

DOMESTIC DEBT AND MARKET DEVELOPMENT ISSUES IN NIGERIA

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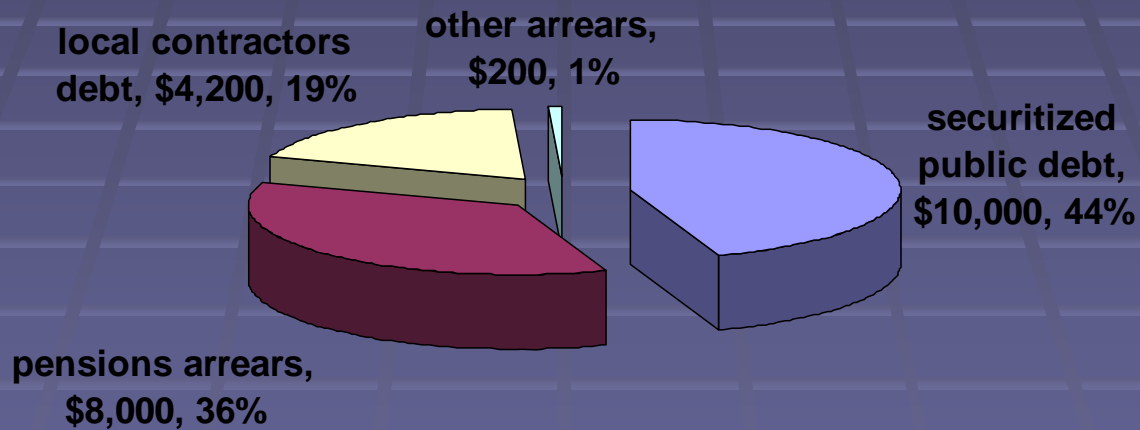
DOMESTIC DEBT PROFILE

- **Securitized public debt amounting to \$10 billion equivalent. Comprising of short term T-Bills (60%) - held predominantly by CBN (60%) and financial institutions (34%), while non- bank sector (6%) - and the remaining 40% shared between T-Bonds (30%), FGN Bonds and FRN Development stocks (10%)**
- **Local Contractors debt amounting to \$4.2 billion equivalent, these are contractors and suppliers that have rendered various services but are being owed by the government.**

DOMESTIC DEBT PROFILE

- Unpaid pension liabilities of over \$8 billion equivalent due to retirees in the public sector, which have accumulated over the years.
- Accumulated arrears on allowances due to teachers, doctors and health workers, and liabilities of Foreign Missions, amounting to over \$200million.
- Contingent liabilities: notable from public enterprises and agencies still undergoing verification exercise, as well as agencies to be privatised.

NIGERIA'S DOMESTIC DEBT (in USD millions)



DOMESTIC DEBT MANAGEMENT STRATEGIES

- **Continued Restructuring of T-Bills:** Smoothen and lengthen maturity structure of 91 day NTBs into longer tenured instruments
- **Market Development:** 15 financial institutions (10 banks and 5 discount houses) pioneering the primary dealer/market maker (PDMM) system under general rules and regulations as specified by the DMO

DOMESTIC DEBT MANAGEMENT STRATEGIES

- **Securities Issuance:** launch 2006 bond issuance calendar, floatation of 3, 5, and 7-year 3rd FGN bonds worth N260.7 billion to be issued in monthly tranches of between N20 – N30 billion
- **Pensions Arrears and Local Contractors Liabilities:** Quantify and securitize outstanding debts; cash payments for liabilities less than N100 million
 - More accurate reflection of outstanding liabilities; benefit individuals & businesses
 - Improves credibility and reputation of FGN
- **Domestic Debt Service Ceilings** set on domestic debt service levels for 2007-2009
 - Reduces fiscal impact of debt service costs
- **Wide consultations with key stakeholders** in fashioning a sound, flexible and proactive debt management strategy in line with monetary and fiscal policy
- **Maintenance of a diversified investor base**
- **Maintenance of a prudent debt structure**
- **Maintenance and enhancement of a well functioning market for government securities**

SUB-NATIONAL DEBT MANAGEMENT ISSUES

- **Reactivating Sub-national Debt Work Programme**

Verification and data reconciliation exercise to accurately quantify and record States domestic debt

- Create national states debt management framework to put in place measures that will guide States domestic and external borrowing
- Establish debt management units- capacity building, debt data recording and dissemination
- Increased dialogue, open lines of communication

DOMESTIC DEBT ISSUANCE

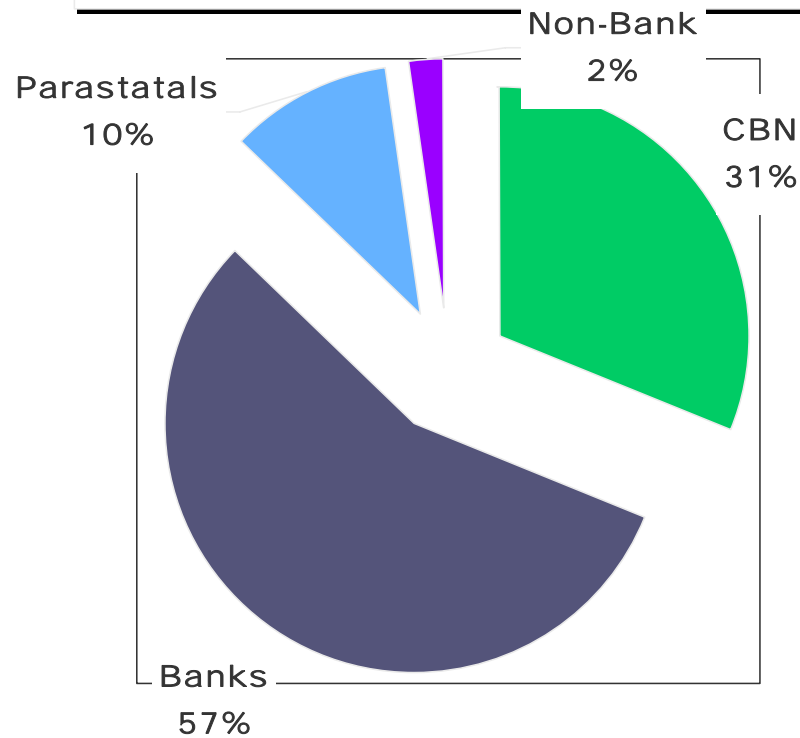
- After a lull of 17 years, DMO offered ₦150 billion 1st FGN Bonds to the public in September 2003. Total sales was ₦72.56 billion

Table 1: Analysis of Subscription

No of Offer	Amount Offered	Subscription	% of Subscription
3yrs - 2006	₦30 b	₦55.7 b	185.7%
5yrs - 2008	₦40 b	₦12.3 b	30.8%
7yrs - 2010	₦40 b	₦3.9 b	9.8%
10yrs -2013	₦40 b	₦0.6 b	1.5%
Total	₦150 b	₦72.5 b	48.3%

DOMESTIC DEBT ISSUANCE ... contd.

Fig. 2: Holdings of Domestic Public Debt as at end-December 2005



DOMESTIC DEBT ISSUANCE ... Contd.

■ DMO'S 2005 WORKPLAN

- Raising finance in the domestic financial market, in order to cover the government's funding needs
- Restructuring of 3-month NTBs into 6-month and 12-month maturities
- Restructuring of NTBs into longer-tenor securities through FGN Bond Issuance Programme
- Appointment of primary dealers/market makers
- Guideline on Sub-national borrowings
- Risk management analysis

DOMESTIC DEBT ISSUANCE ... Contd.

Structure of Domestic Public Debt

Maturity Distribution

- Nigeria

Short-term (3 to 12 months NTBs) 59%

Long-term (T-Bonds & FGN Bonds) 41%

(As at end-December, 2005)

- Comparison with the UK.

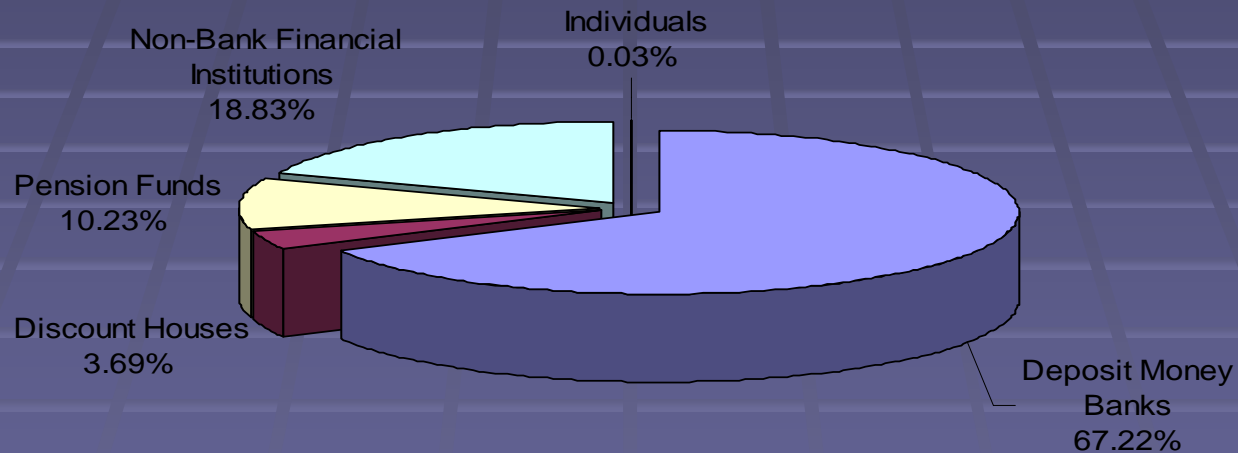
	<u>Nigeria</u>	<u>UK</u>
Short-term Instruments	59%	25%
Long-term Instruments	41%	75%

DOMESTIC DEBT ISSUANCE ... Contd.

- 2006 Bond Issuance Programme
 - Programme Issue for the year N260.7 billion
 - NTB Restructuring N145 billion
 - Funding the 2006 Budget deficit N45 billion
 - N15 billion special funding for 3 DFIs
 - Redemption of maturing 1st tranche 2003 1st FGN Bonds: N55.7 billion

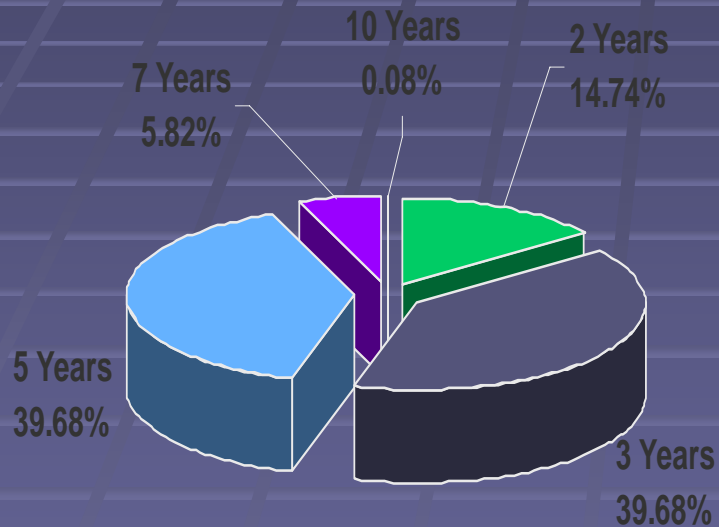
DOMESTIC DEBT ISSUANCE ... Contd.

HOLDINGS OF FGN BONDS ISSUED TO DATE



DOMESTIC DEBT ISSUANCE ... Contd.

FGN Bonds Outstanding



Tenor	Amount (N Million)
2 Years	116,661.72
3 Years	313,960.53
5 Years	197,781.51
7 Years	46,015.38
10 Years	599.45
Total	619,843.67

CHALLENGES

- **Increasing globalization and liberalization of many developing country economies exposes economies to shocks- financial, economic and developmental**
- **Changed nature of capital flows, dramatic changes in international capital markets increased exposure to volatile capital flows**
 - **Increased vulnerability to contagion effects**
 - **Vulnerable to changes in exchange and interest rates**
 - **Repeated crises/Boom-bust cycles in global financial market**
- **Improve prudential and regulatory policies**
 - **Financial sector supervision and regulation**
- **Implement sound macroeconomic policies**
 - **Monetary and fiscal policies**
- **Improved co-ordination between debt management, monetary and fiscal policies**
- **Improve transparency**
 - **data collection and dissemination, especially of non-securitised debt and contingent liabilities**

CHALLENGES ... contd.

- **Implement institutional reform**
 - **Good governance**
 - **Sub-national debt management and accountability**
- **Ensuring stronger legal framework for borrowing**
 - **Institutional arrangements**
 - **Accountability requirements**
 - **Fiscal responsibility bill**
- **Efficient payment and settlement mechanism**
- **Market liquidity/Secondary market development**
- **Credit rating – Improved sovereign ratings and credit ratings for other sun-nationals/Corporations**
- **Development of local investment vehicles (unit trusts and mutual funds)**
- **Diversification of investor base**

MARKET DEVELOPMENT: THE FUTURE HORIZON

- Recapitalisation by the deposit money banks will boost demand for government securities
- Pension act of 2004 and the resultant investment of pooled pension funds will engender patronage for govt. securities and deepen the market
- Empanelling of primary dealer and market maker structure
- Sustained economic reforms – privatisation of public enterprises

THE FUTURE HORIZON ...contd.

- Review performance of the PDMMs with a view to restructuring the system if need be
- Analyze market performance with a view to reviewing rules and regulations
- Review instruments offering to ensure varied appetite is satisfied
- Ensure uniform and robust electronic trading system in the entire market
- Embark on more aggressive sensitization and enlightenment initiatives to boost domestic appetite
- Embark on roadshows and other marketing initiatives to engender foreign investors' interest