Nigeria’s fiscal policy thrust in 2011 was to ensure fiscal consolidation, improve physical infrastructure, boost employment generation, and foster inclusive economic growth. At ₦11,116.9 billion or 31.4 per cent of GDP, the Federation Account revenue (gross) increased by 52.2 per cent above the level in 2010. The development was attributed to enhanced receipts from oil and non-oil revenue sources. The sum of ₦6,158.3 billion was transferred to the Federation Account, reflecting an increase of 28.7 per cent above the level in the preceding year.

Favourable oil prices in the international market and enhanced production resulted in a substantial accretion to the excess crude account savings, from US$2.2 billion at end-2010 to US$5.2 billion at end-2011. At ₦3,553.5 billion and ₦4,712.1 billion, Federal Government-retained revenue and aggregate expenditure grew by 15.0 per cent and 12.3 per cent respectively, above their levels in 2010. The fiscal operations of the Federal Government resulted in an overall deficit of ₦1,158.5 billion, or 3.3 per cent of GDP. Provisional data on state government finances indicated an overall deficit of ₦131.9 billion, while that of the local governments revealed a surplus of ₦2.6 billion. Consequently, general government’s consolidated expenditure was ₦9,774.3 billion, or 27.6 per cent of GDP, while aggregate revenue was ₦8,486.5 billion. This resulted in an overall deficit of ₦1,287.8 billion or 3.6 per cent of GDP, and financed largely from the domestic financial market.

Federal Government consolidated debt stock was ₦6,519.6 billion, or 18.4 per cent of GDP, at end-2011, compared with ₦5,241.7 billion, or 17.8 per cent of GDP, at end-2010. External debt stock rose by US$1.1 billion to US$5.7 billion, following additional disbursement of concessional loans by the multilateral institutions and other non-Paris bilateral and commercial debts. Domestic debt grew by 23.5 per cent to ₦5,622.8 billion as a result of borrowing to finance critical infrastructure by the Federal government. Overall, in consonance with the fiscal consolidation strategy of the Federal Government, the rate of debt accumulation moderated to 24.4 per cent in 2011, from 37.3 per cent in 2010.

5.1 THE FISCAL POLICY THRUST

The main thrust of fiscal policy in the 2011 Budget was to ensure fiscal consolidation, improve physical infrastructure, boost employment generation, and foster inclusive economic growth. The 2011 Budget, the first in the 2011 – 2013 Medium Term Fiscal Framework (MTFF), was set within the First National Implementation Plan (FNIP) of Vision 20:2020. The budget encapsulated policies that would attract foreign investment and facilitate private sector growth as
catalysts for greater wealth creation, employment generation and rapid economic growth. Therefore, consistent with the 2011-2013 MTFF and the FNIP of the Vision 20:2020, the 2011 Budget was underpinned by four pillars drawn from Nigeria’s Economic Growth Strategy. These were:

- Fostering inclusive growth and job creation;
- Optimizing capital spending by rationalizing recurrent expenditure and maximizing government revenue;
- Accelerating the implementation of reforms to enhance the quality and efficiency of public expenditure; and,
- Ensuring greater prudence in the management of the nation’s financial resources.

Other ancillary targets included accelerating implementation of the Public Private Partnership (PPP) policy, through the creation of a Viability Gap Fund, to encourage private sector participation and enhance private sector investment in critical infrastructure.

5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-collected Revenue

Total federally-collected revenue rose by 52.2 per cent to ₦11,116.9 billion in 2011 and constituted 31.4 per cent of GDP. The development was attributed to enhanced receipts from both oil and non-oil revenue sources.
Of the total receipts, oil revenue (gross) accounted for ₦8,879.0 billion representing 79.9 per cent of the total (25.1 per cent of GDP), indicating an increase of 64.5 per cent above the level in 2010. A breakdown showed that revenue from crude oil and gas exports grew significantly by 34.9 per cent to ₦2,287.9 billion. In the same vein, receipts from petroleum profit tax (PPT) and royalties increased by 104.5 per cent to ₦3,976.3 billion, while revenue from domestic crude oil sales rose by 49.4 per cent to ₦2,608.8 billion. The development reflected improved crude oil production, occasioned by the relative peace in the Niger Delta region, as a result of the amnesty programme of the Federal Government, and increased export receipts, driven by sustained demand and favourable prices in the international market. The sum of ₦1,008.8 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) calls, ₦3,854.8 billion in respect of excess crude/PPT/royalty proceeds and “others”, leaving a balance of ₦4,015.4 billion for distribution to the three tiers of government.

Gross revenue from non-oil sources increased by 17.3 per cent to ₦2,237.9 billion representing 20.1 per cent of the total or 6.3 per cent of GDP. A breakdown indicated that Value Added Tax (VAT) rose by 15.4 per cent to ₦649.5 billion, while corporate tax (CT) and customs/excise duties rose by 6.6
and 41.8 per cent, to N700.5 billion and N438.3 billion, respectively. The Independent Revenue of the Federal Government and custom levies also grew by 18.8 and 51.6 per cent, to N182.5 billion and N156.8 billion, respectively. The rise in most of the components of the non-oil revenue reflected improved economic activities, particularly in the second half of the year, resulting in enhanced collection by the revenue-collecting agencies.

The sum of N94.9 billion was deducted from the non-oil revenue as cost of collection, leaving a distributable balance of N2,142.9 billion.

### 5.2.2 Federation Account Distribution

The sum of N6,158.4 billion accrued to the Federation Account, indicating an increase of 28.7 per cent over the level in 2010. Of this amount, N623.5 billion, N182.5 billion and N267.1 billion were transferred to the VAT Pool Account, the FG Independent Revenue, and ‘other transfers’¹, respectively, leaving a net revenue of N5,085.3 billion. In addition, N450.0 billion, N873.6 billion, N502.4 billion and N30.5 billion were drawn from the excess crude account for excess crude revenue-sharing, share of the difference between provisional and actual budget, budget augmentation, and NNPC refunds to state and local governments, respectively. These amounts were added to the federally-collected revenue (net) to boost the distributable total to N6,941.8 billion.

¹This includes the Education Tax, Customs Levies, and the National Information Technology Development Fund.
Analysis of the distribution among the three tiers of government\(^2\), showed that the Federal Government (including Special Funds) received the sum of ₦3,240.8 billion, state governments ₦1,658.8 billion, and local governments ₦1,278.8 billion, while the sum of ₦763.4 billion was shared among the oil-producing states as 13% Derivation Fund.

### 5.2.3 VAT Pool Account Distribution

The sum of ₦623.5 billion was transferred to the VAT Pool Account, representing an increase of 15.4 per cent over the level in 2010. Analysis of the distribution among the three tiers of government\(^3\) showed that the Federal Government (including the FCT) received ₦93.5 billion, while state and local governments shared ₦311.8 billion and ₦218.2 billion, respectively.

### 5.3 GENERAL GOVERNMENT FINANCES

#### 5.3.1 Aggregate Revenue

Provisional data showed that at ₦8,486.5 billion, the aggregate revenue of the three tiers of government in 2011 comprised ₦5,085.3 billion from the Federation Account, ₦1,376.1 billion, the budget augmentation (including share of the difference between budget and actual federation revenue), ₦450.0 billion from excess crude revenue-sharing, ₦30.5 billion as NNPC refunds to states and local governments, and ₦623.5 billion from VAT. Others were ₦182.5 billion from the Federal Government Independent Revenue, and ₦36.6 billion from ‘other funds’\(^4\). Revenue exclusive to the sub-national (state and local) governments included ₦536.6 billion, ₦132.8 billion and ₦32.5 billion respectively from internally-generated revenue, grants and the stabilisation fund.

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\(^2\) The Federation Account revenue sharing formula is as follows: FG (52.68%), SGs (26.72%) and LGs (20.60%), while 13.0% of net oil revenue is shared among oil-producing states.

\(^3\) The VAT Pool Account revenue sharing formula is as follows: FG (15%), SGs (50%) and LGs (35%).

\(^4\) This constitutes unspent balances from the Federal Government budget and other receipts by state and local governments not classified elsewhere.
### Table 5.1: SOURCES OF FUNDS FOR THE THREE TIERS OF GOVERNMENT IN 2011 (Naira Billion)

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>Federal Government</th>
<th>State Governments</th>
<th>Local Governments</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FG’s Share</td>
<td>FCT</td>
<td>Sub-Total</td>
<td>States</td>
</tr>
<tr>
<td>Share from Federation Account</td>
<td>2,359.0</td>
<td>44.9</td>
<td>2,403.9</td>
<td>1,219.3</td>
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<tr>
<td>Augmentation 1/</td>
<td>518.7</td>
<td>12.0</td>
<td>630.7</td>
<td>319.9</td>
</tr>
<tr>
<td>Share from Excess Crude</td>
<td>202.3</td>
<td>3.9</td>
<td>206.2</td>
<td>104.6</td>
</tr>
<tr>
<td>NNPC Refunds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15.0</td>
</tr>
<tr>
<td>Share of VAT</td>
<td>87.3</td>
<td>6.2</td>
<td>93.5</td>
<td>31.8</td>
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<tr>
<td>FG Independent Revenue</td>
<td>182.5</td>
<td>-</td>
<td>182.5</td>
<td>-</td>
</tr>
<tr>
<td>Internally-Generated Revenue</td>
<td>-</td>
<td>-</td>
<td>509.3</td>
<td>27.3</td>
</tr>
<tr>
<td>Less State Allocation to LG</td>
<td>-</td>
<td>-</td>
<td>495.3</td>
<td>27.3</td>
</tr>
<tr>
<td>Grants and Others</td>
<td>88.7</td>
<td>-</td>
<td>88.7</td>
<td>44.1</td>
</tr>
<tr>
<td>Stabilization Fund</td>
<td>11.2</td>
<td>-</td>
<td>11.2</td>
<td>21.3</td>
</tr>
<tr>
<td>State Allocation to LG</td>
<td>-</td>
<td>-</td>
<td>14.0</td>
<td>14.0</td>
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<tr>
<td>Others</td>
<td>36.6</td>
<td>-</td>
<td>36.6</td>
<td>36.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,486.5</strong></td>
<td><strong>67.0</strong></td>
<td><strong>3,553.5</strong></td>
<td><strong>2,565.7</strong></td>
</tr>
</tbody>
</table>

1/ includes share of difference between provisional distribution and actual budget

**Source:** Federal Ministry of Finance

**Office of the Accountant-General of the Federation**

**Fiscal returns from state and local governments Survey**

### 5.3.2 Aggregate Expenditure

At ₦9,774.3 billion, the aggregate expenditure of general government increased by 11.2 per cent from the level in 2010. As a proportion of GDP, it represented 27.6 per cent, compared with 29.8 per cent in 2010. A breakdown showed that the outlay on recurrent activities at ₦6,011.9 billion (17.0 % of GDP), accounted for 61.5 per cent, and capital expenditure at ₦2,715.5 billion (7.7 % of GDP), represented 27.8 per cent. Transfers and ‘others’ at ₦935.9 billion (2.6 % of GDP) and ₦111.0 billion (0.3% of GDP), respectively, accounted for 9.6 and 1.1 per cent of the total.
5.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of general government resulted in a primary deficit of ₦528.4 billion (1.5% of GDP), and an overall deficit of ₦1,287.8 billion (3.6% of GDP), compared with ₦1,206.9 billion (4.1% of GDP) in 2010. The deficit was financed, largely, with borrowing from the non-bank public and the domestic banking system.

5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 Overall Fiscal Balance and Financing

The current balance in 2011 reflected a surplus of ₦239.0 billion, or 0.7 per cent of GDP, compared with a deficit of ₦20.2 billion, or 0.1 per cent of GDP in the preceding year. The primary balance recorded a deficit of ₦631.3 billion, or 1.8 per cent of GDP, relative to ₦689.8 billion or 2.3 per cent of GDP in 2010. The overall fiscal operations of the Federal Government resulted in a deficit of ₦1,158.5 billion, or 3.3 per cent of GDP, compared with the deficit of ₦1,105.4 billion, or 3.7 per cent of GDP, in 2010. The deficit was within the WAMZ primary convergence criterion target of 4.0 per cent, and outperformed the position in the preceding two fiscal years. The overall budget deficit was financed mainly from domestic sources.
5.4.2 Federal Government-retained Revenue

The Federal Government-retained revenue rose to ₦3,553.5 billion, from ₦3,089.2 billion in 2010. Analysis of the revenue showed that the share of the Federation Account was ₦2,403.9 billion, or 67.7 per cent of the total; the VAT Pool Account amounted to ₦93.5 billion (2.6%); the Federal Government Independent Revenue was ₦182.5 billion (5.1%); the excess crude (including augmentation) accounted for ₦836.9 billion (23.6%), while ‘others’ accounted for the balance of ₦36.7 billion (1.0%).
5.4.3 Total Expenditure of the Federal Government

The estimated aggregate expenditure of the Federal Government grew in absolute terms by 12.3 per cent to ₦4,712.1 billion in 2011. As a proportion of GDP, it contracted slightly to 13.3 per cent, from 14.2 per cent in the preceding fiscal year. The non-debt expenditure increased from the level in 2010 by 10.7 per cent. Total debt service payments amounted to ₦527.2 billion, representing 11.2 per cent of the total expenditure, or 1.5 per cent of GDP.

5.4.3.1 Recurrent Expenditure

At ₦3,314.5 billion, recurrent expenditure expanded in absolute terms by 6.6 per cent over the level in 2010 and accounted for 70.3 per cent of the total expenditure. However, as a percentage of GDP, it shrank to 9.4 per cent, from
10.5 per cent in 2010, reflecting the policy stance to rationalize recurrent expenditure. Interest payments increased by 26.8 per cent and the goods and services component fell by 0.7 per cent.

Analysis of the goods and services component, at ₦2,527.3 billion (76.3% of total), showed that personnel cost and pensions amounted to ₦1,854.0 billion (73.4%), while overhead cost was ₦673.3 billion (26.6%). Furthermore, interest payments rose to ₦527.2 billion or 1.5 per cent of GDP (15.9% of total). A breakdown indicated that ₦41.8 billion was expended on external debt service and ₦485.4 billion spent on domestic debt service. Transfers to the Federal Capital Territory (FCT) and other special funds (stabilization fund, development of natural resources and ecology) accounted for ₦260.1 billion (7.8% of the total).

Recurrent expenditure shrank to 9.4 per cent of GDP, reflecting the consolidation stance of the Federal Government in FY2011.

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5This includes interest payments on ways and means.
The functional classification of recurrent expenditure showed that the outlay on administration grew by 12.6 per cent to ₦1,427.1 billion and accounted for 43.1 per cent of the total. Similarly, transfer payments increased by 8.9 per cent to ₦956.2 billion and constituted 28.8 per cent of the total. Expenditure on economic services, at ₦310.5 billion, accounted for 9.4 per cent of total recurrent expenditure. Within the economic sector, agriculture, transport, communications and roads/construction collectively absorbed 80.6 per cent. The expenditure on social and community services sector accounted for 18.7 per cent of the total recurrent expenditure.
5.4.3.2 Capital Expenditure

Capital expenditure rose by 3.9 per cent to ₦918.5 billion, or 2.6 per cent of GDP, and accounted for 19.5 per cent of the total expenditure, reflecting the decision of the Federal Government to optimize capital spending. As a proportion of Federal Government revenue, capital expenditure was 25.8 per cent, exceeding the stipulated minimum target of 20.0 per cent under the WAMZ secondary convergence criteria. Analysis of capital expenditure showed that outlays on economic services accounted for ₦385.5 billion, or 42.1 per cent of the total, compared with 46.6 per cent in the preceding year. Within the economic services sector, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 72.4 per cent. Public investments in social and community services accounted for 10.0 per cent of the total. As a ratio of capital spending, expenditure on education declined to 3.9 per cent in 2011 from 9.9 per cent in the preceding year, while that on health rose from 4.0 per cent in 2010 to 4.3 per cent in 2011.

Figure 5.12: Functional Classification of Federal Government Capital Expenditure in 2011
In order to improve public finances, tackle the challenges of reducing deficits/debts and restore fiscal sustainability in a regime of weak global economic recovery, many advanced and emerging countries embarked on fiscal consolidation (FC) in 2011. According to the Organization of Economic Co-operation and Development (OECD, 2011), FC refers to a government economic policy that is intended to reduce deficits and the accumulation of debts. Such policy, which is essential for financial and macroeconomic stability, is expected to spell out government’s efforts to lower the level of deficit while simultaneously limiting the generation of new debt obligations. In fact, many of the advanced and emerging economies initiated the FC strategy through a combination of spending cuts and tax hikes.

Ostensibly, the essence of FC appears to conflict with the desire to stimulate economic growth, as slamming the brakes on government spendings too quickly could hurt economic recovery and worsen job creation prospects. As argued by Trichet, Jean-Claude of the European Central Bank (ECB), the most effective strategy for fiscal consolidation is to ‘systematically adjust fiscal spendings while simultaneously boosting long-term growth’. Therefore, the success of FC depends on its design/implementation and the potential long-run benefits must be balanced against its short-run adverse effects on growth and job creation.

The need to embrace FC in Nigeria followed the implementation of various fiscal stimulus packages by the Federal Government (FG), beginning from fiscal year 2009 through 2010, to arrest the slowdown in economic activities, create the enabling environment for greater private sector participation in the economy and accelerate sustainable economic growth. These included: the disbursement of ₦200 billion through the deposit money banks (DMBs) under the Commercial Agricultural Credit Scheme (CACS) to boost commercial and mechanized agriculture; the investment of ₦361.2 billion in critical infrastructure; and the injection of a ₦100 billion multilateral loan in the critical sectors of the economy. Others were the ₦113.1 billion Presidential Intervention/Quick-Win projects and the ₦140.0 billion targeted intervention in critical infrastructure/job creation.

The implementation of these discretionary fiscal measures in the face of revenue leakages significantly raised government expenditure and resulted in a sharp increase in deficit and debt built-up. Consequently, in absolute terms, the fiscal deficit surged from ₦0.047 trillion in FY2008 to ₦0.81 trillion in 2009 and further to ₦1.11 trillion by 2010. Similarly, the consolidated debt rose significantly by 35.7 per cent to ₦3.82 trillion at end of 2009 and further ballooned to ₦5.24 trillion at the end of FY2010, representing a 37.3 per cent hike over the level in 2009.

The consequent realization, by the last quarter of 2010, of the burgeoning fiscal deficit and debt, by the last quarter of 2010, necessitated the paradigm shift with regards to stimulus spending. Accordingly, the FG, in the 2011 Budget which was set within the 2011–2013 Medium Term Expenditure and Fiscal Strategy, embraced the FC strategy as a means of curtailing expenditure, reducing fiscal deficits and lessening the accumulation of debt to an optimal level, over a period of three years.
5.5 STATE GOVERNMENTS’ FINANCES

5.5.1 Overall Fiscal Balance and Financing

Provisional data on state governments’ finances (including the FCT) showed that, in absolute terms, the overall deficit increased from ₦103.7 billion in 2010 to ₦131.9 billion in 2011. As a ratio of GDP, however, the deficit remained the same as in 2010 at 0.4 per cent. The deficit was financed largely through borrowing from the DMBs.

The FC strategy focused on:

- Implementing wide-ranging public financial management reforms to improve the quality and efficiency of fiscal spending, as well as to steadily rationalize recurrent expenditure and optimize capital expenditure;
- Accelerating the implementation of the Public-Private-Partnership (PPP) policy by creating the Viability Gap Fund to encourage greater private sector participation in the economy;
- Maximizing, diversifying and accelerating the identification as well as the resolution of revenue leakages through various interventions, including (i) strengthening of pre-shipment inspection for crude oil and gas; (ii) conduct of audits of all revenue generating agencies such as the Nigerian National Petroleum Corporation (NNPC) and agencies required to remit internally-generated revenue to the Treasury; and (iii) Fast-track reforms by the Federal Inland Revenue Service (FIRS) and the Nigerian Customs Service (NCS) to boost non-oil revenue and
- Improving the risk management strategies to hedge against commodity (crude oil) price volatility through the establishment of the Nigeria Sovereign Wealth Fund (NSWF) which would entrench greater prudent management of the exhaustible oil wealth for the purpose of inter-generational equity and as a platform for counter-cyclical policy measures, as well as a catalyst for attracting investment in critical infrastructure.

Importantly, the consistency of government policies in the short to medium term would, to a large extent, determine the extent of success of the FC initiatives as an effective means of reducing fiscal deficits and debt accumulation in the economy over time. Also, necessary precautions would have to be taken to ensure that the FC strategy does not impede economic growth and job creation, even in the short run.

Provisional data on state governments’ finances (including FCT) indicated an increase in the overall deficit to ₦131.9 billion, up from ₦103.7 in 2010.

6The provisional data are from the CBN survey returns from 36 states and the FCT.
5.5.2 Revenue
Total revenue of the state governments increased by 7.8 per cent to ₦3,410.1 billion, or 9.6 per cent of GDP, compared with ₦3,162.5 billion or 10.7 per cent of GDP in 2010. The analysis of the sources of revenue indicated that allocations from the Federation Account (including 13.0% Derivation Fund) was ₦1,786.3 billion, or 52.4 per cent; the VAT Pool Account was ₦318.0 billion, or 9.3 per cent; Internally Generated Revenue (IGR) was ₦509.3 billion, or 14.9 per cent; the Stabilization Account was ₦11.2 billion, or 0.3 per cent; the Excess Crude Account (including budget augmentation and refund to the state governments by the NNPC) totalled ₦696.7 billion or 20.5 per cent; and grants/others amounted to ₦88.7 billion, or 2.6 per cent. The IGR fell below the level in 2010 by 32.8 per cent, indicating a slowdown in the drive for internal revenue. In terms of tax efforts, measured as the ratio of IGR to total revenue (IGR/TR), Lagos State ranked highest with 54.9 per cent, followed by Abia and Ogun States, with 37.1 and 28.7 per cent, respectively, while Borno State ranked the least with 3.4 per cent. In terms of state governments’ effort at improving internally-generated revenue, Ondo State topped, with an increased IGR/TR ratio from 2.1 per cent in 2010 to 8.6 per cent in 2011, followed by Kogi and Bauchi States in the second and third positions,
respectively. Overall, the consolidated IGR/TR ratio of the state governments fell from 24.0 per cent in 2010 to 14.9 per cent.

### Table 5.2: State Governments’ Revenue

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2011 1/</th>
<th>Share in Overall GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (N' Billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federation Account 2/</td>
<td>1,353.7</td>
<td>1,786.3</td>
<td>52.4</td>
</tr>
<tr>
<td>Excess Crude Revenue 3/</td>
<td>500.1</td>
<td>696.6</td>
<td>20.5</td>
</tr>
<tr>
<td>VAT</td>
<td>275.6</td>
<td>318.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Internally Generated Revenue</td>
<td>757.9</td>
<td>509.3</td>
<td>14.9</td>
</tr>
<tr>
<td>Stabilisation Fund</td>
<td>51.0</td>
<td>11.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Grants &amp; Others</td>
<td>224.2</td>
<td>88.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>3,162.5</td>
<td>3,410.1</td>
<td>100</td>
</tr>
</tbody>
</table>

1/ Including FCT
2/ Including 13% Derivation Fund
3/ Including Budget Augmentation and Foreign Exchange Rate Gains

**Sources:**
- Federal Ministry of Finance
- Office of the Accountant-General of the Federation
- Fiscal returns from state and local governments Survey

#### 5.5.3 Expenditure

Estimated total expenditure of the state governments increased by 8.4 per cent to N3,542.0 billion, or 10.0 per cent of GDP. A breakdown showed that, at N2,055.8 billion or 5.8 per cent of GDP, recurrent expenditure was 24.7 per cent higher than the level in the preceding year and accounted for 58.1 per cent of the total.

*The total expenditure of the state governments grew by 8.4 per cent to N3,542.0 billion, or 10.0 per cent of GDP.*
At ₦1,375.2 billion, or 3.9 per cent of GDP, the capital expenditure was 9.7 per cent below the level in 2010 and accounted for 38.8 per cent of the total. Similarly, extra-budgetary expenditure grew by 16.3 per cent and accounted for 3.1 per cent of the total.

Analysis of spending on primary welfare sectors indicated that expenditure on education decreased by 17.0 per cent from the level in 2010 to ₦212.6 billion and accounted for 6.0 per cent of total expenditure. Also, the expenditure on health, agriculture, water supply and housing also fell by 14.6, 12.6, 32.4 and 48.4 per cent, respectively, relative to their levels in 2010 to ₦119.6 billion, ₦116.4 billion, ₦57.0 billion and ₦29.2 billion. On the whole, aggregate expenditure on primary welfare sectors amounted to ₦534.8 billion, or 1.5 per cent of GDP, and accounted for 15.1 per cent of the total.
5.6 LOCAL GOVERNMENTS’ FINANCES

5.6.1 Overall Fiscal Balance and Financing

Provisional data on local governments' fiscal operations indicated a surplus of ₦2.6 billion, compared with a surplus of ₦2.5 billion in 2010.

5.6.2 Revenue

The total revenue of local governments, at ₦1,603.8 billion, represented an increase of 18.0 per cent over the level in 2010. The sources of the revenue comprised allocations from the Federation Account (₦940.0 billion), Share of Excess Crude Account (₦80.7 billion), NNPC refunds to LGs (₦11.5 billion), budget augmentation (₦246.6 billion) VAT (₦218.2 billion), IGR (₦27.3 billion), grants/‘others’ (₦44.1 billion), stabilization fund (₦21.3 billion), and state allocation (₦14.0 billion).

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The provisional data are from the CBN survey returns from 727 LGAs while 47 LGAs were estimates.
<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2011</th>
<th>Share (%)</th>
<th>2010</th>
<th>2011</th>
<th>%</th>
<th>%</th>
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<tr>
<td>Federation Account</td>
<td>716.0</td>
<td>940</td>
<td>52.7</td>
<td>58.6</td>
<td>2.4</td>
<td>2.7</td>
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<tr>
<td>Excess Crude Revenue</td>
<td>158.9</td>
<td>80.7</td>
<td>11.7</td>
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<td>0.5</td>
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<td>FGN Refunds to LG</td>
<td>121.6</td>
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<td>Budget Augmentation</td>
<td>78.7</td>
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<tr>
<td>Exchange Rate Gain</td>
<td>7.1</td>
<td>246.6</td>
<td>0.5</td>
<td>15.4</td>
<td>0.3</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>VAT</td>
<td>189.1</td>
<td>218.2</td>
<td>13.9</td>
<td>13.6</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Internally Generated Revenue</td>
<td>26.2</td>
<td>27.3</td>
<td>1.9</td>
<td>1.7</td>
<td>0.1</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Stabilization Fund</td>
<td>12.6</td>
<td>21.3</td>
<td>0.9</td>
<td>1.3</td>
<td>0.04</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>State Allocation</td>
<td>12.7</td>
<td>14.0</td>
<td>0.9</td>
<td>0.9</td>
<td>0.04</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Grants &amp; Others</td>
<td>36.3</td>
<td>44.1</td>
<td>2.7</td>
<td>2.7</td>
<td>0.1</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,359.2</td>
<td>1,603.8</td>
<td>100</td>
<td>100</td>
<td>4.5</td>
<td>4.6</td>
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Sources: Federal Ministry of Finance
Office of the Accountant-General of the Federation
CBN survey of state and local governments.

5.6.3 Expenditure

The expenditure of the local governments was 18.0 per cent higher than the level in 2010 and represented 4.6 per cent of the GDP.

At ₦1,601.2 billion, the total expenditure of local governments indicated an increase of 18.0 per cent above the level in 2010, and represented 4.6 per cent of the GDP. A breakdown indicated that recurrent outlay stood at ₦1,179.4 billion or 73.7 per cent, while capital expenditure amounted to ₦421.8 billion, or 26.3 per cent of the total.

A breakdown of recurrent expenditure showed that personnel cost was ₦748.1 billion, while overhead cost and the consolidated fund charges/others...
amounted to N231.7 billion and N199.6 billion, respectively. Analysis of capital expenditure by function revealed that the share of administration was N52.4 billion, economic services (N211.8 billion), social and community services (N148.6 billion), and transfers (N9.0 billion).

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

The consolidated Federal Government debt stock, as at end-December 2011, was N6,519.6 billion, or 18.4 per cent of GDP, compared with N5,241.7 billion, or 17.8 per cent of GDP in 2010. Analysis of the debt showed that the domestic component constituted 86.2 per cent and the external 13.8 per cent. The increase reflected, largely, the substantial borrowing through the issuance of FGN Bonds and treasury bills to finance projects (both recurrent and capital) and the settlement of contractual obligations. Consequently, the stock of FGN Bonds rose from N2,901.6 billion in 2010 to N3,541.2 billion and accounted for 63.0 per cent of the total, while Nigerian Treasury Bills grew from N1,277.1 billion in 2010 to N1,727.9 billion and accounted for 30.7 per cent of the total. At end-December 2011, external debt outstanding increased by 23.8 per cent to US$5.7 billion (N896.8 billion), while the domestic component increased by 23.5 per cent from its level in 2010.

The stock of Federal Government domestic debt outstanding at end-December 2011 stood at N5,622.8 billion, representing an increase of 23.5 per cent over the level in 2010.
5.7.1 Domestic Debt

The stock of Federal Government domestic debt at end-December 2011 was ₦5,622.8 billion, representing an increase of 23.5 per cent over the level in FY2010. The development reflected the substantial borrowing through the issuance of FGN Bonds and Nigerian Treasury Bills. The banking system remained the dominant holder of the outstanding debt instruments with 76.2 per cent, and the non-bank public accounted for the balance of 23.8 per cent. Disaggregation of the banking system’s holdings indicated that ₦3,790.8 billion, or 88.4 per cent, was held by the DMBs and DHs, and ₦495.2 billion or 11.6 per cent by the CBN and the Sinking Fund.

Analysis of the maturity structure of the domestic debt showed that instruments of two (2) years and below accounted for ₦3,124.9 billion or 55.6 per cent, followed by instruments of above two (2) to five (5) years totalled ₦1,064.4 billion, or 18.9 per cent; those with tenors of five (5) to ten (10) years totalled ₦715.2 billion or 12.7 per cent, and tenors of over ten (10) years at ₦718.3 billion, or 12.8 per cent.

Figure 5.20: Composition of Domestic Debt Stock by Holder in 2011

The analysis of debt indicators revealed that at 18.4 per cent, the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent of GDP.
5.7.2 External Debt
At US$5.7 billion, Nigeria’s external debt grew by 23.8 per cent over the level at end-December 2010. The rise reflected the drawdown of additional multilateral loans by the Federal Government, amounting to US$351.2 million, as well as borrowings from the international capital market, including the issuance of Euro-bond amounting to US$500 million. Of the external debt outstanding, the share of multilateral institutions was US$4.6 billion and accounted for 80.6 per cent, while ‘others’ amounting to US$1.1 billion accounted for the balance.

5.7.3 Debt Service Payments and Debt Indicators
Total debt service payments\(^8\) stood at ₦591.5 billion, or 1.7 per cent of GDP, and comprised ₦54.1 billion, or US$0.35 billion, for external and ₦537.4 billion for domestic debt. The external debt service consisted of amortization (principal repayment) of ₦35.7 billion, or 66.0 per cent, and actual interest payments of ₦18.4 billion, or 34.0 per cent. Domestic debt service indicated that amortization stood at ₦19.4 billion, or 3.6 per cent, while interest payment was ₦518.0 billion, or 96.4 per cent of the total debt service payments.

The analysis of debt indicators revealed that at 18.4 per cent, the debt stock/GDP ratio remained low relative to the maximum international threshold of 30.0 per cent in 2011. The debt service/revenue ratio worsened from 13.2 per cent in 2010 to 16.6 per cent in 2011, implying that a higher proportion of the total revenue was devoted to debt service during the year.

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\(^8\)This represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contribution to the external creditors’ fund.
Table 5.4: Debt Service Payments (Naira Billion) and Debt Sustainability Indicators (per cent)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>International Thresholds</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>External Debt Service (Interest Payments)*</td>
<td></td>
<td>-</td>
<td>117.2</td>
<td>9.0</td>
<td>17.4</td>
<td>15.3</td>
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<tr>
<td>Amortization - External Debt</td>
<td></td>
<td>-</td>
<td>11.4</td>
<td>46.2</td>
<td>46.5</td>
<td>38</td>
</tr>
<tr>
<td>Domestic Debt Service (Interest Payments)</td>
<td></td>
<td>-</td>
<td>185.4</td>
<td>233</td>
<td>271.3</td>
<td>19.5</td>
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<tr>
<td>Amortization - Domestic Debt</td>
<td></td>
<td>-</td>
<td>67.3</td>
<td>238.3</td>
<td>207.4</td>
<td>334.7</td>
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<tr>
<td>Total Debt Service</td>
<td></td>
<td>-</td>
<td>381.2</td>
<td>526.5</td>
<td>542.5</td>
<td>407.4</td>
</tr>
<tr>
<td>Total Debt/GDP</td>
<td></td>
<td>30</td>
<td>12.5</td>
<td>11.5</td>
<td>15.1</td>
<td>17.8</td>
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<tr>
<td>Total External Debt/GDP</td>
<td></td>
<td>30</td>
<td>2.1</td>
<td>2.1</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Total Domestic Debt/GDP</td>
<td></td>
<td>40-60</td>
<td>10.4</td>
<td>9.4</td>
<td>12.8</td>
<td>15.4</td>
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<tr>
<td>Total External Debt/Export (%)</td>
<td></td>
<td>100</td>
<td>5.3</td>
<td>4.3</td>
<td>7.0</td>
<td>6.3</td>
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<tr>
<td>Total Debt Service/Revenue (%)</td>
<td>20-25 (Max.=25)</td>
<td>16.3</td>
<td>16.5</td>
<td>20.5</td>
<td>13.2</td>
<td>16.6</td>
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<tr>
<td>Total Debt/Revenue (%)</td>
<td>250</td>
<td>111.8</td>
<td>89.0</td>
<td>144.5</td>
<td>169.7</td>
<td>183.5</td>
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Sources: Debt Management Office, Central Bank of Nigeria, Office of the Accountant General of the Federation