DEBT MANAGEMENT OFFICE
NIGERIA

J.P. Morgan Includes FGN Bonds in its Government Bond Index

The Federal Government of Nigeria (FGN) Bond Market has evolved rapidly since the introduction of FGN Bonds by the Debt Management Office (DMO) in 2003. The many initiatives introduced by the DMO and other stakeholders (notably the Primary Dealer Market Makers in FGN Bonds, Central Bank of Nigeria, Securities and Exchange Commission and the Central Securities Clearing System) over the years have resulted in a vibrant market characterised by a regular Issuance Programme, Benchmark Bonds and a liquid secondary market that offers Two-Way Quotes and Repos.

On the strength of these developments, J.P. Morgan has announced that with effect from October 1, 2012, FGN Bonds have been accepted for inclusion in one of its widely used Bond Indices: **Government Bond Index-Emerging Markets (GBI-EM)**. J.P. Morgan describes the Index as: ***The first comprehensive global local Emerging Markets index, and consists of regularly traded liquid fixed-rate domestic currency government bonds to which international investors can gain exposure***.

The inclusion of FGN Bonds in the **GBI-EM**, followed the DMO's engagements with J.P. Morgan, who, based on their independent assessment of the FGN Bond Market, issued a statement on August 14, 2012 announcing that 3 FGN Bonds with tenors of 2, 7, and 10 years have been selected for inclusion in the **GBI-EM**. Until now, South Africa was the only African Government whose Bonds are included in the Index. Other countries in the Index are Brazil, Chile, Columbia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Thailand and Turkey.

The potential benefit to Nigeria is that, it would attract more foreign investors, especially those whose asset portfolios are structured along the line of the Index, to invest in FGN Bonds. Many of the major foreign investors that Nigeria met with during the Non-Deal Roadshows to Europe and the United States of America, in February and April 2012, had in fact advised that including FGN Bonds in the Index will attract more capital into Nigeria. Increased foreign investments would translate to increased foreign exchange inflow into Nigeria with positive implications for the value of the Naira and the level of External Reserves and possibly, lower bid rates at the Auctions of FGN Bonds, thereby reducing Government's borrowing costs. Moreover, it would reduce the Government's dependence on domestic investors and overall, provide a larger pool of funds. It would also help to mitigate the risks of crowding out the private sector.

Overall, the inclusion of FGN Bonds in the **GBI-EM** is a clear demonstration that the investments made towards developing the FGN Bond Market and the externalisation of the Nigeria story through the Eurobond Issuance, as well as the related Roadshows to the International Capital Market, have been very rewarding**. In particular, this development is an independent external recognition that government's domestic borrowing has been executed in a manner that has enhanced the quality and strength of the domestic financial markets.**

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