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Press Release

Eurobond 2015 – looking from a broader perspective

Last week the government issued a 10-year USD500 million Eurobond in the international market successfully at a cost of 8.25 percent. The same has been criticized by many of the financial journalists in the print and electronic media on different grounds. This criticism is largely based on it being expensive when compared with similar issues in the past. It is questioned that why despite a visible improvement in the macroeconomic conditions of the economy Pakistan has not been able to sell it at a lower cost. Timing to float this bond is also being criticized and considered as a reason for this high cost.

Despite the difficulties of timing, the issuance of the Eurobond was important for many reasons. While it may be considered as relatively expensive comparing it with the past issues, it has many associated benefits. Foremost, it is helpful to maintain the current year's budgeted cash flows and meeting many of the performance criteria set under the IMF program. The country is benefitting from a smooth sailing of the program as many of the other bilateral and multilateral flows are contingent upon the success of the program as well.

Another important contribution of the bond issuance is through maintenance of foreign exchange reserves of the country. The foreign exchange reserves of the State Bank are currently well above the minimum threshold of three months of imports, which is generally considered as adequate from external sector sustainability view point. Continuing with such trend is important since availability of adequate reserves support in attracting both debt and non-debt inflows of foreign exchange. Admittedly, borrowing from the external sector has its limitations due to a rise in external debt as a percent of GDP; but, currently Pakistan's external debt to GDP ratio is well below when compared with its peer countries.

Issuing the bond at a price tag of 8.25 percent, similar to the price fetched in last year's bond issuance, is also being portrayed as negating the significant improvement in macroeconomic conditions over the last one year. It would be pertinent to mention here that these improvements are reflected in undeniable facts and country's assessment by international rating agencies. Nevertheless, it must be understood, that international investors are looking at other global factors as well, which may outweigh the positives of an issuing country's own conditions at times. Moreover, the overall market conditions are not the same as few years ago.

With regards to the timing of bond issuance, there is a view in the media that a delay in the issuance of bond would have been more appropriate as international investors appear to be jittery of current global economic developments. In SBP view, such a delay would have only added to the cost of raising the bond. More recently, US Fed decided to postpone an increase in its policy rate due to uncertain global economic developments. The diminishing uncertainty over time will increase the likelihood of a rise in US interest rates that would only reduce the interest in other developing countries' papers. With increase in reverse capital flows from emerging markets, the likelihood of them approaching the international debt markets would increase. This may enhance the competition in raising funds through bond issuance in an environment where several sovereign funds, governments and high net worth investors are withdrawing investible funds from asset managers.