

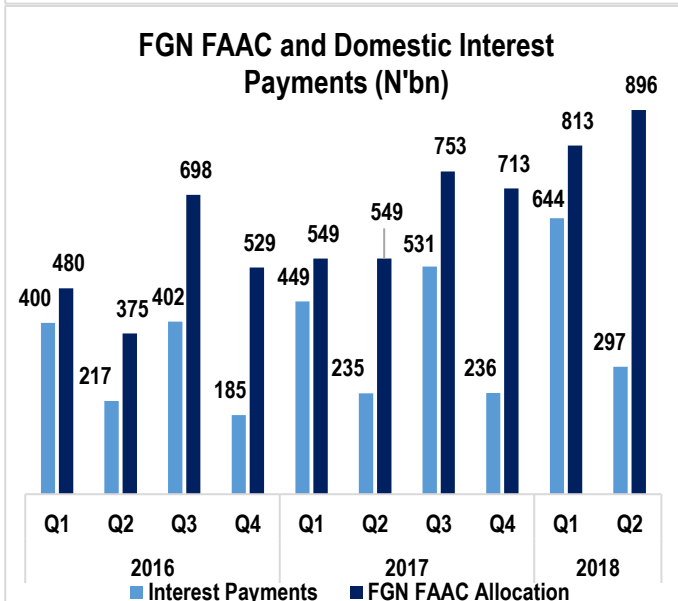
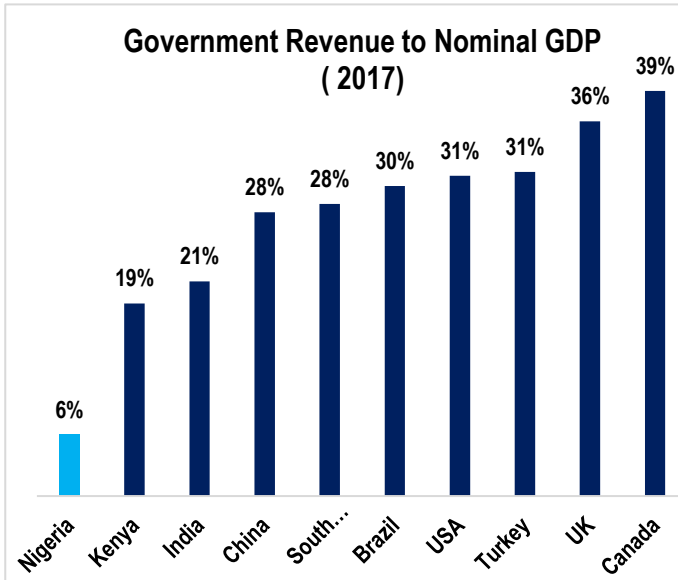
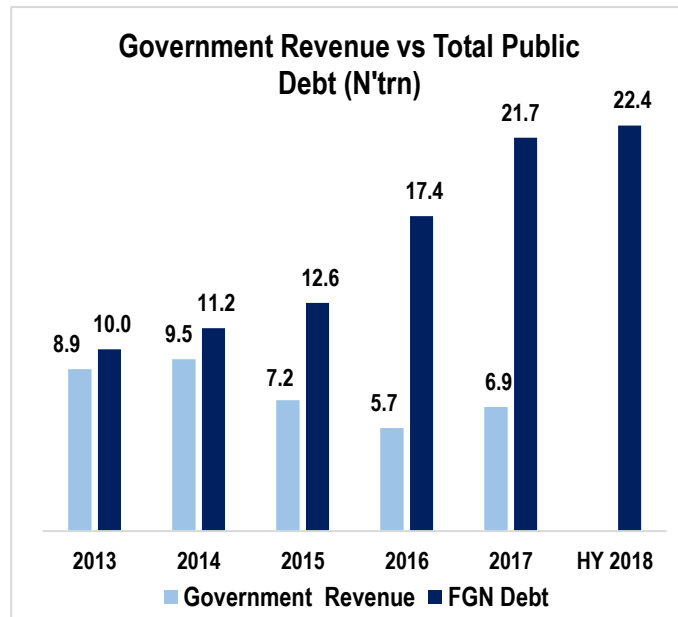
FGN Should Diversify Nigeria's Revenue Base to Avoid Debt Crisis – FSDH Research

FSDH Research believes the Federal Government of Nigeria (FGN) needs to urgently implement policies that will grow and diversify the revenue base of the country to avoid imminent debt crisis. Our analysis shows that the growth in Nigeria's debt is higher than the growth in revenue. In addition, Nigeria has the lowest government revenue to Gross Domestic Product (GDP) ratio at 6% among some selected countries.

Nigeria's over-dependency on crude oil revenue, combined with volatility in both the price and production of crude oil are the major reasons for sluggish growth in government revenue. Growing non-oil revenue will require that the Nigerian economic environment has inherent structures that can support business growth. Such structures include adequate physical infrastructure, policies, legal and regulatory frameworks that will make the economy business-friendly to generate taxable profits.

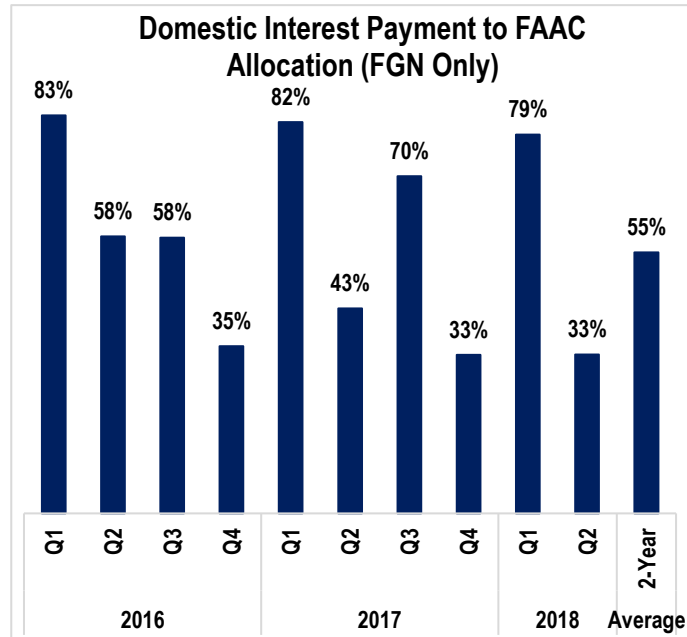
Our analysis of the ratio of the interest payment on domestic debt relative to the FGN allocation from the Federal Account Allocation Committee (FAAC) shows that the FGN is spending too much of its revenue to pay interest on loans. This leaves the government with little resources to spend on critical sectors of the economy that could support strong growth and maintain a healthy economy to generate revenue.

The current high interest payment relative to revenue may also increase the credit risk of the country. Although the government has been able to meet its debt obligations (interest and principal payments) so far, if the current situation is not addressed, the interest rate on government loans may increase because of the perceived elevated risk. This would also lead to higher interest



rates for private sector operators. It is important to note that the external environment is becoming tighter than before because of the rising interest rate in the US.

The Federal Open Market Committee (FOMC) of the US Federal Reserve increased the Federal Funds Rate by 0.25% to a range of 2% to 2.25% on 26 September 2018. FSDH Research predicts the FOMC will still announce another rate increase before the end of the year. This development will increase the borrowing cost on any new Dollar denominated loan. Consequently, borrowing in the international market is no longer as attractive as it was before. It is crucial, therefore, to structure the Nigerian economy to enable it to generate revenue and rely less on borrowing to meet its basic needs.



Sources: Debt Management Office, National Bureau of Statistics, International Monetary Fund (IMF) and FSDH Research

Please click on the links below to access our latest reports:

- [A Hold Decision Appropriate Despite New Pressure Points](#)
- [Trade Balance Improves but Vulnerable to Crude Oil Movements](#)
- [Low GDP Growth Rate: A New Norm?](#)

For enquiries, please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email:** research@fsdhgroup.com

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}

Disclaimer Policy

This publication is produced by FSDH Merchant Bank Limited solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Merchant Bank Limited may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of the FSDH Merchant Bank Limited for actions taken as a result of information provided in this publication.