KEY POINTS

- In the last 8 years, approved budget values have risen from N5.07trn in 2015 to N17.32trn in 2022 and now N20.51trn is proposed for 2023.

- The bulk of the total budget over this 8-year period have gone into defence and security, human capital as well as infrastructure.

- FGN Revenue projection in the budget rose from N3.5trn in 2015 to N8.2trn in 2022, but what was actually achieved only ranged between N3.2trn in 2015 to an estimated value of N4.8trn in 2022.

Implementation of Buhari's 8 Years Budgets and Implications for the Incoming Administration

Introduction

The 2023 budget of the Federal Government of Nigeria (FGN) was presented by the President on 07 October, 2022. This last budget from the current administration is themed, "*Budget of Fiscal Consolidation and Transition*" with a proposed size of N20.51 trillion naira. In the last 8 years, approved budget values have risen from N5.07trn in 2015 to N17.32trn in 2022 and now N20.51trn is proposed for 2023 (figure 1).

If and when approved, the 2023 budget will be the highest in the history of the country, at least in nominal terms, not adjusting for inflation trends. This upward trend in the budget underscores the current administration's plan to address some of the challenges facing the country. Among other factors that have also contributed to the recent budget increase over previous years is the integration of the budgets of selected Government-Owned Enterprises (GOEs) into the FGN's budget from 2019 for transparency.

Also included are Multilateral/Bilateral Loan Funded Projects (project-tied loans). The budgets of 9 GOEs were integrated in 2019, 10 in 2020, 60 in 2021 and 63 in each of 2022 and 2023. Excluding the budget of such GOEs, approved FGN budget for 2019 was N8.92trn, and N9.97trn (2020), N12.51trn (2021) and N14.45trn (2022).

Figure 1: 8-year budget trend (N'trn)
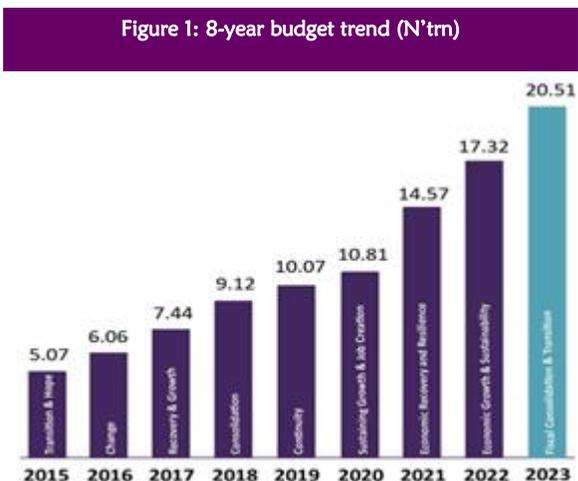
Source: BOF, Anastat, ADSR Research

Budget Allocation

An examination of the distribution of the total budget over this 8-year period shows that the bulk goes into defence and security, human capital as well as infrastructure. Specifically, an estimated amount of N6.77trn has been budgeted for the Ministry of Defence, N5.10trn for the Ministry of Education, N3.72trn for the Ministry of Health, N3.51trn for the Ministry of Interior and N3.01trn for the Ministry of Works and Housing. Figure 2 shows these as well as the other Ministries, Departments and Agencies (MDAs) in the top 15 category of FGN budget allocation.

In addition, the figure shows the distribution of the budget of each of these MDAs between capital and recurrent expenditure. Ministries with high proportion of their budget allocated to capital projects include Works and Housing, Agriculture, Power, Transport and Water Resources. The Ministry of Finance, Budget and National Planning also features among these Ministries given the inclusion of some multilateral/bilateral project-tied loans and other special intervention programmes in its capital project.

Adding up the numbers in figure 1 shows that the FGN has budgeted the sum of N100.97trn in the last 8 years for various MDA. It should however be noted that not all budgeted amount is spent. On the average over this period, close to 90% of the budgeted amount has actually been spent. Therefore, a simplified way to assess the budget over the years is to examine the extent to which the actual budget outcomes comply with or deviate from the approved budget estimates.

In this piece therefore, we have attempted to compare the assumptions of the various budgets, the expenditures, revenues and their deficits with the actual outcomes in the last 8 years. For the assumptions, the budgets are compared with the average annual values, as against end-year values; while expenditures and revenues are exclusive of GOEs budgets.

Figure 2: Top 15 Spenders (N'trn)
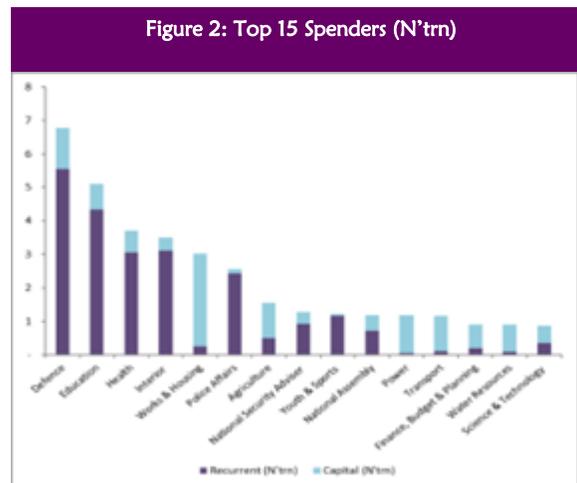
Source: BOF, Anastat, ADSR Research

Budget Assumptions

Exchange Rate: The assumptions of exchange rate closely track their actuals in each of the years, with just an average of 2% variance between budget and official exchange rates, except for 2016 when there was a recession (figure 3). However, the parallel market rate has increased significantly over the period; with an average annual variance of about 30% from the budget assumptions.

Figure 3: Exchange Rate (N/US$)
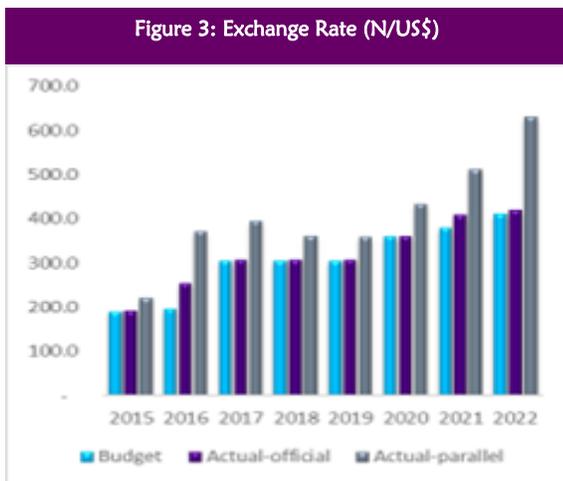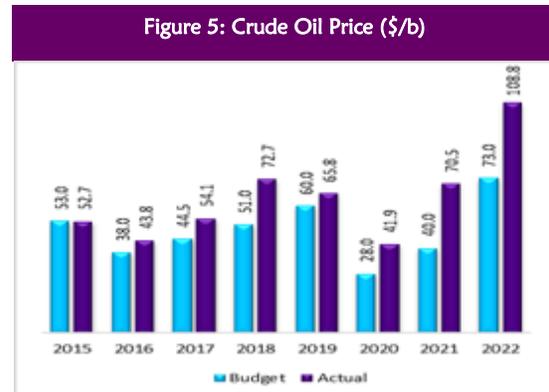
Source: CBN, BOF, Anastat, ADSR Research

Inflation Rate: The budget assumptions on inflation have fairly tracked their actual values, except for 2016, 2021 and 2022 when actual inflation rates were far higher than their budget values. On the average, actual inflation rates have exceeded the budget assumption by 2 percentage points (figure 4).

Figure 4: Inflation Rate (%)
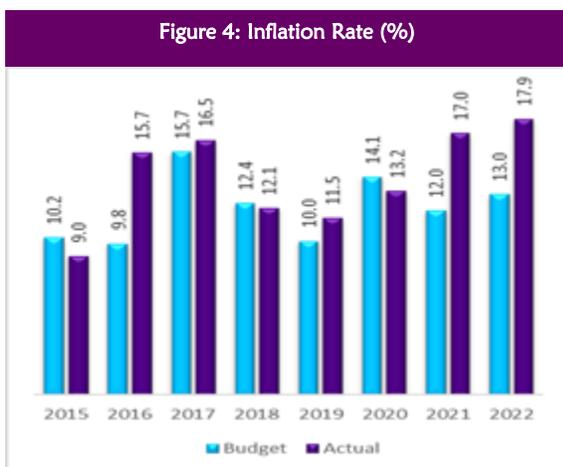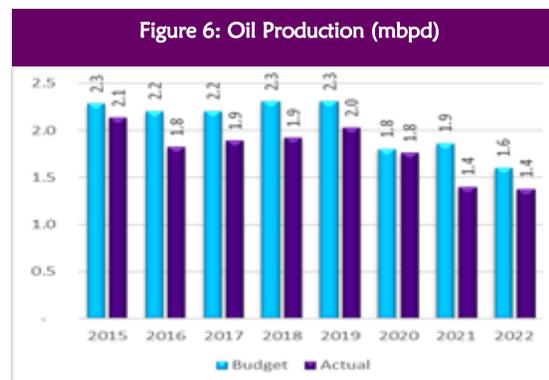
Source: CBN, BOF, Anastat, ADSR Research

Crude Oil Price: Crude oil prices used as benchmark in the budget are usually conservative,

especially in recent times (figure 5). Generally, actual crude oil prices have been about 30% on the average higher than the budget assumptions.

**Figure 5: Crude Oil Price ($/b)**

Source: CBN, OPEC, BOF, Anastat, ADSR Research

Oil Production: Contrary to the assumption for oil price, actual oil production has always fallen short of the budget value; and this is observed for all the years; averaging about 15% less than the budget production level (figure 6).

Figure 6: Oil Production (mbpd)

Source: CBN, OPEC, BOF, Anastat, ADSR Research

GDP Growth: Growth assumptions in the budget have always been optimistic as the actual values usually come far below the budget assumption for almost all the years, except for 2020 when a relatively worse situation was envisaged than resulted from the Covid-19 pandemic (figure 7). Generally, there is a tendency to overestimate Nigeria's GDP growth by about 1.5 percentage points in the budget.

3

Figure 7: GDP Growth (%)
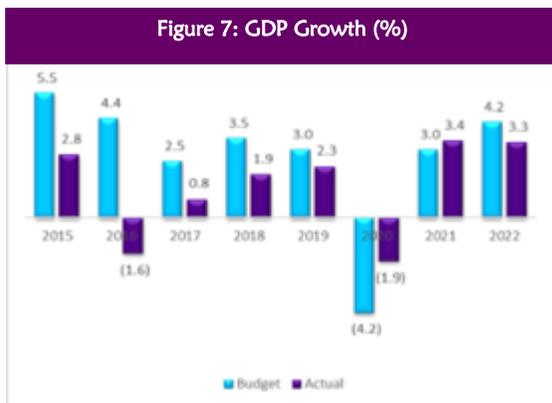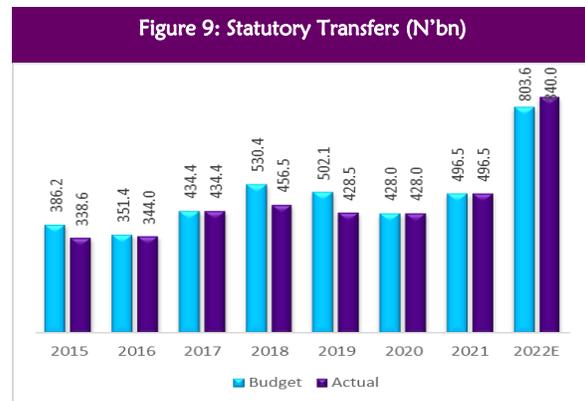
Source: NBS, BOF, Anastat, ADSR Research

Expenditures

Total Expenditure: Actual expenditures have been lower than their budget values from 2015 by about 10% on the average except for 2020, the Covid-19 year (figure 8). If the available 2022 half-year performance is projected, FGN's actual total expenditure may however exceed the budget value by about 10% in 2022, arising from the high cost of debt service and subsidy payments, among others.


Figure 8: Total Expenditure (N'trn)
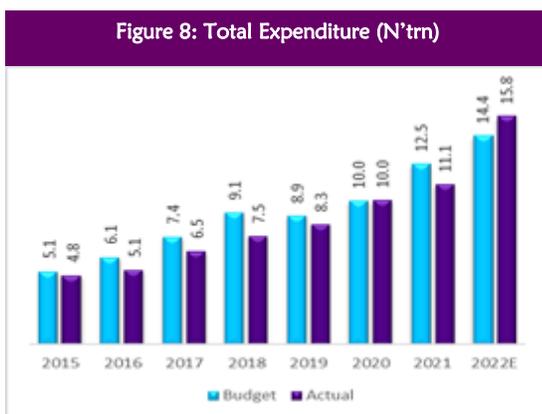
Source: BOF, Anastat, ADSR Research

Statutory Transfers: These are transfers to other arms of government which are on first line charge. They have largely met budgetary targets, with less than 5% variance on the average for the 8 years under review (figure 9).


Figure 9: Statutory Transfers (N'bn)

Source: BOF, Anastat ADSR Research

Capital Expenditure: Government spending on capital projects has been about 40% below the budgeted figure from 2016 to 2021. The aggressive capital allocation seen in the budget is often not reflected in the actual spending. However, projection for 2022 suggests that actual capital expenditure may exceed budget by about 30% given the need to quickly complete certain projects (figure 10).


Figure 10: Capital Expenditure (N'trn)
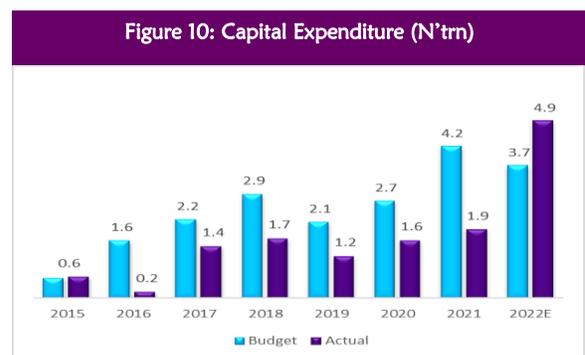
Source: BOF, Anastat ADSR Research

Recurrent (non-debt) Expenditure: Actual Recurrent non-debt expenditures, comprising largely expenditure on personnel, overhead and pensions, only fell slightly below their budget values by 5% on the average during the period (figure 11).

Figure 11: Recurrent (non-debt) Expenditure (N'trn)
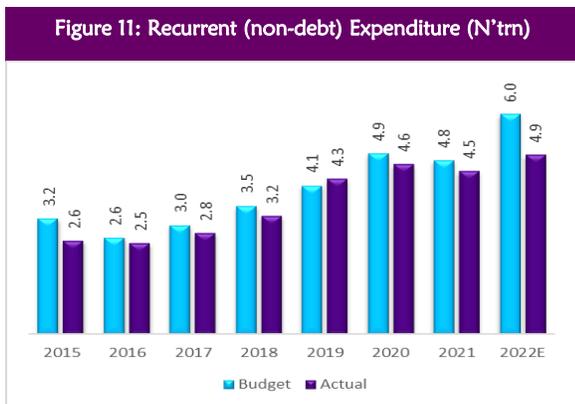
Source: BOF, Anastat ADSR Research

Recurrent (debt service) Expenditure: This consists of domestic and foreign debt service, interest on ways and means and sinking funds to retire maturing loans (figure 12). The budget and actual were close in values prior to 2020, but diverged significantly thereafter. In most recent times, actual debt service is exceeding budget by 20% on average every year.


Figure 12: Recurrent (debt service) Expenditure (N'trn)
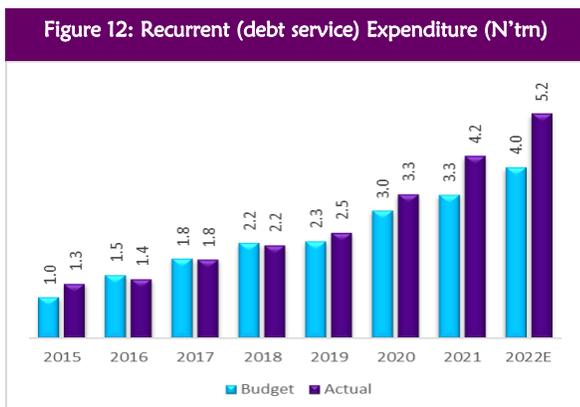
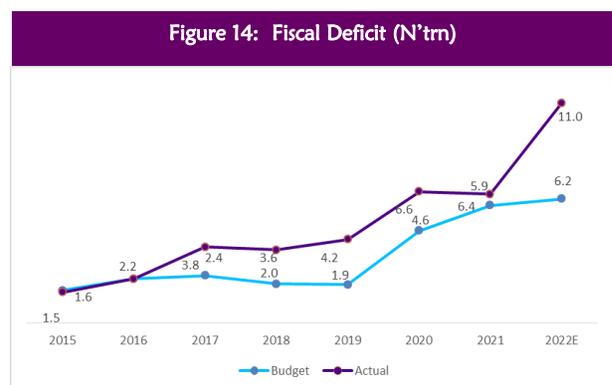*Source: BOF, Anastat ADSR Research*

Revenue and Deficits

Revenue: FGN Revenue projection in the budget rose from N3.5trn in 2015 to N8.2trn in 2022, but what was actually achieved only ranged between N3.2trn in 2015 to an estimated value of N4.8trn in 2022. Thus, actual revenue values have fallen below budget by 35% on the average during the period (figure 13). Revenue is about the most volatile

component of the budget, pointing at the country's susceptibility to oil price and production shocks.


Figure 13: Revenue (N'trn)
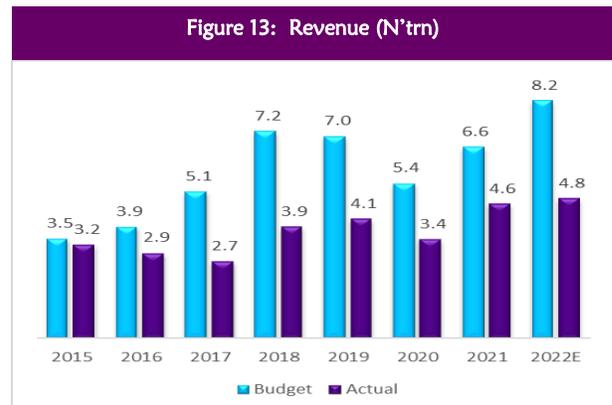
Source: BOF, Anastat ADSR Research

Fiscal Deficit: This has been on an upward trend, rising from N1.6trn in 2015 to N6.2trn in 2022 in terms of budget. Conversely, actual values have increased from N1.5trn to N6.4trn in 2021 with a projection of N11.0trn in 2022 based on the available 2022 half-year performance figures. On the average, actual deficits have exceeded their budget values by about 40% on an annual basis (figure 14). When expressed as a percentage of GDP, it averages 3.3% during the period, implying a 0.3 percentage points higher than the 3% provided in the Fiscal Responsibility Act, 2007 (figure 15).

Figure 14: Fiscal Deficit (N'trn)

Source: BOF, Anastat ADSR Research

Figure 15: Fiscal Deficit-GDP Ratio (%)
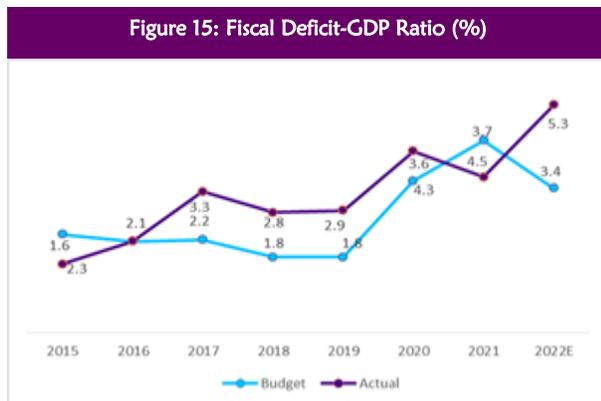
Source: BOF, Anastat ADSR Research

Summary and Implications for the next Administration

In the last 8 years under the current administration, approved budget values have increased from N5.07trn in 2015 to N17.32trn in 2022 and now N20.51trn is proposed for 2023. Actual expenditure by the FGN has increased from N4.8trn to N11.1trn in 2021 and projected to N15.8trn based on the available 2022 half-year performance results. The bulk of the budget under the administration has gone into defence and security, human capital and infrastructure.

The budget assumptions are somewhat consistent, except for the high devaluation rate in the parallel exchange rate market which is often not considered in the budget as well as the tendency to overestimate Nigeria's GDP growth by about 1.5% and underestimate inflation rate by 2% in the budget. While actual crude oil prices are 30% higher than the budget benchmark, oil production is lower by

15% on the average.

Further analysis shows that actual expenditure on statutory transfers and recurrent (non-debt) items did not deviate significantly from their budget values. However, expenditure on capital items fell far short of their budget values and there is an emerging trend of recording actual debt service that is fast exceeding the budget values.

Generally, revenue projections in the budget were not met, leading to high underperformance of the budget, exemplified by low capital expenditure, high fiscal deficit and increasing debt service.

The incoming administration will most likely continue spending on the existing areas of defence and security, human capital and infrastructure; perhaps with some change in slogan, focus areas or strategies.

Meanwhile, the problem of low revenue and capital expenditure as well as high deficit and debt service will still be a challenge, at least in the short to medium term. Leveraging and expanding the integration of GOEs budgets, increasing oil production, reducing inefficient spending and subsidies, creating sustainable and diversified avenues for raising taxes and putting public resources into good use will be necessary going forward.

It is therefore important for Nigerians to engage and seek to be convinced that the manifestos and understanding of those seeking elections into various offices adequately and satisfactorily address these issues, without leaving out the benefits, costs and alternatives of any of their planned objectives, policies, programmes, projects and strategies

Figure 16: 2023 Federal Government of Nigeria Budget Proposal