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A FISCAL CRISIS IS BREWING

10 POINTS ON THE BUDGET IMPLEMENTATION REPORT 2017

Nigeria Federal Government is now in a phase where it borrows more money than it generates within a fiscal year. FG has a deficit of N3.8tn greater than its reported revenue of N2.65tn. It is also clear that Nigeria's oil revenues of N1.2tn is not enough to meet its personnel obligations of N1. 8tn. A crisis is brewing with the growth in debt, not matched with corresponding rise in debt.

1. Nigeria Produces Less Crude than Anticipated in the 2017 Budget

In fiscal year 2017, actual oil production average 1.86 million barrels per day as against the Budget target of 2.2 million barrels per day. The average oil production figure demonstrated a shortfall of 0.25million barrel per day (or 11.36 percent) below the 2.2million barrel per day projected for the 2017 Budget. While Oil Production number shows improvement in 2017 when compared with 2016 level of 1.74 million barrels per day, production in fiscal year 2017 was lower the 2011 to 2015 average.

Table 1: History of Oil Production (2011 to 2018)

YEAR	BUDGET BENCHMARK (MILLION BARRELS PER DAY)	AVERAGE DAILY CRUDE OIL PRODUCTION (ACTUAL) (MILLION BARREL PER DAY)
2011	2.30	2.38
2012	2.48	2.37
2013	2.52	2.19
2014	2.39	2.12
2015	2.28	2.11
2016	2.20	1.74
2017	2.20	1.86

Source: Budget Office, BudgIT Research

KEY POINT

Nigeria's oil production targets turned out to be overly optimistic in fiscal 2017. The country's 2017 budget was designed under the assumptions that oil production would top 2.2 million barrel per day. However, production in 2017 turned out to average 1.86 million barrel per day, leaving a huge gap. Previous years 2012, 2013, 2014, 2015 and 2016 were not different. Notwithstanding instances of price advantages, the prevailing trend is that actual oil production always fails to hit the budget target.

2. Federal Government's Total Oil Revenue Not Enough to Service Outstanding Debt.

In 2016, the FG's revenue from the oil sector was N697.8bn, despite oil prices averaging $43.67 per barrel. A recent publish budget implementation report by the Ministry of Budget and Planning shows that FG share of oil revenue had improved to N1.125 trillion. When compared with the budget target of N2.2 trillion, FG's share of Oil Revenue amount to only 51.11 percent of federal government projected revenue for fiscal year 2017.

Table 2: History of FG's Share of Oil Revenue

YEAR	BUDGET (AMOUNT IN N' BILLION)	ACTUAL (AMOUNT IN N' BILLION)
2011	2,346.66	1,694.35
2012	1,943.88	1,764.69
2013	2,354.77	1,996.24
2014	2114.54	1,980.36
2015	1,637.87	1,218.22
2016	717.55	697.80
2017	2,201.00	1,125.05

Source: Budget office of the federation, BudgIT Research

KEY POINT

If federal government share of oil revenue at N1.125 trillion is compared with the associated cost of servicing federal government's outstanding debt of N1.64 trillion, clearly, the federal government oil revenue is not enough to pay interest on Nigeria rapidly expanding debts.

3. Federal Government's Share of Company Income Tax Hits New High in Nominal Terms but Trails Budget Target.

In 2017, the Federal Government's s share of company income tax tops the N543.34 billion marked, up from 2016 level of N457.91 billion. When compared with the budget target of N808 billion, Revenue uptake under company income tax was only 67.25 percent of projected CIT revenue that form the core of the 2017 fiscal plan of the federal government.

Table 3: Federal Government Share of CIT Revenue

YEAR	BUDGET (AMOUNT IN N' BILLION)	ACTUAL (AMOUNT IN N' BILLION)
2011	324.87	333.80
2012	383.27	395.09
2013	457.24	458.86
2014	454.54	416.91
2015	651.19	473.32
2016	867.46	457.91
2017	808.00	543.34

Source: Budget office of the federation, BudgIT Research

4. FG's Value Added Tax Revenue in 2017 Grew Nominally to N130 Billion

The consumption pattern of most households in Nigeria seems to be tilting towards food, accommodation, and transportation. Most of the items Nigerians consume enjoys VAT exemptions, namely: basic food staples, medical, veterinary and pharmaceutical raw materials, books, newspapers, infant products, and magazines. This likely contributes to low VAT revenue. Despite final consumption expenditure of households moving from N42 trillion in 2012 to N74 trillion in 2015 (a jump of about 76 percent), VAT income for the government (National and sub-national Level) moved up just 12 percent, from N710billion in 2012 to N778.72 billion as at the end of 2015.[1]

Dismal as this may seem, VAT revenue was only 1.69 percent of final consumption expenditure in 2012, even declining to 1.06 percent in 2015, despite VAT rates remaining unchanged at 5 percent. Figures for household consumption in 2016 was N91.35 trillion but VAT uptake for the federation increased to N811 billion in 2016. In 2017, the Federal Government's s share of Value Added tax hits the N130.05 billion marked, up from 2016 level of N109 billion. When compared with the budget target of N242 billion, Revenue uptake under Value Added tax was only 53.74 percent of projected VAT revenue that form the core of the 2017 fiscal plan of the federal government.

[1]National Bureau of Statistics(2017). Nigerian Gross Domestic Product Report (Expenditure and Income Approach) Q3 2016
Available at :http://nigerianstat.gov.ng/download/576

Table 4: Federal Government Share of VAT Revenue

YEAR	BUDGET (AMOUNT IN N' BILLION)	ACTUAL (AMOUNT IN N' BILLION)
2011	103.50	87.29
2012	107.90	95.44
2013	127.05	106.93
2014	113.63	106.74
2015	172.53	104.66
2016	198.24	109.00
2017	242.00	130.05

Source: Budget office of the federation, BudgIT Research

5. Revenue Classified as Customs and Excise Duties Hits new Highs but Trails Budget Target

The FG's 2017 projected revenue from tariffs and duties at the ports are pegged at N278 billion. Recent data from the recently released 2017 budget implementation report shows that actual revenue was approximately N261.41 billion or 94.03 percent of budgetary target. 2016 actual collections were N228.61 billion. Revenue from customs and duties is strongly dependent on activities at the ports. Consequently, it is expected that the stability in the foreign exchange policy that has led to improvement in the foreign exchange market should lead to an improved volume of transactions at Nigerian ports.

For instance, In the first quarter and second quarter of 2017, a total of 3,206 vessels and 3,418 vessels berthed at the nation's ports respectively. When compared, activities at the port in the first half of 2017 was already higher than what happened in 2014 and 2015. In 2014, the Nigerian Customs Service worked with 5,014 vessels that berthed at the nation's ports. The Federal Government saw significant benefits here, with its share of revenue hitting N255.4 billion. In 2015, the FG's revenue uptake slid downwards by 9.2 percent to N232 billion, despite the country having to deal with 5,333 vessels.

It is equally important to look at pronouncements made by the Nigeria custom service. In fiscal year 2017, the agency announced it generated over N1.37 trillion as revenue. When the total VAT collected at the ports by Nigeria custom service (N202 billion[2]) is added to customs traditional revenue of N514 billion as contained in the budget implementation report, the numbers did not add up to the N1.37 trillion announced by the agency. It is important that detailed

[2]http://www.firs.gov.ng/Documents/2017%20Tax%20Revenue%20Collection%20Statistics.pdf

explanation be put forward by the ministry of finance, the budget office, the accountant general of the federation for the huge disparity in public announcement and what is written in the books.

Table 5: Federal Government share of Custom Revenue

YEAR	BUDGET (AMOUNT IN N' BILLION)	ACTUAL (AMOUNT IN N' BILLION)
2011	202.97	190.39
2012	323.25	214.21
2013	412.42	195.11
2014	453.24	255.40
2015	323.97	232.00
2016	326.44	228.61
2017	278.00	261.41

Source: Budget office of the federation, BudgIT Research

6. FG Independent Revenue Rising but Lower than 2014 Level

Fg's Independent Revenue was N295.33 billion and N323.37 billion in 2014 and 2015 respectively. In 2017, despite the ambitious target of N808 billion for the fiscal year, the actual collection as at the end of the second quarter was approximately N295.29 billion. 2017 collection is marginally lower than 2014 numbers notwithstanding policy changes. The Government has touted the Treasury Single Account (TSA)[3] as the main vehicle for eradicating collection and disbursement inefficiencies, which prompted the government to set an ambitious target of N1.506 trillion for 2016. So far, actual receipts as at the end of the fiscal year 2016 were N237.75 billion, which is widely off the mark. Consequently, the FG revised its 2017 projections downwards, to N808 billion. The Recently release budget implementation report shows that actual revenue classified at FG's independent Revenue in fiscal year 2017 was only 36.55 percent of budgetary target.

Independent Revenue of the Federal Government are funds generated by agencies. These are federal agencies that earn income but are required by law to remit 80 per cent of their "Operating Surplus" to the Treasury. Unfortunately, the term "operating surplus" has been ill-defined, with many agencies running prohibitive operational costs, and therefore remitting scant surplus. The biggest drawback of a recent analysis of revenue performance remains this huge burden expectation of Independent Revenue Agencies. While it is evident that the FG has over 400 agencies and must expect tangible surplus numbers, it is important to note that without transparency and gross efficiency, the FG cannot reap the benefits of these agencies.

[3]www.Premiumtimes.ng. 5 things to know about Treasury Single Account (TSA)
Available at : http://www.premiumtimesng.com/features-and-interviews/199725-15-things-know-treasury-single-account-tsa.html

Table 6: FGN Independent Revenue

YEAR	BUDGET (AMOUNT IN N' BILLION)	ACTUAL (AMOUNT IN N' BILLION)
2011	228.93	182.49
2012	446.78	206.77
2013	455.78	274.37
2014	452.04	295.33
2015	489.29	323.37
2016	1505.88	237.75
2017	808.00	295.29

Source: Budget office of the federation, BudgIT Research

7. Spending is the Highest historically

In 2016, the budget clocked N6.06 trillion, but only N4.396 trillion was spent as at the end of December 2016. However, the FG took a downline charge of N387.67 billion, which was used for the reimbursement of the Paris Club Over-Deduction. That pushed total spending by the FG to N5.14 trillion. Records show that government spending tends to stay around the N4 trillion to N5 trillion range. But for 2017, spending of N6.46 trillion is the largest, in nominal terms historically.

Table 7: Size of Federal Government Total Spending

YEAR	TOTAL EXPENDITURE (AMOUNT IN N' BILLION)
2011	4,302.06
2012	4,131.24
2013	4,560.81
2014	4,123.42
2015	4,767.36
2016	5,141.95
2017	6,463.61

Source: Budget office of the federation

8. Fiscal Deficit Above the Allowable Limit Set in the Fiscal Responsibility Act 2011

Generally in fiscal year 2017, the Federal Government's Spend a total sum of N6.46 trillion, while actual revenue lie way below, at N2.66 trillion, the maths adds up to a deficit of N3.806 trillion.The fiscal deficit for 2017 was unusually higher than the government's total revenue of N2.66 trillion. Actual Spending of the Federal Government in 2014, 2015 and 2016 was N4.12 trillion, N4.72 trillion and N5.14 trillion respectively, and the 2017 budget was precipitated on a spending plan of N7.44 trillion.

When the deficit of N3.806 trillion in fiscal year 2017 is compared with Nigeria's gross domestic product, of N113.712 trillion[4] in the same period, the fiscal deficit seems to have breach the allowable limit set in law by 0.35 percentage point. Fiscal deficit came to 3.35 percent of Nigeria's GDP in fiscal year 2017.

FISCAL RESPONSIBILITY ACT 2007

12 (1) Aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit, not exceeding three per cent of the estimated Gross Domestic Product or any sustainable percentage as may be determined by the national Assembly for each financial year

Also scary is the growing level of unmet liabilities which is transferred into the new fiscal year. In fiscal year 2014 and 2015, unmet liabilities of government that was transferred into the new fiscal year was N483 billion and N713 billion

[4]https://www.cbn.gov.ng/Out/2018/SD/2017%20Statistical%20Bulletin_Real%20Sector_Final.xlsx

respectively. In fiscal year 2016, deficit that was not retired jumped significantly to N1.03 trillion. In fiscal year 2017, the numbers has topped the N1.3 trillion mark. Given that the obligation , which includes contractor's debt among others is growing - Nigeria's debt may indeed by larger that it look on paper. Shocking still is that the report was silent on how previous liabilities of such nature was closed.

Table 7: Size of Federal Government Total Spending

YEAR	ACTUAL DEFICIT (AMOUNT IN BILLION NAIRA
2012	1,000.15
2013	1,060.34
2014	881.11
2015	1,527.14
2016	2,194.44
2017	3,805.94

NOTE

In fiscal year 2017, the federal government borrowing N1.338 trillion from the domestic debt market as against the budgetary target of N1.25 trillion. In 2012 and 2013, the market was instrumental in raising N744.44 billion and N706.74 billion respectively for the Federal Government. In 2014, while the domestic bond market was tapped to raise N624.22 billion, the next year 2015 was however different – only N330 billion in new debts was raised, compared to the N802 billion projected in the budget. This trend continued in 2016, where, despite the budget projecting a domestic debt undertaking of N1.18 trillion, only N300 billion in new debt was raised through the fiscal year. it was unclear how the markets could underwrite such huge undertakings without crowding out the private sector - except the Central Bank of Nigeria had intervene.

9. Costs of Servicing Outstanding Debt Hitting Unmanageable Threshold

The cost of servicing debt is increasingly becoming unavoidable for Nigeria. Given that oil revenue for 2017 was only N1.125 billion, which could only cover 68.72 percent of the overall cost of servicing Debts, the country must moderate debt accumulation, or possibly risk hampering its long-term financial viability. A total of N1.637 trillion was spent in 2017 servicing debt, against the N1.31 trillion and N1.06 trillion spent in 2016 and 2015 respectively.

To break through what may become a debt chokehold, Nigeria will likely need to improve her non-oil revenue uptake, which is dependent on the overall health of the economy. Overall, the total revenue of government could only cover 61.59 percent of the associated cost of servicing Nigeria's debt in 2017. This is reaching levels of alarm that needs keen attention of all Nigerians. The numbers as grown from the low of 20.54 percent in 2011 to 44.56 percent in 2016 before topping new heights in fiscal 2017.

Table 9: Debt Servicing to Total Revenue

YEAR	TOTAL REVENUE (AMOUNT IN N' BILLION)	DEBT SERVICING (AMOUNT IN N' BILLION)	RATIO
2011	2,566.67	527.07	20.54%
2012	3,131.09	679.28	21.69%
2013	3,500.47	828.10	23.66%
2014	3,242.30	941.67	29.04%
2015	3,240.24	1,060.39	32.73%
2016	2,947.44	1,313.46	44.56%
2017	2,657.67	1,636.93	61.59%

Source: Budget office of the federation, BudgIT Research

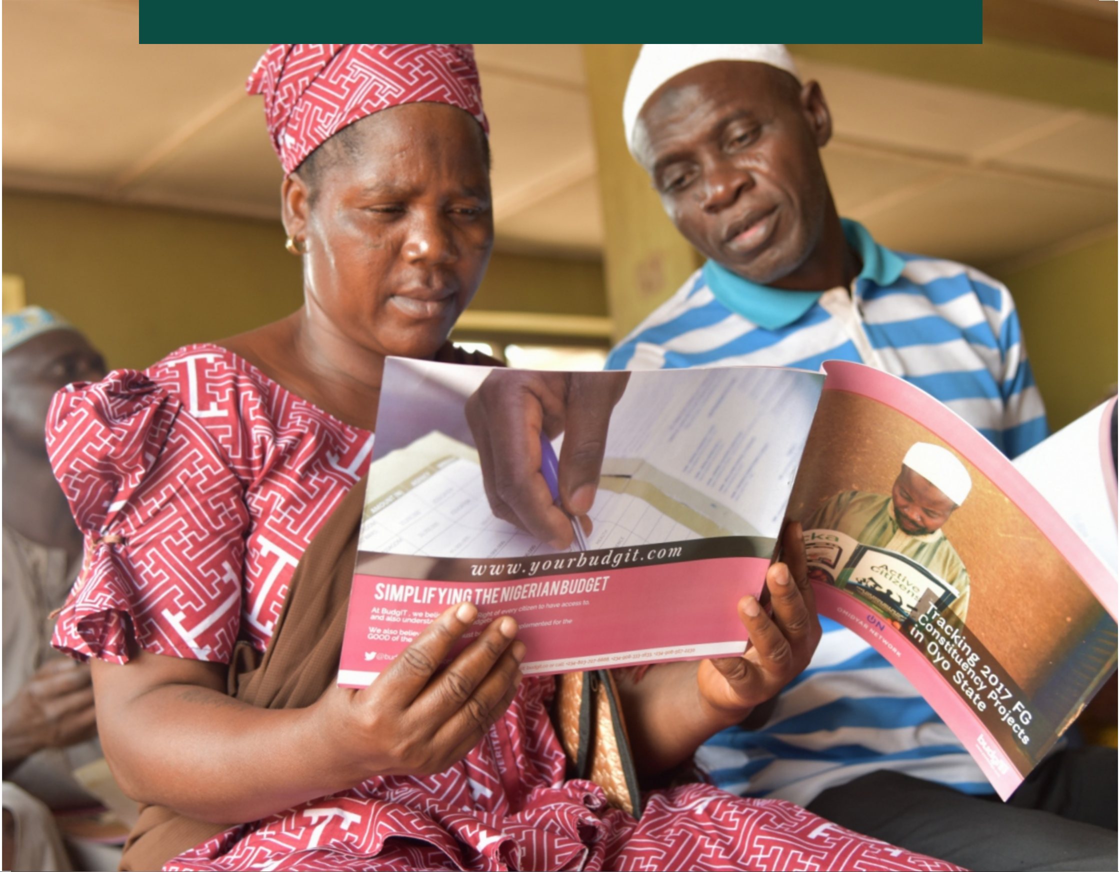
10. Capital Spending Relative to the Total Public Spending Improved In 2017, but Accounting Adjustment may be Responsible for the Leap

Capital spending in 2017 was N700.88 billion, however the budget office moved the 2018 component of capital spending component of the 2017 budget into the fiscal account for 2017 which pushed spending and capital expenditure upwards. Capital spending as a percentage of the Federal Government's total Expenditure hit a marked high of 22.28 percent in 2017 from an historical low of 3.94 percent in 2016. Spending on capital items relative to total spending has steadily declined, since the 2014 oil price crash.

Table 10: Federal Government Capital Spending to Total Government Spending

YEAR	CAPITAL EXPENDITURE (AMOUNT IN N' BILLION)	TOTAL EXPENDITURE (AMOUNT IN N' BILLION)	RATIO
2011	918.55	4,302.06	21.35%
2012	744.42	4,131.24	18.02%
2013	958.00	4,560.81	21.01%
2014	587.61	4,123.42	14.25%
2015	601.26	4,767.36	12.61%
2016	173.09	4,396.24	3.94%
2017	1,439.97	6,463.61	22.28%

Source: Budget office of the federation, BudgIT Research



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