THE ECONOMIC IMPACT OF NATIONAL DEBT ON GROWTH AND DEVELOPMENT:

A CASE STUDY OF NIGERIAN ECONOMY

BY

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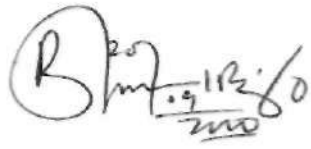
BEING A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA)

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DECLARATION

I hereby declare that this thesis has been the record of my research work. It has not been previously presented for the award of Master of Business Administration.



CERTIFICATION

This thesis entitled the impact of National Debt on Growth and Development (A case study of Nigerian Economy) by Babajo Ubangida meets the regulation governing the award of the degree of Master of Business Administration Ahmadu Bello University ,Zaria. And is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis work is dedicated to my loving, Most Cherished father and mother Alhaji Babajo and Suwaiba, who deeply implanted in my infantile subconscious, the desire for education. Their instructions and commands which I only decode many years later and for their financial and moral support to see me through all these years.

And to my wonderful wife Amina Abdul'azeez for her support and endurance.

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Self development and excelence are not an easy task for one to achieve, the need to try a new thing will makes one to learn and change.

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ABSTRACT

Ordinary, National debt means the quantum of resources acquired by the Nation from within and outside the nation to finance development programmes especially when domestic (public) savings fall short of investment outlay.

The economic or rather positive impact of this national debt is to specifically, amount to resources available to the government for spending outside its autonomous earnings, thus, both domestics and foreign debt are sources for argumenting available resources in the drive to accelerate economic growth and development, and encourage external sector competitiveness.

The Nation external borrowing has significantly supplement domestic savings and at the same time stimulate economics activities. In particular production, which in turn lead to increase in output and at the same time accelerate the growth and development of the economy.

This presentation strives to explore and analyze critically the structure of Nigerian Internal and External debt and to see to what extent has helped public and the nation image and confidence. Method used to achieve this objectives include, the use of historical data, direct and indirect observation, interview and documents study.

The empirical finding has shown that, the nation is heavily indebted because of indiscriminate borrowing without accompanying capacity for repayment but not withstanding the size and composition of the nation debt, these still exist an implied correlation between economic growth and development and the nation total debt.

To Manage Debt effectively, authorities must project the time profile of debt service obligations. They must accurately forecast export earnings, domestic revenues and future access to finance. They must also monitor the potential for repaying or refinancing their debt to take advantage of new borrowings on better terms, to adopt loan maturities to project revenues or to cope with shortfalls in earnings from exports or unanticipated expenditures on imports.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Ordinarily, public debt refers to the quantum of resources acquired by the public sector of a country from within and outside the country to finance development programmes especially when domestic (public) savings fall short of investment outlay-

Specifically, this debt otherwise known as nation debt would amount to resources available to a government for spending outside its autonomous earnings, thus; domestic and foreign debt are sources for argumenting available resources in the drive to accelerate economic growth and development and encourage external sector competitiveness.

Nation debt crisis and problem associated with it's rescheduling, servicing, management has engaged the attention of our country in recent times. The nature and composition of the nation debt has generated much concern within the country and as well as among the foreign creditors countries, international organization etc.

The management of the country debt outstanding since the 1980s has been a major macro economic problem. Although domestic debt imposes servicing constraint, it is less problematic than foreign debt fallen debt servicing crisis arises. Naturally debt do not constitute a problem when they are acquired on a temporary basis and the economy has enough capacity to service the debts. Infact, debt, when acquired in the right proportion and productively deployed, increases the rate of economic growth. However, when unproductively deployed, its tends to have a pervasive effect on the economy, the size, growth, structure and servicing of the debt have serious consequences not only on the macro economy but also sectoral and micro economic activities, growth is stunted, Development hindered, especially when the servicing of the debts fall due and current resources had to be deployed for financing the past consumption which were not

production-oriented. Ultimately, the re-scheduling of the debts accelerate the velocity of the burden to the future without the debt problem being resolved.

Basically speaking, the rate of debt accumulation far exceeds the rate of growth of debt-service capability such as the rate of growth of gross domestic product (GDP) and of exports.

The country internal and external debt rose from N444.25 billion in 1991 to N894.19 billion in 1993 and to N1,265 billion in 1995. In 1986, the nominal value of the debt outstanding was N59.45 billion as against N961 billion 1996. The growth of the debt outstanding become more manifest and rapid from 1987 and persistently more pronounce since 1992. This period also coincided with the era of higher rate of depreciation of the Naira which affects directly the Naira value of the external debt component. For example, the external debt outstanding was in the respective years US$33.36 billion (N328.05 billion), US$28.72 in 1986, external debt amounted to N31 billion compared with N1.9 billion in 1980.

The origin of Nigeria's domestic debt back to 1948. It was in that year that the first development stock of N500,000 was floated in Nigeria. But the first treasury bills and certificate worth N8 millions and N10 millions respectively were issued in 1960 and 1968. Nigeria's total domestic debt outstanding stood at only N7.9 billion in 1980. But by 1993, it was jumped to an unprecedented high of N582.3 billion.

Several factors have contributed to the large size of the domestic debt. First, the rapid expansion in development programmes and changes in the macro economics environment are reflected in the increase in domestic debt. Another factor is the practice of rolling over of previous debt. Finally, the decline in oil earnings has been identified as the major factor responsible for increase in the nation debt, hence it significance impact on the nation growth and development.

1.2 STATEMENT OF THE PROBLEM

Growth and development-choosing terms is never an innocent activity. Words are laden with values, interest and prejudices. The term growth give birth to development. Then what is under development?-the term evolves both a situation of under achievement and a call to action and at the same time as it suggest a status of inadequacy and subordination, it insinuates a comparison. That which is underdeveloped can be defined only if developed is understood.

To developed from the under developed stage there are successive stages that can be follow:

i) Traditional pre-capitalist society

ii) The preparatory stage that correspond to the beginning of industrialization takeoff or development.

iii) Progress towards maturity (which is difficult to reach)

iv) The age of mass consumption as practiced in the highly developed countries, this is an intended goal and the supreme objectives.

Take off occurs when the rate of investments reaches 10%-12% of national income-the heart of the matter as observed is that "underdeveloped countries do not manage to produce the mass of capital necessary for take off. Why are they unable to mobilize and invest national savings?

Another pertinent questions: Does this saving really exists or if they do, are they adequate to call for a glean?

Thirdly, the economic interest behind such geopolitics of developed and underdeveloped were able to wrap themselves in an idealistic discourse reminiscent of the missionary spirit. Which therefore, called for a compassionate attitude towards the underdeveloped

country, which needed to be helped rather than dominated and exploited as the colonialist had done. Thus, without any exchange of views with the populations concerned nor any request for assistance on their part, does underdeveloped economy call for assistance what actually motivates the underdeveloped nation leaders to go for foreign assistance and why the developed economy despite the fact they have surplus are willing to invest in a long-run investment which little or no chance of refunds?

The postulate of the idea of development assistance knows that the idea would inevitably lead to debt, over indebtedness and dependency.

The present debt situation in Nigeria is a severe test for the international financial system. For a while, they have been carrying excess baggage and bulging at the seams. It was a matter of time before compulsive borrowing got their economics into trouble.

Fourthly, does developing economy have debt department which will keep fully the figures both in their country and with the borrowers account? Under the current situation of traditional mechanism of debt reduction and rescheduling, were it to be put to use in full, would be an inadequate solution and even concenssional financing has become meaningless.

Finally, in the event of outright cancellation of the debt owed to foreign countries and international organization, what use will the extra money be put, having in mind the record of the country squandering money on military worse still, corruption, instead of health and education which will bring growth and development. And they are yet to be weaned of their love of grandiose projects, which got the country into trouble.

More over, the rapid expansion in development programmes and changes in the macro economic environment are reflected in the increase in domestic debt. Moreso, the practice of rolling over of previous debt. In addition, the decline in oil earnings has been identified as the major factor responsible for the large size of the country total debt.

1.3 OBJECTIVES OF THE STUDY

The fundamental purpose of this thesis is to show that, within the context of Nigeria's economic growth and development effort, financial development with respect to both internal and external debt system, domestic and foreign debt has aided investment, Gross domestic product, Exchange rate, interest, and economic development to a greater extent than is generally recognized.

In other words, this thesis strives to explore and analyze critically the structure of Nigerian internal and external debt and to see to what extent has helped public and the nation image and confidence.

The study is aimed to concentrate on the application of principles, standard and strategies of the Nigeria debt, with a view to resolving a few key questions, and the extent to which these debt have contributed to the growth, development, Gross Domestic Product (GDP), internal rate, commodity price, exchange rate and investment process in Nigeria.

The study also aim at observing the various implications of various debt in economic growth and development

The conclusion of this thesis are directed towards finding way out and in restoring the health of the Nigeria economy after its deterioration and the extent to which Nigeria's external and internal debt management instruments are coping with the damage control and finally to proffer suggestions that may complement current efforts and reducing the debt stock and steering the country to the path of economic growth, sustainability and self sustenance.

1.4 SIGNIFICANCE OF THE STUDY

The original goal of writing this thesis:

The Economic impact of national debt on growth and development is to create current and complete, enough operational knowledge of the implications of national debt on the economy and to combines theory and applications and is sufficiently self contained for use in follow-on case courses.

Moreso, the study also serve as a pre-requisite for the completion of the programme and therefore intends to show the clear understanding and assimilation of the student concern.

It is also paramount to note that this research work reveals areas such as:

(i) The linkage of the Nigeria's internal debt and external debt management strategy

(ii)And the sustainability of this debt, Growth, control and management which goes beyond reasonable doubt to assist government in Managing both internal and external debt of the country.

1.5 HYPOTHESIS

H_1 That external borrowing supplement domestic savings would stimulate economic activities, in particular production, which in turn would lead to increase in output and accelerate the growth of the economy.

H_2 That the nation is heavily indebted, were borrowing indiscriminately without an accompanying capacity for repayment a situation which led to a growing debt burden and decline in investment.

H_3 That there is an implied correlation between economic growth and debt.

H_4 That the total debt of the nation is known.

H_5 That the total debt of the nation is not known

Finally, that, the nature and structure and composition of the nation debt crisis in the country was occasioned by a medley of factors and that a reversal of the phenomenon calls for an appropriate multi-dimensional approach, and the best combination of which may be:

(i) a more efficient use of existing and new resources
ii) the need for more foreign resources for investments.

1.6 SCOPE OF THE STUDY

This thesis intends to focus and placed much emphasis on the structure nature, composition and causes of Nigeria total debt and to observe the impact of this debt on growth and development, and its management and control. Moreso, the study will observed the risk management, rescheduling of debt and various debt instruments and their Operational Mechanism.

Finally the research will extends to proffer solution on the appropriate debt management strategy and suggestion for further research work.

1.7 LIMITATIONS OF THE STUDY

Obvious constraints which are likely going to affect the study amongst others are the followings:

i. Time: Virtually time is always the primary limiting factor for any task, this research is no an exception, it suffers from the constraint of time considering the period under review and the time-lag for the submission of the research period.
ii. Data: The materials to be consulted for the compilation of such a research are always not easy to get, especially with secret nature of records and inertia attitude of people to supply the desired data. However, this does not means that the data obtained is insufficient, it is most adequate and has been judiciously used.

iii. Finance: As the research involved a lot of travelling from one place to another to gather materials no doubt therefore, funds are required and even when the funds are

1.8 DEFINATION OF TERMS

1. **Borrower(or Debtor):** The organization which is responsible for servicing of debt.

2. **Bretton Woods :** The intergovernmental agreement reached at a conference held at Briton Woods, New Hampshire, during the summer of 1944 that led to the establishment of the *International Monetary Fund (IMF)* and the International Bank for Reconstruction and Development *(IBRD),* often referred to as the *World Bank.*

3. **Buy-back:** The purchase by a debtor of its own debt, usually at a discount. The debtor reduces its obligations while the *creditor* receives some payment. Although in contravention of standard commercial bank loan agreement, a debtor government may buy back its own debt on the *secondary market.*

4. **Cancellation:** An agreed reduction in the *un-disbursed balance* of a loan commitment Compare *write-off.*

5.**Consolidation period:** In a debt restructuring agreement, this is the period of time during which *debt service* payments are to be consolidated and *rescheduled* or *deferred.*

6. **Currency Swap:** An agreement to swap the *debt servicing* liability of a *loan* with repayments due in one currency with that of a *loan*

with repayments due in a different currency. This can help debtors achieve a closer balance between foreign exchange receipts and payments denominated in different currencies. The mechanism provides protection against losses caused by exchange rate fluctuations.

7. **Cut-off date:** This is the date that separates loans that are eligible for *rescheduling* from those that are not. An agreement may *schedule all debt service* on loans contracted before January 1, 1992 (the cut-off date). *Lenders* attach considerable importance to the maintenance of the original cut-off date in subsequent *debt re-negotiations* so as not to put new lending at risk *re-scheduling,* and *borrowers* recognize this as being in their interests too.

8. **Debt Restructuring:** Any action by a creditor that officially alters the terms established for repayment in a manner that provides a reduction in near-term debts service obligations (debt relief).
This includes buy-backs, debt and debt service reduction exchanges, *forgiveness, rescheduling,* rephrasing and *refinancing.*

9. **Debt service:** All payments made against the loan, that is, *principal-repayments* plus *service payments.* One must distinguish actual from scheduled debt service payments: the latter are the principal and interest payments that are contractually required to be made through the life of the debt. The "actual payments" are those that, infact, were executed.

10. **Deferred payment:** Specific debt service obligations that a creditor agrees to

permit the debtor not to pay, pending the negotiation of a *debt restructuring* agreement.

11. **Gross national Product (GNP):** The measure of the total domestic and foreign output claimed by residents of an economy, less the domestic output claimed by nonresidents. GNP does not include deductions for depreciation.

12. **Hedging:** The process of controlling the risk of adverse effects of external price fluctuations. It is not aimed at improving relative prices, rather at limiting the impact of drastic change. The three external type of change that can cause adverse conditions are: exchange rate fluctuations, interest rate fluctuations, and commodity price changes. Hedging techniques involve the use of futures and options trading, and currency swaps and interest rate swaps.

13. **Interest Payments:** Payments made in accordance with the contractual-terms of *loan* that specify the rate of interest that are to be applied, and the way in which the interest is to be computed. The loan may have fixed or variable interest rates.

14. **Long-term external debt:** Debt that has an original or extended maturity of more than one year.

15. **Maturity:** The *debt service* amounts to be paid on a particular date. Final maturity date is the date of the last payment due on the loan. Maturity period is sometimes used to denote the entire period over which *principal-repayments* are being made for the *loan*.

16. **Non-consolidated debt:** This is debt that is wholly or partly excluded from *rescheduling*. It has to be repaid, or close to, the terms on which it was originally provided.

17. **Paris club:** This the forum in which debt restructuring has been provided since 1956 by official creditors.

18. **Political risk:** The risk of actions by the government of the borrowing country that prevent, or delay, repayment.

19. **promissory note:** A written promise to repay a loan (with or without interest).

20. **Public debt:** The external obligation of public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies.

21. **Reschedule:** A scheme of debt restructuring in which some or all debt-service falling due during a defined period (the consolidation period), possibly including amounts in arrears at the start of the period, will be consolidated and repaid on new terms. Effectively, the amounts involved form the outstanding amount of a new loan with terms defined at the time of the rescheduling. The rescheduled amounts may include both principal and capitalized interest. Rescheduling debt is one means of providing a debtor with a period of reduced debt service, as a means to allowing economic recovery.

22. **Rescheduling agreement:** An agreement between a creditor, or a group of creditors to reschedule debt. The agreement may also include other debt restructuring strategies such as write-offs or swaps.

23. **Service payments:** Amounts actually remitted by the borrower to repay a debt

24. **World Bank Group:** The "World Bank" refers to the International Bank for Reconstruction and Development (IBRD) and its

affiliate, the International Development Association-(IDA). The "World Bank Group" consists of the
World Bank plus the International Finance-Corporation (IFC) and the Multilateral Investment-Guarantee Agency (MIGA). The World Bank Group's objective is to raise living standards in developing
countries by channeling financial resources from developed countries.

CHAPTER TWO
LITERATURE REVIEW

2.1 CHARACTERISTICS OF DEVELOPING NATIONS

It matters little what nomenclature we use to refer to the so-called "have-not" countries of the world. "Developing nations" or "less developed nations" they have also been and still may be, referred to as "emerging nations," impoverished nations," underdeveloped nations," "non-industrial countries," "Third world countries" and "non-aligned nations." Sometimes the grouping connotes military and political interests as well as economic conditions. In general, the terms noted above are used for nations in a low stage of economic development, regardless of their particular political institutions or military alliances. There are somewhere between 75 and 100 of such nations for the most part, they are located in the southern hemisphere-in Asia, Africa, and Latin America. Although they represent very diverse societies and cultures relatively new, some dating back to antiquity-they do share certain general characteristics.

Nigeria is one of such countries characterized by the grinding poverty of the great majority of its people. In Nigeria the annual per capital income is about 250[1]

The real poverty of millions of people who share our globe can scarcely be imagined by those living in more affluent societies.

Brilliant Analysis (1992) "Underdevelopment" a choosing terms is never an innocent activity. Words are laden with values, interest and prejudices and basically called for concern and the issue of development assistance. "Development assistance" because of its postulate, is deem more appropriate for implementation as its call for over dependency and total indebtedness.

Economic gab do exist between the saving surplus individuals and the saving deficit individuals and among saving surplus nations and saving deficit nations and this is actually growing rather than diminishing. What are the problems associated with this great desperity?

* Source: Statistical Abstract of the United States, 1975, data from organization for economic co-operation and Development and World Almanac for 1976.

2.1.0 THE PROBLEMS OF DEVELOPING COUNTRIES:

2.1.1 OVERPOPULATION AND LACK OF HUMAN CAPITAL.

Most less developed Economic suffer from high rates of population growth. Even though they may experience some increase in economic growth, the increase in population cancels out its benefits. The economic pie becomes larger, but not large enough to satisfy the needs of the growing number of people who must share it. There is no doubt that economic growth itself contributes to over population-which in turn steals away its benefits. Economic growth generally means better living conditions and improved health care. More children survive to breed more children. Death rate of adults also decline, thus adding to the size of the population, Birth control and family planning.

In addition to the problem of over population, however, there is the problem of "population quality" we refer to the "economic quality of a people, not of its (human and cultural quality). Most developing nations are meagerly supplied with human capital. Their people are generally without the educational advantages necessary to develop skills needed for a viable and growing economy-especially a modern industrial economy literally, without which very little human capital can be developed.

2.1.2 LACK OF CAPITAL FORMATION

Economic growth is impossible without capital goods such as factories and machinery. As we also know, the funds for such goods comes from investment of an economy's savings. But people can save only if they have more than enough income to meet their day-to-day needs. How can people accumulate capital for investment in the tools of economic growth when they can barely meet their own subsistence needs?

2.2 .0 DETERMINANTS OF ECONOMIC GROWTH

2.2.1 HUMAN RESOURCES

a) **population quantity:** The size of a nation's population can itself be a source of economic growth. All else being equal, the greater the population or more precisely, the labour force. The greater will be the nation's productive capacity. More human resources means more production and more capacity to consume production.

b) **Population Quality:** Education and health are the two major determinants of Human resource quality. Investment in education and health is investment in the basic source of all wealth-human capital. No human being is born knowing how to make a living. Human being must be educated and trained to the economy's productivity and hence to partake of its goods and services. A nation's growth depends not only on the quality of its labour force, but equally or even more on it quality. Quality can be obtained and maintained only if a nation invests and continues to invest in the education and training of its people. Investment in good nutrition and prevention and control of disease will produce dividends in greater output per worker and, of course, in the social stability of the nation as a whole. The good health, physical and mental, of an economy's work force labourer and executive alike is a prerequisite for sustained economic growth.

2.2.2 CAPITAL ACCUMULATION:

The accumulation of capital for investment in the economy's productive capacity is imperative to economic growth. Even the most skilled worker can produce little with bane hands. The need for tools and machines is obvious. And capital is needed to produce tools and machines.

DAVID RICARDO (1823) Capital accumulation comes from that portion of a society's wealth that is saved - that consumption of goods and services capital accumulation later can comes from:

(i) Capitalists profits or,

(ii) The nation's aggregate savings.

The problem, of course, is how to accumulate enough savings to invest in economic growth?

A nation may attempt to force its citizens to save for capital investment. It may force reduction of immediate consumption by lowering or eliminating production of certain consumer products, or, through monetary and fiscal policies, it may make the cost of such goods prohibitive. But such measures are difficult to take and enforce, especially in democratic nations. In Nigeria, consumption is already low that further reduction could result in starvation. Therefore, certain level of consumption is considered more appropriate to maintained as an incentive to produce. Thus, forced saving for capital investment should always be avoided except as temporary expedients to meet temporary crises. Capital accumulation may be increased by raising interest rates to encourage people to save. But caution is necessary as high interest rates to savers also mean high interest rates to those who borrow this money for capital investment. If rates rise too high, investment may become too costly for profitability. Investment may cease and economic growth come to a halt.

Government may take certain actions to help increase capital accumulation for investment, e.g. it may offer task incentives to those who invest. The device of tax reduction on corporate profits used to invest in new production capacity has been a powerful stimulant to capital accumulation in Nigeria.

An economy may also accumulate capital from outside sources. That is, it may borrow from foreign governmental or private sources, of course, such funds must eventually be repaid and repayment may then contribute to a slowdown in economic growth. This is the point of the research objectives and discussion and of course the basic of the research work. Why a Country like Nigeria borrow ?

2.3.0 DEBT OF A NATION AND GROWTH AND DEVELOPMENT.

The debt of a nation constitute mainly domestic and foreign debt.

2.3.1 DOMESTIC DEBT

Otherwise known as internal debt of a country it consist of debt instruments publicity issued through the monetary authority of the country (the Central Bank). Direct government borrowings or overdrafts from deposit money banks, and outstanding contractual obligations of the country such as debt owned to contractors or suppliers. In a country such as Nigeria, inadequate data would preclude analysis of the exact magnitude and composition of the direct borrowings and overdrafts from banks and debts owed to contractors.

2.3.2 SOURCES OF DOMESTIC DEBT

According to Gbosi (1995) since the liberalization of the financial sector, there has been major structural changes in both the Nigerian money and capital markets. These structural changes are seen in the rapid growth of the number of institutions and instruments used in these markets. For example, the ownership structure of Government securities had changed significantly since the period, 1986-1993.

Since the early 1980's Nigeria has contracted a large number of debt obligations from both internal and external sources. For the purpose of this thesis, however, the focus is on both Internal and External. In Nigeria, the internal sources of public debt are the Central Bank of Nigeria (CBN), the commercial banks, the merchant banks and the non-bank public. Insurance companies, savings institutions, state and local governments statutory boards and corporations and institutions are few examples of the non-bank public.

The ownership structure of Government securities has been changing since the period, 1986-90. As earlier mentioned, the Nigerian Government has been incurring more domestic debts to finance its various programmes. In recent years, however, commercial and other business interests have been less willing to invest in Treasury Bills and certificates. For example, the share of Government debt instruments held by the Central

Bank increased from an average of 63.9 percent in 1981 - 1985 to 80.0 percent between 1986 and 1990. The balance of 19.2 percent was held by commercial and merchant banks as well as the non-bank public.

The data in Appendix A. Table 2 clearly shows that the CBN still remains the largest creditor of the Federal Government. It is important to know that domestic debts are usually contracted through instruments such as Treasury Bills, Treasury Certificates, Government Development Stocks, just to mention a few. The CBN usually underwrites these instruments on behalf of the Federal Government. Since the shift to the indirect approach of monetary control, the new arrangement is to transfer the underwriting functions of the CBN to discount houses. The main instrument to be widely used under the indirect approach of monetary control is open market operations. According to Ojo (1993), the concept of indirect monetary control involves the control of the Money stock through mainly a manipulation of the monetary base.

The domestic debt of Nigeria is administered and managed by the central bank of Nigeria (CBN) through the issue of government debt instruments which consist of:

i) Nigerian treasury Bills
ii) Nigerian Treasury certificates
iii) FGN Development Stocks
iv) Treasury Bonds and
v) Ways and means Advances.

Domestic debt is employed to provide temporary or bridging finance to government pending the receipt of revenue. In addition, it could be used to finance budgetary gaps the level of domestic debt in Nigeria has been and still is largely due to the financing need of the Federal Government as a result of excess of government expenditure over the actual or realized revenue over the years. As the domestic debt outstanding increased, the need for its proper management in terms of its structure, effect on Government (debt service) and implications for monetary policy become paramount. However, because the CBN is

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the underwriter and major holder of the debt instruments its ability to manage the resultant liquidity surge in the face of administered interest rates is compromised.

2.4.1 GROWTH OF DOMESTIC DEBT INSTRUMENTS

Pattern of growth of domestic debt :

(a) DEVELOPMENT STOCKS.

The history of development stocks dates back to the colonial era when the first registered debt stocks of 1956/1961 was floated by the British colonial administration in 1956 for N600,000 (then £300,000). The first development loan stock of N4.0 million (£.0 million) was issued by the Central Bank of Nigeria in May, 1959 on behalf of the Federal Government with a high subscription of N4.7 million (£2.35 million). All the subscriptions were eventually accepted. This stock was christened the Federation of Nigeria Development Loan Stock 1959-1962. When the country became a Republic in 1963 the name became the Federal Republic of Nigeria Development Loan Stock. Thus, four Federation of Nigeria Development Loan Stocks (1959-1962) and twenty-five Federal Republic of Nigeria Development Loan Stocks (1963-1987) were floated on an annual basis for these 29 years. It was customary for the Federal Ministry of Finance to send proposals on Government funding requirements to the CBN after the release of the annual budget. The CBN would package the issue in terms of the number of branches tenor and coupon rates before the floatation and quotation at the Nigerian Stock Exchange.

i) Levels.

The level of development stocks outstanding in 1970 had risen to N299.0 million with the Federal Government utilizing these funds partly for its own development finance and partly as loans on lent to the State Governments. In 1980, development stocks outstanding amounted to N3,069.0 million and accounted for 38.7 per cent of the total debt stock. This upward trend continued till 1987 when development stocks outstanding peaked at N4,909.0 million.

Thereafter the stocks started to decline as no new stocks had been floated since 1988 rejecting the Federal Government's decision in that year to stop floatation of the stocks (see Appendix A. Table1). While State Governments were advised to source funds directly from the capital market the Federal Government found it convenient to rely solely on funding through the use of ways and means advances with little regard to its implications for breach of statutory limits and monetary stability.

The standing policy of redeeming development stocks as they matured has resulted in the steady decline of total outstanding from the peak of N4,909.0 million in 1987 to N3,170 million 1995. The redemption of maturing development stocks was facilitated by the maintenance of sinking fund accounts for the purpose in the CBN.

The Federal Government makes fixed payments into the fund bi-annually as predetermined at the time of the floatation of the stock. The sinking fund is structured so as to provide at least 75 per cent of the principal sum of maturity date. The contributions are invested in own stock or other stocks. These are realized on maturity date to fund the redemption. Any shortfall is then recovered from the FGN by debit entry into the sub-Treasury's account with CBN.

ii) Statutory Limit

The statutory limit on development stocks outstanding was set by the Internal Loans Act, 1962 which itself was subject to the Local Loans (Registered Stock and Securities) Act or the Government Promissory Notes Act, 1960. The 1962 Act empowered the Minister of Finance to raise loans in Nigeria not exceeding in aggregate, the sum of N200 million (then £100 million) for development programme and on lending to the States (than Regions). The Internal Loans Decree, 1968 removed the statutory limit. Thus, at present, the only statutory control on stocks is in respect of holdings by the CBN. The Finance Decree No. 32 of 1969 limits CBN's holdings to 75 percent of the Bank's total demand liabilities. Over the years, the statutory limits on the issue of development stocks and its holding by CBN had been observed.

(b) Treasury Bills

Treasury bills were first introduced in Nigeria in April, 1960 primarily to develop the money market and create an avenue for investment of short-term funds.

Immediately after independence, there was an urgent need to provide the service of financial markets for investment funds. One of the main objectives of setting up the local money market through the development of appropriate environment and floatation of financial instruments such as Treasury bills was to stem the outflow of funds into investment outlets in the London money and capital markets. It was also expected to encourage the repatriation of overseas assets which financial intermediaries had maintained abroad in the absence of an organized domestic money market. In addition, it was realized that effective monetary management by the monetary authorities would be enhanced by the development of an efficient domestic money market. This would help to stop the leakage's which the investment of domestic funds in the London market represented. It would also enhance the control of money supply in the economy.

The first issue of Treasury bills of N8.0 million (£4 million) was made in April, 1960 with a maturity of 91 days at a discount rate of 4.5-8 per cent per annum. Being a short-term (money market) instrument, the tenor of Treasury bills has remained 91 days at a discount rate on the bills which was determined administratively until 1989 had varied. From November 1989, the discount rates at which Treasury bills were issued like other traded domestic debt instruments, were liberalized and became market related in consonance with the policies under the Structural Adjustment Programme until 1994 when Government policy reverted to a fixed interest rate regime.

In the early years, the denominations of Treasury bill issues were in multiples of N2,000 but later reduced to N1,000 subject to a minimum subscription of N10,000 per tender in a bid to encourage wider patronage. Authorized dealers, namely, commercial and merchant banks were however allowed to submit more than one tenure. This can either be for the

bank itself or on behalf of interested members of the non-bank public who can only apply for the debt instrument through their banks.

i) Levels

At the end of 1960, Treasury bills outstanding amounted to N18.0 million and represented 77.3 per cent of the total domestic debt. At the end of December 1970, Treasury bills outstanding was N556.0 million, and by 1971 the level of Treasury bills outstanding had peaked at N616.0 million. This level was maintained until 1977. The decision not to issue new Treasury bills resulted from the boost in government revenue in the mid 1970s as revenue from the oil sector improved substantially. As soon as there was a decline in revenue from this source, government reliance on credit from the Central Bank through the issue of Treasury bills resumed. At the end of December 1980, Treasury bills outstanding had jumped to N2,119.0 million and accounted for 26.8 per cent of the total domestic debt. The upward trend in the level of Treasury Bills outstanding continued throughout the 1980s into the 1990s. At the end of 1993, Treasury bills outstanding had attained its current level of N103 billion and had remained at that level up to December, 1995 (See Appendix A-E Tables 2, 3,6 and 7).

Three major factors accounted for the growth of Treasury bills. These were the reliance by the Federal Government on the issuance of Treasury Bills for financing its budget deficits as financial pressures mounted; the practice of roll-over whereby matured Treasury bills were liquidated by re-issuing new ones; and the mode of debt service, budgeting and funding.

2.4.2 Debt Service

In the late 1980s, provisions for domestic debt service were only nominal and barely covered debt service charges for Development stocks only. No provisions were made to cover other securities. When the Central Bank serviced external debt obligations and settled internal debt charged as they became due on behalf of the Federal Government, it charged the outlay to the account of the Federal Government. Because there were no funds provided for this expenditure, the credit translates into further increase of the Ways

and Means advances to the Government. At the end of the year, if fund were provided to defray the ways and means advances, special issues of domestic debt instruments, such as Treasury bills or certificates were usually floated to refinance the credit that arose from these debt obligations. Thus, the growth in Treasury bills and certificates reflected the accrued service charges for both the external and domestic debts of the Federal Government.

i) Statutory Limit

The amount of Treasury bills outstanding at the time was subject to statutory limitations. However, over the years, the limits had been revised upward many times and eventually abandoned. This was in the face of acute financial difficulties the country experienced in the late 1980s following the collapse of the oil market and the consequent sharp decline in government revenue from the oil sector. The Treasury Bills Ordinance of 1959 which authorized the issue of Treasury bills outstanding at any time shall not exceed 10 per cent of the estimated revenue of the Federal Government. The Treasury Bills Ordinance of 1961 revised the amount of Treasury bills that could be outstanding to 20 per cent. This limit was further increased to 40,50,85 and 100 per cent between 1962 and 1969. In 1970, the statutory limit was re-defined and raised to 150 per cent of the estimated retained revenue of the Federal Government and the gross revenue of the States.

C) **Treasury Certificates**

The history of Treasury certificate is similar to that of the Treasury Bills. Treasury certificates were introduced in 1968 to further deepen the domestic money market by increasing the short-term investment options available Treasury certificates are short-term debt instruments with longer tenors than Treasury bills. Currently, there are to tenors: one and two-year maturities. Treasury certificates could e issued for other tenors such as 180 days (6 months), 270 days (9 months) or 540 days (18 months).

i) Levels

The first issue of Treasury certificates of N20.0 million was made in 1968 with the Central Bank holding only. 1.0 percent while commercial banks accounted for 96.0 per cent. The non-bank public accounted for 3.0 per cent of the total issue. The amount of Treasury certificates outstanding rose to N286 million in 1972 and accounted for 21.8 per

cent of total domestic debt. During the 1970s, the Federal Government decided not to raise funds through the issue of Treasury certificates and to redeem all maturing ones as a result of its buoyant revenue position. This brought the amount of Treasury certificates outstanding to N228 millions in 1975 while its share of domestic debt declined to 12.2%. When the financial pressures re-occurred from the late 1970s, the Federal Government resorted to increased utilization of short-term loans to finance its budget deficit. Consequently, the amount of Treasury certificates outstanding increased persistently from N652 million or 24.2 per cent of domestic debt in 1976 to N6,944.6 million or 12.2 per cent of domestic debt outstanding in 1989. As a result of the special issue of N27,000.0 million in 1990 the amount of Treasury certificates outstanding rose phenomenally to N34,214.6 million and accounted for 40.7 per cent of the total domestic debt. At the end of 1991, Treasury certificates outstanding stood at N34,214.6 million as no new issues were made during the year, its share of total debt stock, however, dropped to 29.4 per cent (see Appendix B,C and D Tables 4,5,6 and 7).

Statutory Limit

Like Treasury bills, the amount of Treasury certificates outstanding at any time is also subject to statutory limitation. For Treasury certificates, the statutory limit was fixed by the Treasury Certificates Decree 40 of 1968 at a maximum of 60 per cent of the estimated gross revenue of the Federal Government. This limit was maintained until the special issue in 1990.

(d) Treasury Bonds

The introduction of Treasury bonds in 1989 as a debt management strategy was unique. The objective of this new instrument was to minimize debt service payments rather than provide deficit finance to meet budgetary gaps. In consonance with the policy of interest rate deregulation adopted under SAP, the monetary authorities introduced the auction system for the floatation of Treasury bills and certificates in November, 1989. The expected upward movement in the discount rates, and by implication higher debt service cost to the Federal Government, prompted the CBN to find a way of mitigating the impact. It was therefore decided that N20,000 million of the Treasury bills outstanding be

converted to low interest bonds. The bonds styled the "Five Per cent Federal Republic of Nigeria Treasury Bonds 2004-15" are to carry a fixed interest rate of 5 per cent to be wholly held by the Central Bank. A sinking fund was to be established for the redemption of the bonds on the same basis as development stocks. A tenor of 15-25 years was proposed for the various trenches. Redemption would commence from February 15, 2004. Thereafter, one trench would be due for redemption each year until the year 2015 when the last issue would be redeemed.

i) Levels

At the end of 1989, Treasury bills worth N11,350 million or 19.9 per cent of the total domestic debt had been converted to Treasury bonds of the Federal Republic of Nigeria (FRN). In 1990, the balance of N8,650 million were further converted to Treasury Bonds, bringing the amount of Treasury bonds outstanding to N20,000 million or 23.8 per cent of the total domestic debt. The introduction of Treasury bonds outstanding was to mark the beginning of a new dimension in CBN/Government relationship on debt service charges. Government deficits increased phenomenally at levels which the money market could not absorb. Government also expected the CBN to continue to convert these deficits at the end of each year into bonds at unattractive low rates of interest.

It is therefore not surprising that the value of Treasury bonds outstanding has grown dramatically from N20 billion in 1990 to N237.34 billion in 1995. Given the balance of N23.6 billion outstanding Treasury certificates and the Ways and Means advances of N74.20 billion outstanding for 1995 which are awaiting conversion to bonds, the total value of Treasury bonds outstanding would exceed N334.5 billion. This total represents about 75 per cent of total domestic debt outstanding (see Tables 6,8 and 9).

(e) Ways and Means Advances

Ways and Means Advances are not debt instruments that can be traded in the money market. Rather, the facility represents an overdraft provided by the Central Bank to meet the cash-flow problems of the Federal Government. For instance, when the budget is announced, the Federal Government normally projects its revenue for the year. At best, receipts of such revenue would not be realized until after some time during which

government activities are expected to be performed. There is therefore the need for some credit facility which, in principle, should be settled once the revenue starts to flow in.

The Central Bank of Nigeria Act 1958 (CAP, 30 as amended) mandates the CBN to grant temporary advances in the form of "Ways and Means" to the Federal government up to 25 per cent of the estimated recurrent budget revenue. The statutory limit was revised downward in the CBN Decree 24 of 1991 to 121/2 per cent of the estimated recurrent budget revenue as ways and means advances to the Federal Government. The Advances are expected to be liquidated at the end of each fiscal year. In practice, however, the statutory limits had not been adhered to mainly because it has not been feasible to reject Federal Government cheques once they are issued. The Central Bank has always refinanced these advances by either floating Treasury bills or certificates after the end of the fiscal year. In recent years, balances on the Ways and Means advances account have been converted to Treasury bonds at sub-optimal rates of interest.

2.4.3 OWNERSHIP AND MATURITY STRUCTURE OF DOMESTIC DEBT

i) Ownership

There are four classes of holders of government securities. These are the commercial and merchant banks, the Central Bank of Nigeria, and the non-bank public. Non-bank public holders of government securities comprise a wide range of private and public institutions as well as individual investors such as insurance companies, savings-type institutions, state and local governments, statutory boards and corporations and individuals. Over the years, 10 per cent of the holdings by commercial and merchant banks are insurance companies of short-term securities, such as Treasury bills and certificates, represent statutory holdings. The holdings are part of the regulatory measures aimed at ensuring that these institutions maintain adequate liquidity levels required for the safe operations of their businesses. During the first two decades of independence, the ownership structure of domestic debt instruments was dominated by the non-bank public. However, from 1978, the instruments by the Central Bank became prominent as the Federal Government

relied more on these instruments to raise short and long term finance for its budgetary needs and on-lending to State Governments. At the end of 1960, domestic debt instruments held by the non-bank public amounted to N16.1 million and accounted for 69.1 per cent of the total debt stock outstanding. Commercial banks holdings totalled N4.5 million or 19.3 per cent while the Central Bank absorbed only N2.7 million or 11.6 per cent. The pattern of holdings continued until the mid 1970s. For instance, between 1960 and 1977, holdings of debt instruments by the non-bank public average 52.1 per cent; commercial banks and the Central Bank accounted for 26.8 per cent respectively, while merchant banks absorbed only 0.4 per cent.

From 1978, however, the ownership structure of domestic debt instruments became dominated by the Central Bank as commercial and merchant banks reduced their holdings substantially. For example, between 1978 and 1991 the Central Bank's relative holdings of government securities averaged 52.2 per cent; holdings by the non-bank public averaged 24.3 per cent while merchant banks accounted for 1.5 per cent. The share of CBN has further grown to 75 per cent of the total outstanding because CBN had been the sole subscriber to the issues of over N237 billion Treasury bonds since 1991.

The high level of holdings of domestic debt instruments by the CBN from 1978 resulted from many factors. These factors included the tendency by commercial and merchant banks, in the 1960s and early 1970s, to invest in government securities only when there was high liquidity in the economy and other promising investment options were few. Federal Government reliance on the issue of Treasury bills and certificate to finance its budget deficit tends to increase the holdings by the Central Bank which is obliged to underwrite the unsubscribed portion of any issue. Of importance too is the relatively low interest rates paid on government securities compared with interest rates on alternative money market instruments. The problem became acute in the wake of the operation of deregulatory policies since 1986 (see Appendix A- F Tables 1-9).

ii) Maturity

In the first three decades after independence in 1960, short-term debt instruments accounted for 64.6 per cent of the domestic debt outstanding. Between 1960 and 1970, the relative share of short-term debt instruments of not more than 2 years maturity ranged between 37.0 and 77.3 per cent and averaged 53.9 per cent. The share of long-term loans of 10 years maturity and above ranged between 11.6 and 50.9 per cent and averaged 36.7 per cent in the same period. Debt instruments of 2.5 years maturity accounted for an average of 4.1 per cent while debt instruments of 5 to 10 years maturity accounted for an average of 5.3 per cent of the total debt stock.

Between 1971 and 1980, the share of short-term debt instruments of not more than 2 years maturity ranged between 46.4 and 72.2 per cent and averaged 58.8 per cent. The share of long-term debt instruments of 10 years and above ranged between 24.5 and 45.7 per cent and accounted on the average for 34.3 per cent of the total debt stock. Debt instruments of 5-10 years maturity accounted on the average for 2.1 per cent while debt instruments of 2.5 years" maturity on the average absorbed 4.8 per cent.

Between 1981 and 1991, short term debt instruments of not more than 2 years accounted on the average for 80.5 per cent of the total debt outstanding. In 1988, such instrument absorbed an exceptionally high proportion of 90.7 per cent. Debt instruments f 10 years maturity averaged 3.0 per cent of the debt stock. The high growth in the level of short-term debt instruments during these periods reflected the continuous re-issue of maturing ones and the utilization of short-term finance to meet the budgetary needs of the Federal Government. The pattern changed from 1991 with the magnitude of the Treasury bonds issued to finance the high levels of government deficits. In absolute terms, over N213.94 billion Treasury bonds or 51.2 per cent of domestic debt outstanding have been issued. Further conversions of outstanding Treasury certificates and Ways and Means advances for 1995 would further increase Treasury bonds to over 75 per cent of government securities outstanding

2.4.3 DOMESTIC DEBT MANAGEMENT

Gbosi (1995), available data shows that in recent years, one of Nigeria's major macro economic problems is the larger size of its domestic debt. This is not good for the health of a developing economy like Nigeria. To this effect, the Nigerian Government is now considering alternative ways to manage its domestic debt. It is important to know that debt management studies fiscal and monetary policy.

Specifically, the need to manage debt arises from the desire to minimize its burden on the economy which arises largely from deficits of fiscal operations. The way in which domestic debt is managed has important implications for the overall strategy of monetary policy.

In Nigeria, the management of the domestic debt is the statutory obligation of the CBN, Specifically, the CBN is entrusted with the issue and management of Federal Government loans publicly issued in Nigeria.

The responsibility for the management of Nigeria's internal debts is entrusted to the Central Bank of Nigeria under Section 35 of the CBN Ordinance of 1958 which states that "the Bank shall be entrusted with the issue and management of Federal Government Loans publicity issued in Nigeria upon such terms and conditions as may be agreed between the Federal Government and the Bank".

The service functions of the Bank with respect to debt management are fourfold, namely:

(i) advising the government as to the timing of floating of debt instruments and terms of issue:

(ii) Advertising for public subscription to the issue;

(iii) collecting the proceeds of issues on behalf of the government, supervising and issue of certificates and warrants and maintaining proper books of accounts in respect of receipts and disbursements; and

(iv) payment of interest and principal on due dates and managing the sinking fund set up to facilitate the redemption.

The CBN is therefore required to play important roles in the primary and secondary markets for securities issued in respect of government debts. In the primary market, the Bank plays the role of the "Issuing House" and "underwriter" for government securities while in the secondary market the Bank operates as "Registrar" and "market maker" by making securities available for trading in the secondary market and offering re-discounting facilities for the market.

Before 1986, the major objective of domestic debt management in Nigeria centered on the need to provide corporate bodies with alternative investment outlets. This was an important move because such opportunities were absent in the private sector of the Nigerian economy. It was also aimed at restructuring the capital market and satisfying the Federal Government's needs for short-term financial accommodation CBN (1995).

As Gbosi (1993) observed, since 1986, the CBN has dramatically increased its holding to the Federal Government. This was done through ways and means advances which averaged N1,708.8 million a month in 1986 compared with N798.5 million in 1985. He also contended that a large proportion of Government debt obligations was unloaded by commercial and merchant banks on the Central Bank in an effort to augment their cash position during the year 1986. Treasury Bills rediscounted with the Central Bank amounted to N8.8 billion while sales of N2.1 billion were made in place of unvalued Treasury Bills. However, new Bills worth N8.9 billion or 81.8 per cent of the amount. The CBN took up N0.7 billion or 81.8 per cent of that amount. In 1985, this stood at N28.7 billion or 44.2 percent of that amount. In 1985, this stood at N28.7 billion or 44.2 percent. During the year 1986, the CBN's holdings of debt instruments outstanding amounted to N1.8 billion while it was N5.2 billion in 1985. Its holding of Treasury certificates, however, rose from N3.7 billion a year earlier to N4.5 billion CBN (1986).

During the period, 1987-90 much attention was also given to the management of domestic debt. Specifically, domestic debt management was tackled by a sharp increase

in accommodation in Treasury Bill in 1987. This was followed by moderate increased in holdings in Treasury Certificates and Development Stocks. But there was a decline in monthly average level of ways and means advances which decreased from N1,708.4 million in 1988 to N888.6 million in 1987. But in 1988, the CBN held 80.3 percent or N3,383.8 million of the total debt stock. This represented an increase of 23.3 percent or N8.150.7 million of the 1987 level. On the whole, the CBN new lending to the Government in 1988 was made by ways and means advances which averaged about N5,279.6 million per month compared with N779.4 million in 1987 CBN (1988).

The problem of debt management continued to pose various challenges to both Budgetary formulation and implementation in Nigeria during the period, 1991-93. The debt service here was in two categories. First, we have the debt owed to local customers. In the second category we have loans by way of debt instruments. Specifically, the debt owed to local customer arose from the inability of Government Agencies to settle bills for work done as and when they feel due. Others arose from making down payments without additional funds to meet contractual obligations. The exact amount of debt owed to local customers were not immediately determined in 1993. To this effect a committee was set up in the Ministry of Finance in 1993 whose primary function was to compile total out-standing instruments due to the local customers. However, a sum of N1.0 billion was set aside to liquidate part of the debts owed to local customers.

The internal loans by way of debt instruments arose from the need to liquidate the ways and means (credit facility granted to the Federal Government by the Central Bank of Nigeria) at the end of each fiscal year. During the period, 1991-93, there was little or no foreign capital inflow to finance the Government programmes. As a result of this development, the total internal loans by way of debt instruments stood at N116.2 billion at the end of the 1991 fiscal year. This was composed of Treasury Bills (N57.8 billion), Treasury Certificates (N34.2 billion), Treasury Bonds (N20.0 billion) and Development Loan stock (N4.2 billion). At the end of 1992, the total internal loans by way of debt instruments was expected to rise from N116.2 billion when the ways and means of N42.0

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billion for 1992 fiscal year was liquidated. The interest rate structure was deregulated and the rates on debt instruments were made to be sufficiently attractive to the non-bank public. The maturity structure of the domestic debt of the Federal Government is shown in the table below

MATURITY STRUCTURE OF THE DOMESTIC DEBT OF NIGERIA(END-PERIOD)

(N'OOOO) PERCENTAGE

Matrity	1993	1994	1995	1996	1997	1993	1994	1995	1996
Up to 2 years	140,351.8	141,059.2	103,606.5	103,604.4	221,804.5	53.8	54.4	41.6	30.1
2-5 years	610.0	1,130.0	850.0	850.0	850.0	0.2	0.4	0.3	0.2
5-10 years	1,050.0	1,830.0	1,210.0	18,120.0	18,120.0	0.4	0.7	0.5	5.3
over 10 years	119,081.8	115,341.7	143,108.0	221,099.7	118,253.7	45.6	44.5	57.5	64.3
TOTAL	261,093.6	259,360.9	248,774.5	343,674.1	359,028.2	100%	100%	100%	100%

The intended purpose was to reduce the reliance on high-powered money which could easily trigger-off the rate of inflation. The actual amount required to service internal loans by ways of debt instruments in 1993 could not be predicted because of continuous fluctuations in oil income. However, a sum of N16.9 billion was set aside for this purpose. Bullion (1993).

2.5.0 FOREIGN DEBT:

This type of debt help developing countries in solving the capital formation problems, the financing pattern of Foreign Debt is divided into three generally as:

(a) Foreign private investment

(b) Development aids (that is through foreign borrowing)

(c) International loan

2.5.1 FOREIGN PRIVATE INVESTMENTS

Historically, foreign private investment have been important sources of capital for developing nations, until comparatively recent times, such aid was more often than not primarily for exploitative rather than developmental purposes.

Private capital investments from foreign sources may take the form of money investment in an already established business or industry. Or the money may be used to set up a new firm, with as much managerial responsibility as possible being given to local residents. Sometimes, capital goods are sent directly to a developing nation, along with personnel to operate machinery and/or to train local people to do so. W. ARTHUR L. (1995).

A flow of private foreign capital may bring important peripheral benefits to less developed nations. Most such nations welcome private aid and are willing to do all that they can to encourage its continued flow. To encourage private foreign investment developing nations need to provide social capital and a stable political and economic climate. A stable economy and government and a citizenry mean higher productivity. Domestic economic growth feeds on foreign capital.

Foreign private capital investment, however, is not the perfect solution to the problem of capital accumulation in developing nations. Such investment also bring problems. Although political colonialism is more or less dead in our times, various forms of economic colonialism are still a possibility. Developing nations often find there is conflict between their own national interests and the profit motivated interests of the suppliers of capital.

In a few conflict a stark and obvious if the emerging nation is weak enough and its need for capital particularly pressing, foreign investors may come to dorminate the nations economy. They may exploit the nation's natural resources in much the same manner as did the earlier colonialist.

This is particularly true when the developing nation has a so-called "plantation economy" base. Foreign capital may be used to extract more minerals agricultural product from the land. But the work is done at the same low wages and in much the same manner as before infusion of the new skills, production per worker is not greatly increased, and almost all additional profits accrue only to the providers of the capital. A favoured few may share in these profits, but in some cases the profits are not reinvested, instead, the profits are shifted into other countries for investment. The nation as a whole eventually may suffer from depletion of its resources and the infusion of this new capital has a negative effect on the nation" economy. It makes real economic growth more difficult then ever.

Problems do arise out of foreign capital flows they are more subtle and complex. Too often the operation and maintenance of capital goods bought with foreign capital become the prerogative of foreign managers and workers local labour is employed only for how-skill and dead end jobs. Little or no attempt may be made to train and educate the local labour force and thus contribute to long-term economic growth of the developing nations. More so, foreign investors are likely to seek out established and profitable industries, in which to put their capital, in Nigeria, the oil sector of the economy often such industries are geared to products exported by the host country. Increased dependence upon export industries, conflicts with the developing nation's wish for independence from the economic and political pressures of the more advanced nations who are consumers of their exports.

Problems of foreign capital investment may more still, arise from that attitudes and actions of the host country, for example, the power of taxation may be used to increase capital accumulation in underdeveloped nations. But it may also be used to discriminate against the legitimate profit expectations of foreign investors. Host countries sometimes erect obstacles to the interest of the foreign investors business practices through regulations that restricts the flow of profits earned by the foreign investors.

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Some developing nations may deliberately lag in supplying social capital necessary for profitable investments, in addition, there may be official graft, and corruption and the threat that the host nation may nationalize the property of foreign investors. Thus problem lead to the second financing pattern of Development aids.

2.5.2 DEVELOPMENT AIDS.

Brilliant A. (1982). In the interest of the world order and their own self-interest, developing nations in search of economic libations would be offered commercial relationship, reinforced by technological and financial assistance, foreign governments also contribute to the social and economic capital accumulation of the developing nations. The United State for example, gives aid in the form of low-cost loans and outright grants to many developing nations; loans for capital improvements and technical assistance are made through there. Agency for International Development (AIDS). These are very long-range, low cost loans. Infact, the loans are often more like grants than loans. The receiving nation is seldom pressed for repayment and sometimes the loan is repaid in the overvalued currency of the developing country.

As with private foreign capital, the contribution of foreign governments to capital accumulation present problems for the developing nation.

Firstly, of course, there is the danger of political or military domination by the donor nation. In addition, foreign capital may be used unwisely and thus not contribute to domestic saving necessary for growth or it may be wasted on grandiose projects. Monumental government buildings, for example, that contribute little to economic expansion.

Finally, the developing nation may find itself so debt ridden that it dreams of economic growth is shattered in the cold down of near or actual bankruptcy.

2.5.3 INTERNATIONAL ORGANISATION.

Most foreign aid, however, is administered on a more business like and international basis-a good example is the international Bank for Reconstruction and Development was formed in 1944 at a conference of world leaders, commonly called the "WORLD BANK", it operates in a manner similar to commercial banks but for the express purpose of lending capital to under developed nations to stimulate economic growth.

The five largest contributors of funds or shareholders in the bank, are the United States, Great Britain, France, West Germany, and India. Other shareholders represent various blocks of nations throughout the world. Sometimes the bank borrow fund from world money markets at a low rate of interest and passes these funds along to the needy nation at a lower rate than they could likely receive elsewhere.

The World Bank also operates the International Development Agency (IDA). IDA loans are made to needy countries that have little or no short-range means of repayment. The loan extent for 40 years, with no repayment necessary at all for the first 10 years. There is a nominal service change for the loan, but no interest charge. The World Bank, through its affiliate, International Finance Corporation (IFC) also makes loans to private industries within developing nations for expansion beneficial to the economic growth of the nation.

World Bank loans are used for building social capital in the developing nation. However, there are problem with such loan policies. The World Bank has noted that even though the growth capacity has increased in those countries where loans are made, the very poor often are not really being helped.

2.6.0 DEBT MANAGEMENT STRATEGIES

Foreign borrowings allows a country to invest and consume beyond the limits of current domestics production and, in effect, finance capital formation not only by mobilizing domestic savings but also by tapping savings from capital surplus countries. Foreign

borrowing can lead to more rapid growth. However, if a country borrows abroad, it also must introduce debt management as a major policy concern. In appropriate and excessive foreign borrowing will generate debt service obligations that will constrain future economic policy and, so, growth.

The objective of debt management policy is to achieve the benefits of external finance without creating difficult problems of macroeconomics and balance of payments stability. It begins with a description of the financial flows from the industrialized countries to developing countries and to the newly independent nations of central and eastern Europe. It suggests institutional arrangements for efficient foreign borrowing, including the legal aspects of debt management.

2.6.1 OPTIMAL LEVEL OF BORROWING

Why borrow abroad at all, if it is fraught with danger? To answer this question, let us consider saving and investment in a closed economy with no foreign borrowing. If the economy was a centrally-planned socialist state, investment decisions would be made by the central planning authorities. Domestic savings would be generated from turnover taxes and from cash surplus of enterprises, and they would be allocated for investments-buildings, new machinery, improved roads, and so on-through decisions of the planning authorities. Allocation would reflect the state's priorities.

In a market economy, savings would be channeled into financial markets. Individuals and enterprises would place cash with commercial banks. The banks, in turn, would make loans, and part of the interest charge on their loans would be paid to depositors-the return on savings. When capital markets exist, government and enterprises can sell securities direct to the public and hence mobilize savings, and by-pass the banking system.

In a market economy, investment projects generate a financial rate of return, and it is worth while for enterprises to borrow if that return is equal to (or exceeds) the market rate of interest. Enterprises would rationally make investments starting with the one offering

the highest rate of return, moving on to the next highest-yielding project and so on. It would continue investing until the yield on its final project was no greater than the market interest rate. For any projects with a lower yield, borrowing would mean a loss to the enterprises.

Government borrowing is more complex, since its services do not necessarily yield a financial rate of return. There is, however, a real economic and social rate of return on the investment that is, the gains to society from the project. Large-scale borrowing, however, causes interest rates to rise. Therefore, public sector investment can be seen as moving down a schedule of rates of return and the absorption of savings moving up a savings supply schedule until the point is reached when the rate of return is equal to the real rate of interest paid on the increased borrowing.

In the absence of controls and major market distortions, the market interest rate would equate the supply of savings with the demand for investable funds. If the world was nothing more than a collection of close economies, there would be wide variations in national equilibrium interest rates. Countries with high per capital national income and a large stock of modern, physical capital goods would have lower market interest rates than lower income countries, which would have lower savings and higher physical capital needs.

Global capital markets allow enterprises and governments in capital scarce countries to borrow from capital-abundant countries, where the market interest rate is lower. World capital markets, in effect, increase the interest that lenders in the capital-abundant countries can earn and reduce the interest paid by borrowers in the capital-scarce countries. International lending can, thus, increase economic welfare in both the borrowing and lending countries. For capital-scarce countries this means expansion of capital formation higher optimal borrowing.

However, foreign borrowing affects macro economic stability can be best understood in the context of production, consumption, savings, and investment. In a closed economy (no foreign trade), production comprises goods and services for personal consumption (consumer goods) capital goods (buildings, plant and equipment, inventories used by enterprises), and goods and services used by the government, which can be both for consumption (for current use) or for investment. Where there is foreign trade, production also includes goods for export; imports are a supplement to domestic production. Thus, total production (Gross Domestic Product) plus imports comprises goods and services for personal consumption, for investment, for government use or for exports.

There is a relationship between production and income. Put simply, production creates incomes equal to the value of output. Some income is taken by the government in taxes; some is saved by the private sector; the balance is spent on consumption. Foreign borrowing is the excess of imports of goods and services over exports, and net borrowing creates debt, which can be repaid if exports exceed imports. In the absence of foreign borrowing (exports and imports are equally), private sector investment plus government spending is limited by the level of private sector savings and taxation. Economic growth, of course, could be accelerated with foreign borrowing, permitting imports to exceed exports and, at the same time, investment plus government expenditures to exceed savings plus taxes.

If a country borrows from abroad, it must pay interest on the outstanding debt and, as debt increases, interest payments needed to service the debt also rise. Thus, it is crucial that external borrowing leads to an increase in productive capacity. Not only must there be an expansion of goods for domestic needs (the rationale for borrowing in the first place), but also of exports to finance interest and amortization payments on the foreign debt. Failure to do so will mean debt service reaching an unacceptable proportion of exports and total production. In that case, commercial lenders, fearful of default, will be reluctant to make fresh loans (Underwood 1992, pp.179-80).

There are standard indicators for measuring the burden of external debt: the ratios of the stock of debt to exports and to gross national product, and the ratios of debt service to exports and to government revenue. Although there is widespread acceptance of these ratios as measures of creditworthiness, there are no firm critical levels which, if exceeded, constitute a danger for the indebted country. However, the World Bank staff has proposed a set of parameters which it uses to demarcate "moderately" and "severely" indebted countries (see Table 11). Other lenders, however, may have their own notion of what constitutes manageable debt service for any country.

Table 11 External debt indicators in developing countries, 1980,1985,1990 and 1992

	1980	1985	1990	1992
All developing countries				
EDT ($ Billions)	*658*	*1,112*	*1,518*	*1,662*
TDS/XGS(96)	*13.5*	*27.2*	*18.8*	*18.7*
INT/XGS (96)	*7.2*	*12.2*	*8.2*	*7.8*
EDT/XCS(96)	*89.0*	*172.0*	*162.0*	*174.4*
EDT/GNP (96)	*26.4*	*35.7*	*36.7*	*37.6*
Service indebted countries				
EDT ($ Billions)	*321*	*565*	*759*	*775*
TDS/XGS(96)	*23.4*	*32.2*	*26.4*	*28.9*
INT/XGS (96)	*12.1*	*19.5*	*11.4*	*11.4*
EDT/XCS(96)	*147.0*	*288.7*	*323.2*	*326.1*
EDT/GNP (96)	*34.8*	*60.7*	*59.9*	*54.1*
Moderately indebted countries				
EDT ($ Billions)	*186*	*321*	*491*	*562*
TDS/XGS(96)	*13.4*	*22.5*	*25.1*	*22.5*
INT/XGS (96)	*6.9*	*11.8*	*11.5*	*9.6*
EDT/XCS(96)	*95.4*	*166.5*	*182.9*	*203.2*
EDT/GNP (96)	*29.8*	*27.2*	*33.0*	*38.5*
Other Countries				
EDT ($ Billions)	*151*	*226*	*268*	*326*
TDS/XGS(96)	*6.8*	*15.8*	*12.4*	*10.9*
INT/XGS (96)	*4.1*	*6.9*	*4.4*	*4.7*
EDT/XCS(96)	*46.4*	*87.7*	*61.9*	*74.2*
EDT/GNP (96)	*15.9*	*22.4*	*19.5*	*21.3*

source: World Bank "World debt table publication 1992"

EDT: Total debt stocks, including short-term and IMF credit
TDS/XGS: Total debt services to exports of goods and services
INT/XGS: Interest payments to exports of goods and services
EDT/XGS: Total external debt to exports of goods and services
EDT/GNP: Total external debt to gross national product

Countries with a rapid export growth can support higher debt relative to exports and output. Heavily indebted countries, however, are vulnerable to severe macro economic shocks-sharply higher interest rates in the lending countries, for instance, or simply lenders cutting back on their commitments. Faced with these pressures, countries must then adjust by cutting private investment, decreasing government expenditures, and/or increasing government revenues. These last two options require reductions in private consumption-not just in absolute terms but relative to GNP if the desired increase in net exports is to take place

There is a danger in such adjustment programmes. Cuts in private investment or in the investment component of government spending, are likely to reduce growth and net exports and attempts to correct the debt problem could make it worse. It is better, then, if adjustment programmes be supported by IMF and World Bank financial programmes which can help prevent draconian cuts in private consumption-particularly for the vulnerable (low-income) members of the population.

Several important points emerge. First, growth is the key to credit worthiness and to the relaxation of credit ceilings imposed by concerned lenders. Second, a high rate of investment is a necessity, but it is not a sufficient condition for credit worthiness: investment must be efficient in the sense that investment returns exceed the cost of capital. To borrow resources that are invested unwisely is worse than not to borrow at all. Third, debt can grow consistently faster than exports only for a while and only when debt is small relative to exports. Fourth, the interest rate is not only the cost of an external loan. Each loan pushes the borrower nearer to its credit ceilings; this is a cost, in addition to the actual interest charges (Underwood 1992, p.180).

Those concerned with macro-economic policy must study the investment/growth/external borrowing relationships carefully. Projections must make realistic assessments as to how investment by the private and public sectors will affect growth. The terms of borrowing

of new loans must be assessed against the country's ability to make debt service payments while the investment program is in its gestation stage. These are critical inputs to the debt management process.

2.6.2 DEBT MANAGEMENT FAILURE

During the debt crisis years (1980-91), more than 50 countries were forced to renegotiate their debts. Many others did not. Colombia, India, Korea, Thailand, Malaysia, Singapore, and Indonesia were all large borrowers which did not have to restructure. What lessons may be drawn from these debt management failures-and successes? Each country's situation is complex but one element of economic policy stands out in countries with serious debt servicing problems-the inability to control fiscal deficits.

There are four major causes of fiscal deterioration (Tanzi 1985,pp.65-67). First, windfall tax revenues resulting from a commodity (say, petroleum) price boom are used to increase consumption or finance investment or finance investments with low returns, further than for sound investments. A second problem can arise during a period of rising prices, when tax revenues do not increase in line with prices and the ratio of government revenue to GNP declines. The third difficulty occurs when government expenditures grow faster than revenues, usually as a result of political pressures for a major capital formation program, higher public sector wages, or to expand subsidies to enterprises. A fourth problem is the government's reaction to declining terms of trade, which result in a deterioration of real incomes.

Countries that avoided serious difficulties in the 1980s were those that succeeded in controlling fiscal difficulties in the 1980s were those that succeeded in controlling fiscal deficits; but, once a government deficit opens, it is politically difficult to close it. Fiscal deficits, of course, have to be financed. Evidence suggests that governments prepare expenditure programs and then attempt to secure their financing from external sources when domestic sources are insufficient. Put another way, the decision to runs a fiscal deficit is not independent of the available financing.

Few developing countries follow the decision making process of industrial countries whereby the government first decides on its desired level of public expenditure, then forecasts its ordinary revenue (mostly tax revenues), and finally faces the question of how to finance the resulting deficit. In developing countries, determining expenditure levels and finding financing sources are likely to be largely simultaneous exercises, in which the availability of financing often determines the level and perhaps even the kind of spending (Tanzi 1985, pp.72-73).

The moral is that the availability of finance can lead a government into developing a large fiscal deficit. Witness Poland's experience with export credit financing and commercial bank borrowing in the early 1980s. It is important for government to resist the temptation to secure prolonged external financing for fiscal deficits, because such financing can be abruptly cut-off when the seriousness of the deficits becomes apparent to lenders (as happened with Mexico in 1982, and Turkey in 1976.

When considering an external borrowing program a government must bear in mind that projected net export earnings, (perhaps augmented by more borrowings and other foreign finance) must be sufficient to accommodate debt service obligations. Moreover, projected government revenue must be enough to provide the local currency equivalent of the government's own debts service obligations, which will be met more easily if the projects financed are successful. Even where returns are more than adequate to cover costs, however, the government's difficulty in raising adequate revenue may severely limit its ability to service debt.

To manage debt effectively, authorities must project the time profile of debt service obligations, they must accurately forecast export earnings, domestic revenues and future access to finance. They must also monitor the potential for prepaying or refinancing their debt to take advantage of new borrowings on better terms, to adapt loan maturities to

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project revenues or to cope with shortfalls in earnings from exports or unanticipated expenditures on imports.

Government must view foreign borrowing in the broader framework of overall economic policy. Debt problems rarely arise when policies are chosen so that key economic variables (especially interest and exchange rates) convey true economic costs to decision makers and when governments underpin their public investment programs with effective measures for resource budgeting and for raising domestic savings. But, as the debt crisis showed, countries can find that they have "over borrowed" in deteriorating economic circumstances, and that they have become vulnerable to painful deflationary pressures and slow growth. Beyond good macro economic policy, the effective management of external debt comprises three specific interrelated process-selecting the appropriate financing, deciding how much to borrow, and keeping complete and up-to-date records on debt.

2.6.3 FINANCING TECHNIQUES

Countries having a limited ability to support external borrowing. At the same time, the supply of finance is also limited. Consequently, borrowers, must choose the best combination from the available sources of external finance to suit the needs of individual projects-and of the economy as whole. The country clearly wishes to minimize the problems in servicing new debt, while making maximum use of grants and foreign loans on concessional terms. These are clearly the cheapest form of financing, but their availability is generally restricted to the poorest developing countries; and, even for those countries, they are inadequate to meet needs. Maximum leverage can be obtained from concessional financing by combining it with other types of financing. Other sources of credits are export financing and loans from international commercial banks .

Authorities should ensure that credits from financial markets are part of a package that provides the best possible external financing mix for the economy, as a well as for an individual project. For projects, the best mix could mean one with: (1) maximum

concessional loans or minimum market finance, (2) the maximum capital that can be rolled over easily, or (3) the minimum debt service due in the years before returns materialize.

Authorities must also ensure that the aggregate financing package meets national financial priorities. This involves an assessment of such aspects as: the sources of finance, including the amounts that can be borrowed and the prospects for future supply; the currency composition of foreign borrowing that would minimize exposure to exchange-rate fluctuations; the exposure to interest rate fluctuations over the life of the loan; and the impact of new borrowing on the structure of debt service obligations. Such analysis is not easy. It must be performed effectively, however, if countries are to benefit from foreign credits, while avoiding balance of payments problems.

2.5.4 HOW MUCH TO BORROW

The amount of debt to contract is a basic policy decision, which will depend on the skill and judgement of those making it. Formal models and technical analysis cannot substitute for good policy making. But, they can help by providing information on the future implications of alternative borrowing strategies

The amount that any country ought to borrow is governed by two factors:

i. how much foreign capital the economy can absorb efficiently, and
ii. how much debt it can service without risking external payments problems.

Each factor will depend on the quality of economic management. Borrowings can be on different terms and in different currencies, which complicates the policy decision. There may be uncertainty, too, about evolving debt servicing capacity (including the capacity to borrow to service the debt). Interaction between debt servicing capacity, the type of finance, and the borrowing decision increases in complexity as the number of loans increases. see table 11 above.

Countries are sometimes exposed to balance payments shocks arising from unfavourable changes in the relative prices of exports and imports. Suppose that a country's exports earnings are in dollars and its foreign debts are repayable in naira. A deterioration in the exchange rate of the dollar vis-à-vis they naira will add to the debt servicing obligation of the borrowing country. A similar problem can be caused by variable interest rate loans: an increase in the Euro-dollar rate will add to the country's external debt burden. Falls in commodity prices for a country for which primary commodities are a major source of foreign exchange will also create debt servicing difficulties.

Fluctuations in commodity prices, foreign exchange rates and world interest rates are largely beyond the control of countries. It is possible, however, to hedge against this risk. Managing risk is part of debt management .

2.6.5 KNOWING THE DEBT

Information on external debt and debt service payments is essential for the day-to-day management of foreign exchange transactions, as well as managing debt and for planning foreign borrowing strategies. At the most detailed level, the information enables central authorities to ensure that individual creditors are paid promptly; at more aggregated levels, debt data are needed for assessing current foreign exchange needs, projecting future debt service obligations, evaluating the consequences of further foreign borrowing, and the management of external risk.

The components of external debt statistics include details of each loan contract and its schedule of future service payments, figures on loan utilization, and the payments of debt service obligations. From these data elements summary figures on foreign borrowing, outstanding debt, and projected debt service are assembled. The resulting statistics provide inputs for budget and balance of payments projections. With the help of a macro economic model, a Nation debt office can used all this information to simulate the impact of alternative future borrowing patterns on the budget and balance of payments.

2.7 DEBT AND RISK MANAGEMENT

An important aspect of debt management policy is to control the risk of external price fluctuations. A borrowing country's balance of payments is subject to shocks from three types of price changes that cannot be controlled by domestic economic policies.

These are:-

(i) Exchange rate fluctuations between International Currencies;

(ii) Interest rate fluctuations that are reflected in key money rates

(iii) Commodity prices, it is possible to protect the balance of payments from wide swings in these prices by hedging. A number of techniques have been developed.

2.7.1 Hedging is not aimed at improving systematically relative prices for the country concerned and differs from speculation in that it accepts market price and trends, but aims to reduce risk by something fluctuations around the trend. It provides Insurance against price risks which take the form of substantial unanticipated fluctuations.

The need for hedging has become more apparent in the past 20 years because of increased volatility of exchange rates, interest and commodity prices. Country are specifically exposed to:

(i) They have large International Borrowing requirements and the resulting external debt is denominated in different currencies;

(ii) If much external debt is variable interest rate obligations and

(iii) If trade in primary commodities is significant. Such exposures call for better risk management that is, the use of financial techniques to minimize adverse changes in future net cash flows arising from changes in external process.

2.8 EXPOSURES

2.8.1 EXCHANGE RISK

Exchange rate volatility become a problem for borrowing countries after the end of the Bretton Woods System in 1973 and major currencies began to fluctuate in value against

each other. Sixty-six per cent of the debt stock consisted of non-dollar currencies, of which the Japanese Yen is the single most important one, consequently, debt service in dollar terms is highly sensitive to cross-currency exchange rates. This exposure has increase for many countries, as their aggregate share in non-dollar debt has risen steadily since the mid-1980s while much of the rise in non-dollar debt can be explained by the decline in the value of the dollar since 1985, it is partly due to the increase borrowings in non-dollar currencies in recent years.

2.8.2 INTEREST RATE RISKS

Interest rate fluctuations, contributed substantially to the balance of payments and debt management problems of countries that had flatting-value borrowings from commercial banks, nearly all of Latin America and Caribbean Region, variable interest rate debt (including short-term debt) comprised 78% of total debt in 1980.

Partly because of Brady agreements, the proportion of variable interest rate debt had declined for the borrowing countries.

In absolute terms, interest exposure of borrowing countries remains large-a 1% movement in the 6-month London Inter bank Deposit Rate. Implies a change in debt service (on short-term, as well as on long term debt) of about $6 billion. Since reliance on commercial financing may approximately grow, exposure to interest risk could become high.

2.8.3 COMMODITY PRICE RISK

Commodity prices, too, were volatile in 1963-89, fluctuations in commodity prices resulted in big risk to many developing countries that depends on primary commodity exports for most of their foreign exchange earnings. Countries can also be affected by commodity imports, such as grains, petroleum and petroleum products.

2.8.4 MARKET-BASED RISK MANAGEMENT

In so far as there was any risk management, it was done by means other than market instruments: Leaders pushed interest rate risk to borrowers by substituting variable for fixed-rate contracts. Exchange rate risk could be covered forward markets, but this only applied to short term contracts. Fluctuations of some commodity price were countered by relying on mechanisms designed to smooth rice fluctuations. This included attempts to stabilize international commodity prices through commodity agreements, securing compensatory finance against the consequences of price changes, or insulating the economy by stabilizing the domestic prices. Such scheme, however, were unsatisfactory, and market based mechanisms which used financial instrument for hedging will offer much promise.

2.9 DEBT RESTRUCTURING

This result when a country is unable to meet its scheduled debt service obligations, this problem arise when the Central Bank is unable to acquire the foreign exchange necessary for remitting debt service payments and countries must secure debt relief. Rather then allow this to take place through bilateral discussions between debtor country government and individual creditors, creditors groups have established multilateral mechanism for debt relief. The basic rationale for this arrangement is to enable debtor countries to deal with UN-manageable areas and perspective defaults in an orderly fashion, they not been castles following applications for debt relief, it has been difficult for countries to re-establish commercial borrowing facilities. Debt restructuring should needless to say be avoided if at all possible.

The coverage of debt relief and the repayment terms very, depending upon the circumstances of the debtor country. In recent years, Middle Income Countries whose need for debt relief is the result of a temporary liquidity problem, have been able to reschedule debts with 10 years maturity, including 5-years grace. This applies to both ODA and non-ODA debt, severely indebted countries receive more generous terms. Consolidation period if an IMF extended fund facility (EFF) or for low-income countries, an Enhanced Structural Adjustment facility (ESAF) is in place. Debt relief is then

extended in branches so that the Paris Club Creditors can verify that the promised adjustment programme is still effect, that comparable debt relief has been arranged with other creditors and that the debtor is current on its obligations to participating creditor countries under the terms of the agreement.

If the debt problem appears unlikely to be resolved during the consolidation period, creditors will agree to consider additional debt relief (good will clause) if the country, on its part, continues to have an IMF supported adjustment programme. At the beginning of the debt relief process, Paris Club Creditors countries will establish a "cut-off date". This means that all loan contracts signed after that date will not be eligible for debt-relief by the Paris Club. The aim is to help the debtor country re-establish its credit worthiness by paying new obligations on their original schedules. Even though debt relief may extend over many years through a succession of Paris Club agreements, the cut-off date will remain unchanged.

2.9.1 LOW INCOME COUNTRIES

Since 1988, the Paris Club has made special arrangement for heavily indebted low income countries and for heavily indebted low-middle income countries that owe a large chunk of their debts to official creditors. Eligibility for special treatment is decided on a case-by-case basis, but Toronto Terms are restricted to countries designated by the World Bank as "IDA only", borrowers that have heavy debt-service obligations, low per capital income and chronic balance of payments problems. The Toronto Terms were introduced in October, 1988 for severely indebted low-income countries. They have highly concessional repayment terms for ODA debt and menu approach for repayment terms on non-ODA debt. ODA debt is repaid with a 25 year maturity, including 14-years grace. Moratorium interest rates would be at least as low as the original interest rates. For non ODA debt, creditor countries can choose repayment terms from a menu of three options.

Option A. One-third of the consolidated debt is canceled and the remainder repaid with 140 years maturity, including 8-years grace. Moratorium interest rates are market related.

Option B. Repayment terms are 25 years with 14 years grace (as with ODA debt). Moratorium interest rates are market related.

Option C. Repayment terms are 14-years including 8-years grace. Moratorium interest rates reduced: either 3.5 percentage points below market rates or 50 per cent market rates, whichever gives the smallest reduction.

Between October, 1988 and June, 1991, 20 countries benefited from Toronto Terms. All were low-income African countries, except for Bolivia. While the menu approach made it possible for some creditor governments to introduce debt cancellation as a modality for debt relief, the consensus was that Toronto Terms did not provide adequate relief for low-income countries: too little debt could be canceled, the interest rate reduction option was too modest, and the agreements covered only defined consolidation periods.

In the wake of a number of proposals, most notably that of the then UK Chancellor of the Exchequer John Major, 2 the Paris Club enlarge its menu approach to severely indebted low-income countries adopting "enhanced Toronto Terms" Eligibility is the same as for the old Toronto Terms. ODA debt would continue to be rescheduled on a very long term basis. For non ODA debt, there would be two basic options:

Partial debt cancellation. The Paris Club will write-off 50 per cent of eligible debt and reschedule the remainder at market interest rates with long repayment terms (23-years maturity, including 6-years with no grace.

Interest rate reduction. Alternatively, creditors can consolidate debt at concessional rates so as to reduce by 50 per cent in net present value terms the payments due. The repayment terms are 23-years with no grace.

One major creditor country was unwilling to go along with these arrangements. To preserve debt relief arrangements within the Paris Club framework, this country could reschedule debt on Toronto Terms Option B (which, because of the market-based moratorium interest rate is non-concessional). This country, however, is not a major creditor to most low-income African countries.

Enhanced Toronto Terms entail the rescheduling of debt over an initial one or two consolidation periods. Then, a good will clause provides for consideration, by the Paris Club 3-4 years after the initial agreement, of the remaining stock of debt for restructuring, with the provision that the country in question remains on track with its adjustment and stabilization programmes and current in its debt service obligations to Paris Club creditors. These agreements provide for the conversion of some eligible debt into local currency obligations: unlimited amounts of ODA debt and, for non-ODA debt, up to a ceiling of %10 million or 10 per cent of total debt, whichever is the larger sum.

Between December 1991 (when Enhanced Toronto Terms first went into effect) and December, 1993, sixteen countries benefited from these arrangements. All were low income African countries, except Bolivia, Honduras and Nicaragua in Central America.3 One country, Benin, negotiated its second stage agreements in June, 1993. Countries will become eligible for a final stage agreement beginning in December, 1994. No country has yet reached the threshold of being considered for debt stock reduction.

2.9.2 LOWER MIDDLE INCOME COUNTRIES.

In September 1990, the Paris Club introduced special terms for severely indebted lower middle income countries that have a high proportion of debt to official creditors and can demonstrate a heavy burden of overall indebtedness. Because these arrangements were agreed to at the July 1990 Houston G-7 Summit Meeting, they are sometimes referred to as "Houston Terms" ODA debt is repaid with 15-years maturity and up to 8 years grace. Moratorium interest rates are market-related. Houston Terms Provided for the possibility of swaps, similar to the arrangement described above.

Countries are eligible for Houston Terms if they meet two of the following three criteria: per capital income in the range of $611 to $2,465 in 1990; a high proportion of debt to official creditors; and a heavy burden of overall indebtedness. Fourteen countries had benefited from these terms through end-1993, Jamaica, Morocco and Peru twice other countries.

Since 1991 most countries receiving debt relief from the Paris Club were eligible for the above special terms. Other middle income countries rescheduled debt on 10 years maturity, including 5-years grace. Moratorium interest was calculated at market rates. Some agreements were made in parallel with commercial bank restructuring.

One feature of debt relief agreements with middle-income countries is that they mostly cover public sector debt; private sector debts are paid following original schedules. This policy was adopted in 1985 with a view to enhancing the creditworthiness of the private sector. The debt servicing difficulties of the 19802 were due largely to large borrowing by the public sector; debt relief, accordingly, can be restricted to public sector obligations.

2.10 COST OF DEBT RELIEF

Multilateral debt relief has helped resolve the acute international liquidity problems faced by countries requesting debt relief and has taken lace in an orderly manner. Each creditor has shared in the foreign exchange available for meeting debt service payments according to some formula; none received significant preferential treatment. Debtor countries requesting debt relief, however, paid a price: it proved difficult to restore access to commercial credits and to financial markets. Turkey is a good example. Because of massive short-term borrowing in the face of a deteriorating export earnings, Turkey, in 1976, was unable to continue debt service payments. Through a series of debt restructuring agreements over the next few years, it was able to resolves its immediate international liquidity problems. But, while it had been able to tap the long-term

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Eurodollar market in the early 1970s, for a decade Turkey was unable to float international bond issues.

Countries that were on the margin of having to seek debt relief during the 1980s but did not (for example, Colombia, Algeria, Kenya) were able to secure continuous private source external financing. Countries that did ask for debt relief found themselves cut off from private-source credits, not just during the period of acute economic difficulties, but for years after. Of course, accumulating arrears is not an acceptable option to debt relief; when faced with the prospects of running up massive arrears, debt relief is an unfortunate necessity.

Most countries that required debt relieve in the past 15 years had maintained large public sector investment programmes in the face of deteriorating balance of payments difficulties. They delayed adjustment to external shocks and borrowed to finance the resulting balance of payments gap. Prompt adjustment measures to external shocks have enabled countries such as Korea to avoid debt restructuring and to continue access to commercial credits and to financial markets.

2.11 SUMMARY OF THE CHAPTER

Debt management is a complex aspect of public administration and economic policy because it requires bringing together parts of government that have specific, specialized responsibilities. The aim of debt management is to enable the country to exploit current internal and external financing possibilities without creating future balance of payments or government revenue problems. What would be excessive borrowing is hard to say. Those responsible for accelerating growth will have a natural bias towards optimism, those responsible for exchange rate and balance of payments stability will be inherently conservative. The knack is to reach some solid middle ground.

Any judgement on proposed future internal and external borrowing, however, requires accurate and up-to-date figures on the debt service obligations of existing debt. Without a

strong statistical base, projections become hypothetical. How to develop comprehensive and use-able statistics, how to assess debt servicing capacity and how to co-ordinate the formulation of debt management policy are the issues developing Nation needed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The major aims of this research is to make a scenario construction that will recognized the realistic knowledge of the impact of nation debt on growth and development of the nation economy and the effective debt management.

It has long been recognized that debt events substantial influence on growth and development of a country and in the economic policy of a nation.

Available evidence indicates that most developing nations usually take off with debt financing especially from external sources, because of lack of public savings (deficit is the norm), coupled with low private savings given low real per capital income. Otherwise, foreign debt may aggravate the problem of under-development of a poor nation because huge debt burden will discourage foreign direct investment without which the desired level and rate of growth and development may not be realizable.

That a research project of this nature is the "process of arriving at dependable solution to problems through the planned and systematic collection, analysis and interpretation of data" is not out of place. That as it may be, methodology used in arriving at conclusion and recommendations must not only scientific enough, but be disclosed, if the recommendations therefore must be acceptable.

Research of this nature is of great significance, since it constitutes a tool by which knowledge is advanced, progress promoted, effective relationship of man with his environment enabled, and forms tunnel through which purposes and conflicts of man are resolved.

To this direction, an appraisal of the impact of Nation debt on Nigerian economy, is directed towards the discovery of the relationship that exists among the Nigerian debt

superstructure and the development of the economy, such that past contributions, present roles and the future prospects and glories of the Nigerian capital market are examined and preferable solutions rendered.

On this perspective, instead of allowing common sense to overdue our reasoning on operations of the Nigerian capital market, a thorough research is initiated to compare its objectives of establishment and the real operations and achievements.

3.2.1 SOURCES OF DATA COLLECTION

Historical sources can be classified into two major groups namely:-

a) Documents
b) Relics

Documents are written information of the past, while relics are generally archaeological or geological remains such as tools and utensils. Relics are not written in contrast documents.

Among the various documentary sources are:-

i. Official records, minutes of meetings, committee reports and legal documents;
ii. Institutional records, attendance rolls, university bulletings; and
iii. Memoirs, biographies, diaries, personal letters, books on the philosophy of a known scholar etc.

A good scholar will insist to evaluate the adequacy of his evidence by finding out from which sources were the data collected. Whether from primary or secondary sources?

Primary sources are data provided by actual witnesses to the incident in question. Secondary sources of data came from a middleman who acts between the original source and the researcher. In short, by its nature, secondary sources are subject to inherent danger

of inaccuracy. **Secondary sources** data are mostly careless compiled comprising lots of hearsay and rumour.

3.2.2 JUSTIFICATION OF THE METHOD USED.

1. HISTORICAL RESEARCH METHOD

The researcher has clearly defined the research problem and from this, the researcher was able to identify whether it is possible to find solution and more significantly enable the research to draw his scope of research work.

Both primary and secondary source of data are sufficiently available for the researcher and complete enough to guarantee solution from the impending problem.

Previous and theoretical concept were used to ascertained the validity of data and relevance of the historical research has been thoroughly employed.

Moreso, interpretation, the historical method used enable the researcher to draw conclusion and at the same time enable the researcher to display enough technical ability of interpreting the result obtained, relative significance were obtained, objectivity maintained and hypothesis tested. Infact the method used enable the researcher to develop and establish relationship between his date and other historical facts.

The method also enable presentation in a logical sequence that create understanding and very attractive to draw and obtain attention, and informative for effective education to the decision maker.

2. DESCRIPTIVE RESEARCH

There are three basic methods of obtaining data in a descriptive research. These are:-

i. Direct observation of phenomena to be described

ii. Indirect observation phenomena to be described

iii. Analysis of record maintained other than research purposes.

i) Direct Observation

This method was used because it attempts to describe a given phenomena that specifies the nature of the event being researched upon.

The basic method applied using this method is the Direct Observation of phenomena to be described. The direct observation method of getting date in this thesis implied:-

(i) The physical presentation of both primary and secondary data as they affect the macro economics variables.

(ii) *Observation of data from the debt service department of the* CBN in Abuja. This is necessary in order to observe every document necessary for the research work.

The direct observation undoubtedly provides primary data that carefully categorised both the input of the nation debt and caution was exercised in the used of such data for the research purposes.

Personal interviewing is the most usual method of collecting data in social surveys. It is similar in nature and purpose to the questionnaire, but the fact that the interview permits following through an misunderstood items and inadequate responses generally promotes validity.

Another crucial point in the validity of the interview is that interviewer's presence would possible enhance much authenticity in the responses. Especially, where he (interviewer) exhibits a great deal of competence in guarding against possible bases on the part of

interviewee. Hence, consistency, which would hardly be expected in other methods could be easily achieved.

Basically, the choice of interview in preference to other survey techniques is generally a matter of weighing it advantages over those of questionnaire and other techniques. The advantages accruable interview include:

i. The evasiveness or apparent reluctance of the respondent can be easily noted by the Researcher

ii. Problem or non-return associated with questionnaire is solved and also detail information would be received;

iii. Misinterpretation of the question (in case of mailed questionnaire) either because of differential meaning of words, or the ambiguous outlook of the question may present;

iv. As in (iii) above, some aspects of the questions which may not be answered either due to inability or deliberate refusal to disclose such information stands to be forestalled; and the rapport between the researcher and the respondents stands to permit the researcher the opportunity to ask questions that could ensure more detailing.

3.3 METHODS OF DATA COLLECTION USED

i) **Observation:** The direct observation method of getting data in this thesis implied the physical present of the researcher to observe events as they occur naturally. In the debt service department at the CBN. At Kaduna and Abuja to collect important and relevant documents

especially Abuja. This is necessary in order to observe every document necessary for the research work.

ii) **Interview :** with some top executive of debt service department at the CBN. In Kaduna and Abuja and Discussions with staff of the debt department The aim being to get divergent views about the operations and performances of CBN in debt management.. It also provides opportunity of examining past and current data with empirical framework. The data collected the various sources was studied carefully and analyzed orderly.

iii) **Documents study:** This involve study of documents from libraries, especially CBN, British council, National, State, A.B.U Zaria, and Kaduna Polytechnic Library.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter intends to dwell down and extensively analyze the impact of the national debt on growth and development, the importance of growth and development to a nation's economy is almost self-evident. With economic growth a nation can provide employment for its labour force and increase standard of living for all its people; also, enabling a conducive business environment which will result in full private organization participation in creation of essential goods and services for development. Moreso, this will improve the nation exchange rate and stability of nation financial system. Without growth, a nation's economy may eventually stagnate, and its people will more likely suffer social and economic poverty.

But a nation cannot achieve this when the majority of its populace are in growing deficit unit rather than saving surplus as this will affect the ability of a nation to cater for its domestic need.

Nigeria borrow for consumption smoothing as well as for investment with the sole essence of promoting economic growth. The implied relationship between debt and economic growth will be empirically examined in this presentation.

Nigeria, like most other less developed countries (LDCS) has been classified by the world bank among the severely indebted low income countries since 1992. The country's domestic debt stock as at 31st June, 1998, stood at N411,604.1 million, reflecting increases of 2.7 percent over the level at end-June, 1997 and 14.6 per cent over the level at the end of December, 1997. While the country external debt outstanding showed that the debt stock at end-December, 1997 stood at US$27,087.8 million, (N595,931.6 Million), made up of US$18,9804 billion Paris Club Debt; US$4.3727 billion multilateral debt US$1.6125 billion promissory notes and US$0.7919 billion Non-Paris Bilateral debt.

4.1 WHY NIGERIA BORROW?

A standard formulation that introduces a motive for borrowing treats a small borrowing country as an entity whose behaviour is governed by that of a representative, constituent individual that tries to maximize the discounted value of its utility from consumption.

The role of both domestic and foreign capital in the development process of Nigeria economic has been stressed as far back as the 1950s. With particular reference to foreign capital inflow to Nigeria and this help to bridge a number of gaps identified as:

(i) That ,the transfer or use of domestic debt or foreign resources in the country will help to transform their economics, characterized by low or zero growth rate, into economies capable of adequate sustainable growth. Thus, debt to a country like Nigeria is necessary serve to supplement domestic resource gaps with positive effects on growth.

(ii) Domestic Investment in Nigeria had been too low to promote rapid economic growth with the support of foreign assistance in one form or the other even if enough capital resources could be raised internally through domestic savings, foreign exchange requirement would also rise Pearson (1969), opined that in order to properly assess the effect of foreign resources on development in an economy, such an economy must be divided into sectors; each sector could then be effectively evaluated. According to him, the sectors which have demonstrated most developmental value in the less developed countries are agricultural and industrial. He argued that foreign credit would not only enable the industrial sector to have access to capital stock but could also help in the provision of intermediate inputs like fertilizer and pesticides. Other infrastructure assistance could also be rendered through the construction of roads, railways, pumps, irrigation systems and dams.

The World Bank/IMF Development committee investigated the subject of foreign credit to the developing countries and concluded that external finance has been productive and helpful to development; without it, a number of countries would not have been able to graduate from the ranks of poor nations to middle income nations; and the countries that

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remain poor would have been poorer, (World Bank, 1986). The committee, consequently argued for more external resources for the developing countries.

The role of external assistance in the less developed countries has been controversial. Some economists hold a different view about the effect of external assistance to the LDC's Prominent among them are Singer, (1949), Griffins and Eons (1970). The believe that foreign assistance is anti-developmental because thereby causes disequilibrium in the foreign sector, debt crises, over dependency and undesirable high degree of openness and general entanglement of development countries' economies. In sum they assert that:

> "The provision of external resources is in any case irrelevant to the real problem of World poverty which can only be resolved by the determined efforts of the poor countries themselves.

Also, the view of some other scholars like Malaba (1991), Ake, (1989) and Ndekwu (1997) is that foreign assistance is given to make the partnership look plausible, but as it is worked out, the proletarian countries get poorer and the technological gap widens. They maintain that some of the components of the present crisis in public administration in Africa might not be unconnected with the external assistance. However, in other recent studies, Solis and Zedillo (1985) Ajayi (1991) and Osei 1993, using the Selowsky and Van Der Tak Framework, specified that only net transfers (taking into account the debt repayment flows) of external resources of the period, 1970-1991, have positive effect on growth. Also Ashinze and Onwioduokit 91996) confirmed that in Nigeria, external resources contributed to growth only in the years that the externally acquired resources were deployed productively.

Given resource constraints faced by most LDC's, including Nigeria and the contrasting conclusions on the role of foreign capital in the process of growth, there is need to re-examine the issue as it affects Nigeria.

Internal borrowing, constitutes the principal alternative to tax revenue as a source of governmental receipts. It represents a means of obtaining the additional foreign exchange resources required to maintain a high rate of development and at the same time close the gap between the demand for imports thus, generated regular export earnings.

Another outstanding role of external borrowing in the growth process is that attributed to private investment which can serve as a direct agent for the transfer of new techniques and new organizational patterns, there can be no doubt, therefore, that the availability of or access to external capital has a strong influence on development planning. The experience of the Newly Industrialized Countries (NIDCS) of Singapore, Taiwan and South Korea bears testimony to this point.

In Nigeria foreign borrowing in the late 60s and early 70s had some dimension. It was not concentrated on the financial aspect alone.

Financial resources alone at that time could not buy or finance every aspect of Nigeria's development. The cap in the executive, technical and technological capacity was so severe and over stretched in relation to Nigeria's development effort that it had to, inspite of development financial abundance, rely on borrowing these special skills as well as capital. It follows, therefore, that there is nothing conceptually wrong with external borrowing but issue at anytime is whether external loans so raised and the consequential inflow arising from the borrowings result in debt servicing problems. It can only be found "in the amount of terms of borrowed funds and on the recipient country's management of its economy notably its instrument and export promotion policies.

The origin of Nigeria's external borrowing dates back to the colonial days. The last of the colonial borrowing was the World Bank loan of 1958 which was used for Nigerian Railway extension to Borno, under the guarantee of the U.N government. Thus, external borrowing become a conscience public policy when in 1960 the government promissory Notes ordinance was enacted for the purpose of raising authorized loans.

In 1965 the external loans Act was enacted by Parliament which provided for the raising of loans outside Nigeria in any manner authorized by the General loan and stock Act or the Government Promissory Notes Acts of 1960.

Under that Act, external loans are to be used for the purpose of development programmes and for making loans to the regional government.

The 1962 Act was amended in 1965 to broaden the purpose for which external loans shall be raised. Thus, Nigeria's Public and Publicly guaranteed external debt increased significantly since independence in 1960. From 42 million pound sterling at the end of 1961, it grew to 226.5 million pound sterling by April 1, 1962-1968 half of the total projected capital expenditure of all the federal and regional governments was expected to come from foreign aid, i.e 327.1 million pound sterling out of a total project expenditure of 653.8 million pound sterling. Over one third of Nigeria's public debt at that time was, however, in the form of supplier's credit and contractor finance.

In 1970, after the civil war, a decree known as "The External loans Rehabilitation, Reconstruction and Development) Decree 1970" was promulgated which authorized the Federal Commissioner of Finance to raise loans outside Nigeria for an amount not exceeding N1 billion for purpose of rehabilitation, reconstruction and development programme and for making loans to state governments. The decree was further amended by decree No. 30 of 1978 which increased the size of the external loan that can be outstanding at anytime from N1 billion to 5 billion as the N1 billion became inadequate for Nigeria's development needs.

The various regulations on external borrowing therefore, became the policy guidance not only the magnitude but also the direction and end use of external loans that have been employed to support the country's development plans since independence.

The annual average growth rate during the first plan period.

1962-63 was 5.1%

It rose to 6.7% in 1963-64

but fell to 3.8% in 1964-65

It rose again to 5.7% in 1965-66

and fell against to 4.2% in 1966-67.

The economy was buoyant during second National Development plan (1970-74) period, indicating average growth rate of about 8.2% per annum. This average however hide wild the calculation from 18.4% in 1971-72 to 7.3% in 1972-73. During the third National Development plan the GDP experienced its highest rate growth, but it was become a growth without development. This crisis began during the fourth National Development Plan.

4.2 NIGERIA'S DOMESTIC DEBT

4.2.1 Types and Sources of Domestic Debt

When government's actual revenue performance falls short of projected estimates, government resorts to internal borrowing to finance projects of social and economic importance to the nation. Such projects include health, education, infrastructure and other social amenities. Domestic debt which is procured through instruments such as Treasury Bills and Certificates as well as Government Development Stock is contracted from the following sources:-

(i) Commercial Banks

As part of their investment portfolios, commercial banks buy government debt instruments, sold by the Central Bank on behalf of the Federal Government. They are also required to hold part of their liquid assets in treasury securities. These debt instruments earn interest.

(ii) Merchant Banks

Like the commercial banks, merchant banks also diversify their portfolios by investing in these debt instruments.

(iii) Non-Bank Public

Insurance companies, savings institutions, state and local governments, statutory boards/corporations and individuals also subscribe to these instruments.

(iv) Central Bank of Nigeria

The CBN absorbs the un-subscribed portion of government securities floated in the primary market. Arrangements are on to transfer this underwriting function of the CBN to discount houses under the Bank's open market operations.

4.2.3 Maturity Pattern of Nigerian Domestic Debt

The components of domestic debt carry different maturities such as short, medium and long term. This classification indicates the maturity pattern of the original debts. Short term debts, mainly treasury bills, have original maturity of 90-days. Medium-term debts usually in the form of treasury certificates, however, have original maturity spanning over a year, while long-term debts (treasury bonds and development stocks) have original maturity exceeding five years. The maturity structure of domestic debt determines the relative ease with which interest and principal payments are made. Debt contracted through treasury instruments totalled N221.9 billion in 1997, while treasury bonds and development stocks amounted to N137.3 billion. A treasury bond is intended to reduce internal debt service payment through the conversion of short-term debts (treasury bills and certificates) into long-term stretching the maturity

4.3.0 Structure of Nigerian Domestic Debt

The origin of domestic debt dates back to 1946 when the first Development Stock of N600,000 was floated. The first Treasury Bills and Certificates worth N8 million and N20 million, respectively, were issued in 1960 and 1968. Since then, Nigeria's domestic debt had grown very rapidly, reaching N359.0 billion by end-December 1997. This consists of N221.8 billion Treasury Bills, N134.4 billion Treasury Bonds and N2.8 billion Development Stocks.

The increase in domestic debt reflected the rapid expansion in development programmes and changes in the macro-economic environment as well as the practice of rolling over previous debt.

Most domestic debts were raised principally through the issuance of treasury bills and certificate. However, with the conversion of outstanding treasury certificates into treasury bonds in 1996, treasury bills and bonds have constituted the largest sources of domestic debt, and the Central Bank of Nigeria remains the largest holder of these debt instruments owing to its underwriting role.

4.4 Selected Indicators of Domestic Debt Burden

Some indicators of domestic debt burden are the ratios of the domestic debt stock and the fiscal deficit to the nominal Gross Domestic Product (GDP), domestic debt service to the nominal GDP used to liquidate domestic debt stock was relatively small in the early 1970. From 5.0 per cent in 1970, it rose to 31.5 per cent in 1990 but declined to 11.5 per cent in 1997. The corresponding domestic debt service to the GDP rose from 1.9 per cent in 1970 to 5.9 per cent in 1992, but declined to 1.7 per cent in 1995 and 1.0 per cent in 1997. From 27.2 per cent and 11.9 per cent in 1970, the domestic debt service to Federal Government retained revenue and total expenditure ratios dropped to 5.0 and 4.3 per cent in 1980, but rose to 9.9 and 9.7 per cent in 1997, respectively, while the fiscal deficit to nominal GDP stood at 0.16 per cent in 1997.

4.5.0 *Causes of Domestic problem*

Numerous factors have contributed to the increase size of Nigeria's domestic debt which by end-1997 stood at N359.0 billion. The major factors include the decline in revenue in the face of expansionary fiscal operations, beginning from the late 1970s. In the 1960s, and much of the 1970s, domestic debt instruments were issued to develop the money market, mobilize domestic savings and strengthen monetary management. Inspite of the efforts to rationalize public expenditures, much was not achieved in reducing or controlling them given the diverse socio economic responsibilities of government. Moreover, contract variation claims and higher inflation rate have resulted in increase cost of government administration and development programmes.

4.6.0 DOMESTIC DEBT MANAGEMENT

The CBN is entrusted with the issue and management of Federal Government loans publicly issued in Nigeria, upon such terms and conditions as may be agreed between the Federal Government and the Bank. The management of domestic debt involves:

4.6.1 Acquisition of Domestic Debt

The bank advises the government as to the timing of floatation of debt instruments and terms of issue. Whenever the CBN is mandated by the government to raise these loans, the securities are advertised for public subscription. Applications by subscribers are channeled through banks and acceptance houses to the Bank for processing. The proceeds of applications approved are collected on behalf of the government. Thereafter, certificates and warrants are issued and transferred to their respective owners. Proper books of accounts are, therefore, maintained in respect of transactions between the Bank and its customers which are sometimes amended to reflect changes in ownership, hence the need to issue fresh certificates to replace old ones. With the introduction of bearer bonds, the need for issuance of new certificates has been obviated.

4.6.2 Restructuring of Domestic Debt

The CBN accommodates government shortfalls through the provision of overdraft facility. This overdraft facility is technically termed Ways and Means Advances. At the end of any fiscal year, outstanding Ways and Means Advances are packaged into the various debt instruments for purchase by prospective investors (the aforementioned sources of domestic debts) at specified interest rates. The ways and Means Advances are converted into Treasury Bills, Treasury Certificates (short-term debt instruments), which if not serviced are converted into treasury bonds of long term maturity. The process reduces the effective interest payment thereby reducing the debt service burden

4.6.3 SERVICING OF DOMESTIC DEBT

The Bank makes interest and principal payments on debts which fall due. It also provides discount as well as re-discount facilities in respect of debt instruments held by its customers. With respect to development stocks, the CBN publishers due dates for redemption of maturing stocks through redemption schedules, statements and payment forms. This is further facilitated by the creation of a "sinking fund" into which the Federal Government pays in amounts from time to time for the purpose of redeeming its liabilities on the development stocks under various branches. The balance in the sinking fund of each development stock is sometimes re-invested in another development stock carrying a higher rate of interest and of nearer maturity. For instance, funds for the 20th and 21st development stocks were re-invested in the 22nd development stock.

4.7.0 NIGERIA'S EXTERNAL DEBT

External debt refers to unpaid portion of external financial resources required for development purposes and balance of payments support which could not be repaid when they fell due.

4.7.1 *Types of External Debt*

The type of external debt reflects the purpose for which the debt was incurred. Some of these are discussed below:

a) *Trade Arrears*

A trade debt arised when a country with other countries and is unable to pay, either partly or wholly, for the goods and services supplied. For example in the early 1980s, Nigeria's inability to settle her import bills resulted in the accumulation of trade arrears amounting to US$9.8 billion between 1983 and 1988. The insured and uninsured components were US$2.4 and US$7.4 billion, respectively. The insured components was rescheduled at the Paris Club, while the uninsured component was reconciled with commercial bank creditors between 1984 and 1988 reduced the amount to US$3.8 billion. The accrued

interest of US$1.0 billion was recapitalised bringing the total to US$4.8 billion in 1988. The debt has long been refinanced.

b) Balance of Payments Support Loan

The overall economic transactions between a country and the rest of the world, classified into current, financial and capital accounts, constitute the balance of payments position which may be favourable when it is a surplus or unfavourable when it is a deficit. However, a persistent unfavourable balance of payment may inform government's decision to seek for balance of payments support loan. Such loans which are in the form of capital inflow and other accommodations are provided by institutions such as the International Monetary Fund (IMF).

c) Project-tied Loans

Investments which have good potentials and prospect of accelerating economic growth and development may lead to government into contracting project-timed loans. As implied, this type of debt which is for the execution of a particular project is supposed to be self-liquidating.

d) LOANS FOR SOCIO-ECONOMIC NEEDS

Nigeria has contracted a number of debt obligations from external sources, some of which are discussed below:

i. Paris Club of Creditors

The club represents only government guaranteed creditors. Membership includes the United States of America, United Kingdom, Federal Republic of Germany; France and Canada, who guarantee the export activities of their nationals, through their Office Export Credit agencies. When the recipient nation's government is unable to pay the foreign exchange equivalent of the domestic currency cover paid by the importer, it becomes government debt owned to creditor nations. The first Paris Club meeting was

held in 1956. Such meetings are scheduled to discuss repayment problems and reach debt relief agreements for debtor nations.

(i) **London Club of Creditors**

These are mainly uninsured and unguaranteed debts extended by their commercial banks to nationals of debtor nations. Members of the club are commercial banks mainly in industrialized countries. The first London Club meeting was convened in 1976. Such meetings are held to discuss repayment problems and conclude restructuring agreements.

(ii) **Multilateral Creditors**

These are international institutions funded by member nations. They include the World Bank and its affiliates, e.g International Finance Corporation (IFC) and International Development Association (IDA), International Monetary Fund (IMF), African Development Bank (ADB), European Investment Bank (EIB), International Fund for Agricultural Development (IFAD), that provide credit for development purposes, balance of payments support, and private ventures.

(iii) **Promissory Note Creditors**

These are uninsured trade credits, arising mainly from trade arrears accumulated between 1982 and 1983 in Nigeria. The debts were refinanced by the issuance of promissory notes to the creditors.

(iv) **Bilateral and Private Sector Creditors.**

A bilateral credit is provided by a government to another government. Such credits are intended for development purposes in the recipient countries. Examples are the Official Development Assistance (ODA), sometimes provided on bilateral basis with a minimum grant element of 25 per cent and export credits guaranteed by export credit agencies of exporting countries.

Private sector credits are usually short-term, extended by commercial banks, individual foreign suppliers or buyers credits.

4.7.2 Maturity Pattern of the External Debt

External debt carries different maturities such as short, medium and long term. This classification indicates the maturity pattern of the original debts. Short-term debts have original maturity usually of not more than a year. Medium-term debts, however, have original maturity spanning over a year, while long-term debts have original maturity exceeding five years. The structure of the maturity pattern of debts of a country determines the relative ease with which interest and principal payments are made. Maturities of promissory notes, owned to bilateral and multilateral agencies, Paris and London Clubs, and restructuring agreements, are medium to long-term in nature, while trade debts and suppliers credits are essentially short-term debts.

4.7.3 Structure of External Debt

The origin of Nigeria's external debt dates back to 1958 when a sum of US$28 million was contracted for railway construction. Between 1958 and 1977, the country did not resort to much borrowing from external sources. The early 1970s coincided with the oil boom which fetched the nation sufficient foreign exchange earnings to meet its obligations. However. Debts contracted during the period were the concessional types from bilateral and multilateral sources with longer repayment periods and lower interest rates. They constituted about 78.5 per cent of the total debt stock.

From 1978, owing to the oil glut, which exerted considerable pressure on government finances, it became expedient to borrow for balance of payments support and project financing. This led to the promulgation of Decree No.30 of 1978, limiting the external loans the Federal Government could raise to N5 billion. The first major borrowing of US$1 billion, referred to as the "jumbo loan", was contracted from the International Capital Market (ICM) in 1978, increasing the total external debt stock to US$2.2 billion. Thereafter, the spate of borrowing increased with the entry of State Governments into external loan contractual obligations. While the share of loans from bilateral borrowing

from private sources at stiffer rates increase considerably. Thus, by 1982, the total external debt stock was US$13.1 billion at end-December, 1985. According to the Federal Ministry of Finance, the total external debt outstanding at the end of 1997 was US$27.1 billion. Of the total outstanding debt, the Paris Club constituted the highest source with a share of 70.1 per cent in 1997. The balance is owed to the London Club, the multilateral creditors, promissory note holders and others.

NIGERIA: External Debt Stock as at 31st December, 1998.

	Principal Balance (1)	Principal Repaid (2)	Principal Arrears (3)	Interest Arrears (4)	Late Interest (5)	Debt Stock (1-3-4-5) (6)
Multilateral						
(i) World Bank Group	2,208.33	2,970.66	0.00	0.00	0.00	2,208.23
(a) IBRD	494.60	20.72	0.00	0.00	0.00	494.60
(b) IDA	26.49	12.49	0.00	0.00	0.00	26.49
(ii) IFAD						
(iii) African Dev. Bank Group						
(a) ACD	794.48	386.50	0.00	0.00	0.00	794.49
(b) ADF	418.94	0.00	0.00	0.00	0.00	418.94
(iv) Ecowas Fund	2.07	1.76	0.00	0.00	0.00	2.07
(v) EIB	218.45	195.42	56.55	14.85	2.34	292.19
	4,163.26	3,587.55	56.55	14.85	2.34	4,237.00
Re-Scheduled Debts						
(i) Paris Club						
Medium and Long Term	1,751.95	3,126.29	5,861.60	3,747.58	2,818.75	14197.88
Short Term	473.44	0.00	1,567.61	1,435.78	0.00	3,476.83
(ii) London Club	2,043.00	0.00	0.00	0.00	0.00	2,043.00
	4,268.39	3,126.29	7,429.21	5,183.36	2,818.75	19699.71
Non Prev. Rescheduled	87.98	0.00	108.40	187.88	74.21	458.47
(i) IDA	0.00	0.00	745.04	211.50	98.54	1,055.08
(ii) ICM	70.50					
Post cut-off Debts	547.10	308.94	66.33	30.21	2.14	169.18
(i) ICM – States	271.47	1,340.83	492.20	139.05	5.03	1,183.38
(ii) ICM-Federal		0.00	18.90	15.90	0.84	307.11
(iii) ODA						
	889.07	1,649.77	77.43	185.16	8.01	1,659.67
Non Paris Bilateral. Debts	56.40	81.30	7.50	1.85	0.02	65.77
Promissory Notes	1,597.84	3,293.46	0.00	0.00	0.00	1,597.84
GRAND TOTAL	**11062.94**	**11733.37**	**8,924.13**	**5,784.60**	**3,001.87**	**28773.54**

Source: Nigeria 1999 Budget speech by the Head of State and briefing by the Honourable Minister of Finance (January, 1999).

4.7.4 Selected Indicators of External Debt Burden

The external debt problem can be better appreciated when the resources committed to debt service are related to national output. The higher the ratio the greater the debt burden. Four major indicators, namely, the ratios of external debt service and the debt stock to Gross Domestic Product (GDP) external debt stock to exports, and external debt service to exports (debt service ratio), are commonly used. External debt stock to GDP feel from 90.8 per cent in 1993 to 70.7 in 1997. The ratio of external debt service to exports rose from 3.5 per cent in 1970 to 42.6 per cent in 1993. It however declined to 32.8 per cent in 1997. Actual debt service payments also declined from 17.3 per cent in 1993 to 9.8 per cent in 1997 while external debt stock to exports declined from 313.0 per cent to 178.1 per cent.

4.7.5 Causes of Nigeria's External Debt Problem

Numerous factors contributed to the increased size of Nigeria's external debt which by end 1997 stood at N595.9 billion. The major factors include the rapid growth of public expenditure, particularly expenditure on capital projects, borrowing from the international community at non-concessional interest rates, decline in oil earnings from the late 1970s and the emergence of trade arrears. As a developing economy characterized by a low productive base, the supply of goods and services is augmented with import bills rose from N756.4 million in 1970 to N845.7 billion in 1997, owing mainly to the depreciation of the naira during the period. The inability to settle import bills led to the rapid build-up of trade arrears in the early 1980s as foreign exchange earnings declined substantially during the period. Another cause of external debt problems was that some project-tied loans were contracted without consideration for economic viability. In addition, these were short-term loans sourced mainly from foreign private markets to execute projects of long gestation periods. By 1986, short and medium-term loans constituted about 85.0 percent of the total debt stock. The above developments resulted in the bunching of debt service, thus compounding the debt situation. Furthermore, upward movements in interest and exchange rates have affected the size of the external debt stock.

The above mentioned causes can further be understood as:

a) DOMESTIC CAUSES

i. DIVERSION OF THE PROCEEDS OF LOAN INTO OTHER USES

Some of the loans contracted in recent years especially during the 2nd Republic were reported, according to various tribunals to have been diverted into other uses (of personal or party interest) instead of being invested in projects for which they were contract.

Thus, the external debt of Nigeria has increased without any corresponding increase in the official assets that would enables the country to service such loans, eventually.

ii DECLINING FOREIGN EXCHANGE EARNINGS AND THE HIGH IMPORT BILLS

Nigeria's major foreign exchange earners since early 1970s has been crude oil. Unfortunately following the slut in the international oil market in 1978, as well as the production ceiling that limited Nigeria's output to 1.3 and, foreign exchange earnings from this source has been adversely affected, especially since 1981 (this has recently been increased to 2.2 and). Moreso, the consumption pattern of most Nigerians in term of foreign goods and services increased the level of foreign exchange commitments from 1971-73. Consequently, there was massive build up of trade areas which further compounded the external debt problems such arrears stood at US$6.1 billion (N12.59b) in 1986.

iii. POOR EXTERNAL DEBT MANAGEMENT CAPACITY

The acquisition of external loans should normally be for development purposes or for balance of payment support. It is therefore expected that a carefully planned scheduled acquisition, development and retirement of such loans be prepared. Moreover, good estimates of foreign exchange earnings as well as projected returns from investments financed with the loans are required.

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All these would help to determine the ability of the country to service the existing loans and the desirability or otherwise of contracting new loans.

In these would help to determine the ability of the country to service the existing loans and the desirability or otherwise of contracting new loans.

In the Nigerian content and particularly between 1980 and 1983 there was a general lack of consideration for these factors of more serious concern in particular was the indiscriminate manner in which state government acquired external loans to finance all sorts of projects without seeking federal government guarantee.

This has the implication of eroding the country's credit worthiness in the event of default. The federal government took over such liabilities, with its own debt increasing correspondingly.

Many loans were also wasted on unproductive projects by the federal government on account of political consideration. A number of such projects were abandoned before completion, e.g Benin-Owena River Basin Authority. In the end, the country paid for such will conceived projects in term of debt servicing.

iv. FINANCING OF LONG-TERM PROJECTS WITH SHORT MEDIUM TERMS LOAN

Prior to 1986, the structure of Nigeria's debt flitted in favour of short/medium-term debt which accounted for about 85% of total outstanding debt in 1986. Unfortunately, most of these medium-term loans were drawn to finance long term projects. Examples of such projects include the Iwopin Mills and the Steel Project at Aladja. Like most loans from International capital Markets (ICMS) they have relatively short grace time and a repayment period of between 5-8 years. In most cases long term projects were hardly completed when amortization (that is the principal amount and interest to be paid at specific period) became due. In the circumstance a situation of debt service burden resulted which compounded the debt problem.

v. **UNREALISTIC EXCHANGE RATE**

Both the monetary and exchange rate policies of Nigeria did not respond quickly enough to reflect the external value of the Naira at the item when there was a drastic decline in inflow of resources the depressed oil market. The result of this created a severe pressure on our external sector. The over valuation also gave great incentive to leakage's and capital flight which substantially siphoned way the already dwindled foreign exchange earnings. Poor design, execution and monitoring of projects that lead to increased cost.

vii. Inadequate negotiating capacity vis-à-vis complex international financial mechanisms with respect to debt contracting and renegotiating.

B. EXTERNAL CAUSES

i. The significant flight of capital and other resources resulting in net outflow of resources from Nigeria, especially during the second Republic (1979-83).

ii. Deteriorating terms of borrowing including sudden increases in the real interest rates paid on long-term particularly commercial loans and reduced grace repayment periods.

iii. Exchange rate fluctuation especially the volatility of the US dollars vis-à-vis the other "vehicle currencies particularly financial and monetary turmoil.

iv. Unwholesome activities of multi-national corporations in Nigeria, characterized by inflated contracts over-invoicing of imports and under involving of exports, excessive transfer of profits and other capital gains and their preference for external borrowing instead of bringing in new equity capital.

v. Aggressive economic destabilization policies by external forces; and

vi. Consequence of past rescheduling which on serve to increase the debt burden.

4.8.0 EXTERNAL DEBT MANAGEMENT

External debt management has become a major responsibility of the Central Bank of Nigeria (CBN) in recent times, necessitating the setting up of a Department in the Bank to undertake the functions in collaboration with the Federal Ministry of Finance. External debt management is intricate and requires careful planning. It involves a conscious and carefully-planned schedule of acquisition, deployment and retirement of loans contracted either for developmental purpose or to support the balance of payments. External debt management involves estimates of foreign exchange earnings, sources of external finance, and the repayment schedule. It also includes an assessment of the country's capacity to service existing debts and a judgment on the desirability of contracting further loans.

Nigeria's external debt management strategies have changed from time to time since the early 1980s when the debt crisis became pronounced. However, comprehensive guidelines were introduced in February 1988 with the following policy objectives: to evolve strategies for increasing foreign exchange earnings thereby reducing the need for external borrowing; the stipulate the criteria for borrowing from external sources and determine the type of projects for which external loans may be obtained; to outline the mechanism for servicing external debts of the public and private sectors; to define the roles and responsibilities of the various organs of the Federal and State Governments as well as the private sector; in the management of external debt. The following guidelines were issued as regards government borrowing:

a) Economic sector projects should have positive internal rate of return as high as the cost of borrowing;

b) Social services or infrastructure would be ranked on the basis of their cost/benefit ratios;

c) Projects to be financed with external loans should be supported with feasibility studies (which include loans acquisition, deployment and retirement schedule);

d) External loans for private and public sector projects with quick returns should be source from the international capital markets, while loans for social services could be source from confessional financial institutions.

e) Borrowing by state governments, parastatals, and private agencies should receive approval of the Federal Government to ensure that the borrowing conforms with national objectives. Approvals granted to the private sector do not constitute Federal Government guarantee of foreign currency undertaking.

f) State governments' borrowing proposals should be submitted to the Federal Ministry of Finance and the Central Bank of Nigeria for consideration before they are incorporated in the final public sector borrowing for the annual budget.

g) State governments and their agencies as well as federal parastatals should service their debts through the Foreign Exchange Market (FEM) and inform the Federal Ministry of Finance for record purposes. For failure to service their debts, the naira equivalent would be deducted at source before the balance of their statutory allocations are released.

h) For loans on-lent by the Federal Government to state governments, the Federal Ministry of Finance would make due payments and deduct the full amounts at source from their statutory allocations.

As for the private sector, industries that are export-oriented should service their debts from their export earnings, while others should utilize the FEM facilities to service their debts.

i) Embargo on New Loans

The embargo was to check the escalation of total debt stock and minimize the problem of additional debt burden. This policy was applied in 1984 to state governments' borrowing from external sources. Occasionally, the Federal Government fixes the maximum level of debt commitment for both the Federal and State Government. In 1978, the limit was $5.0

billion for the Federal Government, and in 1982, it was $200 million for any state government. This stipulation has remained in force.

i) Limit on Debit Service Payments

This requires setting aside a proportion of export earnings to meet debt service obligations to allow for internal development. In this regard, the state governments were required in 1980 to spend not more than 10 per cent of their total revenue on debt service payments. Based on the agreement with the Federal Ministry of Finance, a defaulting State Government can be bailed out, although the amount in default would be deducted at source from its statutory allocation. In the case of the Federal Government, a maximum of 30 per cent of export earnings could be allocated for debt servicing.

iii. Debt Restructuring

Debt restructuring involves the reduction in the burden of an existing debt through refinancing, rescheduling, buy-back, issuance of collateralised bonds and the provision of new money.

iv. Refinancing

A refinancing arrangement involves the procurement of a new loan by a debtor to pay off an existing debt, particularly short-term trade debt. The new loan may be contracted from the same creditors or a new set of creditors as the case may be. The repayment of such debts normally negotiated with the creditors is contained in the loan agreement. The first refinancing arrangement by Nigeria was in July 1983, followed by the second agreement in September of the same year. In both agreements, US$2.1 billion worth of trade arrears on confirmed letters of credit were refinanced. The applicable interest rate was 1.5 percent above the London Inter-Bank Offer Rate (LIBOR). By 1986, Nigeria had repaid the total amount involved in the two agreements. Other refinancing agreements have been contracted to ease the debt burden.

v. Debt Rescheduling

The rescheduling of debt involves changing the maturity structure. The debt is usually spread over a longer period until it is finally liquidated. For example, in 1986 debt worth US$1.6 billion due to the London Club and payable in 1987 was rescheduled to extend to 1996 with a 4 year grace period. Other rescheduling agreements, involving the London and Paris Clubs, have also been concluded.

iii. Debt Buy-Back, Collateralization and New Money Options

Debt Buy-Back arrangement implies the offer of a substantial discount to pay off an existing debt.

4.8 DATA ANALYSIS

4.8.1 The Impact of Domestic Debt on the GDP

Our major concern here is to analyze the impact of Nigeria's domestic debt on key economic indicators. These key economic indicators include the GDP, inflation, the financial sector and interest rate. In Nigeria, as in other countries, there are various economic indicators of domestic debt stock and the fiscal deficit to the nominal GDP and Federal Government retained revenue. Available data showed that in the early 1970's the proportion of the nominal GDP used to liquidate the domestic debt was relatively small. For example, it was only 5 per cent in 1970.

But by 1991, it has jumped to an unprecedented high of 38.2 per cent CBN (1994). Since 1992, there has been a rapid increase in the internal component of Nigeria's public debt. This therefore requires that the proportion of the GDP to be used in serving domestic debt will also rise. If a large proportion of nation's GDP is devoted to domestic debt servicing, this will adversely affect other economic indicators. Specifically, it will lead to a decline in total output of goods and services. The trend in Nigeria's Gross Domestic Product by sector of origin for the period 1963-1992 is shown in the Table below.

year	agriculture	mining & quarrying	manufacturing	utilities	construction	services
1975	27.3	21.7	3.7	0.3	8.5	36.7
1976	24.8	24.9	3.6	0.3	9.5	35.1
1977	25.5	24.7	4.2	0.3	9.3	35.7
1978	24.8	25.0	4.2	0.3	9.1	35.4
1979	22.5	28.4	4.3	0.4	8.0	35.6
1980	22.2	26.8	4.5	0.4	8.5	36.5
1981	23.3	20.7	4.8	0.5	9.2	40.1
1982	28.1	18.7	4.5	0.6	4.8	35.2
1983	31.7	15.7	3.9	0.8	3.6	38.1
1984	35.7	15.8	4.5	0.9	1.7	36.4
1985	35.1	16.5	4.4	0.7	1.7	35.4
1986	36.3	12.0	3.5	0.7	2.3	37.2
1987	29.6	27.9	5.4	0.6	2.3	30.5
1988	34.1	21.2	5.4	0.4	1.7	34.8
1989	25.4	35.7	4.9	0.4	1.7	30.2
1990	25.6	36.0	5.3	0.5	1.6	30.8
1991	24.9	37.6	5.1	0.4	1.5	29.1
1992	22.1	42.1	5.4	0.4	1.4	27.0

Sources (1) Statistical and Survey Unit, ONIDO
(2) Economic and Social Statistics Bulletin, 1988 Edition, Federal Office of Statistics, Nigeria
(3) Central Bank of Nigeria CBN, Statistical Bulletin Vol. 4 No.1 (June 1993).

4.8.2 Domestic Debt and Inflation

There is no precise definition of inflation in the economic literature. According to Solomon (1980) inflation can be defined as a situation when the general price level rises. But Ajayi and Ojo (1981) have defined inflation as a situation when there is a substantial rise in price. The consensus, however, is that inflation occurs when there is an increase in the general level of prices of goods and services in all sectors of the economy.

Inflation is not a new phenomenon in Nigeria. In recent years, however, the rising rate of inflation in Nigeria has caused great concern not only to policy makers but the lay-public as well. Furthermore, in recent years, the major causes of inflation in Nigeria have been a subject of major debate. According to Fashoyin (1986), one major cause of inflation in Nigeria is urbanization. But to many however, the rapid increase in fiscal deficits is the major cause of inflation in Nigeria. Fiscal deficits can either be financed by expansionary fiscal policy or expansionary monetary policy. In past few years, the fiscal deficits of the Government had been financed by expansionary monetary policy. This will have the effect of fueling inflation pressures in the Nigeria economy. For example, there was a sharp deterioration in the rate of growth of narrow money (MI) from 8.7 per cent in 1985 to 12 per cent in 1986. It expanded again in 1987 to 13.7 per cent which was very close to the stipulated target of minimum target of 13.6 per cent. The deterioration in the rate of growth of money supply was reflected in lower inflation rates which were 5.5,5.4 and 10.2 per cent respectively in 1985, 1986 and 1987 (see Table below) suggested that the overall policy of monetary contraction actually succeeded in lowering inflationary pressures during the initial years of the economic reforms. However, since 1988, there has been rapid expansion in money supply both narrow and broad money by 41.9 and 43.3 per cent respectively. Specifically, a large proportion of the money supply was used to finance Government deficits incurred during those years Unchendu (1993). The growth in Nigeria's money supply for the period, 1982-1993 is summarized in Table 6. The rapid growth in the money supply especially since 1991 was partly responsible for the rising inflation rates observed in Nigeria during the period, 1991-93. The inflation rates in those years were 13.0,44.5 and 52.7 per cent respectively. The impact of fiscal deficits

on inflation in Nigeria during the period, 1989-93 has also been explained by Zanini (1994). According to him, the sharp increase in the stock of money driven by the need to finance the fiscal deficit produced a drastic acceleration on inflation. He showed that consumer price inflation rose from 7 per cent in 1990 to 57 per cent in 1992, and 82 per cent by end of June, 1994.

Nigeria's Inflation's Rates, 1982-94

Years	Inflation Rate (%)
1982	7.7
1983	23.2
1984	39.6
1985	5.5
1986	5.4
1987	10.2
1988	38.3
1989	40.9
1990	7.5
1991	13.0
1992	44.5
1993	57.2
1994	64.5
	74.5

Resource: Central Bank of Nigeria, Lagos.

Growth In Money Supply (m), 1982-93

Years	Inflation Rate (%)
1982	3.1
1983	12.3
1984	8.2
1985	8.7
1986	-1.2
1987	13.7
1988	41.9
1989	21.5
1990	21.5
1991	32.6
1992	60.4
1993	70.5

Resource: Central Bank of Nigeria, Lagos.

4.9.3 Domestic Debt and Interest Rate

It is important to know that like any other expenditure, Government expenditure will also need to be financed. Here we assume that the Government finances its expenditure through borrowing from the public.

This is accompanied by an increase in the transactions demand for money. If the financing of this increased Government expenditure is by issuing additional bonds, this

will force the interest rate up. This will have the effect of reducing the level of investment demand. Consequently, this will partly affect the increase in Government expenditure. But the ultimate effects are new equilibrium with higher levels of income, consumption Government expenditure and interest rate. The overall effect, however, is a low level of investment Turnkey (1977). The low level of investment cause by higher interest rate will adversely affect the demand for labour. Consequently, there will be a fall in the level of employment. This has been the state of the Nigerian economy in recent years. Specifically, a large size of the domestic debt has led to a substantial increase in interest rates in Nigeria over the years.

4.8.4 Domestic Debt and Distress in the Nigerian Banking and Finance Industry

We have already established the point that the size of Nigeria's domestic debt has been increasing rapidly in recent years. As shown in Table below Nigeria's domestic debt outstanding stood at N7.9 billion in 1980. But by 1993, it has risen to N632.7 billion. Apart from the Central Bank of Nigeria, large proportion of the debts was owed to commercial banks, merchant banks and other financial institutions in Nigeria. This state of affairs will have important implications for the Nigerian banking and finance industry.

MATURITY STRUCTURE OF THE DOMESTIC DEBT OF THE FEDERAL GOVERNMENT (END-PERIOD)

(N'OOOO) PERCENTAGE

Matrity	1993	1994	1995	1996	1997	1993	1994	1995	1996	199
Up to 2 years	140,351.8	141,059.2	103,606.5	103,604.4	221,804.5	53.8	54.4	41.6	30.1	61.
2-5 years	610.0	1,130.0	850.0	850.0	850.0	0.2	0.4	0.3	0.2	0.2
5-10 years	1,050.0	1,830.0	1,210.0	18,120.0	18,120.0	0.4	0.7	0.5	5.3	5.0
over 10 years	119,081.8	115,341.7	143,108.0	221,099.7	118,253.7	45.6	44.5	57.5	64.3	32.
TOTAL	261,093.6	259,360.9	248,774.5	343,674.1	359,028.2	100%	100%	100%	100%	100

Specifically, as more money is borrowed from banks and other financial institutions by the Government, little funds are available at the disposal of these financial institutions for their effective operations. This has therefore led to financial distress in the Nigerian economy in recent years. As Gbosi (1995) put it, financial distress is a situation in which a country's financial system is unable to mobilize resources for rapid economic growth and development. In the view of Ogunleye (1994) however, financial distress is a condition when the banking and finance industry as a whole have negative capital and current profits are insufficient to cover losses to such an extent that the financial services industry is incapable of generating internally profitable capital. No matter how one defines financial distress, the underlying philosophy is that banks and other financial institutions are in bad shape. One of the major consequences of financial distress on the Nigeria economy is that people no longer have confidence in banks. Instead of keeping money in banks, people have now decided to keep their money outside the banking system. This will have the effect of frustrating the efforts of the monetary authorities in promoting monetary stability, thereby destabilizing the financial system.

In this analysis it has been shown that Nigeria's huge domestic debt has led to a decline in the nation's total output of goods and services. Available data also showed that fiscal deficits were often finance by a large proportion of the money supply. Consequently, the money supply exceeded the money demand, thereby fuelling inflationary pressures in the Nigerian economy. It has also been shown that when Government expenditures were financed by issuing bonds, this usually pushed up the interest rate thereby discouraging private investment spending. This phenomenon is usually referred to as "crowding out effect" in Keynesian economics. It was also argued that the high incidence of distress in the Nigeria banking and finance industry in recent years partly caused by large size of the domestic debt. Overall, that Nigeria's rising domestic debt in recent years has led to a poor and worsening macro economic environment. Government should expenditures be financed through external / international capital market instead of the banking system.

4.10 PROOF OF HYPOTHESIS

Zellner's reformulated model is an explicit two equation, system with one behavioural equation. Containing an un observable variable as regressor; and the other equation relating the un observable variable, through observed proxies, to observable causes with parameter restrictions across equations.

$$Y^1(t) = y^2 *(t)\,\alpha + Z^1(t)\,\lambda\,(+)\mu_1(t) \text{------(1)}$$

$$Y_2(t) = y_2 *(t) + \mu_2(t) \text{.....(ii)}$$

$$Y_2 *(t) = X^1(t)\,\beta \text{.....(iii)}$$

Where,

y_1, y_2 = observed dependent variables

Y_2* = Unobservable variable (negressor)

X = H x 1 vector of observable non-stochastic explanatory variable

μ_1, μ_2 = error terms (assumed white noise)

α = a scalar parameter

β = G x 1 vector parameters

λ = H x 1 vector parameters

t = Index of number of observable non-stochastic explanatory variable.

Thus, the above equation could be written in matrix form as:

$Y_1 = X\theta_{11} + Z\theta_{12} + V_1$.....(iv)

$Y_2 = X\theta_{21} + V_2$.....(v)

Where,

Y_1, y_2, y^*_2,are Nx1 vectors of observable and unobservable endogenous and predetermined variables,

X is an NxG matrix of observable explanatory variables

Z is an NxH vector of observable explanatory variables;

$V_1, v_2 = U_1\ U_2$ are BX1 vectors of disturbances.

If the matrixes are define as:

$Y = (y_1, y_2)$, $V = (V_1, V_2)$, $\theta_1 = (\theta_{11}, \theta_{12})$. $\theta_2 = (\theta_{21}, 0)$

And $\theta = (\theta_1, \theta_2)$, then we may write as

$Y = (X/Z)\ \theta + V$.....(vi)

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This matrice of reduced form inefficients is over identified

The structural Econometric time series

This decade has witnessed a growing synthesis of econometric modeling with the box jenkins modelling. Inparticular, developing ARIMA models for the endogenous variables of a dynamic smultaneneous equation system.

For instance, if we consider an econometric structural representation of the form;

$B(L)\ y_t + C(L)\ X_t = \mu_t$.....(vii)

Then, through its reduced form and under regularity conditions, a final form equation which gives a set of multiple input transfer functions or rational distributed lag "equations" with the special characteristics that the denominator polynomials are the

same for every input variable and error term and in every equation assuming that no cancellation of common factors occur.

$$y_t \quad -\frac{b(L)c(L)}{|B(L)|} X\tau + \frac{b(L)}{|B(L)|} \mu\tau \ldots\ldots\ldots\ldots (viii)$$

Thus, if the exogenous variable of the model in (VII) have an ARIMA (p,d,q) representation then its structural form could be regarded as specialisation of a multi-dimensional multiple time series model.

The above approach supposes that the structural econometric model are special cases of multivariate time series process in which a priori restrictions have been imposed on the parameters. Thus, a simultaneous econometric structure model embracing the usual input from economic theory is developed amidst the derived and implied properties of the corresponding ARIMA equations. Subsequently, time series methods are then used to estimate the ARIMA equations which are then checked for consistency with the restrictions implied by the econometric model.

Starting from a dynamic equations I-III. This study would derive an ARIMA representation which would be used in studying the relationship between nation debt and economic growth, after uniquely determining the structural parameters of the model.

4.10.1 THE PROOF

A model for nation debt and growth could be developed from two mutually exclusive perspectives.

HI =) that external borrowing supplement domestic savings would stimulate economic activities, in particular production, which in turn would had to increase GDP.

H2 =) that the nation is heavily indebted, were borrowing indiscriminately without accompanying capacity for repayment a situation which led to a growing debt burden and decline in investment.

H3 =) that the total debt of the nation is known.

It should be noted that this is not to suggest that increased debt burden was solely responsible for decline in investment as high world interest rates and perhaps declining export prices in the country could played an important role. Investment could have boosted production if properly utilised. The transmission mechanism, therefore becomes obvious, that is borrowed funds in itself when invested in productive activity could lead to the growth of an economy.

Assumptions: If the total debt stock is not known, then it could be safely assumed to be unobservable and thus relate as;

a) growth in GDP ($\vartheta^*\tau$) to the unobservable total debt stock ($d^*\tau$),

b) Observable total debt stock ($d\tau$) as a function of the unobservable total debt stock ($d^*\tau$),

c) Total debt stock in a current year ($d^*\tau$), as the sum of the total debt stock in the proceeding year ($d^*\tau$-1) and net foreign public sector borrowing in the current year (bft).

The above three relation meet the criteria of equation (I-III) specification and could be written in a structural econometric forms, with lagged endegenous variable for the growth rate of GDP as indicated below:

$$g_t = a_1, g_{t-1} + a_2 d_t + \mu_{1t} \quad \text{.....(IX)}$$

$$d_t = d_t + \mu_{2t} \quad \text{.....(X)}$$

$$d_t = a_3 d_{t-1} + a_4 bf_t \quad \text{.....(XI)}$$

where,

a_1, a_2, a_3, a_4, are elasticities with

$a_1, >o, a_2>0, a_3 = a_4 = 1$

Alsoμ_{it}, μ_{2t} are error terms, assumed well behaved. GDP growth rate is in real form, and log linearly related to the other variable in the model.

The above equation are structural forms and is form of zellner error-in-variable structural formulation).

Assume also that all variable in the model are intrinsically linear and that the conditions for invertibility and stability are observed so that the inferential procedures become valid, then the reduced form equation could be derived from the structural equations by substituting (X) in (XI) and IX), and the derived antoregressive moving average models (ARIMA) could be written as:

$g_t-\phi_1 g_{t-1}+\phi_2 g_{t-2}+\phi_3 g_{t-3}=\theta_0+\mu_{1t}-\theta_1\mu_{1t-1}+\theta_2\mu_{1\,t-2}$--------(XII)

and

$d_t-\phi_1 d_{t-1}+\phi_2 d_{t-2}=\phi+\mu_{2\,t}-\phi\mu_{2\,t}$----------(XIII)

where

$\phi_1=1+a_1+a_6, \phi_2=a+a_6+a_1 a_6, \phi_3=a_1 a_6, \phi_1^{1}=1+a_6$

$\phi_2^{1}=a_6\theta_0=a_2 a_5,\ \theta_0^{1}=a_5,\ \theta_1=1+a_6,\ \theta_2=\theta_1=a_6$

TABLE A: RESULTS FOR ARIMA (3,1,2) and (2,1,1) MODELS

Statistics	ARIMA 3,12.)	ARIMA 2,1,1
No of Iterations before convergence -	8	8
Mean	0.2322	0.3379
Standard deviation	0.1846	0.3609
Residual Sumsquares	0.5735	2.5472
Variance of such squares	0.0302	0.1213
Standard Error of Residual	0.1737	0.3483
Co-efficient of Determination	0.3000	0.1900
Durbin-Watson Statistics	1.9400	2.0046
F-ratio	1.6200	1.5900
Log Likelihood	11.7131	-6.9247
Constant	0.1591(0.9907)	0.1663(2.3847
Phl (1)	0.0148(0.9847)	
Phl (2)	0.0148 (-0.0443)	
(3)	0.7115 (3.6100)[a]	
Theta (1)	0.4673 (-1.2777)	
Theta (2)	0.1886 (0.5299)	
Phi (1)		
		0.6767(3.1980)[a]
Theta (1)		0.1379(0.6050)
		0.9374(31.2800)
Theta (2)		
Significance at 5%		

TABLE (b) Determination of co-efficient of growth in GDP lagged one period.

Variable			
Co-efficient of Growth in GDP	$\theta_2=\theta_2^1=a_6$		
	- 0.1866	-0.1379	0.9374
Lagged one period (gt-1)=α1	-5.3780	-5.1595	0.7574

*The value of a_6 that was significant from the ARIMA results in table a was used for determining a_1

**$\phi_3 = a_1 a_6 = 0.7115$.

Table (c) Determination of Co-efficient of Total debt stock

Coefficient of Total debt Stock (d^*_t) = a_2	$\theta o = a_2 a_5$	$\theta o = a_5$
0.9567.	0.1591	0.1663

*Data for this work were presented and some were obtained from International Financial Statistic and world debt tables (current editions) and spanned 1971-1996. Also conditional sums of squares estimation technique available in time series processor (TSP) version 4.3 was used for analysis.

4.11 ANALYSIS OF RESULTS

The paremeters of ARIMA models, derived from structural equation were estimated from where the structural parameters were obtained to determine the effect of debt stock on economic growth. The result are presented in table a, b and c.

Table A. Shows that in both model convergence was achieved after eight iterations. The explanatory power was 30% and 19% for ARIMA (3.12) AND (2,1,1) respectively. However, for a maximum likelihood estimation, the likelihood ratio test[2] provides an indication of the goodness of fit of a model. As shown in table, this were significant for the derived ARIMA models. Also, there was no presence of serial correlation for the two models as shown by the Durbin Watson Statistics. Also, PH_1 (3), (1) and theta (1) were significant at the 5% level while the constant term was only significant for ARIMA (2,1,1).

From table A. using the value for Phi (3), which was significant appropriate substitution, the structural parameters were derived and are presented. In table B and C. The tables show that the co-efficient of growth lagged one period was 0.76 within appropriate sign. Thus, the Nigeria economy would grow by 0.76 for every one unit growth in the preceding year. In the face of growing debt, the growth of the economy depends on its growth in the preceding year. There is thus, a positive relationship between current income growth rate and past income growth rate.

The positive relationship between debt stock and economic growth conforms with a priori expectation. The result in table C show that the economy grows by 0.96 for every unit increase in debt stock. The debt stock elasticity of growth responsive to changes in debt stock in Nigeria.

4.11.1 ECONOMIC IMPACT:

The empirical finding has shown that the degree of responsiveness of growth to external finance in Nigeria is elastic. This is indeed revealing.

The place of external resources in economic growth and development is properly located. Thus, earlier results seem to have been abnormal cases which needed a re-examination as done in this thesis.

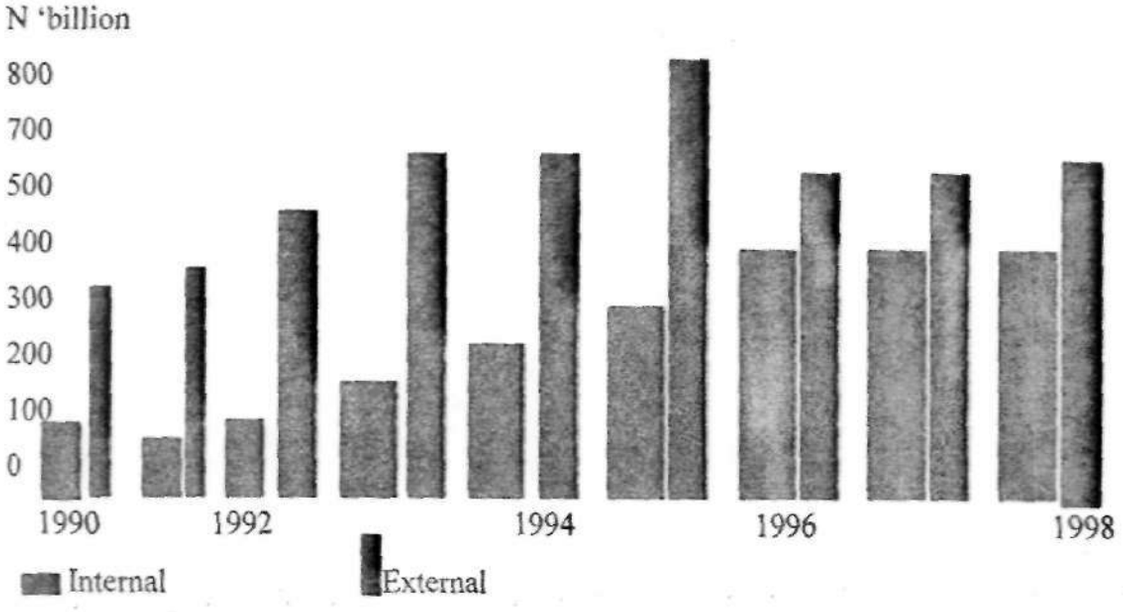
The degree of growth elasticity could have been higher if leakage probably did not exist. The federal ministry of finance put the amount within this category at $836 million as at December, 1996. Admittedly this should lead to decline in the economy, but given the ratio of the said amount to the cumulative flow of external resources within the period of analysis, this would have a negligible effects on the results of the analysis.

Moreso, officials from the federal ministry of finance and the Central Bank of Nigeria (CBN) in 1996 visited some countries. This team visited a number of countries representing about 94.3% of Nigeria's Paris Club debt stock.

Variations occurs in terms of the debt, our figures far is above that of the creditor countries. This virtually occured because Nigeria stopped the servicing of her rescheduled and non-rescheduled debts. Most of the creditors did not include delay and penalty interests in their debt figures, infact, a number of them especially waived them or gave on indication that they would be waived. Such changes are normally calculated only when payments are received. Overall, the outcome of the research and the reconciliation confirmed that the nation figure is infact on the high side. Therefore, based on the outcome of the reconciliation, Nigeria's external debt stock to members of the Paris Club of creditors debts had been paid off but which were still in our debt stock) stood at the equivalent of Us$27,087.8 million (N595,931.6 million) as at end December, 1997, while external debt service payments for the half of the year amounted to US$508.47 million compared with US$719.16 million in the corresponding period 1997. Data currently on

external debt outstanding showed that the debt stock at end December 1997 stood at US$ 27,087.8 million (N 595,931.6), while the external debt service paymrnts for the first half of the year amounted to US$ 508.47 million in the corresponding period of 1997.

PUBLIC DEBT OUTSTANDING



CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF RESEARCH FINDINGS

The size, Economic impact and management of debt had become one of the most crucial macro economic issues in Nigeria of particular interest is the worsening of the debt burden whereby the rate of debt accumulation has a significant the rate of growth of debt service capacity such as the rate of growth of gross domestic product (GDP), interest rates, commodity price and exports. Given the persistence of this undesirable trend in the country, its implications for the economy have been of concerned to the researcher.

Little attention is being paid to the fact that the demand for debt is derived from the need to finance development. Debt however, should be realize is only one of the several options available for growth and development if a country is a saving deficit Nation.

One can readily understand the urgency behind the research for economic impact of Nation debt on growth and development. Such impact are positive and some negative depending upon the implementation of the policy.

The major objectives of this thesis was to analyze the impact of the nation debt on the Nigerian macro economic environment. It was not possible for the researcher to cover all aspect of the Impact of the nation debt on the macro economic Indicator within the scope of the study. Nevertheless, an attempt has been made to analyze the impact of Nigeria's huge debt on major macro economic variable. Such as gross domestic product (GDP), domestic price, inflation, interest rate and the financial sector.

Nigeria like most other developing countries has also been and still may be, referred to as "emerging nation" "impoverished", "underdeveloped", "non-Industrial", "third world" or "non-alleged nations". The reason behind such choosing terms is never an innocent activity, words are laden with values, interest and prejudices. The terms

underdevelopment evokes both a situation of under achievement and a call to action; at the same time as it suggest a status of inadequacy and subordination, it insinuates a comparison. That which is underdeveloped can only be defined and understood only in terms of that which is developed.

For a nation to developed there are certain valuable that must be fully utilize and turn into productive uses, as noted by Walf Whitman Rostow (1960) "all nation must necessary undergo five successive stages in order to reach full development, notable among the stages is the preparatory stages that correspond to the beginning of industrialization take off, or development.

During the preconditions stages, the traditional economy breaks down and is replaced by other forms, in this stage there must be a rapid increase in the productivity of agriculture, food production, must grow faster than population so that agricultural surpluses are available. These surpluses enable the nation to start investment in capital goods, new technology must be adopted entrepreneurs must appear who will put every thing, together and direct the development of the economy.

Take off occurs when the rate of investment reaches 10-12 percent of national income. The heart of the matter as observed is that underdeveloped countries do not manage to produce the mass of capital necessary for take off. Why are they unable to mobilize and invest national savings? There is one basic reason. These savings does not exist, or if they do, they are so rare that trying to glean are obvious.

The above reason makes the nation technically and economically a saving deficit unit that directly or indirectly depend on the saving surplus unit for assistance both internally and externally. Domestic and foreign assistance which this thesis largely depend upon and analysis was based.

Domestic borrowing constitutes the principal alternative to the tax revenue as a source of governmental receipts. It represents a means of obtaining the additional foreign exchange

resources required to maintain a high rate of development and at the same time close the gap between the demand for imports thus, generated and regular export earnings.

Foreign borrowing in the growth process is that attributed to private investment which has served as a direct agent for the transfer of new techniques and new organizational patterns, it goes beyond reasonable doubt, that, the availability of or access to external capital has a strong influence on development planning. The experience of the newly industrialized countries (NICS) of Singapore, Taiwan and South Korea bears testimony to this point.

Human and natural resources both depend on financial resources to be converted into productive use, the issue of borrowing is technical and technological capacity was so severe and over stretched in relation. Nigeria's development effort that it had to, inspite of development of financial abundance, rely on borrowing these special skills as well as capital. It follows, therefore, that there is nothing conceptually wrong with external borrowing but the issue at anytime is whether the nation debt so raised and the consequential inflow arised from the borrowings result in debt serving problems. This also depend on the country policy, and debt management.

The origin of Nigeria's internal borrowing dates back to 1946 when the first Development Stock of N600,000 was floated. The first treasury Bills and certificates worth N8 million and N20 million, respectively were issued in 1960 and 1968. Since then, Nigeria's domestic debt had grown very rapidly, reaching over N411,604.1 million as at end of June, 1998, reflecting increases of 2.7 percent over the level at end of June, 1997.

The increase in domestic debt reflected the rapid expansion in development programmes of both the federal and state government and changes in the macro economic environment as well as the practice of rolling over previous debt.

Domestic debt were raised principally through the issuance of treasury bills and certificate. However, with the conversion of outstanding treasury certificates into treasury bonds in 1996, treasury bills and bonds have constituted the largest sources of domestic debt, and the Central Bank of Nigeria remains the largest holder of these debt instrument owing to its underwriting role.

The origin of Nigeria's external borrowing dates back to the colonial era the first of its kind was the world bank loan of 1958 which was used for Nigeria Railway extension to Borno indicating a significant impact of external capital in development of Nigeria. Since then, the Nigerian external debt increases significantly since independence in 1960 from 42 million at the end of 1961, it grew to 226.5 million by April 1, the research work was able to reveal that, in 1962-1668 half of the total projected capital expenditure of all the federal and regional governments was expected to come from this source.

Owing to the oil glut, which exerted considerable pressure on government finance, it becomes expedient to borrow for balance of payments supports and project financing.

Today, Data on external debt outstanding stood at over US$28,773.54 dollar. Nigerian external creditors have invested sum N2,448 billion (US$37,215 million) in various sectors of the economy. The amount which was invested in areas such as manufacturing finance, cash gifts and grants, sub-sector was executed through the country Department conversion programme (DCP).

The debt stock of the country is therefore, determined by the movement of currencies in the capital market. For instance, the appreciation of the dollar against the yen by 29% in which some of the loans are denominated has led to a reduction in the country debt stock. The net effect of the depreciation of most of currencies in the country debt stock against the US dollar. The country external debt stock have reduced the overall debt stock from USD28.000 billion in December, 1996 to USD27.012 billion in June, 1997 and again rose to USD 28,773.54 IN 1999.

Findings reveals that a total of 145 projects financed with the equivalent of USD 13,721.49 million were appraised.

The findings shows that the projects were categories into three grouped, namely failed project, Distressed projects and successful projects. The projects classified as "failed projects" were those that either never had sites, or where the sites were ever cleared, the projects were really never executed. The external loan proceeds were in most cases drawn and unaccounted for. Although 18 projects were included in the category, financed with external loans amounting to the equivalent of over USD 836.17 million.

Forty-three projects, financed with the equivalent of over USD4,446 million were classified as distressed. In most cases, the projects were implemented up to the stage of commissioning but they were either never commissioned or where they were, they had to close down soon thereafter. They were in most cases run down by their management staff usually in collusion with government functionaries. Most of such projects could still be revived or made to operate economically. Meanwhile they were not functioning but their covering loans and credits are being serviced. All the expectation from the projects in terms of their contribution to government revenue, labour employment and the overall growth and development of the economy were in suspense.

Thirdly, some project were classified as successful were those that were still operational at whatever capacity level during the research findings. Here, "success" means survival, rather than economic levels of operations, although these project were operating at high levels of capacity utilization and were consistently making reasonable profits, a good example of such projects are irrigation and water supply project financed.

5.2 CONCLUSION

This study has re-examined the economic impact of nation debt on economic growth using a methodology that yields more efficient parameter estimates. The relationship was positive and the degree of responsiveness was elastic. Therefore, the researcher proposed that the government strategy which should include feasibility study of projects to be financed from external resources since the prospect for economic growth from externally injected resources invested in productive venture is very bright.

The general characteristic of the nation in terms of low level of income to it citizen, how level of capital formation, and high level of poverty, the only way out is for the country to source enough resources for development domestically.

In general, National borrowing will normally bring about growth and development. However, extent would be determined by the use made of the acquired resources. Moreso, in the recent globalisation, the benefits will of course not be possible for Nigeria to benefits if Nigeria decided to opt out of foreign and domestic borrowing.

5.3 RECOMMENDATIONS

i. Policies implemented in 1996 that brought a reduction of debt stock from USD 326.6 billion to 28.060 billion must be implemented as this will continue to reduce the debt burden of the nation.

ii. Where external borrowing becomes inevitable a mechanism for its orderly acquisition, it must be deployed to productive ventures and retirement of such debt must be in conformity with agreed terms of each loan to be put in place.

iii. More effective and efficient with adequate debt servicing capabilities will assist the overall debt management and this can result into achieving high rate of economic growth predicted on endogenous forces and expert orientation without necessarily applying deflationary policies to constrains import.

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iv. The government must also channel tax funds directly into capital investment to maintain or increase economic growth. It must build roads, bridges, and other public facilities for example. Or it must directly subsidize expansion and development of private industries. The government must simply attempt to stabilize the economy in order to reduce the risk to those who undertaken capital formation.

v. The nation should ensure an optimal mix of financing sources. To achieve this, each financing sources should be used up to the point at which the marginal cost is equal among all the sources and also equal to the marginal benefit to the nation. This benefit may be in terms of rate of growth of GDP, exports or other indicators of ability to service debt.

vi. Direct foreign investment should be seen as a closed and more appropriate source of financing economic development.

vii. What should be of more policy relevance now to the Nigeria is how to utilize the external capital. The policy of strict projects linked external financing should be adhered to.

Moreso, Government should concentrate on improving the domestic economic environment with the aim of attracting private foreign resources, especially in the form of direct private investment as well as actively concentrating long-term debt for investment in the productive sector of the economy.

viii. Government must avoid indiscriminate and unprofessional debt accumulation and evolve new growth-oriented frame work anchored primarily on debt sources of development financing that is maximizing your income with little investments capital.

ix. There is compelling need to resume negotiations on a long-term sousing of foreign debt and put in place a well articulated strategy for managing the funds.

x. Financing techniques of risks of debt management are sophisticated, and when they are used in appropriately there can be serious losses. It is important that government and the society to develop a solid knowledge of international commodity, foreign exchange and financial markets and there is the need for an appropriate institutional frame work.

xi. To manage debt effectively, authorities must project the time profile of debt service obligations, they must accurately forecast export earnings, domestic revenues and future access to finance. They must also monitor the potential for prepaying or refinancing their debt to take advantage of new borrowings on better terms.

xii. When considering an external borrowing program Nigerian government must bear in mind that projected net export earnings, (perhaps augmented by more-borrowings and other foreign finance) must be sufficient to accommodate debt service obligations. Moreover, projected government revenue must be enough to provide the local currency equivalent of the government's own debts service obligations, which will be met more easily if the projects financed are successful. Even where returns are more than adequate to cover costs, however, the government's difficulty in raising adequate revenue may severely limit its ability to service debt.

xiii. To manage debt effectively, authorities must project the time profile of debt service obligations, they must accurately forecast export earnings, domestic revenues and future access to finance. They must also monitor the potential for prepaying or refinancing their debt to take advantage of new borrowings on better terms, to adapt loan maturities to project revenues or to cope with shortfalls in earnings from exports or unanticipated expenditures on imports.

xiv. Government must view foreign borrowing in the broader framework of overall

economic policy. Debt problems rarely arise when policies are chosen so that key economic variables (especially interest and exchange rates) convey true economic costs to decision makers and when governments underpin their public investment programs with effective measures for resource budgeting and for raising domestic savings. But, as the debt crisis showed, countries can find that they have "over borrowed" in deteriorating economic circumstances, and that they have become vulnerable to painful deflationary pressures and slow growth. Beyond good macro economic policy, the effective management of external debt comprises three specific interrelated process-selecting the appropriate financing, deciding how much to borrow, and keeping complete and up-to-date records on debt.

xv. Authorities must also ensure that the aggregate financing package meets national financial priorities. This involves an assessment of such aspects as: the sources of finance, including the amounts that can be borrowed and the prospects for future supply; the currency composition of foreign borrowing that would minimize exposure to exchange-rate fluctuations; the exposure to interest rate fluctuations over the life of the loan; and the impact of new borrowing on the structure of debt service obligations.

xvi. debt data must be needed for assessing current foreign exchange needs, projecting future debt service obligations, evaluating the consequences of further foreign borrowing, and the management of external risk.

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TABLE 1: HOLDINGS OF DEVELOPMENT STOCKS

(₦' million)

Year	HOLDERS																
	Central Bank	Commercial Banks	Merchant Banks	Individuals	Insurance Companies	Savings Bank Institutions	State and Local Governments	Statutory Boards and Corporations	Other Corporations & Co-operatives	Agric Credit Guarantee	Bureaux de Change	Federal Government	Other Public Authorities	Odd Lots not yet classified	Total Domestic	Foreign	Grand Total
1960	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1961	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1962	-	0.9	-	0.4	0.5	25.1	0.3	10.5	0.2	-	-	-	-	-	37.9	-	37.9
1963	7.2	1.1	-	0.4	0.6	41.6	0.5	14.3	1.7	-	-	-	-	-	67.4	1.3	68.7
1964	27.5	1.1	-	0.4	1.1	56.4	4.2	14.1	1.3	-	-	-	-	0.3	106.4	1.5	107.9
1965	38.0	1.1	-	0.5	2.2	70.0	8.1	15.0	1.2	-	-	-	-	0.1	136.1	1.7	137.8
1966	42.5	4.9	-	0.6	2.8	89.7	10.7	11.4	1.5	-	-	-	-	-	163.1	2.8	165.9
1967	61.0	7.3	-	0.5	3.0	109.6	10.3	10.6	1.1	-	-	-	-	-	203.4	1.5	204.9
1968	81.9	2.9	-	0.5	3.3	121.7	2.2	11.4	3.1	-	-	-	-	0.2	227.2	2.7	229.9
1969	77.2	3.9	-	0.5	3.4	145.5	13.3	13.0	0.2	-	-	-	-	0.1	256.1	2.7	258.8
1970	74.2	7.3	-	0.7	9.6	166.2	18.9	14.0	3.0	-	-	-	-	0.1	293.9	1.1	295.0
1971	100.2	8.8	-	0.8	10.3	198.5	18.2	10.3	5.7	-	-	-	-	1.8	353.6	0.3	353.9
1972	121.6	8.6	-	0.9	12.6	237.7	21.2	10.9	5.1	-	-	-	-	1.4	419.0	0.7	419.7
1973	69.5	5.8	-	1.5	14.0	226.2	13.1	10.2	4.7	-	-	129.8	-	6.3	481.1	1.6	482.7
1974	0.1	10.6	-	1.1	19.4	328.1	3.1	9.4	4.7	-	-	206.9	-	2.7	576.2	0.6	576.7
1975	309.8	74.3	-	2.0	23.4	367.1	3.6	9.8	7.9	-	-	141.0	-	4.3	943.2	0.6	943.7
1976	451.9	142.1	-	1.8	38.7	686.5	5.2	17.6	5.1	-	-	55.8	-	-	1,358.7	-	1,358.7
1977	216.3	243.4	6.6	1.6	57.3	572.9	3.5	8.9	16.5	-	-	-	601.5	30.9	1,489.4	1.1	1,490.5
1978	826.6	143.5	0.5	1.7	69.3	680.0	3.9	9.3	10.4	-	-	9.2	419.6	10.5	2,184.1	1.1	2,185.2

TABLE 1: HOLDINGS OF DEVELOPMENT STOCKS (Cont'd)
(N' million)

Year	HOLDERS																
	Central Bank	Commercial Banks	Merchant Banks	Individuals	Insurance Companies	Savings Type[1] Institutions	State and Local Governments	Statutory Boards and Corporations	Other Corporations & Companies	Agric. Credit Guarantee	Bureaux de Change	Federal Government	Inter-Fund Funds with CBN	CBN Sales not Yet Classified	Total (Domestic)	Foreign	Grand Total
1979	1,410.8	272.4	0.5	2.2	75.0	760.8	3.9	12.6	7.9	22.6	-	-	191.5	24.8	2,785.0	-	2,785.0
1980	1,381.3	524.8	1.5	2.4	82.4	845.4	3.3	12.6	8.2	23.3	-	-	181.6	2.2	3,069.0	-	3,069.0
1981	1,529.1	361.9	1.5	4.8	103.0	1,108.2	3.4	8.0	28.2	23.3	-	-	181.6	-	3,353.0	-	3,353.0
1982	1,658.6	328.8	1.9	3.6	99.4	1,250.3	3.1	7.8	62.9	98.9	-	-	41.6	0.1	3,557.0	-	3,557.0
1983	1,768.6	301.6	3.3	5.2	104.4	1,406.3	2.6	9.4	66.4	106.7	-	-	39.8	36.5	3,850.8	-	3,850.8
1984	1,536.6	272.1	1.1	5.2	100.9	1,586.2	2.6	9.4	57.6	112.0	-	-	40.4	58.9	3,783.0	-	3,783.0
1985	1,613.4	395.7	33.0	8.0	152.5	1,833.2	2.2	7.0	109.5	119.7	-	0.0	42.5	2.3	4,319.0	-	4,319.0
1986	1,618.3	545.7	11.7	10.5	190.4	2,021.9	6.2	7.4	270.9	135.5	-	0.0	45.6	(55.1)	4,809.0	-	4,809.0
1987	1,550.3	537.2	5.1	44.6	194.7	2,225.2	5.7	18.3	135.2	43.0	-	0.0	8.6	141.1	4,909.0	-	4,909.0
1988	1,450.9	404.9	13.6	8.3	216.8	2,337.5	13.7	14.5	160.9	154.5	-	0.0	37.4	(53.0)	4,756.4	-	4,759.4
1989	1,484.9	39.5	6.1	8.0	228.1	2,390.3	8.0	38.8	192.3	167.6	-	0.0	36.0	29.4	4,629.0	-	4,629.0
1990	1,497.8	156.8	6.7	6.9	157.6	2,342.1	33.9	22.1	145.1	48.8	-	0.0	6.9	(82.0)	4,376.7	-	4,376.7
1991	807.9	33.5	6.4	6.7	163.2	2,118.3	37.2	21.9	156.7	4.6	28.1	-	47.1	489.4	4,221.0	-	4,221.0
1992	1,115.1	29.5	3.6	6.1	152.8	2,203.2	37.2	21.3	130.8	4.6	34.6	-	47.7	54.5	3,961.0	-	3,961.0
1993	1,506.2	159.0	0.0	5.9	119.3	2,155.2	37.4	20.6	132.4	3.0	39.3	-	69.3	(386.6)	3,731.0	-	3,731.0
1994	1,140.8	15.1	0.0	5.2	233.0	1,693.8	8.6	5.8	125.7	2.6	78.8	-	118.4	(248.8)	3,350.0	-	3,350.0
1995	1,377.6	14.0	0.0	4.5	75.4	1,638.0	1.1	7.0	19.1	1.6	30.3	-	1,377.6	(1,276.8)	3,170.0	-	3,170.0

1 Includes co-op. thrift and savings societies, Post Office savings Bank, pension funds, staking funds, schools, union and religious organisations, insurance and commercial banks for nominees

TABLE 2: HOLDINGS OF TREASURY BILLS OUTSTANDING (1960-1995)
(N' million)

Year	Total	HOLDERS																	
		Central Bank	Commercial Banks	Merchant Banks	Individuals	Insurance Companies	Savings Type[1] Institutions	State and Local Governments	Statutory Boards and Corporations	Other Corporations & Companies	Agric. Credit Guarantee	Bureaux de Change	Federal Government	Inter-Fund Funds with CBN	CBN Sales not Yet Classified	Total (Domestic)	Foreign	Grand Total
1960	18.0	2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	2.7	15.3	18.0
1961	54.0	13.5	-	-	-	-	-	-	-	-	-	-	-	-	-	13.5	40.5	54.0
1962	45.0	9.4	-	-	-	-	-	-	-	-	-	-	-	-	-	9.4	35.6	45.0
1963	90.0	31.6	-	-	-	-	-	-	-	-	-	-	-	-	-	31.6	58.4	90.0
1964	68.0	13.2	-	-	-	-	-	-	-	-	-	-	-	-	-	13.2	54.8	68.0
1965	80.1	55.0	-	-	-	-	-	-	-	-	-	-	-	-	-	55.0	25.1	80.1
1966	125.6	98.0	-	-	-	-	-	-	-	-	-	-	-	-	-	98.0	27.6	125.6
1967	160.1	140.0	-	-	-	-	-	-	-	-	-	-	-	-	-	140.0	20.1	160.1
1968	240.0	86.6	-	-	-	-	-	-	-	-	-	-	-	-	-	86.6	153.4	240.0
1969	240.0	23.5	-	-	-	-	-	-	-	-	-	-	-	-	-	23.5	216.5	240.0
1970	556.0	100.2	-	-	-	-	-	-	-	-	-	-	-	-	-	100.2	455.8	556.0
1971	630.0	149.0	-	-	-	-	-	-	-	-	-	-	-	-	-	149.0	481.0	630.0
1972	616.0	36.6	-	-	-	-	-	-	-	-	-	-	-	-	-	36.6	579.4	616.0
1973	616.0	86.4	-	-	-	-	-	-	-	-	-	-	-	-	-	86.4	529.6	616.0
1974	616.0	18.9	-	-	-	-	-	-	-	-	-	-	-	-	-	18.9	597.1	616.0
1975	616.0	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	1.3	614.7	616.0
1976	616.0	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	3.1	612.9	616.0
1977	691.0	161.9	-	-	-	-	-	-	-	-	-	-	-	-	-	161.9	529.1	691.0
1978	816.0	27.3	-	-	-	-	-	-	-	-	-	-	-	-	-	27.3	788.7	816.0
1979	2,119.0	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	2,118.8	2,119.0
1980	2,119.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,119.0	2,119.0
1981	5,782.0	2,804.9	-	-	-	-	-	-	-	-	-	-	-	-	-	2,804.9	2,977.1	5,782.0
1982	9,782.0	5,963.7	-	-	-	-	-	-	-	-	-	-	-	-	-	5,963.7	3,818.3	9,782.0
1983	13,476.0	6,018.1	-	-	-	-	-	-	-	-	-	-	-	-	-	6,018.1	7,457.9	13,476.0
1984	15,476.0	4,580.6	-	-	-	-	-	-	-	-	-	-	-	-	-	4,580.6	10,895.4	15,476.0
1985	16,976.0	6,184.1	-	-	-	-	-	-	-	-	-	-	-	-	-	6,184.1	10,791.9	16,976.0
1986	16,976.0	11,565.0	-	-	-	-	-	-	-	-	-	-	-	-	-	11,565.0	5,411.0	16,976.0
1987	25,226.0	14,215.3	-	-	-	-	-	-	-	-	-	-	-	-	-	14,215.3	11,010.7	25,226.0
1988	35,476.0	22,560.3	-	-	-	-	-	-	-	-	-	-	-	-	-	22,560.3	12,915.7	35,476.0
1989	24,126.0	11,164.0	-	-	-	-	-	-	-	-	-	-	-	-	-	11,164.0	12,962.0	24,126.0
1990	25,476.0	3,403.9	-	-	-	-	-	-	-	-	-	-	-	-	-	3,403.9	22,072.1	25,476.0
1991	56,728.3	34,756.0	-	-	-	-	-	-	-	-	-	-	-	-	-	34,756.0	21,972.3	56,728.3
1992	103,326.5	81,152.1	-	-	-	-	-	-	-	-	-	-	-	-	-	81,152.1	22,174.4	103,326.5
1993	103,326.5	43,948.1	-	-	-	-	-	-	-	-	-	-	-	-	-	43,948.1	59,378.4	103,326.5
1994	103,326.5	30,633.2	-	-	-	-	-	-	-	-	-	-	-	-	-	30,633.2	72,693.3	103,326.5
1995	103,326.5	42,760.1	-	-	-	-	-	-	-	-	-	-	-	-	-	42,760.1	60,566.4	103,326.5

1 Nominal value

2 Include statutory boards, corporations, savings type institutions, local governments, companies, individuals and Public accounts with CBN from 1989

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TABLE 3: HOLDINGS OF TREASURY BILLS OUTSTANDING (1960-1995)
(Per cent)

Year	Total Outstanding[1]	HOLDERS					
		Central Bank	Call Money Funds	Merchant Banks	Commercial Banks	Federal and State Govts	Others[2]
1960	100.0	15.0	-	-	20.6	-	64.4
1961	100.0	39.1	-	-	17.6	-	43.2
1962	100.0	19.6	14.2	-	14.0	-	52.3
1963	100.0	52.3	11.5	0.0	4.0	5.3	26.8
1964	100.0	15.4	14.3	2.0	15.7	19.1	31.5
1965	100.0	31.1	8.1	0.0	16.1	12.6	32.0
1966	100.0	45.3	5.2	0.0	17.6	10.2	21.7
1967	100.0	56.4	3.5	0.0	17.0	9.5	13.6
1968	100.0	3.6	3.7	0.0	81.5	3.5	7.7
1969	100.0	6.9	3.6	0.0	57.5	3.4	28.6
1970	100.0	18.0	5.1	0.0	49.8	6.7	20.5
1971	100.0	24.3	3.9	0.0	16.5	37.6	17.6
1972	100.0	5.9	5.9	5.6	22.4	43.0	17.2
1973	100.0	14.0	6.6	6.6	17.8	35.9	19.1
1974	100.0	3.1	0.0	0.0	80.1	2.6	14.2
1975	100.0	0.2	0.0	1.9	83.2	2.8	11.9
1976	100.0	0.5	0.0	1.2	75.8	2.5	20.0
1977	100.0	23.3	0.0	3.9	42.8	3.4	26.6
1978	100.0	3.3	0.0	1.0	62.8	4.4	28.5
1979	100.0	0.0	0.0	2.2	61.7	3.7	32.4
1980	100.0	0.0	0.0	1.9	75.5	1.8	20.8
1981	100.0	58.9	0.0	0.9	15.9	0.2	24.1
1982	100.0	55.9	0.0	1.8	22.4	0.0	20.0
1983	100.0	44.7	0.0	2.8	32.4	0.1	20.1
1984	100.0	31.4	0.0	5.7	47.1	0.0	15.8
1985	100.0	36.4	0.0	6.1	47.1	0.0	10.4
1986	100.0	68.2	0.0	0.6	18.0	0.0	13.1
1987	100.0	56.4	0.0	1.0	20.8	0.0	21.8
1988	100.0	63.6	0.0	0.4	14.9	0.0	21.1
1989	100.0	46.3	0.0	0.4	10.5	0.0	42.8
1990	100.0	13.4	0.0	1.4	30.1	0.1	56.3
1991	100.0	61.3	0.0	1.2	11.0	0.2	26.3
1992	100.0	78.5	0.0	1.0	5.0	0.1	15.4
1993	100.0	42.5	0.0	9.1	27.9	0.0	20.4
1994	100.0	29.6	0.0	8.4	37.1	0.0	24.9
1995	100.0	41.4	0.0	2.0	23.2	0.0	33.4

1 Nominal value

2 Include statutory boards, corporations, savings-type institutions, local governments, companies individuals and public, accounts with CBN from 1989

TABLE 4: HOLDINGS OF TREASURY BILLS OUTSTANDING (1968-1995)
(₦' million)

Year	Total Outstanding[1]	HOLDERS				
		Central Bank	Commercial Banks	Merchant Banks	Federal and State Govts	Others[2]
1960	-	-	-	-	-	-
1961	-	-	-	-	-	-
1962	-	-	-	-	-	-
1963	-	-	-	-	-	-
1964	-	-	-	-	-	-
1965	-	-	-	-	-	-
1966	-	-	-	-	-	-
1967	-	-	-	-	-	-
1968	20.0	-	19.4	-	-	0.6
1969	142.0	-	138.9	2.2	-	0.9
1970	236.0	2.3	223.4	3.9	-	6.4
1971	256.0	-	189.0	2.9	61.6	2.5
1972	286.0	0.5	202.1	4.1	75.1	1.2
1973	286.0	19.3	231.5	6.9	23.7	4.6
1974	286.0	0.6	261.8	3.3	17.5	2.8
1975	226.0	2.7	214.2	1.5	9.0	0.6
1976	652.0	4.8	587.7	6.9	-	52.6
1977	900.0	79.6	808.6	4.8	-	7.0
1978	1,800.0	1,177.0	440.6	6.3	-	176.1
1979	2,310.0	1,072.8	837.0	13.5	-	386.7
1980	2,727.6	1,590.9	834.3	18.0	-	284.4
1981	2,157.6	1,112.6	856.4	18.3	-	170.3
1982	1,668.6	900.3	628.8	2.9	-	136.6
1983	4,894.4	3,560.7	778.7	11.0	-	544.0
1984	6,413.1	4,304.2	1,429.5	17.5	-	661.9
1985	8,354.1	5,724.4	2,264.0	105.0	-	2,260.7
1986	6,654.7	4,518.3	1,360.8	50.2	-	725.4
1987	6,654.1	5,431.6	322.2	24.8	-	875.5
1988	6,794.6	3,670.4	2,035.7	8.8	-	1,079.7
1989	6,944.6	4,483.5	1,095.9	-	-	1,365.2
1990	34,214.6	31,847.1	1,036.5	5.0	-	1,326.0
1991	34,214.6	32,813.3	559.3	-	-	842.0
1992	35,241.4	34,182.6	324.6	0.0	0.0	734.2
1993	36,584.3	28,999.3	673.7	51.3	0.0	6,860.0
1994	37,342.7	27,626.4	614.3	0.0	0.0	9,102.0
1995	37,342.7	30,061.0	208.0	0.0	5,402.5	1,671.2

1 Nominal value

2 Include statutory boards, corporations, savings-type institutions, local governments, companies individuals and public, accounts with CBN from 1989

TABLE 5: HOLDINGS OF TREASURY BILLS OUTSTANDING (1968-1995)
(Per cent)

Year	Total Outstanding[1]	HOLDERS				
		Central Bank	Commercial Banks	Merchant Banks	Federal and State Govts	Others[2]
1960	-	-	-	-	-	-
1961	-	-	-	-	-	-
1962	-	-	-	-	-	-
1963	-	-	-	-	-	-
1964	-	-	-	-	-	-
1965	-	-	-	-	-	-
1966	-	-	-	-	-	-
1967	-	-	-	-	-	-
1968	100.0	0.0	97.0	0.0	0.0	3
1969	100.0	0.0	97.0	1.5	0.0	0.6
1970	100.0	1.0	94.7	1.7	0.0	2.7
1971	100.0	0.0	73.8	1.1	24.1	1
1972	100.0	0.2	70.7	1.4	27.3	0.4
1973	100.0	6.7	80.9	2.4	8.3	1.6
1974	100.0	0.2	91.5	1.2	6.1	1
1975	100.0	1.2	93.9	0.7	3.9	0.3
1976	100.0	1.7	90.1	1.1	0.0	8.1
1977	100.0	8.8	89.8	0.5	0.0	0.8
1978	100.0	65.4	24.5	0.4	0.0	9.8
1979	100.0	46.4	36.2	0.6	0.0	16.7
1980	100.0	58.3	30.6	0.7	0.0	10.4
1981	100.0	51.6	39.7	0.8	0.0	7.9
1982	100.0	54.0	37.7	0.2	0.0	8.2
1983	100.0	72.8	15.9	0.2	0.0	11.1
1984	100.0	67.1	22.3	0.3	0.0	10.3
1985	100.0	44.6	27.1	1.3	0.0	27.1
1986	100.0	67.9	20.4	0.8	0.0	10.9
1987	100.0	51.6	34.9	0.4	0.0	13.2
1988	100.0	54.0	30.0	0.1	0.0	15.9
1989	100.0	64.6	15.8	0.0	0.0	19.7
1990	100.0	93.1	3.0	0.0	0.0	3.9
1991	100.0	95.9	1.6	0.0	0.0	2.5
1992	100.0	97.0	0.9	0.0	0.0	2.08
1993	100.0	79.3	1.8	0.1	0.0	18.75
1994	100.0	74.0	1.7	0.0	0.0	24.37
1995	100.0	80.5	0.6	0.0	14.5	4.47

1 Nominal value

2 Include statutory boards, corporations, savings-type institutions, local governments, companies, individuals and public accounts with CBN from 1989

TABLE 6: DOMESTIC PUBLIC DEBT OF THE FEDERAL GOVERNMENT
(₦' million)

YEAR	TREASURY BILLS	TREASURY CERTIFICATES	TREASURY BONDS	DEVELOPMENT STOCKS	TOTAL	GDP	TOTAL DEBT/ GNP
1960	150	-	-	53	203	2,454.0	10
1961	340	-	-	253	593	4,729.0	25
1962	480	-	-	387	867	2,516.0	34
1963	600	-	-	684	1284	2,746.0	44
1964	860	-	-	1064	1744	3,149.0	55
1965	900	-	-	1362	2262	3,965.0	54
1966	1290	-	-	1601	2891	3,615.0	80
1967	1690	-	-	1952	3642	2,950.0	123
1968	2400	200	-	2321	4921	2,579.0	191
1969	3400	1420	-	2610	7430	3,858.0	193
1970	5540	2340	-	2990	10870	5,921.0	184
1971	6160	2340	-	2650	11227.0	7,998.0	173
1972	6160	2340	-	4100	11320	7,110.0	170
1973	6160	2340	-	5211	14431	10,980.0	123
1974	6160	2340	-	5787	14287	17,923.0	79
1975	6160	2280	-	10247	18687	24,759.0	85
1976	6160	6520	-	14187	26867	27,522.0	97
1977	6910	9000	-	18165	34075	32,520.0	105
1978	8160	14000	-	21975	44135	35,540.0	125

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TABLE 7: HOLDINGS OF DOMESTIC DEBT OUTSTANDING (1960-1995) (Cont'd)

(N'million)

YEAR	CENTRAL BANK		COMMERCIAL BANK		MERCHANT BANK		OTHERS		TOTAL
	Holdings	% of Share of Total	Holdings	% Share of Total	Holdings	% Share of Total	Holdings	% Share of Total	
1979	2,483.8	34.4	2,416.4	33.5	53.3	0.7	2,260.5	31.3	7,214.0
1980	2,859.3	36.1	2,978.9	37.6	60.1	0.8	2,017.3	25.5	7,915.6
1981	6,046.6	52.8	2,135.8	18.7	72.9	0.6	3,187.3	27.9	11,442.6
1982	8,022.5	54.0	3,168.5	21.3	176.5	1.2	3,477.1	23.4	14,844.6
1983	11,347.4	51.1	5,459.7	24.6	388.8	1.7	5,025.5	22.6	22,221.4
1984	10,701.4	41.7	8,998.2	35.0	895.0	3.5	5,080.4	19.8	25,675.0
1985	11,521.9	41.2	10,669.1	38.2	1,165.1	4.2	4,596.9	16.4	27,952.0
1986	17,721.6	62.3	4,968.3	17.5	159.9	0.6	5,601.4	19.7	28,451.2
1987	19,197.2	52.2	8,109.9	22.0	290.5	0.8	9,192.0	25.0	36,790.6
1988	27,682.7	58.9	7,714.5	16.4	181.5	0.4	11,456.4	24.4	47,031.1
1989	38,391.3	67.3	3,670.6	6.4	98.2	0.2	14,891.0	26.1	57,051.1
1990	56,546.1	76.3	8,917.3	12.0	355.8	0.5	8,255.1	11.1	74,074.1
1991	89,412.6	76.9	6,847.0	5.9	679.4	0.6	19,261.2	16.6	116,200.2
1992	122,028.3	75.4	5,881.2	3.6	1,027.0	0.6	32,863.7	20.4	161,800.2
1993	189,773.4	72.7	29,348.8	11.2	9,451.1	3.6	32,522.3	12.5	261,095.6
1994	251,552.1	73.6	39,184.2	11.5	8,644.8	2.5	42,432.6	12.4	341,813.7
1995	-	-	-	-	-	-	-	-	-

n.a. denotes not available

Source: *C.B.N. Annual Reports* (Various Issues)

TABLE 8: OUTSTANDING TREASURY BONDS

S/No	Bond	Rate of Interest	Maturity Year	Amount N '000	Yearly Sinking Fund Contribution ₦'000
1.	5% Treasury Bond 2003	5%	2003	1,670,000	6,379,300
2.	5% Treasury Bond 2005	5%	2005	1,670,000	57,939,450
3.	5% Treasury Bond 2006	5%	2006	1,670,000	52,848,000
4.	5% Treasury Bond 2007	5%	2007	1,670,000	48,383,000
5.	5% Treasury Bond 2008	5%	2008	1,670,000	44,691,750
6.	5% Treasury Bond 2009	5%	2009	1,670,000	40,939,450
7.	5% Treasury Bond 2010	5%	2010	1,670,000	37,810,800
8.	5% Treasury Bond 2011	5%	2011	1,670,000	25,002,190
9.	5% Treasury Bond 2012	5%	2012	1,670,000	32,469,650
10.	5% Treasury Bond 2013	5%	2013	1,670,000	80,177,100
11.	5% Treasury Bond 2014	5%	2014	1,670,000	28,004,260
12.	5% Treasury Bond 2015	5%	2015	1,650,000	26,133,000
13.	10% Treasury Bond 2004	10%	2004	4,000,000	250,981,496
14.	10% Treasury Bond 2005	10%	2005	4,000,000	213,852,568
15.	10% Treasury Bond 2006	10%	2006	4,000,000	187,053,260
16.	10% Treasury Bond 2007	10%	2007	4,000,000	163,114,092
17.	10% Treasury Bond 2008	10%	2008	4,000,000	142,984,892
18.	10% Treasury Bond 2009	10%	2009	4,000,000	125,895,104
19.	10% Treasury Bond 2010	10%	2010	17,500,000	536,162,461
20.	10% Treasury Bond 2011	10%	2011	17,500,000	474,180,916
21.	10% Treasury Bond 2012	10%	2012	17,500,000	420,736,702
22.	10% Treasury Bond 2013	10%	2013	17,500,000	374,245,392
23.	10% Treasury Bond 2014	10%	2014	17,500,000	333,721,217
24.	10% Treasury Bond 2015	10%	2015	17,863,250	298,202,491
25.	10% Treasury Bond 2016	10%	2016	11,970,000	185,464,091
26.	10% Treasury Bond 2017	10%	2017	11,970,000	164,628,552
27.	10% Treasury Bond 2018	10%	2018	11,970,053	145,075,476
28.	10% Treasury Bond 2019	10%	2019	13,160,000	148,345,310
29.	10% Treasury Bond 2020	10%	2020	13,160,000	133,470,049
30.	10% Treasury Bond 2021	10%	2021	12,042,747	115,561,439
31.	10% Treasury Bond 2022	10%	2022	6,800,000	50,666,888
32.	10% Treasury Bond 2023	10%	2023	6,471,000	43,537,367
				237,382,850	4,949,717,643

TABLE 9: MATURITY STRUCTURE OF DOMESTIC PUBLIC DEBT (1960-1995)
(N'million)

YEAR	VALUE					PERCENTAGES			
	Up to 2 years	2-5 years	5-10 years	Over 10 years	Total	Up to 2 years	2-5 years	5-10 years	Over 10 years
1960	18.0	1.4	1.2	2.7	23.3	77.3	6.0	5.2	11.6
1961	34.0	1.4	5.2	18.7	59.3	57.3	2.4	8.8	31.5
1962	48.0	4.8	5.2	28.7	86.7	55.4	5.5	6.0	33.2
1963	60.0	8.5	11.2	48.7	128.4	46.7	6.6	8.7	37.9
1964	68.0	14.4	8.0	84.0	174.4	39.0	8.3	4.6	48.2
1965	80.0	14.2	12.0	110.7	216.9	36.9	6.5	5.5	51.0
1966	128.0	10.1	16.0	134.0	288.1	44.4	3.5	5.6	46.5
1967	168.0	6.1	20.0	170.0	364.1	46.1	1.7	5.5	46.7
1968	260.0	6.1	20.0	206.0	492.1	52.8	1.2	4.1	41.9
1969	482.0	10.1	20.0	231.0	743.1	64.9	1.4	2.7	31.1
1970	792.0	16.2	20.0	262.8	1,091.0	72.6	1.5	1.8	24.1
1971	886.0	14.2	26.0	300.8	1,227.0	72.2	1.2	2.1	24.5
1972	914.0	28.0	38.8	332.0	1,312.8	69.6	2.1	3.0	25.3
1973	906.0	52.0	36.7	428.4	1,423.1	63.7	3.7	2.6	30.1
1974	912.0	48.7	62.0	458.0	1,480.7	61.6	3.3	4.2	30.9
1975	866.9	46.7	140.0	815.1	1,868.7	46.4	2.5	7.5	43.6
1976	1,306.1	44.6	164.0	1,173.0	2,687.7	48.6	1.7	6.1	43.6
1977	1,591.0	44.6	214.0	1,556.9	3,406.5	46.7	1.3	6.3	45.7
1978	2,616.0	40.4	264.0	1,893.1	4,813.5	54.3	1.2	5.5	39.3

TABLE 9: MATURITY STRUCTURE OF DOMESTIC PUBLIC DEBT (1960-1995) (Cont'd)
(N' million)

R	VALUE					PERCENTAGES			
	Up to 2 years	2-5 years	5-10 years	Over 10 years	Total	Up to 2 years	2-5 years	5-10 years	Over 10 years
79	4,529.0	171.5	314.0	2,199.5	7,214.0	62.8	2.4	4.4	30.5
980	4,955.7	138.0	508.0	2,313.9	7,915.6	62.6	1.7	6.4	29.2
981	8,182.7	138.0	558.0	2,563.9	11,442.6	71.5	1.2	4.9	22.4
982	11,290.7	242.0	708.0	2,603.9	14,844.6	76.1	1.6	4.8	17.5
983	18,436.0	254.0	868.0	2,662.9	22,220.9	83.0	1.1	3.9	12.0
984	21,634.1	340.0	848.0	2,852.9	25,675.0	84.3	1.3	3.3	11.1
985	23,740.1	330.0	999.0	2,852.9	27,922.0	85.0	1.2	3.6	10.2
986	23,640.7	688.0	1,262.1	2,860.4	28,451.2	83.1	2.4	4.4	10.1
987	32,160.1	868.0	1,061.0	2,901.5	36,790.6	87.4	1.2	2.9	7.9
988	42,678.6	620.0	1,001.0	2,731.5	47,031.1	90.7	1.3	2.1	5.8
989	61,760.1	791.0	730.0	13,771.0	57,051.1	73.2	1.4	1.3	24.1
990	60,312.1	431.0	910.0	22,440.0	84,093.1	71.7	0.5	1.1	26.7
991	92,467.6	771.0	1,130.0	21,831.5	116,200.1	79.6	0.7	1.0	18.8
992	139,178.9	510.0	1,210.0	33,420.0	174,318.9	79.8	0.3	1.7	19.2
993	140,351.8	610.0	1,050.0	120,311.0	262,322.8	53.5	0.2	0.4	45.9
994	141,059.2	1,130.0	1,830.0	197,247.1	341,266.3	41.3	0.3	0.5	57.8
995	-	-	-	-	-	-	-	-	-

ource: CBN Annual Reports (various Issues)