2024 FGN Budget

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Section I. Preliminaries: The President's Predicament!

FY 2024 must be a tough year for PBAT and his team to prepare a budget. Let me illustrate with what I call PBAT's predicament.

- *Nigerians are full of hopes that after eight years of inaction and lost opportunities, the new administration would roll out new policies, programmes and initiatives that would deliver* ***democracy dividends.***

- *The new administration is undoubtedly aware of these soaring expectations and must be under intense pressure to meet them. Afterall that's what PBAT's Renewed Hope Agenda promised the electorate.*

- *Unfortunately, for PBAT, the provision of social and economic services* ***on the required scale-****to meet the soaring expectations of the citizenry* **–** *is well beyond the resources available to the government. The trouble is that delaying government expenditure on account of 'domestic resource constraints' is certainly not politically expedient.*

That's PBAT's predicament!

- *So govt is sending a message: we can make a difference even though the underlying conditions are tough and overwhelming .This is perhaps what explains the rather ambitious assumptions and the overrated projected revenue capacity .*

Section II: Three commendable and not-so commendable aspects of the budget

- ***Budget objectives: noble, inter-related and reflect the 'mood' of the economy***
- ***Few 'heart-warming' statements from Mr. President's Budget Speech***
- ***Budget tries to achieve a balance between social and economic expenditure***

The Good (I)…(attractive budget objectives)

- **Growth**
- **Jobs**
- **Poverty reduction**
- **Defence and internal security**
- **Human capital development**
- **Macroeconomic stability**

Budget objectives are noble and inter-related. For example:

- We need macro-economic stability to promote growth.
- Economic growth is necessary, though not sufficient, for the creation of jobs and eradication of poverty.
- Human Capital Development is growth enhancer and supports and key component of any poverty eradication strategy.
- Finally, defence and security are absolutely essential for peace and stability and for capital flows

The Good (II)…(Heart-warming statements)

Hard to ignore and welcoming statements

- Focusing on ensuring value for money, greater transparency, and accountability to improve efficiency in resource use and enhance the effectiveness of the budget.
- Promoting a stable macro-economic environment to catalyse private investment and sustain the momentum of growth.
- Implementing business and investment friendly measures, for investment attraction and retention, for sustainable growth.
- Emphasizing public-private partnerships and leveraging private capital for big-ticket infrastructure projects in energy, transportation, and other sectors

The Good (III)…..(achieving a balance between social and economic expenditure)

In general, most analysts agree that the budget document is 'well crafted' and the budget itself, 'prudent'. The spending plan is fairly distributed with human capital development (education and health) and social investment accounting for a fair share.

Section II (contd.): The not-so good….

1. **Unrealistic assumptions?** I will not speak on the details of the **budget's rather ambitious assumptions,** suffice it to caution that many of these are not in synch with the fiscal realities…..do not reflect the realities of existing macro-economic environment. **Consider for example: the projected inflation rate (21% as against current rate above 31%); projected FX rate (N800 Vs N1,250) and projected revenues.**
2. **Non-specific objectives:** other than the growth objective, all others are too broad. For example, the budget is silent on: How many jobs? How many people will be lifted out of poverty? How many students will benefit from the student loan scheme? How much capital is expected to flow into the economy? How many PPPs and big-ticket transactions are we targeting?
3. **Reliance on Traditional Sources of Public Revenues:** *Other than PPPs are we able to identify other innovative funding options such as Private sector-led non-debt financing of infrastructure? There is the Infra-Co and NIG-FUND*

Section III: Budget Credibility and Potential Impact.

Will the budget be implemented as intended? Will it stimulate the economy? Will it lead to more jobs, and will it lift the poor out of poverty?

What are the threats to implementation?

- ***Unfavorable underlying conditions***
- ***Budget size and composition***
- ***Weak economic fundamentals***
- ***Slow economic growth***

a. Underlying Conditions are tough and overwhelming

For example:

- **Widespread Poverty and joblessness** : 94 million income poor. 133 million multidimensionally poor. 23 million unemployed.
- **Slow growth.** GDP growth rates are small. Below population growth rates. Key sectors are either declining(oil, manufacturing) or growing slowly (agriculture)
- **Infrastructure** either not available or decayed
- **High debt profile**: although debt to GDP ratio is moderate within the 40% threshold, debt service to revenue ratio is a major concern.
- **Unprecedented level of insecurity**

Nigeria requires a huge fiscal space to make a difference. Unfortunately, Nigeria has a narrow fiscal space which limits the size of its capital expenditure. Fiscal space is not only precarious but uncertain, volatile, and disruptive of budgets and plans. It doesn’t provide for orderly development.

Preparing a budget under these circumstances will test the ingenuity of policy makers!

b. Budget Size and Composition

Can the budget stimulate the economy? when implemented will it, as Mr. President asserts, 'constitute the foundation upon which we shall erect the future of this great nation?

- *We must manage our own expectations of WHAT the budget of this size (approx. 12% of GDP) can achieve. Budget spending per head amounts to approx. N130,000. When you states' budgets, it will be approx. 18% of GDP*

- *Debt service continues to account for a large share of the budget. So does non-debt recurrent expenditure. Debt service payments of N8.25 trillion take up 30% of the spending plan and is nearly at par with planned capital expenditure spending (N8.7 trillion). It is more than the planned spending on the priority sectors, namely: education (N2.2 T), health (N1.33 T), infrastructure (N1.32) and defence (N3.25 T) combined!*

- *A non-debt recurrent expenditure of N10.26 T will be spent on running a bloated government and the financing of ailing public enterprises.*

- *There is not much left for development. Capital spending per head is N43,000 or US$58.*

c. Weak economic fundamentals

Inflation remains very high at 27.33% *and food inflation remains alarming at 31.52% (in Oct according to NBS). In the coming months, the inflationary pressures could be elevated as Federal and state governments inject cash into the system via wage increases and social support programmes, without a corresponding increase in productivity. Elevated inflationary pressures will aggravate the revenue-expenditure gaps by putting pressure on the latter, while dwarfing the worth of revenues collected.*

This could be another route to higher budget deficits.

My worry is that fiscal deficits almost always increase the government's *appetite for more loans. With the new Borrowing Plan amounting to N7.83 T, the President is treading a familiar path charted by his predecessor- described by one analyst as 'tax, spend and borrow'. Although the debt/GDP ratio is moderate, within an accepted threshold of 40%, we must worry about the inherent interest and foreign exchange risks which an increase in the debt stock will magnify.*

d. Lackluster GDP growth and its impact on revenue and poverty eradication

- *Slow GDP growth as is being experienced lately has significant implications on the ability of the government to achieve it revenue targets, and by extension on our debt and deficit profile.*

- *Fighting poverty will be herculean when the economy is still stressed-not exactly in recession but feeling and acting like one. The key sectors are either declining or growing slowly. Agriculture (the domain of the poor) which is 29% of GDP grew at 1.3% in Q3, 2023. This is only half the annual rate of growth of Nigeria's population. Manufacturing, which is key to productive employment and higher incomes, grew at less than 1% (0.46%).*

- *The budget has made some provision for social investment and poverty reduction programmes. N534 billion is 2% of the budget and 0.22% of GDP. In 2021, we estimated that FGN's employment generation programmes, key component of any poverty eradication strategy, would require an injection of N1.3 trillion annually!*

Section IV. Making the Budget More Credible: enforcing budget discipline

- *To make the effort more credible, Mr. President should have made an unequivocal commitment to a fiscal discipline regime by outlining measures for drastic reduction of inefficiencies in governance and deliberate policy to address inflation of contracts and high cost of projects.*

- ***A formal fiscal deficit reduction programme** will have as its core the reinforcement of internal and external revenue mobilisation while limiting the growth of non-essential expenditure through ceilings or caps. Instead, the budget document makes a feeble declaration that "Government will make effort to further contain financial leakages through effective implementation of key public finance management reforms".*

Making the Budget More Credible: Ensuring consistency

- *Finally, food for thought. It seems the budget has three masters: According to the Budget and Planning Minister "The 2024 budget estimates of MDAs were prepared taking due cognizance of the National Development Plan 2021-2025, the Renewed Hope Agenda of the present Administration, as well as the strategies in the 2024-2026 MTEF&FSP". Let me state that it is legitimate for a budget to have multiple links provided there is consistency in assumptions. Unfortunately, in this case there are observed inconsistencies. For example*

- *Budget 2024 assumes a GDP growth rate of 3.76%. The National Development Plan assumes 5.43% while Renewed Hope Agenda projects GDP to 'move from above 3.5% to 7% from 2024.*

- *The National Development Plan NDP 2050 projects US$3 trillion GDP by 2035 while Renewed Hope Agenda seeks to expand the economy from US$450 billion in 2022 to US$1 trillion in 2031.*

Section V: Unanswered Questions

- *Budget's silence on subsidy on PMS must be worrying. We all know that the fuel subsidy regime has not ended. How will the partial subsidy on PMS consumption be financed? Will that widen the budget deficit?*

- *What is the status of the measures introduced by the FGN to mitigate the impact of the of subsidy removal? It's unclear if the resources committed for the Social Investment and Poverty Reduction Programmes will be deployed for the funding of those palliative programmes.*

- *There is a pledge to "focus on ensuring value for money, greater transparency, and accountability" is this a firm commitment to a review of relevant PFM legislations, including the BPP Act?*

- *Mr. President has pledged to emphasize "public-private partnerships……to leverage private capital for big-ticket infrastructure projects in energy, transportation and other sectors"….Is that a commitment to break government's monopoly in all infrastructure sectors, including the refineries, aviation (airports), rail transportation and power transmission etc. and give foreign investors a larger role in funding and managing the sectors?*

Thank you