DEBT MANAGEMENT OFFICE
NIGERIA

DEBT MANAGEMENT OFFICE: USD5.5 BILLION PROPOSED EXTERNAL CAPITAL RAISING

The plans of the Federal Government of Nigeria to source USD5.5 billion funds from the International Financial Markets comprises of two components: USD2.5 billion new borrowing and USD3 billion for refinancing of existing Domestic Debt.

New Projects Capital Raising

The first component of USD2.5 billion, represents new external borrowing provided for in the 2017 Appropriation Act to part finance the deficit in that Budget. It will be recalled that the 2017 Appropriation Act provided for new External Borrowing of ₦1.067 trillion or USD3.5 billion at an Exchange Rate of USD/₦305. Out of this amount, USD300 million has been raised through a Diaspora Bond that was issued in June 2017 leaving a balance of USD3.2 billion out of which USD2.5 billion is to be sourced through the international debt capital markets.

The USD2.5 billion proposed capital raising, will be used to finance critical road and rail projects included in the 2017 Appropriation Act. Some of the projects are: construction of a Second Runway at the Nnamdi-Azikwe International Airport; rail projects including Lagos-Kano, Calabar-Lagos, Kano-Kaduna, Ajaokuta-Itakpe-Warri, Kaduna-Idu; and the Bodo-Bonny Road with a Bridge across the Opobo Channel. These infrastructural facilities will lead to job creation and improve the climate for business thereby contributing to economic growth.

Domestic Debt Refinancing

The second component of USD3 billion external borrowing will be used to refinance some existing domestic debt. The FGN's Domestic Debt Stock as at June 30, 2017 at ₦12.033 Trillion was 78% of the Total FGN Debt Stock. Further, about ₦3.7 Trillion or 31% of the FGN's Domestic Debt was in Nigerian Treasury Bills (NTBs) with tenors of less than one year and at interest cost of about 17% p.a.

The short term nature of the NTB stock and the high interest rate associated with domestic borrowing, expose the public debt to refinancing risk and high Debt Service Costs. By converting some portion to External Debt, the tenor will be extended by at least 5 years while the Interest Cost will be significantly lower. The savings in Debt Service from refinancing a portion of the Domestic Debt with a USD3 billion borrowing is estimated at over ₦90 billion p.a.

Benefits of these External Capital Raising

i. ***Reduce Debt Service***

   Reduce the Interest Cost of Borrowing as external borrowing in US Dollars is at a much lower interest rate than the domestic market.

ii. ***Increase Stability in the Debt Stock***

Extend the tenor profile of the debt stock when longer-dated External Debt is used to replace short term domestic debt. This would make the debt portfolio more stable, thereby reduce refinancing risk.

iii. ***Increase in borrowing space for the private sector***

The pressure in the domestic market created by the large government borrowing will be reduced. This will create more space for borrowing by the private sector which will enable them contribute to the growth of the Nigerian economy. In essence, the issue of the government crowding out the private sector will be effectively addressed as the government shifts its borrowing to external sources.

iv. ***Increase in Nigeria's External Reserves***

External Borrowing represent foreign currency into the nation's External Reserve thereby allowing for a stable exchange rate for the Naira.

Other Considerations

The proposed USD2.5 billion new external borrowing to part finance the deficit in the 2017 Appropriation Act and the refinancing of existing domestic debt through external capital raising of USD3 billion, are consistent with Nigeria's Debt Management Strategy, whose main objective is to increase external financing with a view to rebalancing the public debt portfolio in favour of long-term external financing in order to reduce the cost of debt and lengthen the maturity profile.

In contracting new external debt, a conscious effort is made to exhaust all opportunities available from the concessional sources such as the World Bank in order to reduce the level of External Debt Service.

Furthermore, all Borrowings are approved by the National Assembly and are included in the Annual Appropriation Acts and the Medium Term Expenditure Framework (MTEF).

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