

The 2020 Appropriation Bill

Nigeria | Economy | Budget | October 21, 2019

PAC RESEARCH

Analysis of The Nigerian 2020 Budget Proposal

Macroeconomic review in 2019

Economic growth

The economic growth rate of the nation remains lacklustre since the country exited recession in the second quarter of 2017, also the slow growth continues in the year 2019 with real growth rate of 1.94% in the second quarter of the year. This was consequent to the reliance on crude oil receipts for the greater proportion of the nation's revenue and foreign exchange earnings. However, with the drop in the prices of crude oil, the fiscal position of the nation was adversely affected which led to the era of slow growth. Furthermore, GDP growth rate of 2.3% was projected for the country by the IMF which is lower than the population growth rate of around 3.0%.

Consumer Price Indices

Headline inflation has been trending around 11.0% since the beginning of the year with the highest of 11.40% in the month of May and the lowest of 11.02% in August. However, the economic indicator surge in September to 11.24% due to the increase in the prices of food items which was consequent to the closure of land borders in order to check smuggling activities according to the policymakers. Food inflation rose by 13.51% y/y relative to 13.17% in the previous month, while core inflation rose by 8.94%, up by 0.26% against 8.68% in the month of August.

Review of the 2019 Budget

The sum of ₦10,068 billion was approved by the National Assembly as total budgeted expenditure for 2019. The highlights of the budget are as follows:

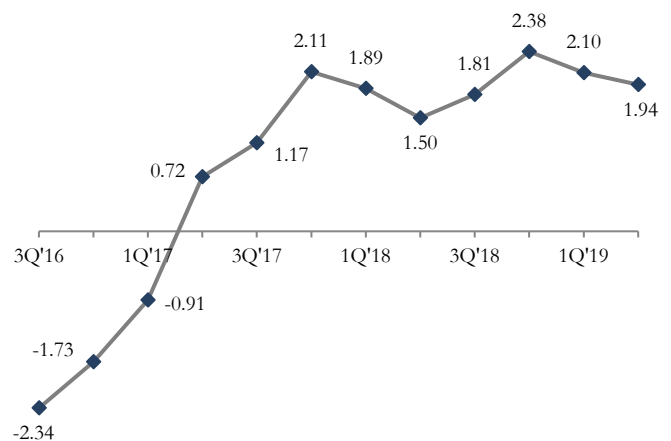
Table 1: Highlights of the 2019 Budget

	2019 (Budget)	2019 (Actual) as at June
Revenue (₦ billion)	6,998	2,043
Aggregate Expenditure (₦ billion)	10,068	3,390
Recurrent Expenditure (₦ billion)	6,320	3,160
Capital Expenditure (₦ billion)	2,095	-
Capital Expd. % of total budget	23.5%	0.0%
Recurrent Expd. % of total budget	70.9%	93.2%
Fiscal deficit (₦ billion)	1,919	1,347

Source: Budget Office of the Federation, PAC Research

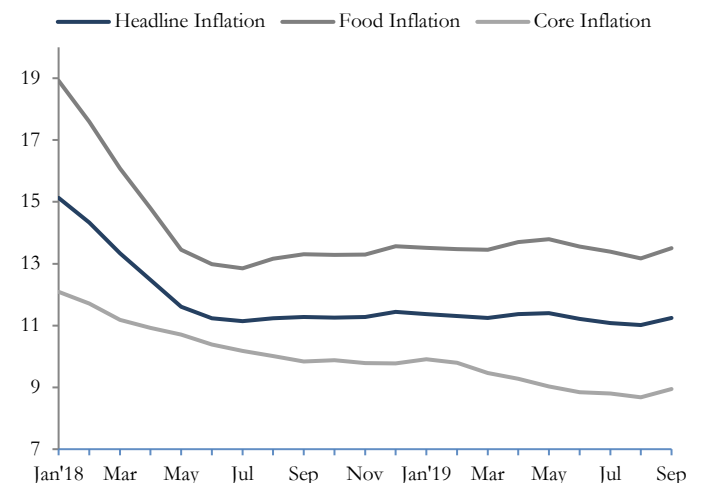
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Fig. 1: Nigeria – GDP growth rate (%)



Source: NBS, PAC Research

Fig. 2: Nigeria – Year-on-year inflation in 2019 (%)



Source: NBS, PAC Research

The implementation of the 2019 Appropriation Act started in July due to the delay in the passage of the budget proposal. As at the end of June, Federal Government's actual revenue was ₦2,043 billion, representing performance level of 29.2% against the annual budgeted revenue of ₦6,668 billion. Further analysis revealed that oil revenue recorded performance level of 24.4%, i.e. comparing the budgeted figure of ₦3,688 billion against the actual oil revenue of ₦900 billion as at the end of June. Also, non-oil revenue recorded actual revenue of ₦614 billion, i.e. 43.6% performance level when compared with the budgeted sum of ₦1,409 billion. Similarly, other revenue recorded performance level of 28.4% which is ₦528 billion against the budgeted figure of ₦1,859 billion in the period. Further breakdown of the non-oil revenue revealed that VAT recorded revenue of ₦81 billion against the annual budget figure of ₦229 billion. Also, Company Income Tax (CIT) recorded actual revenue of ₦349 billion for the period out of the annual budgeted revenue of ₦813 billion. On the other hand, Customs' actual revenue of ₦173 billion was 55.6% performance compared with the annual budgeted figure of ₦310 billion.

The performance of the recurrent expenditure was 50.0%, i.e. ₦3,160 billion while capital expenditure was zero due to the delay in the passage of the budget proposal. However, a sum of ₦295 billion had been released for various capital projects as at the end of September 2019, and there was presidential directive that additional sum of ₦600 billion be released for capital projects before the end of the year. Further breakdown of the recurrent expenditure showed that personnel cost recorded performance level of 49.1%; that is, actual personnel cost of ₦1,123 billion compared with annual budgeted sum of ₦2,289 billion. Also, debt service recorded actual amount of ₦1,109 billion, which is a performance level of 49.2% relative to the annual budgeted amount of ₦2,254 billion as at the end of June 2019. And a sum of ₦230 billion was recorded as statutory transfer in the period, i.e. performance level of 45.8% against the annual budgeted amount of ₦502 billion. In summary, out of the total budgeted expenditure of ₦10,068 billion a sum of ₦3,390 billion had been spent as the end of June 2019, this translated to 33.7% performance level. On the pro-rata basis, the performance of the total expenditure stands at 64.3% relative to the pro-rata budgeted expenditure of ₦5,034 billion for the first half of the year. In addition, real GDP growth rate of 2.0% was achieved as at June 2019 relative to the projected rate of 3.0% for the year. Moreover, oil production stood at an average of 1.86 mbpd against the budgeted volume of 2.30 mbpd.

Fig. 3: Prices of Brent crude oil (US\$/barrel)



Source: Bloomberg, PAC Research

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Highlights of the 2020 Appropriation Bill

President Muhammadu Buhari of Nigeria presented the 2020 budget proposal of ₦10,330 billion to the joint session of the National Assembly recently. Non-debt recurrent expenditure includes a sum of ₦620 billion which was a provision for the new minimum wage and a proposal to improve the welfare of the Nigerian Police and members of the Armed Forces.

Table 2: 2020 Budget Assumptions and Analysis

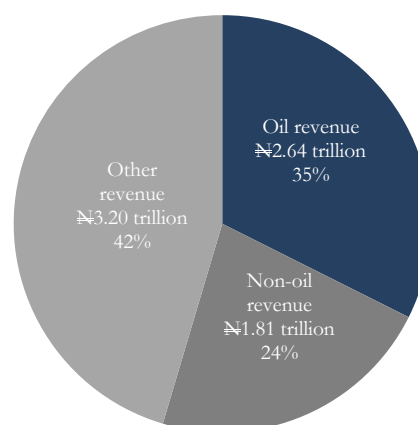
	2020	2019	Change
Crude oil price per barrel	US\$57	US\$60	(5.0%)
Crude oil daily prod. (mbpd)	2.18	2.30	(5.2%)
Revenue available to Govt.	₦8.16 trillion	₦7.99 trillion	2.1%
GDP growth rate	2.93%	3.01%	
Total budgeted Expd.	₦10.33 trillion	₦10.07 trillion	15.8%
Recurrent Expd. (non-debt)	₦4.88 trillion	₦4.07 trillion	19.9%
Capital Expenditure	₦2.14 trillion	₦2.09 trillion	2.4%
Debt service	₦2.45 trillion	₦2.25 billion	8.9%
Statutory transfer	₦557 billion	₦502 billion	10.9%
Exchange rate (₦/US\$)	305	305	
Budgeted deficit	₦2.18 trillion	₦1.92 trillion	113.5%
Budgeted deficit as % of GDP	1.52%	1.37%	

Source: Budget Office of the Federation, PAC Research

Key Components of the Budget

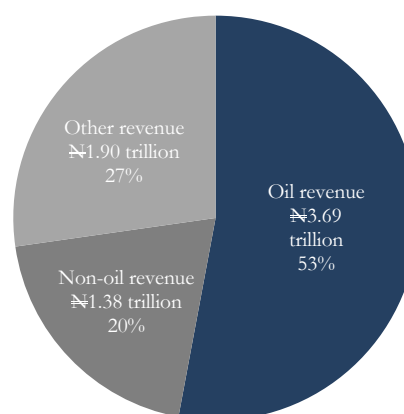
Revenue: Government plans to reduce dependency on oil receipts in financing the 2020 budget due to the volatility in the prices of crude oil in the global market. Therefore, oil revenue is projected at ₦2,637 billion which accounts for 34.7% of the total budgeted revenue of ₦7,602 billion. On the other hand, the non-oil revenue (Corporate Income Tax, VAT and Customs & Excise Duties,) was estimated at ₦1,805 billion, i.e. 23.7% of the total estimated revenue. In addition, “Other revenue” line which was estimated at ₦3,160 billion represented 41.6% of the total revenue. Moreover, company income tax (CIT) is projected at ₦839 billion, representing 46.5% of the total non-oil revenue. Also, projected VAT revenue of ₦293 billion represents 16.2% of the non-oil revenue and it increased by 27.9% compared with the budgeted amount of ₦229 billion in 2019. Also, budgeted revenue from Customs & Excise Duties increased by 99.0% to ₦619 billion compared with the ₦311 billion budgeted for 2019 and it accounts for 34.3% of the total non-oil revenue. The increase in the projected VAT revenue for the 2020 relative to the previous year was based on the proposition to increase the VAT rate to 7.5% from the current level of 5.0%, and the determination of the policymakers to bring more operators into the tax net.

Fig. 4: Proposed revenue – 2020 Budget



Source: Budget Office of the Federation, PAC Research

Fig. 5: Proposed revenue – 2019 Budget



Source: Budget Office of the Federation, PAC Research

Expenditure: The aggregate expenditure was planned to increase by 2.6% in 2020 to ₦10,330 billion compared with the ₦10,068 billion approved expenditure budget for the previous year. Moreover, re-current expenditure (non-debt) increased by 11.3% to ₦4,880 billion compared with the ₦4,386 billion in 2019. This includes the estimates for the effect of the recent increase in the new minimum wage. On the other hand, budgeted capital expenditure was reduced by 26.7% to ₦2,145 billion relative to the sum of ₦2,927 billion in the 2019 approved budget. The top re-current expenditure heads are Defence ₦778 billion, Education ₦602 billion, Health ₦381 billion and Interior ₦219 billion.

The top major capital expenditure heads are; Works and Housing ₦259 billion, Power ₦127 billion, Transportation ₦123 billion, Defence ₦100 billion and Agriculture ₦80 billion. In addition, statutory transfer increased by 10.9% to ₦557 billion compared with the ₦502 billion in the preceding year and the budget for debt service moved up by 14.4% to ₦2,453 billion. In order to fund the 2020 proposed budget deficit of ₦2,175 billion, domestic and foreign borrowings was estimated at ₦803 billion each.

Other Major Highlights of the Budget

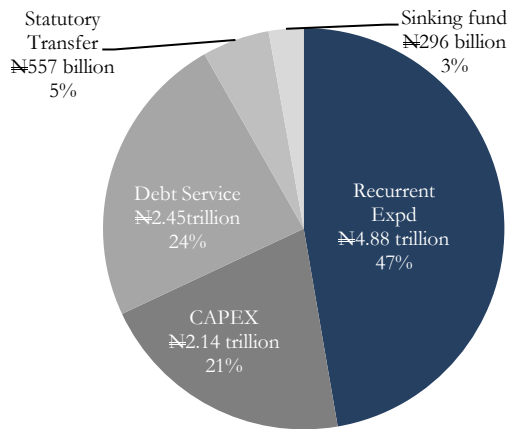
- Increase in VAT rate to 7.5% from 5.0%
- VAT registration threshold of N25 million annual turnover
- The use of instruments such as Sukuk, Green Bonds and Diaspora Bond for borrowing
- Implementation of a single customs window, in order to speed up vessels and cargo handling
- A plan to forward two Petroleum Industry Executive Bills to the National Assembly for consideration and passage
- A plan to represent the Deep Offshore and Inland Basin Production Sharing Contract Bill 2018

Finance Bill: The Finance Bill that accompany the budget has five strategic objectives: -

- a.) Promoting fiscal equity
- b.) Reforming domestic tax laws to align with the global best practices
- c.) Introducing tax incentives for investments in infrastructure
- d.) Supporting MSMEs
- e.) Increasing government revenue

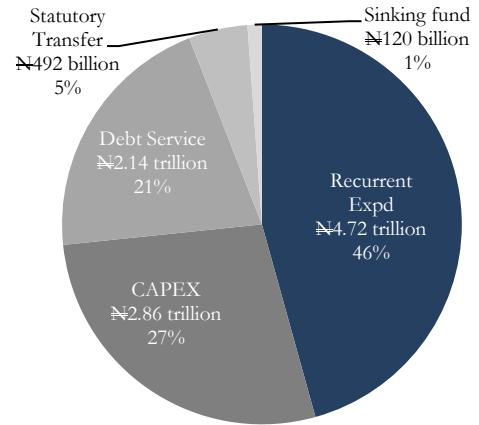
Moreover, re-current expenditure (non-debt) increased by 11.3% to ₦4,880 billion compared with the ₦4,386 billion in 2019. This includes the estimates for the effect of the recent increase in the new minimum wage.

Fig. 6: 2020 National Budget



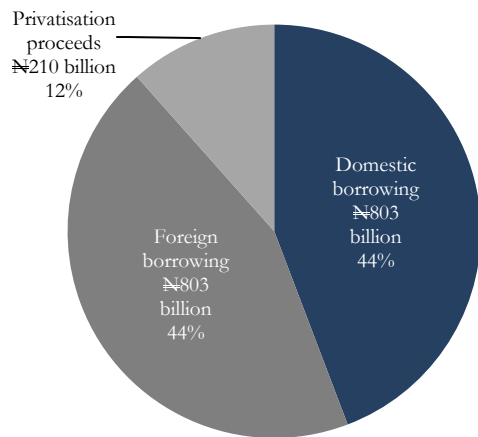
Source: Budget Office of the Federation, PAC Research

Fig. 7: 2019 National Budget



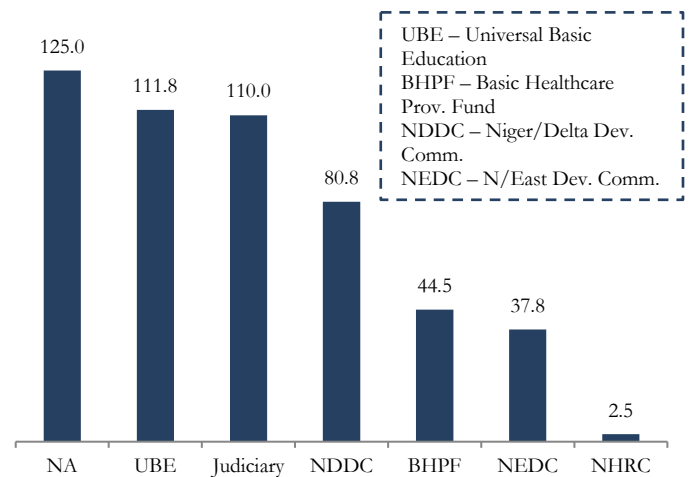
Source: Budget Office of the Federation, PAC Research

Fig. 8: 2020 Budget – Debt Servicing



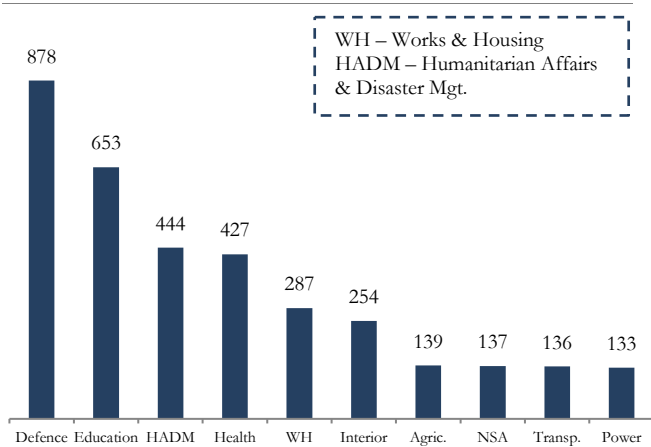
Source: Budget Office of the Federation, PAC Research

Fig. 9: 2020 Budget – Statutory Transfer (₦ billion)



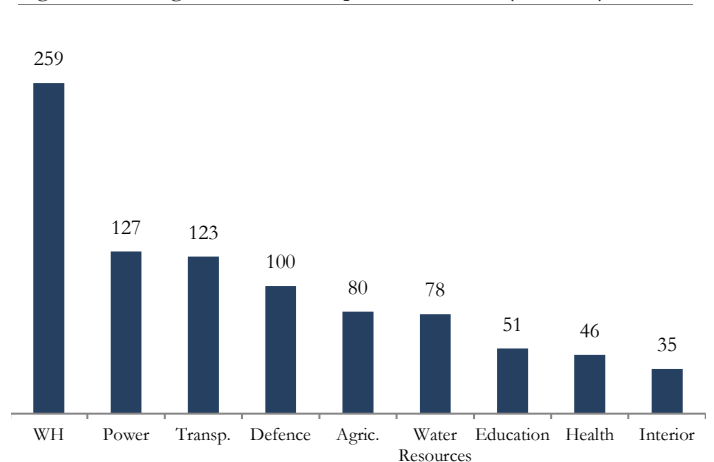
Source: Budget Office of the Federation, PAC Research

Fig. 10: 2020 Budget – Total Expd. for Specific Ministries (₦ billion)



Source: Budget Office of the Federation, PAC Research

Fig. 11: 2020 Budget – CAPEX. for Specific Ministries (₦ billion)



Source: Budget Office of the Federation, PAC Research

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