



Federal Government of Nigeria's 2018 Budget

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Introduction

President Muhammadu Buhari, on Wednesday 20 June 2018, signed the 2018 Appropriation Bill of the Federal Government of Nigeria (FGN) into law. The final assent came 7 months after presenting the Appropriation Bill to a joint session of the National Assembly on 7 November 2017.

It would be recalled that the President presented a Budget of ₦8.61 trillion to the lawmakers in 2017. However, this figure has increased by ₦508 billion (6%) to ₦9.12 trillion, due to changes made by the National Assembly. While the President appeared to have signed the Budget amidst concerns of delays, reduction of

allocation to certain propriety projects and addition of new projects by the National Assembly, he reiterated his commitments to speedy execution of the Budget. However, these concerns may affect full implementation of the Budget.

2018 Budget at a Glance

With an aggregate expenditure of ₦9.12 trillion, proposed revenue of ₦7.17 trillion and a deficit of ₦1.95 trillion, the 2018 Budget is the largest in Nigeria's history (in Naira terms). The Budget 2018, which is tagged Budget of Consolidation, is aimed at consolidating previous years' achievements and

ensuring growth and stability as Nigeria recovers from a period of economic recession.

Some of the challenges that may create impediments to full implementation of the 2018 Budget, particularly the capital expenditure, include the following:

1. Being a deficit budget, the President will be required to secure approval of the National Assembly for the borrowing plan. The speed with which this process is completed will affect the execution of capital projects.
2. In view of some cuts in the allocation to certain capital projects, the President has indicated intention to submit a Supplementary/Amendment Bill. How quickly will this process be completed?
3. The due diligence process required for award of government projects may inadvertently delay the commencement of capital projects. How quickly will the procurement process be completed?
4. Ministries, Department and Agencies (MDAs) of government will be required to implement the newly introduced capital projects for which the required ownership of conceptualization, design and costing needs to be passed over by the National Assembly. Do the MDAs have the required capacity and commitment to execute these projects?
5. With six months into the calendar year, elections scheduled for February 2019 and subsequent inauguration, it is unlikely that the Budget can enjoy full fiscal year of implementation.

Key highlights of the Budget

a. 2018 Approved Expenditure

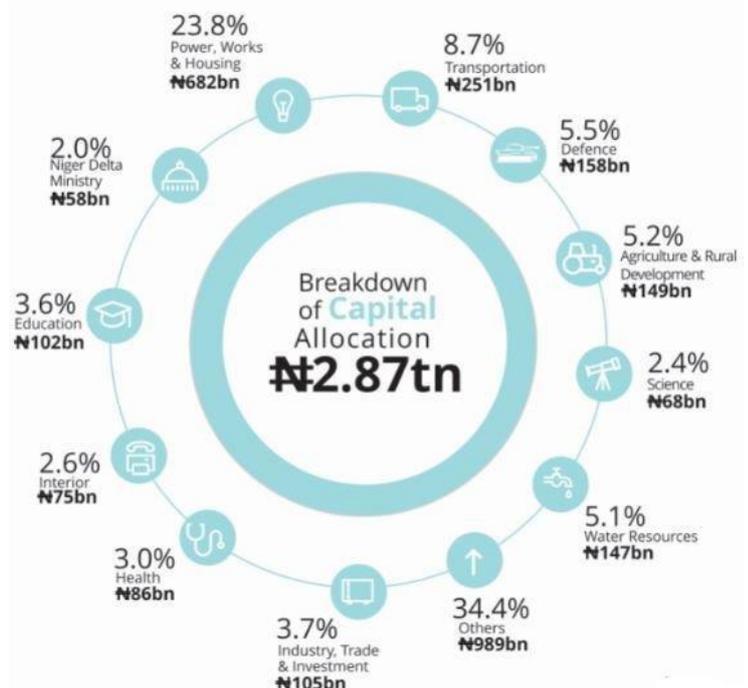
Total approved expenditure for 2018 is ₦9.12 trillion, representing a 22.6% increase over the approved expenditure of ₦7.44 trillion in 2017.



Capital expenditure (inclusive of statutory transfers), constitutes 31.5% (₦2.87 trillion) of aggregate expenditure, while recurrent expenditure on the other hand is 38.5% (₦3.51 trillion) of aggregate expenditure.

Ministry of Power, Works and Housing has the highest capital allocation with a budget of ₦682.96 billion, followed by the Ministry of Transportation with an allocation of ₦251.42 billion.

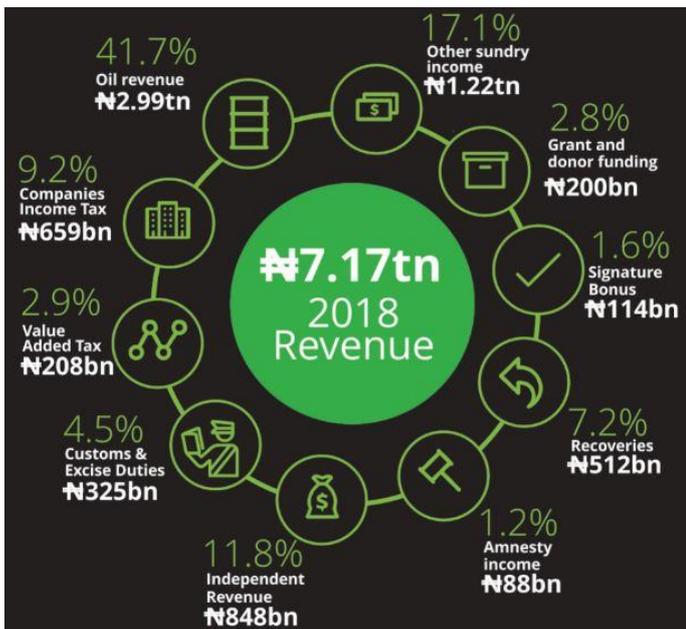
The Ministry of Defence, Ministry of Agriculture and Ministry of Water Resources received the major chunk of the revenue expenditure allocations in the sums of ₦157.72billion, ₦149.10 billion and ₦147.20 billion, respectively.



b. 2018 Approved Revenue

Projected FGN revenue for 2018 is estimated at ₦7.17 trillion, with oil revenue contributing ₦2.99 trillion (41.7%) and non-oil revenue contribution of ₦4.18 trillion (58.3%). This is based on estimated crude oil production of 2.3 million barrels per day, at an exchange rate of ₦305/\$1.

Non-oil tax revenue includes grants and donor funding, as well as recoveries and proceeds from the on-going tax amnesty programme (Voluntary Asset and Income Declaration Scheme).



c. Financing the deficit

The 2018 fiscal deficit of ₦1.95 trillion represents 1.74% of GDP¹. It is envisaged that the fiscal deficit will be funded largely by net borrowings sourced locally and internationally, estimated at ₦1.64 trillion. Additional ₦311 billion will come from privatization proceeds and sale of other government properties.

d. Key budget assumptions

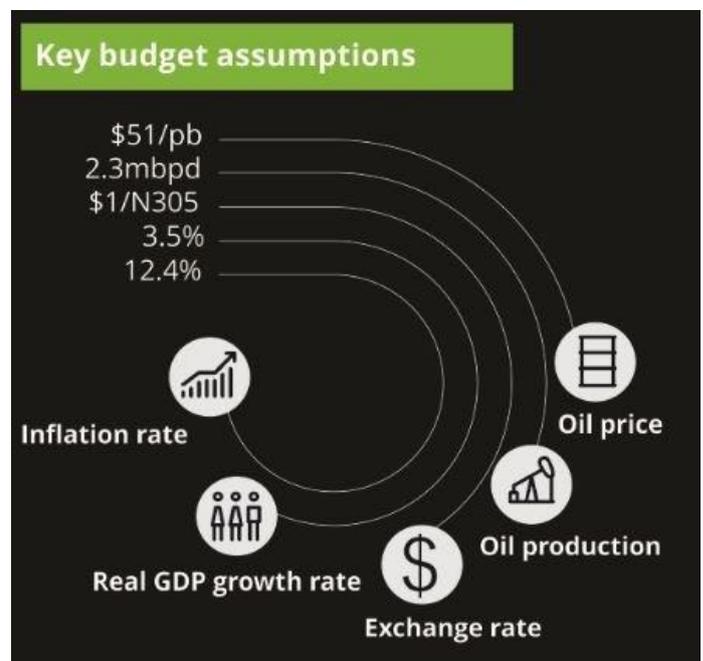
The above revenue projections are based on the following assumptions:

i. Oil revenue baseline assumptions

Average oil production is estimated to hit 2.3mbpd² for 2018. Nigeria's current oil production varies between 1.8mbpd and 2.0mbpd, despite efforts to increase

output and the decline of insurgency and pipeline vandalism in the Niger Delta. However, following the recent OPEC³ summit, it is believed that the estimate of 2.3mbpd might be unrealistic as Nigeria may have to cap production at 1.8 million barrels per day.

The benchmark oil price has been revised upward by 12% to \$51pb⁴ in order to stabilize the deficit incurred from the additional expenditure to the Budget. This remains a key variable to the Budget, as the bulk of revenue is still from oil. The pricing at \$51pb looks feasible with average crude oil prices currently charting above \$60pb. However, emphasis should be placed on the continuous effort being made to shift the economy's over-reliance on oil revenues.



ii. Non-oil revenue baseline assumptions

Non-oil revenue projections are guided by expected growth in non-oil output and improved efficiency in revenue collection as described below.

Custom duties: The proposed 17% increase (from ₦278bn in 2017) in expected customs revenue is a reflection of FGN's drive and actions; particularly increased efficiency. Other measures include continuity of improved flexible forex regime, increment of excise duty, introduction of common external tariff, and expected decrease of average duty rates. It is envisaged that these would boost trade volume and increase customs revenues.

¹ Gross Domestic Product

² Million barrels per day

³ Organisation of Petroleum Exporting Countries

⁴ Per barrel

Companies income tax (CIT): While the Medium Term Expenditure Framework (MTEF) anticipated growth in revenue from CIT, the approved 2018 Budget appears conservative in view of the 18.5% reduction in expected revenues from this stream. This becomes more alarming in view of the assumption under the MTEF that companies' profitability ratio will increase due to government's ongoing efforts to improve the business environment with the ease of business campaign, leveraging private sector capital and increase in tax collection efficiency. This reduction is perhaps due to separation of expected revenue from the current Tax Amnesty Programme, from estimated revenue from CIT collections in the Budget.

Value added tax (VAT): Based on MTEF, VAT revenue is estimated on aggregate national consumption which is projected to hit ₦83.69 trillion in 2018, compared to the estimated target of ₦83.84 trillion for 2017.

Additionally, according to MTEF, there is expected 42% increase in VAT collection in 2018. The approved Budget however, shows a 14.2% decline in VAT revenues when compared to 2017 Budget.

FGN independent revenue and amnesty proceeds:

It is expected that FGN's efforts to tackle leakages in government revenues and expanding the tax net through a tax amnesty programme, will yield substantial improvements in remittances to the consolidated revenue fund in the medium term. The Budgeted FGN Share of the recoveries from the Tax Amnesty Scheme is ₦87.84 billion.

iii. Exchange rate

Exchange rate is expected to remain stable at ₦305/\$, with the recent decision of the Monetary Policy Committee to retain the benchmark MPR⁵ at 14% for the 9th consecutive time. This tight policy has been

maintained to support the currency and ensure that the Naira remains stable. Also, improved external reserves may be an indication that Nigeria's apex bank, CBN⁶, has adequate cover for the Naira.

iv. Inflation

Inflation eased to 11.61% in May 2018, lower than the 12.5% recorded in April 2018 and is expected to continue in its downward slide based on projections by economic analysts. Notwithstanding, inflation rate is still above CBN's single digit target.

Conclusion

The 2018 Budget is geared towards building on economic recovery accomplishments and achieving sustainable economic growth in the medium term, while ensuring increase in non-oil revenues and capital expenditure. However, there are concerns that the 2018 Budget may underperform given its late passage. This challenge also plagued the 2017 Budget which may have underperformed due to different reasons.

There are concerns that 2018 fiscal year may experience a repeat of the 2017 Budget performance. This is because the impending 2019 elections are likely to take the front burner, which may inevitably leave several projects hanging at the end of the year. On the other hand, the impending elections may spur the Federal Government to take measures that will ensure that the 2018 Budget is quickly implemented in order to boost the confidence of the populace in the current administration.

The above notwithstanding, it is hoped that the 2018 Budget performance would consolidate the achievements and accomplishments recorded so far by the current administration, and sustain economic growth.



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