2025

ANALYSIS OF 2025 FEDERAL GOVERNMENT BUDGET

A NISER Response Unit (NRU) Brief

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Nigerian Institute of Social and Economic Research

Key Messages

1. Effective implementation of the 2025 budget requires strong fiscal-monetary policy coordination, efficient resource allocation, economic diversification, governance reforms, and data-driven decision-making to address challenges such as inflationary pressures, exchange rate volatility, and social inequalities, thereby fostering sustainable growth.

2. While the 2025 revenue target of ₦36.35 trillion is ambitious, the Federal Government will need to enhance revenue mobilization through efficient tax administration, restructuring revenue agencies, optimizing expenditures and unlocking the solid minerals sector to meet this ambitious revenue target.

3. Addressing fiscal imbalances is crucial, particularly through the effective management of debt servicing, which currently stands at ₦16.3 trillion, and the prudent implementation of the Petroleum Industry Act (PIA) to curb revenue leakages and enhance oil production security to meet domestic demand, especially with the commencement of some national refineries, while also fulfilling export quotas to maximize revenue potential.

4. Stabilizing the naira exchange rate and addressing supply-side constraints, such as a weak productive base and limited export diversification, are essential to achieving the inflation target of 15.75% and restoring economic confidence. Measures that seek to stimulate the current level of output growth through improved input efficiencies and fiscal incentives for boosting private investment may moderate these distortions to exchange rate stability.

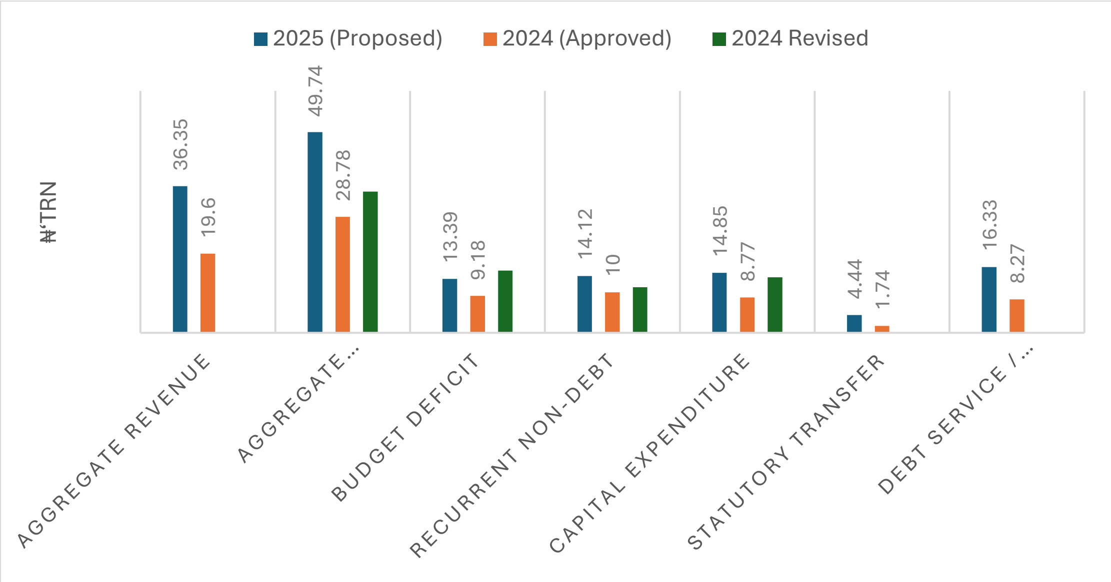
5. The projected GDP growth rate of 4.6% underscores optimism but requires robust structural reforms and innovative financing strategies to address persistent inefficiencies and enhance economic resilience.

6. Improved national security and increased capital expenditure on infrastructure can improve the ease of doing business, reduce operational costs for firms and boost investment confidence. However, persistent forex challenges could deter foreign investment, increase business costs, and stifle economic diversification efforts.

7. The 2025 budget must promote business-friendly policies to foster a thriving business environment, drive job creation, and support national development, while ensuring macroeconomic stability through improved governance and stakeholder collaboration.

Overview

The 2025 national budget, titled "Budget of Restoration: Securing Peace, Rebuilding Prosperity," was formulated against a backdrop of challenging global and domestic economic conditions, including persistent inflationary pressures, exchange rate volatilities, and fiscal constraints. Building on lessons from the 2024 fiscal year, the proposed ₦49.74 trillion budget reflects a significant 41.91% increase from the ₦35.05 trillion allocated in 2024, which included an initial budget of ₦28.7 trillion and a supplementary budget of ₦6.2 trillion. Despite ambitious revenue targets in 2024, actual collections fell short due to declining oil output and persistent challenges in tax collection, underscoring the critical need for diversified and sustainable revenue streams in 2025.



Summary of Federal Government of Nigeria Proposed 2025 Budget

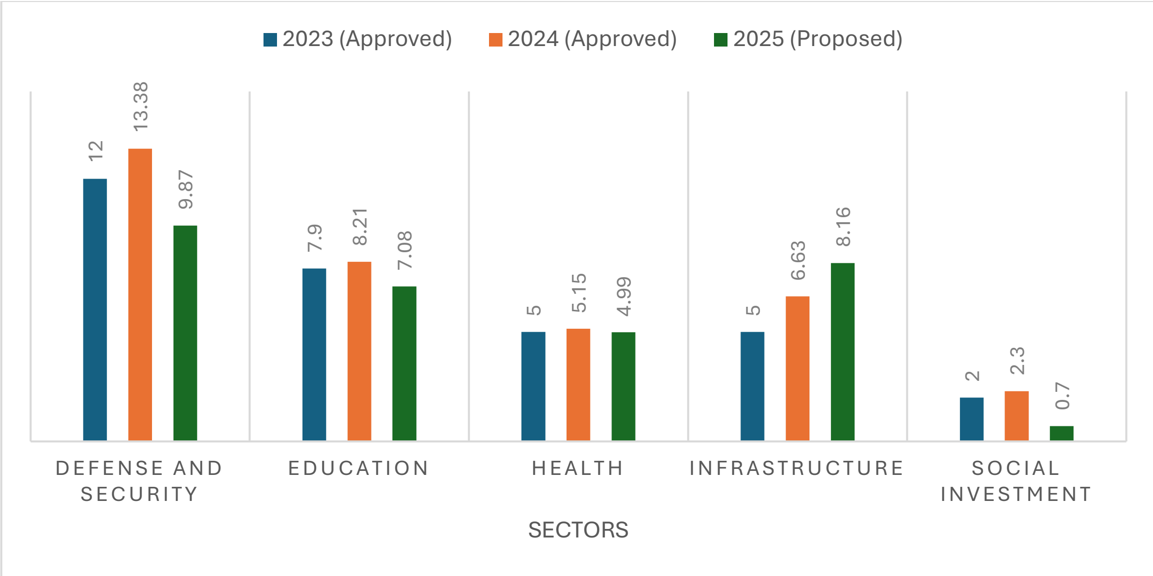
FGN Budgets 2024 & 2025

In 2024, recurrent spending dominated, constituting 70% of total expenditure, largely driven by personnel costs and debt service obligations, while capital disbursements were hampered by delays and administrative inefficiencies, with disbursement rates falling below 80%. Already, the overall proportion of capital expenditures at 30% was grossly insufficient. Its lack of full implementation in the 2024 budget widens the gap between capital and recurrent expenditures. These trends reflect in the 2025 allocations, which earmarked ₦14.8 trillion for recurrent expenditure (a 19.66% increase) and ₦14.1 trillion for capital expenditure (up by 12.5%), highlighting a continued struggle to achieve a balance between immediate fiscal obligations and long-term developmental needs (Table 1). Debt servicing, set at ₦16.3 trillion in 2025, represents a staggering 96.75% increase, raising the public debt-to-GDP ratio closer to the 40% threshold, further stressing the need for revenue diversification & prudent debt management.

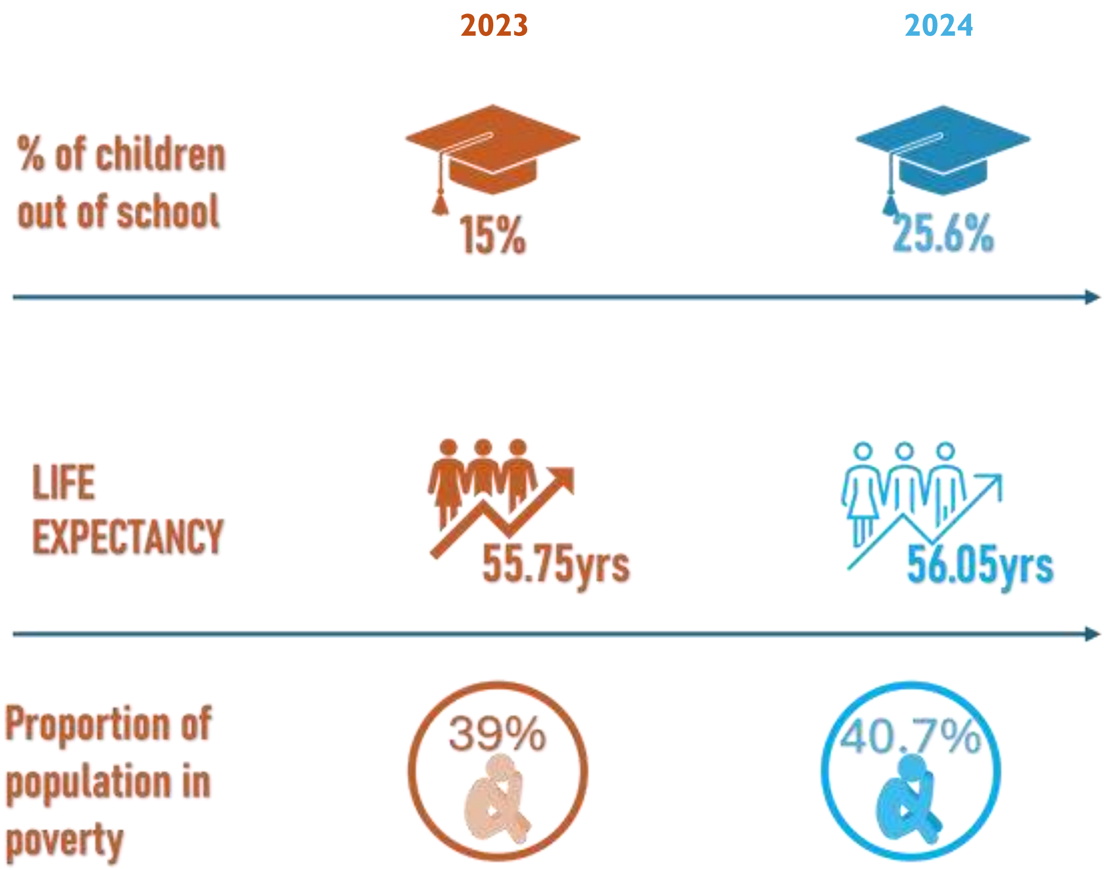
FGN Budget 2025: Implications for Development Outcomes

A breakdown of the proposed 2025 budget reveals that the defense and security sector commands the largest share at 9.87%, followed by infrastructure (8.16%), education (7.08%), and health (4.99%). Notably, the 2025 budget represents a reduction in allocations to defense, education, and health compared to their shares in the approved 2023 and 2024 budgets, including the supplementary budget. For instance, defense and security declined from 12.0% in 2023 and 13.38% in 2024 to 9.87% in 2025, while education decreased from 8.21% in 2024 to 7.08%, and health dropped from 5.15% to 4.99%. In contrast, infrastructure witnessed an increase from 6.63% in 2024 to 8.16% in 2025, indicating a reallocation of fiscal priorities towards capital projects at the expense of human capital development. This shift underscores a potential imbalance in addressing critical sectors crucial to human security and inclusive growth.

The development outcomes for education, health, and social investment highlight critical gaps that the proposed 2025 budget must address to enhance human security. The sharp rise in the percentage of children out of school from 15.00% in 2023 to 25.60% in 2024 underscores the need for increased investment in education infrastructure, teacher training, and targeted policies such as conditional cash transfers to improve access. Similarly, the modest increase in life expectancy from 55.75 years in 2023 to 56.05 years in 2024 reflects slow progress in health outcomes, necessitating strengthened primary healthcare systems, expanded public health campaigns, and better healthcare financing. The slight rise in poverty levels from 39% in 2023 to the estimated 40% in 2024 reveals the limited impact of current social investment programs, calling for enhanced efficiency, expanded coverage, and increased funding for social protection initiatives. Rebalancing sectoral priorities, improving resource utilization, and leveraging public-private partnerships are essential to ensure that fiscal policies effectively reduce poverty, improve access to education and healthcare, and promote inclusive development. It is important to implement adequate measures and interventions such as those highlighted above, as the decline in the 2025 budget allocations for human capital development could worsen the already weak development outcomes. These outcomes had declined significantly in 2024 despite a marginal increase in budgetary allocations during that period.



Sectoral Shares of Expenditure (2023 – 2025)



Development Outcomes (2023 and 2024)

Nigeria's 2025 budget sets an ambitious crude oil production target of 2.06 mbpd and a benchmark price of $75 per barrel, but significant challenges threaten its feasibility. Persistent issues like pipeline vandalism, oil theft, and declining investments kept 2024 production at 1.8 mbpd, while NNPCL's forward sale agreements, tied to future crude supplies, limit its production capacity. With oil revenues expected to contribute 56% of government income, these constraints jeopardize fiscal sustainability. Although measures like introducing the Utapate crude oil blend, asset conversions, and a $2 billion crude-backed loan aim to boost output; structural problems, including refinery inefficiencies and oil theft, must be urgently addressed to meet the 2025 target. While the global oil price forecast supports the benchmark, achieving the production target hinges on the effectiveness of improved security measures in the Niger Delta where most production takes place and effective implementation of the Petroleum Industry Act (PIA) to boost investment in oil and gas.

The projected exchange rate of ₦1500/$1 for 2025 reflects optimism about exchange rate unification, contrasting to the NFEM[1] rate of ₦1565/$1 as of December 18, 2024, which deviated significantly from the ₦800/$1 assumption in the 2024 budget due to forex pressures (Table 2). Inflation is expected to drop to 15.75% from the alarming 34.6% recorded in 2024. This projection will depend strongly on stabilizing the naira, improving forex liquidity, and implementing policies to control supply-side inflationary pressures. The GDP growth rate set at 4.6%, surpasses the 2024 assumption of 3.88%, yet. The GDP growth rate is set at 4.6%, surpassing the 2024 assumption of 3.88%, yet the actual growth of 3.19% in 2024 highlights underlying structural inefficiencies. While these assumptions reflect optimism; unresolved security issues, global economic uncertainties, and inflationary pressures could undermine oil sector contributions, erode purchasing power, and stifle private sector investment, necessitating robust policy interventions to align projections with achievable outcomes.

Benchmarks / Fiscal Parameters

	2024	**Reality in 2024**	**% Change**	**2025**
Crude Oil Production	1.78 mbpd	1.8 mbpd (as at Nov'24)	0.02 mbpd	2.06 mbpd
Crude Oil Price	$77.96	$79.90	$1.94	$75
Average exchange Rate	N800/$1	N1565/$1	-N885/$1	N1500/$1
Inflation	21.4%	34.6%	-13.2%	15.75%
GDP growth grate	3.88%	3.19	-0.69	4.6%

The Federal Inland Revenue Service (FIRS), Nigerian Customs Service (NCS), and Nigerian National Petroleum Company Limited (NNPCL) are expected to play pivotal roles in achieving the ambitious revenue target for 2025. As at September 2024, the FIRS has already generated N18.5 trillion and set to surpass its revenue target of N19.4 trillion for the 2024 fiscal year, aided by improved tax administration and enforcement. Similarly, the Nigerian Customs Service had a revenue target of N5 trillion for 2024, but has generated N15 trillion as at

[1] Nigerian Autonomous Foreign Exchange Market

September, tripling the target for the 2024 fiscal year. This performance has been due to reforms in border control and tariff collection. However, the NNPCL's contributions have lagged due to lower-than-expected oil production and revenue leakages. The non-oil revenue target is expected to be bolstered by the proposed tax reform bills, the introduction of digital administration of taxes, and excise duties on telecommunications.

Conclusion

The 2025 National Budget represents a pivotal step in Nigeria's economic recovery journey, offering a comprehensive framework to address fiscal imbalances, stimulate growth, and improve the livelihoods of its citizens. By learning from the challenges of 2024, the government should prioritize strategic investments in defense, infrastructure, education, and health, to reflect a balanced approach to immediate and long-term needs of the populace. However, significant challenges remain. Rising debt servicing costs, persistent revenue shortfalls, and structural inefficiencies require a steadfast commitment to policy reforms and resource optimization. Achieving the ambitious revenue and economic growth targets will depend heavily on enhanced tax collection mechanisms, effective implementation of the PIA, improved governance, and sustained public-private sector collaboration.

As the government seeks to transition from stabilization to growth, the *"Budget of Restoration"* serves as a call to action for all stakeholders to collaborate in securing peace and rebuilding prosperity. While the road ahead is fraught with challenges, the 2025 budget provides a blueprint for navigating these complexities and fostering sustainable, inclusive development.

This Brief is a product of the NISER Response Unit (NRU).

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