

Reigniting Investors' Interest in the FGN Savings Bond

Investors' participation in the FGN SB has not been impressive.

Between March 2017 and July 2017 a total amount of N5.15billion was raised through the FGN Savings Bond.

The rally that dominated the equity market in Nigeria since the introduction of the Bond is a major factor responsible for the low participation.

Low awareness of the benefits and characteristics of the Bond; its low liquidity at the secondary market and the high yield on the Nigerian Treasury Bill (NTB) are other factors responsible for the low participation.

Investors' participation in the Federal Government of Nigeria (FGN) Savings Bond has not been impressive since the introduction of the Bond in March 2017 despite the increase in the coupon rate (interest rate) on the Bond. The amount allotted dropped consistently from N2.07billion in March 2017 to N400.57million in July 2017. The total number of investors in the FGN Savings Bond also dropped from 2,575 in March 2017 to 779 in July 2017. The coupon rate on the 2-year Bond which was 13.01% in March 2017 stood at 13.39% in July 2017 while the coupon rate on the 3-year Bond which was 13.79% in April, the first time a 3-year bond was issued, stood at 14.39% in July 2017. There is a need for all the stakeholders in the Bond to reignite investors' interest in it.

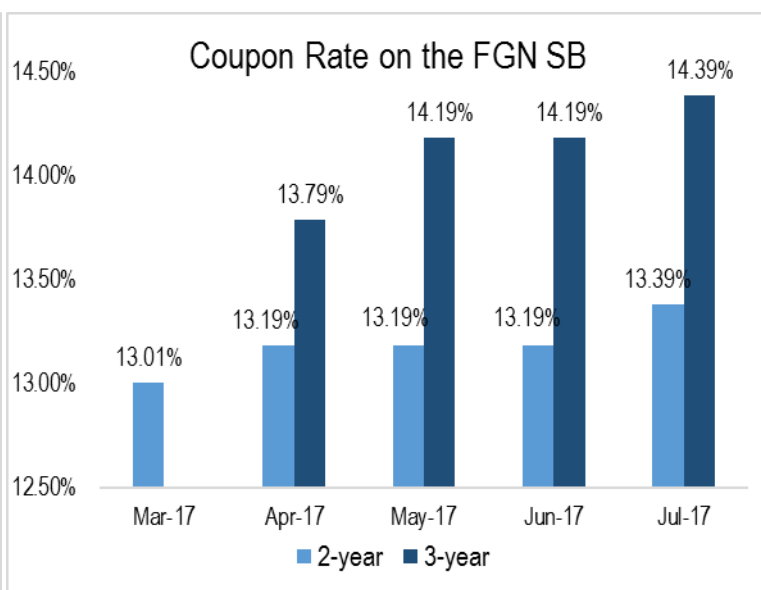
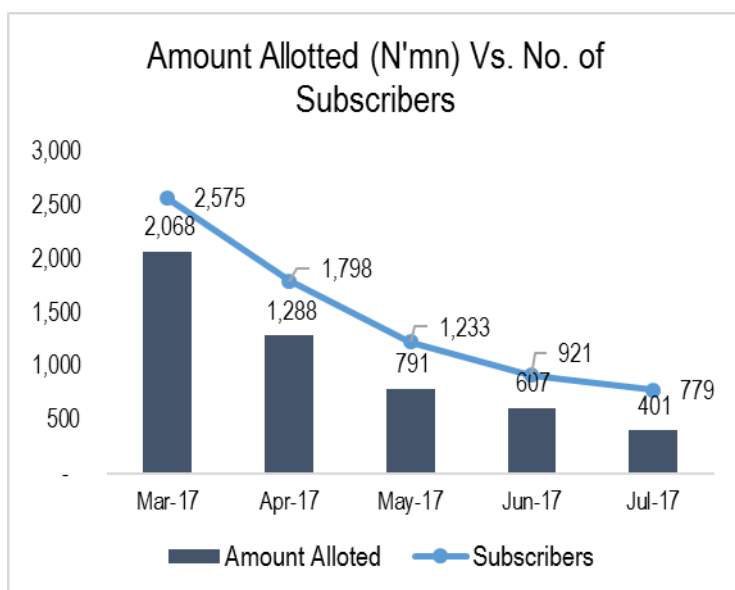
In March 2017, the Debt Management Office (DMO), on behalf of the FGN, introduced the monthly FGN Savings Bond (FGN SB) as part of its efforts to promote the savings culture in Nigeria and improve financial inclusion, particularly amongst retail investors. The Bond also provides additional funding for the government and helps to broaden the country's funding base. It offers guaranteed return in the form of a fixed quarterly interest payment. The minimum investment is N5,000 while the maximum investment is N50million. Investors can subscribe to the Bond through their preferred stockbroking firms on a monthly basis. Some of the important features of the Bond are: income earned on the Bond is exempted from tax payment; it can be traded in the secondary market on the floor of The Nigerian Stock Exchange (NSE); it is backed by the full faith and credit of the FGN; it commands a higher interest rate (coupon rate) than the traditional savings account in banks; the Bond is acceptable as collateral for loans by banks and it serves as good savings towards retirement, wedding, school fees, house projects, etc.

Between March 2017 and July 2017 a total amount of N5.15billion was raised through the FGN Savings Bond. The highest amount allotted so far was N2.07billion in March 2017 while the lowest amount was N400.57million in July 2017. The coupon rates for the August 2017 offer are 13.535% and 14.535% for the 2-year Bond and 3-year Bond respectively. This means that the August Bond issues carried higher coupon rates than the July issues and represent the highest coupon rates since inception. The persistent increase in the coupon rates have not attracted enough subscription to the Bond despite the steady decrease in the inflation rate in the country since January 2017. One of the factors we can attribute to this development is the rally that dominated the equity market in Nigeria since the introduction of the Bond in March 2017.

The Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 51.47% between March 01, 2017 and August 9, 2017. Many retail investors diverted funds to the equity market to take advantage of capital appreciation. Other factors are: the low awareness of the benefits and characteristics of the Bond; the low liquidity of the Bond at the secondary market and the high yield on the Nigerian Treasury Bill (NTB).

The DMO can work with stockbroking firms to encourage the participations from the employees of large organizations and government agencies.

The following strategies can be adopted to increase investors' participation in the FGN Savings Bonds: The DMO and the Stockbrokers can organize investors' roadshows in various cities and schools across the country. This will be an avenue to directly engage retail investors on the need for them to hold the Bonds in their investment portfolio. They can start with a pilot scheme in Lagos, Abuja, Port Harcourt and Kano. The DMO can work with some identified large corporate organizations that have large number of employees to encourage their employees to invest in the Bonds on a monthly basis. The DMO can also work with government agencies to encourage civil servants to invest in the Bond. **We believe these strategies should be able to attract a minimum of 1million subscribers on a monthly basis. If this is achieved and the monthly subscription amount increases, the overall weighted average interest rate on the FGN debt will drop.**



Source: Debt Management Office (DMO)

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