NIGERIA: A PROFILE OF DEBT

With its reserves of oil and its population of 90 million, Nigeria is one of sub-Saharan Africa's largest economies. It is also one of the most indebted countries in the world.

Its debt rose from US$567 million in 1970 to $36.1 billion in 1990. This latter figure represented 22% of the total amount of money owed that year by countries classified as "severely indebted."

In the 1970s, resource-rich Nigeria was seen as a nation with a promising future. The 1980s, however, proved to be a lost decade — as it was for so many African countries. Nigeria's regression from hope to hopelessness reflects how even a well-endowed economy can suffer from massive debts.

REASONS FOR CRISIS

Both domestic and external factors are responsible for Nigeria's debt crisis. The external factors include oil price shocks, a decline in terms of trade, global recession, the liberal lending policies of international commercial banks, and rising interest rates.

During the oil boom of the early 1970s, Nigeria enjoyed healthy revenues. Public spending increased. The government's credit rating was very high and it was able to borrow heavily from international lenders who were busily recycling petro-dollars. When the price of oil dropped in 1978, the government saw it only as a temporary event and did not reduce expenditures. Instead, it made every attempt to hold spending to its oil-boom level, despite falling revenues. The global recession of 1979 to 1982 caused a further decline in export earnings. Nigeria was forced to borrow even more money to make up for these losses and to meet increasing requirements for imports. The subsequent rise in interest rates in the 1980s hit Nigeria particularly hard since the government had acquired substantial loans from private sources (meaning commercial banks) at market rates. In 1970–72, Nigeria's loans from these creditors amounted to about 31% of its total debt. Ten years later, this figure had increased to about 85%.

BAD POLICIES

Domestic factors worsened these problems. The government followed inappropriate macroeconomic policies, which included the overvaluing of exchange rates, the accumulation of

A fair price for consumers: adjustment with a humane face is necessary to eliminate inefficiencies .

large fiscal deficits, and excessive monetary expansion. Poor trade policies resulted in a lack of growth in the export sector. Nigeria also embarked on several projects of doubtful viability that generated little income with which to pay off external loans.

Finally, government policy inherently discouraged savings. Negative real interest rates led to money flowing out of the country. The negative rates also encouraged the build-up of even greater debt; external financing was needed to bridge the gap between domestic savings (which generally serve as a supply of capital) and required investment in the economy. By 1990, Nigeria's debt amounted to 133% of its gross national product.

ADJUSTMENT PROBLEMS

Recent efforts to resolve the debt crisis in developing countries have rested on three major pillars. The first is the adoption of a macroeconomic adjustment program. This is designed to encourage the efficient use of resources in order to spur economic growth. The second recognizes that debt should be treated on a case by case basis, i.e., a country's specific circumstances must be considered. Finally, debt cannot be controlled unless a country continues to receive external resources. Unfortunately, the focus has tended to be on domestic reforms with less attention to the need for external financing.

By 1986, Nigeria's economy had deteriorated to the point where it had to negotiate a rescheduling of its debts. Before creditors agreed to such a rescheduling, Nigeria had to adopt a structural adjustment program approved by the International Monetary Fund. Between 1986 and 1991, Nigeria has had three debt relief agreements with multilateral creditors, totalling about US$14.6 billion.

One of the principal goals of Nigeria's debt strategy was to achieve external viability. This is defined as being able to meet financial obligations without having to reschedule debts and, at the same, realize satisfactory economic growth.

In the short-run, this goal has not been met. Indeed, the belt-tightening involved in the process of structural adjustment has made life a lot worse for many Nigerians. Unemployment is high. The revenue base is not rising and basic services, such as health and education, are insufficiently funded because the government must first satisfy external debt obligations. Unstable and high interest rates, along with a government budget deficit, have led to spiraling inflation. The country's inflation rate, which was 10% in 1986–87, rose to 38% in 1987–88 and to 50% in the following year. The increase in inflation has driven real incomes down drastically.

THREE KEY ISSUES

The short-term rescheduling of debt may solve immediate difficulties of liquidity. But it does not address the root of the problem and only defers "evil days." The solution to Nigeria's debt crisis (and those of other countries) is complex and involves a strong commitment at both domestic and international levels. Three issues are of primary importance.

A favourable international economic environment must be created that allows for the maintenance of an open trading system, the removal of artificial barriers, and the reduction of interest rates on debt. Export promotion policies are only useful if there is access to markets. With the emergence of regional trading blocks, Nigeria (like other African countries) needs to develop new skills in the export sector and to create a niche for itself in an increasingly competitive international environment.

Creditor nations must give more attention to the issue of larger debt reduction and lengthened periods of rescheduling. There has been much discussion on the economic plight of developing countries and the need for them to grow out of debt. If the industrial world is genuinely concerned, it is now time to move beyond rhetoric and take positive action. The present level of debt must be substantially reduced and the rest rescheduled with reduced interest rates, elongated terms of repayment, and favourable periods of grace.

Finally, adjustment is necessary, albeit with a humane face. It should reduce distortion and eliminate inefficiencies in the economy while allowing for sustained growth. Such adjustment, preferably home-grown, should be geared toward both domestic and external viability. Perhaps then the state of economic hopelessness in which many African nations founder will evolve into one of optimism for the future.

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Nigeria: composition of debt outstanding by sources, 1970-89.