

Loan-Dependent Budget and Debt Crisis in Nigeria: An Assessment of the Buhari's Regime

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Abstract – This article examines loan-dependent budget and debt crises in Nigeria: an assessment of the Buhari's regime. The issue of borrowing or loan-taking to finance budgets under the present government of President Muhammadu Buhari is no more news to the Nigerian citizenry. The article, in its investigation, is solely dependent on secondary data, which was drawn from online contents that address the issue of borrowing to finance budget as well as debt crises under the Buhari-led administration of the Federal Republic of Nigeria. The finding of the study shows that taking loan to finance budget is the root cause of the current debt crisis in the country, and as such, can plunge the country into serious economic crises in the very near future, if not checked.

Key words: loan, budget, debt and debt-crisis

1. INTRODUCTION

Loan-dependent budget, which is a budget that depends on borrowing (either internally or externally) to be financed, is no more a strange phenomenon under the Buhari-led administration of the Federal Republic of Nigeria. And it is worthy of note to say that any nation that adopts this kind of system of budget financing, no doubt, will continue to grapple with debt and other economic crises. As we look at the Nigerian State today, and going by her name as the giant of Africa, she is not supposed to be indebted to the international community as it is currently. In fact, Nigeria's external debt now stands at about USD90 billion (₦33.574 trillion). This astronomical rise in the debt profile is largely due to borrowing to finance the nation's budget, and here lies the importance of conducting this study.

2. STATEMENT OF THE RESEARCH PROBLEM

The issue of borrowing to finance budgets under the Buhari-led administration of the Federal Republic of Nigeria since inception is no more new to the citizenry. It is not also a piece of news to Nigerians that majority of them have been grappling with and groaning under poverty since the President took over government. Owing to this, many of the parents find it difficult to put food on their family tables and pay their children's school fees. What then is responsible for this? This, truly, is the main problem that this research is set out to investigate.

3. LITERATURE REVIEW

For better comprehension of this study, the review here comprises all the important concepts that make up the topic of this research, which shall be defined appropriately. The first one here is loan. According to IMF Committee on Balance of Payments Technical Expert Group (2005), *loan* comprises those financial assets created through the direct lending of funds by a creditor (lender) to a debtor

(borrower) through an arrangement in which the lender either receives no security evidencing the transaction or receives a non-negotiable document or instrument. It also adds, "all sectors may acquire assets and incur liabilities in the form of loans", which is in general not the case for deposits, the latter often being part of the liabilities of few sectors, i.e. central banks, other depository corporations and government units (p.3). Furthermore, Fox (2001) as cited in Nzayisenga (2016), describes loan as a transaction whereby a lender (creditor) shall immediately surrender any property or money in a borrower (debtor) against the latter's commitment to perform at a specified date, payment of the property or refund of the amount loaned, with interest payable generally.

The term *budget* has supposedly been derived from the Old French word *Bougette*, which referred to the long leathered pouch in which the treasurer of the French Kingdom carried funds to defray the expenses of the court. According to Rustin and Nel (2011), budgets are variously referred to as financial plans, work plans or programmes, or political and social documents. In its strictest and most technical sense, a budget is a document containing words and figures that propose expenditures for certain items and purposes. The words describe items of expenditure or purposes and figures are attached to each item or purpose. The budget has also been defined as a process consisting of a series of activities relating expenditures to a set of goals, or as a process through which public expenditures are undertaken. In other words, a budget is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms. By this definition, it is clear

that budget is very crucial to the government of any nation in planning for its yearly financial expenditure.

Moreover, an analyst in public finance, Driessen (2019) defines *debt*, or in this case, federal debt, the money that the government owes to its creditors, which include private citizens, institutions, foreign governments, and other parts of the federal government. Debt measurements may be taken at any time and represent the accumulation of all previous government borrowing activity. Federal debt increases when there are net budget deficits, outflows made for federal credit programs (net of the subsidy costs already included in deficit calculations), and increases in intra-governmental borrowing. Irwin (2015) in *IMF Working Paper* observes that in a pure system of cash accounting, the natural measure of debt is the government's overdraft. In practice, governments that use cash based accounting also record the loans they have taken out and the bonds they have issued, even if this measure is not produced by the accounting system that measures the deficit. In financial and full-accrual accounting, the range of possible liabilities is larger. To crown it all on one hand, it is clear from the above defined terms that a *loan-dependent budget*, as seen in the activities of the present government, is a budget that relies heavily on borrowing, either locally or internationally to be financed. And on the other hand, *debt crisis* is the outcome of a loan-dependent budget. This is because the loan taken must be serviced, and in a bid to do so, the nation is starved of funds for basic infrastructural developments, amenities as well as its general well-being such as road construction and maintenance, employment, education, healthcare, economic prosperity, etc.

4. METHODOLOGY

This study in its method, appeals only to secondary sources of data, which were drawn from online contents that address the issue of borrowing to finance budget as well as debt crises under the Buhari-led administration of the Federal Republic of Nigeria. In doing this, budget presentation speeches of the President on the floor of the National Assembly and other fora, which capture issues of borrowing to finance budgets from 2016, the first fiscal year of the President's administration to date, as the case may be, were presented, highlighted, labeled and analyzed accordingly. And this is done with the year and source of the data clearly stated.

5. DATA PRESENTATION

To be presented as data here are cases where the President categorically mentioned that loan-taking or borrowing would be done in order to finance the budget and its deficit. This is done with the year and source of the data clearly stated.

2016 Budget Presentation at the National Assembly by the President

Distinguished members of the National Assembly, I now present, the 2016 Budget proposals of the Federal Government. Based on the assumptions I presented earlier, we have proposed a budget of N6.08 trillion with a revenue projection of N3.86 trillion resulting in a deficit of N2.22 trillion. The deficit, which is equivalent to 2.16% of Nigeria's GDP, will take our overall debt profile to 14% of our GDP. This remains well within acceptable fiscal limits. Our deficit will be financed by a combination of domestic borrowing of N984 billion, and foreign borrowing of N900 billion totaling N1.84 trillion.

2017 Budget Presentation at the National Assembly by the President

This fiscal plan will result in a deficit of N2.36 trillion for 2017 which is about 2.18% of GDP. The deficit will be financed mainly by borrowing which is projected to be about N2.32 trillion. Our intention is to source N1.067 trillion or about 46% of this borrowing from external sources while, N1.254 trillion will be borrowed from the domestic market.

2018 Budget Presentation at the National Assembly by the President

We plan to finance the deficit partly by new borrowings estimated at 1.699 trillion Naira. Fifty percent of this borrowing will be sourced externally, whilst the balance will be sourced for domestically. The balance of the deficit of 306 billion Naira is to be financed from proceeds of privatisation of some non-oil assets by the Bureau of Public Enterprises (BPE).

Nov. 2019: Nigeria's Buhari seeks parliamentary nod on \$23 billion in foreign loans

ABUJA, Nov 29 (Reuters) - Nigerian President Muhammadu Buhari has asked parliament to approve \$23 billion of foreign borrowings tied to infrastructure and other projects, according to a letter seen by Reuters on Friday, after a similar request three years ago was rejected. In the letter dated Nov. 26, Buhari said parliament did not approve a \$30 billion external borrowing plan in its entirety. Rather, a \$4.5 billion Eurobond sale was approved alongside five projects out of a total of 39.

March 2020: Senate approves Buhari's \$22.7 billion loan request

President Muhammadu Buhari's request to borrow \$22.7 billion has been approved by the Senate. The loan was requested by the president in order to fund critical infrastructure projects under the 2016-2018 External Borrowing Plan.

5.1 Data Analysis

From data 1 above, we can see that right from the first fiscal year of the President's administration in 2016; he spoke of the need to borrow both domestically and internationally to finance the 2016 budget in his budget presentation address to the National Assembly. In his word, he said "Our deficit will be financed by a combination of domestic borrowing of N984 billion, and foreign borrowing of N900 billion totaling N1.84 trillion". Similarly in 2, while presenting the 2017 budget to the National Assembly for consideration, he said "The deficit will be financed mainly by borrowing which is

projected to be about N2.32 trillion. Our intention is to source N1.067 trillion or about 46% of this borrowing from external sources while, N1.254 trillion will be borrowed from the domestic market". Furthermore in data 3, still on the floor of the National Assembly for the presentation of the 2018 budget, again he said "We plan to finance the deficit partly by new borrowings estimated at 1.699 trillion naira. Fifty percent of this borrowing will be sourced externally, whilst the balance will be sourced for domestically". Lastly in 2019, even though the President did not mention categorically that he would seek for loan either internally or externally to finance the 2019 budget, data 4 and 5 showed that he sent foreign loan request letters of \$23 billion on the 26th November, 2019, and another of \$22.7 billion in March 2020 respectively to the National Assembly for approval.

Obviously, this has led the country into serious economic crises because Nigeria is now indebted heavily both internally and internationally more than ever in the history of the nation. For example, the PM news of December 27, 2019 quoted former President Olusegun Obasanjo as saying that Nigeria's debt profile now stands at 700% in four years, adding that the nation faces imminent bankruptcy. According to that report, Chief Obasanjo put Nigeria's external debt at N24.947 trillion (\$81.2 billion), which was \$10.32 billion in 2015 when President Muhammadu Buhari took over government (<https://www.pmnewsnigeria.com/2019/12/27/>). In fact, the upper house of the national assembly (Senate) after approving the President's request of \$22.7 billion foreign loan, put Nigeria's debt burden at N33 trillion! This situation has led to an endless debt servicing thereby depriving the nation of funds for basic infrastructural developments, amenities as well as its general well-being such as road construction and maintenance, employment, education, healthcare, economic prosperity, etc. In addition, social vices are part of the resultant effects of this issue, which include armed robbery, kidnapping, fraud, cybercrime, etc. This is because people will be looking for how to survive by all means. These are the attendant crises of debt burden, otherwise known as debt crisis, as witnessed in Nigeria today.

5.2 Finding of the Study

From the data presented and analyzed, it is not an accusation that the Buhari-led administration of the Federal Republic of Nigeria has been operating loan-dependent budgetary system since the inception of his administration. And mainly, this study discovers that this phenomenon has brought a great overhang of debt or a heavy debt burden both domestically and internationally upon the Federal Republic of Nigerian. Consequent upon this, large chunk of resources that should be used for infrastructural developments, amenities as well as the general well-being of the country such as road construction, road maintenance, employment, education, healthcare services, poverty reduction initiatives, etc. are channeled or used for debt servicing year-in-year-out. Again, social vices are not left out as one of the resultant effects of this issue, which include armed robbery, kidnapping, fraud, cybercrime, etc. This is because people are desperately looking for how to survive economically by all means. Indeed, all these constitute the present economic crises being witnessed in Nigeria.

6. CONCLUSION

From all that has been said so far, as a matter of fact, loan-dependent budgetary system is dangerous or detrimental to the economic prosperity, well-being and survival of any nation. The reason for this is not hard to find: it brings a heavy debt burden upon the nation, just as it has currently done to the Federal Republic of Nigeria. In addition, large amount of resources that should be used for infrastructural developments, amenities as well as the general well-being of the country such as road construction, road maintenance, employment, education, healthcare services, poverty reduction programs, etc. are channeled or used for debt servicing on yearly basis. This is the cause of debt crisis which Nigeria suffers at the moment as well as the current widespread poverty and hunger. In view of this, we advise that the Buhari-led administration of the Federal Republic of Nigeria should try as much as possible to reduce borrowing. And by so doing, our budgets will not be loan-dependent from now henceforth.

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