DEBT MANAGEMENT OFFICE
NIGERIA

NIGERIA'S DEBT MANAGEMENT STRATEGY, 2020-2023

November, 2019

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GLOSSARY

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

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

EXECUTIVE SUMMARY

1.0 Introduction

Nigeria's Debt Management Strategy (DMS), 2020-2023, is formulated to guide the borrowing activities of the Government in the medium-term, after the expiration of the Debt Management Strategy, 2016-2019. The formulation and implementation of a Debt Management Strategy is one of the pillars of best practices in public debt management and is formulated based on the standard practice developed by the World Bank (WB) and International Monetary Fund (IMF). Having and implementing a Debt Management Strategy, therefore, improves the assessment of Nigeria's public debt practices by Rating agencies, Development Partners and Investors.

The new Strategy which covers the period 2020-2023 has been developed based on a number of considerations including: meeting Government's financing needs at minimal cost with prudent level of risk; the Economic Recovery and Growth Plan (ERGP), 2017-2020; the 2020-2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP); and the 2020 draft Budget. It also recognized the need to continue to support the development of the domestic capital market to enable access to long-term funds by the public and private sectors and attract foreign investors. The Strategy also considered the outcomes and challenges experienced in the implementation of the 2016-2019 Debt Management Strategy.

The preparation of the DMS, 2020-2023 evolved from a Workshop organized by the Debt Management Office (DMO), in which the relevant Ministries, Departments and Agencies of the Federal Government of Nigeria, namely: Federal Ministry of Finance, Budget and National Planning (FMFBNP); Central Bank of Nigeria (CBN); Budget Office of the Federation (BOF); National Bureau of Statistics (NBS); and Office of the Accountant-General of the Federation (OAGF). The staff of the World Bank, IMF and West African Institute for Financial and Economic Management (WAIFEM) provided Technical Assistance.

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

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

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

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

In the implementation of the Strategy, it is worthy to note that:

- Access to Concessional Funding was limited due to Nigeria's upgrade to lower Middle Income in 2016.
- The implementation of the Strategy implied more external borrowing, which led to increased commercial borrowing.

The final outcomes of the implementation of the Strategy, will be determined after December, 2019, as the Strategy will expire on December 31, 2019.

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

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

3.1 Review of the Total Public Debt Portfolio

Nigeria's Total Public Debt outstanding was ₦24,387,071.74 million (US$79,436.72 million), as at December 31, 2018, as detailed in Table 2 below.

Table 2: Nigeria's Total Public Debt Portfolio as at December 31, 2018

Debt Category	Amount Outstanding (US$'M)	Amount Outstanding (₦'M)
Total External Debt	**25,274.36**	**7,759,229.99**
FGN only	21,043.65	6,460,399.86
States & FCT	4,230.72	1,298,830.13
Total Domestic Debt	**54,162.35**	**16,627,841.75**
FGN Only	41,610.44	12,774,405.70
States & FCT	12,551.91	3,853,436.05
Nigeria's Total Public Debt	**79,436.72**	**24,387,071.74**

The ratio of Total Public Debt-to-GDP was 19.09 percent as at December 31, 2018. This ratio was still within the Country's Specific Debt Limit of 25 percent and far below the World Bank/IMF's recommended Threshold of 55 percent for countries in Nigeria's peer group, as well as the West African Monetary Zone (WAMZ) convergence threshold of 70 percent. The ratios of Total Interest Payment-to-FGN's Revenue increased from 37.49 percent in 2015 to 51.28 percent in 2018. This relatively higher ratio is expected to be moderated, given the various strategic initiatives such as the Finance Bill and the Production Sharing Contract (PSC) being undertaken by the Government to shore up its revenues.

The exposure of the Total Public Debt portfolio to refinancing risk was low as a result of the redemption of about N975 billion of short-dated Nigerian Treasury Bills (NTBs), using proceeds of long-dated 10-20 year Eurobonds in 2017 and 2018, as well as the issuance of longer-tenored Eurobonds of up to 30 years in 2017 and 2018. The portfolio's exposure to interest rate risk was moderate, but higher for foreign exchange rate risk, due to increased external borrowing to achieve the 60:40 Target (Domestic Vs External Debt), as prescribed in the 2016-2019 Medium-term Debt Management Strategy.

3.2 Macroeconomic Assumptions

In line with the MTEF projections, the real GDP growth rates were projected at 2.93, 3.35 and 3.85 percent for 2020, 2021 and 2022, respectively. Although these GDP growth projections are below the ERGP's projections, in view of the slow but gradual recovery after the recession, they are still consistent with the aspirations of the ERGP. The official Exchange Rate was projected at N305/US$1 in line with the MTEF, and expected to remain relatively stable over the period of the Strategy, while the Inflation rate was projected to trend downwards to a single digit of about 9.30 percent in 2023, in response to the gradual recovery of the economy, and in line with the expectations in the ERGP.

3.4 Scope of Data Coverage

The scope of debt data used in the exercise is in line with the requirements of the MTDS Analytical Template and the WB/IMF guidelines on Public Debt Management, which covers the main financial obligations over which the Central Government (FGN) exercises full control. This, therefore, consists of the External Debt Stock of the FGN and 36 State Governments and the Federal Capital Territory (FCT), and the Domestic Debt of Federal Government only, as well as the FGN's financing needs over the future period. Thus, the Domestic Debt of the thirty-six (36) States and FCT were excluded in the analysis. In like manner, the Contingent Liabilities of the FGN were not included as they are not direct liabilities of the FGN, in view of the fact that they do not crystallize unless particular events occur in the future.

Although, considerations are being made by the FGN to include some domestic debt which have previously not been captured in the FGN's Debt Stock, these were not included in the MTDS, 2020-2023 as the required approvals to incorporate them were yet to be received. The Debts are those relating to the Ways and Means Advances and the Debt Data of five (5) State-owned Enterprises (SOEs), which are: Asset Management Corporation of Nigeria (AMCON); Nigeria Deposit Insurance Corporation (NDIC); Bank of Industry (BOI); Bank of Agriculture (BOA); and, Nigerian Export-Import Bank (NEXIM). For the later, their inclusion is being proposed for compliance with the framework of the IMF Monetary and Financial Statistics Manual and Compilation Guide 2016.

4.0 Objectives of the Debt Management Strategy, 2020-2023

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

i. Borrowing from External and Domestic sources will be in line with the Funding Structure for New Borrowings in the MTEF, 2020-2023 and Appropriation Acts;
ii. Reducing the cost of Debt Service, as measured by the ratio of Interest Payments-to-Revenue ratio. The Strategy recognises that the achievement of this objective, depends on significant increase in the Government's revenue;
iii. Moderating the level of Debt-related Risks namely Refinancing and Foreign Exchange Risks.
iv. Maximizing funds available to Nigeria from Multilateral and Bilateral sources in order to access cheaper and long tenored funds, whilst taking cognisance of the limited funding envelopes available to Nigeria, due to Nigeria's classification as a Lower-Middle-Income country;
v. Ensure Debt Sustainability, as measured by the Debt to GDP ratio, (which should be within the WB/IMF's recommended threshold of 55 percent), and Interest Payment to Revenue Ratios;
vi. Sustaining the issuances of longer-tenored debt instruments in both the domestic debt market and International Financial Markets; and,
~~vii.~~ Introduction of new debt instruments (possibly Inflation-Linked Bonds and Infrastructure Bonds) to meet the needs of investors, thereby increasing the ability of FGN to raise funds and to deepen the Domestic Capital Market.

4.1 Alternative Debt Management Strategies Considered

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

a. Strategy 1 (S1): Retain Existing Strategy

- Gross Borrowing will be from both External and Domestic Sources in line with MTEF, financing structure and the Appropriation Act.
- New Domestic Financing will be through issuances of longer-tenored instruments.
- Existing NTBs will only be refinanced throughout the projection period, through the issuance of Federal Government of Nigeria Bonds (FGN Bonds) where possible or rolled over.
- New External Financing will be to first to maximize Concessional and Semi-concessional funding from Multilateral and Bilateral sources, while the Residual will be market-based financing sourced from the International Financial Market, including the issuances of Eurobonds.
- The success of this option is constrained by the limited new Concessional and Semi-concessional borrowing available to Nigeria from Multilateral and Bilateral sources.

b. Strategy 2 (S2): Lengthening Domestic Maturity

- The same as for S1, but to reduce the issuances of 5-year FGN Bonds in 2021 and 2023, and 7-year FGN Bonds in 2020 and 2022, by about 7 percent each, and increase 30-year FGN Bonds by about 15 percent.
- Whilst this strategy has the potential to reduce the refinancing risk on Domestic Debt, it is feasible only to the extent that investors' appetite for long-tenored Bonds is strong and that monetary policy encourages long term investment.

c. Strategy 3 (S3): S2 plus Introduction of Inflation-Linked Bonds

- The same as in S2, but introduce a 7-year Domestic Inflation-Linked (IL) Bond from 2020, with corresponding reduction of 5-year FGN Bond in 2021 and 2023 and 7-year FGN Bonds in 2020 and 2022, by about 20 percent each to accommodate the issuance of the IL Bonds.

- This option does not contribute to reducing the refinancing risk of the Debt Stock, but introduces a new instrument to retain and attract investors.

4.2 Description of Shock Scenarios

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

4.3 The three (3) Strategies above were therefore analysed based on Cost-Risk trade-offs. Strategy 3 represents the preferred Strategy of meeting the Government's financing need in the medium-term at minimal cost with acceptable level of risks. It also presents the cheapest option of all the three Strategies, as it has relatively less exposure to foreign Exchange risk, due to a marginal reduction in external borrowing.

5.0 Benefits and Risks Associated with the Recommended Strategy

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

i. Maximising borrowing from concessional and semi-concessional external sources (where available), would provide appropriate funding for key infrastructure projects. The development of infrastructure would stimulate much higher economic activities, create jobs, enhance Government's revenue, which would ultimately moderate the ratio of Debt Service to Revenue.

ii. With a relatively lower share of External Debt at 35.47 percent for end-2023, it is least exposed to Foreign Exchange risk. This would moderate the exposure of the portfolio to foreign exchange shocks.

iii. Continued issuances of longer-tenored debt instruments (tenors of 10 years to 30 years) in both the domestic debt market and International Financial Markets will help to moderate refinancing risk.

iv. The proposed introduction of new long-term debt instruments (such as Inflation-linked Bonds) to support the development of the domestic debt market would further help to broaden the investor-base and deepen the market, which would help to moderate the refinancing and interest rate risks of the public debt.

6.0 Targets for Public Debt

Following the review of the performance of the MTDS, 2016-2019 Targets as at December 31, 2018; expectations for the FGN's future borrowing activities during the strategy period and the recommended Debt Strategy (Strategy 3), the Public Debt Targets for 2020-2023 are shown in Table 3. Given the need to strengthen and reinforce the milestones recorded in the implementation of the elapsing Strategy, some of the targets were revised while retaining a few others. Notable among the revised indicators is the Country-Specific Debt Limit, which has been reviewed upwards from the previous 25 percent of GDP to 40 percent of GDP. This is done in order to give ample room for additional funding required to drive infrastructural development, and to accommodate the planned securitisation of Government's outstanding obligations, and arrears. The performance of the Public Debt will be measured against these Targets, which may be reviewed when necessary.

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

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

- Meeting the financing needs of the Government from the domestic market, and maximizing available funds to Nigeria from the Concessional and Semi-Concessional sources, in order to access cheaper and long-tenored funds, whilst taking cognizance of the limited funding envelopes available to Nigeria;
- Lengthening the maturity profile of the debt portfolio through:
  - ✓ long-term external financing from Multilateral and Bilateral creditors, and the International Financial Markets; as well as,
  - ✓ continued issuance of longer-maturity domestic bonds, and,
- Optimising the use of Off-Balance Sheet arrangements (such as Sovereign Guarantees) to support infrastructural development.

Debt Management Targets for the period 2020-2023:

Portfolio Composition		**2016-2019 Target**	**2019 Actual**	**2020-2023 Target**
	Domestic: External	60:40	67:33	Max.70:Min.30[1]
	Domestic Debt Mix: Long: Short	75:25	79:21	Min. 75:Max. 25[1]
Risks				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	19%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A[3]	2.5%	Less than 5%

Fiscal sustainability ratios

		2019 Target	**2019 Actual**	**2023 Target**
	Total Public Debt as % of GDP	25%	19.00%	40%[2]
	Sovereign Guarantees as % of GDP	N/A[3]	1.5%	Max. 5%

Source: DMO

Notes:

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

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

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

CHAPTER ONE

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

1.1 Background

Nigeria's Debt Management Strategy (DMS), 2020-2023, is formulated to guide the borrowing activities of the Government in the medium-term after the expiration of the Debt Management Strategy, 2016-2019. The formulation and implementation of a Debt Management Strategy is one of the pillars of best practices in public debt management, and, the DMS 2020-2023 has been formulated based on the accepted practice (Templates) of the WB and IMF. It therefore, improves the assessment of Nigeria's public debt practices by Rating agencies, Development Partners and investors.

The new Strategy has been developed based on a number of considerations including: meeting Government's financing needs at minimal cost with prudent level of risk; the Economic Recovery and Growth Plan (ERGP), 2017-2020; the 2020-2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP); the 2020 draft Budget; and the need to continue to support the development of the domestic capital market to enable access to long-term funds by the public and private sectors and foreign investors. The Strategy also considered the outcomes and challenges incurred in the implementation of the 2016-2019 Strategy.

The preparation of the DMS, 2020-2023 evolved from a Workshop organized by the Debt Management Office (DMO) in which the relevant Ministries, Departments and Agencies of the Federal Government of Nigeria, namely: Federal Ministry of Finance, Budget and National Planning (FMFBNP); Central Bank of Nigeria (CBN); Budget Office of the Federation (BOF); National Bureau of Statistics (NBS); and Office of the Accountant-General of the Federation (OAGF). The staff of the World Bank, IMF and West African Institute for Financial and Economic Management (WAIFEM), provided technical assistance.

1.2 Objectives of the Debt Management Strategy, 2020-2023

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

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

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

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

iv. Maximizing funds available to Nigeria from Multilateral and Bilateral sources in order to access cheaper and long tenored funds, whilst taking cognisance of the limited funding envelopes available to Nigeria, due to Nigeria's classification as a Lower-Middle-Income country;
v. Ensuring Debt Sustainability, as measured by the Debt to GDP ratio, (which should be within the WB/IMF's recommended threshold of 55 percent), and Interest Payment to Revenue Ratios;
vi. Increasing the issuances of longer-tenored debt instruments in both the domestic debt market and International Financial Markets; and,
vii. Introduction of new debt instruments (possibly Inflation-Linked Bonds and Infrastructure Bonds) to meet the needs of investors, thereby increasing the ability of FGN to raise funds and to deepen the Domestic Capital Market.

1.3 Scope of the Debt Management Strategy

The scope of debt data used in the exercise is in line with the requirements of the MTDS Analytical Template and the WB/IMF guidelines on Public Debt Management, which covers the main financial obligations over which the central Government (FGN) exercises full control. Thus, the debt data used consists of the External Debt stock of the FGN and 36 State Governments and the Federal Capital Territory (FCT), and the Domestic Debt of Federal Government only, as well as the FGN's financing needs for the years 2020-2023 as provided in the draft Budget and MTEF 2020-2022. Hence, the Domestic Debt of the thirty-six (36) States and FCT, as well as the Contingent Liabilities of the FGN were excluded in the analysis.

Although, considerations are being made by the FGN to include some domestic debt which have previously not been captured in the FGN's Debt Stock, these were not included in the MTDS, 2020-2023 as the required approvals to incorporate them were yet to be received. The Debts are those relating to the Ways and Means Advances and the Debts of five (5) State-owned Enterprises (SOEs). For the later, their inclusion is being proposed for compliance with the framework of the IMF Monetary and Financial Statistics Manual and Compilation Guide 2016.

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

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

CHAPTER TWO

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

2.1 Introduction

Nigeria's DMS, 2016-2019, emphasised more reliance on longer-term financing and relatively less expensive external financing, with the key objectives of meeting Government's financing needs at minimal cost with prudent degree of risk over the medium to long-term, as well as ensuring the growth and development of the country's domestic debt market.

2.2 Key Targets of the Debt Management Strategy

The key Targets of the Debt Management Strategy to be achieved, by end-December, 2019 were as follows:

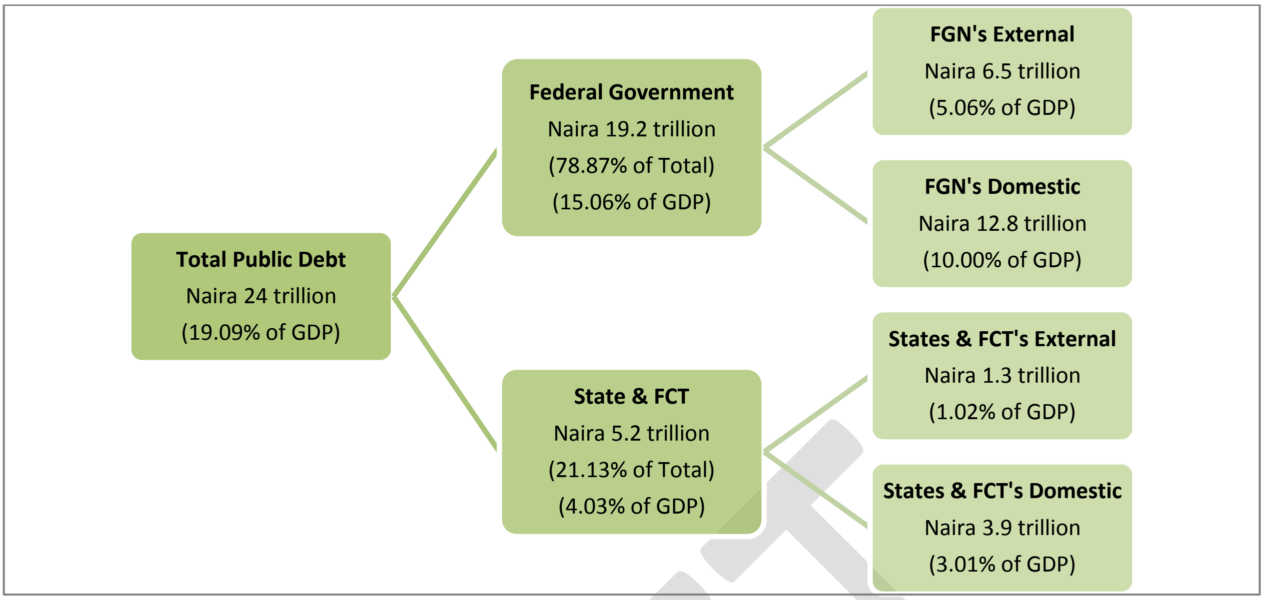
i. Achieve an optimal Debt Portfolio Mix for Domestic and External debt of **60:40**, respectively;
ii. Attain a Domestic Debt Portfolio Mix for the Long-Term Debt, to Short-term Debt of **75:25** ratio;
iii. Attain a proportion of debt maturing within one (1) year at **not more than 20 percent** of the Total Debt Public Portfolio; and,
iv. Ensure that the Average Time-to-Maturity (ATM) for the Total Public Debt Portfolio is at a **minimum of 10 years.**

2.3 Outcomes of the Debt Management Strategy

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

While the growth in GDP and the FGN Revenue are not within the control of the DMO, the assessment of the performance of Nigeria's Total Public Debt to GDP shows that the debt portfolio remains within a Sustainable Limit. The ratio of Total Public Debt Portfolio to GDP was 19.09 percent as at December 31, 2018 compared to 13.02 percent in 2015 (Figure 1), remained within the Country-Specific Debt Limit of 25 percent. Although the Ratio has increased steadily due to New Borrowings and slower growth of the GDP, this Ratio for each of the years - 2016 to 2018, was well below the World Bank/IMF's recommended threshold of 55 percent for countries in Nigeria's peer group and ECOWAS Convergence threshold of 70 percent, as well as within the Country's Specific Debt Limit of 25 percent.

Figure 1: Nigeria's Debt Portfolio Performance as at December 31, 2018



Source: DMO

The performance review shows that most of the Targets (Indicators) set for 2019 have been met or exceeded, as at end-December, 2018. Notably, the following Indicators were exceeded: The ratio of Public Debt to GDP at 19 percent as against the set limit of 25 percent; Average tenor of Total Portfolio at 10.50 years, as against set minimum of 10 years; FGN's Domestic Debt Mix (Long-term to Short-term) of 79:21, as against Min.75:Max.25; and, Debt maturing within one year relative to the Total Debt Portfolio at 15.38 percent as against a maximum of 20 percent. The outcome is expected to improve further when the review is conducted by end-December, 2019. The performance of the Debt Management Strategy thus far, is as highlighted in the below.

Table 4: Performance of DMS Targets

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

Source: DMO

2.4 Costs and Risks Indicators of FGN's Total Debt Portfolio - 2015 and 2018

Table 5 shows the Cost and Risk Indicators of the FGN's Total Debt portfolio as at December 31, 2015 and 2018, which highlights the appreciable progress recorded in the implementation of the

Debt Management Strategy, within the period. These are further reviewed in subsequent sections below.

Table 5: FGN's Cost and Risk Indicators of the Debt Portfolio as at December 31, 2015 and 2018

Risk Indicators		2015			2018		
		External Debt	Domestic Debt	Total Debt	External Debt	Domestic Debt	Total Debt
Amount (in billions of NGN)		2,113.23	8,537.93	10,651.13	7,765.68	12,774.41	20,540.08
Amount (in billions of USD)[1]		10.73	43.34	54.07	25.30	41.61	66.91
Nominal debt as percent of GDP		2.20	8.91	11.11	6.1	10.0	16.1
PV of Debt as percent of GDP[2]		2.05	8.30	10.35	5.0	10.0	15.0
Cost of debt	Interest payment as percent of GDP[3]	0.04	1.16	1.20	0.3	0.9	1.20
	Weighted Av. Interest Rate (IR) (percent)	1.74	13.00	10.77	4.7	9.2	7.50
Refinancing risk	ATM (years)	14.39	5.35	7.15	14.0	7.5	10.50
	Debt maturing in 1yr (percent of Total)	1.16	36.08	29.15	0.9	27.6	15.40
	Debt maturing in 1yr (percent of GDP)	0.03	3.21	3.24	0.1	2.8	2.80
Interest rate risk	ATR (years)	13.86	5.35	7.04	13.5	7.5	10.20
	Debt re-fixing in 1yr (percent of total)	6.40	36.08	30.19	7.0	27.6	18.20
	Fixed rate debt including T-bills (percent of Total)	94.77	100	98.96	93.7	100.0	97.10
	T-bills (percent of Total)	0.0	31.38	25.33	0.0	21.4	11.60
Exchange Rate risk	Foreign currency debt (percent of Total Debt)			19.84			37.80
	Short-term foreign currency debt (percent of reserves)			0.44			0.70

Source: DMO

[1]CBN official Exchange Rate of NGN197/US$1 used for December 31, 2015 and NGN307/US$1 as at December 31, 2018

[2]PV of Debt as percent of GDP is also determined, given that substantial portion of the public debt is still concessionary.

[4]Interest Payment as a percent of GDP is calculated by dividing Interest Payments in 2018 by 2018 GDP.

2.4.1 Cost of Borrowing

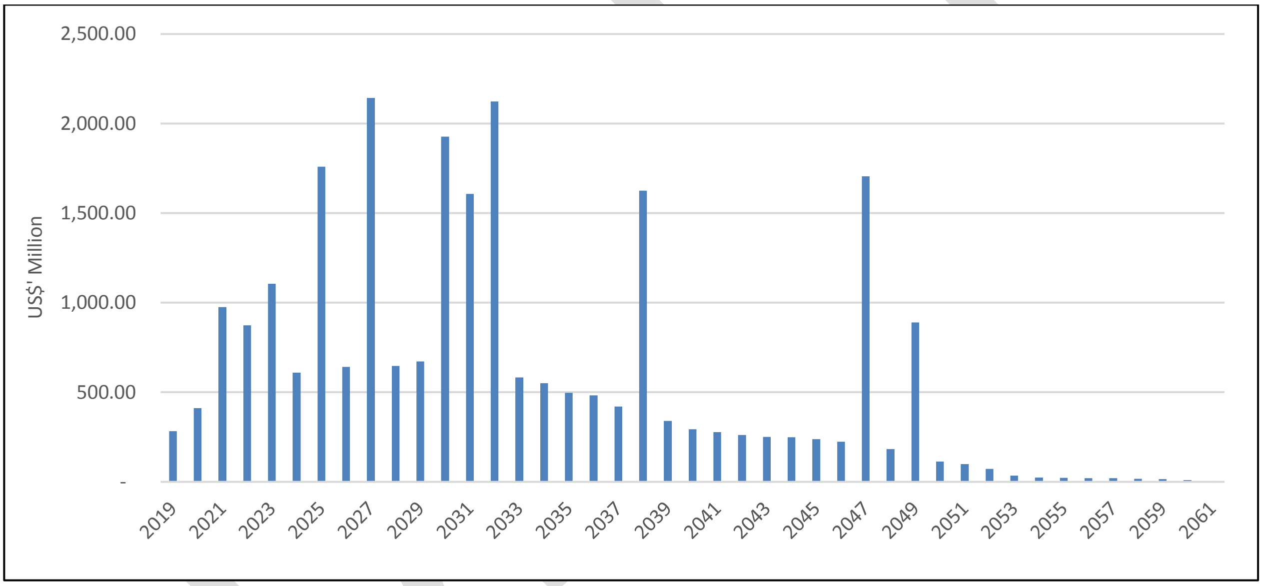
The Weighted Average Interest Rate (Implied Interest Rate) of the FGN's Total Debt Portfolio reduced from 10.77 percent in 2015 to 7.5 percent in 2018. While the Weighted Average Interest Rate for External Debt increased from 1.74 percent in 2015 to 4.7 percent in 2018, as a result of the enhanced borrowing from the external commercial sources (International Capital Market), the Domestic Debt significantly reduced from 13.00 percent in 2015 to 9.2 percent in 2018, due mainly to the restructuring exercises carried out on short-term debt instruments (NTBs), in 2017 and 2018.

2.4.2 Refinancing Risk

The issuance of the 20-year and 30-year Eurobonds in H2, 2017 and 2018, impacted positively on the Average Time-to-Maturity (ATM) of the Total Public Debt portfolio, resulting to an increase in ATM from 7.15 years in 2015, to 10.50 years in 2018. However, the Domestic Debt portfolio was still exposed to Refinancing Risk, as short-term domestic debt with tenors of not more than one (1) year comprising NTBs and Promissory Notes accounted for N3,067.24 billion or 14.94 percent of FGN's Total Debt in 2018 compared to N2,772.87 billion or 25.33 percent of FGN's Total Debt in 2015. One of the reasons for the reduction in the refinancing risk between 2015 and 2018 was that the DMO took active measures to reduce the risk by redeeming over N975 billions of NTBs between December 2017 and 2018 using the proceeds of US$3.0 billion Eurobonds issued for long tenors of 10 and 30 years. Also, in 2018 no new borrowing was done using NTBs.

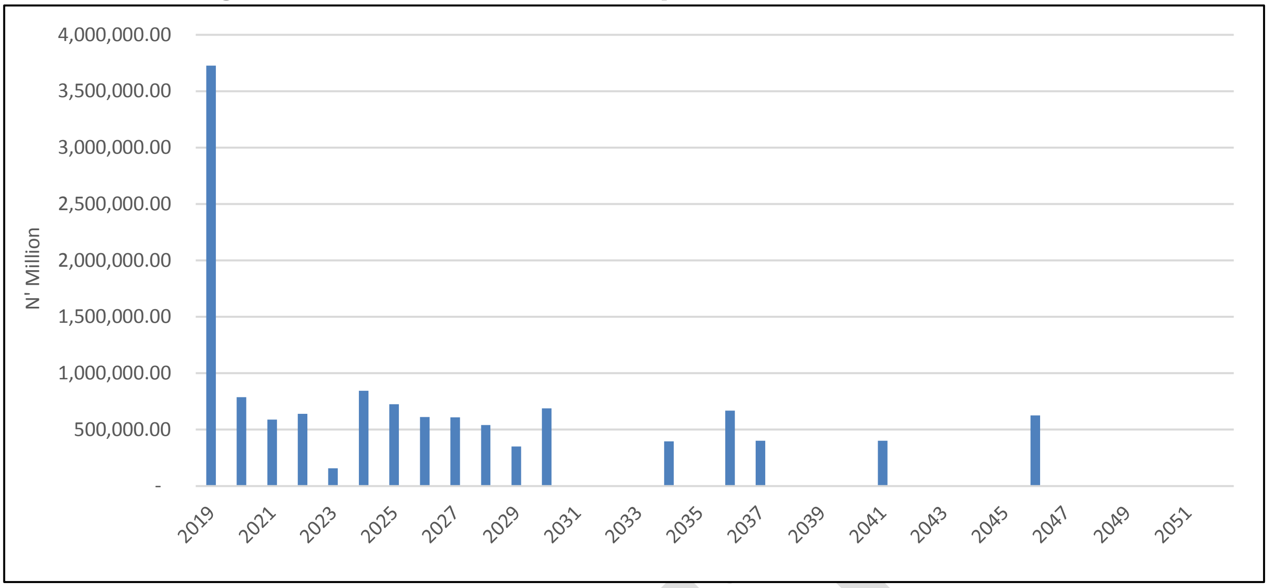
The Redemption profile of External Debt shows a relatively smooth redemption with maturities over several years up to 30 years, so as to avoid the bunching of maturities and to create a US-Dollar Sovereign Yield Curve for Nigeria in the ICM. The Domestic Debt redemption reveals that the maturities for FGN securities issued in the domestic market, were also evenly spread. However, there is a large repayment of Domestic Debt in 2019 in the sum of ₦266.04 billion, due to the NTBs maturities of ₦84.45 billion and PNs maturity of ₦181.59 billion. Figures 2 and 3 show the External and Domestic Debt Redemption Profile as at end-2018.

Figure 2: External Debt Redemption Profile as at end-2018



Source: DMO

Figure 3: Domestic Debt Redemption Profile as at end-2018



Source: DMO

2.4.3 Interest Rate Risk

The Average Time-to-Refixing (ATR) captures the vulnerability of the debt portfolio to higher market interest rates at the point at which the interest is being reset or fixed rate debt is being refinanced. The ATR shows how long it takes on average to refix the interest rate on the debt portfolio. The ATR for the Total Public debt was 10.20 years in 2018 compared to 7.04 years in 2015. The ATR for External Debt was 13.8 years (2015) and 13.5 years (2018), as a result of higher proportion of Concessional and Semi-concessional loans in the External Debt stock in 2015. However, the ATR for Domestic Debt increased from 5.35 years in 2015 to 7.5 years in 2018, due to the higher proportion of long-term fixed rate debt relative to short term of 79:21 in 2018, as against 69:31 in 2015.

2.4.4 Exchange Rate Risk

The exposure of the FGN's Total Public Debt portfolio to Foreign Exchange Risk was relatively high in 2018, as indicated by the Foreign Currency Debt as a percentage of Total Public Debt of 37.8 percent, as against 19.84 percent in 2015. This was due to the fact that more External borrowing was contracted in 2017 and 2018 through the issuances of Eurobonds in the ICM, as well as loans from Multilateral and Bilateral sources as part of the implementation of the Debt Management Strategy.

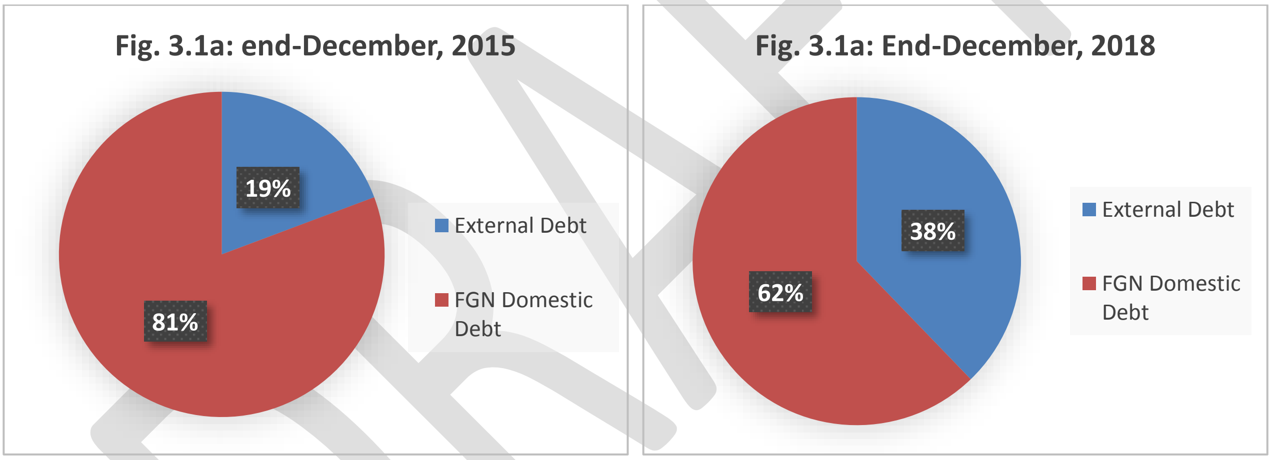
CHAPTER THREE

CHARACTERISTICS OF FGN's TOTAL DEBT AS AT DECEMBER 31, 2018

3.1 Structure of FGN's Total Public Debt

The FGN's Total Public Debt outstanding was ₦20,533,635.69 million (US$66,884.80 million), as at December 31, 2018 compared to ₦10,948,526.57 million (US$55,576.28 million) in 2015, representing an increase of ₦9,585,109.12 million (US$11,308.52 million) or 20.35 percent (Figure 4).This comprised External Debt (FGN, States and FCT) of ₦7,759,229.99 million (US$25,274.36 million) or 38 percent and FGN's Domestic Debt of ₦12,774,405.70 million (US$41,610.44 million) or 62 percent in 2018. The increase in the Total Public Debt Stock during the period was due to a sharp drop in revenue occasioned by the fall in crude oil prices, coupled with the need to fund infrastructure expenditure. Notwithstanding, the Debt Stock remained within the limit of 25 percent of the Debt to GDP ratio.

Figure 4: Structure of FGN Total Public Debt by Source



Source: DMO

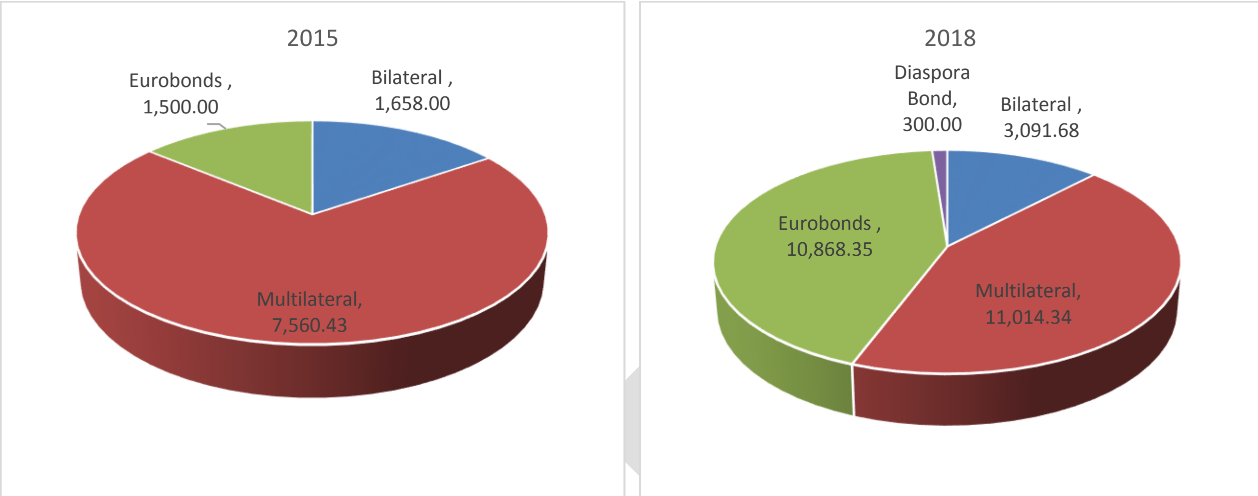
3.2 External Debt

3.2.1 Structure of External Debt by Creditor-Category

The External Debt Stock (FGN, States and FCT) was US$25,274.36 million (₦7.76 trillion) as at December 31, 2018, compared to US$10,718.43 million (N2.11 trillion) in 2015. This increase was as a result of the need to moderate debt service costs, while also increasing the level of External Reserves among other objectives. The composition of External Debt in 2018, shows that concessional loans from Multilateral and Bilateral sources accounted for US$11,014.34 million (43.58 percent) and US$3,091.68 million (12.23 percent) respectively of the Total External Debt. Other sources of External Debt were Eurobonds and Diaspora Bond, which accounted for US$10,868.35 million (43.00 percent) and US$300.00 million (1.19 percent), in 2018, respectively. Figure 5 shows the relative share of the Sources of External Debt in 2015 and 2018. Whilst

Multilateral and Bilateral sources at US$14,106.02 million still accounted for the largest share (55.81 percent) of the External Debt, the share of Commercial sources (Eurobonds and Diaspora Bond) increased over the period relative to the decline in the share of Multilateral and Bilateral debt.

Figure 5: External Debt Stock by Creditor-Category



Source: DMO

3.3 FGN's Domestic Debt

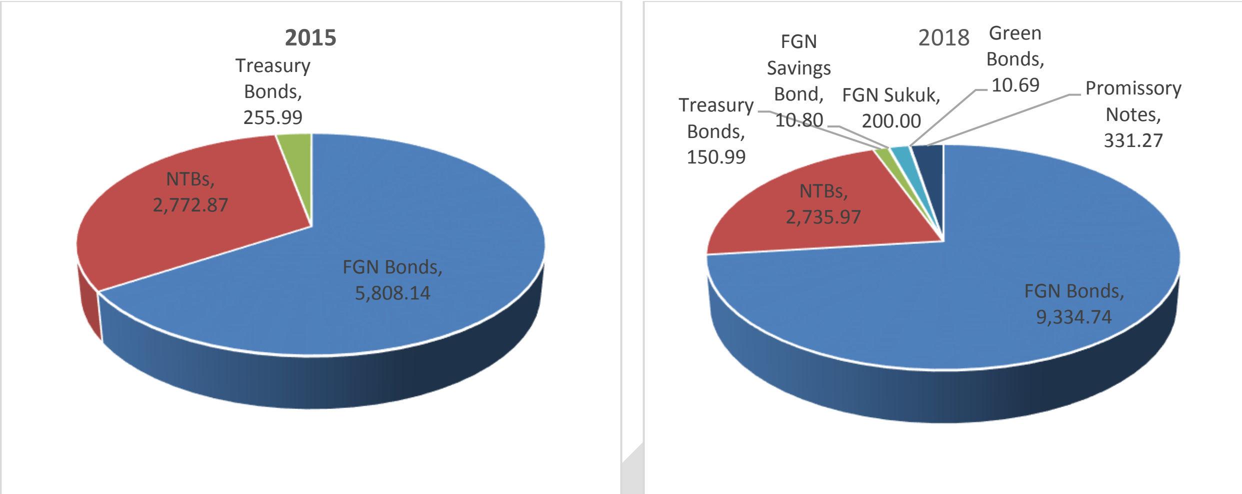
3.3.1 FGN's Domestic Debt Stock by Instruments

FGN's Domestic Debt stock was N12,774.41 billion as at December 31, 2018 compared to N8,837.00 billion as at December 31, 2015, and comprised mainly of FGN Bonds, and NTBs which accounted for 73 and 21 percent in 2018 and 66 and 31 percent in 2015 of the Total FGN's Domestic Debt respectively.

The outstanding Treasury Bonds, which are legacy bonds that are no longer being issued, are being redeemed as they mature. Consequently, the Stock and relative shares of Treasury Bonds have declined over time from about N255.99 billion in 2015 to N150.99 billion in 2018. Sukuk, FGN Savings Bond and Green Bonds were introduced in 2017 and together accounted for 1.73 percent of the Domestic Debt Stock as at December 31, 2018. Promissory Notes were introduced in 2018 to settle part of the arrears to Local Contractors and other obligations of the FGN, and amounted to N331.27 billion (2.59 percent of the Domestic Debt Stock).

Figure 6 shows the composition of FGN's domestic debt by instruments in 2015 and 2018.

Figure 6: Composition of FGN Domestic Debt by Instruments

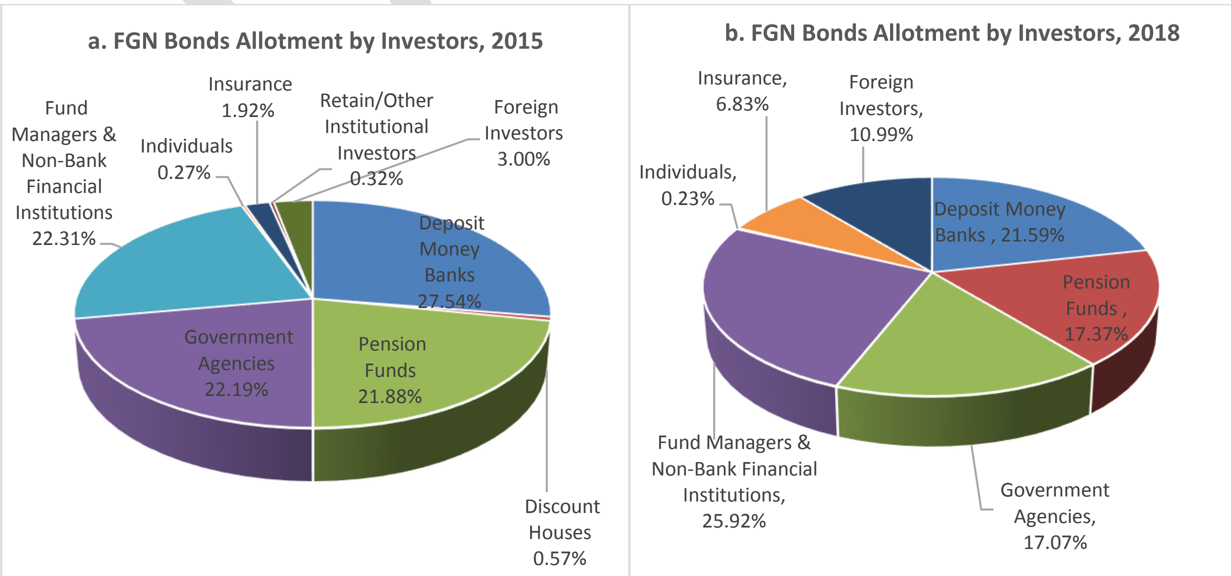


Source: DMO

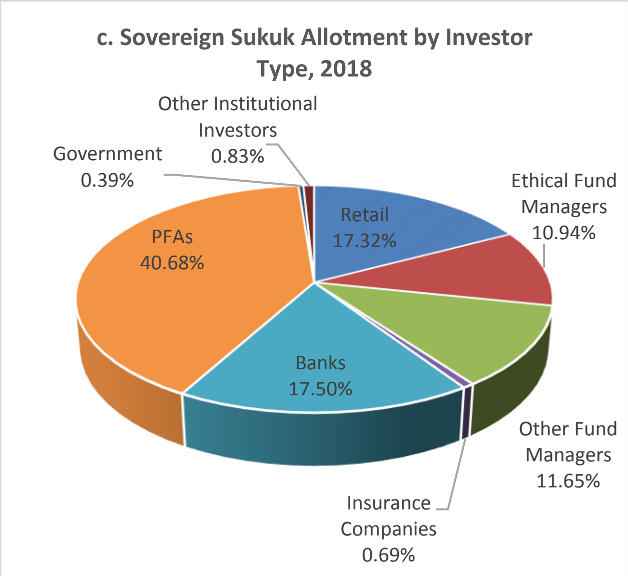
3.3.2 Allotment of FGN Bonds, Sukuk and Green Bonds by Investor Category

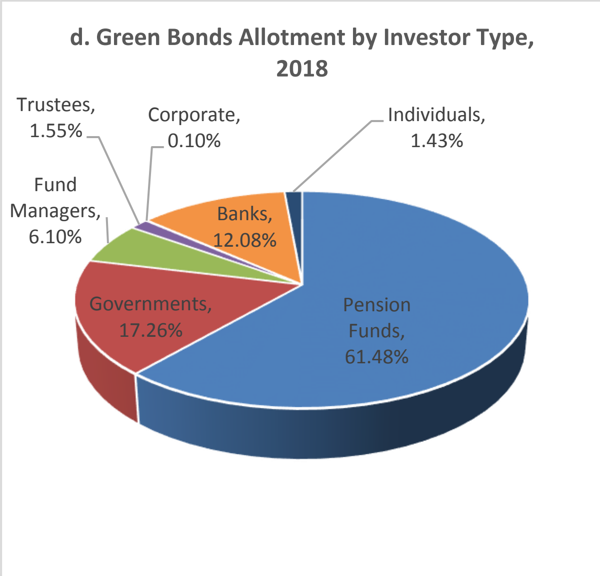
Figure 7 shows the allotment of FGN Bonds, Sukuk and Green Bonds to various categories of Investors between 2015 and 2018. Figure 3.4b shows that the highest percentage of FGN Bonds were allotted to Fund Managers and Non-Bank Financial Institutions (25.92 percent), followed by the Deposit Money Banks (21.59 percent) in 2018, Figure 3.4a presents the highest allotment to Deposit Money Banks (27.54 percent) and Government Agents (22.19 percent) in 2015. In the Sovereign Sukuk, the PFAs and Banks were allotted the highest percentage of 40.68 percent and 17.50 percent, compared to Green Bonds were the Pension Funds and Governments recorded the highest allotments of 61.68 percent and 17.26 percent, respectively.

Figure 7: Allotments by Investor-Type of the Domestic Instruments (Percentage)



Source: DMO


c. Sovereign Sukuk Allotment by Investor Type, 2018
Other Institutional Investors 0.83%
Government 0.39%
Ethical Fund Managers 10.94%
Retail 17.32%
PFAs 40.68%
Banks 17.50%
Other Fund Managers 11.65%
Insurance Companies 0.69%


d. Green Bonds Allotment by Investor Type, 2018
Trustees, 1.55%
Corporate, 0.10%
Individuals, 1.43%
Fund Managers, 6.10%
Banks, 12.08%
Governments, 17.26%
Pension Funds, 61.48%

Source: DMO

CHAPTER FOUR

SOURCES OF FINANCING AND PRICING ASSUMPTIONS

4.1 Introduction

Nigeria's domestic capital market has grown significantly in the recent past in terms of number of operators, range of products and secondary market activities. The period and has remained a reliable source of funding Government's financing needs. On the External front, with the classification of Nigeria as a Lower Middle-Income Country (LMIC) in 2015, this has meant that, it has limited access to funding from the Concessional Multilateral and Bilateral sources, which led to increased external borrowing from commercial sources (Eurobonds and Diaspora Bond). The assumption for the DMS 2020-2023 is that the FGN will meet its financing needs from the domestic market, concessional and semi-concessional sources (as may be available), as well as the ICM.

4.2 External Sources

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

4.2.1 Multilateral Loans

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

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

The Multilateral Debt accounted for 43.58 percent of Nigeria's Total External Debt Stock of US$25,274.36 million as at December 31, 2018. IDA loans (all of which are concessional) accounted for US$8,550.11 million or 77.63 percent of the Multilateral Debt component.

4.2.2 Bilateral Loans

These are loans contracted on Semi-concessional terms with fixed and variable interest rates through the Export-Import Banks or Agencies of the creditor countries. They comprised 12.23 percent of the Total External Debt stock in 2018, with China being the largest bilateral creditor at US$2.485 billion, accounting for about 80 percent of the Total Bilateral Debt of USD3.091 billion as at December 31, 2018. This category of creditors included the following:

a) Peoples Republic of China (Exim Bank of China);

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

4.2.3 Commercial Loans

Commercial loans are obtained at market rates and constituted about 44.19 percent of the Total External Debt in 2018. They comprised Eurobonds (43.00 percent) and Diaspora Bond (1.19 percent). In view of the limited availability of funding from concessional and semi-concessional sources due to Nigeria's classification as a LMIC, new sources of external capital such as Commercial Loans from Export Credit Agencies (ECA), tied to specific projects, will need to be explored further.

The Table 6 shows the structure of External Debt Outstanding in 2015, when compared to 2018.

Table 6: External Debt Outstanding by Source, 2015 and 2018 (US$' Million)

Source	2015		2018	
	Amount	%	Amount	%
1. Bilateral	1,658.00	15.47	3,091.68	12.23
2. Multilateral	7,560.43	70.54	11,014.34	43.58
Sub-Total	9,218.43	86.01	14,106.02	55.81
1. Eurobonds	1,500.00	13.99	10,868.35	43.00
2. Diaspora Bond	0	0.00	300.00	1.19
Sub-Total	1,500.00	13.99	11,168.35	44.19
Grand Total	**10,718.43**		**25,274.36**	

The typical Terms and Conditions of the External financing sources for the Government are as shown in Table 7.

Table 7: Basic Terms of Nigeria's External Financing Sources as at December 31, 2018

S/N	Creditor Type	Typical Interest (%)	Grace Period (Years)	Maturity (Years)	Concessionality
1	IDA	0.75	10	40	High
2	IFAD	0.75	10	40	High
3	AfDF	0.75	10	50	High
4	IDB	Interest-Free	7	25	Low
5	AfDB	Variable[1]	5	20	Low
6	Exim Bank of China	2.50	7	20	Low
7	AFD	Variable[1]	5	20	Low
8	EDF	1.00	10	40	High
9	BADEA	1.00	9	30	High
10	Eurobonds and Diaspora Bond	5.625-9.25	Nil	5-30	Nil

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

4.3 Domestic Sources

FGN securities, principally FGN Bonds, are expected to remain the main source of domestic financing with a bias towards the issuance of medium to long tenors of 5 years, 7 years, 10 years, 20 years and 30 years. Other products such Sukuk, Green Bonds and FGN Saving Bonds will be issued, to moderate the Refinancing risk. These instruments, which were introduced in 2017, will also be used to raise capital for the FGN. Subject to market conditions, the DMO may introduce Inflation-Linked Bonds.

The recent CBN's regulation for banks to maintain a Loan to Deposit ratio at a minimum of 65 percent may likely affect the demand for FGN Securities by the Deposit Money Banks. As at end-2018, the industry's ratio was already in excess of 60 percent, indicating that the impact on the demand for FGN securities could still be minimal, particularly as the deposits of banks grow. The efforts to grow and diversify the investor base for FGN Bonds will continue to ensure that subscriptions for FGN Securities remain high.

4.4 Market Size

For the years 2015, 2016, 2017 and 2018, the average monthly primary market issuance of the FGN Bonds (which is the principal product for raising funds in the domestic market) was about ₦71.52 billion, ₦102.92 billion, ₦124.17 billion and ₦89.17 billion per auction respectively, while the total issuance was ₦858.22 billion, ₦1,235.00 billion, ₦1,490.00 billion and ₦1,070.00 billion for 2015, 2016, 2017 and 2018 respectively (Table 8). The level of subscription was ₦1,753.46 billion in 2015, ₦2,125.75 billion in 2016, ₦2,377.40 billion in 2017 and ₦1,506.04 billion in 2018, compared to the allotments of ₦998.74 billion (2015), ₦1,308.30 (2016), ₦1,550.46 billion (2017) and ₦918.93 billion (2018). The Bid-to-Cover ratio, which is a measure of the demand for the FGN Bonds at 1.76 (2015), 1.62 (2016), 1.53 (2017) and 1.64 (2018), shows a consistent strong demand for the sovereign instruments (Table 8).

Table 8: Summary of Monthly Average of FGN Bonds, Subscription and Allotment, 2015-2018 (N' Billion)

Year		Offer	Subscription	Allotment	Bid to Cover Ratio
2015	Monthly Average	71.52	146.12	83.23	1.97
	Total	858.22	1,753.46	998.74	1.76
2016	Monthly Average	102.92	177.15	109.03	1.77
	Total	1,235.00	2,125.75	1,308.30	1.62
2017	Monthly Average	124.17	198.12	129.21	1.55
	Total	1,490.00	2,377.40	1,550.46	1.53
2018	Monthly Average	89.17	125.50	76.58	2.84
	Total	1,070.00	1,506.04	918.93	1.64

Source: DMO

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

4.5 Financing Sources Common Across Strategies

Domestic borrowing will be the main source of Gross Financing for the three (3) Strategies (Table 9) and given the limited funding envelopes for concessional and semi-concessional from the Multilateral and Bilateral sources, coupled with long processing time required, commercial borrowing mainly through the Eurobonds will still expected to be the main source of External Financing. For the Domestic borrowing, the stock of NTBs and FGN Savings Bond are kept constant due to their relatively short tenors in order to reduce refinancing risk. The proportion of NTBs and FGN Savings Bond will gradually become smaller, as the level of long-term debt increases with the growth of domestic debt. Sukuk and Infrastructure Bonds are assumed at ₦200 billion each year across all the Strategies.

Table 9: Financing Sources Common Across Strategies

	2019	2020	2021	2022	2023
Gross External Financing (US$' millions)	**2,898**	**5,424**	**5,506**	**5,403**	**5,635**
Eurobond issuance	2,600	5,400	2,500	5,400	2,500
Multilateral and bilateral	298	24	3,006	3	3,135
Domestic Financing (NGN' millions)					
T-bills	2,735,968	2,735,968	2,735,968	2,735,968	2,735,968
Savings Bonds	10,750	10,750	10,750	10,750	10,750
Infrastructure bonds and Sukuk	200,000	200,000	200,000	200,000	200,000

4.6 Financing and Pricing Assumptions

4.6.1 Exchange Rate Assumption

The DMS, 2016-2019 had assumed that the nominal exchange rate would remain relatively stable throughout the strategy period, except in the case of shock scenarios. Given the devaluation of the Naira experienced during the period from ₦197 in 2015 to ₦305 in 2016, the Purchasing Power Parity (PPP) theory was used to derive the future value of the Naira to generate more prudent forecast of the exchange rate, while using the ERGP inflation assumption.

4.6.2 Pricing of New External Loans

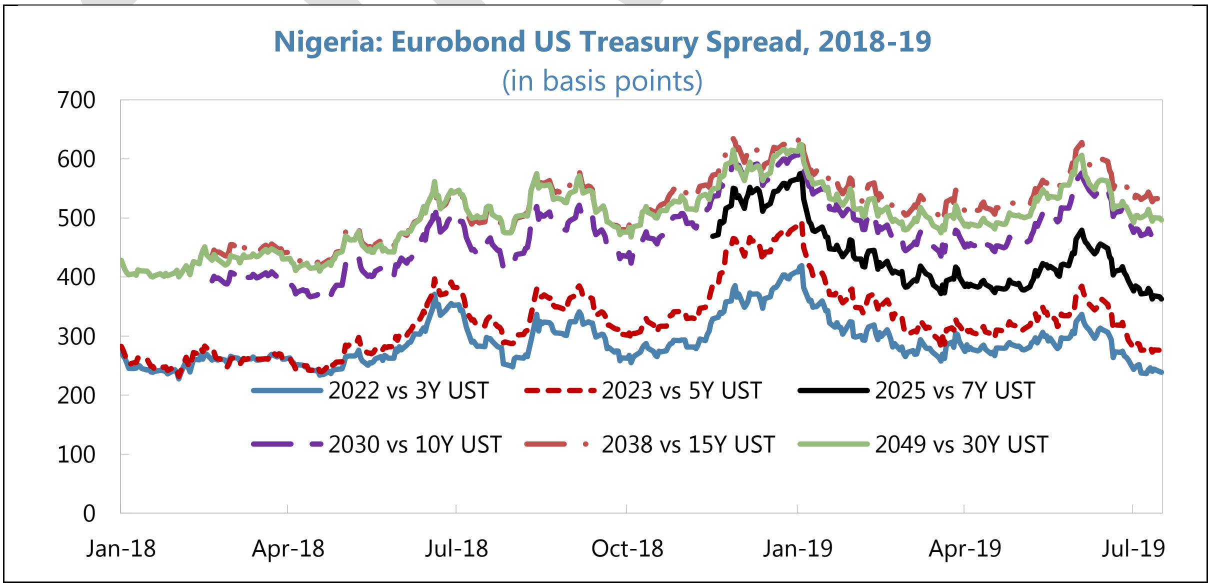
The following pricing assumptions for the various new External sources of financing were made:

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

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

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

Figure 8: Spread of Nigerian Eurobond to US Treasury Yield Curve,2018-19



Source: Bloomberg; and MTDS TA Mission Team calculations

4.6.3 Pricing of New Domestic Instruments

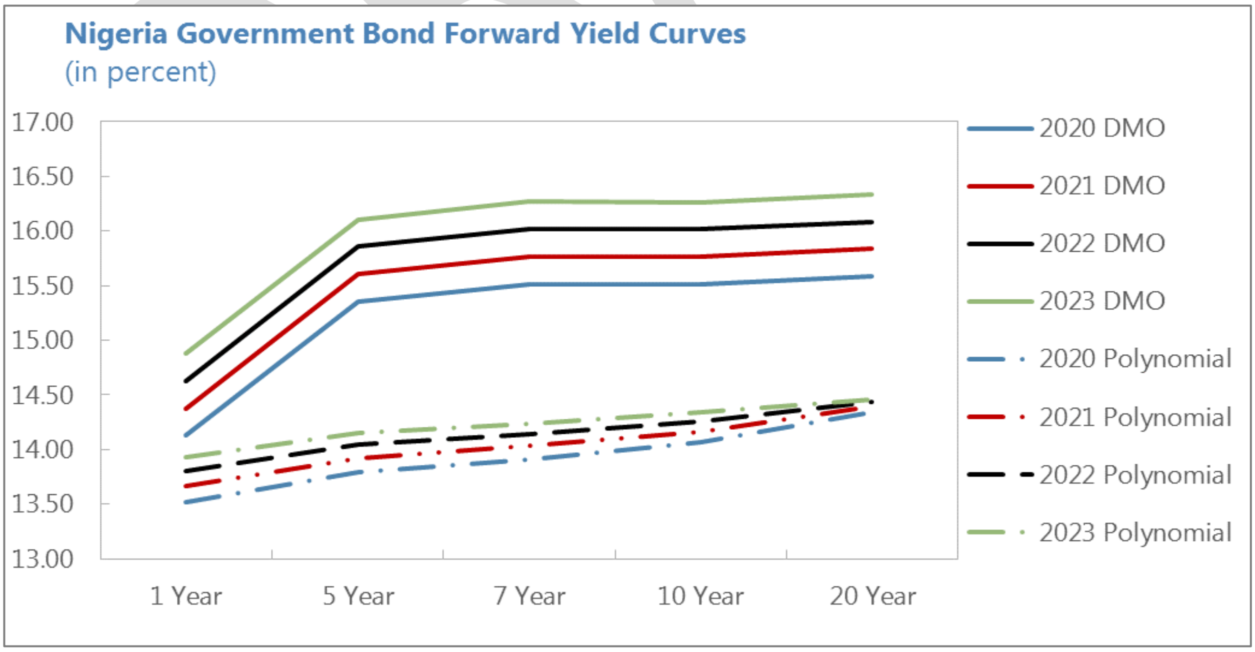
i **Nigerian Treasury Bills (NTBs)**- NTBs are assumed to have a maximum tenor of one year and are priced at 13 percent per annum throughout the projection period, based on prevailing average market rates.

ii **FGN Bonds, Sukuk, Green Bonds and Infrastructure Bonds**– The yields for all the instruments (5, 7, 10, 20 and 30-year) are assumed to increase over their levels in 2019, by 100 basis points in 2020, and thereafter by 25 bps every year. This is based on the expectation of a sustained tight monetary policy stance and higher inflation which would impact on the yields of domestic debt instruments. This expectation is assumed to be moderated in the medium term, on account of a more stable macroeconomic environment.

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

iv **Inflation-Linked Bonds** – Inflation-Linked Bonds (ILBs) are priced with rates estimated using a simple Break-Even calculation. Using the 7-year conventional bond spot and forward yields and subtracting projected inflation rate, ranging from 11.0 to 11.7 percent, the real rate of return is estimated to be about 1.81 percent. Thus, giving an effective Interest Rate for the ILBs ranging between 12.81 – 13.51 percent.

Figure 9: Nigeria Government Bond Forward Yield Curves



Notes: The solid continuous lines depict the Spot Curve, while Forward rate Curves are the dashed lines. As the forward rate curve is much more volatile than the spot curve, Polynomial function is applied in order to produce a smooth forward rate curve.

4.7 Description of the Stress Scenarios

4.7.1 Exchange Rate Shocks

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

4.7.2 Interest Rate Shock

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

CHAPTER FIVE

BASELINE MACROECONOMIC ASSUMPTIONS AND KEY RISKS

5.1 Macroeconomic Developments and Baseline Assumptions

The Baseline macroeconomic assumptions for MTDS, 2020-2023 are based on the projections outlined in the 2020-2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) and 2020 Appropriation Bill, which are in line with the goals of the Economic Recovery and Growth Plan (ERGP), 2017-2020. Collectively, these are aimed at sustaining growth and diversifying the productive base of the economy. For the outer year 2023, which is not within the MTEF period, being an election year, the projections assumed a slightly conservative growth trend. The details of the macroeconomic projections are as shown in Table 10.

Table 10: Baseline Macroeconomic Projections, 2019-2023

Description	2019	2020F	2021F	2022F	2023F
FGN Total Revenues (excluding GOEs Operating Surplus) (₦'bn)	6,998.49	7,081.42	7,281.67	8,052.44	7,864.35
FGN Total Expenditure (excluding GOEs and Project-tied Loans)	8,916.94	8,907.94	9,332.10	9,719.41	9,802.68
Fiscal Deficit (excluding GOEs and Project-tied Loans) (₦'bn)	1,918.48	1,826.52	2,050.43	1,666.97	1,638.33
Deficit/GDP (excluding GOEs and Project-tied Loans) (%)	1.37	1.28	1.29	0.93	0.82
Net Borrowing (₦'bn)	1,605.64	1,700.00	1,600.00	1,300.00	1,300.00
International Reserves (US$' M)	38,553.49	40,410.27	41,660.27	42,429.20	44,985.70
GDP (Nominal) (₦'bn)	139,811,51	142,960.53	159,490.50	179,584.93	199,100.00
Real GDP Growth Rate %	3.01	2.93	3.35	3.38	3.76
Inflation Rate (%)	9.98	11.07	10.52	10.79	10.08
Budget Oil Production Volume (mbpd)	2.30	2.18	2.22	2.36	2.36
Budget Benchmark Price (US$ per barrel)	60.00	55.00	55.00	55.00	55.00

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

5.2 Risks to the Baseline Macroeconomic Projections

The main Risks to the outlook include Oil price shocks, drop in Oil production, increase in funding requirements for security, unfavourable international market conditions such as geopolitical and trade tensions, etc, that could put pressure on the exchange rate and external reserves, increase in domestic interest rates and inflationary pressure. The occurrence of one or more of these variables may also impact on the Sovereign credit rating and consequently on the cost of commercial borrowing. Table 5.2 shows the key Risks and their possible impact on the Debt Management Strategy.

Table 11: Macroeconomic Risks and Implications for Debt Management Strategy

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

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

CHAPTER SIX

ALTERNATIVE DEBT MANAGEMENT STRATEGIES AND RESULTS ANALYSIS

6.1 Description of the Alternative Debt Management Strategies

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

a. Strategy 1 (S1): Retain Existing Strategy

- Gross Borrowing will be from both External and Domestic Sources in line with MTEF, financing structure and the Appropriation Acts.
- New Domestic Financing will focus on more issuances of longer-tenored instruments, while the current stock of NTBs will be refinanced as they mature throughout the projection period.
- New External Financing will be to first maximize Concessional and Semi-concessional funding from Multilateral and Bilateral sources, while the Residual will be market-based financing sourced from the International Financial Market including the issuances of Eurobonds.
- The success of this option is constrained by the limited new concessional and semi-concessional borrowing available to Nigeria from Multilateral and Bilateral sources.

b. Strategy 2 (S2): Lengthening Domestic Maturity

- The same as for S1, but to reduce the issuances of 5-year FGN Bonds in 2021 and 2023, and 7-year FGN Bonds in 2020 and 2022, by about 7 percent each, and increase 30-year FGN Bonds by about 15 percent.
- Whilst this strategy has the potential to reduce the refinancing risk on Domestic Debt, by increasing the share of long-term debt, it is feasible only to the extent that investors' appetite for long-tenored Bonds is strong and that interest rates remains attractive.

c. Strategy 3 (S3): S2 plus Introduction of Inflation-Linked Bonds

- The same as in S2, but introduce a Domestic Inflation-Linked (IL) Bond from 2020, with corresponding reduction of 5-year FGN Bond in 2021 and 2023 and 7-year FGN Bonds in 2020 and 2022, by about 20 percent each to accommodate the issuance of the IL Bonds.
- This option does not contribute to reducing the refinancing risk of the Debt Stock, but introduces a new instrument to retain and attract investors. It also introduces a risk to the debt stock, since the interest on the Bond will be variable.

6.2 Quantitative Description of the Alternative Debt Management Strategies

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

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

In percent of Total - as at end FY2023				
Outstanding by instrument		S1	S2	S3
AfDF	FX	7.53	7.52	7.53
IDA/IFAD/BADEA/EDF_Fixed	FX	2.22	0.62	0.62
IBRD/ADB/IDB_Fixed	FX	0.02	0.36	0.36
IBRD/ADB/IDB/AGTF_Var	FX	1.29	1.35	1.35
Bilateral_Fixed	FX	4.10	2.05	2.04
Bilateral_Var	FX	0.55	0.50	0.50
Eurobond 10Y	FX	14.97	16.62	15.89
Eurobond 30Y	FX	6.25	7.90	7.17
		-	-	-
NTB	DX	5.61	5.58	5.63
Savings Bonds	DX	0.07	0.07	0.07
FGN Bonds 5Y	DX	5.55	5.29	4.57
FGN Bonds 7Y	DX	3.98	3.74	3.06
FGN Bonds 10Y	DX	26.30	25.15	24.81
FGN Bonds 20Y	DX	5.86	6.67	7.72
FGN Bonds 30Y	DX	13.22	14.06	14.78
Sukuk/Infrastructure/Green	DX	2.46	2.45	2.46
T-Bond	DX	0.05	0.05	0.05
Promissory Notes	DX	-	-	-
Indexed Instrument	DX	-	-	1.38
External		36.92	36.93	35.47
Domestic		63.08	63.07	64.53
Total		**100**	**100**	**100**

Note: The actual and projected Promissory Notes are expected to mature before end-2023

Table 13: Actual Amount of Gross Borrowing by Sources & Instruments as at end-2023 (US$' Million) (Proj)

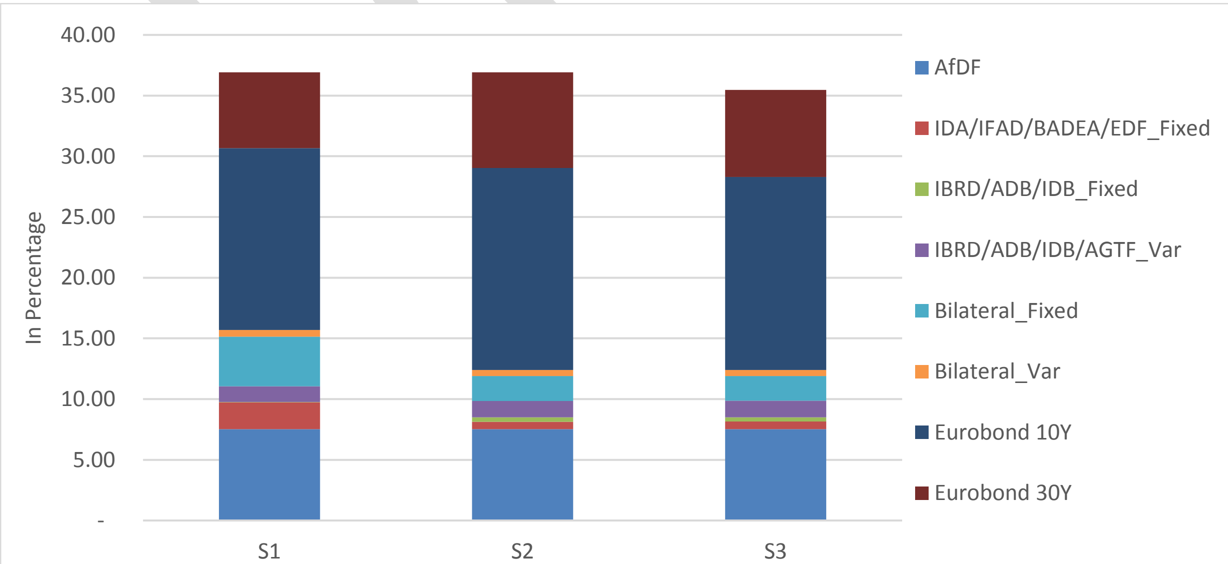
In US$ Million	FY 2018	As at end FY 2023		
Input (%)		**S1**	**S2**	**S3**
AfDF	9,391.80	8,516.31	8,515.79	8,516.56
IDA/IFAD/BADEA/EDF_Fixed	244.70	2,510.73	700.82	702.36
IBRD/ADB/IDB_Fixed	15.54	17.17	407.87	409.41
IBRD/ADB/IDB/AGTF_Var	1,388.79	1,458.43	1,529.54	1,531.07
Bilateral_Fixed	2,860.55	4,639.62	2,323.57	2,308.31
Bilateral_Var	225.63	618.24	569.77	571.30
Eurobond 10Y	11,168.35	16,935.04	18,815.50	17,985.22
Eurobond 30Y	-	7,066.69	8,947.15	8,116.87
	-	-	-	-
NTB	8,911.95	6,342.69	6,318.84	6,367.93
Savings Bonds	35.02	74.77	74.61	74.96
FGN Bonds 5Y	4,886.09	6,274.06	5,992.57	5,167.12
FGN Bonds 7Y	1,708.75	4,499.82	4,236.12	3,460.71
FGN Bonds 10Y	12,050.51	29,747.83	28,475.74	28,073.31
FGN Bonds 20Y	1,632.45	6,625.95	7,552.49	8,739.85
FGN Bonds 30Y	10,128.52	14,954.07	15,921.97	16,726.51
Sukuk/Infrastructure/Green	686.29	2,781.92	2,779.01	2,785.69
T-Bond	491.82	60.25	60.25	60.25
Promissory Notes	1,079.06	-	-	-
Indexed Instrument	-	-	-	1,565.80
	66,905.80	113,123.56	113,221.61	113,163.24

Note: The actual and projected Promissory Notes are expected to mature before end-2023

6.3 Composition of FGN's External and Domestic Borrowing

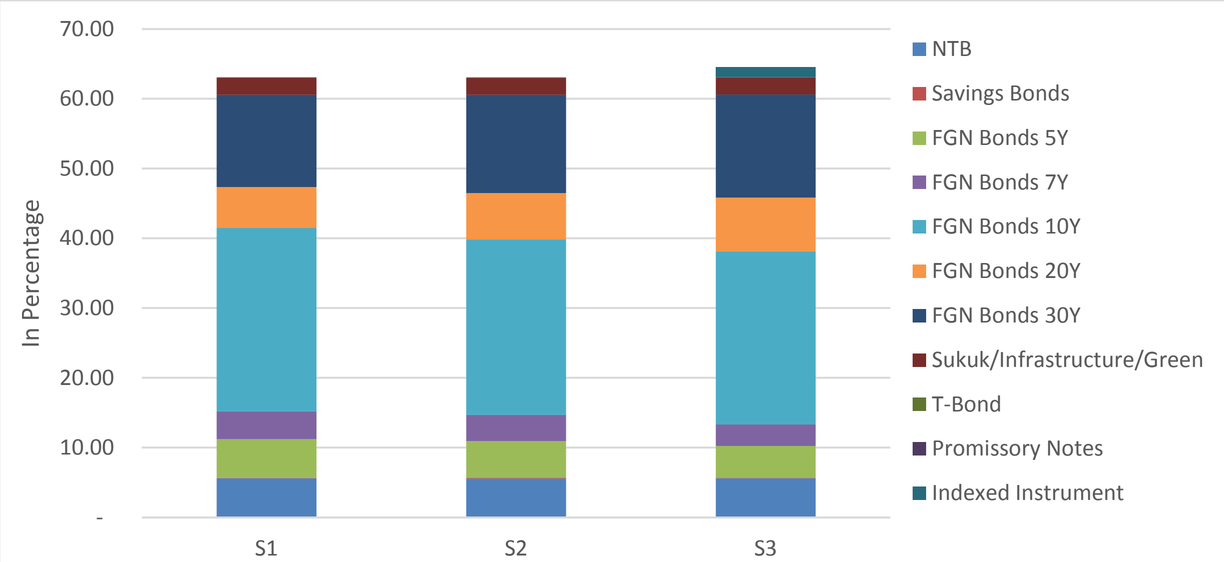
Figure 10 shows that higher proportion of External financing are expected to come from the Multilateral and Bilateral fixed rate loans, as well as issuance of longer-tenored Eurobonds. The Multilateral and Bilateral variable loans are very negligible.

Figure 10: External Financing Mix by Sources as a % of Total Gross Financing by end-2023



On the other hand, Figure 11 shows that longer-ternored domestic debt instruments will be the main source of domestic borrowing. The absolute size of the NTBs will remain stable at the levels as at December, 2018. In each of the three (3) Strategies, as they are being refinanced. S3 presents the introduction of Inflation-Linked Bond (ILB) from 2020.

Figure 11: Domestic Financing Mix by Sources as a % of Total Gross Financing by end-2023



6.4 Result Analysis: Costs & Risks

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

Table 14: Cost and Risk Indicators under Alternative Strategies, 2023

Risk Indicators		2018	As at end 2023		
		Current	S1	S2	S3
Nominal debt as percent of GDP		19.09	24.51	24.53	24.52
Present value debt as percent of GDP		18.18	23.34	23.36	23.35
Interest payment as percent of GDP		1.2	2.06	2.07	2.05
Implied interest rate (percent)		7.5	8.41	8.46	8.38
Refinancing risk	Debt maturing in 1yr (% of Total Debt)	9.64	9.64	9.61	9.66
	Debt maturing in 1yr (% of GDP)	2.36	2.36	2.36	2.37
	ATM External Portfolio (years)	13.80	13.80	14.08	13.92
	ATM Domestic Portfolio (years)	9.27	9.27	9.71	10.07
	ATM Total Portfolio (years)	10.94	10.94	11.32	11.43
Interest rate risk	ATR (years)	10.79	10.79	11.17	11.22
	Debt refixing in 1yr (% of Total Debt)	11.38	11.38	11.37	12.81
	Fixed rate debt incl. T-bills (% of Total Debt)	98.16	98.16	98.15	96.76
	T-bills (% of Total Debt)	5.61	5.61	5.58	5.63
FX risk	FX debt as % of Total Debt	37.8	36.92	36.93	35.47

Source: DMO; and MTDS TA mission team calculations

6.4.1 Analysis of Costs and Risks Indicators

A. Growth of Public Debt

i. **Nominal Debt to GDP:** In terms of nominal Debt to GDP ratio, the three (3) Strategies have about the same ratios - S1 (24.53 percent), S2 (24.53 percent) and S3 (24.52 percent), given that the quantum of borrowing for the period is the same. However, the marginal difference in the ratios for the three Strategies is as a result of the structure of the borrowing instruments with varying disbursement patterns. Thus, S2 reports a slightly higher ratio of 24.53 percent by end-2023, compared to 24.51 and 24.52 percent for S1 and S3, respectively, with 19.09 percent recorded for the Baseline by end-2018 (Table 6.3). The slightly higher ratio of S2 is due mainly by the marginal increase in debt arising from bullet disbursements from Eurobonds of 10 and 30 years, compared to S1 and S3.

B. Cost of Debt

i. **Implied Interest Rate:** This is a measure of the debt portfolio's cost of borrowing, determined by the weighted average interest rates of the different debt instruments in the portfolio. Relative to the Baseline (2018), with implied interest rate of 7.5 percent, the rates were higher for all the three Strategies. S3, however, presented the lowest cost of 8.38 percent, compared to interest rates of 8.41 and 8.46 percent for S1 and S2, respectively. This is due to the higher proportion of lower cost of concessional multilateral and bilateral debts than S1 and S2, which translates to lower Interest payment as percent of GDP of 2.05 percent compared to 2.06 and 2.07 percent recorded for S1 and S2, respectively.

C. Evaluation of Risks Profile

i. **Refinancing Risk**: S2 has the lowest Debt maturing in one year as a percentage of Total Debt (9.61 percent) than the Baseline (9.64 percent), S1 (9.64 percent) and S3 (9.66 percent). Hence, based on this criterion, S2 is the preferred option. S3 recorded higher ATM of Total Public Debt at 11.43 years relative to S1 (10.94 years) and S2 (11.32 years), indicating the effect of the use of longer-tenored instruments. S2 and S3 portray longer ATM for domestic debt at 9.71 and 10.07 years, respectively than the Baseline (7.5 years) and S1 (9.27 years).

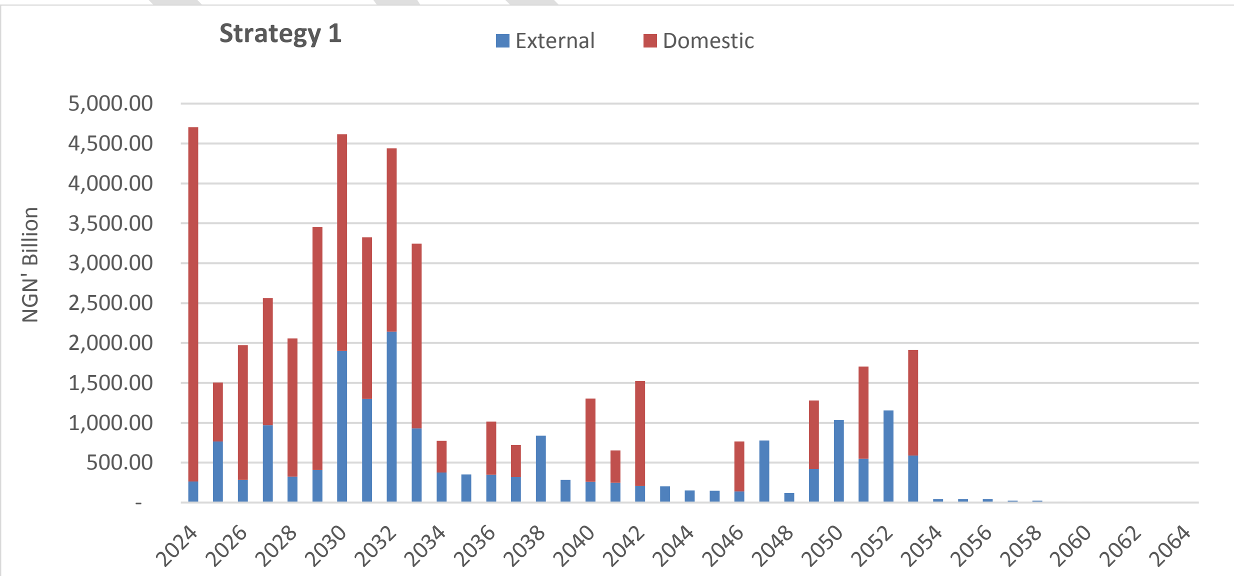
ii. **Interest Rate Risks**: Given the varying tenors of the borrowing instruments, with minimal proportion of variable rates, S2 and S3 recorded higher ATR at 11.17 and 11.22 years than the Baseline (10.79 years) and S1 (10.79 years). S3 has the highest ATR at 11.22 years, due to the introduction of a 7-year floating rate Inflation-Linked Bond (ILB). In addition, S3 also recorded the highest proportion of debt susceptible to Interest rate re-fixing within one year at 12.81 percent, indicating that a higher level of short-term instruments (NTBs) and variable-rate instruments (ILBs) more than S1 and S2. Meanwhile, the share of fixed-rate debt is higher in S1 (98.16 percent), S2 (98.5 percent) and the Baseline (98.16 percent), than for S3 (96.76 percent).

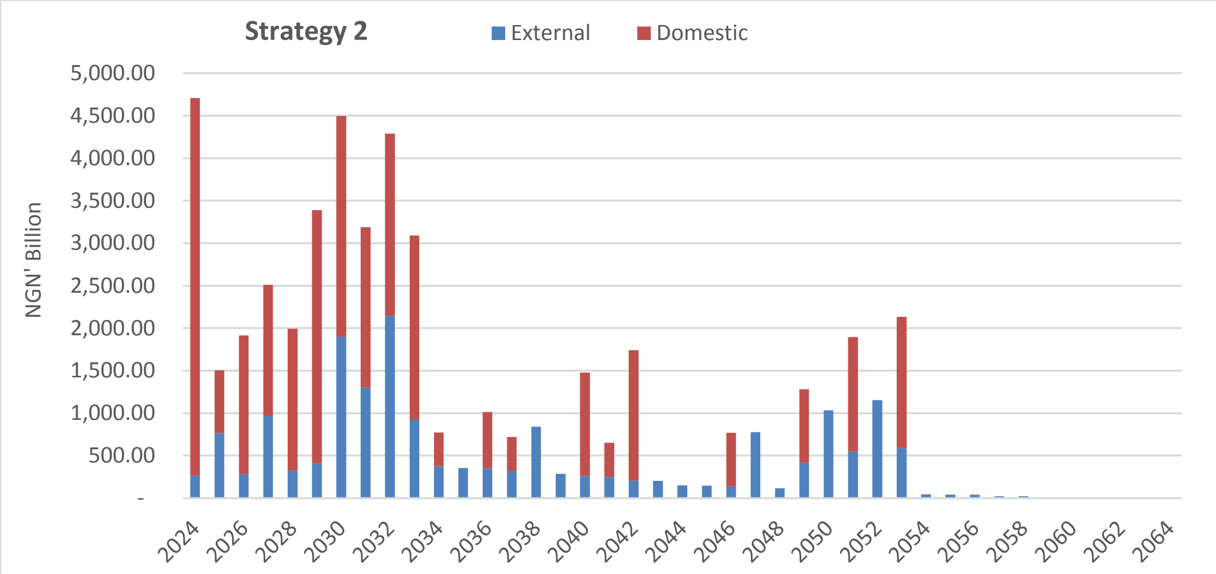
iii. **Foreign Exchange Risk**: All the three (3) Strategies have about the same level of exposure to foreign exchange risk, as the Foreign Exchange debt as a percentage of Total Debt were S1(36.92 percent), S2(36.93 percent), and S3(35.47 percent). Thus, exposure to foreign exchange risk is slightly higher in S1 and S2, as they enhanced external borrowing than in S3.

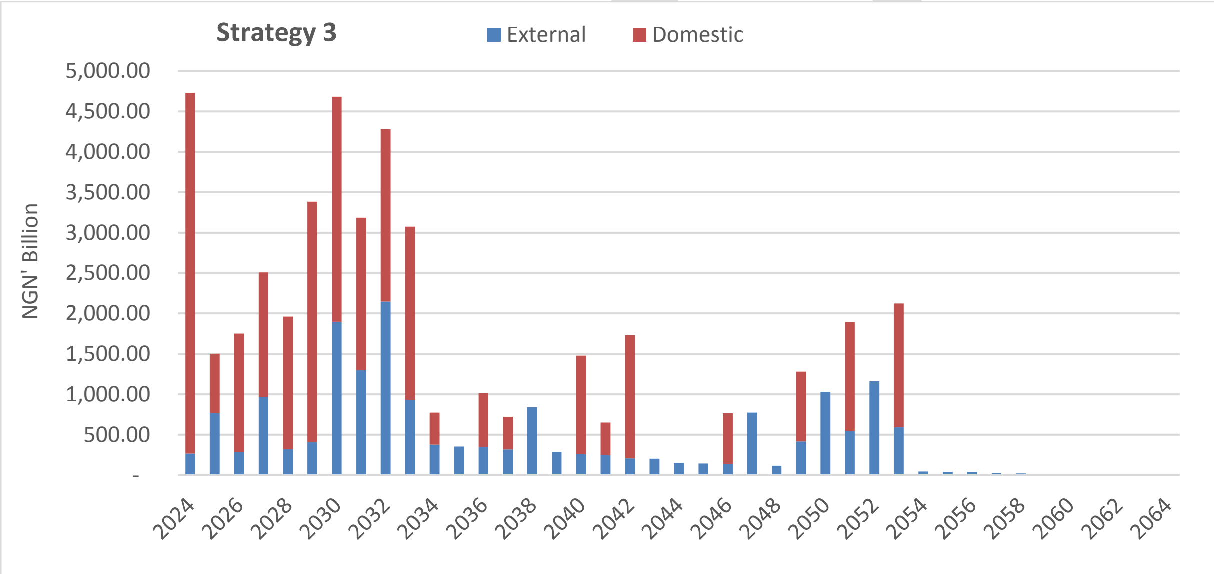
D. Redemption Profile

The redemption profile shows the maturity structure of various instruments in a debt portfolio. It is a measure of the refinancing risk in a portfolio, and it is useful in determining the future payment obligations for a country, and highlights the need to manage the associated refinancing risk of the debt portfolio. Figure 12 (a-c) present the redemption profile of each of the three (3) Alternative Strategies beyond 2023. The three Strategies have a smooth redemption profile for both External and Domestic Debts. In addition, the External Debt redemption profile is amply spread out, and relatively smoother, due to the longer maturities, in view of the fact that the concessional loans from the Multilateral and Bilateral sources are longer tenored, as well as Eurobonds with longer tenors of up to 30 years. The redemption profile for Domestic Debt shows a higher concentration of NTBs to be refinanced in 2024 for the three Strategies.

Figure 12 (a-c): Nigeria's Redemption Profiles for Alternative Strategies as at end-2023







Sources: DMO; and MTDS TA mission team calculations

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

i **Strategy 1:** S1 has the lowest ATM and ATR for the Domestic Debt and Total Public Debt, compared to S2 and S3. This shows that S1 has relatively higher interest rate risk, refinancing risk, as well as higher cost compared to S3. Thus, indicating that S1 is more expensive and riskier than S2 and S3.

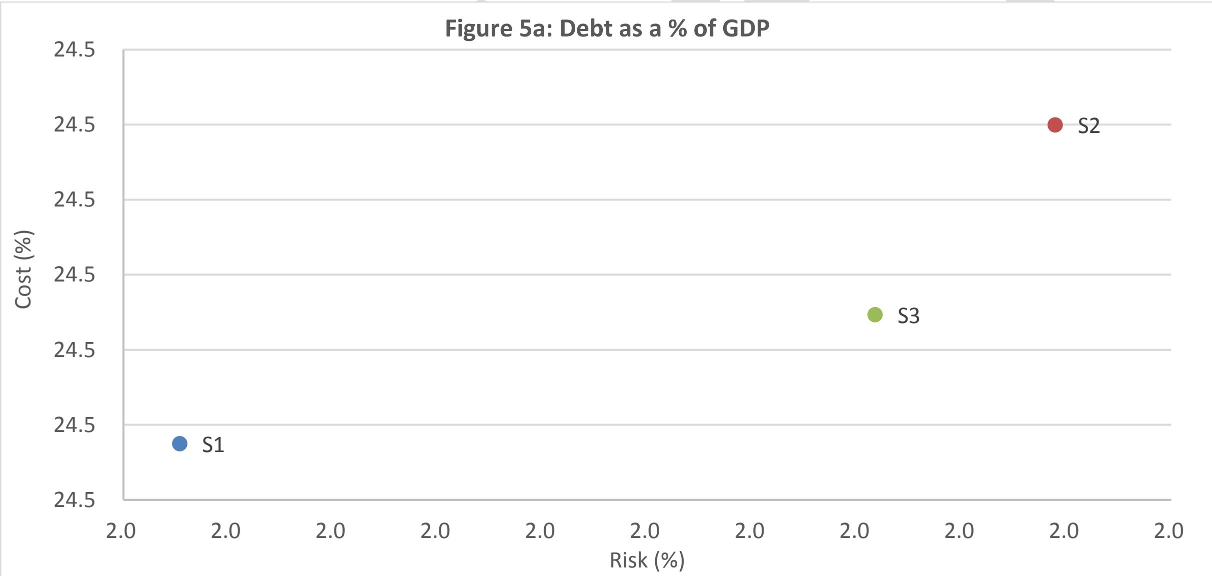
ii **Strategy 2:** S2 has relatively higher proportion of Foreign Currency Debt as a percentage of Total Debt compared to S1 and S3, indicating that a higher proportion of the debt is exposed to foreign exchange risk. This makes S2 relatively more vulnerable to external shocks. It also has higher cost compared to S3, but lower cost than S1. Thus, S2 is much more exposed to foreign exchange risk than S1 and S3, as it assumes more proportionate borrowing from the commercial sources (Eurobonds) than S1 and S3.

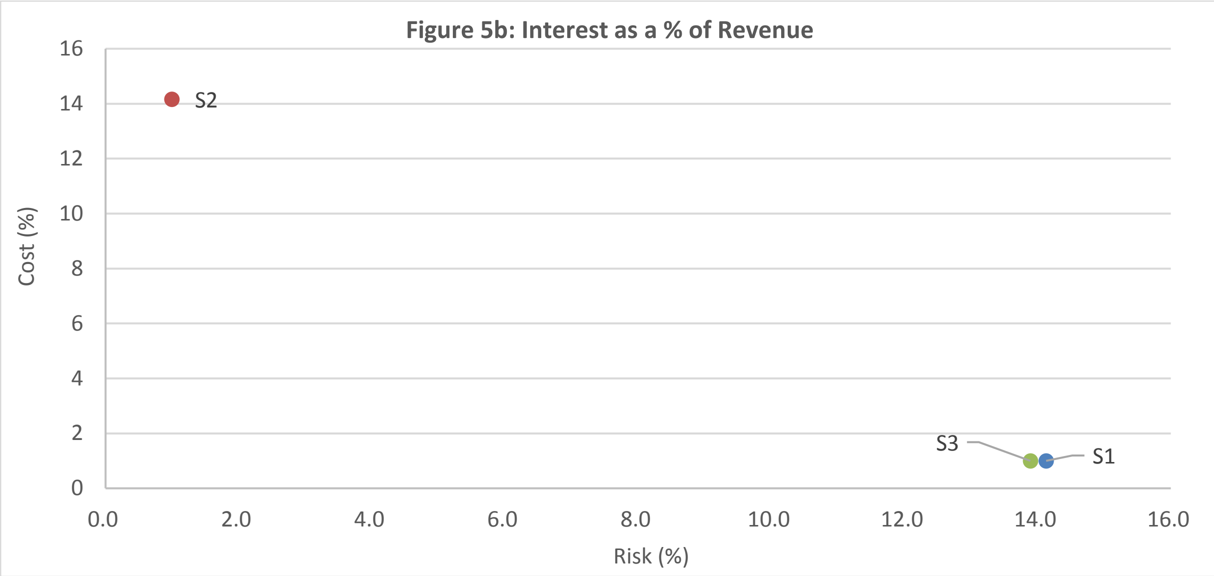
iii **Strategy 3:** S3 is less expensive than S1 and S2, in terms of the Portfolio's cost of borrowing (Implied Interest Rate), and has the lowest exposure to Foreign Exchange risk at 35 percent, S1 (36.93 percent) and S2 (36.93 percent), even though it present a higher percentage of Debt maturing within one year of 9.66 percent, than S1 (9.64 percent) and S2 (9.61 percent). It further shows that S3 has the lowest external borrowing, but highest interest rate risk on account of larger proportion of variable rate debt with the introduction of ILBs, which are subject to interest rate re-fixing within one year.

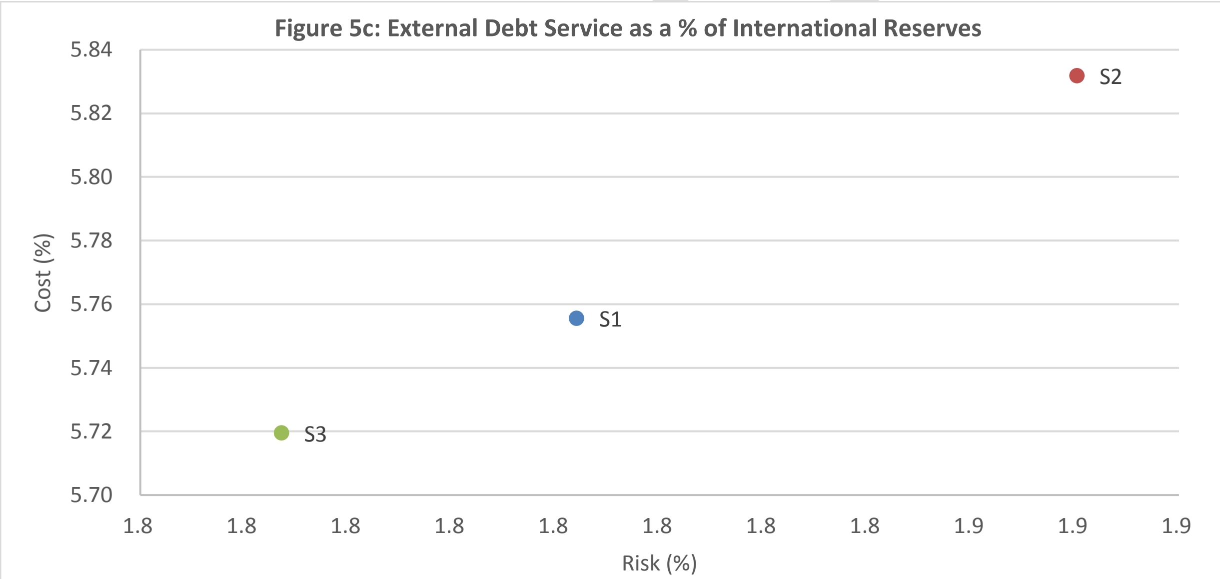
6.5.1 Graphical Illustration of Costs and Risks Trade-offs

Figure 13 (a-c) further illustrates the Costs and Risks trade-offs associated with the three (3) Strategies.

Figure 13 (a-c): Illustration of Cost-Risk Trade-offs







6.6 Preferred Strategy and Implications of Adopting S3

6.6.1 Preferred Strategy

In view of the above analysis of the cost-risk trade-offs of the three (3) Strategies, S3 is considered the most preferred. S3 is preferred in terms of meeting the Government's financing needs at a minimal cost and subject to prudent degree of risk. It is the cheapest of all the three Strategies, in terms of Cost of Borrowing (Implied Interest Rate), Interest Payment as a percentage of GDP, Average Term to Maturity of the Portfolio, Interest Rate Risk, and Foreign Exchange Risk.

6.6.2 Benefits and Risks Associated with the Recommended Strategy

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

i. Maxi mising borrowing from cheaper concessional and semi-concessional external sources (where available), would help facilitate the financing of key infrastructure projects with relatively less costly long-term external funds. This would help stimulate greater economic activities, which would enhance Government's revenue, and help to moderate the cost of borrowing debt, as well as the ratio of Debt Service to Revenue.

ii. With a relatively lower proportion of External Debt, it is least exposed to Foreign Exchange risk. This would moderate the exposure of the portfolio to external shocks.

iii. Continued issuances of longer-tenored debt instruments in both the domestic debt market and International Financial Market will help to moderate refinancing risk.

iv. The proposed introduction of new long-term debt instruments (Inflation-linked Bonds) to support the development of the domestic debt market would further help to broaden the investor-base and deepen the FGN securities market, which would help to moderate the refinancing and interest rate risks.

6.6.3 Targets for Public Debt

After reviewing the performance of the MTDS, 2016-2019 Targets as at December 31, 2018, expectations for the FGN's future borrowing activities and the recommended Debt Strategy, the Public Debt Targets for 2020-2023 are shown in Table 15. The performance of the Public Debt will be measured against these Targets, which will be reviewed as and when necessary.

Table 15: Nigeria's Debt Management Strategy and Targets by end-2023

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

- Meeting the financing needs of the Government from the domestic market, and maximizing available funds to Nigeria from the Concessional and Semi-Concessional sources, in order to access cheaper and long-tenored funds, whilst taking cognizance of the limited funding envelopes available to Nigeria;
- Lengthening the maturity profile of the debt portfolio through:
  - ✓ long-term external financing from Multilateral and Bilateral creditors, and the International Financial Markets; as well as,
  - ✓ continued issuance of longer-maturity domestic bonds, and,
- Optimising the use of Off-Balance Sheet arrangements (such as Sovereign Guarantees) to support infrastructural development.

Debt Management Targets for the period 2020-2023:

Portfolio Composition		2016-2019 Target	2019 Actual	2020-2023 Target
	Domestic: External	60:40	67:33	Max.70:Min.30[1]
	Domestic Debt Mix: Long: Short	75:25	79:21	Min. 75:Max. 25[1]
Risks				
Refinancing	Debt maturing in 1 year as % of total debt	Max. 20%	19%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.50 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A[3]	2.5%	Less than 5%

Fiscal sustainability ratios

		2019 Target	2019 Actual	2023 Target
	Total Public Debt as % of GDP	25%	19.00%	40%[2]
	Sovereign Guarantees as % of GDP	N/A[3]	1.5%	Max. 5%

Source: DMO

Notes:

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

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

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

CHAPTER SEVEN

IMPLEMENTATION OF THE PREFERRED STRATEGY

7.1 Annual Borrowing Plan

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

7.2 Investor Relations

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

7.3 Debt Transparency – Debt Reporting

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

7.4 Disseminating, Monitoring and Review of the Strategy

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

The Debt Management Strategy report provides a set of assumptions, key risk parameters and targets that are associated with the selected strategy for borrowing in the medium-term. These provide the basis for monitoring the implementation of the Strategy and to report on deviations. Annual review and monitoring of the Strategy, in terms of the set Cost and Risk Targets, will be carried out in line with the MTEF, which is also updated annually.

7.5 Conclusion

The preferred **Strategy 3** in the revised Nigeria's Debt Management Strategy, 2020-2023, focuses on increased reliance on longer-tenored Domestic and External financing with corresponding reduction in short-term instruments in order to moderate refinancing risks. This would help to ensure that the Cost Profile of Nigeria's Public Debt portfolio is maintained at a sustainable level in the medium to long-term, while ensuring that government's financing needs are met at minimum cost and with a prudent level of risk.

DEBT MANAGEMENT STRATEGY TEAM

Executive

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3.	Liam O'Sullivan	-	WB/IMF
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