CABRI CONFERENCE 2017

MANAGING BUDGETARY PRESSURES
7 – 9 MARCH 2017
OUAGADOUGOU, BURKINA FASO

MANAGING BUDGET WOES DUE TO FALLING OIL PRICE

By

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Wednesday, 8th March, 2017

Presentation Outline

Context, Shock & Impact ✓

- Oil Revenue Performance in 2016: *The size of oil price shocks and its impact on budget projections.*
- Impact on FGN Public Finances in 2016 *(budgeted vs actual revenues)*
- Fiscal Deficit

Options, decisions & implications ✓

- State of the economy – negative growth
- Response option: Do nothing? Absorb? Mitigate?
- Home-Grown Actions at Managing the Oil Price Woes
- Implications of the decision

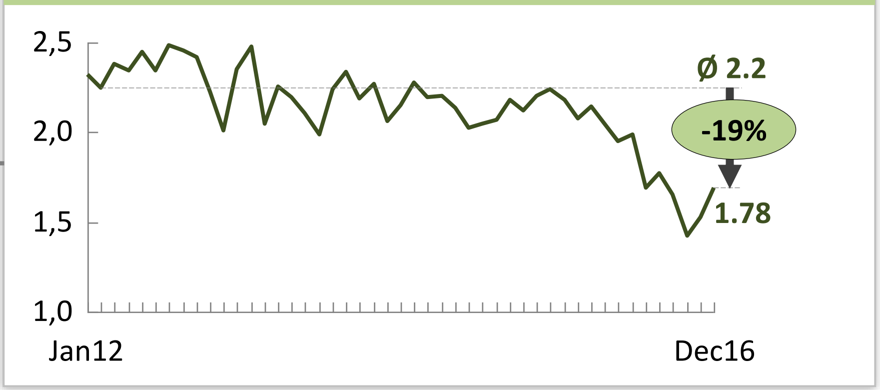
Lessons learnt and future actions ✓

- Our Aspirational Projections
  - *Macroeconomic Stability*
  - *Expansion of Non-oil Tax Collections and FGN's Independent Revenues*
- Improve non-oil contribution to to governments revenues

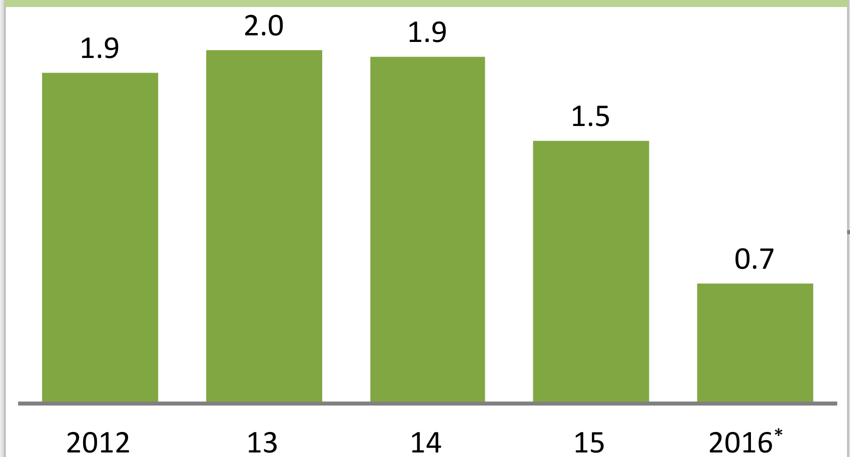
1.0 Oil Revenue Performance in 2016

- FGN's oil revenues decreased sharply in 2015 and 2016 because of oil production shut-ins and sharp decline in oil price since 2014

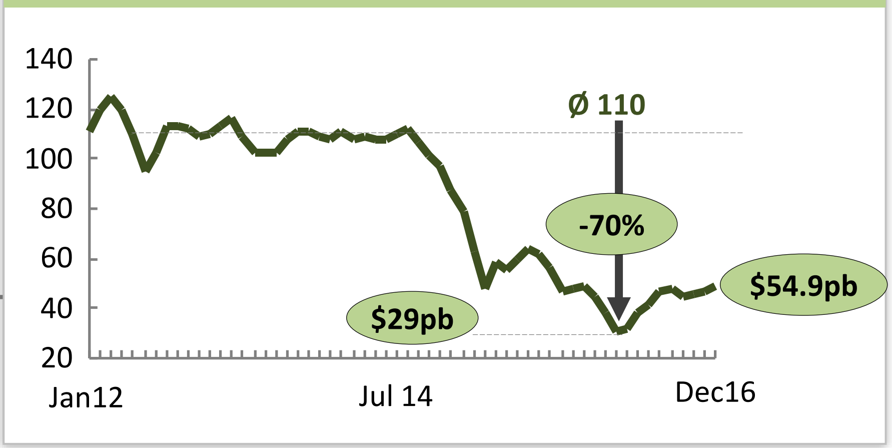
Nigerian oil production, mbpd



FGN's oil revenue, NGN Trillion



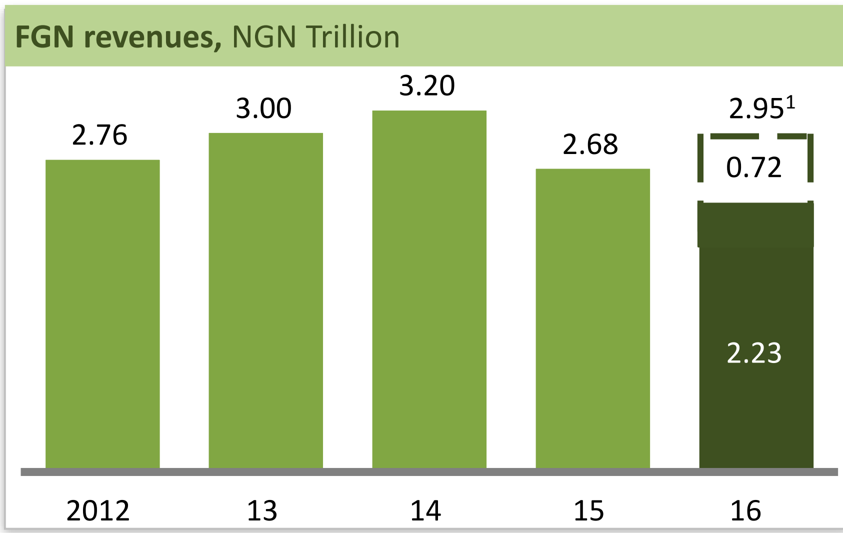
Oil price Shock, US$ per barrel

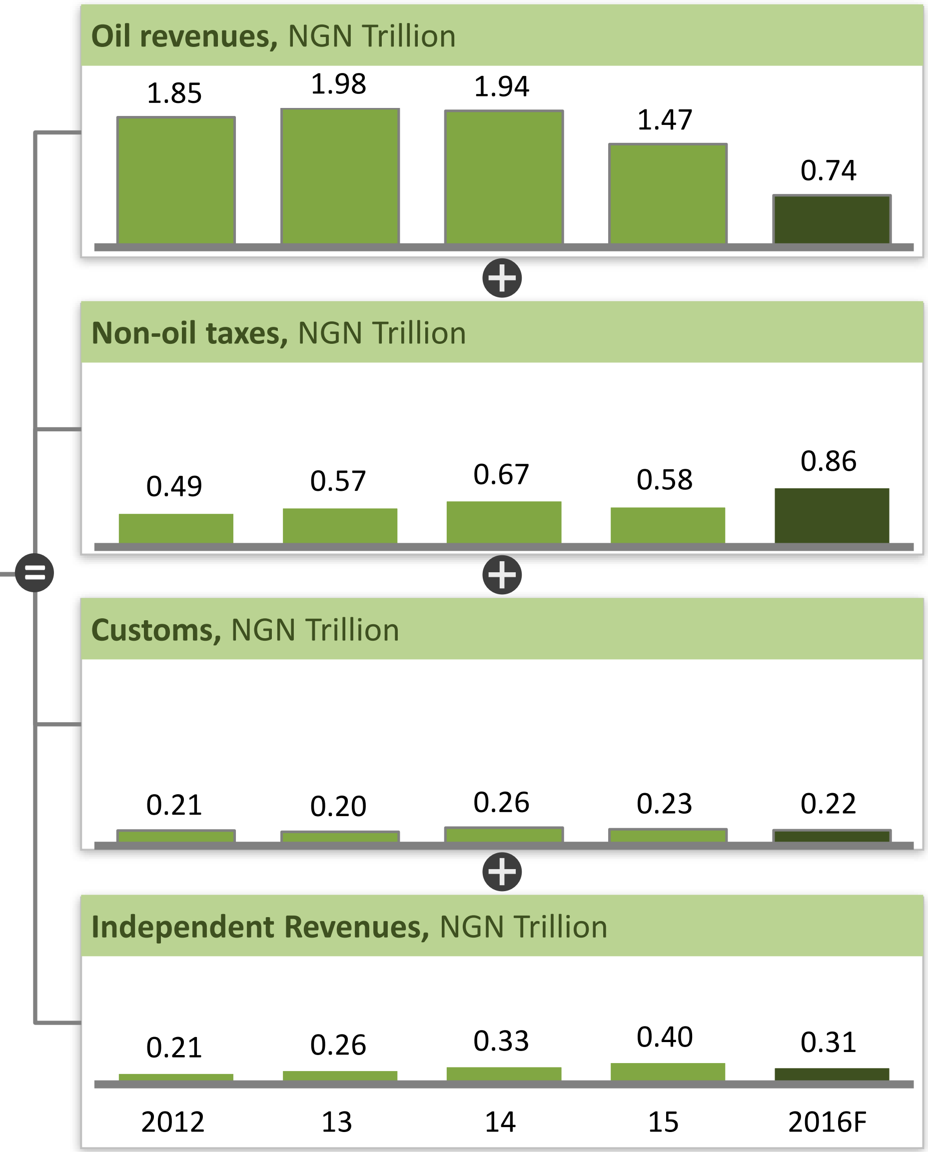


*MBNP Budget

SOURCES: NNPC; OPEC

1.1 2016 FGN's revenues will be at low levels because of the sharp decline in oil revenues, despite non-oil revenues growth





- **Growth of non-oil tax revenue between 2015 and 2016**
- **Sharp decrease in oil revenues**
- **Overall 2016 FGN's revenues behind target**

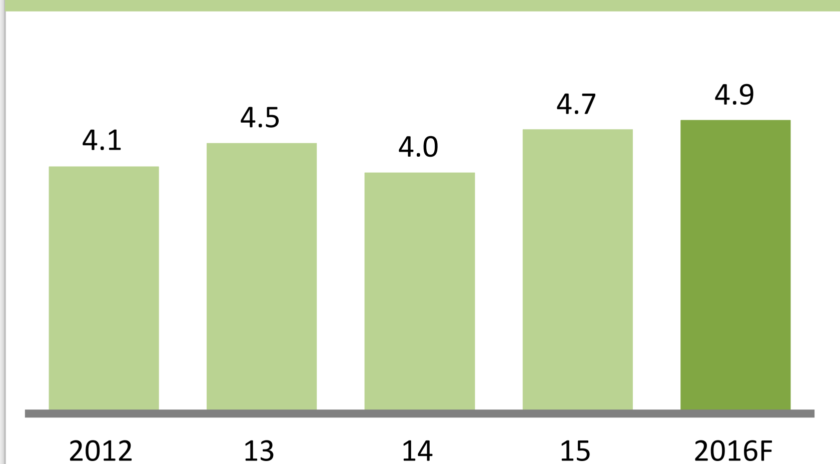
1 Including NGN 590 billion of extra financial revenue (e.g. mopped up capital, exchange rate differentials, transfers from Capital Development Account to CRF)

SOURCE: Ministry of Budget & National Planning

1.2 FGN's fiscal deficit has also widened

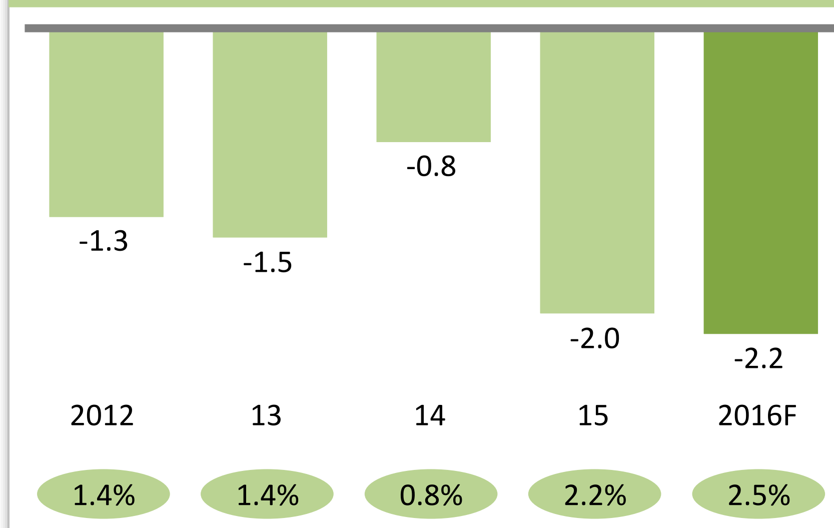
FGN revenues, NGN trillion

FGN actual expenditures, NGN trillion



2.5 % of GDP

FGN fiscal deficit, NGN trillion



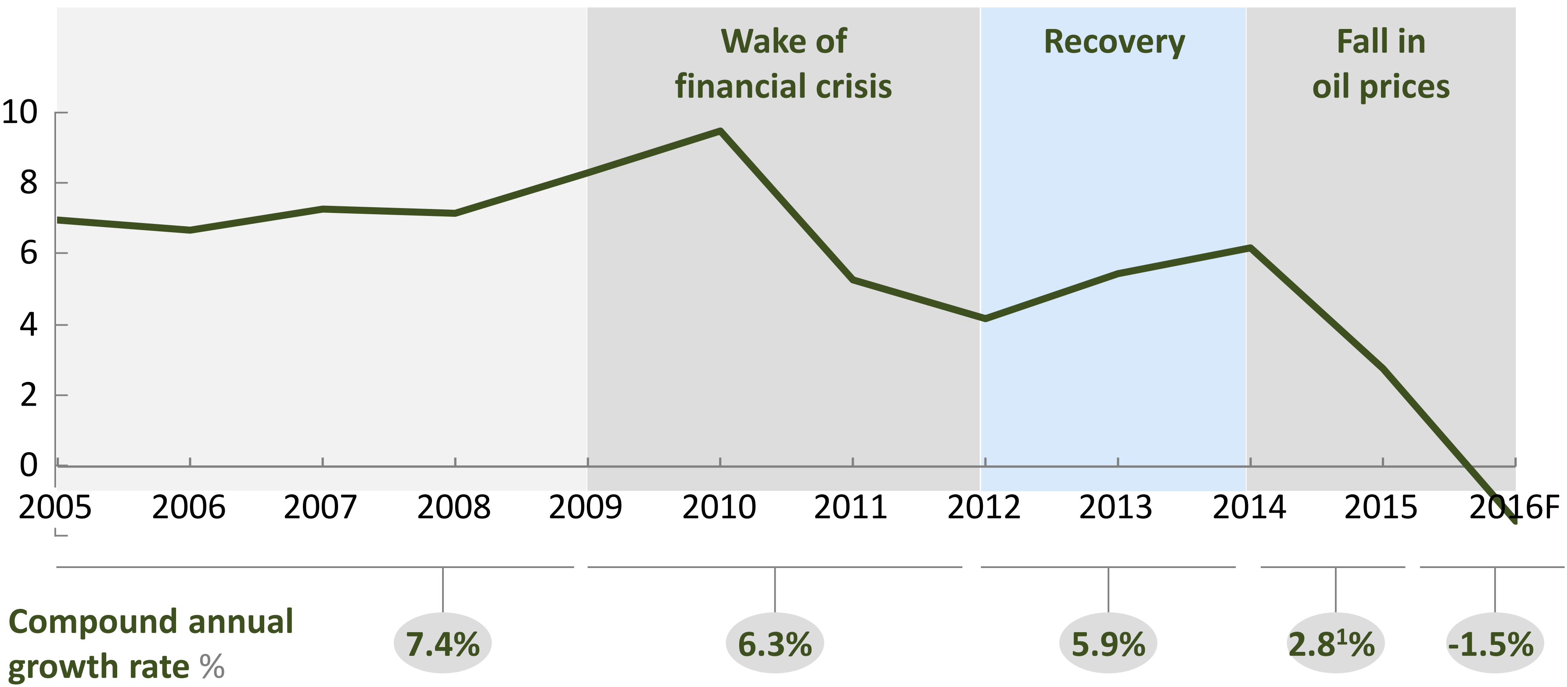
- **Fiscal deficit has worsened in the past 2 years and now ~2.5% of GDP**
- **A coherent and credible package of sustainable economic measures is needed for economic turnaround**

SOURCE: National Bureau of Statistics, MBNP

2.0 State of the Economy: Understanding the Challenges that led us here

Real GDP growth rate

In % p.a for rebased GDP, 2005-2016 (YoY average for Q1-Q3 2016)



1 Growth for 2015

SOURCE: NBS

2.1 We had two options in the short-term

1	**Do nothing**	▪ Macro environment remains unstable, public finances deteriorate, Federal & State budgets are not implemented ▪ Unemployment rises as manufacturers etc. lay off workers, potential for civil unrest ▪ Economy recession continues, GDP growth remains negative in short-term ▪ May need to approach IMF for assistance
2	**Take bold home-grown action**	▪ Identify revenue sources to plug fiscal deficit and boost reserves (e.g. from privatizations, tax revenues, etc.) ▪ Implement bold structural reforms (e.g. for power, road, railways, public service reform, and competitiveness) ▪ GDP growth recovers to 6-7% by 2020

2.2 Home-grown Actions at Managing the Oil Price Woes

1	**Manage limited available resources better**	▪ Establishment of Efficiency Unit ▪ Sustaining the use of TSA to monitor the financial activities of over 900 MDAs from a single platform. ▪ JV operations to be subjected to a new funding mechanism, which will allow for Cost Recovery.
2	**Plug Revenue Leakages**	▪ Reducing leakages by tackling trade misinvoicing and introduce single window to drive customs efficiencies.
3	**Cost control and Containment Measure**	▪ Macro Extension of the Integrated Personnel Payroll Information System (IPPIS) to all MDAs.
4	**Improved Compliance**	▪ Ensure that all MDAs (particularly revenue generating MDAs) present their budget in advance, and remit their operating surpluses as required by the FRA

2.2 Home-grown Actions at Managing the Oil Price Woes…/2

5 **Pursue diversification of the economy, recovery and growth**

Diversified, Sustained and Inclusive Growth

Promote national prosperity and an efficient, dynamic and self-reliant economy to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity

Restoring growth

Investing in our people

Building a competitive economy

Enablers

Improving governance and security

Delivery

Implementation and financing (via the Budget & leveraging Private Capital)

2.2 Home-grown Actions at Managing the Oil Price Woes…/3

Pursue economic growth in all sectors with focus on activities that have greater multiplier effects

Stabilize the macroeconomic environment

- Align monetary, trade and fiscal policies
- Accelerate non-oil revenue generation
- Drastically cut costs
- Privatize selected assets

+

Achieve agriculture and food security

- Deliver on agricultural transformation

Expand energy infrastructure and capabilities

- Urgently increase oil production
- Expand power sector infrastructure
- Boost local refining for self-sufficiency

Drive industrialization through local and small business enterprise

- Improve Ease of Doing Business
- Accelerate National Industrial Revolution Plan implementation

3.0 Key Initiatives in the 2017 Budget

Macroeconomic Stability

Programmes		Initiatives
A Fiscal stability	1	Accelerate non-oil revenue generation by focusing on increasing the tax base, improving effectiveness of revenue collection, and increasing Independent Revenues
	2	Privatize selected oil and non-oil assets through reducing the Federal Government's stake in JV oil assets and significantly reducing FGN stakes in other oil and non-oil assets
	3	Optimize CAPEX spend through portfolio and project optimization and by leveraging private capital; rationalize OPEX by fighting against fraud in personnel expenditures and by "doing more with less" for overheads
	4	Optimize debt strategy by rebalancing public debt portfolio with more external borrowing and by issuing bonds for contractor arrears
B Monetary stability	5	Align monetary, trade and fiscal policy by maintaining a flexible market-determined exchange rate and using trade policies (e.g. import tariffs) to reduce demand pressures for current 41 prohibited items
	6	Increase financial system stability by strengthening the supervisory framework of the financial institutions and encouraging banks to shore up/increase capital
C External balance	7	Improve current account balance by improving non-oil exports, promoting import substitution, and incentivizing inflow of FDI

3.1 Improving Non-oil tax revenues

High Low

Non-oil tax collection potential NGN Trillion			Description	Ability to capture in 12 months	Impact on poor house-holds
2015 Non-oil tax collection[1]		2.3	2015 total non-oil collection including CIT, WHT, EDT and VAT (excluding customs)		
A Tax admini-stration levers	Conducting Audits	0.4	Audit of returns filed by taxpayers to identify under fillings		
	Improving compliance	1.0	Engagement and enforcement non-compliant taxpayers		
	Broadening tax net	0.9	Registration of formal and informal sector businesses and companies		
B Increasing VAT rate		TBD	Consider increasing VAT rates		
C Increasing coverage of vatable products		0.01	Revision of exempt goods categories (e.g. cement-related products)		
Total[1]		2.3 / 2.3 / 4.6			

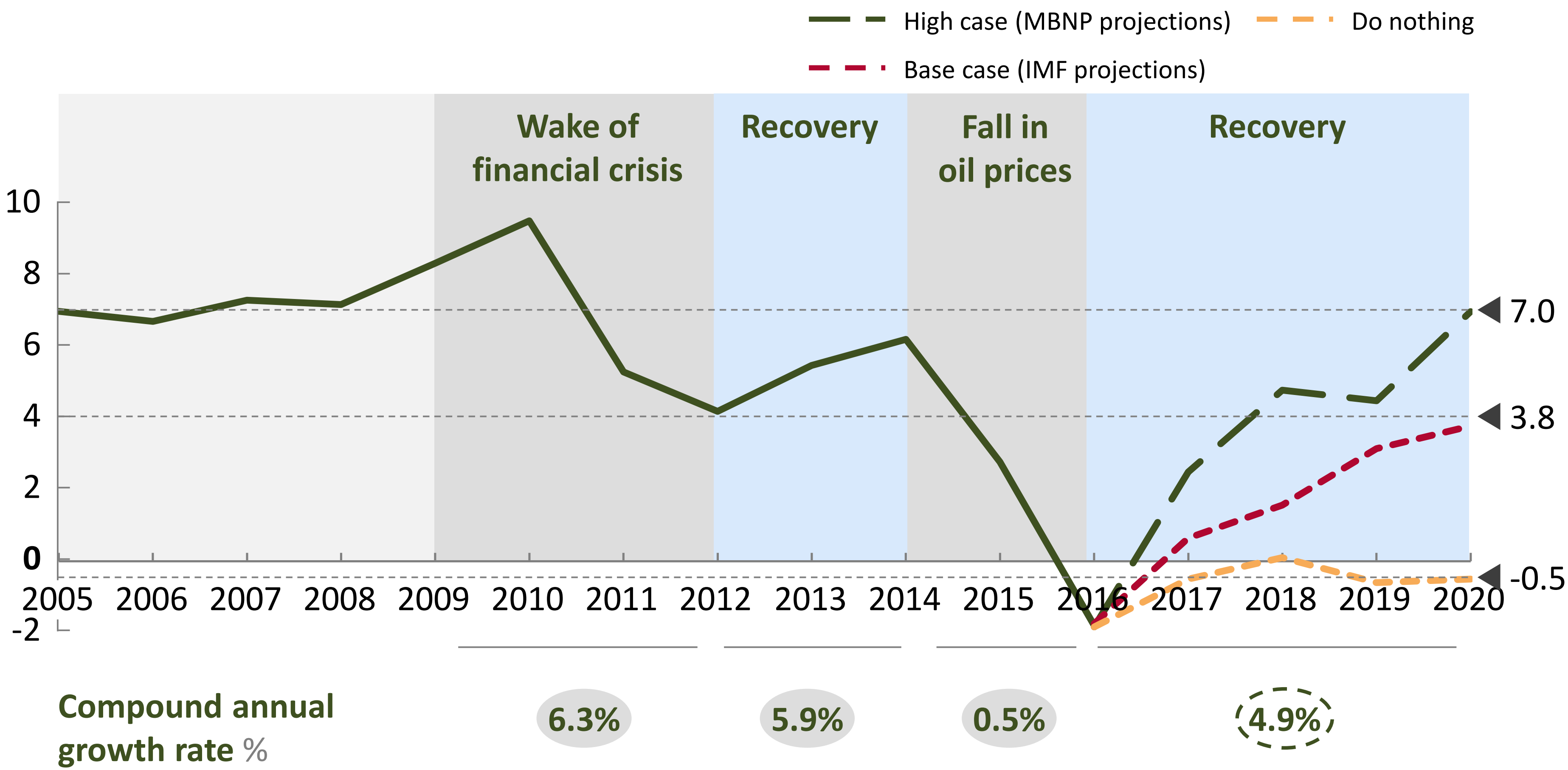
NGN 2,300 Bn of potential tax collection increase, yielding NGN 900 Bn of additional revenues for FGN[2]

1 Amount of total non-oil tax collection in Nigeria, with 14% of VAT and 50% of CIT going to FGN ; 2 Rest of the revenues going to State and local governments

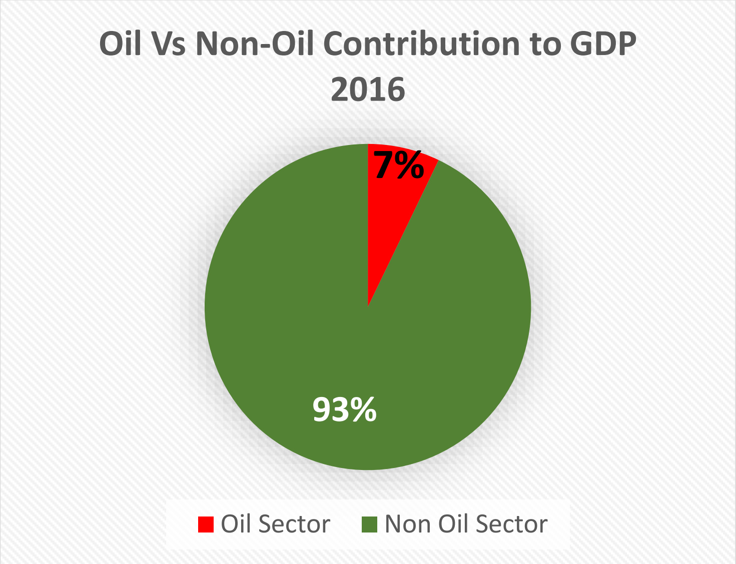
3.2 Our aspirational projection suggests GDP growth could reach 7% in 2020, above IMF projections

Real GDP growth rate, historical and forecasts

In % p.a for rebased GDP, 2005-2015 and forecasts for 2016-2020



4.0 Conclusion

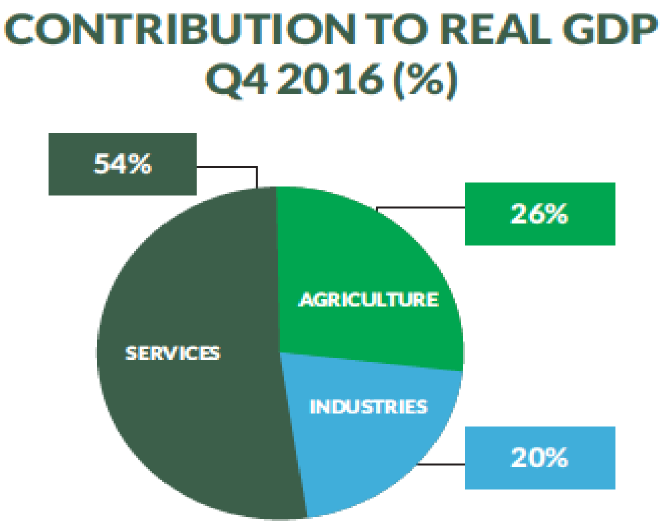


Oil contribution to Nigeria's GDP as per Q4 2016 figures is just 7.15%, with non oil sector contributing 92.85%

Oil however remains one of FGN's major revenue and foreign exchange source

FGN is committed to improving revenues accruable in the non oil sector by;

improving tax compliance
broadening tax net
blocking leakages
creating enabling environment for SME's to thrive



Diversification of the productive base of the economy

- Reforms in the Agriculture Sector (e.g Green Alternative – *New Agriculture Policy*)
- Roadmap to stimulate solid minerals sector
- Nigeria Industrial Revolution Plan
- Promote Made-in-Nigeria

SOURCES: NBS, MBNP

Thank You!