DEBT MANAGEMENT OFFICE

NIGERIA

2014

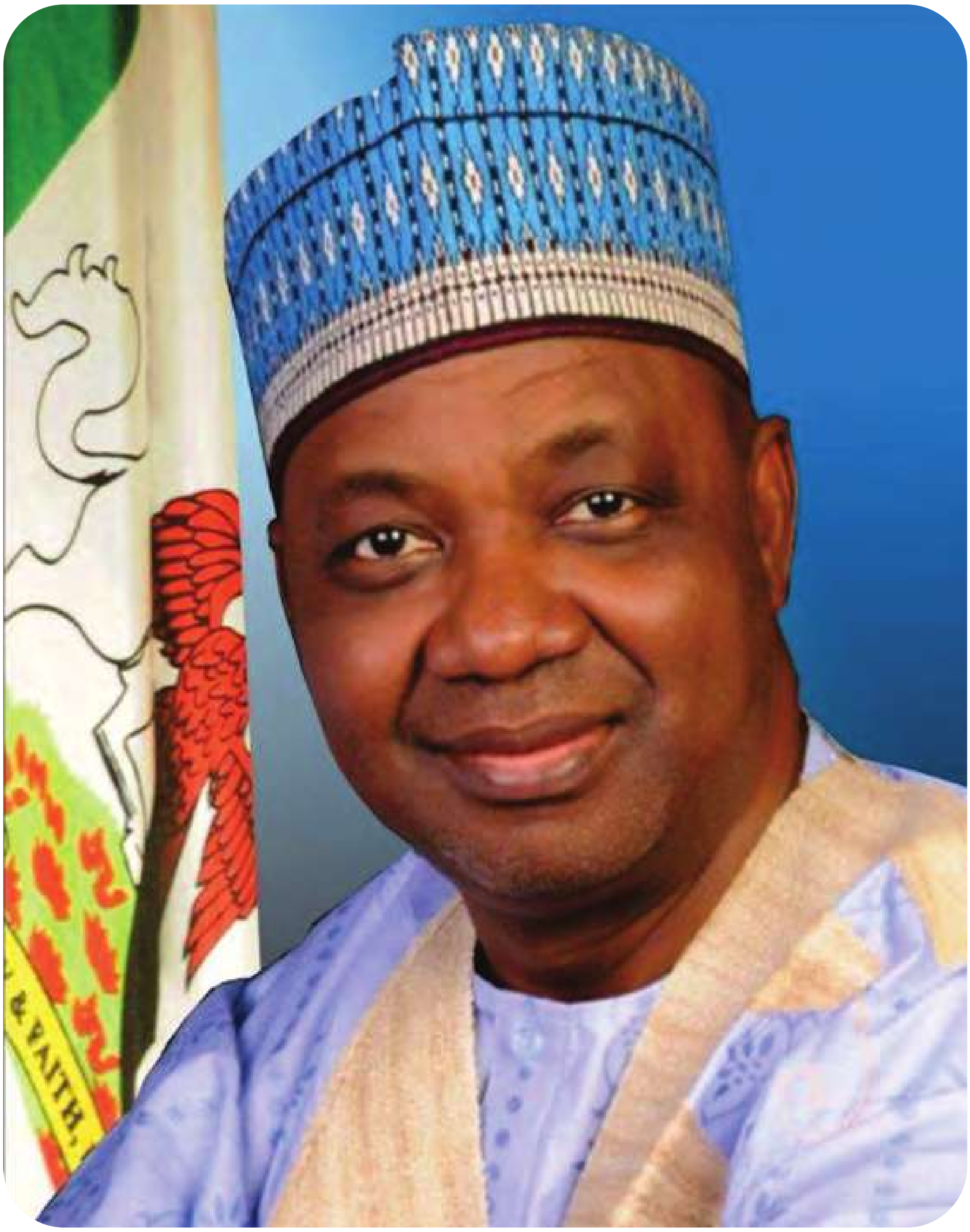
Annual Report and Statement of Accounts

His Excellency

DR. GOODLUCK E. JONATHAN, GCFR

President and Commander-in-Chief of the Armed Forces

Federal Republic of Nigeria



His Excellency

ARC. MOHAMMED NAMADI SAMBO, GCON

Vice President

Federal Republic of Nigeria

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

AMBASSADOR BASHIR YUGUDA
Honourable Minister of State for Fiinance
Federal Republic of Nigeria

DMO SUPERVISORY BOARD

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

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Coordinating Minister for the Economy /
Honourable Minister of Finance
VICE-CHAIRMAN

Mohammed B. Adoke, SAN
Attorney-General of the Federation
and Hon. Minister of Justice
MEMBER

Dr. Nwanze Okidegbe
Chief Economic Adviser to the President
MEMBER

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

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

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

DMO MANAGEMENT TEAM

Dr. Abraham Nwankwo
Director-General

Ms. Patience Oniha
Director, Market Development Department

Mrs. Asma'u Mohammed
Director, Strategic Programmes Department

Mr. Miji Amidu
Director, Special Assignments

Mrs. Hannatu Suleiman
Director, Debt Recording & Settlement Department

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

Mr. Atiku S. Dambatta
Head, Organisational Resourcing Department

Mr. Afolabi Oladele
Head, Portfolio Management Department

MANAGEMENT STAFF OF THE DMO

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

S/N	NAME	RANK	DEPARTMENT/UNIT
17	Alfred N. Anukposi (Mr.)	Assistant Director	Team Leader, Security Issuance Unit (PMD)
18	Joseph U. Odo (Mr.)	Assistant Director	Team Leader, IT/IS Unit (DG's Office)
19	Maraizu Nwankwo (Mr.)	Assistant Director	Team Leader, Statistics, Analysis & Risk Management Unit (PSRMD)
20	Elizabeth Kwaghbulah (Mrs.)	Assistant Director	Team Leader, External Debt and Special Accounts Unit (DRSD)
21	Olaitan Aiyesimoju (Mr.)	Assistant Director	Team Leader, Internal Audit & Compliance Unit (DG's Office)
22	Monday Usiade (Mr.)	Assistant Director	Team Leader, Loans & Other Financing Products Unit (PMD)
23	Yusuff-Shelleng S.	Assistant Director	Team Leader, Finance and Accounts Unit (ORD)
24	Sani Kulo Abubakar	Assistant Director	Team Leader, Administration Unit (ORD)
25	Francis N. Anyanwu	Assistant Director	Team Leader, Debt Management Training Unit (SPD)

TABLE OF CONTENTS

CHAPTER ELEVEN

LIST OF TABLES

LIST OF FIGURES

GLOSSARY

ABED	Arab Bank for Economic Development
ADB	African Development Bank
AFD	French Development Agency
AfDF	African Development Fund
AMCON	Asset Management Corporation of Nigeria
ASI	ALL-Share Index
ATM	Average Time-to-Maturity
ATR	Average Time-to-Re-fixing
BAS	Bond Auctioning System
BDC	Bureau De Change
BOA	Bank of Agriculture
BoE	Bank of England
BOF	Budget Office of the Federation
BOI	Bank of Industry
BPE	Bureau of Public Enterprises
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CFR	Commander of the Federal Republic
CHF	Swiss Franc
CMC	Capital Market Committee
CME & HMF	Coordinating Minister for the Economy and Honourable Minister of Finance
CIS	Collective Investment Scheme
CMLMP	Capital Market Literacy Master Plan
COM-SEC	Commonwealth Secretariat
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CRR	Cash Reserve Ratio
CSCS	Central Securities Clearing System
CS-DRMS	Commonwealth Secretariat-Debt Recording & Management System
DeMPA	Debt Management Performance Assessment
DMDs	Debt Management Departments
DMO	Debt Management Office
DRSD	Debt Recording and Settlement Department
DSA	Debt Sustainability Analysis
DSF-LICs	Debt Sustainability Framework for Low Income Countries
ECA	Excess Crude Account

ECB	European Central Bank
ECFA	External Creditors Funding Account
EDF	European Development Fund
EM	Emerging Market
EM-LCBI	Emerging Markets Local Currency Bond Index
ES	External Support
EUR	Euro
FCT	Federal Capital Territory
FCTA	Federal Capital Territory Administration
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FICAN	Financial Correspondents Association of Nigeria
FMA	Federal Ministry of Aviation
FMBN	Federal Mortgage Bank of Nigeria
FMDA	Financial Markets Dealers Association
FMDQ	Financial Market Dealers Quotation
FMF	Federal Ministry of Finance
FMoT	Federal Ministry of Transport
FSS	Financial System Strategy
GBB	Galaxy Backbone
GBI-EM	Government Bond Index-Emerging Markets
GCFR	Grand Commander of the Federal Republic
GCON	Grand Commander of the Order of the Niger
GBP	Great Britain Pound
GDN	Global Depository Note
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
ICM	International Capital Market
ICT	Information & Communication Technology
ID	Islamic Dinar
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IPPIS	Integrated Personnel and Payroll Information System
IT	Information Technology

JPY	Japanese Yen
LCDs	Local Contractors' Debts
LEI	Legal Entity Identifier
M_2	Broad Money Supply
MC	Market Capitalization
MDAs	Ministries, Departments and Agencies
MDD	Market Development Department
MENA	Middle East and North Africa
MFPCC	Monetary and Fiscal Policy Coordinating Committee
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MS	Microsoft
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTN	Medium-Term Note
NACRDB	Nigerian Agricultural Cooperative & Rural Development Bank
NBS	National Bureau of Statistics
NBET	Nigerian Bulk Electricity Trading
NDIC	Nigeria Deposit Insurance Corporation
NDMF	National Debt Management Framework
NEXIM	Nigerian Export Import Bank
NFA	Net Foreign Asset
NGN	Nigerian Naira
NICMM	Non-Interest Capital Market Master Plan
NIRP	Nigeria Industrial Revolution Plan
NPC	National Planning Commission
NSE	Nigerian Stock Exchange
NSIA	Nigeria Sovereign Investment Authority
NTBs	Nigerian Treasury Bills
OAGF	Office of the Accountant-General of the Federation
ORD	Organizational Resourcing Department
ORM	Operational Risk Management
OTC	Over-the-Counter
PDMMs	Primary Dealer Market Makers
PENCOM	Pension Commission
PMD	Portfolio Management Department
PenOp	Pension Operators Association of Nigeria
PSRMD	Policy, Strategy and Risk Management Department

PV	Present Value
rDAS	Retail Dutch Auction System
SAN	Senior Advocate of Nigeria
SDN	Sovereign Debt Note
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SIU	Securities Issuance Unit
SME	Small and Medium Enterprise
SPD	Strategic Programmes Department
STF	Sub-Treasury of the Federation
TBs	Treasury Bonds
TDR	Trade Data Repository
TSA	Treasury Single Account
USD	United States Dollar
USA	United States of America
UK	United Kingdom
WAIFEM	West African Institute for Financial and Economic Management
WAMZ	West African Monetary Zone
WB	World Bank
WEO	World Economic Outlook

DEBT MANAGEMENT OFFICE

Vision

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

Mission

To manage Nigeria's debt as an asset for growth, development and poverty reduction, while relying on a well motivated professional workforce and state-of-the-art technology.

Broad Objective

To ensure efficient public debt management in terms of a comprehensive, well diversified and sustainable portfolios, supportive of Government and private sector needs.

Core Values

EXCITE:

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

MANDATE OF THE DEBT MANAGEMENT OFFICE

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

a. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;
b. Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;
c. Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realizing these objectives;
d. Verify and service external debts guaranteed or directly taken by the Federal Government;
e. On an agency basis, service external debts taken by State Governments and any of their agencies, where such debts are guaranteed by the Federal Government;
f. Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;
g. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;
h. Advise the Minister on the terms and conditions on which monies, whether in the currency of Nigeria or in any other currency, are to be borrowed;
i. Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;
j. Prepare a schedule of any other Federal Government obligations such as trade debts and other contingent liabilities, both explicit and implicit and provide advice on policies and procedures for their management;
k. Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;
l. Collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board;
m. Carry out such other functions which may be delegated to it by the Minister or by Act of the National Assembly; and
n. Perform such other functions which in the opinion of the Office are required for the effective implementation of its functions under the Act.

The DMO Act also provides that the Office shall:

a. Administer the debt conversion programme of the Federal Government;
b. Perform the functions of the Minister with regard to the development fund rules; 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

It is with great delight that I present the Annual Report and Statement of Accounts of the Debt Management Office (DMO) for the year ended December 31, 2014. The Report highlights the key activities and achievements of the DMO for fiscal year, 2014; also gives a synopsis of major relevant economic and financial developments in both the local and global operating environments during the year. In line with the requirements of the relevant financial reporting standards, the Audited Financial Statements and Accounts of the Office for the Financial Year ended, December 31, 2014 are also presented in the Report.

The global economy in 2014, witnessed some turbulence and shocks, with growth lower than initially expected. This development, which was a continuation of a pattern of disappointing results over the past several years, arose from the volatilities in the international commodity prices, notably oil, which exacerbated the vulnerabilities of most commodity exporting countries' economies. According to the IMF, in it's April, 2015 Edition of the World Economic Outlook, global growth in 2014 was a modest 3.4 percent and this is projected to rise moderately to 3.5 percent and 3.8 percent in 2015 and 2016, respectively. The World Bank Group in its January, 2015 Edition of its Flagship Report on Global Economic Prospects showed that, divergent trends prevailed in major economies. The modest growth was driven mainly by the moderate growth in output in the United States of America and United Kingdom, as labour markets continued to heal and monetary policy remained extremely accommodative. On the other hand,

economic recovery has been sputtering in the the Euro area and Japan as legacies of the financial crisis lingered, intertwined with structural bottlenecks, while China continued a carefully managed slowdown. The abysmal growth in other developing countries in 2014, reflected weak external demand, but also domestic policy tightening, political uncertainty and constraints on the supply side. Sub-Saharan Africa economies were affected mainly by volatile crude oil and commodity prices as growth trended down to about 4.8 percent in 2014, from 5.2 percent in 2013. The main risks to the region were lower oil and commodity prices, the Ebola epidemic and heightened security challenges arising from insurgencies and terrorism.

Nigeria experienced its own challenges in the year 2014, which were mainly occasioned by the impact of declining oil and commodities prices, insurgency and terrorists activities, as well as, heightened socio-political uncertainty, which impaired the country's economic growth potentials. The National Bureau of Statistics (NBS) reported that real GDP grew by 5.94 percent (year-on-year) in the fourth quarter of 2014, compared to 6.23 percent in the second quarter of 2014, and 6.77 percent in the corresponding quarter of 2013. Although the non-oil sector output declined in the Financial Year 2014, it remained the major driver of growth at 6.44 percent in real terms, compared to the 8.78 percent in the corresponding period of 2013. The oil sector growth performance was less impressive at 2.25 percent, compared with 2.21 percent in the second quarter of 2014 and 2.26 percent in the corresponding quarter of 2013. In general, falling oil prices and insecurity in the North-Eastern part of the country impacted negatively on the economy.

The year-on-year headline inflation rate declined to 8.0 percent in 2014, from 8.5 percent in 2013, which compared favourably with the West African Monetary Zone's (WAMZ) convergence inflation rate threshold of 10.0 percent. The food supply challenges which were linked to the activities of insurgency and insecurity in some major agricultural zones of the country are expected to exacerbate the risks to inflation in 2015.

Against the budget benchmark price of US$77.50/barrel, the price of Nigeria's crude oil (Bonny Light) peaked at US$114.60 per barrel in June, 2014, but dropped sharply to about US$63.28 per barrel by end of December, 2014. The impact of the decline oil prices and, therefore, government revenues, contributed to a drop in gross external reserves to US$34.25 billion as at end-December, 2014, compared to US$42.85 billion as at end-December, 2013.

The sustained decline in global oil prices, coupled with higher import prices exerted a lot of pressure on the Naira exchange rate. The main thrusts of monetary policy operations in 2014 were, therefore, to achieve price and financial sector stability. To allow some flexibility in the exchange rate to stem speculative activities and depletion of reserves, the Central Bank of Nigeria devalued the Naira with an exchange rate of N168 from ₦155, to a US Dollar towards the end of the year 2014 and increased the band around the mid-point by 200 basis points from +/-3 percent to +/-5 percent. The monthly average exchange rates of the Naira of the Central Bank of Nigeria showed that in 2014 the exchange rate of the Naira to the United States Dollar ($) at the Retail Dutch Auction System segment of the foreign exchange market opened at ₦157.29/US$1.00 and closed at ₦169.68/US$1.00, representing a depreciation of 7.88 percent, during the year. Similarly, at the Inter-bank and BDC markets, the Naira depreciated by 12.54 percent and 9.75 percent, as it opened at ₦160.23/$1.00 and ₦171.71/US$1.00 and closed at ₦180.33 and ₦188.45/US1.00, respectively, during the year.

In the course of the year, the Monetary Policy Committee (MPC) of the CBN increased the Cash Reserve Ratio (CRR) on private sector and public sector deposits from 12 to 20 percent and 50 percent to 75 percent, respectively while it raised the Monetary Policy Rate (MPR) from 12 percent to 13 percent. The average Inter-bank Call Rates, NTBs rates and prime lending rates as at end-December, 2014 were 24.30, 10.80 and 15.88 percent, compared to 10.75, 10.97 and 17.01 percent in 2013, respectively.

As in the preceding year, the fiscal operations of the government in 2014, focused on the sustained implementation of its fiscal consolidation policy, which was aimed at reducing fiscal deficit and improving revenue generation. The overall fiscal operations of the government were anchored on the Medium-Term Expenditure Framework (MTEF), 2014-2016, and the Fiscal Responsibility Act, 2007. The revenue estimates for the 2014 Appropriation Act was based on a benchmark crude oil price of US$77.5/barrel, while crude oil production was set at 2.3883 million barrels per day. The fiscal deficit for the year was ₦912 billion or 1.2 percent of GDP, which was partly funded to the tune of ₦624.222 billion through the issuance of FGN securities, in the domestic bond market.

The secondary market activities for FGN Bonds were relatively weak in 2014, compared to 2013. Data from the combined OTC Market and Exchange Trades in 2014, indicate that the total face value of transactions, consideration and number of transactions were ₦7.384 trillion, ₦8.068 trillion and 46,090, respectively, which were lower than the corresponding figures of ₦7.858 trillion, ₦8.913 trillion, and 46,286 recorded in 2013. In 2014, oversubscriptions were recorded in most of the FGN Bonds auctions, which was a clear manifestation of sustained investor confidence and the continued growth and development of the domestic government bond market. The FGN Bond market received further recognition from the International financial market with the addition of the 14.20% FGN MAR 2024 Bond in the J.P. Morgan's Government Bond Index-Emerging Markets (GBI-EM) in the third quarter of 2014, which brought to six, the number of FGN Bonds included in the Index with the earlier ones being: the 13.05% FGN AUG 2016; 15.10% FGN APR 2017; 16.00% FGN JUN 2019; 7.00% FGN OCT 2019; and 16.39% FGN JAN 2022. The 12.149% FGN JUL 2034 Bond was also included in the Barclays Capital Emerging Markets Local Currency Government Bond Index (EM-LCBI) during the year which brings the number of FGN Bonds included in the Index to eleven (11) with the earlier ones being: the 13.05% FGN AUG 2016; 15.10% FGN APR 2017; 10.70% FGN MAY 2018; 16.00% FGN JUN 2019; 7.00% FGN OCT 2019; 16.39% FGN JAN 2022; 14.20% FGN MAR 2024; 12.49% FGN MAY 2029; 8.50% FGN NOV 2029; and, 10.00% FGN JUL 2030. The activities in the equities end of the capital market were mainly bearish as market capitalization and NSE All-Share Index of quoted equities, closed at ₦11.49 trillion and 34,657.16 in 2014, compared to ₦13.23 trillion and 41,329.19 in 2013, respectively.

The total public debt stock of the country as at end-December, 2014, was ₦11,243,120.22 million (US$67,726.28 million) compared to ₦10,182,909.15 million (US$65,400.83 million) as at end-December, 2013, representing an increase of ₦1,060,211.07 million (US$2,325.45 million) or 10.41 percent. The external public debt stock as at end-December, 2014, was ₦1,631,523.60 million (US$9,711.45 million) or 14.51 percent of the total public debt stock, while the domestic public debt stock was ₦9,611,596.61 million (US$58,014.83 million) or 85.49 percent of the total public debt stock. The domestic debt stock comprises the securitized domestic debt of the Federal Government of ₦7,904,025.47 million (US$47,047.77 million) and ₦1,707,571.14 (US$10,967.06 million) for the thirty-six States and the FCT as at end-December, 2013. The domestic debt data for the thirty-six (36) States and the FCT for 2014, is being collated, hence 2013 figures have been used, as understandably, compilation for the thirty-seven (37) sub-sovereigns occurs with some time lag.

In line with sound public debt management practice, the DMO conducted the annual National Debt Sustainability Analysis (DSA) exercise, in conjunction with relevant stakeholders in 2014. This was primarily to update the 2013 DSA, set new borrowing limits for government, advice on funding options and provide inputs into the MTEF. The result of the DSA showed that the country has continued to remain at a low risk of debt distress. As at end of the financial year 2014, the Debt-to-GDP ratio was 12.65 percent, which compared most favourably to the global threshold of 56 percent, for countries in Nigeria's peer group. From the provisional 2014 GDP provided by the National Bureau of Statistics (NBS), the NPV of Total Public Debt/GDP ratio as at end of December, 2014 (the external and domestic debt stock of the FGN, thirty-six States and FCT) was 10.77 percent. Following the rebasing of the country's GDP, the DMO was cognizant of the fact that an improvement in the GDP which resulted in a much lower Debt/GDP ratio, does not automatically translate to an equal growth in revenue and therefore, enhanced capacity to service the debt and so it would be illusory to rely on the ratios obtained using the re-based GDP as the appropriate benchmark to gauge the sustainability of the Federal Government of Nigeria's public debt portfolio. Therefore, the plausible thing to do was to establish new country-specific thresholds, which reflect the country's realities. Accordingly, the DMO developed the appropriate country-specific solvency and liquidity ratios for total public debt. Although, the ratios from the general thresholds indicate that the country's debt remains sustainable, from the country-specific solvency and liquidity thresholds, it is critical to note that with a Debt Service to Revenue Ratio of 25.20 as at end of December, 2014 compared to a threshold of 28, the country is virtually approaching the limit of the Debt Service to Revenue threshold. It is therefore, pertinent to note that there is the need to exercise more caution in the country's borrowing activities while extra efforts should be intensified to generate more revenue from both existing and new sources.

As part of the efforts to consolidate the gains recorded in engendering effective public debt management at the sub-national level, the

DMO continued with its initiatives of strengthening public debt management capacity at the State level in 2014. In this regard, the Office organized several capacity building workshops for officials of Debt Management Departments (DMDs) in two States (Zamfara and Plateau). Six States (Akwa Ibom, Bayelsa, Delta, Katsina, Plateau and Rivers) took part in another workshop designed to assist them overcome challenges in rendering accurate and reliable debt data. In addition, the DMO successfully conducted sensitization workshops on inter-MDAs' relationships in about ten (10) States of the Federation.

In conclusion, though the year under review was challenging, it was quite rewarding in several respects. The DMO continued with its success story as it strived to deliver on its mandate.

It is my great pleasure to express my deep appreciation to the Chairman of the DMO's Supervisory Board, His Excellency, Arc. Mohammed Namadi Sambo, GCON, the Vice-President of the Federal Republic of Nigeria; the Vice Chairman, Dr. (Mrs.) Ngozi Okonjo-Iweala, CFR, the Coordinating Minister for the Economy and Honourable Minister of Finance; and, all the other highly distinguished members of the Board, who have remained very consistent in their support and guidance in the affairs of the DMO. The contributions of all our other stakeholders, including the Federal Ministry of Finance, the Central Bank of Nigeria, the National Planning Commission, the Budget Office of the Federation, the National Bureau of Statistics, the Office of the Accountant-General of the Federation and the West African Institute for Financial and Economic Management, are also greatly appreciated. I would also wish to extend my sincere thanks to the Management and Staff of the DMO, as the modest achievements recorded in the year 2014, are a testimony of their dedication, commitment and hard work.

Abraham Nwankwo
Director-General
June 10, 2015

CHAPTER ONE

THE ECONOMIC ENVIRONMENT

CHAPTER ONE
THE ECONOMIC ENVIRONMENT

In 2014, the global economy continued to recover at a moderate pace, led by the United States of America and United Kingdom, even as the recovery of Euro-area and Japan remained fragile, due to lingering structural problems. Developing and emerging economies experienced a slower output growth, while growth of Sub-Saharan Africa economies was moderated by the impact of lower oil and commodity prices, ebola epidemic and security challenges. The global inflation was generally subdued during the year. Growth of the Nigerian economy was moderated in the fourth quarter of 2014 compared to the corresponding period in 2013, due to the sharp drop in oil and commodities prices, insurgency and terrorists activities, as well as, socio-political uncertainties.

1.1 The Global Economy

The World Bank Group, in its January 2015 Flagship Report-Global Economic Prospect, indicated that the global economy experienced a modest growth in 2014, lower than it initially projected, a pattern of disappointing results over the past several years. Growth, although divergent amongst major economies, is driven by improved economic activities in the United States of America (USA) and United Kingdom (UK). Even as the recovery of Euro area and Japan remained fragile, as the legacies of the financial crisis still lingered. While falling oil and commodities prices exacerbated the vulnerabilities of most commodities exporting countries' economies, the decline in the international oil prices, which reflect higher supply, is expected to boost global growth over the next two years through increasing purchasing power for net oil importing countries. The anticipated boost from lower oil prices, is however, expected to be counteracted by weak investments in most advanced economies other than the USA.

The International Monetary Fund (IMF), in its World Economic Outlook (January, 2015), revised downwards its projection on global growth by 0.3 percent to 3.5 and 3.7 percent, for 2015 and 2016, respectively. The US economy, which recorded a rebound after its contraction in the first quarter of 2014, is projected to exceed 3 percent in 2015 with increased domestic demand supported by lower oil prices, moderate fiscal adjustments and accommodative monetary policy. The Japanese's economy contracted by 0.5 percent in the third quarter of 2014, as private consumption remained weak, after the hike in consumption tax rate in the previous quarter. However, with gradual improvements in public spending and net foreign demand, a rebound in activity is expected in 2015.
The Euro-area economies recovered gradually in the third quarter of 2014, supported by domestic consumption and exports, but constrained by weak investment. The economic activity is expected to improve on account of lower oil prices, further monetary policy easing, a more neutral fiscal policy stance and the recent Euro depreciation. The GDP growth rate was -0.8 percent in 2014, and growth rate is projected at 1.2 and 1.4 percent in 2015 and 2016, respectively.

In the emerging markets and developing economies, growth is projected at 4.3 percent in 2015, and to increase to 4.7 percent in 2016. The Chinese economy grew by 7.4 percent in 2014 compared to 7.8 percent in 2013, due to slowdown in investment and consumption. In India, the growth prospect is expected to remain unchanged; as weaker external demand is projected to be offset by improvement in terms of trade from lower oil prices and an increase in industrial and investment activities as a result of policy reforms. Russia is facing stagnation as growth decelerated to 0.6 percent in 2014, from 1.3 percent in 2013, and it is expected to decline significantly to 3.0 percent in 2015, due to conflict with Ukraine, economic sanctions, the possibility of prolonged stagnation in the Euro area and sustained commodity prices decline. The Middle East and North Africa (MENA) economies recorded an improvement in 2014, even though growth remains fragile and uneven. Growth in oil importing countries was unchanged, while activity in oil-exporting countries recovered slightly after contracting in 2013. Regional growth accelerated at 2.8 percent in 2014, from 2.2 in 2013, and it is projected to edge up to 3.3 ad 3.9 percent in 2015 and 2016, respectively. Latin America and the Caribbean economies slowed to 1.2 percent in 2014, but with divergent developments across the region. While the economy of Brazil suffered stagnation due to some domestic factors, which were exacerbated by economic slowdown in their major trading partners, and declining global commodity prices, while the economy of Mexico remained robust, supported by strengthening activities in the USA.

Sub-Saharan Africa economies were affected by lower oil and commodity prices as growth rate trended down to 4.8 percent in 2014, from 5.2 percent in 2013. While South Africa's economy recorded a downward trend from 2.2 percent in 2013, to 1.4 percent in 2014, the Nigerian economy grew by 5.94 percent in 2014, compared to 6.77 percent in 2013. The main risks to the region include, volatile and lower oil and commodity prices, renewed spread of the Ebola epidemic, security challenges and global financial conditions.

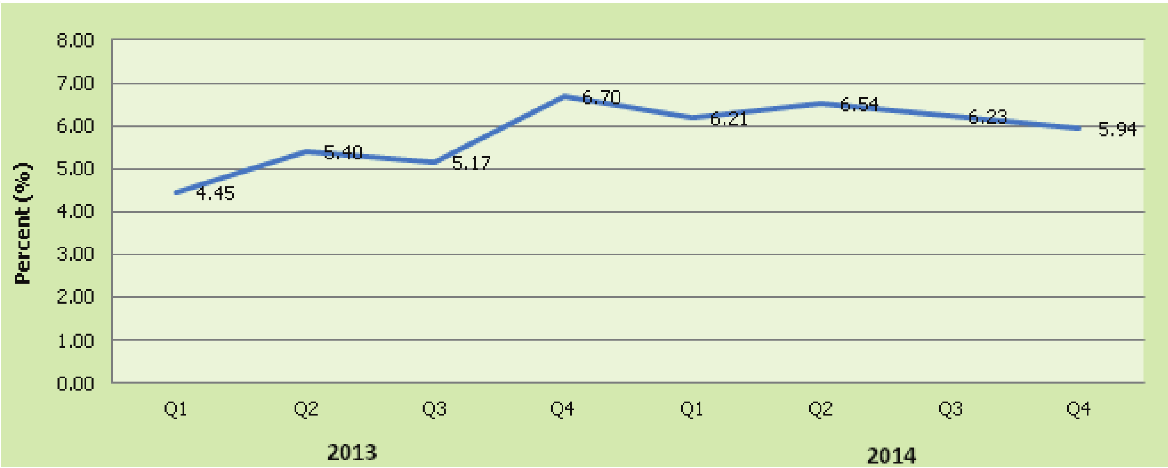
The global inflation was generally subdued during the year. In advanced economies, inflation rates remained unchanged at 1.4 percent, while in emerging market and developing economies, inflation marginally decreased from 5.9 percent in 2013 to 5.4 percent in 2014, and this is projected to increase to 5.7 percent in 2015.

1.2 The Nigerian Economy and Policy Environment in 2014

According to the National Bureau of Statistics (NBS), real GDP grew by 5.94 percent (year-on-year) in the fourth quarter of 2014, compared to 6.23 percent in the third quarter of 2014, and 6.77 percent in the corresponding quarter of 2013. The non-oil sector continued to be the main driver of growth contributing about 91.03 percent to the real GDP in the fourth quarter of 2014, while oil and gas sector contributed about 8.97 percent. The contributions of the key non-oil sectors to the nominal

GDP are follows: Services - 53.48 percent, Trade - 17.73 percent, Information and Communication - 10.01 percent and Agriculture - 23.86 percent. The oil sector grew by 1.18 percent in the fourth quarter of 2014, which is 10.54 percent higher than the decline of 9.36 percent recorded in the corresponding quarter of 2013. The oil sector experienced production and prices challenges, which negatively impacted the economy in 2014. In the overall, falling oil and commodities prices, insurgency and terrorists activities, as well as, socio-political uncertainties contributed to moderate growth in 2014. As a result, the IMF in its WEO revised downward the growth forecast for Nigeria for 2015, to 4.8 percent, from 7.3 percent, which was also lower than the projected growth rate of 4.9 percent for Sub-Saharan Africa. Figure 1.1 shows the real GDP growth rate on a quarterly basis for fiscal year 2013 and 2014.

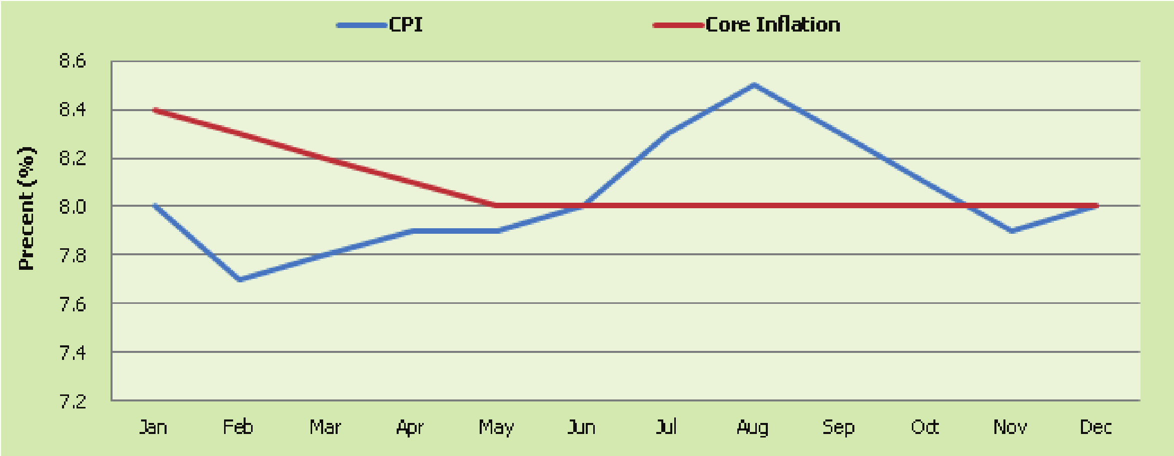
Figure 1.1: Quarterly Growth Rate of the Nigerian Economy, 2013-2014



Source: National Bureau of Statistics (NBS)

Inflation rates moderated in 2014, largely on account of lower food prices and contractionary monetary policy. The year-on-year headline inflation rate declined from 8.5 percent in 2013, to 8.0 percent in 2014. This was within the WAMZ convergence inflation rate threshold of 10.0 percent. In the first half of the year, it oscillated between 7.9 and 8.0 percent, before rising to 8.3 percent at end of the third quarter. The sustained decline in global oil and commodities prices, higher import prices due to the depreciation of the Naira, against major convertible currencies, possible food supply bottlenecks linked to the activities of insurgency and insecurity in some major agricultural zones of the country are expected to pose potential risks to inflation. Figure 1.2 shows the trends of the Consumer Price Index and Core Inflation in 2014.

Figure 1.2: The Consumer Price Index and Core Inflation in 2014



Source: NBS

1.2.2 Monetary, Credit and Financial Market Development

Broad money supply (M_2) grew by 7.29 percent in December, 2014, over the level recorded as at the end of December, 2013. This development was attributed to about 15.02 percent decline in Net Foreign Assets (NFA) and 2.18 percent contraction in credit to Government in 2014. The weak performance of NFA was largely due to the fall in crude oil price, which reduced accretion to external reserves. At the beginning of 2014, the Monetary Policy Committee (MPC) of the CBN increased the Cash Reserve Ratio (CRR) on public sector deposits from 50 percent to 75 percent, while the Monetary Policy Rate (MPR) and Liquidity Ratio, as well as, private sector CRR remained unchanged at 12, 30 and 12 percent, respectively. The MPC at its meeting of March, 2014, increased the CRR on private sector deposits by 300 basis points to 15 percent from 12 percent in reaction to Federal Reserve's of the USA unwinding of its quantitative easing (assets purchase programme) and continued decline in oil revenue arising from falling oil prices. This was followed in November, 2014, with an increase of the MPR by 100 basis points from 12 to 13 percent, further increase of the CRR on private sector deposits by 500 basis points to 20 percent, increase of the mid-point corridor of the official window of the foreign exchange market from ₦155 to ₦168/US$1.00, and widening of the band around the mid-point by 200 basis points from +/-3 percent to +/-5 percent. The average Inter-Bank Call Rates, NTBs rates and prime lending rates as at end of December, 2014, were 24.30, 10.80 and 15,88 percent, compared with 10.75, 10.97 and 17.01 percent recorded in 2013, respectively.

1.2.3 External Sector Development

The gross external reserves stood at US$34.25 billion as at end of December, 2014, compared to US$42.85 billion as at end of December, 2013, representing a decrease of US$8.60 billion or 20.07 percent. The decrease in external reserves was mainly due to a reduction in portfolio investments and FDIs inflows and increased funding of the foreign exchange market by the CBN to stabilize the exchange rate. The average exchange rate of the Naira relative to the US Dollar at the Retail Dutch Auction System (rDAS) segment of the market opened at ₦157.29 per and closed at ₦169.68/US$1.00, representing a depreciation of ₦12.39 or 7.88 percent. Similarly, at the Inter-bank and Bureau De Change (BDC) segments of the market, the Naira depreciated by 12.54 and 9.75 percent from their respective rates of ₦160.23 and ₦171.71/US$1.00 by end 2013 to ₦180.33 and ₦188.25/US$1.00 in 2014. Table 1 shows the trend of selected economic indicators between 2010 and 2014.

Table 1.1: Macroeconomic Indicators

Description	2010	2011	2012	2013	2014
Real GDP Growth Rate (%)	8.32	7.98	7.36	6.77	5.94
CPI Inflation (end-period) (%)	13.9	11.8	10.3	12	8.0
Budget Deficit (% of GDP)	6.11	2.96	2.85	1.9	1.9
Actual Overall Fiscal Balance (% GDP)	-3.8	-3.0	-2.4	-1.4	-1.2
External Reserves (US$'bn)	42.38	32.34	54.26	43.83	34.25
End-Period Exchange Rate (₦)	150.60	158.27	156.05	155,57	168
Total Public Debt-to-GDP Ratio (%)	17.20	20.58	22.43	12.65*	12.65*
Benchmark Crude oil price (US$)	57	65	72	79	77.5
Equities Market Capitalization (₦'tr)	7.92	6.54	8.98	13.23	11.49
Bond Market Capitalization (₦'tr)	2.44	3.74	5.82	5.85	5.38

Sources: NPC, NBS, BoF, CBN, SEC, DMO
Note: Total Public Debt-to-GDP ratio includes States' Domestic Debt stock from 2011-2014
* Total Public Debt-to-GDP ratio post rebasing

1.2.4 Fiscal Development

The overall fiscal deficit-to-GDP ratio declined to 1.2 percent in 2014, from 1.4 percent in 2013, indicating Government's sustained policy on fiscal consolidation and improved revenue generation. The overall fiscal operations of the Government were anchored on the Medium-Term Expenditure Framework (MTEF), 2014-2016, and the Fiscal Responsibility Act, 2007. The revenue estimates for 2014 budget was based on benchmark crude oil price of US$77.5/barrel, while crude oil production was set at 2.3883 million barrels per day. The sum of ₦624.222 billion was raised from the domestic bond market through the issuance of FGN securities to partly fund the ₦912 billion budget deficit in 2014 Appropriation Act.

1.2.5 Domestic Capital Market

1.2.5.1 Developments in the Domestic Equities Market

The equity side of the capital market was relatively bearish in 2014, as the All-Share Index (ASI) declined by 16.1 percent from 41,329.19 as at end of December, 2013, to 34,657 by close of business in December, 2014. Similarly, Market Capitalization (MC) declined by 11.53 percent from ₦19.08

trillion in 2013 to ₦16.88 trillion in 2014. In the bond market, MC dropped marginally to ₦5.38 trillion in 2014 from ₦5.85 trillion recorded in 2013. The decline in market activities, particularly at the equities end of the market could be attributed to, amongst others, uncertainty around the upcoming 2015 elections, weak corporate earnings, and fall in crude oil and commodities prices and related pressures on the exchange rate. The report from the NSE indicated that market trend for new equity listings remained almost flat in 2014, with just one Initial Public Offering (IPO) in April, 2014, the first since the market crashed in 2008.

1.2.5.2 Developments in the Domestic Bond Market

The size of the Domestic Bond Market in terms of Face Value of Bonds outstanding as at December 31, 2014 was ₦5,609.84 billion compared to ₦4,981.88 billion recorded as at end of December, 2013. This represents an increase of ₦627.96 billion or 12.60 percent over the figure in 2013. The increase was from FGN Bonds – ₦570.24 billion, State Government Bonds – ₦15.0 billion, Corporate Bonds – ₦29.77 billion and Supranationals - ₦12.95 billion.

In terms of new issues in the domestic bond market, only one (1) State Government (Bauchi State) issued a bond with a Face Value of ₦15.0 billion, while four (4) Corporates issued Bonds with a total Face Value of ₦29.77 billion. One of the significant developments in the market in 2014, was the registration of a ₦160 billion (approximately US$1 billion) Medium Term Note (MTN) programme by the African Development Bank (AfDB), with the Securities & Exchange Commission (SEC). The proceeds are for the financing of small and medium enterprises (SMEs) and infrastructure projects. Out of the amount registered, the AfDB raised ₦12.95 billion in June 2014, thus, increasing supranational bonds to two – the other being that of the International Finance Corporation (IFC), which was issued in 2013.

Other significant developments in the domestic bond market in 2014, were:

(I) The introduction of a new 20-year FGN Benchmark Bond (12.1493% FGN July 2034) and re-designation of the 10% FGN July 2030 as the 15-year Benchmark. With these, the number of FGN Benchmark Bonds grew from six (6) in 2013 to seven (7) in 2014.

(ii) The inclusion of one (1) additional FGN Bond by J P Morgan and Barclays Capital to their respective Indices. Following from these, the number of FGN Bonds in the J.P. Morgan's Government Bond Index – Emerging Markets (GBI-EM) and the Barclays Capital's Emerging Market – Local Currency Bond Index stood at six (6) and eleven (11) respectively as at December 31, 2014.

(iii) The introduction by the Financial Markets Dealers Quotation E-Bond Trading System, which became operational in March, 2014, for the trading of FGN Bonds and Nigerian Treasury Bills (NTBs), amongst other instruments;

(iv) The introduction by the Central Securities Clearing System (CSCS) of the use of Legal Entity Identifier (LEI) Code for market operators;

(v) The launch by the Securities and Exchange Commission (SEC), in collaboration with the Capital Market Committee (CMC) of the Capital Market Literacy Master Plan (CMLMP), the Collective Investment Scheme (CIS), and the Non-interest Capital Market Master Plan (NICMM), 2015-2025; and,

(vi) The launch by The Nigerian Stock Exchange (NSE) of a whistle-blowing platform known as X-Whistle to ensure the minimization of the rate of infractions in the market.

1.2.5 International Capital Market

A number of African sovereigns and Nigerian banks issued Eurobonds in 2014. A total of US$1,400 million was raised by four Nigerian banks, namely: Zenith Bank Plc., (US$500m), Diamond Bank Plc., (US$200m), First Bank of Nigeria Ltd., (US$450m) and Ecobank Nigeria Ltd., (US$250m). In furtherance of its objective of diversifying the investor base for FGN Bonds, a total of ₦8.647 billion of two FGN Benchmark Bonds were issued in Global Depository Note (GDN) format in the International Capital Market (ICM) in August, 2014.

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

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In 2014, external debt management strategy focused on accessing funds mainly from the concessional windows, as well as, borrowing from other external sources on competitive terms. As at end of December, 2014, concessional debt accounted for 83 percent of the total external debt stock, while the loans contracted from non-concessional windows accounted for 17 percent. On the other hand, the domestic debt management strategy was focused on further deepening the government securities market, so as to enhance liquidity through the introduction of varieties of instruments, using appropriate technology for effective and efficient issuance of Government securities and enhancing regulatory framework for effective operations of the domestic bond market. In 2014, AfDB introduced a Naira denominated ₦160 billion Medium Term Note Progamme and successfully raised ₦12.95 billion in the market, while only Bauchi State issued a bond with a face value of ₦15 billion. In the corporate segment of the domestic bond market, four (4) companies issued bond worth ₦48.04 billion in 2014.

2.1 Introduction

The National Debt Management Framework (NDMF), 2013-2017, and the DMO's Strategic Plan (2013-2017), set out the primary objectives of public debt management as, to efficiently meet government's financing needs; minimize borrowing costs and risks for the government, support the development of the domestic debt market, and ensure long-term sustainability of the public debt portfolio. The Medium-Term Debt Management Strategy (MTDS), 2012-2015, stipulated the Government's conservative stance to the management of public debt as it adopted some policy objectives, which include, reducing the rate of growth of public debt (and in particular, domestic debt), reducing the amount spent on debt service, achieving an optimal 60:40 ratio of domestic and external debt, stabilizing and deepening the domestic debt markets to attract foreign investments inflows, as well as, attaining a 75:25 ratio for long and short-term debt in the domestic debt portfolio, and making direct budgetary provisions by creating a sinking fund for the repayment of part of maturing FGN obligations instead of refinancing them.

During the year under review, an appraisal of the debt management strategy was conducted, based on the Debt Management Performance Assessment (DeMPA) indicators. The appraisal, which was aimed at ascertaining the extent to which the DMO's debt management operations were carried out, in line with the medium-term debt management strategy, validated the implementation and adherence to the approved strategy.

2.2 External Debt Management Strategy

With the Nigeria's exit from the Paris Club and London Club in 2006, the external debt management strategy was aimed at borrowing from concessional sources to finance development. The strategy was later expanded to include borrowing from the International Capital Market (ICM), so as to diversify the government's funding sources, reduce debt service cost and create opportunities for other economic agents to access external financing from the ICM. In view of the reclassification of Nigeria from IDA-only to a Lower-Middle-Income country in 2013, coupled with the recommendation in the MTDS, 2012-2015, for the strategy of substituting domestic debt with less expensive long-term external funding, so as to achieve a composition of 40:60 external to domestic debt ratio by 2015, borrowing from the commercial sources is expected to increase in the medium term.

2.2.1 Concessional Borrowing

In line with the external debt management strategy, Government sustained its external borrowing policy of using concessional window to fund external borrowing requirements. As at end of December, 2014, the total concessional loans contracted from multilateral and bilateral institutions by Nigeria amounted to US$8,061 million representing 83 percent of the total external debt portfolio, while the balance of US$1,650 million or 17 percent constituted non-concessional bilateral and commercial loans.

2.3 Domestic Debt Market Strategy

The domestic debt management strategy is to lengthen the maturity structure of the portfolio, broaden and to further deepen the governments' securities market to enhance its liquidity, through the introduction of a variety of government securities, use of appropriate technology to support the effective and efficient issuance of Government securities and improve the regulatory framework for effective operations of the bond market.

2.3.1 Issuance Activity

In 2014, the DMO's FGN Bonds issuance activities were aimed at increasing the volume of benchmark bonds to promote liquidity, thereby support trading and meeting the portfolio needs of its major investor groups. There were new shelf registrations and re-opening of benchmark bonds at various times during the year.

2.3.2 Primary Bond Market Activities

The FGN bond primary market remained active with a regular issuance of tradable securities in 2014. The DMO re-opened benchmark bonds in tenors of three (3) to twenty (20) years, as well as, introduced new benchmark bonds of 10-year ₦45 Billion and 20-year ₦35 billion FGN bonds in March and July, 2014, respectively. The Face Value of FGN Bonds issued in 2014 was ₦1,011.41 billion, compared with ₦1,044.54 billion issued in 2013. The sub-nationals bond market recorded a significant decline in activities as only one (1) State (Bauchi State) raised the sum of ₦15 billion, compared with four (4) States, which raised a total of ₦157 billion in 2013. In the corporate segment, four (4) corporates issued bond worth ₦48.04 billion in the market, while in the supranational segment, AfDB introduced a Naira denominated ₦160 billion Medium-Term Note Progamme and successfully raised ₦12.95 billion in the market.

2.4 FGN Bond Market Development

The FGN Bond market received further recognition from the International Financial Community with the addition of one (1) FGN Bond by J.P. Morgan's Government Bond Index-Emerging Markets (GBI-EM) in the third quarter of 2014, which brought to six (6), the number of FGN Bonds included in the GBI-EM. One (1) FGN Bond was also included in the Barclays Capital's Emerging Markets Local Currency Government Bond Index (EM-LCBI) to bring the number of FGN Bond included in the Index to eleven (11). The inclusion of the FGN Bonds in the international index has resulted in further diversification of the investor base of the Government's securities.

2.5 Sub-National Debt Management Strategy and Development

The DMO continued its initiatives on development of capacity for the effective debt management at the sub-national level. In 2014, the DMO conducted capacity building workshops for the Sub-nationals to enhance the skills of DMDs officers in debt recording and reporting for two (2) States (Zamfara and Plateau). Also, Six (6) States (Akwa Ibom, Bayelsa, Delta, Katsina, Plateau and Rivers) took part in a workshop designed to assist them overcome challenges in rendering accurate and reliable debt data. In addition, the DMO conducted sensitization workshop on inter-MDAs' relationship and ten (10) States of the Federation participated.

CHAPTER THREE

NIGERIA'S TOTAL PUBLIC DEBT

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NIGERIA'S TOTAL PUBLIC DEBT

Total public debt outstanding grew by 4.06 percent from US$54,544.31 million in 2013, to US$56,759.22 million in 2014. The marginal increase was reflected in both external and domestic portfolio. The increase in the external debt portfolio was on account of additional disbursements of existing/new loans. The stock of external debt continued to be in the long-term category. The increase in the domestic debt portfolio was due to additional issuances for the funding of the 2014 appropriated budget deficit and refinancing of matured debt securities.

3.1 Total Public Debt Outstanding

The Nigeria's total public debt (external and securitized domestic debt of the Federal Government) outstanding as at end of December, 2014, stood at US$56,759.22 million (₦9,535,548.96 million) compared with US$54,544.31 million (₦8,492,549.07 million) as at end of December, 2013, representing an increase of US$2,214.91 million (₦1,042,999.89 million) or 4.06 percent. The marginal increase was attributed to increase in both the external and domestic components of the total debt stock. While the increase of US$889.53 million in external debt stock was largely on account of additional disbursements on existing/new loans, the growth of US$1,328.56 million in domestic debt was due to additional issuances for funding of the 2014 appropriated budget deficit and refinancing/redeeming maturing securities. The external debt stock as at end of December, 2014 was US$9,711.45 million or 17.11 percent of the total debt stock, while the domestic debt stock accounted for US$47,047.77 million or 82.89 percent of the total debt stock (Table 3.1).

Table 3.1: Total Public Debt Outstanding, 2010-2014 (US$' Million)

		2010	2011	2012	2013	2014
External Debt Stock	US$'M	4,578.77	5,666.58	6,527.07	8,821.90	9,711.45
External Debt Stock	₦'M	683,015.12	887,953.09	1,016,721.69	1,373,569.83	1,631,523.60
(% share of total)		(13.05)	(13.64)	(13.46)	(16.17)	(17.11)
Domestic Debt Stock	US$'M	30,514.33	35,882.86	41,969.16	45,722.41	47,047.77
Domestic Debt Stock	₦'M	4,551,822.61	5,622,844.16	6,537,536.05	7,118,979.24	7,904,025.36
(% share of total)		(86.95)	(86.36)	(86.54)	(83.83)	(82.89)
Total	US$'M	**35,093.10**	**41,549.44**	**48,496.23**	**54,544.31**	**56,759.22**
	₦'M	5,234,837.73	6,510,797.25	7,554,257.74	8,492,549.07	9,535,548.96

Official CBN Exchange Rate of ₦168.00/US$1 as at 31/12/14 was used for 2014 figure
Note: Data does not include Domestic debt of States.

The trend in total public debt outstanding for a five year period (2010-2014) is shown in Figure 3.1, indicating that the share of the domestic debt stock has continued to dominate that of the external debt stock since 2010.

Figure 3.1: Trend in Total Public Debt-to-GDP

Meanwhile, the total public debt stock of US$67,726.28 million, which include the States' Domestic debt as at end of December, 2013, upon which the total public Debt-to-GDP ratio stood at 12.65 percent as at end of December, 2014. This ratio is still within the Country's specific limit of 19.39 percent and far below the CPIA's threshold of 56 percent for countries in Nigeria's peer-group, as well as, WAMZ convergent threshold of 70 percent. Figure 3.1 illustrates the trend in total public debt-to-GDP ratio from 2010 to 2014. The ratio of total public Debt-to-GDP trended upward to 22.43 percent in 2012, from 17.20 percent in 2010. Thereafter, the ratio went up to 22.84 percent in 2013, and dropped sharply to 12.65 percent, resulting from the GDP rebasing exercise in the same year, which was still maintained in 2014.

3.1.1 Total Public Debt Outstanding by Original Maturity

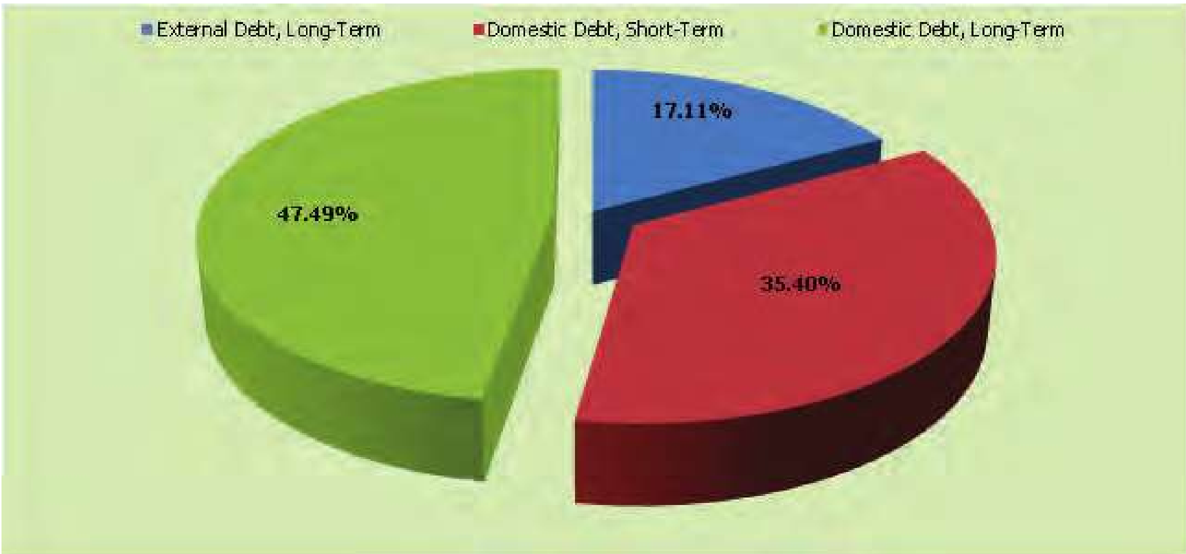
As at end of December, 2014, the composition of Nigeria's total public debt stock by original maturity, showed that long-term debts have continued to dominate the external debt profile, from the period the country exited the Paris and London Club debts in 2006 (Table 3.2 and Figure 3.2). Likewise, the domestic debt portfolio consist of a higher proportion of long-term debt instruments in the last five years, and stood at US$26,955.35 million or 47.49 percentage of the total domestic debt stock as at end of December, 2014.

Table 3.2: Total Public Outstanding by Original Maturity, 2010-2014 (US$' Million)

Type	Category	2010	2011	2012	2013	2014[1]
External Debt Stock	Short – term[2]	0.00	0.00	0.00	0.00	0.00
	Long-term (% of share total)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (13.46)	8,821.9 (16.17)	9,711.45 (17.11)
	Sub-Total	4,578.77	5,666.58	6,527.07	8,821.90	9,711.00)
Domestic Debt Stock	Short-term[3] (% of share total)	8,561.38 (24.39)	11,026.89 (26.54)	13,628.6 (28.10)	16,580.29 (30.40)	20,092.42 (35.40)
	Long-term (% of share total)	21,952.95 (62.56)	24,855.97 (59.82)	28,340.56 (58.44)	29,142.12 (53.43)	26,955.35 (47.49)
	Sub-Total (% of share total)	30,514.33 (86.95)	35,882.86 (86.36)	41,969.16 (86.54)	45,722.41 (83.83)	47,047.77 (82.89)
	Total	**35,093.10**	**41,549.43**	**48,496.23**	**54,544.31**	**56,759.22**

[1] Official CBN Exchange Rate of ₦168.00/US$1 as at 31/12/2014 was used for 2014 figures
[2] Short-term external debt is debt with less than 1 year original maturity
[3] Short-term domestic debt consists of 91, 182 and 364 days Treasury Bills. Long-term domestic debt consists of Treasury Bonds and FGN Bonds with tenors 3 or more years

Figure 3.2: Total Public Debt Outstanding by Original Maturity as at end of December, 2014



3.2 Total Public Debt Service

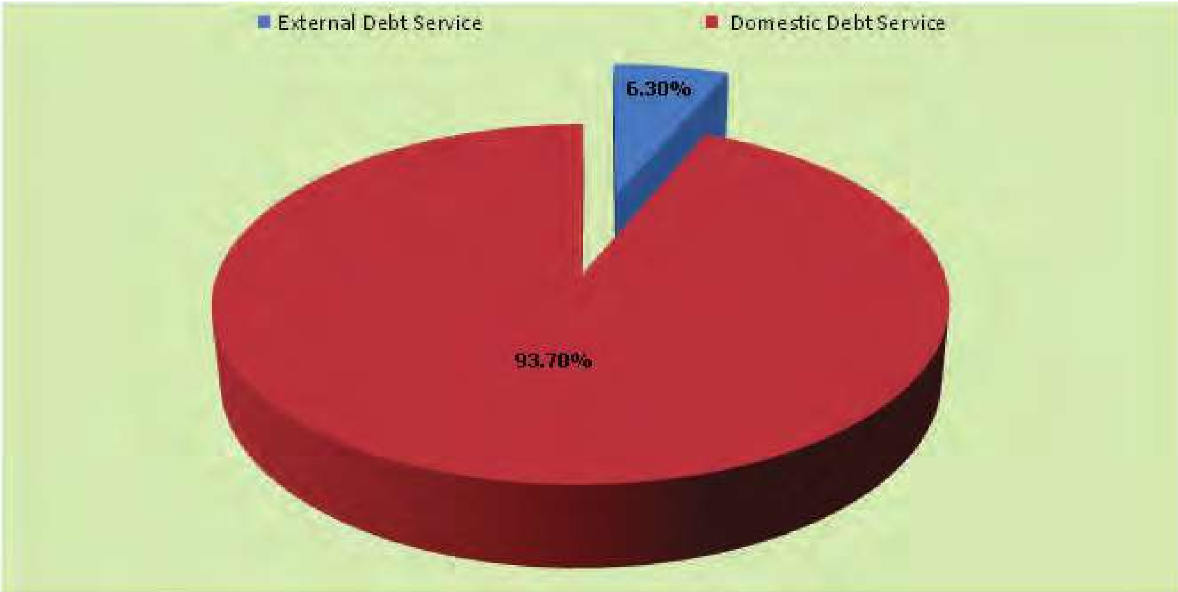
As at end of December, 2014, the total debt service amounted to US$5,500.35 million compared to US$5,397.51 million in 2013 (Table 3.3). The increase of US$102.84 million or 1.91 percent was attributed to increase in stock of debt as a result of additional loans. The external and domestic debt service in 2014, as a percentage of the total public debt service were 6.30 and 93.70 percent, compared to 5.51 and 94.49 percent in 2013, respectively.

Table 3.3: Total Public Debt Service, 2010-2014 (US$' Million)

Type	2010	2011	2012	2013	2014
External Debt Service (% share of Total)	354.42 (13.00)	351.62 (9.30)	293.00 (5.96)	297.32 (5.51)	346.72 (6.30)
Domestic Debt Service (% share of total)	2,373.98 (87.00)	3,429.42 (90.70)	4,625.72 (94.04)	5,100.19 (94.49)	5,153.63 (93.70)
TOTAL	**2,728.40**	**3,781.04**	**4,918.72**	**5,397.51**	5,500.35

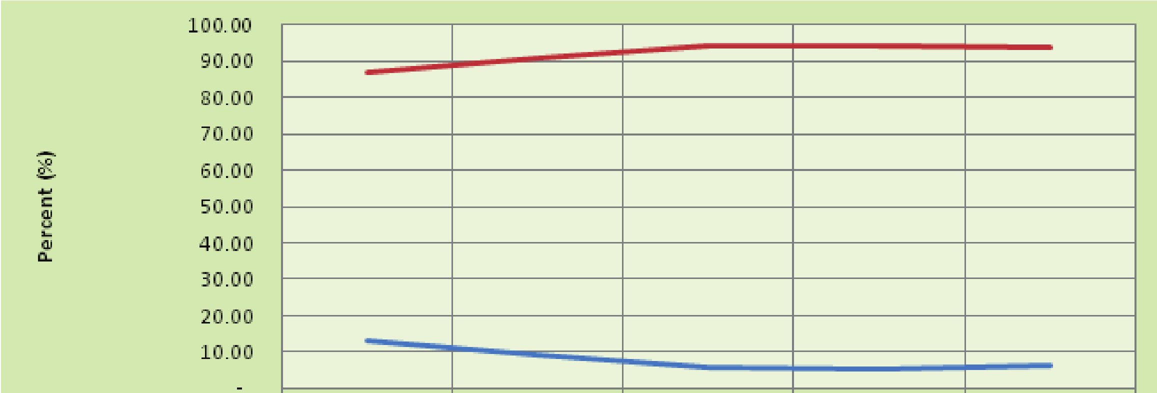
Official CBN Exchange Rate of ₦168.00/US$1 as at 31/12/2014, was used for 2014

Figure 3.3: Total Debt Service as at end of December, 201



The trend in total debt service payments shows that external debt service witnessed a downward trend from US$354.42 million in 2010 to US$293.00 million in 2012, and moved upward from US$297.32 million in 2013 to US$346.72 million in 2014. Meanwhile, domestic debt service cost has been on the increase since 2010 (Figure 3.4).

Figure 3.4: Trends in Total Debt Service, 2010-2014



	2010	2011	2012	2013	2014
Ext. Debt Service	13.00	9.30	5.96	5.51	6.30
Dom. Debt Service	87.00	90.70	94.04	94.49	93.70

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

CHAPTER FOUR

NIGERIA'S EXTERNAL DEBT

Nigeria's external debt outstanding stood at US$9,711.45 million as at end of December, 2014. The composition revealed that a significant amount of external debt was from the Official Creditors at concessional rates and this was essentially used to finance the development of projects and programmes in various sectors of the economy. The non-concessional loans were from bilateral and commercial creditors. The stock of the external debt by remaining maturity was in the long-term category. The increase in the net inflow of resources was largely on account of additional disbursements from multilateral and bilateral creditors.

4.1 External Debt Stock

Nigeria's external debt stock outstanding stood at US$9,711.45 million as at end of December, 2014, compared with US$8,821.90 million as at the end of the corresponding period in 2013 (Table 4.1). This showed an increase of US$889.55 million or 10.08 percent over the level at the end of 2013. The increase was largely attributed to additional disbursements from existing and newly approved loans that became effective, during the period, as well as, net adverse cross exchange rate movements between the different currencies in the external loan portfolio. The external debt stock has continued to rise over the five-year period ending 2014, with the highest annual increment of 35.16 percent in 2013, due to the issuance of US$1 billion Eurobonds in the International Capital Market at that year (Figure 4.1).

4.1.1 Official Creditors

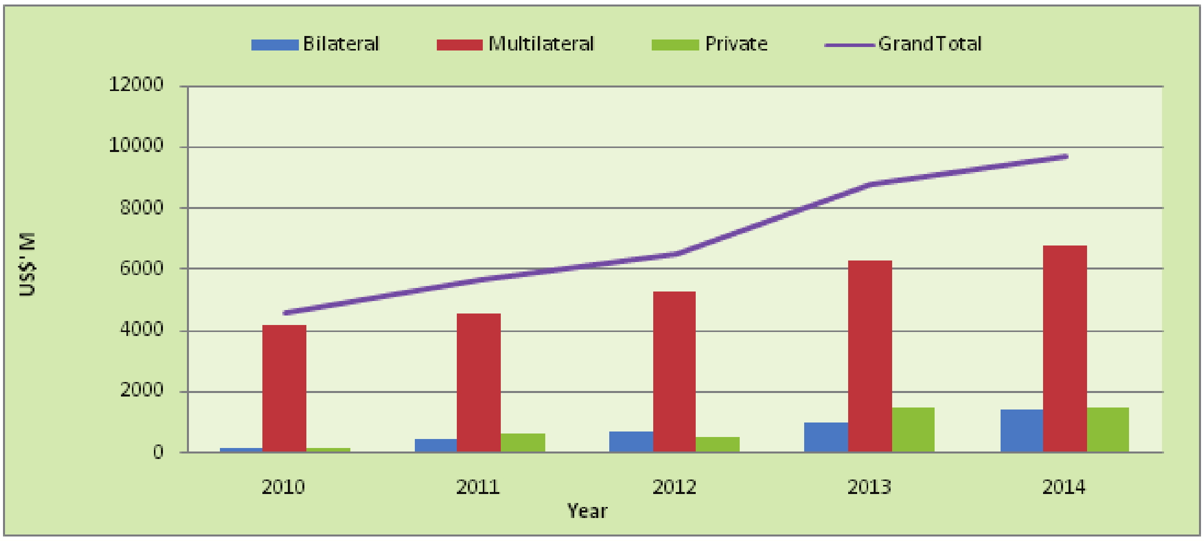
As at end of December, 2014, Nigeria's external debt portfolio was dominated by debts owed to the Official Creditors, which accounted for US$8,211.43 million or 84.55 percent, while US$1,500.00 million was owed to Private Creditors (Table 4.2). The Official Creditors comprised Multilateral and Bilateral Creditors, which constituted 70.01 and 14.54 percent of total Official Creditors, respectively.

Table 4.1: External Debt Stock by Source as at end of December, 2014 (US$' Million)

Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage 5
Multilateral – WB Group					
IDA	5,857.95	0	0	5,857.95	
IFAD	90.64	0	0	90.64	
ADB Group					
- ADB	150.00	0	0	150.00	
- ADF	586.53	0	0	586.53	
Other Multilaterals					
ABEDA	4.48	0	0	4.48	
EDF	85.98	0	0	85.98	
IDB	23.78	0	0	23.78	
SUB-TOTAL	**6,799.36**	**0**	**0**	**6,799.36**	**70.01%**
Bilateral					
Exim Bank of China	1,293.13	0	0	1,293.13	
French Development Agency (AFD)	118.95			118.95	
SUB-TOTAL	**1,412.08**	**0**	**0**	**1,412.08**	**14.54%**
Commercial					
EUROBONDS	**1500.00**	0	0	**1500.00**	**15.45%**
GRAND TOTAL	**9,711.45**	**0**	**0**	**9,711.45**	**100.00%**

Based on official CBN exchange rate of ₦168.00/ US$1 as at 31/12/2014

Figure 4.1: Trends in External Debt Stock, 2010–2014



4.1.1 Bilateral

Debt owed to the bilateral creditors comprised loans contracted from China and France on semi-concessional terms. As at end of December, 2014, debt owed to the bilateral creditors amounted to

US$1,412.08 million, compared to US$1,025.70 million at the end of the corresponding period in 2013. This showed an increase of US$386.37 million or 37.67 percent over the level in 2013. This development was attributed to loans contracted from the Exim Bank of China during the review period.

4.1.2 Multilateral

Multilateral loans accounted for US$6,799.36 million or 70.01 percent of the external debt portfolio (Table 4.2). The trend analysis of the external debt stock between 2010 and 2014 revealed that the share of multilateral debt decreased marginally from 71.13 percent in 2013 to 70.01 percent in 2014, due to the redemption of maturing loans and increased borrowing from the bilateral source.

4.1.3 Commercial

The stock of commercial (non-concessional) debt amounted to US$1,500.00 million as at end of December, 2014, compared to US$1,521.00 million in 2013. The marginal decrease of US$21.00 million or 1.4 percent was attributable to the redemption of the China loan, amounting to US$21.00 million obtained from ZTE and CMEC. The share of Commercial debts increased significantly in 2013, relative to other period under review, due to the additional issuance of the US$1 billion Eurobonds (Table 4.2).

Table 4.2: External Debt Outstanding by Source, 2010-2014 (US$' Million)

SOURCE	2010	2011	2012	2013	2014
A. Official:					
1. Bilateral					
Non-Paris Club	163.2	453.83	703.03	1,025.70	1,412.07
2. Multilateral	4,217.76	4,568.92	5,267.42	6,275.20	6,799.36
Sub-Total	**4,380.96**	**5,022.75**	**5,970.45**	**7,300.90**	**8,211.43**
B. Private:					
1. Eurobonds	0	500	500	1,500.00	1500
2. Other Commercial	197.81	143.82	56.63	21	0
Sub-Total	**197.81**	**643.82**	**556.63**	**1,521.00**	**1,500.00**
Grand Total	**4,578.77**	**5,666.57**	**6,527.07**	**8,821.90**	**9,711.45**
Creditor Category as % of Total					
A. Official:					
1. Bilateral					
Non-Paris Club	3.56	8.01	10.77	11.63	14.54
2. Multilateral	92.12	80.63	80.7	71.13	70.01
Sub-Total	**95.68**	**88.64**	**91.47**	**82.76**	**84.55**
B. Commercial:					
1. Eurobonds	0	8.82	7.66	17.00	15.45
2. Other Commercials	4.32	2.54	0.87	0.24	0
Sub-Total	**4.32**	**11.36**	**8.53**	**17.24**	**15.45**
Grand Total	**100**	**100**	**100**	**100**	**100.00**

Based on Official CBN exchange rate of US$1/₦168 as at 31/12/2014

4.2 Currency Composition of External Debt

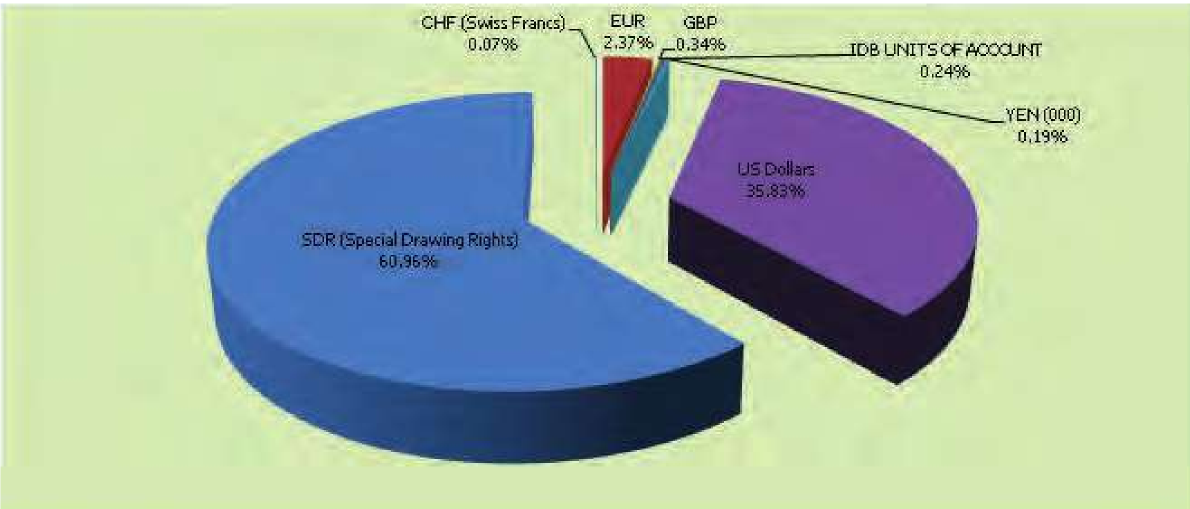
The external debt stock by currency composition as at end of December, 2014, showed that the portfolio was mainly made up of seven major currencies, namely: Swiss Francs (CHF), Euro, Great Britain Pounds (GBP), United States Dollar, Japanese Yen, Special Drawing Rights (SDR) and IDB Units of Account (Islamic Dinar). Table 4.3 and Figure 4.2 show that Special Drawing Rights (SDR) was the dominant currency accounting for 60.96 percent of the external debt stock. This was followed by the US Dollars at 35.83 percent, the Euro at 2.37 percent and other currencies (Japanese Yen, GBP, Islamic Dinar and Swiss Francs) accounting for the balance of 0.84 percent. The currency structure has remained unchanged with SDR dominating the currency composition, thus, reducing the exchange rate vulnerability of the debt portfolio, as only 39.04 percent of the portfolio was held in other currencies.

Table 4.3: External Debt Stock by Currency Composition as at end of December, 2014 (US$' Million)

S/N	Currency	Debt Stock in Original Currency	Debt Stock in Naira	Debt Stock in USD	Percentage of Total (%)
1	CHF (Swiss Francs)	6,435,439.61	1,092,405,607.00	6,502,414.33	0.07
2	EUR	177,745,974.48	38,704,085,095.00	230,381,458.90	2.37
3	GBP	23,078,922.50	5,558,812,352.00	33,088,168.76	0.34
4	IDB UNITS OF ACCOUNT	15,806,873.38	3,866,708,980.00	23,016,124.88	0.24
5	YEN (000)	13,020,837.96	3,136,212,923.00	18,667,934.07	0.19
6	US DOLLARS	3,480,090,607.56	584,655,222,070.08	3,480,090,607.56	35.83
7	SDR (Special Drawing Rights)	4,087,083,391.99	994,510,001,772.93	5,919,702,391.51	60.96
	Total		**1,631,523,448,800.01**	**9,711,449,100.00**	**100.00**

Based on Official CBN exchange rate of US$1/₦168 as at 31/12/2014
Note: SDR is a virtual currency, disbursements and repayments could be in GBP, EUR, JPK and USD

Figure 4.2: External Debt Stock by Currency Composition as at end of December, 2014 (US$' Million)



4.3 External Debt by Original and Remaining Maturities

As at end of December, 2014, the external debt outstanding by remaining maturity was mainly long-term (over 3 years), accounting for 97.55 percent of the portfolio (Table 4.4). This was followed by remaining maturity profile of 1 to 3 years and below 1 year accounting for 1.27 and 1.18 percent, respectively.

Table 4.4: External Debt Outstanding by Remaining Maturity as at end of December, 2014 (US$' Million)

Source	Short Term (0-1 yr)	Medium Term (>1-3 yrs)	Long Term (Over 3 years)
1. Multilateral	**94.22**	**103.21**	**6,601.93**
IDA	76.07	84.62	5,697.27
IFAD	2.69	2.69	85.27
ADB	0.00	0.00	150.00
ADF	8.58	8.62	569.33
ABEDA	0.00	0.36	4.12
IDB	1.73	1.73	20.32
EDF	5.15	5.20	75.63
2. Bilateral	**20.00**	**20.00**	**1,372.08**
Exim Bank of China	**20.00**	**20.00**	1,253.13
French Development Agency	0	0	118.95
3. Commercial	**0**	**0**	**0**
ZTE	0	0	0
Eurobonds	0	0	1,500.00
Total	**114.22**	**123.21**	**9,474.02**
Grand-Total			**9,711.45**

4.4 Sectoral Allocation of External Debt

Table 4.5 shows that the external debt was mainly used to fund the development of infrastructure and human capital in areas such as, telecoms, water, energy (electricity and gas), transportation (rail, road and air), housing, education, health, social welfare and agriculture. The sectoral allocations were in line with the developmental objectives and priorities of the government. Table 4.5 further shows that relative to the sectoral allocation in 2013, there were substantial increases in allocations to the following sectors, namely: Air Transport (1.65 percent), Rail Transport (7.02 percent), Rural Development (2.31 percent), Telecommunications (4.31 percent) and Multisector (19.89 percent). However, it was observed that the proportion of allocation to Energy-Electricity and Scientific & Tech. Equipment declined during the review period.

Table 4.5: Sectoral Allocation of External Debt in 2014 (US$' Million)

	2013		2014	
Economic Sector	**Amount Outstanding**	**% of Total**	**Amount Outstanding**	**% of Total**
Agriculture	832.50	9.44%	950.83	9.79%
Air Transport	34.27	0.39%	160.61	1.65%
Education & Training	575.07	6.52%	586.29	6.04%
Energy-Electricity	1,516.21	17.19%	1,561.48	16.08%
Environment	352.79	4.00%	328.84	3.39%
Rail Transport	477.16	5.41%	681.48	7.02%
Road Transport	743.41	8.43%	857.64	8.83%
Health & Social Welfare	1,029.60	11.67%	1,063.62	10.95%
Housing & Urban Develop.	130.58	1.48%	142.22	1.46%
Water Supply	509.59	5.78%	568.75	5.86%
Monetary Policy	147.05	1.67%	143.84	1.48%
Rural Development	150.90	1.71%	224.21	2.31%
Scientific & Tech Equipment	511.73	5.80%	91.38	0.94%
Telecommunications	11.75	0.13%	418.85	4.31%
Multisector	1,799.29	20.40%	1,931.42	19.89%
Total	**8,821.90**	**100.00%**	**9,711.45**	**100.00%**

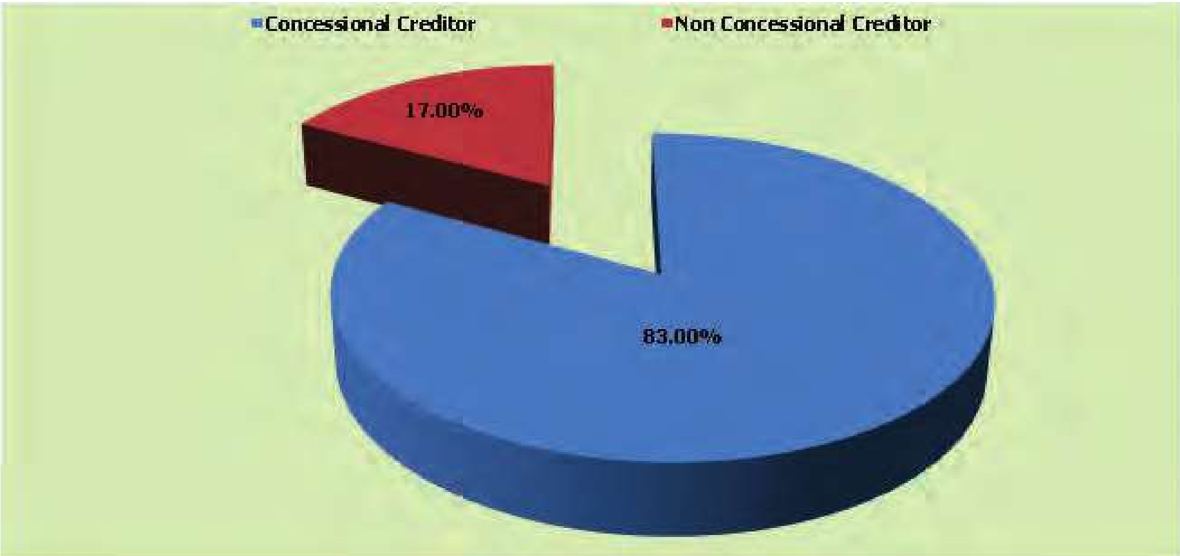
4.5 External Debt by Concessionality

The analysis of external debt portfolio by concessionality shows that 83 and 17 percent of Nigeria's external debt portfolio comprised debts contracted from concessional and non-concessional windows, respectively, in line with the external debt management strategy (Table 4.6 and Figure 4.3). The International Development Association (IDA) remained the largest creditor in 2014, accounting for 60.32 percent of the country's concessional debt, compared with 60.41 percent in 2013.

Table 4.6: Concessional/Non-Concessional External Loans as at end of December, 2014 (US$' Million)

S/N	Funding Sources	Amount Outstanding	% of Total Debt
A.	**Concessional Creditor Categories**		
	Multilateral		
1.	International Development Association (IDA)	5,857.95	60.32
2.	International Fund for Agricultural Development (IFAD)	90.64	0.93
3.	European Development Fund (EDF)	85.98	0.89
4.	African Development Fund (ADF)	586.53	6.04
5.	Islamic Development Bank (IDB)	23.78	0.24
6.	Arab Bank for Economic Development (BADEA)	4.48	0.05
	Sub-Total	**6,649.36**	**68.47**
	Bilateral		
1.	Exim Bank of China	1,293.13	13.32
2.	French Development Agency (AFD)	118.95	1.22
	Sub-Total	**1,412.08**	**`14.54**
B.	**Non-Concessional Creditor Categories**		
	Multilateral		
	African Development Bank (ADB)	150.00	1.54
	Commercial		
	Eurobonds	1,500.00	15.45
	Sub-Total	**1,650.00**	**17.00**
	Grand Total	**9,711.44**	**100.00**

Figure 4.3: External Debt Stock by Concessionality as at end of December, 2014



4.6 External Debt Flows

4.6.1 External Debt Service

The external debt service amounted to US$346.72 million as at end of December, 2014, compared with US$297.32 million as at end of December, 2013, representing an increase of US$49.40 million or 16.62 percent. Table 4.7 shows that the highest debt service of US$152.74 million or 44.05 percent of the total debt service was made to the Multilateral creditors in 2014, while the sum of US$48.93 million or 14.11 percent was to the Bilateral creditors. The sum of US$41.72 million or 12.03 percent, was paid in respect of Oil Warrants, while US$91.26 million or 26.32 percent was paid to the holders of the Eurobonds and the remaining US$12.06 million or 3.48 percent was payment made to Commercial creditors. Table 4.7 also shows a detailed breakdown of debt service payments by creditor category.

Table 4.7: External Debt Service, 2010 – 2014 (US$' Million)

SOURCE	2010	2011	2012	2013	2014
A. Official:					
1. Bilateral:					
Non-Paris Club	24.18	51.52	45.28	41.08	48.93
2. Multilateral	212.61	172.27	126.92	142.89	152.74
B. Commercial:					
1. Oil Warrants[1]	41.72	41.72	41.72	41.72	41.72
2. Others (including commercial from China)	75.9	69.23	45.32	37.88	0.01
3. Eurobonds	0	16.87	33.75	33.75	91.26
4. ZTE	0	0	0	0	12.06
Grand Total	**354.41**	**351.61**	**293**	**297.32**	**346.72**

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

4.6.2 Waivers

As at end of December, 2014, the Federal Government of Nigeria obtained the sum of US$216.33 million as waivers, due to timely remittance of debt service in 2014. The waivers represent gains/savings made on behalf of the Federal Government. They were in respect of the payments made to IDA, BADEA and IDB, amounting to US$132.52 million, US$0.04 million and US$83.78 million, respectively (Table 4.8).

4.6.3 External Debt Service Projections (2015–2024)

Table 4.9 shows that the external debt service projections of US$7,602.84 million would be made over a 10-year period, between 2015 and 2024. It further reveals that the highest debt service payment would be made for repayment of principal amounting to US$1,023.88 million and US$1,092.27 million in 2021 and 2023, respectively, when the debut 6.75% JAN 2021 US$500 million 10-year Eurobond issued in 2011 and 6.375% JUL 2023 US$500 million 10-year Eurobond issued in 2013, would be due for redemption.

Table 4.8: Breakdown of External Debt Service by Source in 2014 (US$ 'Million)

CATEGORY	Principal	Interest/ Service fee	Deferred Principal	Deferred Interest	Penalty Interest	Waiver/ Credit	Commitment Charges	Other Charges	Total	Percentage of Total
MULTILATERAL	**101,180.46**	**49,010.61**	**14.61**	**689.41**	**-**	**(216.33)**	**1,997.16**	**63.57**	**152,739.48**	**44%**
A.D.B	11,093.54	1,351.95	0.00	0.00	**-**	-	0.00	-	12,445.50	
IFAD	2,831.43	734.60	11.00	2.76	0.00	-	0.00	0.08	3,579.88	
A.D.F	7,056.44	4,693.96	0.00	0.00	0.00	-	1,997.16	58.09	13,805.66	
IDA	72,943.58	41,133.02	3.60	686.64	0.00	(132.52)	0.00	0.00	114,634.33	
EDF	5,584.67	982.74	0.00	0.00	0.00	-	0.00	5.40	6,572.82	
BADEA	0.00	56.33	0.00	0.00	0.00	(0.04)	0.00	0.00	56.29	
IDA	1,670.79	58.00	0.00	0.00	0.00	(83.78)	0.00	0.00	1,645.01	
BILATERAL	**20,000.00**	**27,017.68**	**0.00**	**0.00**	0.00	**0.00**	**1,765.13**	**150.23**	**48,933.04**	**14%**
EXIM BANK OF CHINA	**20,000.00**	**25,759.49**	**0.00**	**0.00**	**0.00**	**0.00**	**1,186.66**	**150.23**	**47,096.38**	
NIGGERIA COMMUNICATION SATTELLIITE	20,000.00	2,584.18	0.00	0.00	**0.00**	-	0.00	-	22,584.18	
NIGERIAN NATIONAL PUBLIC SECURITY COMM. SYS. PROJ.	0.00	10,120.72	0.00	0.00	0.00	0.00	0.45	0.00	10,121.17	
NIGERIAN RAILWAY MODERNISATION PROJ.	0.00	7,418.75	0.00	0.00	0.00	0.00	420.40	0.00	7,839.15	
NIG ABUJA LIGHT RAIL PROJ.	0.00	5,482.08	0.00	0.00	0.00	0.00	575.33	150.23	6,207.64	
NIG ICT INFRAST. BACKBONE PROJECT	0.00	153.77	0.00	0.00	0.00	0.00	190.48	0.00	344.24	
FRENCH DEVELOPMENT AGENCY (AFD)	0.00	1,258.18	0.00	0.00	0.00	0.00	578.47	0.00	1,836.66	
					0.00					
COMMERCIAL	**11,750.28**	**91,567.60**	**0.00**	**0.00**	0.00	**0.00**	**0.00**	**0.00**	**103,317.88**	**30%**
ZTE	11,750.28	307.60	0.00	0.00	**0.00**	-	0.00	-	12,057.88	
EUROBONDS	**0.00**	**91,260.00**	**0.00**	**0.00**	0.00	**0.00**	**0.00**	**0.00**	**91,260.00**	**26%**
2018	0.00	25,630.00	0.00	0.00	**0.00**	0.00	0.00	0.00	25,630.00	
2021	0.00	33750.00	0.00	0.00	0.00	0.00	0.00	0.00	33750.00	
2023	0.00	31880.00	0.00	0.00	0.00	0.00	0.00	0.00	31880.00	
OTHERS	**0.00**	**41,719.26**	**0.00**	**0.00**		**0.00**	**0.00**	**13.63**	**41,732.89**	**12%**
Agency Fees	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	13.63	13.63	
Oil Warrant	0.00	41,719.26	0.00	0.00	0.00	0.00	0.00	0.00	41,719.26	**12%**
TOTAL	**132,930.74**	**209,315.15**	**14.61**	**689.41**	0.00	**(216.33)**	**3,762.30**	**227.44**	**346,723.29**	**126%**

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

Category of Debt	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
MULTILATERAL										
ADF										
Principal	10.00	8.63	11.67	13.70	15.91	17.63	23.08	27.94	28.77	29.16
Interest	5.09	4.66	4.87	5.07	5.27	5.39	5.39	5.29	5.18	5.07
ADB										
Principal	0.00	0.00	0.00	10.00	20.00	20.00	20.00	20.00	20.00	20.00
Interest	10.96	2.10	2.78	2.78	2.64	2.46	2.27	2.09	1.90	1.72
IFAD										
Principal	3.09	2.69	3.59	3.59	3.59	4.75	6.32	6.32	6.32	6.32
Interest	0.81	0.74	0.81	0.85	0.87	0.87	0.85	0.83	0.81	0.79
IDA										
Principal	88.81	84.48	92.94	105.17	154.73	180.24	196.28	223.08	258.88	268.51
Interest	48.52	48.64	52.82	55.79	58.12	59.64	60.67	60.99	60.65	59.74
EDF										
Principal	6.37	5.21	5.28	5.34	5.37	5.43	5.49	5.54	5.59	5.65
Interest	1.05	0.80	0.75	0.69	0.64	0.59	0.53	0.48	0.42	0.36
ABFEDA (BADE)										
Principal	0.00	0.36	0.37	0.37	0.38	0.38	0.38	0.39	0.39	0.39
Interest	0.07	0.06	0.08	0.07	0.07	0.06	0.06	0.06	0.05	0.05
IDB										
Principal	1.94	1.68	1.68	1.68	1.68	2.42	3.17	3.17	3.17	3.17
Interest	0.27	0.30	0.14	0.14	0.15	0.15	0.15	0.06	0.06	0.00
Sub-Total	**176.98**	**160.37**	**177.76**	**205.25**	**269.40**	**300.01**	**324.65**	**356.22**	**392.19**	**400.95**
Bilaterals										
Principal	20.00	20.00	30.00	93.04	86.88	148.44	269.15	269.15	269.15	269.15
Interest	2.15	48.13	60.27	70.38	78.91	84.99	80.85	73.92	66.86	59.97
Sub-Total	**22.15**	**68.13**	**90.27**	**163.41**	**165.80**	**233.42**	**350.01**	**343.07**	**336.01**	**329.13**
Commercial										
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	31.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sub-Total	**31.87**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Eurobonds and Diaspora Bond										
Principal	0.00	0.00	0.00	500.00	0.00	0.00	500.00	0.00	500.00	0.00
Interest	108.59	108.59	108.59	108.59	82.97	82.97	65.63	31.88	31.88	0.00
Sub-Total	**108.59**	**108.59**	**108.59**	**608.59**	**82.97**	**82.97**	**565.63**	**31.88**	**531.88**	**0.00**
Others										
Oil Warrants										
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest	41.72	41.72	41.72	41.72	41.72	41.72	0.00	0.00	0.00	0.00
Financial Service Fee	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00
New Financing	14.76	23.44	23.44	23.44	23.44	23.44	23.44	23.44	23.44	23.44
Total Principal	130.21	123.06	145.52	732.89	288.53	379.28	1,023.88	555.59	1,092.27	602.37
Total Interest	265.87	279.19	296.28	309.54	294.80	302.29	239.84	199.01	191.24	151.15
Grand Total Ds	**396.08**	**402.26**	**441.80**	**1,042.43**	**583.34**	**681.58**	**1,263.72**	**754.61**	**1,283.51**	**753.51**

4.6.4 External Debt Disbursements

External debt disbursements (excluding grants) by creditors amounted to US$1,649.70 million as at end of December, 2014, compared with US$2,367.60 million in 2013 (Table 4.10), which represents a decline of US$717.90 million or 30.32 percent over the level as at end of December, 2013. Table 4.10 also shows that multilateral source accounted for US$1,230.47 million or 74.59 percent, while bilateral source accounted for US$419.23 million or 25.41 percent of the total external debt disbursed in 2014, respectively.

Table 4.10: Disbursements by Source, 2010-2014 (US$' Million)

Source	2010	2011	2012	2013	2014
Multilateral					
IDA	946.98	355.56	509.22	716.10	1,167.38
IFAD	3.5	20.4	14.66	9.50	58.09
ADB	0	0	0	150.00	-
ADF	22.68	48.12	37.56	166.10	4.42
IDB	1.97	1.63	-	-	-
BADEA	-	-	2.13	0.60	0.5
Sub-Total	**975.13**	**425.71**	**563.6**	**1,042.30**	**1,230.47**
Bilateral	0	313.2	240.03	325.30	419.23
TOTAL	**975.13**	**1,238.91**	**803.6**	**2,367.60**	**1,649.70**

Disbursements exclude Grants

4.6.5 Net Resource Flows on External Debt

Table 4.11 shows both the net resource flow on external debt and net transfers by source in 2014. The breakdown revealed a net resource flow of US$1,516.75 million in 2014, compared with US$2,212.94 million in 2013. The inflow was mainly due to disbursements from the Multilateral and Bilateral creditors. The net transfer stood at US$1,302.98 million, indicating an overall net inflow of resources into the country in 2014.

Table 4.11: Net Flows and Net Transfers on External Debt by Source in 2014 (US$' M)

Creditor Category	Disbursements in 2014	Principal Repayments in 2014	Net resource flow in 2014	Interest paid in 2014	Net Transfers in 2014
	(A)	(B)	C (A-B)	(D)	E(C-D)
Multilateral	1,230.47	101.20	1,129.27	51.54	1,077.73
Bilateral	419.23	20.00	399.23	28.93	370.30
Commercial	-	11.75	(11.75)	0.31	(12.06)
Oil Warrants	-	-	-	41.72	(41.72)
Eurobonds	-	-	-	91.26	(91.26)
Citibank Agency Fees	-	-	-	0.01	(0.01)
Total	**1,649.70**	**132.95**	**1,516.75**	**213.78**	**1,302.98**

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

4.7 Matured and Fully Repaid External Loans in 2014

Table 4.12 shows that some loans contracted from ADF, ADB, IDA and ZTE, for funding the development of infrastructure and capital projects, which matured in 2014, were fully repaid.

Table 4.12: Matured and Fully Repaid Loans in 2014 (US$)

S/N	PROJECT TITLE	DATE SIGNED	CREDITOR	ORIGINAL LOAN AMOUNT	CURRENCY	MATURITY DATE	AMOUNT FULLY REPAID
1	First Multi State Water Supply "USD".	29/06/1994	ADF	7,654,413.95	USD	01/03/2014	7,654,413.95
2	First Multi State Water Supply "JPK".	29/06/1994	ADF	831,836.01	JPK	01/03/2014	831,836.01
3	First Multi State Water Supply "FRF"	29/06/1994	ADF	9,760,491.92	EUR	01/03/2014	9,760,491.92
4	Savannah sugar rehabilitation USD	20/06/1994	ADB	10,824,986.41	USD	01/03/2019	10,824,986.41
5	Savannah sugar rehabilitation DEM	20/06/1994	ADF	5,637,525.10	EUR	01/03/2014	5,637,525.10
6	Savannah sugar rehabilitation FRF	20/06/1994	ADF	26,486,294.83	EUR	01/03/2014	26,486,294.83
7	Savannah sugar rehabilitation JPK	20/06/1994	ADF	218,916.17	JPK	01/03/2014	218,916.17
8	First Multi State Water Supply "EUR".	01/01/1999	ADF	128,687,222.55	EUR	01/03/2014	128,687,222.55
9	Savannah sugar rehabilitation EUR	01/01/1999	ADF	11,795,852.92	EUR	01/03/2014	11,795,852.92
10	Education Project	01/03/1965	IDA	21,387,905.92	USD	15/02/2014	21,387,905.92
11	Northern Road	01/03/1965	IDA	18,462,918.75	USD	15/02/2014	18,462,918.75
12	ZTE-Nigeria Local Govt Rural Telephone-Telecom Network	05/07/2002	ZTE	82,251,950.00	USD	31/12/2014	82,251,950.00

CHAPTER FIVE

NIGERIA'S DOMESTIC DEBT

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The domestic debt outstanding as at end of December, 2014, stood at ₦7,904.02 billion compared with ₦7,118.97 billion in the corresponding period of 2013, representing a marginal increase of ₦785.05 billion or 11.03 percent. The increase was due to new borrowings to partly fund the 2014 appropriated budget deficit and the refinancing of maturing debt instruments. The domestic debt service as at end of December 2014 amounted to ₦865.81 billion, compared with ₦794.10 billion expended as debt service in 2013. All FGN Bond issuances in 2014 were oversubscribed indicating a strong domestic investor base. The FGN Bond secondary market also demonstrated resilience inspite of policy developments, which adversely affected trading. In August 2014, FGN Bonds were issued in Global Depository Note (GDN) format in the International Capital Market (ICM), which was the first by any African Country and was targeted specifically at foreign investors who would otherwise not invest directly in the Domestic FGN Bond Market.

5.1 Domestic Debt Stock

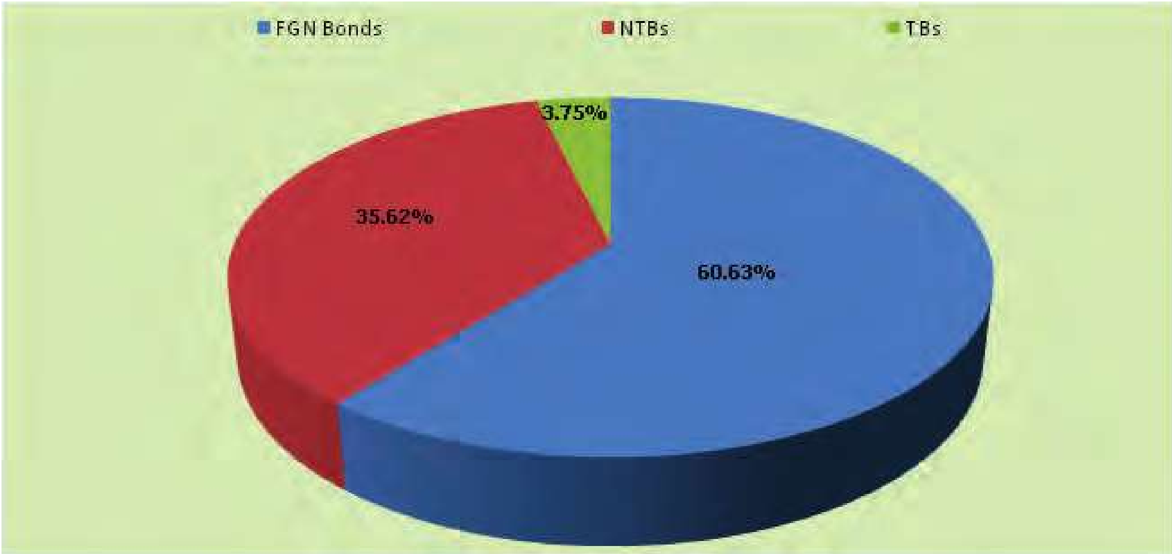
The securitized Federal Government's domestic debt stock stood at ₦7,904.02 billion as at end of December, 2014, representing an increase of ₦785.05 billion or 11.03 percent, compared to ₦7,118.97 billion in the corresponding period of 2013. The increase in the stock of domestic debt was as a result of the net issuances of domestic debt instruments, which were used to partly finance the 2014 appropriated budget deficit and refinancing of matured securities.

Table 5.1 and Figure 5.1 show that as at end of December, 2014, 60.63 percent of the domestic debt stock was mainly FGN bonds, 35.62 percent in Nigerian Treasury Bills (NTBs), while the balance of 3.75 percent in Treasury Bonds.

Table 5.1: Domestic Debt Outstanding by Instruments, 2013 & 2014 (₦' Billion)

INSTRUMENT	2013	2014
FGN Bonds (% share of Total)	4,222.03 (59.31)	4,792.28 (60.63)
Nigerian Treasury Bills (% share of total)	2,581.55 (36.26)	2,815.52 (35.62)
Treasury Bonds (% share of total)	315.39 (4.43)	296.22 (3.75)
Total	**7,118.97**	**7,904.02**

Figure 5.1: Composition of Domestic Debt Stock by Instruments as at end of December, 2014



5.2 Trend and Composition of Domestic Debt Outstanding by Instruments

The stock of FGN's domestic debt has risen steadily since 2010, from ₦4,551.82 billion in 2010 to ₦7,904.02 billion in 2014 (Table 5.2). The rising trend of domestic debt over the 5-year period was largely attributed to new borrowings for funding part of the budget deficit. Further review shows that, the stock of FGN Bonds and NTBs increased from ₦2,901.60 billion and ₦1,277.10 billion in 2010 to ₦4,792.28 billion and ₦2,815.52 billion in 2014, respectively. While the stock of Treasury Bonds has maintained a downward trend from ₦372.90 billion in 2010, to ₦296.22 billion in 2014, the final redemption of Development Stock was completed in 2010. Table 5.2 also shows the composition of the domestic debt outstanding by instruments for the period, 2010 to 2014.

Table 5.2: Trend in Domestic Debt Outstanding by Instruments, 2010 – 2014 (₦' Billion)

INSTRUMENTS	2010	2011	2012	2013	2014
FGN Bonds	2,901.60	3,541.20	4,080.05	4,222.03	4,792.28
NTBs	1,277.10	1,727.91	2,122.93	2,581.55	2,815.52
Treasury Bonds	372.90	353.73	334.56	315.39	296.22
Development Stock	0.22	-	-	-	-
TOTAL	**4,551.82**	**5,622.84**	**6,537.54**	**7,118.97**	**7,904.02**

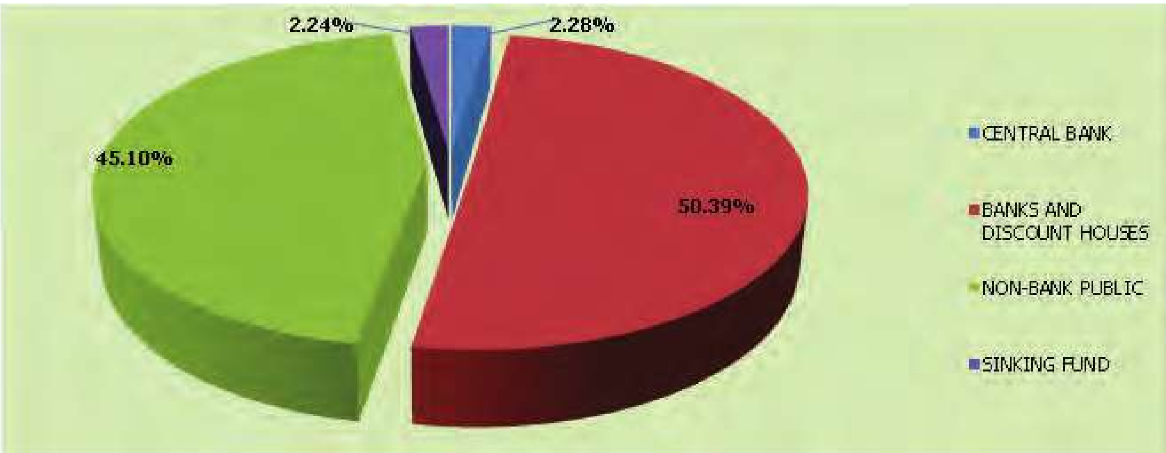
5.3 Domestic Debt Stock by Category of Holders

The domestic debt outstanding by holders category as at end of December, 2014, as shown in Table 5.3 and Figure 5.2, indicates that Banks and Discount Houses and Non-Bank Public accounted for the largest portion of the domestic debt stock, with each holding ₦3,982.72 billion or 50.39 percent and ₦3,564.32 billion or 45.10 percent, respectively. The Central Bank of Nigeria (CBN) held ₦180.21 billion or 2.28 percent of the total debt stock, while the balance of ₦176.77 billion or 2.24 percent was held in a Sinking Fund investment.

Table 5.3: Domestic Debt Outstanding by Category of Holders as at end of December, 2014 (₦' Billion)

Instruments	Central Bank	Banks and Discount Houses	Non-Bank Pubic	Sinking Fund	Amount Outstanding
FGN Bonds	58.95	2,013.60	2,719.73	-	4,792.28
Nigerian Treasury Bills (NTBs)	1.81	1,969.12	844.59	-	2,815.52
Treasury Bonds	119.45	-	-	176.77	296.22
Total	**180.21**	**3,982.72**	**3,564.32**	**176.77**	**7,904.02**
% of Total	**2.28%**	**50.39%**	**45.10%**	**2.24%**	**100%**

Figure 5.2: Composition of Domestic Debt Outstanding by Category of Holders as at end of December, 2014



The trend analysis as shown in Table 5.4 indicates that the domestic debt in all the holders categories has been rising steadily since 2010, with the exception of the CBN, which dropped from ₦343.14 billion in 2010 to ₦180.21 billion in 2014.

Table 5.4: Domestic Debt Outstanding by Holders Category, 2010-2014 (₦' Billion)

Investor-Type	2010	2011	2012	2013	2014
CBN	343.14	348.84	398.27	468.86	180.21
Banks and Discount Houses	2,605.01	3,790.90	3,580.42	3,293.83	3,982.72
Non-Bank Public	1,459.30	1,336.61	2,398.52	3,197.69	3,564.32
Sinking Fund	144.37	146.49	160.32	158.59	176.77
Total	**4,551.82**	**5,622.84**	**6,537.53**	**7,118.97**	**7,904.02**

5.4 Domestic Debt by Residual Maturity

The maturity structure of the domestic debt as at end of December, 2014, shows that, of the portfolio, the short-term instruments (those with not more than one year maturity) constituted 42.71 percent, while, the debt instruments with maturities of between 1 and 3 years and over 3 years (long-term debt) constituted about 15.47 percent and 41.82 percent respectively. The share of 43 and 57 percent for short and long-term domestic debt instruments in the portfolio respectively is in disparity with the DMO's preferred composition of 25 and 75 percent, thus, highlighting the need to realign the debt portfolio, towards achieving the optimum domestic debt mix. Over the past five years, 2010-2014, the maturity structure of domestic debt outstanding by maturity has not changed, as indicated by the continued dominance of medium to long-term debts.

Table 5.5: Maturity Structure of Domestic Debt as at end of December, 2014

Residual Maturity (Years)	% Share of Outstanding Debt
< 1 Year	42.71
> 1-3 Years	15.47
> 3 Years	41.82
Total	**100.00**

Table 5.6: Domestic Debt Outstanding by Residual Maturity, 2010 – 2014 (₦' Billion)

Year	Short Term[1]	Medium-Long Term [2]	Total
2010	1,520.16	3.031.66	4,551.82
2011	2,203.08	3,419.76	5,622.84
2012	3,044.75	3,492.78	6,537.54
2013	3,100.72	4,018.26	7,118.98
2014	3,350.52	4,553.50	7,904.02

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 as at end of December, 2014, amounted to ₦865.81 billion, representing an increase of ₦71.79 billion or 9.03 percent, over ₦794.10 billion in the corresponding period of 2013 (Table 5.7). The domestic debt service by instrument-type, showed that FGN bonds debt service accounted for 59.11 percent of the total debt service payment, while payments in respect of the Nigerian Treasury Bills (NTBs), and Treasury Bonds were 34.68 percent and 6.21 percent, respectively. The trend analysis shows a continued rise in domestic debt service payments from 2010 to 2014 (Table 5.8). This is explained by the increase in domestic debt stock, coupled with higher market interest rates, which led to the rise in the cost of borrowing in the domestic market.

Table 5.7: Domestic Debt Service, 2014 (₦' Million)

INSTRUMENTS	PRINCIPAL REPAYMENT	INTEREST	TOTAL
FGN Bonds	0.00	511,778.24	511,778.24
NTBs	0	300,267.31	300,267.31
Treasury Bonds	19,170.00	34,593.63	53,763.63
Total Debt Services	19,170.00	846,639.18	865,809.18

FGN Bonds and NTBs that matured during period were refinanced

Figure 5.3: Composition of Domestic Debt Service, 2014

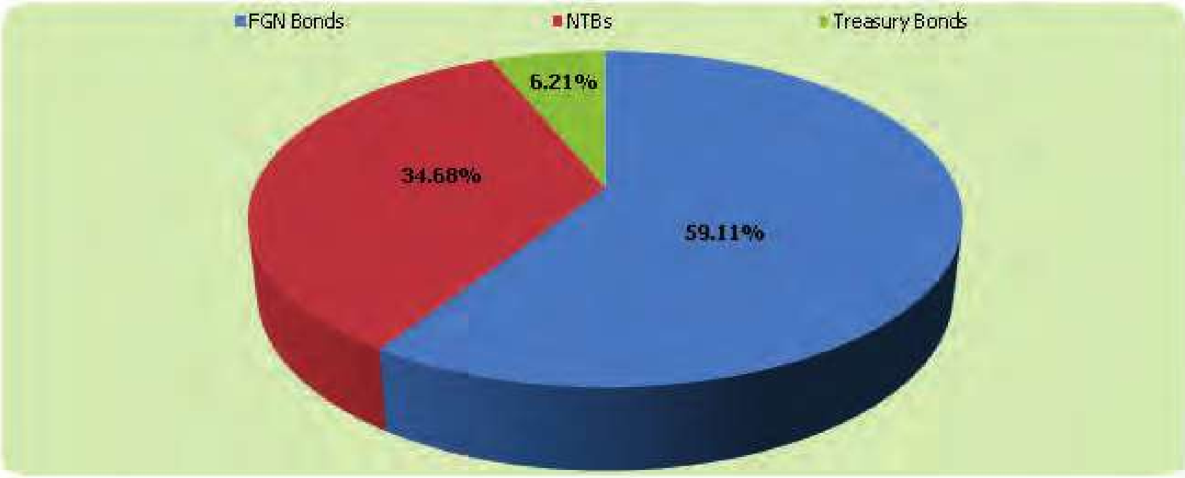


Table 5.8: Trends in Domestic Debt Service, 2010-2014 (₦' Billion)

YEAR	DEBT SERVICE
2010	354.13
2011	537.39
2012	720.55
2013	794.10
2014	865.81

5.6 The Domestic Bond Market

The Domestic Bond Market as in previous years, remained active as issuers accessed the market for capital, while regulators and operators introduced new initiatives. One of the significant developments in the year 2014, was the issuance of a Naira Bond by another Supranational – African Development Bank. Other notable developments were:

(i) The introduction of a new 20-year FGN Benchmark Bond (12.1493% FGN July 2034) and re-designation of the 10% FGN July 2030 as the 15-year Benchmark. With these, the number of FGN Benchmark Bonds grew from six (6) in 2013 to seven (7) in 2014;

(ii) The inclusion of one (1) additional FGN Bond by J P Morgan and Barclays Capital to their respective indices. Following from these, the number of FGN Bonds in the J P Morgan's Government Bond Index – Emerging Markets (GBI-EM) and the Barclays Capital's Emerging Market – Local Currency Bond Index stood at six (6) and eleven (11) respectively as at December 31, 2014;

(iii) The introduction by the Financial Markets Dealers Quotation E-Bond Trading System, which became operational in March, 2014, for the trading of FGN Bonds and Nigerian Treasury Bills (NTBs), amongst other instruments;

(iv) The introduction by the Central Securities Clearing System (CSCS) of the use of Legal Entity Identifier (LEI) Code for market operators;

(v) The launch by the Securities and Exchange Commission (SEC), in collaboration with the Capital Market Committee (CMC) of the Capital Market Literacy Master Plan (CMLMP), the Collective Investment Scheme (CIS), and the Non-interest Capital Market Master Plan (NICMM) 2015-2025; and,

(vi) The launch by The Nigerian Stock Exchange (NSE) of a whistle-blowing platform known as X-Whistle to ensure the minimization of the rate of infractions in the market.

5.6.1 Size and Composition of the Domestic Bond Market

In terms of Face Value of outstanding Bonds, excluding Bonds issued by the Asset Management Corporation of Nigeria, the domestic bond market, grew by 14.08 percent, from ₦4,981.88 billion in 2013, to ₦5,683.46 billion in 2014. All segments of the bond market by category of Issuers, namely: (Federal Government of Nigeria, State Governments, Corporates and Supra-national) grew, which is an indication of increasing use of the domestic bond market for raising long-term capital. The proportionate share of FGN Bonds declined from 84.75 percent in 2013 to 84.32 percent in 2014, while State Governments Bonds stood at ₦638.90 billion in 2014, which however, resulted in a decrease in their relative share from 11.52 per cent in 2013 to 11.24 percent in 2014. The outstanding Corporate Bonds increased from ₦173 billion in 2013 to ₦227.33 billion in 2014. Their share at 4.00 percent in 2014, was higher than the 3.49 percent recorded in the corresponding period of 2013. Supra-nationals rose to 0.44 percent in 2014 compared with the 0.24 percent recorded in 2013, this increase was as a result of the issuance of a Naira Bond by the African Development Bank in 2014 (Table 5.9).

Table 5.9: Size and Composition of Domestic Bond Market, 2013 - 2014

	2013		2014	
Issuer	**Amount Outstanding (₦' Billion)**	**% of Total**	**Amount Outstanding (₦' Billion)**	**% of Total**
Federal Government of Nigeria	4,222.04	84.75	4,792.28	84.32
State Governments	573.90	11.52	638.90	11.24
Corporates	173.94	3.49	227.33	4.00
Supra-Nationals	12.00	0.24	24.95	0.44
Total	**4,981.88**	**100.00**	**5,683.46**	**100.00**

Source: Securities and Exchange Commission and Debt Management Office
Note: Excludes Bonds issued by Asset Management Corporation of Nigeria

5.6.2 FGN Bonds Primary Market Activities

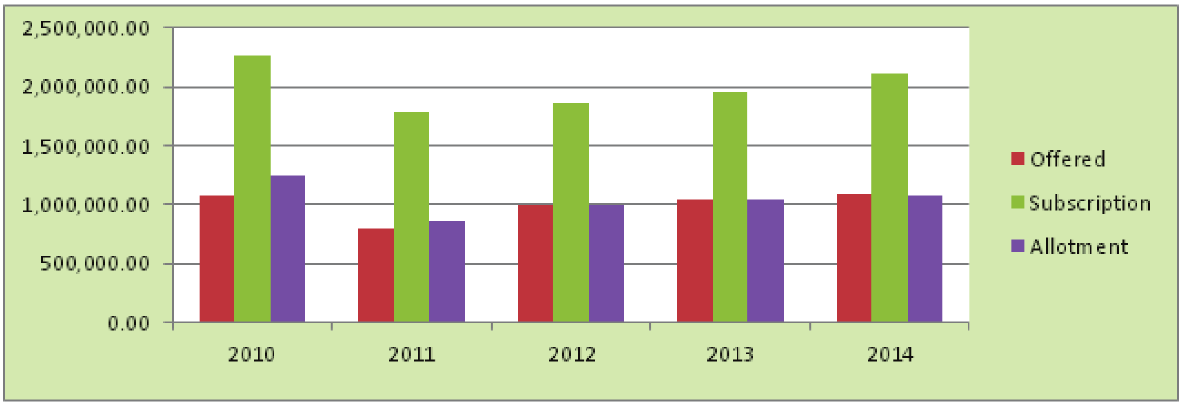
The FGN Bonds primary market activities show that 3, 5, 10 and 20-year benchmark FGN Bonds were offered during the year. A total of ₦1,091.744 billion was offered and ₦1,070.244 billion allotted from the total subscription of ₦2,108.071 billion in 2014. The year 2014, recorded a subscription level of ₦2,108.071 billion, which is slightly higher than the previous year's subscription by 8.21 percent (Table 5.10 and Figure 5.4). Out of the amount allotted to the bidders, the sum of ₦114.484 billion was allotted on non-competitive basis to institutional investors.

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

Table 5.10: FGN Bonds Primary Market Issuance, 2010 – 2014 (₦' Million)

Year	Offer	Subscription	Allotment
2010	1,073,120.00	2,267,760.41	1,244,439.79
2011	791,268.42	1,781,621.68	863,268.42
2012	994,850.00	1,858,188.06	994,850.00
2013	1,044,643.14	1,948,108.48	1,044,643.14
2014	1,091,743.83	2,108,070.49	1,070,243.52

Figure 5.4: Summary of Yearly FGN Bonds Offer, Subscription & Allotment, 2010-2014 (₦' Million)



5.6.3 FGN Bonds Primary Market Activities

A breakdown of the allotments of the FGN Bonds by Residency Classification shows that resident investors accounted for ₦1,023,470.65 million or 95.63 percent of bonds allotted in 2014, compared to ₦884,262.33 million or 84.65 percent in 2013. On the other hand, non-resident investors accounted for ₦46,772.87 million or 4.37 percent of bonds allotted in 2014, compared to ₦160,380.81 million or 15.35 percent in 2013 (Table 5.11), indicating a reduction in the participation of this category of investors.

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

	2013		2014	
Classification	**Amount**	**% of Total**	**Amount**	**% of Total**
Residents	884,262.33	84.65	1,023,470.65	95.63
Non-Residents	160,380.81	15.35	46,772.87	4.37
Total	**1,044,643.14**	**100.00**	**1,070,243.52**	**100.00**

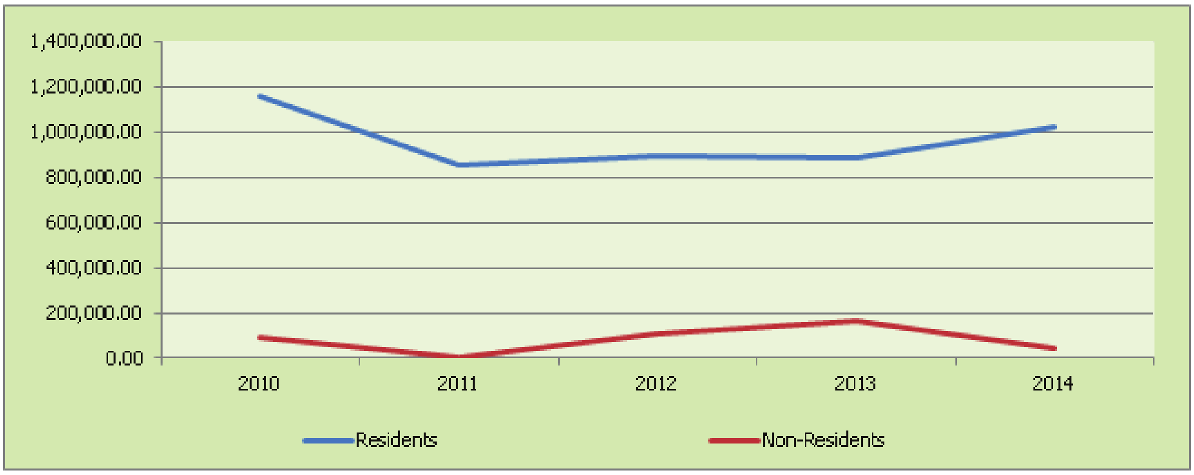
5.6.4 Trend Analysis of FGN Bonds Allotment by Residency

The trend analysis of FGN Bonds allotments by residency shows an increasing interest by non-resident investors in FGN Bonds from 2011 up until 2013, after which a sharp decline was observed in 2014. The share of non-resident investors trended downward from ₦160,380.81 million in 2013 to ₦46,772.87 million in 2014, while the volume of resident investors rose from ₦884,262.33 million in 2013 to ₦1,023,470.64 million in 2014 (Table 5.12 and Figure 5.5).

Table 5.12: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2010 – 2014 (₦' Million)

Year	Residents	Non-Residents	Total
2010	1,156,237.82	88,201.97	1,244,439.79
2011	857,196.62	6,071.80	863,268.42
2012	890,631.48	104,218.52	994,850.00
2013	884,262.33	160,380.81	1,044,643.14
2014	1,023,470.64	46,772.87	1,070,243.52

Figure 5.5: Summary of Yearly Allotment of FGN Bonds by Residency Classification, 2010 – 2014 (₦' Million)



5.6.5 Analysis of FGN Bond Auctions by Tenor

The analysis of the FGN bonds Auction by tenor offered in 2014, shows that bonds with tenors of 3, 5, 10 and 20 years were issued (Table 5.13). The 3-year bond accounted for 35.41 percent of FGN Bonds offered, while the 5, 10 and 20-year tenors accounted for 0.31, 39.55, and 24.73 percent, respectively. Furthermore, Tables 5.14 and 5.15 show the breakdown of monthly FGN Bonds offered by tenor, and monthly FGN Bond Issuance, Subscriptions and Allotments in 2014. The trend of monthly issuance activity is shown in Figure 5.6.

Table 5.13: Analysis of FGN Bonds Issuance by Tenor, 2014 (₦' Million)

Tenor*	Amount (₦' Million)	% of Total
3-years	386,585.00	35.41
5-years	3,337.38	0.31
10-years	431,821.44	39.55
20-years	270,000.00	24.73
Total	**1,091,743.83**	**100.00**

* Represents original Issuance tenor

Table 5.14: Monthly Analysis of FGN Bonds Offered by Tenor, 2014 (₦' Million)

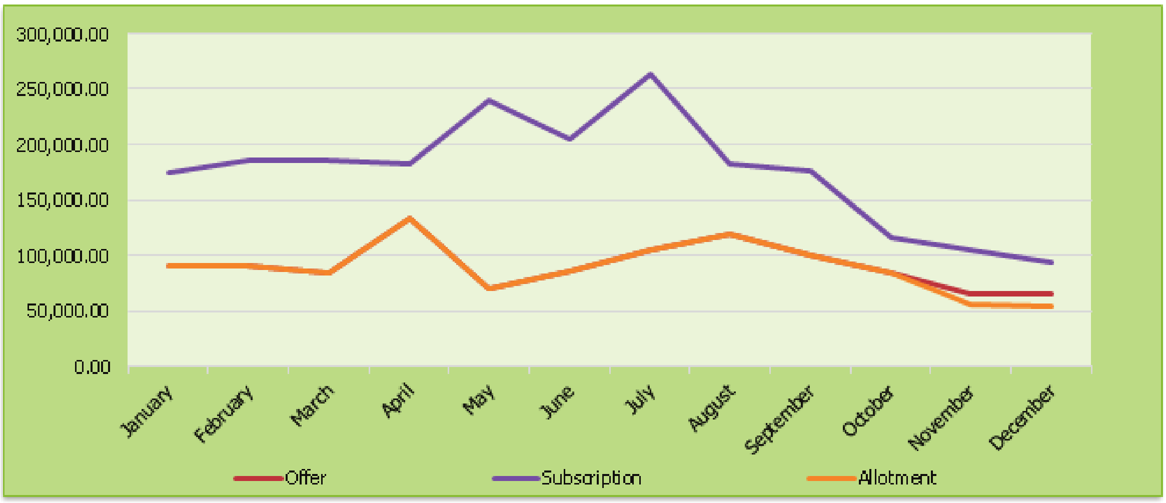
Month	3 Year*	5 Year*	10 Year*	20 Year*	Total
January	45,000.00			45,000.00	90,000.00
February	45,000.00			45,000.00	90,000.00
March	35,000.00		50,000.00		85,000.00
April	107,800.00		25,000.00		132,800.00
May	35,000.00		35,000.00		70,000.00
June	35,173.00		35,000.00		85,173.00
July	15,000.00		54,981.44	35,000.00	104,981.44
August	15,000.00	3,337.38	66,510.00	35,000.00	119,847.38
September	15,000.00		50,000.00	35,000.00	100,000.00
October	18,612.00		40,330.00	25,000.00	83,942.00
November	10,000.00		30,000.00	25,000.00	65,000.00
December	10,000.00		30,000.00	25,000.00	65,000.00
Total	**386,585.00**	**3,337.38**	**431,821.44**	**270,000.00**	**1,091,743.83**

* Represents original Issuance tenor

Table 5.15: Monthly FGN Bonds Offer, Subscription & Allotment, 2014 (₦' Million)

Month	Offer	Subscription	Allotment
January	90,000.00	173,953.31	90,000.00
February	90,000.00	185,374.59	90,000.00
March	85,000.00	185,558.33	85,000.00
April	132,800.00	183,070.89	132,800.00
May	70,000.00	239,024.32	70,000.00
June	85,173.00	204,527.61	85,172.68
July	104,981.44	263,910.61	104,981.44
August	119,847.38	182,664.99	119,847.38
September	100,000.00	175,986.39	100,000.00
October	83,942.00	116,307.60	83,942.00
November	65,000.00	104,100.80	55,000.00
December	65,000.00	93,591.05	53,500.00
Total	**1,091,743.83**	**2,108,070.49**	**1,070,243.52**

Figure 5.6: Summary of Monthly FGN Bonds Offer, Subscription & Allotment, 2014 (₦' Million)



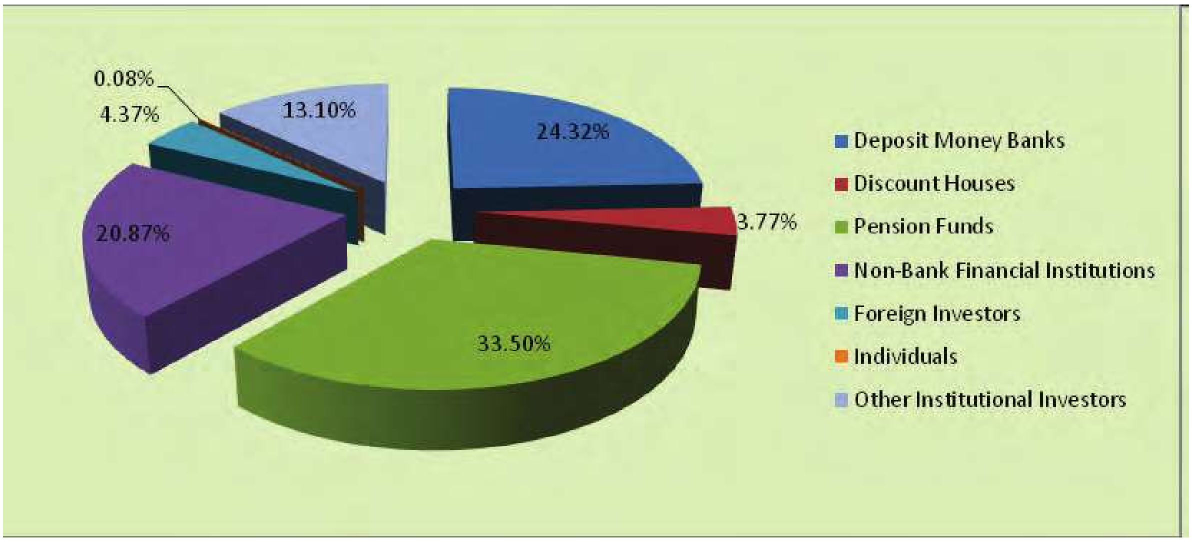
5.6.6 Allotment of FGN Bonds by Investor-Type, 2014

The analysis of FGN Bonds allotments by investor-type depicts that the Pension Fund Administrators accounted for 33.50 percent of the total FGN Bonds allotted in the year 2014. This was followed by the Deposit Money Banks, Non-Bank Financial Institutions and Other Institutional Investors accounting for 24.32, 20.87 and 13.10 percent of total allotment, respectively (Table 5.16 and Figure 5.7).

Table 5.16: Summary of FGN Bond Auctions & Details of Allotment by Investor Type, 2014 (₦' Million)

DESCRIPTION	AMOUNT	RESULT
Total Amount Offered		1,091,743.83
Total Subscription		2,108,070.49
Range of Bids (%)		10.0000% - 23.0000%
Range of Marginal Rates (%)		11.3599% - 15.4900%
Range of Coupons (6)		10.00% - 16.39%
		% OF TOTAL ALLOTMENT
Deposit Money Banks	260,326.25	24.32
Discount Houses	40,307.64	3.77
Pension Funds	358,545.21	33.50
Non-Bank Financial Institutions	223,307.67	20.87
Foreign Investors	46,772.87	4.37
Individuals	833.39	0.08
Other Institutional Investors	140,150.50	13.10
TOTAL ALLOTMENT	**1,070,243.52**	**100.00**

Figure 5.7: Allotment of FGN Bonds Issuance by Investor-Type, 2014

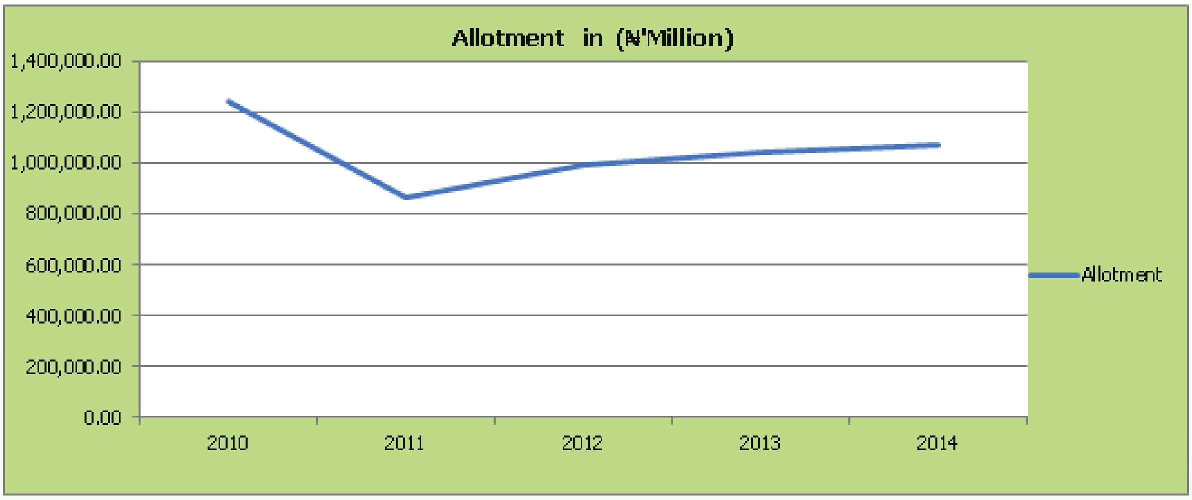


Further analysis of the breakdown of the allotment revealed that most of the investors showed strong appetite for short-term instruments with the exception of Pension Funds. The analysis of FGN Bonds allotments by investor-type depicts that the Pension Fund Administrators subscribed to 33.50 percent of the total FGN Bonds allotted in the year 2014.

5.6.7 Trend Analysis of FGN Bonds Allotment

Figure 5.8 shows the trend of allotments of the FGN Bonds from 2010 to 2014. It shows that the highest allotment of ₦1,244.43 billion was recorded in year 2010, after which there was a decline in 2011 to ₦863.27 billion. There has been a gradual increase since 2012 with ₦1,070.24 billion allotted in 2014.

Figure 5.8: Analysis of FGN Bonds Allotments, 2010-2014



5.6.8 Sub-national Bond Issuances in 2014

Issuance of Sub-national Bonds by State Governments in Nigeria was relatively low in 2014, as only one (1) State issued Bonds compared with six (6) States in 2013. The total issuance in terms of Face Value in 2014, was ₦15.00 billion, representing 88 percent lower than the ₦125 billion issued in 2013 (Table 5.17).

Table 5.17: Sub-National Bond Issuances, 2013-2014

2013		2014	
Bond Issuer	**Amount (₦' Billion)**	**Bond Issuer**	**Amount (₦' Billion)**
Ekiti State	5.00	Bauchi State	15.00
Kogi State	5.00		
Nassarawa State	5.00		
Niger State	12.00		
Lagos State	87.50		
Osun State (Sukuk)	11.40		
Total	**125.90**	**Total**	**15.00**

Source: Securities and Exchange Commission

5.6.9 Corporate Bond Issuances in 2014

Table 5.18 shows that four (4) companies issued corporate bonds amounting to N48.04 billion in the year 2014, compared with three (3) companies which issued a total amount of N10.58 billion in 2013.

Table 5.18: Corporate Bond Issuances, 2013-2014

2013		2014	
Bond Issuer	**Amount (₦' Billion)**	**Bond Issuer**	**Amount (₦' Billion)**
FSDH Funding SPV Plc	5.53	Stanbic IBTC	15.54
LA Casera Company Plc	3.00	Fidson Healthcare Plc	2.00
Nigeria Aviation Handing Company Plc	2.05	Dana Group of Companies Plc	4.50
		FCMB	26.00
Total	**10.58**	**Total**	**48.04**

Source: Securities and Exchange Commission

5.7 FGN Bond Secondary Market Activities

5.7.1 Over-The-Counter Market

The level of trading activities in the FGN Bond Market remained strong in 2014, despite some initial challenges encountered with the use of S4 for the settlement of Trades in early 2014. Total Face Value of Trades and Consideration declined slightly by 5.91% and 9.53% respectively from ₦7.858 trillion and ₦8.918 trillion in 2013 to ₦7.393 trillion and ₦8.068 trillion in 2014. Number of Deals on the other hand, was higher in 2014. The number increased from 45,735 in 2013 to 45,890 in 2014 (Table 5.19).

Table 5.19: OTC Trading Activities in FGN Bonds, 2013-2014

	2013			2014		
Period	Number of Transactions	Face Value (₦)	Consideration (₦)	Number of Transactions	Face Value (₦)	Considerations (₦)
January	4,841	769,163,939,000	878,083,623,588.49	2,577	441,540,575,000	457,269,981,310.07
February	4,407	819,530,732,000	984,984,817,063.63	3,383	614,048,402,000	635,479,976,409.18
March	4,691	797,588,042,000	990,398,819,009.62	2,317	389,319,350,000	394,024,786,152.75
April	3,925	672,495,342,000	815,967,748,621.64	2,570	372,925,717,000	410,381,683,750.05
May	5,065	772,208,385,000	890,765,021,336.55	4,120	646,233,950,000	722,922,593,220.82
June	5,224	948,460,124,000	1,081,512,601,645.63	3,663	528,187,033,000	602,555,373,101.32
July	4,982	709,653,665,000	770,622,127,490.43	3,403	586,241,978,000	663,900,256,591.34
August	3,406	542,954,400,000	561,006,418,384.65	3,789	620,113,789,000	710,766,312,837.00
September	2,132	470,748,591,000	486,573,568,085.68	5,005	738,440,111,000	826,449,046,750.63
October	2,932	517,379,879,000	562,093,266,498.99	6,508	1,001,357,932,000	1,086,814,978,349.95
November	2,778	558,365,869,000	597,045,664,100.62	5,148	820,754,101,000	873,810,284,504.91
December	1,352	280,091,580,000	294,737,121,276.57	3,408	634,724,024,000	683,766,023,708.03
Total		**7,858,640,548,000**	**8,913,797,102.48**	**45,890**	**7,393,886,962,000**	**8,068,141,296,686.04**

Source: Central Bank of Nigeria - For 2014 Data and Central Securities Clearing System-For 2013 Data
Notes: OTC Trade Data for 2013 is as at December 19, 2013

5.7.5 Over-The-Counter and Exchange Trades

Total Face Value of Transactions and Consideration traded on the Exchange in 2014, stood at ₦274.89million and ₦295.05million respectively. These were 44.58% and 48.20% higher than their corresponding figures of ₦190.123 million and ₦199.10 million in 2013. Number of Transactions traded on the Exchange however, fell from 551 in 2013 to 200 in 2014. The combined OTC Market and Exchange Trades in 2014 in terms of Total Face Value of Transactions, Consideration and Number of Transactions were ₦7.394 trillion, ₦8.068 trillion and 46,090 respectively. These were slightly lower than the corresponding figures of ₦7.858 trillion, ₦8.913 trillion and 46,286 recorded as Total Face Value, Consideration and Number of Transactions in 2013 (Table 5.20).

5.7.6 Sovereign Yield Curve

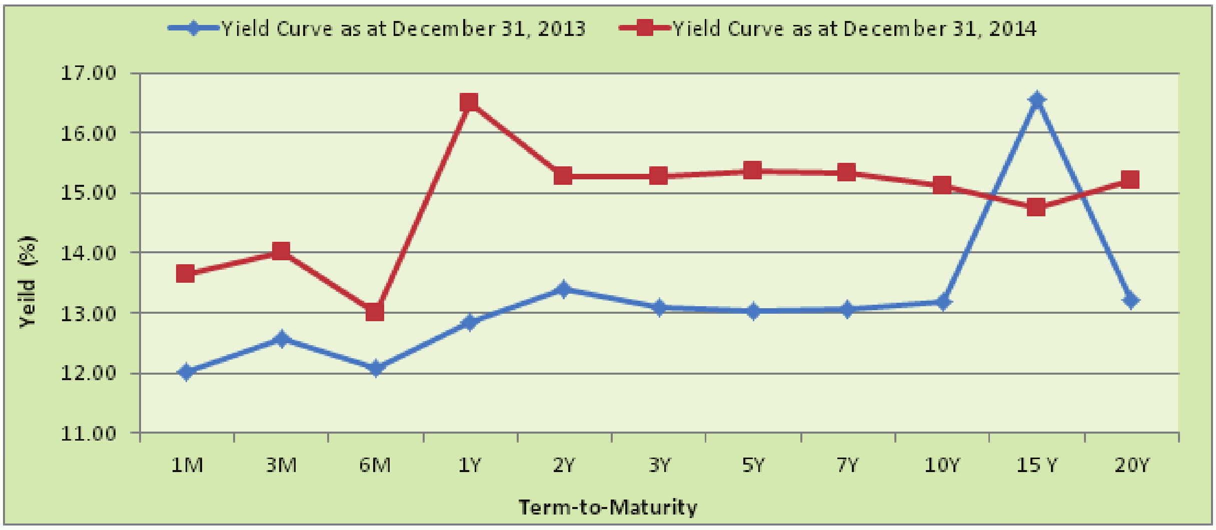
As depicted in Figure 5.9, yield curve in 2014, witnessed an upward shift compared with the trend in 2013, indicating a rise in the average yield for all the tenors. The yields on short-dated FGN instruments, trended downwards in 2014, but sharply went up to over 16 percent reflecting stronger demand for the instruments, due to the Central Bank of Nigeria's (CBN's) tight monetary policies and concerns for exchange rate volatility. In November, 2014, the CBN increased the Monetary Policy Rate by 100 basis points, from 12 to 13 percent.

Table 5.20: FGN Bonds Market Secondary Market Trades-OTC and Exchange Trading for 2014

Period	Number of Transactions (OTC)	Number of Transactions (Exchange)	Total Number of Transactions	Face Value -OTC (₦)	Face Value-Exchange (₦)	Total Face Value	Consideration- OTC (N)	Consideration-Exchange (N)	Total Consideration (N)
January	2,577	52	2,629	441,540,575,000	12,547,000	441,553,122,000	457,269,981,310.07	12,563,892.37	457,282,545,202.44
February	3,383	29	3,412	614,048,402,000	3,385,000	614,051,787,000	635,479,976,409.18	3,749,878.38	635,483,726,287.56
March	2,317	20	2,337	389,319,350,000	41,721,000	389,361,071,000	394,024,786,152.75	40,830,363.35	394,065,616,516.10
April	2,570	12	2,582	372,925,717,000	1,938,000	372,927,655,000	410,381,683,750.05	2,103,469.53	410,383,787,219.58
May	4,120	8	4,128	646,233,950,000	54,623,000	646,288,573,000	722,922,593,220.82	54,913,876.72	722,977,507,097.54
June	3,663	7	3,670	528,187,033,000	5,900,000	528,192,933,000	602,555,373,101.32	7,188,281.42	602,562,561,382.74
July	3,403	8	3,411	586,241,978,000	11,850,000	586,253,828,000	663,900,256,591.34	15,117,021.92	663,915,373,613.26
August	3,789	22	3,811	620,113,789,000	106,880,000	620,220,669,000	710,766,312,837.00	119,507,671.38	710,885,820,508.38
September	5,005	5	5,010	738,440,111,000	620,000	738,440,731,000	826,449,046,750.63	708,161.87	826,449,754,912.50
October	6,508	4	6,512	1,001,357,932,000	4,810,000	1,001,362,742,000	1,086,814,978,349.95	4,995,053.37	1,086,819,973,403.32
November	5,148	23	5,171	820,754,101,000	11,566,000	820,765,667,000	873,810,284,504.91	12,362,707.06	873,822,647,211.97
December	3,408	10	3,418	634,724,024,000	19,050,000	634,743,074,000	683,766,023,708.03	21,019,422.48	683,787,043,130.51
	45,890	**200**	**46,090**	**7,393,886,962,000**	**274,890,000**	**7,394,161,852,000**	**8,068,141,296,686.04**	**295,059,799.85**	**8,068,436,356,485.88**

Source: Central Bank of Nigeria - For 2014 OTC Data and Central Securities Clearing System for 2014 ATS D

Figure 5.9: The FGN Securities Yield Curve as at end December, 2013 and 2014



Source: Financial Markets Dealers Quotation
Note: The 10.00% FGN July 2030 was the 20-year Benchmark in 2013, but became the new 15-year Benchmark in 2014 based on its Term-to-Marturity and the introduction of a new 20-year Benchmark (12.1493% FGN July 2034).

5.8 New Initiatives in the FGN Bond Market

5.8.1 Number of Primary Dealer Market Makers in FGN Bonds

In 2014, the licences of three (3) of the Primary Dealer Market Makers (PDMMs) licensed by the DMO were suspended, bringing the number of PDMMs to thirteen (13) from sixteen (16) in 2013. The thirteen (13) PDMMs are as shown in Table 5.21. In line with recent requirements of the Central Bank of Nigeria (CBN), the two of the PDMMs, which are discount houses (Associated Discount House Ltd and Kakawa Discount House Ltd) who are in the process of converting to Merchant Banks.

Table 5.21: List of DMO's Primary Dealer Market Makers

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

5.8.2 Benchmark Bonds

The number of FGN Benchmark Bonds increased to Seven (7) with the re-designation of the 10.00% FGN July 2030 which was the 20-year Benchmark for several years, as the 15-year Benchmark and the Issuance of a new 20-year Benchmark, the 12.1493% FGN July 2034. The increase in the number of Benchmark Bonds provides more pricing reference for other financial transactions in the domestic market. The FGN Benchmark Bonds as at December 31, 2014 are as shown in Table 5.22.

Table 5.22: FGN Benchmark Bonds as at end-December, 2014

Bond Name	Tenor Benchmark (Years)
13.05% FGN August 2016	1
15.10% FGN April 2017	3
16.00% FGN June 2019	5
16.39% FGN January 2022	7
14.20% FGN March 2024	10
10.00% FGN July 2030	15
12.1493% FGN July 2034	20

5.8.3 FGN Bonds in Global Bond Indices

J. P Morgan Government Bond Index - Emerging Markets

One more FGN Bond, the 14.20% FGN March 2024 was added to the J.P Morgan – Government Bond Index – Emerging Market (GBI-EM) in 2014. With this addition, the number of FGN Bonds in the Index rose to Six (6) (Table 5.23).

Table 5.23: FGN Bonds in the J.P. Morgan's GBI–EM as at end-December, 2014

S/N	Bond Name
1	13.05% FGN August 2016
2	15.10% FGN April 2017
3	16.00% FGN June 2019
4	7.00% FGN October 2019
5	16.39% FGN January 2022
6	14.20% FGN March 2024

Source: J.P. Morgan

Barclays Capital Emerging Markets-Local Currency Government Bond Index

The 12.1493% FGN July 2034 which is the new 20-year Benchmark, was added to the Barclays Capital Emerging Markets Local Currency Government Bond Index (EM-LCBI) in September 2014 bringing the number of FGN Bonds in the Index to eleven (11) (Table 5.24).

Table 5.24: FGN Bonds in the Barclays Capital's EM – LCBI

No	Bond Name
1	13.05% FGN August 2016
2	15.10% FGN April 2017
3	10.70% FGN May 2018
4	16.00% FGN June 2019
5	7.00% FGN October 2019
6	16.39% FGN January 2022
7	14.20% FGN March 2024
8	12.49% FGN May 2029
9	8.50% FGN November 2029
10	10.00% FGN July 2030
11	12.1493% FGN JUL 2034

Source: Barclays Capital

5.8.4 Issuance of FGN Bonds in Global Depository Notes Format

In July 2014, FGN Bonds were issued in Global Depository Note (GDN) format in the International Capital Market (ICM). This Issuance of FGN Bonds in GDN format was the first by any African Country and was targeted specifically at foreign investors who would otherwise not invest directly in the Domestic FGN Bond Market. At the Issuance, the DMO offered two of its Benchmark Bonds, the 15.10% FGN April 2017 (3-year Benchmark) and 16.39% FGN January 2022 (7-year Benchmark) and attracted a total amount of ₦8.647 billion.

5.8.5 Introduction of the Financial Markets Dealers Quotation E-Trading System

The Financial Markets Dealers Quotation (FMDQ) OTC, which was launched in November 2013 introduced its electronic trading system known as the FMDQ Bloomberg E-Bond Trading System in February 2014. The FMDQ E-Bond Trading System became fully operational in March, 2014 and is now the system used for the trading of FGN Bonds and Nigerian Treasury Bills (NTBs), amongst other products. Trading on the System is by members (for now only banks and discount houses) licensed by FMDQ and all the DMO's Thirteen (13) PDMMs are members.

The successful take-off of the Bloomberg E-Bond Trading System has positioned Nigeria as one of the more advanced fixed income securities markets in Africa. In addition to upscaling the trading process in fixed income securities, it serves to improve information dissemination, transparency and price discovery, all of which align with the DMO's objectives for the development of the FGN Bond Market.

5.8.6 Introduction of Scripless Securities Settlement System

The Scripless Securities Settlement System (S4) introduced by the Central Bank of Nigeria in December, 2013 was deployed for the FGN Bonds and NTB Auctions in 2014.

5.9 Market-wide Developments in 2014

5.9.1 Initiatives by the Securities and Exchange Commission

In 2014, the Securities and Exchange Commission (SEC), in collaboration with the Capital Market Committee (CMC), launched the following programmes:

- Capital Market Literacy Master Plan (CMLMP) which was aimed at increasing public awareness of the Capital Market;
- The Collective Investment Scheme (CIS), to enhance investors' participation in the Capital Market; and,
- The Non-Interest Capital Market Master Plan (NICMM), 2015- 2025, which aims at widening financial inclusiveness in Nigeria.

5.9.2 Introduction of Legal Entity Identifier Code

In line with the requirements in the international financial markets after the Global Financial crisis, in 2008, the Central Securities Clearing System (CSCS) in 2014, introduced the use of the Legal Entity Identifier (LEI) Code which is aimed at creating a database of operators in securities transactions in Nigeria. Under this system, a market operator is assigned a unique identifier code with which its activities in the markets anywhere in the world can be tracked. The major reason for the introduction of Legal Entity Identifier Code is to improve monitoring and supervision of market operators.

5.9.3 Introduction of Whistle-Blowing Portal

The Nigerian Stock Exchange (NSE) in 2014, launched a whistle-blowing platform known as X-Whistle, in order to minimise the rate of infractions in the market. Given that rules violation could occur from any part of the market, the X-Whistle is an effort at encouraging the reporting of such violations to the NSE by stakeholders and members of the public through a confidentiality-protected portal in a responsible and effective manner. It is envisaged that the introduction of the platform would reduce misconduct and fraud-related activities on the exchange and increase confidence of stakeholders in the market.

5.10 Consensus Building in the Domestic Bond Market in Nigeria

The DMO continued to engage with stakeholders in the Nigerian Financial Market in 2014, in order to enhance collaboration and information sharing for the effective growth of the domestic bond market. The following engagements were undertaken by the DMO within the year:

I. Interactive sessions were held with Primary Dealer Market Makers (PDMMs) in the FGN Bonds Market;
ii. Meeting of the Monetary and Fiscal Policy Co-ordinating Committee (MFPCC) made up of institutions and agencies responsible for formulating and implementing fiscal and monetary policies;
iii. Meeting of the Capital Market Committee of the Securities and Exchange Commission;
iv. Participation in the meetings and programmes of the Financial System Strategy 2020 (FSS2020); and,
v. Continuous interactions with stakeholder institutions, namely: the Central Bank of Nigeria (CBN), the Pension Operators Association of Nigeria(PenOP), Securities and Exchange Commission (SEC), National Pension Commission (PenCom), The Nigerian Stock Exchange (NSE), the Central Securities Clearing System (CSCS), Financial Markets Dealers Quotation (FMDQ) OTC Plc and the Non-Interest Finance Working Group (NIFWG).

5.11 Outlook for the Domestic Bond Market

Given the various monetary, exchange and fiscal measures introduced since the Fourth Quarter of 2014, to support economic stability following the drastic fall in crude oil prices, as well as, the fact that Nigeria's General Elections are expected to hold in the first half of 2015, we expect growth and development of the domestic bond market to be modest. Activities may, however, be higher in the second half of 2015.

5.12 The International Capital Market

5.12.1 Performance of Nigeria's Eurobonds in the Secondary Market

Nigeria's three (3) Eurobonds (US$500 million 5.125% July 2018, US$500 million 6.75% January 2021 and US$500 million 6.375% July 2023) were actively traded as investors' appetite for emerging markets' (EM) Eurobonds was high for reasons of portfolio diversification and returns. This demand, together with the decision of the United States Federal Reserve Bank (US Fed) to defer an increase in its policy interest rate until their economy showed sustained recovery, led to a drop in the Yields of many Eurobonds issued by EMs and frontier countries such as Nigeria. Consequently, Yields on Nigeria's three (3) Eurobonds decreased almost steadily till the end of August 2014, when the Yields on the 2018, 2021 and 2023 stood at 3.79%, 4.56% and 4.91% respectively.

The announcement by the US Fed that the Quantitative Easing Programme, which it instituted during the recent global financial crisis in order to promote financial stability and stimulate growth would end in October 2014, led to a reversal in Yield trends. Yields on most Eurobonds particularly those of EMs, trended upwards, while demand for safe assets such as US Treasuries and UK Gilts rose. In addition to the end of Quantitative Easing in October 2014, the crash in the price of crude oil in the fourth quarter of 2014, and concerns about the 2015 General Elections were additional factors that contributed to the increase in the Yields of Nigeria's three (3) Eurobonds. The 2018, 2021 and 2023 closed the year at Yields of 5.24%, 6.25% and 6.59% respectively. These were higher than their opening Yields in 2014 of 4.6%, 5.47% and 6.01% respectively.

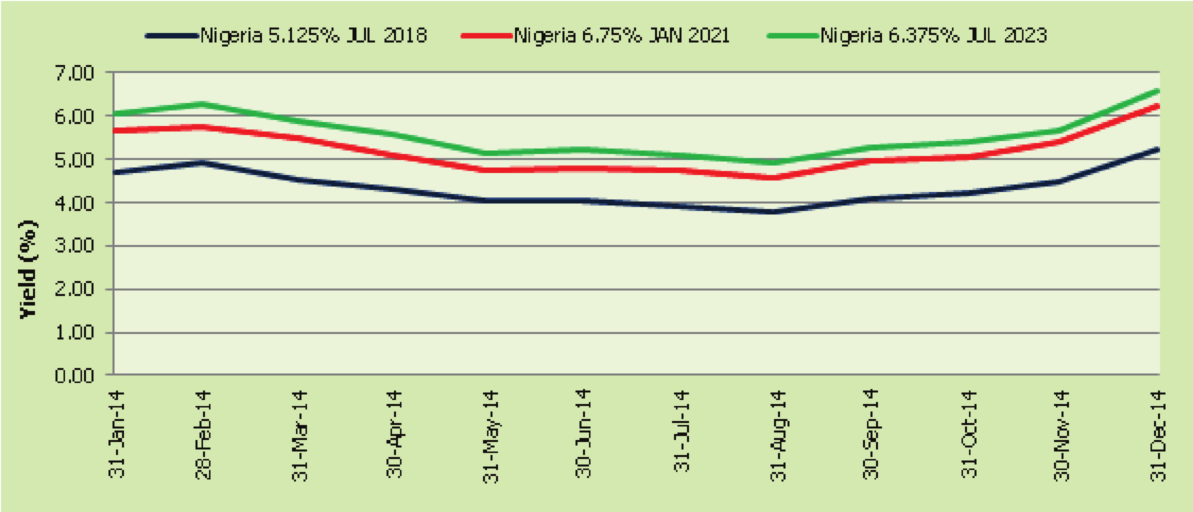
Table 5.25 shows the trends in the Prices and Yields of Nigeria's three (3) Eurobonds in 2014, while Figure 5.10 shows their month-end Yields in 2014.

Table 5.25: Trends in Nigeria's Eurobonds Prices and Yields (January – December, 2014)

Date	Nigeria 5.125% JUL 2018		Nigeria 6.75% JAN 2021		Nigeria 6.375% JUL 2023	
	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)	Closing Price (USD)	Closing Yield (%)
31-Jan-14	101.71	4.69	106.15	5.67	102.15	6.07
28-Feb-14	100.79	4.92	105.52	5.77	100.81	6.26
31-Mar-14	102.25	4.54	107.20	5.47	103.44	5.89
30-Apr-14	103.03	4.32	109.20	5.12	105.53	5.60
30-May-14	104.12	4.03	111.45	4.72	108.81	5.15
30-Jun-14	104.04	4.03	110.88	4.80	108.23	5.22
31-Jul-14	104.35	3.92	111.14	4.73	108.95	5.12
30-Aug-14	104.75	3.79	112.04	4.56	110.45	4.91
30-Sep-14	103.52	4.11	109.55	4.97	107.59	5.28
31-Oct-14	103.13	4.20	108.87	5.07	106.68	5.40
29-Nov-14	102.13	4.48	107.02	5.39	104.71	5.68
31-Dec-14	99.64	5.24	102.50	6.25	98.61	6.59

Source: Bloomberg

Figure 5.10: Trends in Nigeria's Eurobonds Yields (January - December, 2014)



Source: Bloomberg

5.12.2 Comparative Performance of other African Sovereigns Eurobonds

The secondary market performance of African sovereign Eurobonds was also affected by the end of the Quantitative Easing Programme by the US Fed and in some cases, collapse of commodity prices. Others such as South Africa and Ghana had economic downturns, which led to downgrades in their credit ratings. Accordingly, while most African Sovereign Eurobonds witnessed declines in their yields uptill August, 2014, the trend reversed in September, 2014, and in the case of Ghana the yields rose rather sharply (Table 5.26 and Figure 5.11)

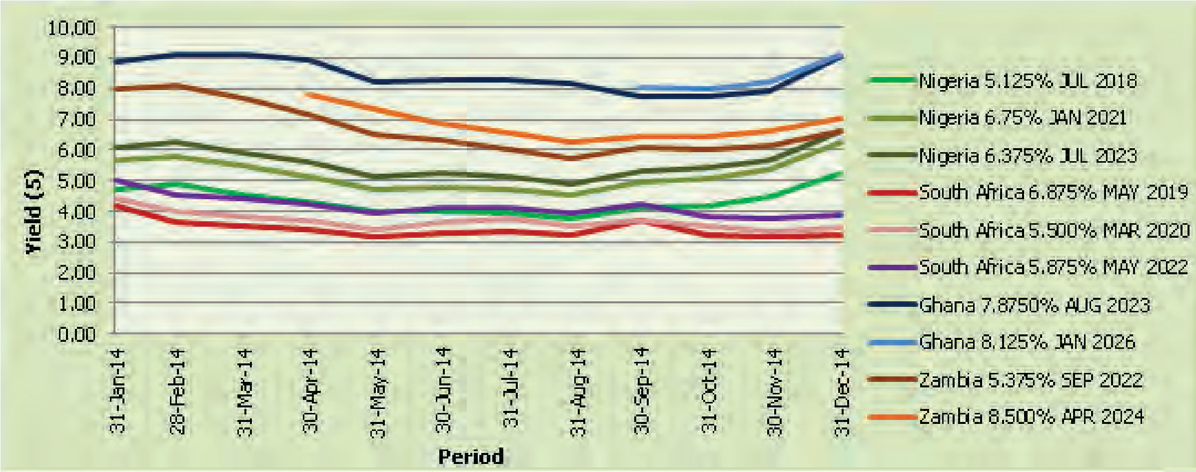
Table 5.26: Yields on African Sovereigns' Eurobonds in 2014

	Nigeria 5.125% JUL 2018	**Nigeria 6.75% JAN 2021**	**Nigeria 6.375% JUL 2023**	**South Africa 6.875% MAY 2019**	**South Africa 5.500% MAR 2020**	**South Africa 5.875% MAY 2022**	**Ghana 7.8750% AUG 2023**	**Ghana 8.125% JAN 2026***	**Zambia 5.375% SEP 2022**	**Zambia 8.500% APR 2024****
	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)	Yield (%)
31-Jan-14	4.69	5.67	6.07	4.17	4.41	5.02	8.90	N/A	8.00	N/A
28-Feb-14	4.92	5.77	6.26	3.62	3.97	4.52	9.12	N/A	8.08	N/A
31-Mar-14	4.54	5.47	5.89	3.53	3.84	4.42	9.14	N/A	7.66	N/A
30-Apr-14	4.32	5.12	5.60	3.41	3.72	4.25	8.91	N/A	7.14	7.80
30-May-14	4.02	4.72	5.15	3.18	3.43	3.93	8.21	N/A	6.49	7.34
30-Jun-14	4.03	4.80	5.22	3.31	3.63	4.10	8.26	N/A	6.30	6.86
31-Jul-14	3.92	4.73	5.12	3.37	3.75	4.14	8.29	N/A	6.02	6.53
29-Aug-14	3.79	4.56	4.91	3.23	3.51	3.91	8.15	N/A	5.71	6.24
30-Sep-14	4.11	4.97	5.28	3.69	3.73	4.24	7.74	8.02	6.09	6.45
31-Oct-14	4.20	5.07	5.40	3.22	3.50	3.81	7.75	7.99	6.02	6.41
29-Nov-14	4.48	5.39	5.68	3.14***	3.34***	3.75***	7.94	8.20	6.14	6.60
31-Dec-14	5.24	6.25	6.59	3.24	3.45	3.88	9.06	9.14	6.61	7.01

Source: Bloomberg

Note: *Ghana's 8.125% Jan 2026 was issued in Sept 2014
**Zambia's 8.50% April 2024 was issued in April 2014
***Data is as at November 27, 2014

Figure 5.11: Yields on African Sovereigns' Eurobonds in 2014



Source: Bloomberg

5.12.3 Eurobonds issued by African Sovereigns in 2014

Table 5.27 shows that five (5) African Sovereigns issued Eurobonds in 2014. These countries were: Zambia (US$1,000 million), Ghana (US$1,000 million), Senegal (US$500 million), Cote d'Ivoire (US$750 million) and Kenya (US$2,750 million). Four (4) of the five (5) countries had accessed the International Capital Market previously, but it was a debut issuance for Kenya, that issued two Eurobonds in two tranches comprising a 5-year US$750 million and 10-year US$2,000 million.

Table 5.27: Eurobonds Issued by African Sovereigns in 2014

Country	Rating			Date Issued	Amount (US$ million)	Tenor (Yrs)	Coupon (%)	Issue Yield (%)
	Fitch	S&P	Moody's					
Zambia*	B	B+	-	April 14, 2014	1,000	10	8.500	8.625
Kenya*	B+	B+	-	June 24, 2014	750	5	5.875	5.875
Kenya*	B+	B+	-	June 24, 2014	2,000	10	6.875	6.875
Cote dÍvoire**	B	-	B1	July 23, 2014	750	10	5.375	5.625
Senegal**	B+	-	B1	July 30, 2014	500	10	6.250	6.250
Ghana	B	B	B2	Sept. 18, 2014	1,000	12	8.125	8.250

Source: Thomson Reuters
Note: *Not rated by Moody's
**Not rated by Standard and Poor's

5.12.4 Eurobonds Issued by Nigerian Corporates in 2014

In 2014, four (4) Nigerian banks accessed the ICM, through Eurobonds, which is the same number of Nigerian corporates (all banks) that issued Eurobonds in 2013. The four (4) banks raised a total of US$1,400 million which is marginally higher than the corresponding figure of US$1,360 million in 2013. As shown in Table 5.28 these were Zenith Bank Plc (US$500 million), Diamond Bank Plc (US$200 million), First Bank of Nigeria Ltd. (US$450 million) and Ecobank Nigeria Ltd (US$250 million). The issuance of Eurobonds by these banks were primarily to raise Tier 2 Capital, in order to comply with the minimum capital prescribed by the Central Bank of Nigeria for banks classified as Systematically Important Banks (by the CBN) and improve their lending capacity to the real sector.

Table 5.28: Eurobonds Issued by Nigerian Corporates in 2014

Corporate	Rating			Date Issued	Amount (US$ Million)	Tenor (Yrs)	Coupon (%)	Issue Yield (%)
	Fitch	S&P	Moody's					
Zenith Bank*	B+	BB-	-	April 22, 2014	500	5	6.25	6.50
Diamond Bank*	B	B	-	May 21, 2014	200	5	8.75	9.00
First Bank of Nig. Ltd*	B	B-	-	July 23, 2014	450	7	8.00	8.00
Ecobank Nigeria Ltd**	-	B-	-	Aug. 14, 2014	250	7	8.75	8.75

Source: Thomson Reuters
Note: *Not rated by Moody's
**Not rated by Standard and Poor's

5.13 Outlook for the International Capital Market

The International Capital Market is expected to remain a viable source of capital for frontier and emerging market countries many of whom require funding to compensate for lower revenues (occasioned by fall in commodity prices), finance infrastructure and refinance debt obligations. The level of new Eurobonds issued by countries in these two categories, is therefore, expected to be comparable to 2013 or even higher. Also, demand by investors will remain strong as Yields from such Eurobonds will increase their portfolio returns.

From Nigerian corporates, the level of new issues which has historically been dominated by banks, may not be significantly higher than that of 2014. This expectation is premised on the provisions of a CBN Circular titled "Prudential Regulations for the Management of Foreign Exchange Risks of Banks" issued in October, 2014, which reduced the limit of the aggregate foreign currency borrowing by banks from 200% of shareholders' funds to 75% with immediate effect.

The major determinant of the levels of liquidity and interest rate remain the US Fed and the European Central Bank (ECB). While the ECB has already announced an expansionary monetary policy to stimulate growth in the Eurozone, the US Fed, which ended its' Quantitative Easing Progamme in October 2014, is uncertain of when it would increase its policy rate, as this is dependent on sustained recovery of the US economy.

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

CHAPTER SIX
DEBT SUSTAINABILITY ANALYSIS

The result of the 2014 DSA showed that Nigeria still remained at a low risk of debt distress, as the various debt indictors showed that the public debt portfolio was within the sustainable limits. The debt-to-GDP ratios were at sustainable levels over the period under review, even when various shocks were applied to the baseline scenario. However, all the solvency and liquidity indicators under the fiscal sustainability analysis showed that the debt portfolio was vulnerable to revenue shocks, especially when crude oil price was set below US$50.00pb. Thus, highlighting the need to further strengthen and diversify the revenue base of the country for long-term debt sustainability.

6.1 Introduction

The 2014 Annual Debt Sustainability Analysis (DSA) workshop was held between May 28 and June 9, 2014, by the DMO, in collaboration with all the relevant stakeholders in debt management operations, namely: Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), Office of the Accountant-General of the Federation (OAGF) and the National Bureau of Statistics (NBS). The West African Institute for Financial and Economic Management (WAIFEM), as in the past provided technical assistance. The updated version of the World Bank/IMF Debt Sustainability Framework for Low Income Countries (DSF-LICs) analytical tool released in April, 2014, was used for the conduct of the 2014 DSA exercise, although the country was classified as a Lower-Middle-Income country in 2013. The World Bank/IMF under the Country Policy and Institutional Assessment (CPIA) index classified Nigeria as a Medium Performer with a 3-year moving average score of 3.44.

The objective of the 2014 DSA is to assess the country's capacity to finance its projects/ programmes and service its debt obligations, without unduly large adjustments that may compromise its macroeconomic stability, overall growth and development. The policy objectives include, to:

i. update the 2013 DSA, taking into account recent developments in both local and global economic environments that impact on macroeconomic stability, and in particular, public debt management operations;
ii. analyse the current and future public debt portfolio of the country with a view to assessing its sustainability, detect any potential risks and proffer mitigating measures;
iii. provide guidance to the Government in its borrowing decisions, in order to ensure that financing needs and future repayment ability are taken into account;
iv. advise on borrowing limits for 2015 and financing options; and,
v. provide inputs into the national budget and information necessary for updating the Medium-Term Expenditure Framework (MTEF).

The medium to long-term debt sustainability of the country was analysed under four (4) different scenarios, namely: Baseline, Country-Specific, Optimistic and Pessimistic scenarios. The Baseline assumptions were derived from the 2014 National Budget and Medium-Term Expenditure Framework (MTEF), 2014-2016, which are predicated on a stable macroeconomic operating environment. The Country-Specific Scenario, on the other hand, assumes a drastic and prolonged deterioration in public sector deposits, occasioned by short fall in revenue as a result of persistent shocks in crude oil price and/or production. The Optimistic Scenario is anchored on accelerated implementation of the present administration's Transformation Agenda and the Vision 20:2020. The Pessimistic Scenario assumes a significant reduction in international crude oil prices and depletion of external reserves in the medium to long-term.

The scope of data for the 2014 DSA covered the domestic and external debts of the Federal, State Governments and the Federal Capital Territory (FCT). It also covers the contingent liabilities of the Federal Government of Nigeria (FGN), and the private sector external debts.

6.2 Baseline Scenario

The Baseline Scenario results analysis is presented in two parts: the external debt sustainability of the FGN, which also includes the external debt of State Governments and the FCT and fiscal sustainability of the FGN that comprises its external and domestic debt. The Standard Stress Test for each of these is also discussed.

6.2.1 FGN Debt Sustainability

6.2.1.1 FGN's External Debt Sustainability: Solvency and Liquidity Indicators

As with previous DSA results, the solvency and liquidity indicators under the Baseline Scenario showed that Nigeria is at a very low risk of debt distress. The output Baseline data in Table 6.1, which were derived using the Baseline assumptions earlier discussed, indicates that all the debt indicators would remain below the external debt thresholds for Nigeria's peer group both in the medium to long-term. While the PV of ratio of External Debt/GDP remained constant between 2014 and 2017 before declining, other solvency indicators show a rising trend up to 2019. This means that the increase in the country's GDP is not accompanied by a proportionate increase in export and revenue, thereby making the debt portfolio susceptible to both indicators. Though the liquidity indicators remained relatively low over the projection period compared to the thresholds, it could be observed that the ratio of Debt Service /Revenue not only rose at a faster rate than other indicators with noticeable spikes in 2018, it also kept rising even when the ratio of Debt/GDP was falling, further highlighting the weak link between rising GDP and growth in revenue.

Table 6.1: FGN's External Debt Sustainability Indicators in Percent

Descriptions		Threshold	2014	2015	2016	2017	2018	2019	2024	2034
Solvency Indicators	PV of Debt/GDP	40	2.4	2.4	2.4	2.4	2.3	2.2	1.6	1.5
	PV of Debt/Exports	150	12.9	13.8	14.6	15.1	15.4	15.6	15.6	14.4
	PV of Debt/Revenue	250	51.7	58.6	65.1	69.6	71.6	75.8	79.8	78.9
Liquidity Indicators	Debt Service/Exports	20	0.4	0.5	0.6	0.7	1.3	0.9	1.2	1.2
	Debt Service/Revenue	20	1.7	2.2	2.6	3.1	6.1	4.5	6.4	6.5

6.2.1.2 Standard Stress Test

Figure 6.1 (a-f) illustrate the results obtained under the Standard Stress Test, which shocks the key macroeconomic variables - real GDP growth rate, primary balance, export growth rate and non-debt creating flows at their historical averages minus one standard deviation. The Test also assumes that new debts would be incurred under less favourable terms including a one-time 30 percent nominal depreciation in key flow variables (currency and interest rates) relative to the baseline. The results show that the rate of debt accumulation remained near zero throughout the projection period due to expected robust GDP growth rate, which was more than enough to compensate the impact of the shocks (Figure 6.1 (a)).

The Stress Test results in the panel charts show the impact of most extreme shocks on the solvency and liquidity indicators, which remained above the baseline for all the debt indicators, but well below the thresholds. These results further confirm the fact that the country has no risk of debt distress in the near term under both the baseline and the Standard Stress Test Scenarios. However, particular attention should be paid to Figure 6.1 (1d and 1f), that is, PV of Debt/Revenue and Debt Service/Revenue, respectively, where the shocks cause the indicators to rise sharply towards the thresholds before declining. This confirms the earlier deduction that the country is highly susceptible to revenue shocks and this needs to be addressed.

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

The results obtained under the fiscal sustainability, which combines the external and domestic debt of the FGN also indicates that the FGN is at a low risk of debt distress. The ratio of PV of Total Debt/GDP for which an international threshold is available for Nigeria's peer group is estimated at 11.6 and 10.9 percent for 2014 and 2015, respectively, compared to the international threshold of 56 percent (Table 6.2). The result shows a declining trend based on the assumption of rising GDP, as well as, very low rate of debt accumulation over the period.

Table 6.2: FGN's Fiscal Sustainability Indicators in Percent

Description	Threshold	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt/GDP	56	11.6	10.9	9.7	9.7	8.5	8.1	5.2	3.7
PV of Debt/Revenue	Not Applicable	253.5	264.2	260.9	280.4	266.0	281.6	255.9	195.7
Debt Service/Revenue	Not Applicable	35.4	38.0	31.7	42.5	37.5	46.2	30.4	22.4

6.2.1.4 Standard Stress Test

The results of the Standard Stress Test or the sensitivity analysis of FGN's total debt portfolio, which tests the exposure of the debt portfolio to shocks based on deterioration in major macroeconomic variables are Figure 6.2 (a-c) show that the ratio of PV of Debt/GDP rose in the second year of estimation before trending downward towards the Baseline throughout the projection period. The revenue blocks clearly show that any shock in revenue would lead to debt distress in the medium-term with a high probability of being sustained in the long-term if other sources of revenue are not developed to bridge the gap (Figure 6.2 (b) and (c)).

6.2.1.5 FGN, States and FCT Debt Sustainability

This section comprises the DSA results of the combined debt and revenue data of the FGN and the States, including the FCT. This is in recognition of the fact that Nigeria practices fiscal federalism with fiscally strong and autonomous units, but has only one economy such that the fiscal action or inaction of any of the units affects the whole economy. There is, therefore, the need to ensure that the country maintains overall debt sustainability even as a Federation. The results, thus, obtained show that the Federation is at low risk of debt distress.

6.2.1.6 External Debt Sustainability

Table 6.3 presents the sustainability status of the total external debt portfolio of the Federation – FGN, States and the FCT – under the Baseline Scenario. The difference between this particular result and those obtained under the external debt sustainability of the 'FGN only' discussed under Section 6.2.1.1 is with respect to solvency and liquidity indicators associated with revenue, which improved significantly due to the inclusion of the revenue of States in the analysis. For instance, while PV of External Debt/Revenue is projected at 51.7 percent for FGN only, it is 30.3 percent for the Federation as at the end of 2014, while Debt Service/Revenue is 1.0 percent against 1.7 percent, indicating a more robust sustainability position for the Federation. It is important to emphasize that though the external debt of the States is guaranteed by the FGN, the debt service obligations are those of the States.

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

Descriptions		Threshold	2014	2015	2016	2017	2018	2019	2024	2034
Solvency Indicators	PV of Debt/GDP	40	2.4	2.4	2.4	2.4	2.3	2.2	1.6	1.5
	PV of Debt/Exports	150	12.9	13.8	14.6	15.1	15.4	15.6	15.6	14.4
	PV of Debt/Revenue	250	30.3	33.1	36.9	39.1	40.0	41.8	44.8	63.5
Liquidity Indicators	Debt Service/Exports	20	0.4	0.5	0.6	0.7	1.3	0.9	1.2	1.2
	Debt Service/Revenue	20	1.0	1.2	1.5	1.8	3.4	2.5	3.6	5.3

6.2.1.7 Standard Stress Test

The sensitivity analysis of the sustainability of the Federation reveals a similar pattern as that of the FGN only. The most extreme shocks on the ratios of PV of External Debt/Revenue and Debt Service/Revenue showed rising trends, reaching peaks of 105.7 percent in 2022 and 9.4 percent in 2032, compared to the threshold of 250 and 20 percent, respectively. Thus, under the most extreme shocks of the Baseline Scenario, the external debt portfolio of the Federation remains sustainable in the medium to long-term.

6.2.1.8 Fiscal Sustainability of the Federation (FGN, States & FCT External and Domestic Debt)

The result of the analysis showed that the estimated solvency indicator, ratio of PV of Total Debt/GDP, which is the only one that has a standard threshold of 56 percent in the fiscal block for Nigeria's peer group, is within sustainable limit at 13.3 percent in 2014. The ratio steadily declined throughout the projection period to reach a low level of 4.7 percent in 2034 (Table 6.4). The robustness of this indicator is predicated on the assumptions of improved fiscal discipline leading to a decline in the rate of debt accumulation and rising output. The ratio of PV of Total Debt/Revenue fluctuated at an average of 166.9 percent between 2014 and 2019 before reaching the peak of 196.9 percent at the end of the projection period.

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

Description	Threshold	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt/GDP	56	13.3	12.1	10.7	10.4	9.2	8.9	6.1	4.7
PV of Debt/Revenue	Not Applicable	169.8	167.1	161.8	170.3	162.3	170.3	169.2	196.9
Debt Service/Revenue	Not Applicable	26.3	27.9	25.1	28.9	24.9	29.8	23.9	28.0

6.2.1.9 Standard Stress Test

The results of the Standard Stress Test of the total public debt portfolio of the Federation compare favourably with those obtained under the Baseline Scenario of the FGN's only; particularly with respect to revenue indicators, which show some higher degree of sustainability. The most extreme shock yields the highest ratio 245.7 percent by 2022 before dropping to 100.4 percent at the end of the projection period.

6.3 Optimistic Scenario (FGN Only)

The macroeconomic assumptions under this scenario were hinged on the key planks of the Transformation Agenda of the FGN. This would be occasioned by the effective implementation of the various initiatives under the NIRP, Agricultural Transformation Agenda, and the passage of the Petroleum Industry Bill into law. It is also anchored on reduced inflation and lower fiscal deficit, more favourable crude oil output and price, as well as, current account position, amongst others, in the medium to long-term.

6.3.1 External Debt Sustainability

The results of the analysis on debt indicators under the Optimistic Scenario are generally below those under the Baseline based on the assumptions of robust economic growth and lower fiscal deficit relative to the Baseline. The ratio of PV of External Debt/GDP is projected at 2.3 percent for 2014 and this continued to trend downward over the projection period (Table 6.5). The other non-GDP solvency indicators – ratios of PV of External Debt/Export and PV of External Debt/Revenue – however, rose in the medium term before declining towards the of the projection period. The liquidity indicators also showed a gradual rising trend in the medium term, meaning that exports and revenue did not grow at the same pace with total output, further highlighting the weak link between the GDP and revenue, amongst others.

Table 6.5: External Debt Sustainability Indicators in Percent

Descriptions		Threshold	2014	2015	2016	2017	2018	2019	2024	2034
Solvency Indicators	PV of Debt/GDP	40	2.3	2.3	2.3	2.2	1.8	1.6	1.4	0.8
	PV of Debt/Exports	150	10.1	12.6	13.1	13.9	14.6	11.0	9.5	7.7
	PV of Debt/Revenue	250	42.3	50.4	52.8	56.9	58.1	61.9	57.5	42.0
Liquidity Indicators	Debt Service/Exports	20	0.3	0.4	0.5	0.6	0.9	1.0	1.2	1.0
	Debt Service/Revenue	20	1.5	2.0	2.4	2.7	4.1	3.5	5.4	3.8

6.3.2 Fiscal Sustainability

The sustainability position of the FGN's total debt portfolio in the fiscal block of the Optimistic Scenario shows a robust trend. The ratio of PV of Total Public Debt/GDP declined persistently from its highest value of 10.4 percent obtained in 2014, to as low as 0.9 percent at the end of the projection period (Table 6.6). The ratios of PV of Total Public Debt/Revenue and Total Debt Service/Revenue, which have no set standard benchmarks, reached their peaks of 224.6 and 39.4 percent in 2017 and 2018, respectively before declining much more rapidly towards the end of the projection period, thus, reaffirming the earlier assertion that an effective implementation of the Transformation Agenda would impact positively on the nation's debt sustainability.

Table 6.6: Fiscal Sustainability Indicators in Percent

Description	Threshold	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt/GDP	56	10.4	9.6	8.9	7.7	7.1	6.3	3.0	0.9
PV of Debt/Revenue	Not Applicable	197.3	201.2	220.8	224.6	222.4	217.5	147.0	48.9
Debt Service/Revenue	Not Applicable	24.1	26.0	28.3	29.7	39.4	31.9	20.5	10.4

6.4 Pessimistic Scenario (FGN Only)

The Pessimistic Scenario assumes reduction in the growth of the GDP, increase in the rate of inflation, decline in revenue accruing to the FGN as a result of a steady fall in crude oil prices, deterioration in fiscal deficit and current account balance, amongst others. Unlike the previous year which made Pessimistic Scenario revenue-specific, this year's DSA considered deterioration in a broad range of macroeconomic indicators and variables that could impact negatively on the debt portfolio.

6.4.1 External Debt Sustainability

Although the results indicate that the country would still remain at a low risk of debt distress under the Pessimistic Scenario, it also showed a rising trend for all the debt indicators throughout the projection period. This means that a prolonged deterioration in one or two of the variables could increase the risk of debt unsustainability (Table 6.7). All the indicators reached their peak at the end of the projection period at which point the ratio of PV of External Debt/Exports, in particular breached the threshold, thus, highlighting the need to strengthen the revenue base of the country for long-term sustainability.

Table 6.7: External Debt Sustainability Indicators in Percent (Pessimistic)

Descriptions		Threshold	2014	2015	2016	2017	2018	2019	2024	2034
Solvency Indicators	PV of Debt/GDP	40	2.6	2.8	3.0	3.2	3.2	3.2	3.3	5.4
	PV of Debt/Exports	150	39.7	45.4	50.2	53.9	56.0	59.0	82.6	164.9
	PV of Debt/Revenue	250	60.7	68.8	77.3	84.6	89.7	94.5	110.0	210.7
Liquidity Indicators	Debt Service/Exports	20	1.3	1.7	2.0	2.4	4.8	3.5	6.6	13.6
	Debt Service/Revenue	20	2.0	2.5	3.1	3.8	7.6	5.6	8.8	17.4

6.4.2 Fiscal Sustainability

The results of the analysis under the fiscal block indicate some measure of upward fluctuation in the trend of the ratio of PV of Total Public Debt/GDP, which remained far below the threshold for Nigeria's peer group of 56 percent and the country-specific threshold of 25 percent (Table 6.8). The ratios of PV of Total Public Debt/Revenue and Debt Service/Revenue, which have no internationally established thresholds, also fluctuated; reaching their peaks at the end of the projection period. The gradual rise of the ratio of PV of Total Public Debt/GDP, in a fluctuating manner, shows that the country's debt sustainability is susceptible to decline in major macroeconomic indicators and variables arising from prolonged fall in revenue. This further strengthens the earlier observations that diversified sources of and rising revenue are central to the maintenance of long-term debt sustainability.

Table 6.8: Fiscal Sustainability Indicators in Percent (Pessimistic)

Description	Threshold	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt/GDP	56	12.8	12.5	11.9	12.7	11.7	11.6	10.3	13.1
PV of Debt/Revenue	Not Applicable	298.2	308.1	305.2	333.6	322.4	340.0	342.0	509.1
Debt Service/Revenue	Not Applicable	41.6	44.6	37.6	51.7	46.9	57.6	41.9	59.8

6.5 Country-Specific Scenario (FGN Only)

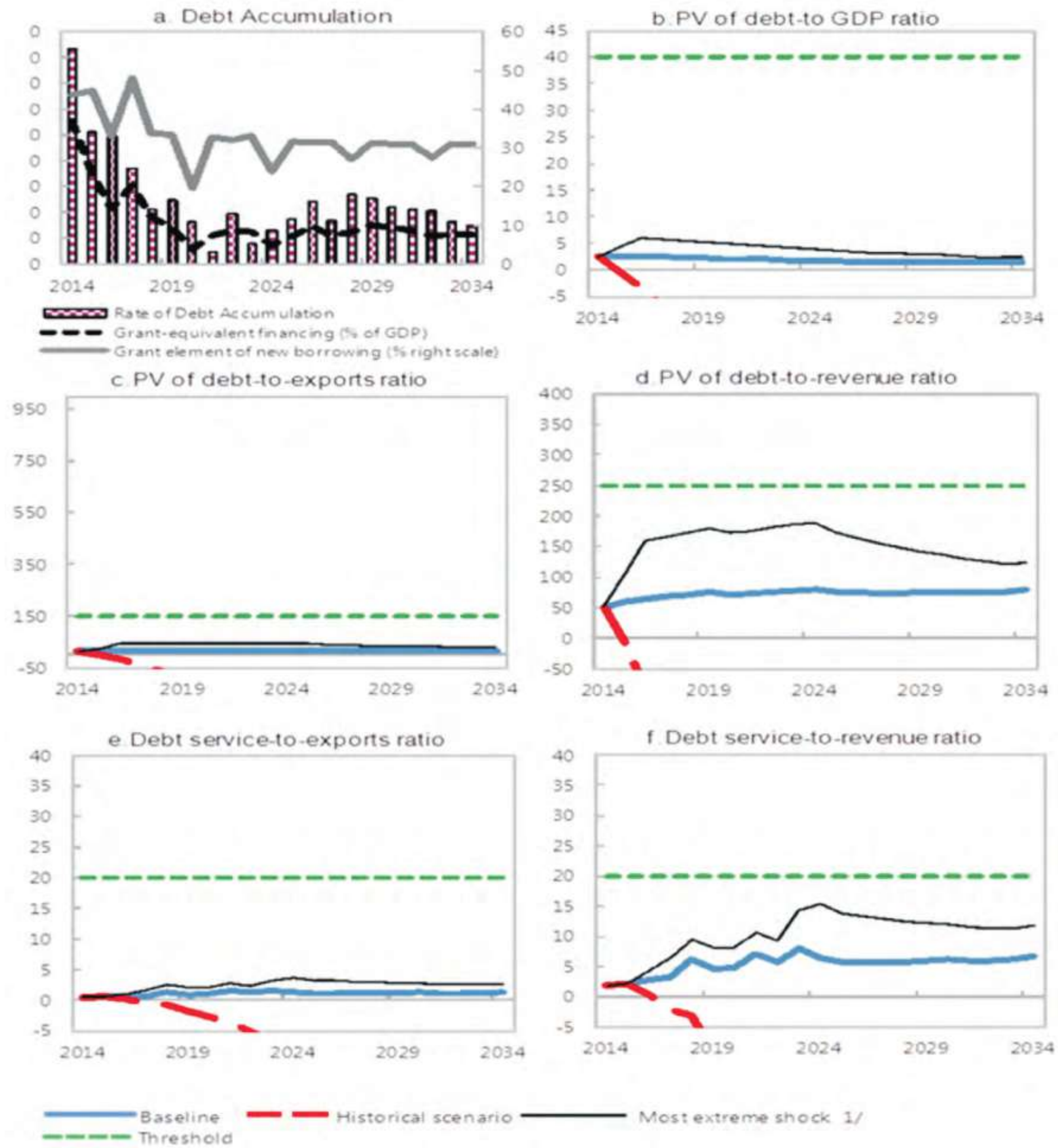
The difference between the Pessimistic Scenario and the Country-Specific Scenario is that while the former deals with general deterioration in macroeconomic indicators and variables, the later is concerned with deterioration in public sector assets, such as, a drastic and persistent fall in public sector deposits in the banking system. This could be triggered by a decline in revenue due to a fall in the price of crude oil, which is the major source of Government's revenue. The net effect is deterioration in the funding gap and an increase in Government's borrowing.

Table 6.9 and figure 6.3 show that a drastic and persistent fall in public sector assets, caused by a fall in revenue, would in the long-run, increase the risk of debt distress. To avoid this situation, the Government needs to harness the traditional revenue sources such as taxation and royalties, which are not subject to external vulnerabilities like the price of crude oil.

6.6 Conclusion

The results of 2014 DSA show that Nigeria still remains at a low risk of debt distress. This is also consistent with the result of 2013 DSA. The Standardized Stress Tests under the Baseline and Optimistic Scenarios show that Nigeria's debt outlook still remains robust in the medium to long-term. However, under the Pessimistic Scenario and customized Country-Specific scenarios, which simulate drastic and sustained deterioration in macroeconomic indicators and public sector assets, respectively, all indicators, particularly revenue-related indicators, deteriorated when compared to the Baseline results. The Country-Specific scenario further show that without significant compensating revenue sources, a prolonged shock in public sector assets or deterioration in the fiscal position of the Government could undermine the progress made in achieving macroeconomic and debt sustainability. It is important to add that, as with last year's DSA, the 2014 DSA considered both the domestic and external debt of the FGN, States and the FCT, contingent liabilities of the FGN and private sector external debts.

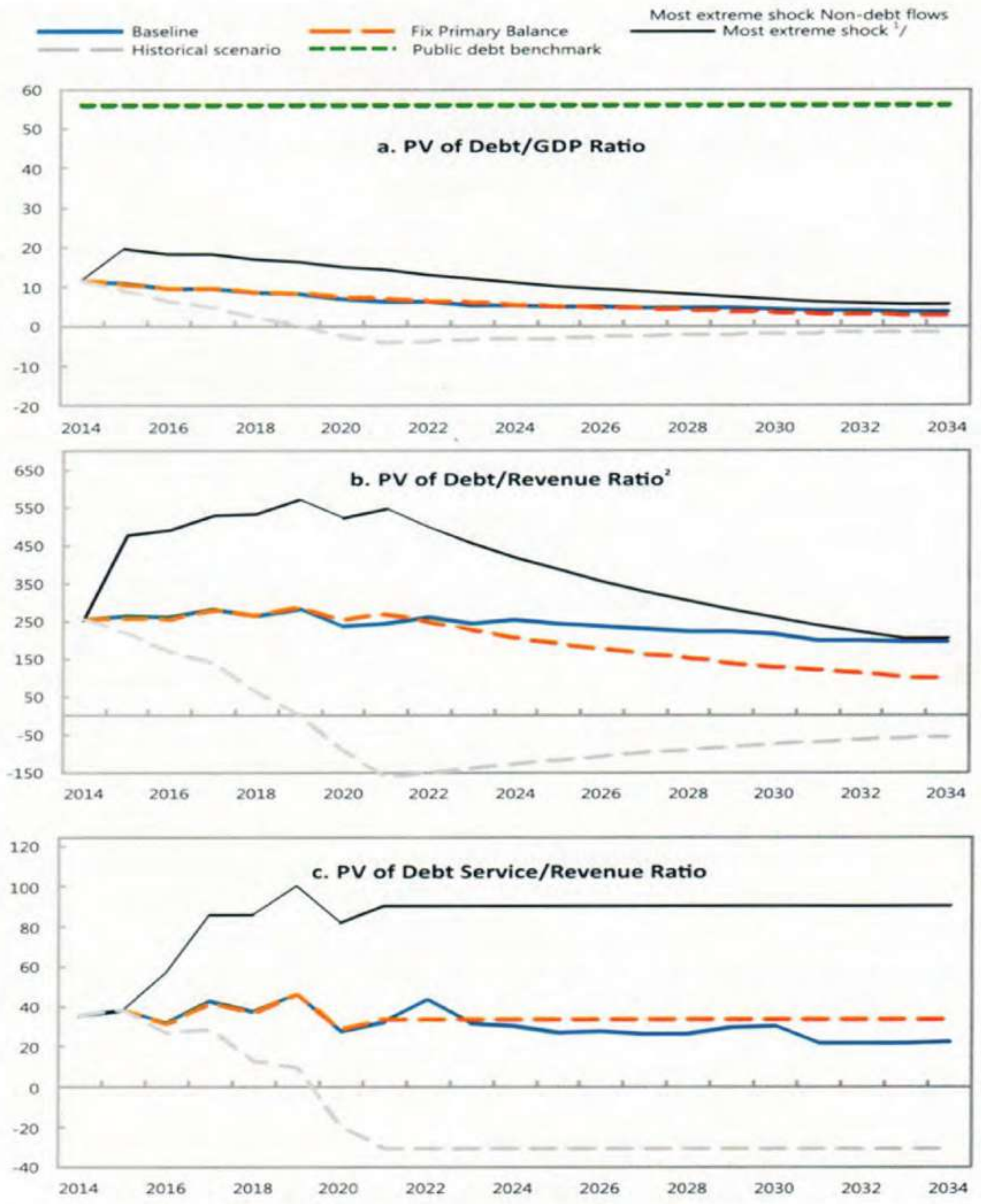
Figure 6.1: Nigeria's External Debt Sustainability Indicators Under Alternative Scenarios, 2014-2034



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a Non-debt flows shock

Figure 6.2: Nigeria's Indicators of Public Debt Under Alternative Scenarios, 2014 – 2034

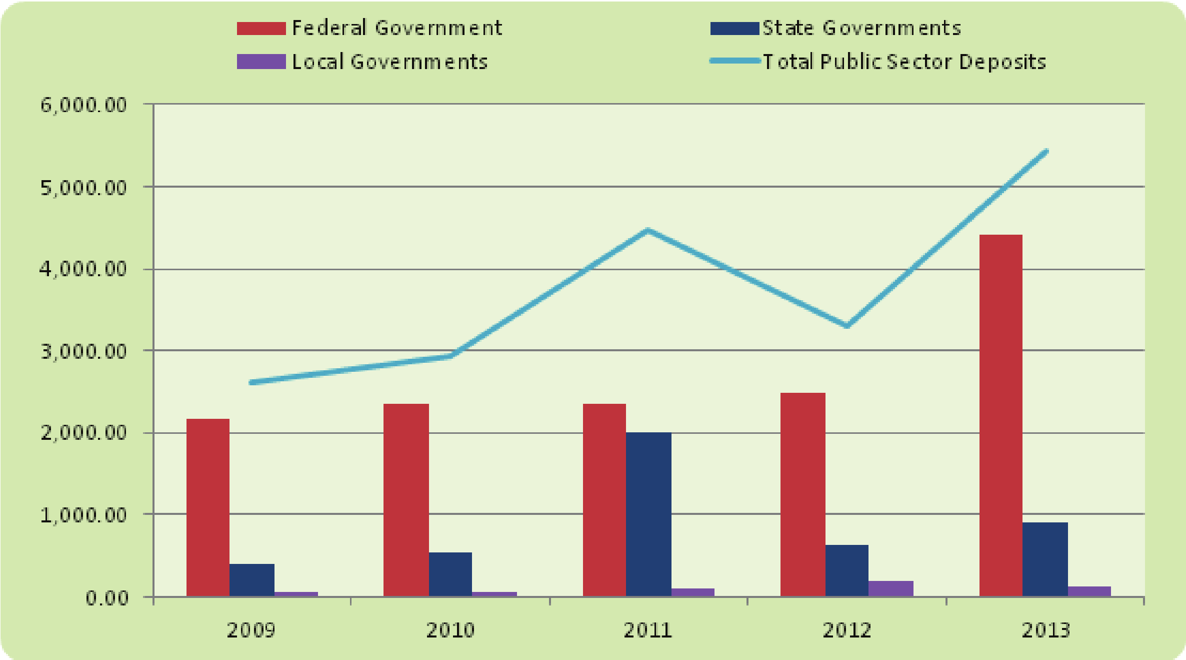


Sources: DSA Technical Team Estimates and Projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 6.9: Public Sector Deposits, 2009 – 2013 (N' Billion)

YEAR	2009	2010	2011	2012	2013
Federal Government	2,169.47	2,341.30	2,345.82	2,481.85	4,402.65
State Governments	396.76	547.24	2,008.32	634.04	906.54
Local Governments	54.81	54.79	110.82	185.93	129.81
Total Public Sector Deposits	2,621.03	2,943.33	4,464.96	3,301.82	5,439.00

Figure 6.3: Trend of Public Sector Deposits, 2009 – 2013 (N' Billion)



CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

CHAPTER SEVEN

SUB-NATIONAL DEBT MANAGEMENT

Total external debt stock of the States stood at US$ 3,265.82 million as at end of December 2014, representing 33.63 percent of the total public external debt stock of the country. States' external debts comprised FGN's on-lent loans obtained from multilateral sources on concessional terms, which were used to fund projects and programmes in various sectors of the economy. The total external debt service of the States and the FCT was US$89.47 million. The DMO made commendable progress on its initiatives aimed at institutionalising sound debt management practices at the sub-national level. Three different categories of trainings were undertaken for a total number of eighteen (18) States as at end of December 2014.

7.1 States' and FCT's External Debt Stock

State Governments' and the FCT external debt stock amounted to US$3,265.82 million or 33.63 percent of the total public external debt stock as at end of December, 2014, compared with US$2,816.02 million recorded as at end of December, 2013. The increase of the debt stock by US$ 449.80 million or 13.77 percent over the figure in 2013, was attributable among others to, disbursements on existing loans. In addition, there was a marginal increase in the number of benefiting States and the quantum of loans from bilateral creditors. The spread is across six (6) States, the total volume of bilateral credits stood at US$ 118.95 million or 3.64 percent of the States' and FCT's 2014 external debt stock.

The State Governments' and the FCT external debts were mainly loans that were obtained by the Federal Government from multilateral sources (IDA, IFAD, EDF, IDB, ADB and ADF) and on-lent to the State Governments to fund specific projects. The loans (multilateral and bilateral) were mostly applied by the recipient State Governments in the financing of critical projects in education, health, water supply, housing and sanitation sectors. Table 7.1 and Figure 7.1 show an increasing trend in the external debt stock of the States' and the FCT from 2010 to 2014.

Table 7.1: Trend in States' & FCT's External Debt Stock, 2010 – 2014 (US$' Million)

YEARS	2010	2011	2012	2013	2014
States' External Debt Stock	2,000.70	2,165.30	2,384.18	2,816.02	3,265.82

Figure 7.1: Trend in States' & FCT's External Debt Stock, 2010 – 2014 (US$' Million)

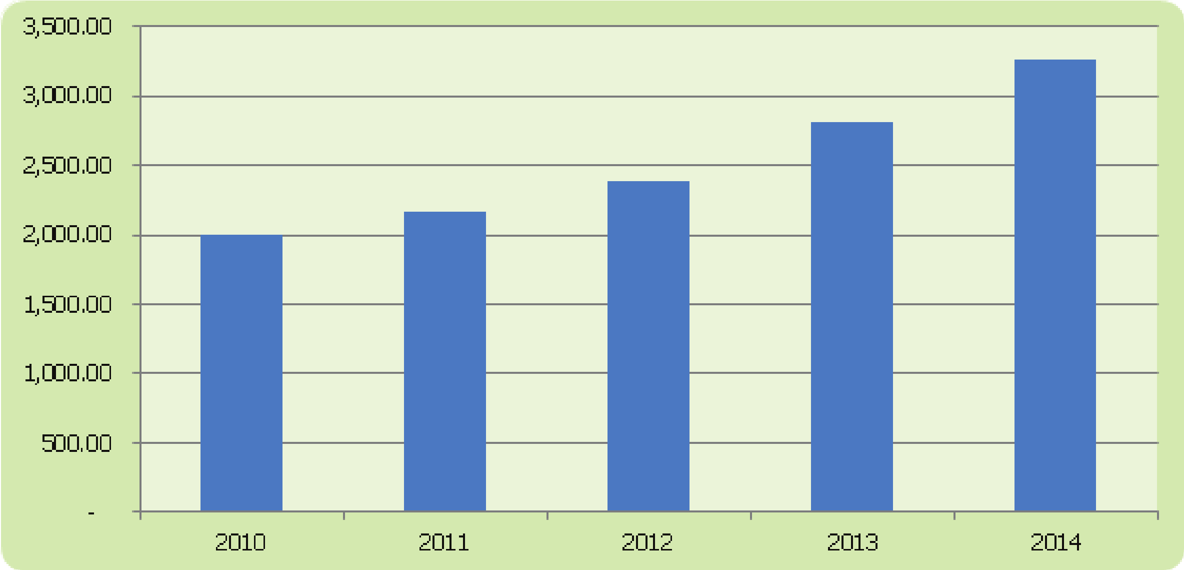


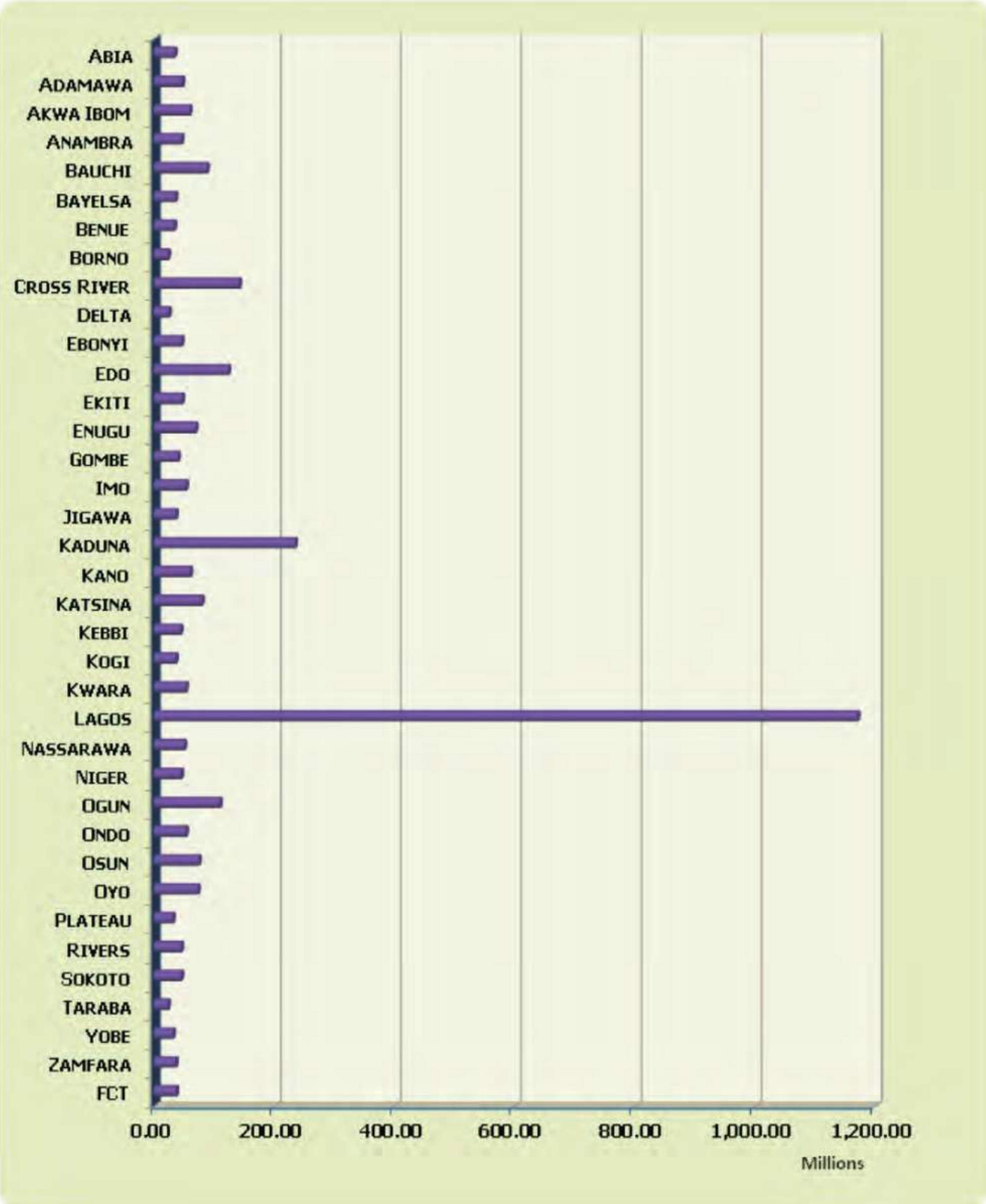
Table 7.2 and Figure 7.2 also show the external debt stock for each of the thirty-six (36) States of the Federation and the Federal Capital Territory (FCT), as at end of December, 2014.

As in the preceding year, 2013, the debt composition remained unchanged in 2014. The detailed breakdown showed that Lagos, Kaduna and Cross River States had the highest external debt stock of US$ 1,169.71 million (35.82 percent), US$ 234.42 million (7.18 percent), and US$ 141.47 million (4.33 percent), respectively. Taraba, Borno and Delta States had the lowest external debt stock, accounting for US$ 22.78 million (0.70 percent), US$ 23.07 million (0.71 percent) and US$ 24. 23 million (0.74 percent), of the total States and the FCT external debt stock, respectively.

Table 7.2: External Debt Stock of States & FCT as at end of December, 2014 (US$)

S/N	States and FGN	Multilateral	Bilateral (AFD)	% of Total
1	Abia	33,791,420.92		1.03%
2	Adamawa	40,275,205.57	6,500,000.00	1.43%
3	Akwa Ibom	58,886,640.86		1.80%
4	Anambra	45,154,626.04		1.38%
5	Bauchi	87,572,428.68		2.68%
6	Bayelsa	34,832,195.13		1.07%
7	Benue	33,074,189.47		1.01%
8	Borno	23,067,549.16		0.71%
9	Cross River	131,469,661.94	10,000,000.00	4.33%
10	Delta	24,233,639.67		0.74%
11	Ebonyi	45,410,518.38		1.39%
12	Edo	123,128,295.53		3.77%
13	Ekiti	46,452,932.15		1.42%
14	Enugu	62,428,599.36	6,500,000.00	2.11%
15	Gombe	39,545,598.76		1.21%
16	Imo	52,949,585.74		1.62%
17	Jigawa	35,717,805.70		1.09%
18	Kaduna	234,416,052.15		7.18%
19	Kano	59,796,931.03		1.83%
20	Katsina	78,925,362.41		2.42%
21	Kebbi	43,786,053.64		1.34%
22	Kogi	35,787,836.35		1.10%
23	Kwara	52,722,198.82		1.61%
24	Lagos	1,087,209,248.65	82,503,600.00	35.82%
25	Nassarawa	49,942,696.58		1.53%
26	Niger	38,250,438.25	6,500,000.00	1.37%
27	Ogun	109,154,553.08		3.34%
28	Ondo	52,688,524.40		1.61%
29	Osun	67,103,294.39	6,950,000.00	2.27%
30	Oyo	72,350,590.32		2.22%
31	Plateau	30,947,579.75		0.95%
32	Rivers	44,725,095.71		1.37%
33	Sokoto	44,864,819.46		1.37%
34	Taraba	22,780,063.89		0.70%
35	Yobe	31,237,619.25		0.96%
36	Zamfara	35,547,562.30		1.09%
37	FCT	36,636,548.58		1.12%
	Sub Total -	**3,146,863,962.07**	**118,953,600.00**	**100.00%**
	Total	**3,265,817,562.07**		

Figure 7.2: External Debt Stock of States & FCT as at end of December, 2014 in US$' Million



7.2 States' and FCT's External Debt Service

The total external debt service for the States and FCT amounted to US$89.47 million, which represents a cost of 2.74 percent of the total external debt stock of the States and the FCT as at end of December, 2014. This shows an increase of 15 percent over the amount spent in 2013 as shown in Table 7.3 below.

Table 7.3: External Debt Service of States & FCT, 2010 – 2014 (US$' Million)

S/N	STATES	2010	2011	2012	2013	2014
1	ABIA	1.28	2.03	0.96	1.03	1.04
2	ADAMAWA	0.70	0.43	0.49	0.49	0.77
3	AKWA IBOM	8.06	4.53	6.19	5.33	5.70
4	ANAMBRA	0.77	0.88	0.48	0.54	0.70
5	BAUCHI	7.35	3.56	1.50	1.14	2.00
6	BAYELSA	1.14	0.73	1.00	0.92	1.32
7	BENUE	1.33	0.78	0.61	0.66	0.85
8	BORNO	1.45	0.69	0.58	0.66	0.63
9	CROSS RIVER	9.53	11.85	9.95	9.23	9.62
10	DELTA	6.23	0.99	1.12	0.79	0.99
11	EBONYI	0.9	1.28	1.15	1.25	1.28
12	EDO	6.79	0.82	1.47	1.33	1.57
13	EKITI	1.97	1.65	1.55	1.51	1.87
14	ENUGU	1.56	1.64	0.80	0.84	1.11
15	GOMBE	1.24	1.4	0.79	0.45	0.70
16	IMO	2.07	1.44	1.50	1.40	1.96
17	JIGAWA	3.03	1.56	1.29	0.87	1.00
18	KADUNA	4.80	3.87	4.59	5.12	6.48
19	KANO	6.73	5.32	3.72	1.60	2.11
20	KASTINA	4.68	3.21	3.23	3.92	4.13
21	KEBBI	3.08	2.63	2.02	1.19	1.64
22	KOGI	2.25	1.28	1.19	1.00	1.03
23	KWARA	1.84	1.09	1.12	1.00	0.94
24	LAGOS	9.51	7.59	9.84	13.88	16.79
25	NASSARAWA	4.92	4.51	0.85	0.93	1.07
26	NIGER	1.26	1.84	0.44	0.52	1.06
27	OGUN	1.64	1.12	1.39	1.25	2.54
28	ONDO	2.91	1.75	1.97	1.90	2.06
29	OSUN	4.04	2.68	2.72	4.06	3.20
30	OYO	16.04	10.66	3.72	4.55	4.18
31	PLATEAU	8.58	7.4	1.29	0.71	0.71
32	RIVERS	2.96	1.78	1.80	1.63	1.98
33	SOKOTO	1.97	1.66	1.77	1.19	1.93
34	TARABA	0.78	0.44	0.38	0.54	0.74
35	YOBE	1.11	1.2	0.89	0.82	1.07
36	ZAMFARA	1.17	0.99	1.08	0.75	1.04
37	FCT	0.36	0.71	1.34	1.34	1.65
	TOTAL	**136.03**	**97.99**	**76.78**	**76.32**	**89.47**

7.3 Review of the Institutional Support of the States' Debt Management Departments (DMDs)

7.3.1 Capacity Building for Sub-national Debt Managers

As part of efforts by the DMO to strengthen the skills, capacities and competencies of the sub-national debt managers, the DMO in 2014, conducted three (3) categories of trainings for the States. The first category of trainings was carried out for two (2) States, namely: Zamfara and Plateau, where the DMDs had been re-structured, and/or had new staff with little or no excel or debt management skill redeployed thereof and as such were in need of capacity building.

Consequent upon the discovery of the skills gap in the two aforementioned States, the DMO sponsored and conducted a two-week structured training exercise for Zamfara State DMD Staff from February 24, 2014 to March 7, 2014 and a one-week of same programme for the Staff of Plateau State from December 8-12, 2014. The trainings were aimed at bringing up to speed the newly posted DMD officers in the two States with the needed public debt management skills for recording, managing and reporting domestic debt data. The managers were also exposed to the applications of Microsoft Excel based template designed by the DMO, for Sub-national Debt Data Management.

A total of six (6) States, namely: Akwa Ibom, Bayelsa, Delta, Katsina, Plateau and Rivers, were part of the second category of specialized trainings conducted by the DMO to address issues of inconsistencies and/or challenges of relevant sign-offs observed by the DMO in the domestic debt data received from the States, in spite of their reasonable level of proficiency in use of Microsoft Excel template, and basic knowledge of public debt management. For these States, the DMO undertook a one-week capacity building missions to the State DMDs, in order to assist the desk officers identify and correct data discrepancies, as well as, obtain the required data sign-offs by the State authorities. The third category of DMO's capacity building programme for the sub-national debt managers was the Sensitization Workshop and Training Programme for Relevant States' Ministries, Departments and Agencies (MDAs) in the thirty-six (36) States and the FCT. This initiative was carried out as part of the implementation of the outcomes of the 2013 workshops held for Top Policy Makers. The progamme, which was conducted initially in four pilot States - Cross-River, Imo, Plateau and Zamfara, was aimed at sensitizing participants on the imperative for an effective collaboration between the DMDs and the States' MDAs, to enhance comprehensive and reliable debt data recording and reporting at established intervals, as well as, ensure appropriate data reconciliations by all parties before the sign-off and submission of domestic debt data to the DMO.

Due to the successes recorded in the pilot States, the programme was extended to five (5) other States, namely: Kaduna, Niger, Ondo, Enugu, Kebbi, and the FCT, thus, bringing to ten (10) the number of States covered as at end of December, 2014, in the third category of capacity building programmes by the DMO.

7.3.2 Collation of Sub-national Domestic Debt Data

All the States and the FCT made met commendable progress in the use of the DMO's designed MS Excel Template for quarterly submission of their debt data. With the full cooperation of the States and the FCT, the DMO, received the 2013 updated, signed-off comprehensive domestic debt stock and service reports, by the end of the first half of the year under review.

7.4 States' Domestic Debt

Table 7.4 shows the domestic debt stock of the States and the FCT for 2013. The breakdown showed that Akwa Ibom, Cross-River, Delta, Lagos and Rivers States had the highest domestic debt stock of ₦125.04 billion, ₦116.06 billion, ₦102.10 billion, ₦278.87 billion and ₦129.55 billion respectively. The States with the lowest domestic debt stock in 2013 were Anambra, Jigawa and Yobe States having ₦3.03 billion, ₦1.61 billion and ₦1.12 billion respectively.

Table 7.4: Total Domestic Debt of the 36 States and the FCT for 2013 (Amount in Naira)

S.NO	STATE	DEBT STOCK AS AT END-DECEMBER 2013
1.	ABIA	31,736,723,709.99
2.	ADAMAWA	15,976,516,325.57
3.	AKWA IBOM	125,037,037,605.70
4.	ANAMBRA	3,025,797,046.67
5.	BAUCHI	16,825,508,391.99
6.	BAYELSA	*
7.	BENUE	24,987,874,907.59
8.	BORNO	23,943,150,000.00
9.	CROSS-RIVER	116,061,634,844.18
10.	DELTA	102,100,201,248.42
11.	EBONYI	13,236,092,949.91
12.	EDO	48,190,150,127.26
13.	EKITI	22,376,368,393.61
14.	ENUGU	12,061,395,495.12
15.	GOMBE	27,992,839,304.52
16.	IMO	12,633,534,789.87
17.	JIGAWA	1,612,286,807.20
18.	KADUNA	9,831,844,875.14
19.	KANO	32,207,008,565.09
20.	KATSINA	269,653,436.00
21.	KEBBI	853,678,192.00
22.	KOGI	7,109,873,890.72
23.	KWARA	22,416,654,388.02
24.	LAGOS	278,867,066,559.64
25.	NASARAWA	28,848,544,842.82
26.	NIGER	24,731,746,161.25
27.	OGUN	58,381,996,066.07
28.	ONDO	30,883,178,135.70
29.	OSUN	41,400,000,000.00
30.	OYO	19,106,047,344.26
31.	PLATEAU	52,416,334,018.77
32.	RIVERS	129,549,646,455.00
33.	SOKOTO	5,739,570,055.40
34.	TARABA	13,883,978,775.15
35.	YOBE	1,122,635,101.66
36.	ZAMFARA	28,217,646,668.06
37.	FCT	84,324,102,643.49
		1,467,958,318,121.84

Note:
(i) 35 States and FCT have submitted domestic debt data acceptable as reliable by the DMO, with Bayelsa still outstanding
(ii) Collation of States' domestic debt data for 2014 is still on-going

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 total public debt portfolio had low exposure to interest rate and exchange rate risks, due to the dominance of fixed rate debts and low proportion of external debts, respectively. However, refinancing risk was relatively high in the domestic debt portfolio, which was attributed to the large proportion of short-term debt instruments. The percentage of Government's contingent liabilities to the GDP was 1.90 percent at end of December, 2014 compared with 4.09 percent recorded as at end of December, 2013.

8.1 Introduction

Cost minimization and risk mitigation are the main objectives of public debt management, in the sourcing of funds from both external and domestic sources to meet the Federal Government's financing needs. This chapter presents the analysis of the costs and risks in the total public debt portfolio, in particular, interest rate, refinancing, exchange rate, credit and contingent liabilities risks.

8.2 Risk Analysis of Total Public Debt Portfolio

Table 8.1 shows the costs and risks indicators of the total public debt portfolio as at end of December, 2014.

Table 8.1: Cost and Risk Indicators for Total Public Debt Portfolio as at end of December, 2014

Risk indicators		External Debt	Domestic Debt	Total Debt
Amount (in million of US$)		9,711.45	58,014.83*	67,726.28*
PV of debt as % of GDP (Including States' Domestic Debts)		2.16	10.49	12.65
Cost of debt	Average Interest Rate (%)	3.57	10.95	9.69
Refinancing Risk	ATM (years)	14.9	5.4	6.5
	Debt Maturing in 1 yr (% of Total)	0.20	32.90	33.00
Interest Rate Risk	ATR (years)	13.9	5.4	6.4
	Debt re-fixing in 1 yr (% of Total)	0.5	35.62	36.12
	Fixed rate debt (% of Total)	99.6	100	99.53
Foreign Exchange Risk	FX debt (% of Total)	-	-	16.00

*Includes States' domestic debt as at end-December, 2013

8.3 Average Cost of Public Debt

The average interest rate for total debt was 9.69 percent, while the average interest rates for domestic and external debts were 10.95 percent and 3.57 percent, respectively (Table 8.1). The average interest rate in the total debt portfolio went up from 7.7 percent in 2010 to 10.14 percent in 2012, thereafter, it dropped to 9.69 percent in 2014. The low average interest rate on external debt was due to the high proportion of concessional debts that was about 83 percent of external debt portfolio, and which helped to moderate the average interest rate of external debt portfolio, in particular and overall cost of debt in general. However, the high average interest rate of domestic debt portfolio was attributed to CBN's monetary and liquidity management policies, in which the MPR was increased to 13 percent in November, 2014, after it had remained stable at 12 percent from January to October, 2014. Table 8.2 shows the trend in average interest rates, 2010-2014.

Table 8.2: Trend in Average Interest Rates, 2010-2014

Year	Detail	2010	2011	2012	2013	2014
Average Interest Rate (%)	External	7.74	6.21	4.49	3.37	3.57
	Domestic	7.8	9.56	11.02	11.15	10.95
	Total	7.7	9.10	10.14	9.90	9.69

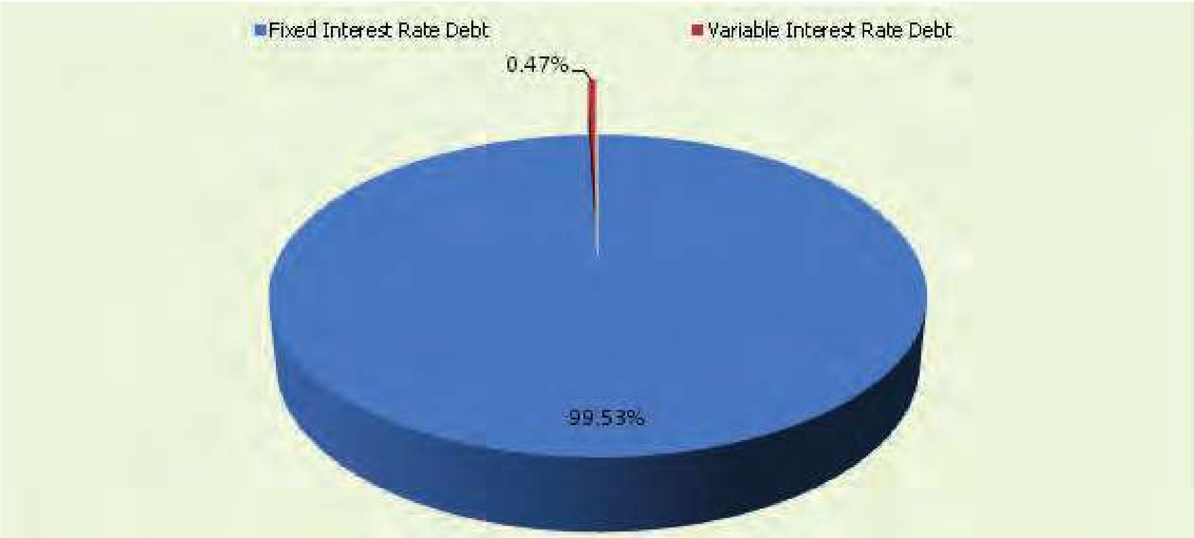
8.5 Interest Rate Risk

The proportion of variable or floating interest rate debt is an indication of the level of interest rate risk inherent in any debt portfolio. Thus, the high proportion of fixed interest rate debt in the country's public debt portfolio of 99.53 percent as at end of December, 2014, indicated that the portfolio was not exposed to interest rate risk volatility (Figure 8.1). The Average Time-to-Refixing (ATR) of the total public debt portfolio was 6.4 years - ATR for domestic debt was 5.4 years, while external debt was 13.9 years. This implied that the total debt portfolio had low exposure to interest rate risk (Table 8.1). Table 8.3 shows the trend in interest rate risk indicators, 2010-2014.

Table 8.3: Trend in Interest Rate Risk Indicators, 2010-2014

Year	2010	2011	2012	2013	2014
Fixed Interest Rate Debt (%)	99.99	99.86	71.83	99.41	99.53
Variable Interest Rate Debt (%)	0.01	0.14	28.17	0.59	0.47
External Debt - Average Time-to-Re-fixing (Years)	-	15.9	16.2	14.4	13.9
Domestic Debt - Average Time-to-Re-fixing (Years)	-	4.1	4.2	4.6	5.4
Total Debt - Average Time-to-Re-fixing (Years)	-	5.8	5.9	5.8	6.4

Figure 8.1: Interest Rate Composition of Total Public Debt as at end of December, 2014



Furthermore, Table 8.1 also shows that the portion of total public debt that is maturing in one year and subject to interest rate re-fixing was 36.12 percent in 2014 - that is, 35.62 percent for domestic debt and 0.5 percent for external debt. The exposure to interest rate risk appears more significant in the domestic debt portfolio due to high proportion of short-term debt instruments (NTBs). Accordingly, to attain the strategic objective of 75:25 ratio for long and short-term debt instruments in the domestic debt portfolio, there is the need to gradually reduce the issuance of short-term debt instruments in favour of long-term instruments.

8.5 Refinancing Risk

Exposure to refinancing risk is measured by the repayment profile, proportion of debt that is maturing in one year and Average Time-to-Maturity (ATM). The Average Time-to-Maturity (ATM) of the total public debt portfolio is 6.5 years, reflecting the impact of the weight of short-term debt instruments in the portfolio. The longer ATM (14.9 years) for the external debt portfolio reflects the dominance of concessional loans with original maturity periods of up to 40 years, while the ATM of 5.4 years for the domestic debt portfolio is due to the presence of large proportion of short-term debt instruments. Table 8.4, also shows that the proportion of total public debt maturing in one year was 33.00 percent in 2014. This was made up of domestic debt of 32.90 percent and 0.2 percent for external debt. This means that over 30 percent of the domestic debt component of the total public debt portfolio was required to be refinanced at a new interest rate in the next one year. This indicates that there was relatively high refinancing risk, which would require the restructuring of the domestic debt portfolio, as well as, reduction in the issuance of short-term debt instruments to attain the debt strategy of 75:25 recommended by MTDS (2012-2015) for long and short-term debt instruments, respectively. Table 8.4 illustrate the trend in refinancing risk from 2010 to 2014.

Table 8.4: Trend in Refinancing Risk Indicators, 2010-2014

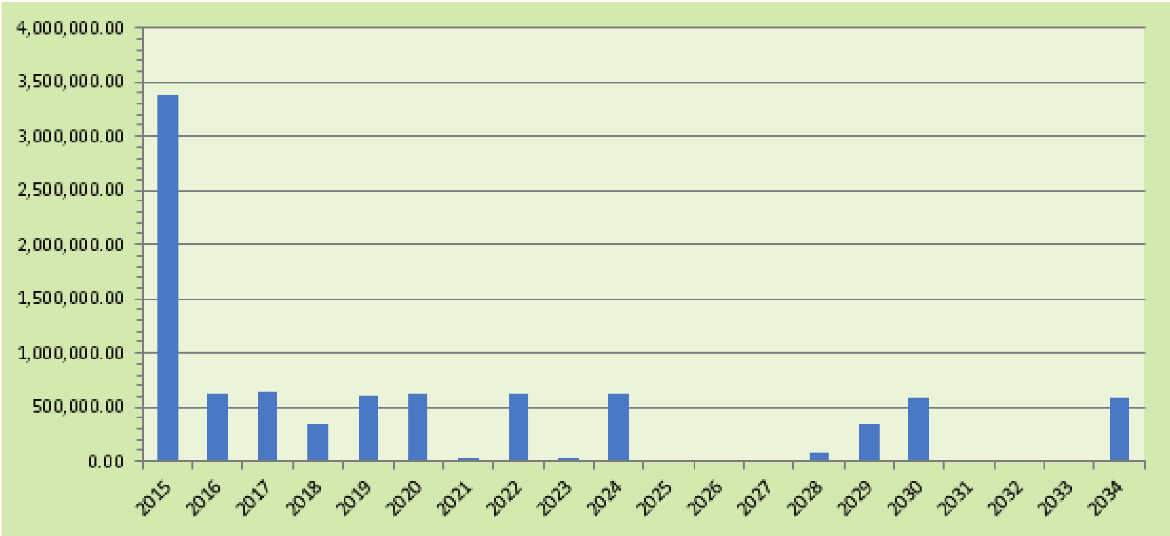
Year	2010	2011	2012	2013	2014
Debt Maturing in 1 year (%)	24.40	26.54	38.8	35.0	33.00
External Debt – Average Time-to-Maturity (Year)	13.5	15.90	16.3	14.4	14.9
Domestic Debt - Average Time-to-Maturity (Year)	4.4	4.06	4.2	4.6	5.4
Total Debt - Average Time-to-Maturity (Year)	6	5.84	5.9	5.8	6.5

8.6 Redemption Profile

Figure 8.2 illustrates the redemption profile of the external debt of the country, which depicts a smooth profile. However, the huge spikes noted in 2018, 2021 and 2023 are attributable to the redemption of the three Eurobonds, namely: the debut 6.75% JAN 2021 US$500 million (10-year Eurobond issued in 2011) and the US$1 billion dual- tranche Eurobonds – 5.125% JUL 2018 US$500 million (5-year) and 6.375% JUL 2023 US$500 million (10-year) issued in 2013. Similarly, Figure 8.3 shows the redemption profile for domestic debt, which reflect a significant level of refinancing risk, due to high proportion of NTBs in the domestic debt portfolio that would be required to be redeemed in 2015.

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

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



8.7 Exchange Rate Risk

The degree of exchange rate risk exposure depends on the proportion of debt stock that is denominated in foreign currency. As at end of December, 2014, total public debt portfolio was made up of domestic and external debt of 84 and 16 percent, respectively (Table 8.5). The high proportion of debt denominated in domestic currency relative to the total public debt indicates a very low exchange rate risk. The preferred debt structure as recommended by MTDS (2012-2015) is 60:40 for domestic and external debt, respectively. Table 8.5 shows the trend in the last 5 years.

Table 8.5: Trend in Exchange Rate Risk Indicators, 2010-2014

Year	2010	2011	2012	2013	2014
Domestic Debt (%)	87	85	87	84	84
External Debt (%)	13	14	13	16	16
Total Debt	100	100	100	100	100

Figure 8.4: Currency Composition of External Debt as at end of December, 2014

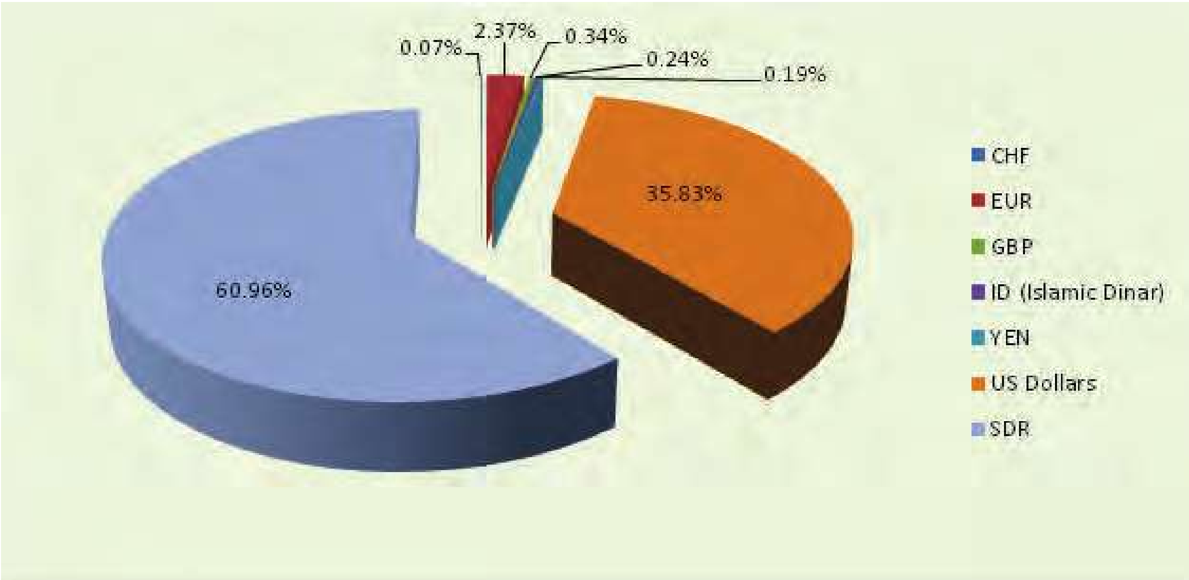


Figure 8.4 further shows that external debt portfolio comprised debts which are denominated in Swiss Franc (CHF), Euro (EUR), British Pound Sterling (GBP), Islamic Dinar(ID), Japanese Yen (JPY), United States Dollar (US$) and, Special Drawing Rights (SDR), which respectively constituted 0.07, 2.37, 0.34, 0.24, 0.19, 35.83 and 60.96 percent, in 2014. The fact that external debt portfolio is comprised several convertible currencies has helped to hedge against foreign exchange risk associated with unfavourable trends in currency movements. The funding of external debt service through the External Creditors Funding Account (ECFA) denominated in US Dollars further provided strong cushion against exchange rate risk.

Table 8.6: Currency Composition of External Reserve Asset as at end of December, 2014

Currency	USD Equivalent	% of Total
US Dollars	26,599,868,451.25	77.6721
GB Pounds	799,184,110.17	2.3336
Euro	2,210,622,168.09	6.4551
Swiss Franc (CHF)	1,437,245.58	0.0042
Japanese Yen	8,105,169.18	0.0237
Chinese Yuan (Renminbi)	2,200,611,042.96	6.4258
Special Drawing Rights (SDR) Allocation	2,426,282,781.55	7.0848
Other Currencies	247,809.73	0.0007
TOTAL	**34,241,668,648.20**	**100**

Figure 8.5: Currency Composition of External Reserves as at end of December, 2014

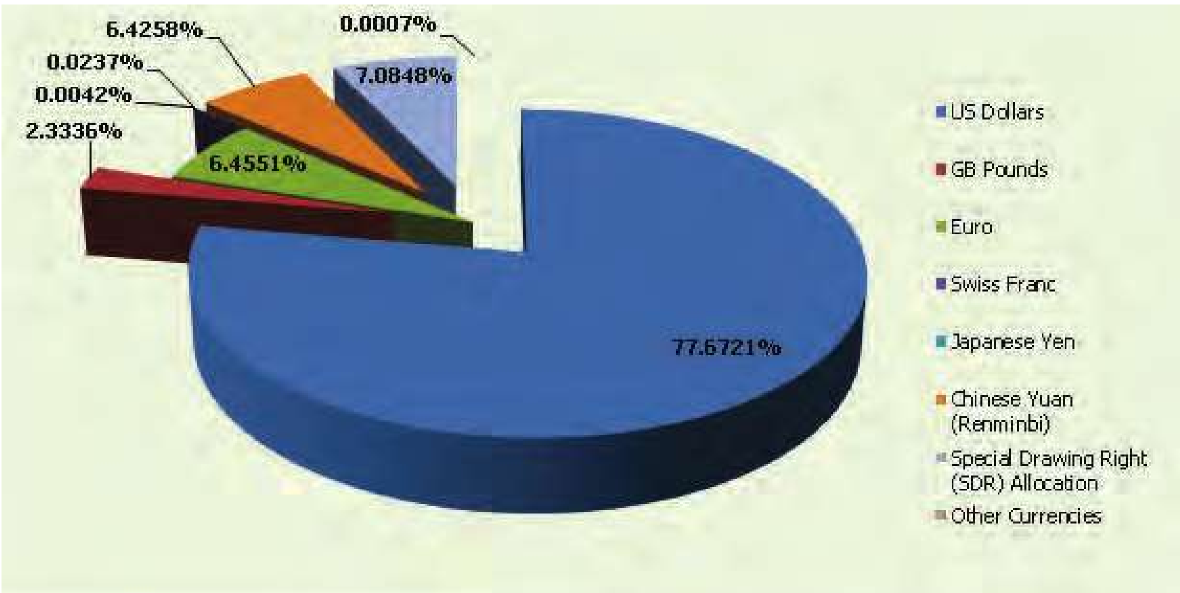


Table 8.6 and Figure 8.5 present the composition of the country's external reserves position by currency as at end of December, 2014, which stood at US$34.24 billion. The proportion of currency components of the foreign reserve assets were US$ (77.672 percent), GBP (2.334 percent), Euro (6.455 percent), CHF (0.004 percent), JPY (0.024 percent), Chinese Yuan (6.426 percent), SDR (7.085 percent) and other currencies (0.0007 percent). The currency structure of external debt portfolio (Table 8.7) and currency composition of the country's external reserves show some similarities, though disproportionately. The disproportion does not, however, pose any significant risk to the external debt portfolio.

Table 8.7: Composition of External Debt & Reserve Assets as at end of December, 2014

Currencies	US$	GBP	EURO	CHF	ID	JPY	Yuan	SDR	Others
External Debt: Currency Composition (%)	35.83	0.34	2.37	0.07	0.24	0.19	-	60.96	-
External Reserve: Currency Composition (%)	77.672	2.334	6.455	0.004	-	0.024	6.426	7.085	0.0007

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

As at end of December, 2014, there were eleven (11) outstanding on-lent loans, by the FGN to various MDAs, which amounted to ₦186.01 billion. The loans were extended by the FGN to the MDAs to fund the development of infrastructures and special projects in key sectors of the economy. Repayments of the loans by the MDAs have been effective during the review year.

8.9 Government's Contingent Liabilities

Table 8.8 shows that the amount of contingent liabilities dropped significantly from ₦3,279.00 billion in 2013 to ₦1,693.98 billion in 2014, representing a decline of ₦1,585.02 billion or 48.34 percent. As a percentage of the GDP, the outstanding contingent liability of the FGN was 1.90 percent of GDP in 2014, compared to 4.09 percent in 2013. The substantial drop in the level of contingent liabilities was due to the redemption of AMCON bonds with a face value of ₦1,742.9 billion. There was a new FGN Guarantee in favour of Nigerian Export-Import (NEXIM) Bank in 2014.

Table 8.8: FGN's Contingent Liabilities as at December 31, 2014 (₦' Billion)

S/N	Liability Type	2010	2011	2012	2013	2014
1.	AMCON Guarantee	1,000.00	1,742.00	1,742.00	1,742.00	-
2.	Local Contractors Debts	-	233.942	233.942	233.942	233.942
3.	Federal Mortgage Bank of Nigeria	-	-	32.00	32.00	32.00
4.	Guarantee on Agriculture	-	-	174.707	-	-
5.	Nigerian Export-Import (NEXIM) Bank	-	-	-	-	39.400
6.	Lekki Port LFTZ Enterprise– Lekki Deep Sea Port	-	-	-	-	157.6
7.	Pension Arrears for MDAs	1,499.66	1,401.98	1,322.427	1,271.062	1,231.035
	Total	**2,583.03**	**3,469.92**	**3,585.08**	**3,279.00**	**1,693.977**

Note:
1. The FGN Guarantee to AMCON in respect of the ₦1.742 trillion 3-year Zero-coupon AMCON Tradable Bond expired on December 31, 2013, following the redemption of AMCON Bonds. The Guarantee did not crystallize.
2. The FGN Guarantee was given to cover the ₦233,942,080,700.00 Face Value of the 5-year 2016/2017 Split Coupon Bonds issued by the Special Purpose Vehicle (SPV) set up for the resolution of the Local Contractors Debts. ₦74,655,295,000.00 (Principal) will be redeemed in 2016 and the balance in 2017.
3. FGN Guarantee of FMBN Bond to enable the Bank raise funding from the capital market to refinance the sale of Federal Government non-essential houses under the monetization programme of the Government.
4. Unconditional guarantee to the financiers (Banks) to cover 70% of the loan principal payment under the Programme for financing the supply of seeds and fertilizers to farmers for the 2012 farming season. The Client was the Federal Ministry of Agriculture and Rural Development. The Guarantee expired in 2012 and did not crystallize.
5. FGN Guarantee to NEXIM for the US$200 million Master Line of Credit from the African Development Bank (AfDB). Exchange rate: ₦197/$.
6. The FGN Guarantee issued in favour of Lekki Port LFTZ Enterprise (Concessionaire) to cover the sum of US$800 million (₦157,600,00,000.00 converted at ₦197/$) of the investment by the Concessionaire for the purpose of funding the construction of a Deep Sea Port at Lekki Lagos, Nigeria, on a Build, Own, Operate and Transfer basis, for a period of forty-five years, for and on behalf of the Nigerian Ports Authority.
7. Data provided by PENCOM to the DMO: Outstanding Retirement Benefits Liability of the FGN for certain categories of its employees. The last employee would be retiring in 2039.

CHAPTER NINE

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

CHAPTER NINE

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

The DMO borrowed the sum of ₦624.222 billion from the domestic bond market to fund part of the 2014 Budgeted Deficit of ₦964.190 billion. The loans negotiated by the FGN in 2014, were seventeen (17), in line with the approved Medium-Term External Borrowing Programme, 2014-2016, out of which three (3) became effective during the year. Total outstanding on-lent loans to various MDAs to support development projects across the different sectors of economy was ₦186.02 billion as at end of December, 2014. As at end of December 2014, the total amount of on-lent loans that have been converted to FGN equity in Bank of Industry and Bank of Agriculture remain unchanged at ₦110.00 billion.

9.1 Introduction

In line with the DMO's statutory mandate, it fully funded the sum of ₦624.222 billion, the approved amount to be funded through domestic borrowing to meet Government's financing needs and obligations as provided in the 2014 Appropriation Act. The total budgeted expenditure of the Federal Government of Nigeria (FGN) in 2014, was ₦4,695.190 billion, with a deficit of ₦964.190 billion, compared to ₦4,987.741 billion budgeted in 2013, and a deficit figure of ₦887.066 billion. The marginal increase in the 2014 budget deficit of ₦77.124 billion or 8.69 percent over the level in 2013, was attributed to the increase in Government's funding needs to meet its infrastructure development objectives.

9.2 External Borrowing Programme

Table 9.1 shows the external loans negotiated in 2014, by the Federal Government of Nigeria (FGN) in line with the approved Medium-Term External Borrowing Programme, 2014–2016, to finance key economic and social development projects and programme across the Federation. It is important to state that three (3) out of the seventeen (17) external loans became effective during the year under review.

Table 9.1: External Loans Negotiated in 2014 (US$' Million)

S/N	Project	Creditor	Loan Amount (In Millions)	Original Loan Currency
1	Port Harcourt Urban Water Supply and Sanitation (Rivers)	ADB	200.00	USD
2	Development Bank of Nigeria*	ADF/ADB	500.00	USD
3	Urban Water Sector Reform	ADB	5.00	USD
4	Power Plant Project in Three States (Enugu, Kaduna and Cross River)	Indian Line of Credit	100.00	USD
5	Climate Change Adaptation and Agric Business Support Prog. (CASP)	IFAD	70.00	USD
6	Development Bank of Nigeria	WB/IDA	500.00	USD
7	Transforming Irrigation Management in Nigeria**	WB/IDA	495.00	USD
8	Community and Social Development Project Additional Financing	WB/IDA	140.00	USD
9	Africa Centers of Excellence	WB/IDA	70.00	USD
10	Ibadan Urban Flood Management Project**	WB/IDA	200.00	USD
11	3rd National Urban Water sector Reform**	WB/IDA	250.00	USD
12	Development Bank of Nigeria	FDA	130.00	USD
13	Ogun State Water Supply Project	FDA	22.174	USD
14	Lagos State Urban Development (EKO-UP)	FDA	100.00	USD
15	Development Bank of Nigeria	KFW of Germany	200.00	USD
16	JICA Japan International Polio Eradication	Japanese ODA (JICA)	8,285,000,000	Japanese Yen Billion
17	Ilesha Water Supply and Sanitation Project	IDB	65.00	USD

Source: Federal Ministry of Finance
*External loans negotiated in respect of Development Bank of Nigeria comprised US$50.00 million (ADF) and US$450 million (ADB)
**Effective loans

9.3 Domestic Borrowing Programme

The DMO fully funded the sum of ₦624.22 billion which was the portion of the budget deficit in the 2014 Appropriation Act. This was accomplished through the issuance of FGN securities of various maturities and quantities in the domestic debt market.

9.4 Analysis of On-Lent Loans to MDAs

The Federal Government through the DMO, acting on the directives of the Federal Government of Nigeria (FGN) had, from time to time, provided loans to various Ministries, Departments and Agencies (MDAs), to finance specific developmental projects. These loans were utilized in the funding of projects in the key sectors of the economy such as Transport (Road and Railway), Agriculture, Education, Manufacturing (Cotton, Garment and Textile), amongst others. As at end of December 2014, there were eleven (11) on-lent loans with a total outstanding principal amount of ₦186.02 billion. In addition, three (3) on-lent loans totaling ₦110.00 billion originally granted to the Bank of Industry (BOI) and Bank of Agriculture (BOA) had been converted into FGN equity in the affected MDAs, based on Presidential directives. This was to make the affected development institutions more efficient in performing their roles in the real sector of the economy.

Table 9.2: Principal Outstanding On-lent Loans as at December 31, 2014 (₦)

S/N	MDA	FACILITY	LOAN AMOUNT (₦)	PRINCIPAL AMOUNT OUTSTANDING (₦)
1	Federal Capital Territory Administration (FCTA)	₦15 Billion FGN Funding of Health and Education Projects in the FCT	15,000,000,000.00	8,450,157,266.93
2	Federal Ministry of Finance (FMF)	₦6.3 Billion Pioneer Consumer Car Finance Scheme for Public Servants	6,300,000,000.00	3,165,823,628.25
3	Federal Ministry of Transport (FMoT)	₦12.5 Billion Nig. Railway Revitalization (25 Locomotives)	12,500,000,000.00	12,500,000,000.00
4	Ministry of Defence	₦35 Billion Funding of Peace Keeping Operations	35,000,000,000.00	12,195,073,073.33
5	Ministry of Mines and Steel Development	₦2.24 Billion Ajaokuta/NIOMCO Staff Salary Arrears	2,239,175,142.72	2,239,175,142.72
6	Nigerian Television Authority (NTA)	₦4.5 Billion Loan for Upgrading of NTA's Broadcast Equipments	4,500,000,000.00	2,431,265,480.82
7	Federal Capital Territory Administration (FCTA)	₦20 Billion Seed Money for Infrastructural Development of Four Districts of the FCT	20,000,000,000.00	20,000,000,000.00
8	Federal Mortgage Bank of Nigeria (FMBN)	₦5 Billion for the development of the housing sector of the economy granted to FMBN.	5,000,000,000.00	5,000,000,000.00
9	Bureau of Public Enterprises (BPE)	Settlement of ₦63.03 Billion Loan Facility granted to Transcorp Plc for NITEL/MTEL buy-out	63,030,000,000.00	63,030,000,000.00
10	Bureau of Public Enterprises (BPE)	NITEL/MTEL Terminal Benefits	54,552,000,000.00	54,552,000,000.00
11	Bank of Industry (BOI)	Indebtedness of the defunct Nig. Bank for Commerce and Industry to the FGN	2,500,711,000.00	2,410,293,267.05
	TOTAL		**220,621,886,142.72**	**185,973,787,859.10**

The breakdown on table 9.2 shows that the outstanding principal amount of on-lent loans as at end of December, 2014, stood at ₦185.97 billion, out of the total loan amount of ₦220.62 billion extended to eleven (11) MDAs. Furthermore, the sum of ₦5 billion loan each was converted to FGN's equity in the Bank of Industry (BOI) and Bank of Agriculture (BOA), while ₦100 billion loan was also converted to FGN's equity in BOI for the facilitation of Cotton, Textile and Garment Revitalisation Scheme. Therefore, the total amount of on-lent loans that have been converted to FGN equity based on approvals received from appropriate Authorities as at end of December 2014, was ₦110.00 billion, as shown in Table 9.3.

Table 9.3: On-lent Loans Converted into FGN Equity as at end of December, 2014

S/N	MDA	FACILITY	LOAN AMOUNT (₦)	PRINCIPAL AMOUNT OUTSTANDING (₦)
1	Bank of Industry (BOI)	₦5 Billion loan to BOI	5,000,000,000.00	5,000,000,000.00
2	Bank of Agriculture (BOA) Formerly Nigerian Agricultural Cooperative & Rural Development Bank (NACRDB)	₦5 Billion loan to NACRDB	5,000,000,000.00	5,000,000,000.00
3	Bank of Industry (BOI)	₦100 Billion Loan for Cotton, Textile & Garment Scheme	100,000,000,000.00	100,000,000,000.00
	TOTAL		**110,000,000,000.00**	**110,000,000,000.00**

9.5 Utilization of US$ 1 Billion Eurobond Proceeds

The need to develop critical infrastructure in the power sector and other priority sectors of the economy, necessitated the Federal Government of Nigeria to raise funds from the International Capital Market through the issuance of US$1 billion Eurobonds in 2013. In line with the Presidential Approval, the proceeds of the issuance were utilized in 2014, to fund projects in the power sector, with focus on transmission projects, meeting the liquidity funding requirements of the Nigerian Bulk Electricity Trading plc and Gas-to-Power projects. This is expected to boost electricity generation and distribution levels in the country, have a positive impact on the small and medium scale enterprises and enhance industrial capacity utilization, thus promoting employment and growth in the economy. As at end of December 2014, the beneficiary MDAs of the US$1 billion Eurobond Proceeds were: the Transmission Company of Nigeria (TCN), Nigerian Bulk Electricity Trading Plc (NBET), Federal Ministry of Aviation (FMA), and Nigeria Sovereign Investment Authority (NSIA), which is managing a portion of the fund, for investment in Gas-to-Power projects. The US$1 billion Eurobond Proceeds were disbursed to these MDAs after all the necessary documentations were completed, to ensure eventual repayment of the loans.

CHAPTER TEN

INSTITUTIONAL ISSUES

CHAPTER TEN

INSTITUTIONAL ISSUES

The implementation of the DMO's Strategic Plan (2013 – 2017) recorded considerable progress and notable achievements in 2014. There were various capacity building programmes conducted for staff and stakeholders covering local and foreign training and courses. As part of efforts to provide visibility for the FGN's domestic and international securities, dedicated web pages were set up on Bloomberg and Reuters, two of the global platforms for news and financial transactions.

10.1 DMO's Third Strategic Plan, 2013 - 2017

The end of the fiscal year 2014 marked two years of the implementation of the DMO's third Strategic Plan 2013 – 2017, and as in the previous year, notable achievements were recorded in 2014.

Achievements:

- Issuance of FGN Bonds in Global Depository Note (GDN) format for the first time in July, 2014. The issuance was the first by any African Country and a mechanism for diversifying the FGN Bonds investor base and attracting foreign investors to the domestic securities market;
- Investor-relations - Successful setting up and continued updating of the DMO dedicated web pages on Bloomberg and Reuters, which are the two (2) global platforms for news and financial transactions. With this achievement in July, 2014, DMO is now one of few institutions, which have a web page on these two (2) well respected platforms. The web pages provide visibility for the DMO and FGN's domestic and international securities;
- The hosting of special sensitization and capacity building workshops for relevant Ministries, Departments and Agencies (MDAs) for States' officials on Mastering Debt Recording and Reporting using Microsoft Excel to strengthen debt management processes, as part of the continued efforts to enhance the debt management capability at the sub-national level; and,
- The hosting of Interactive Sessions between the Coordinating Minister for the Economy & Honourable Minister of Finance and the Nigerians in Diaspora, in London, New York, Washington D.C. and Houston, as part of the strategy towards the issuance of a Diaspora Bond.

International Recognitions

- Nigeria's 14.20% FGN March 2024 was included in the J.P. Morgan's Government Bond Index – Emerging Markets (GBI – EM) in August, 2014 bringing the number of FGN Bonds in the Index to six (6). In addition, 12.1493% FGN July 2034 which is the new 20-year Benchmark, was added to the Barclays Capital Emerging Markets Local Currency Government Bond Index (EM-LCBI) in September 2014 bringing the number of FGN Bonds in the Index to eleven (11). The inclusion of FGN Bonds in their respective indices has been the strongest force for attracting foreign investors into FGN Bonds, a development that has helped to diversify the investor base and moderate Yields on the Bonds.

10.2 DMO's Supervisory Board Activities

The DMO's Supervisory Board held two (2) Meetings in 2014. The Meetings were held at the Office of the Vice President and Chairman of the Board on Thursday, April 3, 2014, and on Friday, August 15, 2014, respectively.

10.3 Debt Sustainability Analysis (2014)

The National Debt Sustainability Analysis (DSA, 2014) Workshop was conducted by the DMO from May 28 – June 9, 2014, in collaboration with other relevant stakeholders in the public debt management operations of the country, namely: the Federal Ministry of Finance (FMF), Central Bank Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), National Bureau of Statistics (NBS) and the Office of the Accountant-General of the Federation (OAGF). The West African Institute for Financial and Economic Management (WAIFEM), as usual, provided technical support. The 2014, DSA results showed that Nigeria has remained at a low risk of debt distress, which is consistent with the results of the 2013, DSA.

10.4 Staffing Issues

10.4.1 Recruitment of New Staff

There were no recruitments of new staff into the DMO in 2014.

10.4.2 Repositioning/Redeployment Exercise

In the first quarter of 2014, the Director-General announced a minor reorganization within the Office which resulted in the realignment of some Units, the creation of new ones and the restructuring of some Departments.

- **The Director-General's Office**

  In the Director-General's Office, a new Unit, Sovereign Debt Notes Unit (SDN), was created to handle the issuance of Sovereign Debt Notes (SDNs) and other duties relevant to the management of the SDNs. Also during the year, the Bond Auctioning System (BAS) Unit had its assignments transferred to the Portfolio Management Department (PMD) and the Director, PMD was redeployed to the Director-General's Office as Director, Special Assignments (DSAs).

- **Portfolio Management Department (PMD)**

  The structure of the PMD was maintained; however, some of its functions were moved to the newly created SDN Unit in the DG's Office. The SI Unit also took over the Bond Auctioning System platform.

- **Market Development Department (MDD)**
  While there were no changes in the structure of the MDD, the Team Leader, Market Supervision and Regulation Unit left the DMO on secondment to the Federal Ministry of Agriculture and Rural Development.

- **Strategic Programmes Department (SPD)**
  The functions of the External Support (ES) Unit in the SPD were transferred to the Office of the Director, SPD, thus reducing to three (3) the number of Units in the Department.

- **Policy, Strategy and Risk Management Department (PSRMD)**
  There was no change in the structure of the PSRMD.

- **Organizational Resourcing Department (ORD)**
  The Structure and Units of the ORD were maintained with minimal changes to the Units' schedules.

10.4.3 Senior Management Movement

One staff was upgraded to the Senior Management cadre as Head, Portfolio Management Department, while the former Director, PMD was redeployed to the Director-General’s office. Most members of the Senior Management Team were retained in their Departments.

10.4.4 Promotion and Merit Award

Promotion examinations and interviews were conducted for all qualified candidates due for promotion in 2014. Out of the fifty-six (56) staff due for consideration for the promotion, twenty-nine (29) were promoted for meeting the terms in the DMO's Guidelines for Promotions.

10.5 Scholarship Programme (Master's Degree Support Programme)

Approval for study leave without pay was granted to a member of staff to study for a Master's degree in Financial Economics in the United Kingdom for a period of one year. The officer is expected to resume duty at the DMO on completion of his studies in September, 2015.

10.6 Stakeholder Events

- The DMO organized 3-day retreats for distinguished Senators and Staff of the Senate Committee on Local and Foreign Debts, as well as, the members of the House Committee on Aids, Loans and Debt Management. The retreats which had as theme “Implication of Rebasing of GDP for Public Debt Management”, were held in Uyo, Akwa Ibom State and Ada, Osun State, respectively.

- The DMO sponsored a 2-day training programme for members of the Abuja Chapter of the Financial Correspondents of Nigeria (FICAN). The main objective of the training was to upscale the reporting and debt management analytical skills of the Financial Correspondents and Investment Journalists. The programme was held on August 10-14, 2014, in Abuja.

- Interactive sessions were held in United Kingdom and United States of America, in respect of the US$ 100 Million Diaspora Bond to be issued by the DMO on behalf of the Federal Government of Nigeria. The Nigerian delegation was led by the Coordinating Minister for the Economy and Honourable Minister of Finance (CME & HMF), with members drawn from the Presidency, National Assembly, Federal Ministry of Justice, Federal Ministry of Finance, Central Bank of Nigeria and the Debt Management Office. The event took place from August 31 to September 7, 2014. The Focus Group Meetings were aimed at enabling the Nigerian delegation engage directly with some of the major institutional investors in the UK and the United States of America, who are investors in the securities issued by the Federal Government of Nigeria.

- The Office organized a meeting between the CME & HMF and Managing Directors/CEOs of Banks on November 12, 2014, at the Intercontinental Hotel Lagos. The meeting was aimed at addressing the matter in which loans to the sub-nationals were being booked in violation of the DMO (Establishment, Etc.), Act 2003 and in disregard to several advertorials and warnings by the DMO on the need for banks to follow the guidelines for lending to State and Local Government and their agencies, which requires approval from the CME & HMF.

- In a bid to position the DMO for greater efficiency, the Office organized a 3-day retreat for all the members of the DMO Reform Coordination and SERVICOM Committee. The event, which took place in Abuja, on December 12-14, 2014, was facilitated by the SERVICOM Office, in the Presidency.

10.7 Training for DMO's Stakeholders

Ten (10) external stakeholders were trained during the year. Four (4) of the external stakeholders were from the Federal Ministry of Finance, two (2) from the Office of the Vice President and the remaining four (4) were from the National Assembly.

10.8 Staff Capacity Building Initiatives

The DMO's staff capacity building programme in 2014 was aimed at enhancing the skills and competencies of officers in areas relating to the DMO's core mandates. The courses and number of participants are as follows:

Course	Number of Participants
Advanced Microsoft (MS) Excel	10
Commonwealth Secretariat (ComSec) Debt Recording and Management System (CS-DRMS) IT Administration	1
Macroeconomics of Debt Management	28
Debt Sustainability Analysis	18
Bond Auction System – TIBCO Software (Business & Administrative)	12
Bloomberg Training	11
Sub national Fiscal & Debt Management	2
Effective Communication and Report Writing	16
Bond Market Analysis	16
Driving Under Difficult Conditions	16
Security Management	2
Strategic Persuasion Workshop	1
Islamic Finance Workings	2
Other unstructured Specialist Skills Training (WAIFEM, etc)	7

In addition to the above, Microsoft Office Training (Advanced Word, Excel and Advanced PowerPoint) was organized for all staff, while selected members of staff were exposed to a two-day capacity building programme on Non-Interest Bearing Securities (Sukuk). The Sukuk training was aimed at supporting the development of non-interest bearing Securities (Sukuk products) and other policy initiatives in line with the DMO's planned issuance of Sovereign Sukuk by 2017.

10.9 Stakeholder Attachments/Educational Visits to the DMO

In response to a request received from Nigerian Country Director of the African Development Bank (AfDB), the DMO hosted a two-man team from the Ministry of Finance and Central Bank of the Republic of Sudan, on a One-month Secondment Programme to the DMO. The Sudanese debt managers, Mrs. Atiga A. Ahmed from the External Debt Management Unit of the Central Bank of Sudan, and Mrs. Sausan Ismail Abdulla from the Domestic Debt Unit in the Sudanese Ministry of Finance, were in Nigeria to learn more about the Nigerian experience in the implementation of sound debt management principles and practices. In the course of the study visit, Sudanese team held fruitful interactions with key officials in the DMO, as well as, other stakeholders from the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), the Office of the Accountant- General of the Federation (OAGF) and the Securities and Exchange Commission (SEC).

As part of efforts to deepen the quality of education given to our youth, the DMO, in the course of the year under review, also received two delegations of students of the Department of Economics from the Nigerian Turkish Nile University, Abuja, and the University of Nigeria, Nsukka, Enugu State. The students from both institutions undertook the one-day educational excursion tours to the DMO to learn more about effective public debt management and macroeconomic stability in Nigeria.

10.10 Operational Risk Management

The year 2014, witnessed a strengthening of efforts to minimize operational risks associated with the DMO's work environment. In line with the implementation of the organization's disaster recovery plan, the automated data back-up system with Galaxy Back-Bone was reactivated, with a register established to keep a log of all back-up activities and a calendar developed to ensure periodic monitoring. In order to ensure effective and efficient business continuity, all Departments were mandated to prepare Procedure Manuals on the various activities, from commencement to completion.

On the periodic reporting of the DMO's operational risks exposures, the year 2014, ended with the retention of the Risk Occurrence and Impact Assessment levels of all the identified twenty-two (22) operational risk areas, as part of the strategy to monitor the outcome of the on-going improvement initiatives.

10.11 ICT Infrastructure

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

- A biometric access control system was put in place to improve data security and restrict access to sensitive ICT installations.
- The FGN Bond Auctioning System Center was installed and connected to Bloomberg services through a dedicated Fiber Optic Line. The installations of eleven (11) new Bloomberg terminals were also completed, thereby increasing the availability of Bloomberg terminals to enable FGN Bonds auctioning. The Disaster Recovery Facility in Galaxy Backbone Plc, was increased to accommodate the new Auction Platform.
- The DMO's Website functionality was increased through the development of more products and information links thereby increasing the Website's user friendliness.
- The DMO's research pages in Bloomberg and Reuters were developed and are functional, thus, increasing the DMO's communication outreach and the availability of information on DMO's operations on the websites of the two largest financial news vendors.
- System upgrades were carried out by deploying latest desktops and applications to enhance the efficiency of DMO's work environment.

10.12 SERVICOM in the Debt Management Office

In compliance with the directive from the Federal Ministry of Finance (FMF) on the establishment of

Reform Units, by the Agencies under its purview, significant changes were incorporated into the service excellence mandate of the DMO's SERVICOM Committee. The changes, which became operational in the fourth quarter of the year under review, included: the expansion of the mandate of the DMO's SERVICOM Committee to incorporate the additional requirements of the Reform initiative; the co-opting into the Committee of the Team Leader (Internal Audit & Compliance Unit), whose responsibility includes anti-corruption and transparency; and the effecting a name change of the existing Committee, to DMO Reform Coordination and SERVICOM Committee to reflect the added responsibilities, as well as, satisfy the requirements of the FMF. Among the notable achievements of the Reform Coordination and SERVICOM Committee in 2014, was the successful hosting of members Retreat, with the theme "Positioning the DMO for Greater Efficiency", which was facilitated by the SERVICOM Office in the Presidency.

10.13 FGN's Guarantee in respect of the ₦1.742 trillion 3-Year Zero Coupon 2013 AMCON Tradable Bonds

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

On October 31, 2014, AMCON successfully redeemed Series V of its Bonds (₦867 billion) held by the public, with a combination of cash and Nigerian Treasury Bills. Thus, the Central Bank of Nigeria (CBN) is now the only holder of AMCON Bonds following the ₦3.8 trillion Redeemable Notes due December, 2023, issued to the CBN in December, 2013. These Notes are not covered by the FGN Guarantee. **Currently, there is no existing FGN Guarantee in respect of AMCON Bonds.**

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

In 2014, the DMO, together with the BOF, CBN and the Financial Advisers, established a structure, for the management of the Sinking Fund Account for the redemption of the LCDs Bonds.

10.15 Bond Auctioning System (BAS)

In compliance with the requirements of the Public Procurement Act (PPA), 2007, the DMO obtained a Certificate of "No Objection" from the Bureau for Public Procurement (BPP), to engage Bloomberg L. P. for the Provision of the FGN Debt Securities Auctioning System and Galaxy Backbone Plc (GBB), for the Provision of Middleware, Connectivity and Disaster Recovery Solution for the Primary FGN Debt Securities Market. Thereafter, the DMO sought for and received a Conveyance of Approval for Award of Contract from the Ministerial Tenders Board, Federal Ministry of Finance, in line with extant regulations.

Since the Commencement of the implementation of the project, the following Milestones have been achieved:

i. Procurement, Delivery and Installation of Hardware and Software by GBB to the DMO;
ii. Completion of Trade Data Repository (TDR) to warehouse all FGN Bond Auction related data;
iii. Network Deployment by Bloomberg to serve as a medium for transmitting data between Bloomberg and the TDR;
iv. Development of interface between Bloomberg and the DMO's TDR;
v. Acquisition and Connectivity of Auction Centre;
vi. Bloomberg and GBB's training for DMO staff and the Primary Dealers Market Makers (PDMMs);
vii. Development of interface between Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) and the TDR; and,
viii. Conduct of Mock auctions using the Bond Auctioning System platform.

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

CHAPTER ELEVEN

FINANCIAL STATEMENTS AND ACCOUNTS

11.1 BUDGET ALLOCATION AND IMPLEMENTATION PROFILE

11.1.1 Budget Allocation

The total approved Budget of the Debt Management Office for the year 2014 was ₦637.6 million, representing a decrease of 11% relative to the amount appropriated for the organization in 2013. The Overhead and Capital budgets were the most affected with cuts amounting to 24% and 38% respectively. Overhead budget declined from ₦224 million in 2013, to ₦169.5 million in 2014, while Capital budget dropped from ₦40.6 million in 2013 to ₦25.0 million in 2014. On the flipside, Personnel Emolument vote rose marginally by 0.6% from ₦440.6 million in 2013, to ₦443.1 million in 2014. The drop in overall budgetary allocation to the DMO in 2014 continued a trend experienced by the organization in recent years.

11.1.2 Budget Implementation

Of the ₦443.1 million appropriated for Personnel Emolument in 2014, the sum of ₦420.3 million was fully warranted and released for the payment of staff salaries and allowances, as well as, the settlement of social contributions for Pension and National Health Insurance Scheme. A total sum of ₦418.9 million was utilized for the aforementioned payments and transfers, while the unutilized balance of ₦1.4 million was returned to the Sub-Treasurer of the Federation (STF) at the end of the year. The payment of personnel emoluments was done under the Integrated Personnel and Payroll Information System (IPPIS) platform for the third consecutive year in pursuance of the Federal Government's implementation of the Treasury Single Account (TSA).

Of the 2014 approved Overhead Budget of ₦169.5 million, the sum of ₦150.2 million, representing almost 89% was released to the DMO by the Office of the Accountant-General of the Federation (OAGF). The entire amount was utilized for funding the operations of the DMO during the year under review.

Similarly, out of the Capital Budget of ₦25.0 million approved for the 2014 fiscal year, the sum of ₦14.2 million, or 57% was released through the Government Integrated Financial Management Information System (GIFMIS). Out of this amount, the sum of ₦12.6 million was utilized for funding two of the three projects earmarked in the 2014 Capital budget, while the balance of ₦1.6 million was returned to the Sub-Treasury as it was insufficient to finance the third capital project for the year.

In total, the sum of ₦584.8 million was released to the DMO to fund its Personnel, Overhead and Capital commitments during the 2014 financial year. Out of this amount, ₦581.7 million, or 99.5%, was utilized for the aforementioned expenditure heads while the total balance of ₦3.1 million was returned to the Sub-Treasurer of the Federation. In addition to the statutory budget releases during the year under review, the DMO also received the sum of ₦10.8 million from Service Wide Vote to defray the outstanding audit fees due to the External Auditors who conducted the audit of DMO's debt operations for three years.

11.2 AUDITED ACCOUNTS AND FINANCIAL STATEMENTS

11.2.1 CORPORATE INFORMATION

Supervisory Board

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

Principal Officers:

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

11.3 STATEMENT OF DIRECTORS' RESPONSIBILITIES

DEBT MANAGEMENT OFFICE

Financial Statements for the Year Ended 31st December, 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

Dr. Abraham. E. Nwankwo
Director-General
FRC/2015/CILRM/00000012204

Atiku Saleh Dambatta
Head, Organisational Resourcing Dept.
FRC/2015/ANAN/00000011995

11.4 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3. **Fixed Assets**
   Fixed Assets are stated at cost. Depreciation of Fixed assets is computed for notional purposes only as the accounts are prepared on cash accounting and are expensed in the year of purchase. However, Annexture in the Suplemenatry Information at page 17 was prepared for management information and could be useful in decision making.

4. **Taxation**
   There was no provision for both Income and Education Taxes during the period ended 31st December, 2014 because the Office is a non-profit making organization.

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

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

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

11.5 REPORT OF INDEPENDENT AUDITORS

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

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

We have audited the accompanying financial statements of Debt Management Office (DMO) which comprise the balance sheet as at 31st December, 2014 the income and expenditure accounts, the statement of cash flows for the year then ended, summary of significant accounting policies and other explanatory notes.

Respective Responsibilities of the Board of Directors

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

Basis of Opinion

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Debt Management Office as at 31st December, 2014, and of the DMO's financial performance and cash flows for the period then ended in accordance with the relevant standards issued by Financial Reporting Council of Nigeria, provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004.

Report on other legal and regulatory requirements

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

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

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

iii The DMO's Statements of Receipts and Payments, Cashflow and other accompanying notes are in agreement with the books of account.

Nkem Onyekawa

Institute of Chartered Accountants of Nigeria
A0853707

Sada, Idris & Co.
Chartered Accountants
Partner: Nkem Onyekawa
FRC/2014/ICAN/00000001804

Abuja, Nigeria
Date: 1st June, 2015

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

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

11.6 STATEMENT OF RECEIPTS AND PAYMENTS

	Notes	2014 ₦	2013 ₦
RECEIPTS			
Subventions	7	584,765,884	661,107,717
Service Wide Vote	8	10,823,584	39,121,173
FGN Bond Flotation Receipts	9	2,079,774,787	3,027,307,270
Grants & Aid Receipts	11	14,000,000	22,922,895
		2,689,364,255	**3,750,459,055**
Other Receipts			
Sales of Scraps and Stock Items		-	377,800
Salaries Returned in Lieu of Notice		418,811	545,050
Reversal of Bank Error		-	4,302,988
		418,811	**5,225,838**
Total Receipt		**2,689,783,066**	**3,755,684,893**
PAYMENTS			
Operations			
Operating Expenses	2	149,914,007	223,653,522
Service wide vote expenses	3	10,823,584	25,523,355
Grants and Aids Expenses	4	12,877,600	24,481,700
Personnel cost		418,986,169	417,274,753
		592,601,360	**690,933,330**
Debts and other charges			
Finance Charges	5	3,314,008	260,540
		3,314,008	**260,540**
Capital Expenditures			
Acquisition of non current assets	6	12,624,863	19,741,770
		12,624,863	**19,741,770**
Other Expenditures			
FGN Bond Flotation Expenses	10	2,227,806,321	1,751,032,141
Return To Consolidated Revenue Fund	12	3,383,564	15,624,896
		2,231,189,885	**1,766,657,037**
TOTAL PAYMENT		**2,839,730,116**	**2,477,592,677**
NET PAYMENT		**(149,947,050)**	**1,278,092,216**
CASH AT THE BEGINNING OF THE YEAR	13	1,823,531,544	545,439,328
CASH AT THE END OF THE YEAR	13	**1,673,584,494**	**1,823,531,544**

11.7 STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2014

DEBT MANAGEMENT OFFICE
Financial Statements for the Year Ended 31st December, 2014

STATEMENT OF FINANCIAL POSITION as at 31st DECEMBER 2014	NOTE	2014 ₦	2013 ₦
NON CURRENT ASSETS			
Fixed Assets	12	522,756,650	510,131,787
CURRENT ASSETS			
Bank and Cash Balances	13	1,673,584,494	1,823,531,544
TOTAL ASSETS		**2,196,341,144**	**2,333,663,331**
FINANCED BY:			
Accumulated Fund	14	**2,196,341,144**	**2,333,663,331**

The financial statements and notes on pages 7-16 were approved by the Senior Management Committee on 11th May........, 2015 and signed on its behalf by:

Dr. Abraham E. Nwankwo
Director-General/Chief Executive
FRC/2015/CILRM/00000012204

Atiku Saleh Dambatta
Head, Organisational Resourcing Dept.
FRC/2015/ANAN/00000011995

The notes annexed form an integral part of these financial statements

11.8 CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2014

STATEMENT OF CASH FLOWS	Notes	2014 ₦	2013 ₦
Cash flows From Operating Activities:			
Sales of Scraps and Stock Items		-	377,800
Salaries Returned in Lieu of Notice		418,811	545,050
Reversal of Bank Error of 2012		-	4,302,988
Operating Expenses		-149,914,007	(223,653,522)
Service wide vote expenses		-10,823,584	(25,523,355)
Grants and Aids Expenses		-12,877,600	(24,481,700)
Personnel cost		-418,986,169	(417,274,753)
		-592,182,549	**(685,707,492)**
Finance Charges		-3,314,008	(260,540)
Net cash flows from operating activities		**-595,496,557**	**(685,968,032)**
Cash flows From Investing Activities:			
Acquisition of Non-current assets during the year	6	-12,624,863	(19,741,770)
Net cash flows from investing activities		**-12,624,863**	**(19,741,770)**
Cash flows from Financing Activities:			
Subventions	7	584,765,884	661,107,717
Service Wide Vote	8	10,823,584	39,121,173
FGN Bond Flotation receipts	9	2,079,774,787	3,027,307,270
FGN Bond Flotation Expenses	10	-2,227,806,321	(1,751,032,141)
Grants and Aids Receipt	11	14,000,000	22,922,895
Return to Consolidated Revenue Fund	12	-3,383,564	(15,624,896)
Net cash flows from financing Activities		**458,174,370**	**1,983,802,018**
(Decease)/Increse in Cash and cash equivalent		-149,947,050	1,278,092,216
Opeaning Cash and cash equivalent	13	1,823,531,544	545,439,328
Closing Cash and cash equivalent	13	1,673,584,494	1,823,531,544

11.9 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2014

NOTES TO THE FINANCIAL STATEMENTS

DEBT MANAGEMENT OFFICE
Financial Statements for the Year Ended 31st December, 2014

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entity

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

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

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

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

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

1.2 Basis of Preparation - Statement of compliance

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

The Statement of Financial Position, the Statement of Profit or Loss and Other Comprehensive Income with accompanying wxplanatory notes, though not required under Cash Basis IPSAS, are however attached as part of Supplimentary Information preparatory to eventual migration to Accrual basis of Accounting in line with the roadmap.

The Financial statements were authorised for issue by the directors on 11th May-2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1.3 Functional and presentation currency

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

1.4 Reporting and Budgeting Period

The reporting and budgeting period of these financial statements is year 2014 (January to December, 2014)

1.5 Accounting Convention and Basis of measurement

These financial statements are prepared on the hist orical cost basis under the Cash Basis of Accounting which recognizes transactions and events only when cash is received or paid by the entity. Assets and Liabilities in the disclosed notes are also on historical cost basis

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

The Financial Statements for the year 2014 have been prepared and presented in order to make a fair presentation of all the relevant financial information without making any change in the fundamentals applied and all policies have been applied on a basis consistent with the previous year.

1.6 Revenue Recognition

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

1.7 Recognition of expenditure

Expenditure is recognized on the date when payment is made or cheque is issued. Financial year to which the payments pertain is determined by the date on which a cheque or payment advice is issued. Policies for recognition of expenditure are as follows;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Payments made through cheque: Expenditure is recognized on the date the cheque is issued.

b) Inter-government transfers: Expenditure is recognized on the date the transfer is made by the transferor.

c) Payments directly into bank accounts: Direct payments into bank account, expenditure is recognized on the date the payment advice is issued to the bank.

1.8 Foreign currency

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

1.9 Cash and cash equivalents

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

Payments by third parties

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2014	2013
		–	₦
2	**Operating Expenses**		
	Administative Overheads	(141,184,279)	(217,134,939)
	Repairs and Maintenace	(8,729,728)	(6,518,583)
		(149,914,007)	**(223,653,522)**
3	**Service Wide Vote Expenses**		
	Debt Operations Audit	(10,823,584)	(20,674,931)
	Staff Promotion/Other Personnel Cost	-	(4,848,424)
		(10,823,584)	**(25,523,355)**
4	**Grants & Aids Expenses**		
	Capacity Building -Local	(12,877,600)	(321,600)
	Debt Data Reconstruction (DFID Sponsored)	-	-
	Debt Data Reconstruction (States Sponsored)	-	-
	DFID Sponsored Training	-	(22,746,450)
	Defined Benefit Pension Scheme	-	-
	Refund to Crown Agent	-	(1,413,650)
		(12,877,600)	**(24,481,700)**
5	**Finance Charges**		
	FGN Bond Operations	(2,994,774)	(74,400)
	Overhead	(276,093)	(180,180)
	Grants / Aids	(43,141)	(5,960)
		(3,314,008)	**(260,540)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2014	2013
		₦	₦
6	**Non current Assets Aquired**		
	Computer and ICT Equipments	(4,277,468)	(2,398,998)
	Furnitures and Fittings and Equipments	(8,347,395)	(17,342,772)
		(12,624,863)	**(19,741,770)**
7	**Subventions**		
	Recurrent- Overheads	150,190,099	224,078,095
	Personnel	420,339,009	417,274,753
	Capital Fund	14,236,776	19,754,869
		584,765,884	**661,107,717**
8	**Service Wide Vote**		
	Promotion Arrears	-	7,622,658
	Debt Management Audit	10,823,584	31,498,515
		10,823,584	**39,121,173**
9	**FGN Bond Flotation Receipts**		
	FGN Bond Floatation	1,282,901,800	797,901,800
	WHT on FGN Bond Commission	349,354,987	306,783,740
	International Capital Market Operational Fund	447,518,000	1,255,020,000
	IT System Platform for FGN Bonds	-	667,601,730
		2,079,774,787	**3,027,307,270**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2014	2013
		₦	₦
10	**FGN Bond Flotation Expenses**		
	Domestic Bond Floatation	(1,121,502,976)	(920,081,748)
	International Capital Market	(351,234,490)	(390,048,207)
	Bond IT System Platform	(389,581,714)	(114,812,999)
	WHT on FGN Bond Commission	(365,487,141)	(326,089,187)
		(2,227,806,321)	**(1,751,032,141)**
11	**Grants & Aids Receipts**		
	Grants and Aids - States Sponsored	14,000,000	-
	DFID Sponsored Training	-	22,922,895
		14,000,000	**22,922,895**
12	**Return To Consolidated Revenue Fund**		
	Capital Fund	(1,611,913)	(13,099)
	Overheads	-	(244,394)
	Personnel Emolument	(1,771,651)	-
	Service Wide Vote	-	(13,597,817)
	Grants /Aids	-	(57,236)
	Other Receipts	-	(1,712,350)
		(3,383,564)	**(15,624,896)**
13	**Cash and Cash Equivalents**		
	Zenith Bank Plc (Grants and Aids)	1,079,259	-
	Central Bank of Nigeria (FGN Bond Account)	1,672,505,235	1,823,531,544
		1,673,584,494	**1,823,531,544**

11.10 STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31ST DECEMBER, 2014

STATEMENT OF VALUE ADDED	2014		2013	
FOR THE YEAR ENDED 31 DECEMBER 2014	.	%	₦	%
SUBVENTIONS	584,765,884		661,107,717	
Add:				
Others, including Grants and Aids	2,104,598,371		3,089,351,338	
Other Income	418,811		5,225,838	
	-------------------------- ---		-------------------------- ---	
	2,689,783,066		**3,755,684,893**	
Less:				
Administrative Cost	(141,184,279)		(217,134,939)	
FGN Bond Operations	(1,605,540,399)		(1,246,170,935)	
Capacity Building Expenditure	(12,877,600)		(24,481,700)	
Service Wide Vote Expenditure	(10,823,584)		(25,523,355)	
Repairs and Maintenance	(8,729,728)		(6,518,583)	
Refund to Consolidated Revenue Fund	(3,383,564)		(15,624,896)	
	-------------------------- ---		-------------------------- ---	
Brought in Goods/Services	**(1,782,539,154)**		**(1,535,454,408)**	
	-------------------------- ---		-------------------------- ---	
VALUE ADDITION	**907,243,912**		**2,220,230,485**	
	========		========	
Percentage of Added Value to Gross Inflow		**34%**		**59%**
APPLIED AS FOLLOWS:				
To Pay Employees as :				
Salaries, Wages and Other Staff Charges	418,986,169	46	417,274,753	19
To Pay Providers of Banking Services	3,878,056	0	260,540	0
To Provide for Expansion	621,701,874	69	504,861,206	23
Surplus /(Deficit)for the Year after refund to Federal Sub-Treasury	(137,322,187)	-15	1,297,833,986	58
	-------------------	------	---------------------	-----
	907,243,912	100	**2,220,230,485**	100
	=========	===	=========	==

11.11 FIVE-YEAR FINANCIAL STATEMENT SUMMARY

	2014	2013	2012	2011	2010
Balance Sheet	₦	₦	₦	₦	₦
Non-Current Asset	522,756,650	510,131,787	490,390,017	464,536,044	292,199,901
Bank and Cash Balance	1,673,584,494	1,823,531,544	545,439,328	834,020,393	977,683,082
	2,196,341,144	2,333,663,331	1,035,829,345	1,298,556,437	1,269,882,983
General Reserve					
Accumulated Fund	2,196,341,144	2,333,663,331	1,035,829,345	1,298,556,437	1,269,882,983
Income and Expenditure Accounts					
Subvention	595,589,468	659,395,368	662,078,603	752,302,163	913,233,545
Grants	2,093,774,787	3,091,070,728	952,044,082	1,146,139,075	1,691,861,697
Other Income	418,811	6,015,338	319,593	519,500	79,996,545
	2,689,783,066	3,756,481,434	1,614,442,278	1,898,960,738	2,685,091,787
Personnel Cost	418,986,169	417,274,753	432,230,718	416,149,931	318,885,991
Administrative Cost	145,062,335	217,395,479	195,957,978	269,803,665	525,977,605
Repairs and Maintenance	8,729,728	6,518,583	9,974,580	25,509,669	0
Services Wide Votes	10,823,584	25,523,355	56,286,413	7,629,079	0
FGN Bond Operations	1,861,755,132	1,426,662,345	467,233,065	713,727,115	558,155,392
Grants / Aids Expenses	12,877,600	24,481,700	53,294,717	75,598,564	73,691,150
WHT on FGN Bond Commission	365,487,141	326,089,187	330,184,814	331,672,812	221,522,600
	2,823,721,689	2,443,945,402	1,545,162,285	1,840,090,835	1,698,232,738
Excess/Deficit	-133,938,623	1,312,536,032	69,279,993	58,869,903	986,859,049
Refund to Federal Sub-Treasury	3,383,564	14,702,046	332,007,083	30,196,449	853,325
	-137,322,187	1,297,833,986	(262,727,090)	28,673,454	986,005,724

11.12 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	2014		2013	
	Budget	Actual	Budget	Actual
Recurrent Expenditure	—	₦	₦	₦
Personnel	**443,105,555**	**418,986,169.00**	**432,364,887**	**417,274,753.00**
Overheads				
Local Travel & Transport: Training	14,596,970	14,595,762	22,300,000	59,700,336
Local Travel & Transport: Others	9,207,319	6,312,361	21,007,000	-
International Travels & Transport: Training	15,177,916	14,938,462	20,802,000	74,028,212
International Travels & Transport: Others	4,491,375	4,479,040	4,088,000	-
Telephone Charges	3,368,531	3,628,211	3,500,000	3,993,476
Internet Access Charges	2,245,688	2,074,435	-	-
Office stationeries/ Computer consumables	8,982,751	4,281,694	17,125,000	17,124,949
News Papers	1,119,122	1,210,141	895,100	843,290
Magazines & periodicals	561,422	-	-	-
Printing of Non Security Documents	2,245,688	2,122,000	5,474,894	5,474,805
Drugs & Medical Supplies	224,569	124,850	150,000	150,000
Unforms & Other Clothings	336,853	300,000	304,000	304,000
Maintenance of Motor Veh./Trans. Equip.	4,491,375	4,758,744	4,000,000	3,990,209
Maintenance of Office Furniture	561,422	20,000	500,000	488,718
Maintenance Of Office BLDg/Res. Qtrs.	1,684,266	1,585,087	550,000	547,233
Maintenance Of Office/ IT Equipments	2,245,688	2,365,897	1,500,000	1,492,423
Local Training	13,474,126	8,133,500	16,528,500	-
International Training	26,978,746	26,892,795	49,206,300	-
Security Services	673,706	480,000	480,000	480,000
Office Rent	17,203,070	15,320,981	15,320,900	15,320,900
Financial Consulting	4,491,375	4,470,050	3,700,000	3,675,000
Information Technology Consulting	4,491,375	4,485,712	5,070,600	5,049,201
Motor Vehicle Fuel Cost	5,389,650	5,376,500	4,800,000	4,793,102
Insurance Premium	1,684,266	-	750,000	718,064
Refreshment & meals	11,228,438	7,790,100	11,325,900	11,321,309
Honorarium & Sitting Allowances	3,368,531	2,820,000	3,500,000	3,495,100
Publicity & Advertisement	561,422	548,000	900,000	873,332
Postages & Courier Services	561,422	254,500	500,000	-
Welfare packages	5,614,219	9,641,014	7,300,000	7,289,863
Subscription to Professional Bodies	2,245,688	904,170	500,000	500,000
Sporting Activities	-	-	2,000,000	2,000,000
	169,506,989	**149,914,006**	**224,078,194**	**223,653,522**

Total Recurrent Expenditure	**612,612,544**	**568,900,175**	**656,443,081**	**640,928,275**
Capital Expenditure				
Purchase Of office Furniture & Fittings	8,460,000	8,347,395	-	17,342,772
Purchase Of Photocopying Machines	-	-	20,000,000	-
Purchase of Security Equipments	-	-	9,598,496	-
Purchase of Computers	4,932,580	4,277,468	-	-
Computer Software Acquisition	11,609,801	-	11,000,000	2,398,998
Total Capital Expenditure	**25,002,381**	**12,624,863**	**40,598,496**	**19,741,770**
Total	**637,614,925**	**581,525,038.00**	**697,041,577**	**660,670,045**

11.13 SUPPLEMENTARY INFORMATION

	2014 ₦	2013 ₦
PERSONNEL COST		
Total Salaries Emoluments paid during the year	**418,986,169**	**417,274,753**
	========	========
ADMINISTRATIVE OVERHEADS		
Local Travel and Tran sport : Training	27,693,597	59,700,336
International Travels and Transport : Training	46,310,297	74,028,212
Telephone and Postages	3,882,711	3,993,476
Magazine/Books and Periodical	1,210,142	843,290
Computer Materials and Supplies	4,281,694	17,124,949
Printing of Non -Security Documents	2,122,000	5,474,805
Drugs and Materials Supplies	124,850	150,000
Uniforms and Other Clothing	300,000	304,000
Teaching Aid / Instructional Materials		-
Entertainment	7,790,100	11,321,309
Security Services	480,000	480,000
Office Rent	15,320,981	15,320,900
Financial Consulting	4,470,050	3,675,000
Information Technology Consulting	4,485,712	5,049,201
Legal and Other Professional Charges		-
Insurance	1,348,026	718,064
Motor Vehicle Fuel and Lubricant	5,376,500	4,793,102
Honorarium and Sitting Allowance	2,820,000	3,495,100
Welfare Packages	9,641,014	7,289,863
Subscription to Professional Bodies	904,170	500,000
Publicity and Advertisement	548,000	873,332
Sporting A cities		2,000,000

Internet Access Charges	2,074,435	
	----------------	----------------
	141,184,279	**217,134,939**
	=======	=======
REPAIRS AND MAINTENANCE		
Motor Vehicles	4,758,744	3,990,209
Office F urniture and Fittings	20,000	488,718
Office Building	1,585,087	547,233
Computers and IT Equipment	2,365,897	1,492,423
	-------------	-------------
	8,729,728	**6,518,583**
	======	======
SERVICE WIDE VOTE - EXPENSES		
Office Rent		-
Consultancy Services	10,823,584	20,674,931
Computer Equipment		-
Office Equipment		-
Staff Promotion Arrears	-	4,848,424
	---------------	---------------
	10,823,584	**25,523,355**
	=======	=======
DOMESTIC BOND FLOATATION		
Local Travels and Transport	106,441,116	98,220,128
Int'l Travels and Transport	42,085,121	45,97 8,182
Entertainment	14,105,493	882,547
Publicity and Advertisements	644,570,189	644,645,437
Stock Brokers Fees	12,857,143	20,000,000
Other Professional Services	8,904,975	5,355,454
Listing Fees (FGN Bond)	100,000,000	105,000,000
Information Tech nology consulting	171,400,844	0
Legal Advisory Services	20,538,095	0
Welfare Packages	600,000	0

INTERNATIONAL CAPITAL MARKET (ICM) OFFERINGS EXPENDITURE

Local Travels and Transport	902,500	916,000
International Travels and Transport	140,699,242	69,901,558
International Training	0	7,544,355
Publicity and Advertisement	125,841,576	21,630,550
Refreshment and Meal	0	23,921,140
Financial Advis ory Services	76,889,692	133,720,016
Legal Advisory Services	6,901,480	70,726,223
Rating Fee	0	61,688,365
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	351,234,490	**390,048,207**
	========	========
FGN BOND IT SYSTEM PLATFORM		
International Travels and Transport	61,438,624	12,179,572
Local Travels and Transport	2,799,620	0
Publicity and Advertisment	139,397,673	20,554,600
Refreshment and Meal	86,000	7,285,500
Consultancy on Information Tech Platform for FGN Bonds	78,438,085	74,793,327
Legal Advisory Services	89,582,512	
Subscription	17,839,200	
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	389,581,714	**114,812,999**
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SUPPLEMENTARY INFORMATION

h. NON CURRENT ASSETS	Land	Motor Vehicle	Computer/IT Equipment	Office Equipment	Total
	₦	₦	₦	₦	₦
COST					
At 1st January, 2014	120,037,177	102,297,468	148,348,322	139,448,820	510,131,787
Additions During the Year	0	0	4,277,468	8,347,395	12,624,863
At 31st December, 2014	120,037,177	102,297,468	152,625,790	147,796,215	522,756,650
DEPRECIATION					
At 1st January, 2014	0	102,297,458	146,549,064	125,574,602	374,421,124
Charge for the year	0	0	2,868,615	15,543,687	18,412,302
At 31st December, 2014	0	102,297,458	149,417,679	141,118,289	392,833,426
NET BOOK VALUE					
At 31st December, 2014	120,037,177	10	3,208,111	6,677,926	129,923,224
At 31st December, 2013	120,037,177	10	1,799,259	13,874,218	135,710,663

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