



Nigeria's Sovereign Debt Restructuring: Issues/Challenges and the Way Forward

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Outline



- ❖ Introduction
- ❖ The Nigerian Sovereign Debt Restructuring Experience
 - ❖ Background developments to Nigeria's external debt build-up/crisis
 - ❖ Trend in Nigeria's external Debt
 - ❖ Nigeria's Debt Restructuring Deal with the Paris-Club
 - ❖ Outcome of the deal
 - ❖ Nigeria: Beyond the Debt Deal
- ❖ Issues/Challenges in Sovereign Debt Restructuring
- ❖ The Way Forward for the G24
- ❖ Conclusion



1.0 INTRODUCTION



- ✓ Recent global developments have highlighted the shortcomings of sovereign debt rescheduling – these developments include:
 - post-GFEC debt crisis in advanced countries in Europe,
 - Argentina's legal battle with *vulture funds* over the rescheduling of 93% of its debt,
 - The U.S court judgement in favour of the distress bond funds (*vulture funds*) that relied on the *pari-pasu* clause and absence of a *collective action* clause in Argentina's sovereign debt contracts

- ✓ More developing countries most of whom are G24 members are forced to issue sovereign debts outside their shores



INTRODUCTION...



- ✓ Sustained research-backed advocacy and international finance institutions have called for a rule of law governing sovereign debt rescheduling (Global Sovereign Debt Rescheduling Mechanism (SDRM))

- ✓ African view have generally not featured prominently in the on-going debate about SDRM

- ✓ Many African countries benefited from debt relief under the HIPC's debt cancellation initiative in the mid-2000s
 - ✓ More debt have been contracted thereafter from non-Paris Club countries like China – accompanied by increasing private debt portfolios.



INTRODUCTION...



- ✓ The multilateral debt relief initiative by the IMF and World Bank in 2005 brought Nigeria's sovereign debt standing to a sustainable level
- ✓ Borrowing from international capital markets comes with a huge risks:
 - ✓ costly litigations ,
 - ✓ coordination challenges,
 - ✓ uncooperative creditors and
 - ✓ loss of access to affordable international credit in the event of default or restructuring
- ✓ Nigeria like most other G24 members may sooner than later face the kind of challenges currently being faced by emerging countries like Argentina
- ✓ This presentation briefly reviews Nigeria's experience with debt restructuring and draws a few lessons for the G24



2.0 NIGERIA'S PARIS CLUB EXPERIENCE...



Trends in Nigeria's External debts

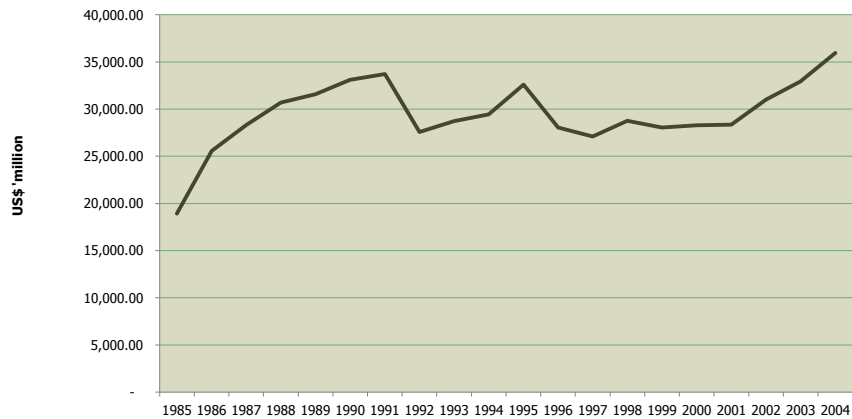
- Nigeria obtained her first loan (US\$13.1 million) from the Paris Club of Creditor Nations in 1964 to build the Niger Dam.
- The first jumbo loan of US\$1.8 billion came in 1988.
- The cost to the economy for the external debt stock of US\$28billion by 1999 prompted efforts by the government to restructure the debt.
- The stock of external debt stood at US\$36 billion by December 2004.
- With a population of 130 million people and exchange rate of N134/US\$1, the external debt stock of US\$36 billion implied that each citizen owed N37,101.51, far in excess of the GDP per capita of N3,379.50.
- Debt to GDP was 58 %, Debt to total government revenue was 412% and Debt to export ratio stood at 152%.



Trends in Total External Debt Outstanding (1985-2004)



Trend of Nigeria's External Debt (1985 - 2004)



2.0 NIGERIA'S PARISCLUB EXPERIENCE



Nigeria's Debt Crisis:

The causes of Nigeria's external debt burden could be grouped into six broad areas :

- Inefficient trade and exchange rate policies
- Adverse exchange rate movements
- Adverse international interests rate movements
- Poor lending and inefficient loan utilization
- Poor debt management practices
- Accumulation of arrears and penalties



2.0NIGERIA'S PARIS CLUB EXPERIENCE



Reckless and Inefficient Borrowing...

- Massive external borrowing took place in the 1980s, largely to offset the collapse in oil prices, which plunged the economy into crisis as foreign exchange earnings dropped and external debts began to build-up;
- Borrowing was not linked to future growth or exports
- Insufficient regard given to economic viability of projects
- Poor implementation due to weak absorptive capacity and governance problems
- Mismatch between loan terms and project profiles
- Interest rate risk as LIBOR rates escalated
- Leakages associated with governance



2.0NIGERIA'S PARIS CLUB EXPERIENCE...



The Options for Nigeria

- In light of the huge costs of the debt to the economy, Nigeria was face with the following options by 2005:
 - **Option 1:** refuse to pay its due debt service to creditors or repudiate its debts. This was tried in the 1980s and 1990s but failed;
 - **Option 2:** reject the Paris Club offer, continue with the traditional rescheduling arrangement and postponing of the evil day; and
 - **Option 3:** accept a Paris Club deal since most of its external debts was owed them.
- Nigeria selected option 3 and its conditions, which required executing a formal agreement with the IMF.



2.0 NIGERIA'S PARIS CLUB EXPERIENCE.



Nigeria's Debt Restructuring deal with the Paris Club

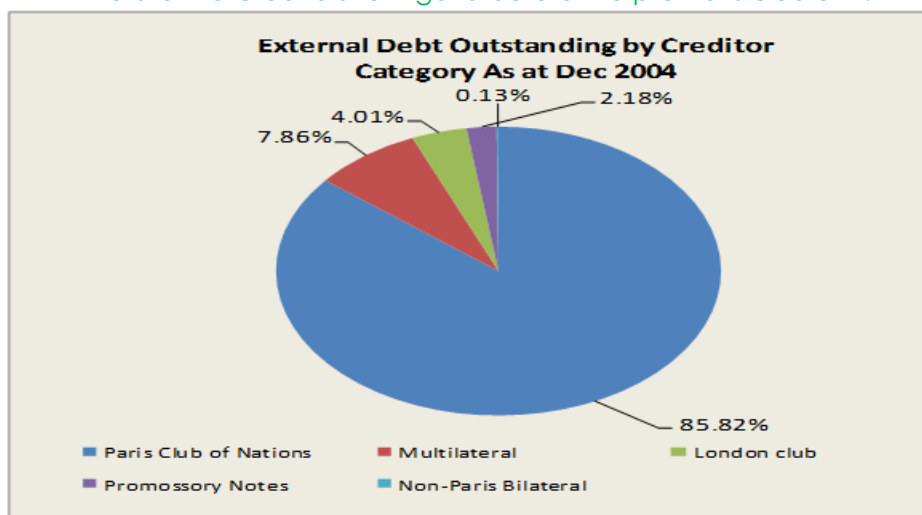
- On 29 June 2005, representatives of the Paris Club creditor countries met in Paris and expressed their readiness to enter into comprehensive negotiations with the Nigerian Authorities on a debt treatment.
- US\$30 billion of the US\$36 billion stock of Nigeria's external debt was owed to the Paris Club.
- Nigeria agreed to the conditions of the Paris Club creditor countries deal, executed an agreement with the IMF under the Policy Support Instrument (PSI) framework, which endorsed the NEEDS economic reform program.



2.0 NIGERIA'S PARIS CLUB EXPERIENCE



Who are the Creditors to Nigeria before the pre-Paris club exit?





2.0 NIGERIA'S PARIS CLUB EXPERIENCE...



Nigeria's Debt Restructuring deal with the Paris Club

- The deal was implemented in two phases under the PSI framework to ensure Nigeria's long term debt sustainability and economic development as well as poverty alleviation. It was an important contribution by the Paris club of creditors to Nigeria's economic development.

Phase 1

- Nigeria applied an equitable debt treatment in the payment of all outstanding arrears totaling US\$6 billion towards Paris Club creditors.
- Paris Club creditors granted a 33% cancellation of eligible debts (i.e. US\$8.2 billion).

Phase 2

- Subsequent to IMF's review first review of the PSI, Nigeria paid amounts due under post-cut-off date debt, obtained a further cancellation of 34% on eligible debts (i.e. US\$8.44 billion), and bought back the remaining eligible debts.
- Nigeria was granted Naples terms debt reduction on eligible debts and allowed to buy back the remaining eligible debts at market related discount (discount savings of US\$2 billion).



2.0 NIGERIA'S PARIS CLUB EXPERIENCE...



Nigeria's Debt Restructuring deal with the Paris Club

- Nigeria obtained total debt cancellation of about US\$ 18 billion (including moratorium interest) which represented about 60% of Nigeria's debts to the Paris Club.
- Paris Club creditors were paid US\$ 12.4 billion, comprising regularization of arrears of US\$ 6.3 billion plus a balance of US\$ 6.1 billion to complete the exit strategy.
- Nigeria was the first African country to repay all of its debt to the Paris Club, after the last tranche of payments (US\$4.5 billion) on 21 April 2006.
- The relief reduced Debt to GDP ratio from 52% to 7%, Debt to Govt. revenue ratio from 412% to 58% and Debt to export ratio from 152% to 21.5%.



2.0NIGERIA'S PARIS CLUB EXPERIENCE...



Outcome of the Paris Club deal

- Nigeria saved US\$1 billion due to the debt relief, which was invested in human capital and infrastructure development, as part of a poverty reduction strategy with the World Bank.
- Based on the Paris Club experience, Nigeria successfully restructured her external debts such that by December 2014, 70 % of the external debt stock is owed to Multilateral organizations and none to the Paris Club.
- Counter factual analysis indicated that the actual debt stock of US\$4 billion by 2009 would have increased to US\$54 billion, thus implying US\$50 billion net benefit from the agreement (Geske 2011).
- The PSI enabled to the Country to maintain prudent macroeconomic policies.



2.0NIGERIA'S PARIS CLUB EXPERIENCE...

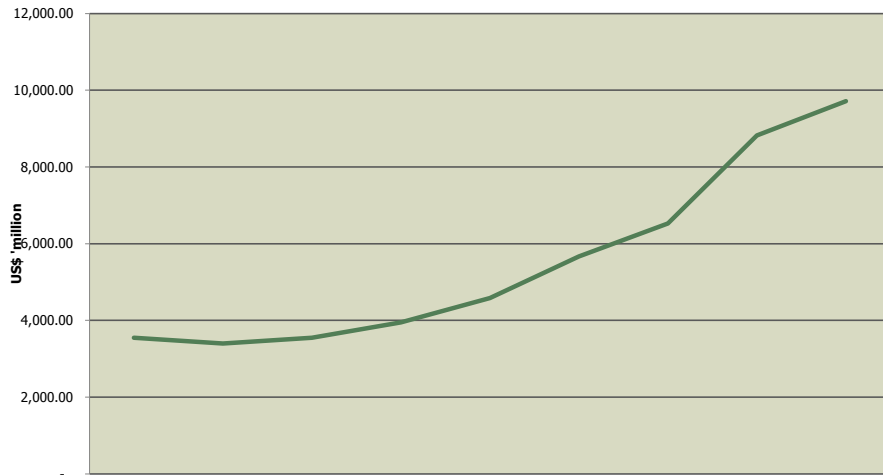


Outcome of the Paris Club deal...

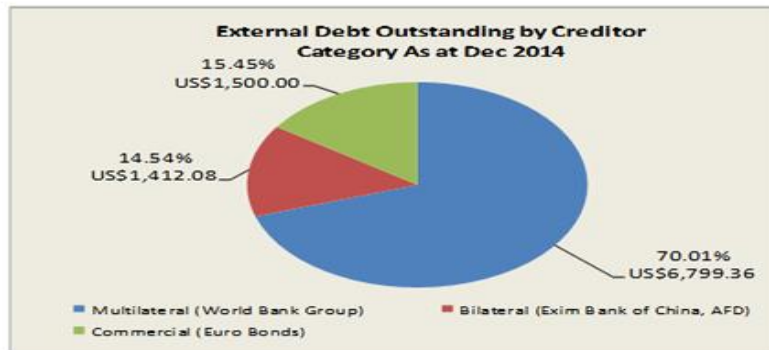
- The terms of the deal resulted in the implementation of far reaching institutional and economic reforms (e.g. oil price fiscal rule, civil service reforms, transparent public procurement processes, banking consolidation, EFCC, ICPC, etc.).
- The prudent macroeconomic management engendered debt sustainability, macroeconomic stability, creditworthiness, private capital inflows and private investment.
- Nigeria moved from 0.99 in 2004 to 0.67 in 2006 in the ranking of the Corruption Index of Transparency International.



Trends in Total External Debt Outstanding (2005 - 2014)



Outcome: Current Nigeria's Creditors after exit from Paris club





Nigeria's Total Public Debt Outstanding by original Maturity 2009-2013 (US\$' Million)



Type	Category	2009	2010	2011	2012	2013
External Debt Stock	Short Term	0.00	0.00	0.00	0.00	0.00
	Long Term					
	% of share total	3,947.30 (15.29)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (13.46)	8,821.9 (16.17)
Domestic Debt Stock	Short Term					
	% of share total	5,403 (20.93)	8,561.38 (24.39)	11,026.89 (26.54)	13,628.6 (28.10)	16,580.29 (30.40)
	Long Term					
% of share total	16,467.12 (63.78)	21,952.95 (62.56)	24,855.97 (59.82)	28,340.56 (58.44)	29,142.12 (53.43)	
Total	Amount	25,817.42	35,093.10	41,549.43	48,496.23	54,544.31



Nigeria: Beyond the Debt Deal



• Current Macroeconomic Situation Nigeria

	2011	2012	2013	2014
Inflation	10.30	12.00	8.00	8.00
Real GDP	5.31	4.21	5.49	6.58
External Reserves	32.64	43.83	42.85	34.25
Deficit/GDP ratio	(1.84)	(1.36)	(2.19)	(1.09)
Official exchange rate	153.85	157.50	157.31	169.68

- Inflation rate is currently in the single digits
- Real GDP has grown to 6.58% by 2014
- External reserves of over US\$34 billion by December 2014
- Deficit to GDP ratio of 1.09% by 2014



3.0. Issues/Challenges in Sovereign Debt Restructuring



- Guarantees, right to negotiate and implementation blues
- Need to underpin policy framework with effective operational coordination to ensure effective debt management: still there are issues with multiple players, complex relationships and blurred responsibilities
- Stakeholder ownership of the strategy and consensus building: who owns the process and the deal



4.0. Sovereign Debt Restructuring: Way Forward for G24



- The inclusion of Sovereign Debt Tribunal (SDT) and Arbitration terms in debt instruments issued by sovereign state as proposed by the Civil Society Organisations (CSO) to aid conflict resolution arising from the debt restructuring process;
- Absence of an international framework for a thorough identification and resolution of inter-creditor and debtor-creditor equity issues in Sovereign Debt Restructuring;
- There is need for the development of common rules and norms for valuing concessions in Sovereign Debts Restructuring;



Sovereign Debt Restructuring:Way Forward for G24



- Provision of a greater role for debt re-profiling and bondholder aggregation;
- Tighter regulation of Sovereign Credit Default Swaps (SCDS) Contract to deter abuses;
- Creation of a platform for harmonising the sacrosanct divergent interests of Creditors for ensuring that debtor nations are given common front and conditions to fulfil;
- Based on Nigeria's experience, deliberate policy should be made to limit external borrowing and mobilise untapped domestic resources instead. It was used in Europe by creditors to hedge against the risk of Sovereign Debt Default.



Sovereign Debt Restructuring:Way Forward for G24



- Strengthening the Debt Management Institutions to accurately capture and profile the short and long-term debts of the different tiers of government and the private sector;
- Deliberate effort to implement domestic reforms which would address various structural bottlenecks impeding sustainable growth and competitiveness of the economy. A major goals of reforms is to discourage the transfer of domestic savings abroad and attraction of capital inflows;
- Debt should be tied to specific projects with capacity to liquidate the debt over its tenor. By inference, project tied debt should not be used to finance consumption/recurrent expenditure;



Sovereign Debt Restructuring: Way Forward for G24



- State contingent debt and GDP linked bonds with inherent stabilisation features are encouraged as they automatically adjust principal and interest payments to domestic economic developments; and
- Establishment of the African Stability Mechanism and Sub-Saharan African Sovereign Debt Restructuring Regime similar to that proposed for the Europe, to provide assistance to African states in need. In this arrangement, countries with debt-GDP ratio below debt sustainability threshold would be granted unconditional loans, while for countries with debt-GDP ratio above the debt sustainability threshold would be conditional on debt restructuring. Access would remain subject to credible reforms.



5.0 Conclusion



- ✓ Developing countries need a satisfactory international framework like – a sovereign debt governance mechanism that is balanced; not biased against borrowers or too favourable to creditors and vice versa.
- ✓ For Nigeria and perhaps other G-24 countries there are a few imperatives:
 - ✓ Inclusion of collective action clauses in new private debt arrangements or contracts, and
 - ✓ Creation of an international sovereign debt arbitration process or mechanism to settle disputes arising from restructuring
- Thank you.