



# Proshare **Confidential**



## The Nigerian Debt Conundrum and the Need for Automatic Stabilizers

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# Executive Summary

In the global finance narrative concerning emerging markets, the 1980's is referred to as the lost decade; this is mainly because in that period, many developing economies reached a point where their foreign debt exceeded their earning power. Like its frontier market peers, Nigeria had its fair measure of the debt legacy; in the structural adjustment years.

It is not surprising therefore, that after a decade of debt relief while concurrently experiencing one of its longest periods of prosperity, the wounds of such an era never really healed, with many traces of the damage caused by such a macroeconomic trauma evident in Nigeria.

It is hardly surprising that the trajectory of the nation's debt has become a source of worry. Inducing debates on how best to ginger growth while abating the double whammy scenario of relatively subtle revenue and rising misery indexes.

This month's Proshare confidential pin points the nature of Nigeria's debt as largely structural. This is as a result of persistent retrogressive subsidies, high costs of political systems and fiscal leakages.

The fact that increasing debt has failed to achieve a positive correlation with growth over the years bolsters our position. A noteworthy point is that in the periods of prosperity, fiscal responsibility was slack, as the excessive crude account and federal government claims were paltry compared to revenue generated over those years.

The recent use of automatic stabilizers has widened the deficit. Proshare in this particular report will try to provide answers to some widely repeated questions viz:

- Can we spend out of a recession?
- How much headroom does fiscal policy have at this point of the cycle?
- What is the nation's actual debt threshold?

Proshare took a critical look at the debt to gross domestic measure and why it cannot act as the sole sustainability indicator; at the same time a study on the nation investor's base and its relationship with debt sustainability was highlighted.

In this report, we pointed out that inflation and currency shocks have inflamed the external debt to gross domestic product ratio.

This report goes further to proffer solutions on how best to address the debt scenario, while suggesting the optimal debt mix to avoid Nigeria getting caught up in a debt overhang.

Improved investment in productive assets along with widening the revenue base was recognised as a measure to manage debt.

Finally, the study hammered on the dangers of inadvertently eliminating (otherwise more efficient) private capital for public capital. Such a scenario will affect capital formation adversely.

# Introduction



The Federal Government in its recently launched Economic Recovery and Growth Plan (ERGP) made it clear that it will be changing the heterogeneity of its debt profile from 84: 16 debt ratio to a 60: 40 ratio; where domestic debt will make up 60% of the debt and 40% will be foreign debt. This policy shift is evident given the number of government debt financing so far. The Federal Government hopes to reduce its absorption of short term debt and in return issue more of long term bonds.

This study becomes imperative as the nation struggles with an infrastructural glut and a liquidity squeeze. The questions on whether Nigeria is tipping closer to a non-linearity of debt have become louder than ever. Concerns have also been raised due to the continuous increase in debt size, combined with the ongoing dilution of domestic debt in the nation's debt structure. There has also been more concerns as to whether the right trade-offs are being made on the policy.

We probed into Nigeria's debt structure as it tries to provide much needed answers to the country's debt conundrum and the problems encountered.

At this point, a review of the fiscal responsibility act, debt to GDP and debt to revenue is unavoidable. More importantly, the need to avoid falling prey to “a one size fit all” syndrome drives this review.

Identifying the unique factors that affect Nigeria's debt structure has become imperative, so is the need to study the interplay between the external and domestic economy in order to understand how each of them affect Nigeria's debt trajectory, as well as the effects on both issuers and holders of the present debt stock - given the peculiar nature of our economy.

This report further highlights if further recalibration between the external and domestic economy is needed, so as to lock into yield.

Considering that Nigeria has been through five consecutive quarters of negative growth, it is important to ask whether spending out of the recession is one of the options or the only option out of the recession, and how correlated both debt sustainability and growth are at this point of the cycle.

# Statement of Problem

**In the course of the study, the following problems were identified:**

1. In the period of high oil prices, there were relatively weak prudential efforts from the fiscal side.

The inability to have strong bridge financing instruments like substantial excess crude account balances and strong federal government claim have widened the deficit spending.

Fig 1: Illustration of Excess Crude Account

Year	Fedral Reserve	Government Federation Account (Excess Account)	Oil Receipts
2010	2.56	2.17	26.2
2011	3.19	5.16	41.15
2012	1.17	11.46	43.32
2013	3.29	2.62	36.76
2014	3.32	3.14	38.62
2015	6.35	2.48	19.85
2016	8.84	2.63	11.56

Source: CBN, Proshare

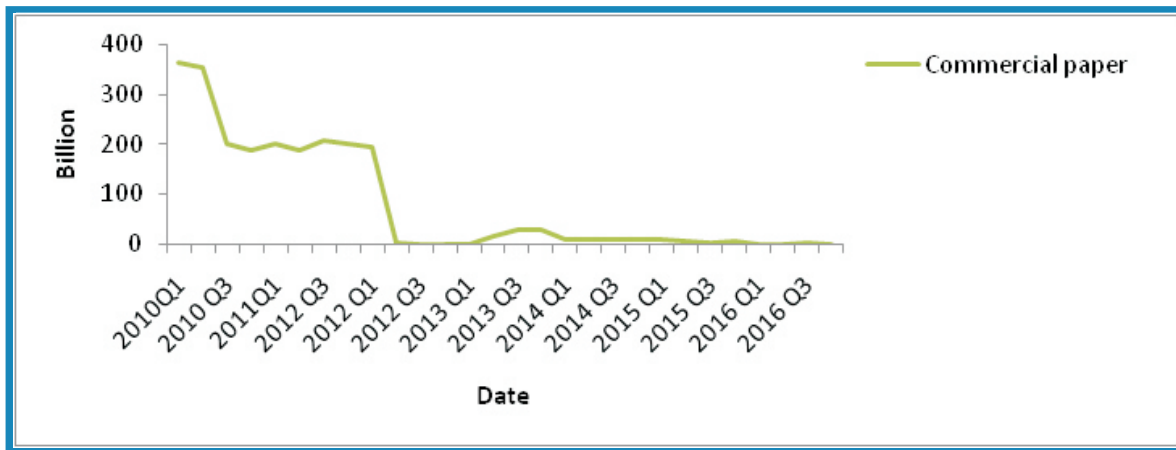
2. The heavy cost of the political system has made the economy more vulnerable to deficit expenditure in the electioneering year. Thus the deficit is widened in the year of election, impeding capital expenditure.

This have thus made fiscal policy largely dislocated and has led to increase in expenditure. In summary, country specific risks such as militancy and terrorism have weakened fiscal cover.

3. The vicious cycle of social disruptions to productive activity in the south - south and in the north-east have affected how income is gleaned.

4. Increased issuances of gilt edge securities fused with high natural rates have led to a crowd out effect in the money market. Thus, leaving the market driven by government security.

Fig 2: A Graphical Illustration of Outstanding Commercial Paper from 2010 To 2016

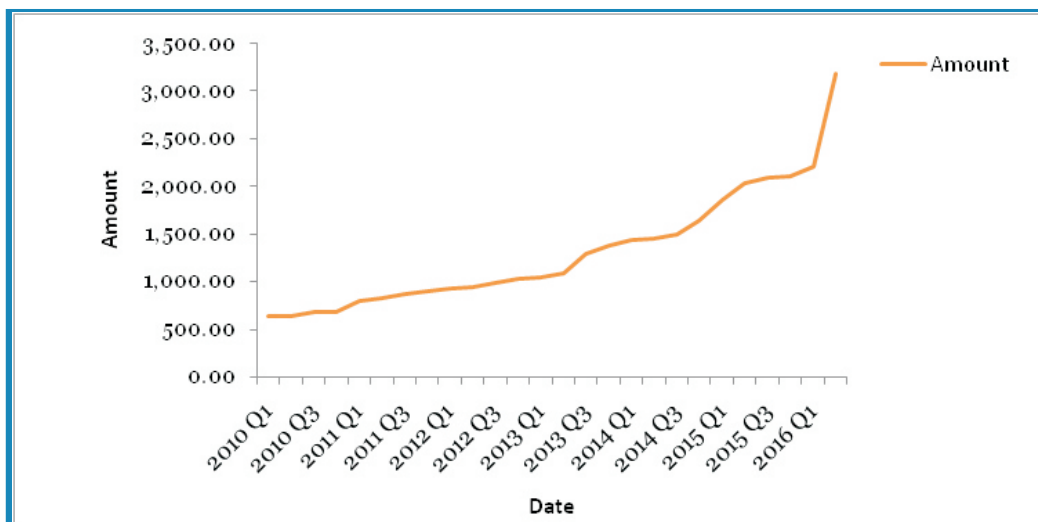


Source: IMF, Proshare research

For instance, the total outstanding commercial paper in 2016 stood at N4.53 billion which reflects a 353% shrink compared to the previous year.

5. Surfeit foreign exchange problems forced the naira to lose ground against the green back leading to a rise in the total value of debt and contributed to the upward trajectory in debt servicing.

Fig 3: A graphical illustration of total external debt



Source: IMF, Proshare research

6. The absence of foreign direct investment in comparison to Nigeria's GDP has failed to stir gross capital formation and real asset capacity, making the task of building productive assets more burdensome for the federal government.

In most circumstances relatively lower levels of foreign direct investment create cracks for mounting debt.

7. The burgeoning size of recurrent expenditure plus fiscal leakages has made it inevitable for

deficit to rise, even in periods of booms.

8. The inability to optimize tax revenue over the years has forced government to seek funding in the domestic money market. Therefore the right balance between taxes revenue and debt has not been reached.

9. Retrogressive economic policies such as the oil subsidies over the years did not only increase debt consumption,

but distorted the Nation's current account negatively and hindered productive investment in the energy sector.

10. Lastly, we must highlight that factors responsible for Nigerian deficit over the years are structural that is prolonged periods of retrogressive subsidies, costly political systems, fiscal leakages and lax tax policy.

Fig 4: Table illustration of real gross domestic growth and Debt growth

Real GDP growth	Debt growth
5.3	26.68
4.2	28.88
5.5	21.9
6.2	13.78
2.5	12.5
-1.5	28.47

Source: IMF, Proshare research

## Objective and Purpose of the Report

In the course of the study, Proshare aims to achieve the following objectives:

1. This study will point out Nigeria's previous experience and its effect on growth and inflation.

2. The study will peep through the global economy.

3. The study will show the debt mix of government debt.

4. The study will identify the structural factors responsible for the debt trajectory.

5. The study will try to explain whether the nation is close to non-linearity of debt or threshold.

6. Obviously the study will analyse the present investment and type with regards fiscal policy shift.
7. The study will also analyse the holders of debt and the evolving shape, due to monetary response to macro reality
8. The study will review the trio of fiscal responsibility act, revenue to gross domestic product and debt to gross domestic product.
9. An adequate peer comparison will be illustrated so as to avoid falling prey to a one size fit all syndrome.
10. The study will highlight the pros and cons with more external debt
11. The study will point out the necessary trade off that is needed. Especially with regards to the external and domestic economy
12. Certainly the need for more tax's revenue, so as to reduce heavy reliance on the money market is inevitable.
13. The study will encourage the need for automatic stabilizers, so as to lift household.
14. Even though the study will point out the inevitable need for automatic stabilizer. It will make clear that targeted spending coupled with a clear path on debt reduction is every bit important.
15. The study will analysis the present size of public debt

## Methodology and Data INTERROGATION

This study reviewed debt data for a 10 year period. It also took into account the trio of the fiscal responsibility act, debt to gross domestic product and debt to revenue.

Thus, analysis on each approach will be taken into account in order to provide solution to the roiled fiscal position.

# Study BACKGROUND

Fig 5: A Tabular Illustration of both Interest and Exchange Rate Risk

Risk	Indicator
Interest Rate Risk	Over the years, the federal government has used the domestic money market to bridge its finances. Thereby a large chunk of the present debt stock is domestic. Moreover the paradigm shift from minimum rediscount rate (MRR) to money policy rate (MPR) by monetary authority bolsters interest rate risk. Domestic debt became more vulnerable to interest rate risk, given the debt mosaic. The fact that more than 80% of government instrument are on fixed rate coupled with 46% termed as short term obligations. At the same time reducing fiscal headroom.
Exchange Rate Risk	Foreign debt makes up 16% Of federal government debt, therefore its exposure is somewhat curtailed.

Source: Proshare research

## Global and Domestic Economy

### Global Economy

Fig 6: Tabular Illustration of the Global Economy

Country	Annual Growth	Inflation	Unemployment	PMI
US	2	4.3	2.2	52.7
Euro	1.9	1.4	9.3	57
China	6.9	1.5	3.97	57
Japan	1.3	0.4	2.8	49.6
Germany	1.7	1.5	3.9	53.1
France	1	1.5	3.9	55.4
India	6.11	2.9	4.9	51.6
Russia	0.5	4.1	5.3	52.6
Brazil	-0.4	3.6	13.6	52.4
Indonesia	5.1	4.33	5.33	50.6
Ethiopia	9.3	8.7	-	-
Rwanda	2.3	11.7	13.2	-
Tanzania	6.2	6.1	10.3	-
Kenya	5.7	11.7	40	-

Source: Trading Economics Proshare Research

## **Headwinds to Global Growth**

1. Populism.
2. Softening growth in emerging economies like China, Brazil, South-Africa.
3. Political uncertainty in Europe and America.
4. Monetary divergence between America and Emerging economies.
5. Rising domestic debt in Emerging economies.
6. Rising government deficit in emerging economies.
7. Migrant pressure.
8. Pro-cycle monetary policy is dragging growth in emerging economies.
9. Currency depreciation has subtle growth in emerging economies.
10. Slump in credit ratings of developing countries e.g. Brazil will affect their ability to access credit facilities in financial markets.

## **Tailwinds to Global Growth**

1. Stronger exogenous inflows compared to the previous year.
2. Gradual normalization in china
3. Stronger bank balance sheet leverage position in Europe
4. Growth uptick and rising production in Europe
5. The use of fiscal multipliers to hewn growth in developing economies

## **Domestic Economy**

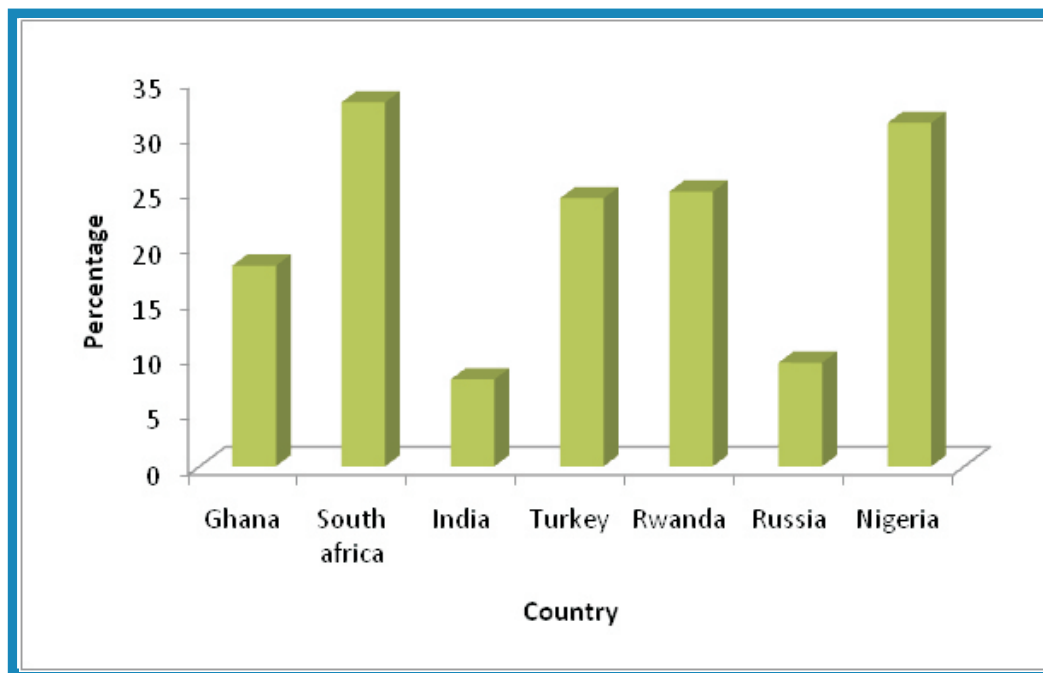
Standing lending facility at the end of 2016 increased from 11,864.6 trillion to 13,007.5 trillion Naira. Thus reflective of a 9.6% increase in lending facility provided by the CBN to deposit money banks,

at the same time underpinning the degree of surfeit liquidity in the system.

Labour productivity at the end of the fourth quarter of 2016 rose from 713.75 naira to 783.15 naira, reflective a of a 9.8% increase. On the other hand labour in dollar terms shrunk from 3.62\$ to 2.57\$ underlining the existing exchange rate dynamic.

Capital importation at the end of the first quarter of 2017 was \$908 million, reflective of a massive 41.36% slump compared to the previous quarter. Unemployment and underemployment shot up by 6% and 6.2% respectively, to reach 14.2% and 21% respectively.

Fig 7: A Column Illustration of the Misery Index of Selected Countries



Source: Trading Economics, Proshare Research  
 #Take note the Bloomberg misery index approach did not factor, underemployment in the calculation.

## Nigerian Debt Stock

### External Debt

Fig 8: Table Illustration of Nigerian External Debt

Year	2013	2014	2015	2016	2017
world bank	5483	5966.6	0	6673.45	6933
African developmental bank	853.5	850.77	0	1312.46	1922
bilateral organizations	1025.7	1,412.08	1658	1,918.05	1953
Commercial	1521	1500	1500	1,500	3,000
Total	8821.9	9729.4	3,158.00	11,403.96	13808
GDP (billion \$)	508	545.7	486.1	344.6	344.6
External debt to GDP	0.0174	0.0178	0.0065	0.03309	0.04

Source: DMO, Proshare Research

The total amount of external debt rose from 11.40 billion dollars to 13.808 billion dollars at the end of 2016 and to 13.808 billion dollars at the end of the first quarter of 2017.

External debt grew by 62%, this was as a result of a 100% and 42% increase in commercial and African developmental bank credit facility.

External debt to gross domestic product increased from 3.3% to 4% compare to the previous quarter.

Obviously, external debt to gross domestic remains below the acceptable threshold.

Foreign exchange rate shocks, inflation and capital account shocks triggered a sudden rise in external debt to gross domestic product, from 0.6% in 2015 to 4% in 2017.

Fig 9: Table Illustration of 3 Biggest External Creditors

Year	IDA	Exim bank	Euro bond
2014	5876	1293.13	1,500
2015	5,875	1,293	1,500
2016	6929.2	1,444.73	1,500
2017(march)	6929.2	1659.18	3000
% of debt	0.5018	0.120164351	0.21727182

Source: DMO, Proshare Research

Fig 10: Table Illustration of Federal Government Debt from 2010- 2016

Year	FG bond	Treasury Bill	Treasury Bond	Total Debt	Growth
2010	2.9	1.27	0.327	5.807	-
2012	4.808	2.122	0.344	7.274	0.252626
2013	4.22	2.58	0.315	7.115	-0.02186
2014	4.79	2.815	0.296	10.42	0.464512
2015	5.808	2.777	0.255	8.84	-0.15163
2016	7.56	3.277	0.215	11.052	0.250226

Source: DMO, Proshare Research

At the end of 2016, the debt stock of the federal government had grown from 8.84 trillion to 11.052 trillion naira. Thus reflecting a 25% increase in government debt stock,

this underlined the growing influence of automatic stabilizers (as seen with the expansionary 2016 & 2017 budgets) and Nigeria's exposure to exchange rate risk.

Federal government bonds and treasury bills grew by 1.752 trillion and 0.5 trillion naira respectively. They grew by 30.1% and 18% compared to the previous year where, they grew by 65% and 31% respectively.

At the same time, government Treasury bond thinned down from 255 billion naira to 215 billion naira. The rise in Treasury bond reflected the shift in policy by government to issue more of long term instrument.

Fig 11: Analytics

Indicator	FG Bond	Treasury Bill	Treasury Bond
% of Total Debt Stock	0.6840391	0.296507419	0.019453493
% to GDP	0.0763636	0.03310101	0.002171717

Source: DMO, Proshare Research

Fig 12: Table Illustration of Federal Government Debt from As At March 2017

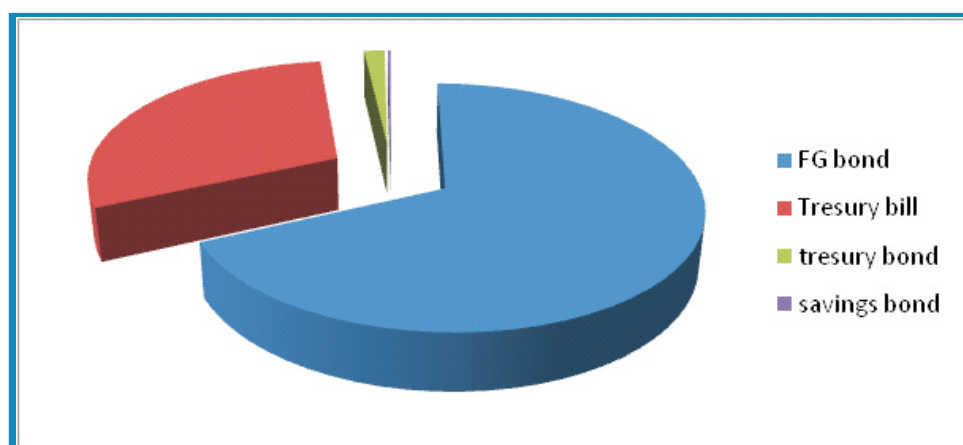
Year	FG Bond	Treasury Bill	Treasury Bond	Savings Bond
2017 march	8.177	3.6	0.1908	0.0267
% to total debt	0.68	0.3	0.0159	0.0022

Source: DMO, Proshare Research

As at March 2017, federal government bond and Treasury bill rose by 617 billion and 323 billion naira respectively, reflecting 8.16% and 9.85% compared to the previous quarter.

Treasury bill maintained its downward trend as it slumped by 11.25% compared to the previous quarter. On the other hand government issued a savings bond, so as to widen its debt portfolio mix.

Fig 13: Inclusion of the FGN Savings Bond



Source: DMO, Proshare Research

## Holders of Government Debt

Fig 14: Table Illustration of Holders of Government Debt

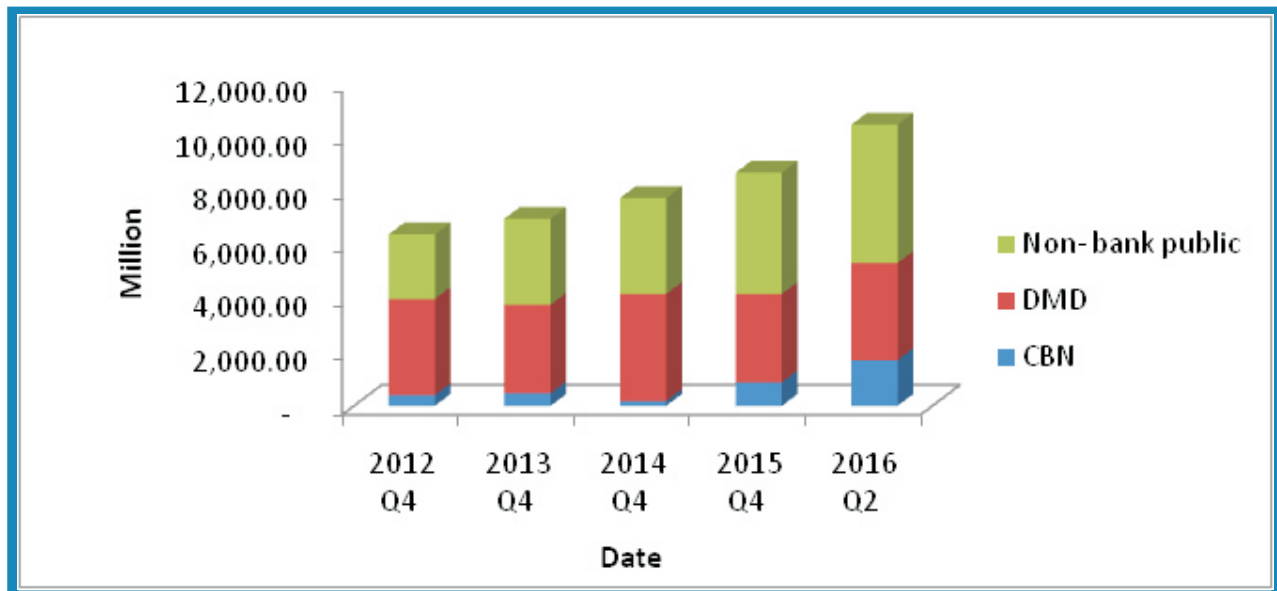
year	CBN	DMD	Non- bank public
2012 Q4	398.27	3,580.42	2,398.52
2013 Q4	468.86	3,293.83	3,197.69
2014 Q4	180.21	3,982.72	3,564.72
2015 Q4	877.3	3,284.01	4,513.49
2016 Q2	1,700.46	3,610.16	5,148.56
Growth	0.094	0.1	0.14

Source: DMO, Proshare Research

Considering lags, the CBN and DMB's hold on government debt stock stood at 1.7 trillion and 3.61 trillion, this reflects a 9.4% and 10% increase compare to the end of 2016.

At the same time, the non-bank public hold of domestic debt grew from 4.13 trillion to 5.14 trillion, implying a 14% increase compare to the previous half year.

Fig 15: Column Illustration of Holders of Government Debt



Source: DMO, Proshare Research

Fig 16: Maturity profile of debt as at Q2 2016

Year	up to 1 year	1- 3year	3 years and above
12/31/2010	1,520.16	1,349.66	1,682.00
12/13/2011	2,203.08	1,420.99	1,998.77
12/31/2012	3,044.75	1,044.17	2,448.62
12/31/2013	3,100.72	802.71	3,215.55
12/31/2014	3,375.53	1,222.75	3,305.75
12/31/2015	3,379.25	980.13	4,477.61
9/31/2016	3,988.33	460	6,158.01
to growth	0.18	-0.53	0.38
to outstanding	0.37	0.04	0.58
to M2	0.18	0.02	0.28

Source: DMO, Proshare Research

Data at our disposal showed that, debt maturity beyond 3 years constituted 58% and

28% of federal government debt stock and money supply as at Q2 2016.

## Total Public Debt

Fig 17: Table Illustration of Total Public Debt

Year	Domestic Debt Stock of State	Domestic Debt Of FG	External (Domestic and State)	Total
2012		6.53	1.06	7.59
2013	1.55	7.11	1.37	10.03
2014	1.707	7.9	1.63	11.237
2015	1.655	8.836	2.11	12.601
2016	2.822	11.05	3.47	17.342
2017 (march)	2.958	11.97	4.229	19.157
to growth	0.045977011	0.0832579	0.218731988	0.104659209
to total public debt	0.15440831	0.1209091	0.042717172	1
to GDP	0.029878788	0.1209091	0.042717172	0.193505051

Source: DMO, Proshare Research

The total amount of public debt as at March 2017 stood at 19.15 trillion, which is a 10.4% increase compared to the previous quarter.

The increase was largely due to a 21.87% increase in the total external debt of both states and the federal government.

Regardless, external debt still retained a tiny size of 4.2% of the total debt structure.

Total public debt to GDP stood at 19.35% at the end of the quarter.

### Asset Indicator

Fig 18: Peer comparison: Debt to GDP

Country	Debt to GDP (%)	Budget to GDP (%)
Nigeria	11.5	-1.6
Ethiopia	32.1	-1.9
South Africa	50.1	-3.9
Rwanda	50.1	-3.9
Egypt	85	-9.8
Mexico	47.9	-2.6
India	69.5	-3.5
Chile	17.5	-2.2

Source: Trading Economics, Proshare Research

Compared to its peers, Nigeria does have a healthy debt to gross domestic product position. At the same time its budget deficit is below the -3% to gross domestic product threshold. Certainly, such threshold is in tandem with global best practice. Therefore these do not raise red flags on the credit status of the country. Going forward it must be pointed out that the threshold does provide an all being well scenario. The idea of a common tipping point for Debt to GDP could be misleading as such ratio many times does not take account of the following:

1. Debt structure and currency composition of debt.
2. The nature of inflow or revenue.
3. The duration of debt and the kind of investors base (Petia Topalova).
4. The development of the financial markets of the county: Countries with deep financial market have wider tipping point.
5. The country's default and inflation history
6. Recent study has shown countries with different technological advancement have different tipping point.
7. More importantly its more asset base than revenue, thereby it those not factor liquidity concerns.

Fig 19: Running Litmus Test on Selected Nations

Country	Year	Debt to GDP	Rate on 10 Year Debt	Measure
Greece	2010	146	5.72	Austerity: reached a tipping point
Brazil	2016	64.49%	10.7	Austerity: Close to a tipping point
Japan	2017	250%	0.05	Still stimulating

Source: Trading Economics, Bloomberg, Proshare Research

Greece and Brazil have gone beyond the international threshold of 56%, as cyclical or austerity measures have been employed to ensure reconciling the balance sheet. On the other hand Japan has gone past the threshold and it's still stimulating the economy (Abenomics).

It points out that countries with deeper financial markets, more diversified economies and relatively low inflation history have wider headroom. Moreover most of Japan's debt is issued in the Yen.

Therefore such countries can have a wider taste bud for debt and the market can tolerate it.

### Liquidity Indicator

Fig 20: Debt to revenue from 2010 to 2016

Year	Debt Service	Total Revenue	Debt/Revenue
2010	416	3002.1	0.138569668
2011	527	3674.9	0.143405263
2012	679	3,334.13	0.203651327
2013	828	3,362.20	0.246267325
2014	942	3,287.71	0.286521621
2015	1060	3,209.70	0.330248933
2016	1,361.88	2913.2	0.467485926

Source: CBN Compiled Report, Proshare Research

The recent slump in oil prices coupled with the federal government's expenditure switch policy. Debt servicing at the end of 2016 rose by 28% compare to the previous year.

Over an average of 7 horizons, debt servicing has grown by 32%. For Nigeria, debt servicing has become the elephant in the room.

To bridge the shortfall that comes with achieving a 30-35% capital expenditure in a climate of falling oil prices, a corresponding increase in tax revenue must manifest.

For a country like Nigeria whose export revenue is 85% Crude Oil receipts, spending 46% on debt servicing will not only affect the growth of its productivity

but flag the red light on a possibly roiled debt position in the medium term. Projected debt servicing in the first quarter of 2017 is expected to grow by 22% compared to previous quarter, this reflects 304 billion naira increase in debt servicing.

# Key Findings



## External

1. The trio of currency, inflation and capital account shocks have inflamed External debt to GDP
2. External debt to GDP rose from 3.3% to 4%
3. Low oil prices are widening the deficit
4. The elevated yield position is impacting risk premium in foreign markets
5. External debt has grown by 62% compared to the previous quarter
6. Nigeria compared to its peers still maintain a healthy debt to GDP ratio
7. The cyclical downturn has made the effects of automatic stabilizers more pronounced
8. Thin foreign direct investment has made building productive assets more cumbersome
9. Debt to gross domestic product cannot be regarded as a common cut off; as each country has a different tipping point or threshold.
10. Emphasis should be harped on improving its revenue pool

## Domestic

1. Nigeria's deficit is largely structural, given the cost of electioneering coupled with retrogressive fiscal policies (petroleum subsidies).
2. The growing use of automatic stabilizers have crowded out other fixed instrument.
3. There is a rise in CBN possession of federal government debt stock.
4. Nigerian debt stock is largely constituted of domestic debt.
5. About 80% of government debt stock are fixed.

7. Presently 46% of revenue is used to manage debt.

8. High inflation is creating interest rate risk on government securities.

## Measures Needed

### What is the nature of Nigeria debt?

The study has shown that even though the present downswings have been responded to by automatic stabilizers. The roots of the nation's fiscal deficits are structural in nature.

The growing cost of the aforementioned retrogressive subsidies, the huge amount expended on electioneering, substantial leakages and the growing cost spent social hotbeds.

It is therefore not surprising that most of the deficit incurred in the past was not spent on acquiring new productive assets or improving the existing one. Consequently, debt has failed to achieve a positive correlation with growth, given the Nigerian scenario so far.

### Can we spend out of a recession?

That question can be answered, by conclusively agreeing

on how much of fiscal space we have as a nation.

Fig 21: Actual and Debt Sustainability Indicators from 2016 to 2018

Indicator	Threshold	2016	2016 ( sus)	2017	2017 ( sus)	2018	2018 ( sus)
PV debt to GDP	56	13.5	15.9	15.4	18.3	16	18.9
PV debt servicing to revenue	none	395.3	291.9	399.4	288.8	437.9	305.1
PV debt to servicing	none	50.3	61.3	49.4	58.4	48.4	56.4

Source: DMO

Take note: please the (sus) connote sustainability.

### Others

1. The country specific threshold is 19.39% to GDP.

2. While the total amount that can be borrowed in 2017, without stretching beyond the threshold is 5.89% of GDP.

## What are the indicators telling us?

1. While Nigeria has headroom to borrow, liquidity problems exist and should be cause for considerable concern.
2. Given the nature of our economy, our threshold is lower than the global threshold of 56%.

Given today's reality of rising misery indices and 5 consecutive quarters of negative growth, austerity measures aimed at budget balancing will deepen the downturn. Therefore automatic stabilizers have become inevitable. More importantly, structural factors that drive debt should be stoked off.

## Eco-pills

1. First, structural factors responsible for driving deficit, should be removed
2. The Nigerian Federal Government should improve its tax revenue pool
3. Borrowed funds should be spent on targeted productive assets not recurrent expenditure
4. The Nigerian Federal Government should increase capital spending. Its policy of spending 30-35% of the budget on capital expenditure should be encouraged
5. It is important to encourage counter cyclical spending in small countries, especially in a recession
6. State and local governments should improve their revenue base and should be more inward looking.

7. Monetary authorities should improve supervision in order to mitigate any looming liquidity crisis. A liquidity crisis at this point could trigger a debt crisis

8. It is important that fiscal borrowing should be set below the threshold, so as to avoid dampening investor's confidence.

9. Fiscal policy must reduce the crowding off of the private sector. There is the possibility of crowding out more efficient private for more government domestic debt stock.

10. The Nigerian Federal Government applies increased and concerted efforts towards reducing country specific risks.

# Conclusion

The study concluded that measure that addresses the root cause of Nigerian debt conundrum must be considered. Thus government must improve its fiscal-prudential attempts, and also gradually tilt more to macro adjustment polices.

We are of the opinion that an asset base threshold might not be sufficient at red flagging debt that is becoming bad. Rather the inclusion of liquidity indicators such as debt to revenue will widen the scope on how best to reach a threshold. The study also pointed out the alarming increase in debt-servicing; at the same time it advised policy makers to find ways on how to improve its revenue.

Given the data available in the study, we also highlighted the rise in external commercial debt, while pointing out that currency, inflation and capital shocks triggered an increase in external debt to gross domestic product.

The study recommends that recently absorbed debt should be meant for improving existing productive assets or acquiring new ones. Finally, it recommends that the Nigerian Federal Government should reduce the amount of country specific risk, as it drags down investment.

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# Contacts / Other Reports By Proshare




## Research Team:

Saheed [research@proshareng.com](mailto:research@proshareng.com)

Grace [market@proshareng.com](mailto:market@proshareng.com)

Tope [economy@proshareng.com](mailto:economy@proshareng.com)

Femi [ceo@proshareng.com](mailto:ceo@proshareng.com)

 PROSHARE NIGERIA: The Upper Room  
Plot 590b, Lekan Asuni Close Omole  
Phase II, Isheri LGA P.O.Box 18782,  
Ikeja,


 @proshare

 0700 PROSHARE

 Proshare Nigeria

 [info@proshareng.com](mailto:info@proshareng.com)

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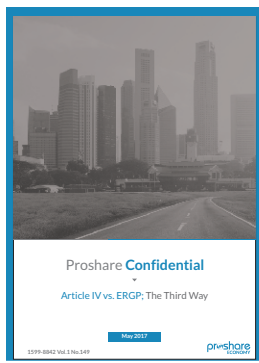
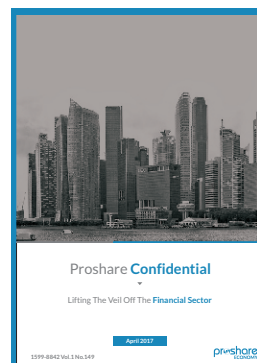
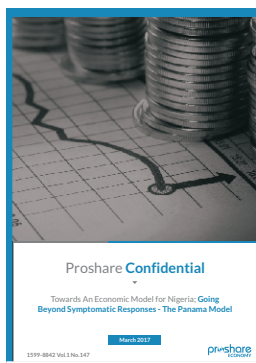
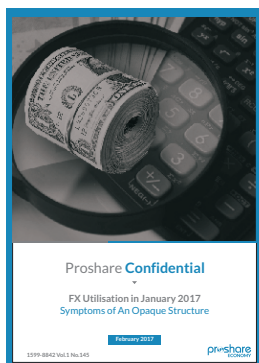
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