DEBT MANAGEMENT OFFICE
NIGERIA

NIGERIA'S DEBT MANAGEMENT STRATEGY, 2020-2023

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GLOSSARY

ABEDA	Arab Bank for Economic Development in Africa
AfDB	African Development Bank
ADF	African Development Fund
AT	Analytical Tool
ATM	Average Time-to-Maturity
ATR	Average Time-to-Refixing
Bps	Basis points
CBN	Central Bank of Nigeria
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DMBs	Deposit Money Banks
DMO	Debt Management Office
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
EDF	European Development Fund
ERGP	Economic Recovery and Growth Plan
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FGN Bonds	Federal Government of Nigeria Bonds
FMFBNP	Federal Ministry of Finance, Budget and National Planning
FX	Foreign Exchange
GDP	Gross Domestic Product
GOEs	Government Owned Enterprises
GF	Gross Financing
IBRD	International Bank for Reconstruction and Development
ICM	International Capital Market
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
ILBs	Inflation-Linked Bonds
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency

LIBOR	London Inter-Bank Offer Rate
LMIC	Lower-Middle-Income Country
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MCM	Money and Capital Markets
NASS	National Assembly
NBS	National Bureau of Statistics
NDF	Net Domestic Financing
NDMF	National Debt Management Framework
NEF	Net External Financing
NGN	Nigerian Naira
NTBs	Nigerian Treasury Bills
OAGF	Office of the Accountant-General of the Federation
PDMMs	Primary Dealer Market Makers
PV	Present Value
SFA	Sinking Fund Account
SLGs	States and Local Governments
TA	Technical Assistance
TBs	Treasury Bills
TGF	Total Gross Financing
USD	United States Dollar
UST	United States Treasury
WAIFEM	West African Institute for Financial and Economic Management
WB	World Bank

EXECUTIVE SUMMARY

1.0 Introduction

Nigeria's Medium-Term Debt Management Strategy (MTDS), 2020-2023, is formulated to guide the borrowing activities of the Government in the medium-term. The framework compares alternative funding strategies available to Government as it pursues the desired structure of debt portfolio that reflects the selected strategy considering the costs and risk trade-offs in the medium-term.

Following the expiration of the MTDS, 2016-2019 in December 31, 2019, it became imperative to develop a new Strategy for another term, 2020-2023. To this end, the Debt Management Office (DMO), in collaboration with relevant stakeholders – The Federal Ministry of Finance, Budget and National Planning (FMFBNP); Central Bank of Nigeria (CBN); Budget Office of the Federation (BOF); National Bureau of Statistics (NBS); and Office of the Accountant-General of the Federation (OAGF), with technical support from the World Bank, IMF and the West African Institute for Financial and Economic Management (WAIFEM), proposed a new Debt Management Strategy for the period, 2020 – 2023.

While the Report of the new MTDS was being finalised for approvals, by the Honourable Minister of Finance, Budget and National Planning (HMBNP), and thereafter, Federal Executive Council (FEC), the global economy was hit by the COVID-19 pandemic. The fiscal position of most countries including Nigeria worsened. In the case of Nigeria, the impact of COVID-19 on crude oil prices saw over a 50 percent dip in Revenue, and a reduction in Crude Oil production and sale, as well as a limitation in terms of the level and sources of funding available to the Government, including access to the International Capital Market (ICM). These developments rendered the various assumptions and projections of the Draft MTDS, 2020-2023 exercise unrealistic, hence, the need for a revision of the Draft Strategy.

2.0 Review of the 2016-2019 Medium-Term Debt Management Strategy

The outcome of the implementation of the MTDS, shows progressive improvements over the 2015 levels, for all the Indicators, during the implementation period, with some outcomes exceeding the Targets set in the Strategy. These are highlighted in Table 1.

Table 1: Performance Review of Nigeria's Debt Management Strategy, 2016-2019

Indicator	2015	2016	2017	2018	2019	Target
Total Public Debt-to-GDP (%)	13.02	16.40	18.20	19.09	19.00	Max. 25
Total Public Debt Composition Ratio: Domestic to External	84:16	80:20	73:27	68:32	67:33	60:40
External Debt Composition: Concessional to Non-Concessional	83:17	83:17	59:41	51:41	53:47	To maximize concessional financing
FGN Domestic Debt Mix: Long-Term to Short-Term	69:31	70:30	72:28	79:21	81:19	Min. 75: Max. 25
Debt Maturing within 1-year/Total Debt Portfolio (%)	29.15	23.86	23.53	15.38	13.77	Not more than 20
Average Time-to-Maturity (ATM) for Total Debt (years)	7.17	9.54	11.55	10.50	10.50	Min. 10 years

i In the implementation of the Strategy, it is worthy to note that the attainment of the debt portfolio target of 60:40 for Domestic debt and External debt was impaired as External debt financing was constrained due to non-access to the International Capital Market in 2019, as a result of the late passage of the 2019 Appropriation Act.

ii There was improvement in the structure of Domestic debt with the issuance of 30-year FGN bond in 2019.

iii Although the Strategy assumes access to concessional funding, the source is constrained by limited envelope, available to Nigeria, in view of its classification as a Lower Middle Income in 2016.

The review of the MTDS, 2020-2023 took into consideration the following parameters:

a. Significant drop in Government's revenue due to lower Oil demand and Price shocks related to COVID-19 pandemic, thus constrained Government's funding and presenting additional borrowing requirements to the Government.

b. Due to COVID-19 pandemic, accessing the ICM is no longer feasible in 2020.

c. Limited access to the concessional funding from the Multilateral creditors, given the envelope available to Nigeria.

d. The domestic interest rates are expected to gradually trend upwards, in view of higher expectations in inflation rates.

3.0 Medium-Term Debt Management Strategy (MTDS), 2020-2023

The methodology adopted in the preparation of the MTDS 2020-2023 is presented in sections 3.1 to 6.0.

3.1 Review of the Total Public Debt Portfolio

Nigeria's Total Public Debt outstanding was ₦27,401,381.29 million (US$84,053.32 million), as at December 31, 2019, as detailed in Table 2.

Table 2: Nigeria's Total Public Debt Portfolio as at December 31, 2019

Debt Category	Amount Outstanding (US$'M)	Amount Outstanding (₦'M)
Total External Debt	**27,676.14**	**9,022,421.64**
FGN only	23,111.27	7,534,274.02
States & FCT	4,564.87	1,488,147.62
Total Domestic Debt	**56,377.18**	**18,378,959.65**
FGN Only	43,781.12	14,272,644.79
States & FCT	12,596.06	4,106,314.86
Nigeria's Total Public Debt	**84,053.32**	**27,401,381.29**

The ratio of Total Public Debt-to-GDP as at December 31, 2019 remained low at 19.00 percent when compared to the Country's Specific Debt Limit of 25 percent and the World Bank/IMF's recommended Threshold of 55 percent for countries in Nigeria's peer group, as well as the West African Monetary Zone (WAMZ) convergence threshold of 70 percent. However, the ratio of Total Interest Payment-to-FGN's Revenue showed an improvement to 37.49 percent in 2019 from 51.28 percent in 2018, while there was moderation in the refinancing and interest rate risks, but relatively higher foreign exchange risk.

3.2 Macroeconomic Assumptions

Although the Nigerian economy witnessed a positive growth in GDP in the first quarter of 2020 growing by 1.87%, this performance represented a drop of -0.68% points compared to 2.55 % growth in Q4, 2019. The Government also witnessed a significant drop in revenue of over 50 percent of its projected 2020 revenue from the Oil and Gas sectors, due to the negative impact of COVID-19 pandemic and crash in the Crude Oil prices. Given that the key macroeconomic indicators were adversely impacted, the 2020 Appropriation Act was revised to reflect the current realities.

The Baseline macroeconomic assumptions for MTDS, 2020-2023 are based on the projections outlined in the revised 2020 Appropriation Act and the draft 2021-2023 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) approved by FEC and awaiting the approval of NASS. These are aimed at stabilizing the economy in the face of the pandemic, and restore growth. However, moderate recovery in crude Oil prices will help reduce the pressure on the external reserves, shore up government's revenue, and impact positively on the economy as it gradually recovers.

3.4 Scope of Data Coverage

The scope of the MTDS, 2020-2023 cover debt data that relates to main financial obligations over which the Federal Government of Nigeria (FGN) exercises full control. In line with the requirements of the MTDS Analytical Template and the WB/IMF guidelines on Public Debt Management, the debt data includes External Debt Stock of the FGN and 36 State Governments and the Federal Capital Territory (FCT), and the Domestic Debt of Federal Government only, as well as the FGN's financing needs over the future period.

The Domestic Debt of the thirty-six (36) States and FCT were excluded in the analysis. In like manner, the Contingent Liabilities of the FGN were not included as they are not direct liabilities of the FGN, in view of the fact that they do not crystallize unless particular events occur in the future. Also excluded from the exercise are the data relating to the Ways and Means Advances and the Debt Data of five (5) State-owned Enterprises (SOEs), which are: Asset Management Corporation of Nigeria (AMCON); Nigeria Deposit Insurance Corporation (NDIC); Bank of Industry (BOI); Bank of Agriculture (BOA); and, Nigerian Export-Import Bank (NEXIM). For the later, their inclusion is being proposed for compliance with the framework of the IMF Monetary and Financial Statistics Manual and Compilation Guide 2016.

4.0 Objectives of the Debt Management Strategy, 2020-2023

The Objectives which were the drivers of the DMS, 2020-2023 were:

i. Borrowing from External and Domestic sources will be in line with the Funding Structure for New Borrowings in the revised 2020 Appropriation Act, and the new MTEF, 2021-2023;

ii. Reducing the cost of Debt Service, as measured by the ratio of Interest Payments-to-Revenue ratio. The Strategy recognises that the achievement of this objective, depends on significant increase in the Government's revenue;

iii. Moderating the level of Debt-related Risks namely Refinancing and Foreign Exchange Risks.

iv. Maximizing funds available to Nigeria from Multilateral and Bilateral sources in order to access cheaper and long tenored funds, whilst taking cognisance of the limited funding envelopes available to Nigeria, due to Nigeria's classification as a Lower-Middle-Income country;

v. Ensure Debt Sustainability, as measured by the Debt to GDP ratio, (which should be within the WB/IMF's recommended threshold of 55 percent), and Interest Payment to Revenue Ratios; and,

vi. Sustaining the issuances of longer-tenored debt instruments in both the domestic debt market and International Financial Markets.

4.1 Alternative Debt Management Strategies Considered

Taking into consideration the Objectives of the MTDS, 2020-2023, as stated in Section 4.0 of this Report, three (3) Alternative Strategies were formulated and their Cost and Risk implications on the Total Public Debt portfolio were analysed. The three (3) Strategies were as follows:

a. Strategy 1 (S1): Baseline, based on the Borrowing Provisions in the Revised 2020 Appropriation Act and draft MTEF, 2021-2023

i. Borrowing will be from both External and Domestic sources as stated in the revised 2020 Budget and draft MTEF, 2021-2023, and their Funding Structure for External and Domestic sources - 47:53 in 2020, 50:50 in 2021-2023.

ii. Funding from the Concessional Multilateral and Bilateral windows to be based on availability, and accessing the International Capital Market (ICM) to resume in 2021, and subsequently thereafter.

iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

b. Strategy 2 (S2): Maximize Domestic Borrowing, using longer-tenored instruments

i. Borrowing will be from both External and Domestic sources, and will tilt more to Domestic borrowing in the ratios of External to Domestic of 35:65 for 2021-2023, while the ratio for 2020, which is already being implemented is 47:53.

ii. For External Borrowing, funding from the Concessional sources of the Multilateral and Bilateral windows will be maximised, subject to availability, while a reduction in External Commercial Borrowing compared to Strategy 1 will be replaced with longer-tenored Domestic Borrowing.

iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

c. **Strategy 3 (S3): Maximize External Borrowing (Similar to S1 but with a marginal increase in External Borrowing)**

i. Borrowing will be from both External and Domestic sources, but marginally tilts more to External financing, in the ratios of External to Domestic of 47:53 in 2020 (as in the 2020 Appropriation Act), 55:45 in 2021, 57:43 in 2022 and 59:41 in 2023.

ii. A reduction in the Domestic borrowing by 2 percent points in Strategy 1, to be replaced with External Borrowing by the same margin, while funding from the Concessional sources of the Multilateral and Bilateral windows will be the primary focus, but subject to availability. Accessing the ICM is expected to be rom 2021, for Debt instruments with maturities of 10 years.

iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

4.2 Description of Shock Scenarios

The Exchange rate and Interest rate shocks are applied to assess the robustness of each Strategy against adverse market such as Naira Exchange Rate devaluation and Interest Rate increases relative to the Baseline projections. The standard DSA Exchange rate shock of 15 percent depreciation (moderate) and 30 percent depreciation (extreme) were applied throughout the projection period, 2020-2023. Shocks to interest rate applied were increases of 2.5 percent (moderate), and 5.0 percent (extreme) on market and variable-rate instruments.

4.3 Recommended Strategy, Benefits and Associated Risks

The three (3) Strategies above were analyzed based on the Cost-Risk trade-offs. Strategy 2, as the most preferred Strategy, as it presents the lowest exposure to Refinancing (Average Tenor of the Portfolio), and Foreign Exchange Risks. S2 has the highest cost, in terms of Weighted Average Interest Rate for Total Debt at 7.65, compared to 7.26% and

7.03% for S1 and S3 respectively. Given the state of the international financial markets, in terms of the ability of Nigeria to access large sums for long tenors in the ICM, coupled with the strong liquidity and low Interest rates in the domestic market, S2 is the more feasible Strategy.

The Benefits and Risks associated with the recommended Strategy are as follows:

i. Maximising borrowing from Domestic Market, would provide appropriate funding for key infrastructure projects. The development of infrastructure would stimulate much higher economic activities, create jobs, enhance Government's revenue, which would ultimately moderate the ratio of Debt Service to Revenue.

ii. With a relatively lower share of External Debt at 35.00 percent for 2021-2023, it is least exposed to Foreign Exchange risk. This would moderate the exposure of the portfolio to foreign exchange rate shocks.

iii. Continued issuances of longer-tenored debt instruments, of 20 to 30 years, in both the domestic debt market and the ICM, will help to moderate refinancing risk.

5.0 Targets for Public Debt

The strategy targets were reviewed in MTDS, 2020-2023 in order to give ample room for additional funding required to drive infrastructural development, and to accommodate the planned securitisation of Government's outstanding obligations, and arrears. The performance of the Public Debt will be measured against these Targets, which may be reviewed when necessary. Table 3 set out the targets for the four years (2020 to 2023).

Table 3: Nigeria's Debt Management Strategy and Targets by end-2023

In preparing the new MTDS, the DMO intends to continue:

- Meeting the financing needs of the Government from the domestic market, and maximizing available funds to Nigeria from the Concessional and Semi-Concessional sources, in order to access cheaper and long-tenored funds, whilst taking cognizance of Nigeria's limited funding envelopes;
- Lengthening the maturity profile of the debt portfolio through:
  - ✓ long-term external financing from Multilateral and Bilateral creditors, and the International Financial Markets; as well as,
  - ✓ continued issuance of longer-maturity domestic bonds.

MTDS Targets for the period 2020-2023:

		2016-2019 Target	2019 Actual	2020-2023 Target
Portfolio Composition				
	Domestic: External	60:40	67:33	Max.70:Min.30[1]
	Domestic Debt Mix: Long: Short	75:25	81:19	Min. 75:Max. 25[1]
Risks ratios				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	13.77%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A	2.98%	Less than 5%
Fiscal Sustainability ratios				
	Debt as % of GDP	25%	19.00%	40%[2]
	Deficit to GDP (%)			3%[3]
	Sovereign Guarantees as % of GDP	N/A[4]	1.98%	Max. 5%

Source: DMO

Notes:

[1] The introduction of New Domestic Debt from the Issuance of Promissory Notes and expectations of the inclusion of Ways and Means Advances and SOEs' debts in the FGN's Debt Stock will result in an increase in the Domestic Debt and may also result in more short-tenored Debt in the Debt Stock.

[2] Increased to accommodate New Borrowings to fund Budget, issuance of more Promissory Notes and the proposal to transfer some SOEs' debts, including AMCON to the FGN's Balance Sheet in line with the IMF's guidelines, and proposed inclusion of Ways and Means.

[3] This Limit is provided in Section 12(1) of the Fiscal Responsibility Act (FRA), 2007, and efforts are to be made to ensure compliance, except if in the opinion of the President, there is good reason to exceed the threshold, as further provided in Section 12(2) of the Act.

[4] N/A – No Targets indicated in the MTDS, 2016-2019.

CHAPTER ONE

BACKGROUND, OBJECTIVES AND SCOPE OF NIGERIA'S DEBT MANAGEMENT STRATEGY, 2020-2023

1.1 Background

The primary objective of Nigeria's MTDS, 2020-2023, is to guide the borrowing activities of the FGN in the medium-term. The framework compares alternative funding strategies available to the Government as it pursues the desired structure of debt portfolio that reflects the selected strategy considering the costs and risk trade-offs in the medium-term.

Following the expiration of the MTDS, 2016-2019 in December 31, 2019, it became imperative to develop a new Strategy for another term, 2020-2023. To this end, the Debt Management Office (DMO), in collaboration with relevant stakeholders, and with technical support from the World Bank, International Monetary Fund (IMF) and West African Institute for Financial and Economic Management (WAIFEM), conducted an exercise in Q4, 2019 and to be delivered in Q1, 2020.

The outbreak of the Coronavirus (Covid-19), in Q4, 2019, which has been described by the World Health Organisation (WHO) as a pandemic, has negatively impacted the fiscal position of most countries including Nigeria. In the case of Nigeria, the impact of COVID-19 on crude oil prices saw over a 50 percent dip in Revenue and a limitation in terms of sources of funding available to the Government. These developments rendered the assumptions and projections of the draft MTDS, 2020-2023 exercise unfeasible.

The main thrust of this new Strategy is to moderate the level of debt related risks, reduce the cost of debt servicing, maximise leveraging on funding from Multilateral and Bilateral sources, subject to availability, whilst ensuring debt sustainability, amongst other objectives.

The revised MTDS, 2020-2023 was undertaken by the Debt Management Office (DMO) in collaboration with the relevant Ministries, Departments and Agencies (MDAs) of the FGN, namely: Federal Ministry of Finance, Budget and National Planning (FMFBNP) and Central Bank of Nigeria (CBN).

1.2 Objectives of the Debt Management Strategy, 2020-2023

The Objectives which were the drivers of the MTDS, 2020-2023 were:

i. Borrowing from External and Domestic sources will be in line with the Funding Structure for New Borrowings in the MTEF, 2020-2023 and Appropriation Acts;

ii. Reducing the cost of Debt Service, as measured by the ratio of Interest Payments-to-Revenue ratio. The Strategy recognises that the achievement of this objective, depends on significant increase in the Government's revenues;

iii. Moderating the level of Debt-related Risks namely, Refinancing and Foreign Exchange Risks;

iv. Maximizing funds available to Nigeria from Multilateral and Bilateral sources in order to access cheaper and long tenored funds, whilst taking cognisance of the limited funding envelopes available to Nigeria, due to Nigeria's classification as a Lower-Middle-Income country;

v. Ensuring Debt Sustainability, as measured by the Debt to GDP ratio, (which should be within the WB/IMF's recommended threshold of 55 percent), and Interest Payment to Revenue Ratios;

vi. Increasing the issuances of longer-tenored debt instruments in both the domestic debt market and International Financial Markets; and,

1.3 Scope of the Debt Management Strategy

The scope of the 2020-2023 MTDS cover debt data that relates to main financial obligations over which the FGN exercises full control. In line with the requirements of the MTDS Analytical Template and the WB/IMF guidelines on Public Debt Management, the debt data includes External Debt Stock of the FGN and 36 State Governments and the Federal Capital Territory (FCT), and the Domestic Debt of Federal Government only, as well as the FGN's financing needs over the future period.

The Domestic Debt of the thirty-six (36) States and FCT were excluded in the analysis. In like manner, the Contingent Liabilities of the FGN were not included as they are not direct liabilities of the FGN, in view of the fact that they do not crystallize unless particular events occur in the future. Also excluded from the exercise are the data relating to the Ways and Means Advances and the Debt Data of five (5) State-owned Enterprises (SOEs), which are: Asset Management Corporation of Nigeria (AMCON); Nigeria Deposit Insurance Corporation (NDIC); Bank of Industry (BOI); Bank of Agriculture (BOA); and, Nigerian Export-Import Bank (NEXIM). For the later, their inclusion is being proposed for compliance with the framework of the IMF Monetary and Financial Statistics Manual and Compilation Guide 2016.

This Report is divided into seven (7) Chapters, as outlined below:

Chapter 1 – Background, Objectives and Scope of the Nigeria's MTDS, 2020-2023
Chapter 2 – Assessment of the Nigeria's Debt Management Strategy, 2016-2019
Chapter 3 – Characteristics of FGN Total Debt Portfolio as at December 31, 2018
Chapter 4 – Sources of Financing and Pricing Assumptions
Chapter 5 – Baseline Macroeconomic Assumptions and Key Risks
Chapter 6 – Alternative Debt Management Strategies and Result Analysis
Chapter 7 – Implementation of the Preferred Strategy and Conclusion

CHAPTER TWO

ASSESSMENT OF NIGERIA'S DEBT MANAGEMENT STRATEGY, 2016-2019

2.1 Introduction

The outcome of the implementation of the MTDS, shows progressive improvements over the 2015 levels, for all the Indicators, during the implementation period, with some outcomes exceeding the Targets set in the Strategy. These are highlighted in Table 1 below.

Table 4: Performance Review of Nigeria's Debt Management Strategy, 2016-2019

Indicator	2015	2016	2017	2018	2019	Target
Total Public Debt-to-GDP (%)	13.02	16.40	18.20	19.09	19.00	Max. 25
Total Public Debt Composition Ratio: Domestic to External	84:16	80:20	73:27	68:32	67:33	60:40
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FGN Domestic Debt Mix: Long-Term to Short-Term	69:31	70:30	72:28	79:21	81:19	Min. 75: Max. 25
Debt Maturing within 1-year/Total Debt Portfolio (%)	29.15	23.86	23.53	15.38	13.77	Not more than 20
Average Time-to-Maturity (ATM) for Total Debt (years)	7.17	9.54	11.55	10.50	10.50	Min. 10 years

Source: DMO

- i In the implementation of the Strategy, it is worthy to note that the attainment of the debt portfolio target of 60:40 for Domestic debt and External debt was impaired due to External debt financing being constrained by non-access to the ICM in 2019.
- ii There was improvement in the structure of Domestic debt with the issuance of 30-year FGN bond in April, 2019 and reopening of 25-year FGN bond in July 2019.
- iii Although the Strategy assumes access to concessional funding, the source is constrained by limited envelope, available to Nigeria, in view of its classification as a Lower Middle Income in 2016.

The review of the MTDS, 2020-2023 took into consideration the following parameters:

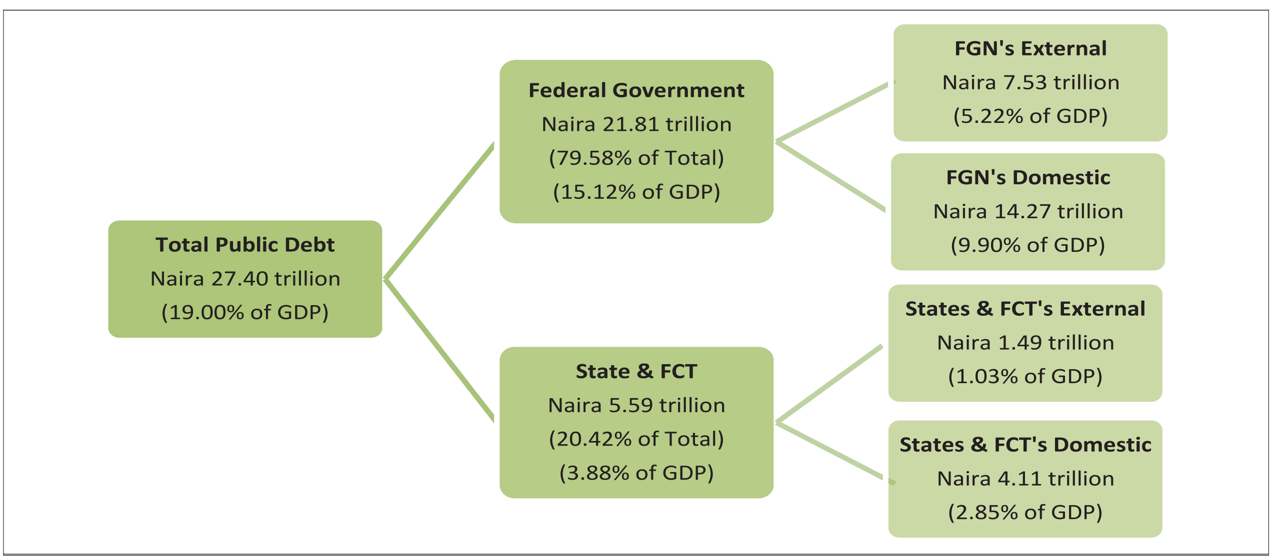
a. Funding available to the Government constrained due to lower oil demand and price shocks related to COVID-19 pandemic, thus presenting additional borrowing requirement to the Government.
b. With the COVID-19 pandemic, accessing the ICM is no longer feasible in 2020.
c. Limited access to the concessional funding from the Multilateral creditors, given the envelope available to Nigeria.
d. The domestic interest rates are expected to gradually trend upwards, in view of investors seeking higher returns as a result of increase in inflation rates.

2.2 Outcomes of the Debt Management Strategy

A review of the Public Debt Stock and Debt Indicators against the Targets in the MTDS, 2016-2019, reveals that appreciable progress was recorded in the implementation of the Strategy, as shown in the improvements in certain risk indicators. While most of the targets were fully attained or exceeded, a few others were partly accomplished.

While the growth in GDP and the FGN Revenue are not within the control of the DMO, the assessment of the performance of Nigeria's Total Public Debt to GDP shows that the debt portfolio remains within a Sustainable Limit. The ratio of Total Public Debt Portfolio to GDP was 19.00 percent as at December 31, 2019 compared to 13.02 percent in 2015 (Figure 1), remained within the Country-Specific Debt Limit of 25 percent. Although the Ratio has increased steadily due to New Borrowings and slower growth of the GDP, this Ratio for each of the years - 2016 to 2019, was well below the World Bank/IMF's recommended threshold of 55 percent for countries in Nigeria's peer group and ECOWAS Convergence threshold of 70 percent, as well as within the Country's Specific Debt Limit of 25 percent.

Figure 1: Nigeria's Debt Portfolio Performance as at December 31, 2019



Source: DMO

2.3 Costs and Risks Indicators of FGN's Total Debt Portfolio - 2015 and 2019

Table 5 shows the Cost and Risk Indicators of the FGN's Total Debt portfolio as at December 31, 2015 and 2019, which highlights the appreciable progress recorded in the implementation of the Debt Management Strategy, within the period.

There was a build-up of debt stock due to increase in borrowing from both the Domestic and External sources during the period as debt stock rose from ₦12.60 billion in 2015 to ₦27.90 billion in 2019. The cost of borrowing in terms of weighted average interest rate was high at 10.77 percent in 2015 compared to 7.45 percent in 2019. The debt portfolio was exposed to foreign exchange risk owing to increased borrowing from the Multilateral, Bilateral and Commercial sources (Eurobonds issued in 2017 and 2018 in the ICM). The Interest rate risk was high, driven by the NTBs, while the refinancing risk was low due to sustained issuance of longer-tenored debt instruments. The External and Domestic Debt Redemption profile are seen in Figure 2 and 3.

Table 5: FGN's Cost and Risk Indicators of the Debt Portfolio as at December 31, 2015 and 2019

Risk Indicators		2015			2019		
		External Debt	Domestic Debt	Total Debt	External Debt	Domestic Debt	Total Debt
Amount (in billions of NGN) [1]		2,111.53	10,492.17	12,603.71	9,022.42	18,378.96	27,401.38
Amount (in billions of USD)[1,2]		10.72	54.71	65.43	27.68	56.38	84.05
Debt as percent of GDP		2.18	10.84	13.02	6.26	12.74	19.00
Cost of debt	Interest payment as percent of GDP[3]	0.04	1.16	1.20	0.27	0.93	1.20
	Weighted Av. Interest Rate (IR) (percent)	1.74	13.00	10.77	4.30	9.43	7.45
Refinancing risk	ATM (years)	14.39	5.35	7.15	13.19	7.85	10.50
	Debt maturing in 1yr (percent of Total)	1.16	36.08	29.15	1.27	24.77	13.77
	Debt maturing in 1yr (percent of GDP)	0.03	3.21	3.24	0.11	2.45	2.56
Interest rate risk	ATR (years)	13.86	5.35	7.04	12.60	7.85	10.08
	Debt re-fixing in 1yr (percent of total)	6.40	36.08	30.19	8.56	24.77	17.18
	Fixed rate debt including T-bills (percent of Total)	94.77	100	98.96	92.43	100.0	96.46
	T-bills (percent of Total)	0.0	31.38	25.33	0.0	18.58	9.88
Exchange Rate risk	Foreign currency debt (percent of Total Debt)			19.84			38.72
	Short-term foreign currency debt (percent of reserves)			0.44			1.06

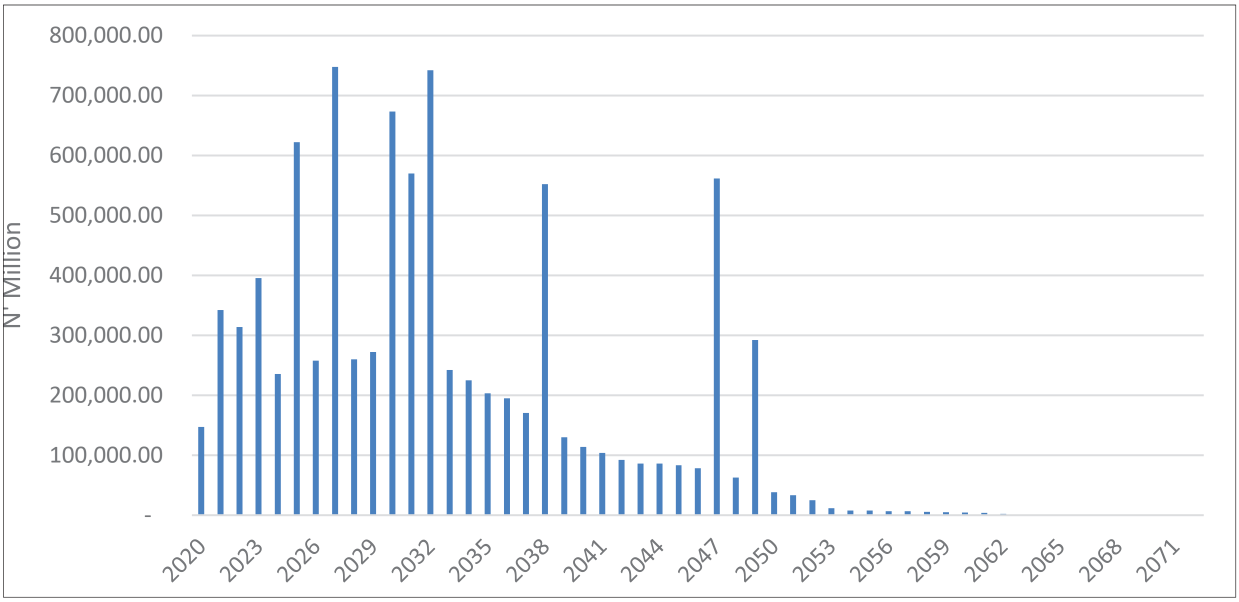
Source: DMO

[1] Nominal Values of Total Public Debt Stock was used, and includes States' & FCT's Domestic Debt Stock

[2] CBN official Exchange Rate of NGN197/US$1 used for December 31, 2015 and NGN360/US$1 as at December 31, 2019

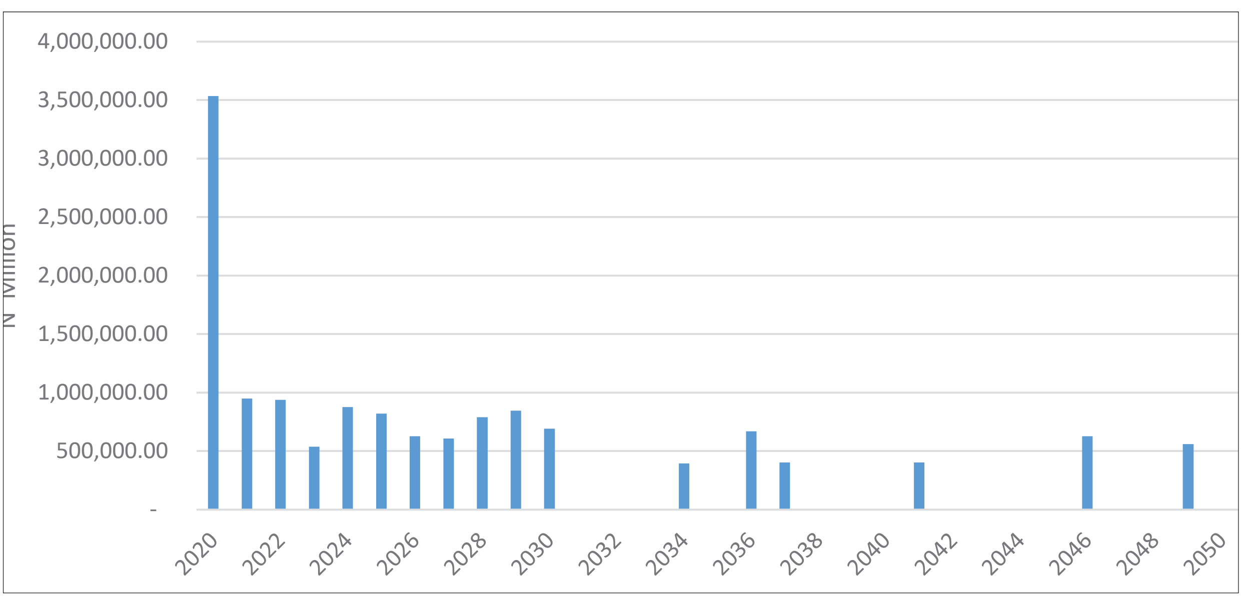
[3] Interest Payment as a percent of GDP is calculated by dividing Interest Payments in 2019 by 2019 GDP

Figure 2: External Debt Redemption Profile as at end-2019



Source: DMO

Figure 3: Domestic Debt Redemption Profile as at end-2019



Source: DMO

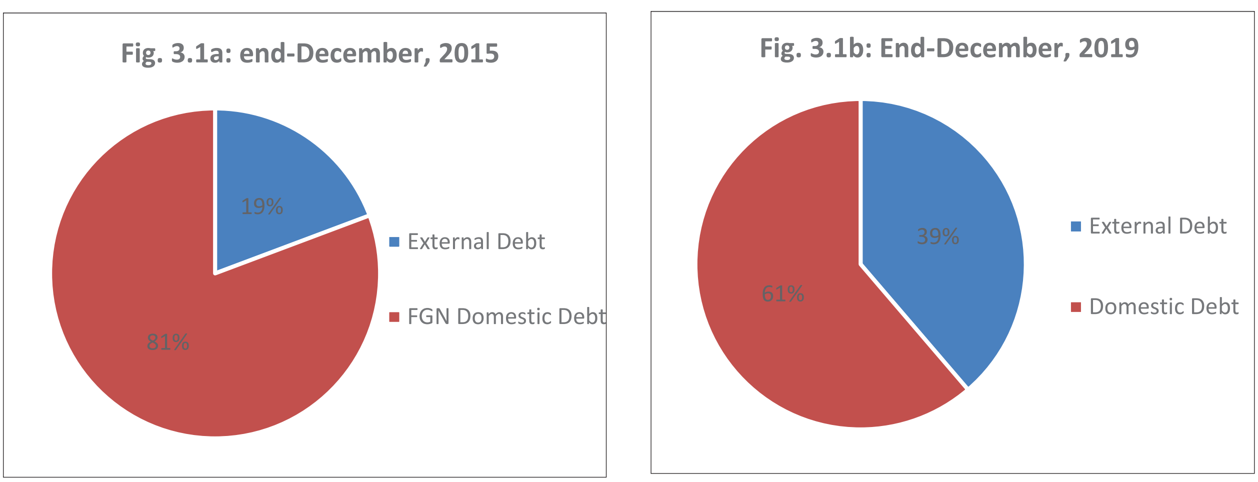
CHAPTER THREE

STRUCTURE OF OUTSTANDING FGN TOTAL DEBT AS AT DECEMBER 31, 2019

3.1 Structure of FGN's Total Public Debt

The FGN's Total Public Debt outstanding was ₦23,295,066.43 million (US$71,457.26 million), as at December 31, 2019 compared to ₦10,948,526.57 million (US$55,576.28 million) in 2015, representing an increase of ₦12,346,539.86 million (US$15,880.98 million) or 112.77 percent (Figure 4).This comprised External Debt (FGN, States and FCT) of ₦9,022,421.64 million (US$27,676.14 million) or 38.73 percent and FGN's Domestic Debt of ₦14,272,644.79 million (US$43,781.12 million) or 61.27 percent in 2019. The increase in the Total Public Debt Stock during the period was due to a sharp drop in revenue occasioned by the fall in crude oil prices, coupled with the need to fund infrastructure expenditure. Notwithstanding, the Debt Stock remained within the limit of 25 percent of the Debt to GDP ratio.

Figure 4: Structure of FGN Total Public Debt by Source



Source: DMO

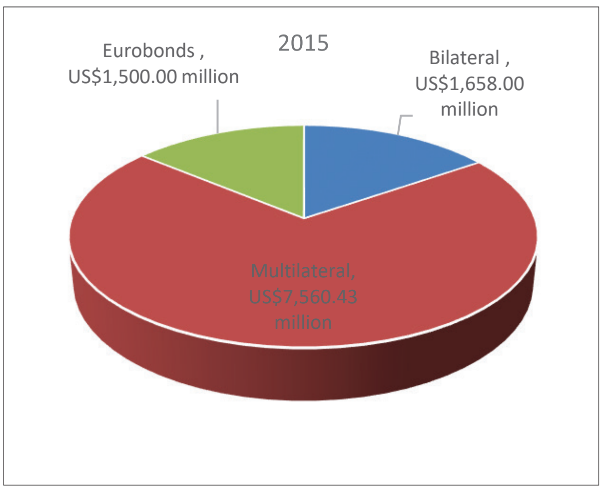
3.2 External Debt

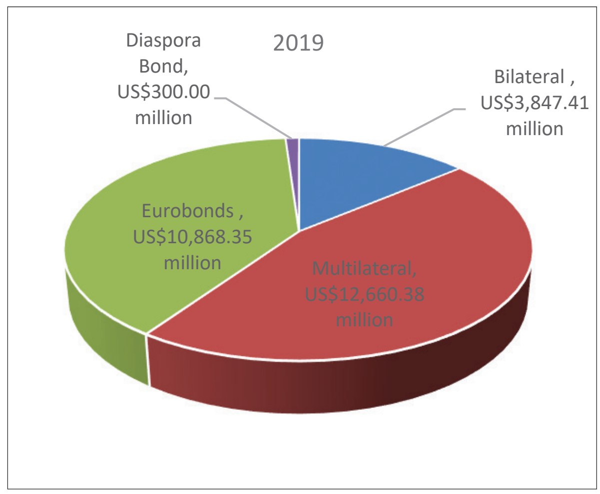
3.2.1 Structure of External Debt by Creditor-Category

The External Debt Stock (FGN, States and FCT) was US$27,676.14 million (₦9.022 trillion) as at December 31, 2019, compared to US$10,718.43 million (₦2.111 trillion) in 2015. This increase was as a result of the need to moderate debt service costs, while also increasing the level of External Reserves among other objectives. The composition of External Debt in 2019, shows that borrowing from Multilateral and Bilateral sources accounted for US$12,660.38 million (45.74 percent) and US$3,847.41 million (13.90 percent) respectively of the Total External Debt. Other sources of External Debt were Eurobonds and Diaspora

Bond, which accounted for US$10,868.35 million (39.27 percent) and US$300.00 million (1.08 percent), in 2019, respectively. Figure 5 shows the relative share of the Sources of External Debt in 2015 and 2018. Whilst Multilateral and Bilateral sources at US$14,106.02 million still accounted for the largest share (55.81 percent) of the External Debt, the share of Commercial sources (Eurobonds and Diaspora Bond) increased over the period relative to the decline in the share of Multilateral and Bilateral debt.

Figure 5: External Debt Stock by Creditor-Category





Source: DMO

3.3 FGN's Domestic Debt

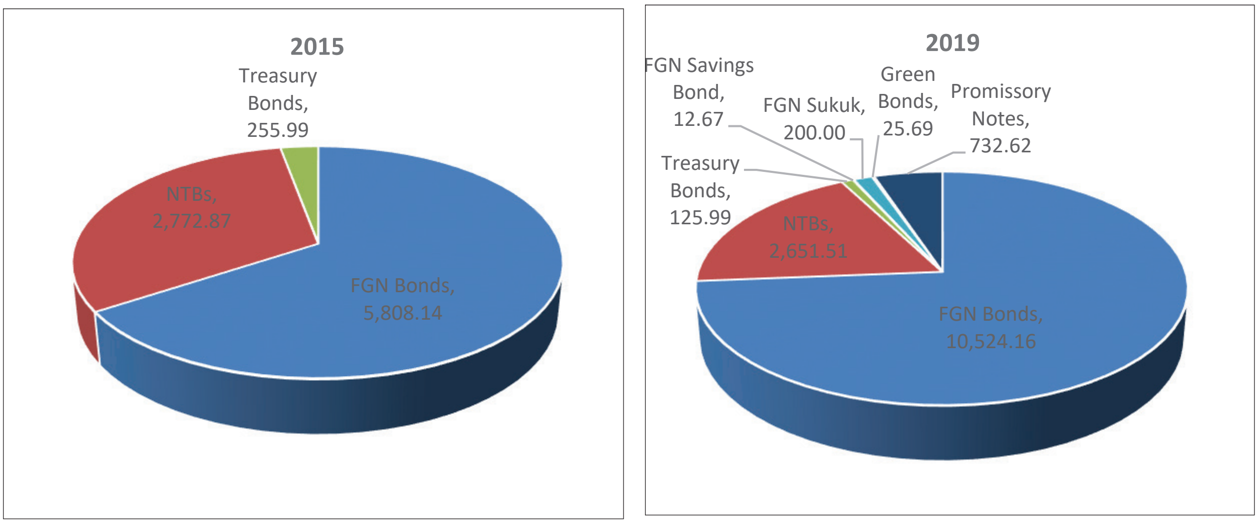
3.3.1 FGN's Domestic Debt Stock by Instruments

FGN's Domestic Debt stock was ₦14,272.64 billion as at December 31, 2018 compared to N8,837.00 billion as at December 31, 2015, and comprised mainly of FGN Bonds, and NTBs which accounted for 73.74 and 18.58 percent in 2019 and 65.73 and 31.38 percent in 2015 of the Total FGN's Domestic Debt respectively.

The outstanding Treasury Bonds, which are legacy bonds that are no longer being issued, are being redeemed as they mature. Consequently, the Stock and relative shares of Treasury Bonds have declined over time from about ₦255.99 billion in 2015 to N125.99 billion in 2019. Sukuk, FGN Savings Bond and Green Bonds were introduced in 2017 and together accounted for 1.67 percent of the Domestic Debt Stock as at December 31, 2019. Promissory Notes were introduced in 2018 to settle part of the arrears to Local Contractors and other obligations of the FGN, and as at December 31, 2019 was amounted to ₦732.62 billion (5.13 percent of the Domestic Debt Stock).

Figure 6 shows the composition of FGN's domestic debt by instruments in 2015 and 2019.

Figure 6: Composition of FGN Domestic Debt by Instruments (₦' Million)



Source: DMO

CHAPTER FOUR

SOURCES OF FINANCING AND PRICING ASSUMPTIONS

4.1 Introduction

The domestic capital market has remained a reliable source of funding Government's financing needs. On the External front, the upgrade of Nigeria to a Lower Middle-Income Country (LMIC) in 2015, will limit the funding from the Concessional Multilateral and Bilateral sources, while the emergency of COVID-19 pandemic has constrained borrowing from external sources as the ICM. The widening of the fiscal deficit due to COVID-19 suggest the additional borrowing will be met from other commercial sources outside Eurobonds such as Export Credit.

4.2 External Sources

The External sources of financing for the Government are as follows:

4.1.1 Multilateral Loans

These are loans obtained on concessional terms from multilateral and regional financial institutions listed hereunder:

a) The World Bank Group (International Development Association (IDA);
b) African Development Bank Group (African Development Bank (ADB), and, African Development Fund (ADF)
c) Arab Bank for Economic Development in Africa (BADEA).
d) European Development Fund (EDF)
e) Islamic Development Bank (IDB)
f) International Fund for Agricultural Development (IFAD)

4.1.2 Bilateral Loans

These are loans contracted on Semi-concessional terms with fixed and variable interest rates through the Export-Import Banks or Agencies of the creditor countries. This category of creditors included the following:

a) Peoples Republic of China (Exim Bank of China);
b) French Development Agency (AFD);
c) Japan International Corporation Agency (JICA);
d) India (Exim Bank of India); and,
e) Germany (KFW)

4.1.3 Commercial Loans

External borrowing from the commercial sources will mainly be through the Eurobonds from the ICM. Commercial loans from Export Credit Agencies (ECA), tied to specific projects, may be considered given the enlarges fiscal budget owing to COVID-19.

4.2 Domestic Sources

FGN securities, principally FGN Bonds, are expected to remain the main source of domestic financing. Domestic borrowing will focus on mainly on the issuance of medium to long tenors of 5 years, 7 years, 10 years, 20 years and 30 years to moderate the Refinancing risk. Other products such Sukuk, Green Bonds and FGN Saving Bonds will also be issued.

Table 8 shows that the demand for the FGN securities has increased over the years as the level of subscription increased from ₦1,753.46 billion in 2015 to ₦2,558.72 billion in 2019 indicating consistent demand for the sovereign debt instruments.

Table 6: Summary of Monthly Average of FGN Bonds, Subscription and Allotment, 2015-2019 (₦' Billion)

Year		Offer	Subscription	Allotment	Bid to Cover Ratio
2015	Monthly Average	71.52	146.12	83.23	
	Total	858.22	1,753.46	998.74	1.76
2016	Monthly Average	102.92	177.15	109.03	
	Total	1,235.00	2,125.75	1,308.30	1.62
2017	Monthly Average	124.17	198.12	129.21	
	Total	1,490.00	2,377.40	1,550.46	1.53
2018	Monthly Average	89.17	125.50	76.58	
	Total	1,070.00	1,506.04	918.93	1.64
2019	Monthly Average	132.50	213.23	145.21	
	Total	1,590.00	2,558.72	1,742.46	1.47

Source: DMO

Note: The Bid-to-Cover ratio, which is a measure of the demand for Government securities, is derived by dividing the Subscription (Bids Received) by the Allotment (Bids Accepted).

4.3 Financing and Pricing Assumptions

4.4.1 Exchange Rate Assumption

The DMS, 2020-2023 had assumed that the nominal exchange rate would remain relatively stable throughout the strategy period, except in the case of shock scenarios. The exchange rate of ₦360 to US$1 was used; in line with draft MTEF, 2021-2023.

4.6.2 Pricing of New External Loans

The following pricing assumptions for the various new External sources of financing were made:

i. **Fixed Rate Loan** – Multilateral fixed rate loans are generally concessional and priced at a fixed rate of 0.79 percent per annum with a 35-year maturity and a 7-year grace period. Bilateral fixed rate loans are usually semi-concessional and priced at 2 percent per annum with a 20-year maturity and a 5-year grace period. IBRD (fixed-rate loans) are projected to attract interest rate of 1.6 percent per annum.

ii. **Variable or Floating Rate Loans –** Multilateral and Bilateral variable rate loans are priced at a Reference Rate of 6 months LIBOR, and a spread of between 0.46 and 0.50 percent.

iii. **International Financial Markets –** Eurobonds are priced at the current yield spread of existing Nigerian Eurobonds in relation to the US Treasuries plus a credit spread. A spread of 4.65 percent and 5.00 percent were added to the 10-year forward and the current 30-year US Treasury curve forward yield curve, respectively.

Table 7: Basic Terms of Nigeria's External Financing Sources

Instrument Type / Name	Fix / Var/ T-bills	Maturity (Years)	Grace (years)	Interest Rate		
				2021	2022	2023
AfDF	Fixed	40	10	0.96%	0.96%	0.96%
IDA/IFAD/BADEA/EDF- Fixed	Fixed	35	7	0.80%	0.80%	0.80%
IBRD/ADB/IDB_Fixed	Fixed	25	5	1.63%	1.63%	1.63%
IBRD/ADB/IDB/AGTF-Variable	Variable[1]	25	5	3.34%	3.34%	3.34%
Bilateral-Fixed	Fixed	20	5	2.47%	2.47%	2.47%
Bilateral-Variable	Variable[1]	20	5	1.61%	1.61%	1.61%
Eurobond 10Y	Fixed	10	9	8.20%	8.20%	8.20%
Eurobond 20Y	Fixed	30	29	9.50%	9.50%	9.50%

[1]These loans are mostly anchored to the 6-months Libor

4.6.3 Pricing of New Domestic Instruments

i **Nigerian Treasury Bills (NTBs)-** NTBs are assumed to have a maximum tenor of one year and are priced at 13 percent per annum throughout the projection period, based on prevailing average market rates.

ii **FGN Bonds and Infrastructure Bonds (Sukuk and Green Bonds) -** The yields for all the instruments (5, 7, 10, 20 and 30-year) are assumed to increase over their levels in 2020, is based on the expectation of a higher inflation which would impact on the yields of domestic debt instruments.

iii The FGN Savings Bond are priced at 12.5 percent, which was maintained throughout the projection period, since it is a retail product issued for short tenors of two (2) to three (3) years.

Table 8: Basic Terms of Nigeria's Domestic Financing Sources

Instrument Type / Name	Fix / Var/ T-bills	Maturity (Years)	Grace (years)	Interest Rate		
				2021	2022	2023
NTBs	T-bills	1	0	4.00%	5.00%	6.00%
Savings Bonds	Fixed	3	2	6.00%	8.00%	9.00%
FGN Bonds 5Y	Fixed	5	4	8.00%	10.00%	10.50%
FGN Bonds 7Y	Fixed	7	6	9.00%	11.00%	11.50%
FGN Bonds 10Y	Fixed	10	9	10.00%	12.00%	12.50%
FGN Bonds 20Y	Fixed	20	19	11.50%	12.50%	13.50%
FGN Bonds 30Y	Fixed	30	29	12.50%	13.50%	14.50%
Infrastructure Bonds (Sukuk, Green)	Fixed	7	6	12.85%	12.85%	12.85%
T-Bond	Fixed	5	4	12.50%	12.50%	12.50%
Promissory Notes	Fixed	2	1	0.00%	0.00%	0.00%

4.7 Description of the Stress Scenarios

4.7.1 Exchange Rate Shock

The standard exchange rate shock of 15 percent depreciation (moderate) and 30 percent depreciation (extreme) were applied in each of the years, 2020 to 2023.

4.7.2 Interest Rate Shock

The interest rate shock on New Domestic Borrowing, which was introduced from 2020, assumed an increase in rate by 250 basis points (Moderate) and 500 basis points (Extreme) on Market and Variable rate instruments, respectively.

CHAPTER FIVE

BASELINE MACROECONOMIC ASSUMPTIONS AND KEY RISKS

5.1 Macroeconomic Developments and Baseline Assumptions

The Baseline macroeconomic assumptions for MTDS, 2020-2023 are based on the projections outlined in the revised 2020 Appropriation Act and the draft 2021-2023 MTEF approved by FEC and awaiting the approval of NASS. These are aimed at stabilizing the economy in the face of the Pandemic, and restore growth. However, moderate recovery in crude Oil prices will help reduce the pressure on the external reserves, shore up government's revenue, and impact positively on the economy as it gradually recovers. The details of the macroeconomic projections are as shown in Table 10.

Table 10: Baseline Macroeconomic Projections, 2019-2023

		2020 Appropriation Act		MTEF, 2021-2023		
Description	2019	Pre-Covid	Revised	2021	2022	2023
Oil Production Volume (mbpd)	2.30	2.18	1.80	1.86	2.09	2.38
Benchmark Price (US$ per barrel)	60.00	55.00	28.00	40.00	40.00	40.00
Nominal Exchange Rate (NGN/US$)	305	305	360.00	360.00	360.00	360.00
FGN Total Revenues (N' billion)	6,998.49	7,081.42	5,365.67	6,148.74	6,398.28	6,860.38
FGN Total Expenditure (N' Billion)	8,916.94	8,907.94	9,973.92	10,635.06	11,228.42	11,422.22
Fiscal Deficit (N' billion)	1,918.48	1,826.52	4,608.25	4,486.32	4,830.14	4,561.84
Deficit/GDP (%)	1.37	-1.28	-3.29%	-3.14	-3.29	-3.01
Net Borrowing (N' billion)	1,605.64	1,700.00	4,198.57	4,281.17	4,746.58	4,396.91
GDP (Nominal) (N' billion)	139,811.51	142,960.53	139,517.52	142,694.42	146,794.57	151,464.43
Real GDP Growth Rate %	2.27	2.85	-4.42	2.26	3.90	4.69
Inflation Rate (%)	9.98	11.07	14.13	12.94	11.73	10.30
International Reserves (US$' Billion)	38.092	40.410	34.293	36.087	38.034	40.097

[1]Excluding GOEs

Sources: 2019 Appropriation Act; Draft MTEF, 2020-2022, and estimation for 2023.

5.2 Risks to the Baseline Macroeconomic Projections

The main Risks to the positive outlook on macroeconomic variables expected from Quarter 3, 2020 include at the External side, shocks to Oil and Commodity prices shocks, lull on global financial market, shock to global capital flow, etc. On the domestic side, drop in Oil production, increase in funding requirements for security and COVID-19 related spending, that could put pressure on the exchange rate and external reserves, increase in domestic interest rates and inflationary pressure. The occurrence of one or more of these variables may also impact on the Sovereign credit rating and consequently on the cost of commercial borrowing. Table 5.2 shows the key Risks and their possible impact on the Debt Management Strategy.

Table 11: Macroeconomic Risks and Implications for Debt Management Strategy

Risks	Risk Level	Implications for Debt Management
Fiscal Risks ▪ Decline in Oil Revenue due to crude oil price and production shocks caused by COVID-19 pandemic. ▪ Decline in Non-Oil Sector Revenue, attributable to adverse weather condition with incidences of flooding in some parts of the country, as well as recurring conflicts between the farmers and herdsmen, resulting in decline in agricultural production.	High	Low Revenue will lead to higher financing needs and interest payments and measures for the containment of COVID-19 pandemic. There are expectations of increased revenue from the Non-oil sector, given the various initiatives, and reforms being undertaken by the Government in various sectors of the economy, such as the Finance Bill.
GDP ▪ Slowdown in economic growth as a result of ineffective implementation of policy reforms could impact revenue generation, and hamper employment opportunities.	Medium	Drop in Revenue can lead to increase in social expenditure which widens the fiscal deficit, and thus, increased borrowing.
External Risks ▪ Exchange Rate policy with a wider range of restrictions on access to FX, could impact on the level of international reserves and Naira depreciation (volatility). ▪ Balance of Payment shocks as a result of current account deficit. ▪ Decline in External Reserves.	Medium	Lower participation by foreign investors in domestic capital market with a possibility of low subscription for FGN securities and higher cost of borrowing. Higher Naira costs of servicing External Debt Balance of payment shock may increase the need for External borrowing, thereby increasing Debt Stock and Debt Service.
Inflation ▪ Higher inflation may lead to tight monetary policy stance.	Medium	Reduced liquidity in the system to support the FGN's Borrowing Higher interest cost of borrowing and increased Debt servicing costs.
Financial System ▪ Weak Banking Sector.	Medium	Lower participation by banks in the FGN securities market due to reduced liquidity.
Monetary and Foreign Exchange Policies ▪ Further tightening of Monetary Policy leading to lower liquidity in the banking sector and higher interest rates.	Medium	Higher cost of borrowing and higher Debt service costs for the Government. Lower GDP growth due to reduced access to and high cost of credit to the private sector with potential negative impact on the Government's revenue.

Risks	Risk Level	Implications for Debt Management
Foreign Exchange Policy ▪ Introduction of policies that curtail access to foreign exchange. ▪ Devaluation of the Naira Exchange Rate	High	Increase in the Debt Stock in Naira Terms Higher cost of servicing External Debt
Contingent Liabilities ▪ Crystallization of Contingent Liabilities relating to States/FCT's liabilities (especially arrears), resulting to FGN's bailouts, in the event of a sharp drop in revenue due to States.	High	Increase in both Primary Deficit and Funding needs, would lead to an increase in both the level of debt stock and debt servicing cost.

CHAPTER SIX

ALTERNATIVE DEBT MANAGEMENT STRATEGIES AND RESULTS ANALYSIS

6.1 Description of the Alternative Debt Management Strategies

Three (3) Alternative Debt Management Strategies were considered and their Cost and Risk implications on the Total Public Debt profile in the future were analysed as follows:

a. Strategy 1 (S1): Baseline, based on the Borrowing Provisions in the Revised 2020 Appropriation Act and draft MTEF, 2021-2023

i. Borrowing will be from both External and Domestic sources as stated in the revised 2020 Budget and draft MTEF, 2021-2023, and their Funding Structure for External and Domestic sources - 47:53 in 2020, 50:50 in 2021-2023.

ii. Funding from the Concessional Multilateral and Bilateral windows to be based on availability, and accessing the International Capital Market (ICM) to resume in 2021, and subsequently thereafter.

iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

b. Strategy 2 (S2): Maximize Domestic Borrowing, using longer-tenored instruments

i. Borrowing will be from both External and Domestic sources, and will tilt more to Domestic borrowing in the ratios of External to Domestic of 35:65 for 2021-2023, while the ratio for 2020, which is already being implemented is 47:53.

ii. For External Borrowing, funding from the Concessional sources of the Multilateral and Bilateral windows will be maximised, subject to availability, while a reduction in External Commercial Borrowing compared to Strategy 1 will be replaced with longer-tenored Domestic Borrowing.

iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

c. **Strategy 3 (S3): Maximize External Borrowing (Similar to S1 but with a marginal increase in External Borrowing)**

   i. Borrowing will be from both External and Domestic sources, but marginally tilts more to External financing, in the ratios of External to Domestic of 47:53 in 2020 (as in the 2020 Appropriation Act), 55:45 in 2021, 57:43 in 2022 and 59:41 in 2023.

   ii. A reduction in the Domestic borrowing by 2 percent points in Strategy 1, to be replaced with External Borrowing by the same margin, while funding from the Concessional sources of the Multilateral and Bilateral windows will be the primary focus, but subject to availability. Accessing the ICM is expected to be rom 2021, for Debt instruments with maturities of 10 years.

   iii. New Domestic Borrowing will be mainly through longer-term instruments, while existing Nigerian Treasury Bills (NTBs) will be refinanced throughout the projection period. Infrastructure Bonds (Sukuk and Green Bonds, where practicable), and FGN Savings Bond are to be issued within the period.

   iv. Continued issuance of Promissory Notes to settle FGN's arrears as approved by FEC and NASS. These are non-interest-bearing debt instruments, and therefore did not impact on Interest Expense in the projections.

6.2 Quantitative Description of the Alternative Debt Management Strategies

Table 12 provides the percentage distribution of Gross Borrowing of the three (3) Alternative Debt Management Strategies by end-2023, in terms of sources of financing, debt instruments and percentage share under each strategy. Table 13 shows the Actual Amount of Gross Borrowing by Source and Instruments by end-2023.

Table 12: Nigeria's Alternative Debt Management Strategies-Percentage Distribution of Gross Borrowing: Sources and Instruments as at end-2023 (Proj)

In percent of Total - as at end FY2023				
Outstanding by instrument		S1	S2	S3
AfDF	FX	0.00	0.00	0.00
IDA/IFAD/BADEA/EDF_Fixed	FX	7.60	6.10	5.45
IBRD/ADB/IDB_Fixed[1]	FX	11.55	11.02	14.43
IBRD/ADB/IDB/AGTF_Var	FX	0.00	0.00	0.88
Bilateral_Fixed	FX	5.01	1.88	5.41
Bilateral_Var	FX	0.00	0.00	0.00
Eurobond 10Y	FX	5.26	4.46	5.60
Eurobond 30Y	FX	5.17	5.30	5.54
NTB[2]	DX	32.06	32.06	32.06
Savings Bonds	DX	0.16	0.16	0.16
FGN Bonds 5Y	DX	0.85	1.39	2.18
FGN Bonds 7Y	DX	3.90	3.88	1.94
FGN Bonds 10Y	DX	3.08	5.73	4.51
FGN Bonds 20Y	DX	8.04	9.37	5.65
FGN Bonds 30Y	DX	8.54	9.85	7.41
Sukuk/Infrastructure/Green	DX	2.38	2.38	2.38
T-Bond	DX	0.00	0.00	0.00
Promissory Notes[2]	DX	6.40	6.40	6.40
Indexed Instrument	DX	0.00	0.00	0.00
External		34.59	28.78	37.32
Domestic		65.41	71.22	62.68
Total		**100**	**100**	**100**

[1]The proposed IBRD loan of US$8.1 billion was spread out as follows: 2021 (US$2.8 billion), 2022 (US$2.8 billion) and 2023 (US$2.5 billion).

[2]Nigerian Treasury Bills (NTBs) and Promissory Notes (PNs) are not part of the New Borrowing Plan, but remains as part of the new Stock

Table 13: Percentage of Debt Outstanding by Instruments

In Percent of Total	FY2019	As at end-2023		
Outstanding by instruments	Current	S1	S2	S3
AfDF	1.30	0.86	0.86	0.86
IDA/IFAD/BADEA/EDF_Fixed	13.92	14.53	13.28	12.77
IBRD/ADB/IDB_Fixed[1]	0.02	9.01	8.59	11.36
IBRD/ADB/IDB/AGTF_Var	2.48	1.36	1.36	2.07
Bilateral_Fixed	4.88	6.76	4.27	7.10
Bilateral_Var	0.51	0.25	0.25	0.25
Eurobond 10Y	5.48	6.88	6.24	7.14
Eurobond 30Y	10.15	11.42	11.53	11.73
NTB[2]	11.38	6.19	6.19	6.19
Savings Bonds	0.05	0.12	0.12	0.12
FGN Bonds 5Y	13.75	2.26	2.69	3.33
FGN Bonds 7Y	5.72	6.25	6.26	4.69
FGN Bonds 10Y	9.63	7.67	9.79	8.79
FGN Bonds 20Y	16.08	11.24	16.02	13.05
FGN Bonds 30Y	0.00	10.21	7.56	5.57
Sukuk/Infrastructure/Green	0.97	2.34	2.34	2.34
T-Bond	0.54	0.06	0.06	0.06
Promissory Notes[2]	3.15	2.58	2.58	2.58
Indexed Instrument	0.00	0.00	0.00	0.00
External	38.72	51.09	46.39	53.28
Domestic	61.28	48.91	53.61	46.72
Total	100.00	100.00	100.00	100.00

[1]The proposed IBRD loan of US$8.1 billion was spread out as follows: 2021 (US$2.8 billion), 2022 (US$2.8 billion) and 2023 (US$2.5 billion).

[2]Nigerian Treasury Bills (NTBs) and Promissory Notes (PNs) are not part of the New Borrowing Plan, but remains as part of the new Stock

Table 14: Actual Amount of Gross Borrowing by Sources & Instruments as at end-2023 (US$' Million) (Proj)

In US$ Million	FY 2019	As at end FY 2023		
Input (%)		**S1**	**S2**	**S3**
AfDF	926.40	1,027.41	1,027.41	1,027.41
IDA/IFAD/BADEA/EDF_Fixed	9,942.30	17,293.37	15,809.94	15,197.78
IBRD/ADB/IDB_Fixed[1]	14.26	10,724.31	10,224.31	13,518.39
IBRD/ADB/IDB/AGTF_Var	1,768.87	1,622.98	1,622.98	2,461.80
Bilateral_Fixed	3,485.66	8,047.09	5,079.83	8,452.14
Bilateral_Var	361.04	302.88	302.88	302.88
Eurobond 10Y	3,918.35	8,193.41	7,428.35	8,502.75
Eurobond 30Y	7,250.00	13,596.20	13,718.34	13,961.27
NTB[2]	8,133.48	0.00	0.00	0.00
Savings Bonds	38.87	7,365.32	7,365.32	7,365.32
FGN Bonds 5Y	9,821.76	138.89	138.89	138.89
FGN Bonds 7Y	4,089.87	2,694.43	3,205.70	3,962.20
FGN Bonds 10Y	6,880.59	7,439.68	7,455.82	5,581.08
FGN Bonds 20Y	6,612.69	9,128.92	11,652.12	10,463.95
FGN Bonds 30Y	4,877.78	13,379.14	19,070.07	15,535.40
Sukuk/Infrastructure/Green	692.30	12,152.06	9,004.12	6,634.81
T-Bond	386.47	2,784.88	2,784.88	2,784.88
Promissory Notes[2]	2,247.31	72.19	72.19	72.19
Indexed Instrument	0.00	3,066.89	3,066.89	3,066.89
	71,447.99	0.00	0.00	0.00

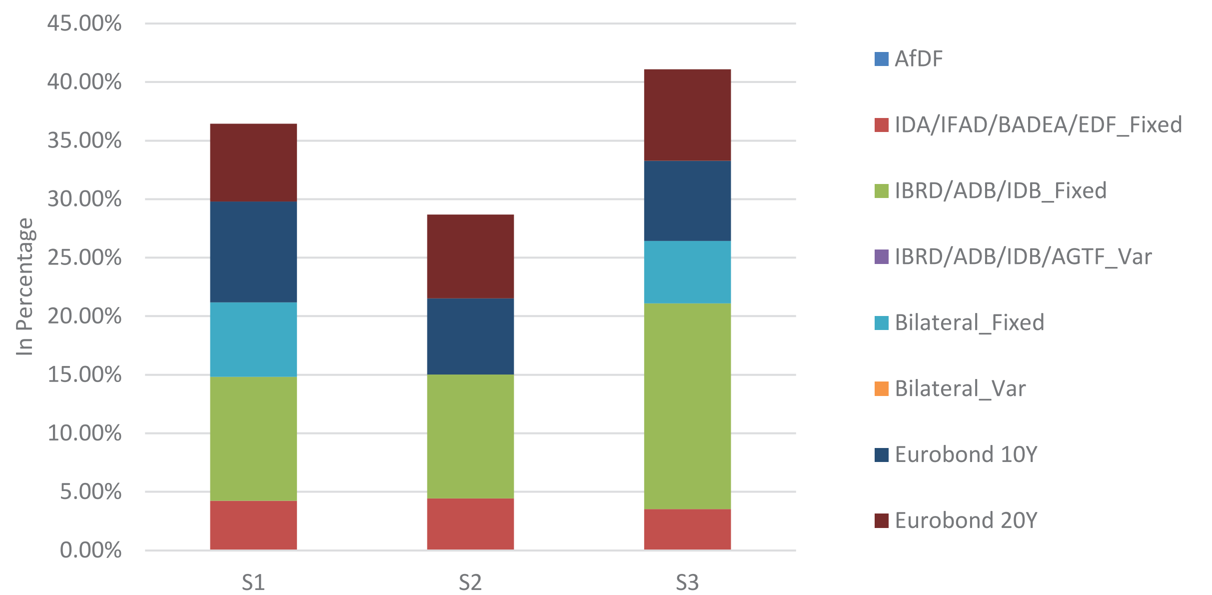
[1]The proposed IBRD loan of US$8.1 billion was spread out as follows: 2021 (US$2.8 billion), 2022 (US$2.8 billion) and 2023 (US$2.5 billion).

[2]Nigerian Treasury Bills (NTBs) and Promissory Notes (PNs) not part of the New Borrowing Plan, but remains as part of the new Stock

6.3 Composition of FGN's External and Domestic Borrowing

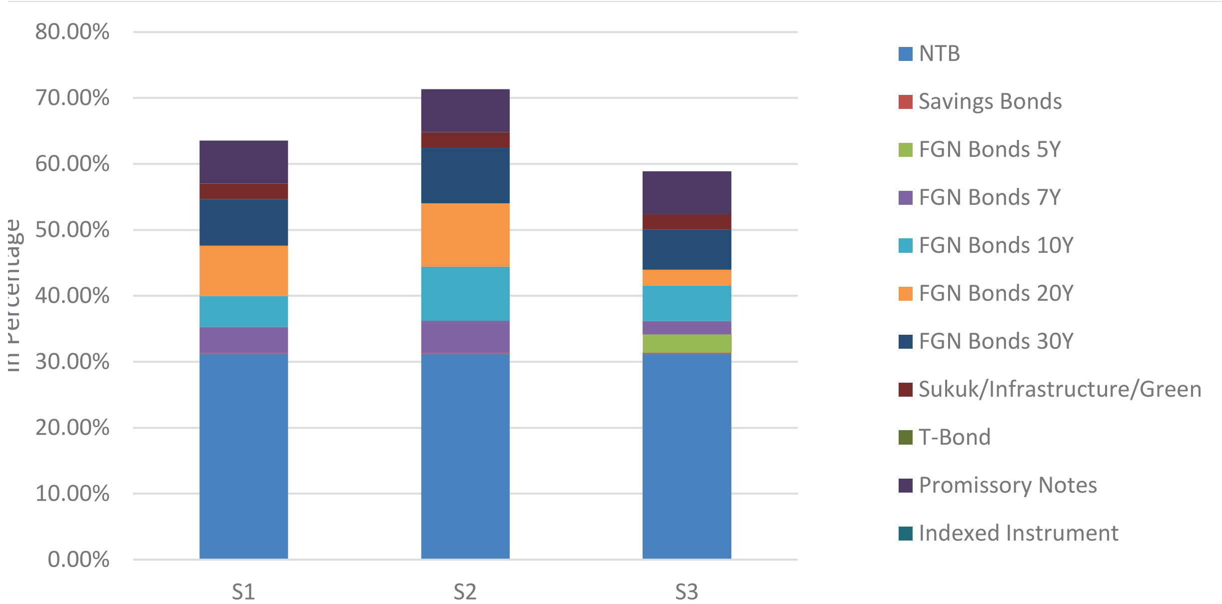
Figure 10 shows that higher proportion of External financing are expected to come from the Multilateral and Bilateral fixed rate loans, as well as issuance of longer-tenored Eurobonds. The Multilateral and Bilateral variable loans are very negligible.

Figure 7: External Financing Mix by Sources as a % of Total Gross Financing by end-2023



On the other hand, Figure 11 shows that longer-tenored domestic debt instruments will be the main source of domestic borrowing. The absolute size of the NTBs will remain stable at the levels as at December, 2018.

Figure 8: Domestic Financing Mix by Sources as a % of Total Gross Financing by end-2023



6.4 Result Analysis: Costs & Risks

Table 14 highlights the outcome of Cost and Risk Indicators under the three (3) Alternative Strategies by end-2023.

Table 15: Cost and Risk Indicators under Alternative Strategies, 2023

Risk Indicators Current		2019	As at end 2023		
			S1	S2	S3
Nominal debt as percent of GDP		16.15	29.82	29.82	29.82
Present value debt as percent of GDP		15.04	28.40	28.40	28.40
Interest payment as percent of GDP		1.20	2.14	2.26	2.08
Implied (Weighted) Average Interest Rate (percent)		7.45	7.26	7.65	7.03
Refinancing risk	Debt maturing in 1yr (percent of Total Debt)	13.77	10.08	10.08	10.08
	Debt maturing in 1yr (% of GDP)	2.56	3.01	3.01	3.01
	ATM External Portfolio (years)	13.19	12.54	12.45	12.40
	ATM Domestic Portfolio (years)	7.85	10.48	10.86	9.75
	ATM Total Portfolio (years)	10.50	11.55	11.61	11.18
Interest rate risk	ATR (years)	10.08	11.46	11.52	11.00
	Debt refixing in 1yr (percent of Total Debt)	17.18	11.63	11.63	12.33
	Fixed rate debt incl T-bills (percent of Total Debt)	96.46	98.30	98.30	97.61
	T-bills (percent of Total Debt)	9.88	6.09	6.09	6.09
FX risk	Foreign Exchange (FX) Debt as % of Total Debt	38.72	51.88	47.26	54.05
	Short-Term (ST) FX Debt as % of External Reserves	1.06	18.37	18.37	18.37

Source: DMO; and MTDS TA mission team calculations

6.4.1 Result Analysis: Cost-Risk Trade-off of the Strategies

A. **Growth of Public Debt**

i. **Nominal Debt to GDP:** In terms of nominal Debt to GDP ratio, the three (3) Strategies have about the same ratios - S1 (29.82 percent), S2 (29.82 percent) and S3 (29.82 percent), given that the quantum of borrowing for the period is the same.

B. **Cost and Risk Trade-off of the Strategies**

i **Strategy 1**: S1 has the moderate Cost of Debt (Weighted Average Interest Rate) for Total Public Debt compared to S3, due to low proportion of concessional External borrowing than the other Strategies. This shows that S1 has a higher risk of ATM and ATR compared to S3.

ii. **Strategy 2**: S2 has the lower Weighted Average Interest Rate compared to S1, and thus, the lowest in terms of cost of debt as higher proportion of External Borrowing is assumed to come from the concessional Multilateral and Bilateral creditors. It is also assumed that Domestic Borrowing will be undertaken at a relatively lower interest rate given the excess liquidity in the domestic debt market. The ATM and ATR of Total Public debt in S2 is the highest, indicating that it is least exposed to Refinancing and Interest Rate Risks than the S1 and S3. It is also least exposed to Exchange Rate risk as it has the lowest proportion of External Debt as a percentage of Total Debt than the S1 and S3. However, it has the lowest fixed rate debt including NTBs and highest debt re-fixing in 1 year as a percentage of Total Debt, as a result of higher proportion of shorter-term and variable rate debt that are subject to interest rate re-fixing in 1 year.

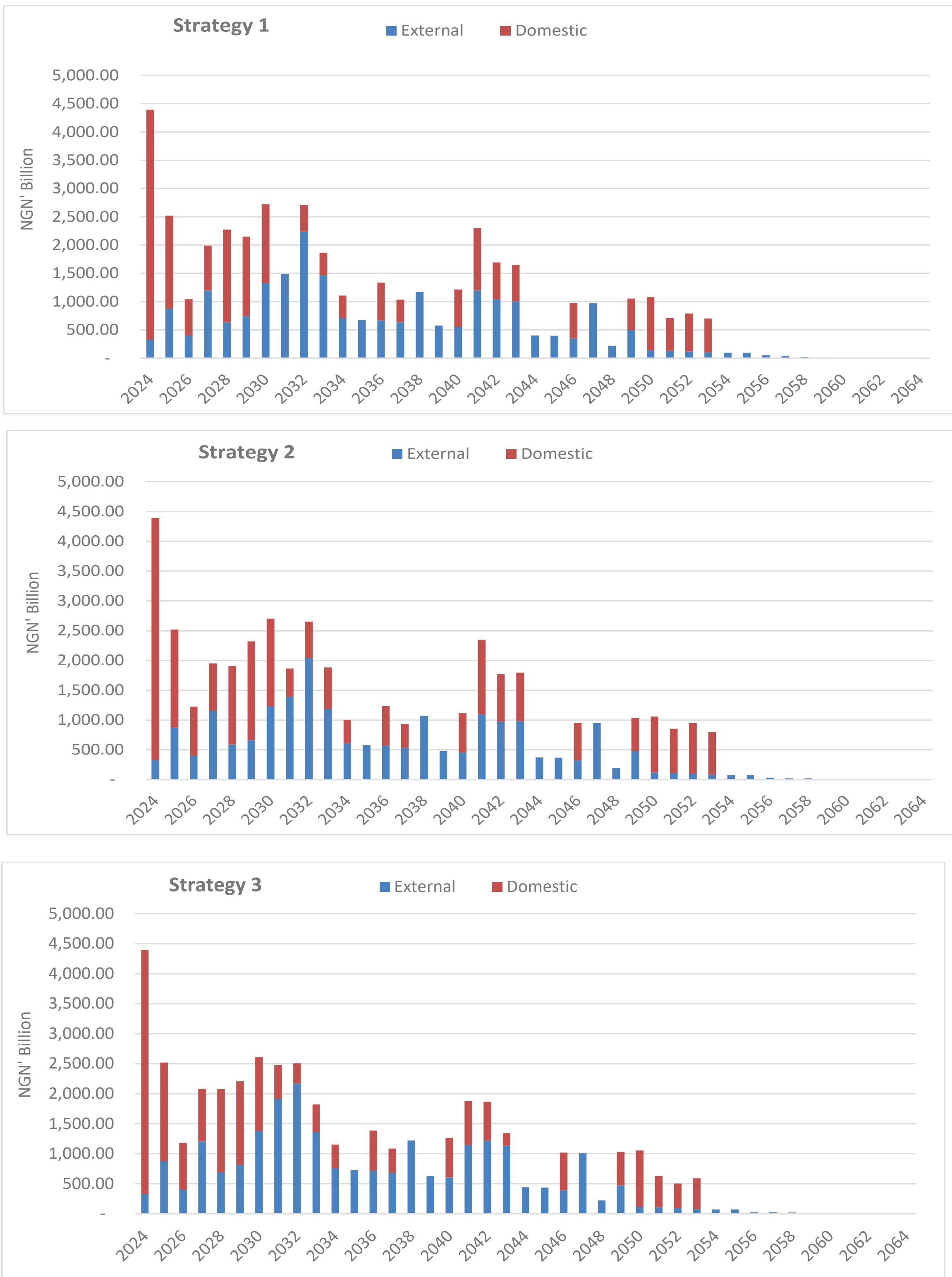
iii. **Strategy 3**: S3 is the most exposed to Foreign Exchange Risk of all the Strategies, as it assumed more External Borrowing compared to S1 and S2. The higher cost of borrowing through Eurobonds is moderated by more borrowing from the concessional Multilateral and Bilateral creditors when compared with S1, resulting in lower cost than S1.

The three (3) Strategies above were analyzed based on the Cost-Risk trade-offs. Strategy 2, represents the most preferred Strategy, as it presents the lowest exposure to Refinancing (Average Tenor of the Portfolio), and Foreign Exchange Risks. S2 has the highest cost, in terms of Weighted Average Interest Rate for Total Debt at 7.65, compared to 7.26% and 7.03% for S1 and S3 respectively. Given the state of the international financial market, in terms of the ability of Nigeria to access substantial long-tenored funds in the ICM, coupled with the strong liquidity and low Interest rates in the domestic market, S2 is the more feasible Strategy.

C. **Redemption Profile**

In the medium-term, the maturities of the three Strategies showed a smooth redemption profile except spikes in 2024, 2025 and 2030. External Debt redemption profile is amply spread out, and relatively smoother, due to the longer maturities, in view of the fact that the concessional loans from the Multilateral and Bilateral sources are longer tenored, as well as Eurobonds with longer tenors of up to 30 years. The redemption profile for Domestic Debt shows a higher concentration of NTBs to be refinanced in 2024 for the three Strategies.

Figure 9 (a-c): Nigeria's Redemption Profiles for Alternative Strategies as at end-2023

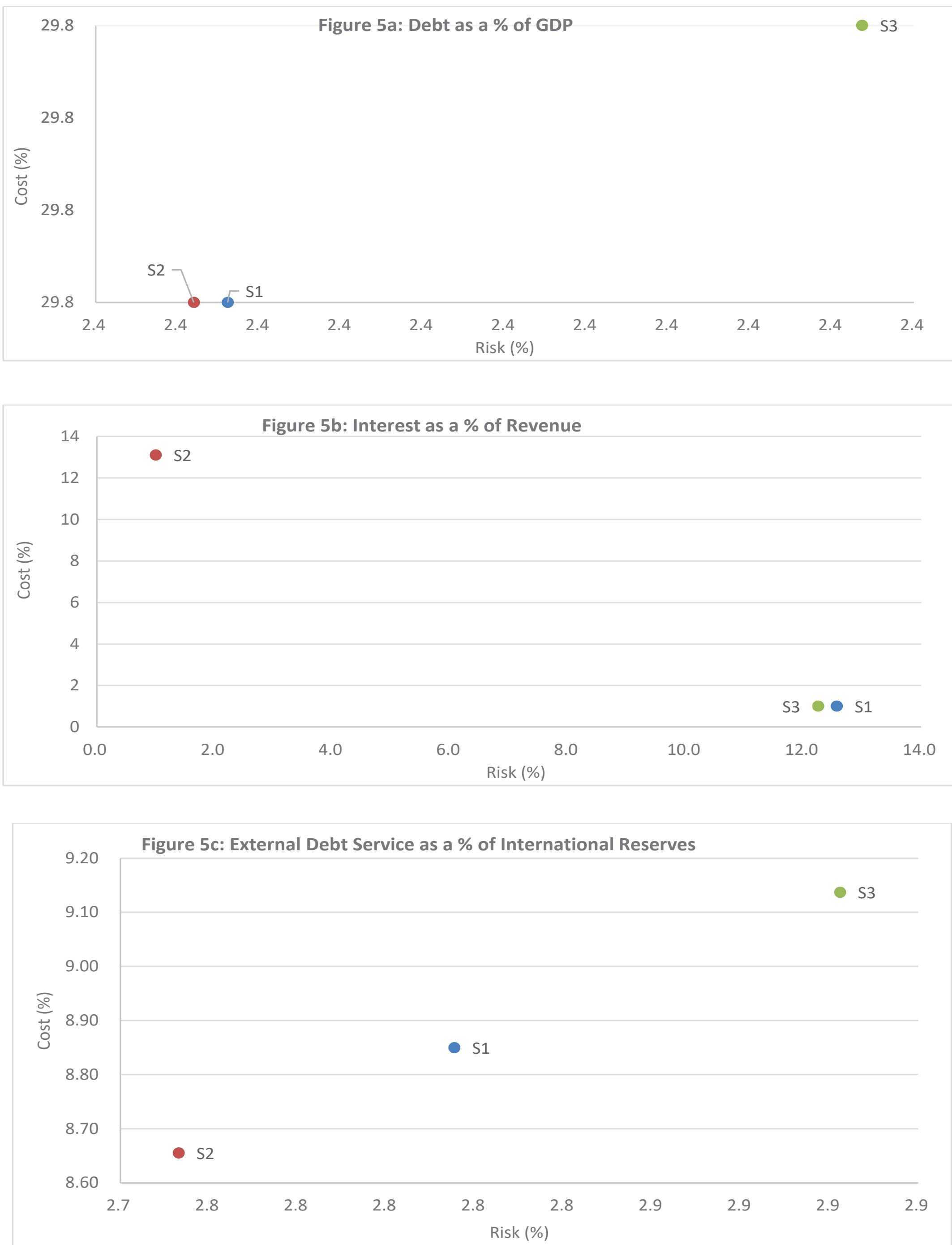


Sources: DMO; and MTDS TA mission team calculations

6.5.1 Graphical Illustration of Costs and Risks Trade-offs

Figure 10 (a-c) further illustrates the Costs and Risks trade-offs associated with the three (3) Strategies.

Figure 10 (a-c): Illustration of Cost-Risk Trade-offs



6.6 Preferred Strategy and Implications of Adopting S2

6.6.1 Preferred Strategy

In view of the above analysis of the cost-risk trade-offs of the three (3) Strategies, S2 is considered the most preferred. S2 is preferred in terms of meeting the Government's financing needs, in the medium to long term, given the current realities posed by the pandemic on the domestic and international fronts.

6.6.2 Risks Associated with the Recommended Strategy

The Risks associated with the recommended Strategy are as follows:

i. The Average Term to Maturity (ATM) for Strategy 2 is 11.61 years, compared to 11.55 years and 11.18 years for Strategy 1 and Strategy 3, respectively.

ii. The Average Term to Refixing (ATR) for Strategy 2 is 11.52 years, compared to 11.46 years and 11.00 years for Strategy 1 and Strategy 3, respectively.

iii. Strategy 2 has less exposure to foreign exchange risk at 47.26%, compared to S1 and S3 at 51.88% and 54.05%, respectively.

iv. The Weighted Average Interest Rate for Total Debt (%) for Strategy 2 is 7.65%, compared to 7.26% and 7.03% for Strategy 1 and Strategy 3, respectively.

6.6.3 Targets for Public Debt

After reviewing the performance of the MTDS, 2016-2019 Targets as at December 31, 2019, expectations for the FGN's future borrowing activities and the recommended Debt Strategy, the Public Debt Targets for 2020-2023 are shown in Table 15. The performance of the Public Debt will be measured against these Targets, which will be reviewed as and when necessary.

Table 16: Nigeria's Debt Management Strategy and Targets by end-2023

In preparing the new Debt Management Strategy, the DMO intends to continue:

- Meeting the financing needs of the Government from the domestic market, and maximizing available funds to Nigeria from the Concessional and Semi-Concessional sources, in order to access cheaper and long-tenored funds, whilst taking cognizance of Nigeria's limited funding envelopes;
- Lengthening the maturity profile of the debt portfolio through:
  - ✓ long-term external financing from Multilateral and Bilateral creditors, and the International Financial Markets; as well as,
  - ✓ continued issuance of longer-maturity domestic bonds,

Debt Management Targets for the period 2020-2023:

		2016-2019 Target	2019 Actual	2020-2023 Target
Portfolio Composition				
	Domestic: External	60:40	67:33	Max.70:Min.30[1]
	Domestic Debt Mix: Long: Short	75:25	81:19	Min. 75:Max. 25[1]
Risks ratios				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	13.77%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A	2.98%	Less than 5%
Fiscal Sustainability ratios				
	Debt as % of GDP	25%	19.00%	40%[2]
	Deficit to GDP (%)			3%[3]
	Sovereign Guarantees as % of GDP	N/A[4]	1.98%	Max. 5%

[1] The introduction of New Domestic Debt from the Issuance of Promissory Notes and expectations of the inclusion of Ways and Means Advances and SOEs' debts in the FGN's Debt Stock will result in an increase in the Domestic Debt and may also result in more short-tenored Debt in the Debt Stock.

[2] Increased to accommodate New Borrowings to fund Budget, issuance of more Promissory Notes and the proposal to transfer some SOEs' debts, including AMCON to the FGN's Balance Sheet in line with the IMF's guidelines, and proposed inclusion of Ways and Means.

[3] This Limit is provided in Section 12(1) of the Fiscal Responsibility Act (FRA), 2007, and efforts are to be made to ensure compliance, except if in the opinion of the President, there is good reason to exceed the threshold, as further provided in Section 12(2) of the Act.

[4] N/A – No Targets indicated in the MTDS, 2016-2019.

CHAPTER SEVEN

IMPLEMENTATION OF THE PREFERRED STRATEGY

7.1 Annual Borrowing Plan

The selected Strategy will be the basis for developing the Annual Borrowing Plan for meeting the Government's financing requirements for each fiscal year. The Borrowing Plan will take into account Government's cash flows and deviations in the relevant fiscal years, and will be structured towards attaining the various strategic targets.

7.2 Investor Relations

The DMO will sustain the regular interaction with the various operators and stakeholders in both the domestic and international capital market, especially the Primary Dealer Market Makers (PDMMs) and Investors. This had been useful and actively undertaken during the period when the market was at its infancy and being developed. Currently, the DMO meets with these market participants during Roadshows across the country, and hopes to have more structured meetings, going forward.

7.3 Debt Transparency – Debt Reporting

The DMO's website will effectively be used to provide a range of information relating to public debt management, including the National Debt Management Framework, Annual Report and Financial Statements, Debt Management Strategy, Strategic Plan, Rules for the Primary and Secondary Market and Issuance Calendar and Results. In order to further enhance the data/information available to the investing public, the DMO hopes to continually improve on the contents of its Website.

7.4 Disseminating, Monitoring and Review of the Strategy

The Debt Management Strategy, 2020-2023 Report, along with the selected Strategy will be published and disseminated to the relevant stakeholders, and the general public, through appropriate channels.

The underlying assumptions, key risk parameters and targets spelt out in the Report for the selected Strategy for borrowing in the medium-term will be evaluated against the out-turns. These provide the basis for monitoring the implementation of the Strategy and to report on deviations. Annual review and monitoring of the Strategy, in terms of the set Cost and Risk Targets, will be carried out in line with the MTEF, which is also updated annually.

7.5 Conclusion

The preferred **Strategy 2** in the revised Nigeria's Debt Management Strategy, 2020-2023, focuses on increased reliance on longer-tenored Domestic and External financing with stable short-term instruments in order to moderate refinancing risks. This would help to ensure that the Cost Profile of Nigeria's Public Debt portfolio is maintained at a sustainable level in the medium to long-term, while ensuring that government's financing needs are met at minimum cost and with a prudent level of risk.

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