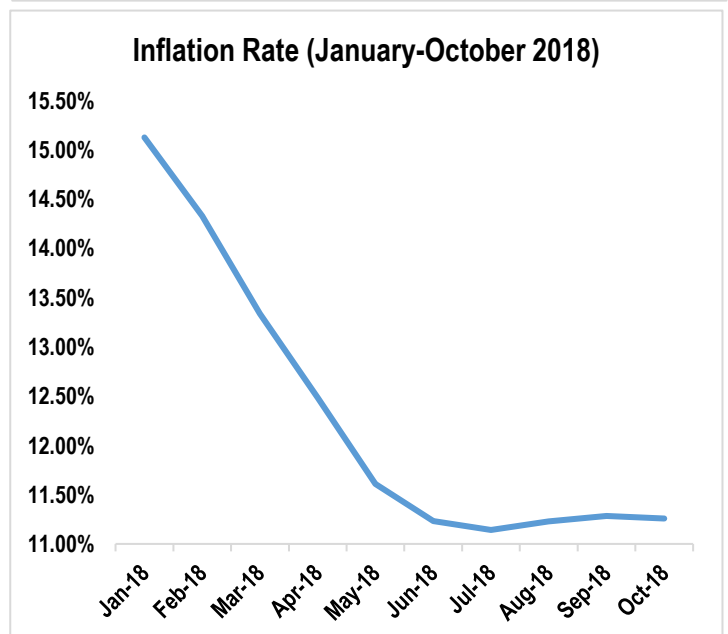
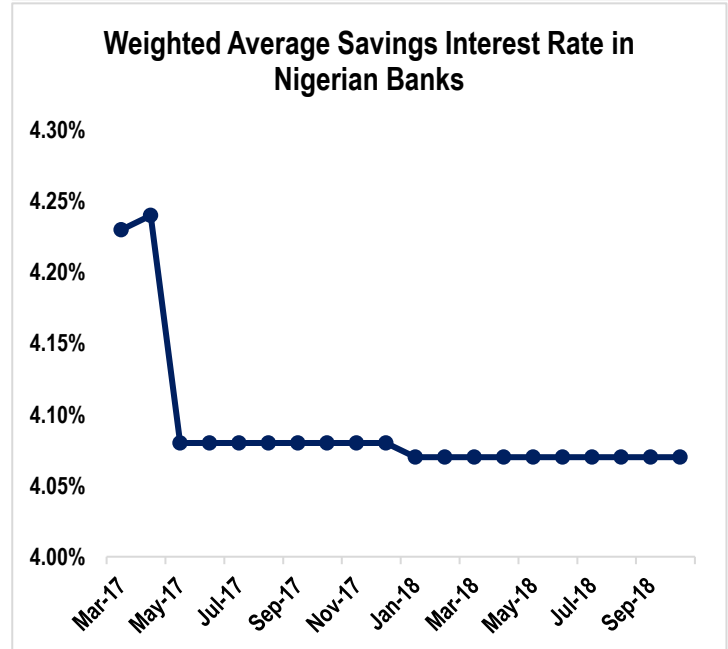
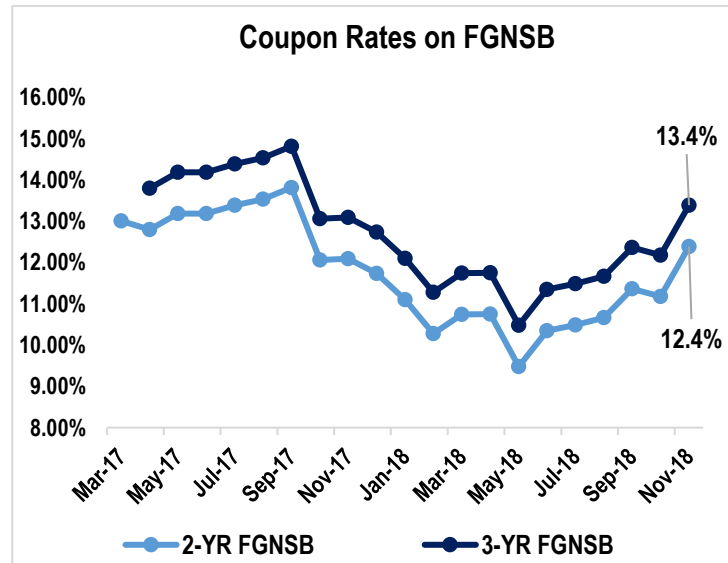


FSDH Research Spots Investment Opportunities in FGN Savings Bonds for Low-Income Earners

FSDH Research observes that the coupon rates (interest rates) on the Federal Government of Nigeria Savings Bonds (FGNSB) in November 2018 were the highest rates recorded since October 2017. We believe the interest rates at 13.4% and 12.4% for 3-Year FGNSB and 2-Year FGNSB respectively are attractive to retail investors compared with the alternative returns from savings accounts offered by Nigerian banks. The current interest rates on the FGNSB are also higher than the current inflation rate of 11.26% (October 2018 figure), which means that the real interest rates on the FGNSB are positive. Consequently, retail investors should position for the December 2018 FGNSB auction, which should be open for subscription on Monday, 03 December 2018. Given the current interest rate movements in the country, FSDH Research expects the interest rates on the December FGNSB auction to inch up marginally from the levels recorded in November 2018.

In March 2017, the Debt Management Office (DMO) introduced the FGNSB to provide an avenue for low-income earners to earn consistently good returns over time. The FGNSB provides an investment opportunity, offering attractive returns with low investment risk. The FGNSB is an initiative of the Federal Government of Nigeria (FGN) to encourage a culture of national saving among low-income earners. The FGNSB also helps to diversify the funding sources of the government. As at June 2018, the FGNSB contributed N8.52bn to the total domestic debt of N12.15trn. Minimum investment in the Bond is N5,000, while the maximum investment is N50mn. Investors can purchase the FGNSB through a stockbroker who is accredited by the DMO.



The FGNSB currently offers tenors of two years and three years. The interest rate on the three-year tenor is higher than the two-year tenor. The average interest rate on the two-year tenor between March 2017 and November 2018 was 11.79%. The average interest rate on the three-year tenor between April 2017 (when it was introduced) and November 2018 was 12.73%. The FGN pays the interest on the Bonds on a quarterly basis. This means a saver who invests N100,000 in the Bond, with an interest rate of 13.4%, will earn N3,350 every three months throughout the life of the Bonds.

The FGNSB is a more attractive investment option than a savings account as it is exempt from all forms of tax and offers a higher interest rate than a savings account. Data from the Central Bank of Nigeria (CBN)

shows that the average interest rate on savings deposits between March 2017 and October 2018 was 4.09%. An additional benefit of the FGNSB is its relative liquidity as investors can trade the Bonds on The Nigerian Stock Exchange (NSE) if they wish to sell before maturity. Our findings show that the volume of FGNSB available for trading at the NSE is small. Therefore, stockbrokers and the DMO need to do more sensitization programs than are currently being done to create an active secondary market for investors to trade their bonds. Also, an investment in the FGNSB may be used as collateral to borrow money in any financial institution in Nigeria.

FSDH Research believes investing in the FGNSB is a good avenue for low-income earners to build consistent wealth over a long period of time in the Nigerian capital market. Our illustration shows that an investment of N100,000 in the FGNSB could grow to N2,449,097.26 in 25 years. This is possible if the interest earned and the maturing principal are reinvested at an interest rate of 13% annually, payable every quarter.

Federal Government Domestic Debt By Instruments- 30 June 2018

| Instruments | Amount (N'bn) | Contribution |
|--------------------------------|------------------|----------------|
| FGN Bonds | 8,927.66 | 73.47% |
| Nigerian Treasury Bills | 2,953.58 | 24.31% |
| Nigerian Treasury Bonds | 150.99 | 1.24% |
| FGN Savings Bond | 8.52 | 0.07% |
| FGN Sukuk | 100.00 | 0.82% |
| FGN Green Bond | 10.69 | 0.09% |
| Total | 12,151.44 | 100.00% |

Sources: *Debt Management Office (DMO), Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and FSDH Research Analysis*

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