Withering or Green?

An Examination of Nigeria's Economic Stste in 2023

Preface

On one side are well-meaning Nigerians calling for the country to live within its means to lift the population out of poverty. On the other side, the International Monetary Fund (IMF) warns that Nigeria's next president may spend 100% of government revenue on debt servicing—leaving citizens to wonder what would be left to live on. This situation highlights the urgent need to understand what it means for a country to live within its means.

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Definition of Terms

What Does It Mean to Live Within One's Means?

To live within your means is to spend only what you can afford—ensuring your expenses are lower than your income. At the national level, this means the government's annual expenditure should not exceed its revenue.

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For instance, if Nigeria's projected expenditure for 2022 is ₦7 trillion, then ideally, government revenue should be greater than that. However, this is rarely the case, not just in Nigeria but in many countries.

Annual expenditure means all costs, expenses and outgoings incurred by the government during a budget year in procuring the provision of all or any of the services provided within the said year.

Nigeria’s projected expenditure for 2021 = ₦13.08 trillion

Government revenue is money received by a government from taxes and non-tax sources (such as privatisation) to enable it undertake government expenditures.

Projected national revenue for 2021 = ₦7.87 trillion

Deficit Financing

Deficit financing involves raising funds to finance the deficit which results from excess of expenditure over revenue.

Consider the 2021 budget;
₦7.87tn (revenue) - ₦13.08 tn (expenditure)
leaves us with a deficit of ₦5.21 trillion.

TWO

Current State of the Economy

Nigeria’s real GDP— the monetary value of all finished goods and services made within a country during a specific period — for 2021 was ₦72.39 trillion.

Nigeria’s public debt—the accumulation of the nation’s annual budget deficits— rose to ₦39.56 trillion in 2021.

THREE

Understanding Deficit Financing

Nigeria’s 2022 budget has a total aggregate expenditure of ₦17.13 trillion and a proposed revenue of ₦10.74 trillion, leading to a deficit of ₦6.39 trillion.

This gap is expected to be covered by borrowing from the public through the sale of bonds or by printing new money.

Printing easily leads to inflation so we borrow and the debt accumulated is monitored using the debt-to-GDP ratio, which indicates how strong a country's economy is and the likelihood of paying off its debt.

According to a 2013 World Bank study:

When a country's debt-to-GDP exceeds 77%, it hampers economic growth.
For emerging economies, every percentage point above 64% reduces growth by 0.02 percentage points annually.

As of December 31, 2021, Nigeria's debt-to-GDP ratio stood at 22.47%—well below the danger threshold. So why the concern?

Because revenue, not GDP, determines a nation's ability to repay debt.

FOUR

Revenue-to-GDP Ratio

A country’s tax-to-GDP ratio is a crucial indicator of how effectively it mobilises resources for development. Higher tax revenues mean more funds for infrastructure, health, and education.

Nigeria’s tax-to-GDP ratio is below 8%—one of the lowest in the world and the lowest in Africa.

In 2021:

Total revenue: ₦4.39 trillion
Debt servicing: ₦4.22 trillion

This means 96% of Nigeria’s revenue went to servicing debt—fueling fears about debt sustainability.

FIVE

Why Deficit Financing is Necessary

Developing countries like Nigeria need significant investment to drive economic growth. With limited private sector investment in infrastructure, the government bears the burden of mobilising resources.

But how the money is spent determines whether revenue will grow.

According to the World Bank, tax revenues above 15% of a country's Gross Domestic Product (GDP) are a key ingredient for economic growth and, ultimately, poverty reduction.
This level of taxation ensures that countries have the money required to invest in the future and achieve sustainable economic growth.

Developed countries generally have a far higher ratio. The average among members of the Organisation for Economic Co-operation and Development was 33.8% in 2019.

So, does Nigeria have a revenue problem or a spending problem?

Clearly, it has a revenue problem, but this stems from poor spending priorities. To increase revenue, Nigeria must first reform its spending habits.


INTERNATIONAL MONETARY FUND
Nigeria's next president
will spend 100% of revenue
servicing debt - IMF

SIX

Withering or Green?

A Story of Priorities

Son: Dad, why won't you pay for my excursion?

Dad: Because I can't afford it right now.

Son: But you always pay my school fees.

Dad: Education is a priority.

Son: Excursions help learning too.

Dad: True. I pay for those tied to your coursework. It hurts that I can't afford this one, but hopefully I will next time.

This mirrors the reality for many Nigerian families—health and education come first. Unfortunately, the Nigerian government often prioritises differently.

In the 2021 budget:

Total expenditure: ₦11.73 trillion

Education: ₦742.52 billion

Works & Housing: ₦435.32 billion

Agriculture: ₦179.56 billion

Total of the above: ₦1.36 trillion

Fuel subsidy: ₦1.43 trillion

This indicates misplaced priorities: more money was spent on fuel subsidies than on education, infrastructure, and agriculture combined

Comparison with other Countries

Mauritius:

Heavily subsidises education

GDP per capita: $9,640 (2nd in Africa)

HDI: 0.804 (1st in Africa)

Nigeria:

Heavily subsidises petrol

GDP per capita: $2,430 (18th in Africa)

HDI: 0.539 (22nd in Africa)

The Obvious Secret:

GDP per capita measures economic output per person.
Human Development Index (HDI) tracks development using:

Life expectancy
Education levels
Income

Until Nigeria prioritises quality education and invests in developing its people, economic growth will remain stunted—even if GDP grows.

Withering or Green

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