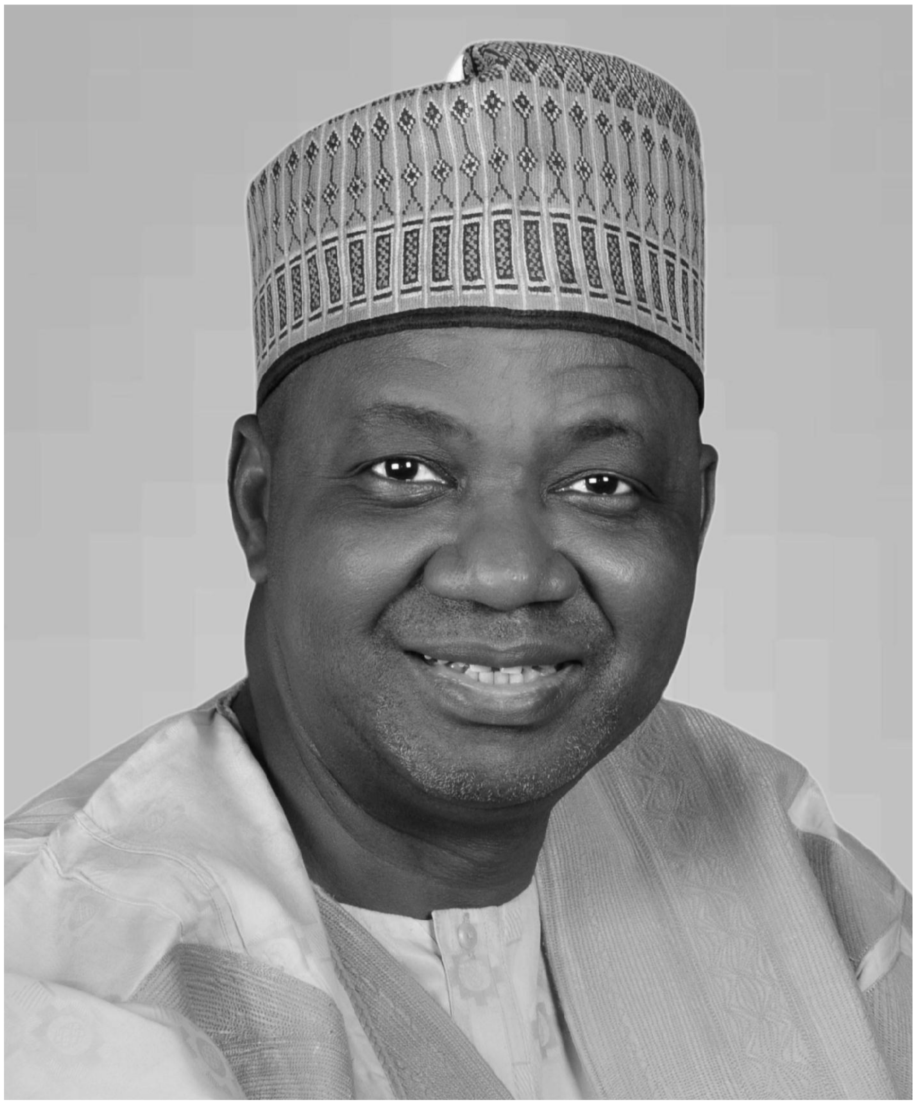
DEBT MANAGEMENT OFFICE
NIGERIA

2012

Annual Report
and Statement of Accounts

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



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

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

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

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

DMO MANAGEMENT TEAM

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Director-General

Mrs. Funmi Ilamah
Director, Strategic Programmes Department

Ms. Patience Oniha
Director, Market Development Department

Mrs. Asma'u Mohammed
Director, Organisational Resourcing Department

Mr. James K. A. Olekah
TA/Head, Policy, Strategy & Risk Management Department

Mr. Miji Amidu
Director, Special Projects Group

Mrs. Hannatu Suleiman
Head, Debt Recording & Settlement Department

Mr. Joe Ugoala
Head, Public Debt Management Institute

Mr. Atiku S. Dambatta
Head, Portfolio Management Department

MANAGEMENT STAFF OF THE DMO

S/N	NAME	RANK	DEPARTMENT/UNIT
1	Abraham Nwankwo (Dr.)	Director-General	
2	Magaji B. Mahmoud (Dr.)	Director	On Secondment
3	Funmi Ilamah (Mrs.)	Director	Strategic Programmes Department (SPD)
4	Patience Oniha (Ms.)	Director	Market Development Department (MDD)
5	Asma'u M. Mohammed (Mrs.)	Director	Organisational Resourcing Department (ORD)
6	James K. A. Olekah (Mr.)	Technical Advisor/ Head of Department	Policy, Strategy and Risk Management Department
7	Miji Amidu (Mr.)	Director	Special Projects Group (SPG)
8	Godson Dinneya (Dr.)	Deputy Director	On Secondment
9	Hannatu Suleiman (Mrs.)	Head of Department	Debt Recording & Settlement Department (DRSD)
10	Joe Ugoala (Mr.)	Head of Department	Public Debt Management Institute (PDMI)
11	Atiku S. Dambatta (Mr.)	Head of Department	Portfolio Management Department (PMD)
12	Janet O. Jiya (Mrs.)	Deputy Director	Team Leader, Monitoring & Compliance (PSRMD)
13	Johnson O. Amadi (Mr.)	Deputy Director	Team Leader, Finance & Accounts (ORD)
14	Nicholas Eleri (Dr.)	Assistant Director	On Secondment
15	Mahmoud Nasir (Mr.)	Assistant Director	Team Leader, Corporate Services Unit (PDMI)
16	Ekpenyong Elizabeth E. (Ms.)	Assistant Director	Team Leader, Institutions and Skill Development Unit (SPD)

S/N	NAME	RANK	DEPARTMENT/UNIT
17	Ibrahim Natagwandu (Mr.)	Assistant Director	Team Leader, Policy & Strategy Unit (PSRMD)
18	Ekpokoba Ikem H. (Mr.)	Assistant Director	Team Leader, External Support Unit (ORD)
19	Anukposi N. Alfred (Mr.)	Assistant Director	Team Leader, Statistics, Analysis and Risk Management (PSRMD)
20	Odo Joseph U. (Mr.)	Assistant Director	Team Leader, IT/IS (ORD)
21	Afolabi O. Oladipo (Mr.)	Assistant Director	Team Leader, Market Planning Unit (MDD)
22	Solomon N. Okoli (Mr.)	Assistant Director	Team Leader, Market Supervision & Regulation Unit (MDD)
23	Maraizu Nwankwo (Mr.)	Assistant Director	Team Leader, Risk Assets Management Unit (PMD)
24	Elizabeth Kwaghbulah (Mrs.)	Assistant Director	Team Leader, Loans & other Financing Products (PMD)
25	Olaitan Aiyesimoju (Mr.)	Assistant Director	Team Leader, Internal Audit & Compliance Unit (DG'S Office)

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GLOSSARY

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AfDF	African Development Fund
BAS	Bond Auction System
BDC	Bureau de Change
BOF	Budget Office of the Federation
BMSC	Bond Market Steering Committee
BRICS	Brazil, Russia, India, China & South Africa
CBN	Central Bank of Nigeria
CIDA	Canadian International Development Agency
COMSEC/CA	Commonwealth Secretariat/Crown Agent
CPIA	Country Policy and Institutional Assessment
CPL	Currency Pool Loans
CSCS	Central Securities Clearing System
CS-DRMS	Commonwealth Secretariat-Debt Recording & Management System
DAS	Dutch Auction System
DFI	Development Finance Institution
DFID	Department for International Development
DMDs	Debt Management Departments
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DRI	Debt Relief International
EDF	European Development Fund
EFCC	Economic and Financial Crimes Commission
ERGP	Economic Reform and Governance Project
EIB	European Investment Bank
EU	European Union
EUR	Euro
FAAC	Federation Accounts Allocation Committee
FDI	Foreign Direct Investment
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Law
FRN	Federal Republic of Nigeria
FSS	Financial System Strategy
FUA	African Development Fund Unit of Account
GBP	Great Britain Pound (Sterling)
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial and Management Information System
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFEM	Inter-bank Foreign Exchange Market
IFEMIS	Integrated Financial and Economic Management Information System

IMF	International Monetary Fund
IS	Information System
IT	Information Technology
IsBD	Islamic Development Bank
JPY	Japanese Yen
KRW	Korean Won
LAN	Local Area Network
LIBOR	London Inter-Bank Offer Rate
LIC	Low Income Country
MDG	Millennium Development Goals
MPR	Monetary Policy Rate
MRR	Minimum Rediscount Rate
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
NASS	National Assembly
NBS	National Bureau of Statistics
NCS	Nigerian Custom Service
NEEDS	National Economic Empowerment and Development Strategy
NEITI	Nigerian Extractive Industries Transparency Initiative
NGN	Nigerian Naira
NIDBOND	Nigeria's Diaspora Bond
NIDF	Non-Interest Debt Financing
NPC	National Planning Commission
NPV	Net Present Value
NSE	Nigerian Stock Exchange
NTBs	Nigerian Treasury Bills
OAGF	Office of the Accountant-General of the Federation
OMO	Open Market Operations
ORD	Organizational Resourcing Department
ORM	Operational Risk Management
OTC	Over-The-Counter
PDMMs	Primary Dealer Market Makers
PHCN	Power Holding Company of Nigeria
PPA	Public Procurement Act
PPPs	Public-Private-Partnerships
PSI	Policy Support Instrument
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SND	Sub-national Debt
TBs	Treasury Bonds
TR	Tax Reform
UNCTAD	United Nations Conference on Trade and Development
US$	United States Dollar
USA	United States of America
UK	United Kingdom
WAIFEM	West African Institute for Financial and Economic Management
WDAS	Wholesale Dutch Auction System
XML	Extensible Markup Language

DEBT MANAGEMENT OFFICE

VISION

To manage Nigeria's debt as an asset for growth, development and poverty reduction

MISSION

To rely on a well-motivated professional workforce and state-of-the-art technology, to be among the emerging markets' top-ten Debt Management Offices, in terms of best practice and contributions to national development, by the year 2012.

CORE VALUES

EXCITE: *Excellence*
Commitment
Integrity
Teamwork
Efficiency

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 pleased to present the Annual Report and Statement of Accounts of the Debt Management Office (DMO) for the fiscal year 2012. The Report reviews the major operations and achievements of the DMO and highlights the key developments in the country's public debt management. It also provides an overview of the economic environment - both domestic and international - that had bearing on its activities, and ends with the presentation of the financial statements and audited accounts of the Office.

The reports from the international financial institutions, notably, the World Bank showed that global economic growth and output were largely uneven and subdued in most major economies in 2012, four years after the global economic and financial crisis. The global economic growth was largely sluggish as a result of continued contraction in the Euro zone and Japan. However, data from the Asian economies released towards the end of the year suggested that a gradual recovery may be underway. China's economy, which had previously recorded a slowdown over seven consecutive quarters up to the third quarter in 2012, witnessed improved economic activity in the fourth quarter of 2012. On the other hand, economic conditions in Sub-Saharan Africa remained generally robust despite the weak growth in the global economy. Prudent policies and improved fundamentals in most countries provided additional impetus for increased economic activity in the region.

In 2012, the Nigerian economy demonstrated resilience despite global economic downturn, economic losses occasioned by national strike in January, 2012 as a result of the removal of oil subsidy, continued security challenges, decline in agricultural production due to severe flooding in several parts of the country, and weather variations, amongst others. According to figures released by the National Bureau of Statistics (NBS), the country's economy grew at an estimated real rate of 6.61 percent in 2012, which is lower than the 7.68 percent recorded in 2011. However, the growth rate recorded by the country substantially exceeded the average growth rate of 4.8 percent projected by the International Monetary Fund (IMF) for Sub-Saharan Africa in 2012. Meanwhile, the decline recorded in the country's growth rate was driven by the oil sector, which contracted by 0.91%, thereby leaving the non-oil sector, especially the agricultural, wholesale and retail trade and services sectors as the overall growth drivers of the economy. The year-on-year headline inflation rate closed at 12.0 percent as at end-December, 2012 compared to 10.3 percent in the corresponding period of 2011. In the first half of the year, it oscillated between 12.6 percent and 12.9 percent before dropping to 11.3 percent as at the end of the third quarter.

Relative to the budget benchmark price of US$72 per barrel, the year-on-year average price of Nigeria's crude oil, the major income earner, rose from US$106.32 per barrel in 2011 to about US$113.63 per barrel in 2012. This led to significant increase in the country's foreign exchange earnings and external reserve position. External reserve position, which stood at US$32.915 billion as at end-December, 2011, rose by 33.35 percent or US$10.979 billion to close at US$43.894 billion by end-December, 2012. The official exchange rate of the Naira against the US Dollar improved by 3.05 percent to close at N157.33 as at end-December, 2012, as against the closing price of N162.27 as at end-December, 2011. The relative appreciation of the foreign exchange rate was attributed to improved inflows from proceeds of oil revenue and foreign portfolio investments.

The main thrusts of monetary policy in 2012 were to maintain price and financial sector stability. The benchmark Monetary Policy Rate (MPR), which had been placed at 12 percent in October, 2011, remained unchanged throughout the fiscal year 2012. The Cash Reserves Ratio for deposit money banks was raised from 8 percent in the course of the year to 12 percent, while the Liquidity Ratio remained unchanged at 30 percent. The average Inter-Bank Call Rate, NTBs rate and prime lending rates closed at 10.58, 13.38 and 18.01 percent compared to the closing rates of 15.85, 14.27 and 16.75 percent in 2011, respectively. Average normal lending rate dropped from 23.21 percent in 2011 to 22.09 percent in 2012. The broad money supply (M2) grew by 7.6 percent as at end-December, 2012, compared with the growth rate of 5.4 percent during the corresponding period in 2011. Credits to government contracted between September and December 2012, which indicated a more prudent fiscal policy regime. The lending rate was stable during the year under review due to increased liquidity in the banking system.

The overall fiscal position of the Government was further strengthened in 2012 as deficits narrowed to 2.56 percent of GDP compared to 2.96 in 2011. The improvement in the fiscal balance was due to the FGN's on-going fiscal consolidation. The portion of fiscal deficit appropriated for financing through domestic borrowing was N744.44 billion and this was raised through the issuance of FGN securities in the domestic debt market. The amount borrowed from the domestic market in 2012 was about 13 percent lower than the sum of N852.27 billion appropriated in 2011.

The domestic bond market (excluding AMCON Bonds) grew by 17.96 percent in 2012 to N4,782.48 billion from N3,541.19 billion recorded in 2011. The relative share of FGN Bonds on the overall market size declined marginally from 87.37 percent in 2011 to 85.34 percent in 2012, while the share of State Governments' issuance increased from 8.41 percent to 10.42 percent in 2012. The share of Corporate Bonds remained almost at the same level in 2012 as in 2011. Sub-nationals and corporates raised N157 billion and N32 billion, respectively, from the domestic bond market in 2012.

The secondary market for FGN Bonds remained active in 2012 and continued to provide liquidity to domestic and offshore investors through the Two-Way Quote system of the market. The total value of transactions was N7.345 trillion while the number of transactions was 44,822. Although, the number and value of transactions declined by 31% and 18%, respectively, in 2012, the market when compared to 2011, was relatively more stable in 2012. Trading was supported by the DMO's issuance of only Benchmark Bonds to increase the volumes available for trading and market-making obligations of the DMO's licensed Primary Dealer Market Makers (PDMMs). The increased participation by foreign investors between August and December 2012 was largely due to the inclusion of FGN Bonds in the JP Morgan's Government Bond Index-Emerging Markets (GBI-EM) on October 1, 2012, and the announcement by Barclays Capital that FGN Bonds will be included in its own Emerging Markets–Local Currency Bond Index (EM-LCBI) on March 01, 2013. Market stability and activities were also bolstered by increased inflow of pension funds into the FGN Bond market. The equities end of the capital market also recorded significant improvements. The market capitalization and NSE All-Share Index of quoted equities rose by 37.39 and 35.45 percent to close at N8,974.00 billion and 28,078.81 points in 2012, compared with N6,579.10 billion and 20,875.83 points in 2011, respectively.

The nominal value of total public debt outstanding as at end-December, 2012 (external debt of FGN and States and securitized domestic debt of the Federal Government) was US$48,496.24 million. The debt stock increased by US$6,946.80 million or 16.27 percent over the sum of US$41,549.44 million recorded as at the end of 2011. The increase arose from both the external and domestic components of the total debt stock. The external debt component rose by US$860.49 million in 2012 primarily due to additional disbursements on existing loans. The much higher rise of US$6,086.30 million in the domestic debt stock in 2012 was mostly due to increase in the net issuances of domestic debt instruments to finance the 2012 appropriated budget deficit and the refinancing of part of matured obligations. The Net Present Value of total public debt to GDP ratio, which stood at 18.48 percent at the end of 2011 rose marginally to 19.40 percent in 2012. The NPV of total public debt to GDP ratio, however, was well below the international peer group threshold of 40 percent in 2012.

The DMO, in conjunction with other stakeholders, conducted the annual National Debt Sustainability Analysis (DSA) workshop in 2012 to update the 2011 DSA, set new borrowing limits for government, advice on funding options and provide inputs into the Medium-Term Expenditure Framework. The results obtained under the baseline scenario showed that the country was at a very low risk of debt distress. Though the DSA projected NPV of Total Public Debt (including States' and FCT domestic debt) to GDP to close at 20.20 percent, the actual ratio obtained was 23.08 percent as at the end of 2012. All the other debt sustainability indicators were reasonably below the thresholds. However, the stress test conducted under the pessimistic scenario by setting the crude oil price below US$50 per barrel showed that the country could be at a risk of debt distress in the long-term under such an extreme shock.

As part of its Sub-national public debt management initiatives, the DMO continued with its Domestic Debt Data Reconstruction (DDR) exercise, which commenced in November, 2009. The Office concluded the DDR exercise in the remaining eleven (11) States of the Federation and the FCT in 2012. As at the end of 2012, all the thirty-six (36) States and the FCT had their domestic debt data fully reconstructed and it is heart-warming to report that, for the first time, the country now has a comprehensive public debt database – external and domestic debt of the Federal and State Governments. As a follow-up to the DDR exercise, the DMO also conducted post-DDR exercise in five (5) additional States in 2012, bringing the total so far covered to twenty-two (22) States.

The DMO, in collaboration with Quanteq Technology Services Ltd, (an ICT Company) continued with the conduct of special training workshops with the theme "Application of MS Excel for Sub-national Debt Management" for sub-national debt managers from the State DMDs. In this regard, a special training workshop was held in February 2012, in Abuja. A total of thirty six (36) DMDs staff from twelve (12) States participated actively at this workshop. The workshop exposed them to various aspects of the MS-Excel Software, which is a tool for effective debt recording, reporting and analysis at the sub-national level. The first two batches of this special workshop were earlier conducted in 2011. The DMO also facilitated the donation of ICT infrastructure by corporates, including thirty-two (32) desk top computer systems, thirty-two (32) APC Back-up Units and eight (8) HP Laser Jet Printers, to eleven (11) most needy States of the Federation in 2012.

The year 2012 marked the end of the implementation of the Second Strategic Plan, 2008 – 2012, and the National Debt Management Framework, 2008 – 2012, both of which have helped to guide the operations of the DMO in the discharge of its statutory mandate. The review of these strategic documents commenced towards the end of the year and the outcome will be published in 2013. The development of a national Medium-Term Debt Management Strategy (MTDS), 2012-2015, was completed in 2012 and has been submitted to the appropriate authorities for approval.

It is with great delight that I acknowledge the immense support and encouragement of the Chairman of our Supervisory Board, His Excellency, Arc. Mohammed Namadi Sambo, GCON, the Vice-President of the Federal Republic of Nigeria and the Vice Chairman, Dr. (Mrs.) Ngozi Okonjo-Iweala, CFR, the Coordinating Minister for the Economy/Honourable Minister of Finance, as well as, all the other distinguished members of the Board for their immense support and guidance over the years. My sincere gratitude also goes to all our other stakeholders, including the Federal Ministry of Finance, Central Bank of Nigeria, National Planning Commission, Budget Office of the Federation, National Bureau of Statistics, Office of the Accountant-General of the Federation, and particularly, the UK Department for International Development (DFID) for their unrelenting support. I also wish to recognize and acknowledge the sustained commitment, persistence and diligence of the Management and Staff of the DMO, who in the face of enormous challenges have continued to remain steadfast and unwavering in offering their services to our dear country.

Abraham Nwankwo
Director-General
April 5, 2013

CHAPTER ONE

THE ECONOMIC ENVIRONMENT

CHAPTER ONE

THE ECONOMIC ENVIRONMENT

Global economic growth and output were largely uneven and subdued in most major economies in 2012, four years after the global economic and financial crisis. The global economic growth was largely sluggish as a result of continued contraction in the Euro zone and Japan. Meanwhile, emerging economies and Sub-Saharan Africa continued to witness improvements, despite the downturn in the global economy. The Nigerian economy sustained its modest growth, which was largely driven by the non-oil sector. The outlook for the Nigerian economy in the medium-term is robust based on strong macroeconomic fundamentals and the on-going reforms in key growth sectors of the economy, such as power and agriculture.

1.1 The Global Economy

Developments in the global economic environment indicate that four years after the eruption of the global economic and financial crisis in 2008, the world economy is yet to recover. Global economic growth and output were largely uneven and subdued in most economies in 2012. A growing number of developed economies have fallen into a double-dip recession. Those in severe sovereign debt distress moved even deeper into recession due to downward spiraling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility. Growth in the major developing countries and economies in transition has also decelerated remarkably, reflecting both external vulnerabilities and domestic challenges.

Data from the IMF indicate that global output was weaker than previously forecasted as a result of continued contraction in the Euro zone and Japan, as well as, the less than anticipated growth in Brazil and India. This fragility was further compounded by the uncertainties surrounding resolution of the USA's debt ceiling challenges and slowdown of the Chinese economy. In the euro area, economic and financial conditions remained severely weak. Although the European Central Bank (ECB) attempted, through its intervention scheme, to halt the downward trend in economic activities in the zone, the effort did not record much success. Overall, global output was estimated to have expanded by 3.2 per cent in 2012 against the earlier projection of 3.3 per cent made in October, 2012.

However, latest data from the Asian economies suggest that a gradual recovery may be underway. China's economy, which had previously recorded a slowdown over seven consecutive quarters to third quarter, 2012, witnessed improved economic activity in fourth quarter, 2012. The Indonesian economy, after recovery from the severe flooding in 2011, continued to show resilience against the global slowdown as investment and strong domestic demand contributed more to growth. The sub-optimal performance of the Japanese and Indian economies was a major drag on the recovery in the region.

The Middle East and North Africa (MENA) region continued to record mixed performance, evidenced by the divergence between the economies of oil-exporting and oil-importing countries. Oil-importing countries experienced subdued economic performance with an estimated growth of 2.0 per cent in 2012, while the oil-exporting countries grew at an average rate of 6.6 per cent. Growth in oil-exporting countries was driven largely by high oil output and prices coupled with the early post-conflict recovery of Libya.

Economic conditions in sub-Saharan Africa remained generally robust despite the sluggish growth in the global economy. Prudent policies and improved fundamentals in most countries provided additional impetus for increased economic activity in the region. The main risks to the region come from their trading partners, including the possible intensification of the economic distress in the euro zone.

1.2 The Nigerian Economy and Policy Environment in 2012

1.2.1 The Economy

In 2012, the Nigerian economy demonstrated resilience despite global economic downturn, economic losses occasioned by national strike in January, 2012 as a result of the removal of oil subsidy, continued security challenges, decline in agricultural production as a result of severe flooding in several parts of the country, and weather variations, amongst others. According to figures from the National Bureau of Statistics (NBS), the nation's economy grew at an estimated real rate of 6.61 percent in 2012, which is lower than the 7.68 percent recorded in 2011. However, the growth rate recorded by Nigeria substantially exceeded the average growth rate of 4.8 percent projected by the IMF for Sub-Sahara Africa in 2012.

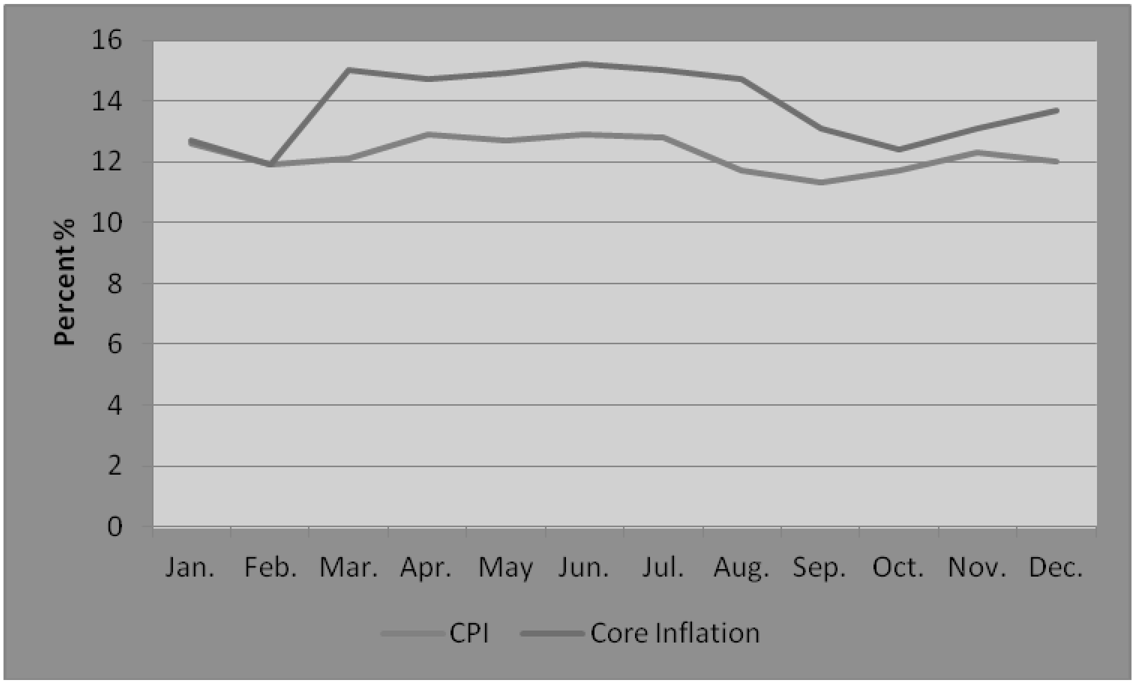
Source: National Bureau of Statistics (NBS); *Q4 is a projection

A breakdown of the two major output groups, oil and non-oil sectors, revealed that real growth was driven mainly by the non-oil sector, which has remained the major contributor to the nation's GDP. On a quarterly basis, the economy grew by 6.34, 6.39, and 6.50 percent, in Q1, Q2 and Q3 in 2012, compared to 6.96, 7.51 and 7.37 for the corresponding quarters of 2011, respectively (Figure 1.1). Although, the oil sector recorded positive growth in Q3 of 2012, however, its actual contribution to the GDP contracted by 0.17 percent. The growth recorded in the non-oil sector was driven mainly by the building & construction, cement, hotel and restaurant and electricity sectors.

1.2.2 Monetary and Fiscal Indicators in 2012

The main thrust of monetary policy in 2012 was to maintain price and financial sector stability. The benchmark Monetary Policy Rate (MPR) remained stable at 12 percent throughout the year. The broad money supply (M_2) grew by 7.6 percent at end-December, 2012 compared with the growth of 5.4 percent at the end of the corresponding period in 2011. Credits to government contracted between September and December 2012, which indicated more prudent fiscal measures. The lending rate was stable during the year under review due to increased liquidity in the banking system. The year-on-year headline inflation rate peaked at 12.0 percent as at end-December, 2012 compared to 10.3 percent in the corresponding period of 2011. In the first half of the year, it oscillated between 12.6 percent and 12.9 percent but went down and remained stable at 11.7 percent for most part of the second quarter before dropping to 11.3 percent as at the end of third quarter. Figure 1.2 shows the trends of the Consumer Price Index and Core Inflation in 2012.

Figure 1.2: Consumer Price Index and Core Inflation in 2012



Source: NBS

Nigeria benefited from high oil prices in 2012 resulting in significant improvement in its foreign exchange earnings and external reserve position. External reserve position, which stood at US$32.915 billion as at end-December, 2011, rose by US$10.979 billion to close at US$43.894 billion by end-December, 2012. The increase of about 33.36 percent was attributable to high oil prices, which remained above the budget benchmark price of US$72 per barrel and more prudent fiscal policy during the year. The official exchange rate of Naira against the US Dollar which closed at ₦162.27 as at end-December, 2011, appreciated by 3.05 percent to close at ₦157.33 by end-December, 2012. The relative appreciation of the foreign exchange rate was attributed to improved inflows from proceeds of oil revenue and foreign portfolio investments.

The overall fiscal position of the Government was further strengthened in 2012 as deficits narrowed to 2.56 per cent of GDP compared to 2.96 in 2011 (Table 1.1). The improvements in the fiscal balance was due to the FGN's on-going fiscal consolidation, which also helped to sustain fiscal out-turns within the West African Monetary Zone's (WAMZ) 4.0 per cent target. The deficit was financed mainly through issuance of debt securities in the domestic debt market.

Table 1.1: Macroeconomic Indicators

Description	2008	2009	2010	2011	2012
Real GDP Growth Rate	8.95	8.32	7.98	7.36	6.77
CPI Inflation (end-period)	15.10	13.90	11.80	10.30	12.00
Budget Deficit as a % GDP	-0.20	-3.27	-3.25	-2.96	-2.56
Current Account Balance as a % GDP	14.20	8.30	5.86	3.58	4.00
Overall Fiscal Balance as a % GDP	0.81	-6.31	-4.35	0.13	1.20

The overall fiscal balance of the FGN improved from 0.13 per cent in 2011 to 1.2 per cent of GDP in 2012, owing to sustained high crude oil prices in the international market and increased inflows in remittances from Nigerians in Diaspora. As in the previous years, the fiscal operation of the government in 2012 was anchored on an oil price-based-fiscal rule, the Medium-Term Expenditure Framework (MTEF) and the Fiscal Responsibility Act, 2007. In addition, the passage of the Nigerian Sovereign Investment Authority Act, 2011, has helped to put in place a robust institutional framework for a more sustainable fiscal policy management. The Act seeks to channel the fund accruing from sales of crude oil above the budget benchmark into a Future Generations Fund, Nigeria Infrastructure Fund, and a Stabilization Fund. The process of passing the Petroleum Industry Bill (PIB) to enhance the productive based and transparency in the oil sector reached an advanced stage in 2012.

1.2.3 Stock Market

The capital market continued to witness improvements in the review period. The All-Share Index (ASI) increased by 35.45 percent from 20,875.83 to 28,078.81 between December, 2011 and December, 2012. The total Market Capitalization for equities and fixed income also increased by 43.97 percent to N14.80 trillion in 2012, from ₦10.28 trillion in 2011. The positive performance was due to sustained increase in the demand for blue-chip stocks, particularly in the banking and consumer goods sectors, following improvements in earnings and growing investor-confidence. The market also got a boost following the announcement in December 2012, by the Coordinating Minister for the Economy/Honourable Minister of Finance of a ₦22.60 billion forbearance package on the margin loan accounts of eighty four (84) stock brokerage firms.

1.2.4 Developments in the Government Securities Market

The market capitalization of FGN Bonds increased from ₦3.74 trillion at the end of 2011 to ₦5.82 trillion by end-December, 2012. The increase was attributed to new issuances from the FGN, States and Corporates, as well as, general decline in the yields (and corresponding rise in the price) of Bonds. The value of OTC market transactions for FGN bonds declined to N7.10 trillion due to the aggressive monetary policy tightening stance in the fourth quarter of 2011 that continued in 2013 which reduced the level of liquidity in the system, resulted in a decline in Bond Prices and led to general price volatility in the Fixed Income Securities Market. This induced caution on the part of Bond Traders in the first half of 2012, an approach which was re-enforced by the mandatory adoption of the International Financial Reporting Standard (IFRS) by banks and discount houses in 2012.

The FGN Bond Market received recognitions from the international community when selected FGN Bonds were included in the J.P. Morgan's Global Bond Index-Emerging Market (GBI-EM) on October 1, 2012 and the inclusion in the Barclays Bank's Emerging Markets-Local Currency Bond Index (EM – LCBI) scheduled for March 2013. In addition to other developments in the FGN Bond Market, these two developments have attracted foreign investors to the domestic securities market. Other developments are:

i. The appointment of Stanbic IBTC Stockbrokers Ltd as the Government Stockbroker in November, 2012; (refer to page 47).

ii. The revision of the DMO's two (2) Operational Circulars and (refer to page 47).

iii. The reduction in Primary Dealer Market Makers (PDMMs) from 20 to 18 (refer to page 48).

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

As in the preceding years, the external debt management strategy depended mainly on borrowing from the concessional window even though debt from non-concessional windows assumed an upward trend. The domestic debt management strategy seeks to further broaden and deepen the domestic bond market through the introduction and implementation of initiatives aimed at developing a first-rate domestic bond market comparable to the country's other emerging market peers. Meanwhile, the stock of domestic debt outstanding continued to increase, just as sub-national governments recorded increased activities in the domestic bond market, where four (4) States accessed ₦157 billion in the domestic capital market. In addition, the Domestic Debt Data Reconstruction exercise which started in 2011 was completed for all the 36 States of the Federation and the Federal Capital Territory in 2012.

2.1 Introduction

In line with international sound practice and the Debt Management Performance Assessment (DeMPA) indicators, an annual appraisal of debt management strategy is required to assess the extent to which the DMO's debt management activities comply with its medium-term debt management strategy, stipulated in the National Debt Management Framework (NDMF), 2008-2012. As in the preceding years, the external debt management strategy depended mainly on borrowing from the concessional window even though debt from non-concessional windows assumed an upward trend following the bilateral loans contracted from France and People's Republic of China amounting to US$703.03 million in 2012. At the domestic front, the stock of domestic debt outstanding continued to increase, just as sub-national governments recorded increased activities in the domestic bond market. Four State Governments raised ₦157.00 billion through bonds issuance in 2012, compared to ₦92.00 billion by the same number of States in 2011.

2.2 External Debt Management Strategy

The broad objective of the country's external debt management strategy is to prudently access concessionary financing to fund growth and development within a sustainable debt profile, as well as, facilitate private sector participation in the funding of critical infrastructure, in particular, and the real sector in general.

Loans from multilateral financial institutions with grant element of at least 35%. The multilateral institutions from which loans were sourced were IDA, IFAD, ADB, ADF, ABEDA, EDF & IDB

2.2.1 Concessional Borrowing

In continuation of the borrowing policy of using the concessional window to fund its external borrowing requirements, about 80.70 percent of the total external debt stock was sourced from the concessional window in 2012. Consequently, the non-concessional creditors accounted for the balance of 19.30 percent, compared with 12.31 percent in 2011. The increase in the non-concessional sources of funding was due to the bilateral loans contracted from France and People's Republic of China amounting to US$703.03 million in 2012.

2.3 Domestic Debt Management Strategy

The domestic debt management strategy seeks to further broaden and deepen the domestic bond market through the introduction and implementation of initiatives aimed at developing a first-rate domestic bond market comparable to those in the more advanced emerging markets.

2.3.1 Issuance Activity

Apart from funding government's financing needs, the DMO's issuance strategy was aimed at increasing the volume of benchmark instruments in order to deepen the market and boost its secondary market activities. There were new shelf registrations and re-openings of benchmark bonds at various times during the year.

2.3.2 Primary Market Activities

The Federal Government remained an active and regular issuer of tradable securities in 2012. New issues of FGN Bonds amounted to ₦994.85 billion representing an increase of 15.24 percent over the ₦863.268 billion issued in 2011. Sub-nationals recorded increased activities as four State Governments (Ondo, Osun, Gombe and Lagos States) raised a total of ₦157 billion compared to ₦92.00 billion by the same number of States in 2011. On the other hand, corporates were less active in the period under review as only three corporates issued bonds with a face value of ₦32.04 billion compared to seven corporates with a market value of ₦71.43 billion in 2011.

2.4 FGN Bond Market Development

A remarkable development in the bond market in 2012 was the inclusion of FGN Bonds in the widely traded JP Morgan's Government Bond Index-Emerging Markets (GBI-EM) with effect from October 1, 2012. The JP Morgan's GBI-EM tradable index is "the first comprehensive global local Emerging Markets Index, and consists of regularly traded liquid fixed-rate domestic currency government bonds to which international investors can gain exposure."

2.5 Sub-National Debt Management and Development

The DMO continued with its capacity building initiatives for effective public debt management at the sub-national level in 2012. Domestic debt data reconstruction exercise, which started in 2011, was concluded for all the thirty–six (36) States of the federation and the Federal Capital Territory (FCT). The country, for the first time, now has a comprehensive public debt data for all the States and the FCT as at end-December, 2011. In addition, the DMO in collaboration with Quanteq Technology Services Ltd, conducted a special workshop for sub-national debt managers from the States' DMDs on the "Application of MS Excel for Sub-national Debt Management", in February, 2012. Furthermore, the DMO initiated measures at securing the deployment of ICT Infrastructure to States' DMDs and enlightened the States on the benefits of prudently accessing the capital market for long-term financing to develop critical infrastructure projects.

CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

Total public debt outstanding increased by 16.72 percent in 2012 above the level recorded in 2011, due to additional borrowing from both external and domestic sources. The increase in external debt was largely attributable to additional disbursement of existing loans. The stock of external debt continued to be in the long-term category. The increase in the domestic debt portfolio was due to the part funding of 2012 appropriated budget deficit and the refinancing of maturing obligations.

3.1 Total Public Debt Outstanding

The nominal value of total public debt outstanding as at the end-December, 2012 (external debt of FGN and States and securitized domestic debt of the Federal Government) was US$48,496.24 million. The debt stock increased by US$6,946.80 million or 16.72 percent over the US$41,549.44 million as at the end of 2011 (Table 3.1). The increment arose from both the external and domestic components of the total debt stock.

The increase of US$860.49 million in the external debt stock in 2012 is primarily due to additional disbursements on existing loans and adverse exchange rate fluctuations during the year under review. The much higher rise of US$6,086.30 million in the domestic debt stock in 2012 was primarily due to increase in the net issuances of domestic debt instruments to fund projects in key growth sectors of the economy and to finance the 2012 appropriated budget deficit.

Figure 3.1 shows the trends in total public debt stock from 2008 to 2012. The share of the domestic debt has continued to dominate the trends in the total public debt since 2008.

Table 3.1: Total Public Debt Outstanding, 2008-2012 (US$' Million)

Type	2008	2009	2010	2011	2012
External Debt Stock (% share of total)	3,720.36 (17.39)	3,947.30 (15.29)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (13.46)
Domestic Debt Stock (% share of total)	17,678.55 (82.61)	21,870.12 (84.71)	30,514.33 (86.95)	35,882.86 (86.36)	41,969.16 (86.54)
TOTAL (% share of total)	**21,398.91** (100)	**25,817.42** (100)	**35,093.10** (100)	**41,549.44** (100)	**48,496.24** (100)

[1] Official CBN Exchange Rate of N155.77/US$1 as at 31/12/2012

Figure 3.1: Trends in Total Public Debt Outstanding, 2008-2012 (US$' Million)

3.1.1 Total Public Debt Outstanding by Original Maturity

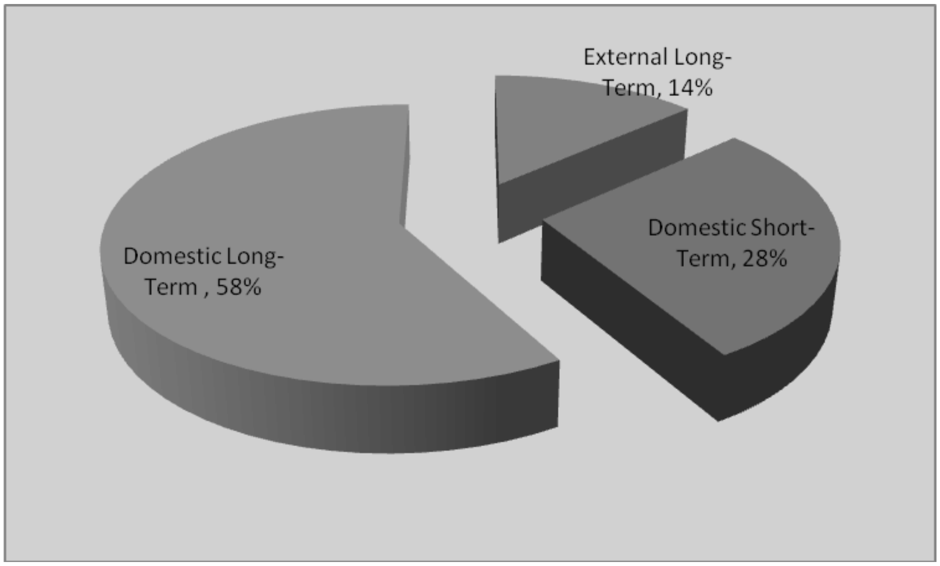
In 2012, Nigeria's total public debt by original maturity showed that long-term debts (i.e. debts with more than one year maturity) have continued to dominate the external debt profile since the exit from the Paris and London Club debts in 2006 (Table 3.2 and Figure 3.2). In the same manner, the domestic debt portfolio has also been dominated by the long-term debt instruments in the last five-year, maintaining an average of 85.43 percent of the domestic debt portfolio within the period.

TABLE 3.2: Total Public Outstanding by Original Maturity, 2008-2012 (US$' Million)

Type	Category	2008	2009	2010	2011	2012[1]
External Debt Stock	Short – term [2]	0.00	0.00	0.00	0.00	0.00
	Long –term	3,720.36	3,947.30	4,578.77	5,666.58	6,527.07
	(% of share total)	(17.39)	(15.29)	(13.05)	(13.64)	(13.46)
	Sub -Total	3,720.36	3,947.30	4,578.77	5,666.58	6,527.07
Domestic Debt Stock	Short-term[3]	3,595.65	5,403.00	8,561.38	11,026.89	13,628.60
	(% of share total)	(16.80)	(20.93)	(24.39)	(26.54)	(28.10)
	Long-term	14,082.90	16,467.12	21,952.95	24,855.97	28,340.56
	(% of share total)	(65.81)	(63.78)	(62.56)	(59.82)	(58.44)
	Sub -Total	17,678.55	21,870.12	30,514.33	35,882.86	41,969.16
	(% of share total)	(82.61)	(84.71)	(86.95)	(86.36)	(86.54)
TOTAL		**21,398.91**	**25,817.42**	**35,093.10**	**41,549.43**	**48,496.23**
	(% of share total)	(100)	(100)	(100)	(100)	(100)

[1] Official CBN Exchange Rate of N155.77/US$1 for 2012 figures as at 31/12/2012
[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

Figure 3.2: Total Public Debt Outstanding by Original Maturity as at end-December, 2012



3.2 Total Public Debt Service

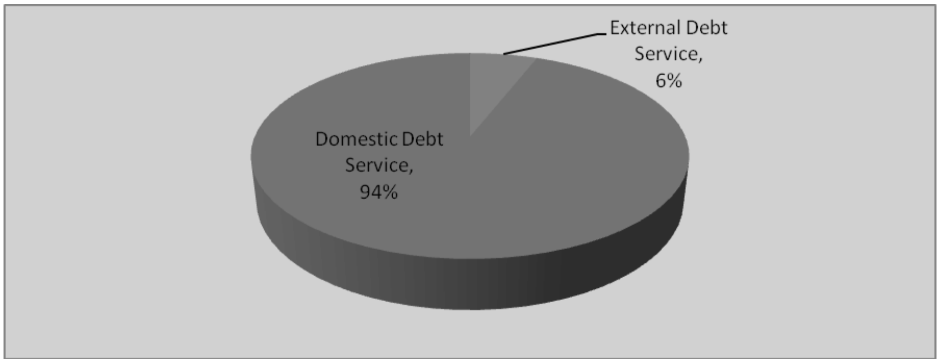
Total public debt service for 2012 was US$4,918.72 million, which is about 2.04 percent of the GDP and 10.14 percent of the total debt stock as at end-December, 2012 (Table 3.3). The amount expended on debt service increased by US$1,137.68 million or about 30.09 percent over the sum of US$3,781.04 million spent in 2011. The rise in debt service was due to the redemption of maturing obligations: External Debt Service and Domestic Debt Service, US$293.00 and US$4,625.72, respectively. As a percentage of the total public debt, the shares of the external and domestic debt service were 5.96 percent and 94.04 percent in 2012 (Figure 3.3), compared with 9 percent and 91 percent, respectively in 2011.

Table 3.3: Total Public Debt Service, 2008-2012 (US$' Million)

Type	2008	2009	2010	2011	2012[1]
External Debt Service (% of share total)	464.63 (11.46)	428.04 (18.33)	354.42 (13.00)	351.62 (9.30)	293.00 (5.96)
Domestic Debt Service (% of share total)	3,590.67 (88.54)	1,907.45 (81.67)	2,373.98 (87.00)	3,429.42 (90.70)	4,625.72 (94.04)
TOTAL	**4,055.30** (100)	**2,335.30** (100)	**2,728.40** (100)	**3,781.04** (100)	**4,918.72** (100)

[1] Official CBN Exchange Rate of N155.77/US$1 for 2012 as at 31/12/2012

Figure 3.3: Total Debt Service as at end-December, 2012



External debt service has shown a steady downward movement since 2009, while the domestic debt service figure has maintained an upward trajectory (Figure 3.4). The observed downward trend in external debt service could be attributed to a greater reliance on concessional sources of funding, while the increasing trend in domestic debt service indicates an active usage of the domestic debt market to meet the bulk of the FGN's borrowing requirements coupled with high borrowing cost in the economy.

Figure 3.4: Trends in Total Debt Service, 2008-2012

3.3 External Loan Disbursements and New Domestic Debt Issuance in 2012

The total disbursements of external debt and new domestic debt issuance in 2012 amounted to US$9,501.36 million (Table 3.4). This showed a decrease of US$123.52 million, or 1.28 percent when compared to the level recorded in 2011.

Table 3.4: External Debt Disbursement & New Domestic Debt Issuance, 2008 -2012 (US$' Million)

Type	2008	2009	2010	2011	2012[1]
Ext. Debt Disbursement	**360.84**	**532.83**	**975.12**	**1,238.91**	**803.60**
FGN Bonds	3,748.28	4,922.09	8,342.43	5,509.05	6,386.66
NTBs	-	5,403.00	3,608.76	2,876.92	2,311.10
Promissory Note	-	427.03	-	-	-
Total New Domestic Debt Issuance	**3,748.26**	**10,752.12**	**11,951.19**	**8,385.97**	**8,697.76**
TOTAL	**4,109.10**	**11,284.95**	**12,926.31**	**9,624.88**	**9,501.36**

[1] Official CBN Exchange Rate of N155.77/US$1 as at 31/12/12 used for 2012 figures

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

Nigeria's external debt outstanding amounted to US$6,527.07 million as at end-December, 2012. The bulk of external debt stock was owed to the official creditors and sourced at concessional rates. The funds were largely applied to support development of projects and programmes in various sectors of the economy. The outstanding non-concessional loans were sourced from bilateral and private creditors. The stock of external debt by remaining maturity was mainly in the long-term category. The increase in the net inflow of resources was largely due to additional disbursements from multilateral and bilateral creditors.

4.1 External Debt Stock

Nigeria's external debt stock outstanding as at end-December, 2012 was US$6,527.07 million (Table 4.1), up from US$5,666.58 million recorded at the end of December, 2011. This represented an increase of US$860.49 million or about 15.19 percent over the period. The increase was due to additional disbursements on existing loans; debt/equity swap between FGN and SEPCO Pacific, as well as, net adverse cross exchange rate movements between the different currencies in the external loan portfolio. Accordingly, trends in Nigeria's external debt stock over the five-year period ending 2012, revealed a gradual increase, with the highest annual increment of 24% occurring in 2012 (Figure 4.1).

4.1.1 Official Creditors

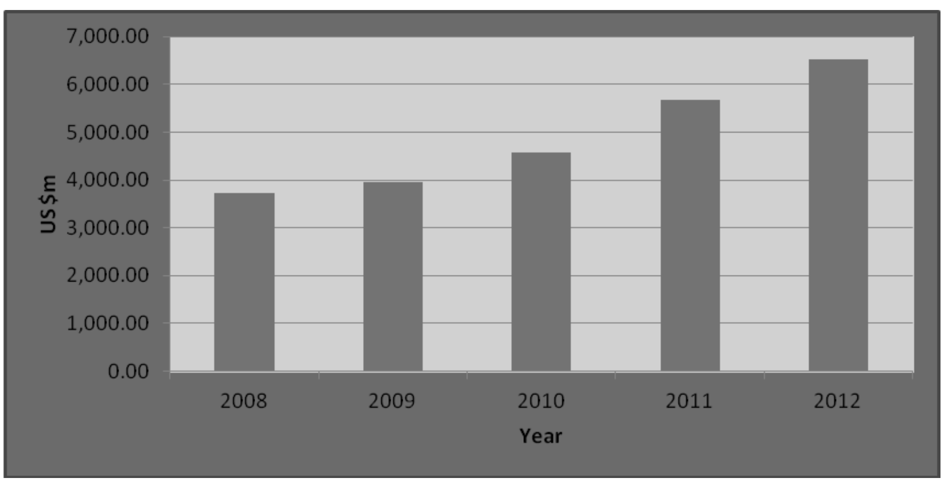
Table 4.2 shows that the bulk of Nigeria's external debt stock, US$5,970.45 million or 91.47 percent, was owed to the Official Creditors, while US$556.63 million or 8.53 percent was owed to Private Creditors as at the end of December, 2012. The Official Creditors comprised Bilateral and Multilateral creditors, which constitute 10.77 and 80.70 percent of total Official Creditors, respectively.

Table 4.1: External Debt Stock by Source as at end-December, 2012 (US$' Million)[1]

Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
Multilateral – WB Group					
IBRD	0.00	0.00	0.00	0.00	
IDA	4,622.91	0.00	0.00	4,622.91	
ADB Group					
- ADB	32.23	0.00	0.00	32.23	
- ADF	406.45	0.00	0.00	406.45	
Other Multilaterals					
IFAD	84.31	0.00	0.00	84.31	
ABEDA	2.65	0.00	0.00	2.65	
EDF	104.32	0.00	0.00	104.32	
IDB	14.45	0.00	0.00	14.45	
SUB-TOTAL	**5,267.42**	**0.00**	**0.00**	**5,267.42**	**80.70%**
Bilateral					
Peoples Republic of China	683.03	0.000	0.00	683.03	
France	20.00			20.00	
SUB-TOTAL	**703.03**	**0.00**	**0.00**	**703.03**	**10.77%**
Commercial					
ZTE, ALCATEL, CMEC	56.63	0.00	0.00	56.63	
- EURO-BOND	500.00	0.00	0.00	500.00	
SUB-TOTAL	**556.63**	**0.00**	**0.00**	**556.63**	**8.53%**
GRAND TOTAL	**6,527.07**	**0.00**	**0.00**	**6,527.07**	**100.00%**

[1] Based on official CBN exchange rate of US$1.00 vis-à-vis other currencies as at 31/12/2012

Figure 4.1: Trends in External Debt Stock, 2008–2012 (US$' Million)



4.1.2 Bilateral

The bilateral creditors are the Non-Paris Club group, which provide loans on semi-concessional terms. The stock of bilateral debts from the bilateral creditors increased from US$453.83 million in 2011 to US$703.03 million in 2012.

4.1.3 Multilateral

A breakdown of the total external debt showed that multilateral loans, which are mainly concessional, amounted to US$5,267.42 million or 80.70 percent of the total external debt stock as at end-December, 2012. The sum of US$5,235.19 million or 80.21 percent of the multilateral debt was on concessional terms while the balance of US$32.23 million or 0.5 percent was non-concessional (Table 4.2). The trend analysis of the external debt stock between 2008 and 2012 showed that the share of multilateral debt increased marginally from 80.63 percent in 2011 to 80.70 percent in 2012 due to the inclusion of new loans contracted from the EXIM Bank of China.

4.1.4 Commercial

The private creditors comprised non-concessional loans that were obtained from the commercial window and the Nigerian Eurobond issued in the International Capital Market in January, 2011. As at end-December, 2012, the sum of US$556.63 million was owed to the private creditors consisting of the Eurobond holders and the other private sector loans guaranteed by the China Exim Bank. The stock of Commercial Debts declined steadily from 2008 through 2010, owing largely to principal repayments. However, the trend was reversed in 2011 following the issuance of the US$500 million Eurobond in that year, while in 2012, the proportionate share declined to 8.53 percent (Table 4.2).

Table 4.2: External Debt Outstanding by Source, 2008-2012 (US$' Million)

SOURCE	2008	2009	2010	2011	2012[1]
A. Official:					
1. Bilateral					
Non-Paris Club	182.42	181.60	163.20	453.83	703.03
2. Multilateral	3,172.87	3,504.51	4,217.76	4,568.92	5,267.42
Sub-Total	**3,355.29**	**3,686.11**	**4,380.96**	**5,022.75**	**5,970.45**
B. Private:					
1. Eurobond	0.00	0.00	0.00	500.00	500.00
2. Other Commercial	365.07	261.19	197.81	143.82	56.63
Sub-Total	**365.07**	**261.19**	**197.81**	**643.82**	**556.63**
Grand Total	**3,720.36**	**3,947.30**	**4,578.77**	**5,666.57**	**6,527.07**
Creditor Category as % of Total					
A. Official:					
1. Bilateral					
Non-Paris Club	4.90	4.60	3.56	8.01	10.77
2. Multilateral	85.28	88.78	92.12	80.63	80.70
Sub-Total	**90.19**	**93.38**	**95.68**	**88.64**	**91.47**
B. Commercial:					
1. Eurobond	0.00	0.00	0.00	8.82	7.66
2. Other Commercials	9.81	6.62	4.32	2.54	0.87
Sub-Total	**9.81**	**6.62**	**4.32**	**11.36**	**8.53**
Grand Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

1. Official CBN exchange rate of 1US$/N155.77 as at 31/12/2012

4.2 Currency Composition of External Debt

Table 4.3 and Figure 4.2 show the external debt stock by currency composition as at December 31, 2012. It revealed that about 54.13 percent of external debt stock was held in US Dollars. This was followed by the Euro with 29.99 percent of the total, the GBP with 8.15 percent, Japanese Yen with 7.40 percent, and other currencies (CHF and IDB Units) accounted for the balance of 0.33 percent.

Table 4.3: External Debt Stock by Currency Composition as at end-December 2012 (US$ '000)[1]

/No	Currency	Debt Stock in Original Currency	Naira Exchange Rate	Debt Stock in Naira	Debt Stock in USD	% of Total
1	Euro	1,428,250	213.51	304,945,695.50	1,957,666.40	29.99
2	IDB UNITS	9,479.58	238.86	2,264,291.96	14,536.12	0.22
3	GBP	341,728.40	242.34	82,814,461.59	531,645.77	8.15
4	CHF	6,861.58	170.13	1,167,360.63	7,494.13	0.11
6	USD	3,532,974.45	155.77	550,331,430.08	3,532,974.45	54.13
7	JPY	41,608.60	1,807.30	75,199,230.75	482,758.11	7.40
TOTAL				**1,016,722,471.19**	**6,527,074.99**	**100.00**

[1]Official CBN Exchange Rate of N155.77/1US$ as at 31/12/12

Figure 4.2: External Debt Stock by Currency Composition as at end-December, 2012 (US$' Million)

4.3 External Debt by Original and Remaining Maturities

In the past ten years, Nigeria's external debt portfolio has had average maturity greater than one year. As at the end of 2012, only 0.09% and 1.31% of the country's External Debt Portfolio was due within one year and between 1-3 years, respectively. The remaining 98.60% was due in at least 3 years and above (Table 4.4). In addition, the table shows that all the IBRD loans were paid off in 2012, while the ADB loan would mature within the next three years.

Table 4.4: External Debt Outstanding by Remaining Maturity as at end-December, 2012 (US$' Million)

Source	Short Term (0-1 yr)	Medium Term (>1-3 yrs)	Long Term (Over 3 years)
1. Multilateral			
IBRD	0.00	0.00	0.00
IDA	0.00	2.39	4,620.52
IFAD	0.00	0.00	84.31
ADB	0.00	32.23	0.00
ADF	0.00	0.00	406.45
ABEDA	0.00	0.00	2.65
IDB	0.00	0.00	14.54
EDF	0.00	0.00	104.32
2. ICM (EUROBOND)	0.0	0.0	500.00
3. Others	5.54	51.08	703.03
Sub-Total	**5.54**	**85.71**	**6,435.82**
% of Total	0.085	1.31	98.60
Grand-Total			**6,527.08**

4.4 Sectoral Allocation of External Debt

Table 4.5 shows the various sectors of the economy into which external debt disbursements were channeled. It revealed that the bulk of Nigeria's external debt was utilized to support infrastructure and human capital development in such areas as telecoms, water, energy (electricity and gas), transportation (rail, road and air), housing, education, health, social welfare and agriculture. The sectoral allocations were in tandem with the developmental objectives and priorities of the government.

Table 4.5: Sectoral Allocation of External Debt in 2012 (US$' Million)

Economic Sector	Amount Outstanding	% of Total
Agriculture	788.77	12.08
Air Transport	31.60	0.48
Education & Training	539.21	8.26
Energy-Electricity	422.29	6.47
Environment	316.03	4.84
Transport	629.74	9.65
Health & Social Welfare	847.56	12.99
Housing & Urban Develop.	133.71	2.05
Water Supply	461.28	7.07
Policy Support (Monetary)	126.38	1.94
Rural Development	111.93	1.71
Scientific & Tech Equipment	532.33	8.16
Telecommunications	29.04	0.44
Multi-sector/Others	1,557.21	23.85
Total	**6,527.07**	**100.00**

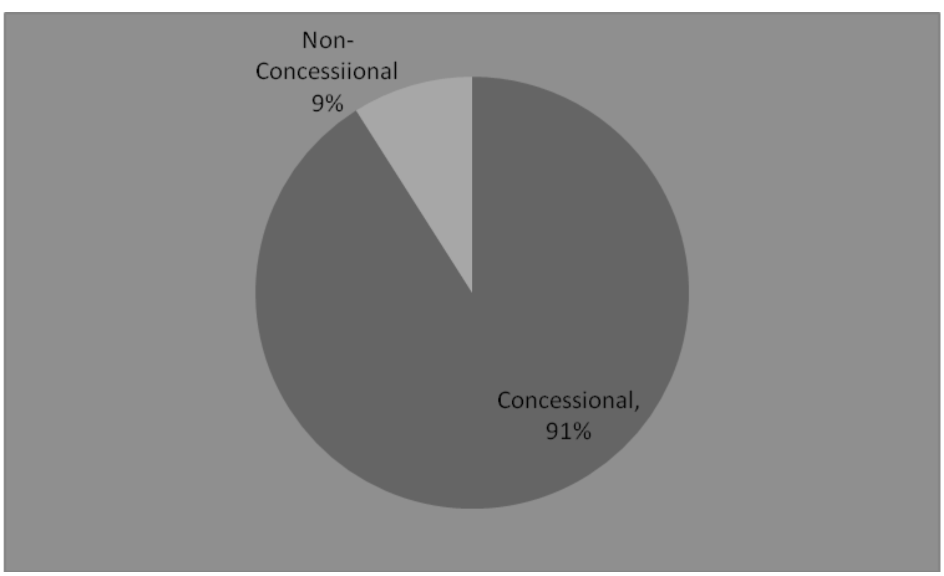
4.5 External Debt by Concessionality

Table 4.6 and Figure 4.3 show that 91.0 and 9.0 percent of Nigeria's external debt were from concessional and non-concessional windows, respectively, in conformity with the external debt management strategy. The International Development Association (IDA) remained the largest creditor in 2012 contributing 70.8 percent of the country's concessional debt, compared with 69.48 percent in 2011.

Table 4.6: Concessional/Non-Concessional External Loans as at end-December, 2012 (US$' Million)

S/N	Funding Sources	Amount Outstanding	% of Total Debt
	Concessional Creditor Categories -Multilateral		
1	International Development Association (IDA)	4,622.91	70.8
2	International Fund for Agricultural Development (IFAD)	84.31	1.3
3	European Development Fund (EDF)	104.32	1.6
4	African Development Fund (ADF)	406.45	6.2
5	Islamic Development Bank (IDB)	14.45	0.2
6	Arab Bank for Economic Development (ABED)	2.65	0.0
7	Non-Paris Club Bilateral	703.03	10.8
	Sub-Total	**5,938.21**	**91.0**
	Non-Concessional Categories		
1	African Development Bank (ADB)	32.23	0.5
2	Eurobond and others	556.63	8.5
	Sub-Total	**588.86**	**9.0**
	Grand Total	**6,527.07**	**100**

Figure 4.3: External Debt Stock by Concessionality as at end-December, 2012



4.6 External Debt Flows

4.6.1 External Debt Service

There was a remarkable decrease in external debt service in 2012 from US$351.61 million in 2011 to US$293.0 million in 2012, that is; a decrease of US$58.61 million or 16.67 percent. Table 4.7 shows that the highest debt service of US$126.92 million or 43 percent of the total debt service went to the Multilateral creditors in 2012, while the second highest payment amounting to US$45.32 million, or 15 percent went to the Non-Paris Club Commercial creditors.

Table 4.7: External Debt Service, 2008 – 2012 (US$' Million)

SOURCE	2008	2009	2010	2011	2012
A. Bilateral:					
Paris Club	0.00	0.00	0.00	0.00	0.00
Non-Paris Club	6.63	12.66	24.18	51.52	45.28
2. Multilateral	380.63	260.52	212.61	172.27	126.92
Sub-Total	387.26	273.18	236.79	223.79	172.20
B. Private:					
1. London Club (Oil Warrants)[1]	41.72	41.72	41.72	41.72	41.72
2. Promissory Notes	0.00	0.00	0.00	0.00	0.00
3. Others (including Non-Paris commercial)	35.65	113.13	75.90	69.23	45.32
4. ICM (Eurobond)	0.00	0.00	0.00	16.87	33.75
Sub-Total	77.37	154.85	117.62	127.82	120.79
Grand Total	464.63	428.04	354.41	351.61	293.00

[1] Payments made to London Club debt were in respect of Oil Warrants **only**, as there has been no London Club stock since end-2007.

The sum of US$41.72 million, or 14 percent, was paid in respect of Oil Warrants, while US$33.75 million, or 12 percent payment was paid to the holders of the US$500.00 million Eurobond. Table 4.8 shows the detailed breakdown of debt service by creditor category.

4.6.2 Waivers

The Federal Government of Nigeria received the sum of US$0.726 as waivers following timely remittance of debt service in 2012. The waivers were from the payments to IBRD and IDA, which amounted to US$0.101 and US$0.624, respectively in 2012 (Table 4.8).

Table 4.8: Breakdown of External Debt Service by Source in 2012 (US$ '000)

SOURCE		Interest/	Deferred	Deferred	Penalty	Waiver/	Commitment	Other Charges		%
	Principal	Service Fee	Principal	Interest	Interest	Credit	Charges		Total	0f Total
MULTILATERAL	**86,749.09**	**38,957.94**	**29.02**	**328.90**	**0.01**	**(725.61)**	**1,577.65**	**-**	**126,917.00**	**43%**
I.B.R.D.	6,924.54	66.61	18.61	0.18	0.00	(101.39)	0.00	-	6,908.54	
A.D.B	21,411.22	3,641.24	0.00	0.00	0.00	-	0.00	-	25,052.46	
IFAD	2,257.76	580.19	3.46	0.57	0.00	-	207.52	-	2,841.97	
IDB	-	66.55	0.00	0.00	0.00	-	0.00	-	66.55	
A.D.F	3,489.24	2,864.63	0.00	0.00	0.00	-	1,577.65	-	7,931.52	
IDA	47,426.35	30,677.56	6.96	326.96	0.00	(624.23)	0.00	-	77,813.62	
EDF/EIB	5,239.98	1,044.29	0.00	0.00	4.13	-	0.00	-	6,284.28	
BADEA	0.00	16.99	0.00	1.19	0.00	0.00	0.00	0.00		
-Oil Warrant	-	41,719.26	0.00	0.00	0.00	-	0.00	-	**41,719.26**	**14%**
ICM (EUROBOND)	**0.00**	**33,750.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**33,750.00**	**12%**
NON-PARIS BILATERAL	**30,651.29**	**12,939.17**	**0.00**	**0.00**	**0.00**	**0.00**	**1,112.28**	**579.06**	**45,281.81**	**15%**
EXIM BANK OF CHINA (NIGCOMSAT)	30,000.00	3,963.33	0.00	0.00	0.00	-	0.00	-	33,963.33	
EXIM BANK OF KOREA	651.29	17.07	0.00	0.00	0.00	-	0.00	-	668.36	
NIGERIAN RAILWAY MODERN PROJ. IDU-KADUNA	0.00	660.40	0.00	0.00	0.00	0.00	963.83	579.06	2,203.29	
NIGERIAN NAT. PUBLIC SEC. SYSTEM PROJ.	0.00	8,298.38	0.00	0.00	0.00	0.00	148.45	0.00	8,446.82	
NON PARIS COMMERCIAL	**41,222.52**	**4,100.95**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**45,323.47**	**15%**
Papalanto & Omotosho	18,389.52	2,482.59	0.00	0.00	0.00	-	0.00	-	20,872.11	
ZTE	11,750.28	1,133.50	0.00	0.00	0.00	-	0.00	-	12,883.78	
ARCATEL	11,082.72	484.87	0.00	0.00	0.00	-	0.00	-	11,567.59	
OTHERS	**0.00**	**12.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**12.00**	**0%**
Bank of England/CITIBANK(Lazards Agency Fees)	-	12.00	0.00	0.00	0.00	-	0.00	-	12.00	
Professional Fees (Cleary Gottlieb S&H)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
TOTAL	**158,622.90**	**131,479.32**	**29.02**	**328.90**	**0.01**	**(725.61)**	**2,689.93**	**579.06**	**293,003.54**	**100%**

4.6.3 External Debt Service Projections (2013 - 2021)

Table 4.9 shows external debt service projections over a 10-year period. The table shows that a total debt service of US$4,892.39 million would be made over the 10 year-period. It further reveals that debt service would trend downwards to US$354.14 million in 2015, and rise gradually to peak at US$994.05 million in 2021, at which point the US$500 million Eurobond would be redeemed.

Table 4.9: External Debt Service Projections (US$ '000)

Category of Debt	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
MULTILATERAL										
ADF										
Principal	4.48	9.1	9.4	9.4	11.7	14	15.7	17.5	21	22.8
Interest	7.08	3.3	3.9	3.9	4.2	4.5	4.6	4.6	4.6	4.6
ADB										
Principal	25.79	10.7	0	0	0	0	0	0	0	0
Interest	2.21	0.4	0	0	0	0	0	0	0	0
IFAD										
Principal	3.69	2.8	2.8	2.8	3.7	3.7	3.7	3.7	4.2	4.2
Interest	0.74	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.7
IDA										
Principal	71.07	69.3	79.9	91.5	100.4	113.4	142.6	153.4	166.5	177.7
Interest	37.91	34.9	36.2	37.4	38.1	38.6	38.4	37.9	37.4	36.7
IBRD										
Principal	0	0	0	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0	0	0
EDF										
Principal	6.01	5.5	5.6	5.6	5.7	5.8	5.8	5.9	5.9	6
Interest	1.13	1	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.5
ABFEDA (BADE)										
Principal		0	0	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest	0.05	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IDB										
Principal	0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Interest	0.26	0.2	0.2	0.1	0	0	0	0	0	0
Sub Total	**160.426**	**138**	**139.7**	**152.5**	**165.5**	**181.6**	**212.4**	**224.5**	**241**	**253.3**
EUROBOND										
Principal		0	0	0	0	0	0	0	500	0
Interest	67.78	101.81	101.81	101.81	101.81	101.81	101.81	101.81	84.935	68.06
BILATERAL										
Principal	61.95	20	20	20	20	83	76.9	115.4	115.4	115.4
Interest	13.92	20.8	27.6	32.1	33.5	34.5	33.8	31.9	29	26.3
COMMERCIAL										
Principal	55.76	30.2	0	0	0	0	0	0	0	0
Interest	3.82	0.9	0	0	0	0	0	0	0	0
Others										
Oil Warrants	41.72	41.72	41.72	41.72	41.72	41.72	41.72	41.72		
New Financing	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Financial Advisory Service	0.012	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total Principal	228.75	149.4	119.5	131.5	143.7	222.1	246.9	298.1	815.2	328.3
Total Interest	198.14	227.34	234.64	240.34	242.54	244.24	243.44	240.94	178.85	158.47
TOTAL	**426.89**	**376.74**	**354.14**	**371.84**	**386.24**	**466.34**	**490.34**	**539.04**	**994.05**	**486.77**

4.6.4 External Debt Disbursements

Table 4.10 shows the disbursements of external debt by creditors from 2008 to 2012. Comparatively, a total of US$803.60 million external disbursements (excluding grants) was received in 2012, representing a decrease of US$435.31 million or 35.14 percent, over the level at end-2011. The major source of disbursement in 2012 was from the IDA, which accounted for about 63.36 percent of the total, followed by new disbursements from the Exim Bank of China.

Table 4.10: Disbursements by Source, 2008-2012 (US$' Million)

	2008	2009	2010	2011	2012
Multilateral:					
IDA	331.13	512.58	946.98	355.56	509.22
IFAD	6.28	3.1	3.5	20.40	14.66
ADB	0	0	0	0	0
ADF	23.43	17.15	22.68	48.12	37.56
IDB	0	0	1.97	1.63	-
ABADE	-	-	-	-	2.13
Sub-Total	**360.84**	**532.83**	**975.13**	**425.71**	**563.57**
Bilateral	0	0	0	313.20	240.03
Private-ICM (Eurobond)	0	0	0	500.00	-
TOTAL	**360.84**	**532.83**	**975.13**	**1,238.91**	**803.60**

-Disbursements exclude Grants.

4.6.5 Net Resource Flows on External Debt

Table 4.11 shows both the net resource flow on external debt and net transfers by creditor types in 2012. The sum of US$644.95 million was recorded as an inflow under the net resource flow in 2012. The inflow was mainly due to disbursements from the Multilateral and Bilateral creditors. The net transfer stood at US$510.60 million, signifying an overall net inflow of resources into the country in 2012.

Table 4.11: Net Flows and Net Transfers on External Debt by Source in 2012 (US$' Million)

Source	Disbursements in 2012	Principal Repayments in 2012	Net resource flow in 2012	Interest paid in 2012	Net Transfers in 2012
	(A)	**(B)**	**C (A-B)**	**(D)**	**E (C-D)**
Multilateral	563.57	86.78	476.79	40.14	436.65
Bilateral	240.03	30.65	209.38	14.63	194.75
Commercial	0.00	41.22	-41.22	4.10	-45.32
Oil Warrants	0.00	0.00	0.00	41.72	-41.72
ICM -Eurobond	0.00	0.00	0.00	33.75	-33.75
Citibank Agency Fees	0.00	0.00	0.00	0.01	-0.01
Total	**803.60**	**158.65**	**644.95**	**134.35**	**510.60**

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

4.7 Matured External Loans in 2012

Table 4.12 shows IBRD's loans amounting to US$106.96 million, which were contracted between 1990 and 1992 and Non-Paris Club loan of US$10.93 million contracted in 1991 that matured and were repaid in 2012.

Table 4.12: Matured External Debts in 2012 (US$)

S/N	CREDITOR	PROJECT TITLE	DATE SIGNED	CURRENCY	MATURITY DATE	ORIGINAL LOAN AMOUNT
1.	IBRD	Nat. Agric. Techn Support Project	25/08/1992	USD	01/05/2012	39,457,126.00
		Nat. Fadama Development Project	25/08/1992	USD	01/05/2012	67,500,000.00
						106,957,126.00
2.	**NON-PARIS CLUB**	Korea Locomotive Engine	06/10/1992	KRK	20/10/2012	**10,929,990.99**

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

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NIGERIA'S DOMESTIC DEBT

The domestic debt outstanding stood at ₦6,537.54 billion as at end-December, 2012, representing an increase of 16.27 percent over the previous year. The increase was largely due to new borrowings to partly fund the appropriated budget deficit and the refinancing of matured debt instruments. Analysis of category of holders of the domestic debt stock showed that Banks and Discount Houses held the highest share of about 54.77 percent, followed by Non-Bank Public with 36.69 percent, while the CBN held 6.09 percent of the total debt portfolio as at end-December, 2012. Total domestic debt service was ₦720.55 billion in 2012 compared to ₦537.39 billion in 2011. All issues in the primary market were oversubscribed indicating liquidity in the domestic capital market. The secondary market remained active in 2012. The inclusion of FGN bonds in the J.P. Morgan Bond Index and Barclays Bank Bond Index increased the participation of institutional investors in the Nigerian bond market.

5.1 Domestic Debt Stock

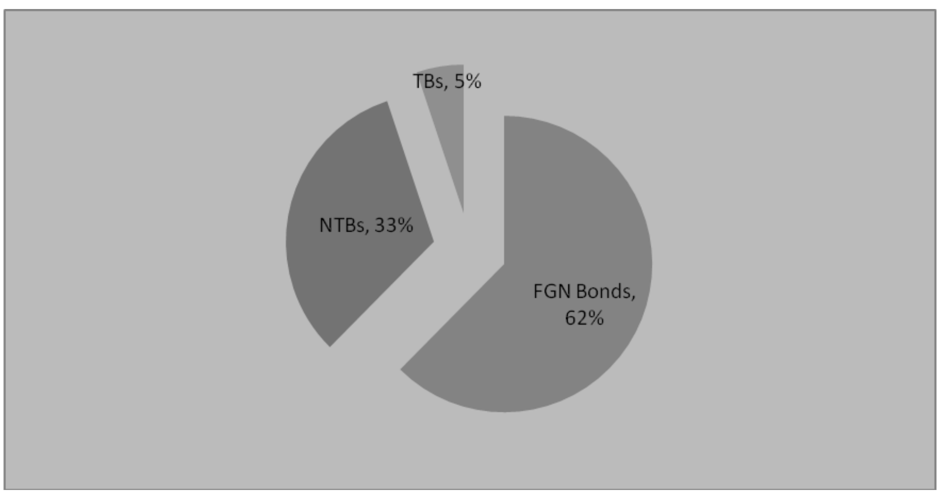
The securitized Federal Government domestic debt stock increased from ₦5,622.84 billion as at December 31, 2011, to ₦6,537.54 billion by end-December, 2012, representing an increase of ₦914.7 billion or 16.27 percent (Table 5.1). The increase in the stock of domestic debt was as a result of net issuances of FGN Bonds and NTBs worth ₦538.85 billion and ₦395.01 billion, respectively, which were used to finance appropriated budget deficit. The FGN Bonds and NTBs that matured were refinanced. This means that matured obligations in 2012 were repaid through the issuance of new debt instruments.

In terms of instruments, Table 5.1 and Figure 5.1 show that 62.41 percent or ₦4,080.05 billion of the total domestic debt stock was raised through FGN bonds. This was 15.22 percent higher than the level in 2011. The share of Nigerian Treasury Bills (NTBs) was 32.47 percent up from the 30.73 percent in 2011, while the share of Treasury Bonds dropped from 6.29 percent in 2011 to 5.12 percent in 2012.

Table 5.1: Domestic Debt Outstanding by Instruments, 2011 & 2012 (₦' Billion)

Instruments	2011	2012
FGN Bonds (% share of total)	3,541.20 (62.98)	4,080.05 (62.41)
Nigerian Treasury Bills (% share of total)	1,727.91 (30.73)	2,122.93 (32.47)
Treasury Bonds (% share of total)	353.73 (6.29)	334.56 (5.12)
TOTAL (% share of total)	5,622.84 (100)	6,537.54 (100)

Figure 5.1: Composition of Domestic Debt Stock by Instruments as at end-December, 2012



5.2 Trends and Composition of Domestic Debt Outstanding by Instruments

The stock of FGN's domestic debt raised from the bond market has risen steadily since 2008 from a low level of ₦1,445.60 billion to a record high of ₦4,080.05 billion or 62.41 percent of the total domestic debt stock in 2012 (Table 5.2). Likewise, the domestic debt component in Nigerian Treasury Bills (NTBs), which stood at ₦2,122.93 billion or 32.47 percent of the total domestic debt stock in 2012, has equally been on the increase since 2008. However, the Treasury Bonds component has been on the downward trend due to gradual retirement of the Treasury Bonds as they fell due during the period. There was no Development Stock as the final redemption of

Development Stock was made in 2011 (Table 5.2). The rising trend in the domestic debt stock has been as a result of the remarkable increase in Government's expenditure due to increases in public wage bills, overheads and other recurrent expenditures. Correspondingly, the portion of fiscal deficit which the Appropriation Act allocated for funding through domestic borrowing has also been rising rapidly.

Table 5.2: Trend in Domestic Debt Outstanding by Instruments, 2008 – 2012 (₦' Billion)

Instruments	2008	2009	2010	2011	2012
FGN Bonds	1,445.60	1,974.93	2,901.60	3,541.20	4,080.05
NTBs	471.93	797.48	1,277.10	1,727.91	2,122.93
Treasury Bonds	402.26	392.07	372.90	353.73	334.56
Dev. Stock	0.52	0.52	0.22	-	-
Promissory Note	-	63.03	-	-	-
Total	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.54**

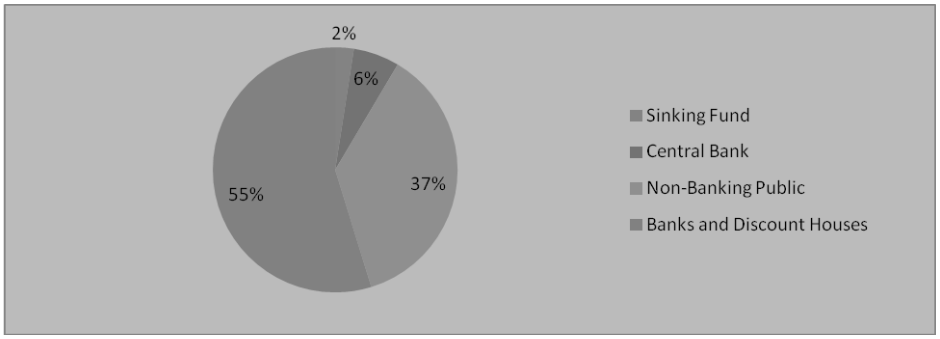
5.3 Domestic Debt Stock by Category of Holders

Table 5.3 and Figure 5.2 show the category of holders of the government's debt instruments as at end-December, 2012. They reveal that Banks and Discount Houses remained the major holders, accounting for ₦3,580.42 billion, or 54.77 percent of the total debt portfolio. This was followed by the Non-Bank Public, which accounted for ₦2,398.52 billion, or 36.69 percent, while the CBN had a share of ₦398.27 billion, or 6.09 percent of the total debt instruments. The remaining share of N160.32 billion, or 2.45 percent was held in the Sinking Fund.

Table 5.3: Domestic Debt Outstanding by Holders as at end-December, 2012 (₦' Billion)

Instruments	CBN	Banks & Discount Houses	Non-bank Public	Sinking Fund	Amount Outstanding
FGN Bond	161.71	2,129.14	1,789.20	0.00	4,080.05
NTBs	62.32	1,451.28	609.32	0.00	2,122.92
Treasury Bonds	174.24	0.00	0.00	160.32	334.56
Total	**398.27**	**3,580.42**	**2,398.52**	**160.32**	**6,537.53**
% of Total	**6.09%**	**54.77%**	**36.69%**	**2.45%**	**100%**

Fig 5.2: Composition of Domestic Debt Outstanding by Holders as at end-December, 2012



The trend analysis showed that the holdings of the CBN have remained relatively stable since 2009 (Table 5.4). On the other hand, the holdings of Banks and Discount Houses have been on the increase after the decline in 2009, which was due to the liquidity crisis in the banking sector that year. The figure as at end-December, 2010 more than doubled the level in the preceding year to ₦2,605.01 billion owing to the steady recovery that followed the CBN's banking sector reforms, liquidity ease in 2010 and flight to safety of hedge funds. The holdings of the Non-Bank Public rose significantly in 2012 after the marginal decline in 2011.

Table 5.4: Trends in Domestic Debt Outstanding by Holders, 2008-2012 (₦' Billion)

Investor-Type	2008	2009	2010	2011	2012
CBN	289.37	323.18	343.14	348.84	398.27
Banks and Discount Houses	1,482.16	1,274.58	2,605.01	3,790.90	3,580.42
Non-Bank Public	428.03	1,345.55	1,459.30	1,336.61	2,398.52
Sinking Fund	120.75	284.72	144.37	146.49	160.32
TOTAL	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.53**

5.4 Domestic Debt by Residual Maturity

Tables 5.5 shows that instruments maturing less than one year (short-term debt) accounted for 46.57 percent of the total domestic debt stock outstanding as at end-December, 2012. The debt instruments maturing between 1-3 years and over 3 years (long-term debt) constituted 15.97 percent and 37.46 percent of the country's domestic debt, respectively. This is in contrast to the DMO's preferred composition of 25 and 75 percent for short and long-term debt instruments, respectively. The trend analysis of the total domestic debt outstanding by residual maturity between 2008 and 2012 (Table 5.6) also shows that the quantum of long-term debt have maintained an upward trend from ₦1,645.54 billion in 2008 to ₦3,492.79 billion in 2012.

Table 5.5: Maturity Structure of Domestic Debt as at end-December, 2012

Residual Maturity (Years)	% Share of Outstanding Debt
< 1 Year	46.57
≥ 1- 3 Years	15.97
> 3 years	37.46
Total	**100**

Table 5.6: Domestic Debt Outstanding by Residual Maturity, 2008 – 2012 (₦' Billion)

Year	Short Term[1]	Long Term[2]	Total
2008	674.77	1,645.54	2,320.31
2009	1,197.75	2,030.28	3,228.03
2010	1,520.16	3,031.66	4,551.82
2011	2,203.08	3,419.76	5,622.84
2012	3,044.75	3,492.79	6,537.54

Notes: 1. Instruments with up to 1 year remaining maturity
2. Instruments with more than 1 year remaining maturity

5.5 Domestic Debt Service

The total domestic debt service was ₦720.54 million in 2012. This was 34.08 percent higher than the level in 2011 (Table 5.7). In terms of proportionate shares, the FGN bonds debt service represented 49.14 percent of the total payments while payments in respect of the NTBs, and Treasury Bonds constituted 43.13 percent and 7.73 percent, respectively (Figure 5.3). The total domestic debt service as a percentage of the total domestic debt stock outstanding was 11.02 percent in 2012, which was higher than the 9.56 percent recorded in 2011. The increase in the ratio of debt service-to-debt stock is a reflection of the rise in the cost of borrowing in the domestic financial market. The trend analysis shows a sustained increase in the domestic debt service from 2008 to 2012 (Table 5.8).

Table 5.7: Domestic Debt Service, 2012 (₦' Million)

INSTRUMENTS	PRINCIPAL REPAYMENT	INTEREST	TOTAL
FGN Bonds	-	354,076.61	354,076.61
NTBs	-	310,792.71	310,792.71
Treasury Bonds	19,170.00	36,510.63	55,680.63
Total Debt Service	**19,170.00**	**701,379.95**	**720,549.95**

Figure 5.3: Composition of Domestic Debt Service, 2012

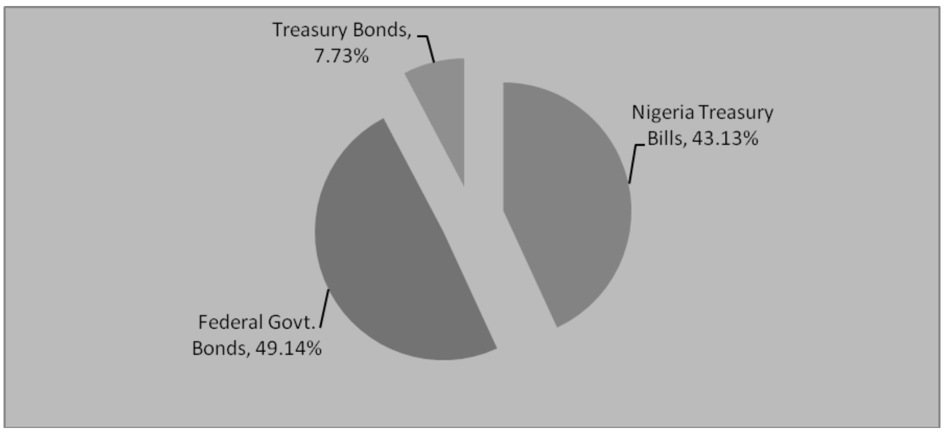


Table 5.8: Trends in Domestic Debt Service, 2008 - 2012 (₦' Billion)

YEAR	DEBT SERVICE
2008	232.98
2009	281.54
2010	354.13
2011	537.39
2012	720.55

5.6 The Domestic Bond Market

Activities in the primary and secondary segments of the domestic bond market in 2012 were lower than the levels recorded in 2011 due to a number of factors, which were both domestic and external.

5.6.1 Primary Market

The amount of new issues in the primary market in 2012 when compared to 2011 recorded a decline of about 82 percent in face value because, Asset Management Corporation of Nigeria (AMCON), which was responsible for the growth in 2011 with the issuance of ₦5,464.928 billion

Bonds, was less active in 2012. It would be recalled that AMCON issued these bonds in exchange for the purchase of bank credit as part of the banking sector reforms. The corporate segment was also less active in 2012 relative to 2011. Three corporates issued bonds with a nominal value of ₦32.04 billion as against seven corporates which raised ₦71.43 billion in 2011. The sub-national market segment, however, recorded increased activities as four State Governments raised ₦157 billion compared to ₦92.00 billion raised by the same number of States in 2011. The Federal Government remained an active and regular issuer. New issues of FGN Bonds amounted to ₦994.85 billion indicating an increase of 15.24 percent over the sum of ₦863.268 billion issued in 2011 (Table 5.9).

Table 5.9: Summary of New Issues, 2012

Issuer	Amount (₦' Bn)	% of Total
Federal Government of Nigeria	994.85	84.03
State Governments	157.00	13.26
Corporates	32.04	2.71
Total	**1,183.89**	**100.00**

Source: DMO and SEC

5.6.2 Size and Composition of the Domestic Bond Market

The domestic bond market (excluding AMCON Bonds) grew by 17.96 percent in 2012 to ₦4,782.48 billion from ₦3,541.19 billion recorded in 2011. The relative share of FGN Bonds on the overall market size declined marginally from 87.37 percent in 2011 to 85.34 percent in 2012, while the share of State Governments' issuance increased from 8.41 percent to 10.42 percent in 2012. The share of Corporate Bonds remained almost at the same level in 2011 and 2012 (Table 5.10).

Table 5.10: Size and Composition of the Domestic Bond Market by Issuer, 2011-2012

Issuer	2011		2012	
	Amount Outstanding (₦'Bn)	% of Total	Amount Outstanding (₦'Bn)	% of Total
Federal Government of Nigeria	3,541.19	87.37	4,080.48	85.34
State Governments	341.00	8.41	498.00	10.42
Corporates*	170.96	4.22	203.00	4.25
Total	**4,053.15**	**100.00**	**4,781.48**	**100.00**

Source: DMO and SEC* Excludes Bonds Issued by AMCON

5.6.3 FGN Primary Market Activities

The FGN primary market activities in 2012 showed that 3, 5, 7 and 10-year FGN Bonds were offered during the year. A total of ₦994.85 billion was offered and allotted to successful bidders in 2012 from the total subscription of ₦1,858.18 billion. The level of over subscription was about 87 percent (Table 5.11 and Figure 5.4) The subscription level of ₦1,858.18 billion in 2012 was ₦76.56 billion or 4.3 percent higher than that of the previous year indicating improved confidence in the bond market. Of the amount allotted to the bidders, the sum of ₦139.70 billion went to institutional investors on non-competitive basis.

Table 5.11 and Figure 5.4 further show that the FGN Bonds have been consistently oversubscribed in the last 5 years indicating sustained investor confidence in the domestic bond market. This also reflects the positive impact of the DMO's sustained education and enlightenment programmes, regular engagements with stakeholders and in the specific case of 2012, the active participation of foreign investors following the inclusion of FGN Bonds in the J.P. Morgan's GBI-EM in October 2012. Similarly, the amount offered and allotted has risen steadily over the years indicating the capacity of the bond market to absorb the offerings and accommodate other bond issuers.

Table 5.11: FGN Bonds Primary Market Issuance, 2008 - 2012 (₦' Million)

Year	Offer/Issuance	Subscription	Allotment
2008	515,000.00	845,951.53	491,961.16
2009	694,000.00	1,340,891.46	726,500.00
2010	1,073,120.00	2,267,760.41	1,244,439.79
2011	791,268.42	1,781,621.68	863,268.42
2012	994,850.00	1,858,188.06	994,850.00

Figure 5.4: Summary of FGN Bonds Offer, Subscription & Allotment, 2008-2012 (₦' Million)

5.6.4 Allotment of FGN Bonds by Residency Classification

An analysis of the allotments of the FGN Bonds by Residency Classification shows that resident investors accounted for ₦890,631.48 million or 89.52 percent of bonds allotted in 2012, compared with ₦857,196.62 million or 99.30 percent in 2011. On the other hand, non-resident investors accounted for ₦104,218.52 million or 10.48 percent of bonds allotted in 2012, compared with ₦6,071.80 million or 0.70 percent in 2011 (Table 5.12). The increase in the proportion allotted to non-residents was attributable to the renewed interest in the FGN Bonds market by foreign investors owing to the attractive yields offered by the market.

Table 5.12: Allotment of FGN Bonds by Residency Classification (₦' Million)

	2011		2012	
Classification	**Amount**	**% of Total**	**Amount**	**% of Total**
Residents	857,196.62	99.30	890,631.48	89.52
Non-Residents	6,071.80	0.70	104,218.52	10.48
Total	863,268.42	100.00	994,850.00	100.00

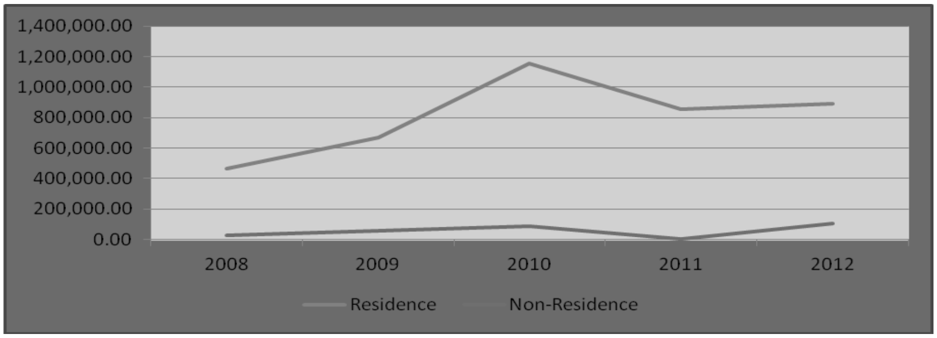
5.6.5 Trend Analysis of FGN Bonds Allotments by Residence

The trend analysis of allotments showed an upward trend in the participation of non-resident investors in new issues market in the last five years, with the exception of 2011 (Table 5.13 and Figure 5.5).

Table 5.13: Summary of Allotment of FGN Bonds by Residency Classification, 2008 – 2012 (₦' Million)

Year	Residence	Non-Residence	Total
2008	465,717.20	26,243.95	491,961.15
2009	668,121.65	58,378.35	726,500.00
2010	1,156,237.82	88,201.97	1,244,439.79
2011	857,196.62	6,071.80	863,268.42
2012	890,631.48	104,218.52	994,850.00

Figure 5.5: Summary of Allotment of FGN Bonds by Residency Classification, 2008 – 2012 (₦' Million)



5.6.6 Analysis of FGN Bond Auction by Tenor

The analysis of auction by tenor of the FGN bonds offered in 2012 shows that bonds with tenors of 3, 5, 7 and 10 years were issued during the year under review (Table 5.14). The 3-year and 5-year bonds accounted for 2.01 and 21.26 percent of FGN Bonds offered, respectively. The 7-year and 10-year bonds accounted for 21.61 and 55.12 percent, respectively. Table 5.15 further provides the breakdown of monthly FGN Bonds offered by tenor, while Table 5.16 gives details of monthly offers, subscriptions and allotments for FGN Bonds in 2012. These were illustrated in Figure 5.6.

Table 5.14: Analysis of FGN Bonds Issuance by Tenor, 2012

Tenor	Amount (₦' Million)	% of Total
3-year	20,000.00	2.01
5-year	211,494.99	21.26
7-year	215,000.00	21.61
10-year	548,355.01	55.12
Total	**994,850.00**	**100.00**

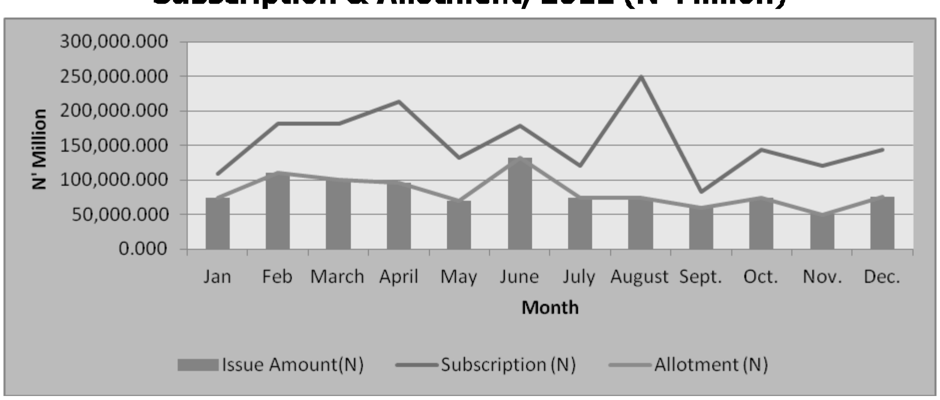
Table 5.15: Monthly Analysis of FGN Bonds Issuance by Tenor, 2012 (₦' Million)

Month	3 Year	5 Year	7 Year	10 Year	Total
January				73,655.01	73,655.01
February				41,000.00	41,000.00
March				170,000.00	170,000.00
April	20,000.00	35,000.00		41,088.35	96,088.35
May		35,000.00		35,000.00	70,000.00
June		30,000.00	50,000.00	52,611.65	132,611.65
July		25,000.00	25,000.00	25,000.00	75,000.00
August		25,000.00	25,000.00	25,000.00	75,000.00
September		30,000.00	30,000.00	-	60,000.00
October		15,000.00	30,000.00	30,000.00	75,000.00
November		-	25,000.00	25,000.00	50,000.00
December		16,494.99	30,000.00	30,000.00	76,494.99
Total	**20,000.00**	**211,494.99**	**215,000.00**	**548,355.01**	**994,850.00**

Table 5.16: FGN Bonds Issuance, Subscription & Allotment 2012 (₦' Million)

Month	Issuance	Subscription	Allotment
January	73,655.011	109,349.29	73,655.01
February	111,000.00	181,656.06	111,000.00
March	100,000.00	181,399.75	100,000.00
April	96,088.35	213,412.17	96,088.35
May	70,000.00	131,697.50	70,000.00
June	132,611.65	178,810.55	132,611.65
July	75,000.00	120,601.08	75,000.00
August	75,000.00	249,110.74	75,000.00
September	60,000.00	82,974.10	60,000.00
October	75,000.00	144,313.90	75,000.00
November	50,000.00	121,009.38	50,000.00
December	76,494.989	143,853.54	76,494.989
Total	**994,850.000**	**1,858,188.06**	**994,850.000**

Figure 5.6: Summary of Monthly FGN Bonds Issuance, Subscription & Allotment, 2012 (₦' Million)



5.6.7 Allotment of FGN Bonds Issuance by Investor-Type, 2012

The analysis of the allotments by investor-type shows that the Deposit Money Banks accounted for 32.14 percent of the total holdings as at end-December, 2012. This was closely followed by the Pension Fund Administrators and Non-Bank Financial Institutions with 23.85 and 16.43 percent of total allotment, respectively. Foreign investors and Other Institutional Investors accounted for 10.48 and 14.86 percent, respectively (Table 5.17 and Figure 5.7).

Further analysis of the breakdown of the allotments showed that Deposit Money Banks showed greater appetite for 3 and 5-year instruments, while Discount Houses and Pension Funds were more interested in the 5 and 10-year bonds, respectively. Non-banking institutions, foreign investors, and individuals showed strong appetite for 5, 10 and 7-year bonds, respectively.

Table 5.17: Details and Allotments of FGN Bonds Issuance by Investor-Type, 2012 (₦' Million)

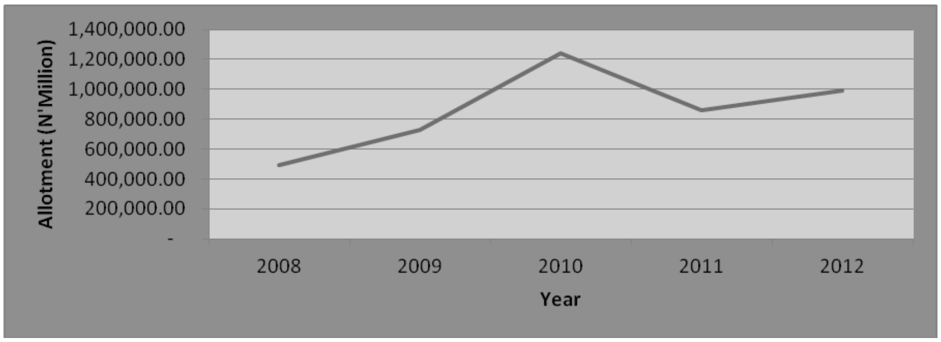
DESCRIPTION	AMOUNT	RESULTS
Total Amount Offered		994,850.00
Total Subscription		1,858,188.04
Range of Bids (%)		9.00% - 22.00%
Range of Marginal Rate (%)		11.8% - 16.9870%
Range of Coupons (5)		7% - 16.39%
		% OF TOTAL ALLOTMENT
Deposit Money Banks	319,790.37	32.14
Pension Funds	237,223.05	23.85
Non-Bank Financial Institutions	163,450.14	16.43
Other Institutional Investors	147,799.53	14.86
Foreign Investors	104,218.52	10.48
Discount Houses	21,449.80	2.16
Individuals	918.60	0.09
TOTAL ALLOTMENT	**994,850.00**	**100.00**

Figure 5.7: Allotment of FGN Bonds Issuance by Investor-Type, 2012

5.6.8 Trend Analysis of FGN Bonds Allotment

Figure 5.8 illustrates the trend of allotments of the FGN bonds from 2008 to 2012. It shows a rising trend, with a spike in 2010, which recorded the highest allotment of ₦1,244.43 billion.

Figure 5.8: Analysis of FGN Bonds Allotments, 2008-2012



5.6.9 Sub-national Bond Issuances in 2012

Table 5.18 shows that, Ondo, Gombe, Lagos and Osun were the only four States that accessed the capital market for funds in 2012. Lagos State alone accounted for about 50% of the ₦157 billion Bonds issued by the four States.

Table 5.18: Sub-national Bond Issuances, 2012

Bond Issuer	Amount (₦' Billion)
Ondo State	27.00
Gombe State	20.00
Lagos State	80.00
Osun State	30.00
Total	**157.00**

Source: Securities and Exchange Commission

5.6.10 Corporate Bond Issuances in 2012

The corporate bond segment which had shown signs of vibrancy in 2011 when seven issuers (including two banks - Skye Bank Plc and UBA Plc), raised a total of ₦71.43 billion, slowed down in 2012 (Table 5.19). New issues in 2012 amounted to ₦32.04 billion, or about 45% of Corporates issuance in 2011. Furthermore, of the three Corporates that issued Bonds, one of them the Federal Mortgage Bank of Nigeria, accounted for 95.38% of the total issuance.

The reduction in new issues by Corporates in 2012 may be attributable to the restrictive monetary policy actions of the CBN which resulted in high cost of borrowing for fixed income securities including FGN Bonds. This made Bonds less attractive as a viable source of funding to Corporates, especially those who had access to relatively cheaper funds elsewhere.

Table 5.19: Corporate Bond Issuances in 2011 – 2012

2011		2012	
Corporate Issuer	**Amount (₦'Bn)**	**Corporate Issuer**	**Amount (₦'Bn)**
Dana Group	8.01		
Sterling Bank	7.50	Chellarams Plc	0.54
Lafarge (WAPCO Nig Plc)	11.88	C & I Leasing Plc	0.94
Nigerian Aviation Handling Co. Plc	2.15	Federal Mortgage Bank of Nigeria (Series 2 Notes)	6.00
UBA Plc	35.00	Federal Mortgage Bank of Nigeria (Series 3 Notes)	24.56
Tower Funding	4.63	-	-
Crusader Insurance	2.26	-	-
Total	**71.43**		**32.04**

Source: DMO and SEC

5.7 FGN Bond Secondary Market Activities

The secondary market for FGN Bonds remained active and continued to provide liquidity to domestic and offshore investors largely through the Two-Way Quote system of the market. The Total Face Value of Transactions was ₦7.345 trillion, while the Number of Transactions was 44,822. Although, the Number and Face Value of Transactions declined by 31% and 18%, respectively, in 2012, the market when compared to 2011, was relatively stable in 2012 (Table 5.20). Trading was supported by the DMO's issuance of only Benchmark Bonds to increase the volumes available for trading and the market making obligations of the DMO's licensed Primary Dealer Market Makers (PDMMs). The increased participation by foreign investors and pension funds in the market was another reason for the stability and increased trading between August and December 2012.

Table 5.20: Trading Activities in FGN Bonds for 2011 and 2012

Month	2011			2012		
	Number Of Transactions	Face Value (₦'Mn)	Consideration (₦'Mn)	Number Of Transactions	Face Value (₦'Mn)	Consideration (₦'Mn)
Jan.	5,356	865,783,043,000	791,264,599,520	1,961	395,002,082,000	349,867,247,897
Feb.	6,679	919,601,117,000	830,048,397,613	5,313	660,460,633,000	558,016,963,432
Mar.	5,952	835,432,730,000	748,193,003,747	3,881	472,266,477,000	398,035,690,292
April	5,737	686,753,422,000	584,581,904,889	3,384	509,919,734,000	444,587,638,311
May	7,153	783,861,955,000	683,418,304,846	3,091	514,201,502,000	469,701,279,423
June	4,497	625,166,515,000	559,351,712,309	2,767	551,643,080,000	516,672,567,585
July	7,609	1,002,013,146,000	913,070,329,122	4,292	596,013,955,000	560,144,511,269
Aug.	5,410	777,518,389,000	712,497,739,676	3,686	638,226,824,000	618,789,039,722
Sept.	4,177	681,995,831,000	648,607,956,889	4,132	890,677,765,000	924,113,417,526
Oct.	4,998	683,582,100,000	579,388,455,861	4,332	723,451,019,000	794,553,817,064
Nov.	4,822	598,320,651,000	505,706,824,734	4,954	873,461,344,000	903,300,982,680
Dec.	2,929	487,604,182,000	429,077,714,255	3,029	520,022,847,000	557,586,207,322
Total	**65,319**	**8,947,633,081,000**	**7,985,206,943,461**	**44,822**	**7,345,347,262,000**	**7,095,369,362,522**

Source: Central Securities Clearing System

The decline recorded in Number and Value of Transactions occurred mostly in the first half of the year compared to the levels in first half (H1) of 2011. Specifically, the Number of Transactions dropped from 35,374 in H1, 2011 to 20,397 in H1, 2012, while for Face Value of Transactions, the corresponding figures were ₦4.717 trillion and ₦3.103 trillion, respectively. The two main factors responsible for this trend were:

i. The monetary policy decisions of the CBN in October, 2011 which saw a sharp increase in the Monetary Policy Rate to 12.00% from 9.25%, while Cash Reserve Ratio was doubled from 4% to 8%. The monetary tightening was also supported by relatively aggressive liquidity mop-ups through Open Market Operations. These measures collectively, saw an increase of 300-400 bps in interest rates and bond yields leading to a sharp drop in bond prices. Typical of financial markets, the attendant volatility in Bond prices had an adverse effect on the level of trading.

ii. The mandatory adoption of the International Financial Reporting Standards (IFRS) by banks and discount houses with effect from 2012. The IFRS has fairly stringent rules on the accounting treatment of securities and one of these requirements is the classification of an institution's asset portfolio into Held-to-Maturity (HTM) and Available-for-Sale. The restriction imposed by IFRS on trading in securities in the HTM Portfolio, reduced the volume of Bonds available for trading.

Other highlights of secondary market activities in FGN Bonds are as shown in Table 5.21. The Highest Priced Bond in 2012 was the 12.49% FGN May 2029 while the Lowest Priced Bond was the

7% FGN October 2019; neither is a Benchmark Bond. The Average Price of Bonds in 2012 was ₦965.97 compared to ₦892.44 in 2011. The increase in Average Price was due to the general and fairly steady decrease in Marginal Rates at the FGN Bond Auction between August and December, 2012, which was reflected in lower yields in the secondary market.

Table 5.21: FGN Bond Trading Highlights 2011-2012

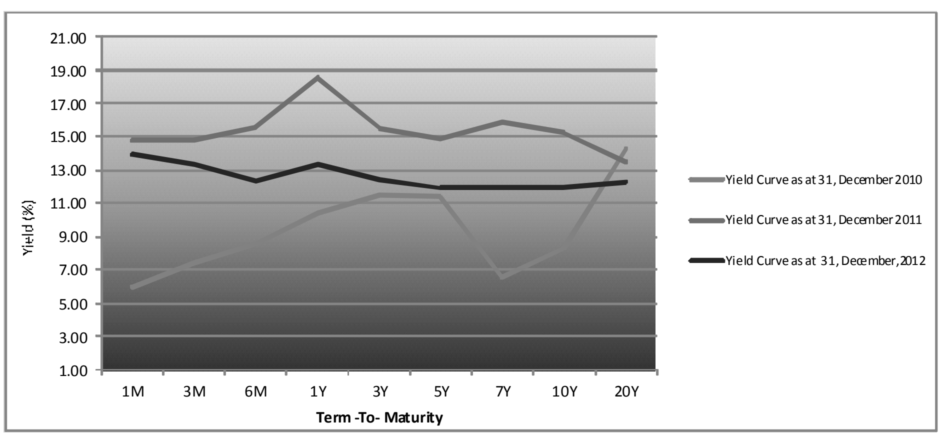
Description	2011	2012
Highest Priced Bond	15.00% FGN November 2028	12.49% FGN May 2029
Lowest Priced Bond	7.00% FGN October 2019	7.00% FGN October 2019
Average Price	892.44	N965.97
Highest Price	1,227.53	N1,244.31
Lowest Price	N768.74	N689.11

Source: Central Securities Clearing System

5.7.1 Sovereign Yield Curve

The Sovereign Yield Curve as at end-December, 2012 (Figure 5.9), reflects the reduction in yields on FGN Bonds and NTBs which started in August 2012 when J.P Morgan announced that FGN Bonds would be included in the GBI - EM. Thus, compared to December 2011, yields dropped by 200-400 bps across all tenors.

Figure 5.9: FGN Sovereign Yield Curve, 2010 - 2011



Source: Financial Markets Dealers Association

5.7.2 Inclusion of FGN Bonds in the J.P. Morgan Bond Index and Barclays Bank Bond Index

5.7.2.1: J.P. Morgan - In August 2012, J.P. Morgan issued a Statement announcing that three FGN Bonds would be included in its Emerging Markets-Government Bond Index (EM-GBI) on October 1, 2012. The three Bonds selected for this purpose were: 10.50% FGN March 2014, 7% FGN October 2019 and 16.39% FGN January 2022. According to J.P. Morgan these three Bonds demonstrated the "highest degree of liquidity".

The inclusion of FGN Bonds in the Index represents a strong positive assessment by an independent and external institution of the developments that have occurred in the FGN Bond Market and the Nigerian economy as a whole. Specific to the FGN Bond Market, are: the existence of Benchmark Bonds for 2, 3, 5,7,10 and 20-year tenors; an active secondary market where Two-Way Quotes are readily available from PDMMs; a well structured Issuance Programme characterized by quarterly Auction Calendars and Monthly Auctions; and, improved information dissemination. At the macro-level, the removal by the CBN of the one-year restriction holding of investments by foreign investors in June 2011, increase in External Reserves, moderation in inflation and strong debt fundamentals, were among the factors which supported the inclusion of FGN Bonds in the Index.

Until October 1, 2012 when the FGN Bonds were included, South Africa was the only African country whose Bonds were in the Index. The other countries included in the Index are: Brazil, Chile, Columbia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Thailand and Turkey. Nigeria's weight in the Index is about 0.72%. The J.P. Morgan Bond indices are well recognized in the International Capital Market and widely used by fund and asset managers.

Since the announcement in August, 2012, the FGN Securities Market (NTBs and FGN Bonds) has witnessed increased participation by foreign investors. The upsurge in demand by foreign investors following the announcement and increase in participation of domestic pension funds, collectively, resulted in a decrease of 200-400 bps in Marginal Rates at the NTBs and FGN Bond Auctions for all tenors. This was in spite of OMO operations by the CBN aimed at mopping-up excess liquidity occasioned by fiscal expansion.

5.7.2.2: Barclays Bank's Bond Index - In November, 2012, Barclays Bank, another global player, announced that with effect from March 01, 2013, eleven FGN Bonds will be included in its Emerging Markets-Local Currency Bond Index (EM-LCBI). While the specific FGN Bonds have not been disclosed, the announcement stated that the Value of the Bonds to be included will be USD13.9 billion which would translate to 0.8% of the Index. FGN Bonds qualified for inclusion in the Index largely in recognition of the existence of an active secondary market for the Bonds. The users of Barclays Bank's EM-LCBI and the countries in the Index, are similar to those in the J.P. Morgan Index.

While the inclusion of the FGN Bonds in two widely recognized and used indices in the ICM have attracted foreign exchange inflows into the country thereby, contributing to External Reserves and promoting stability in the value of the Naira, an even greater benefit is the positioning of Nigeria in the group of strong emerging market economies, some of whom are BRICS countries.

5.8 Other Developments in the Domestic Bond Market

Stakeholders in the capital market individually, as well as, in Committees and Groups continued to introduce and implement initiatives aimed at developing a robust domestic bond market. While the DMO continued to implement measures to promote the primary and secondary FGN Bond markets, it remained committed to the growth of the corporate and sub-national bond markets. For this purpose, the DMO continued its active engagement with relevant stakeholders. The stakeholders include: the Securities and Exchange Commission (SEC); The Nigerian Stock Exchange (NSE); National Pension Commission (PenCom); Central Securities Clearing System (CSCS); Federal Inland Revenue Service (FIRS); Primary Dealer Market Makers (PDMMs) in FGN Bonds; Pension Operators Association of Nigeria (PenOp) and the CBN.

5.8.1 DMO's Initiatives in the FGN Bond Market

5.8.1.1 Appointment of a Government Stockbroker

The DMO appointed Stanbic IBTC Stockbrokers Ltd as the Government Stockbroker in November, 2012, through a keenly contested Open Competitive Bidding process in which bids were received from seventeen (17) stockbroking firms. In their capacity as Government Stockbroker, Stanbic IBTC Stockbrokers Ltd shall:

i. Act as a liaison between the DMO and the NSE on all issues relating to FGN Securities, including listing of new securities and de-listing of matured securities.

ii. Provide liquidity for FGN Securities on the Floors of the Exchange, by acting as a buyer and seller of last resort. The main objective of this function is to encourage retail investors to participate in buying and selling of FGN Bonds.

Since their appointment, trading in FGN Bonds on the Exchange has increased. From Nil transactions for the most part of July-October, 2012, four transactions with a Face Value of ₦650,000.00 were done in November, 2012 while in December, 2012, the corresponding figures were 4,750 and ₦4.75 million, respectively. We expect trading of FGN Bonds on the NSE to grow as the level of awareness about the product (and Bonds in general) increases due to the various sensitisation efforts by the DMO, NSE and Stanbic IBTC Stockbrokers Ltd.

5.8.1.2 Revision of the DMO's Operational Circulars

In line with its practice, the DMO undertook a comprehensive review of its Operational Circulars for the FGN Bond Market. These are: Operational Circular No 1: A Guide to Operations for the Debt

Management Office, Nigeria in the Federal Government of Nigeria Bond Market and Operational Circular No 2: General Rules and Regulations Governing the Primary Dealer Market Makers (PDMMs) System in Federal Government of Nigeria (FGN) Securities (also referred to as the PDMMs Guidelines).

The highlights of the review are as follows:

i. An increase in the minimum Shareholders Fund requirement for Primary Dealer Market Makers from N2.00 billion to N3.00 billion.

ii. A minimum credit rating requirement of B+ by a recognized rating agency for prospective Primary Dealer Market Maker.

iii. Clarification on the process of becoming a PDMM and the conditions for suspension and revocation.

iv. The provision of clauses on Global Depository Notes and recognition of outstanding PDMMs.

5.8.1.3 Introduction of Bond Switches

In furtherance of its objectives of deepening the FGN Bond Market and the effective management of its liabilities, the DMO initiated steps towards the introduction of Bond Switches. For this purpose it issued a draft **Terms and Conditions for Switch Auctions for Federal Government of Nigeria (FGN) Bonds.** Bond Switches are expected to start in 2013.

5.8.1.4 Number of PDMMs in FGN Bonds Market

Based on developments in the banking sector and the provisions of the PDMMs Guidelines, the number of PDMMs was reduced from 20 to 18. The current list is as follows:

BANKS	**DISCOUNT HOUSES**
Access Bank Plc	Associated Discount House Ltd
Citibank Nigeria Ltd	Consolidated Discounts Ltd
Diamond Bank Plc	Express Discount Ltd
Ecobank Nigeria Plc	First Securities Discount House Ltd
Fidelity Bank Nigeria Plc	Kakawa Discount House Ltd
First Bank of Nigeria Plc	

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

5.9 Market-wide Developments

5.9.1 Implementation of Tax Waivers

A major development in the market during the period was the amendment of the Companies Income Tax and the Value Added Tax Acts to grant institutions and individuals tax exemptions on income on Bonds issued by State Governments, Corporates and Supra-nationals. The amendment of Personal Income Tax Act for the same purpose had been done in December, 2011. These tax waivers, which were an initiative of the Bond Market Steering Committee, were aimed at creating a level playing field for all Bonds issued in the domestic bond market to reduce the cost of borrowing for the non-sovereign segment with the overall objective of encouraging growth in the bond market. The outstanding items from the Presidential approval received in 2010 on this subject, are the reduction of Stamp Duties on re-issues of debentures and waiver of Capital Gains Tax on securities. The amendment of the relevant laws for these two can only be made by the National Assembly and activities in this regard are being managed by the FIRS.

5.9.2 Appointment of Market Makers by The Nigerian Stock Exchange

In 2012, as part of measures to promote activities in the equities market, the NSE appointed ten (10) stockbroking firms as Market Makers. It would be recalled that after the crash in the equities market in 2008, the level of activity in terms of new issues and trading on the NSE had been very low. The inability of the Stock Market to effectively provide liquidity for shareholders, which is one of its core functions, was one of the reasons why the NSE appointed the Market Makers. The NSE also extended the initiative to the fixed income securities market and issued draft Guidelines titled Operational Guidelines for Market Makers in Retail Bond Trading in 2012. The introduction of Market Makers is expected to promote secondary market activity in State Government and Corporate Bonds, as well as, Bonds issued by the AMCON, where liquidity has been generally low.

5.9.3 New Guidelines and Regulations

The SEC released draft Rules for the issuance of Sukuks while PenCom initiated moves towards revising its Regulation for the Investment of Pension Assets. The two are expected to become operational in 2013.

5.10 Consensus Building

Based on the need to promote mutual understanding on issues relating to the securities market and to ensure that all stakeholders pursue policies that are consistent with the development of the domestic bond market, the DMO participated in various stakeholder Committees and activities. Key among these activities in 2012, were:

i. Strategic Sessions with Stakeholders in FGN Bonds organised by the DMO.

ii. Meetings of the Monetary and Fiscal Policy Coordinating Committee for which the DMO is the Secretariat.

iii. Meetings of the Capital Market Committee of SEC.

iv. Meetings on issues relating to the Financial System Strategy, 2020 (FSS 2020), Securities Settlement Committee and the Financial Services Regulators Co-Coordinating Committee.

5.11 Outlook for the Domestic Bond Market

The initiatives introduced by stakeholders such as: the appointment of a Government Stockbroker by the DMO; the proposed appointment of Fixed Income Securities Market Makers by the NSE; new Trading Platforms to support Over-The-Counter Trading of a wide range of securities and the proposed bond issuance by the International Finance Corporation in the domestic market, are some of the factors that would stimulate further growth in the market.

The proposed inclusion of selected FGN Bonds in the Barclays Bank's **EM-LCBI** in March 2013 and the introduction of Bond Switches and Securities Lending by the DMO are other factors that will further deepen the market. In addition, the tax-exempt status on Bonds issued by Corporates, State Governments and Supra-nationals and low cost of borrowing through Bonds is expected to lead to increased activity in the primary market.

5.12 Activities in the International Capital Market

Since Nigeria's entry into the International Capital Market (ICM) through the issuance of a US$500 million 10-year Sovereign Bond (6.75% Federal Republic of Nigeria 2021), in 2011, activities in the

ICM and the performance of the debut Eurobond have been monitored closely. In pursuit of this new focus, Non-Deal Roadshows were held in Europe in February, 2012 and in the U.S.A in April, 2012. During these Non-Deal Roadshows, the Nigerian Delegation visited London, Munich, New York, Boston, Los Angeles and San Francisco and met with about eighty (80) institutional investors. Similarly, the DMO has engaged foreign investors in a more structured manner in order to regularly provide information on Nigeria and its debt management policy and opinion to existing and prospective investors.

5.13 Secondary Market Performance of Nigeria's Eurobond

Nigeria's Eurobond traded at a premium all through 2012 and achieved a Price of US$ 118.45 on December 28, 2012, the highest since it was issued. The Bond closed at a Price and Yield of US$118.37 and 4.05%, respectively, in 2012, compared to its Opening Price of US$103.49 and Yield of 6.23% on January 02, 2012. Table 5.22 and Figure 5.10 show the closing monthly prices and yield trend of the Bond in 2012. The Price of the Bond was affected by developments within Nigeria, the international financial markets and economic trends in the advanced economies. They include:

i. Improved sovereign credit rating for Nigeria.

ii. Sovereign debt crisis in Europe, in particular, Spain and Greece.

iii. Recession or marginal growth in major economies such as the United Kingdom, United States of America and Japan.

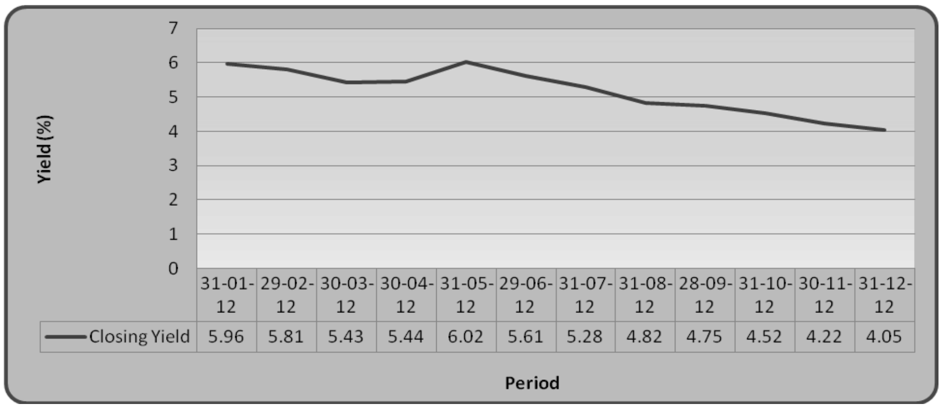
iv. Policy decisions of the governments and central banks of the advanced countries including the European Central Bank to avert sovereign debt defaults, bank failures and to stimulate growth. The policies included monetary easing, debt buyback programmes and retention of low base rates.

Table 5.22: Trends in Nigeria's Eurobond Price and Yield (Jan. – Dec. 2012)

Date	Closing Price (USD)	Closing Yield (%)	Date	Closing Price (USD)	Closing Yield (%)
31-Jan- 2012	105.41	5.96	**31-Jul-2012**	109.91	5.28
29-Feb-2012	106.45	5.81	**31-Aug-2012**	113.18	4.82
30-Mar-2012	109.08	5.43	**28-Sep-2012**	113.58	4.75
30-Apr-2012	108.99	5.44	**31-Oct-2012**	115.11	4.52
31-May-2012	104.8	6.02	**30-Nov-2012**	117.23	4.22
29-Jun-2012	107.63	5.61	**31-Dec-2012**	118.37	4.05

Source: Thomson Reuters

Figure 5.10: Trends in Nigeria's Eurobond Yield (Jan. – Dec. 2012)

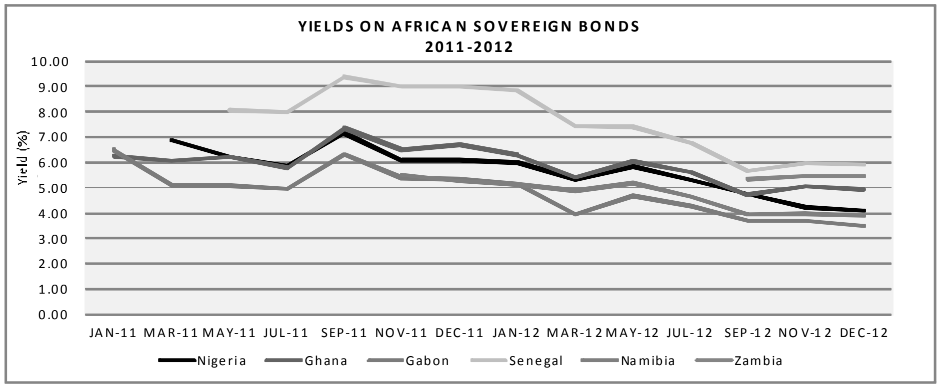


Source: Thomson Reuters

5.13.1 Comparative Performance with Eurobonds of other African countries

Emerging Market and frontier countries were major beneficiaries of the economic challenges in the advanced economics, as investors seeking for yields and better portfolio diversification were attracted to securities issued by these countries. Flow of funds into Emerging Markets Bond Funds in 2012 was estimated at US$56 billion compared to US$17 billion in 2011 and US$49 billion in 2010. Against this backdrop and developments in the international capital markets and advanced countries, there was a general decline in the Yields of Eurobonds issued by African countries (Figure 5.11).

Figure 5.11: Comparative Performance of African Countries Eurobonds



5.13.2 New Sovereign Issues from Africa in 2012

The new issues market for Emerging Markets was very active, as there were many Bond offerings by Sovereigns; State owned enterprises, corporates and multilateral finance institutions, such as the African Development Bank. Total new issues by Emerging Market Sovereigns in 2012 were about US$105 billion out of which US$5.25 billion was from Africa. Table 5.23 shows the details of Eurobonds issued by African Sovereigns in 2012.

Table 5.23: Eurobonds Issued by African Sovereigns in 2012

Country	Rating			Date issued	Amount(US$ Million)	Tenor (Yrs)	Coupon (%)
	Fitch	S&P	Moody				
South Africa	BBB	BBB	Baa1	Jan. 2012	1,500	12	4.665
Tunisia	BB+	BB	Baa3	April 2012	500	5	2.500
Angola	Not rated	BB-	Ba3	Aug 2012	1,000	7	7.000
Zambia	B+	B+	B2	Sept. 2012	750	10	5.375
Kingdom of Morocco	BBB-	BBB-	Ba1	Dec. 2012	1,000	10	4.250
Kingdom of Morocco	BBB-	BBB-	Ba1	Dec. 2012	500	30	5.500

Source: Bloomberg

For Zambia, it was a first time issuance in the International Capital Market and given the large appetite for Emerging Market securities as well as liquidity, the Bond attracted a subscription of about US$12 billion. Angola also made a debut entry to the market in 2012. However, the Bond was issued through a private placement. Access Bank (a Nigerian Bank), issued a US$350 million 5-year Bond at a Coupon of 7.25%. The level of subscription of the Bond was US$500 million.

5.14 Outlook for the International Capital Market

It is unlikely that the International Capital Market will change significantly in 2013 in terms of liquidity and yields given the policy stance on monetary stimulus in the major advanced countries. Investors seeking for higher yields and portfolio diversification will still be attracted to securities of emerging markets countries. The expectation, therefore, is that more emerging market countries will take advantage of the attractive yields to borrow in the market or refinance existing debt. Nigeria and Kenya are likely to access capital from the market in 2013.

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

The 2012 DSA result showed that Nigeria was at a low risk of debt distress. The total public debt (domestic and external) remained sustainable throughout the projection period for both solvency and liquidity indicators. Various shocks to the base line scenario show that the debt-to-GDP ratio remained within sustainable limits over the period. However, all the solvency and liquidity indicators under the fiscal sustainability analysis appeared vulnerable to revenue shocks especially when crude oil price was set below USD50.00pb.

6.1 Introduction

The Annual Debt Sustainability Analysis (DSA) Workshop for 2012 was held on May 3 - 13, 2012, by the DMO, in collaboration with the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), and the National Bureau of Statistics (NBS). The West African Institute for Financial and Economic Management (WAIFEM) provided technical support. The DSA utilized the updated World Bank/IMF Debt Sustainability Framework for Low Income Countries (DSF-LICs) released in April, 2012. The World Bank/IMF under the Country Policy and Institutional Assessment (CPIA) Index rates Nigeria as a Medium Performer with a 3-year-long score of 3.44 points over a 6.0 index mark. The main objectives of the DSA exercise include:

(i) updating of the 2011 DSA;

(ii) to set new borrowing limit for the Government and advise on funding options for 2013 fiscal year; and,

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

The medium to long-term debt sustainability of the country were analysed under three different scenarios, namely: the Baseline, Optimistic and Pessimistic scenarios. The Baseline Scenario adopts assumptions of the 2012 fiscal budget, the MTEF (2012-2015) and the Transformation Agenda of the FGN. The Pessimistic Scenario is based on perceived adverse shocks in key macroeconomic variables, e.g. crude oil price and output, while the Optimistic Scenario is designed within the context of Nigeria's Vision 20:2020 assumptions and the Transformation Agenda.

The scope of the 2012 DSA covers both the external and domestic debts of the Federal and State Governments. In addition, the exercise captured the contingent liabilities of the Federal Government, which consist of the guaranteed AMCON bonds, contractors' obligations and pension arrears.

6.2 External Debt Sustainability (FGN and States) – Baseline

The result obtained based on the assumptions that key macroeconomic gains in the recent years would be sustained, indicates that Nigeria is at a low risk of debt distress. Table 6.1 shows the indicative debt burden thresholds of the country's peer group and the relative simulation results for each of the indicators. The Present Value (PV) of External Debt-to-GDP ratio was estimated at 2.5 percent for 2012. The actual ratio obtained at the end of the year was 2.61 percent. Based on the projected external borrowings, it was expected to increase to 3.7 percent in 2022 before falling to 2.0 percent by 2032. The PV in the medium term (2012-2016) averaged 2.7 percent, while the long-term ratio (2017-2032) stood at 3.2 percent. These were within the indicative threshold.

Based on the assumption that Nigeria's stock of external reserves would continue to support more than six months of its import requirements as in the previous years, the PV of debt-to-exports ratio was projected at 6.1 percent for 2012 compared to 8.4 percent in 2011. It was expected to rise to 8.9 percent in 2022 before dropping to 4.6 percent at the end of the projection period. The medium and long-term ratios were 6.6 percent and 7.5 percent, respectively. All these indicate a strong debt sustainability outlook when compared to the 150 percent threshold.

Similarly, the PV of debt-to-revenue ratio based on the assumption of a budget oil price of US$72pb shows a healthy outlook. The projected ratio for 2012 was 16.3 percent compared to 30.9 percent in 2011. The medium and long-term PV of debt-to-revenue ratios were all within the indicative threshold of 250 percent.

Table 6:1: External Debt Sustainability Indicators, the Baseline Scenarios (Federal and States) in Percent								
Description	Threshold	DSA Result					Medium Term (Avg)	Long Term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP (FS)	40	2.5	2.6	2.9	3.7	2.0	2.7	3.2
PV of Debt/GDP (F)	40	2.5	2.6	2.9	3.7	2.0	2.7	3.2
PV of Debt/Export (FS)	150	6.1	6.4	6.8	8.9	4.6	6.6	7.5
PV of Debt/Export (F)	150	6.1	6.4	6.8	8.9	4.6	6.6	7.5
PV of Debt/Rev. (FS)	250	16.3	16.6	21.0	47.3	44.4	18.1	45.3
PV of Debt/Rev (F)	250	30.1	31.4	41.3	92.1	93.5	34.5	90.1
Debt Service/Exports (FS)	20	0.3	0.3	0.3	0.5	0.5	0.3	0.5
Debt Service/Exports (F)	20	0.3	0.3	0.3	0.5	0.5	0.3	0.5
Debt Service/Rev (FS)	30	0.8	0.8	0.9	2.7	5.2	0.9	3.5
Debt Service/Rev (F)	30	1.5	1.6	1.7	5.3	10.9	1.6	7.1

Note: FS means FGN and States, while F refers to FGN Only

6.2.1 Liquidity Indicators

The liquidity indicators for the Federal and State Governments combined were relatively very low (Table 6.1 and Figure 6.1). Specifically, the debt service-to-export ratio and debt service-to-revenue for 2012 was 0.3 percent and 0.8 percent, respectively. The respective ratio obtained in 2011 was 0.5 percent and 2.0 percent.

6.2.2 Fiscal Sustainability: External & Domestic Debt Solvency and Liquidity Indicators

The result shows that solvency indicators were within sustainable limits, even though the liquidity ratio (debt service-to-revenue ratio) temporarily breached the indicative threshold in 2013. The average debt service-to-revenue in the medium and long-term did not exceed the threshold (Table 6.2).

Table 6.2: Debt Sustainability Indicators under the Baseline Scenarios (Federal and States & FGN Only) in Percent								
Description	Benchmark	DSA Result					Medium Term (Avg)	Long Term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP (FS)	40	20.2	18.0	13.0	8.1	3.0	16.4	7.0
PV of Debt/GDP (F)		17.9	16.1	12.3	7.5	2.6	14.9	6.5
PV of Debt/Rev. (FS)	250	125.8	111.4	91.5	96.5	61.8	105.4	88.0
PV of Debt/Rev. (F)		211.0	192.7	175.5	182.7	119.2	186.7	170.8
Debt Service/Rev (FS)	30	15.7	35.2	9.4	14.8	8.8	20.2	10.8
Debt Service/Rev (F)		29.7	68.1	18.9	30.2	20.1	39.2	22.7

6.3 Federal Government Only: Fiscal Sustainability

Solvency and Liquidity Indicators - The results of the analysis on the FGN only debt stock also show that the debt burden indicators were within sustainable limits (Tables 6.1 and 6.2). However, the solvency ratios though within the thresholds, appear less sustainable when compared with the result obtained under the combined Federal and States analysis.

6.4 Standard Stress Test Result: Federal and State Governments

To further authenticate the robustness of the results obtained under the baseline scenario, the data were subjected to stress tests (Figures 6.2). The results obtained under the stress tests do not violate the indicative thresholds as all ratios were within limits. The most extreme stress test of 30% shock in revenue, which yields the highest debt service-to-revenue ratio (about three times the baseline ratio) due to the negative influence of exports shock in 2022, did not breach the indicative debt burden threshold. It maintained a flat trend from 2022 to the end of the projection period.

6.5 Pessimistic Scenario: Country-Specific Alternative Scenario

The Country-Specific Scenario considered the impact of a lower crude oil price on debt sustainability in the medium and long-term. This scenario illustrates the effects of a drastic fall in oil price benchmark from USD72pb in the baseline to a range of USD50pb to USD42pb on the debt burden indicators (Tables 6.3).

Table 6.3: External Sustainability Indicators under Country-Specific Alternative Scenario (FGN Only)

Description	Threshold	DSA Result					Medium Term (Avg)	Long Term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP	40	2.8	3.5	5.1	7.7	5.5	4.0	6.8
PV of Debt/Export	150	6.0	7.4	10.2	14.2	9.2	8.4	12.5
PV of Debt/Revenue	250	32.1	60.8	95.6	170.3	166.8	67.8	159.9
Debt Service/Exports	20	0.3	0.3	0.4	0.8	1.0	0.3	0.9
Debt Service/Revenue	30	1.5	2.6	3.4	10.1	18.1	2.8	12.7

6.5.1 External Debt Sustainability

Solvency and Liquidity Indicators - The result show that external debt sustainability indicators were not impaired by the additional oil price shock due to the overwhelming influence of the size of concessional loans in the external debt portfolio and robust real GDP growth. The three solvency indicators (PVs of Debt-to-GDP, Debt-to-Exports and Debt-to-Revenue) were well below their respective thresholds of sustainability. However, all the ratios show rising trends until they reached their peak in 2022, and thereafter trended downward by end-2032. Though the liquidity indicator (debt service-to-revenue ratio), showed a rising trend till end-2032, it was well within limit.

6.5.2 Total Debt Sustainability: Country-Specific Alternative Scenario

Solvency and Liquidity Indicators - The analysis of fiscal sustainability, which is designed against the back-drop of a shock in budgeted oil price, shows mixed results (Table 6.4). Though the PV of

Debt-to-GDP ratio remains within limits due to the assumption of continued fiscal consolidation and strong economic growth, the PV of debt-to-revenue ratio and debt service-to-revenue ratio worsen as the primary balance was kept unchanged from the 2012 level.

Except in 2012, the trend analysis shows that the PV of Debt-to-Revenue ratio breached the 250% indicative benchmark, while the debt service-to-revenue ratio was only breached in 2013. In addition, the average debt service-to-revenue ratio in the medium and long term exceeds the benchmarks.

The violation of the benchmarks, attributable to the effects of the fall in crude oil prices below USD 50.00pb, is a wakeup call for urgent and necessary policy actions to further strengthen contribution of non-oil revenue to the revenue base of the country in order to check threats to long-term debt sustainability.

Table 6.4: Fiscal Sustainability Indicators under the Country-Specific Alternative Scenario (FGN Only)

Description	Threshold	DSA Result					Medium Term (Avg)	Long term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP	40	18.6	17.5	17.7	13.9	8.5	17.6	12.7
PV of Debt/Rev.	250	213.0	300.9	327.7	301.1	255.5	286.3	287.3
Debt service/Rev	30	29.7	59.5	27.9	35.0	29.5	39.7	30.0

6.6 Optimistic Scenario (External and Fiscal Debt Sustainability)

The results of the optimistic scenario, which is based on key assumptions of the Vision 20:2020, indicate that all the debt burden indicators are within the indicative threshold (Table 6.5).

Table 6.5: External Sustainability Indicators under the Optimistic Scenario

Description	Threshold	DSA Result					Medium Term (Avg)	Long Term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP	40	2.7	3.1	3.3	2.4	0.7	3.2	1.9
PV of Debt/Export	150	6.5	7.3	8.0	5.9	1.7	7.6	4.7
PV of Debt/Revenue	250	32.2	35.2	47.6	80.3	79.4	39.9	77.4
Debt Service/Exports	20	0.3	0.3	0.6	0.3	0.2	0.3	0.3
Debt service/Revenue	30	1.5	1.5	1.8	4.6	8.7	1.7	6.0

6.6.1 External Debt Sustainability (Federal Only)

Solvency Indicators - The results of the external debt sustainability analysis under the Optimistic Scenario showed a robust outlook throughout the projection period. The analysis indicates a PV of debt-to-GDP ratio of 2.7 percent for 2012, and 2.4 percent in 2022 (Table 6.5), which was similar to the baseline. The PV of debt-to-export ratio also showed a sustainable trend over the projection period. The projected figure for 2012 was 6.5 percent. None of the ratios breached any of the thresholds. The PV of debt-to-revenue ratio, however, indicates a rising trend but remained within sustainable limit during the projection period. The ratio was projected at 32.2 percent for 2012.

Liquidity Indicators - The external debt service-to-export ratio under the baseline scenario showed a robust outcome during the projection period of 2012 - 2032. The ratio was projected at 0.3 percent for 2012, but declined to 0.2 percent in 2032. The debt service-to-revenue ratio was also within its indicative threshold. The ratio was projected at 1.5 percent for end-2012, and expected to rise to 4.6 percent in 2022, before peaking at 8.7 percent in 2032.

6.6.2 Total Debt Sustainability (Federal Only)

Solvency and Liquidity Indicators - Total debt sustainability shows a robust result as the PV of debt-to-GDP ratio trended downwards from 18.9 percent in 2012 to 1.4 percent in 2032 showing the combined effects of the decreasing rate of debt accumulation and a higher GDP growth rate. The PV of debt-to-revenue ratio also showed a declining trend from 223.7 percent in 2012 to 147.3 percent in 2032. The liquidity indicator was within the indicative threshold of 30 percent (Table 6.6).

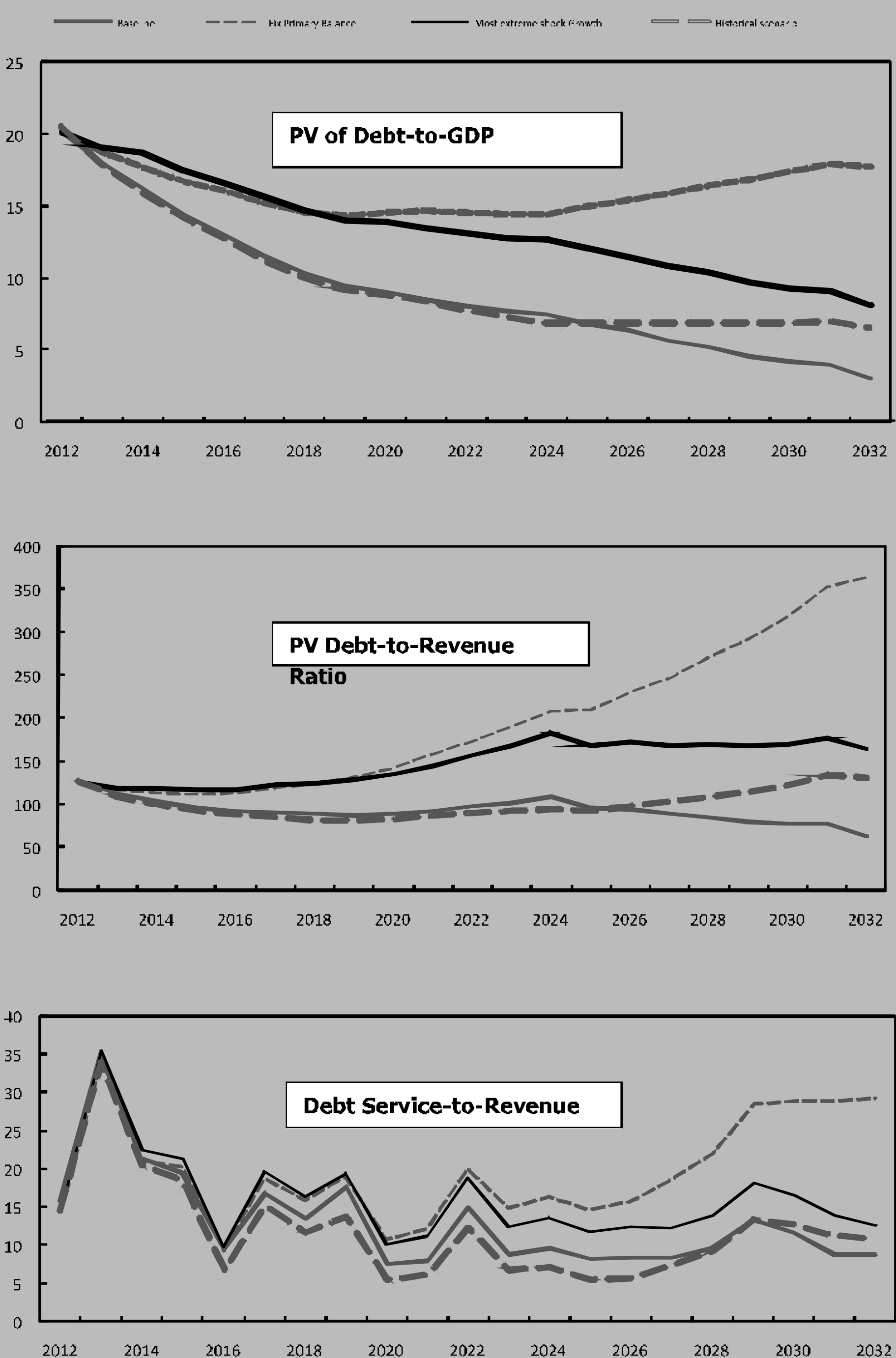
Table 6.6: Fiscal Sustainability Indicators under Optimistic Scenario

Description	Threshold	DSA Result					Medium Term (Avg)	Long Term (Avg)
		2012	2013	2016	2022	2032	2012-2016	2017-2032
PV of Debt/GDP	40	18.9	16.1	12.8	5.4	1.4	15.2	4.8
PV of Debt/Revenue	250	223.7	180.2	182.3	173.7	147.3	188.2	169.5
Debt Service/Revenue	30	17	35.8	16.1	20.6	16	23.7	17.6

6.7 Conclusion

The results of the 2012 DSA under the baseline scenario reveal that Nigeria is at a low risk of debt distress as in 2011. Various shocks to the baseline scenario show that the debt-to-GDP ratio remained within sustainable limits over the projection period. However, all the solvency and liquidity indicators under the fiscal sustainability analysis appeared vulnerable to revenue shocks especially when crude oil price was set below USD50.00pb. There is, therefore, the need for the Government to step-up on-going policy actions and initiatives aimed at diversifying the revenue base of the country and increase the non-oil contributions to the revenue pool, in order to effectively mitigate the shocks associated with oil revenue, thus, minimise risks to debt sustainability in the medium to long-term.

Figure 6.1: Indicators of Public Debt under Baseline Scenario, 2012-2032 1/

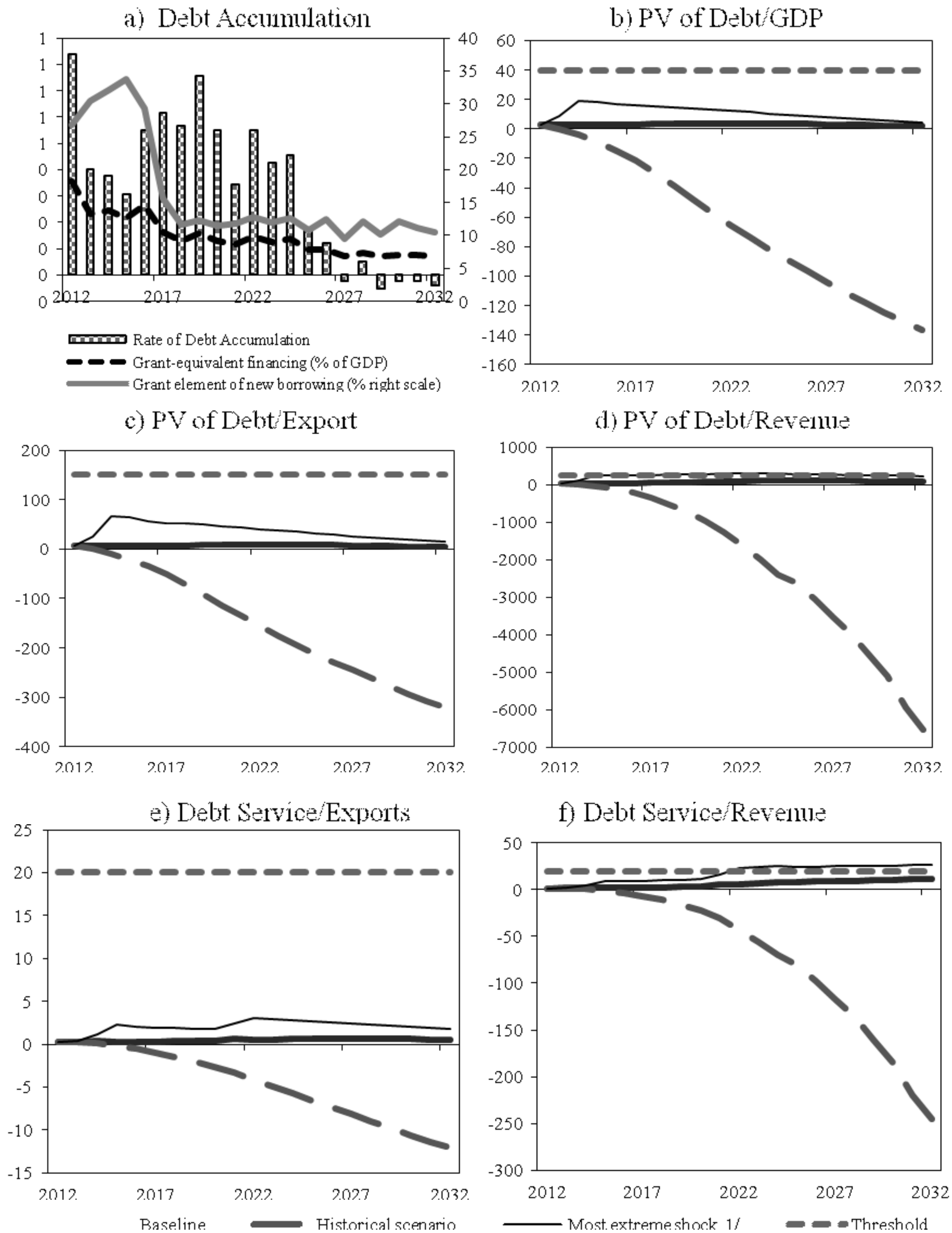


1/ The most extreme stress test is the test that yields the highest ratio in 2022

2/ Revenues are defined inclusive of grants

Sources: 2012 DSA Report

Figure 6.2: Indicators of Public & Publicly Guaranteed External Debt under Alternative Scenarios, 2012-2032



Sources: 2012 DSA Report

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

Total State Governments' external debt stock stood at US$2,384.18 million as at end-December, 2012 representing 36.53 percent of the total external debt stock of the country. States' debts were mainly FGN's on-lent loans obtained from multilateral sources on concessional terms. The loans were used to fund projects and programmes in various sectors, such as education, health, water supply, housing and sanitation. The total debt service of Sates was US$75.06 million in 2012. The DMO conducted the Domestic Debt Data Reconstruction exercises in the remaining eleven (11) States and the FCT in 2012, to complete the exercise in all the thirty six (36) States of the Federation and FCT.

7.1 State Governments' External Debt Stock

State Governments' external debt stock amounted to US$2,384.18 million, which was about 36.53 percent of the total public external debt stock and 6.35 percent of the country's GDP as at end-December, 2012. The debts were mainly Federal Government loans obtained from multilateral sources (IDA, IBRD, ADB, ADF and IFAD) and on-lent to the State Governments to fund specific projects. The loans were mostly applied by the recipient State Governments in the financing of critical projects in education, health, water supply, housing and sanitation sectors. Total external debts of the States showed an increase of US$218.88 million or 10.11 percent over the 2011 figure. The increase was attributable to disbursements on existing loans. Table 7.1 and Figure 7.1 show an increasing trend in the external debt stock of States from 2008 to 2012.

Table 7.1: Trend in States' & FCT's External Debt Stock, 2008-2012 (US$' Million)

YEARS	2008	2009	2010	2011	2012
STATES' EXTERNAL DEBT STOCK	1,660.49	1,835.64	2,000.70	2,165.30	2,384.18

Figure 7.1: Trend in States' & FCT's External Debt Stock, 2008-2012 (US$' Million)

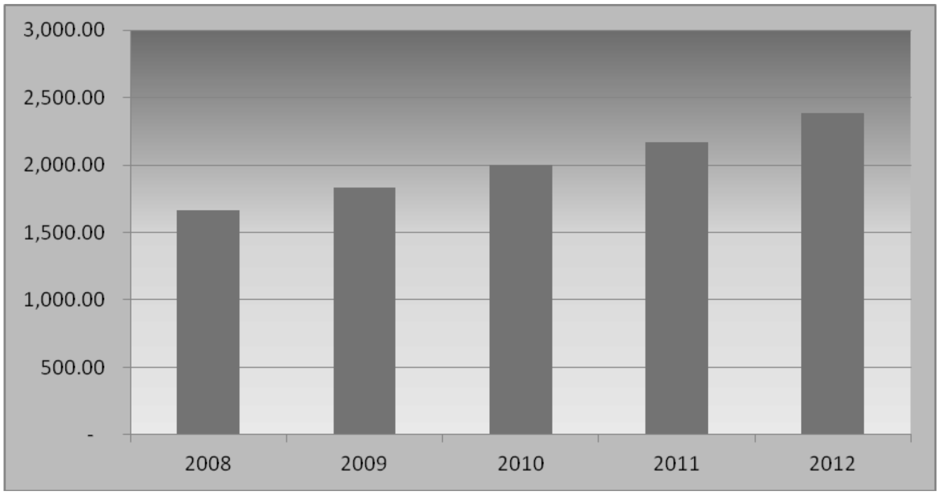


Table 7.2 and Figure 7.2 also show the external debt stock for each of the 36 States and the Federal Capital Territory (FCT) as at end-December, 2012. The detailed breakdown revealed that as was the case in 2011, Lagos, Kaduna and Cross River States had the highest external debt stock of US$611.25 million (25.64 percent), US$215.68 million (9.05 percent) and US$113.03 million (4.74 percent), respectively. The States with the lowest debt stock were Borno, Delta and Plateau having US$14.15 million, US$18.99 million and US$21.93 million, representing 0.59 percent, 0.80 percent and 0.02 percent of the total, respectively.

Table 7.2: External Debt Stock of States' & FCT's as at end-December, 2012 (US$' Million)

S/N	State	Multilateral	% of Total
1	Abia	35,911,270.54	1.51
2	Adamawa	30,225,908.22	1.27
3	Akwa Ibom	61,664,855.43	2.59
4	Anambra	26,708,648.57	1.12
5	Bauchi	67,131,718.36	2.82
6	Bayelsa	28,002,261.72	1.17
7	Benue	28,420,603.49	1.19
8	Borno	14,154,525.62	0.59
9	Cross River	113,034,944.52	4.74
10	Delta	18,997,501.36	0.80
11	Ebonyi	41,581,279.81	1.74
12	Edo	42,741,838.97	1.79
13	Ekiti	36,165,995.25	1.52
14	Enugu	50,074,700.40	2.10
15	Gombe	31,727,020.11	1.33
16	Imo	51,973,693.20	2.18
17	Jigawa	33,669,099.54	1.41
18	Kaduna	215,683,732.56	9.05
19	Kano	61,792,864.24	2.59
20	Katsina	74,694,206.56	3.13
21	Kebbi	47,821,220.02	2.01
22	Kogi	33,838,688.46	1.42
23	Kwara	45,551,435.19	1.91
24	Lagos	611,253,157.43	25.64
25	Nassarawa	36,978,600.93	1.55
26	Niger	29,777,330.83	1.25
27	Ogun	102,064,668.63	4.28
28	Ondo	51,851,443.85	2.17
29	Osun	62,760,653.21	2.63
30	Oyo	76,683,670.85	3.22
31	Plateau	21,934,123.31	0.92
32	Rivers	36,644,822.93	1.54
33	Sokoto	41,554,869.22	1.74
34	Taraba	23,028,584.73	0.97
35	Yobe	31,274,682.79	1.31
36	Zamfara	27,937,077.70	1.17
37	FCT	38,867,309.41	1.63
	Sub Total	**2,384,179,007.97**	**100**

Figure 7.2: External Debt Stock of States' & FCT's as at end-December, 2012 in (US$' Million)

7.2 States' & FCT's External Debt Service

The total external debt service of the States and FCT stood at US$76.78 million, which represent a cost of 1.18 percent of the total external debt stock of the States and FCT as at end-December, 2012. This indicates a decline of 21.65 percent over the amount spent in 2011 (Table 7.3).

Table 7.3: External Debt Service of States' & FCT's, 2008 – 2012 (US$' Million)

S/N	States	2008	2009	2010	2011	2012
1	Abia	1.48	0.94	1.28	2.03	0.96
2	Adamawa	1.87	0.86	0.70	0.43	0.49
3	Akwa Ibom	8.72	6.84	8.06	4.53	6.19
4	Anambra	4.00	3.23	0.77	0.88	0.48
5	Bauchi	6.59	5.77	7.35	3.56	1.50
6	Bayelsa	0.88	0.85	1.14	0.73	1.00
7	Benue	1.00	0.89	1.33	0.78	0.61
8	Borno	1.11	0.99	1.45	0.69	0.58
9	Cross River	13.02	11.86	9.53	11.85	9.95
10	Delta	5.55	4.61	6.23	0.99	1.12
11	Ebonyi	2.13	1.75	0.90	1.28	1.15
12	Edo	5.97	5.86	6.79	0.82	1.47
13	Ekiti	1.18	1.86	1.97	1.65	1.55
14	Enugu	3.11	2.53	1.56	1.64	0.80
15	Gombe	1.71	0.78	1.24	1.40	0.79
16	Imo	1.83	1.66	2.07	1.44	1.50
17	Jigawa	1.81	1.98	3.03	1.56	1.29
18	Kaduna	3.88	3.93	4.80	3.87	4.59
19	Kano	5.57	6.44	6.73	5.32	3.72
20	Kastina	3.76	4.87	4.68	3.21	3.23
21	Kebbi	2.63	2.37	3.08	2.63	2.02
22	Kogi	3.48	3.27	2.25	1.28	1.19
23	Kwara	3.38	4.64	1.84	1.09	1.12
24	Lagos	17.9	17.25	9.51	7.59	9.84
25	Nassarawa	4.10	3.88	4.92	4.51	0.85
26	Niger	10.37	5.12	1.26	1.84	0.44
27	Ogun	1.94	1.82	1.64	1.12	1.39
28	Ondo	2.64	2.59	2.91	1.75	1.97
29	Osun	2.97	2.59	4.04	2.68	2.72
30	Oyo	15.22	14.43	16.04	10.66	3.72
31	Plateau	7.98	7.86	8.58	7.40	1.29
32	Rivers	2.36	2.39	2.96	1.78	1.80
33	Sokoto	1.70	1.57	1.97	1.66	1.77
34	Taraba	1.62	0.88	0.78	0.44	0.38
35	Yobe	0.97	0.86	1.11	1.20	0.89
36	Zamfara	0.94	0.89	1.17	0.99	1.08
37	FCT	*	*	0.36	0.71	1.34
	Sub Total	**155.38**	**140.90**	**136.04**	**97.99**	**76.78**

* FCT's debt service payments were not disaggregated from that of the FGN in 2008 and 2009

7.3 Review of the Status of DMDs of the States

7.3.1 Capacity Building for Sub-national Debt Managers

Given the high turn-over of staff in the Debt Management Departments (DMDs) in the States, and as part of efforts to reinforce the debt recording and reporting skills of the Sub-national debt managers, the DMO, in collaboration with Quanteq Technology Services Ltd, (an ICT Company) continued with the conduct of special training workshops with the theme "Application of MS Excel for Sub-national Debt Management" for sub-national debt managers from the State DMDs. In this regard, a special training workshop was held in February 2012, in Abuja. A total of thirty-six (36) DMDs staff from twelve (12) States participated actively at this workshop. The workshop exposed them to various aspects of the MS-Excel Software, which is a tool for effective debt recording, reporting and analysis at the sub-national level. The first two batches of this special workshop were earlier conducted in 2011.

7.3.2 Domestic DDR Exercise for the States & FCT

In continuation of its DDR initiative which commenced in November, 2009, DMO conducted the DDR exercise in the remaining eleven (11) States across the Federation and the FCT in 2012. The objective of the DDR exercise was to help staff of the DMDs to identify, collate, document and computerize sub-national debt data in an appropriate format and to enhance the capacity of sub-national governments. The exercise also helped to upgrade the standard and level of the debt database for reporting, analyses and policy formulation. As at the end of 2012, all the thirty-six (36) States and the FCT had their domestic debt data fully reconstructed.

7.3.3 Post-DDR for the States & FCT

As a follow-up to the DDR exercise, the DMO conducted the post-DDR exercise was conducted in five (5) additional States in 2012, bringing the total so far covered to twenty-two (22) States. The States were: Abia, Akwa –Ibom, Anambra, Bauchi, Cross River, Delta, Edo, Ekiti, Imo, Jigawa, Kaduna, Kano, Kebbi, Kogi, Niger, Ondo, Ogun, Osun, Rivers, Sokoto, Taraba and Zamfara. The post-DDR exercises for the remaining fourteen (14) States and the FCT are to be conducted in 2013. The post-DDR exercise is designed to assess the States' level of compliance with sound practices in debt recording and reporting as set out in the Template for the Establishment of DMDs. The post-DDR evaluation also serves as an avenue for addressing other challenges constraining effective performance of the DMDs after the DDR exercise.

7.4 Deployment of ICT Infrastructure for States & FCT

In continuation of its efforts to strengthen sub-national debt management capacity in Nigeria, the DMO initiated measures at securing the buy-in of computer firms operating in Nigeria to demonstrate their corporate social responsibility, by assisting in providing ICT infrastructure, among others, to the States. Following this initiative, the DMO in 2012, in collaboration with Honeywell Group Nigeria Ltd (a large national conglomerate), donated thirty-two (32) desk top computer systems, thirty-two (32) APC Back-up Units and eight (8) HP Laser Jet Printers, to eleven (11) most needy States of the Federation in 2012.

7.5 Review and update of the Status of Donor Intervention in the States

The DMO has continued to liaise with Donor Agencies to secure a coordinated donor intervention in the States to enhance their debt management operations. It is important to note that the Department for International Development (DFID) supported the conduct of the DDR and post-DDR exercises in eight (8) and five (5) States, respectively in 2012.

CHAPTER EIGHT

RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

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RISK ANALYSIS OF NIGERIA'S TOTAL PUBLIC DEBT

The country's Debt/GDP ratio rose from 17.45 percent in 2011 to close at 19.40 percent as at end-December, 2012 due to additional external loan disbursements and new borrowings from the domestic bond market. However, the growth rate of total public debt decreased to 16.72 percent in 2012 from 18.40 percent in 2011, reflecting government's commitment to fiscal prudence. As at end-December, 2012, foreign exchange and interest rate risk were relatively low in the total debt portfolio largely due to the dominance of debt held in domestic currency and the policy of borrowing mainly from the concessional sources. Refinancing risk was relatively high due to increased share of short-term instruments in 2012.

8.1 Introduction

The assessment of risks inherent in the structure of the public debt portfolio has become an important component of the country's debt management strategy. This is to ensure that they are promptly identified and mitigated in order to enable the government meet its financing needs at minimal cost and within a prudent degree of risk. This chapter evaluates the risk exposure of the country's public debt as at end-December, 2012.

8.2 Costs and Risks Analysis of Total Public Debt

The total public debt stock as a percentage of GDP maintained a rising trend from 11.6 percent in 2008 to 19.40 percent in 2012 (Figure 8.1). This was attributable to additional disbursements of external financing, new domestic borrowings and the fact that part of maturing domestic obligations were refinanced during the year. However, there was a sharp drop in the rate of accumulation of debt as the growth rate of total public debt decreased to 16.72 percent in 2012 from 18.40 percent in 2011, reflecting government's commitment to fiscal prudence.

The average interest rate for external and domestic debt in 2012 was 2.32 percent and 12.55 percent, respectively. The low average interest rate of external debt portfolio was due to the strategic policy of borrowing mainly from the concessional windows, while the high average interest rate of domestic debt portfolio was attributable to CBN's high monetary policy rate, which remained at 12 percent throughout the year. Table 8.1 shows the costs and risks indicators of the total public debt as at end-December, 2012.

Figure 8.1 Nigeria: Trend in Total Public Debt/GDP Ratio, 2008-2012

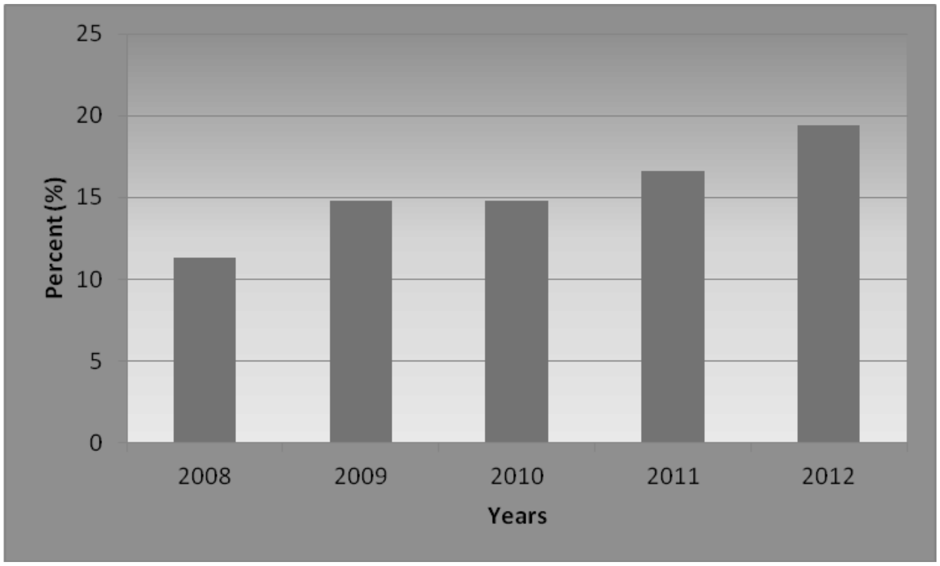


Table 8.1: Costs and Risks Indicators for Total Public Debt as at end-December 31, 2012

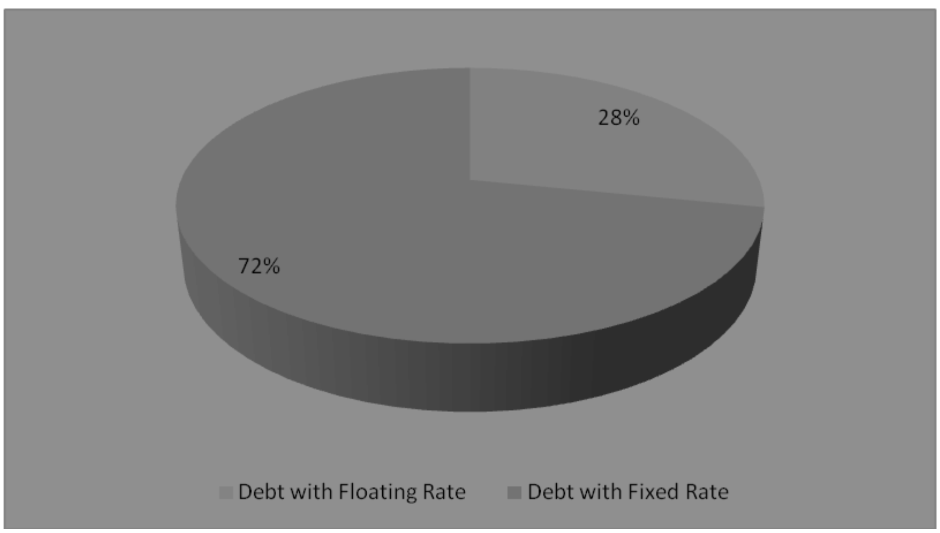
Risk Indicators	Domestic Debt	External Debt	Total Debt
Cost Measures			
Average Interest Rate (%)	12.55	2.32	11.15
Debt/GDP Ratio	17.05	2.65	19.70
Growth Rate of Debt (%)	16.27	15.19	16.72
Exchange Rate Risk			
Share of Total Debt (%)	86.54	13.46	100.00
Interest Rate Risk			
Debt with Variable Rate (%)	32.47	0.49	28.17
Debt with Fixed Rate (%)	67.53	99.51	71.83
Debt due for Re-fixing in one year (%)	28.0	12.23	27.6
Average Time to Maturity (years)	4.2	16.19	6.96
Refinancing Risk			
Debt Maturing in one year	39.5	0.3	39.80
Short-Term Debt/Total Debt (%)	28.1	0.01	28.1
Average Time to Maturity (years)	4.2	16.19	6.96
Contingent Liability Risk			
Contingent Liability/GDP	10.25	-	10.25

8.3 Interest Rate Risk

Nigeria's public debt portfolio is characterized by low interest rate risk as a large proportion of the stock is fixed rate debts, which largely insulated the portfolio against fluctuations in interest rate. As at end-December, 2012, the percentage of variable rate and fixed rate debt was 28.17 and 71.83 percent, respectively (Figure 8.2).

However, despite the small proportion of variable rate debt, interest rate risk was evident, mainly due to increased portion of debts maturing in the next one year (39.80 percent), which had to be refinanced and re-priced in 2012 (Table 8.1). The large proportion of variable debt (32.47 percent) in the domestic debt portfolio implies significant exposure of domestic debt to interest rate risk.

Figure 8.2: Interest Rate Composition of Total Public Debt



8.4 Refinancing Risk

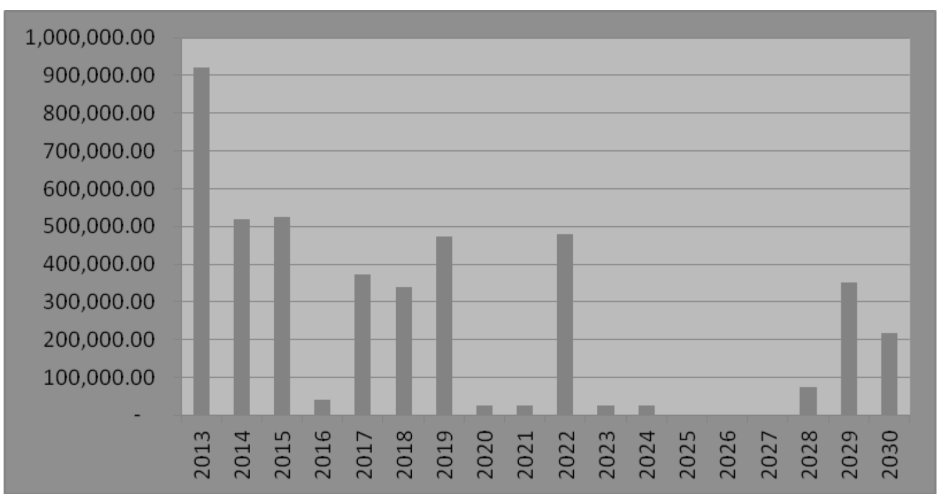
The share of debts maturing in one year and the redemption profile of public debt portfolio reveal the extent of refinancing or roll-over risk that is inherent in the country's debt portfolio. Table 8.1 further reveals that about 39.80 percent of total debt will mature in one year because of the high proportion of variable rate debts in the domestic debt portfolio, which indicates a high refinancing risk as at end-December, 2012.

8.5 Redemption Profile

The redemption profile for total external debt of the country shows the distribution of debt repayment obligations over time as illustrated in Figure 8.3. It reveals a smooth profile except in 2021 when the US$500 million Nigerian Eurobond issued in 2011 will be maturing. Similarly, Figure 8.4 shows the redemption profile for domestic debt. It reveals that bulk of domestic debt would mature and be redeemed in 2013, which highlights significant refinancing risk.

Figure 8.3: External Debt Redemption Profile (US$' Million)

Figure 8.4: Domestic Debt Redemption Profile (₦' Million)



8.6 Exchange Rate Risk

The total public debt portfolio comprised 13.46 and 86.54 percent of foreign and domestic currency denominated debt in 2012, respectively (Figure 8.5). This means that there was a marginal change when compared to the respective proportion of 13.64 and 86.36 percent recorded in 2011. The slight variation was as a result of the liquidation of matured IBRD loans. Figure 8.6 shows that the external debt portfolio was dominated by US Dollar and Euro, accounting for 54.13, and 29.09 percent of the portfolio, respectively. These were followed by the British Pounds, Japanese Yen and other currencies with 8.15, 7.40 and 0.33 percent of the debt portfolio, respectively.

The analysis reveals that there was relatively low foreign currency risk in the debt portfolio due to the low share of foreign currency denominated debt. This implied that the debt portfolio was highly insulated from adverse changes in exchange rates in 2012. However, the debt composition deviates from government's preference of a more balanced ratio of 60:40 for domestic and external debt, respectively.

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

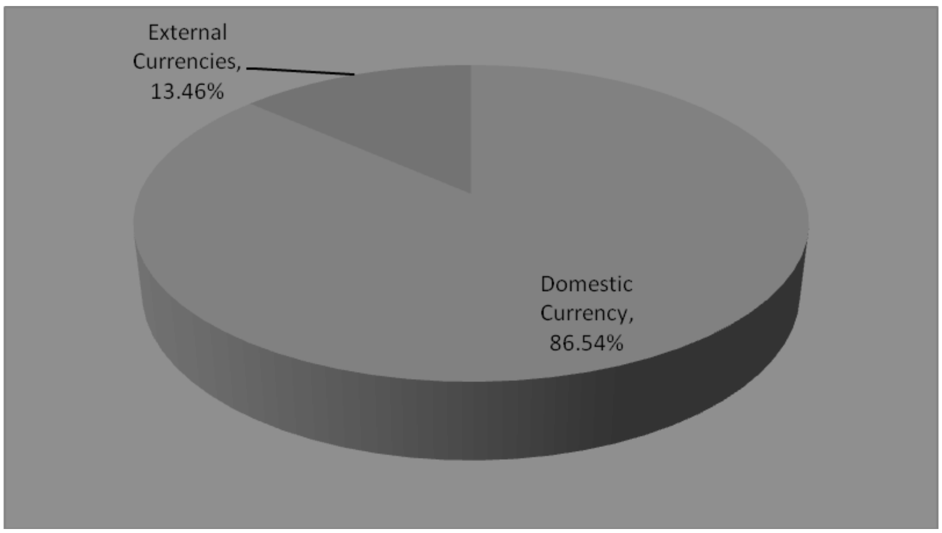
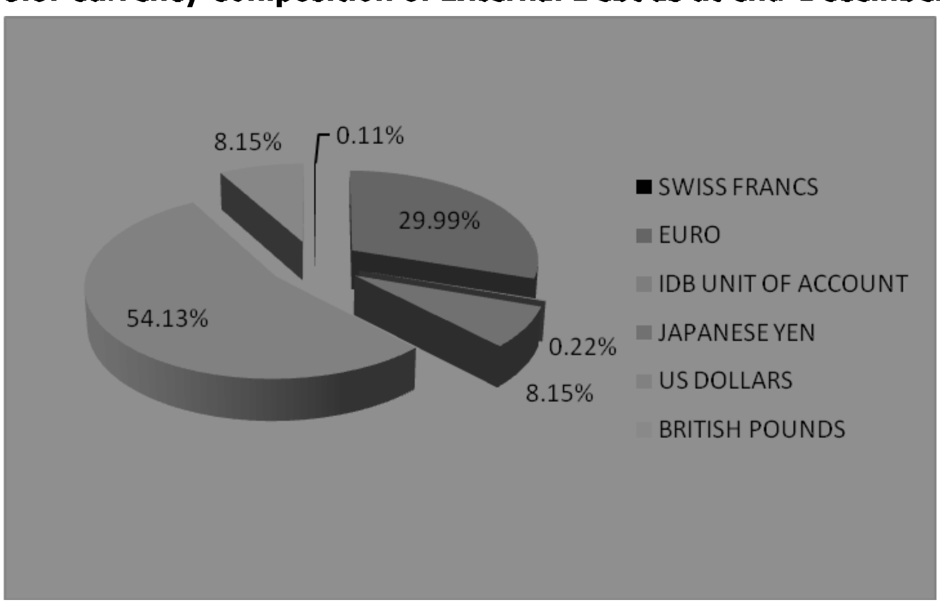


Figure 8.6: Currency Composition of External Debt as at end-December, 2012



The comparative analysis of the currency composition of the external debt portfolio and the currency composition of the country's foreign reserve for the same period revealed that the former had adequate cover against capital losses that may result from exchange rate fluctuations because both had in the same major currency denominations (Table 8.2 and Figure 8.7).

Table 8.2: Currency Composition of External Reserve Asset as at end-December, 2012 (US$ Equivalent)

CURRENCY	USD Equivalent	% of Total
US Dollars	38,040,715,351.69	86.791
GB Pounds	1,113,039,604.19	2.539
Euro	3,553,429,709.49	8.107
Swiss Francs	1,567,176.40	0.004
Japanese Yen	257,982,326.78	0.589
Chinese Yuan	850,348,107.17	1.940
Other Currencies	13,336,089.18	0.030
TOTAL	43,830,418,364.90	100.000

Figure 8.7: Currency Composition of External Reserves as at end-December, 2012

It is important to note that Nigeria's external debt service is funded through the External Creditors Funding Account (ECFA), denominated only in US Dollars, which further insulate the external debt portfolio from exchange rate risks.

8.7 Credit Risk

Credit risk refers to the possibility that the MDAs will default on their obligations to repay the on-lent loans extended to them by the FGN to fund infrastructural development and special projects in key sectors of the economy. In 2012, there were fourteen (14) on-lent loans worth ₦372.07 billion owed the FGN by different MDAs. Repayments of the loans by the MDAs have been stable over the years. One of the measures put in place to mitigate credit risk is the issuance of Irrevocable Standing Payment Order (ISPO) by almost all MDAs.

8.8 Contingent Liability Risk

The contingent liabilities increased marginally to ₦3,780.70 billion in 2012 from ₦3,478.38 billion in 2011, representing 8.69 percent increase over the previous year. Relative to the GDP, the outstanding contingent liabilities of the FGN was 10.25 percent in 2012 as against 9.17 percent in 2011. The marginal increase was due to FGN's Guarantee to banks for financing the supply of seeds and fertilizer to farmers for 2012 farming seasons. In order to address the contractors' debt, the FGN had set up a Special Purpose Vehicle (SPV) to issue a 5-year split-coupon bond amounting to ₦374.70 billion, guaranteed by the FGN in favour of the bondholders. There is an arrangement by the FGN to redeem the bond at maturity through annual budgetary provisions. Similarly, State Governments that accessed the Agriculture funds through the banks and on-lent to their farmers provided an ISPO which allows the FGN to deduct the repayment of such loans at source.

Table 8.3: Federal Government's Contingent Liabilities (₦' Billion)

S/N	Liability Type	2010	2011	2012
1	Pension Liabilities*	1,499.66	1,401.98	1,322.42
2	Local Contractor's debts**	5.64	226.52	374.70
3	Pending Litigations***	83.37	92.00	92.00
4	Guarantee on Agriculture	0.00	15.88	249.58
5	AMCON Guarantee	1,000.00	1,742.00	1,742.00
	Total	**2,588.67**	**3,478.38**	**3,780.70**

* Data provided by PENCOM
** Only ₦233,942,080,700.00 Face Value of the Local Contractors Bonds has been issued out of the FGN Guarantee of ₦374,702,000,000.00 Local Contractors Bonds
*** The 2011 figure for' 'Pending Litigation" was brought forward in 2012.

CHAPTER NINE

NATIONAL BORROWING PLAN AND BUDGET PERFORMANCE

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NATIONAL BORROWING PLAN AND BUDGET PERFORMANCE

In 2012, a total of ₦744.44 billion was raised from the domestic bond market to part-fund 2012 FGN budget deficit as appropriated. As at the end of 2012, sixteen (16) on-lent loans worth ₦327.07 billion were extended to fourteen (14) different MDAs to support development initiatives in various sectors of the economy.

9.1 Introduction

The borrowing programmes of the government in 2012 was carried out in line with the key objectives of the National Debt Management Framework (NDMF), which are to meet government's financing needs and obligations at the lowest possible cost, consistent with a prudent degree of risk, while ensuring high level of budget implementation. The Federal Government of Nigeria's total budgeted expenditure in 2012 was ₦4.485 trillion, out of which the budget deficit was ₦1.136 trillion. The budget deficit was financed through various means which include domestic borrowings through the issuance of FGN Bonds and NTBs totalling ₦744.44 billion.

9.2 Domestic Borrowing Programme

The DMO funded the portion of the 2012 FGN budget deficit amounting to ₦744.44 billion, through monthly debt issuance in the domestic debt market. To this end, the portion of 2012 budget deficit appropriated by the NASS to be funded by domestic borrowing was fully met.

9.3 On-Lent Loans to MDAs

In line with the development initiatives of the government, funds were raised by the DMO from the domestic bond market and on-lent to various Ministries, Departments and Agencies (MDAs) of government for the funding and delivery of key projects and programmes that would impact positively on the growth and development of the country. These loans were used to finance infrastructural projects in such areas as Roads, Agriculture, and Transport. By end-December, 2012, there were sixteen (16) on-lent loans worth ₦372.07 billion to fourteen (14) different MDAs (Table 9.1).

Table 9.1:Total Outstanding On-lent Loans to MDAs as at end-December, 2012 (₦)

S/N	MDA	LOAN AMOUNT	TOTAL AMOUNT OUTSTANDING
1	Federal Mortgage Bank of Nigeria**	5,000,000,000.00	5,000,000,000.00
2	Nigerian Agricultural Co-operative and Rural Development Bank Ltd. (BOA)*	5,000,000,000.00	5,000,000,000.00
3	Bank of Industry (BOI)*	5,000,000,000.00	5,000,000,000.00
4	Federal Airports Authority of Nigeria (FAAN)	11,000,000,000.00	14,370,520,547.95
5	Cross River State Government (Tinapa Project)	25,000,000,000.00	36,290,953,166.36
6	Federal Ministry of Defence	39,571,978,681.51	17,324,070,379.30
7	Ajaokuta/Niomco Staff	2,239,175,144.72	4,080,896,699.61
8	CBN-AGRIC Credit Scheme	200,000,000,000.00	-
9	Federal Capital Territory - Seed Money	20,000,000,000.00	20,000,000,000.00
10	Federal Ministry of Transport	12,500,000,000.00	16,162,500,000.00
11	Nigeria Cotton, Textile and Garment Scheme	100,000,000,000.00	100,000,000,000.00
12	Transcorp-Nitel/Consortium of Banks	63,000,000,000.00	68,218,884,000.00
13	Federal Ministry of Finance	6,300,000,000.00	6,586,073,622.23
14	FGN /NTA additional payment to WTS Broadcast Nig. Ltd	4,500,000,000.00	3,359,444,490.77
15	FGN /FCTA: Funding of special projects in the Education and Health Sectors in the FCT.	15,000,000,000.00	16,124,451,591.22
16	BPE: NITEL/MTEL Terminal Benefit	54,552,000,000.00	54,552,000,000.00
	Total in Naira	**568,663,153,826.23**	**372,069,794,497.44**

Note: *Principal loan amount was converted to FGN's equity holdings. **Principal loan amount was converted to non-interest bearing facility.

Table 9.1 shows the summary of activities of on-lent loans in 2012 with the total amount outstanding of ₦372.07 billion as at December 31, 2012. The significant reduction in the amount outstanding compared with the previous year was due to the liquidation of ₦200 billion CBN - Commercial Agriculture, which matured in October, 2012.

9.4 Revised External & Domestic Borrowing Guidelines

In order to properly streamline the processes and procedures for both domestic and external borrowings by the Federal and State Governments, as well as, their Agencies and have them as a single and comprehensive document, the 2008 – 2012 External and Domestic Borrowing Guidelines were revised. The revised Guidelines also benefitted from the outcomes of the public hearings by the House of Representatives Ad-Hoc Committee on the Investigation into Foreign Loans obtained by both the Federal and State Governments, which was held in 2010.

Apart from the merger of the hitherto two documents (External and Domestic Borrowing Guidelines) into one, the major improvements include the provision of specific responsibilities of the relevant stakeholders in the borrowing process. It also specifies the relevant laws supporting the responsibilities of each stakeholder. The revised Guideline is expected to further strengthen the borrowing processes and procedures.

CHAPTER TEN

INSTITUTIONAL ISSUES

CHAPTER TEN

INSTITUTIONAL ISSUES

The Office held a one-day all-staff Retreat in November, 2012, to assess the implementation of its second Strategic Plan, 2008-2012, and to agree on the broad framework for a new one. There were various capacity building programmes for staff and stakeholders covering local and foreign training courses. Stakeholders' events were organized which include Non-deal Road Shows aimed at directly engaging some major institutional investors in Europe and U.S.A. The Office enjoyed the support of stakeholders and development partners, particularly the DFID, in the pursuit of its various debt management capacity building initiatives in 2012.

10. 1 Review of the Implementation of the DMO's Second Strategic Plan, 2008-2012

10.1.1 Background

With the exit from the Paris and London Club debts in 2006 and 2007, respectively, the second Strategic Plan, 2008–2012, was put in place to address the challenges of post debt relief, and reposition the DMO to contribute to the government's vision of transforming Nigeria into one of the top twenty (20) economies in the world by year 2020. In addition, it was developed to enable the Office to effectively reflect the emerging realities in the economy, and developments in public debt management. Given the dynamic nature of the Plan, the Office undertook a Mid-Term Implementation Review of the Strategic Plan in 2010, so as to reposition it, as well as, meet the expectation of stakeholders. Though significant progress had been made on the attainment of some of the key objectives, new initiatives were introduced in the Revised Strategic Plan, 2008-2012. This is to ensure that the document remains current and sensitive to evolving developments in public debt management.

10.1.2 Strategic Objectives

The broad objective of the Plan was "to ensure that National and Sub-national Governments subscribe to the principles of prudent and sustainable borrowing, and effective utilization of resources, and to create a robust domestic debt market supportive of private sector development".

The Strategic Objectives of the Plan were as follows:

i. To establish and develop effective institutions and debt management capabilities at the sub-national level;

ii. To maintain a comprehensive, reliable and efficient national and sub-national debt database and to ensure prompt accurate settlement of debt service obligations;
iii. To build a first-rate and internationally competitive bond market, not only to support government financing needs, but also provide the private sector access to long term financing in line with the financial sector strategy (FSS 2020);
iv. To develop innovative approaches for optimally accessing external finance;
v. To make Nigeria an exporter for debt management skills and major destination for out-sourced debt management services; and,
vi. To build and maintain a well-motivated and professional workforce that will drive DMO's Strategic Objectives.

10.1.3 Achievements

Following the end of the concluding phase of its implementation, it is imperative to highlight some of the significant achievements recorded by the Office under the Strategic Plan, 2008-2012. The key achievements include:

i. The establishment of functional Debt Management Departments (DMDs) and the development of capacity for effective and efficient sub-national debt management in all the 36 states of the Federation and the Federal Capital Territory (FCT).
ii. Debt Data Reconstruction (DDR) exercise was concluded in all the 36 States of the Federation and the FCT. This means that for the first time, all the States and the FCT now have, in addition to their external debt data, an authenticated domestic debt data.
iii. Nineteen (19) States have passed either the Public Debt Management and/or Fiscal Responsibility Laws, to give legal backing to the operations of the DMDs in their respective States.
iv. The maintenance of the public debt database, which is accurate and readily made available on the DMO's website on quarterly and semi-annual basis, and disseminated through the print and in other media.
v. There is a well rated FGN Bond market which has effectively served to provide a safe and alternative investment outlet for investors and attract foreign investments, with a Sovereign Yield Curve of 3 months to 20 years, which is also serving as a reliable source of funding for the Government.
vi. The FGN Bond has been included in the widely recognized and internationally traded Global Bond Index–Emerging Markets (GBI-EM) of J.P. Morgan in October 2012, while Barclays Capital has also announced its inclusion in its own Emerging Markets – Local Currency Bond Index (EM-LCBI) with effect from March 1, 2013. These are authoritative

validation of the quality and strength of the domestic bond market.

vii. There is now an active non-sovereign bond market where many State Governments and Corporates have been able to raise much needed long-term capital.

viii. Income from investments in bonds issued by State Governments, Government Agencies and Supra-nationals are now tax exempt.

ix. Eligible State Government Bonds are being granted Liquid Assets status by the Central Bank of Nigeria.

x. The country now has a more balanced domestic capital market, with both equity and bond components, unlike in the past where the capital market was predominantly an equities market.

xi. Nigeria successfully made a debut in the International Capital Market (ICM) through the issuance of a 10-year 6.75% US$500 million Sovereign Eurobond in January, 2011.

xii. The DMO has acquired land for its office complex: the building plan and engineering drawings are also ready.

xiii. All staff of the DMO have benefitted from regular local and foreign training during the Plan period.

xiv. The DMO's website was reviewed for the purpose of improving its content and quality.

xv. A Business Continuity and Disaster Recovery Plan have been put in place and it is now operational.

10.1.4 Outstanding Issues

In spite of the laudable achievements recorded by the Office in the second Strategic Plan, 2008-2012, some key issues have not yet been fully addressed. These include:

i. The electronic upload of FGN securities auction data from the CBN into CS-DRMS has not been implemented due to the inability to achieve an effective interface between the CBN's IT system and the CS-DRMS.

ii. The acquisition of an Automated Bond Auction System is still pending due to delays in securing the required approvals.

iii. The linking of CS-DRMS to relevant MDAs has not been effected due to the fact that GIFMIS, which is the channel through which the link will be achieved, is still at its pilot stage.

iv. The monitoring and recording of private sector external debt was only partially achieved in the form of the setting up of a Standing Committee made up of relevant stakeholders to actualize the initiative.

v. The introduction of Securities Lending, Switches and Buybacks could not be effected because of system challenges with the CBN's IT platform, coupled with delays in securing necessary approval for Switches.

vi. The plan to build DMO's Office Complex has not been realized due to lack of appropriation of the required funds in the Federal Budgets.

vii. The passage of the DMO Amendment Act is still in process and this has constrained the review of staff emoluments and the proper establishment of the PDMI.

10.2 Preparation of the Third Strategic Plan, 2013-2017

In its effort to consolidate the gains of the previous plans and develop the Third Strategic Plan, 2013-2017, the Office held a one-day, all-staff Retreat on November 21, 2012. This was in line with the tradition of involving all cadres of staff in the development and review of all the Office's Strategic Plans. The outcome of the Retreat, which provided the basis for the Third Strategic Plan, 2013-2017 were as follows:

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 Statement

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.

Strategic Objectives, 2013-2017

i. To further develop capacity and strengthen sound debt management at the sub-national level towards achieving total public debt sustainability.

ii. To sustain the maintenance of a comprehensive and reliable national and sub-national debt database with prompt and accurate debt servicing for effective debt management.

iii. To develop innovative approaches for optimally accessing domestic and external finance.

iv. To deepen and broaden the FGN securities market in order to sustain the development of other segments of the bond market and support Government's financing needs.

v. To develop and implement an effective system for contracting, recording and monitoring Contingent Liabilities, as well as a process for managing the associated risks.

vi. To institute systems and processes for proactively tracking, monitoring and evaluating debt management activities to ensure effective and quality compliance with international best practice.
vii. To continuously enhance the skills and maintain a well motivated professional workforce as well as deploy state-of-the-art technology, towards making Nigeria a major destination for out-sourced debt management skills and services.

The preparation of the Third Strategic Plan, 2013-2017, will be concluded in 2013 and submitted to the appropriate authorities for approval.

10.3 Medium-Term Debt Management Strategy (MTDS), 2012-2015

The DMO completed the national Medium Term Debt Management Strategy (MTDS, 2012-2015), which was developed in late 2011 in conjunction with the CBN, BOF, NBS and NPC, to provide a quantitative and qualitative guide to effective public debt management in the country. The World Bank/International Monetary Fund and West African Institute for Finance and Economic Management (WAIFEM) team provided technical support during the workshop that produced the MTDS.

The MTDS Report, which contains, inter alia, background, policy objectives, benefits, macroeconomic scope, strategies, analysis of results and fiscal implications of the choosen strategy has been submitted to the appropriate authorities for approval.

10.4 Highlights of the Activities of the Public Debt Management Institute (PDMI)

10.4.1 Background

The PDMI, which was set up in 2011, as a vehicle for the development and capacity building in public debt management at both the national and sub-national levels in Nigeria, carried out a number of activities in 2012. These include the following:

10.4.2 Staff Training

The PDMI held training programmes for intermediate level staff of the DMO, in collaboration with external resource firm on "Essential Concepts & Principles of Public Debt Management (PDM)". The workshop was designed to build and enhance participants' basic knowledge on effective public debt management, and to expose this category of staff to the imperatives of a sound debt management framework.

10.4.3 Conduct of Seminar Sessions for Staff

The PDMI also held a number of seminars for the DMO staff, under the platform of the DMO's Monthly Lecture Series, where topical issues relevant to public debt management were presented by top management staff, which were followed by discussion sessions by all the staff of the Office. These sessions were designed to acquaint staff at all cadre with contemporary issues in public debt management.

10.4.4 Curriculum Development & Design

In furtherance of the Course bulletin already developed, efforts were made to update the various training curricula to reflect contemporary and evolving issues in public debt management and to cater for other identified target audience.

10.5 Stakeholders' Events

The DMO organized Non-Deal Roadshows to both Europe (London and Zurich) and the United States of America (Los Angeles, San Francisco, Boston and New York) in 2012. Delegates were led by the Coordinating Minister for the Economy/Honourable Minister of Finance (CME/HMF) with members drawn from the Federal Ministry of Finance, National Assembly, DMO and Print/Electronic Media. The main objective of embarking on the Roadshows was to enable the Nigerian officials engage directly with some of the major institutional investors in Europe, who are either investors or prospective investors in the Nigerian Eurobond and other debt instruments. The Non-Deal Roadshow to Europe (London and Zurich, with conference calls to Frankfurt) was held from February 15-17, 2012, while that of the United States of America (Los Angeles, San Francisco, Boston and New York) took place between April 16 and 20, 2012.

The DMO, in collaboration with Quanteq Technology Services Limited, held training/enlightenment programme on "Application of Microsoft Excel for Effective Public Debt Management at the Sub-National Level" for sub-national debt managers. The training was aimed at educating and exposing officials of States' DMDs on how to use Microsoft Excel for the debt recording and the sound practices in Sub-national Debt Management. The workshop was held from Monday, February 13 - 17, 2012, at the Quanteq's Office, Central Business District, Abuja.

A Staff Retreat was organized for staff of the DMO on Wednesday, November 21, 2012, at the Chelsea Hotel, Abuja. The main objective of the all-staff retreat was for staff to deliberate on and articulate a new Strategic Plan for the period, 2013-2017.

10.6 Training for DMO's Stakeholders

Five (5) external stakeholders were also trained during the year. Three (3) of the external stakeholders were from the Federal Ministry of Finance, while two (2) were from the Office of the Vice President of the Federal Republic of Nigeria.

In addition, during the year under review, the DMO organized a one-day Capacity Building Workshop for Members of the Monetary and Fiscal Policy Coordinating Committee (MFPCC). The workshop was aimed at further enlightening Committee Members on key areas regarding the Committee's mandate and to provide better understanding of the imperatives for proper coordination between monetary, fiscal and debt management policies and their implications on financial systems stability, as well as, the need for their harmonization and alignment. The programme took place on Thursday, July 12, 2012, at the Nicon Luxury Hotel, Abuja.

10.7 Capacity Building Initiatives

Trainings in DMO in 2012 focused on building the capacity of its officers in areas relating to the DMO's core mandates and relevant specialized skills required in delivering on the core mandate. As a result, all Directors/HODs were exposed to special leadership development programmes, while the staff training programmes for other categories of staff during the year were as follows:

Course	**Number of Participants**
Essential Concepts and Principles of Public Debt Management	40
Financial Statement Analysis for Emerging Economies	23
Macroeconomics of Debt Management	10
Attachment to South Africa on Bond Switches & Inflation-Linked Bonds	5
Other Specialized Skills Training	11

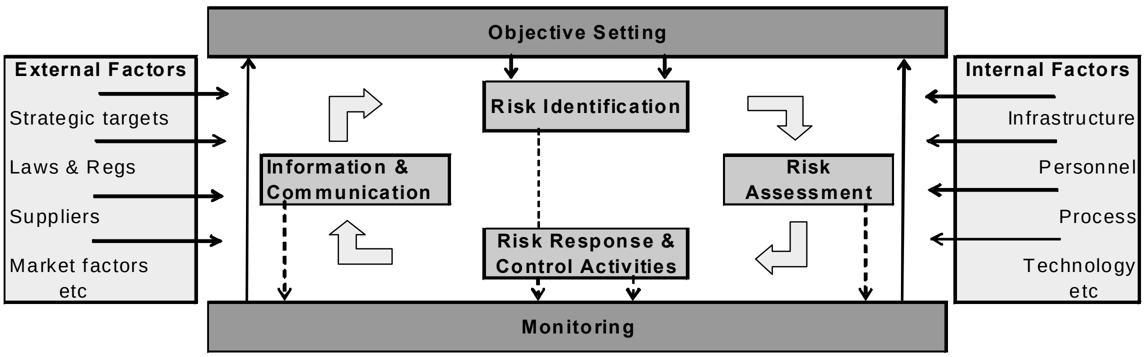
10.8 Operational Risk Management (ORM)

In most countries of the world, government debt management operations have identified and worked extensively to manage all other categories of risks, such as market, credit, refinancing and liquidity risks, but with little or no attention on operational risk.

Following the outcome of the World Bank's Debt Management Performance Assessment (DeMPA) mission, and earlier submissions of consultants on the subject, the DMO in 2012, formally commenced its ORM activities, with special training workshops for staff of the Middle Office (the risk champions) and enlightenment sessions with all Heads of Departments and Team Leaders on the goals and objectives of DMO's operational risk management initiative.

The sessions culminated in:

- A clear understanding by all Departments of their responsibilities with respect to ORM; and,
- The identification, assessment and measurement of the impact of the risks by the Departments on DMO's operations, in line with the adapted ORM Process, shown in the flow chart below:



As at the end of 2012, an Operational Risk Register had been developed with forty one (41) potentially high risk areas in the work operations of the Office. This figure was arrived at after thorough examination of the impact assessments of the over one hundred and fifty one (151) different work activities submitted by the Departments and Units.

With the development of an ORM's Framework, the DMO's ORM activities for 2013 are expected to commence in earnest. This will also herald the implementation of the various strategies aimed at minimizing risks inherent in the organization's daily operations, so as to reduce or eliminate incidences of mishaps, while protecting the integrity of all work operations, preserving assets and safeguarding staff health and welfare.

10.9 ICT Infrastructure

In a bid to improve power supply and avoid work disruptions, on its entire network, the DMO in 2012 installed three high capacity UPS Systems of 11KVA, 30KVA and 40KVA and two power stabilizers of 15KVA and 120KVA on the power lines from the NDIC. The Local Area Network was expanded to 157 points through the installation of a 120 point Local Area Network. This installation greatly reduced network down-time arising from the use of the old local area network.

During the period under review, the DMO concluded the deployment of the new e-mail and Document Management System which provides the Office with a single sign-on authentication and e-mail system, and a robust document management platform. To enhance internet accessibility, the DMO migrated to Galaxy Backbone Plc's platform, which is now the primary and secondary internet service provider in accordance with government's regulations.

As part of DMO's Business Continuity and Disaster Recovery Solution, the DMO in 2012, created a mirror of its e-mail, portal services and CSDRMS database which is warehoused on Galaxy Backbone's facilities. This solution was implemented as part of the e-mail and Document Management System projects. It has been tested and is effectively in use. The solution provides the DMO with minimum service down-time in the event of loss of servers in the DMO.

10.10 DFID's Capacity Building Support to the DMO in 2012

The DFID provided support to the DMO's operations in the following areas:

i. Training on Optimal Usage of SAP Modules, January 23 – February 3, 2012: The training intervention was a follow-up to an IT Consultancy to customize the SAP system which the DMO had been using for a number of years and which the Project had successfully supported.
ii. Training of twenty-two (22) DMO staff in Debt Sustainability Analysis, February 7-10, 2012: The Debt Sustainability Analysis (DSA) training for DMO's Staff is the second of the two modules geared towards capacity building for the DMO, a critical mass of DSA competent staff who would ensure continuity in the conduct of DSA by the DMO, while ensuring minimal external facilitation of most part of the DSA exercise.
iii. The DFID supported the equipping of the DMO with sustainable IT institutional structure (E-mail Infrastructure and Document Management System) between February and August, 2012.
iv. XML Tool to automate data link between CBN's T24 and DMO's CS-DRMS (Joint ComSec/CA visit to the DMO, March 12 – 14, 2012): A joint ComSec/CA mission to the DMO took place from March 12 – 14, 2012, for the purpose of finalizing the process of automating the future upload of auction results from the CBN's T24 auctioning module to the DMO's CS-DRMS using the XML tool. Working with the staff of the DMO and CBN, the XML link was fine-tuned to fully comply with the data needs of the CS-DRMS database.
v. Training in Operational Risk Management, May 21 – 23, 2012: The DFID project also sponsored an international consultant, Mr. Mike Williams, to work on the Operational Risk Management Framework for the DMO. The intervention took place in May 2012. The consultant worked closely with the DMO staff to develop a Risk Register that measures the

impact of risks inherent in DMO's work operations. The Risk Register is expected to be used for the monitoring, tracking, controlling, reporting and managing operational risk on an on-going basis.

vi. Training in E-views/Econometrics, June 25 – 28, 2012: The DFID supported a training programme focused on strengthening core staffs' capacity on empirical/quantitative analysis and, in particular, yield curve building and econometric application in interest rate, exchange rate and inflation modeling. The training was for one week and exposed staff of the middle office and selected officials from other departments to the essence of econometrics in the E-views application.

vii. The Medium-Term Debt Management Strategy (MTDS), July 16 – 27, 2012: The Project funded the hands-on training for the DMO's MTDS team. The main objective of the MTDS training was to enhance staff capacity to develop a strategy that would meet the financing needs of government at minimal cost, maintain risk at a prudent level and support the development of the debt market.

viii. Study Tour to the National Treasury of South Africa, July 29 – August 5, 2012: Four DMO's Staff undertook a Study Tour to the National Treasury of South Africa from July 29 to August 5, 2012. The Programme enabled staff to better understand the workings of the South African Sovereign Bond Market.

ix. Training on PPP and Contingent Liabilities Management – December 17-21, 2012: A one-week customized capacity building programme on PPP and Contingent Liabilities Management for DMO's staff was supported by the Project from December 17-21, 2012. The training was useful for DMO's personnel in charge of PPP and Contingent Liability Management (PPP/CLM).

x. Debt Data Reconstruction (DDR) Exercises in eight (8) States, between January and June 2012: In addition to the six (6) States originally funded by the Project on a pilot basis and a number of States targeted directly by the DMO, funding for eight (8) additional States was made available by DFID. Furthermore, the DFID funded post-DDR exercises in six (6) States over a four month period.

10.11 FGN Guarantee in Favour of the Bondholders of the N1.742 trillion 3-Year Zero-Coupon 2013 AMCON Tradable Bonds

The DMO engaged AMCON to monitor its activities in respect of the:

- The implementation of the provisions of the Agreement relating to the FGN Guarantee on N1.742 trillion AMCON Tradable Bonds;
- Recovery of the Non-Performing Loans (NPLs);

- Contributions to the Sinking Fund by the CBN and Eligible Financial Institutions;
- AMCON's request for additional FGN Guarantee of N2.92 trillion; and, progress on resolution of the banking sector crisis.

10.12 Framework and Programme for the Issuance of Nigeria's Diaspora Bond (NIDBOND)

Following the setting up by the CME/HMF of Steering and Technical Committees for the successful implementation of this initiative, various activities were undertaken. A comprehensive framework, including work-plan for the issuance of NIDBOND has been developed and is undergoing approval process as at December, 2012.

10.13 Settlement and Securitization of the Federal Government of Nigeria (FGN) Local Contractors' Debts (LCDs) through the Design and Implementation of a Resolution Model

The DMO worked closely with the Budget Office of the Federation (BOF) on the implementation of the Resolution Model aimed at the settlement of the Local Contractors' Debts. All bond certificates for Tranches 1, 2 and 3 were issued to the affected contractors, while the DMO, BOF and the Financial Advisers are currently working on the proposal for the management of the Sinking Fund.

10.14 Non-Interest Debt Financing (NIDF)

As part of efforts geared towards realizing the issuance of NIDF, the DMO has:

- Developed a Framework/Guide on the Prospects for Issuance of Sovereign Sukuk by the FGN.
- Engaged the Government agencies relevant to the initiative, such as CBN, ICRC and SEC.

10.15 Bond Auction System (BAS)

The DMO obtained Presidential approval for the implementation of the BAS project in 2012 and is engaging the relevant stakeholders such as the BPP, to fast-track the implementation of the project. The advertisement and shortlisting of firms for the consultancy services for the BAS project had been concluded as at the end of 2012.

10.16 Inter-Agency Committee on Micro, Small and Medium Enterprises Fund.

The inaugural meeting of the Committee was held in 2012. The draft framework was reviewed and is still being fine-tuned by the CBN.

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 DMO's total approved Budget for the year 2012 was ₦723.5 million. There was a decrease of 13 percent relative to the sum of ₦842.2 million appropriated for the Office in the preceding financial year. The Overheads and Capital allocations were reduced significantly as the Federal Government continued with its policy of fiscal consolidation. The allocation to Overheads dropped by 32 percent from ₦295 million in 2011, to ₦201.7 million in 2012, while Capital allocation declined substantially by 45 percent, from ₦32.4 million in 2011, to ₦18 million in 2012. Personnel Emolument also declined marginally by 3 percent from ₦514 million in 2011, to ₦503 million in 2012. Overall, the 13 percent decline in total budgetary allocation to the DMO in 2012 is less significant when compared to the 33 percent decline recorded in 2011, relative to 2010.

11.1.2 Budget Implementation

The DMO received the sum of ₦441.8 million for Personnel Emoluments in 2012. Out of this amount, ₦432 million was utilized for payment of staff salaries and allowances, including the settlement of social contributions, such as Pension and National Health Insurance Schemes. The unutilized balance of ₦9.6 million was returned to the Sub-Treasurer of the Federation (STF). It should be noted that payment of personnel emoluments was taken over by the Office of the Accountant-General of the Federation (OAGF) in May 2012, and effected through the Integrated Personnel and Payroll Information System (IPPIS) pursuant to the Federal Government's implementation of the Treasury Single Account (TSA).

The Overheads budget allocation of ₦201.7 million was fully released to the DMO in 2012. Out of this amount, the sum of ₦201.6 million was utilized for funding the operations of the DMO, while the unspent balance of ₦0.1 million was returned to the STF. The entire Capital budget allocation of ₦18 million, which was also released was fully utilized.

In addition to the statutory budget release of ₦660.7 million as against the appropriated sum of ₦723.5 million during the year under review, the DMO also received a total of ₦56.9 million from Service Wide Vote to finance the payment of other obligations and operational activities of the Office. These include payment for Risk Management Consultants, settlement of the promotion arrears, as well as, the payment for office rent and procurement of computers and office equipment.

11.2 Audited Accounts and Financial Statement

11.2.1: Corporate Information for the year ended 31st December, 2012

SUPERVISORY BOARD

The Supervisory Board has overall responsibility for the supervision of the operations of the Debt Management Office. The composition of the Board during the 2012 reporting year was as follows:

Arc. Mohammed Namadi Sambo, GCON	-	Vice President of the Fed. Rep. of Nigeria	-	Chairman
Dr. (Mrs.) Ngozi Okonjo-Iweala, CFR	-	CME/Hon. Minister of Finance	-	Vice Chairman
Mr. Mohammed Bello Adoke, SAN	-	Attorney-General/Minister of Justice	-	Member
Prof. Nwanze Okidegbe	-	Chief Economic Adviser to the President	-	Member
Mallam Sanusi Lamido Sanusi	-	Governor, Central Bank of Nigeria	-	Member
Mr. Jonah Otunla	-	Accountant-General of the Federation	-	Member
Dr. Abraham E. Nwankwo	-	Director-General, DMO	-	Member/Secretary

PRINCIPAL OFFICERS

The following principal officers, who constituted the Senior Management Committee, were responsible for running the day-to-day affairs of the Office during the period under consideration:

Dr. Abraham E. Nwankwo	-	Director–General
Mrs. Funmi Ilamah	-	Director, Strategic Programmes Department
Ms. Patience Oniha	-	Director, Market Development Department
Mrs. A. M. Mohammed	-	Director, Organizational Resourcing Department
Mr. James K. A. Olekah	-	T.A/Head, Policy, Strategy & Risk Mgt. Department
Mr. Miji Amidu	-	Director, Special Projects Group
Mrs. Hannatu Suleiman	-	Dep. Director/Head, Debt Recording & Settlement Dept.
Mr. Joe Ugoala	-	Dep. Director/Head, Public Debt Management Institute
Mr. Atiku Saleh Dambatta	-	Dep. Director/Head, Portfolio Management Department

REGISTERED OFFICE

NDIC Building (1st Floor),
Plot 447/448, Constitution Avenue,
Central Business District,
P.M.B. 532,
Garki – Abuja.

EXTERNAL AUDITORS

Ben Ugwu & Co.,
(Chartered Accountants),
Suite 214, Anbeez Plaza,
15, Ndola Crescent Wuse, Zone 5,
P. O. Box 77, Garki – Abuja.

BANKERS

a. Central Bank of Nigeria, Garki - Abuja.
b. Zenith Bank Plc., No. 63 Usman Street Branch, Maitama - Abuja.
c. United Bank for Africa Plc., Area 3 Branch, Garki – Abuja.

11.3 ACCOUNTING POLICIES FOR THE YEAR ENDED 31ST DECEMBER, 2012

The following are the significant policies which have been adopted by the Debt Management Office:

A BASIS OF ACCOUNTING

The Accounts are prepared under the historical cost convention of accounting, and income and expenditure were recognized on the cash basis of accounting.

B RECEIPTS

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

C FIXED ASSETS/ DEPRECIATION

The Fixed Assets are stated at cost. Depreciation of fixed assets is computed for notional purposes only as the account is prepared on cash accounting and not accrual basis. Therefore, no depreciation was charged to the account under review. However, annexure V on page 25 was prepared for management information and could be useful in decision making.

D TAXATION

There was no provision for both Income and Education Taxes during the period ended 31st December, 2012 because the office is a non-profit making organization.

11.4 STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER, 2012

RECEIPTS	**NOTES**	**2012 N**	**2011 N**
Votes Received	6	662,078,603	752,302,163
ADDITIONAL FUNDS			
Service Wide Vote	6(a)	56,910,363	152,742,420
Other Income	6(b)	319,593	519,500
SPECIAL ITEMS			
FGN Bond Operations	6(c)	527,798,250	672,000,000
WHT on FGN Bond Comm.	6(d)	322,324,760	257,526,416
Grants/Aids	6(e)	45,010,709	63,870,239
		1,614,442,278	**1,898,960,738**
EXPENDITURE			
Recurrent Expenditure	7a	1,022,153,785	749,288,793
SPECIAL ITEMS			
FGN Bond Operations	7b	471,536,054	713,727,115
WHT on FGN Bond Comm.	7c	330,184,814	331,672,812
Grants/Aids	7d	53,294,717	75,598,564
		1,877,169,370	**1,870,287,284**
Excess/(Shortfall) of Receipts over Expenditure	8	**(262,727,092)**	**28,673,454**

11.5 CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012 N	2011 N
Excess of Income over Expenditure	(262,727,092)	28,673,454
Add: Adjustment for items not involving		
Movement of cash:		
Accumulated fund adjustment	-	-
Cash generated/ (expended) from Operation	(262,727,092)	28,673,454
Operating Income before working Capital Change:		
Prior Adjustment on stores items	-	-
	(262,727,092)	28,673,454
Cash Flow from Investing Operation		
Purchase of fixed Assets	(25,853,973)	(172,336,143)
Net Cash Flow for the Year	(288,581,065)	(143,662,689)
Cash balance as at January 1st	834,020,393	977,683,082
	545,439,328	**834,020,393**

The notes on pages 103-115 form an integral part of these Financial Statements.

11.6 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

1. ESTABLISHMENT OF THE DEBT MANAGEMENT OFFICE

The Debt Management Office was established as a body corporate with perpetual succession by the DMO (Establishment, etc) Act, 2003) under the Chairmanship of the Vice-President of the Federal Republic of Nigeria, with the Honourable Minister of Finance serving as the Vice-Chairman of the Supervisory Board. It was created as a separate accounting agency, with an efficient, well organized structure headed by a Director – General (equivalent of a Permanent Secretary) as the Chief Executive Officer, who reports to a Supervisory Board.

2. NATURE OF ACTIVITIES

The principal responsibility of the Debt Management Office is to efficiently manage Nigeria's debt portfolio at sustainable levels, compatible with desired economic activities over the medium and long terms for economic growth and national development. The Organisation started operations in October, 2000.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	LAND/BLD	M/V	CMP/IT	OFFICE EQUIP	TOTAL
3. FIXED ASSETS	N	N	N	N	N
(Capital Expenditure)					
Cost as at 1/1/12	120,037,177	102,297,468	120,095,351	122,106,048	464,536,044
Addition in the year	-	-	25,853,973	-	25,853,973
Disposal	-	-	-	-	-
Written off	-	-	-	-	-
	120,037,177	**102,297,468**	**145,949,324**	**122,106,048**	**490,390,017**
DEPRECIATION					
As at 01/01/12	-	-	-	-	-
Charges for the year	-	-	-	-	-
NBV @ 31/12/12	**120,037,177**	**102,297,468**	**145,949,324**	**122,106,048**	**490,390,017**
NBV @ 31/12/11	**120,037,177**	**102,297,468**	**120,095,351**	**122,106,048**	**464,536,044**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

		NOTES	2012	2011
4.	**CURRENT ASSETS**		N	N
	Bank Balances	9a	545,439,328	834,020,393
			545,439,328	**834,020,393**
5.	**ACCUMULATED FUND**			
	Balance B/Fwd as at 1st January		1,298,556,437	1,269,882,983
	Surplus of income over expenditure		(262,727,092)	28,673,454
	Balance C/Fwd as at 31st December		**1,035,829,345**	**1,298,556,437**
6	**VOTES RECEIVED**			
	Capital	9b	18,000,000	33,935,294
	Overhead	10	202,256,867	295,412,215
	Personnel Emolument	11	441,821,736	422,954,654
			662,075,603	**752,302,163**
SPECIAL ITEMS				
6a	Service Wide Votes	12	56,910,363	152,742,420
6b	Other Income	13	319,593	519,500
6c	FGN Bond Operations	14a	527,798,	250 672,000,000
6d	WHT on FGN Bond Comm	**14b**	**322,324,760**	**257,526,416**
6e	Grants/Aids	15	45,010,709	63,870,239
			952,363,675	**1,146,658,575**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

		NOTES	2012 N	2011 N
	EXPENDITURE			
7.	**Capital Expenditure**	15a	25,853,973	172,336,143
			25,853,973	**172,336,143**
7a.	**RECURRENT EXPENDITURE**			
	Personnel Emolument	16	432,230,718	416,149,931
	Overheads	17	201,629,571	295,313,334
	Service Wide Votes	18	56,286,413	7,629,079
	Amount Returned to Sub- Treasury	19	332,007,083	30,196,449
			1,022,153,785	**749,288,793**
	SPECIAL ITEMS			
7b.	FGN Bond Operations	20	471,536,054	713,727,115
7c.	WHT on FGN Bond Comm.	20a	330,184,814	331,672,812
7d.	Grants/Aids	21	53,294,717	75,598,564
			855,015,585	**1,120,998,491**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012	2011
9a. BANK BALANCES	N	N
CBN- Capital A/C	-	7,862,526
UBA	-	-
Zenith Bank I	-	-
CB N (FGN Bond Account)	541,308,437	813,742,968
C.B.N. Paris Club Redemption Proceeds	1,719,390	1,719,390
Zenith Bank II (Miscellaneous Account)	2,411,501	10,695,509
	545,439,328	**834,020,393**
9b. VOTES RECEIVED - CAPITAL		
Prior Year 4th Quarter Allocation	-	7,059,181
1st Quarter Allocation	2,884,186	7,635,048
2nd Quarter Allocation	506,406	5,741,364
3rd Quarter Allocation	3,935,961	5,637,220
4th Quarter Allocation	3,558,312	7,862,481
Capital Supplementation	7,115,135	-
	18,000,000	**33,935,294**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

	2012 N	2011 N
10. VOTES – OVERHEADS		
Jan. Allocation	18,463,263.41	43,839,419.45
Feb. Allocation	18,463,263.41	43,839,419.45
March Allocation	18,463,263.41	43,839,419.45
April Allocation	-	43,839,419.45
May Allocation	32,514,573.62	43,839,419.45
June Allocation	16,808,781.00	43,839,419.45
July Allocation	16,257,287.00	5,395,949.65
August Allocation	16,257,287.00	5,395,949.65
Sept. Allocation	16,257,287.00	5,395,949.65
Oct. Allocation	16,257,287.00	5,395,949.65
Nov. Allocation	16,257,287.00	5,395,949.65
Dec. Allocation	16,257,287.00	5,395,949.65
	202,256,866.85	**295,412,214.60**
11. VOTES - PERSONNEL		
Jan. Allocation	40,548,973.06	35,246,221.48
Feb. Allocation	40,548,973.06	-
March Allocation	40,548,973.06	70,492,442.36
April. Allocation	41,980,009.00	35,246,221.48
May Allocation	32,019,668.94	35,246,221.18
June Allocation	39,220,548.00	35,246,221.18
July Allocation	35,208,245.00	35,246,221.18
August Allocation	34,743,095.90	35,246,221.18
Sept. Allocation	34,421,552.66	35,246,221.18
Oct. Allocation	33,910,543.12	-
Nov. Allocation	34,193,898.99	70,492,442.36
Dec. Allocation	34,477,255.00	35,246,221.18
	441,821,735.79	**422,954,654.16**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

	2012 N	2011 N
12. SERVICE WIDE VOTE		
DMO Office Building	-	107,800,000
DMO Obligation	29,573,600	-
Risk Management Consultancy	15,386,421	30,342,420
Consultancy Service – Technical Adviser	5,529,037	-
Project Vehicle	-	14,600,000
Promotion Arrears	6,421,305	-
	56,910,363	**152,742,420**
13. OTHER INCOMES		
Sales of Stores	21,950	128,250
Sales of Vehicles	-	391,250
Contractors Registration Fees	80,000	-
Salaries Returned in Lieu of Notice	217,643	-
	319,593	**519,500**
14. FGN BOND FLOATATION		
(a) FGN Bond Operations	527,798,250	672,000,000
(b) WHT on FGN Bond Comm.	322,324,760	257,526,416
	850,123,010	**929,526,416**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

		2012	2011
		N	**N**
15.	**GRANTS/AIDS RECEIPTS**		
	Debt Data Reconst. (DFID Sponsored)	23,679,000	-
	DDR – States Sponsored	14,000,000	22,000,000
	Capacity Building Fund	-	7,633,321
	DFID Sponsored Training	7,331,709	10,856,468
	DFID Sponsored Retreat	-	23,380,450
		45,010,709	**63,870,239**
15a.	**EXPENDITURE - CAPITAL**		
	Office Land/Building	-	120,037,177
	Motor Vehicles	-	16,158,919
	Computers	25,853,973	2,114,000
		25,853,973*	**172,336,143**
16	**EXPENDITURE – PERSONNEL**		
	Basic Salary	432,160,718	415,667,931
	Non-Regular Allowances – Overtime	70,000	482,000
		432,230,718	**416,149,931**

*Total Capital Expenditure for 2012 include the sum of N7,862,526 brought forward from 2011 Capital budget which was extended to March 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012	2011
	N	N
17. EXPENDITURE – OVERHEADS		
Local Travels -Others	9,007,190	48,826,590
Int'l Travels & Transport	20,934,420	7,311,206
Local Travels & Transport -Training	6,322,000	27,186,131
Int'l Travels & Transport –Training	15,802,600	32,444,484
Telephone Charges	5,314,300	3,027,000
Office Materials & Supplies	-	6,931,720
Magazine/ Books & Periodical	261,660	1,154,840
Books	336,660	-
Newspaper	457,700	-
Computer Material & Supplies	22,537,100	18,973,740
Printing of Non-Security Documents	10,070,400	8,020,226
Drugs & Materials Supplies	148,000	60,250
Other Materials & Supplies	-	3,066,945
Uniforms & other clothing	293,500	188,400
Teaching Aid/Instructional Materials	1,498,917	-
Food Stuff/Catering Materials & Supplies	9,826,050	-
Maintenance of Motor Vehicles	2,475,060	4,319,420
Maintenance of Office Furniture	1,020,320	-
Maintenance of Building – Office	1,074,000	5,872,061
Maintenance of Office Equipment	-	1,329,800
Maint. of Computers and IT Equipment	5,405,200	13,988,388
Local Training	17,500,500	27,852,057
Int'l Training	46,201,267	3,694,554
Security Services	358,000	480,000
Office Accommodation Rent	12,195,599	15,320,982
Financial Consulting	2,584,000	3,850,500

Continuation of Note 17

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012 N	2011 N
Information Technology Consulting	4,061,620	5,883,449
Legal and Other Professional Charges	172,758	2,892,301
Bank Charges	169,700	119,821
Insurance Charges/ Premium	1,300,300	1,735,135
Motor Vehicle Fuel costs	4,300,750	7,808,600
Refreshment & Meal	-	29,745,877
Publicity & Advertisements	-	2,274,260
Postages & Courier	-	3,519,597
Welfare Packages	-	6,265,000
Honorarium & Sitting Allowance	-	1,170,000
	201,629,571	**295,313,334**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012 N	2011 N
18. SERVICE WIDE VOTE - EXPENDITURE		
DMO Office Building	-	120,286,000
Office Rent Arrears	3,125,944	-
Consultancy Services	21,831,402	7,629,079
Computer Equipment	5,184,217	-
Office Equipment	19,925,000	2,114,000
Staff Promotion Arrears	6,219,850	-
	56,286,413	**30,029,079***
19. AMOUNT RETURNED TO SUB-TREASURY		
Capital	8,553	60,005
Overheads	627,295	99,379
Personnel Emolument	9,591,018	6,804,724
Service Wide Vote (Risk Mgt. Consultancy)	623,950	22,712,841
FGN Bond Issuance Accounts	320,836,674	-
Other Receipts	319,593	519,500
	332,007,083	**30,196,449**

*Capital Expenditure financed by Service Wide Vote in 2011 was treated under the Cash flow Statement. Only the sum of N7,629,079 for Consultancy Services was treated as Recurrent Expenditure.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012 N	2011 N
20. EXPENDITURE – FGN BOND		
Local Travels & Transport	36,795,974	58,607,300
Int'l Travel & Transport	94,599,910	41,096,153
Printing of Non-Security Documents	3,263,750	-
Refreshment & Meals	6,367,250	15,806,250
Publicity & Advertisements	298,917,809	254,690,051
Computer material supplies	-	8,822,563
Financial Consulting	-	4,422,857
Stock Brokers Fees	2,000,000	-
Other professional services	6,848,507	6,331,841
Office Materials & Supplies	934,300	590,000
Local Training	-	2,841,183
International Training	300,000	465,000
Financial Advisory Services (Euro Bond)	-	98,865,730
Legal Advisory Services (Euro Bond)	-	49,097,368
Joint Lead Managers (Euro Bond)	-	93,198,102
Rating Fees (Euro Bond)	-	53,213,730
Listing Fees (FGN Bond)	20,000,000	20,000,000
Insurance (Project vehicle FGN Bond)	-	1,628,571
Postage & Courier Services	469,315	786,666
Bank Charges	4,302,989	-
	471,536,054	**713,727,115**
20a. WHT on FGN Bond Comm.	**330,184,814**	**331,672,812**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2012

	2012 N	2011 N
21. GRANTS/AIDS		
Capacity Building Fund	2,877,784	14,844,950
Debt Data Reconstrct. (DFID Sponsored)	22,505,467	26,661,670
DFID Sponsored Retreat	-	23,373,065
Debt Data Reconsruct (States Sponsored)	17,121,275	-
DFID Sponsored Training	7,638,562	10,718,878
Defined Benefit Pension Scheme	3,151,629	-
	53,294,717	**75,598,564**

11.7 Annexure to the Accounts and Financial Statements

Table 11.1: Summary of Total Votes, 2008-2012 (N' 000)

Description	2012	2011	2010	2009	2008
FGN BOND FLOATATION	850,123,010	929,526,416	1,691,861,697	423,117,016	1,012,893,102
CAPITAL	18,000,000	33,935,294	68,134,035	-	509,200,617
OVERHEAD	202,256,867	295,412,215	526,073,033	266,852,061	327,585,989
PERSONNEL EMOLUMENT	441,821,736	422,954,654	319,026,477	305,915,485	235,606,859
SERVICE WIDE VOTES	56,910,363	152,742,420	-	47,160,748	27,207,282
DEBT CONV. PROG.	-	-	-	-	13,481,792
GRANTS/AIDS	45,010,709	63,870,239	79,379,135	32,789,139	70,197,584
TOTAL	1,614,122,685	1,898,441,238	2,684,474,377	1,075,834,449	2,196,173,225

Figure 11.1: Summary of Total Votes, 2008-2012

Table 11.2: Summary of Capital Expenditure, 2008-2012

Description	2012	2011	2010	2009	2008
LAND/OFFICE BUILDING	-	120,037,177	-	-	-
MOTOR VEHICLES/ CYCLES	-	16,158,919	21,285,715	-	-
COMPUTERS	31,038,180	34,026,047	2,399,728	44,637,000	3,942,000
OFFICE EQUIPMENT	19,925,000	2,114,000	20,525,214		5,395,950
TOTAL	50,963,180	172,336,143	44,210,657	44,637,000	9,337,950

Figure 11.2: Summary of Capital Expenditure, 2008-2012

Table 11.3: Summary of Recurrent Expenditure, 2008-2012

	2012	2011	2010	2009	2008
PERSONNEL EMOLUMENT	432,230,718	416,149,931	318,885,991	305,830,600	235,601,514
OVERHEAD	201,629,571	302,942,413	525,977,605	264,526,203	330,006,954
FGN BOND FLOATATION	801,720,868	1,045,399,927	779,677,992	362,459,757	888,253,706
AMOUNT RETUNED TO CHEST	332,007,083	30,196,449	853,325	2,410,742	6,111
SERVICE WIDE EXPENSES	56,286,413	130,029,079	-	47,160,748	24,932,806
PARIS CLUB	-	-	-	47,697,938	13,481,792
GRANTS/AIDS	53,294,717	75,598,564	73,691,150	54,433,839	69,081,599
TOTAL	**1,877,169,370**	**2,000,316,363**	**1,699,086,063**	**1,084,519,827**	**1,561,364,482**

Figure 11.3: Summary of Recurrent Expenditure, 2008-2012

Table 11.4: Schedule of Staff Strength, 2008-2012

	2012	2011	2010	2009	2008
MANAGEMENT STAFF (GL 17+)	6	6	1	6	5
SENIOR STAFF (GL 15-16)	41	33	19	26	29
OFFICERS (GL 07-14)	51	67	78	57	60
JUNOR STAFF (GL 01-06)	24	24	14	18	16
CONTRACT STAFF	-	-	2	-	-
TOTAL	**122**	**130**	**114**	**107**	**110**

Figure 11.4: Schedule of Staff Strength, 2008 – 2012

Table 11:5: Schedule of Fixed Assets Less Accumulated Depreciation as at 31st Dec., 2012

	LAND/BLD	M/V	CMP/IT	OFFICE EQUIP	TOTAL
FIXED ASSETS	N	N	N	N	N
CAPITAL EXP.					
Cost as at 1/1/12	120,037,177	102,297,468	120,095,351	122,106,048	464,536,044
Addition in the year	-	-	31,038,180	19,925,000	50,963,180
Disposal	-	-	-	-	-
Written off	-	-	-	-	-
	120,037,177	**102,297,468**	**151,133,531**	**142,031,048**	**515,499,224**
DEPRECIATION					
As at 01/01/12	-	90,160,269	94,575,806	120,414,838	305,150,913
Charges for the year	-	12,137,189	37,783,383	5,676,210	43,459,593
Disposals	-	-	-	-	-
Written Off	-	-	-	-	-
	-	**102,297,458**	**132,359,189**	**126,091,048**	**348,610,506**
NBV @ 31/12/12	**120,037,177**	**10**	**18,774,342**	**15,940,000**	**166,888,718**
NBV @ 31/12/11	**120,037,177**	**15,964,296**	**7,241,909**	**18,247,414**	**41,453,619**

The assets were depreciated using the straight line method. The rates used are as follows:

	%
MOTOR VEHICLE/CYCLE	25
COMPUTER	25
OFFICE EQUIPMENT	20

This exercise shows the fair value of the assets as the cash basis of accounting is the method being used in public sector.