Current Trends in Nigeria’s Debt Profile

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Abstract: The major objectives of this paper are, to show the current inclinations in the debt profile and structural changes in the productive capacity of the Nigerian economy. The another objective is to proffer solutions on the way forward so as to prevent a debt overhang in the future prospects for the Nigerian State. Descriptive analysis was employed to the tabulated data gathered from Central Bank of Nigeria and Debt Management Office. Data gathered include prices and yields for Eurobond and Diaspora bond for three consecutive days, Gross National Product (sectoral and Gross) and Total Public Debt. The calculated percentages of sectoral performances of the Economy was the major analysis to show the productive ‘strength’ of an economy that is ladened with debt. The recommendations are that the government should reduce the level of ‘uncertainty’ in Nigeria and produce more transparent explanations for gross National, persistent expenses that are considered ‘opaque’ in nature.

Keywords: Nigeria, Sovereign debt, Eurobond, Sukuk Bond and Diaspora Bond.

1. INTRODUCTION
The Nigerian economy has been dependent on agriculture prior to the 1960s. After this period, there has been too much dependence on oil proceeds which has created a lopsided development in the economy. The main sectors of the economy in which production are carried out can be divided into agriculture, industry, building and construction, trade and services. These are the areas that contribute to the Gross Domestic Product(GDP) of the Nation. Agriculture includes crop production, livestock, forestry and fishing while industry covers the production and refining of petroleum, quarrying, mining and all forms of manufacturing activities. The trade sector involves wholesale and retail trade while the services sector covers a host of things such as transport, utility, communication, insurance and Government services. GDP of Nigeria can be defined as the value of all goods and services produced in the country by all residents in Nigeria.

Nigeria falls into the category of low income countries and is considered a mono-cultural economy. The susceptibility to price shocks are more expansive due to the privatization of major federal parastatals.
towards reintegration into the global financial stream. The prevalence of primary production from Nigeria, on the international market was cut short by the inability of the Nigerian government to ensure quality is maintained until the ‘goods’ get to the international consumers (https://www.vanguardngr.com 2017a). The European union has rejected twenty-four Nigerian agricultural products in 2016, due to failure in meeting European standards. These products include groundnuts, palm oil, sesame seed and cowpea (https://www.vanguardngr.com 2017b).

This has affected foreign exchange received via international marketed agricultural commodities. The spirited efforts various researchers around the globe has made alternate forms of energy a more preferred source over petroleum. This has also ‘crashed’ international oil prices. Nigeria has always been dependent on foreign revenue from crude oil sales to international buyers. (https://www.vanguardngr.com 2018).

The reduction in revenues has made borrowing one of the most preferred options for meeting State expenditures. The structure of Nigeria’s public debt has changed. Domestic debt is still rising higher than external debts. Currently, the thin line differentiating domestic from external debts is becoming thinner than ever. The debt instruments that was meant only for the domestic Nigerian Market is available for foreign investors/buyers to take advantage of and vice versa. In this paper both kinds of debts are all referred to as sovereign debts.

This is because the Nigerian private sector also takes advantage of foreign and domestic debt instruments as a means of protecting investors funds. For instance, buying Federal Government of Nigerian (secular) bonds that was listed on the Nigerian or other foreign exchanges used to be a good source of securitized income for the period that the agreements last. Despite the fact that the interests accruing on bonds and treasury bills could be low (except when bought in huge quantities) they were found to be quite useful for protecting huge funds during turbulent times on other financial markets that could wipe out investors’ resources without notice.

The major objective of this paper is to show the current inclinations in the debt profile and structural changes in the productive capacity of the Nigerian economy. The second objective is to proffer solutions on the way forward so as to prevent a debt overhang in the future prospects for the Nigerian State.

1.1 Theoretical Literature

One of the theoretical supports for this paper is the Keynesian model. It promotes the intervention of government in the economy, especially when a persistent ‘down-turn’ is experienced. Due to this, it may not be feasible to take some certain control measures in the economy such as raising taxes. However, the refusal to raise taxes will deplete the National savings, thus making borrowing an internal option. In the case of Nigeria, the economy is still highly import dependent. Expanding demand will increase offshore/foreign production, first. The expected multiplier effect that should have assisted with the resuscitation of other ailing sub-sectors will not occur, domestically. In a near-full-employment capacity, the stimulation of demand will lead to higher inflation. If there is under-employment or high un employment within the economy, the injection of funds is expected to stimulate demand as well as increase production processes, within the right policy thrusts that are sustained (Mansouri 1998). The figure below is a diagrammatic explanation of the influence of debts in an economy such as Nigeria whose debt profile has been on the increase.
The above explanation in diagrammatic format, shows the effect of domestic debt on specific variables within the economy in question, if borrowed funds are used effectively, or misused. If the economy/sector is in full employment, debt will increase government spending. This increase in public expenditures will also have an increasing effect on interest rate. The rise in exchange rates due to public borrowing for expenses will also promote expansions in domestic production. If the economy in question is not developed enough to ‘absorb’ the increase in demand, increase in imports will ensue. This is the case in an import-dependent country, reduced corruption clause.

The left-hand side of the diagram above, depicts an under employment situation for an economy that has all the prerequisites in place for growth expansion. The right side of the diagram above showed that even in a fully employed economy injecting funds and directing such for innovational production will still enhance growth. The third situation is in the middle of the diagram. If over borrowing occurs this weakens the productive sectors of the economy and stifles expansion, this because of the need to maintain debt servicing agreements or defaulting, even if the funds are put to judicious use. Corruption worsens the financial base of such an economy, to recover and expand on time.

The resulting recession in whichever case it occurs, can be abated (according to Keynes) by encouraging demand so as to promote production. The impact of the injected funding will not be felt immediately, due to issues like rebuilding/maintaining/fresh construction of infrastructure. The immediate response from the economy to increased demand is high prices and importation, in some cases. Increased government expenditures will also cut down savings. This will also reduce the incidence of private investment within the economy.
Figure 1 above is as a result of the diagrammatic combinations of the Keynesian Absorption model, the Donor herding model and other theoretical inclinations. These are discussed in the next section. The donor herding as put forward by Khamfula et al insists that issues that direct donors’ funds away from poorer Nations causes such Countries to borrow from within their own economies. Lord Keynes was not particular about the type of borrowing. However, the difference between domestic and external debt is almost invisible today. This due to the ability to ‘float’ National, State and private sector debt instruments on international markets.

1.2 Other Theoretical Inclinations

(Khamfula, Mlachila and Chirwa 2006) explained that political economy considerations could also affect how a country contracts loans from donors. The donor herding and debt crisis model, put forward by Khamfula et al showed that, donors withdraw their assistance from Low Income Countries (LIC) due to situations involving bad governance, corruption, poor macroeconomic management and other related issues. This attendant financial illiquidity is usually responded to by LICs by borrowing internally. This worsens the liquidity crisis and the inability to pay up loans as they mature becomes evident.

(Schadler 2005) insisted on the promotion of good fiscal governance through the promotion of fiscal responsibility laws. These kind of laws demand rigorous transparent agreements and meaningful budget plans. This model on institutional reforms has been adopted by various nations including Nigeria. It is also in consonance with ideas backing the Structuralism’s perspective to growth and trade as asserted by (Kay and Gwynne 2000). They were of the opinion that, deliberate policies need to be put in place to power notable structural change for developing economies to remain significant to global development, growth and trade.

(Okafor and Eiya 2010) recommended that the implementation of the fiscal responsibility bill to encourage the Federal Government of Nigeria to indulge in financial probity, monitor expenditures adequately without compromising key expenditure programs for growth and poverty reduction plus tax reforms were paramount to increased revenue in the face of dwindling oil returns. When there are such issues as discussed above the ability to produce National savings is difficult.

The three gap model was introduced to show that a third gap, called the fiscal gap can become a prominent constraint to growth when there are limits on public spending. The fiscal gap is related to the savings gap a lot because of the need to ‘feed’ deficits with borrowing instead of previously saved funds. However, fiscal issues are not always quantifiable. For instance, policy changes over the decades and their impact on the Economic growth of any society.

This still takes the analytical mind back to the donor herding crisis by Khamfula et al as discussed above. What should be done first is to handle the issue of governance. Every other agreement in trade policies, debt polices and etcetera, will fall into place gradually, depending on the speed at which the good governance representatives are willing to work.

1.3 Empirical Literature

Issues on debt management office’s Sukuk, savings, euro and diaspora bonds funding are the focus of discussion in this section, since these instruments are currently under the government manipulation for raising borrowed funds (as advised by Keynes theories). The Sukuk Bonds that were issued in 2017 and at the beginning of the second quarter of 2018 has begun to attract investments in infrastructural reformation. According to Debt Management Office (DMO) website the following are the uses that funds from the Sukuk Bonds are being put into now:

- Dualization of Abuja – Abaji – Lokoja Road Section I
- Dualization of Suleja – Minna Road in Niger State, Phase II
- Construction of Kaduna Eastern By-Pass in Kaduna State.

The exact value of all subscribed Bonds under Islamic Nigerian financials is not yet open to the public. The values of all these construction of roads mentioned above is also not made open to the general
public. The ability to decide if all the funding from the ‘Sukuk’ was used for road construction only cannot be ascertained immediately.

However, what is known is that, the ‘Sukuk’ Bond was initiated without any interest rate. Secondly, how do the Government intend to ‘earn’ from infrastructural development in a way that the ‘lending’ public who have agreed to enter a joint venture with the Federal Government will earn from their funding? The questions above, is based on the definitions of Islamic Finance and other related definitions that can be found in any standard Dictionary of Economics, Financial Accounting and Financial Management. This also depends on the kind of agreements that the ‘investing’ public entered with the Federal Government of Nigeria while purchasing the Sukuk bonds. This is important for the Nigerian populace to know.

This is something that the Federal Government usually handled or classified as social expenditures due to the huge costs involved. Really private sector investments in this area of socio-expenditures were always sounded as a community development expenditure. The aim was to make it available for all to use irrespective of societal class involved. For the Federal Government to ‘drag’ the investing public both international and domestic into socio-expenditures, I do hope they are aware that from time immemorial no one accepted that gains should be made from such kinds of public expenses.

This is what informed the scrapping of toll gates in Nigeria. These are things that can be noticed around us. All we have noticed is increased licensing fees associated with all forms of vehicular ownership and usage. This has also led to an increased cost in domestic borrowing by the private sector. These costs are what informed the need to analyze the impact of these fresh forms of borrowing on the Nigerian economy at a glance.

According to the Debt Management Office (DMO), the Savings bond, Eurobond and Diaspora bond are being issued with expected yields in percentages attached. As at May 09, 2018 yields for Eurobond and Diaspora bond for all the bond types available are 4.215%, 4.900%, 5.283%, 5.655%, 6.6825%, 7.152%, 7.292%, 7.736% and 7.839% respectively. The table below shows the types of Eurobond and Diaspora Bonds and the various values and yields they had between 30th of April 2018 to 02th of May 2018. These bonds are also available on various types of financial markets for online trading.
TABLE 1: NIGERIA’S EUROBONDS AND DIASPORA BOND CLOSING PRICES AND YIELDS AS AT APRIL 30 TO MAY 02 2018

<table>
<thead>
<tr>
<th>BOND NAME</th>
<th>Dates/price/yield</th>
<th>Price (US$)</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.125% US$500M JUL 2018</td>
<td>30/04/2018</td>
<td>100.125</td>
<td>4.408</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>105.502</td>
<td>4.586</td>
</tr>
<tr>
<td>6.75% US$500M JAN 2021</td>
<td></td>
<td>102.042</td>
<td>5.071</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>104.485</td>
<td>5.372</td>
</tr>
<tr>
<td>5.625% US$300M JUN 2022</td>
<td>01/05/2018</td>
<td>100.158</td>
<td>4.237</td>
</tr>
<tr>
<td>Diaspora Bond</td>
<td></td>
<td>105.083</td>
<td>4.743</td>
</tr>
<tr>
<td>6.375% US$500M JUL 2023</td>
<td></td>
<td>101.710</td>
<td>5.160</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>103.947</td>
<td>5.489</td>
</tr>
<tr>
<td>6.500% US$1.5B NOV 2027</td>
<td>02/05/2018</td>
<td>100.158</td>
<td>4.215</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>104.668</td>
<td>4.900</td>
</tr>
<tr>
<td>7.143% US$1.25B FEB 2030</td>
<td></td>
<td>101.252</td>
<td>5.283</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>103.189</td>
<td>5.655</td>
</tr>
<tr>
<td>7.875% US$1.5B FEB 2032</td>
<td></td>
<td>98.719</td>
<td>6.682</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>99.917</td>
<td>7.152</td>
</tr>
<tr>
<td>7.696% US$1.25B FEB 2038</td>
<td></td>
<td>99.917</td>
<td>7.292</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>105.000</td>
<td>7.736</td>
</tr>
<tr>
<td>7.625% US$1.5B NOV 2047</td>
<td></td>
<td>99.584</td>
<td>7.839</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td>97.540</td>
<td></td>
</tr>
</tbody>
</table>

Source: Debt Management Office Abuja

The dates in the table above, correspond to three consecutive days for the Eurobond and Diaspora Bond. The data shows that the value of these bonds are not stable and are constantly moving. The presence of yield in percentages shows the value of the bond plus interest if it were to be liquidated before the maturity date. This is what happens when buyers of bonds do not what to hold these securities any longer. He or she can still part with a paltry sum. This is also the situation with Nigerian Savings Bond, Nigerian Treasury bills and Certificates (https://www.cbn.gov.ng 2018). There is ‘something’ for the investor who accepted to lend out for a period of time.

The Sukuk Bonds was well priced and over bought according to Debt Management Office (DMO), (http://www.dmo.gov.ng 2018). From the information on DMO website, the type of Sukuk Bond sold is not very clear. For instance, is it really a non-interest Sukuk? The information on (http://www.dmo.gov.ng 2018) did not mention any thing about this. The holder of Sukuk bond can sell before maturity date but what do they ‘earn’ for keeping their money ‘bonded’? Could the Sukuk bond loose value? Can investors who can tolerate non-interest Sukuk, also tolerate a Sukuk bond that has lost some value? Or all its value? This not the case with Euro, Diaspora, Green, Savings and FGN bond holders. Appendix 1 and 2 contain documents on Sukuk Bonds from the DMO. This type of lack of information could instigate uncertainty within the markets that could lead to a withdrawal of funding ‘en masse’ by the time one or a group of investor(s) feel shortchanged or uncomfortable with the states’ ability to pay back borrowed funds without interests attached to it.

1.4 Causes of Sovereign Debt Crisis

The debt crisis of the 1980s and beyond affected most developing countries due to depression in developed nations caused the following:

- Withdrawals of funding from developing nations,
- Increased debts and debt over hang in most Low Developing Countries (LDCs)
- Several bouts of debt refinancing and rescheduling due to short term repayment methods
- Financial shocks due to weather conditions
- Political uncertainty
- Social unrests
- Poor economic policies. (Waheed 2004).
- Contagion effects {Greece debt crisis was triggered by 2007 global financial crisis. This warranted a ‘pull-out’ of Greece from almost all EU agreements to force a stabilization process (Argyrou and Kontonikas 2011)}
- Persistent budget deficits {the Nigerian Case in 2006, due to oil revenue and changes in the exchange rate. This informed Nigeria’s negotiations with her lenders to write off a significant aspect of the debt over hang in 2006 (Effeh 2014)}

2. METHODOLOGY
The diagrammatic representation of Combined theoretical propositions on Public debt has been adopted for this research. The ability to borrow must be sustained by the increased ability in highly productive activities. The analysis in this section is descriptive in nature. Data on various sectoral Gross domestic product was used to calculate the contributions of each sector of the economy to National; Gross domestic product. Selected years, with an interval of five years between 1960 and 2015 was used for the analysis.

3. RESULTS OF ANALYSIS
The table below gives the percentage contributions of all sectors of the economy to the real Gross Domestic Product. The interval of five years was chosen because it is long enough to expose the kind of increases or decreases in sectoral production from the Nigerian economy. All data sources are from the Central Bank of Nigeria’s Statistical Bulletin 2009 and 2016.

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</thead>
<tbody>
<tr>
<td>AGRICULTURE</td>
<td>64.3</td>
<td>55.4</td>
<td>44.7</td>
<td>28.1</td>
<td>20.6</td>
<td>32.7</td>
<td>31.5</td>
<td>34.2</td>
<td>35.8</td>
<td>41.2</td>
<td>24.0</td>
<td>23.0</td>
</tr>
<tr>
<td>CRUDE OIL AND NATURAL GAS</td>
<td>0.4</td>
<td>3.7</td>
<td>11.0</td>
<td>21.2</td>
<td>21.4</td>
<td>35.9</td>
<td>37.5</td>
<td>33.2</td>
<td>32.5</td>
<td>24.3</td>
<td>15.4</td>
<td>9.6</td>
</tr>
<tr>
<td>SOLID MINERALS</td>
<td>0.8</td>
<td>1.1</td>
<td>0.8</td>
<td>1.9</td>
<td>2.2</td>
<td>0.4</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td>4.9</td>
<td>7.0</td>
<td>7.5</td>
<td>4.4</td>
<td>11.1</td>
<td>6.0</td>
<td>6.0</td>
<td>5.0</td>
<td>4.2</td>
<td>4.0</td>
<td>7.0</td>
<td>9.5</td>
</tr>
<tr>
<td>BUILDING &amp; CONSTRUCTION</td>
<td>4.5</td>
<td>5.2</td>
<td>5.2</td>
<td>7.1</td>
<td>9.7</td>
<td>1.7</td>
<td>1.6</td>
<td>1.9</td>
<td>2.0</td>
<td>1.5</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>TRADE</td>
<td>12.4</td>
<td>13.3</td>
<td>12.2</td>
<td>21.1</td>
<td>20.0</td>
<td>13.9</td>
<td>13.4</td>
<td>14.0</td>
<td>13.1</td>
<td>14.0</td>
<td>16.5</td>
<td>17.0</td>
</tr>
<tr>
<td>SERVICES</td>
<td>13.0</td>
<td>14.4</td>
<td>18.5</td>
<td>16.3</td>
<td>15.1</td>
<td>9.5</td>
<td>10.3</td>
<td>12.0</td>
<td>12.1</td>
<td>15.2</td>
<td>35.0</td>
<td>37.0</td>
</tr>
</tbody>
</table>


The data in the table above promotes agriculture as the mainstay of the Nigerian economy in 1960. This sector was responsible for roughly 64% of Gross Domestic Product (GDP). The data for the next set of years shows a decline in performance. The data in 1960 is the highest data recorded for that sector. There was a little rise in the value of production from the agricultural sector in 2005 after a consistent fall in percentage value since 1965. However, the rise could not be sustained and as such the falling trend continued through to 2015.

The deepening of the Nigerian financial sector, as shown in section 2.2 above is a sign that the Nigerian economy is now under the control of more external forces than before. There are so many different types of debt instruments for the general public to purchase. Whatever the perceptions of these investors, the performances of the Economies they have chosen to invest in world-wide (Nigeria inclusive), will determine to a large extent the decisions they will take on Nigerian equities and debt instruments.

The sectors that should have sustained the Nigerian economy through this era of privatization and globalization are terribly weak. These are the industries which make up the crude oil and natural gas, solid
minerals and the manufacturing sectors. Table two above showed that manufacturing sector provided a meager 11.1% of total GDP in 1980 - The highest contribution in terms of percentage to GDP as shown in the table above. Even the agricultural sector is yet to fully promote the processing of agricultural produce within the confines of industrialization.

The building and construction sector recorded low percentage of GDP contributions. In the year 1960 the contributions of this sub-sector to GDP was 4.5%. it became 9.7% in 1980 and fell to 4% by 2015. The constructions in this sector has mainly been instigated by government forces for the general good of all that is, social welfare. There are more concerted efforts in the private sector to include private sector investments into the estates sub-sector, nation-wide. The activities of Mortgage banks across the nation towards land/homeownership as promoted by the present political dispensation is a pointer to this fact.

The trade sector contributed 12.4%, 20% and 17% of GDP in the years 1960, 1980 and 2015 respectively. This performance is greater than that of the manufacturing sector which was 4.9% and 9.5% in 1960 and 2015 respectively. The poor performance of the industrial sector has warranted the promotion of imported, necessary goods and services.

The services sector has picked up. The next best performing sub-sector after the agriculture. In 1960 the contribution to GDP was 13%. This value rose to 15.1% in 1980 and to 37% in 2015. The services sector has been quite dynamic due to the ingenuity of global entrepreneurship, promotion of arts and culture, among other issues that attract international visitors.

The aim of the analysis above on the productive sectoral ability of the Nigerian economy is to be clear on the strength of the Nigerian economy that is still highly dependent on debts to sustain debt repayments through internal efforts only. The rate of borrowing also is still quite high. More loans are being accumulated upon unpaid financial facilities acquired years and months before now. (Effeh 2014) calculated the period averages for Nigerian Total debt in millions of naira

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</thead>
<tbody>
<tr>
<td>Total Debt</td>
<td>3,692.34</td>
<td>45,154.30</td>
<td>670,175.85</td>
<td>4,788,097.00</td>
<td>3,212,847.00</td>
<td>4,197,027.00</td>
<td>6,510,794.00</td>
</tr>
</tbody>
</table>

Extracted from (Effeh 2014)

The value of total debts has been on the rise despite the cancellation of the Paris Club debts in 2005 to 2006. From the table above, the value in 2011 was 6.5 trillion naira. 14537.12 million naira (14.5 trillion naira) is the value of total debts outstanding for Nigeria as at 2016 according (Central bank of Nigeria Statistical bulletin 2016). If the efforts geared at borrowing so much was also directed at ensuring that loanable funds are employed for highly constructive uses to ensure repayment via marketable output internationally and domestically, more gains would have been made.

4. DISCUSSION

The uncertainty in the economy is alarming. The Vanguard newspapers placed two news items that are worrisome. One is on the estimated annual looting of 380 billion naira for National security through the Army. This was traced to about 2010 (https://www.vanguardngr.com/2017c). The second document is on the ‘slush funds’ being directed at the un-coming general elections in 2019. Transparency International’s use of the word - ‘opaque’ $670 million-a-year funds is an insight to the fact that the real application of such monies are not clear to the general public. (https://www.vanguardngr.com 2018b).

The ability to check uncertainty due to poor communication between the Federal Government and the general populace is an asset no government can afford to do without. Even in non-financial agreements, sectors and relationships, poor information ‘pass-through’ will definitely mar genuine efforts at encouraging societal progress. In financial situations, poor information distribution is also known as
imperfect knowledge on goods and services available in the market of choice. For instance, the ability to engage in an auction market is highly dependent on the knowledge of the rules guiding the existing players within the market.

The government has chosen to deepen the Nigerian financial sector through the issues of various types of debt instruments. Three major federal government financial power houses are the major players. They are the Debt Management Office (through the issues of various Bonds in and outside Nigeria), Central Bank of Nigeria (through the Open Market Operations), Nigerian Stock Exchange (together with the Central Security Clearing System, Securities Exchange Commission and the FMDQ OTC). The FMDQ (Forex Market and Debt Equities) over-the-counter (OTC) Securities Exchange methodology provides what is necessary for NAFEX - the Nigerian Autonomous Foreign Exchange Rate Fixing. FMDQ OTC Securities Exchange specializes in the Nigerian debt and forex markets.


Despite the fact that some of those Bonds such as the Green bonds could be under subscribed most investors could be suffering from poor information dissemination as to the best choice for them. The ability for the government to ensure that all subscribers to all forms of debt instruments are not disappointed as at date of respective maturities is not clear now. The huge values the Nigerian federal government is incurring on debt re-servicing is a sign of restructuring of pre-existing debts with new loan agreements.

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