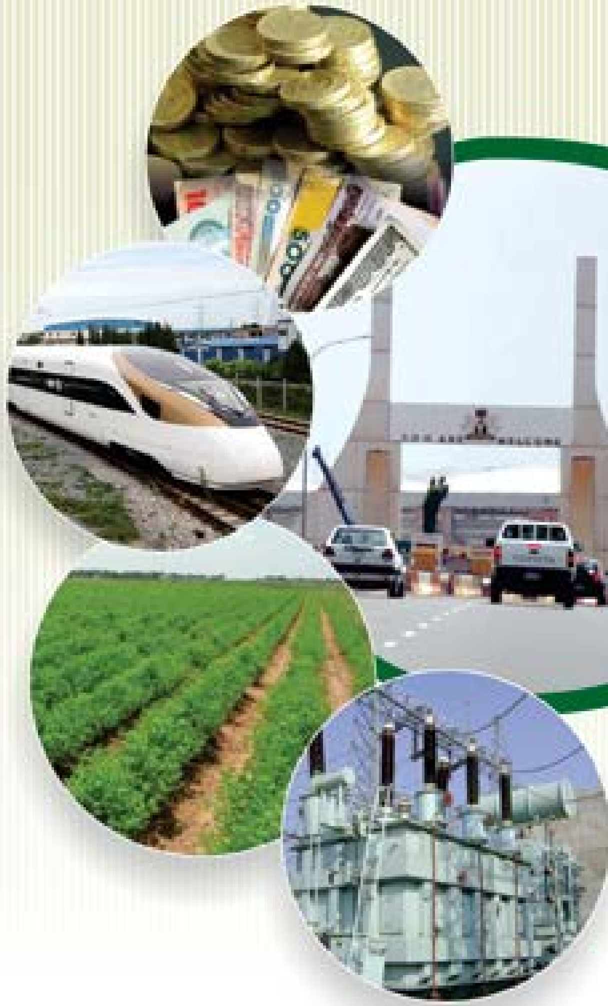
As part of its developmental agenda, the DMO continued with its strategic initiatives of helping to develop public debt management skills and capacity at the sub-national level, as well as collate their debt data in order to maintain the strategic objective of publishing a comprehensive and reliable debt data for the country. In this regard, the DMO conducted three categories of training for the States in 2016. The first category of training focused on States that had sign-off issues and/or inconsistencies in their domestic debt data submissions to the DMO. The States in this category were: Abia, Akwa Ibom, Delta, Ebonyi, Kano, Gombe, Katsina, Kwara, Osun and Rivers. The second category of capacity building programmes in 2016 was the Special Training on Excel Template and Effective Sub-national Debt Management, carried out in two States, namely, Bayelsa and Kaduna. The third category was the Sensitization Workshop and Training Programme for relevant States' Ministries, Departments and Agencies (MDAs) held in Benue State.

The DMO places a high premium on the development of its human capital, as it continued with its programme of up scaling the technical capacity of its officers in areas relating to the organization's core mandates for increased efficiency and effectiveness in service delivery. Against this background, the 2016 staff training programme was focused on the following key areas: Macroeconomics and Public Debt Management, Capital Market Operations, Effective Leadership skills - Coaching and Mentoring, Business Communication and Report Writing Skills.

In conclusion, despite the fact that the fiscal year 2016 was a challenging one for the country, it is heartwarming to report that the DMO made some remarkable achievements. These include: the successful funding of the budget deficit as appropriated through domestic borrowing and the development of two strategic Frameworks, aimed at further diversifying the Federal Government's product offerings in the capital market, namely: the Framework for the Issuance of FGN Savings Bonds and the Framework for the Issuance of Non-Interest Debt Financing Instruments (Sukuk). The approval of the Honourable Minister of Finance and the concurrence of relevant agencies and stakeholders were also obtained for the implementation of both frameworks. In addition, the DMO successfully completed the implementation of the Bond Auctioning System (BAS) platform in Abuja, aimed at facilitating the issuance of FGN securities by the DMO. The BAS, was designed for a seamless electronic bidding by authorised Primary Dealer Market Makers (PDMMs), at Federal Government of Nigeria (FGN) Bond Auctions. With the BAS in place, the FGN is now in a position to issue FGN fixed income securities debt more efficiently and manage debt more effectively. Furthermore, a Non-Deal Roadshow was organized by the Office in United Kingdom, which provided an opportunity to update investors with Nigeria's credit story, in preparation for future Eurobonds issuances.

At this juncture, I wish to place on record my profound gratitude to the Chairman of the Supervisory Board of the DMO, His Excellency, Professor Yemi Osinbajo, SAN, GCON, the Vice President of the Federal Republic of Nigeria; the Vice Chairman of the Board and the Supervising Minister, Mrs. Kemi Adeosun, the Honourable Minister of Finance; and all the other highly distinguished members of the Board for their unalloyed support and guidance in the course of the year under review. I also wish to extend my warm appreciation to our key stakeholders, which include, the Federal Ministry of Finance, the Central Bank of Nigeria, the Federal Ministry of Budget and National Planning, the National Bureau of Statistics, the Office of the Accountant-General of the Federation, Securities and Exchange Commission, the National Assembly, the West African Institute for Financial and Economic Management and other Development Partners, for their sustained partnership and support towards enhancing the delivery of the DMO's mandate. My sincere appreciation also goes to the Management and Staff of the DMO, whose commitment to duty in the face of very lean resources, led to the achievements recorded in the year 2016. I remain grateful to you all.

Abraham Nwankwo
Director-General
June 9, 2017



CHAPTER ONE

THE ECONOMIC ENVIRONMENT

CHAPTER ONE
THE ECONOMIC ENVIRONMENT

In 2016, the global economy continued to experience slow growth amid uncertainties surrounding Brexit and the US Presidential election. United States of America's economy recorded a decline in performance, as the Japanese economy experienced a slight deceleration, in spite of policy stimuli. In the same vein, Euro-area economies also remained weak, due to political uncertainty surrounding the Brexit referendum and its outcome. The economic performance of Emerging Markets and developing economies were stable, due to low commodity prices. Sub-Saharan African economies decelerated, as a result of the impact of weak commodity prices, rising inflation and less supporting global economic environment. Nigeria experienced economic recession in 2016, with contractions in both non-oil and oil sectors, attributed to stagflation, shocks in crude oil price and production ocassioned by increased oil and gas pipeline vandalism.

1.1 The Global Economy

The global economy continued to experience slow growth in 2016, amid uncertainties surrounding the Brexit and US Presidential election. The weak growth was evident in emerging markets and developing economies as they were affected by sustained low commodity prices especially oil, slowing demand and unstable capital flows. The data from the International Monetary Fund (IMF), World Economic Outlook (January, 2017), showed that global output growth rate declined to 3.1 percent in 2016, compared to 3.2 percent in 2015. This was projected to improve at the rate of 3.4 percent in 2017.

The IMF also indicated that the United States of America's economy's growth rate was 1.6 percent in 2016, compare to 2.6 percent in 2015. This was largely attributed to weak exports and weak investments. In the same vein, Japanese economy declined to 0.9 percent in 2016, from 1.2 percent in 2015, although exports recovered, but private consumption and capital expenditure remained weak, in spite of fiscal and monetary stimuli.

The Euro-area economies declined to 1.7 percent in 2016, from 2.0 percent in 2015, due to political uncertainty surrounding the Brexit referendum and its outcome. The economies of Germany and Italy contributed largely to the decline in aggregate output growth of Euro-area economies; in spite of the European Central Bank's monthly asset purchase progamme, which is expected to continue up to the end-March, 2017. In the same vein, the UK's economy declined to 2.1 percent in 2016, from 2.2 percent in 2015, indicating that investors' sentiments towards UK has slightly deteriorated.

Emerging markets and developing economies were stable at 4.1 percent in 2016, due to low commodity prices compared to the 2015 average. The Chinese economy decelerated slightly to 6.6 percent in 2016, from 6.9 percent in 2015. This was due to its rebalancing programme, which seeks to shift emphases from manufacturing to consumption and service, and permitting a greater role to market forces. The Russian economy rebounded from a negative growth rate of 3.7 percent in 2015, to 0.3 percent in 2016, as result of stable oil prices. India's economy continued to be resilient in 2016, due to improvements in terms of trade, effective policy actions, and stronger external buffers. The economies of Middle East, North Africa, Afghanistan and Pakistan (MENAP) grew modestly to 3.8 percent in 2016, compared to 2.5 percent in 2015, in spite of low oil prices and regional conflicts. Growth is projected at 3.1 percent in 2017, as oil prices are expected to recover and conflicts ease in the region. The economies of Latin America and the Caribbean experienced recession in 2016, having stagnated in 2015, due to very low commodity prices. However, some modest recovery is projected in 2017. While Mexico's economy showed favourable performance, reflecting its strong link with US, Brazil remained in recession, with output growth of -3.6 and -3.5 percent in 2015 and 2016, respectively.

Sub-Saharan African economies decelerated faster than expected to 1.6 percent in 2016, from 3.4 percent in 2015, arising from slow adjustment following the impact of weak commodity prices, rising inflation and less supporting global economic environment. For instance, the Nigerian economy went into recession in the second quarter of 2016, due to policy uncertainties, foreign currency shortages occasioned by a fall in crude oil receipts, low power generation and weak investor confidence. Similarly, the South Africa's economy declined from 1.3 percent output growth in 2015, to 0.3 percent in 2016, as a result of harsh operating economic and socio-political developments. The main risks to the Sub-Saharan region included political instability and conflicts, slow recovery of oil and commodity prices, insurgency and reversal of global financial flows.

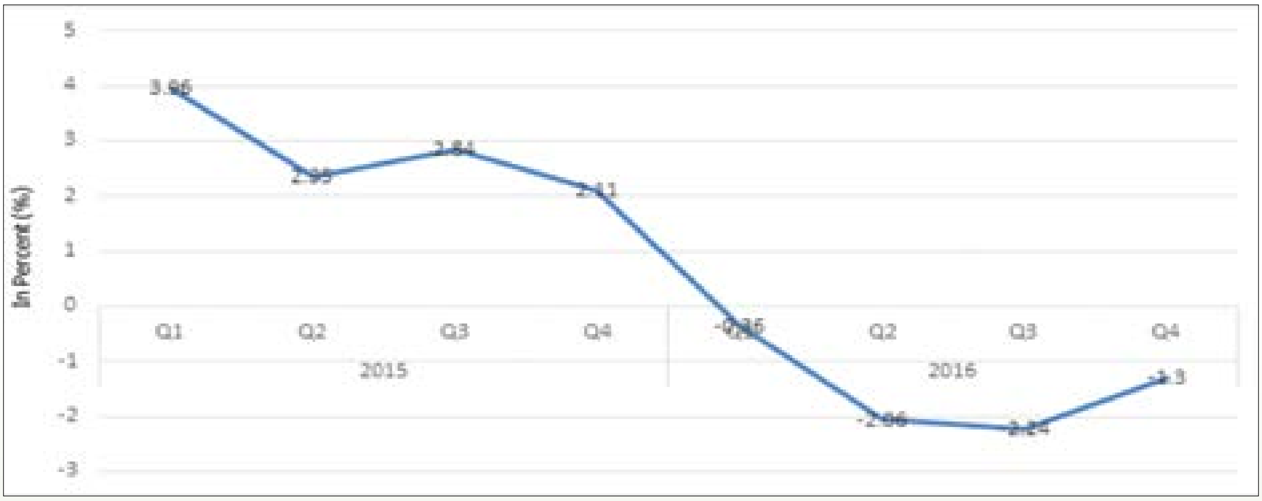
1.2 The Nigerian Economy and Policy Environment in 2016

1.2.1 Output and Prices

According to the National Bureau of Statistics (NBS), Nigeria experienced its economic recession in 2016, with two consecutive negative GDP growth rates of -0.36 and -2.06 percent in the first and second quarters of 2016, respectively. The country's real GDP, contracted on annual basis by 1.51 percent in 2016, as a result of stagflation, shocks in crude oil price and production ocassioned by increased oil and gas pipeline vandalism, which led to significant decline in accretion to external reserves, devaluation of the local currency, and wide gap between the official and unofficial exchange rates, weak energy sector and poor transport infrastructure. However, the economy recorded slower contraction in the fourth quarter by 1.30 percent compared to the 2.24 percent in the third quarter, mainly due to improvements in crude oil price, which rose to about US$50pbl, as the price of Nigeria's crude oil (the Bonny Light), which started the year at about US$30,40 per barrel in January, 2016, closed to US$53.91 in December, 2016 on account of the deal by OPEC and non-OPEC member countries to cut crude oil output by 1.8 million barrel per day in order to temper the global supply glut and prop up prices. On quarter-on-quarter basis, the GDP contracted by 0.36, 2.06, 2.24 and 1.30 percent in the first, second third and fourth quarters, respectively.

The non-oil sector contracted by 0.22 percent in real terms in 2016, compared to a growth rate of 3.75 percent in 2015. In the fourth quarter of 2016, it declined by 0.36 percentage point lower than the growth of 0.03 percent in the third quarter of 2016 and 3.4 percentage point lower than the 3.14 percent in the fourth quarter of 2015. The contraction in the non-oil sector was largely attributed to Real Estate sector, which declined by -9.27 percent in addition to downward contributions by the Manufacturing (-4.32 percent), Construction (-0.24 percent), and Trade (-5.95 percent), while the Agriculture sector recorded a strong growth of 6.45 percent. The oil sector's growth rate contracted by 13.65 percent, a significant decline compare to 5.45 percent in 2015. This development was attributed to oil pipeline vandalism in the Niger Delta region. The IMF also indicated that the Nigerian economy contracted by 1.5 percent in 2016, compared to 2.7 percent growth in 2015, which was lower than 0.8 and 2.8 percent projected for Nigeria and Sub-Saharan Africa, respectively. Figure 1.1 shows the real GDP growth rate on a quarterly basis for fiscal years 2015 and 2016.

Figure 1.1: Quarterly Growth Rate of the Nigerian Economy, 2015-2016

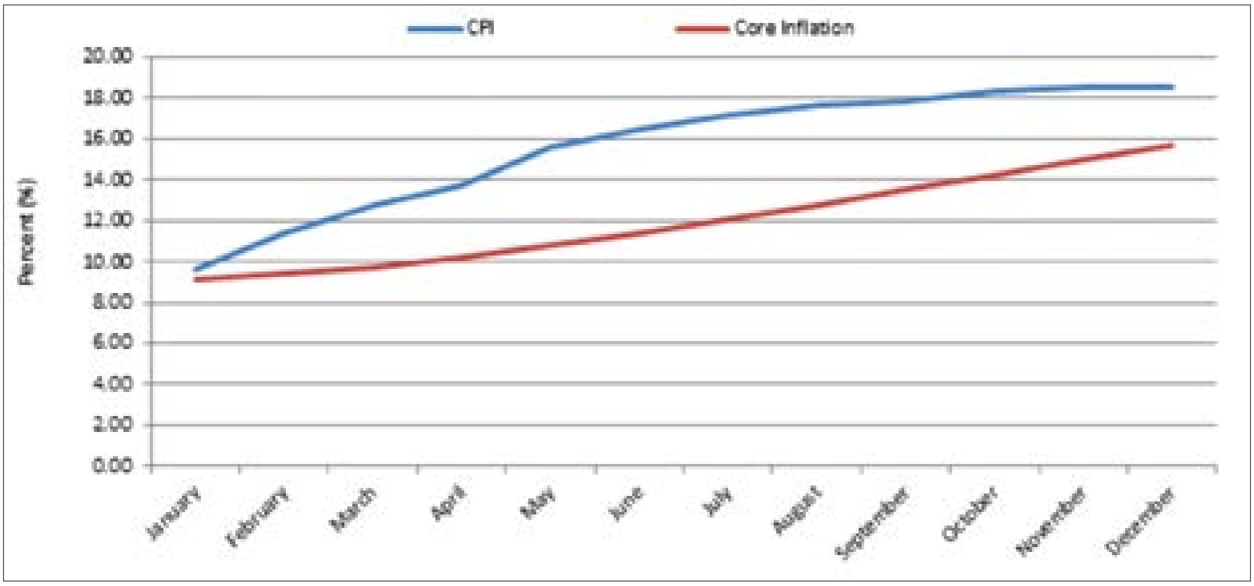


Source: National Bureau of Statistics (NBS)

The year-on-year headline inflation entered the double-digit range in February, 2016 at 11.38 percent, from the 2015 year-end inflation of 9.55 percent, and went up to 18.55 percent by

December 2016. This is above the WAMZ convergence inflation rate threshold of 5.0 percent. The headline inflation opened at 9.62 percent in January, 2016, and gradually, but steadily rose to 16.45 percent in June, 2016, and further rose during the second half of the year to close at 18.55 percent in December, 2016. The rise in inflation was attributed mainly to foreign exchange shortages and hike in energy prices, amidst poor power supply. The continued exchange rate pressures coupled with the depreciation of the Naira against major convertible currencies, are expected to pose potential inflation risk. Figure 1.2 shows the trends of the Consumer Price Index and Core Inflation in 2016.

Figure 1.2: The Consumer Price Index and Core Inflation in 2016



Source: National Bureau of Statistics (NBS)

1.2.2 Monetary, Credit and Financial Market Developments in 2016

The broad Money Supply (M_2) grew by 19.02 percent in 2016, against 5.9 percent in 2015. The increase was largely as a result of growth in net domestic credit by 24.79 percent. In March, 2016, the Monetary Policy Committee (MPC) of the CBN, increased the Monetary Policy Rate (MPR) to 12.0 percent, from 11.0 percent in 2015, raised the Cash Reserve Ratio (CRR) on both public and private sector deposits by 250 basis points to 22.50 percent from 20 percent, narrowed the asymmetric corridor to +200 basis points and -500 basis points around the MPR from +200 basis points and -700 basis points, and retained the liquidity ratio at 30.0 percent. However, in July, 2016, the MPC further raised the MPR to 14.0 percent, but retained the other variables up to the end of the year. The increase in the MPR was aimed at taming soaring inflationary pressures in the economy. The average Inter-Bank Call Rates, NTBs rates and Prime Lending rates as at end-December, 2016, were 10.39, 13.96 and 17.09 percent, compared to 11.87, 9.39 and 16.85

percent in 2015, respectively.

1.2.3 External Sector Developments

The gross external reserves was US$26.99 billion as at end-December, 2016, compared to US$28.29 billion by end-December, 2015, representing a decrease of US$1.30 billion or 4.60 percent. The decline was attributed mainly to the falling oil prices in the international oil market, which dropped government revenue and increased intervention by the CBN in the foreign exchange market to stabilize the exchange rate of the Naira. In June 2016, the CBN revised the Guidelines for the operation of the Nigerian Inter-Bank Foreign Exchange Market, by introducing a Managed Floating Exchange Rate System. This included a devaluation of the official exchange rate of Naira from ₦197/US$1.00 to ₦305/US$1.00 by December, 2016, which resulted in exchange rate of Naira to the US Dollar rising to ₦490/US$1.00 by December, 2016 at unofficial segment of the market (Bureau De Change), representing a depreciation of ₦185.00 or 60.66 percent. Table 1.1 shows the trend of selected economic indicators between 2012 and 2016.

Table 1.1: Selected Macroeconomic Indicators, 2012 - 2016

Description	2012	2013	2014	2015	2016
Real GDP Growth Rate (%)	4.21	5.49	6.22	2.79	-1.5
CPI Inflation (end-period) (%)	10.3	12.0	8.0	9.6	18.55
Budget Deficit (% of GDP)	2.85	1.9	1.9	1.09	2.14
External Reserves (US$' billion)	54.26	43.83	34.25	28.29	26.99
End-Period Exchange Rate (₦)	156.05	155.57	168	197	305
Total Public Debt-to-GDP Ratio (%)	22.43*	12.65	12.65	13.02	16.27
Benchmark Crude oil price (US$)	72	79	77.5	53	38
Equities Market Capitalization (₦' trillion)	8.98	13.23	11.47	9.65	9.11
Bond Market Capitalization (₦' trillion)	5.82	5.85	5.38	7.14	6.25

Sources: MBNP, NBS, CBN, DMO
Note: Total Public Debt-to-GDP ratio includes States' Domestic Debt Stock
*Total Public Debt-to-GDP ratio pre-rebasing

1.2.4 Fiscal Developments

The fiscal deficit-to-GDP ratio was 2.14 percent in 2016, compared to 2.31 percent in 2015. The fiscal operations of the Government were anchored upon the Medium-Term Expenditure Framework (MTEF), 2015 - 2017. The revenue estimates for the 2016 budget were based on a benchmark crude oil price of US$38.00 per barrel, while crude oil production was set at 2.2 million barrels per day. Whereas the price of crude oil remained above the budget projection, the drastic reduction in production, due to pipeline vandalism depressed oil earnings and thereby worsened the fiscal condition of both the federal and state governments. The fiscal deficit for the year was ₦2.204 trillion or 2.14 percent of GDP, out of which ₦1,818.675 billion was funded from domestic borrowing, through monthly issuances of FGN securities in the domestic capital market.

1.2.5 Domestic Capital Market

1.2.5.1 Developments in the Domestic Equities Market

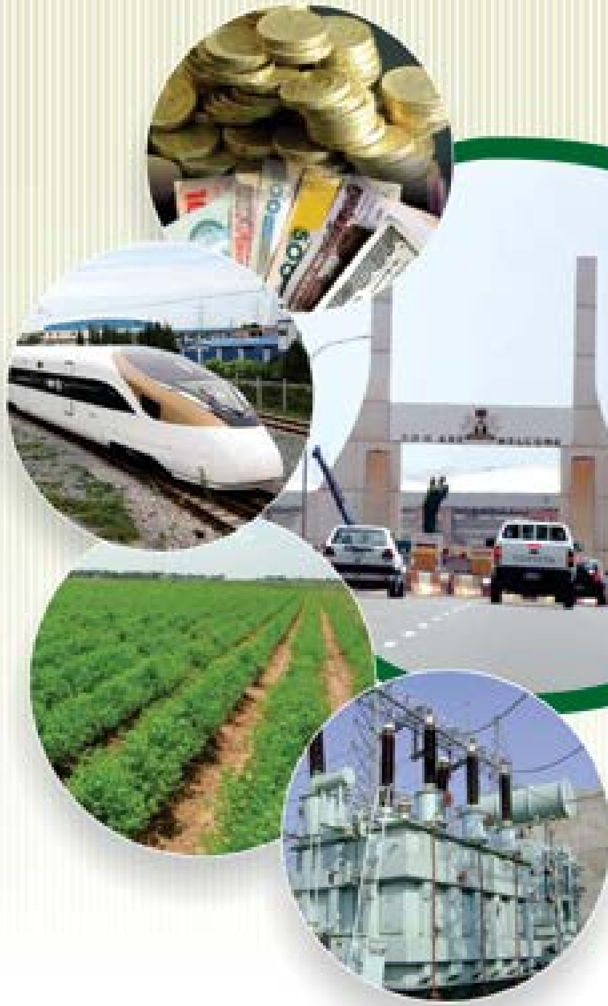
The equities market witnessed a decline in activities, as the All-Share Index (ASI) dropped by 6.17 percent from 28,642.25 in 2015, to 26,874.62 by end-December, 2016, while Market Capitalization (MC) declined by 6.12 percent from ₦9.86 trillion in 2015 to ₦9.26 trillion by end-December, 2016. The bond market experienced a similar trend, as its market capitalization dropped to ₦6.25 trillion by end-December, 2016, from ₦7.14 trillion by end-2015. Seven corporates and one sub-national accessed the domestic debt market in 2016, to raise a total of ₦108.04 billion and ₦47.00 billion, respectively. The total market capitalization declined by 4.81 percent from ₦17.00 trillion as at end-December, 2015, to ₦16.9 trillion by end-December, 2016.

1.2.5.2 Developments in the Domestic Bonds Market

The size of the Nigerian domestic bond market in terms of face value was ₦7,139.82 billion as at the end-December 2016, compared to ₦6,515.62 billion as at end-December, 2015, representing an increase of ₦624.20 billion or 9.58 percent. The breakdown of the outstanding domestic bonds figures is as follows: FGN Bonds - ₦6,663.36 billion (increased to 93.33 percent of total, as against 89.14 percent in 2015); State Governments - ₦324.20 billion (reduced to 4.54 percent of total, as against 7.0 percent in 2015); Corporate institutions - ₦127.31 billion (reduced to 1.78 percent of total, as against 3.47 percent in 2015); and Supra-nationals - ₦24.95 billion (which recorded no movement). Other developments in the domestic bonds market in 2016, included:

i. Review of the FGN's Benchmark bonds in 2016, with the introduction of two new issuances during the year under review. The FGN introduced a new 5-year Benchmark and 20-year Benchmark Bonds in 2016, with the issuance of 14.5% FGN JUL 2021 and 12.40% FGN MAR 2036, which resulted in two 5-year and 20-year benchmark bonds, which complemented the existing designated bonds of similar tenors.

ii. Development of Framework for issuance of FGN Savings Bonds, targeted at retail investors, which has been approved by appropriate authorities, and a Framework for issuance of FGN Sovereign Sukuk in the domestic capital market. Both frameworks, approved by the Honourable Minister of Finance, were part of DMO's Strategic Plan objective, aimed at deepening and broadening the FGN Securities market, so as to sustain development of other segments of the bond market, as well as support the financing needs of the FGN.



CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

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In 2016, the external debt management strategy was aimed at maximizing funds from mainly the multilateral and bilateral sources on concessional terms. The concessional debt constituted 83.30 percent of the total external debt stock, as at end-December, 2016, compared to 85.46 percent in 2015. The domestic and external debt mix was 80:20 against the optimal target of 60:40, while the ratio of long-term to short-term domestic debt was 70:30 compared to the target of 75:25. The domestic debt management strategy was aimed at deepening the market for government securities through the introduction of a variety of government securities, as well as the use of appropriate technology to support the effective and efficient issuance of government securities.

2.1 Introduction

The main objectives of public debt management in Nigeria as outlined in the National Debt Management Framework (NDMF), 2013-2017 and the DMO's Strategic Plan (2013-2017) are to efficiently meet government financing needs at minimum costs and risks; supporting the development of the domestic debt market; and, sustaining the capacity building initiatives at the sub-national level, so as to ensure that Sub-national governments subscribe to sound public debt management practices for overall debt sustainability and macroeconomic stability of the country.

Following the expiration of the maiden Debt Management Strategy, 2012-2015, a new Debt Management Strategy, 2016-2019 was approved by the Federal Executive Council (FEC) on June 15, 2016, to guide the borrowing decisions of the country. The key features of the new Strategy include:

- i Achieve an optimal debt portfolio mix of 60:40 for domestic and external debt, respectively;
- ii Attain a 75:25 ratio for long and short-term debt instruments in the domestic debt portfolio, respectively;
- iii Significantly reduce the rate of growth of public debt in general, and domestic debt in particular, to ensure long-term debt sustainability;
- iv Reduce Debt service costs and lengthen the maturity profile of the debt portfolio by substituting the relatively more expensive domestic debt with less expensive external debt from both the concessional and non-concessional windows; and,
- v Further lengthen the maturity profile of the domestic debt portfolio through reduction in the issuance of new short-term debt instruments or refinancing of maturing NTBs with external financing or both, in addition to the introduction of new debt instruments into the domestic debt market.

The Strategy included benchmarks for mitigating interest rate and refinancing risks, which are: (i) Keeping the share of debt maturing within 1 year, as a percentage of Total Debt Portfolio, at not more than 20 percent; and (ii) Targeting an Average Time-to-Maturity (ATM) for the Total Debt Portfolio at a minimum of 10 years.

The implementation of the new debt strategy would help the Government to restructure the public debt portfolio, aimed at reducing the overall cost of debt, raising capital to finance critical infrastructure at minimum cost, and help to create room for private sector borrowing in the domestic debt market.

2.2 External Debt Management Strategy

In 2016, the government continued to rely on borrowing mainly from multilateral and bilateral sources on concessional terms, to finance public development programmes, by addressing critical infrastructure needs, and rebalance the total debt portfolio, so as to achieve the optimal debt portfolio composition of 60:40 for domestic and external debt, respectively, in the medium-term. In line with the new debt management strategy, there would be a shift of focus to external borrowing, including the International Capital Market, as a way of diversifying Government's funding sources, reducing debt service costs and creating opportunities for other domestic economic agents to access external financing.

2.2.1 Concessional Borrowing

In line with the new debt management strategy, the government continued to maximize available funding envelopes from both concessional and semi-concessional external sources, consisting of borrowing from concessional multilateral and bilateral sources. The total external loans portfolio of ₦3.479 trillion (US$11.406 billion) outstanding as at the end-December, 2016, comprised the concessional debt obtained from multilateral and bilateral sources amounting to ₦2.90 trillion (US$9.499 billion) or 83.3 percent compared with ₦2.11 trillion (US$10.72 billion) or 83 percent in 2015, with the balance of ₦0.582 trillion (US$1.907 billion) or 16.7 percent constituting the non-concessional bilateral and commercial loans, compared to ₦0.375 trillion (US$1.90 billion) or 17.80 percent in 2015.

2.3 Domestic Debt Market Strategy

The domestic debt management strategy pursued in 2016 was similar to that of previous year, which included further deepening of the government securities market through the introduction of a variety of the government securities, as well as the use of appropriate technology to support the effective and efficient issuance of the Government securities, so as to enhance their liquidity and attract more investors, 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. The strategy was also aimed at achieving a mix of 75:25 for long-term to short-term debt by issuing more of long-term instruments, so as to elongate the maturity profile and the yield curve, thereby reducing rollover/refinancing risk; and use longer tenor bonds to refinance shorter NTBs. These strategies were aimed at minimizing borrowing costs, as well as maintaining a vibrant and liquid domestic debt market for FGN securities.

2.3.1 Issuance Activities

As in prievious years, the FGN Bonds issuance activities in 2016 were targeted at increasing the volume of benchmark bonds in order to promote liquidity of the instruments, support trading in the market and enhance capacity of meeting the portfolio needs of major investor groups. There were new shelf registrations and re-opening of benchmark bonds at various times during the year.

2.3.2 Primary Market Bond Activities

The FGN Bond primary market performance was impressive in 2016, as the demand for FGN bonds was relatively strong, as evidenced by the high level of subscriptions recorded. The issuance activities continued to emphasize the increase in issuance of benchmark bonds, so as to enhance liquidity of the instruments, support trading in the market and meet the appetite of various investor groups.

During the year, there were re-openings of benchmark bonds at various times. The FGN Bonds issued comprised instruments with 5, 10, and 20-year tenors. The total amount offered was ₦1,235,000.00 million, while total subscriptions was ₦2,125,748.10 million, representing over-subscription of 172.13 percent for the year, compared to 204.31 percent in 2015. Total allotments in 2016 amounted to ₦1,308,303.33 million against ₦998,740.00 million in 2015.

2.4 New Initiatives and Developments in the FGN Bonds Market in 2016

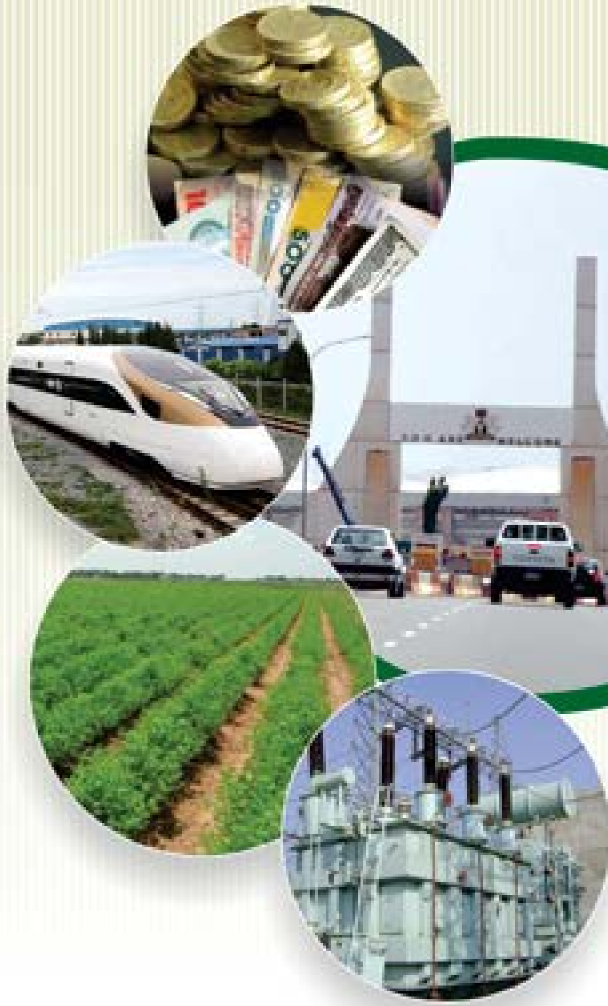
2.4.1 Benchmark Bonds

The DMO introduced 5-year and 20-year Benchmark bonds in 2016, with the issuance of 14.50% FGN JUL 2021 and 12.40% FGN MAR 2036, which resulted in double 5-year and 20-year benchmark bonds that complemented the existing designated bonds of similar tenors.

2.5 Sub-National Debt Management Strategy and Development

The DMO sustained the capacity building initiatives at the Sub-national level to ensure that Sub-national governments subscribe to sound public debt management practices for overall debt sustainability and macroeconomic stability of the country. To this end, the DMO conducted three categories of training for the States. The first category of training was targeted at States that had sign-off issues and/or inconsistencies in their domestic debt data submissions to the DMO, such as Abia, Akwa-Ibom, Delta, Ebonyi, Kano, Gombe, Katsina, Kwara, Osun and Rivers, where the DMO sponsored its staff to these States, to resolve and authenticate all submissions made to it.

The second category of the DMO's capacity building programme was for two States: Bayelsa and Katsina, where Special Training on Excel Template and Effective Sub-national Debt Management skills for recording, managing and reporting on domestic debt was presented, with the objective to upscale skills for the newly posted officials of the DMDs and also provide opportunity for the DMO to introduce and expose the debt managers in the two States to Microsoft Excel-based template designed by the DMO specifically for Sub-National Debt Data Management. The third category of training was the Sensitization Workshop and Training Programme for relevant MDAs in Benue State, aimed at rectifying observed constraints in prompt preparation and rendition of returns from the MDAs to the DMD for onward transmission to the DMO.



CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

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Total public debt outstanding as at end-December, 2016, was ₦17.36 trillion (US$57,391.53 million) compared to ₦12.60 trillion (US$65,428.53 million), as at end-December, 2015. The significant increase was mainly in the domestic debt stock, which was attributed to additional issuances for the funding of the 2016 budget deficit and refinancing of matured debt securities. The domestic debt stock has continued to form a larger part of the total public debt stock since 2012. The bulk of the stock of external debt continued to be in the long-term category.

3.1 Nigeria's Total Public Debt Outstanding

Nigeria's total public debt outstanding as at end-December, 2016, was ₦17,360,009.57 million (US$57,391.53 million), compared to ₦12,603,705.28 million (US$65,428.53 million) in 2015, representing an increase of ₦4,756,304.30 million or 37.74 percent in Naira terms. However, in dollar terms, it decreased by US$8,037.00 million, representing 12.00 percent, over the same period: the incongruence in the total public debt stock between the two currencies reflects the difference in the exchange rates for the periods. The increase in public debt stock was due to additional issuances for funding of the 2016 budget deficit, at a larger fiscal deficit of 2.14 percent of GDP compared with 1.09 percent in 2015, and refinancing/redeeming matured securities, as well as the depreciation of the Naira against the US Dollar as a result of the liberalization of the exchange rate system. The external debt was ₦3,478,915.40 million (US$11,406.28 million), or 20.04 percent, while domestic debt was ₦13,881,094.18 million (US$45,985.25 million), or 79.96 percent. The domestic debt stock comprised securitised Federal Government of Nigeria debt of ₦11,058,204.30 million (US$36,256.41 million) or 63.70 percent as at end-December, 2016, and domestic debt stock of ₦2,822,889.88 million (US$9,728.84 million) or 16.26 percent for the 36 States and the FCT, as at end-September, 2016, as the collation and validation of the States' domestic debt data occur with some time lag.

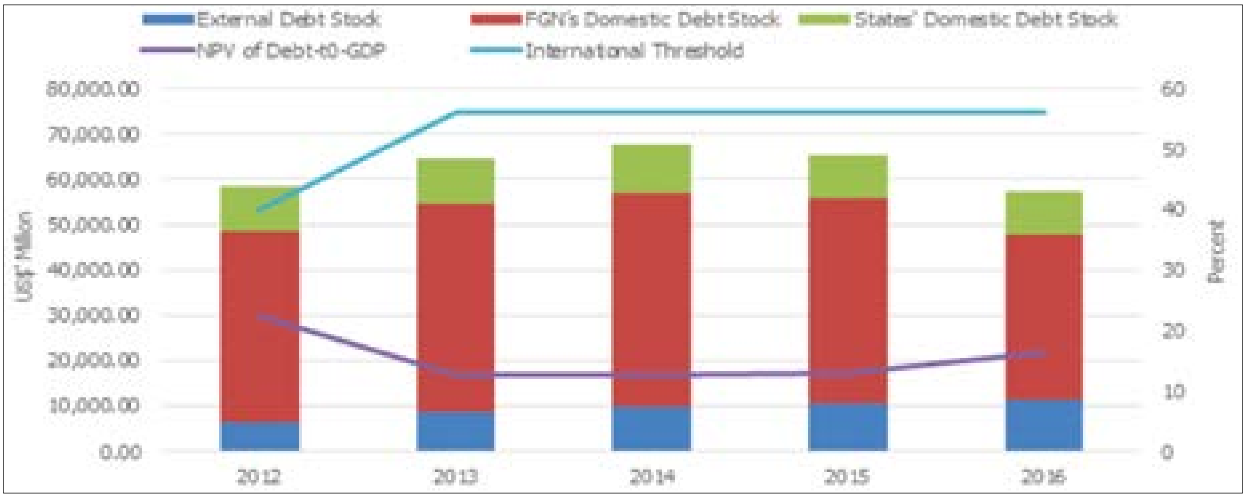
Table 3.1: Nigeria's Total Public Debt Outstanding, 2012-2016

	2012	2013	2014	2015	2016
FGN Debt Stock					
External Debt Stock*					
US$' Million	6,527.07	8,821.90	9,711.45	10,718.43	11,406.28
NGN' Million	1,016,721.69	1,373,569.83	1,631,523.60	2,111,530.71	3,478,915.40
% Share of Total	*11.17*	*13.68*	*14.34*	*16.38*	*20.04*
as % of GDP	*2.50*	*1.73*	*1.81*	*2.13*	*3.23*
FGN's Domestic Debt Stock					
US$' Million	41,969.16	45,722.41	47,047.77	44,857.85	36,256.41
NGN' Million	6,537,536.05	7,118,979.86	7,904,025.47	8,836,995.86	11,058,204.30
% Share of Total	*71.79*	*70.88*	*69.47*	*68.56*	*63.70*
as % of GDP	*16.10*	*8.97*	*8.79*	*8.93*	*10.28*
States' Domestic Debt Stock					
US$' Million	9,961.16	9,965.64	10,967.06	9,852.25	9,728.84**
NGN' Million	1,551,650.13	1,551,650.13	1,707,571.14	1,655,178.71	2,822,889.88**
% Share of Total	*17.04*	*15.45*	*16.19*	*15.06*	*16.26*
as % of GDP	*3.82*	*1.95*	*2.05*	*1.96*	*2.76*
Nigeria's Total Public Debt Stock					
US$' Million	**58,457.39**	**64,509.95**	**67,726.28**	**65,428.53**	**57,391.53**
NGN' Million	9,105,907.87	10,044,198.82	11,243,120.22	12,603,705.28	17,360,009.57
as % of GDP	*22.43*	*12.65*	*12.65*	*13.02*	*16.27*

Source: DMO
*External Debt includes States' External Debt
** Actual Domestic Debt Stock for 36 States & the FCT as at end-September, 2016.

Table 3.1 further shows that the ratio of Nigeria's Total Public Debt-to-GDP was 16.27 percent in 2016, compared to 13.02 percent in 2015. This ratio was still within the Country's specific limit of 19.39 percent in the medium-term, up to 2017, and far below the CPIA's threshold of 56.00 percent for countries in Nigeria's peer-group, as well as WAMZ convergent threshold of 70.00 percent. Figure 3.1 shows the trend in total public debt outstanding for a five-year period (2012-2016).

Figure 3.1: Trend in Nigeria's Total Public Debt Outstanding, 2012-2016



Source: DMO

3.1.1 FGN's Total Public Debt Outstanding by Original Maturity

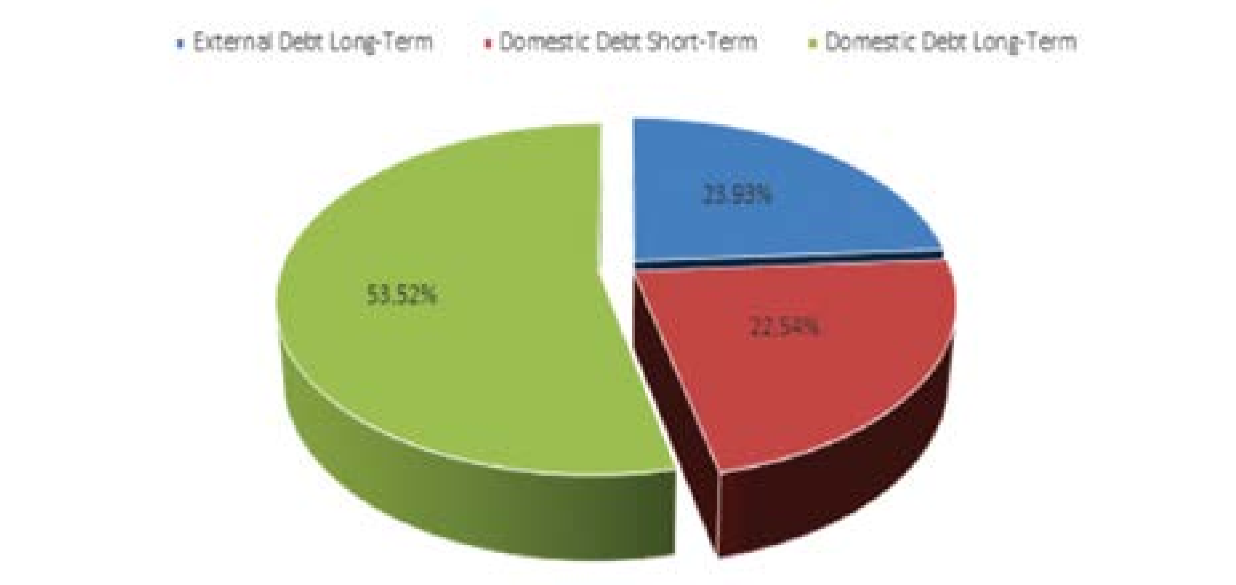
The composition of FGN's total public debt stock by original maturity showed that long-term debts constituted 77.45 percent, while short-term debt was 22.54 percent, as at end-December, 2016. The long-term debt in the domestic debt portfolio was US$25,511.23 million or 53.52 percent as at end-December, 2016, made-up of FGN bonds (US$24,803.07 million) and Treasury bonds (US$708.16 million), while the short-term debt comprised NTBs (US$10,745.18 million) or 22.54 percent (Table 3.2 and Figure 3.2).

Table 3.2: FGN's Total Public Debt Outstanding by Original Maturity, 2012-2016 (US$' Million)

Type	Category	2012	2013	2014	2015	2016[1]
External Debt Stock	Short – term[2]	0.00	0.00	0.00	0.00	0.00
	Long-term	6,527.07	8,821.9	9,711.45	10,718.43	11,406.28
	(% of share total)	*13.46*	*16.17*	*17.11*	*19.29*	*23.93*
	Sub-Total	6,527.07	8,821.90	9,711.00	10,718.43	11,406.28
Domestic Debt Stock	Short-term[3]	13,628.6	16,580.29	20,092.42	14,075.47	10,745.18
	(% of share total)	*28.10*	*30.40*	*35.40*	*25.33*	*22.54*
	Long-term	28,340.56	29,142.12	26,955.35	30,782.38	25,511.23
	(% of share total)	*58.44*	*53.43*	*47.49*	*55.38*	*53.52*
	Sub-Total	41,969.16	45,722.41	47,047.77	44,857.85	45,985.25
	(% of share total)	*86.54*	*83.83*	*82.89*	*80.71*	*76.07*
	Total	**48,496.23**	**54,544.31**	**56,759.22**	**55,576.28**	**47,662.69**

Source: DMO
[1] Official CBN Exchange Rate of ₦305.00/US$1 as at 31/12/2016 was used for 2016 figures
[2] Short-term external debt is debt with less than 1 year original maturity
[3] Short-term domestic debt consists of 91, 182 and 364 days Treasury Bills. Long-term domestic debt consists of Treasury Bonds and FGN Bonds for 3 or more years

Figure 3.2: FGN's Total Public Debt Outstanding by Original Maturity as at end-December, 2016



Source: DMO

3.2 FGN's Total Public Debt Service

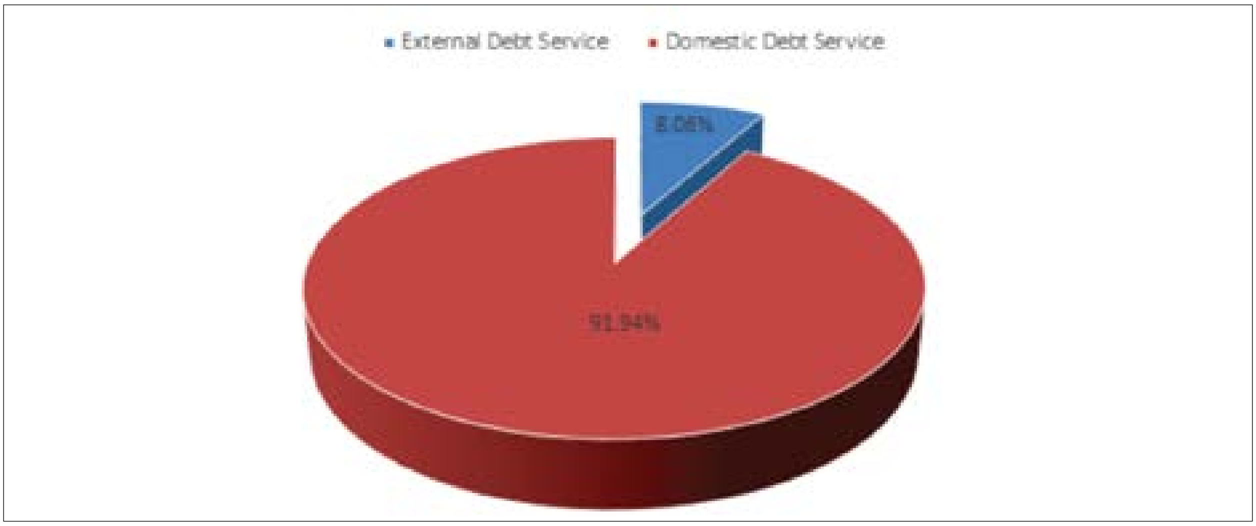
The FGN's total public debt service reduced from US$5,499.24 million in 2015 to US$4,381.82 million as at end-December, 2016 (Table 3.3). The reduction by US$1,117.42 million or 20.32 percent was as a result of the decline in the FGN domestic debt stock from US$44,857.85 million in 2015 to US$36,256.41 million in 2016, which led to the significant decrease in domestic debt service by US$1,139.45 million or 22.05 percent. However, debt service payment on external debt marginally increased to US$353.09 million in 2016, from US$331.06 million in 2015, due to the additional disbursements during the year.

Table 3.3: FGN's Total Public Debt Service, 2012-2016(US$' Million)

	2012	2013	2014	2015	2016
External Debt Service	293.00	297.32	346.72	331.06	353.09
% Share of Total	(5.96)	5.39	(6.30)	(6.02)	(8.06)
Domestic Debt Service	4,625.72	5,223.35	5,153.63	5,168.18	4,028.73
% Share of Total	(94.04)	94.61	(93.70)	(93.98)	(91.94)
	4,918.72	**5,520.67**	**5,500.35**	**5,499.24**	**4,381.82**

Source: DMO
Official CBN Exchange Rate of ₦305.00/US$1 as at 31/12/2016, was used for 2016

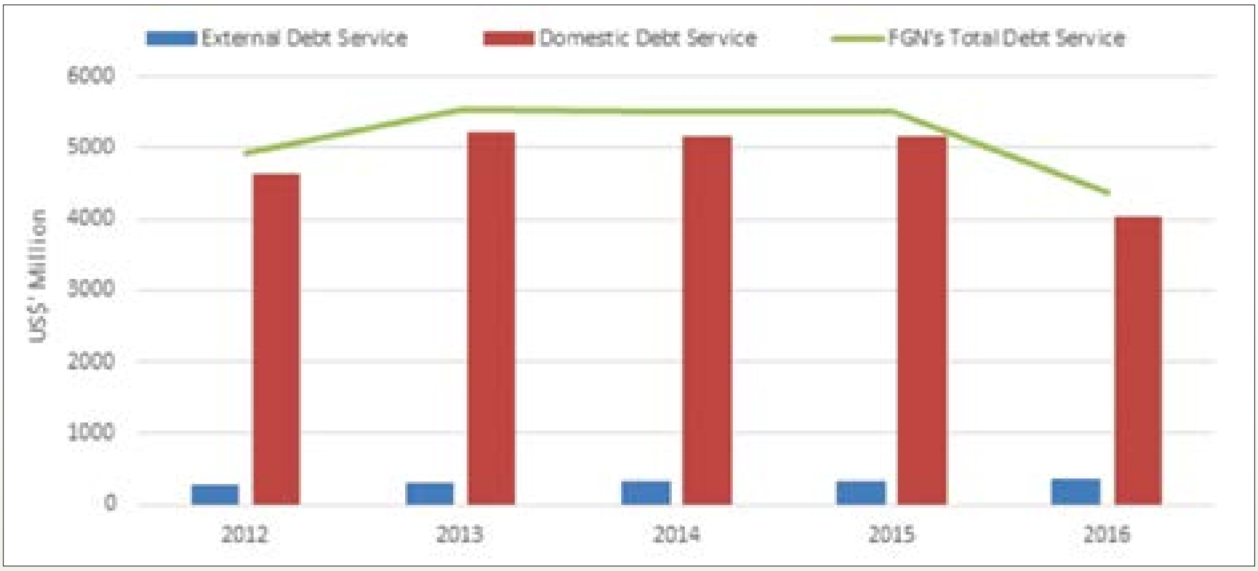
Figure 3.3: FGN's Total Debt Service as at end-December, 2016



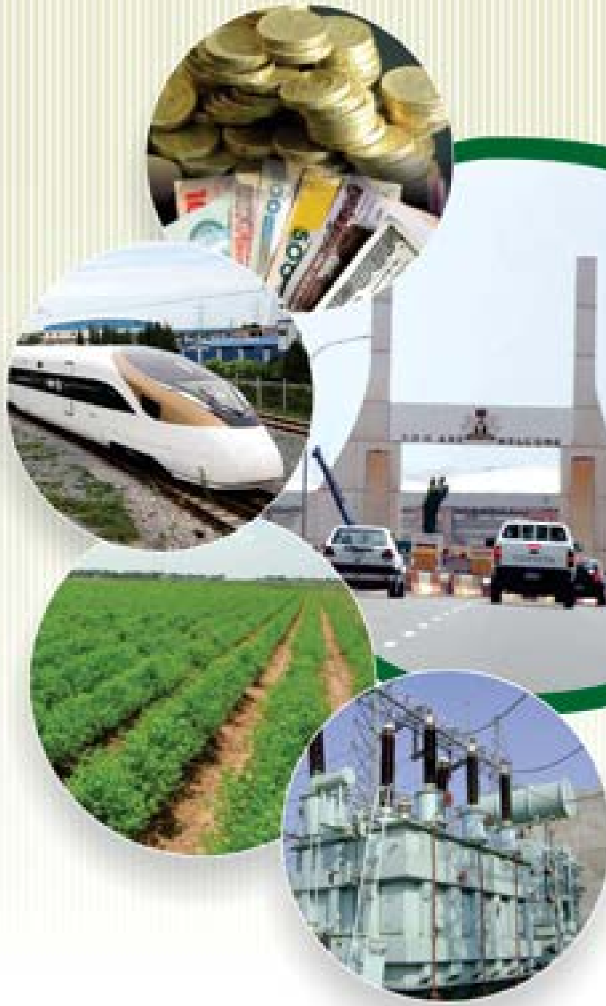
Source: DMO

Figure 3.4 shows that the FGN's total debt service payments witnessed an increase from 2012 to 2013. It stabilized in 2014 and 2015, before declining in 2016. Although external debt service increased in 2016 to US$353.09 million, from US$331.06 million in 2015, domestic debt service declined significantly from US$5,168.18 million in 2015 to US$4,028.73 million in 2016. The high proportion of domestic debt service relative to external debt service was due to increased quantum of domestic borrowing used to finance budget deficit over the years.

Figure 3.4: Trends in FGN's Total Debt Service, 2012-2016



Source: DMO



CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

Nigeria's outstanding external debt stood at US$11,406.28 million as at end-December, 2016. The composition showed that the Official Creditors (multilateral and bilateral) at concessional rates were essentially used to finance the development of projects and programmes in various sectors of the economy. The non-concessional loans were from the commercial creditors. The stock of the external debt by remaining maturity remained mostly long-term. The increase in the net inflow of funds was largely on account of additional disbursements from multilateral and bilateral creditors.

4.1 External Debt Stock

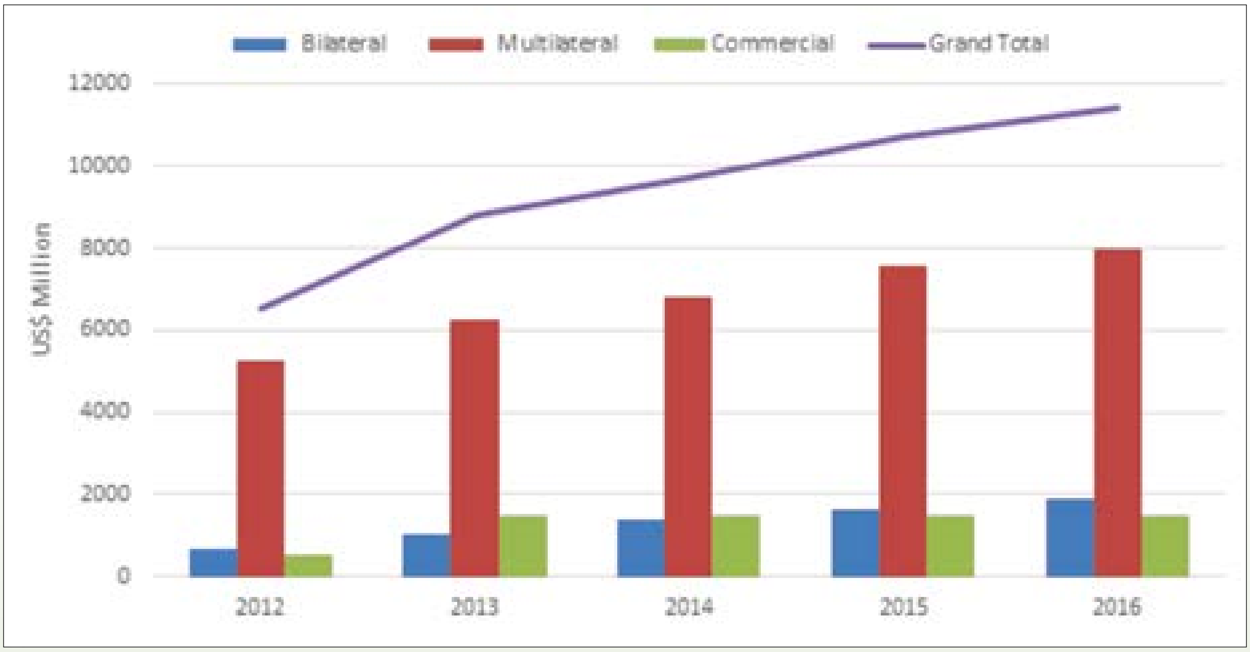
Nigeria's external debt stock outstanding was US$11,406.28 million as at end-December, 2016, compared to US$10,718.43 million as at end of the corresponding period in 2015 (Table 4.1), representing an increase of US$687.85 million or 6.42 percent in the period under review. The increase was attributable to additional disbursements of multilateral and bilateral loans, as well as net adverse cross exchange rate movements between the different currencies in the external loan portfolio. The external debt stock maintained an upward trajectory, as Government continued to fund its external borrowing requirements from the concessional sources over the years (Figure 4.1). The external debt to GDP ratio increased from 2.13 percent as at end-December, 2015, to 3.23 percent as at end-December, 2016.

Table 4.1: External Debt Outstanding by Source, 2012-2016 (US$' Million)

SOURCE	2012	2013	2014	2015	2016
A. Official:					
1. Bilateral	703.03	1,025.70	1,412.07	1,658.00	1,918.06
2. Multilateral	5,267.42	6,275.20	6,799.36	7,560.43	7,988.22
Sub-Total	5,970.45	7,300.90	8,211.43	9,218.43	9,906.28
B. Private:					
1. Eurobonds	500.00	1,500.00	1,500.00	1,500.00	1,500.00
2. Other Commercial	56.63	21	0	0	0
Sub-Total	556.63	1,521.00	1,500.00	1,500.00	1,500.00
Grand Total	**6,527.07**	**8,821.90**	**9,711.45**	**10,718.43**	**11,406.28**
Creditor Category as % of Total					
A. Official:					
1. Bilateral	10.77	11.63	14.54	15.47	16.82
2. Multilateral	80.70	71.13	70.01	70.54	70.03
Sub-Total	91.47	82.76	84.55	86.01	86.85
B. Commercial:					
1. Eurobonds	7.66	17	15.45	13.99	13.15
2. Other Commercials	0.87	0.24	0.00	0.00	0.00
Sub-Total	8.53	17.24	15.45	13.99	13.15
Grand Total	**100**	**100**	**100**	**100**	**100**

Source: DMO
Based on CBN Official Exchange Rate of $1 to ₦305 as at December 31, 2016

Figure 4.1: Trends in External Debt Stock, 2012–2016



Source: DMO

4.2 External Debt Stock by Source (Creditors Category)

Further analysis of Nigeria's external debt stock by source showed that Official Creditors accounted for US$9,906.27 million or 86.85 percent, while the Private Creditors accounted for US$1,500.00 million or 13.15 percent as at end-December, 2016 (Table 4.2). The Official Creditors comprised Multilateral and Bilateral Creditors, which accounted for 70.03 and 16.82 percent of total Official Creditors, respectively.

Table 4.2: External Debt Stock by Source as at end-December, 2016 (US$' Million)

Category	Principal Balance	Principal Arrears	Interest Arrears	Total	Percentage
Multilateral – WB Group					
IDA	6,669.57	0.00	0.00	6,669.57	
IBRD	3.88	0.00	0.00	3.88	
ADB Group					
ADB	403.34	0.00	0.00	403.34	
ADF	715.28	0.00	0.00	715.28	
Other Multilaterals					
BADEA	5.72	0.00	0.00	5.72	
EDF	65.73	0.00	0.00	65.73	
IDB	17.27	0.00	0.00	17.27	
IFAD	107.42	0.00	0.00	107.42	
Sub-Total	**7,988.22**	**0.00**	**0.00**	**7,988.22**	**70.03%**
Bilateral					
China (Exim Bank of China)	1,638.06	0.00	0.00	1,638.06	
France (AFD)	198.25	0.00	0.00	198.25	
Japan (JICA)	70.66	0.00	0.00	70.66	
India (Exim Bank of India)	0.00	0.00	0.00	0.00	
Germany (KFW)	11.09	0.00	0.00	11.09	
Sub-Total	**1,918.05**	**0.00**	**0.00**	**1,918.05**	**16.82%**
Commercial					
Eurobonds	1,500.00	0.00	0.00	1,500.00	**13.15%**
GRAND TOTAL	**11,406.28**	**0.00**	**0.00**	**11,406.28**	**100.00%**

Source: DMO

4.2.1 Multilateral

The stock of multilateral debt increased from US$7,560.43 million as at end-December, 2015 to US$7,988.22 million as at end-December, 2016. The multilateral concessional loans have been the main source of external debt financing, accounting for 70.03 percent of the external debt portfolio, as at end-December, 2016 (Table 4.2). The International Development Association (IDA) and African Development Bank Fund (AfDB), which were highly concessional dominated the external debt portfolio and accounted for 83.49 and 8.95 percent of the multilateral debt, as at end-December, 2016, respectively. Table 4.1 further shows that multilateral debt increased from US$5,267.42 million in 2012 to US$7,988.22 million in 2016, due to increased borrowings from this window.

4.2.2 Bilateral

As at end-December, 2016, debt owed to the bilateral creditors rose to US$1,918.06 million, from US$1,658.00 million as at end-December, 2015. The analysis showed that China and France accounted for the largest share of US$1,638.06 million (85.40 percent) and US$198.25 million (10.34 percent) of the total bilateral debt stock outstanding as at end-December, 2016, respectively (Table 4.2).

4.2.3 Commercial

The stock of commercial (non-concessional) debt remained at US$1,500.00 million as at end-December, 2016, as it was in 2015, as no new loan was contracted from the commercial sources in 2016 (Table 4.2).

4.3 External Debt Stock by Instrument Type

The external debt portfolio by instrument type is classified into non-marketable and marketable instruments, represented by loans and bonds respectively. The non-marketable debt (loans) accounted for 86.85 percent of the total debt portfolio, while the marketable debt (bonds) issued in the International Capital Market (ICM) accounted for 13.15 percent, as at end-December, 2016.

Table 4.3: External Debt Stock by Instrument Type, 2012-2016

Instrument Type	2012	2013	2014	2015	2016
Non-Marketable	5,970.45	7,300.90	8,211.43	9,218.43	9,906.27
% of Total	*91.47*	*82.76*	*84.55*	*86.01*	*86.85*
Marketable	556.63	1,521.00	1,500.00	1,500.00	1,500.00
% of Total	*8.53*	*17.24*	*15.45*	*13.99*	*13.15*
Total	6,527.07	8,821.90	9,711.45	10,718.43	11,406.27

Source: DMO

4.4 Currency Composition of External Debt

External debt portfolio by currency consisted of Swiss Francs (CHF), Euro, Great Britain Pounds (GBP), United States Dollar, Japanese Yen (JPY), Special Drawing Rights (SDR)[1], IDB Units of Account (Islamic Dinar) and Nigerian Naira[2]. Table 4.4 and Figure 4.2 show that Special Drawing Rights (SDR) dominated the currency composition accounting for 60.03 percent of the total external debt stock. This was followed by the US Dollars at 33.94 percent, the Euro at 4.97 percent, while the total of other currencies (Japanese Yen, GBP, Islamic Dinar, Swiss Francs and Naira) accounted for the balance of 1.05 percent. The Naira component of the portfolio represented debt sourced from ADB concessional window. As the SDR is decomposed into its constituent currencies, the debt compositions of US dollar, Euro, GBP and JPY would be proportionately increased.

Table 4.4: External Debt Stock by Currency Composition as at end-December, 2016 (US$ 'Million)

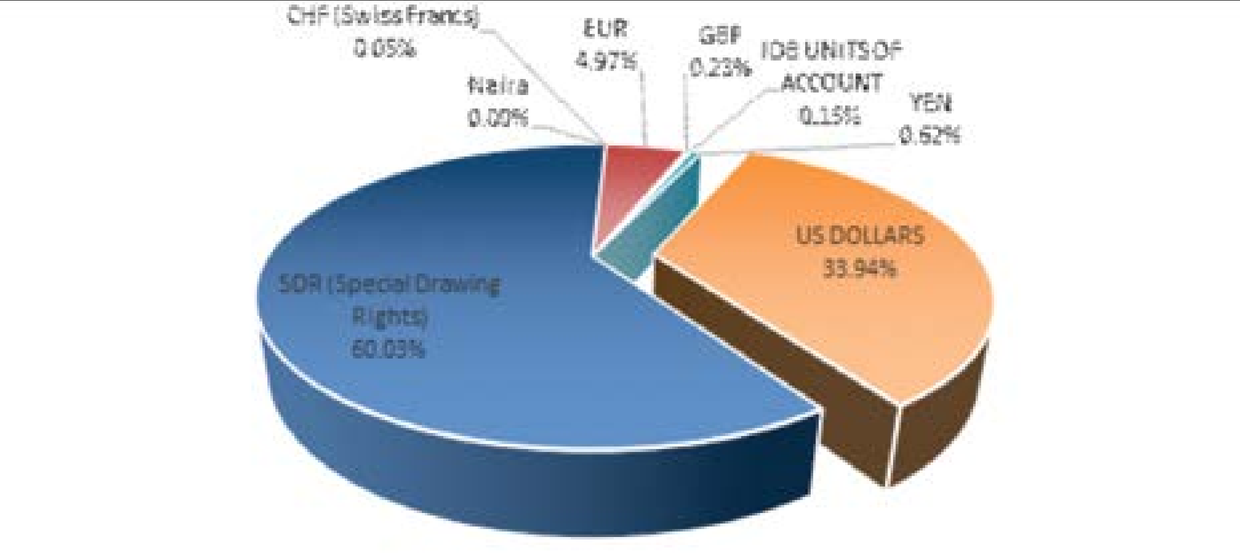
Currency	Debt Stock in Original Currency	Naira Exchange Rate	Debt Stock in Naira	US$ Exchange Rate to the Naira	Debt Stock in USD	Percentage of Total
CHF (Swiss Francs)	5,862,594.45	299.64	1,756,667,801.00	305.00	5,759,566.56	0.05%
EUR	536,992,598.00	322.11	172,970,685,741.78	305.00	567,117,002.43	4.97%
GBP	21,552,365.30	375.18	7,973,462,411.38	305.00	26,142,499.71	0.23%
IDB Units of Account	12,888,892.00	408.70	5,267,690,160.40	305.00	17,271,115.28	0.15%
Yen	8,265,322.00	2607.50	21,551,826,786.00	305.00	70,661,727.17	0.62%
US Dollars	3,871,393,402.88	305.00	1,180,774,987,878.40	305.00	3,871,393,402.88	33.94%
SDR (Special Drawing Rights)	5,110,107,026.00	408.70	2,088,500,741,526.20	305.00	6,847,543,414.84	60.03%
Naira	118,303,552.00	1.00	118,303,552.00	305.00	387,880.50	0.00%
Total			**3,478,914,361,998.73**		**11,406,276,596.72**	**100.00%**

Source: DMO
Note: Kindly note that SDR is a virtual currency, which may need to be decomposed (GBP, EUR, USD & YEN)

[1]Special Drawing Rights (SDRs) is a virtual currency, whose value is currently based on a basket of currencies (Yen, Euro, Pound, and Dollar). It was created by IMF as an international reserve asset to supplement the existing official reserves of member countries. The International Development Association (IDA) of the World Bank extends loans to countries on amount equivalent to SDRs. The SDR remains the single largest share of the Nigeria's external debt portfolio accounting for 60.03 percent or US$6,840.54 million as at end-December, 2016.

[2]The Naira component of the external debt portfolio is an ADF loan contracted in respect of the multi-currency project (Bamenda-Manfe-Abakaliki-Enugu Road Corridor), which is denominated in Fund Unit of Account and disbursed in various currencies, which include US dollar, Euro, GBP, and Naira. The Naira portion was disbursed in June, 2015.

Figure 4.2: External Debt Stock by Currency Composition as at end-December, 2016



Source: DMO

4.5 External Debt by Remaining Maturities

The external debt outstanding by original and remaining maturities comprised mainly debt maturing over three years (long-term debt), accounting for 94.62 percent of the portfolio as at end-December, 2016 (Table 4.5). The balance of 5.38 percent was for debt maturing between one and three years.

Table 4.5: External Debt Outstanding by Remaining Maturity as at end-December, 2016 (US$' Million)

CREDITOR CATEGORY	Short-Term (0 – 1yr)	Medium-Term (>1 - 3Yrs)	Long-Term (Over 3 Yrs)
Multilateral			
IBRD	0.00	0.00	3.88
IDA	83.77	239.05	6,346.76
IFAD	3.31	6.62	97.49
ADB	0.00	36.67	366.68
ADF	13.39	32.17	669.72
BADEA	0.37	0.75	4.61
IDB	1.15	2.30	13.82
EDF	4.57	9.28	51.87
Sub-Total	106.56	326.84	7,554.83
Bilateral			
Exim Bank of China	20.00	148.38	1,469.67
French Development Agency	0.00	11.54	186.71
Japan International Cooperation Agency	0.00	0.00	70.66
Germany Kreditanstalt Fur Wiederaufbua (KFW)	0.00	0.00	11.09
Sub-Total	20.00	159.92	1,738.13
Commercial			
Eurobonds	0.00	0.00	**1,500.00**
Sub-Total	126.56	486.76	10,792.96
Grand Total			**11,406.28**

Source: DMO

4.6 Sectoral Allocation of External Debt

The allocation of external debt to the various sectors of the economy was focused on projects that would promote infrastructure and human capital development. In line with the policy thrusts of the government, the sectors include: Agriculture, computer technology, water, energy (electricity and gas), transportation (rail, road and air), housing, education, health, social welfare, environment, finance, etc. In 2016, due to the acute shortfall in revenue, arising from various shocks in oil price and production levels, Budget Support was included as a new area to be funded by external borrowing as shown in Table 4.6.

Table 4.6 further depicts allocations to Air Transport (3.04 percent), Computer Technology (4.12 percent), Ground transport (9.75 percent), Rail transport (7.20 percent) and Water supply (6.18 percent) increased in 2016, compared to their corresponding rates of 2.40, 4.04, 3.90, 6.86 and 5.82 percent in 2015, respectively. However, the allocation to Multi-sector and Agriculture decreased marginally from 26.80 and 9.33 percent in 2015, to 25.69 and 8.74 percent in 2016, respectively. In addition, Table 4.7 shows the Nigeria's Public and Publicly Guaranteed External Debt (by Non-Financial/Financial Sector) as at end-December, 2016.

Table 4.6: Sector Allocation of External Debt in 2016 (US$' Million)

	2015		2016	
Economic Sector	**Amount Outstanding**	**% Share of Total**	**Amount Outstanding**	**% Share of Total**
Agriculture	999.59	9.33	997.40	8.74
Air Transport	256.87	2.40	346.52	3.04
Budget Support	-	-	263.60	2.31
Computer Technology	433.35	4.04	469.52	4.12
Education & Training	604.52	5.64	614.18	5.38
Energy-Electricity	622.22	5.81	656.57	5.76
Environment	309.69	2.89	305.09	2.67
Finance, Insurance, Etc.	54.16	0.51	54.43	0.48
Ground Transport	417.48	3.90	1,112.60	9.75
Health & Social Welfare	1,307.77	12.20	1,363.45	11.95
Housing & Urban Development	229.97	2.15	229.41	2.01
Investment	78.72	0.73	77.02	0.68
Irrigation & Related Act	38.57	0.36	34.29	0.30
Monetary policy	133.42	1.24	108.84	0.95
Multi-Sector	2,872.66	26.80	2930.50	25.69
Rail Transport	735.11	6.86	821.59	7.20
Road Transport	687.88	6.42	-	-
Rural Development	245.80	2.29	271.45	2.38
Scientific & Tech Equipment	67.19	0.63	45.14	0.40
Telecommunications	-	-	-	-
Water Supply	623.47	5.82	704.68	6.18
Total	**10,718.43**	**100.00**	**11,406.28**	**100.00**

Source: DMO

Table 4.7: Nigeria's Public and Publicly Guaranteed External Debt (by Non-Financial/ Financial Sector) as at end-December, 2016)

Classification*	Creditor	Sector	Amount Outstanding
Non-Financial Public			
FGN and States			**8,761,011,900.02**
Parastatals (Corporations)			**2,426,193,712.28**
Niger Basin Water Resources Development and Sustainable Ecosystems Management Project.	International Development Association	Electricity	117,369,371.54
National Programme for Food Security - Expansion Phase Support Project	Islamic Development Bank	Agriculture	17,271,115.28
NGA/TGO/Benin Power System Interc. Project	African Development Fund	Electricity	14,226,306.91
Transmission Development Project	International Development Association	Electricity	91,192,915.87
Nigerian ICT Infrastructure Backbone Project	Exim Bank of China	Computer Technology	70,024,180.57
Nigerian National Public Security Communication System Proj.	Exim Bank of China	Computer Technology	399,500,000.00
Nigerian Abuja Light Rail Project	Exim Bank of China	Rail Transport	361,792,834.48
Nigerian Railway Modernization Project. (Idu- Kaduna Section)	Exim Bank of China	Rail Transport	459,798,592.77
Nigerian-Communications-Satelite (NIGCOMSAT)	Exim Bank of China	Scientific & Tech Equipt.	30,000,000.00
Polio Eradication Project	Japan International Cooperation Agency	Health & Social Welfare	70,661,727.17
Transport Sector & Economic Governance Reform Program	African Development Bank	Road Transport	300,000,000.00
Growth and Employment (GEM) Project	International Development Association	Multisector	32,605,749.38
Nigerian Four Airport Terminal expansion Project	Exim Bank of China	Air Transport	316,942,353.20
First Agriculture Development Policy Financing	International Development Association	Agriculture	88,842,000.00
Public Private Partnership Program - First Phase Project	International Development Association	monetry policy	16,168,617.08
West Africa Agricultural Productivity Program (WAAPP-1B)	International Development Association	Agriculture	39,797,948.03
Financial Public	**219,070,388.30**		
Banks			
NACB Instit Strengthening	ADF	Electricity	550,568.42
Housing Finance	IDA	Housing & Urban Develop.	114,637,246.13
Development Finance Project	IBRD	Finance & Insurance	3,882,573.75
NEXIM	ADB	Finance & Insurance	50,000,000.00
BOI	ADB	Finance & Insurance	50,000,000.00
Establishment of Dev. Bank of Nigeria	kfw	Finance & Insurance	-
Development Bank of Nigeria	ADB	Finance & Insurance	-
Development Bank of Nigeria	ADF	Finance & Insurance	-
Development Bank of Nigeria	AFD	Finance & Insurance	-
Grand Total			**11,406,276,000.60**

*Compilation of data in respect of Private Sector External Debt is yet to be concluded
Source: DMO

4.7 External Debt by Concessionality

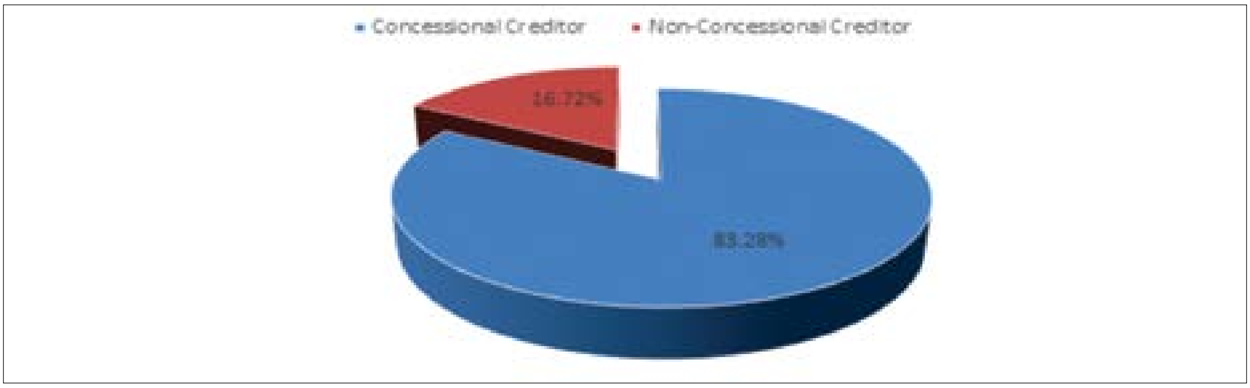
The external debt stock shows that 83.28 percent of the stock as at end-December, 2016 were from concessional sources, compared to 82.20 percent as at end-December, 2015, while the balance of 16.72 percent comprised non-concessional debt (Table 4.8 and Figure 4.3). The concessional debts were mainly contracted from the multilateral agencies and from bilateral creditors, while non-concessional debts were obtained from the non-concessional windows of the multilateral agencies such as ADB, IBRD and Eurobonds. The International Development Association (IDA) was the largest creditor from concessional sources in 2016, accounting for 58.47 percent of the country's external debt, compared to 58.69 percent in 2015.

Table 4.8: Concessional/Non-Concessional External Loans as at end-December, 2016 (US$' Million)

Funding Sources	Amount Outstanding	% of Total Debt
Concessional Creditor Categories	**9,499.05**	**83.28%**
Multilateral	**7,580.99**	
International Development Association (IDA)	6,669.57	
International Fund for Agricultural Development (IFAD)	107.42	
European Development Fund (EDF)	65.73	
African Development Fund (ADF)	715.28	
Islamic Development Bank (IDB)	17.27	
Arab Bank for Economic Development (BADEA)	5.72	
Bilateral	**1,918.06**	
Exim Bank of China	1,638.06	
Nigerian-Communications-Satelite (NIGCOMSAT)		
Nigerian Railway Modernisation project Idu-Kaduna		
Nigerian National Public Security Comm. System proj.		
Nigerian Abuja Light Rail Project		
French Development Agency (AFD)	198.25	
Japan (JICA)	70.66	
Exim Bank of India	-	
Germany (KFW)	11.09	
Non-Concessional Creditor Categories	**1,907.22**	**16.72%**
Multilateral	**407.22**	
African Development Bank (ADB)	403.34	
International Bank for Reconstruction and Development (IBRD)	3.88	
Commercial	**1,500.00**	
Eurobonds	1,500.00	
6.75% FGN Eurobond 2021	500.00	
5.125% FGN Eurobond 2018	500.00	
6.375% FGN Eurobond 2023	500.00	
Grand Total	**11,406.28**	**100%**

Source: DMO

Figure 4.3: External Debt Stock by Concessionality as at end-December, 2016



Source: DMO

4.8 External Debt Flows

4.8.1 External Debt Service

The external debt service was US$353.09 million as at end-December, 2016, compared to US$331.06 million as at end-December, 2015, representing an increase of US$22.03 million or 6.65 percent. Table 4.9 shows that a significant portion of external debt service payments were to the Multilateral creditors and holders of Eurobonds accounting for US$165.33 million or 46.82 percent and US$91.26 million or 25.85 percent of the total external debt service, respectively. The sum of US$63.38 million or 17.95 percent was paid to the Bilateral creditors, while the remaining US$33.12 million or 9.38 percent was payment made in respect of Oil Warrants and Agency Fees[3]. Table 4.9 shows the breakdown of debt service by creditor category.

Table 4.9: External Debt Service By Creditor Category, 2012-2016 (US$' Million)

Source	2012	2013	2014	2015	2016
A. Official					
1. Bilateral	45.28	41.08	48.93	59.42	63.38
2. Multilateral	126.92	142.89	152.74	138.65	165.33
B. Commercial					
1. Eurobonds	33.75	33.75	91.26	91.26	91.26
2. China Loans (Alcatel, ZTE, Omotosho)	45.32	37.88	12.06	0	0
C. Others					
1. Oil Warrants	41.72	41.72	41.72	41.72	20.86
2. Agency Fees	0.01	0.01	0.01	0.01	12.26
Grand Total	**293.00**	**297.33**	**346.72**	**331.06**	**353.09**

Source: DMO

[3]These are payments made in respect of the outstanding Oil Warrants associated with the Par Bonds of the London Club, which was exited in 2007, including the Legal Advisory Services for the transactions. The Oil Warrants originally consisted of 1,758,796 million units, worth US$400 million in value, with an annual service obligation of US$52.70 million. In 2007, the Federal Government repurchased 396,154 (20.98%) units of the Oil Warrants, leaving a balance of 1,390, 642 units. The annual debt service obligations in respect of the remaining 1,390, 642 units of Oil Warrants amounts to US$41.72 million. The Principal amount of the Bonds will be repaid by a single payment by November, 2020.

4.8.2 Waivers

The Federal Government of Nigeria obtained waivers amounting to US$638,630.00 as at end-December, 2016, due to timely remittance of debt service in 2016. The waivers were for prompt payments made to IDA, BADEA, and IDB, in the sum of US$558,227, US$189 and US$80,215, respectively (Table 4.10).

Table 4.10: Breakdown of External Debt Service by Source in 2016 (US$' Thousand)

CATEGORY	Principal	Interest Fee	Service Fee	Deferred Principal	Deferred Interest	Deferred Service	Penalty Interest	Waiver/ Credit	Commitment Charges	Other Charges	Total	Percentage of Total
MULTILATERAL	**96,527.57**	**17,840.47**	**48,282.99**	**0.16**	**144.49**	**939.18**	**-**	**(638.63)**	**2,217.01**	**13.87**	**165,327.10**	**47%**
International Bank for Reconstruction and Dev.	0.00	49.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49.64	
Africa Dev. Bank	0.00	3,661.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,661.39	
International Fund for Agric. Dev.	2,582.76	778.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	3,361.65	
Africa Dev. Fund	6,897.25	5,300.63	-	0.00	11.60	0.00	0.00	-	**2,217.01**	9.00	14,435.48	
International Dev. Association	81,165.62	7,252.34	47,908.58	8.15	132.32	**939.18**	0.00	(558.23)	0.00	4.77	136,844.74	
European Dev. Fund	4,697.59	718.75	-	0.00	0.42	-	-	-	-	-	5,416.75	
Arab Bank for Economic Dev. In Africa	-	78.94	0.00	0.00	0.15	-	-	(0.19)	0.00	-	78.90	
Islamic Dev. Bank	1,184.35	-	374.41	0.00	0.00	0.00	0.00	(80.22)	-	0.00	1478.54	
BILATERAL	**20,000.00**	**40,381.20**	**0.00**	**0.00**	**1.40**	**0.00**	**0.00**	**0.00**	**2,601.52**	**399.79**	**63,383.91**	**18%**
EXIM BANK OF CHINA	**20,000.00**	**37,597.44**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**1,167.59**	**27.64**	**58,792.67**	
Nigeria Communication Sattellite	*20,000.00*	*1,371.67*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*21,371.67*	
Nigeria National Public Security Comm. Sys. Project	*0.00*	*10,153.96*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*10,153.96*	
Nigeria Railway Modernisation Project	*0.00*	*11,254.24*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*116.33*	*0.00*	*11,370.57*	
Nigeria Abuja Light Rail Project	*0.00*	*7,875.54*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*386.62*	*0.00*	*8,262.16*	
Nigeria ICT Infrastructure Backbone Project	*0.00*	*1005.36*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*122.90*	*0.00*	*1,128.27*	
Nigeria Four Airport Terminals Expansion Project	*0.00*	*5,936.68*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*541.73*	*27.64*	*6,506.05*	
FRENCH DEVELOPMENT AGENCY (AFD)	0.00	2,656.53	0.00	0.00	1.40	0.00	0.00	0.00	1,333.93	297.15	4,289.01	
Japan International Cooperation Agency	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
EXIM BANK OF INDIA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Kreditanstalt fur wiederaufbua	0.00	127.23	0.00	0.00	0.00	0.00	0.00	0.00	1100.00	75.00	302.23	
COMMERCIAL	**0.00**	**91,260.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**91,260.00**	**26%**
EUROBONDS	**0.00**	**91,260.00**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**91,260.00**	
5.125% Eurobond 2018	*0.00*	*25,630.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*25,630.00*	
6.75% Eurobond 2021	*0.00*	*33,750.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*33,750.00*	
6.375% Eurobond 2023	*0.00*	*31,880.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*31,880.00*	
OTHERS	**0.00**	**33,122.53**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**33,122.53**	**9%**
OIL WARRANT	0.00	20,859.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20,859.63	
Agency Fees	0.00	12,262.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12,262.90	
TOTAL	**116,527.57**	**182,604.20**	**48,282.99**	**0.16**	**145.89**	**939.18**	**-**	**(638.63)**	**4,818.53**	**413.66**	**353,093.54**	**100%**

Source: DMO

4.8.3 External Debt Service Projections (2017–2026)

Table 4.11 shows that projected external debt service of US$483.38 million would be made over a 10-year period, between 2017 and 2026. It further reveals that increased debt service payments would be made in 2018, 2021 and 2023 amounting to US$1,193.04 million, US$1,584.54 million and US$1,694.85 million, respectively, when the debut 6.75% JAN 2021 US$500 million 10-year Eurobond issued in 2011 and the US$1.0 billion dual-tranche Eurobonds – 5.125% JUL 2018 US$500 5-year and 6.375% JUL2023 US$500 million 10-year issued in 2013, would be due for redemption.

Table 4.11: External Debt Service Projections (US$' Million)

Category of Debt	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Multilateral										
ADF										
Principal	14.47	15.21	16.96	19.89	25.24	31.02	33.87	34.19	33.48	33.48
Interest	6.40	6.11	6.55	6.97	7.33	7.59	7.74	7.83	7.61	7.38
ADB										
Principal	0.00	13.33	23.33	66.67	86.67	106.67	106.67	106.67	106.67	106.67
Interest	7.55	9.31	10.11	9.97	9.33	8.64	7.93	7.23	6.49	5.78
IFAD										
Principal	3.51	3.31	3.31	4.38	5.83	5.83	5.83	6.85	7.87	7.87
Interest	0.94	0.90	1.02	1.14	1.22	1.30	1.32	1.31	1.28	1.26
IDA										
Principal	89.32	95.05	144.13	195.67	227.11	253.25	286.67	293.88	300.51	299.82
Interest	69.31	63.00	69.26	73.38	74.71	75.32	74.99	73.28	71.17	69.07
EDF										
Principal	4.92	4.63	4.65	4.71	4.76	4.80	4.84	4.90	4.95	5.00
Interest	0.70	0.60	0.55	0.51	0.46	0.41	0.36	0.32	0.27	0.22
ABFEDA (BADE)										
Principal	0.37	0.37	0.38	0.38	0.38	0.75	0.39	0.39	0.40	0.40
Interest	0.07	0.06	0.07	0.07	0.06	0.06	0.05	0.05	0.05	0.04
IDB										
Principal	1.22	1.15	1.15	1.87	2.60	2.60	2.60	2.60	2.60	2.60
Interest	0.41	0.39	0.39	0.15	0.15	0.05	0.05	0.00	0.00	0.00
IBRD										
Principal	0.00	0.00	0.00	10.40	21.60	22.70	23.80	25.00	26.30	27.65
Interest	1.14	1.12	3.53	5.96	7.12	6.80	6.46	6.13	5.74	5.35
Sub-Total	**200.34**	**214.54**	**285.42**	**402.12**	**474.57**	**527.80**	**563.58**	**570.61**	**575.38**	**572.58**
Bilateral										
Principal	30.57	83.04	96.41	173.68	262.63	311.33	325.64	340.31	340.3095	340.31
Interest	49.29	49.11	56.47	60.86	60.07	56.38	52.10	47.48	41.8713	35.78
Sub-Total	**79.86**	**132.15**	**152.88**	**234.54**	**322.69**	**367.71**	**377.74**	**387.79**	**382.18**	**376.09**
Commercial										
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Eurobonds										
Principal	0.00	500.00	0.00	0.00	500.00	0.00	500.00	0.00	0.00	0.00
Interest	125.25	82.97	82.97	82.97	65.63	65.63	31.88	0.00	0.00	0.00
Sub-Total	**125.25**	**582.97**	**82.97**	**82.97**	**565.63**	**65.63**	**531.88**	**0.00**	**0.00**	**0.00**
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	41.72	41.72	41.72	0.00	0.00	0.00	0.00	0.00	0.00
Financial Service Fee	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
New Financing (includes Diaspora Bond)	221.65	221.65	221.65	221.65	221.65	221.65	221.65	221.65	221.65	221.65
Total Principal	144.40	716.09	290.33	467.25	1,115.22	716.26	1,266.51	789.78	796.78	796.15
Total Interest	524.43	475.84	490.80	499.40	440.59	437.03	398.07	359.14	350.39	341.17
Grand Total (Debt Service)	**668.83**	**1,193.04**	**784.65**	**983.01**	**1,584.54**	**1,182.79**	**1,694.85**	**1,180.05**	**1,179.21**	**1,170.31**

Source: DMO

4.8.4 External Debt Disbursements

External debt disbursements (excluding grants) by creditors was US$1,851.18 million as at end-December, 2016, compared to US$1,374.41 million in 2015 (Table 4.12). This represents an increase of US$476.77 million or 34.69 percent over the level in the previous year. Table 4.12 also shows that disbursements for multilateral source accounted for US$1,738.83 million or 93.93 percent, while bilateral source accounted for US$112.35 million or 6.07 percent of the total external debt disbursed in 2016.

Table 4.12: Disbursements by Source, 2012-2016 (US$' Million)

Source	2012	2013	2014	2015	2016
Multilateral					
IDA	509.22	716.10	1,167.38	758.38	1,578.50
IFAD	14.66	9.50	58.09	11.09	11.20
ADB	0	150.00	-	250.00	9.89
ADF	37.56	166.10	4.42	111.32	138.89
IDB	-	-	-	-	-
BADEA	2.13	0.60	0.5	-	0.09
IBRD	-	-	-	3.57	0.26
Sub-Total	**563.6**	**1,042.30**	**1,230.47**	**1,134.35**	**1,738.83**
Bilateral	240.03	325.30	419.23	240.06	112.35
TOTAL	**1,238.91**	**2,367.60**	**1,649.70**	**1,374.41**	**1,851.18**

Source: DMO
Disbursements exclude Grants.

4.8.5 Net Resource Flows and Net Transfers on External Debt

Table 4.13 shows the net resource flow on external debt and net transfers by source in 2016, indicating that the country received a net resource flow of US$1,734.65 million in 2016, compared to US$1,270.14 million in 2015. The inflows were mainly due to disbursements from the Multilateral and Bilateral Creditors. The net transfers stood at US$1,498.09 million, indicating an overall net inflow of resources into the country in 2016.

Table 4.13: Net Resources Flows and Net Transfers on External Debt by Source in 2016 (US$' M)

Creditor Category	Disbursements in 2016	Principal Repayments in 2016	Net Resource flow in 2016	Interest Paid in 2016	Net Transfers in 2016
	(A)	(B)	C (A-B)	(D)	E(C-D)
Multilateral	1,738.83	96.53	1,642.30	68.80	1,573.50
Bilateral	112.35	20.00	92.35	43.38	48.97
Commercial	-	-	-	-	-
Oil Warrants	-	-	-	20.86	-20.86
Eurobonds	-	-	-	91.26	-91.26
Citibank Agency Fees	-	-	-	12.26	-12.26
Total	**1,851.18**	**116.53**	**1,734.65**	**236.56**	**1,498.09**

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

4.9 The International Capital Market Activities

4.9.1 Non-Deal Roadshow

The Debt Management Office (DMO) organised a Non-Deal Roadshow (NDR) with investors in the International Capital Market (ICM) on June 07, 2016, in London, United Kingdom. The purpose of the Roadshow was to provide an update to investors on the developments in the Nigerian economy. The exercise was organised by Standard Chartered Bank, the rating advisers to Nigeria. The Sessions provided an opportunity to sensitise investors about Nigeria's credit story and the upcoming Eurobond issuance and to obtain their feedback.

4.9.2 Performance of Nigeria's Eurobonds in the Secondary Market

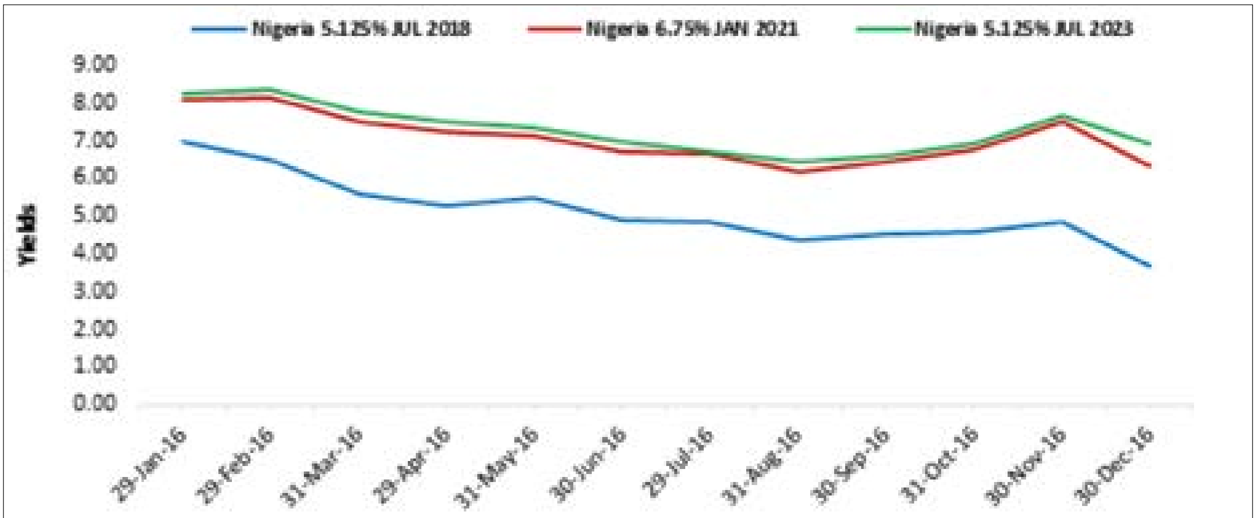
The three Eurobonds so far issued by Nigeria (US$500m 5.125% JUL 2018, US$500m 6.75% JAN 2021 and US$500m 6.375% JUL 2023) maintained a steady decline in yields throughout the year from their high levels in 2015, despite the domestic economic recession, dwindling oil revenues and unabated volatility in the foreign exchange market. The improved performance of the three instruments could be attributed to the rebound in the international oil prices during the second half of 2016. Overall, foreign exchange volatility in the global financial markets, policy statements of the major Central Banks namely: European Central Bank, Bank of England and the United States Federal Reserve Bank negatively affected the yields of many Eurobonds issued by emerging market economies including Nigeria. The three Nigeria's Eurobonds recorded modest performance with the 2018, 2021 and 2023 closing the year at Yields of 3.68%, 6.35% and 6.92%, compared with opening Yields in 2016 of 6.96%, 8.08% and 8.26%, respectively. Table 4.14 shows the trends in the Prices and Yields of Nigeria's three Eurobonds in 2016 while Figure 4.4 shows their month-end Yields in 2016.

Table 4.14: Trends in Nigeria's Eurobonds Prices and Yields (January – December, 2016)

	Nigeria 5.125% JUL 2018		Nigeria 6.75% JAN 2021		Nigeria 6.375% JUL 2023	
Date	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)
29-Jan-16	95.93	6.96	94.64	8.08	89.65	8.26
29-Feb-16	96.99	6.52	94.50	8.13	89.24	8.36
31-Mar-16	98.96	5.62	97.00	7.50	92.40	7.76
29-Apr-16	99.68	5.28	98.00	7.25	93.81	7.50
31-May-16	99.29	5.48	98.46	7.14	94.77	7.33
30-Jun-16	100.40	4.92	100.23	6.69	96.75	6.97
29-Jul-16	100.45	4.88	100.38	6.65	98.05	6.73
31-Aug-16	101.33	4.37	102.21	6.17	99.55	6.46
30-Sep-16	100.96	4.55	101.17	6.43	98.63	6.63
31-Oct-16	100.86	4.59	99.89	6.78	97.15	6.91
30-Nov-16	100.37	4.88	97.34	7.50	93.40	7.67
30-Dec-16	102.13	3.68	101.42	6.35	97.17	6.92

Source: Bloomberg

Figure 4.4: Trends in Nigeria's Eurobonds Yields (January - December, 2016)



Source: Bloomberg

4.9.3 Comparative Performance of Nigeria's Peer Group's Eurobonds

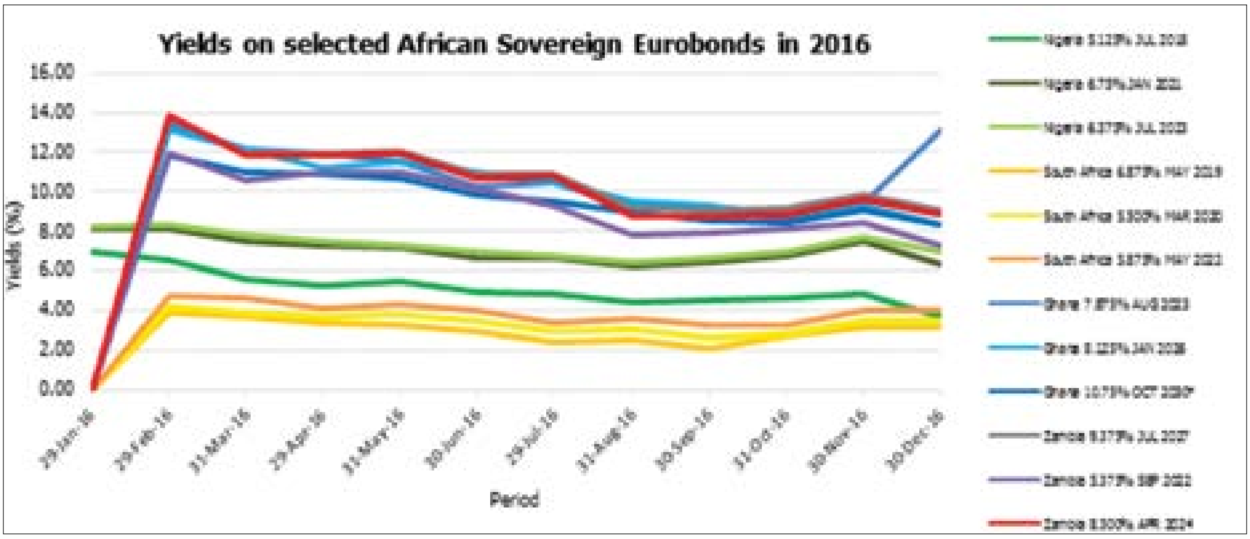
The secondary market performance of Nigeria's Peer Group's Eurobonds in 2016, was also impacted by factors such as the downgrade of sovereign credit rating of most countries by the Rating Agencies, volatility in commodities price, continued depreciation in the value of the local currencies against major currencies, as well as economic and political uncertainty. Like Nigeria's Eurobonds, the yields of other African Countries Eurobonds opened at high levels, but fell in 2016, as evidenced on Table 4.15. and Figure 4.5.

Table 4.15: Comparative Performance of Yields of Nigeria's Peer Group's Eurobonds in 2016 (Percent)

Date	Nigeria 6.75% JAN 2021	Nigeria 6.75% JAN 2021	Nigeria 6.375% JUL 2023	South Africa 6.875% MAY 2019	South Africa 5.500% MAR 2020	South Africa 5.875% MAY 2022	Ghana 7.875% AUG 2023	Ghana 8.125% JAN 2026	Ghana 10.75% OCT 2030	Zambia 9.375% JUL 2027	Zambia 5.375% SEP 2022	Zambia 8.500% APR 2024
29-Jan-16	6.96	8.08	8.26	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29-Feb-16	6.52	8.13	8.36	3.92	4.24	4.68	13.39	13.07	11.87	13.72	11.97	13.81
31-Mar-16	5.62	7.50	7.76	3.65	3.91	4.65	12.12	12.13	10.97	11.92	10.56	11.84
29-Apr-16	5.28	7.25	7.50	3.33	3.71	4.11	11.98	11.16	10.94	11.94	10.99	11.81
31-May-16	5.48	7.14	7.33	3.24	3.82	4.27	11.51	11.50	10.68	12.10	10.97	11.98
30-Jun-16	4.92	6.69	6.97	2.92	3.51	4.03	10.26	11.00	9.85	10.88	10.18	10.68
29-Jul-16	4.88	6.65	6.73	2.40	2.92	3.40	10.46	10.46	9.50	10.90	9.28	10.76
31-Aug-16	4.37	6.17	6.46	2.48	3.08	3.61	9.19	9.47	8.98	9.20	7.85	8.76
30-Sep-16	4.55	6.43	6.63	2.04	2.59	3.24	9.15	9.26	8.53	9.13	7.87	8.79
31-Oct-16	4.59	6.78	6.91	2.67	2.78	3.27	8.66	8.83	8.44	9.22	8.11	8.89
30-Nov-16	4.88	7.50	7.67	3.09	3.44	3.95	9.41	9.34	9.06	9.83	8.42	9.62
30-Dec-16	3.68	6.35	6.92	3.18	3.46	3.99	13.07	8.36	8.33	9.12	7.32	8.82

Source: Bloomberg

Figure 4.5: Yields on African Sovereigns Eurobonds in 2016



Source: Bloomberg

4.9.4 Eurobonds issued by African Sovereigns in 2016

Table 4.16 shows that two (2) African Sovereigns accessed the ICM in 2016. The Republic of South Africa issued (US$1,250 million) in April, 2016 and Ghana issued (US$750 million) Eurobonds in September 2016, while Republic of South Africa returned to the ICM and issued a dual-tranche (US$3,000 million) Eurobond in September 2016. The relatively low level of Eurobond issues in the ICM by most African Sovereigns in 2016, could be attributed to the challenging global economic environment, political uncertainty (particularly the elections in US and Ghana and post-election processes) and the downgrade of most African Countries' sovereign rating by Rating Agencies.

Table 4.16: Eurobonds Issued by African Sovereigns in 2016

Country	Rating			Date Issued	Amount (US$ Million)	Tenor (Years)	Coupon (%)	Issue Yield (%)
	Fitch	**S&P**	**Moody's**					
South Africa	BBB-	BBB-	Baa2	April 7, 2016	1,250	10	4.875	5.019
South Africa	BBB-	BBB-	Baa2	September 29, 2016	3,000	12 & 30	4.300 & 5.000	4.300 & 5.000
Ghana	B	B-	B3	September 8, 2016	750	5	9.250	9.250

Source: Bloomberg

4.9.5 Eurobonds Issued by Nigerian Corporates in 2016

In 2015 and 2016, there were relatively low activities in respect of new Eurobond issues by Nigerian Corporates, especially commercial banks in the ICM. There were no Eurobond issuances by Nigerian Corporates in 2015, while in 2016, only Access Bank raised US$300 million from the ICM. The Bond was issued at a coupon rate of 10.5 percent, and to mature in 2021. Market analysts viewed the successful issuance of the Eurobond by Access Bank as a demonstration of the strength, resilience and international endorsement of the Bank, as a response to the Federal Government's efforts to attract foreign exchange into the country.

4.9.6 Outlook for the International Capital Market in 2017

Even though most emerging markets and frontier countries are beginning to witness stable financial conditions largely as a result of a rebound in commodity prices in the international market, especially oil, most Emerging Market economies, particularly in Sub-Saharan African region would continue to access the International Capital Market (ICM) for funds to address huge developmental challenges. This is because the search for higher yields by international investors will continue to drive the appetite, and demand for debt instruments from African sovereigns in the medium to long-term. It is expected that more African Sovereigns will access the ICM in 2017, particularly debut issuances.

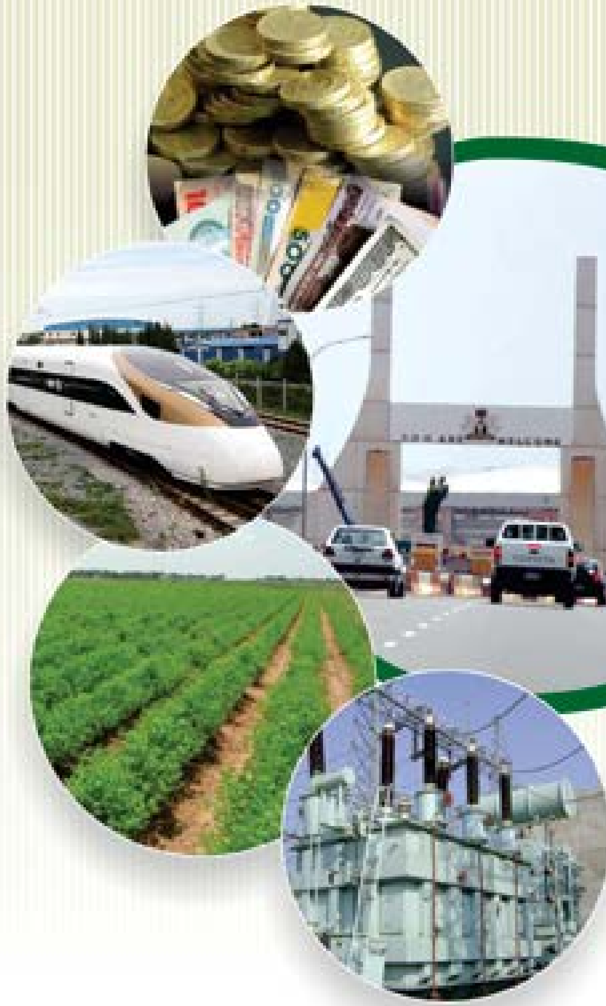
4.10 External Loans Borrowing Programme in 2016

Table 4.17 shows the external loans signed by the Federal Government of Nigeria (FGN) in 2016, to finance key economic and social development projects and programmes across the Federation. The loans were mainly from the Multilateral Creditors (IDA and ADB) and a Bilateral Creditor (Export-Import Bank of China).

Table 4.17: External Loans Signed by the FGN in 2016 (US$' Million)

S/N	Project Name	Creditor	Loan Amount
1	40 Parboiled Rice Processing Plant Project	Export-Import Bank of China	US$325 Million
2	Enable Youth Nigeria Programme	African Development Bank	US$280 Million
3	Inclusive Basic Service Delivery and Livelihood Empowerment Integrated Programme	African Development Bank	US$250 Million
4	Multi-Sectorial Crisis Recovery Project for North Eastern Nigeria	International Development Association (World Bank)	US$200 Million
5	Regional Surveillance Systems Enhancement (REDISSE)	International Development Association (World Bank)	US90 Million
6	Economic Governance, Diversification and Competitiveness Support Programme	African Development Bank	US$600 Million

Source: Federal Ministry of Finance



CHAPTER FIVE

NIGERIA’S DOMESTIC DEBT

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

The domestic debt outstanding as at end-December, 2016, stood at ₦11,058.20 billion compared to ₦8,837.00 billion in the corresponding period of 2015, representing an increase of ₦2,221.21 billion or 25.14 percent. The increase was due to new borrowings to partly fund the 2016 appropriated budget deficit and the refinancing of matured debt obligations. The domestic debt service as at end-December, 2016 amounted to ₦1,228.76 billion, compared with ₦1,018.13 billion expended as debt service in 2015. All FGN Bond issuances in 2016 were oversubscribed indicating that the demand for FGN bonds has been strong with well diversified and growing investor base. The secondary market for FGN Bonds remained active throughout 2016.

5.1 FGN's Domestic Debt Stock

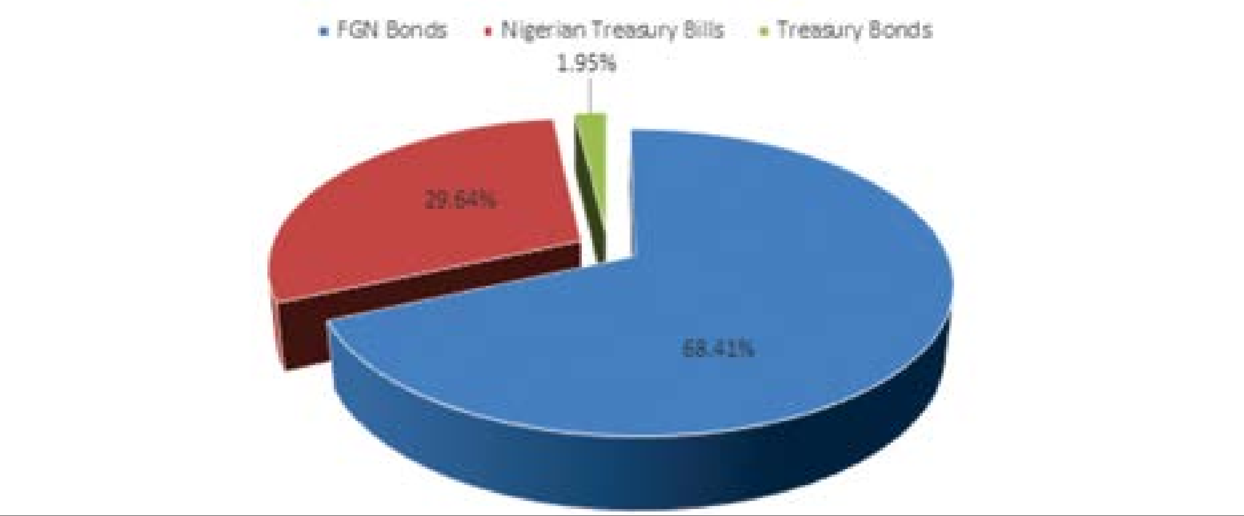
The securitized Federal Government's domestic debt stock outstanding was ₦11,058.20 billion as at end-December, 2016, as against ₦8,837.00 billion as at end-December, 2015, representing an increase of ₦2,221.21 billion or 25.14 percent. The growth was as a result of more issuances of FGN bonds and Nigerian Treasury Bills (NTBs) used to finance the 2016 appropriated budget deficit and refinance matured government securities. Table 5.1 and Figure 5.1 show that as at end-December, 2016, the FGN's domestic debt stock comprised mainly FGN bonds (68.41 percent), Nigerian Treasury Bills (29.64 percent) and Treasury Bonds (1.95 percent).

Table 5.1: FGN's Domestic Debt Outstanding by Instruments, 2015 and 2016 (₦' Billion)

Instrument	2015	2016
FGN Bonds	5,808.14	7,564.94
(% share of Total)	(65.73)	(68.41)
Nigerian Treasury Bills	2,772.87	3,277.28
(% share of total)	(31.38)	(29.64)
Treasury Bonds	255.99	215.99
(% share of total)	(2.90)	(1.95)
Total	**8,837.00**	**11,058.20**

Source: DMO

Figure 5.1 Composition of FGN's Domestic Debt Stock by Instruments as at end-December, 2016



Source: DMO

5.2 Trend and Composition of FGN's Domestic Debt Outstanding by Instruments

The stock of FGN's domestic debt rose steadily from ₦6,537.54 billion as at end-December, 2012 to ₦11,058.20 billion as at end-December, 2016. This development was largely due to the reliance on domestic debt to fund rising budget deficit and refinancing of matured domestic debt obligations. The composition of the debt portfolio was consistent with the debt strategy of using more of longer dated instruments to minimize refinancing risk. Further review shows that, the stock of FGN Bonds and NTBs increased from ₦4,080.05 billion and ₦2,122.93 billion in 2012 to ₦7,564.94 billion and ₦3,277.28 billion in 2016, respectively. The stock of Treasury Bonds has continued to go down from ₦334.56 billion in 2012, to ₦215.99 billion in 2016, due to a gradual redemption of the instrument over the years without new issues. Table 5.2 also shows the trend of the FGN's domestic debt outstanding by instruments from end of 2012 to end-December, 2016.

Table 5.2: Trend in Domestic Debt Outstanding by Instruments, 2012-2016 (₦' Billion)

INSTRUMENTS	2012	2013	2014	2015	2016
FGN Bonds	4,080.05	4,222.03	4,792.28	5,808.14	7,564.94
NTBs	2,122.93	2,581.55	2,815.52	2,772.87	3,277.28
Treasury Bonds	334.56	315.39	296.22	255.99	215.99
TOTAL	**6,537.54**	**7,118.97**	**7,904.02**	**8,837.00**	**11,058.21**

Source: DMO

5.3 FGN's Domestic Debt Stock by Category of Holders

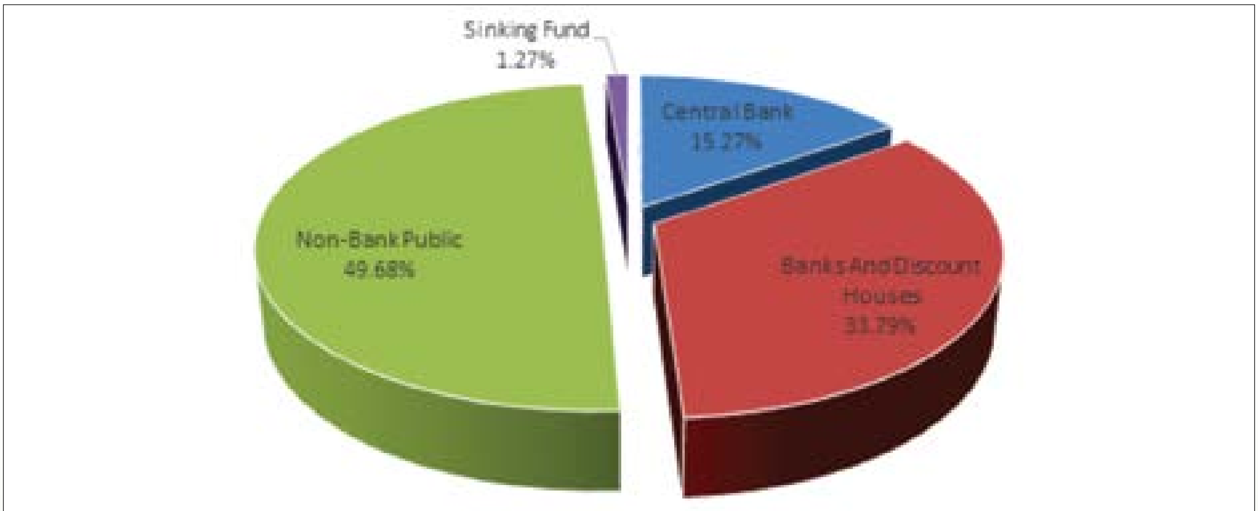
The FGN's domestic debt outstanding by holders' category as at end-December, 2016, is shown in Table 5.3 and Figure 5.2, in which the Non-Bank Public and the Banks held a total of about 83.47 percent of the domestic debt stock, with each holding ₦5,493.54 billion or 49.68 percent and ₦3,736.02 billion or 33.79 percent, respectively. The Central Bank of Nigeria (CBN) held ₦1,688.20 billion or 15.27 percent of the total domestic debt stock, while the balance of ₦140.45 billion or 1.27 percent was held in a Sinking Fund.

Table 5.3: FGN's Domestic Debt by Holder Category as at end-Dec., 2016 (₦' Billion)

Instruments	Central Bank	Banks And Discount Houses	Non-Bank Public	Sinking Fund	Amount Outstanding
FGN Bond	1,610.54	2,470.81	3,483.59	-	7,564.94
NTBs	2.12	1265.21	2,009.95	-	3,277.28
Treasury Bonds	75.54	-	-	140.45	215.99
TOTAL	**1,688.20**	**3,736.02**	**5,493.54**	**140.45**	**11,058.20**
% of Total	15.27	33.79	49.68	1.27	100.00

Source: CBN

Figure 5.2: Composition of FGN's Domestic Debt by Holders' Category as at end-December, 2016



Source: CBN

The trend analysis shown in Table 5.4 indicates that the domestic debt in all the holders' categories increased in 2016, with the exception of the Sinking Fund, which dropped from ₦162.20 billion in 2015 to ₦140.45 billion in 2016.

Table 5.4: FGN's Domestic Debt Outstanding by Holders Category, 2012-2016 (₦' Billion)

Investor-Type	2012	2013	2014	2015	2016
CBN	398.27	468.86	180.21	877.30	1,688.20
Banks	3,580.42	3,293.83	3,982.72	3,284.01	3,736.02
Non-Bank Public	2,398.52	3,197.69	3,564.32	4,513.49	5,493.54
Sinking Fund	160.32	158.59	176.77	162.20	140.45
Total	**6,537.53**	**7,118.97**	**7,904.02**	**8,837.00**	**11,058.20**

Source: DMO

5.4 FGN's Domestic Debt by Residual Maturity

The maturity structure of the FGN's domestic debt as at end-December, 2016, shows that the short-term instruments (less than one year maturity) accounted for 35.29 percent, the medium-term instruments with maturities of between 1 and 3 years and the long-term debt of over 3 years were about 8.23 percent and 56.48 percent, respectively (Table 5.5). The relative shares of 35.29 percent and 56.48 percent for short and medium to long-term, respectively, still fall short of the preferred target of 25 and 75 percent (short and long term debt). Over the past five years (2012-2016), the maturity structure of outstanding domestic debt has been dominated by the medium to long-term debts, and this has helped to mitigate vulnerabilities associated with refinancing and interest rate risks (Table 5.6).

Table 5.5: Maturity Structure of FGN's Domestic Debt as at end-December, 2016

Residual Maturity (Years)	% Share of Outstanding Debt
< 1 Year	35.29
≥ 1-3 Years	8.23
> 3 Years	56.48
Total	**100.00**

Source: DMO

Table 5.6: FGN's Domestic Debt Outstanding by Residual Maturity, 2012 – 2016 (₦' Billion)

Year	Short Term[1]	%	Medium-Long Term[2]	%	Total	%
2012	3,044.75	46.57	3,492.78	53.43	6,537.54	100
2013	3,100.72	43.56	4,018.26	56.44	7,118.98	100
2014	3,350.52	42.39	4,553.50	57.61	7,904.02	100
2015	3,379.25	38.24	5,457.75	61.76	8,837.00	100
2016	3,902.41	35.29	7,155.79	64.71	11,058.20	100

Source: DMO
Notes: 1. Instruments with 1 or less than 1 year remaining maturity
2. Instruments with more than 1 year remaining maturity

5.5 FGN's Domestic Debt Service

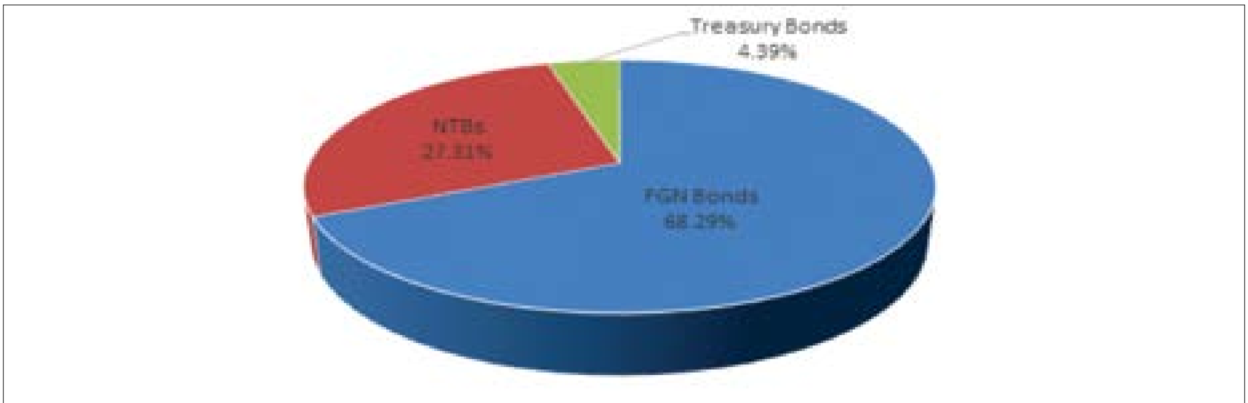
The FGN's domestic debt service for the year, 2016, amounted to ₦1,228.76 billion compared to ₦1,018.13 billion in 2015, representing an increase of ₦210.63 billion or 20.69 percent (Table 5.7). The debt service comprised principal repayment of ₦25.00 billion and interest payment of ₦1,203.76 billion. By instrument-type, FGN bonds debt service accounted for 68.29 percent of the total debt service payment while payments in respect of the Nigerian Treasury Bills and Treasury Bonds were 27.31 and 4.39 percent, respectively. The trend analysis shows a steady rise in FGN's domestic debt service payments from 2012 to 2016, arising from the growth of domestic debt stock with higher interest rates (Table 5.8).

Table 5.7: FGN's Domestic Debt Service, 2016 (₦' Million)

Instruments	Principal Repayment	Interest	Total
FGN Bonds	-	839,179.67	839,179.67
NTBs	-	335,583.04	335,583.04
Treasury Bonds	25,000.00	28,998.50	53,998.50
Total Debt Services	**25,000.00**	**1,203,761.21**	**1,228,761.21**

Source: DMO
FGN Bonds and NTBs that matured during period were refinanced

Figure 5.3: Composition of FGN's Domestic Debt Service, 2016 (in Percentage)



Source: DMO

Table 5.8: Trends in FGN's Domestic Debt Service, 2012-2016 (₦' Billion)

Year	Debt Service
2012	720.55
2013	794.10
2014	865.81
2015	1,018.13
2016	1,228.76

Source: DMO

5.5.1 Size and Composition of the Domestic Bond Market

The face value of outstanding FGN Bonds as at end-December, 2016 stood at ₦7,139.82 billion, which was about 9.58 percent higher than ₦6,515.62 billion as at the end-2015. The proportionate share of FGN Bonds relative to the total size of the domestic bond market increased to 93.33 percent in 2016, compared to 89.14 percent in 2015. The State Government Bonds decreased to ₦324.20 billion as at end-December, 2016, from ₦457.38 billion as at end-December, 2015. The share of State Government Bonds was 4.45 percent in 2016 compared to 7.00 percent in 2015, representing a decline of 2.55 percent. The outstanding Corporate Bonds as at end-December, 2016, which was ₦127.31 billion, decreased by ₦98.84 billion, when compared to ₦226.15 billion as at end-December, 2015. The proportionate share was 1.78 percent in 2016, which is a significant decrease over the 3.47 percent in 2015. The outstanding Supra-Nationals Bonds stood at ₦24.95 billion in 2016, same as in 2015. The relative share of Supra-National bonds, however, decreased marginally to 0.35 percent from 0.38 percent in 2015 (Table 5.9).

Table 5.9: Size and Composition of Domestic Bond Market, 2015 and 2016

	2015		2016	
Issuer	Amount Outstanding (₦' Billion)	% of Total	Amount Outstanding (N' Billion)	% of Total
Federal Government of Nigeria	5,808.14	89.14	6,663.36	93.33
State Governments	457.38	7.00	324.20	4.54
Corporates	226.15	3.47	127.31	1.78
Supra-Nationals	24.95	0.38	24.95	0.35
Total	**6,515.62**	**100.00**	**7,139.82**	**100.00**

Source: SEC and DMO

5.5.2 FGN Bonds Primary Market Activities

The FGN issued 5, 10 and 20-year benchmark FGN Bonds in the primary market in 2016. A total of ₦1,235,000.00 million was offered and ₦1,308,303.33 million was allotted from the total subscription of ₦2,125,748.10 million in 2016. The year 2016 recorded a subscription level of 172.13 percent, which was lower than the 204.31 percent subscription recorded in 2015, representing reduction by 32.18 percent (Table 5.10 and figure 5.4).

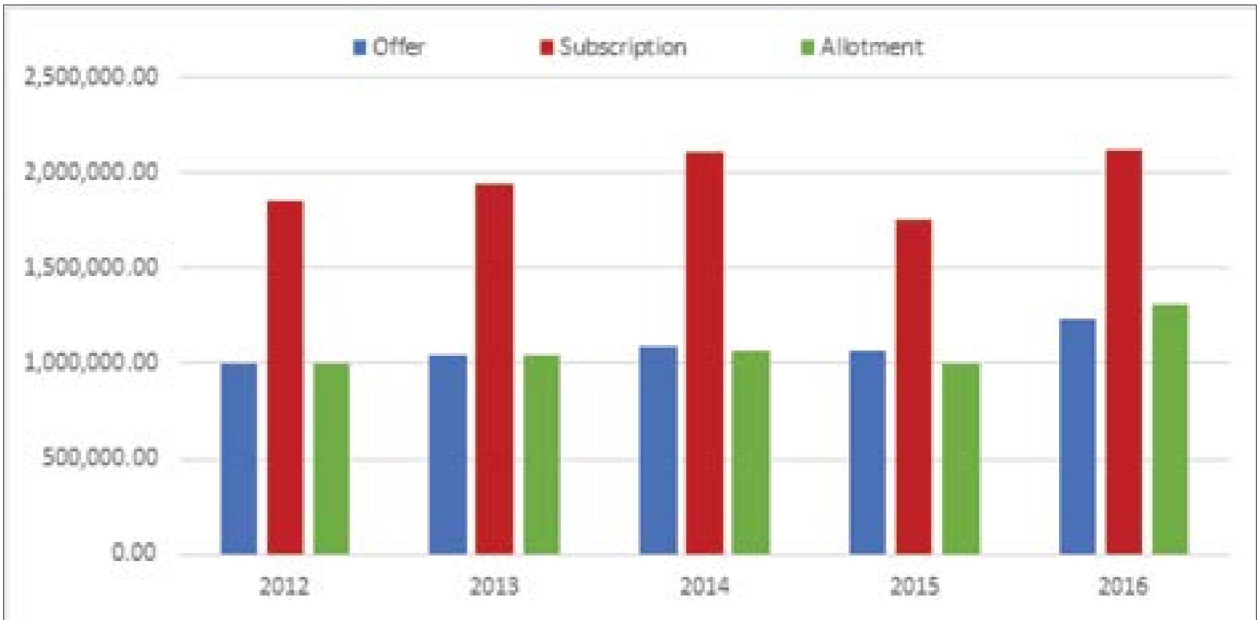
The FGN Bonds have consistently been oversubscribed in the last 5 years as shown in Table 5.10, which confirms the success of the various initiatives adopted by the DMO and other stakeholders towards developing and deepening the FGN securities market and the domestic debt market in general. The initiatives include: the use of benchmark FGN Bonds to enhance liquidity; amendment to existing guidelines or issuance of new guidelines by regulators to simplify the bond issuance process, reduction in issuance and transaction costs; widening the investor base; sensitization of potential bond issuers; and regular interactions with investors and other stakeholders.

Table 5.10: FGN Bonds Primary Market Issuance, 2012 – 2016 (₦' Million)

Year	Offer	Subscription	Allotment	Subscription Level (%)
2012	850,150.00	1,858,188.06	994,850.00	186.78
2013	1,044,643.14	1,948,108.48	1,044,643.14	186.49
2014	1,091,743.83	2,108,070.49	1,070,243.52	193.09
2015	858,220.00	1,753,460.45	998,740.00	204.31
2016	1,235,000.00	2,125,748.10	1,308,303.33	172.13

Source: DMO

Figure 5.4: Summary of Yearly FGN Bonds Offer, Subscription & Allotment, 2012-2016 (₦' Million)



Source: DMO

5.5.3 FGN Bonds Holders by Residency

A breakdown of the allotments of the FGN Bonds by Residency shows that investors resident in Nigeria accounted for ₦1,290,303.33 million or 98.62 percent of bonds allotted in 2016, compared to ₦968,801.21 million or 97.00 percent in 2015. On the other hand, non-resident investors in Nigeria accounted for ₦18,000.00 million or 1.38 percent of bonds allotted in 2016, compared to ₦29,938.79 million or 3.00 percent in 2015, indicating a reduction in the participation of non-resident investors at the auctions (Table 5.11).

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

	2015		2016	
Classification	**Amount**	**% of Total**	**Amount**	**% of Total**
Residents	968,801.21	97.00	1,290,303.33	98.62
Non-Residents	29,938.79	3.00	18,000.00	1.38
Total	**998,740.00**	**100.00**	**1,308,303.33**	**100.00**

Source: DMO

5.5.4 Trend Analysis of FGN Bonds Allotment by Residency

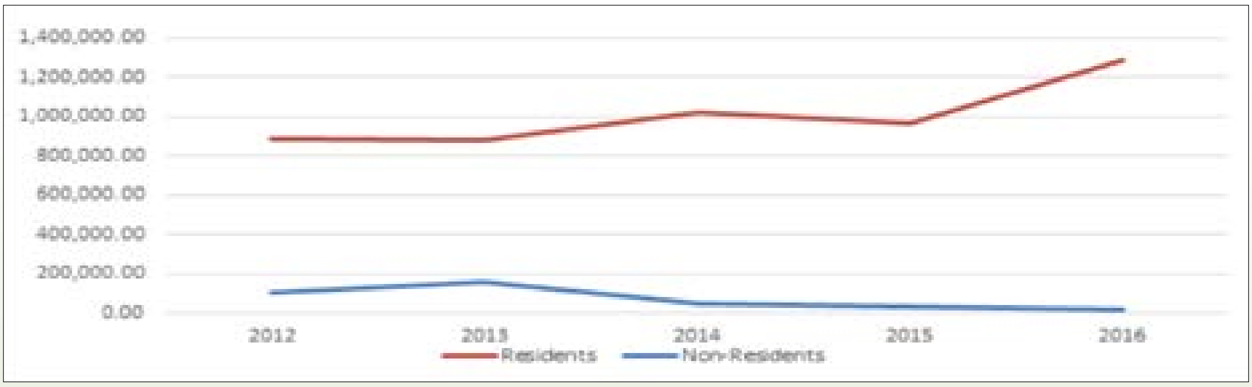
The trend of FGN Bonds allotments by residency showed an increasing investor appetite by non-residents in FGN Bonds from 2012 to 2013, after which there was a sharp drop in 2014, which persisted in 2015 and 2016. The percentage of investors resident in Nigeria and investors non-resident in Nigeria shifted from 97.00 and 3.00 percent in 2015, to 98.62 and 1.38 percent in 2016, respectively, indicating a decrease in the participation by investors non-resident in Nigeria at FGN Bond Auctions. The low level of participation in the FGN Bond market by investors non-resident in Nigeria was minimal, and due mainly to the exclusion of FGN Bonds from the J. P. Morgan and Barclays Capital Indices in 2015. (Table 5.12 and Figure 5.5).

Table 5.12: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2012 – 2016 (₦' Million)

Year	Residents	%	Non-Residents	%	Total	%
2012	890,631.48	89.52	104,218.52	10.48	994,850.00	100
2013	884,262.33	84.65	160,380.81	15.35	1,044,643.14	100
2014	1,023,470.64	95.63	46,772.87	4.37	1,070,243.52	100
2015	968,801.21	97.00	29,938,79	3.00	998,740.00	100
2016	1,290,303.33	98.62	18,000.00	1.38	1,308,303.33	100

Source: DMO

Figure 5.5: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2012 – 2016 (₦' Million)



Source: DMO

5.5.5 Analysis of FGN Bond Auctions by Tenor

The classification of the FGN bonds auctioned by tenor, shows that only bonds with tenors of 5, 10 and 20 years were issued in 2016, accounting for 29.68, 38.75 and 31.57 percent, respectively, (Table 5.13). Furthermore, Tables 5.14 and 5.15 show the breakdown of monthly FGN Bonds issued by tenor, and monthly FGN Bonds Issuances, Subscriptions and Allotments in 2016. The trend of monthly issuance activity is shown in Figure 5.6.

Table 5.13: Analysis of FGN Bonds Issued by Tenor in 2016 (₦' Million)

Tenor*	Amount (₦' Million)	% of Total
5-years	388,285.00	29.68
10-years	507,018.33	38.75
20-years	413,000.00	31.57
Total	**1,308,303.33**	**100.00**

Source: DMO
* Represents original Issuance tenor

Table 5.14: Monthly Analysis of FGN Bonds Issued by Tenor in 2016 (₦' Million)

Month	5 Year*	10 Year*	20 Year*	Total
January	40,000.00	45,838.33	-	85,838.33
February	40,000.00	50,000.00	-	90,000.00
March	25,000.00	60,000.00	40,000.00	125,000.00
April	20,000.00	110,180.00	40,000.00	170,180.00
May	7,500.00	20,000.00	25,000.00	52,500.00
June	22,000.00	40,000.00	50,000.00	112,000.00
July	30,000.00	35,000.00	55,000.00	120,000.00
August	149,585.00	30,000.00	40,000.00	219,585.00
September	31,000.00	30,000.00	60,000.00	121,000.00
October	15,000.00	47,000.00	42,000.00	104,000.00
November	5,000.00	14,000.00	20,000.00	39,000.00
December	3,200.00	25,000.00	41,000.00	69,200.00
Total	**388,285.00**	**507,018.33**	**413,000.00**	**1,308,303.33**

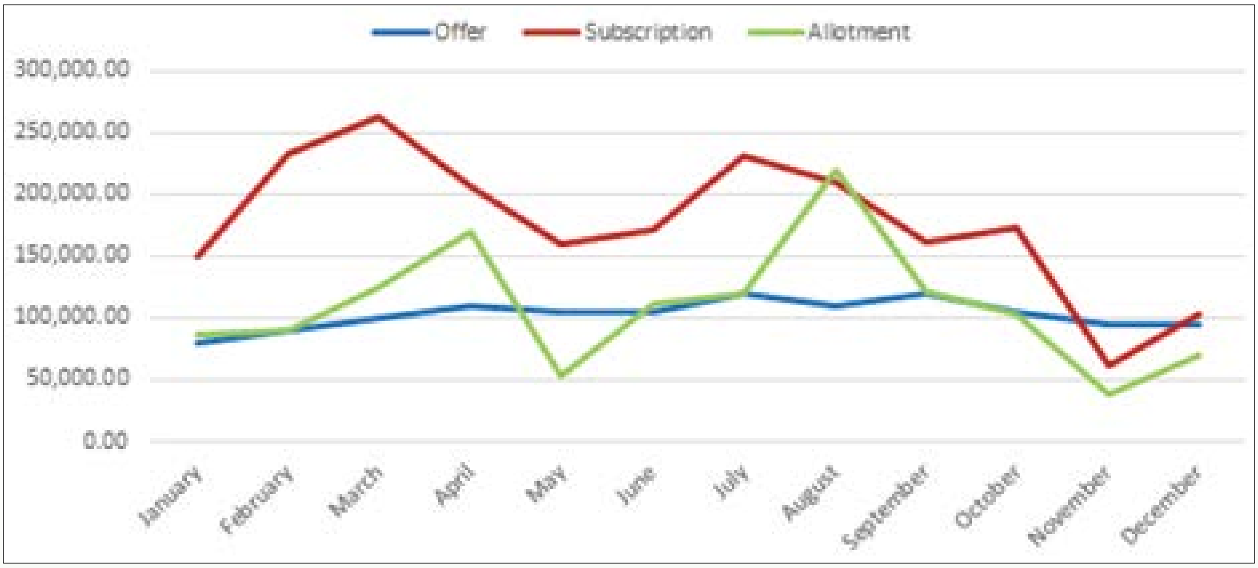
Source: DMO
* Represents original Issuance tenor

Table 5.15: Summary of Monthly FGN Bonds Offer, Subscription & Allotment in 2016 (₦' Million)

Month	Offer	Subscription	Allotment
January	80,000.00	149,431.36	85,838.33
February	90,000.00	233,759.53	90,000.00
March	100,000.00	262,446.17	125,000.00
April	110,000.00	206,729.65	170,180.00
May	105,000.00	159,587.81	52,500.00
June	105,000.00	171,871.49	112,000.00
July	120,000.00	231,760.86	120,000.00
August	110,000.00	210,294.93	219,585.00
September	120,000.00	162,052.56	121,000.00
October	105,000.00	173,268.94	104,000.00
November	95,000.00	61,694.83	39,000.00
December	95,000.00	102,849.98	69,200.00
Total	**1,235,000.00**	**2,125,748.10**	**1,308,303.33**

Source: DMO

Figure 5.6: Summary of Monthly FGN Bonds Offer, Subscription & Allotment in 2016 (₦' Million)



Source: DMO

5.5.6 Allotment of FGN Bonds by Investor-Type in 2016

The analysis of FGN Bonds allotments by investor-type depicts that the Fund Managers & Non-Bank Financial Institutions accounted for 31.21 percent of the total FGN Bonds allotted in 2016.

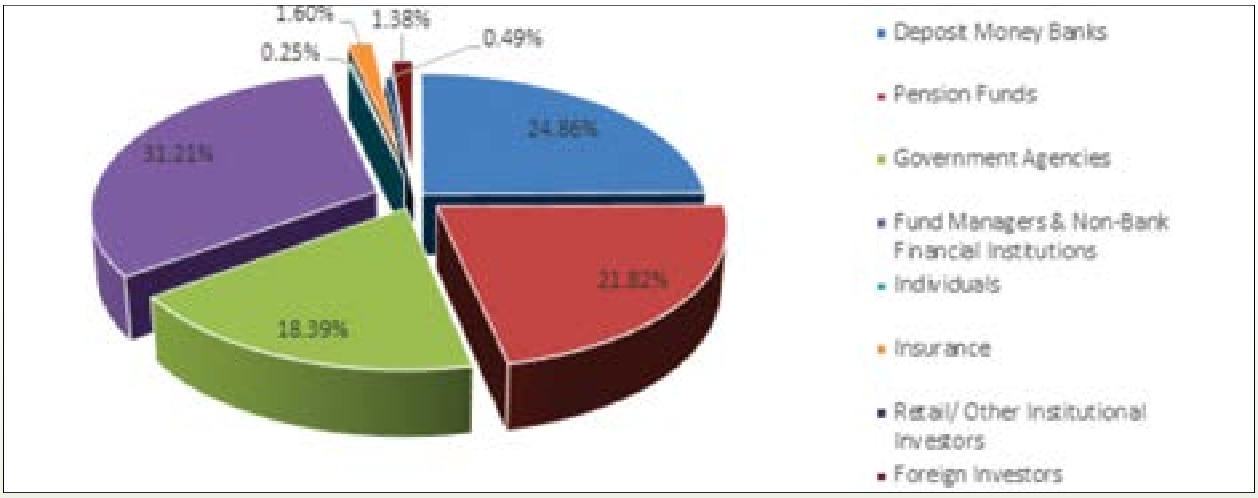
This was followed by the Deposit Money Banks (24.86 percent), Pension Funds (21.82 percent), Government Agencies (18.39 percent), Insurance (1.60 percent), Foreign Investors (1.38 percent), Retail/ Other Institutional Investors (0.49 percent), and Individuals (0.25 percent) (Table 5.16 and Figure 5.7).

Table 5.16: Summary of FGN Bond Auctions & Details of Allotment by Investor-Type in 2016 (₦' Million)

Description	Amount	Result
Total Amount Offered		**1,235,000.00**
Total Subscription		**2,125,748.10**
Range of Bids (%)		8.0000% - 19.0000%
Range of Marginal Rates (%)		11.3340% - 16.4348%
Range of Coupons (4)		12.4000% - 15.5400%
		% Of Total Allotment
Deposit Money Banks	325,296.81	24.86
Pension Funds	285,437.75	21.82
Government Agencies	240,603.33	18.39
Fund Managers & Non-Bank Financial Institutions	408,362.88	31.21
Individuals	3,296.42	0.25
Insurance	20,880.39	1.60
Retail/ Other Institutional Investors	6,425.75	0.49
Foreign Investors	18,000.00	1.38
Total Allotment	**1,308,303.33**	**100.00**

Source: DMO

Figure 5.7: Allotment of FGN Bonds Issuance by Investor-Type in 2016

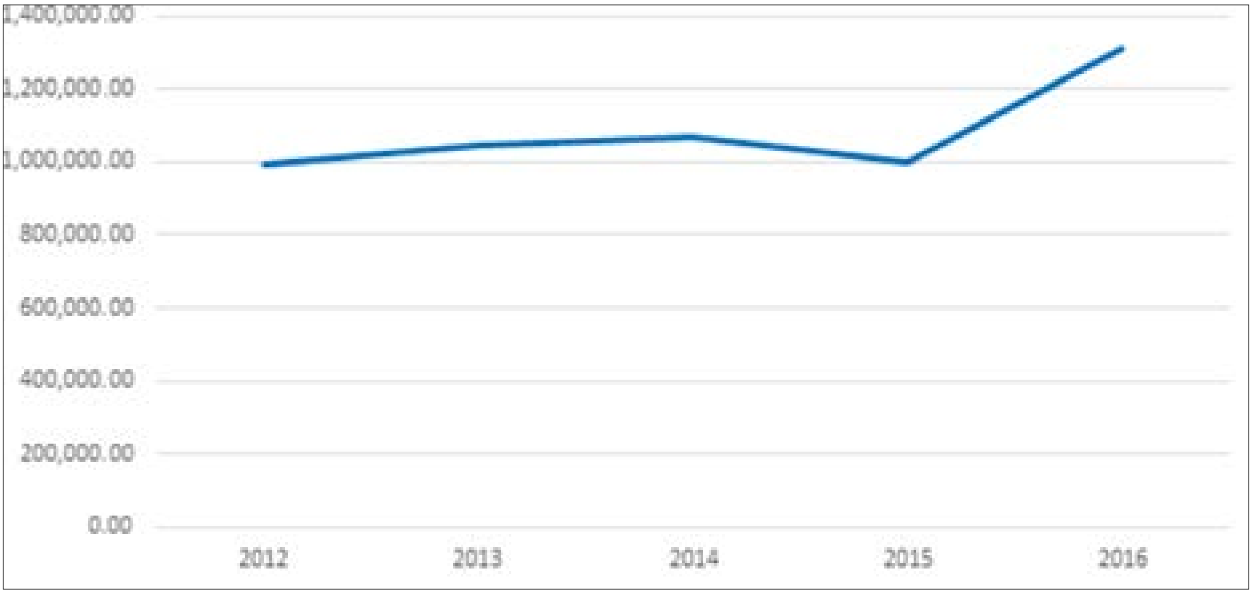


Source: DMO

5.5.7 Trend Analysis of FGN Bonds Allotments

The trend of allotments of the FGN Bonds from 2012 to 2016, shows an increase in allotment from ₦998,740.00 million in 2012, to ₦1,308,303.33 million in 2016 (Figure 5.8).

Figure 5.8: Analysis of FGN Bonds Allotments, 2012-2016 (₦' Million)



Source: DMO

5.5.8 Sub-national Bonds Issuances in 2016

At the Sub-national level, only one State (Lagos State) successfully accessed the domestic bond market in 2016, compared to seven States in 2015 (Table 5.17).

Table 5.17: Sub-National Bonds Issuances, 2015 and 2016

2015		2016	
Bond Issuer	**Amount (₦' Billion)**	**Bond Issuers**	**Amount (₦' Billion)**
Gombe State	5.00	Lagos State	47.00
Kogi State	3.00	-	
Oyo State	4.80	-	
Benue State	4.95	-	
Plateau State	28.20	-	
Zamfara State	7.00	-	
Cross River State	8.00	-	
Total	**60.95**	**Total**	**47.00**

Source: Securities and Exchange Commission

5.5.9 Corporate Bonds Issuances in 2016

The corporate bond segment of the domestic bond market was relatively active in 2016. Table 5.18 shows that seven corporates (including three banks – Sterling Bank Plc, FCMB and Wema Bank) accessed the domestic bond market in 2016, with total face value of issuances at ₦108.04 billion. This is an indication of increased corporate issuances, when compared to the total face value of ₦48.04 billion issued by four corporates in 2015.

Table 5.18: Corporate Bonds Issuances, 2015 and 2016

2015		2016	
Bond Issuers	**Amount (N' Billion)**	**Bond Issuers**	**Amount (₦' Billion)**
Stanbic IBTC	15.54	Lafarge Africa Plc	26.39
Fidson Healthcare Plc	2.00	Lafarge Africa Plc	33.61
Dana Group of Companies Plc	4.50	Sterling Bank Plc	4.78
FCMB	26.00	FCMB	23.19
		Wema	6.29
		Wema	3.33
		Forte Oil	9.00
		C&I Leasing Plc	0.60
		Avantgarge	0.85
Total	**48.04**	**Total**	**108.04**

Source: Securities and Exchange Commission

5.6 Secondary FGN Domestic Bonds Market in 2016

5.6.1 Over-The-Counter Market on the FMDQ

The level of trading activities in the FGN Bonds market (FMDQ OTC) increased in 2016, compared to 2015 (Table 5.19). Total Face Value of Trades increased from ₦9.493 trillion in 2015, to ₦13.812 trillion in 2016 by 45.50 percent, while Consideration increased from ₦9.581 trillion to ₦15.745 trillion showing an increase of 64.33 percent. Number of Deals also grew from 46,867 to 50,427 in the same period under review. The significant increase in trading activities in 2016 could be attributed to the rise in Yields of FGN Bonds following higher levels of inflation.

Table 5.19: OTC Trading Activities in FGN Bonds, 2015-2016

	2015			2016		
Period	Number of Transactions	Face Value (₦' Billion)	Consideration (₦' Billion)	Number of Transactions	Face Value (₦' Billion)	Consideration (₦' Billion)
January	3,519	696,542,942	706,123,937	3,773	1,057,240,571	1,151,387,304
February	3,118	569,480,014	547,892,722	2,941	824,311,975	886,526,387
March	4,148	796,971,245	743,634,211	4,752	895,220,731	972,734,345
April	3,902	728,722,571	744,552,262	3,797	764,906,724	815,798,318
May	3,857	620,471,776	645,172,596	3,054	777,528,482	784,421,661
June	4,631	656,731,322	690,916,188	1,972	545,576,666	547,007,846
July	4,297	665,466,491	683,829,685	1,493	482,692,453	463,601,290
August	3,261	543,927,658	529,585,265	928	355,453,040	419,527,297
September	3,185	836,922,067	787,540,687	2,463	558,239,758	671,786,022
October	6,045	1,428,790,550	1,420,219,743	8,279	2,609,525,556	3,137,752,490
November	4,635	1,293,980,323	1,362,767,553	8,731	1,606,368,523	2,265,287,996
December	2,269	654,768,140	718,975,461	8,244	3,334,789,204	3,629,167,336
Total	**46,867**	**9,492,775,099**	**9,581,210,310**	**50,427**	**13,811,853,683**	**15,744,998,292**

Source: Central Bank of Nigeria, FMDQ

5.6.2 FGN Bonds Trades on the NSE

Total Face Value of Transactions rose sharply by 230.91 percent to ₦794.69 million in 2016, from ₦240.15 million in 2015. The Consideration also increased by 276.38 percent to ₦922.70 million in 2016, from ₦245.15 million in 2015. Number of Deals increased from 128 in 2015 to 226 in 2016. Generally, trading activities in FGN Bonds on the Exchange improved significantly, despite the economic recession due to the prevailing high yields in FGN Bonds.

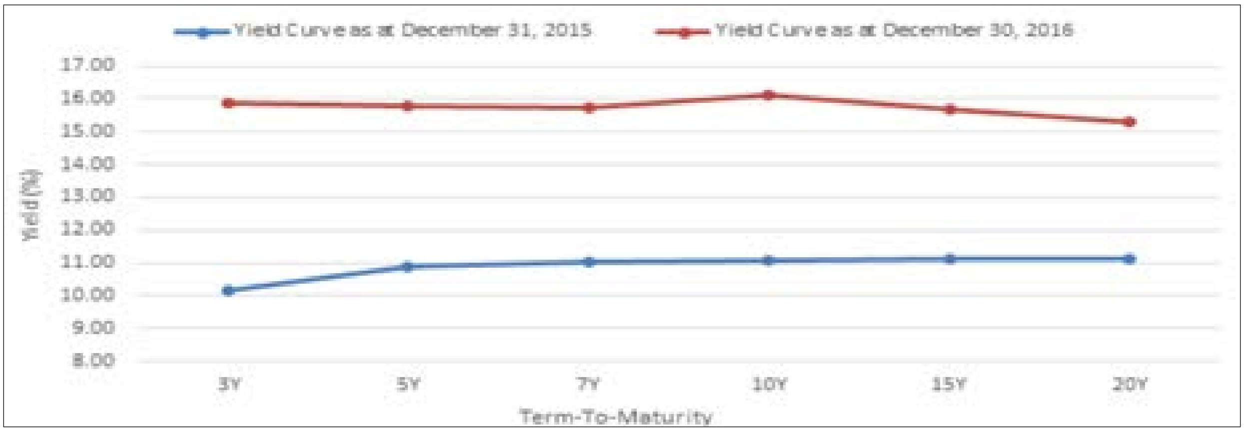
The combined OTC Market and Exchange Trades in 2016 in terms of Total Face Value of Transactions, Consideration and Number of Deals were ₦13.812 trillion, ₦15.745 trillion and 50,427, respectively. The level of performance recorded in 2016 were higher than the corresponding figures of ₦9.493 trillion, ₦9.581 trillion and 46,867 in 2015 by 45.50%, 64.34% and 7.60%, respectively (Table 5.19).

5.6.3 Sovereign Yield Curve

The Sovereign Yield Curve as at end-December, 2016 had similar shape as that observed in 2015, but shifted upwards by an average of 500 basis points (bps) across maturities (Figure 5.9). The shape of the yield curve is in contradiction to a normal yield curve, which should be upward sloping representing higher yield for bonds with longer term to maturity. The near flat curve aptly illustrates typically investor preferences during recession, where short-term investments are preferred to long-term investment, as investors would rather take shorter position in view of higher uncertainties, thereby putting pressure on short-term rates.

In other words, the current inflationary trend and expectations of further rise in inflation have impacted negatively on the longer benchmark bonds resulting in falling demand for them compared to the rising demand for shorter benchmark bonds, which has witnessed a rise in yields. This explained the 500 basis point shift in yields in 2016, which resulted in upward movement of the yield curve (Figure 5.9).

Figure 5.9: The FGN Securities Yield Curve as at end December, 2015 and 2016



Source: Financial Market Dealers Association

5.7 New Initiatives and Developments in the FGN Bond Market in 2016

5.7.1 Benchmark Bonds

Two new bonds were added to benchmark bonds in 2016, following the introduction of two new Instruments during the year under review. The new instruments were the 14.50% FGN JUL 2021 (5-year) and 12.40% FGN MAR 2036 (20-year) bonds. The FGN Benchmark Bonds as at end-December, 2016 are listed in Table 5.20.

Table 5.20: FGN Benchmark Bonds as at end-December, 2016

Benchmark Bond Name	Tenor Benchmark (years)
16.00% FGN JUN 2019	3
15.54% FGN FEB 2020	3
16.39% FGN JAN 2022	5
14.50% FGN JUL 2021	**5**
14.20% FGN MAY 2024	7
12.50% FGN JAN 2026	10
10.00% FGN JUL 2030	15
12.1493% FGN JUL 2034	20
12.40% FGN MAR 2036	**20**

Source: DMO

5.7.2 FGN Savings Bond

As part of its Strategic Plan objective of deepening and broadening the FGN Securities market, in order to sustain the development of other segments of the domestic bond market and engender the growth of capital market to diversify the sources of meeting Government financing needs, the Debt Management Office (DMO) introduced new products into the domestic bond market. A Framework for the issuance of Federal Government of Nigeria (FGN) Savings Bond was developed and approved by relevant authorities in 2016. The FGN Savings Bond are targeted at retail investors and is expected to further deepen savings culture among the populace and promote financial inclusion. The implementation of the Framework reached an advanced stage, and the DMO has planned to issue a debut FGN Savings Bond in the domestic debt market in the first quarter of 2017.

5.7.3 Sovereign Sukuk

The DMO, in collaboration with the Central Bank of Nigeria (CBN), the Securities & Exchange Commission (SEC) and the Infrastructure Concession Regulatory Commission (ICRC) developed a Framework to guide the Issuance of Sovereign Sukuk in the domestic bond market. The Framework included the appointment of Transaction Parties (TPs) such as Financial Advisers, Legal Advisers and Trustees that will work with the DMO to manage the process of Issuance of Sovereign Sukuk in the domestic bond market, and also advise the Federal Government on the structuring and documentation for the debut issuance in order to conform with the special requirements of non-interest financing. The TPs would be appointed through Open Competitive Bidding in accordance with the requirements of the Public Procurement Act, 2007. The DMO has commenced the process of request for Expression of Interests (EOIs)/Pre-qualification of Documents and Issuance of Request for Proposals (RfPs) and the process would be concluded in the first quarter of 2017, while the issuance of the proposed debut Sovereign Sukuk would be completed in the first half of 2017.

5.8 Market-Wide Developments In 2016

5.8.1 Initiatives by the Securities & Exchange Commission

In 2016, the Securities and Exchange Commission (SEC) launched the Nigerian Securities Market Journal (NSMJ) as part of its efforts to boost financial literacy of Nigerians, which has been identified as one of the factors responsible for the low level of financial inclusion in the country. The periodic multi-disciplinary Journal will serve as a platform for broadcasting information and research on the Nigerian Capital Market. The Journal will provide an avenue for the dissemination of critical information on major activities and challenges facing the securities market.

The SEC's Capital Market Master Plan Implementation Council (CAMMIC), of which the DMO is a member has several activities/tasks planned for executions, as indicated in the Capital Market Master Plan (2015-2025). The Council has reached an advanced stage in the implementation of key activities since January, 2015 to the end-2016. The highlights of some of activities under taken in 2016 are as follows:

i. The development of a draft amended Regulation by the Committee on Non-Interest Capital Market Products in collaboration with market stakeholders, in which when approved, will enable Pension Fund Administrators (PFAs) to invest in Non-interest products.

ii. The constitution of a Technical Committee on National Savings Strategy to develop a road map for national savings strategy. The road map is expected to form the springboard for a National Working Group.

iii. The Committee on dematerialization as at October 2016, recorded 98 percent compliance success in respect of dematerialization of client share certificate.

iv. A roundtable event was held in August and October, 2016, with the Honourable Minister of Finance and other key market stakeholders, to seek the buy-in of Government on the activities of the CAMMIC.

v. The Commission held several engagements with market stakeholders on Derivatives, Market-Wide Technology Infrastructure, and supporting Comex ecosystem, and particularly engaged the DMO and FIRS, on coordination of Supranational bonds, clarification of roles for Sub-National Bonds and ISPO issuance process, as well as Tax Incentives and Guidelines on tax treatment of REITs.

vi. Financial literacy promotional activities were held in Kano, Port Harcourt and Abeokuta as part of the activities to mark the 2016 Capital Market Financial Literacy Week. A quiz competition was organized on October 31 and November 1, 2016, between some selected Secondary Schools in order to create awareness on capital market activities, as part of the Commission's efforts to sensitize the general public and promote financial literacy in Nigeria.

5.8.2 Initiatives by The Nigerian Stock Exchange

The Nigerian Stock Exchange (NSE) in its quest to become Africa's foremost Securities Exchange launched several new products in 2016. These included:

i. SMARTs solution, which is to provide the NSE with the surveillance capabilities required to grow and expand the market. This initiative will equip the Exchange with the surveillance tools necessary to monitor market manipulation, including spoofing and layering. The solution allows the Exchange to set parameters and change various thresholds, which enables day-to-day trading patterns to take shape and an alert is automatically triggered once the set shape of a particular day is changed.

ii. The Compliance Status Indicator (CSI) for near real-time tracking of compliance status of listed companies. This X-Compliance report is a transparency initiative designed to help maintain market integrity by providing compliance updates on the tricker tape, and brokertrax for the compliance status of brokers and dealing members on the Exchange.

iii. Developed and launched X-Boss, which is expected to help the NSE achieve its oversight function over dealing members in the area of rendition of regulatory filings, analysis of financial renditions, capital and liquidity monitoring, as well as compliance monitoring and reporting in line with global best practice.

5.8.3 Initiatives by FMDQ OTC Securities Exchange

The FMDQ OTC Securities Exchange carried out the following initiatives, as part of its commitment to revolutionize and foster growth and development of the Nigerian financial market:

i. Launched the FMDQ Academy targeted at addressing the observed knowledge and skills gaps in the Nigerian financial market and ensuring that capacities are aligned with the structural transformations and product innovations that are rapidly being introduced to the markets. The Academy has been positioned to offer e-learning, face-to-face and tailored learning programs to meet the knowledge needs of stakeholders across the markets with the objective of deepening and upgrading the Nigerian financial markets towards global competitiveness.

ii. Introduced the concept of Dealing Member Specialists (DMSs) comprised mostly of non-bank financial institutions (NBFIs) to act as market makers in the FMDQ's fixed income market at the retail end of the market. The participation of NBFIs, typically investment banking firms and securities dealers will help to generate additional liquidity in the Nigerian fixed income markets and facilitate effective and efficient retail participation in the market.

iii. The introduction of FMDQ Price Ticker Tape on Channels Television, which is expected to provide Channels TV viewers, local and international, with up-to-date information on the FMDQ Fixings, the Nigerian Inter-Bank Offered Rate (NIBOR), the Nigerian Inter-Bank Treasury Bills True Yield (NITTY) and the Nigerian Inter-Bank Foreign Exchange Fixings (NIFEX); as well as intraday and closing prices of Benchmark bonds and treasury bills traded on the Exchange.

5.9 Consensus Building in the Domestic Bond Market in Nigeria

The DMO maintained the culture of collaborating with various stakeholders in the Nigerian bond market, through regular interactions and participation in various stakeholders' meetings that were aimed at promoting new initiatives and developments in the market, as well as addressing any concerns relating to the market. The main stakeholders included the Central Bank of Nigeria, Federal Ministry of Finance, Office of Accountant-General of the Federation, Ministry of Budget and National Planning, Securities and Exchange Commission, The Nigerian Stock Exchange, Financial Markets Dealers Association and National Pension Commission. The focus of the collaborative and committee meetings was to strengthen relationship and build consensus during the year.

5.9.1 Primary Dealer Market Makers Association

The DMO continued with its periodic Interactive Sessions with the Primary Dealer Market Makers (PDMMs) and the Financial Markets Dealers Association (FMDA) and other relevant stakeholders to review and where necessary fine tune the FGN Bond Auction Calendar, PDMMs Operational Circular, FGN Bonds Tender Form, the Bond Auction System (BAS), as well as review the FGN Bonds Market in the light of the evolving developments in the financial and economic sectors such as the new foreign exchange regime, tax reforms, pension sector reforms, etc. As part of its oversight functions and developmental initiatives, the DMO also embarked on periodic visit to some market stakeholders including the Treasury Departments of the PDMMs to evaluate the adequacy of their infrastructure. Other stakeholders, who participated in the interactive sessions included the CBN, NSE, CSCS and FMDQ.

Table 5.21: List of PDMMs in FGN Bonds as at end-December, 2016

Category	PDMMs
Commercial Banks	Access Bank Nigeria Plc.
	Citibank Nigeria Limited
	Ecobank Nigeria Limited
	First Bank of Nigeria Limited
	First City Monument Bank Plc
	Guaranty Trust Bank Plc.
	Stanbic IBTC Bank Plc.
	Standard Chartered Bank Limited
	United Bank for Africa Plc.
	Zenith Bank Plc.
Merchant Banks	FSDH Merchant Bank Limited
	Coronation Merchant Bank Limited
	FBN Merchant Bank Limited

5.9.2 Central Bank of Nigeria

The DMO continued its engagement and collaboration with the Central Bank of Nigeria and Central Securities Clearing System on the implementation of the newly acquired Bond Auctioning System (BAS), with a view to ensuring seamless connectivity between BAS and the CBN's S4 facility.

5.9.3 National Pension Commission

The DMO also engaged the National Pension Commission (PenCom) on the implementation of the framework on Government Securities Lending Facility. The engagement also involved the Financial Market Dealers Association and the Financial Markets Dealers Quotation OTC Plc., to provide clarification on the use of Repos/Sell-Buybacks as a form of securities lending, so that the PenCom would consider them in its pool of eligible transactions for Pension Assets.

5.9.4 Monetary and Fiscal Policy Coordinating Committee

The Committee whose mandate is to ensure effective coordination and harmonization of fiscal, monetary and debt management policies with a view to promoting stability in the financial system held periodic meetings during the year and also held a One-day Seminar on 'The New Flexible Exchange Rate Policy in Nigeria: Gains and Challenges', on December 13, 2016, at the Central Bank of Nigeria. The workshop was in line with one of the Terms of Reference of the Committee, which is to 'Articulate and present position papers on any strategies (including Debt) to member institutions on a need basis'.

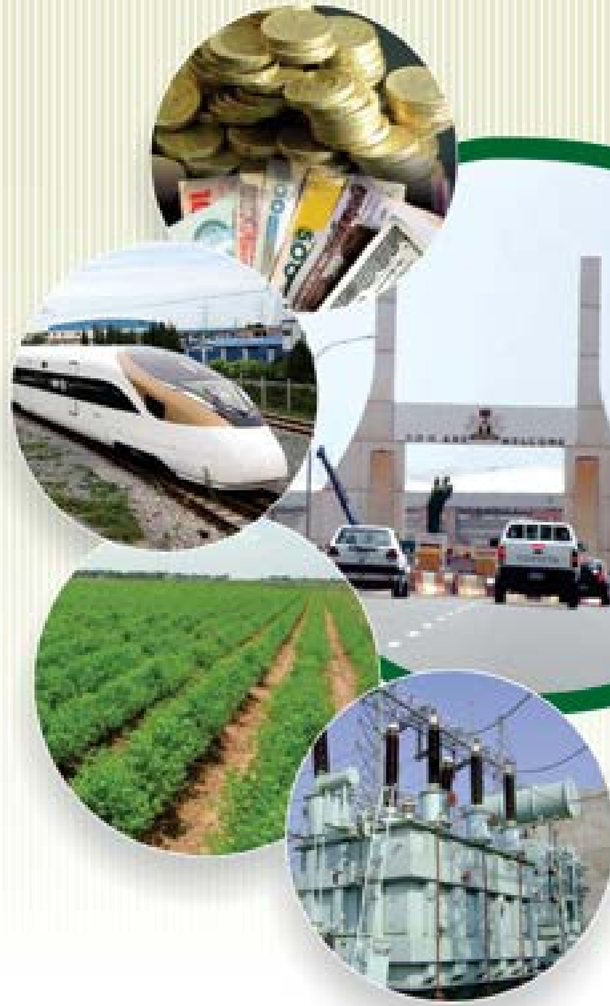
5.10 Other Stakeholder Engagements

The DMO continued to actively participate in the meetings of the Capital Market Steering Committee of SEC and was also part of the FMDA's Treasury Support Workshop Maiden Seminar, which was organised to provide a forum for the Treasury Support Unit Staff (Back Office) of the banks and regulators to discuss the automation of services provided by the Back-Office staff in a bid to enhance efficiency of Treasury Operations of its members.

5.11 Outlook for the Domestic Bonds Market in 2017

The emergence of a stable oil outlook towards the end of 2016, when combined with expected fiscal, monetary and FX policies responses is expected to improve liquidity in the Nigerian domestic bond market in 2017.

The proposed introduction of the Federal Government of Nigeria Savings Bonds and Sovereign Sukuk in 2017, is also expected to diversify sources of government funding, as well as investors' base of the domestic bond market. The FGN Bond primary market is envisaged to remain robust supported by demand from domestic investors, especially the pension funds, while yields in the secondary market are expected to fall as inflation expectations decrease.



CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

CHAPTER SIX
DEBT SUSTAINABILITY ANALYSIS

The result of the 2016 DSA showed that for the first time since the exit from the Paris and London clubs of creditors in 2005 and 2006, respectively, Nigeria's debt position experienced some deterioration and slipped from a low-risk of debt distress to medium-risk of debt distress. Although the level of debt stock is still appreciably low relative to the country's aggregate output (GDP), the debt portfolio remains mostly vulnerable to the various shocks associated with revenue, exports and substantial currency devaluation. This underscores the urgent need for concerted efforts to be intensified to diversify the revenue base of the country away from oil for long-term debt sustainability.

6.1 Introduction

The 2016 Debt Sustainability Analysis (DSA) was carried out at a most challenging period in the Nigerian economy, when virtually all the macroeconomic variables were in a deteriorating state. This is as a result of a number of factors, from both the domestic and international fronts. The fragile performance of the global economy, which protracted throughout 2015, prevailed into 2016, with global output continuing its sluggish growth, underpinned by weak demand and slowing productivity, coupled with the Brexit, which further lessened the prospects for a more prosperous global economy, thus, portending a challenging macroeconomic outlook. The Nigerian economy for the first time in over two decades witnessed negative growth in two consecutive quarters – Q1 and Q2, 2016, thus, affirming the state of the economy, as being technically in recession. Despite this, Nigeria's total public debt level was sustainable, relative to the size of the GDP, unlike the position of the revenue-based indicators.

The annual Debt Sustainability Analysis (DSA) workshop was conducted by the DMO, in collaboration with stakeholders in public debt management, between July 11-20, 2016. These included the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Ministry of Budget and National Planning (MBNP), Budget Office of the Federation (BOF), National Bureau of Statistics (NBS), Office of the Accountant-General of the Federation (OAGF), Securities and Exchange Commission (SEC) and the National Assembly (NASS). As in previous years, the West African Institute for Financial and Economic Management (WAIFEM) provided technical support.

The 2016 DSA workshop was aimed at assessing the capacity of the Nigerian Government to service its debt obligations effectively and efficiently in financing its policies and programmes, without undue and significant adjustments that would compromise the macroeconomic stability, growth and development prospects. The major objectives of the exercise were to:

i. review and update the report of the 2015 DSA, against the background of continued dwindling revenue of Government, caused by dipping prices of commodities, particularly crude oil which is the country's main revenue source and the rise in risks associated with the loss caused by foreign exchange earnings;
ii. assess the prevailing and anticipated public debt portfolio of the country, given the focus of the Government on funding critical infrastructure through long-term borrowings, determine the debt sustainability profile for the year under consideration, identify potential vulnerabilities in public debt portfolio (when gauged against government policy framework) and proffer feasible remedial measures;
iii. guide the government in its borrowing decisions, ensuring that financing needs are met against the outlook for repayment capacity;
iv. provide advice to the Government with respect to its potential borrowing limit for 2017 and possible debt financing options for the year, 2017;
v. provide inputs into the 2017 national budget and information necessary for updating the Medium-Term Expenditure Framework (MTEF); and,
vi. align the 2016 DSA Report with Nigeria's Debt Management Strategy, 2016 - 2019, which highlights the strategic targets to be achieved at optimal debt composition of 60:40 ratio for domestic and external debts, respectively, and attainment of domestic debt maturity mix ratio of 75:25 for the long-term and short-term debt instruments, respectively, by the expiration of the Debt Management Strategy document in 2019.

Two scenarios were considered and analyzed in the 2016 DSA, namely: the Baseline and Optimistic. There was no Pessimistic Scenario as the Baseline was considered pessimistic enough for the exercise. The Baseline Scenario anchored on the prevailing macroeconomic framework of the country as highlighted in the 2016 Federal Government annual Budget and the provisional MTEF, 2017-2019. The Optimistic Scenario was hinged on the positive outlook for the nation's economy arising from the expectations of enhanced economic activities that would result from the various on-going reforms and initiatives in the key sectors of the economy, which are expected to engender productive activities to stimulate the economy. The DSA was aligned to the recommendations of the revised Nigeria's Debt Management Strategy, 2016-2019, which supported the use of external finance for funding of capital projects, in line with the policy thrusts of the present Administration with the aim to speed up infrastructural development in the country.

6.2 The Baseline Scenario

The Baseline scenario results are presented in three parts:

i. The analysis of the FGN's External Debt Sustainability. This covers both the FGN and Sub-national's (including FCT) external debts, given that under the extant law, all external debts are contracted by the Federal Government, while those belonging to the Sub-nationals are treated as on-lent loans, from the Federal Government to the Sub-nationals;

ii. The analysis of the Fiscal Sustainability of the FGN, which covers the external and domestic debt of the FGN only; and

iii. The analysis of the Fiscal Sustainability of the Federation, which covers the external debt and the domestic debt of both the FGN and Sub-nationals.

6.2.1 FGN Debt Sustainability Analysis

6.2.1.1 Analysis of the FGN's External Debt Sustainability

The result of the 2016 DSA shows that the risk of FGN's external debt distress is still low under the baseline scenario. All the indicators remain below their respective thresholds throughout the projection period even though the debt indicators were slightly higher than the ones in the 2015 DSA exercise (Table 6.1). The PV of External Debt-to-GDP ratio increased from 3.6 percent in 2016 to peak at 6.5 percent in 2019, before it fell to 0.7 percent by the end of the projection period. The PV of External Debt-to-Exports ratio reaches its peak at 42.6 percent in 2019, before declining to 5.8 percent in 2036. The declining External Debt-to-GDP ratio, despite rising PV of External Debt Service-to-Exports, External Debt-to-Revenue and External Debt Service-to-Revenue ratios, implies that the increase in the country's GDP was not accompanied by a proportionate increase in exports and revenue. The PV of External Debt-to-Revenue and External Debt Service-to Revenue ratios approached their respective thresholds, indicating that the debt portfolio is vulnerable to revenue-based indicators. The details of the results are shown in Figure 6.1. This highlights the need to diversify the economy and increase the revenue base of the country, so as to mitigate the risk of debt distress in the medium to long-term.

Table 6.1: FGN's External Debt Sustainability Indicators in Percent (2016 - 2036)

Descriptions		Threshold	2016	2017	2018	2019	2020	2021	2026	2036
Solvency Indicators	PV of Debt/ GDP	40	3.6	5.3	6.1	6.5	6.0	5.3	2.9	0.7
	PV of Debt/ Exports	150	27.1	31.9	38.3	42.6	39.2	36.4	22.5	5.8
	PV of Debt/ Revenue	250	106.5	136.0	166.0	154.4	144.8	138.9	103.0	42.8
Liquidity Indicators	Debt Service/ Exports	20	0.9	1.0	2.3	2.2	2.7	3.5	2.4	0.9
	Debt Service/ Revenue	20	3.4	4.3	10.1	8.1	10.1	13.3	11.2	6.8

Source: 2016 DSA

6.2.1.2 Analysis of the Standard Stress Tests

The DSF-LIC Analytical Template has an in-built shocking mechanisms (Standard Stress Tests) which are referred to as Alternative Tests (permanent shocks) and Bound Tests (temporary shocks). These mechanisms are automatic shocks that the Template applies on the variables provided in the various scenarios. Under the Alternative Tests, the key macroeconomic variables (real GDP growth rate, Primary Balance, export growth rate and non-debt creating flows) are shocked or discounted by 30 percent at their historical averages and minus one standard deviation over the entire projection period. It also assumes that new debts would be obtained under less favourable terms. While with the Bound Tests, the historical averages were shocked in the second and third year of the projection period and it also includes a combination of some of the shocks. The details of such automatic Stress Tests are outlined below:

Alternative Tests

A1. Key variables at their historical averages from 2016-2036

A2. New public sector loans on less favourable terms from 2016-2036

Bound Tests

B1. Real GDP growth at historical average minus one standard deviation from 2017-2018

B2. Export value growth at historical average minus one standard deviation from 2017-2018

B3. US dollar GDP deflator at historical average minus one standard deviation from 2017-2018

B4. Net non-debt creating flows at historical average minus one standard deviation from 2017-2018

B5. Combination of B1-B4 using one-half standard deviation shocks

B6. One-time 30 percent nominal depreciation relative to the baseline in 2015

The result of the standard stress tests showed that the external debt is sustainable in the medium to long-term, but was mostly sensitive to export shocks (Figure 6.1 a-f). The PV of External Debt–to-GDP ratio was below its threshold throughout the projection period. The PV of Debt-to-Exports ratio trended upwards from 27.1 percent in 2016 and breached its threshold from 276.7 percent to 165.8 percent over the period, 2018-2027, before it declined to 57.0 percent in 2036 (Figure 6.1 c). The PV of External Debt-to-Revenue ratio increased gradually from 66.8 percent in 2016 and breached its threshold of 250 percent between 2018 and 2022, at 296.5 percent it went down to 250.1 percent, before it dropped sharply from 244.5 percent in 2023 to 121.0 percent in 2036, reflecting a projected boost in revenue in the long-term (Figure 6.1 d). While the External Debt Service-to-Exports ratio trended upwards and hit its threshold at 20.0 percent by 2024, before declining to 8.2 percent in 2036, the External Debt Service-to-Revenue ratio displayed a similar trend and breached its threshold of 20.0 percent from 2024-2029, and thereafter returned to sustainability, by remaining below the threshold up to the end of the projection period.

6.2.2 Fiscal Sustainability Analysis for only FGN

6.2.2.1 Analysis of the Fiscal Sustainability (FGN's External & Domestic Debt)

The fiscal sustainability analysis included the external and domestic debts of the FGN. The fiscal sustainability has only one internationally recommended peer group solvency threshold at 56 percent of Debt-to-GDP ratio. The result showed that based on output-based indicator, the FGN was at a low risk of debt distress, under the baseline. The PV of Total Debt-to-GDP ratio which was projected at 13.5 and 15.5 percent in 2016 and 2017, respectively, would peak at 16.1 percent in 2019, before gradually trending downward to 3.6 percent by the end of the projection period (Table 6.2). These compare favourably with the peer group threshold of 56 percent and the country-specific threshold of 19.39 percent up to end-2017. The decline of PV of Total Debt-to-GDP ratio from 2019, indicates that the real GDP growth rate outweighed the expected rate of debt accumulation.

Table 6.2 FGN's Fiscal Sustainability Indicators (FGN's External & Domestic Debt), 2016 - 2036 in Percent

Description	Threshold	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt/GDP	56*	13.5	15.5	16.0	16.1	15.0	14.0	9.2	3.6
PV of Debt/Revenue	Not Applicable	395.3	399.9	437.9	379.3	362.3	367.5	321.8	225.6
Debt Service/Revenue	Not Applicable	50.3	49.4	48.5	44.6	44.8	40.9	39.7	25.7

Source: 2016 DSA
*Notes:
i. Fiscal Sustainability measures the combined impact of both External and Domestic debt, on the indicators.
ii. While the international threshold for Total Debt-to-GDP ratio is 56 percent (Domestic + External), the country-specific threshold is 19.39 percent in the medium-term (up to 2017).
iii. Meanwhile, there are no international thresholds for Total Debt-to-Revenue and Total Debt Service-to-Revenue ratios; the country specific thresholds for these indicators are 350 and 28 percent, respectively.

6.2.2.2 Analysis of the Standard Stress Tests - FGN's External & Domestic Debt

Figure 6.2 a showed that under the sensitivity analysis, the FGN's total debt portfolio to the GDP still remained well below the peer group threshold of 56 percent. The standard stress tests showed that the PV of Debt-to-GDP ratio rose at an average of 24.2 percent annually during the period 2017-2036. The stress tests or combined shocks, when applied to the revenue-based indicators showed a substantial deterioration in ratios, indicating that any prolonged shock on revenue could lead to debt distress in the medium to long-term, if other sources of revenue are not developed to enhance the revenue.

6.2.3 FGN, States and FCT Debt Sustainability Analyses

6.2.3.1 Analysis of Debt Sustainability of the FGN, States and FCT

This sub-section covers the analysis of the Total Public Debt of the Federation, which includes all external debts (FGN and Sub-nationals), domestic debt of the FGN, domestic debt of the States and the FCT. The results obtained showed that, based on the output-based indicator, the Federation was also at a low risk of debt distress, but remained sensitive to revenue-based indicators.

6.2.3.2 Analysis of the External Debt Sustainability of the Federation

Table 6.3 presents the analysis of the total external debt sustainability of the Federation– FGN, States and the FCT – under the Baseline Scenario. The result showed that all the baseline indicators were below their respective thresholds. The solvency and liquidity indicators improved slightly, when compared with the result of the 'FGN only' discussed under Section 6.2.1.1, due to the inclusion of the revenue of the States in the analysis. The PV of External Debt-to-Revenue and Debt Service-to-Revenue are projected at 66.8 and 2.1 percent, respectively, for Federation lower than the 106.5 and 3.4 percent projected for FGN only, as at the end of 2016, respectively. This reflected a robust sustainability position of external debt portfolio for the Federation. The rate of external debt accumulation remained the same as the FGN only, since States are not allowed to borrow directly from external sources. The external debt of the States is guaranteed by the FGN, while the debt service obligations lie with the States, but executed under their mandate by the FGN. This is done through the instrumentality of the Irrevocable Standing Payment Orders (ISPOs) issued by the States against their statutory revenue allocations.

Table 6.3: External Debt Sustainability Indicators (FGN, States & FCT) in Percent (2016-2036)

Descriptions		Threshold	2016	2017	2018	2019	2020	2021	2026	2036
Solvency Indicators	PV of Debt/GDP	40	3.6	5.3	6.1	6.5	6.0	5.3	2.9	0.7
	PV of Debt/ Exports	150	27.1	31.9	38.3	42.6	39.2	36.4	22.5	5.8
	PV of Debt/ Revenue	250	66.8	82.2	97.8	91.6	86.6	82.9	62.3	29.44
Liquidity Indicators	Debt Service/ Exports	20	0.9	1.0	2.3	2.2	2.7	3.5	2.4	0.9
	Debt Service/ Revenue	20	2.1	2.6	5.9	4.8	6.0	8.0	6.8	4.7

Source: 2016 DSA

6.2.3.3 Analysis of the Standard Stress Tests

Under standard stress test, the sustainability analysis of the Federation mirrors the external debt sustainability of the FGN only. The sustainability indicators breached the threshold under stress test in relation to export and revenue. Specifically, there was persistent breach of the threshold of Debt-to-Revenue from 2017 to 2032 (Figure 6.1 a-f). This confirms the earlier position that Nigeria is very vulnerable to revenue shocks and immediate measures should be taken to improve revenue profile in order to forestall external debt unsustainability. The external Debt Service-to-Revenue improved when compared with the FGN only.

6.2.3.4 Fiscal Sustainability Analysis of the Federation

The fiscal sustainability of the Federation included the gross debt of the Federal and State governments in the analysis. The result showed that the PV of Total Debt-to-GDP ratio at 15.9 percent in 2016 was within the standard peer group threshold of 56 percent and the country specific threshold of 19.39 percent up to end-2017. The ratio peaks at 19.0 percent in 2019, before trending downward continuously from 2020 throughout the projection period to reach 4.3 percent in 2036 (Table 6.4 and Annexure 5a). The decline in this solvency (output-based) indicator (i.e. PV of Total Debt-to-GDP and PV of Total Debt-to-Revenue ratios) is attributable to the fact that the rate of growth of output is higher than the rate of debt accumulation. It was also observed that the PV of Total Debt-to Revenue and Debt Service-to-Revenue ratios are much lower than those obtained when the revenue under the FGN only was considered.

Table 6.4: Fiscal Sustainability Indicators (FGN, States & FCT) in Percent (2016-2036)

Description	Threshold	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt/GDP	56*	15.9	18.3	18.9	19.0	17.8	16.6	11.3	4.3
PV of Debt/Revenue	Not Applicable	291.9	285.8	305.1	266.2	257.3	261.3	240.5	188.2
Debt Service/ Revenue	Not Applicable	61.3	58.4	56.4	54.7	58.9	63.3	111.2	84.6

Source: 2016 DSA
*Country-specific limit is 19.39 percent

6.2.3.5 Analysis of the Standard Stress Tests

The results of the standard stress tests of the Total Public Debt of the Federation compare favourably with those obtained under the Baseline Scenario of the FGN's only; particularly with respect to revenue-based indicators, which show a rising trend, but with greater degree of sustainability relative to FGN only. The most extreme shock showed that the PV of total Debt-to-Revenue is 321.5 percent in 2018, the highest before 2026, compared with 316.5 percent in 2015.

6.3 The Optimistic Scenario (FGN-Only)

The Optimistic Scenario assumed an increase in the growth of the GDP, a decrease in the rate of inflation, an increase in revenue accruing to the FGN as a result of the restoration of normalcy in crude oil production and rise in crude oil prices; improvement in other non-oil revenue sources, fiscal deficit and current account balance, as well as appreciation of the Naira exchange rate, resulting from the new foreign exchange regime.

6.3.1 Analysis of External Debt Sustainability of the FGN

The debt indicators obtained under the Optimistic Scenario were generally below those under the baseline, given the assumptions of strong economic growth, enhanced non-oil exports and moderation in inflation. The PV of External Debt-to-GDP ratio was projected to peak at 2019, but declined to 0.6 percent in 2036. (Table 6.5). The PV of External Debt-to-Exports and PV of External Debt-to-Revenue ratios were expected to decline to 1.7 and 25.8 percent, respectively, by the end of the projection period. The liquidity indicators (Debt Service-to-Exports and Debt Service-to-Revenue ratios) peak in 2021, before going down gradually to 0.3 and 4.2 percent in 2036, respectively. This indicates that export and revenue variables are not expected to grow at the same pace with total output (GDP), further highlighting amongst other things, the weak link between the GDP and revenue.

Table 6.5: External Debt Sustainability Indicators in Percent (2016-2036)

Descriptions		Threshold	2016	2017	2018	2019	2020	2021	2026	2036
Solvency Indicators	PV of Debt/GDP	40	3.6	4.9	5.2	5.6	5.2	4.6	2.7	0.6
	PV of Debt/Exports	150	25.9	24.3	25.6	25.5	23.0	20.4	10.4	1.7
	PV of Debt/Revenue	250	106.5	111.1	123.1	128.5	125.3	119.1	84.0	25.8
Liquidity Indicators	Debt Service/ Exports	20	0.8	0.8	1.7	1.3	1.5	1.9	1.1	0.3
	Debt Service/ Revenue	20	3.4	3.6	8.0	6.7	8.3	11.2	8.7	4.2

Source: 2016 DSA

6.3.2 Fiscal Sustainability Analysis of the FGN

The sustainability position of the FGN's Total debt portfolio in the fiscal block of the Optimistic Scenario showed a positive trend. The PV of Total Public Debt-to-GDP ratio declined steadily from its highest value of 15.6 percent in 2018, to as low as 3.4 percent at the end of the projection period (Table 6.6). The PV of Total Public Debt-to-Revenue and Total Public Debt Service-to-Revenue ratios, which have no set standard benchmarks, were projected at 395.3 and 47.4

percent in 2016, and dropped rapidly from 310.6 and 33.5 percent in 2026 to 151.4 and 15.2 percent, respectively, by the end of the projection period. This reaffirms the earlier position on the need for immediate measures to be taken to improve the revenue base of the country in order to forestall falling into debt unsustainability in the medium-term.

Table 6.6: Fiscal Sustainability Indicators in Percent

Description	Threshold	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt/GDP	56*	13.5	15.4	15.6	15.4	15.0	14.2	9.8	3.4
PV of Debt/Revenue	Not Applicable	395.3	348.6	365.2	353.7	361.5	366.9	310.6	151.4
Debt Service/Revenue	Not Applicable	47.4	41.9	39.6	40.6	42.8	37.7	33.5	15.2

Source: 2016 DSA
*Country-specific threshold is 19.39 percent up to end-2017

6.4 Determination of Borrowing Limit for 2017

The determination of the borrowing limit in 2017 was guided by the Government's conservative debt management strategy of using the Country-Specific threshold of 19.39 percent for PV of total Public Debt-to-GDP ratio in the medium-term, as against the country's international peer group threshold of 56 percent to measure its debt sustainability.

i. The end-period NPV of Total Public Debt-to-GDP ratio for 2016 for FGN was projected at 13.5 percent. Given the Country-Specific ratio of 19.39 percent for NPV of Total Public Debt-to-GDP ratio (up to 2017), the borrowing space was 5.89 percent of the estimated GDP of US$374.95 billion for 2017.

ii. To this end, the maximum amount that could be borrowed (domestic and external) by the FGN in 2017 without violating the country-specific threshold would be US$22.08 billion (i.e. 5.89 percent of US$374.95 billion).

iii. The Debt Management Strategy, 2016-2019, provides for the rebalancing of the debt portfolio from its composition of 84:16 as at end-December, 2015, to an optimal composition of 60:40 by end-December, 2019 for domestic and external debts, respectively. It supports the use of more external finance for funding capital projects, in line with the focus of the present Administration on speeding up infrastructural development in the country, by substituting the relatively expensive domestic borrowing in favour of cheaper external financing. This policy stance has been reinforced by the recent deterioration in macroeconomic variables, particularly with respect to the rising cost of domestic borrowing. Hence, the shift of emphasis to external borrowing would help to reduce debt service burden in the short to medium-term and further create more borrowing space for the private sector in the domestic market. Accordingly, for the fiscal year 2017, the maximum amount that could be borrowed is US$22.08 billion, and it is proposed to be obtained from both the domestic and external sources as follows:

a) New Domestic Borrowing US$5.52 billion (equivalent of about ₦1,600.00 billion); and,

b) New External Borrowing: US$16.56 billion (equivalent of about ₦4,800.00 billion).

It is worthy to note that these are recommended maximum amounts that could be borrowed, taking into account the absorptive capacity of the domestic debt market, and the options available in the external market. It is advised that such external borrowings, which would be long-term (minimum 15 years), shall be deployed to fund priority infrastructure projects, that would boost output, and put the economy on the path of sustainable recovery and growth. It is further expected that the long maturity profile of such loans would enable the economy to be sufficiently diversified for increased export earnings for ease of debt service payments.

6.5 Summary of Key Findings

The result of the 2016 DSA showed that for the first time, since the exit from the Paris and London clubs of creditors in 2005 and 2006, respectively, **Nigeria's debt position experienced some deterioration and slipped from a Low-risk of debt distress to a Medium risk of debt distress. Although the level of debt stock is still appreciably low relative to the country's aggregate output (GDP), the debt portfolio remains mostly vulnerable to the various shocks associated with revenue, exports and substantial currency devaluation**. This meant that, as in the previous DSA, while the GDP-related indicators appeared, they remained below their respective thresholds. The revenue-based indicators were mostly sensitive to the revenue shocks. The detailed outcomes of the exercise are highlighted below.

a) Baseline Scenario

(i) **Output Indicator – (Debt/GDP)**

- **FGN-only**

The estimated average real GDP growth rate of 4.49 percent over the projection period outweighed the expected rate of debt accumulation of 1.64 percent, indicating that under the fiscal sustainability of the FGN-only (External & Domestic Debt), the FGN debt portfolio was at a low risk of debt distress. The PV of Total Debt-to-GDP ratio is projected at 13.5 and15.5 percent in 2016 and 2017, respectively. This was expected to peak at 16.1 percent in 2019, before trending downwards from 15.0 percent in 2020 to 3.6 percent by the end of the projection period, 2036. These compare favourably with the peer group threshold of 56 percent.

- **The Federation (FGN, States & FCT)**

The fiscal sustainability of the Federation (FGN, States and FCT) mirrored the performance of FGN-only. The result showed that the PV of Total Debt-to-GDP ratio at 15.9 percent in 2016 is still within the standard peer group threshold of 56 percent and the country specific threshold of 19.39 percent, up to 2017. The ratio is expected to peak at 19.0 percent in 2019, before trending downwards from 2020 and throughout the projection period to reach 4.3 percent in 2036. The decline in the PV of Total Debt-to-GDP ratio would be due to lower rate of public debt accumulation at an average of 1.59 percent over the projection period against the relatively higher average real GDP growth rate of 4.49 percent.

(ii) **Revenue-Based Indicator (Total Debt-to-Revenue)**

- **FGN-only**

For the FGN-only (External and Domestic debts), the revenue-based indicators, showed a faster rate of deterioration from the first year of projection in 2016. The PV of Debt-to-Revenue ratio was projected at 395.3 percent in 2016, to peak at 437.9 percent in 2018. These ratios were above the Country-Specific threshold of 350 percent. It is important to note that there were no international thresholds for the fiscal sustainability (combined external and domestic). The available threshold is only for External Debt-to-Revenue ratio, at 250 percent; Nigeria had to adopt a country specific ratio, given that the domestic debt is even more than the external debt in the country's public debt portfolio. The stress tests or the combined shocks, when applied to the PV of Debt-to-Revenue ratio showed a substantial deterioration in the indicator, indicating that any prolonged shock on revenue could lead to a state of debt distress in the medium to long-term, if other countervailing policies are not put in place to enhance the non-oil revenue. This affirms the proposition for an urgent need to further diversify the revenue base of the country to forestall the risk of debt distress.

- **Federation (FGN, States & FCT)**

The PV of Debt-to-Revenue ratio of the Federation (FGN, States and FCT) appeared fairly robust, throughout the projection period when compared to the FGN-only. The projected PV of Debt-to-Revenue ratio was within the country-specific threshold of 350 percent throughout the projection period, from 291.9 percent in 2016 to 188.2 percent by 2036. This indicator was much lower than the one obtained under the FGN-only, due mainly to the addition of the sub-nationals' revenue variable, which was proportionately higher than the addition of their debt stock.

(iii) Revenue-Based Indicator (Debt Service-to-Revenue)

- **FGN-only**

The Debt Service-to-Revenue ratio under the FGN-only breached the country's specific threshold of 28 percent from 50.3 percent in 2016 to 2031, before trending downwards to 25.7 percent in 2036. This showed that the debt portfolio remained highly vulnerable to persistent shocks in revenue, indicating a potential challenge in debt sustainability.

- **The Federation (FGN, States and FCT)**

The ratio of Debt Service-to-Revenue for the Federation also revealed a similar pattern to the outcome of the FGN-only, as it immediately breached the country specific threshold of 28 percent from the first year of projection of 61.3 percent in 2016, which was higher than the FGN-only ratio for the same year. This situation was projected to persist throughout the projection period up to 2036.

b) Optimistic Scenario

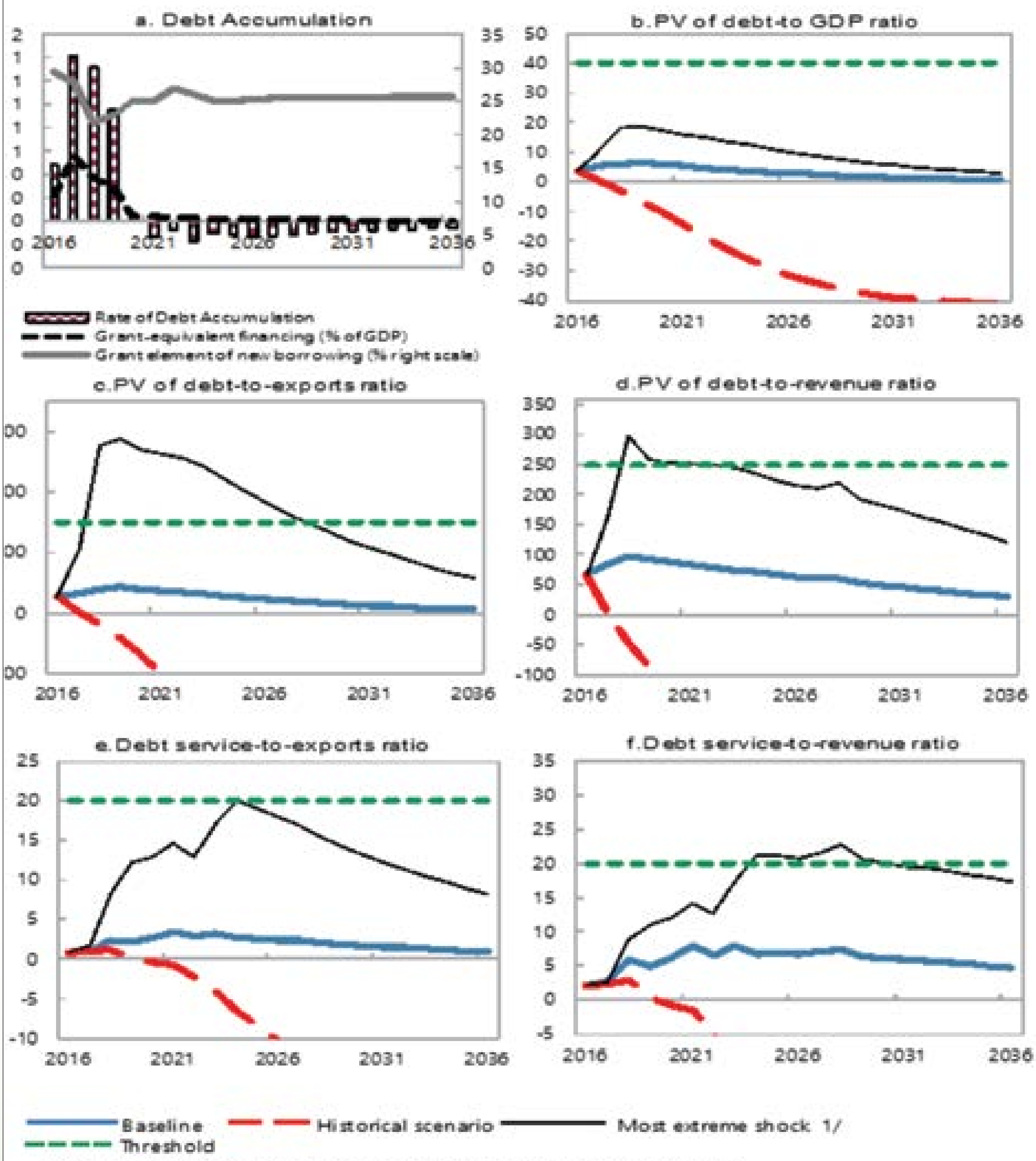
The sustainability of the FGN's Total debt portfolio in the fiscal block of the Optimistic Scenario appeared good, as the PV of Total Public Debt-to-GDP ratio declined steadily from its highest value of 15.6 percent in 2018, to as low as 3.4 percent at the end of the projection period. The PV of Total Public Debt-to-Revenue and Total Public Debt Service-to-Revenue ratios, which have no set standard benchmarks, were 395.3 and 47.4 percent in 2016, respectively, but dropped rapidly from 310.6 and 33.5 percent in 2026 to 151.4and 15.2 percent by the end of the projection period, respectively. This reaffirms the earlier position on the need for immediate measures to be taken to improve the revenue base of the country in other to forestall falling into debt unsustainability in the medium-term.

From the foregoing, it was evident that the rate of GDP growth did not impact proportionately on the revenue accruing to the government, and, thus, made the portfolio highly sensitive to revenue shocks. Therefore, there is an urgent need for the Government to intensify all efforts aimed at diversifying the sources of revenue away from crude oil, also implement other intervention policies that will boost exports and capital-flows, such as foreign direct investments into the country. This has become very critical, given the persistent shocks on revenue and exports, arising from the continued volatility in the price of oil in the international commodities market.

6.6 Conclusion

The results of the 2016 DSA showed that for the first time since the exit from the Paris and London clubs of creditors in 2005 and 2006, respectively, **Nigeria's debt position experienced some deterioration and slipped from a Low-risk of debt distress to a Medium risk of debt distress. Although the level of debt stock was still appreciably low relative to the country's aggregate output (GDP), the debt portfolio remained mostly vulnerable to the various shocks associated with revenue, exports and substantial currency devaluation.** This meant that, as in the previous DSA, while the GDP-related indicators appeared normal, as they remained below their respective thresholds, the revenue-based indicators were mostly sensitive to the revenue shocks. Thus, underscoring the urgent need for concerted efforts to diversify the revenue base of the country away from oil.

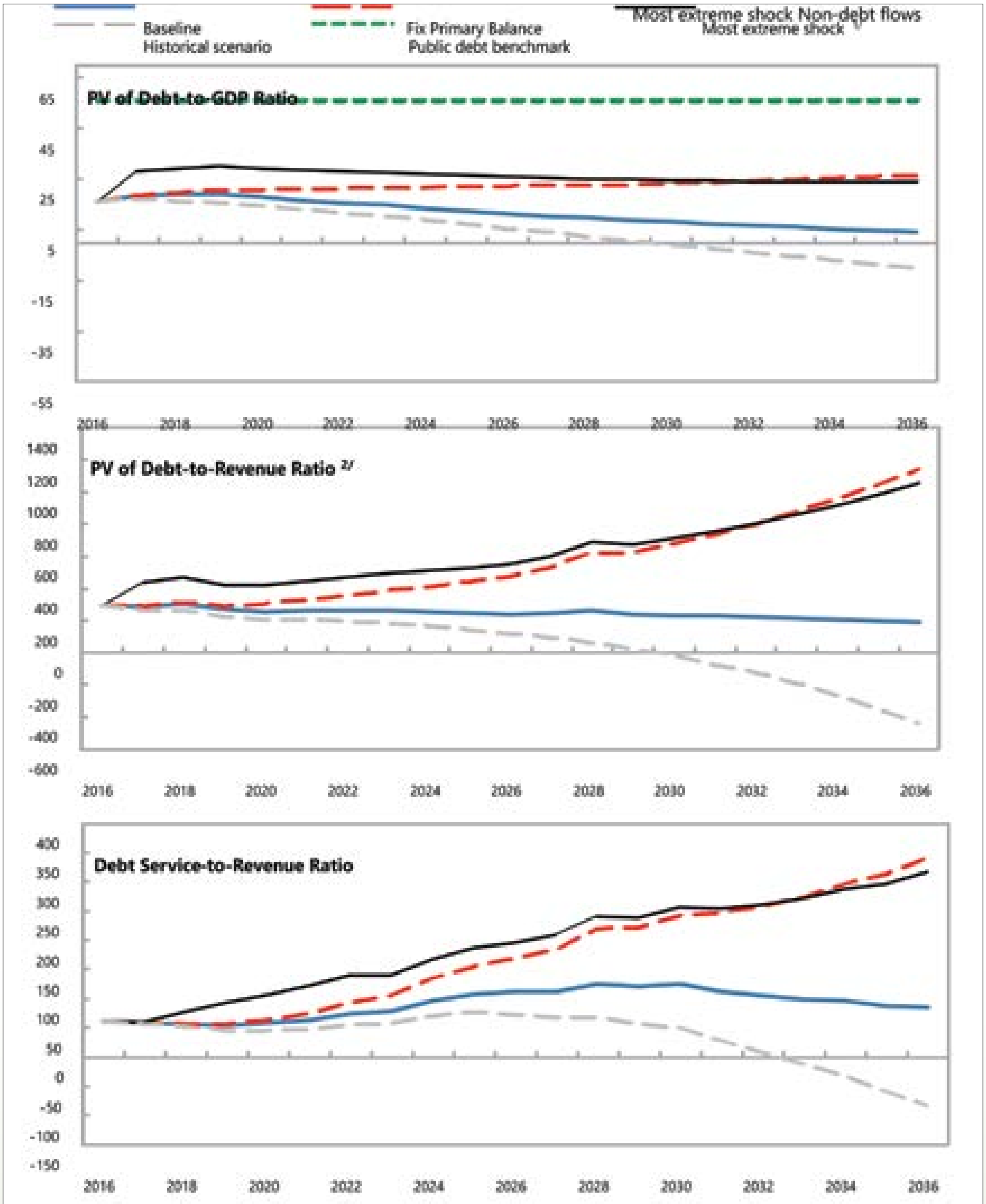
Figure 6.1: Nigeria's External Debt Sustainability Indicators under alternative Scenarios, 2016 - 2036



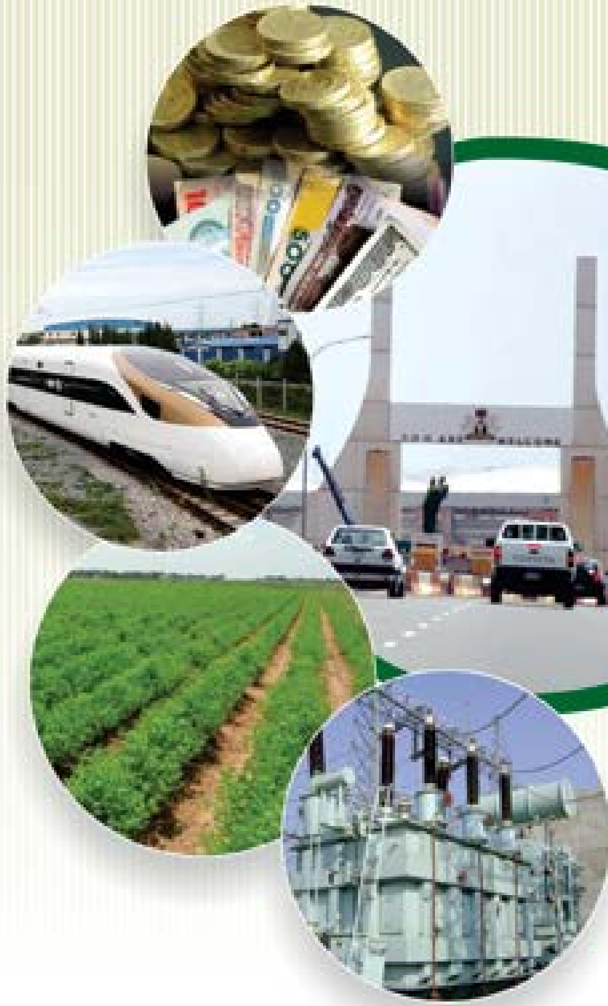
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

Figure 6.2: Nigeria's Indicators of Public Debt under Alternative Scenarios, 2016 – 2036



Sources: Country authorities; and staff estimates and projections.
[1/] The most extreme stress test is the test that yields the highest ratio on or before 2026.
[2/] Revenues are defined inclusive of grants.



CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

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SUB-NATIONAL DEBT MANAGEMENT

Total external debt stock of the States and FCT was US$3,567.62 million as at end-December, 2016, representing 31.28 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, which were used to fund projects and programmes in various sectors of the economy. The total external debt service of the States and the FCT was US$103.68 million. The DMO continued in its initiatives aimed at strengthening the skills, capacities and competencies of the sub-national debt managers, as it conducted three categories of training for the States.

7.1 States' and FCT's External Debt Stock

States' and the FCT's external debt stock was US$3,567.62 million or 31.28 percent of the total public external debt stock as at the end-December, 2016, compared to US$3,369.91 million as at end-December, 2015 (Table 7.1 and Figure 7.1). The slight increase in the debt stock by US$197.71 million or 5.87 percent over the figure in 2015, was mainly attributable to, among others, disbursements on existing loans. Of the total external debt stock, multilateral and bilateral credits to States and the FCT in 2016 amounted to US$3,374.37 million or 29.58 percent and US$193.25 million or 1.69 percent, respectively. The allocation spread of the bilateral credits increased to seven (7) States of the Federation, from six (6) States in 2015. (Table 7.2)

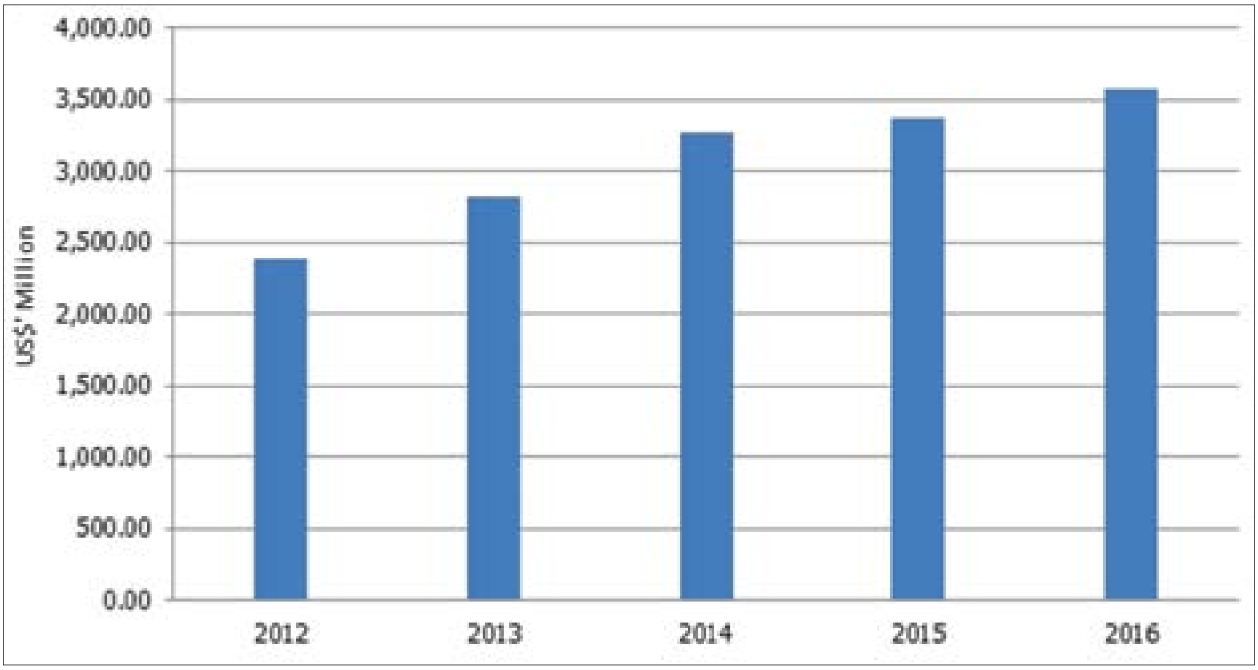
The States' and the FCT's external debts were mainly loans obtained by the Federal Government from multilateral sources (IDA, IFAD, ADB and ADF) and on-lent to the State Governments to enable them fund specific projects. The loans (multilateral and bilateral sources) were mostly applied by the recipient State Governments in the financing of critical projects in various sectors of the economy, namely: education, health, water supply, housing and sanitation.

Table 7.1: Trend in States' & FCT's External Debt Stock, 2012 – 2016 (US$' Million)

Years	2012	2013	2014	2015	2016
States' External Debt Stock	2,384.18	2,816.02	3,265.82	3,369.91	3,567.62

Source: DMO

Figure 7.1: Trend in States' & FCT's External Debt Stock, 2012 – 2016 (US$' Million)



Source: DMO

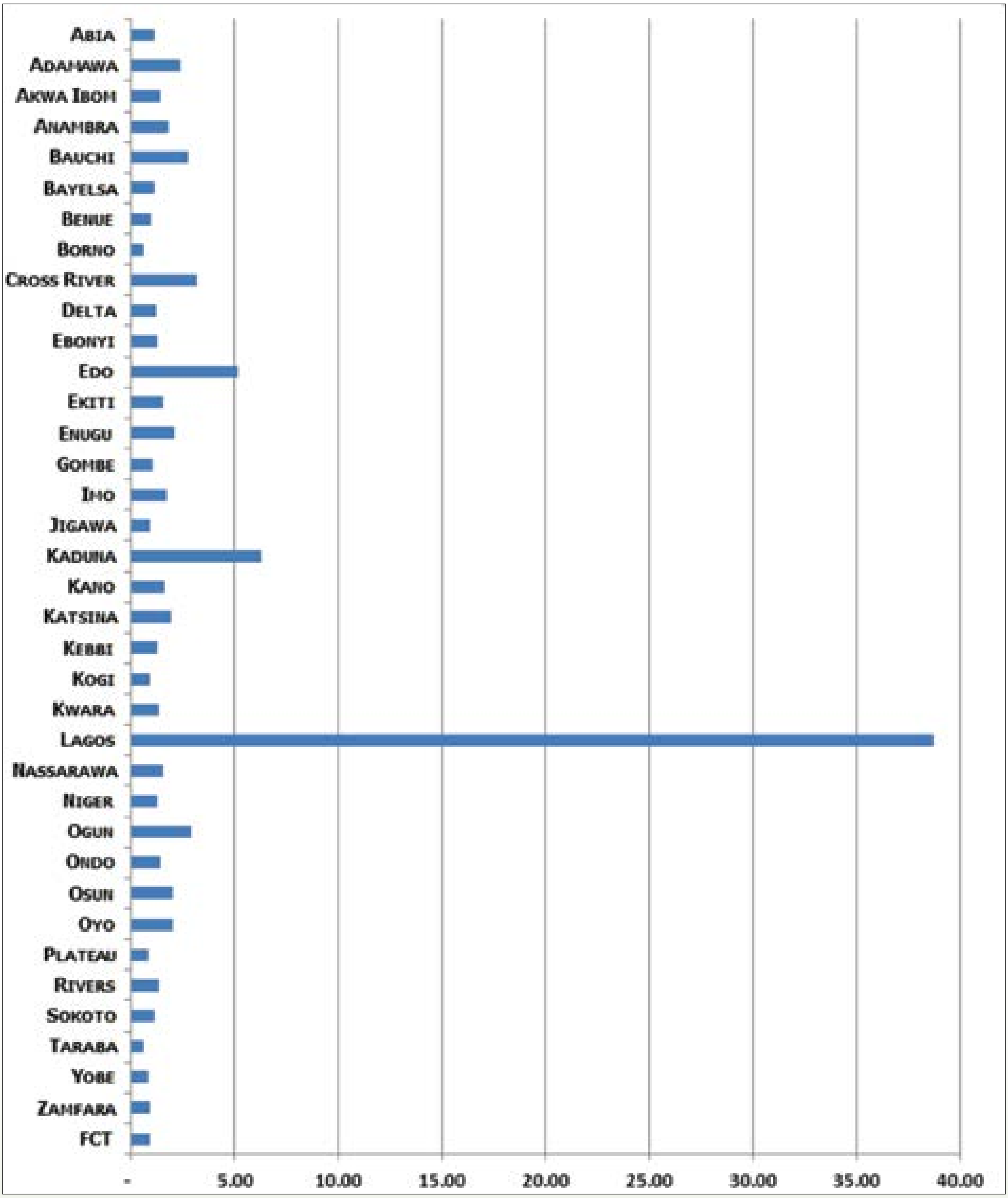
As in the previous years, the ratio of States' and FCT's external debt stock as a percentage of Total Public external debt remained relatively unchanged in 2016. The detailed breakdown showed that Lagos, Kaduna and Edo States had the highest external debt stock of US$1,380.65 million (38.70 percent), US$222.88 million (6.25 percent), and US$183.64 million (5.15 percent), respectively. Taraba, Borno and Yobe States had the lowest external debt stock, accounting for US$21.93 million (0.61 percent), US$22.07 million (0.62 percent) and US$28.54 million (0.80 percent), respectively, of the total States and the FCT's external debt stock (Table 7.2).

Table 7.2: External Debt Stock of States & FCT as at end-December, 2016 (US$)

S/n	State	Multilateral	Bilateral (AFD)	Total	% Of Total
1	Abia	41,290,438.92	-	41,290,438.92	1.16%
2	Adamawa	77,231,530.91	6,500,000.00	83,731,530.91	2.35%
3	Akwa Ibom	50,555,649.25	-	50,555,649.25	1.42%
4	Anambra	62,883,387.47	-	62,883,387.47	1.76%
5	Bauchi	97,174,751.48	-	97,174,751.48	2.72%
6	Bayelsa	39,252,787.66	-	39,252,787.66	1.10%
7	Benue	34,683,473.86	-	34,683,473.86	0.97%
8	Borno	22,068,385.04	-	22,068,385.04	0.62%
9	Cross River	84,995,639.01	30,000,000.00	114,995,639.01	3.22%
10	Delta	42,318,066.03	-	42,318,066.03	1.19%
11	Ebonyi	46,383,284.02	-	46,383,284.02	1.30%
12	Edo	183,641,998.74	-	183,641,998.74	5.15%
13	Ekiti	56,877,230.80	-	56,877,230.80	1.59%
14	Enugu	67,088,934.02	6,500,000.00	73,588,934.02	2.06%
15	Gombe	37,841,651.38	-	37,841,651.38	1.06%
16	Imo	60,217,190.98	-	60,217,190.98	1.69%
17	Jigawa	32,415,951.20	-	32,415,951.20	0.91%
18	Kaduna	222,882,926.46	-	222,882,926.46	6.25%
19	Kano	58,247,338.91	-	58,247,338.91	1.63%
20	Katsina	68,060,334.71	-	68,060,334.71	1.91%
21	Kebbi	46,101,478.45	-	46,101,478.45	1.29%
22	Kogi	31,947,420.16	-	31,947,420.16	0.90%
23	Kwara	48,975,899.49	-	48,975,899.49	1.37%
24	Lagos	1,254,150,731.09	126,500,000.00	1,380,650,731.09	38.70%
25	Nassarawa	56,021,853.27	-	56,021,853.27	1.57%
26	Niger	38,849,530.40	6,500,000.00	45,349,530.40	1.27%
27	Ogun	98,416,368.77	5,000,000.00	103,416,368.77	2.90%
28	Ondo	49,527,401.22	-	49,527,401.22	1.39%
29	Osun	58,287,856.79	12,245,989.00	70,533,845.79	1.98%
30	Oyo	71,913,437.74	-	71,913,437.74	2.02%
31	Plateau	29,139,067.38	-	29,139,067.38	0.82%
32	Rivers	48,256,593.97	-	48,256,593.97	1.35%
33	Sokoto	39,785,679.95	-	39,785,679.95	1.12%
34	Taraba	21,926,982.52	-	21,926,982.52	0.61%
35	Yobe	28,536,278.90	-	28,536,278.90	0.80%
36	Zamfara	33,614,368.27	-	33,614,368.27	0.94%
37	FCT	32,810,348.60	-	32,810,348.60	0.92%
	Total	**3,374,372,247.82**	**193,245,989.00**	**3,567,618,236.82**	**100.00%**

Source: DMO

Figure 7.2: External Debt Stock of States & FCT as at end-December, 2016 in Percent



Source: DMO

7.2 States' and FCT's External Debt Service

The total external debt service for the 36 States and the FCT was US$103.68 million as at end-December, 2016, compared to US$102.08 million in 2015, representing a slight increase of 1.02 percent (Table 7.3).

Table 7.3: External Debt Service of States & FCT, 2012 – 2016 (US$' Million)

S/N	States	2012	2013	2014	2015	2016
1	Abia	0.96	1.03	1.04	1.10	1.03
2	Adamawa	0.49	0.49	0.77	1.26	1.33
3	Akwa Ibom	6.19	5.33	5.70	5.43	4.26
4	Anambra	0.48	0.54	0.70	1.10	1.54
5	Bauchi	1.50	1.14	2.00	2.31	2.28
6	Bayelsa	1.00	0.92	1.32	1.35	1.17
7	Benue	0.61	0.66	0.85	0.95	0.87
8	Borno	0.58	0.66	0.63	0.75	0.71
9	Cross River	9.95	9.23	9.62	10.05	9.36
10	Delta	1.12	0.79	0.99	1.03	0.93
11	Ebonyi	1.15	1.25	1.28	1.38	1.31
12	Edo	1.47	1.33	1.57	2.27	2.56
13	Ekiti	1.55	1.51	1.87	1.97	1.75
14	Enugu	0.80	0.84	1.11	1.95	1.85
15	Gombe	0.79	0.45	0.70	1.06	1.58
16	Imo	1.50	1.40	1.96	1.98	1.85
17	Jigawa	1.29	0.87	1.00	0.99	0.99
18	Kaduna	4.59	5.12	6.48	7.57	7.03
19	Kano	3.72	1.60	2.11	1.84	1.78
20	Katsina	3.23	3.92	4.13	4.54	4.15
21	Kebbi	2.02	1.19	1.64	1.67	1.49
22	Kogi	1.19	1.00	1.03	1.12	1.00
23	Kwara	1.12	1.00	0.94	1.19	1.11
24	Lagos	9.84	13.88	16.79	20.82	26.94
25	Nassarawa	0.85	0.93	1.07	1.17	1.10
26	Niger	0.44	0.52	1.06	1.57	1.45
27	Ogun	1.39	1.25	2.54	3.18	2.96
28	Ondo	1.97	1.90	2.06	2.20	1.98
29	Osun	2.72	4.06	3.20	4.31	3.95
30	Oyo	3.72	4.55	4.18	4.85	4.72
31	Plateau	1.29	0.71	0.71	0.81	0.80
32	Rivers	1.80	1.63	1.98	2.00	1.81
33	Sokoto	1.77	1.19	1.93	1.53	1.40
34	Taraba	0.38	0.54	0.74	0.79	0.68
35	Yobe	0.89	0.82	1.07	1.28	1.55
36	Zamfara	1.08	0.75	1.04	1.09	0.96
37	FCT	1.34	1.34	1.65	1.64	1.45
	Total	**76.78**	**76.32**	**89.47**	**102.08**	**103.68**

Source: DMO

7.3 Institutional Support to Debt Management Departments (DMDs) in the States

7.3.1 Capacity Building for Sub-National Debt Managers

As part of the initiatives aimed at strengthening the skills, capacities and competencies of the sub-national debt managers for effective debt management and the maintenance of overall public debt sustainability, the DMO in 2016, conducted three (3) categories of training for the States.

The first category of training centered on States that had sign-off issues and/or inconsistencies in their domestic debt data submissions to the DMO. The DMO undertook visits to ten (10) States: Abia, Akwa Ibom, Delta, Ebonyi, Kano, Gombe, Katsina, Kwara, Osun and Rivers, to resolve these issues and had them authenticated and signed off for subsequent submission to the DMO.

The second category of capacity building programmes, was the Special Training on Excel Template and Effective Sub-National Debt Management, which were carried out in two States, namely: Bayelsa and Kaduna. The one-week training was aimed at upscaling the knowledge and competencies of the newly posted DMD staff in the two (2) States on debt management recording, analysis, and reporting by exposing the officers to the Microsoft Excel based template designed by the DMO for sub-national debt data management.

The third category was the Sensitization Workshop and Training Programme for relevant States' Ministries, Departments and Agencies (MDAs) in Benue State. This programme was necessitated by the observed constraints in remitting domestic debt data from the State's relevant MDAs to the DMD for onward transmission to the DMO. The objective of the programme was to sensitize participants on the need for collaboration and co-operation between the DMDs and States' MDAs involved in the domestic debt data compilation and reporting, as well as harp on the need for periodic (quarterly) debt data reconciliation exercises among the MDAs, the DMD and the Office of the States' Accountant-General, with the envisaged outcome of debt data duly signed by the parties to ensure ownership. The programme also addressed the unique challenges constraining smooth work relationship between the DMDs and relevant MDAs as solutions were proffered by the participants.

7.3.2 Collation and Publication of Sub-National Domestic Debt Data

All the thirty-six (36) States and the FCT continued to make progress in their use of the DMO designed MS Excel Templates for the quarterly submission of domestic debt data. With the full cooperation of the States and the FCT, the DMO received the signed-off domestic debt stock reports up to September, 2016, as the collation and validation of the domestic debt data do occur with some time lag.

7.3.3 States' Domestic Debt Data

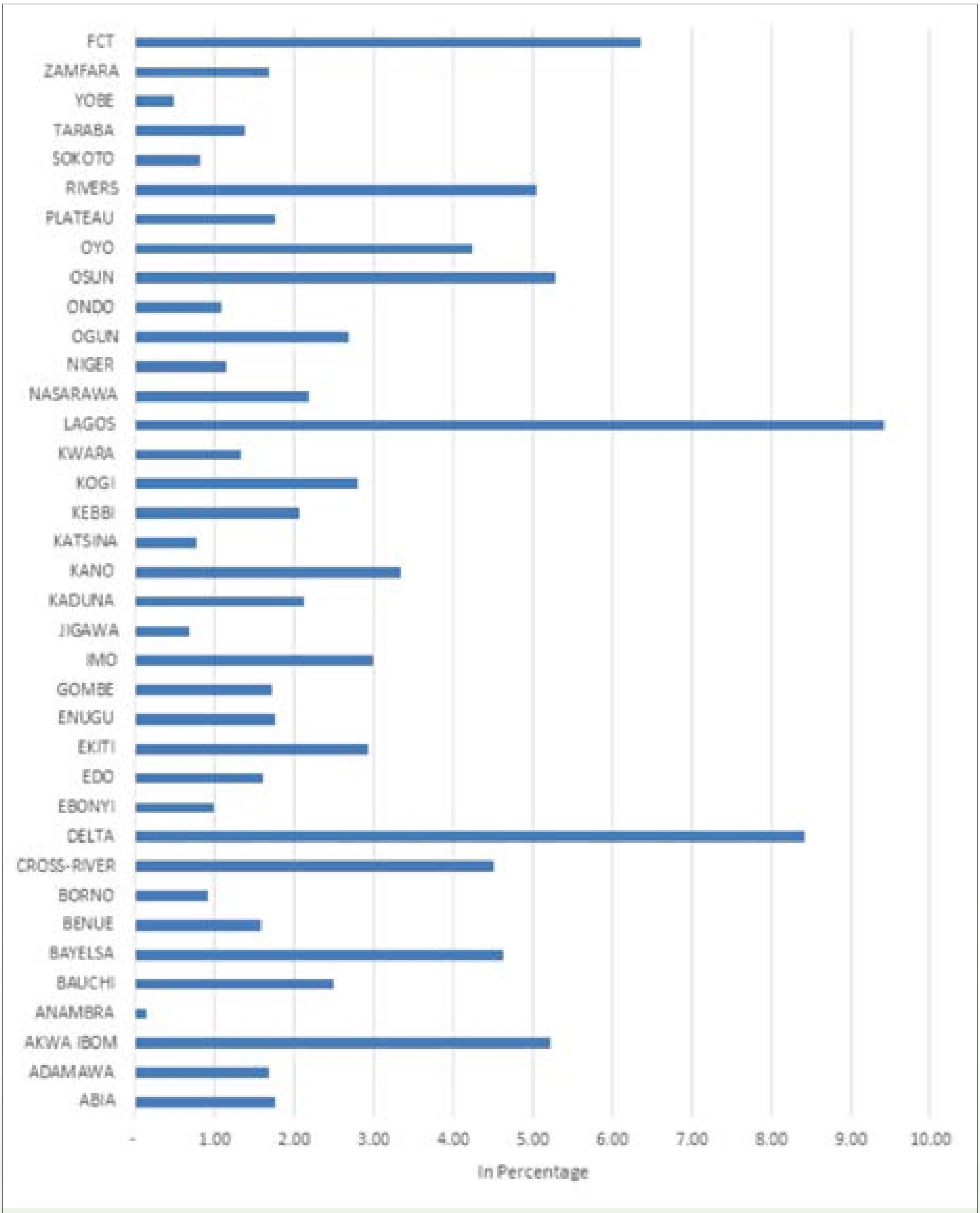
Table 7.4 shows the domestic debt data of the States and the FCT as at end-September, 2016. The breakdown showed that Lagos and Delta States, as well as FCT had the highest domestic debt stock of ₦265.77 billion, ₦237.89 billion and ₦179.55 billion, respectively. The States with the lowest domestic debt stock were Jigawa, Yobe and Anambra, accounting for ₦19.01 billion; ₦13.63 billion and ₦4.04 billion, respectively.

Table 7.4: Total Domestic Debt of the 36 States and the FCT, as at end-Sept., 2016 (Amount in Naira)

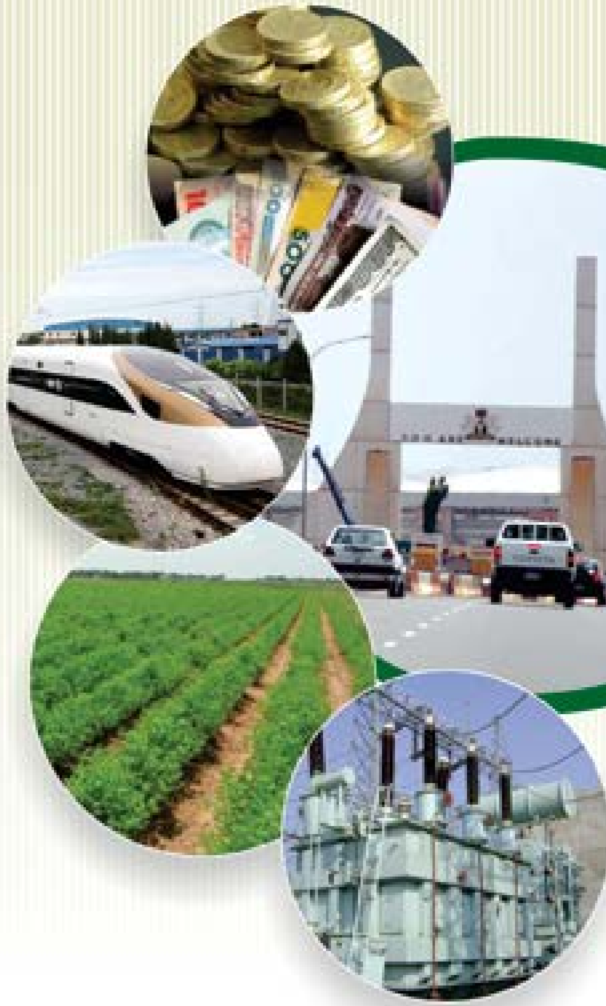
S/N	State	Debt Stock	% Share of Total
1	Abia	49,386,095,513.96	1.75
2	Adamawa	47,307,050,357.82	1.68
3	Akwa-Ibom	147,575,744,158.56	5.23
4	Anambra	4,039,423,109.11	0.14
5	Bauchi	70,517,815,340.55	2.50
6	Bayelsa	130,809,976,257.37	4.63
7	Benue	44,893,477,086.95	1.59
8	Borno	25,700,828,966.29	0.91
9	Cross-River	127,376,610,503.83	4.51
10	Delta	237,797,208,665.54	8.42
11	Ebonyi	27,976,215,241.16	0.99
12	Edo	45,029,384,860.76	1.60
13	Ekiti	82,579,654,205.25	2.93
14	Enugu	49,354,984,548.61	1.75
15	Gombe	48,405,968,352.78	1.71
16	Imo	84,611,852,900.01	3.00
17	Jigawa	19,005,549,048.55	0.67
18	Kaduna	59,713,398,933.03	2.12
19	Kano	94,161,838,760.56	3.34
20	Katsina	22,106,159,050.02	0.78
21	Kebbi	58,534,935,425.34	2.07
22	Kogi	79,013,518,769.95	2.80
23	Kwara	37,415,036,595.13	1.33
24	Lagos	265,768,708,200.34	9.41
25	Nasarawa	61,611,478,827.23	2.18
26	Niger	32,162,271,390.57	1.14
27	Ogun	75,921,433,395.59	2.69
28	Ondo	30,382,814,006.55	1.08
29	Osun	149,090,499,704.85	5.28
30	Oyo	119,965,800,914.62	4.25
31	Plateau	49,828,149,583.19	1.77
32	Rivers	142,424,091,344.00	5.05
33	Sokoto	22,846,387,282.23	0.81
34	Taraba	38,721,693,355.05	1.37
35	Yobe	13,628,672,562.13	0.48
36	Zamfara	47,675,625,820.31	1.69
37	FCT	179,549,523,728.19	6.36
	Total	**2,822,889,876,765.98**	**100.00**

Source: DMO
Note: The collation and validation of States' and FCT's domestic debt data as at end-December, 2016 were yet to be published

Figure 7.3: Domestic Debt Stock of States & FCT as at end-September, 2016 in Percent



Source: DMO



CHAPTER EIGHT

RISK ANALYSIS OF FGN'S TOTAL PUBLIC DEBT

CHAPTER EIGHT

RISK ANALYSIS OF FGN's TOTAL DEBT

In 2016, the weighted average interest rate of the external debt portfolio was very low. This has helped to moderate the overall cost of debt. Meanwhile, refinancing and interest rate risks were significant in the domestic debt portfolio, due to the high proportion of short-term debt in the portfolio and debt maturing within one year. On the other hand, interest rate and exchange rate risks posed minimal danger to the FGN's total public debt portfolio, given that external debt portfolio constitute high proportion of fixed rate debts and low level of external debts, respectively. The percentage of Government's contingent liabilities to the GDP was 1.42 percent as at end-December, 2016 compared to 1.72 percent as at end-December, 2015.

8.1 Introduction

The primary objective of public debt management is to ensure that the Federal Government's financing needs are met through sourcing of funds from both external and domestic sources at minimal cost and risk. This chapter evaluates the costs and risks of the FGN's total public debt portfolio as at end-December, 2016 vis-a-vis the Debt Management Strategy, 2016-2019. These risks are interest rate, refinancing, exchange rate, credit and contingent liabilities risks.

8.2 Risk Analysis of FGN's Total Public Debt Portfolio

Table 8.1 shows the costs and risks indicators of the FGN's total public debt portfolio as at end of December, 2016.

Table 8.1: Costs and Risks Indicators for FGN's Total Debt Portfolio as at end-December, 2016

Risk indicators		External Debt	Domestic Debt	Total Debt
FGN's Total Public Debt (Amount in millions of US$)		11,406.28	36,256.41	47,662.69
PV of Total Public debt (including States Domestic Debts) as % of GDP		3.26	13.01	16.27
Cost of debt	Average Interest Rate (%)	3.10	11.11	9.19
Refinancing Risk	ATM (years)	13.57	7.53	9.54
	Debt Maturing in 1 yr (% of Total)	0.27	35.35	23.86
Interest Rate Risk	ATR (years)	13.43	7.53	8.93
	Debt re-fixing in 1 yr (% of Total)	16.61	35.35	29.12
	Fixed rate debt (% of Total)	84.19	100	94.74
Foreign Exchange Risk	FX debt (% of Total)	-	-	19.79

Source: DMO

8.3 Average Cost of FGN's Public Debt

The weighted average interest rate of FGN's total debt portfolio was 9.19 percent as at end-December, 2016 compared to 10.77 percent in 2015, representing a decrease of 1.58 percentage points (Table 8.1). The dominance of concessional external debt in the external total debt portfolio at about 83 percent as at end-December, 2016, with average interest rates of about 1.25 percent per annum and average tenor of about 40 years helped to reduce the average interest rate of external debt and the overall cost of debt in general. The weighted average interest rate of domestic debt was relatively high at 11.11 percent per annum, as a result of the tight monetary policy stance of the CBN, as the Monetary Policy Rate (MPR) was increased to 14.00 percent in July, 2016, and retained up to the end-2016, which impacted on the cost of Government's domestic borrowing.

8.4 Interest Rate Risk

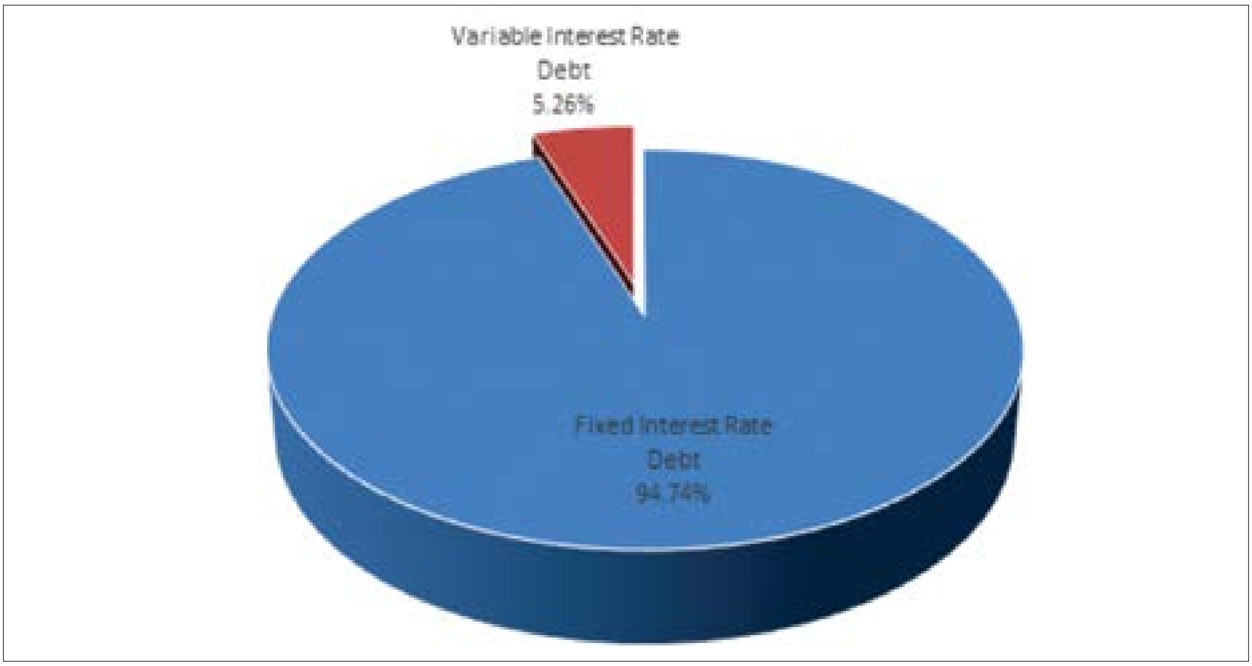
The current composition of the FGN's total debt portfolio does not suggest any imminent interest rate risk, given the high proportion of fixed interest rate debt (94.74 percent) in the debt portfolio as at end-December, 2016 (Table 8.2 and Figure 8.1). The low portion of floating rate debt (5.26 percent) indicates that the portfolio is hedged against market rates volatility. Correspondingly, the Average Time-to-Refixing (ATR) of the total public debt portfolio was 8.93 years, while the ATR for domestic debt and external debt were 7.53 and 13.43 years, respectively. This also shows that the exposure of the portfolio to interest rate fluctuations was minimal. Table 8.2 shows the trend of interest rate risk indicators, 2012-2016.

Table 8.2: Trend in Interest Rate Risk Indicators, 2012-2016

Year	2012	2013	2014	2015	2016
Fixed Interest Rate Debt (%)	71.83	99.41	99.53	98.96	94.74
Variable Interest Rate Debt (%)	28.17	0.59	0.47	1.04	5.26
External Debt - Average Time-to-Re-fixing (Years)	16.2	14.4	13.9	13.86	13.43
Domestic Debt - Average Time-to-Re-fixing (Years)	4.2	4.6	5.4	5.35	7.53
Total Debt - Average Time-to-Re-fixing (Years)	5.9	5.8	6.4	7.04	8.93

Source: DMO

Figure 8.1: Interest Rate Composition of FGN's Total Public Debt as at end-December, 2016



Source: DMO

Table 8.1 shows, however, that domestic debt portfolio is significantly exposed to interest rate risk with the share of debt maturing in one year at 35.35 percent. This was attributed to the high proportion of short-term debt instruments (NTBs) in the portfolio, which matures in one year and is exposed to interest rate re-fixing risk.

8.5 Refinancing Risk

Refinancing risk remained low in 2016, with an improvement in the Average Time-to-Maturity (ATM) of the total public debt portfolio at 9.54 years, which was, however, below the strategic benchmark of a minimum of 10 years (Table 8.3). This was due to ATM of external debt portfolio at 13.57 years, which showed the dominance of concessional loans with original maturity periods of up to 40 years. Meanwhile, the proportion of FGN's Total Public Debt maturing in one year at 23.86 percent, which was above the maximum benchmark of 20 percent indicates that the debt portfolio was exposed to refinancing risk, especially for the domestic debt portfolio with 35.35 percent of total debt maturing in one year. This highlights the need to rebalance the debt portfolio by reducing the quantum of short-term debts in line with the Country's Debt Management Strategy, 2016-2019.

Table 8.3: Trend in Refinancing Risk Indicators, 2012-2016

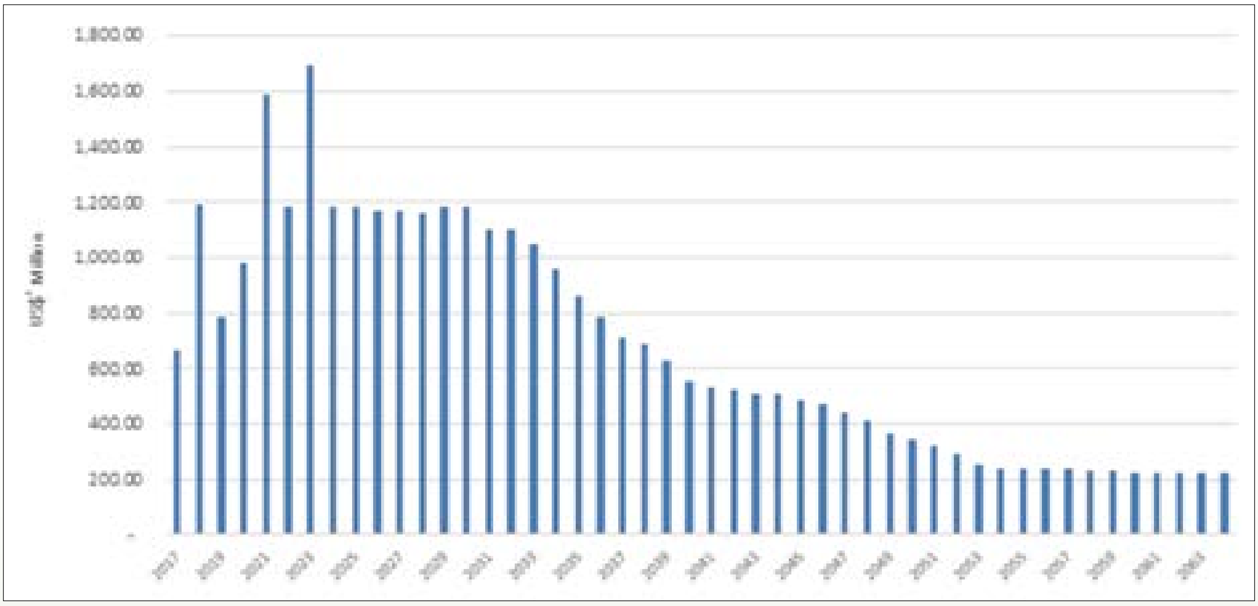
Year	2012	2013	2014	2015	2016
Debt Maturing in 1 year (%)	38.8	35.0	33.00	29.15	23.86
External Debt – Average Time-to-Maturity (Year)	16.3	14.4	14.9	14.39	13.57
Domestic Debt - Average Time-to-Maturity (Year)	4.2	4.6	5.4	5.35	7.53
Total Debt - Average Time-to-Maturity (Year)	5.9	5.8	6.5	7.15	9.54

Source: DMO

8.6 Redemption Profile

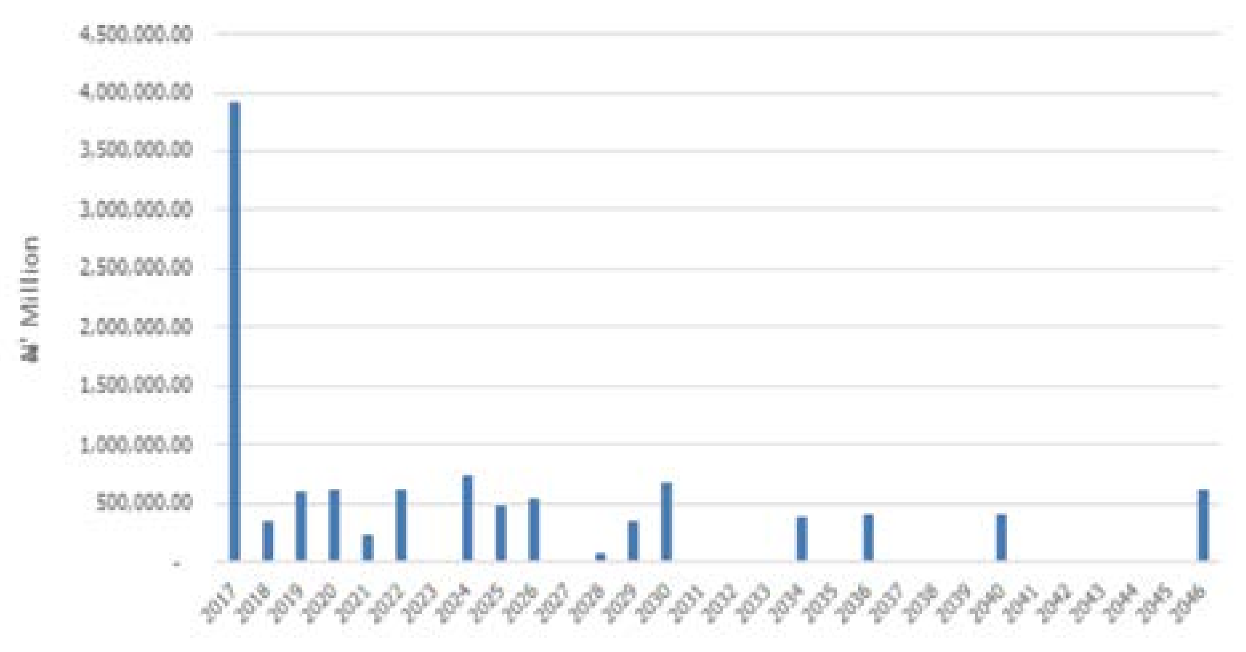
Figure 8.2 shows the redemption profile of the external debt of the country beyond 2016, which shows a smooth profile, but with huge spikes in 2018, 2021 and 2023. The huge spikes are attributable to the redemption of the three maturing Eurobonds, namely: the debut 6.75% JAN 2021 US$500 million (10-year Eurobond issued in 2011) and the US$1.0 billion dual-tranche Eurobonds: 5.125% JUL 2018 US$500 million (5-year) and 6.375% JUL 2023 US$500 million (10-year) issued in 2013. Similarly, the redemption profile for domestic debt (Figure 8.3), reflects a significant level of refinancing risk in 2017, attributed to the high proportion of NTBs in the domestic debt portfolio that would be refinanced in 2017.

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



Source: DMO

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



Source: DMO

8.7 Exchange Rate Risk

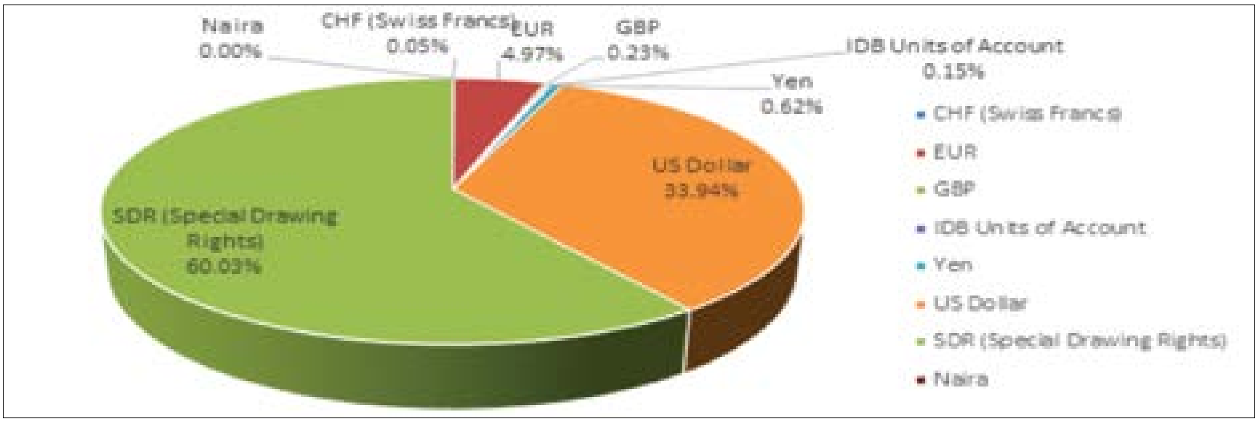
The exposure of the FGN's total debt portfolio to foreign exchange risk was very low as at end-December, 2016. This was due to the dominance of domestic currency debt in the portfolio at about 80.00 percent (Table 8.4). There is still much room for improvement, given that the preferred debt composition is 60:40 for domestic and external debts, respectively, for 2019, as specified in the Nigeria's Debt Management Strategy, 2016-2019. Table 8.4 shows the trend in the exchange rate risk indicators from 2012-2016.

Table 8.4: Trend in Exchange Rate Risk Indicators, 2012-2016

Year	2012	2013	2014	2015	2016
Domestic Debt (%)	87	84	84	80	80
External Debt (%)	13	16	16	20	20
Total Debt	100	100	100	100	100

Source: DMO

Figure 8.4: Currency Composition of External Debt as at end-December, 2016



Source: DMO

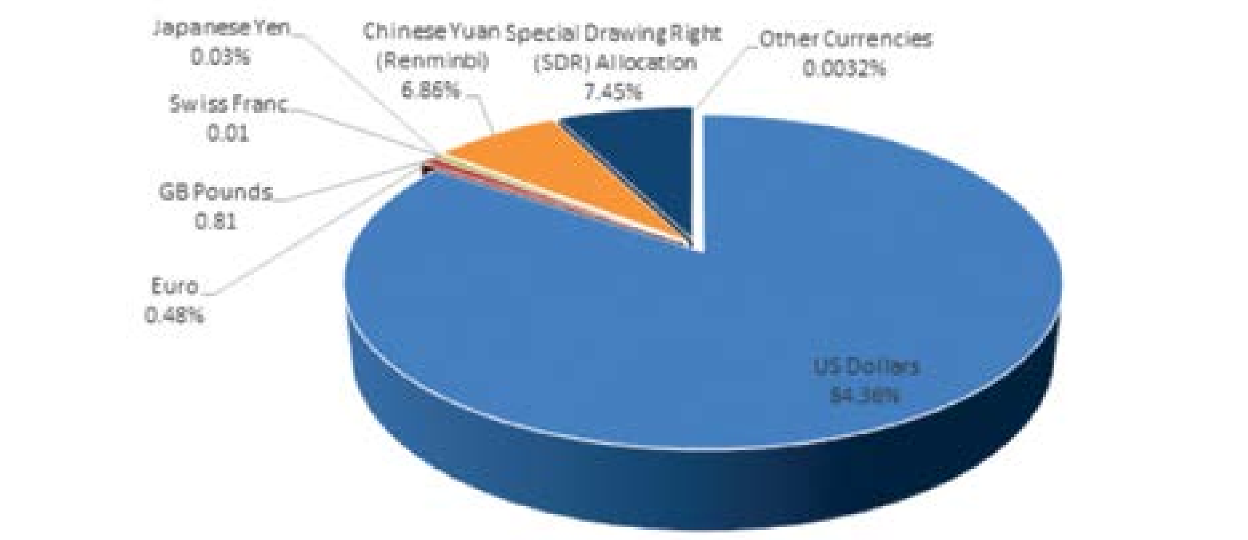
Figure 8.4 further shows that external debt portfolio by currency composition was denominated in various currencies, namely: Swiss Franc (CHF), Euro (EUR), British Pound Sterling (GBP), Islamic Dinar (ID), Japanese Yen (JPY), United States Dollar (US$), Special Drawing Rights (SDRs)[1] and Naira (N)[2], which was on account of debt sourced from the concessional window of the ADB. The respective shares of these currencies at 0.05, 4.97, 0.23, 0.15, 0.62, 33.94, 60.03 and 0.00003 percent, show that there was a minimal exchange rate risk arising from currency mismatch, given that the external debt service payment obligations are effected mainly in the convertible currencies in the basket. This has helped to hedge against foreign exchange risk associated with unfavourable trend in currency exchange rate movements. The funding of external debt service through the External Creditors Funding Account (ECFA), which is denominated in US Dollars, was a further cushion against exchange rate risk, as the currency composition of external debt was dominated by the US dollar.

Table 8.5: Currency Composition of External Reserve Assets as at end-December, 2016

Currency	USD Equivalent	% of Total
US Dollars	22,770,002,838.57	84.36
GB Pounds	219,356,275.01	0.81
Euro	128,983,463.29	0.48
Swiss Franc	1,385,161.23	0.01
Japanese Yen	8,148,016.37	0.03
Chinese Yuan (Renminbi)	1,852,214,206.21	6.86
Special Drawing Right (SDR) Allocation	2,009,621,186.02	7.45
Other Currencies	867,064.73	0.0032
TOTAL	**26,990,578,211.43**	**100**

Source: CBN

Figure 8.5: Currency Composition of External Reserves as at end-December, 2016



Source: CBN

Table 8.5 and Figure 8.5 show the composition of the country's external reserves position by currency as at end-December, 2016, with a total of US$26.99 billion. The proportion of currency components of the foreign reserve assets were US$ (84.36 percent), GBP (0.81 percent), Euro (0.48 percent), CHF (0.01 percent), JPY (0.03 percent), Chinese Yuan (6.86 percent), SDR (7.45 percent) and other currencies (0.0032 percent). Comparing the currency composition of external debt portfolio and currency composition of the country's external reserves, there was no currency mismatch to suggest potential exchange rate risk to the external debt portfolio (Table 8.6). In addition, the composition of external reserves which was dominated by US Dollar and SDR, which are the major currencies of external debt portfolio highlights further hedge against exchange rate risk.

Table 8.6: Composition of External Debt & Reserve Assets as at end-December, 2016 (in percent)

Currencies	US$	GBP	EURO	CHF	IDB	JPY	Yuan	SDR	Naira	Others
External Debt: Currency Composition	33.94	0.23	4.97	0.05	0.15	0.62	-	60.03	0.00003	-
External Reserve: Currency Composition	84.36	0.81	0.48	0.0051	-	0.03	6.86	7.45	-	0.0032

Source: DMO

8.8 Credit Risk (FGN's On-lent Loans to MDAs)

The eleven (11) outstanding on-lent loans by the FGN to various MDAs amounted to ₦178.08 billion as at end-December, 2016, same amount as at end-2015. The loans were extended by the FGN to the MDAs to fund developmental projects in the key sectors of the economy, which include, Road and Railway, Agriculture, Transport, Education. To ensure that the loans were repaid by the borrowers, each On-lent loan to the MDAs was backed by a Memorandum of Understanding (MOU) executed between the DMO and the MDA.

8.9 FGN's Contingent Liabilities

Table 8.7 shows that the amount of contingent liabilities dropped from ₦1,656.47 billion as at end-2015 to ₦1,445.46 billion by end-2016, representing a decline of ₦211.01 billion or 12.74 percent. The decrease in the amount of contingent liabilities in 2016, was due to the reduction in the value of the liabilities of Federal Mortgage Bank of Nigeria, pension arrears for MDAs, Local Contractors debts, and the reclassification of the FGN's Guarantee in favour of Lekki Port LFTZ Enterprises, which is yet to be utilized. As a percentage of the GDP, the outstanding contingent liabilities of the FGN was 1.42 percent of GDP as at end-2016, as against 1.72 percent in 2015.

Table 8.7: FGN's Contingent Liabilities 2012-2016 (₦ Billion)

S/N	Liability Type	2012	2013	2014	2015	2016
1.	AMCON Guarantee	1,742.00	1,742.00	-	-	-
2.	Local Contractors Debts	233.942	233.942	233.942	233.942	159.287
3.	Federal Mortgage Bank of Nigeria	32.00	32.00	32.00	6.91	5.24
4.	Guarantee on Agriculture	174.707	-	-	-	-
5.	Nigerian Export-Import (NEXIM) Bank	-	-	39.40	39.40	61.00
6.	FCDA – Katampe Infrastructure Project				7.441	7.441
7.	Nigeria Mortgage Refinance Company Plc				8.00	8.00
8.	Lekki Port LFTZ Enterprise – Lekki Deep Sea Port	-	-	157.60	157.60	-
9.	World Bank Partial-Risk Guarantee in support of Azura-Edo IPP	-	-	-	46.689	72.29
10.	Pension Arrears for MDAs	1,322.427	1,271.062	1,231.035	1,156.49	1,132.21
	Total	**3,585.08**	**3,279.00**	**1,693.977**	**1,656.467**	**1,445.47**

Notes:

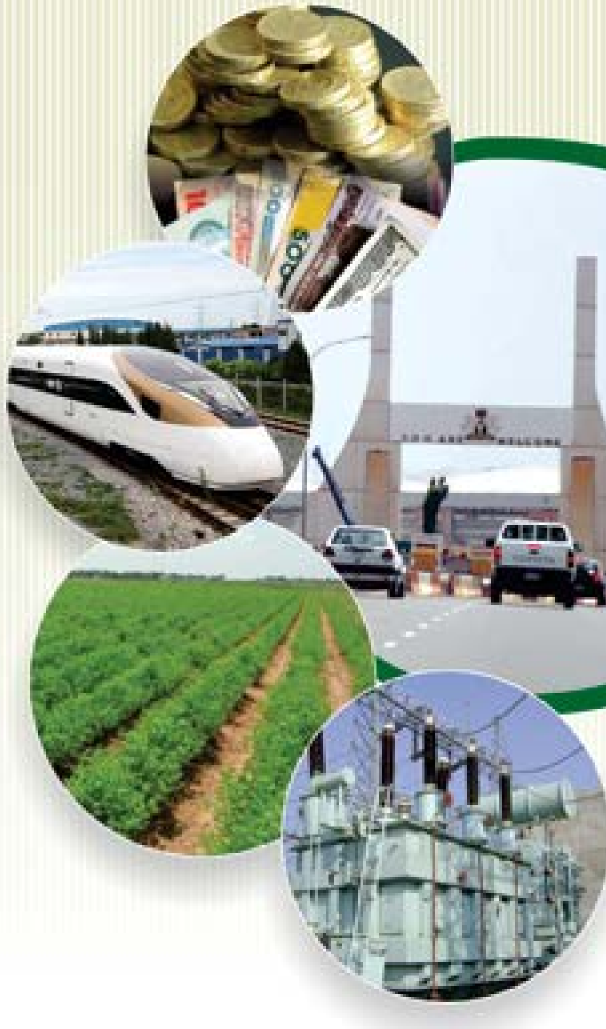
1. The FGN Guarantee to AMCON in respect of the N1.742 trillion 3-year Zero-coupon AMCON Tradable Bond expired on December 31, 2013, following the redemption of AMCON Bonds. The Guarantee did not crystallize.
2. The FGN Guarantee was given to cover the N233, 942,080,700.00 Face Value of the 5-year 2016/2017 Split Coupon Bonds issued by the Special Purpose Vehicle (SPV) set up for the resolution of the Local Contractors Debts. The Sinking Fund Account is being funded from the annual budgets of the Federal Government of Nigeria (FGN).
3. FGN Guarantee of FMBN Bond issued to enable the Bank raise funding from the capital market to refinance the sale of Federal Government non-essential houses under the monetization programme of the Government.
4. Unconditional guarantee to the financiers (Banks) to cover 70% of the loan principal payment under the Programme for financing the supply of seeds and fertilizers to farmers for the 2012 farming season. The Client was the Federal Ministry of Agriculture and Rural Development. The Guarantee expired in 2012 and did not crystallize
5. FGN Guarantee to NEXIM for the US$200 million Master Line of Credit from African Development Bank (AfDB). Exchange rate: N305/$. The AfDB multi-tranche line of credit is to finance part of the cost of the Export Oriented Small and Medium Enterprises financing programme of the Nigerian Export Import (NEXIM) Bank. The tenor is for 10 years. NEXIM Bank has opened the Debt Service Reserve Account (DSRA) and maintains collection accounts for beneficiary clients for their operations from which the DSRA would be funded prior to maturing periods of interest and principal repayments. There is a lien on the DSRA which states that NEXIM cannot withdraw from the account without consent of the DMO.
6. The Guarantee was issued, on behalf of the Federal Capital Development Authority (FCDA), in favour of FBN Capital Limited and FBN Trustees Limited, in respect of a bank facility granted to Deanshanger Projects Limited for the provision of integrated civil infrastructure to Katampe District, Abuja. The current outstanding amount confirmed by FCDA is N7,440,504,380.68, excluding accrued interest.

7. The Guarantee is to enable NMRC raise long term funds from the capital market by issuing notes for the purpose of refinancing or purchasing mortgages created by Eligible Mortgage Lenders. N8 billion has been utilized out of the Guarantee. Total Guarantee available is N440 billion, with an initial limit of N100 billion, to be utilized in two tranches of N50 billion each, subject to further approvals based on a confirmation of Programme's efficacy.

8. FGN Guarantee in favour of Lekki Port LFTZ Enterprise (Concessionaire) to cover the sum of US$800 million. (N244, 000,000,000.00 converted at N305/$) of the investment by the Concessionaire for the purpose of funding the construction of a Deep Sea Port at Lekki Lagos, Nigeria, on a Build, Own, Operate and Transfer basis, for a period of forty-five years, for and on behalf of the Nigerian Ports Authority. The Guarantee is being restructured and has not been finalized and utilized.

9. World Bank Partial Risk Guarantees in the sum of US$237 million(N72,285,000,000.00 converted at N305/$), comprising Debt Mobilization Guarantee of US$117 million and a Liquidity Guarantee of US$120 million, in support of the 450 megawatts Azura-Edo Independent Power Project (IPP). The Federal Government of Nigeria (FGN) entered into Indemnity Agreement with the International Bank for Reconstruction and Development (IBRD) - World Bank, in 2015, to unconditionally and irrevocably reimburse to the World Bank amounts paid by the Bank directly or indirectly in relation to or arising from the IBRD Guarantee and to undertake such other obligations to the Bank as are set forth in the Indemnity Agreement.

10. Data provided by PENCOM: Outstanding Retirement Benefits Liability of the FGN for certain categories of its employees. The last employee would be retiring in 2039.



CHAPTER NINE

FEDERAL GOVERNMENT ON-LENT LOANS TO MDAs

CHAPTER NINE

FEDERAL GOVERNMENT ON-LENT LOANS TO MDAs

The total outstanding on-lent loans to various MDAs amounted to ₦178.09 billion as at end-December, 2016. The loans were extended to the MDAs to fund the development of infrastructure and special projects in the key sectors of the economy.

9.1 Introduction

As part of the initiatives to stimulate growth in the real sectors of the economy towards job creation and poverty reduction, the Federal Government of Nigeria (FGN) from time to time had through the Debt Management Office (DMO), provided loans to various Ministries Departments and Agencies (MDAs), to fund the development of infrastructure and special projects in key sectors of the economy. The projects are Road, Railway, Agriculture, Transport, Education, Cotton, Garment and Textile, as well as other projects in the key sectors of the economy. Each of the On-lent loans to the MDAs was backed by a Memorandum of Understanding (MOU) executed between the DMO and the MDA concerned, so as to ensure timely and full repayment of the loans.

9.2 Analysis of FGN's On-lent Loans to MDAs

The outstanding eleven (11) on-lent loans extended by the FGN to various MDAs was ₦178.09 billion as at the end-December, 2016. Table 9.1 shows the principal outstanding on-lent loans as at end-December, 2016.

Table 9.1: Principal Outstanding On-lent Loans as at end-December, 2016

S/N	MDA	Facility	Loan Amount	Principal Amount Outstanding (₦)
1	Federal Capital Territory Administration (FCTA)	₦15.00 Billion FGN Funding of Health and Education Projects in the FCT	15,000,000,000.00	7,091,145,754.66
2	Federal Ministry of Finance (FMF)	₦6.30 Billion Pioneer Consumer Car Finance Scheme for Public Servants	6,300,000,000.00	2,656,644,124.14
3	Federal Ministry of Transport (FMoT)	₦12.50 Billion Nig. Railways Revitalization (25 Locomotives)	12,500,000,000.00	12,500,000,000.00
4	Ministry of Defence	₦35.00 Billion Funding of Peace Keeping Operations	35,000,000,000	11,275,102,824.49
5	Ministry of Mines and Steel Development	₦2.24 Billion Ajaokuta/NIOMCO Staff Salary Arrears	2,239,175,142.72	2,239,175,142.72
6	Nigeria Television Authority (NTA)	₦4.50 Billion Loan for Upgrading of NTA's Broadcast Equipments	4,500,000,000.00	2,431,265,480.82
7	Federal Capital Territory Administration (FCTA)	₦20.00 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)	₦5.00 Billion for the development of the Housing Sector of the Economy granted 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 for NITEL/MTEL Buy-Out	63,030,000,000.00	60,480,000,000.00
10	Bureau of Public Enterprises (BPE)	NITEL/MTEL Terminal Benefits	54,552,000,000.00	52,002,000,000.00
11	Bank of Industry (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			**220,621,886,142.72**	**178,085,626,593.88**

9.3 Utilization of US$1.0 Billion Eurobond Proceeds

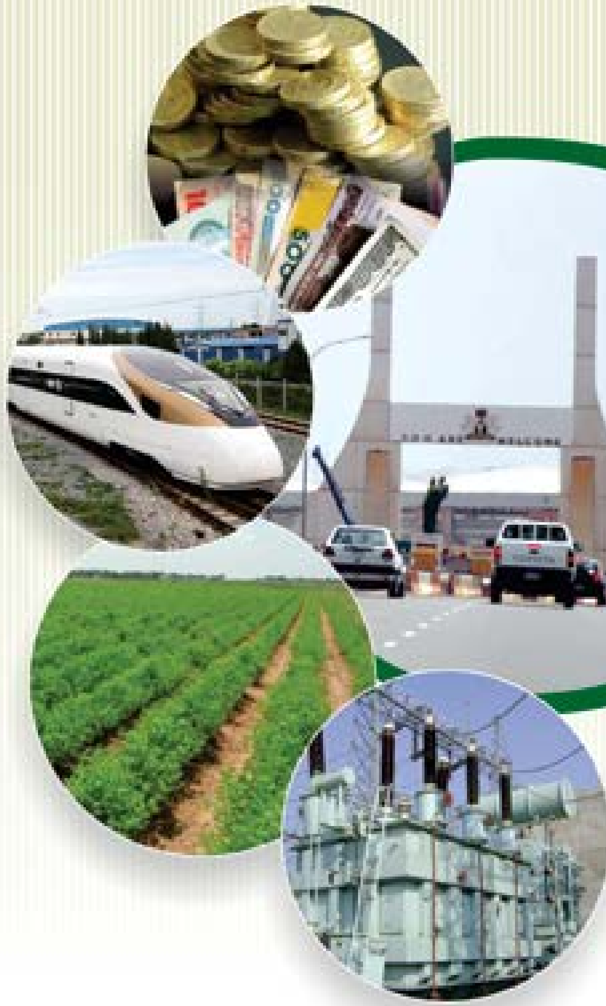
In 2013, the Federal Government of Nigeria issued the sum of US$1.0 billion Eurobonds in the International Capital Market to fund critical infrastructure in the power and other priority sectors. The power sector fund was focused on transmission projects, meeting the liquidity funding requirements of the Nigerian Bulk Electricity Trading Plc and gas-to-power projects.

The beneficiary MDAs of the US$1.0 billion Eurobonds were the Transmission Company of Nigeria

(TCN), Nigerian Bulk Electricity Trading Plc (NBET), Federal Ministry of Aviation (FMA), Federal Ministry of Power and Nigeria Sovereign Investment Authority (NSIA), which is managing a portion of the fund, for investment in gas-to-power projects.

9.4 Settlement and Securitization of the Federal Government of Nigeria (FGN) Local Contractors Debts (LCDs) through the implementation of a Resolution Model.

In order to ensure timely redemption of the LCDs Bonds, issued as part of the process for the settlement of the LCDs, the DMO, in collaboration with the Budget Office of the Federation (BOF), Office of the Accountant-General of the Federation (OAGF) and the Fund Manager, put in place a structure for the management of the Sinking Fund Account. The Sinking Fund Account was funded through annual budgetary provisions, and the obligations due on the bonds were being met from the fund available in the Sinking Fund Account.



CHAPTER TEN

INSTITUTIONAL ISSUES

CHAPTER TEN
INSTITUTIONAL ISSUES

The implementation of the DMO's Strategic Plan (2013-2017), continued in 2016, recording some milestone achievements, which include the successful implementation of the BAS IT platform for auctioning of FGN securities, as well as the completion of the various frameworks for the issuance of the FGN Savings Bonds and Non-interest debt financing instruments (Sukuk). There were various capacity building programmes conducted for staff and stakeholders.

10.1 DMO's Third Strategic Plan, 2013 - 2017

The implementation of the DMO's third Strategic Plan (2013 – 2017), continued successfully in 2016, with additional milestones recorded by the Office towards the realization of the various Strategic Objectives of the Plan. The two (2) most significant accomplishments of the Strategic Plan in 2016, were as follows:

i. BAS Project:

The DMO successfully completed the implementation of an efficient Bonds Auctioning System (BAS) platform in Abuja for the auctioning of FGN Bonds. All test-runs on the platform were successfully carried out and several trainings were conducted for the FGN Bond Primary Dealer Marker Makers (PDMMs), to familiarize them with the use of the DMO's Bond Auctioning System. Mock Auctions were also carried out successfully, and the System was scheduled to go live in the first quarter of 2017.

ii. Frameworks for the Issuance of the FGN Savings Bonds and Non-Interest Debt Financing Instruments (Sukuk)

The DMO successfully completed the development of two of its market development frameworks, namely: The Framework for the issuance of FGN Savings Bonds and the Framework for the issuance of Non-Interest Debt Financing Instruments (Sukuk). The approval of the Honourable Minister of Finance was also obtained for the implementation of both frameworks.

10.2 DMO Supervisory Board's Activities

The DMO Supervisory Board, which was dissolved at the expiration of the previous administration, had not been formally inaugurated as at the end-December, 2016. The Board is statutorily composed of the Vice President (as Chairman), the Honourable Minister of Finance (as Vice

Chairman), the Attorney-General of the Federation and Minister of Justice, the Chief Economic Adviser to the President, the Accountant-General of the Federation, Governor of Central Bank of Nigeria and the Director-General of Debt Management Office, as Member and Secretary.

10.3 Nigeria's Debt Management Strategy, 2016-2019

In view of the expiration of the maiden Debt Management Strategy, 2012-2015, the DMO, in collaboration with other stakeholders, namely: the Federal Ministry of Finance, Central Bank of Nigeria, Federal Ministry of Budget & National Planning, Budget Office of the Federation, National Bureau of Statistics and Office of the Accountant-General of the Federation formulated the Nigeria's Debt Management Strategy, 2016-2019, meant to guide the borrowing decisions of the Federal Government of Nigeria going forward. A team of officials from the World Bank, IMF and WAIFEM were on hand to guide the DMO and the stakeholders on the application of the Debt Management Strategy Analytical Tool. The result was focused on rebalancing the public debt portfolio in favour of long-term financing, in order to reduce the cost of debt and lengthen the maturity profile, as well as further lengthening of the maturity profile of the domestic debt portfolio through reduction in the issuance of new short-dated debt instruments or refinancing of maturing NTBs with external financing or both.

10.4 2016 National Debt Sustainability Analysis (DSA)

The 2016 DSA was organised by the Debt Management Office (DMO), from July 11-20, 2016, in collaboration with relevant stakeholders in public debt management operations, namely: the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Ministry of Budget and National Planning (MBPN), Budget Office of the Federation (BOF), National Bureau of Statistics (NBS), Office of the Accountant-General of the Federation (OAGF), Securities and Exchange Commission (SEC) and National Assembly (NASS). The West African Institute for Financial and Economic Management (WAIFEM), as in the past, provided technical support. The results of the 2016 DSA showed that for the first time since the exit from the Paris and London clubs of creditors in 2005 and 2006, respectively, Nigeria's debt position experienced some deterioration and slipped from a Low-risk of debt distress to a Medium risk of debt distress. Although the level of debt stock was still appreciably low relative to the country's aggregate output (GDP), the debt portfolio remained mostly vulnerable to the various shocks associated with revenue, exports and substantial currency devaluation. This indicated that Nigeria's debt burden indicators might deteriorate in the medium-to-long-term, if adequate measures are not put in place to raise the revenue profile of the country.

10.5 Staffing Issues

10.5.1 Recruitment of New Staff

There was no recruitment of new staff into the DMO in 2016. However, three fresh graduates were employed on temporary appointments to fill in gaps created by exited staff.

10.5.2 Staff Exit

In 2016, a total of four (4) members of staff exited the DMO for various reasons, which include - new employment offer, termination of appointment and resignation.

10.5.3 Repositioning/Redeployment Exercise

In the year 2016, the Director-General effected the redeployment of staff amongst the Departments and Units, as well as the movement of some Units from one Department to another. The Sovereign Debt Note Unit (SDNU) in the DG's Office was moved to PMD as a new Unit named, Special Securities Unit (SSU). There were a number of redeployments within the year.

10.5.4 Senior Management Movement

The TL, LFP was upgraded to the Senior Management cadre, as Ag. Head, Debt Recording and Settlement Department (DRSD), and later confirmed as Head (DRSD), while the Director (ORD), who for a period of eight (8) months had overseen both ORD and DRSD, was retained as Director (ORD). The Head (MDD) was promoted to the rank of a Deputy Director, while the HPMD was promoted as Director in their respective departments. The other members of the SMC were retained in their Departments.

10.5.5 Promotion and Merit Award

Promotion examinations and interviews were conducted for all qualified candidates due for promotion in 2016. Promotion results were released on the 1st December, 2016. Nineteen (19) candidates were successful in the regular promotion and seven (7) other members of staff benefitted from the Special Promotion and Merit Award.

10.6 Training for DMO's Stakeholders

Due to budgetary constraints, the DMO did not conduct any training for its targeted external stakeholders in 2016.

10.7 Staff Capacity Building Initiatives

The 2016 training programme continued with the focus on building the capacity of the DMO's officers in areas relating to the organization's core mandates and relevant skills required in delivering on its core mandates. The 2016 staff training programme focused on the following:

Course	Number of Participants
i. The Capital Market	8
ii. Dynamics of the Bonds Market	12
iii. Macroeconomics of Debt Management	9
iv. Leadership, Coaching & Mentoring	12
v. Effective Communication and Report Writing	11
vi. Public Service Rules, Practices & Protocols	18
vii. Human Resource Management	3
viii. Office Management & Procurement	14
ix. Pre-retirement Training	2
x. Driving Techniques	10
xi. Security Techniques	2
Total Participants	**101**

In addition to the above, there were other training programmes sponsored by the World Bank/ WAIFEM, Islamic Development Bank (IDB) and some specialized training for specific Departments and Units which included the following:

i. Issuance of Sukuk Bonds by the Sovereign;
ii. IPSAS Accrual Compliant Financial Statements;
iii. Patriotism and Shared Values;
iv. Joint World Bank/IMF/WAIFEM Debt Sustainability Framework Training; and,
v. Managing a diverse debt portfolio in a volatile global environment.

A special training programme was also organized for members of staff of the Finance & Accounts; Internal Audit & Control and Human Resource Units on IPSAS, IPPIS and GIFMIS, to keep them abreast with current developments on these initiatives.

10.8 Stakeholder Attachments/Educational Visits to the DMO

In actualization of its strategic objective of making Nigeria a major destination for out-sourced debt management skills and services and in response to requests received from interested parties both locally and internationally, the DMO in 2016, carried out the following capacity building initiatives:

10.8.1 Educational Tours and Excursions

The DMO hosted a study tour/educational visit of fifty-five (55) participants of the "Policy, Strategy and Leadership Course (PSLC)" of the National Institute for Policy and Strategic Studies (NIPSS), Kuru – Jos, Plateau State. The Course participants visited the DMO to acquire knowledge on the process and procedures of the DMO's core activities.

In addition, the DMO also hosted educational visits by the Nigerian Economics Students Association (NESA) from the University of Nigeria, Nsukka, as well as students of Accounting, and Business Administration from the Federal University, Kashere, Gombe State.

10.9 Operational Risk Management

In line with sound practices in public debt management, meetings of the Operational Risk Management Committee (ORC) were held to critically access the DMO's operational risk exposures and to formulate action plans to mitigate the occurrence of such threats. The ORC periodically tracked and reported on the progress of actions taken by the IT-IS Unit to safe guard the security and integrity of the DMO's data, database and the overall work environment. The DMO also strengthened its disaster recovery initiatives through the provision and renewal of existing Service Level Agreements (SLAs) for its datacenter power, ICT installations and infrastructure, as well as cooling equipments.

The year in review also witnessed the occurrence of two (2) operational risk incidences that posed threats to effective work operations. These incidences were effectively curtailed with the prompt intervention of the organization's ICT vendors. Incidence reports were promptly generated by the Risk Monitor in the Department involved, while the DMO's Management ensured the prompt deployment of effective solutions.

10.10 ICT Infrastructure

To further consolidate on the gains made in leveraging ICT to enhance the DMO's business process, the following milestones were achieved in 2016;

- The Biometric Access Control System was maintained for optimal performance, data security and restricted access to only authorised personnel.
- The interfacing of the Bond Auctioning System (BAS) with the CBN's Scripless Settlement System (S4) was concluded and was successfully used to conduct a series of parallel runs of the FGN Bond Auctioning on the Bloomberg Platform with the Primary Dealer Market Makers (PDMMs). The system was found to be ready to go Live in January, 2017.

- The DMO's website was redesigned, and upgraded with the integration of social media features. This has increased the website's accessibility and user-friendliness.
- The DMO's research pages in Bloomberg and Reuters were maintained and were functional with regular updates. This has continued to improve the availability of information on the DMO's operations and increased the DMO's communication outreach on the websites of the two largest financial news vendors.
- The DMO recorded significant improvement in ICT service delivery and reduced operational risk through the provision of Service Level Agreements (SLAs) for its Datacenter Power and cooling Equipment and SLA for the provision of High Speed Internet, Connectivity Services, Hosted Services, Disaster Recovery Facility and Support services. These further guaranteed optimal service delivery, service availability, minimizing equipment downtime and ensuring the provision of quality service acceptable with best practice standards. In addition, SLAs for a dedicated Secondary Internet Access link and Hardware Infrastructure Maintenance and support were retained for the period under review.
- System upgrades were also carried out by deploying latest Desktops, Printers and Photocopiers to enhance the efficiency of the DMO's work environment.
- ICT Services were maintained optimally with over 95 percent uptime for the period under review, thus, contributing significantly to the DMO's achievement of its objectives for 2016.

10.11 SERVICOM in the Debt Management Office

Due to funding constraints, the DMO's Reform Coordination and SERVICOM Committee (DMO RCSC), in 2016, channeled greater part of its activities to the implementation of low hanging initiatives such as ensuring the optimal use of the DMO's ICT infrastructure to enhance work efficiency. To achieve this, the Committee gave priority attention to championing the cause for the Use of the Portal by DMO Departments to enhance information sharing and knowledge building in the organization. The RCSC also coordinated the Departmental update of information and the general review of the contents of the DMO's website, as part of its contributions to the redesigning and restructuring of the DMO's website.

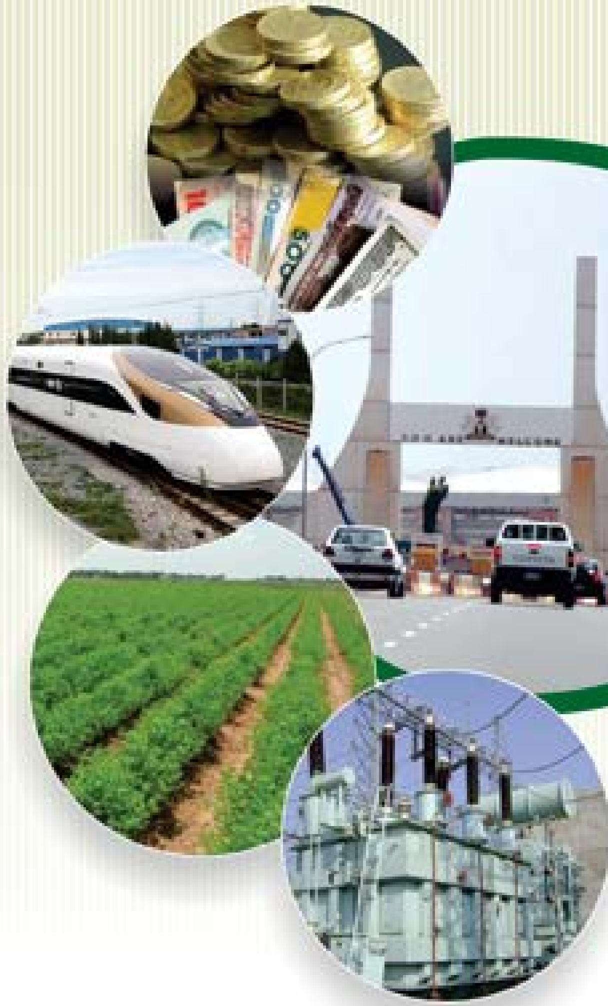
The Committee participated actively at the meetings of the Ministerial SERVICOM Committee (MSC), as well as those of the Reform Unit Desk Officers in the Parastatals/Agencies under the purview of Federal Ministry of Finance (FMF), as convened by the Ministry.

10.12 Bond Auctioning System

The DMO, in collaboration with other stakeholders, has successfully completed the testing of the integration work necessary for the commencement of the use of the Bond Auctioning System (BAS), by January, 2017.

The system is designed to achieve the following objectives:

- i Give the DMO effective control of the Bond Auctioning process;
- ii Facilitate the introduction of key processes that are found in advanced Bond markets such as Bond Switches, Buybacks and reverse auctions etc., which are tools for liability management, and for the improvement of market liquidity;
- iii Ensure transparency in the issuance process, elimination of human errors and quality of output;
- iv Ease reconciliation between the DMO, Primary Dealer Market Makers (PDMMs), and the Central Bank of Nigeria (CBN);
- v Generation of standard and analytical reports on FGN Bond Auctions; and,
- vi Boost investor confidence in the FGN Bond market.



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 2016 was **₦607. 7 million,** representing a decrease of ₦64.50 million or 9.60 percent relative to the amount appropriated for the organization in 2015. The Overhead and Capital budgets were the most affected, as they were cut by 19.71 percent and 10.00 percent, respectively. Overhead budget declined from **₦132.4 million** in 2015, to **₦106.3 million** in 2016, while Capital budget dropped from **₦97.0 million** in 2015 to **₦87.3 million** in 2016. Similarly, Personnel Emolument vote declined marginally by 6.50 percent from **₦442.8 million** in 2015, to **₦414.0 million** in 2016. The drop in overall budgetary allocation to the DMO in 2016 continued, a trend experienced by the organization in recent years.

11.1.2 Budget Implementation

Of the **₦414.0 million** appropriated for Personnel Emolument in 2016, the sum of **₦402.6 million** was fully warranted and released for the payment of staff salaries and allowances, as well as the settlement of social contributions for Pension and National Health Insurance Scheme. A total sum of **₦401.2 million** was utilized for the aforementioned payments and transfers, while the unutilized balance of **₦1.4 million** was returned to the Sub-Treasurer of the Federation (STF) at the end of the year. The payment of personnel emoluments was done under the Integrated Personnel and Payroll Information System (IPPIS) platform for the third consecutive year in pursuance of the Federal Government's implementation of the Treasury Single Account (TSA).

Of the 2016 approved Overhead Budget of **₦106.3 million,** the sum of **₦76.8 million**, representing almost 72.2 percent was released to the DMO by the Office of the Accountant-General of the Federation (OAGF). The entire amount was utilized for funding the operations of the DMO during the year under review.

Similarly, out of the Capital Budget of **₦87.3 million** approved for the 2016 fiscal year, the sum of **₦87.3 million,** or 100 percent was released through the Government Integrated Financial Management Information System (GIFMIS). Out of this amount, the sum of **₦85.9 million** was utilized for funding two of the three projects earmarked in the 2016 Capital budget, while the balance of **₦1.4 million** was returned to the Sub-Treasury as it was insufficient to finance any other capital project for the year.

In total, the sum of **₦566.7 million** was released to the DMO to fund its Personnel, Overhead and Capital commitments during the 2016 financial year. Out of this amount, **₦563.9 million,** or 99.51 percent, was utilized for the aforementioned expenditure heads, while the total balance of **₦2.8 million** was returned to the Sub-Treasurer of the Federation.

11.2 Corporate Information

Supervisory Board

Chairman	**Prof. Yemi Osinbajo, SAN, GCON** Vice - President, Federal Republic of Nigeria
Vice Chairman	**Mrs. Kemi Adeosun** Hon. Minister of Finance
Member	**Alhaji Abubakar Malami, SAN** Attorney-General/Minister of Justice
Member	Chief Economic Adviser to the President
Member	**Alh. Ahmed Idris, FCNA** Accountant-General of the Federation
Member	**Mr. Godwin Emefiele, CON** 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, Garki-Abuja.
Independent Auditors:	Sada, Idris & Co., Chartered Accountants, 2nd Floor, B Wing, FMBN Building, Central Business District, Abuja.
Bankers:	Central Bank of Nigeria
Principal Officers:	
Dr. Abraham E. Nwankwo	Director-General
Mrs. A.M Mohammed	Director, Strategic Programmes Department
Mr. Miji Amidu	Director, Special Assignments
Mrs. Hannatu Suleiman	Director, Organisational Resourcing Department
Mr. Joe Ugoala	Director, Policy, Strategy & Risk Management Department
Mr. Oladele Afolabi	Director, Portfolio Management Department
Mr. Monday Usiade	Head, Market Development Department
Mrs. Elizabeth Kwaghbulah	Head, Debt Recording & Settlement Department

11.3 Statement of Directors' Responsibilities

DEBT MANAGEMENT OFFICE

Financial Statements for the Year Ended 31st December, 2016

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 Management 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	Joe Ugoala
Director-General	Director, Policy, Strategy & Risk Management Department
FRC/2015/CILRM/00000012204	FRC/2017/CISN/00000016731

11.4 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 statement of financial position as at 31st December 2016, the statement of financial performance, 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 Supervisory 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, ACT 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, 2016, and of 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 Statements of Financial Position, Financial Performance, Cashflow and other accompanying notes are in agreement with the books of account.

Abuja, Nigeria
Date: 9th June 2017

ICAN
0112023

Nkem Onyekawa
FRC/2013/ICAN/00000001804
For: Sada, Idris & Co.
Chartered Accountants

2nd Floor, B Wing
Federal Mortgage Bank Building
Central Business District, Abuja

Partners: Zakari Mohammed Sada FCCA, FCA, B.sc; Nkem Onyekawa FCA, ACIT
Member Firm of IEC-net Forum of International Expert and Consultants. Branches: Kaduna, Kano, Katsina, Lagos
Tel: 080 3788 2878 www.sadaidris.com, e-mail: info@sadaidris.com, sadaidrisco@yahoo.com

11.5 Statement of Financial Performance

	Notes	2016 ₦
INCOME		
Subventions	2	566,710,265
FGN Bond Flotation Receipts	3	3,784,874,414
Grants & Aid Receipts	4	4,000,000
		4,355,584,679
OTHER INCOME		
Sales of Scraps and Stock Items		0
Salaries Returned in Lieu of Notice		0
Other Inflow		35,230,450
		35,230,450
TOTAL INCOME		**4,390,815,129**
EXPENDITURE		
Operations		
Operating Expenses	5	101,392,172
Grants and Aids Expenses	6	3,936,800
Personnel Cost (Supplementary Information: a)		401,183,398
		506,512,370
Debts and other charges		
Finance Charges	7	4,658,487
		4,658,487
Other Expenditures		
FGN Bond Flotation Expenses	8	1,781,342,607
Return to Consolidated Revenue Fund	9	1,411,424
		1,782,754,031
TOTAL EXPENDITURE		**2,293,924,888**
Excess income over expenditure		**2,096,890,241**

11.6 Statement of Financial Position as at 31st December, 2016

DEBT MANAGEMENT OFFICE

Financial Statements for the Year Ended 31st December STATEMENT OF FINANCIAL POSITION	Notes	2016 ₦
NON CURRENT ASSETS		
Fixed Assets (Supplementary Information: h)		135,852,257
CURRENT ASSETS		
Account Receivables	10	53,509,482
Cash and Cash Equivalent	11	3,550,239,260
TOTAL ASSETS		**3,739,600,999**
Current Liabilities		
Account Payables	12	18,520,982
Equity		
Statement of Changes in Equity	13	3,721,080,017
Equity and Liabilities		**3,739,600,999**

The financial statements and notes on pages 6-17 were approved by the Senior Management Committee on 2nd June, 2017 and signed on its behalf by:

Dr. Abraham E. Nwankwo

Director-General/Chief Executive

FRC/2015/CILRM/00000012204

Joe Ugoala

Director, Policy, Strategy & Risk Management Department

FRC/2017/CISN/00000016731

The notes annexed form an integral part of these financial statements

11.7 Statement of Cash Flow for the Year Ended 31st December, 2016

Financial Statements for the Year Ended 31st December STATEMENT OF CASH FLOWS		2016 ₦
	Notes	
Cash flows From Operating Activities:		
Sales of Scraps and Stock Items		0
Salaries Returned in Lieu of Notice		0
Other Inflow		35,230,450
Operating Expenses		(101,392,172)
Service Wide Vote Expenses		0
Depreciation		6,273,200
Grants and Aids Expenses		(3,936,800)
Personnel cost		(401,183,398)
Account Receivables	10	(53,509,482)
Account Payables	12	18,520,982
		(499,997,220)
Finance Charges		(4,658,487)
Net cash flows from operating activities		**(504,655,707)**
Cash flows from Financing Activities:		
Subventions	2	566,710,265
FGN Bond Flotation Receipts	3	3,784,874,414
Grants and Aids Receipt	4	4,000,000
FGN Bond Flotation Expenses	8	(1,781,342,607)
Return to Consolidated Revenue Fund	9	(1,411,424)
Net cash flows from financing Activities		**2,572,830,648**
(Decrease)/Increase in Cash and cash equivalent		2,068,174,941
Opening Cash and Cash Equivalent		1,482,064,319
Closing Cash and Cash Equivalent		**3,550,239,259**

11.8 Statement of Comparison of Budget and Actual Amounts

	2016		
	Original and Final Budget ₦	Actual ₦	Performance Difference ₦
Recurrent Expenditure			
Personnel	414,029,369	401,183,398	12,845,971
Overheads			
Local Travel & Transport: Training	11,718,765	11,710,265	8,500
Local Travel & Transport: Others	7,391,836	7,388,983	2,853
International Travels & Transport: Training	9,776,696	1,386,090	8,390,606
International Travels & Transport: Others	3,605,774	3,600,388	5,386
Telephone Charges	2,704,330	2,538,850	165,480
Electricity	0	0	0
Internet Access Charges	1,802,887	1,138,906	663,981
Office stationeries/ Computer consumables	3,326,893	3,326,893	0
News Papers	899,160	847,128	52,032
Magazines & periodicals	678,937	518,358	160,579
Printing of Non-Security Documents	180,289	164,000	16,289
Drugs & Medical Supplies	270,433	169,050	101,383
Uniforms & Other Clothing	2,408,466	2,223,093	185,373
Maintenance of Motor Veh./Trans. Equip.	401,411	69,500	331,911
Maintenance of Office Furniture	963,386	628,933	334,453
Maintenance of Office BLDg/Res. Qtrs.	1,802,887	1,579,010	223,877
Maintenance of Office/ IT Equipments	8,429,736	8,139,639	290,097
Local Training	9,616,798	8,886,887	729,911
International Training	540,866	0	540,866
Security Services	10,195,786	2,307,407	7,888,379
Office Rent	2,809,877	0	2,809,877
Financial Consulting	1,605,643	1,605,643	0
Information Technology Consulting	4,326,928	2,104,897	2,222,031
Motor Vehicle Fuel Cost	240,846	205,000	35,846
Bank Charges	0	0	0
Insurance Premium	2,007,054	0	2,007,054
Refreshment & meals	7,408,791	7,380,825	27,966
Honorarium & Sitting Allowances	3,211,287	3,201,774	9,513
Publicity & Advertisement	321,129	85,500	235,629
Postages & Courier Services	450,722	0	450,722
Welfare packages	5,619,752	5,608,426	11,326
Subscription to Professional Bodies	1,605,643.00	0	1,605,643
	106,323,008	**76,815,445**	**29,507,563**
Total Recurrent Expenditure	**520,352,377**	**477,998,843**	**42,353,534**
Capital Expenditure			
Purchase of Office Furniture & Fittings	0	0	0
Purchase of Photocopying Machines	0	0	0
Purchase of Shredding Machines	0	0	0
Purchase of Motor Vehicle	66,693,780	0	66,693,780
Purchase of Industrial Equipment	13,647,675	0	13,647,675
Purchase of Security Equipment	2,106,000	0	2,106,000
Purchase of Computer/Printers	0	0	0
Computer Software Acquisition	4,852,545	0	4,852,545
Total Capital Expenditure	**87,300,000**	**0**	**87,300,000**
			-
Total	**607,652,377**	**477,998,843**	**129,653,534**

11.9 Notes to the Financial Statements for the Year Ended 31st December, 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The DMO was established on 4th October, 2000 to centrally coordinate the management of Nigeria's debt, which was hitherto being done by a myriad of establishments in an uncoordinated fashion. This diffused debt management strategy led to inefficiencies. The DMO was established to achieve the following results:

• Good debt management practices that make positive impact on economic growth and national development, particularly in reducing debt stock and cost of public debt servicing in a manner that saves resources for investment in poverty reduction programs;

• Prudently raising financing to fund government deficits at affordable costs and manageable risks in the medium- and long-term;

• Achieving positive impact on overall macroeconomic management, including monetary and fiscal policies; and

• Consciously avoiding debt crisis and achieving an orderly growth and development of the national economy;

b. Basis of Preparation - Statement of Compliance

The financial statements have been prepared in accordance with Accrual Basis - International Public Sector Accounting Standards (IPSAS). These are prepared in accordance with Accrual Basis IPSAS in line with the Treasury Circulars issued by the Office of the Accountant-General of the Federation and the requirements of the Financial Reporting Council of Nigeria in accordance with the Federal Government Roadmap on migration to IPSAS accrual basis of financial reporting.

The Financial statements were authorised for issue by the directors on 9th June 2017.

c. Functional and Presentation Currency

These financial statements are presented in Nigerian Naira, which is the Company's functional currency.

d. Adoption of New and Revised Standards

DMO has elected to early adopt IPSAS 33 which allows an Entity to present it's first Accrual basis IPSAS transititional financial statements without comparative information.

e. Reporting and Budgeting Period

The reporting and budgeting period of these financial statements is year 2016 (January to December, 2016).

f. Accounting Convention and Basis of Measurement

These financial statements are prepared on the historical cost basis under the Accrual Basis of Accounting.

The statement of Financial Performance, statement of Comparison of Budget and Actual amounts by function and notes forming parts thereof have been prepared on the format of Accrual Basis IPSAS - Financial Reporting under the Accrual Basis of Accounting. The Statement of Cash Flows as required by IPSAS 2 - Cash Flow Statements has also been presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

g. **Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to DMO and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized. All repair and maintenance is charged to the statement of financial performance during the financial period in which it is incurred.

Depreciation on assets is charged on a straight-line basis at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life:

	Rate
Land	
Motor Vehicles	25%
Computer / IT Equipment	25%
Office Furniture and Equipment	20%

h. **Revenue Recognition**

Revenue is recognized on the date of receipt of money by the bank or clearance of cheque. Revenue is recognized on a gross basis and any related costs are recorded separately. Receipts representing recovery of any previous overpayment are adjusted against relevant expenditure, if it occurs in the same financial year.

i. **Recognition of Expenditur**e

Expenditure is recognized on the date when payment is made or cheque is issued. Financial year to which the payments pertain is determined by the date on which a cheque or payment advice is issued. Policies for recognition of expenditure are as follows;
a) Payments **made through cheque**: Expenditure is recognized on the date the cheque is issued.
b) Inter**-government transfers**: Expenditure is recognized on the date the transfer is made by the transferor.
c) Payments **directly into bank accounts**: Direct payments into bank account, expenditure is recognized on the date the payment advice is issued to the bank.

j. **Foreign Currency**

Transactions in foreign currencies are recorded in the books at the rates of exchange prevailing on the date of transaction. Exchange differences arising on settlement of these transactions are recognized in the statement of cash receipts and payments, but are not been disclosed separately.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

k. **Cash and Cash Equivalents**

For the purpose of Cash Flow Statement, cash and cash equivalents comprise cash with Banks in Nigeria and cash held as imprest in the custody of DMO.

l. **Payments by Third Parties**

The payments made by the third parties do not constitute cash receipts or payments controlled by an entity as defined in the Cash Basis IPSAS - Financial Reporting under the Cash Basis of Accounting. Payments by third parties, if any, are to be disclosed in the payments by third parties' column on the face of statement of cash receipts and payments and notes to the Financial Statements. In the year under review, DMO did not benefit from such payments.

m. **Taxation**

There was no provision for both Income and Education Taxes during the period ended 31st December, 2016 because the Office is a non-profit making Organization.

n. **Staff Retirement Benefits**

Debt Management Office operates a defined retirement benefit plan for its staff. The Office and the employees contribute 10% and 8% respectively on the staff consolidated salaries and allowances.

o. **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.

p. **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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016 ₦
2	**Subventions**	
	Recurrent- Overheads	76,834,703
	Personnel	402,575,563
	Capital Fund	87,299,999
	Public Service Wage Adjustment for MDAs	0
		566,710,265
3	**FGN Bond Flotation Receipts**	
	FGN Bond Floatation	1,156,080,644
	WHT on FGN Bond Commission	276,470,712
	Accrual FGN Bond Commission	23,213,967
	International Capital Market Operational Fund	1,703,912,364
	Diaspora Account	625,196,727
		3,784,874,414
4	**Grants & Aids Receipts**	
	Grants and Aids - States Sponsored	**4,000,000**
5	**Operating Expenses**	
	Administrative Overheads	83,465,800
	Repairs and Maintenance	11,653,172
	Depreciation of Assets	6,273,200
		101,392,172
6	**Grants & Aids Expenses**	
	Capacity Building -Local	3,936,800
	Telephone and Postages	0
		3,936,800
7	**Finance Charges**	
	FGN Bond Operations	4,441,032
	Overhead/Personnel/Capital Viz GIFMIS	217,455
	Grants / Aids	0
		4,658,487
8	**FGN Bond Floatation Expenses**	
	Domestic Bond Floatation	1,019,886,912
	International Capital Market	297,604,141
	Bond IT System Platform	107,449,719
	WHT on FGN Bond Commission	276,470,712
	Accrued WHT on FGN Bond Commission	23,213,967
	Diaspora Account	56,717,156
		1,781,342,607

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016 ₦
9	**Return to Consolidated Revenue Fund**	
	Capital Fund	0
	Overheads	19,259
	Personnel Emolument	1,392,165
	Service Wide Vote	0
	Grants/Aids transfer to TSA	0
	Mop up by IPPIS-Unsolicited Personnel Adjustment	0
	Revenue Refund to CRF	0
		1,411,424
10	**Account Receivables**	
	Accrued Income (Capital Development Fund)	**53,509,482**
11	**Cash and Cash Equivalents**	
	Central Bank Plc (Grants and Aids)	63,200
	Central Bank of Nigeria (FGN Bond Account)	3,516,385,543
	Capital Fund (GIFMIS)	33,790,517
		3,550,239,260
12	**Account Payables**	
	Accrued Office Rent	15,320,982
	Audit Fee	3,200,000
		18,520,982
13	**Statement of Changes in Equity**	
	Balance Brought Forward	2,033,182,419
	Transfer for the Year	2,096,890,241
	Restatement of Accumulated Depreciation	(408,992,643)
		3,721,080,017

Accumulated Depreciation of Fixed Assets during the period of Cash Basis accounting has been restated to Accrual Basis

11.10 Supplementary Information

		2016 ₦
a.	**PERSONNEL COST**	
	Salaries and Wages	401,183,398
	Public Service Wage Adjustment for MDAs	0
		401,183,398
b.	**ADMINISTRATIVE OVERHEADS**	
	Local Travel and Transport: Training & Others	27,768,680
	International Travels and Transport: Training & Others	3,630,388
	Communication, Telephone and Postages	2,538,850
	Newspaper/Magazine/Books and Periodical	1,365,486
	Computer Materials and Supplies	3,326,893
	Printing of Non-Security Documents	164,000
	Drugs and Medical Supplies	169,050
	Uniforms and Other Clothing	2,223,093
	Entertainment	7,380,825
	Security Services	686,407
	Office Rent	15,320,982
	Audit Fee	3,200,000
	Financial Consulting	1,605,643
	Information Technology Consulting	2,104,897
	Motor Vehicle Fuel and Lubricant	1,826,000
	Honorarium and Sitting Allowance	3,201,774
	Welfare Packages	5,608,426
	Subscription to Professional Bodies	0
	Publicity and Advertisement	85,500
	Electricity	0
	Cleaning and Fumigation Services	120,000
	Internet Access Charges	1,138,906
		83,465,800
c.	**REPAIRS AND MAINTENANCE**	
	Motor Vehicles	1,425,590
	Office Furniture and Fittings	628,933
	Office Building	1,459,010
	Computers and IT Equipment	8,139,639
		11,653,172

SUPPLEMENTARY INFORMATION (Continued)

		2016 ₦
d.	**DOMESTIC BOND FLOATATION**	
	Local Travels and Transport	41,924,994
	International Travels and Transport	7,908,700
	Entertainment	0
	Publicity and Advertisements	365,518,450
	Stock Brokers Fees	0
	Other Professional Services	0
	Listing Fees (FGN Bond)	205,000,000
	Information Technology Consulting	147,214,270
	Legal Advisory Services	185,935,695
	Marketing Services	1,307,600
	Office Stationery	0
	Local Training	2,000,000
	Filing Fee	17,641,125
	Subscription	45,436,078
		1,019,886,912
e.	**INTERNATIONAL CAPITAL MARKET (ICM) OFFERINGS**	
	Local Travels and Transport	1,894,680
	International Travels and Transport	42,233,637
	Publicity and Advertisement	185,560,809
	Legal Advisory Services	0
	Filing Fee	0
	Refreshment and Meal	54,592,327
	Stationeries	4,755,500
	Local Training	8,567,188
		297,604,141
f.	**FGN BOND IT SYSTEM PLATFORM**	
	International Travels and Transport	7,362,700
	International Training	0
	Local Travels and Transport	2,980,400
	Publicity and Advertisement	33,675,561
	Refreshment and Meal	0
	Consultancy on Information Tech Platform: FGN Bonds	63,431,058
	Subscription	0
		107,449,719
g.	**Diaspora Bond Account**	
	Legal Service	56,207,556
	Publicity and advert	35,000
	Refreshment and meal	474,600
		56,717,156

SUPPLEMENTARY INFORMATION (Continued)

h. **NON-CURRENT ASSETS**

	Land*	Motor Vehicle	Computer/IT Equipment	Office Furniture & Equipment	Total
	₦	₦	₦	₦	₦
COST					
At 1st January, 2016	120,037,177	102,297,468	164,643,990	164,139,465	551,118,100
Additions During the Year	0	0	0	0	0
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At 31st December, 2016	120,037,177	102,297,468	164,643,990	164,139,465	551,118,100
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DEPRECIATION					
At 1st January, 2016		102,297,458	155,630,330	151,064,855	408,992,643
Charge for the year	0	0	3,004,550	3,268,650	6,273,200
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At 31st December, 2016	0	102,297,458	158,634,880	154,333,505	415,265,843
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NET BOOK VALUE					
At 31st December, 2016	120,037,177	10	6,009,110	9,805,960	135,852,257
	=======	=======	======	======	=======
At 31st December, 2015	120,037,177	10	9,013,660	13,074,610	142,125,457
	=======	=======	======	======	=======

*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

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