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Huge National/Foreign Debt

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ABSTRACT

Global public debt has gotten to historic highs in the post COVID era, with global government debt exceeding $100 trillion in 2024, or approximately 93% of global GDP. The challenge is much compounded for many developing and low-income countries by the high share of foreign-currency denominated debt, rising interest rates, and limited fiscal space. Large debt is as a result of persistent fiscal deficits, low domestic revenue mobilization, external shocks like commodity price volatility and climate disasters, cum the need to finance infrastructure and social programs. In as much as borrowing can help support growth, excessive debt leads to debt service crowding out, currency depreciation, credit downgrades, and reduced capacity for public investment in health, education, and climate adaptation. Countries with debt service-to-revenue ratios above 23% are classified as at high risk of debt distress by the IMF. High debt threatens and undermines growth and the achievement of the Sustainable Development Goals. This paper therefore looks into the problems, causes, consequences and policy options for managing huge national and foreign debt in order to make life more comfortable for people.

KEYWORDS: *National debt, fiscal policy, external/foreign debt, developing economies, Nigeria, debt sustainability, fiscal deficit, debt-to-GDP ratio, sustainable development goals, corruption, capital flights, subsidy regime, tracking.*

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INTRODUCTION

Public debt is a fundamental tool of fiscal policy. Governments borrow to finance infrastructure, social services, and respond to economic shocks. It is when debt accumulates to very high levels, both domestically and externally that it can pose significant risks to macroeconomic stability, fiscal sustainability, and long-term development [1].

After the aftermath of the COVID-19 pandemic, the global public debt rose to an unprecedented $100 trillion in 2024, which is equivalent to approximately 93% of global GDP – the highest level since World War ll [1], as shown in Figures 1 and 2. In the case of advanced economies, much of this debt is domestic denominated in local currency, as shown in Figure 3. Unlike developing and low-income countries, the burden is different as the: large share of their debt is external, denominated in foreign currency, and owed to a more diverse group of creditors including multilateral institutions, bilateral partners such as China, and private bondholders [1], as shown in Figure 4.

National debt is the total borrowing by a central government from both domestic and foreign sources. **Foreign or external debt** is the portion of that debt owed to non-residents and repayable in foreign currency. It is when external debt grows rapidly without a corresponding increase in export earnings or GDP that countries face currency risk, higher debt service costs, and reduced fiscal space [2].

The concern over "huge" debt arises when key sustainability indicators are breached. The IMF flags countries as being at high risk of debt distress when debt service exceeds 23% of government revenue or when external debt-to-exports exceeds 240% [1]. In 2024, 22 countries were in or at high risk of debt distress, with Sub-Saharan Africa being the most affected [3], as shown in Figure 5.

For countries like Nigeria, the issue is acute. As of Q4 2023, Nigeria's total public debt stood at $97.3 billion, with external debt accounting for $51.4 billion and domestic debt at $45.9 billion [4], as shown in Figure 6. Report also indicated that in 2023, over 73% of the federal revenue was spent on debt service, with only limited resources for health, education, and capital investment [4]. The causes or drivers are said to include persistent fiscal deficits, low tax revenue, oil price volatility, and the need to finance deficits in the wake of subsidy removal cum security challenges.

HISTORICAL BACKGROUND

There is the critical need of the understanding of the historical context and current dynamics, because without sustainable debt, governments cannot achieve the Sustainable Development Goals or even withstand future economic shocks. National and foreign debt is not new. Governments are known to have borrowed to fund wars, infrastructure, and crises for centuries. The scale, structure, and risks of debt have changed with each global economic cycle.

1. **Early history: War and State Building (1700s-1945)**

A. **18th-19th Century Europe:** Modern sovereign debt began with Britain after the 1688 Glorious Revolution. The Bank of England was created in 1694 to manage war debt. By 1815 after the Napoleonic Wars, UK debt-to-GDP peaked at ~250% [5], as shown in Figure 7.

B. **Colonial Borrowing:** Colonies in Africa, Asia, and Latin America borrowed from European Banks to build railways and ports. Debt was often denominated in foreign currency and tied to commodity exports.

C. **World Wars:** Both World Wars forced massive borrowing. US public debt rose from 3% of GDP in 1971 to 120% in 1946. Most debt was domestic and held by citizens [1].

2. **Post-War and Decolonization Era (1945-1980)**

A. **Bretton Woods System:** The IMF and World Bank were created in 1944 to provide concessional lending for construction and development.

B. **Independence Wave:** Newly independent African and Asian states borrowed heavily in the 1960s-1970s for stated-led development projects, often from bilateral donors and multilateral institutions.

C. **Petrodollar Recycling:** After the 1973 oil shock, oil-exporting countries deposited surpluses in Western banks. Those banks then lent to developing countries at low interest rates [2].

3. **The debt Crisis of the 1980s**

A. **Trigger:** US Federal Reserve raised interest rates to ~20% in 1981 to fight inflation. This made dollar debt expensive.

B. **Commodity Price Crash:** Oil and mineral prices fell, cutting export earnings.

C. **Result:** Mexico's 1982 default triggered the "Latin American Debt Crisis". By 1989, over 40 developing countries had to restructure debt.

Solution: Brady Bonds, Structural Adjustment Programs by IMF/World Bank. The era marked a shift from bank loans to market-based borrowing [3].

4. **1990s-2000s: Emerging Market Crises and Debt Relief**

A. **Asian Financial Crisis 1997, Russian Default 1998, Argentina 2001:** Showed risks of short-term foreign currency debt and capital flight.

B. **HIPC Initiative 1996:** Heavily Indebted Poor Countries initiative canceled ~$130 billion in debt for 37 countries, mostly in Africa.

C. **MDRI 2005:** Multilateral Debt Relief Initiative canceled debts owed to IMF, World Bank, and AfDB for qualifying countries. Nigeria received ~$18 billion relief in 2005 [4].

5. **2008-2025: The New Wave of High Debt**

A. **2008 Global Financial Crisis:** Advanced economies borrowed to bail out banks. Global public debt jumped from 66% to 82% of GDP.

B. **COVID-19 2020-2022:** This is the largest peacetime borrowing in history. Global debt hit $100 trillion by 2024, which is 93% of GDP [1].

C. **New Creditors:** China has now become the largest bilateral creditor to low-income countries. Private creditors and Eurobonds now account for greater than 50% of external debt in many African states.

D. **Current Challenge:** Rising US interest rates 2022-2024 + dollar strength made foreign debt servicing harder. Currently 22 countries are now in or at high risk of debt distress [6].

6. **Key Lessons From History**

A. **Currency matters:** Domestic debt is safer than foreign debt during shocks.

B. **Interest rate cycles drive crises:** 1980s and 2022 both show this.

C. **Debt relief works, but temporarily:** Without revenue and export growth, countries relapse into distress.

D. **Creditors have changed:** From Paris Club banks 'n to China, private bondholders, and multilaterals.

CONNECTION OF CORRUPTION WITH HUGE NATIONAL/FOREIGN DEBT

Corruption and huge national/foreign debt are connected as they reinforce each other. Corruption increases the need to borrow, making debt less productive, and making it harder to pay back.

1. **How Corruption drives up debt -** Corruption drives up debt via**:**

A. **Revenue leakage:** When there is corruption in tax collection, customs, and oil/gas sales, it reduces government revenue. So in order to fill up the gap, government borrows more [7]. For instance, between 2011 and 2021, Nigeria lost an estimated $17.3 billion to oil theft and subsidy fraud.

B. **Inflated Project Costs:** Corrupt procurement inflates the cost of roads, power, and hospitals by 20-50%. Same project, bigger loan [8].

C. **Borrowing without transparency:** "Opague" loans and collateralized oil deals are easier when oversight is weak. This results to borrowing for projects with low returns.

D. **Capital flights:** In this case, stolen funds leave the country. The country then borrows foreign currency to fund the same development need.

2. **How Debt Makes Corruption Worse**

A. **Less oversight in crises:** For example, during crises such as COVID, wars, or recessions, emergency borrowing had weaker controls. This paves the ways for increased opportunities for diversion [9].

B. **Debt service pressure:** Less money is usually the case for health/education when greater than 50% of revenue goes to debt servicing. This increases incentives for informal payments and graft.

C. **Bailouts and restructuring:** Countries in distress get new loans with conditions. Without strong institutions, parts of these funds are misused.

3. **Empirical evidence**

There are statistically significant link between corruption and huge national/foreign debt from multiple studies, such as:

- A 1-point increase in corruption index is associated with 1.2% higher debt-to-GDP ratio in developing countries [10].
- Countries with high corruption have 4-5% lower returns on public investment, meaning debt creates less growth [7].
- In Sub-Saharan Africa, 40% of external borrowing between 2008 and 2018 did not translate into visible public investment [2].

4. **Nigeria as a case example**

A. **Subsidy regime 2011-2022:** During this period, NNPC and marketers claimed billions in fuel subsidy. The Auditor-General reports flagged duplicate claims and non-existent imports. This borrowing was to fund deficits partly created by leakage [4].

B. **Debt and capital projects:** Despite $97.3 billion public debt in 2023, budget implementation rates for capital projects averaged less than 60% 2015-2023. The gap was linked to procurement issues [3].

C. **Debt relief 2005:** Post-relief, institutions like DMO, Fiscal Responsibility Act, and TSA were created to improve transparency. However, debt rose, but with better tracking. Better tracking makes looting visible. Without TSA and BVN, stolen funds just disappear into "ghost accounts" – where over =N=3 trillion in "idle funds" was recovered in 2015-2020 [11]. Better tracking is the necessary first step. It turns "alleged looting" into "documented evidence". **Tracking 'n Recovery 'n Punishment** only works with the following three pillars:

i. **Technology** to detect
ii. **Strong Institutions** to prosecute, and
iii. **Political Will + Public Pressure** to enforce

Without all 3, tracking will only tantamount to creating more reports.

The bottom line is that: 1. Tracking = Flashlight. 2. Investigation = Police. 3. Recovery = Getting money back, and 4. Punishment = Deterrence. It should be noted that all 4 must work together, because if one breaks, the whole chain fails.

Better tracking does not automatically jail people. But countries that have no tracking recover almost nothing, while countries with tracking and enforcement recover billions. Here is a flow-chat from tracking 'n investigation 'n recovery 'n conviction – with Nigeria examples:

1. Tracking: Better tracking makes looting visible. Without TSA + BVN, stolen funds just disappear into "ghost accounts".
2. Investigation: Tracking data becomes useless without agencies that can analyze it. EFCC's "Financial Crimes Tracking System" now links bank, CAC, and land records.
3. Challenge: This is due to lack of manpower and slow MLATs for foreign assets.
4. Recovery – there are two types of recovery which are:

a) Domestic: Non-conviction asset forfeiture under EFCC Act.
b) International: This has to do with repatriation agreements. Nigeria has recovered ~$3.6B of looted funds since 1999.

Problem: The recovered funds must be tracked so as to avoid "re-looting".

5. Punishment: This is the weakest link. The conviction rate improved to 34% in 2022, but high-profile cases take 8+ years.

   Why punishment matters: Without punishment, tracking just becomes an "audit report".

6. Feedback Loop: Countries that close the loop use recovered funds plus lessons to fix systems. Example: IPPIS saved =N=361B by removing ghost workers.

Global evidence: Some global evidence included:

A. IMF Study 2023: Countries that adopted e-procurement + TSA reduced corruption leakages by 15-20% and improved recovery rates.

B. World Bank 2022: "Transparency without accountability has limited impact". Countries with independent prosecution + public asset registers recover 3x more funds.

C. Open contracting partnership: After Ukraine published all procurement data, it reported savings of $6 billion from 2016-2021 and 200+ prosecutions [12-15].

CONSEQUENCES OF HUGE NATIONAL AND FOREIGN DEBT

According to IMF, some of the consequences are that it involves debt service that will crowd out development spending and undermines macroeconomic stability. Huge national or foreign debt can have serious economic, social, and political consequences when a country's debt grows faster than its capacity to generate revenue and economic output. Some of these include:

1. High debt-servicing costs
2. Reduced government spending on development
3. Higher taxation
4. Inflationary pressures
5. Crowding out of private investment
6. Higher interest rates and borrowing costs
7. Currency depreciation
8. Debt distress and default risk
9. Slower economic growth
10. Reduced foreign investment
11. Unemployment and reduced living standards
12. Greater dependence on foreign creditors
13. Loss of fiscal sovereignty
14. Intergenerational burden
15. Greater vulnerability to external shocks [16-22].

SOLUTIONS TO HUGE NATIONAL/FOREIGN DEBT

Some of the solutions to solving huge national/foreign debt can be through a combination of fiscal reforms, economic growth, debt restructuring, stronger revenue mobilization, expenditure control, and prudent borrowing. There isn't any single solution as governments normally require a coordinated debt-management strategy such as:

1. Increased government revenue
2. Reduce unnecessary government expenditure
3. Promote economic growth
4. Restructure existing debt
5. Refinance expensive debt
6. Reduce dependence on foreign-currency borrowing
7. Use borrowed money for productive investments
8. Strengthen debt-management institutions
9. Fight corruption and financial leakages
10. Improve public-sector efficiency
11. Increase exports and foreign-exchange earnings
12. Attract productive foreign direct investment
13. Privatize or commercialize inefficient state enterprises where appropriate
14. Establish responsible borrowing limits
15. Strengthen fiscal discipline
16. Seek international debt relief when necessary
17. Build sovereign reserves and fiscal buffers
18. Strengthen institutions and transparency

Some of the important strategies needed to be adopted by Nigeria would include:

- Increasing non-oil revenue
- Improving tax administration and reducing tax evasion
- Diversifying exports beyond crude oil
- Reducing dependence on expensive short-term borrowing
- Carefully managing foreign-currency debt
- Improving electricity, transport and other productive infrastructure
- Reducing corruption and financial leakages
- Strengthening debt transparency
- Ensuring that new borrowing finances productive investments
- Maintaining a credible medium-term fiscal and debt-management framework

Nigeria however does not necessarily need to stop borrowing completely, but that borrowing should remain sustainable, transparent and directed toward investments capable of generating economic growth and future revenue [17, 18, 21, 22, 23-28].

CONCLUSION

Huge national and foreign debt is now a major economic and developmental challenge for many countries, especially developing economies. Borrowing can provide governments with the resources to finance infrastructure, education, security, healthcare and other development projects, while excessive debts can lead to serious fiscal and economic pressures when funds borrowed are poorly managed or when debt grows faster than national income. A high debt burden can increase debt-servicing costs, reduce the funds available for essential public services, weaken investor confidence, increase vulnerability to exchange-rate fluctuations and expose countries to external economic shocks. Debt should be directed toward productive investments that would expand economic capacity contributing to long-term development, and while borrowing for recurrent expenditure, corruption, waste or poorly executed projects can worsen the debt burden. Addressing huge and foreign debt will require strong fiscal discipline, effective debt management, increased domestic revenue, reduction of wasteful expenditure, transparency in borrowing and greater investment in productive sectors. Governments should also strengthen institutions responsible for monitoring public borrowing and ensure that loans are used for projects capable of generating economic and social returns. More information on huge national and foreign debt can be obtained in books in [29-47] and the following related journals:

Journal of International Economics

American Economic Review

Journal of Macroeconomics

Finance and Development

Journal of Development Economics

IMF Working Paper, 03/249

IMF Staff Papers

Review of Economic Studies

IMF Economic Review

European Economic Review

Handbook of Macroeconomics

International Review of Applied Economics

Journal of Monetary Economics

Brookings Papers on Economic Activity

IMF Working Paper, 03/221

World Development

Economic Journal

International Review of Economics & Finance

World Bank Economic Review

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Figure 1. Global debt

Source: https://en.wikipedia.org/wiki/Global_debt

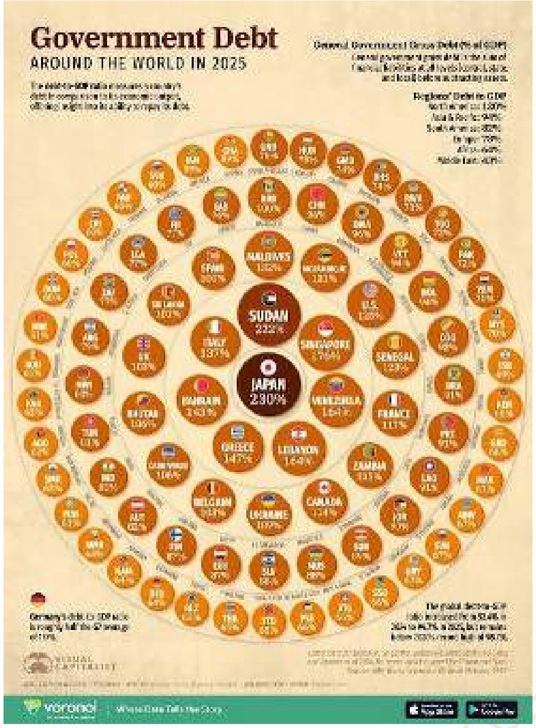

Figure 2. State of world debt in 2025

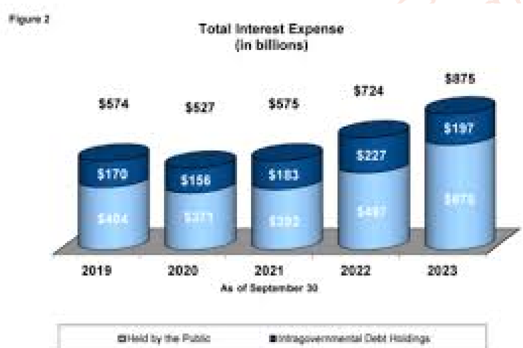

Figure 3. National debt of the United States
Source:https://en.wikipedia.org/wiki/National_debt_of_the_United_States

Figure 4. How much Nigeria owes other countries as at 2024


TRTAFRİKA
AFRICAN COUNTRIES WITH LOWEST EXTERNAL DEBT 2025

Rank	Country	Debt	Global Rank
1	Eritrea	$636,504,500	145
2	CAR	$666,293,000	144
3	Liberia	$830,923,000	143
4	Botswana	$1,853,500,000	140
5	Chad	$2,038,000,000	139
6	South Sudan	$2,475,000,000	136
7	Sierra Leone	$2,687,000,000	135
8	Madagascar	$3,028,500,000	131
9	Burkina Faso	$3,145,000,000	130
10	Mali	$3,322,000,000	129

Source:Global Firepower

Figure 5. Many African countries are struggling with debts

Figure 6. Nigeria's foreign debt may hit 50bn

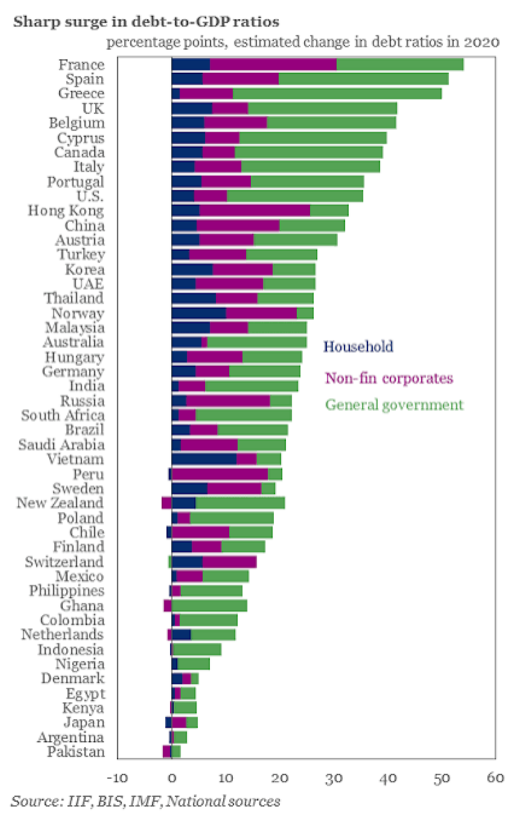

Figure 7. Global debt record of 281 trillion in 2020.