POLICY **BRIEF**

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KEY POINTS

- Eurobond is a market for long term debt instrument issued and traded in the offshore market.
- In previous times, Nigeria was highly focused on domestic debt which are short term and with high cost. However, the previous and present administration are restructuring Nigeria's debt portfolio to foreign borrowing to reduce financing costs.
- Nigeria's public debt which stood at N9.1trn in 2012 has increased to N20.4trn at the end of September 2017.

Eurobonds Are Restructuring Nigeria's Debt Portfolio Towards External

Eurobond is a market for long term debt instrument issued and traded in the offshore market. It is usually underwritten by an international syndicate and offered for sale in a number of countries. The majority of Eurobonds are owned in electronic rather than physical form. The bonds are held and traded within the clearing systems. Coupons are paid electronically via the clearing systems to the holder of the Eurobond.

Eurobond differ from foreign bonds in that most nations do not have pre-offering registration or disclosure requirements for Eurobond issues. Further, majority of Eurobond have lower face value in which when launched in nations with stronger currencies keep them highly liquid for local investors.

The origin of Eurobond market began with the Auto-trade issue for the Italian motorway network in July 1963. it was for US$15million with a 15 year final maturity and an annual coupon of 5.5%. Then, there were reactions developed against the imposition of the Interest Equalization Tax in the United States. The goal of the tax was to reduce the US balance-of-payment deficit by reducing American demand for foreign securities. Thus, the introduction of this sovereign bond allowed Americans to bypass the costly tax and Europeans could keep open access to US capital.

In previous times, Nigeria is highly focused on largely on domestic debt which are short term and with high cost. This implies that the country paid 'too much' and have to regularly refinance existing debt rather than having the security of longer-term instruments. However, the previous and present administration are restructuring Nigeria's debt portfolio to foreign borrowing in a bid to reduce financing costs. This is put in place in order to establish a strong position in international capital market with regular issuances that have been very well received by the international investor base.

The Nigerian International Capital Market is managed by the Debt Management Office (DMO) which started with its Eurobond platform in the year 2011 in which an issuance of USD500 million (10-year) a 6.75 percent made in January of that year. This was closely followed by the successful issuance of a USD1 billion dual-tranche Eurobonds offering on July 2, 2013, of USD500 million 5 - year Bond and USD500 million 10-year Bond at Coupons of 5.125 percent and 6.375 percent respectively.

After the issuance in 2011 and 2013 Eurobond, the 15 years sovereign Eurobond of US$1.5billion priced at a coupon rate of 7.875% was issued in February 2017. Also, US$300 million Diaspora bond was issued in June 2017 at a coupon rate of 5.625% per annum for 5 years. In addition, Nigeria raised US$3 billion Eurobonds in November 2017 as it seeks to fund a fiscal deficit and reduce its local currency debt burden. The yield was 6.5% for the 10-year tranches and 7.625% for the 30-year portion.

On February 15th 2018, Nigeria also sold US$2.5 billion of Eurobonds as it sought to lower funding costs by using the notes to refinance higher-yielding naira debt. This issuance corresponds with $1.25 billion of 12-year securities with a yield of 7.14 percent and a separate 20- year tranche, also $1.25 billion, at 7.7 percent. This is in line with the full amount of US$5.5billion approved by the National Assembly in the 2017 budget in which the issue of US$3billion is to re-finance existing domestic debt and the issuance of US$2.5billion to fund capital expenditure.

The arguments of lower interest rates, longer-term financing and the need for foreign exchange to finance Nigeria's infrastructure needs have always been put forward to justify issuing Eurobonds. The proceeds from such issuances have also been used to shore up the Nigerian external reserves to over $40bn which gives the country a positive external outlook.

It is however important to note that Nigeria's public debt which stood at N9.1trn in 2012 has increased to N20.4trn at the end of September, 2017. Also, the proportion of external debt increased from 11.3% to 23% in the same period. This connotes that the country is now more exposed to external shocks in the form of foreign exchange risk than before; thereby calling for an effective management of the country's debt and exchange rate policies.

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