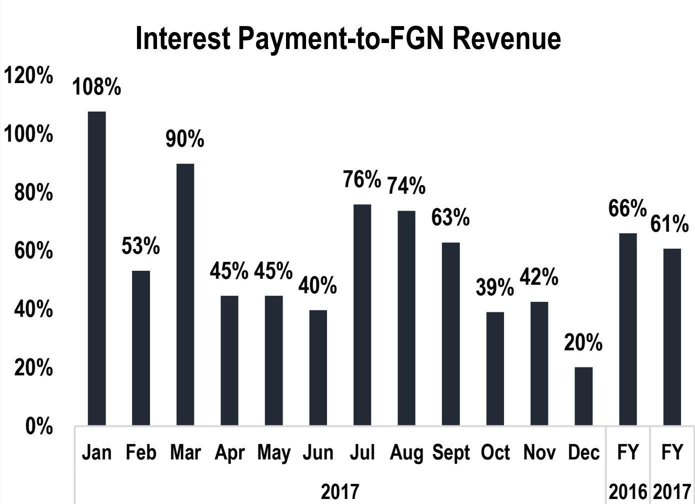
Debt Management Strategies Reduce Interest Expense

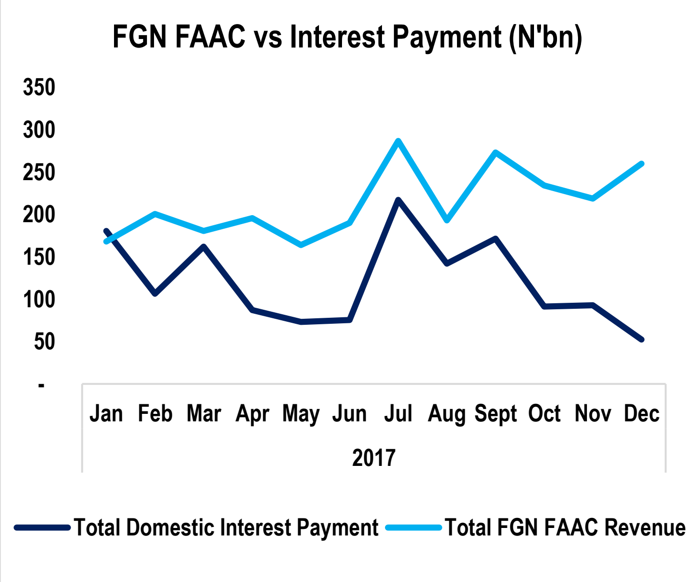
FSDH Research notes that the current strategies of the Debt Management Office (DMO) to reduce the interest expense on the debt of the Federal Government of Nigeria (FGN) is working. The DMO plans to achieve a debt mix of 60% and 40% for domestic and external debt respectively. It also plans to increase the long-term portion of the domestic debt to 75%.

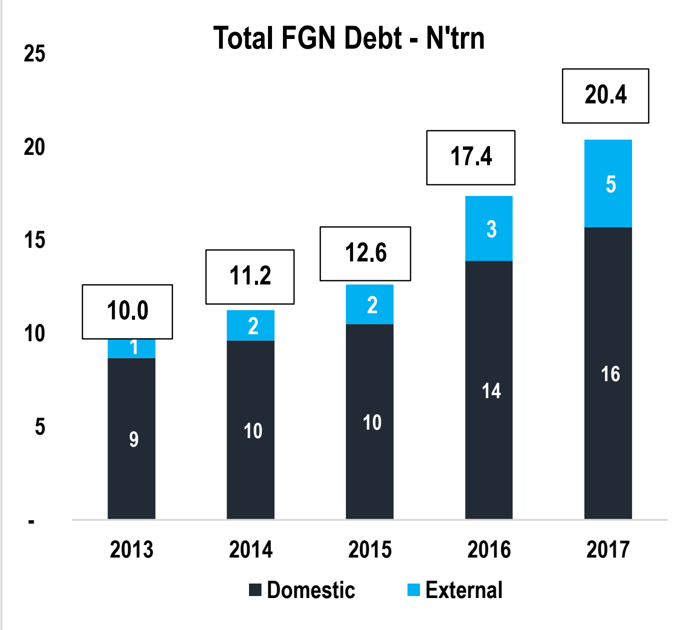
The latest debt figures show that the interest expense on the local debt have dropped in the last few months. FSDH Research observed a relative increase in the revenue accrued to the FGN from the Federation Account Allocation Committee (FAAC). These two factors have led to a drop in the ratio of the interest expense to the FAAC revenue which stood at 20% in December 2017.

The DMO has leveraged on the low interest rate in the international market to reduce the interest expense. The external component of the FGN debt as at December 2017 increased to 23% from 14% in 2013.

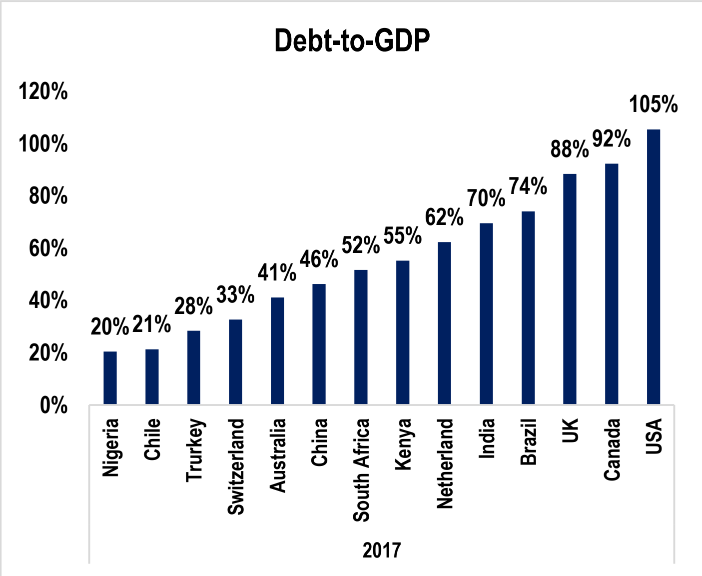
The proportion of the long-term debt in the domestic debt portfolio increased to 71% in December 2017 from 63.74% in 2013. The debt to Gross Domestic Product (GDP) in Nigeria at 20% is one of the lowest figures among selected countries. This is lower than the limit of 40% and indicates that Nigeria had huge fiscal sustainability space if revenue can grow faster than the current level.







The FGN has announced that it may raise less debt in Q2 2018 than initially indicated. This development may reduce further the yields on the FGN securities. Although FSDH Research believes the yields on the NTBs will drop further, we are of the view that the yields on the FGN Bond may move up gradually from the current level before it drops around mid-year. We note that funding the 2018 budget, when approved, will require more borrowing in addition to the funding gap created by the subsidy on Premium Motor Sprit (PMS). The potential impact of the increase in rates in the advanced countries is an important external factor that may also lead to relative increase in the yields on FGN Bonds.



Sources: Debt Management Office, National Bureau of Statistics; and Trading Economics

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