
Interview: Paul Ogwuma



IMF is pressuring Nigeria, says central bank head

Paul Ogwuma, governor of the Central Bank of Nigeria, was interviewed by Lawrence Freeman and Uwe Friesecke in the Nigerian capital of Abuja in November 1994.

EIR: Could you give us your view of the state of the Nigerian economy, how it is performing at the moment, and where it is heading?

Ogwuma: The economy, as it is performing at the moment, is a bit subdued. We would have preferred a better performance in the economy than we have at the moment. This year the growth rate is probably at about 2%, whereas last year the growth rate was about 5%. So, the economy is a bit weak. But we are hoping that come next year, we will have a better growth rate and better resource money going into the economy.

EIR: What measures will be taken that will lead to this increased growth rate?

Ogwuma: I would not want to preempt the government policy for 1995, but the government generally would take stock of what has happened in 1994. Specifically, we would like to see some increase in capacity utilization, we would like to see some increase in employment, we would like to see some increase in the areas of inflow of foreign exchange into the country.

EIR: The Abacha government has stabilized the naira at 22 to the dollar. Has that worked, or is there still a great deal of black market speculation going on? Is the naira now a stable currency for Nigeria?

Ogwuma: Officially, the rate is stable. But the market rate has been rather weak generally. The naira has not been as strong as one would have expected. Everything is not just the economy. You look at the political situation; there have been industrial disputes, and problems in capacity utilization. But more importantly, there hasn't been adequate availability of foreign exchange in the country, and that has affected the value of the naira, it has affected the growth rate in the economy, it has affected inflation, and has affected employment.

EIR: What plans or programs does Nigeria have for increas-

ing the flow of foreign exchange into the country?

Ogwuma: Up to now, our economy has been a mono-commodity economy. We have depended mainly for foreign exchange earnings on crude oil export. But the intention of the government is to emphasize other activities that could bring in foreign exchange. The government at the moment is looking at mineral exports. We are also looking at agricultural produce for export. More importantly, the government is also looking at the LNG [liquefied natural gas] project which should be taking off in about three years time. Recently, the contracts have been signed with Shell and other promoters who are going to be our partners in the LNG projects. The government would like to see that the sources of the availability of foreign exchange are broadened beyond that of crude oil export only.

EIR: Recently the government has fixed the rate of petrol at 11 naira a liter. How do you think that will affect the economy?

Ogwuma: As you know, Nigeria is one of the countries with the lowest price of fuel or petrol in the west African region. In fact, all over the world Nigeria has the lowest price for fuel. Most of the users of fuel, their prices will go up, particularly transporters, some agricultural producers, and also people who use it for generation of power. The most important thing is that there should be a more efficient use of fuel. At the moment, there is a lot of wastage of petroleum and gas. There was a time when Nigeria was taking a lot more crude oil for local refining. We would like a situation where if the utilization of petrol is efficient, then we would probably have more crude oil for export. It will increase the revenue of the country, but if the petrol is used more efficiently, then it will be better for the country.

EIR: With the increase in fuel prices, are you concerned that there will be a chain reaction of inflation due to this increase?

Ogwuma: The level of inflation is not likely to be very adversely affected in this case, the reason being that most people have really been paying this kind of rate anyway.

In the past, the availability has been very difficult and people had been paying much higher than the government rates. So I believe that this has already been discounted in

the price structure.

EIR: Nigeria has lowered interest rates. What are the positive effects of this?

Ogwuma: I am not so sure it is going to be as low as 20%. When we have inflation rates as high as we have had in Nigeria—which is in the region of about 50-60%—then if you have an interest rate as low as 20%, you have a false negative interest structure. The main effect of this, therefore, is that people are probably going to borrow money too cheap, and they are going to borrow much more money than they need for their normal operation and, of course, this is going to affect inflation yet again. I don't think the government has really made up its mind what the interest structure is going to be in 1995. If we are able to get more revenue to balance the government budget, then the rate of inflation would come down. If the inflation rate comes down, then it will likely affect the rate of interest in the economy as a whole. If one is talking about the lowering of interest rates, that will help investments in industry, commerce, although it is questionable whether it would generate internal savings. A lower rate of interest is likely to increase the economic activity in the country in the future.

EIR: Could you tell us what inflation and the current interest rates are?

Ogwuma: The current lending rate is at 21% and is fixed there. The deposit rate is fixed at between 12% and 15%. The rate of inflation is roughly at about 60%.

EIR: I'd like to move on to the effects that Nigeria suffered under the International Monetary Fund's Structural Adjustment Program. What was the effect of the deregulation of the banking system and what has the government done to correct that?

Ogwuma: The banking system was deregulated, and the number of banks multiplied by about threefold. Of course, that created a lot of problems and headaches for the supervisory authorities. One would like to say that the laws also were not amended in good time. If the laws had been amended sooner, some of the inefficiencies and malpractices in the banking system would not have occurred. Also, a lot of people mistook deregulation for a license to be irresponsible. A lot of the banks became distressed, a lot of the banks were mismanaged, and a lot of banks were overtrading. So there were a lot of problems. Another thing was that the type of structural adjustment we had encouraged expenditure levels people could not really support. We had deficits, deficit financing, deficit budgeting for about four years running, and that meant that we were fanning exchange rate problems, fanning unemployment, fanning inflation, fanning capacity problems in the industrial area.

So all these problems were compounded, it was not just that the banks were alone in the problem of deregulation. But

the banks bore the brunt of it in the end. There was also a lot of policy inconsistency. In the final analysis, a lot of the banks are distressed, and the present administration is doing everything possible to ensure that the level of banks that are in distress is reduced.

EIR: The naira was massively devalued over an 8-10 year period. Did this lead to a lot of speculation and flight capital from Nigeria?

Ogwuma: Yes. It led to quite a lot of speculation and capital flight. Policy inconsistencies also lead to capital flight, because people are not sure what the new regulation will be. We also had expected a lot of investment in the country, but the investment did not materialize following the structural adjustment.

EIR: Could you tell us your assessment of the effects of the Structural Adjustment Program?

Ogwuma: The deregulation aspects of it did work well, but what happened, all the various functions and regulations did not function satisfactorily. For instance, if you have a Structural Adjustment Program, one would have expected that there would be monetary discipline, but there was no monetary discipline, and consequently we were running huge deficits for four years consecutively. That is one of the reasons why the SAP did not work. But under the SAP program, the country had a reasonable growth rate. There was increase in the banking system, the financial system was a growth area, and virtually the economy as a whole was in a growth period.

EIR: During the 1980s, Nigeria paid off \$10-12 billion in debt, but now Nigeria's debt is over \$30 billion. What actions are you contemplating to reduce the debt or payment of it?

Ogwuma: In 1993, there were no debt repayments. In 1994, there have been no major debt repayments, particularly to the Paris Club, and as a result of this, the debt has increased. What happened in years past, is that Nigeria paid the debt, but we also had to contract new debts for development. In the past, we have not been able to meet our debt repayments. We are going to be in discussion with members of the Paris Club; before we do that, we have to have the IMF medium-term program in place. We need a medium-term program. Up to 1992 and 1993, we had a reasonably good relationship with the IMF and World Bank. What was missing at that time was an adjustment in the petrol price, which has just happened. Now that the price of oil has been regularized to a certain extent and once the exchange rate problem is handled, together with the interest rate, we will be able to negotiate with the IMF on the medium-term program. And then we can discuss with the Paris Club.

EIR: Numbers of countries have brought up the question of debt reduction. Have you given any consideration to those alternatives?

Ogwuma: Yes, we are in discussion with creditors in that regard. But for debt relief to take place, we have to have a medium-term program with the IMF. Once the medium program is finalized, then we can talk about debt relief with members of the Paris Club.

EIR: How does Nigeria get loans for development, if the government has to pay so much money for the debt?

Ogwuma: For the moment, foreign exchange earnings have to go to debt service. If you left it alone, 60% of foreign exchange earnings would go to debt, which is why the government decided to bag it at 30% of foreign exchange earnings. What we intend to do is to ensure that the totality of the debt we are incurring is reduced to the barest minimum. But in any case, it is not so much the debt itself but what the debt is used for. I myself am not opposed to Nigeria incurring more debt if we need to, provided that particular debt is being put to the best advantage.

EIR: Is Nigeria incurring new loans and new debt now?

Ogwuma: The lenders are not lending us money at this time, because we do not have the IMF program in place. However, there are some new monies coming in, related to projects, in petrol and an LNG project. These are coming from national financial institutions, the U.S. Eximbank, the Eximbank of Japan, the British, and the French.

EIR: But the international banking consortiums are not going to lend you any more money until a medium-term program is approved by the IMF?

Ogwuma: As far as the international banking community is concerned, that is the London Club, we did have an arrangement with them, and that was about three or four years ago. But at this point, we are not interested in going to them, because the rates are high, the terms are short, and it is not conducive to development. We would prefer loans coming in from development institutions, rather than from the London Club.

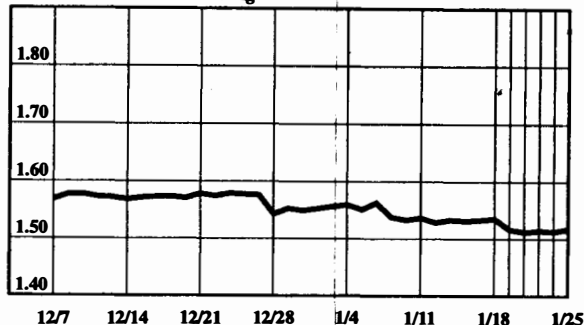
EIR: What do you think is the most important thing that should be done to improve the Nigerian economy in the short term?

Ogwuma: The most important thing is to really continue steadfastly in deregulation. The situation where you have a structural policy will not work. If, for instance, the government continues with deregulation and continues with monetary discipline and budgetary discipline, then the economy should be better in the years to come. . . . Capital markets should be deregulated in such a way that people can really invest in Nigeria. And the investments should be able to leave. There should be no exchange controls. Once you can bring in money and take out money efficiently, then there will be no capital flight. We must continue with the deregulation of the economy.

Currency Rates

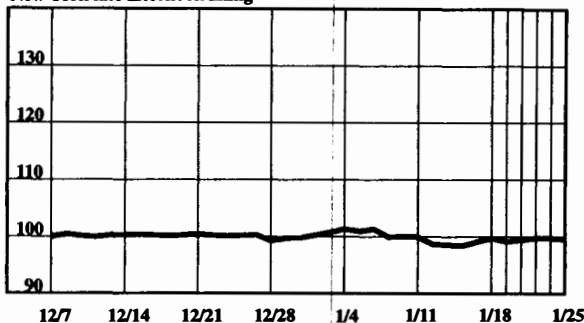
The dollar in deutschemarks

New York late afternoon fixing



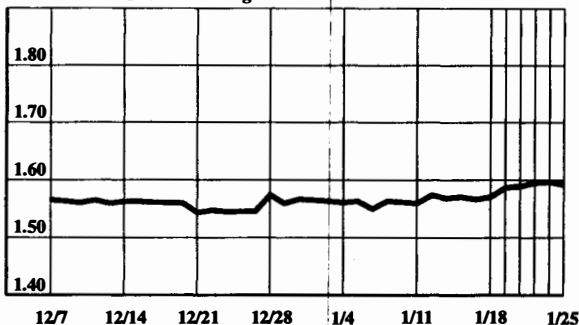
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

