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# Nigeria follows the path of Peru

by Mary Lalevée

In a New Year's Eve broadcast to his nation, Nigerian head of state Major-Gen. Ibrahim Babangida announced that his government was imposing a unilateral ceiling on foreign debt repayments to be made in 1986, a ceiling of 30% of its export revenues. This declaration followed the Nigerian government's official Dec. 19 announcement that no agreement would be made with the International Monetary Fund (IMF), the condition established by foreign creditors for further loans, i.e., debt roll-overs.

Nigeria is not exactly the biggest debtor in the world—although it is Africa's most populous nation. But the significance of the act is less financial than political. It means that Nigeria is the first nation to follow the lead of Peru's Alan García in declaring its nation sovereign, not subject to the IMF, and no longer willing to sacrifice all to foreign creditors. The seed is planted for an alliance between continents for a new world economic order.

Nigeria's external debt is estimated at between $23 and $25 billion, with debt service due to be paid in 1986 of $5 billion. This would have represented exactly 50% of expected export revenues; 95% of Nigeria's earnings come from oil, and the fall in international demand for oil caused Nigeria's income to fall from $25 billion per year in 1979 to $12 billion in 1985, with a further decline to $10 billion expected in 1986. Not enough funds would be available to pay for desperately needed imports, including food, medical supplies, and spare parts for Nigeria's fledgling industry.

A Nigerian source stressed, "We didn't see why we should starve just because we owe money. We hope we will survive."

Ironically, when Babangida took power in Nigeria in August 1985, it was hailed as a "prof-IMF coup." International bankers were delighted, hoping that the previous government's resistance to IMF demands for a 60% devaluation of the currency and severe austerity measures would end. The London *Financial Times* even said in an editorial that it "was probably the first coup resulting from a failure to successfully negotiate with the IMF."

Bankers' hopes were soon dashed, however, when the new government launched a public debate on the pros and cons of a deal with the IMF, and opposition to the deal proved overwhelming. The government then officially rejected further talks with the IMF. As a result, a real "pro-IMF coup" was attempted, shortly before Christmas, leading to the arrest of a number of army officers, including three senior generals, reported to have been prepared to assassinate Babangida and accept IMF demands.

The package of measures demanded by the IMF included cuts in subsidies on oil products as well as the devaluation, in return for a $2.4 billion loan. Agreement with the IMF has been made the precondition by international banks for the rescheduling of Nigeria's short- and medium-term debt, and Nigeria's refusal has led, in addition to the attempted coup, to dire threats from the banking community to cut off all lines of credit.

The New Year's Eve budget announcement by Babangida did include austerity measures, including a cut in subsidies on petrol and diesel prices, but left kerosene, the major household fuel, untouched. An levy of 30% has been imposed on all imports. The revenue raised will be used to promote non-oil exports, in an effort to diversify. Food self-sufficiency is also a primary target, to be achieved in two years.

## Bankers 'alarmed'

Reactions to the dramatic move have been predictable: Bankers are "concerned" and "alarmed," reports the financial press, while other African nations are greatly encouraged by the fact that an African country has had the courage to act.

Senegal's President Abdou Diouf, this year's head of the Organization of African Unity (OAU), has called for an emergency conference on African debt, which could well bring the Ibero-American and African nations into a powerful alliance to force through changes in the international monetary system.

A comment on the *Daily Telegraph* financial page perhaps expresses best the bankers' fears: "Nigerian debt 'solution' brings knock-on fears." The author writes: "What makes the Nigerian situation so serious is its possible knock-on effect among Latin American countries struggling with a much higher real burden of debt. . . . Last summer, the newly elected Peruvian government of Alan García shocked the country's creditors by saying that no more than 10 percent of foreign currency earnings would be spent on servicing Peru's $14 billion of external debt. . . . Fears that major debtors like Brazil and Mexico, owing roughly $200 billion between them, might eventually tire of their efforts to play by the rules have come to haunt banks and governments. In October last year, the Baker plan was launched in an attempt to defuse the debt bomb by offering $40 to $50 billion of extra credit to worthy countries. . . . Unfortunately, the Baker plan has yet to emerge as a practical reality. The Nigerian situation points to the need for a greater sense of urgency among creditor nations."

A spokesman at the German economics ministry spoke threateningly: "Of course, Nigeria is in a different situation from Latin America. New governments come and go relatively quickly. We don't know how long the present government will last."



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