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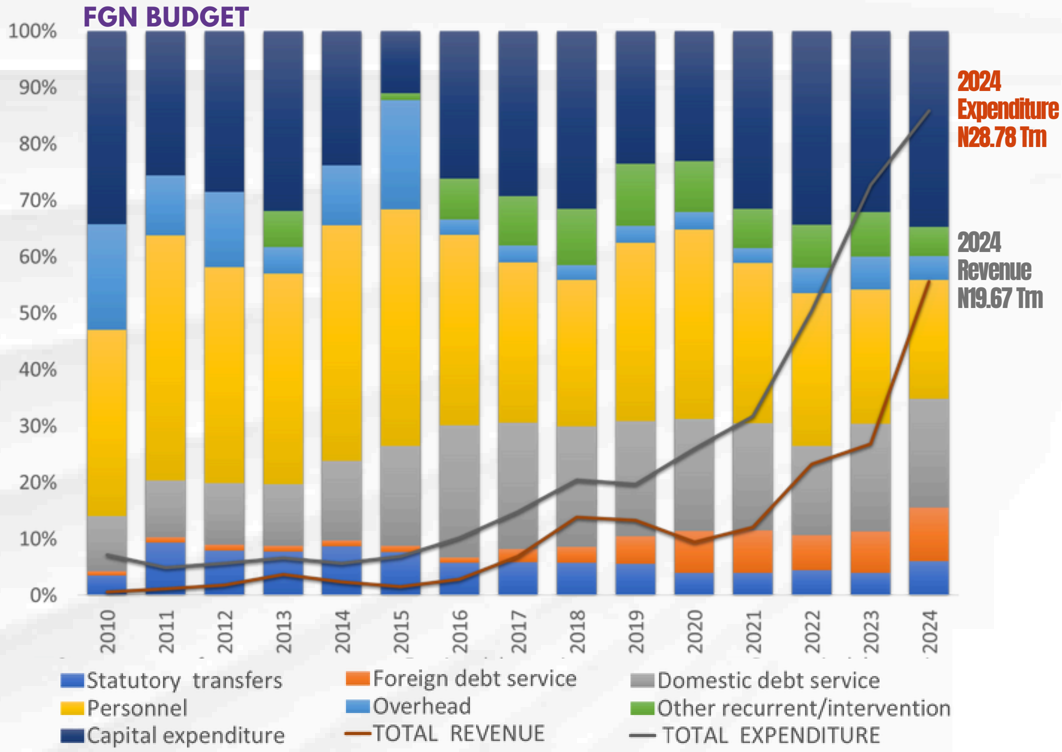
WHAT IS NIGERIA BORROWING FOR?

BEYOND THE HEADLINE DEBT FIGURES



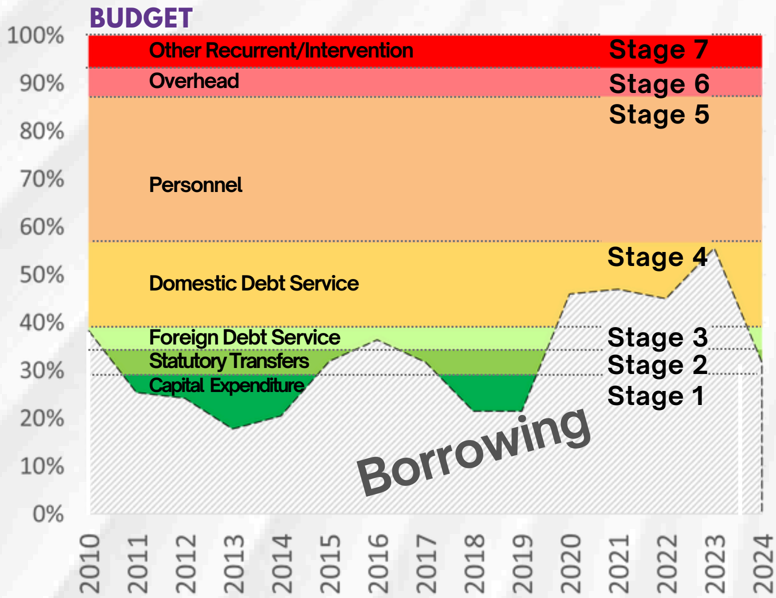
- FGN budgets have increased sharply in the last few years, with huge deficits, fuelling debt accumulation.
- In 2024, the sum of N28.78trn and N19.67trn were approved as expenditure and revenue respectively with a N9.61trn deficit.
- Over the years, the shares of foreign and domestic debt services in the total planned budget have risen.
- The shares of capital and statutory transfer fell initially but have also risen recently.
- But the shares of personnel and overhead expenditures have fallen

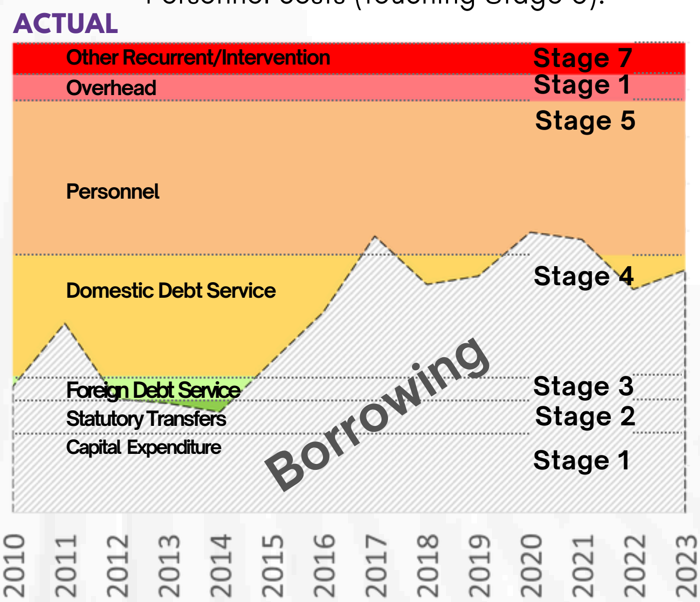
APPROVED FGN BUDGET

- From 2014 till date, the average shares of Approved Budget components have been: Capital (30.1%), Statutory transfers (5.4%), Foreign (5.5%) and Domestic (18.0%) debt services, Personnel (28.8%), Overhead (5.7%), and Other recurrent/intervention (6.4%).
- Assuming new debt should be for development capital, it could be argued that before the 2016 crisis, new debts corresponded with required funds for capital projects (Stage 1 in the chart).
- However, the situation has worsened in the post-COVID-19 era, where planned borrowings (deficits) have risen above planned capital expenditure to amounts equivalent to also effectively finance Statutory transfers and Debt services (Up to Stage 4).
- Meanwhile, the 2024 budget attempts to reverse this trend with a planned deficit of N9.1trn and a planned capital of N9.99trn.

ACTUAL FGN BUDGET IMPLEMENTATION

- From 2014, the average shares of Actual Budget components have been: Capital (18.1%), Statutory transfers (5.9%), Foreign (5.1%) & Domestic (25.7%) debt services, Personnel costs (32.8%), Overhead (5.7%), and Other recurrent/intervention (6.8%).
- For actual budget implementation, the new borrowings have always exceeded actual capital expenditure.
- This situation has deteriorated since 2016, and it can be argued that debts have been used not only for capital but also effectively for Statutory transfers, Debt services, and partly Personnel costs (touching Stage 5).





IMPLICATIONS

- FGN's budgets are increasing in deficits, and more money is spent on debt servicing, leaving less for capital.
- Prefarably, revenue should at least cover recurrent (debt & non-debt) expenditure.
- Debt should not be accumulated as default, and any proposal to raise expenditure should be accompanied by strategies to raise revenue, not just debts.
- Otherwise, the strategy should be to remove items of less priority in the budget to reduce expenditure.
- New debts need to be applied solely to development capital projects.
- Such capital must derive from a medium-term plan that is tied to a long-term plan
- Periodic legislative oversights and audits should ensure minimal deviation of budgets from actuals, with relevant sanctions enforced in case of unacceptable deviations.
- Relevant provisions of the Fiscal Responsibility Act (2007) should be enforced and/or strengthened to achieve these.

Source: BOF, OAGF, ADSR Research

@adsrng.com