UNDERSTANDING THE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) AND FISCAL TERM PAPER 2017-2019

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About BudgIT

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MACRO-ECONOMIC FRAMEWORK

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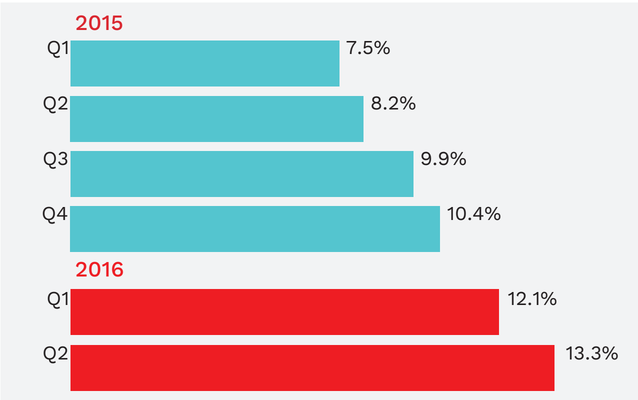


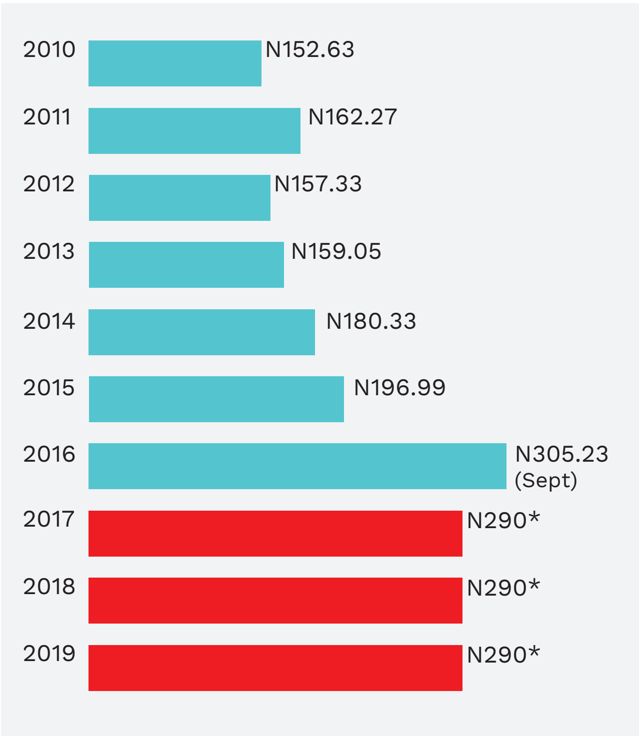
Source: NBS

UNEMPLOYMENT RATE

The unemployment rate is rapidly increasing although with the new "flexible" foreign exchange regime and fiscal injections, manufacturers should hopefully be able to get industrial inputs, create more jobs and ease off other constraints related to production.

INTER-BANK EXCHANGE RATE

The Government's Projection of N290/$1 may be difficult to achieve with an increasingly smaller foreign reserves. However, with the budding cash-raising upfront oil deal worth $15bn with India, 22% projected increase in oil production as oil companies begin lifting the force majeure on fields that were shut down as a result of militancy in the Niger Delta, the Naira exchange rate projection of N290/$1 seems realistic in the short term.



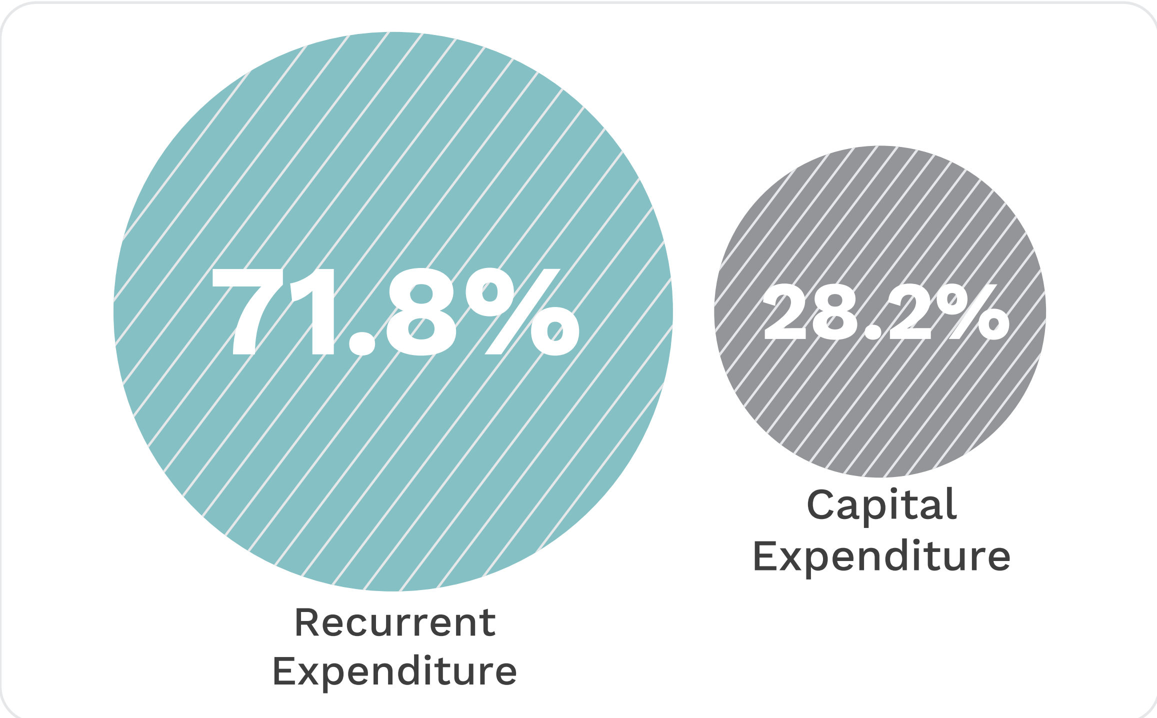
Source: Budget Office, CBN

FISCAL FRAMEWORK

2017 FG's PROPOSED MTEF

71.8% of the proposed N6.87tn budget may be committed to recurrent items including salaries, debt servicing and overhead costs.

The FG plans to spend 28.2% of the proposed 2017 budget of N6.87tn on capital projects including rail, roads, office buildings etc. While MDAs will develop their budget around this fiscal framework.



Source: Budget Office

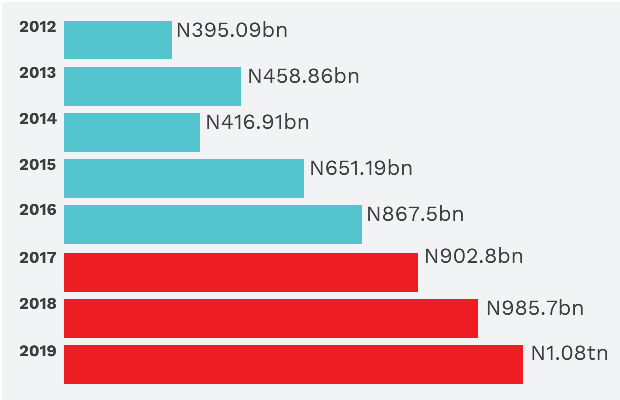
REVENUE

REVENUE

COMPANY INCOME TAX

The Federal Government is hoping that with the increment in collection efficiency and expansion of its tax base by approximately 700,000 companies, revenue projections of N902bn will be achieved in 2017.

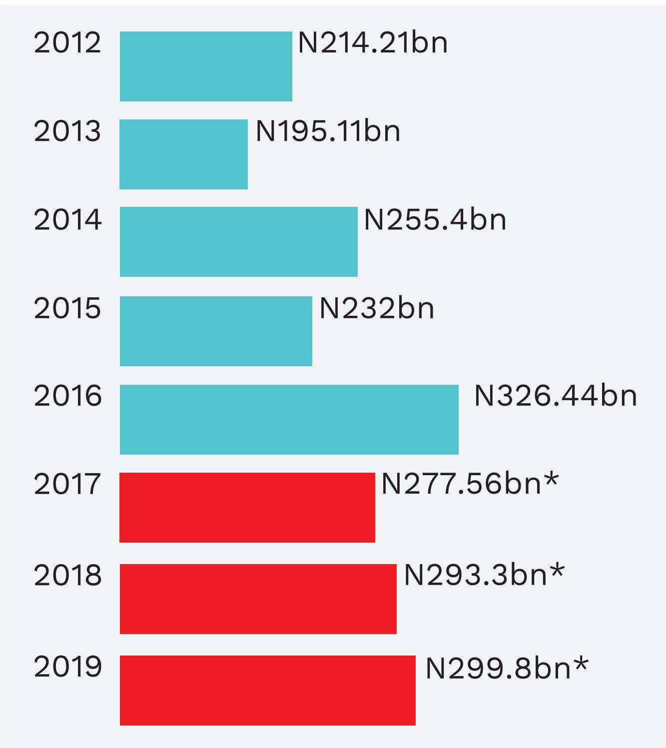
FG's share of company income tax was however, N162bn (Jan-June 2016) as against a target of N433bn.



Source: Budget Office

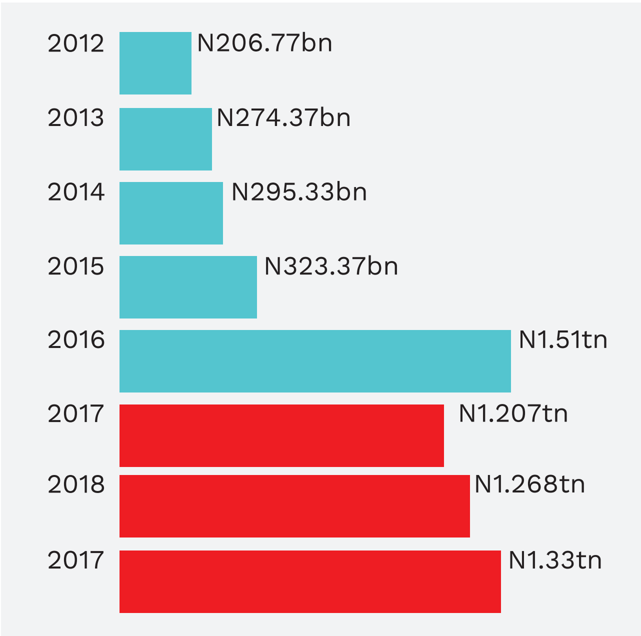
CUSTOM AND EXCISE DUTIES

The Federal Government's projected share of revenue from Customs and Excise duties is approximately 17% lower than 2016 target of N326.44bn. With the introduction of the Common External Tariff (CET), the gradual removal of import adjustment tax and expected decrease in annual average duty rate, government revenue from the port of entry is expected to reduce significantly.



Source: Budget Office

REVENUE



Source: Budget Office

FG's INDEPENDENT REVENUE

For 2017, the FG expects some N1.2tn from independent revenue sources. So far, the actual receipt was only N106.6bn (Jan- June 2016) despite projecting annual income from independent revenue source at N1.51tn for 2016.

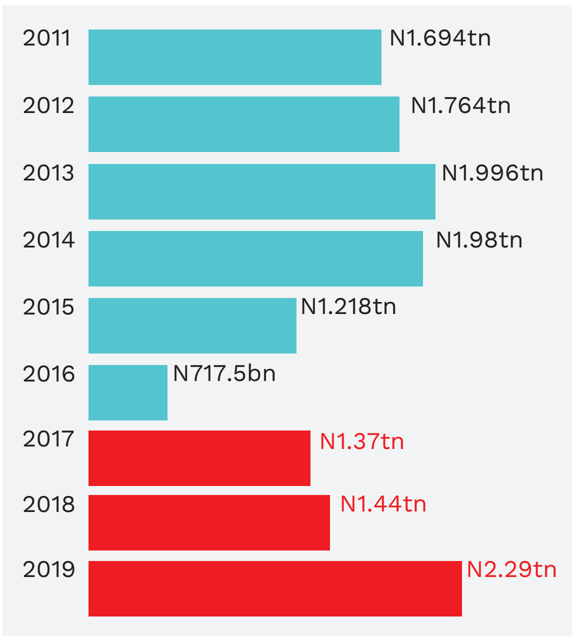
The hope that the TSA will plug the loopholes and squeeze significant revenue is failing in terms of actual revenue receipt.

Government will need to do more to ramp up revenue.

At N1.2tn, we believe the projections is overly optimistic.

FG's SHARE OF OIL REVENUE

The Federal Government is projecting a 91% increase in revenue from oil on the back production topping 2.2million barrel per day, exchange rate Trending at N290/$1 and price staying above $42.5 per barrel.



Source: Budget Office

EXPENDITURE

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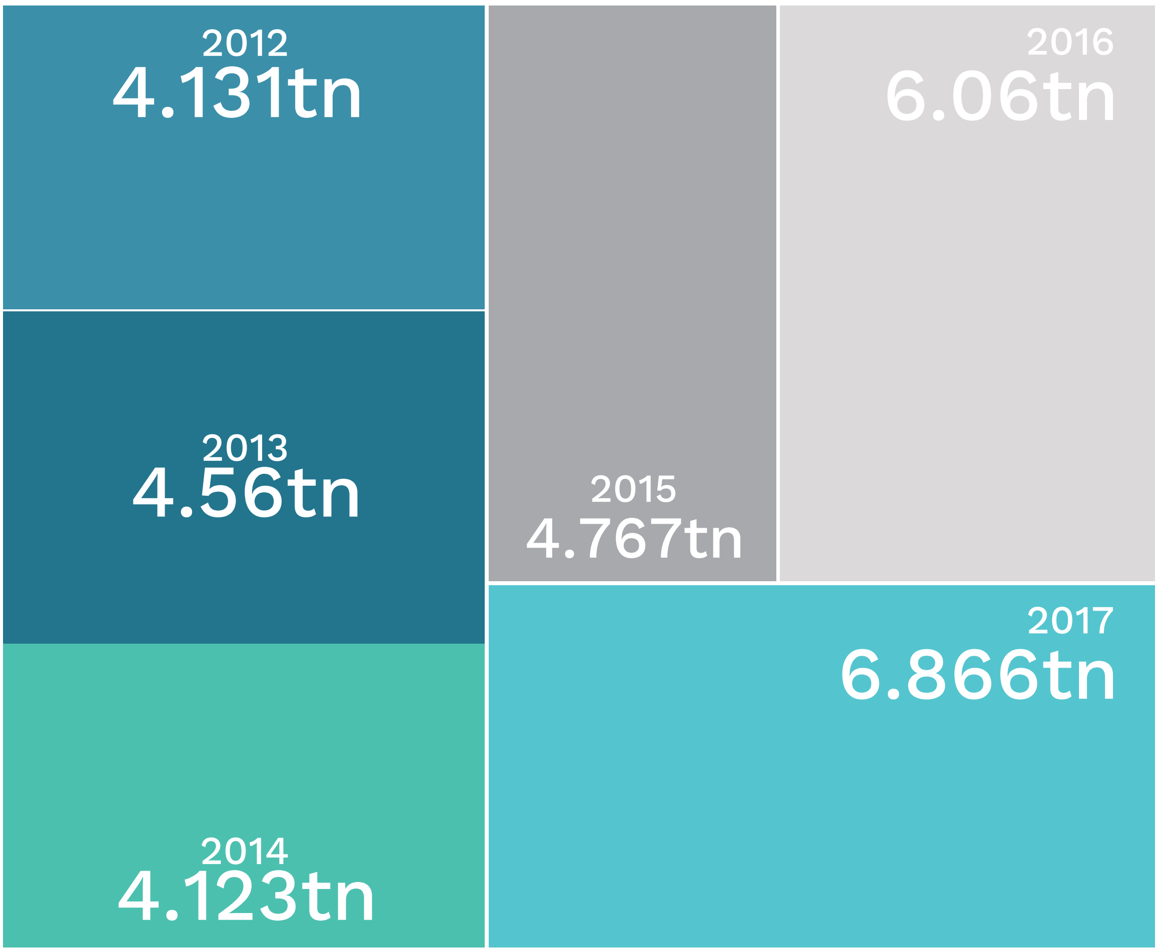
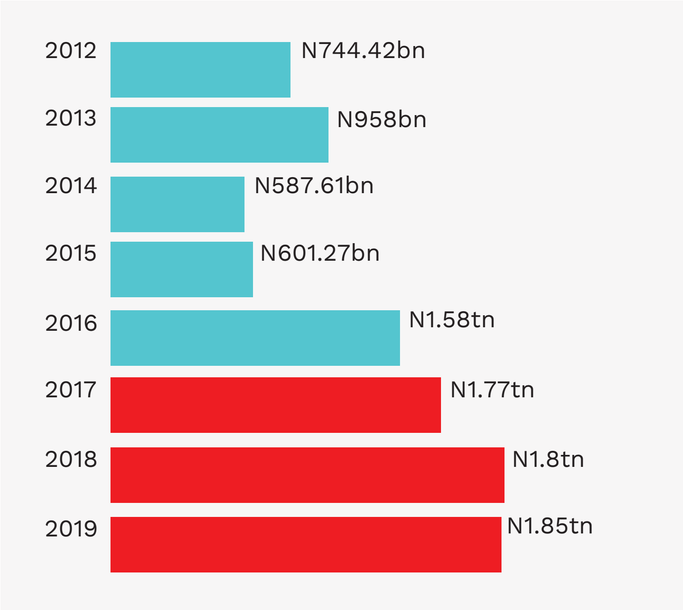
BUDGET SIZE



Source: Budget Office

The strategy of the Federal Government in 2017 suggests that the government is following up with its expansionary fiscal policy adopted last year and plans to spend over N6.86tn in fiscal year 2017, a N806bn increase over 2016 level.

EXPENDITURE



Source: Budget Office

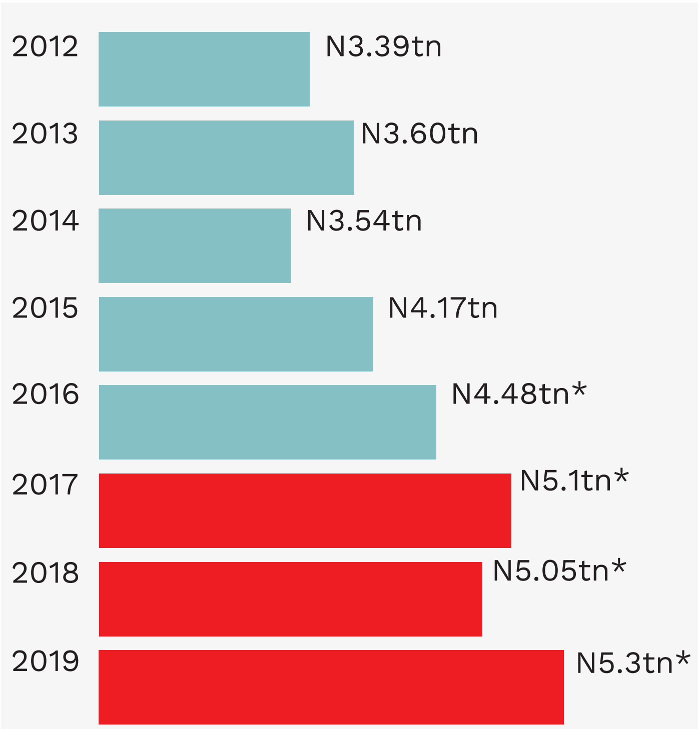
FG's CAPITAL EXPENDITURE

The 2017 estimated Capital Expenditure at N1.77tn suggests that government is ramping up spendings.

Government will need to direct spendings towards developmental projects as against administrative projects if its goal is to lift the economy out of recession.

FG's RECURRENT EXPENDITURE

The Federal Government in 2017 plans to increase spendings on recurrent items by 13.8% to N5.1tn on the back of increasing cost of debt servicing, overhead and personnel cost.



Source: Budget Office

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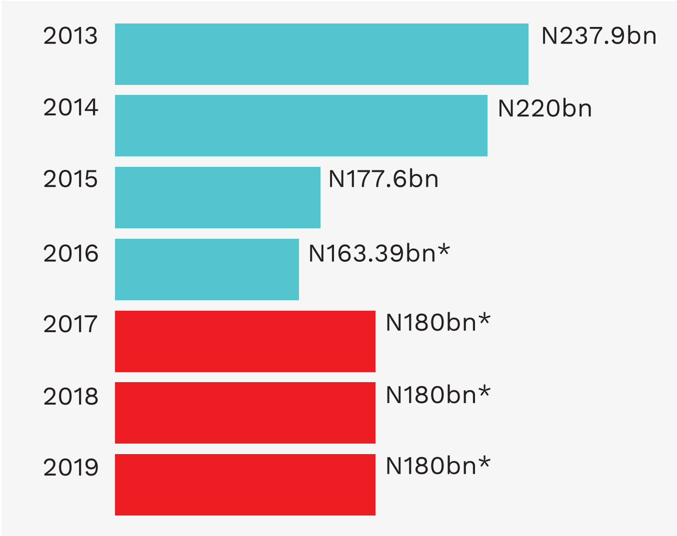


Source: Budget Office

FG's OVERHEAD COST

Overhead costs in 2017 is projected at N180bn as against the estimated N163bn in 2016.

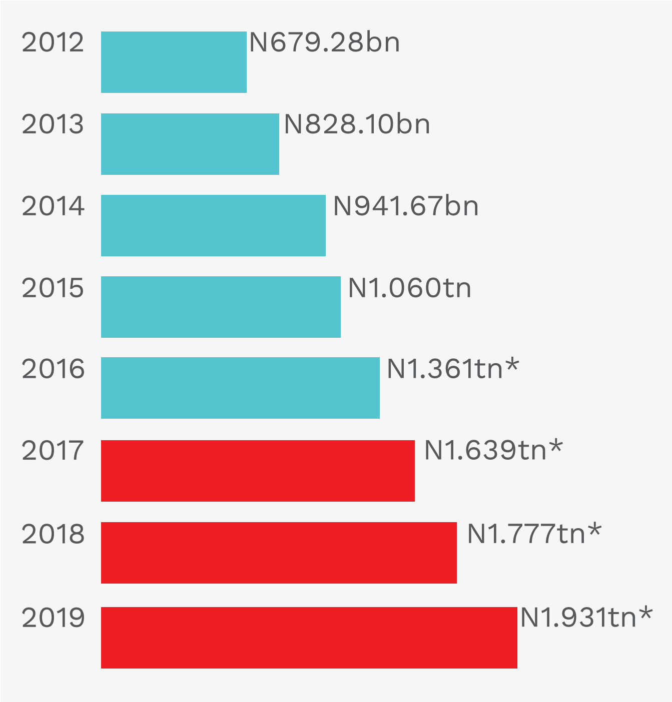
FG's DEBT SERVICING COST

Amount spent servicing outstanding debt was approximately N828bn, N941bn & N1.06tn in 2013, 2014 & 2015 respectively.

71.8% of the proposed N6.87tn budget may be committed to recurrent items including salaries, debt servicing and overhead costs.

The cost of servicing FG's debt is entering an uncharted territory- now projected at N1.64tn in 2017.

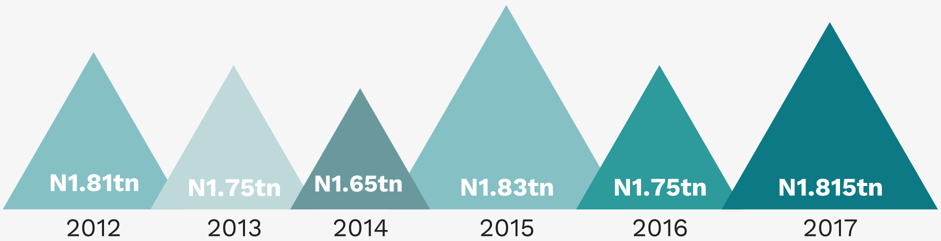
FG's revenue from the oil sector is not sufficient to "service" existing debt, hence, the need to expand the tax base.



Source: Budget Office

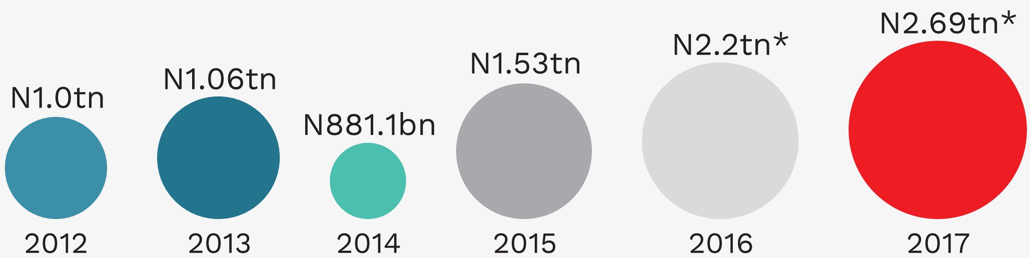
EXPENDITURE

FG'S PERSONNEL COST



43.5% of FG's revenue will go into payment of salaries and allowances of govt workers.

FG's Fiscal Deficit



Summing, if revenue projections are 100% accurate, Government plans to borrow N2.7tn (deficit) in 2017.

However, we believe some underlying revenue assumptions (VAT, CIT and Independent Revenue) are somewhat overly optimistic.

Concluding, we find it uncomfortable that FG plans to borrow funds at high lending rate to meet recurrent expenditure commitment.

FINAL NOTE

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The 2017-2019 MTEF as provided to BudgIT through the National Assembly is incomplete as it does not include Federation targets as well as clear classification from revenue lines. It also does not include a detailed 2016 budget performance report as at Q3 2016. In terms of comprehensiveness as previously seen, this is a setback.

We also noticed that there was not enough heft in the macroeconomic indices as expected for a medium term fiscal document.

The projections show that the Federal Government continues to expand its debt and this will keep increasing the debt service costs. These costs could be up to 40% of the actual revenues, an alarming index despite a low debt-to-GDP ratio.

A recent downgrade of Nigeria's credit ratings further down in the junk category was because of the risky expansion of debt without attendant massive revenue growth.

The targets for revenues are really optimistic. Therefore, without serious overhaul of the tax system and waiver structure, we don't foresee more than a 70% performance.

The capital expenditure growth is encouraging but careful interest must be on the line items to ensure that they provide a balanced social and economic support for the economy currently in recession.

The MTEF document shows that Nigeria might borrow in order to afford even her recurrent expenditure. This is a worrisome trend, as it shows oil revenue and tax receipts are no longer enough to pay salaries, run overheads and service debts.

Nigeria has a serious revenue challenge and the huge hope on the Treasury Single Account is currently being dimmed despite the bogus projections for independent revenues in the medium-term.

Aggressive recovery of loot, sales of national assets, rise in oil prices coupled with stable oil production and astronomical spike in tax revenues are key factors to make these revenue projections realistic.

SIMPLIFYING THE NIGERIAN BUDGET

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We also believe budgets must be efficiently implemented for the GOOD of the people.

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