STATE DEBT SUSTAINABILITY ANALYSIS (STATE DSA)

REPORT FOR THE FCT

DEVELOPED BY THE

DEBT MANAGEMENT UNIT

FCTA, TREASURY

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1. Introduction

The DSA analyses trends and patterns in the FCT's public finances during the period 2015-2019, as well as data for 10 years of projection (2020 – 2029) in order to evaluate the debt sustainability in the long-term. The main objective of the DSA is to assess the current debt situation, identify vulnerabilities in the debt structures and examine the impact of alternative debt-stabilizing policy paths in FCT. The analysis shows recent trend in revenue, expenditure, and public debt and the related policies adopted by the FCT. The debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the FCT public finances.

Based on the findings and result from the FCT DSA, the FCT shows a strong public debt position, that appears sustainable in the long term. This solid debt position results from FCT performance in terms of actual IGR collected (through the establishment of the FCT-IRS Board), which resulted from improved revenue collection mechanism, institutional reforms in revenue collection by some revenue generating agencies and the administration's drive to improve revenue collection. The cutting down on recurrent expenditures and low level of public debt is also part of the reasons for solid debt position for the FCT. Therefore, given the FCT'S economic forecasts and assumptions concerning revenue and expenditure policies, going forward the long-term outlook for public debt appears sustainable from the State's strong performance in terms of mobilizing IGR; underpinned by the successful implementation of the FCT-IRS and implementation of the TSA policy reforms introduced between 2015 -2019.

2. The State Fiscal and Debt Framework

Some of the fiscal reforms that the FCT has implemented within the last 3 to 5 years include some of the following: The Introduction of the IPPIS (Integrated Payroll and Personnel information system), Zero based budgeting, Treasury single account, the introduction of IPSAS (International Public Sector Accounting Standard), and GIFMIS (Government Integrated Financial Management Information System). Other state developments such as the minimum wage increase has also influenced the fiscal variables for both expenditure and revenues for the FCT.

In reviewing the FCT 2020 Appropriation budget, the FCT administration maintained Personnel Costs as provided in the appropriation and cut 25% on Overhead Costs and Capital Expenditure of all SDAs.
The FCT 2021 Budget is designed to ensure the realization of the 2021 revenue projections, adopt appropriate counter-cyclical fiscal policies and enhance the efficiency of fiscal incentives. The proposed Revenue and Expenditure Budget for FCT 2021 are as follows:

Revenue - ₦299,963,491,523
Recurrent - ₦136,312,350,743
Capital Expenditure - ₦163,651,140,779

Debt forecast: The FCT intends to significantly increase debt service for its two domestic debt, starting from the 2021 fiscal year. This is to enable the FCT exit one of its domestic debts within the 2021 fiscal year and to ensure continuous and uninterrupted service on the other domestic debts.

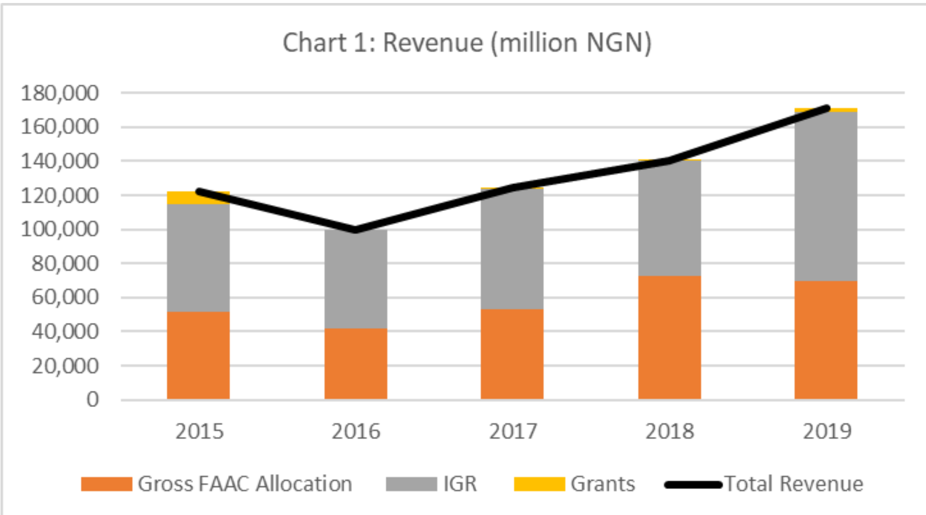
The FCT has no borrowing plan for the immediate future.
The COVID-!9 pandemic adversely affected the economy of the FCT on the total revenues, capital expenditure and debt service within the year 2020 fiscal year.

3. The State Revenue, Expenditure, and Public Debt Trends (2015 – 2019)

The FCT total aggregate revenue in the last five years (2015-2019) is **₦658,070,000.** There was however a sharp decrease in 2016 which is as a result of slowdown in economic activities, decline in federal transfers and recession within the national macroeconomic outlook.

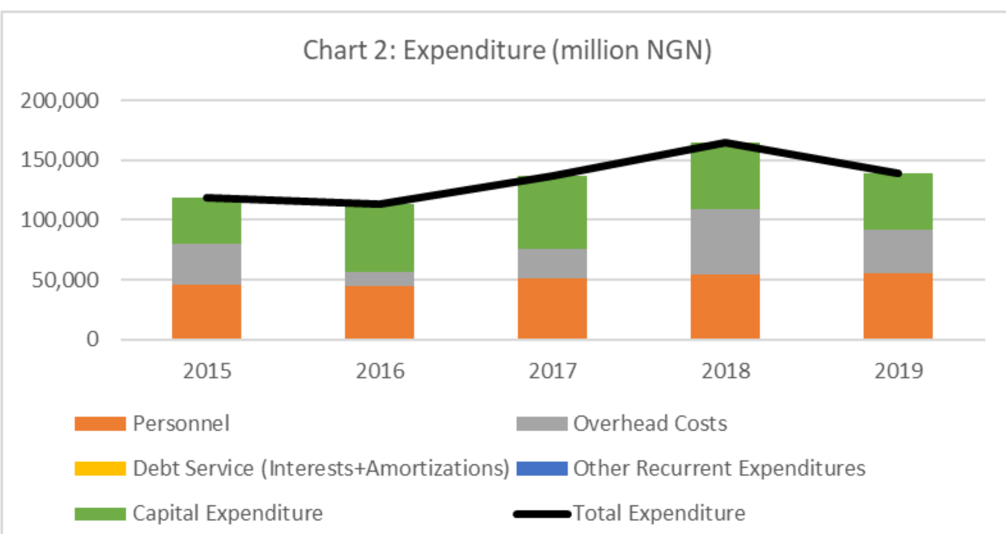
3.1 Revenue and Expenditure.

Chart 1: Revenue (rows 5-23)



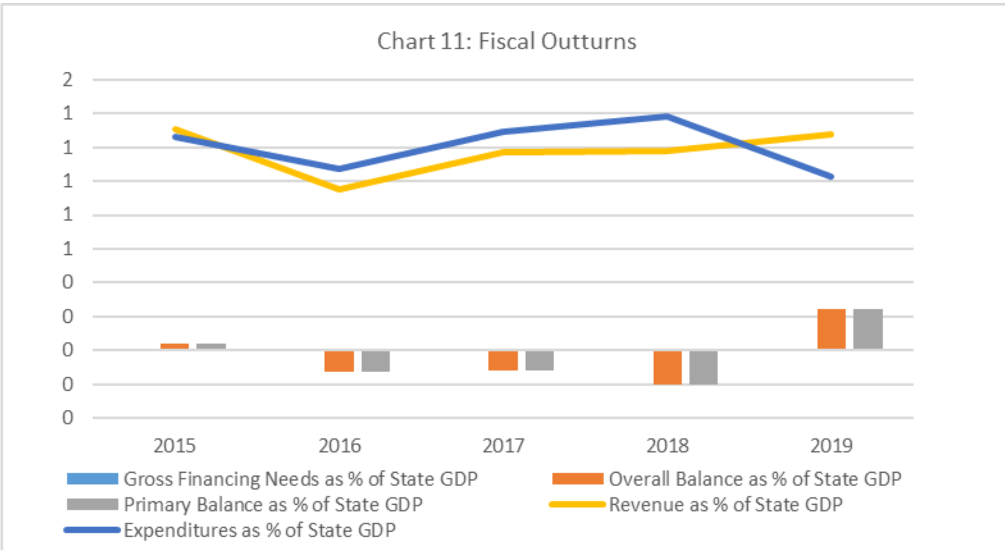
The revenue chart for the FCT between the year 2015 to 2019 shows a sharp decline in 2016 at ₦99,658,000 from the year 2015, which then had a steady increase in revenue from the year 2016 till 2019. In the year 2015, the estimated value was at ₦122,605,000, which increased to an estimated value of ₦171,262,000 in the year 2019.

Chart 2: Expenditure (rows 24-40)



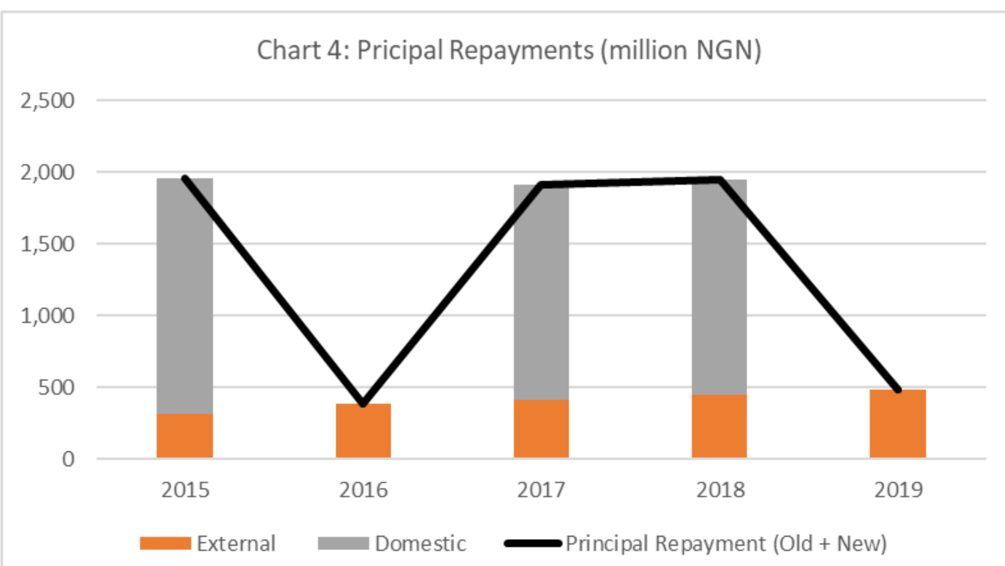
The expenditure chart for the FCT between the year 2015 to 2019 shows slight dips and increase between the period. The expenditure for the year 2015 is at an estimated value of ₦118,576,000 with a peak value of ₦164,542,000 in the year 2018, which experienced a decline in 2019 at an estimated value of ₦138,479,000.

Chart 11: Fiscal Outturn (row 190 – 208)



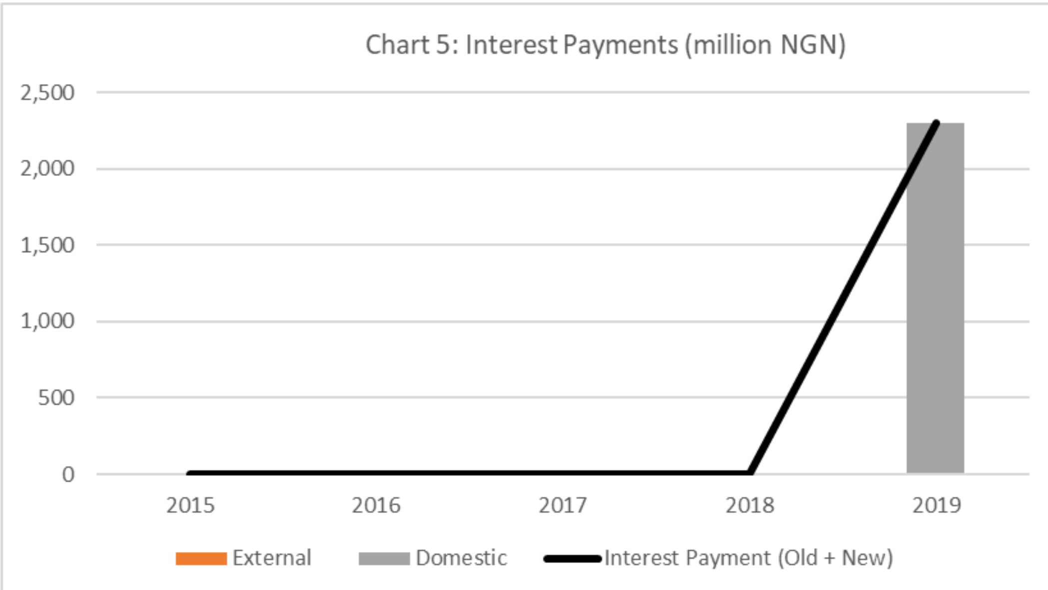
The Fiscal Outturns Chart for the FCT shows the rise and fall of the expenditure and revenue as a percentage of the FCT's GDP. Both revenue and expenditure maintains steadily, a value of 1% of the fiscal outturns between the year 2015 to 2019.

Chart 4: Principal Repayment



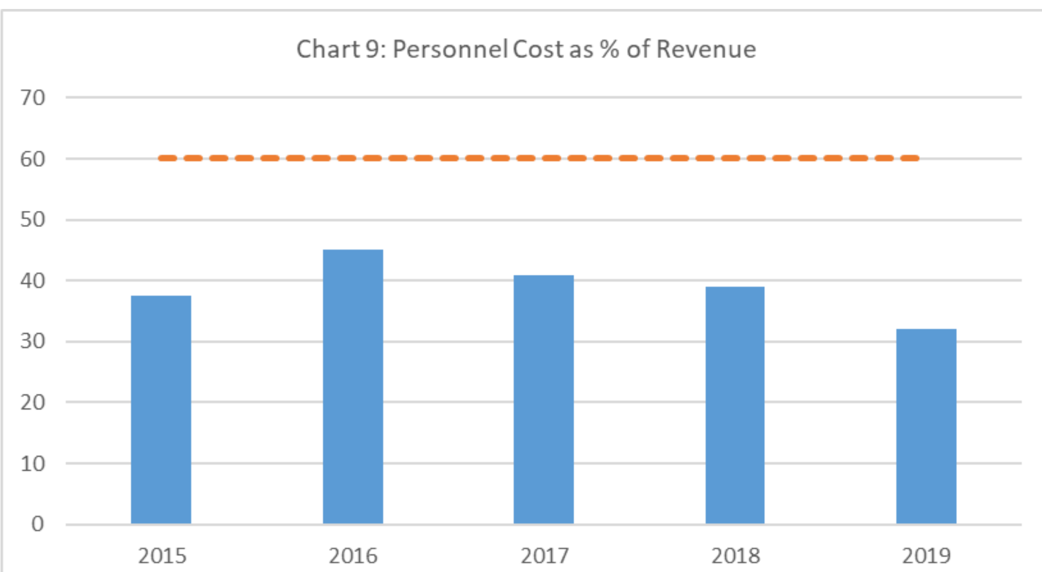
The principal repayment was at its lowest in the year 2016 and 2019 (due to restrictions on the payments for the FCT's debt servicing) with the following values, ₦385,000 and ₦483,000 respectively. The principal repayment experienced a peak with an estimated value of ₦1,945,000 in the year 2019.

Chart 5: Interest Payment (rows 155-171)



The chart indicates an interest payment of ₦2,300,000 for the year 2019, with no payments between 2015 to 2018 (the grace period for the repayment of the DMO loans).

Chart 9: Personnel Cost (rows 155 – 171)



The chart indicates a peak percentage in the year 2016 (due to payments of salaries and promotion arrears of FCTA's staff), with personnel cost as 45% of revenue and for the year 2018 had a decline with personnel cost as 39% of revenue.

Following the revenue and expenditure categories used in the chart sheets (rows 6 - 9 and 26 - 29, 30 - 31) of the FCT- DSA Template.

i. **Aggregate State TOTAL Revenue trend in the last five years and its composition in 2019.**
The FCT total aggregate revenue in the last five years (2015-2019) is ₦658,070,000. This increase in the trend within the last five years is attributed to the increases in the FAAC Allocation, State IGR and Grants.

ii. **FAAC Allocations trend in the last five years.**
The FAAC allocations trend within the last five years has increased, also due to Statutory Revenue Allocations (SRA), Value Added Tax (VAT) and Exchange Gains over the years. With a percentage increase of 6.24% (from a percentage difference from 24.03% in 2019 and 17.79% in 2015).

iii. **IGR Trend in the last five years.**
The IGR trend has increased over the years, with a peak in the year 2017 (19.74%), with the FCT-IRS initiative which was introduced in the year 2015 and the payment of PAYE (Pay as you Earn) of employees in the FCT, which has since been under the FCT-IRS, contributing to an increase in the GDP and Internal Growth Rate of 10.14% increase (from a percentage difference from 27.74% in 2019 and 17.60% in 2015).

iv. **Aggregate (total) Expenditure trend in the last five years and its composition in 2019.**
The aggregate expenditure for the last five years has experienced fluctuations, due to fluctuations also in personnel, overhead cost and capital expenditure; with a peak in the total expenditure in the year 2018 (24.51%), followed by the second highest in 2019 (20.63%). However, the Aggregate Expenditure shows an increase over the last five years, with a percentage of 2.97% (from a percentage difference from 20.63% in 2019 and 17.66% in 2015).

v. **Main expenditure variations in the last five years by economic classification.**
The FCT experienced an increase over the period (2015 – 2019) for expenditure from Personnel, an increase in the employment rate, and other social intervention programs e.g. N-Power etc., Overhead cost and Capital Expenditure (largely due to more capital projects/ contracts for the FCT), and poor management of available funds, caused an increase over the defined period.

vi. **Overall and Primary balance trend in the last five years.**
The overall balance has been stagnant for the review period with a value of 1% of the revenue of the SGDP between the year 2015 and 2019.

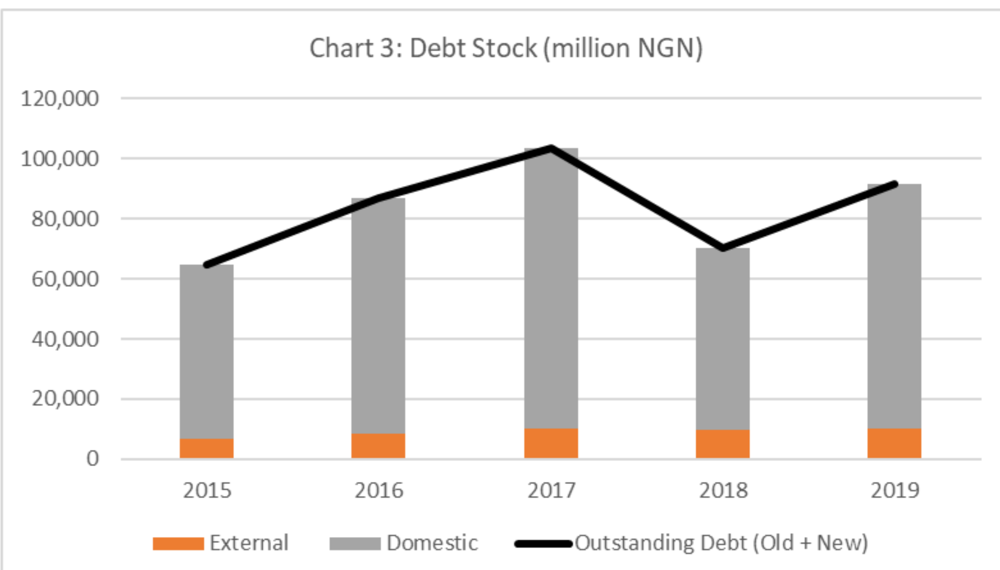
3.2 Existing Public Debt Portfolio

The evolution of the FCT's public debt stock between the year 2015 and 2019 are as follows: the debt stock for the year 2015 and 2019 was at estimated at value of 15.50% and 21.97% respectively, thus an increase within the period at an estimated value of 6.47% (due to failure of timely repayments of debt stocks and consistent increase in the interest rates of debts).

The portfolio of the existing debt stock at year end-2019, is as follows:

i. Domestic debt: The domestic stock for year end-2019 is estimated at a value of ₦81,413,000 which forms 88.89% of the total debt stock of ₦91,589,000.
ii. External Debt: The external stock for the year end-2019 is estimated at a value of ₦10,176,000 which forms 11.11% of the total debt stock of ₦91,589,000.

Public debt receipts and public debt disbursals are borrowings and repayments during the year, respectively, by the government. For the year end-2019, the FCTA's payments has been with zero (0) interest at the Naira value of the loans, with no roll over from previous years (2015 – 2019). The zero (0) interest repayment is majorly as a result of the TSA Policy which stopped MDA's from transacting with commercial banks, as most interest repayments as agreed in the MOU was to be remitted via commercial banks. The FCT had to agree with the DMO on a lamp sum repayment plan.



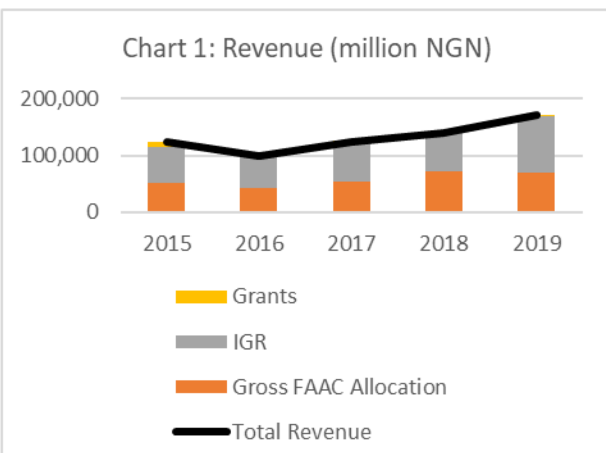
The total debt stock for the period 2015 to 2019 experienced dips and rises for the various years, with a peak period in 2017, at an estimated value of ₦103,277,000 for both external and domestic debt stock.

Following the outstanding external and domestic debt stock categories used in the input sheet (World Bank (WB) (including International Development Association (IDA) and IBRD), Government-to-Government Debts and Contractors' Arrears) of the FCT.

i. **Public debt stock amount or share on total Revenue at year-end 2019 and its growth in the last five years.**
The FCT's public debt stock amounted to ₦70,384,000 at year end-2019 and has since increased as result of interest rate on DMO loans. The public debt stock trend between the period 2016 to 2019 was influenced by some of the following factors: Government Policies (TSA -Treasury Single Account) for the year 2016, Debt Servicing Arrears payments, caused a rise in the year 2017, and then the Paris Club bailout funds used for debt repayments for the year 2018 and 2019.

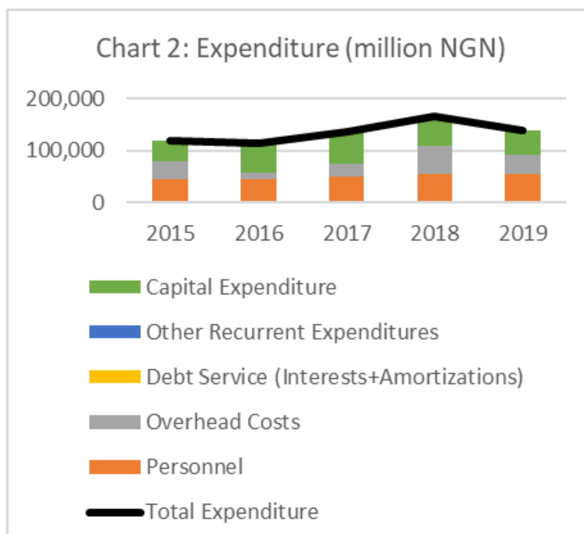
ii. **The Existing Public Debt Portfolio composition at year end-2019.**

The FCT's debt stock portfolio largely consists of the internal debts, Government-to-Government Debts and Contractors' Arrears, an estimated value of 88.89% of the total debt stock at year end-2019. While the external debts are from the World Bank (WB), an estimated value of 11.11% at year end-2019, deducted from source.



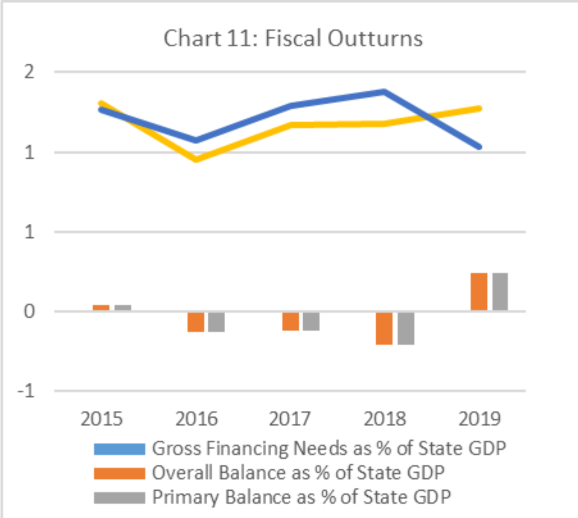
Source: FCT's Financial Statement

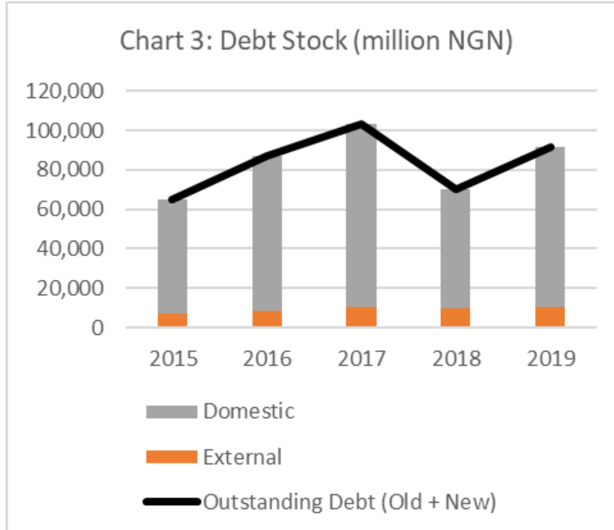
The revenue chart for the FCT between the year 2015 to 2019 shows an increase in revenue, with a steady increase from the year 2017 to 2020.
The year 2018 had an estimate of ₦140,268,000. While in the year 2015, the estimated value was ₦122,605,000 and in 2019 the estimated value increased to ₦171,262,000.



Source: FCT's Financial Statement

The expenditure chart for the FCT between the year 2015 to 2019 shows slight dips and increase between the period. The expenditure for the year 2015 is at an estimated value of ₦118,576,000 with a peak value of ₦164,542,000 in the year 2018, which experienced a decline in 2019 at an estimated value of ₦138,479,000.





Source: FCT's Financial Statement

The Fiscal Outturns Chart for the FCT shows the rise and fall of the expenditure and revenue as a percentage of the FCT's GDP. Both revenue and expenditure maintains steadily, a value of 1% of the fiscal outturns between the year 2015 to 2019.

Source: FCT's Financial Statement

The total debt stock for the period 2015 to 2019 experienced dips and rises for the various years, with a peak period in 2017, at an estimated value of ₦103,277,000 for both external and domestic debt stock.

4. Debt Sustainability Analysis

The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability ultimately refers to the ability of the government to maintain sound fiscal policies over time without having to introduce major budgetary or debt adjustments in the future. Conversely, fiscal policies are deemed unsustainable when they lead to excessive accumulation of public debt, which could eventually cause the government to take action to address the unwanted consequences of a heavy debt burden.

The following debt burden indicators computed are as follows:

With Indicative Threshold	Without Thresholds
Debt/GDP – 25%	Debt Service/FAAC Allocation
Debt/Revenue – 200%	Interest Payment/ Revenue
Debt Service/Revenue – 40%	External Debt Service /Revenue
Personnel Cost/Revenue – 60%	

For the Debt/ GDP – 25%

			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline	20a	Debt as % of GDP	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Baseline	20b	Threshold	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25

Analysis – The debt ratio/ GDP is at low risk, since the average of 1 for the period is well below the threshold of 25.

For the Debt/Revenue – 200%

			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline	21a	Debt as % of Revenue	53	87	83	50	53	58	55	51	46	43	41	40	39	38	48
Baseline	21b	Threshold	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

Analysis – The debt ratio/Revenue is at medium risk, since the average 52.3 for the period is well below the threshold.

For Debt Service/ Revenue – 40%

			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline	22a	Debt Service as % of Revenue	2	0	2	1	2	2	5	4	3	3	4	5	3	1	14
Baseline	22b	Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

Analysis – The Debt Service/Revenue is at low risk, since the average low risk, since the average 3.4 for the period is well below the threshold.

For Personnel Cost/ Revenue – 60%

			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline	23a	Personnel Cost as % of Revenue	37	45	41	39	32	34	33	33	32	33	33	33	34	34	34
Baseline	23b	Threshold	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60

Analysis – The Personnel Cost/ Revenue is at medium risk, since the average of 35.13 for the period, is well below the threshold.

4.1 Medium-Term Budget Forecast

Some of the macroeconomic indicators under which the FCT DSA was conducted according to the DMO report for the year 2017, and the April 2020 IMF Press Release for the Emergency Support to Nigeria of $3.4 Billion to address the COVID-19 Pandemic, are as follows: Depreciating exchange rates (slide in Naira and high exchange rates), High cost of production, Power Outages, Oil price shocks, Slowdown in private sector credit growth, Low capital budget Release and Spending, Decline in domestic demand, unrest and suppressing economic activities. Thus slowing down growth also influenced by the Non-Oil and Oil sectors.
The rise in inflation in 2015 at 9.6% had doubled by 2016 at 18.6%, attributed to high cost transportation induced by the effects of exchange rate, structural challenges, inflation rates, food shortages, security challenges and increased financial regulatory risks, with already existing debts.

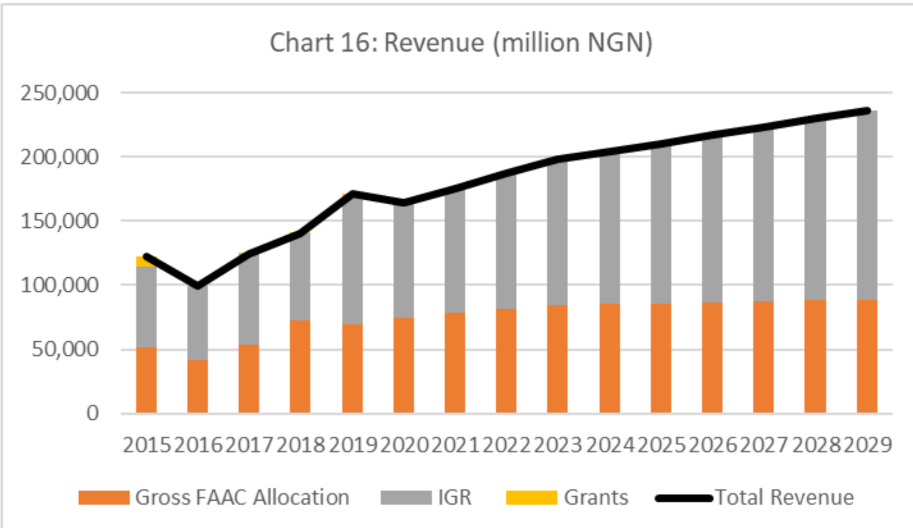
i. Based on these predictions, an effort towards recovery by the FCT in the medium term would include increase in domestic production, prudent fiscal policies, Improved efforts by the FCT-IRS towards boosting revenue collection, with more efforts towards wider coverage and collection efficiency, using technology to contribute greatly towards the revenue generation of the FCT. State Owned Enterprises (SOE) like Abuja Investment Company Limited - AICL, Abuja Enterprise Agency - AEA, Abuja Film Village - AFV etc. also require adjusting operations to become more fiscally responsible, to increase the FCT's Independent Revenue, as reins on fiscal indiscipline among the SOEs would yield higher revenue than projected.

ii. Debt sustainability analysis is predicted on the recent efforts to mobilize revenue generation from increased domestic production that favor responsible fiscal operations, aiding IGR for the FCT.

4.2 DSA Simulation Results

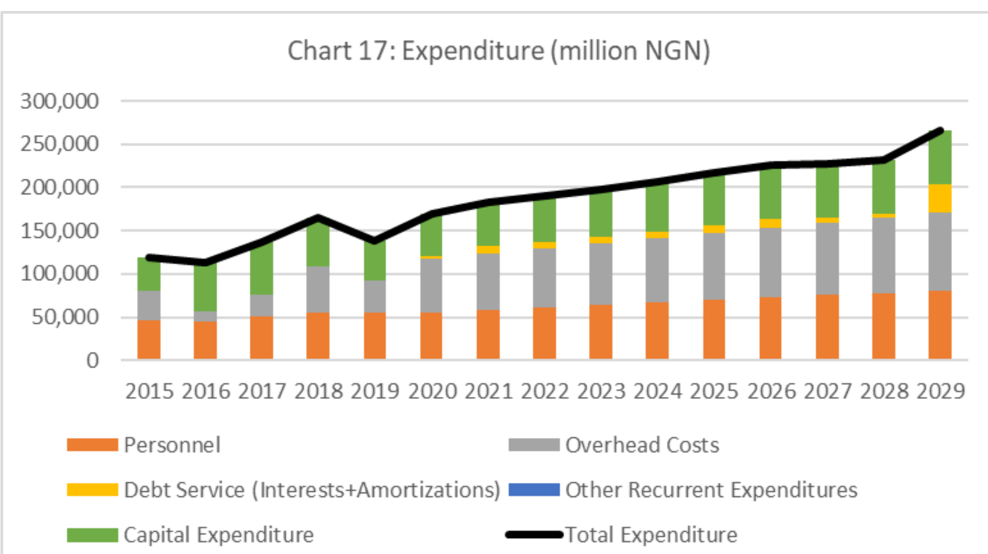
The baseline projections for revenue, expenditure, primary and overall balance and Debt and debt service indicators and threshold are as follows:

Chart 16: Revenue (rows 5-23)



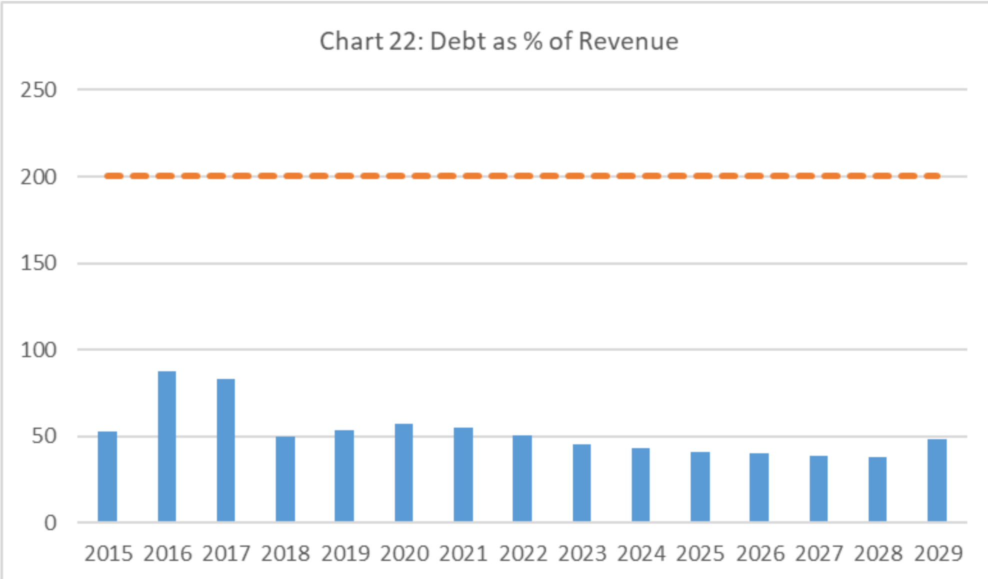
The projected revenue for the FCT DSA shows a rise and fall of Gross FAAC Allocation and IGR and Grants, between the period 2015 to 2020, with an estimated value of ₦122,605,000 and ₦164,585,000 respectively. However, based on projections, there is steady increase in revenue generation, reaching a peak value by the year 2029 at an estimated revenue value of ₦236,499,000.

Chart 17: Expenditure (row 24 - 40)



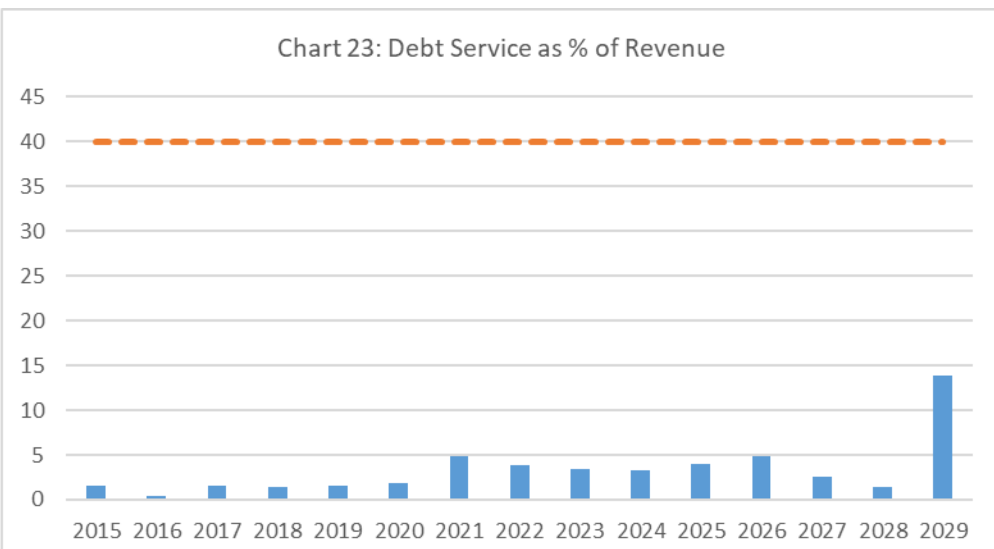
The expenditure projections show a rise and fall between the year 2015 and 2019 at an estimated value of ₦118,576,000 and ₦138,479 respectively. Which then steadily increases and reaches a peak value in the year 2029, at an estimated expenditure value of ₦266,756,000.

Chart 22: Debt as a share of Revenue (rows 118 -135)



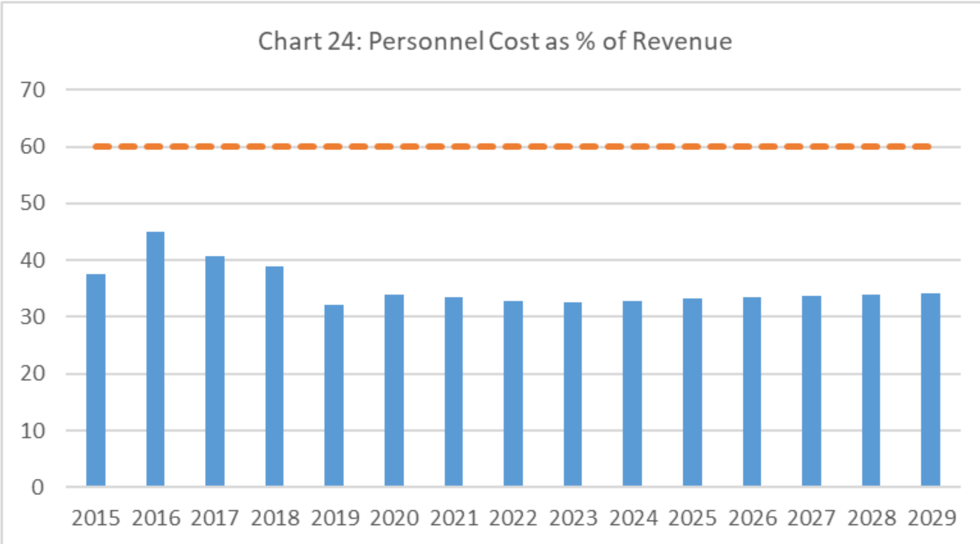
The projections for the debt as share of revenue is at a peak value of 87, while the least value is at 38, and an average value of 52.3, all of which are at medium risk, which is below threshold of 200.

Chart 23: Debt service as a share of Revenue (rows 136 – 153)



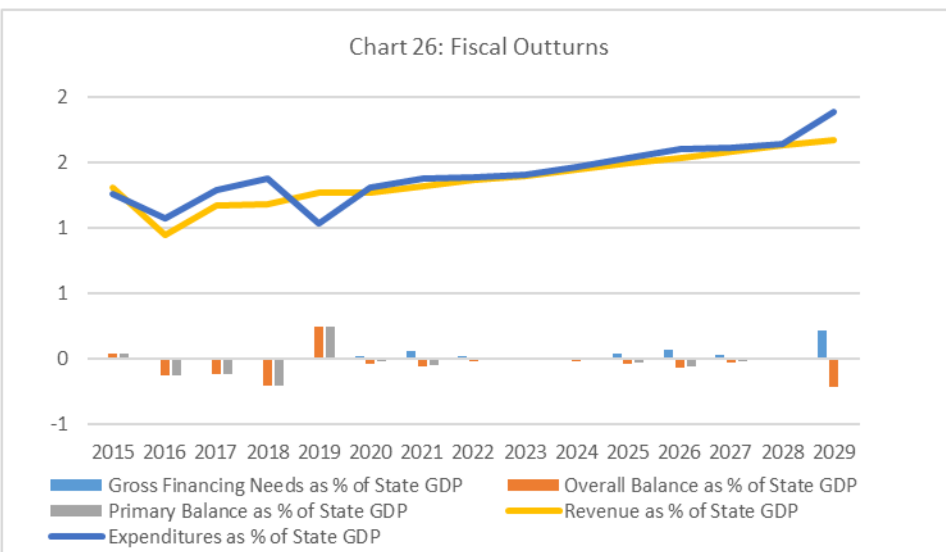
The projections for the debt service as a share of revenue is at a peak value of 14, while the least value is at 2 and average value of 3.4, all which are at low risk, which is well below the threshold of 40.

Chart 24: Personnel Cost (rows 155 – 171)



The projections for personnel cost is at a peak value of 45, while the least value is at 32 and average value of 35.13, all which are at medium risk, which is well below the threshold of 60.

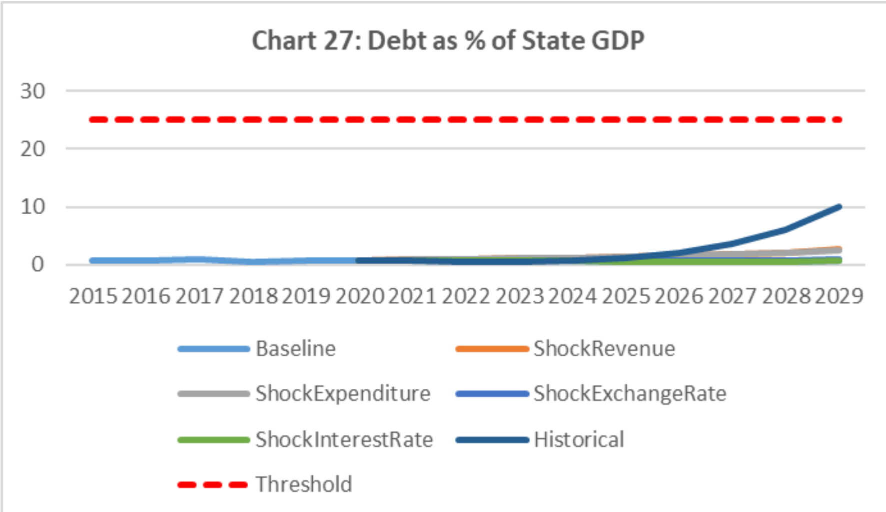
Chart 26: Fiscal Indicators (rows 190 -208)

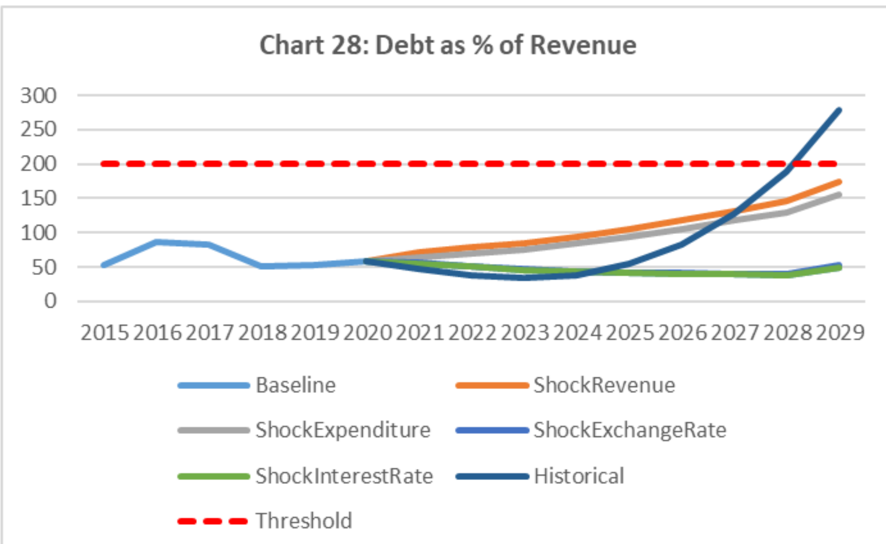


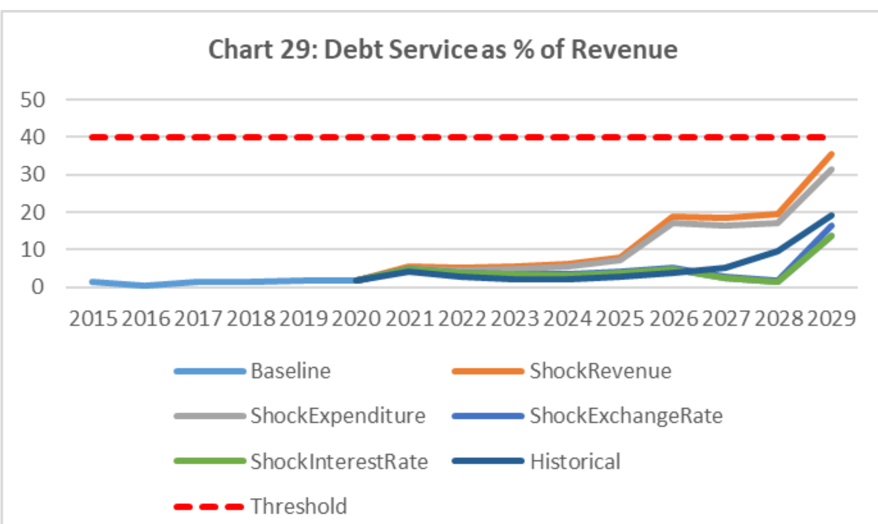
The projections for Fiscal Indicators are as follows:

Expenditure as percentage of the State GDP experience rise and fall within the period 2015 and 2019, which steadily rises to reach its peak in 2029, at a value of 2, slightly above the revenue as a percentage of the State GDP.
While the Overall and Primary Balance as a percentage of the State GDP experience both negative and positive values, with a positive zero value (+0) as well as negative zero value (-0) trend across the period.
The Gross Financing Needs as a percentage of State GDP shows a trend of a positive value of zero (+0) across the period.

4.3 DSA Sensitivity Analysis







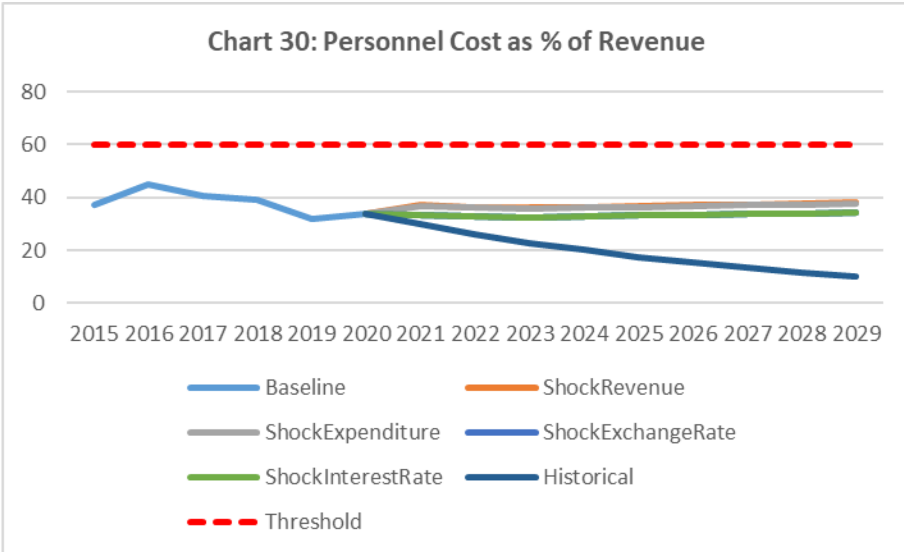


Chart 30: Personnel Cost as % of Revenue
80
60
40
20
0
2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029
Baseline
ShockRevenue
ShockExpenditure
ShockExchangeRate
ShockInterestRate
Historical
Threshold

Annex I: Baseline Assumptions

Revenue Assumptions:

This include oil revenue forecast base on the key projection parameters (oil prices in $, exchange rate, oil production). The IGR is projected using time series analysis, VAT is projected with the assumption of its responsiveness to economic activities and projected on the changes in IGR. Aids and grants is projected base on annual target growth rate of 10.8% in capital development.

Expenditure Assumptions:

Personnel cost for 2021 (moving forward) is projected with the assumption of minimum wage implementation. Consolidated revenue charges is projected on the weighted changes in IGR. Overhead cost is projected on the assumption of fiscal policy to reduce cost of governance and pave way for improved capital investment and industrial development in the State. The Government also rolled out a social intervention programme to provide support to the poor and the unemployed; reconstructed and equipped skills acquisition centres to provide training for women and youth towards self-reliance; and building the critical infrastructure needed to speed up the development of the State.

Borrowing Assumptions (Options)

Domestic Borrowing - Terms (interest rate, maturity and Grace Period)
Domestic borrowing is anticipated to be through the issuance of bond, with an interest rate of not more than 14% (but could be lower) and with repayment period of not less than 6 years.

External Borrowing - Terms (Interest rate, maturity and Grace Period):
External borrowings are usually tied to a specific project/program and is not envisaged for now though within the MTEF.