

Nigeria's 2025 budget and the economy

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The Nigerian government designed its 2025 Federal Budget to sustain the momentum of the government's reforms launched in May 2023. This drive is underpinned by both the size of the budget and sectoral allocations that indicate where emphasis lies. The government aims to boost the economy through spending to stimulate activities across the various sectors. This explains its size: at N54.99trn. The budget as signed into law by President Bola Tinubu on Friday, February 28, 2025, is nearly double the 2024 budget of N28.7trn.

In summary, the 2025 budget's objective is to secure the nation and stabilize its economy. Both actions are critical now if Nigeria is to overcome the existential threats it currently faces. "This is an ambitious but necessary budget to secure our future," President Bola Tinubu said as he presented the budget estimates to the National Assembly on December 17, 2024.

However, like any other budget, the 2025 document stands or falls on the assumptions behind the estimates. And in this case, many of the figures, while sounding quite plausible in the argument, raise red flags concerning the realism of the entire package. For instance, the government's projected revenue streams are based on an appreciation of the naira exchange rate, from about N1,700 to N1,400 per dollar. There is also the assumption of a base crude oil production of 2.06 million barrels per day. Finally, the government also predicated the budget on the assumption that Nigeria's inflation rate will fall by more than half, from a rate of 34.6% to 15% sometime this year.

Presenting the document, President Tinubu described this year's budget proposal as a reinforcement of his administration's roadmap to secure peace, prosperity, and hope for a greater future for the country. Christened the "Budget of Restoration: Securing Peace, Rebuilding Prosperity," the budget is presented as a major element in the realization of the administration's Renewed Hope Agenda and demonstrates its commitment to stabilizing the economy, improving lives, and through these, repositioning the country for greater performance. "It is not a journey of our choosing but one we had to embark on for Nigeria to have a real chance at greatness," he said.

The budget will be funded partly through the government's expected revenue of N41.91 trillion. This leaves a deficit of N13.08trn, or 1.52 percent of GDP. On both measures, this deficit is significant because its funding has implications for the government in terms of the financial cost, depending on how it is funded. The new borrowing for budget 2025 will be in addition to the loans raised to fund the deficit in the 2024 budget. Nigeria sold Eurobonds in December to raise \$2.2b. The government announced then that proceeds from that sale would be used to fund the deficit in the 2024 budget.

In trying to “reset” the economy, the government realized that the country must be secured first to create an environment conducive to economic activities. Agriculture, social activities, trade and commerce, as well as industrial activities, have all been impacted by insecurity arising from banditry. Kidnapping for ransom has deterred farmers from accessing their farms to sustain food production. This has been blamed in part for the soaring food inflation that rose to 39.93 percent in November 2024, and 39.84 percent in December. This emphasis on securing the future of the country accounts for the high allocation to Defense and Security, with a total of N4.91trn. This is about 8.9 percent of the planned expenditure.

Similar reasoning features prominently in the allocation of funds to other key sectors: N4.06trn made to infrastructure, N2.48trn to health, and N3.52trn to education. The neglect of these sectors over the years has held the Nigerian economy back from achieving its potential, following from the inadequate funding of its productive capacity. The government wants to demonstrate its resolve to change that. This explains the quantum of allocation made to these sectors – security, defense, education, and infrastructure. Together, they got 18.3 percent of the total budget outlay. Beyond voting large budgetary figures, the key to effective budgeting lies in the structure of the expenditure and implementation. As a fiscal tool and visible hand of the government, the budget must be utilized to influence the course of the economy. It can achieve this by channeling resources to where the government, through its agents who know the needs of the economy, have identified as priority areas at a given point in time.

Concerns have, however, been expressed over the multiplicity of budgets that are running concurrently in Nigeria. Ideally, the 2024 budget should have expired by the end of December 2024, so that a fresh budget would roll in and become operational. However, this is not the case right now. What Nigerians will experience this year is an amalgam of various budgets. Even the 2025 budget will not become operational until at least around the end of the first half of the year. This implies that the authorities freely breach regulatory limits regarding the implementation of budgets. This is not a globally acceptable practice in the field of public finance management for optimal economic performance in a country. We are not aware of any country in the world that practices a multiplicity of national budgets running concurrently from where Nigeria could be said to have copied this practice.

So, this is what may happen: in the first half of 2025, an extended part of 2023 budget, two supplementary budgets (President Buhari’s budget), and the 2024 budget, which the government has extended by six months, will be operational. The ensuing fiscal maze could create an operational and implementation challenge.

Now, consider the assumptions behind the figures or estimates in the budget: an inflation target of 15%; exchange target of N1,400/dollar; price of oil of \$85 per barrel, and crude oil production of about 2.06 million barrels per day. The projected fall in inflation rate is quite ambitious although quite welcome. Its realization would depend a lot on the implementation of some of the provisions in the new budget, such as the large allocation to defense and security, and of course the funds allocated to agriculture. This then raises another poser: will the government release these funds concurrently with the extended and supplementary budgets? If so, what could be the potential impact of such a deluge of expenditure for the economy, if uncoordinated?

An additional challenge that the government faces in this plan is to ensure that this stabilization drive achieves its intended results. Fiscal stabilization programs often miss their targets in developing countries, say Kraay and Serven (2013), due to ill timing, the quantum and structure of public spending.



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Kraay and Serven declare that:

There is strong evidence that fiscal policy has been pro cyclical in developing countries. Fiscal expansions tend to take place in good times, and not during bad times when they might play some role in smoothing output declines. This applies to a variety of measures of fiscal policy – including total expenditure, the share of total expenditure in GDP, public consumption and public investment (p.1)

Pattillo, C., Lazare, M., and Cangiano, M. (2010) have identified three broad factors that cause the procyclicality of fiscal measures. These are political and institutional factors that lead to fiscal profligacy in good times, financing constraints and limited access to international capital markets in bad times, and implementation constraints that delay and compromise the quality of policy decisions both in good and bad times.

The above points reinforce the concerns raised earlier on the challenge of the multiplicity of budgets that will be operative this year. The danger here then is that we could just as well be implementing a budget in 2025 that is uncoordinated with the state of the economy today. Or the government could be spending on a sector what is too small or too little for its requirements today. These are possibilities given the apparent disconnects in the fiscal landscape.

Referring again to the sectoral allocations above, the vote to Defense and Security is appropriate. Nigerians expect the government to secure the environment in which the fiscal stimulus will take place. Without this, even the planned stimulus will be a misplaced priority.

Why stabilization matters now

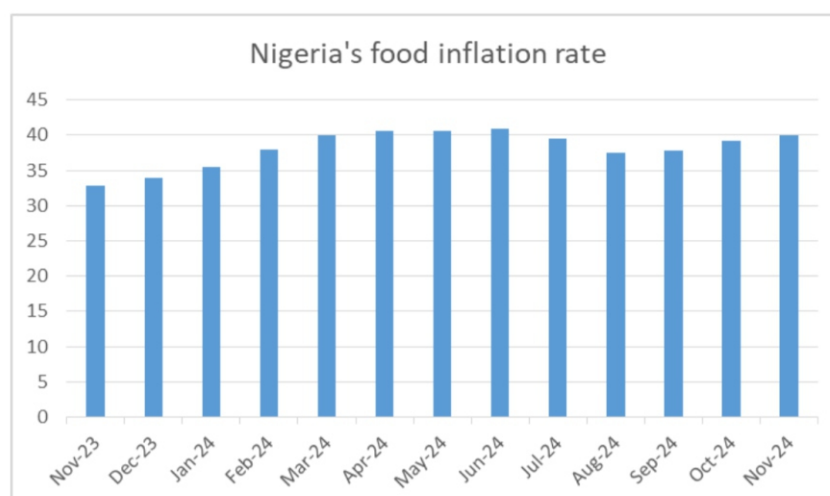
The macroeconomic position of the economy is the key determinant of the appropriate stabilization program that the government should embark on.

When President Tinubu presented the budget estimates to the National Assembly, a snapshot of the economy was this:

- Headline inflation rate 34.6%
- Food inflation rate 39.93

Industrial and agricultural outputs





The Central Bank of Nigeria pursued a restrictive monetary policy in 2024 designed to rein in inflation. This stance showed that the regulator considered inflation as being a monetary phenomenon. But after its hike of the MPR by over 800 basis points failed to have a significant impact on the inflationary pressure, this year could witness a change in policy. It is significant that at its first meeting in February, the Monetary Policy Committee (MPC) decided to halt the rate hike spree.

The sustained high inflation rate throughout 2024 makes the government's inflation target of 15% for this year a challenge. However, the government's emphasis on supply-side activities could hold the key to this plan. This could signal the government's acknowledgement that, after all, inflation is, in part at least, a structural phenomenon. By addressing food supply, infrastructural deficiency, the federal government could be answering the lingering question: is inflation a structural or monetary phenomenon? A balanced approach to dealing with inflationary pressures would yield better outcomes.

In the meantime, with the MPR left at 27.5%, costs will remain highly elevated. The impact of this will continue to be felt by the operators in the various sectors because the prohibitive cost of funds that investors have been subjected to will continue to show in their books and reflect in the prices of their products.

The government's desire to boost economic activity tallies with its plan to establish a National Credit Guarantee Company (NCGC). According to President Tinubu, the NCGC "will further consolidate and increase access to credit for individuals and critical sectors of the economy to boost national economic output". The company will address one of the factors inhibiting credit growth by expanding risk-sharing instruments for financial institutions and enterprises.

Risk mitigation has been a challenge in the Nigerian financial system. In October 2024, the World Bank warned about a rise in the non-performing loans ratio in the local banking system. It noted that the ratio had risen to 5.1%, a marginal increase above the prudential level of 5%. The bank noted that "the ratio of NPLs to total loans increased by 0.6 pp to 5.1 percent in Q1 2024 compared to Q1 2023. This ratio is marginally above the prudential benchmark of 5.0 per cent".

Operating as a partnership of government institutions, including the Bank of Industry, Nigerian Consumer Credit Corporation, the Nigerian Sovereign Investment Agency, Ministry of Finance Incorporated, the private sector, and multilateral institutions, is likely to place NCGC on a good footing, in terms of sustainability. “This initiative will strengthen the confidence of the financial system, expand credit access, and support under-served groups such as women and youth. It will drive growth, re-industrialization, and better living standards for our people,” the president said.

The budget is part of the administration’s economic reforms. So are the tax bills that have generated controversies. Speaking on his first media chat for 2025, President Tinubu said the tax reforms have come to stay. The tax reforms, according to him, are pro-poor. “The hallmark of a good leader is the ability to do what you have to do at the time you ought to do it.” The tax bills will play a significant role in the implementation of the 2025 budget. The government needs to raise the revenue to fund the budget, and the government designed the bills to help it achieve that.

Commentary

The policy direction of Nigeria’s 2025 budget is highly commendable and relevant. The realization of government’s intention in the areas of defense and security, education, health, agriculture and infrastructural development will be a big boost to the economy. However, the underlying assumptions appear too optimistic, casting doubts on the genuineness of any hope for the budget to deliver expected results.

Beyond the sectoral allocations in budgeting, actual results will be achieved only through efficient deployment of funds and other resources, in other words, budget implementation. In Nigeria, budget performance has been traditionally below expectation, and this has to be improved upon if we must see expected results.

Furthermore, the existence of multiple budgets running concurrently waters down the budgetary control and discipline element in budgeting. With the effective erasure of spending limits, government agents and functionaries can spend freely drawing from multiple budgets. This could have far-reaching adverse implications for the economy and national planning. Moreover, it would be difficult to assess the extent of budget performance at year end since several budgets would be in force during the year.

The specter of abandoned projects has haunted the Nigerian economy for ages. This syndrome is at least partly attributable to poor budget implementation, as well as a disconnect between respective regimes and their budgetary processes. This has resulted in a lot of wasting assets dotting the landscape of the country, and lost resources and opportunities that could not be optimized. More intentional studies and commitment should be invested into our national budgetary process to accommodate and redeem the value locked up in abandoned projects for the country’s growth.

As regards financing the budget deficit, we recommend that the government should do more in tapping the synergy offered by Public Private Partnership (PPP). Intentional cultivation of trust in the private sector group through policy consistency and integrity on the part of government is critical for earning the buy-in of the private sector players in public sector projects needing private sector participation. The PPP option, where properly structured and developed, could become very valuable in absorbing the challenges posed by deficit budgeting and infrastructural development of Nigeria.

Sources

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Contact



Nkwachi Abuka
Principal Partner & Head,
Tax Services
T : +234 8033736625
E : nkwachi.abuka@ng.gt.com



Ajayi Irivboje
Senior Partner, Tax Services
T : +234 7060471514
E : ajayi.irivboje@ng.gt.com



Ayobami Salam
Senior Manager, Tax service
+234 (0) 806 723 6745
ayobami.salam@ng.gt.com



Vincent Nwanma
Economist
+234 (0) 706 469 0899
vincent.nwanma@ng.gt.com