An Analysis of the 2015 FGN Budget

"A Transition Budget"

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Understanding the Budget

Rather than just a set of revenue & expenditure plans by the Government, the Budget is a statement of Government's fiscal and related policies which are intended to move the economy forward, including in the areas of supporting industries and Job creation

Budget - a quantitative expression of government's financial plans for a fiscal year with a focus to systematically induce socio-economic development over the period.

Government reform programmes, anchored on the Transformation Agenda, give direction to annual budgeting

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Understanding the Budget (2)

The Budget encapsulates the totality of government's development agenda, and how to use government policy and resources to actualize them

Key Considerations in preparing the Budget

- Government's priorities and vision of development
- Global economic environment
- Domestic macro-environment
- Setting revenue parameters
- Gross resource availability
- Sustainability of deficit and debt
- Ratio of capital spending in total spending
- Macroeconomic stability and growth promotion
- Social Inclusion and Job creation

The Global Economic Environment

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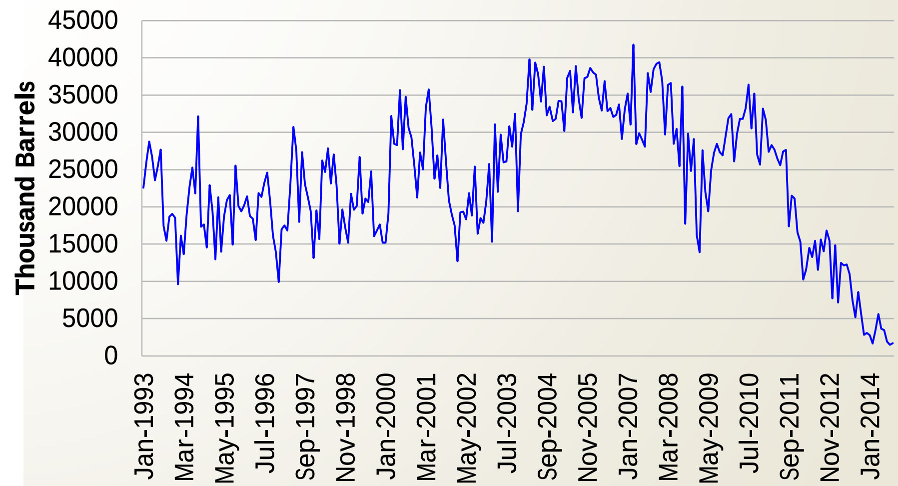
Global economy faces significant uncertainty

- The global growth recovery is slowing and still fragile in some regions
- Weaker than expected growth in advanced economies and emerging market
- Global growth projection has been revised downwards from 3.7% (April) to 3.3% (October) for 2014
- 2015 global growth projections also lowered by 0.1% to 3.8%
- Increased geopolitical risks and impacts on the international oil market
- The role of new regional producers and increasing exploitation of shale oil
- US demand for Nigeria's oil virtually zero since July though India and China making up for this

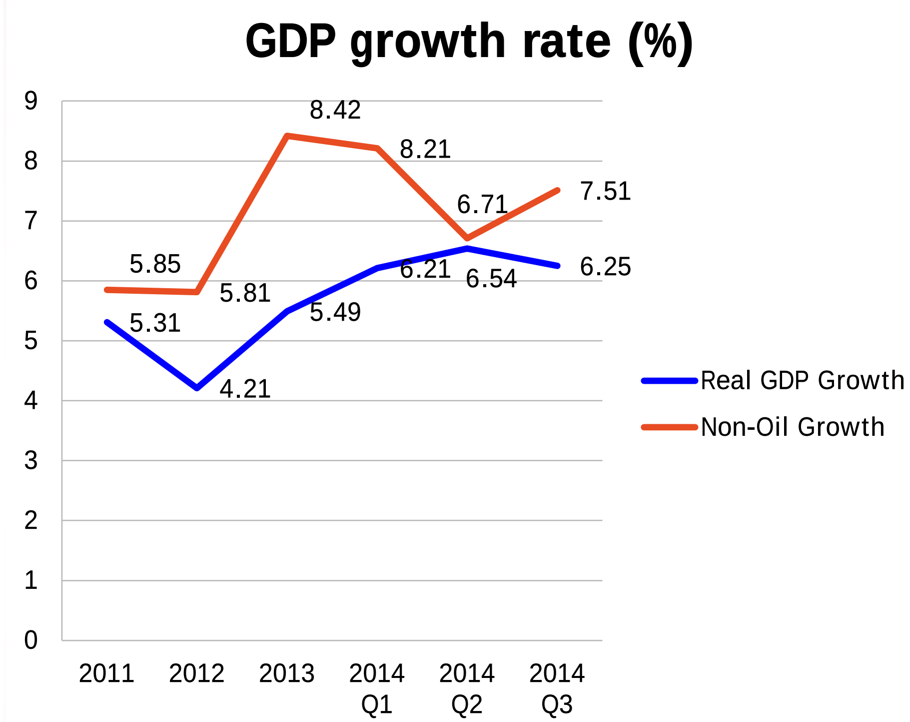
U.S. Imports from Nigeria (Crude Oil)



... Nigeria's Key Economic Indicators

5 **Domestic economy remains relatively strong**

- 2014 estimated GDP growth is 6.34%
- Growth continues to be driven by the non-oil sector – contributing about 68% prior to rebasing, and about 86% thereafter.
- But low tax revenue to GDP ratio of 12%, even lower for non-oil at 6%; compared with middle-income African countries (22%) or emerging economies (20%). Thus, the need to further improve tax administration. This is already on course.
- Greater room to borrow (debt-GDP ratio dropping from 19% to 12.8% compared to threshold of about 40%), but will maintain our prudent & conservative debt management policy.



Inflation has gone down

- Inflation was **7.9%** at the end of Nov. 2014, down from **12%** in Dec. 2012.
- Inflation has been at single digits since January 2013.

The 2014 Budget Implementation

- ***Recurrent budget*** - Releases are on track
- ***Capital releases*** – N610 billion has been released most of which has been fully cash-backed and being utilized
- ***SURE-P Budget Implementation*** - Of the N268.37 billion provisioned for SURE-P, N208.3 billion (or 77.6% of the SURE-P budget) has been utilized in various job creation initiatives and infrastructure projects

- This level of implementation is coming amidst various challenges to the 2014 Budget revenue, including:
  - Quantity shocks (average oil production of 2.2mbpd against 2.38mbpd budgeted)
  - Price shocks (oil price falling from about $114pb in June now to about $60pb)
  - Under-remittance of IGR by some MDAs

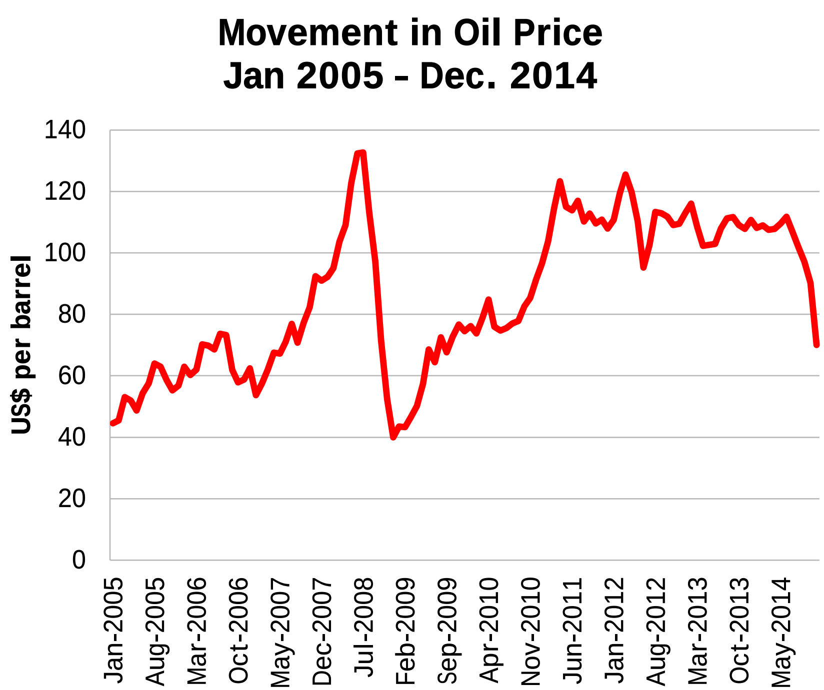
The 2015 Budget Proposal

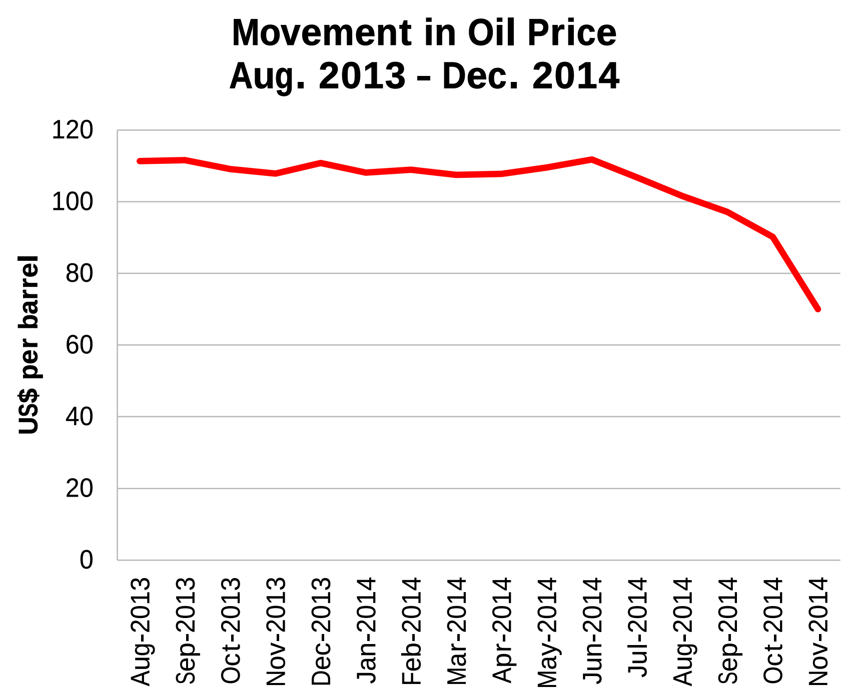
Baseline Assumptions		
Parameters	Initial Proposal	Revised Proposal
Benchmark Oil Price	$78	$65
Budgetd Oil Production (mbpd)	2.2782	2.2782
Average Exchange Rate	N160/$	N165/$
GDP growth rate (%)	6.35%	5.5%

- The initial parameters were premised on a gradually recovering but fragile global economy.
- However, recent development in the international oil market, including
  - Increasing global oil supplies (shale oil and gas production) Weakening oil demand in major economies
  - Geopolitical developments
    - Saudi Arabia – interested in keeping their market share, thus prepared to allow oil price fall vis-à-vis shale oil
    - Russia – political standoff with the West
    - OPEC's decision to sustain their production levels

The 2015 Budget Proposal (2)

- Intense pressure on oil price in recent weeks, led to:
  - a careful re-consideration of the initial proposal vis-à-vis alternative scenarios
  - Design and implementation of adjustment measures
- A scenario based approach was adopted. Scenarios of \$60 to \$75 were considered as oil price fell to around \$80pb, and recently to about \$65pb.





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The 2015 Budget Proposal (3)

- Some other key adjustments were made in the light of current realities, including:
  - Provisions for subsidy (PMS and Kerosene)
    - This is based on the fact that declining international crude oil prices would reduce the landing costs and thus, their implied subsidy.
  - ECA and SURE-P
  - Tax revenue target for FIRS (working with McKinsey & Co.) including tax surcharge on some luxury items
- These revisions remain in line with the broad goals of the *Transformation Agenda*

The 2015 Budget Proposal (4)

Theme: *"A Transition Budget"*

Focus:

- Managing the revenue challenge in manner that protects the most vulnerable while safely transiting to a broader based non-oil driven economy

Our broader economic structure gives us the flexibility to transit

	2011 (Old)	2012 (old)	2013 (Old)	2011 (new)	2012 (new)	2013 (new)
Crude oil & Nat Gas	40.86	37.01	32.43	17.52	15.89	14.4
Agriculture	30.99	33.08	34.69	22.8	22.4	21.97
Industry	44.29	40.59	36.26	27.85	26.72	25.64
Manufacturing	1.86	1.88	1.94	6.46	6.67	6.83
Services	23.72	26.33	29.04	49.35	50.91	51.89
Telecomms & Info services	0.78	0.82	0.86	8.74	8.73	8.69
Motion pictures, sound recording & music prodn.	-	-	-	1.01	1.2	1.42

Rising profile of a variety of non-oil sectors; yet, oil contributes about 70% of Budget revenue & over 90% of export revenue. Thus, we have greater opportunity to earn more from non-oil activities

The 2015 Budget Proposal (5)

FISCAL ITEMS	Approved 2014 Budget	2015 Budget Proposal
	N'Bill	N'Bill
Total Oil & Gas Revenue	**7,164.81**	**6,056.65**
Less Cost of production	1,182.330	1,219.278
Subsidy Payments (PMS)	971.14	200.00
Subsidy Payment (Kerosene)		91.03
13% Derivation	651.47	591.02
Net Oil Revenue after Costs, Deductions & Derivation	**4,359.87**	**3,955.32**
Total Non-Oil Revenue	**3,288.59**	**3,539.07**
Less Costs & Deductions	1,416.87	1,463.92
Net Non-Oil Revenue after Costs & Deductions	**1,871.71**	**2,075.14**
FGN's Share of Federation Account	3,284.26	3,193.12
Distribution to the Federation Account (VAT Pool)	**811.63**	**840.89**
FGN's' Share of VAT Pool Account (15%)	121.74	126.13
States' Share of VAT Pool Account (50%)	405.82	420.44
Local Govt.'s Share of VAT Pool Account (35%)	284.07	294.31
Summary of Distribution		
TOTAL FGN	**3,406.00**	**3,319.25**
TOTAL STATES	**2,071.63**	**2,040.04**
TOTAL LGCs	**1,568.35**	**1,542.95**

The 2015 Budget Proposal (6)

FISCAL ITEMS	Approved 2014 Budget	2015 Budget Proposal
	N' Bill	N' Bill
Gross Federally Collectible Revenue	10,894.84	9,904.87
FGN Retained Revenue	3,731.00	3,602.96
Oil Revenue	2,114.53	1,918.33
Non-Oil Revenue	1,021.41	1,124.17
Independent Revenue	*452.04*	*450.00*
Others	*143.02*	*110.46*

The 2015 Budget Proposal (7)

FISCAL ITEMS	Approved 2014 Budget	2015 Budget Proposal
	=N= Bills	=N= Bills
FGN Retained Revenue	**3,731.00**	**3,602.96**
Total Federal Government Expenditure	**4,724.69**	**4,357.96**
Statutory Transfers	***408.69***	***411.84***
Debt Service	***712.00***	***943.00***
Recurrent Expenditure	***2,468.83***	***2,616.01***
Personnel Costs (MDAs)	*1,727.61*	*1,836.73*
Overheads	*251.93*	*199.18*
CRF Pensions	*187.45*	*231.41*
Other Service Wide Votes	*301.84*	*348.69*
Capital Expenditure (Including SURE-P)	***1,552.99***	***633.53***
Share of Capital as % of Non-Debt Expenditure	36.28%	18.01%
Share of Capital as % of Total Expenditure	31.10%	14.20%
Fiscal Deficit (Based on Regular Budget)	**(993.68)**	**(755.00)**
DEFICIT/GDP	**-1.24%**	**-0.79%**
Some Financing		
Sharing from Stabilisation Fund Account (ECA)	324.97	80.00
New Borrowings	624.22	570.00

The 2015 Budget Proposal (8)

FISCAL ITEMS	Approved 2014 Budget	2015 Budget Proposal
	N'Bill	N'Bill
SUBSIDY REINVESTMENT PROGRAM (SURE-P)	**268.37**	**102.50**
SURE - P Board (Running Cost)	1.20	0.50
SURE - P Capital Expenditure	267.17	102.00
TOTAL FGN EXPENDITURE (INCLUSIVE OF SURE- P)	**4,993.06**	**4,460.46**

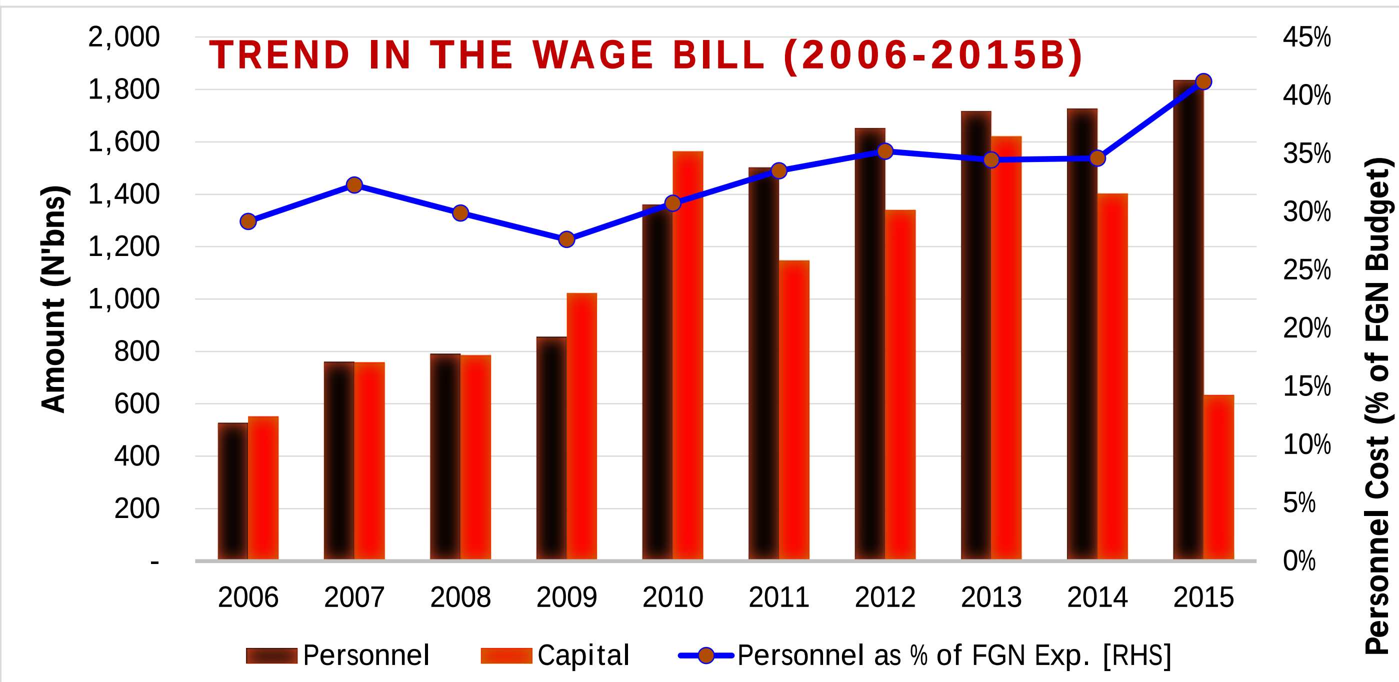
Sources of Pressures in recent years

Revenue Loss

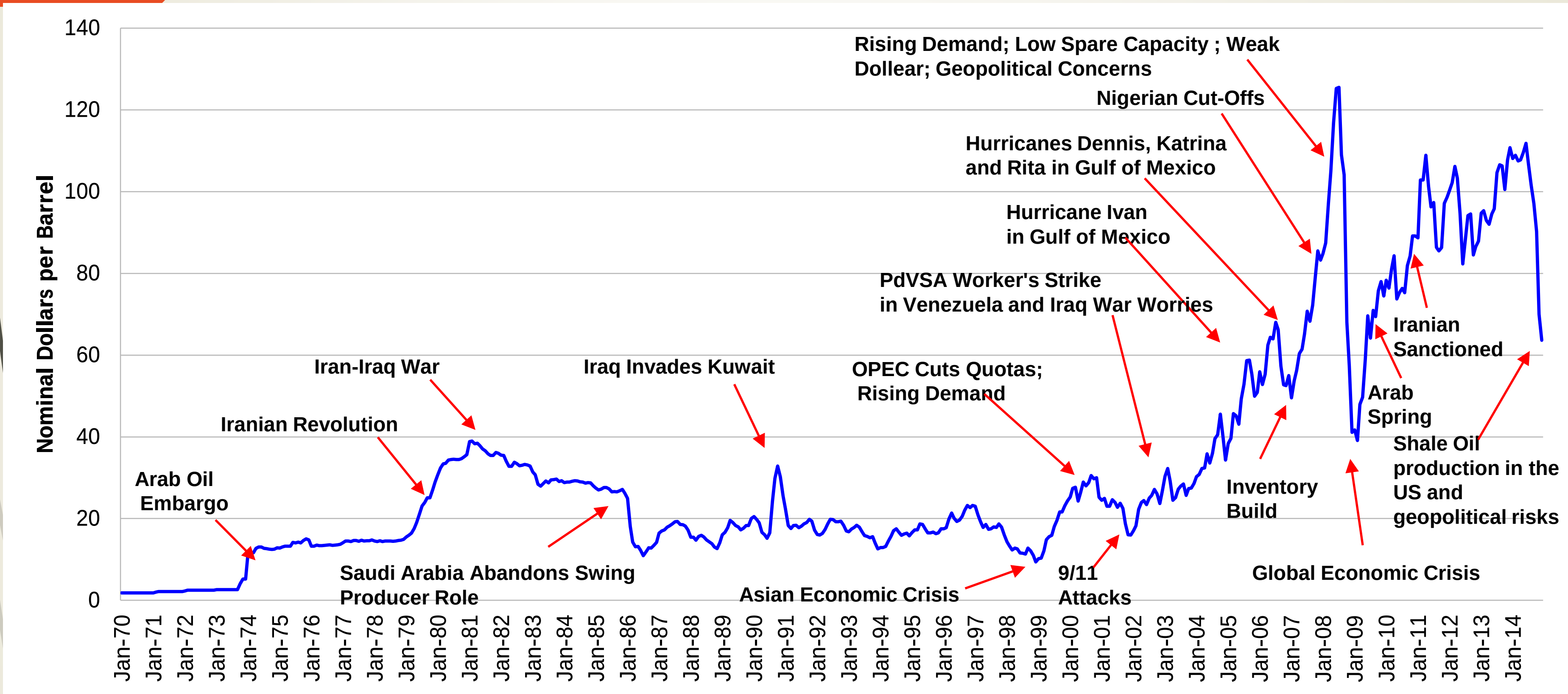
- Quantity and Price shocks
- Leakages e.g. Under remittance of FG IGR

Expenditure Pressure Points

- Wage Bill developments
- Rising Pension claims
- Duplicative Roles of some agencies



Volatile nature of the Oil market and need for ECA



- ECA created in 2004, and was very useful during the 2008 financial crisis when oil price fell as low as $38 per barrel from $147 per barrel within 5 months.
- ECA had savings of up to $22 billion in 2008! By August 2011, this amount had fallen to about $4 billion.
- It was built up again to $9 billion by December 2012, but currently about $3.1 billion after recent payment to oil marketers

Adjustment Strategy

Managing the present economic storm!

- More aggressive non-oil revenue drive and more efficient expenditure
- The approach is to protect the average Nigerian as much as possible under the circumstances
- Introduce surcharge on luxury items
- Pension benefits will be protected
- Staff salaries and benefits are also protected
- Intervention programmes (including YouWIN, G-WIN, SURE-P) will continue but with some scaling back

Adjustment Measures

REVENUE SIDE: Increasing Non-oil Revenues to Make Up for Lower Oil Revenue

Tax Administration & Policy

- Strengthening FIRS to close gaps in tax administration with focus on **7 key initiatives**: *Registration, filing, collection of tax debts , improving audit processes, tax evasion, tax exemptions and communication*
- In 2014 FIRS was given an additional **N75 billion** over and above its normal target which had already been met as at November through its work with McKinsey & Co.
- We ramp up this initiative in 2015- a goal of **N160 billion** above the 2014 target; for FIRS
- Focus is on tax policy in the medium to long term after strengthening tax administration-VAT, CIT, PIT etc
- Goal is to get about **N460 billion** in 3 years like South Africa did by strengthening tax administration and tax policy
- Tax waivers and exemptions: review of the implementation of pioneer status exemptions to some oil companies to generate about **N36 billion**

Adjustment Measures (2)

REVENUE SIDE: Increasing Non-oil Revenues to Make Up for Lower Oil Revenue

Surcharge on Luxury Goods

- Introducing surcharges on certain luxury items to raise additional revenues up to (**N23 billion**).
  - 10% import surcharge on new Private Jets (**N3.7 billion**)
  - 39% import surcharge on Luxury Yachts (**N1.6 billion**)
  - 5% import surcharge on luxury cars (**N2.6 billion**)
  - A surcharge on Business and First Class tickets on Airlines
  - 3% luxury surcharge on Champagnes, Wines and Spirits (**N2.3 billion**)
  - 1% FCT Mansion Tax on residential properties with value of N300 million and above (**N360 million**)
- The better-off in our society should contribute a bit more to easing the pains felt from the economic crunch.

MDAs' Independent Generated Revenue

- Ramp up on collecting 25% of gross independent generated revenues by MDAs

Adjustment Measures (3)

EXPENDITURE SIDE: Tightening Government Spending

Efficiency Gains

- Freezing the purchase of new equipment and other administrative capital. This will generate some savings, e.g.
  - Purchase of Office Buildings (**N1.99 billion**)
  - Construction/Provision of Office Buildings (**N24.05 billion**)
  - Purchase of Office furniture and fittings (**N9.50 billion**)
- International travel and training will be limited to only the most crucial for now
  - *This will apply to **all public servants** so that parastatals can remit more IGR to the Treasury (**N14.02 billion**)*
- Rationalise expired committees and commissions that lead to leakages (**N6.49 billion**)
- **IPPIS-** N160 billion has been saved and 60,000 ghost workers eliminated

Adjustment Measures (4)

Some Cuts in Capital Expenditure while focusing on growth promoting sectors

- Priority sectors are protected as much as practicable by being allocated some level of capital, but other sectors have very little capital. The **aggregate allocations (recurrent and capital)** for selected groupings are as follows
  - **Defence and Security** (N985.79 bn)
  - **Infrastructure** including Works, Power, Transport, Aviation, FCT (N93.66 bn)
  - **Growth Stimulating and Job Creating Sectors-** *Agriculture (N39.15 bn, etc.), Water Resources (N13.86 bn), etc.*
  - **Human Development-** *Health (N257.54 bn), Education (N492.03 bn), etc.*
- Government to complement expenditure with the right policies to attract private investments in the form of PPPs
- Also some foreign soft loans to support several key sectors

Adjustment Measures (5)

GOVERNMENT WILL CONTINUE TO PUSH FOR GROWTH WHILST ADJUSTING : Long Term Strategy is to Continue Diversifying the economy taking advantage of the rebasing of the GDP

Implementation of Structural Reforms will drive growth and help in the transition to a less oil-dependent economy:


- POWER


- PORTS


- OIL & GAS SECTOR


- AGRICULTURE


- MANUFACTURING


- INVESTMENT POLICY
- HOUSING
- INSURANCE

End Notes

- Nigeria is part of the global economy and therefore susceptible to developments in the rest of the world economy
- The challenge is how we respond
- The proposed 2015 Budget will clearly be affected by the oil price decline in the form of lower oil revenue and therefore reduced expenditure, and other forms of adjustments
- A number of measures to increase non-oil revenue and manage available resources in a more efficient manner while protecting the poor is the approach we are taking.
- The benefits of the present challenges also presents Nigeria with an opportunity to transition from an oil dependent economy to a non-oil driven economy

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End Notes (2)

- The true character of a great nation emerges in times of difficulties. Many nations today are facing severe challenges but the degree of success in adjustment varies: some panic while others knuckle down and take the difficult but necessary decisions
- Nigerians need to pull together!
  - It’s not “they” vs. “us”:
  - Not Labour vs. Government
  - Not Legislature vs. Executive
  - Not Civil Society vs. Government
- This is about Nigeria and its future!