



MANAGING BUDGETARY PRESSURES FROM COVID 19
IN AFRICA: *Confronting a Double Threat; Oil Price Wars & The COVID-19 Pandemic in Nigeria*

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COVID-19: FISCAL RISKS ARISING FROM EMERGING GLOBAL ECONOMIC CRISIS



COVID-19: Fiscal Risks arising FROM Emerging Global Economic Crisis

Implications of the Global Economic Downturn for the Nigerian Economy

- Prior to COVID-19 inspired Oil Price decline, the Nigerian economy was already fragile and vulnerable - sluggish growth, low revenue/GDP ratio, constrained fiscal space, low foreign & domestic investments, declining foreign reserves, etc.
- A Global Economic Downturn (recession à la IMF) has been precipitated by the Corona Virus (COVID-19) Pandemic
- International Oil Prices plunged even below **\$22/b** triggered by weakening oil demand in China and other major economies and worsened by the OPEC+ Price Wars (Saudi/Russia)
- Oil & Gas represents only about 10% of Nigeria's GDP, but accounts for about 50% of government revenues and over 90% of export earnings
- Most of the other economic sectors are heavily import dependent for machinery and even raw/intermediate materials; any downturn in oil has a contagion effect on other sectors



COVID-19: Fiscal Risks arising FROM Emerging Global Economic Crisis .../2

Transmitting the International Crisis to the Domestic Environment

- Disruption to global supply / output chains resulting in weak input demand & low commodity prices
- International travel & trade have been severely disrupted
- Demand for goods & services is deteriorating pursuant to 'social distancing' policies and lockdown of major economic centres
- Significant erosions across financial markets as uncertainty rises, leading to capital flows reversals from Emerging & Frontier Markets such as Nigeria
- Increasing pressure on the Naira & Foreign Reserves as crude oil sales receipts decline & the macroeconomic outlook worsens
- Central Bank of Nigeria (CBN) resorting to Quantitative Easing, by reducing interest rates and launching sectoral lending schemes to support economic activity
- Govt responding by announcing fiscal stimulus plans, and increased expenditures for healthcare & social safety net programmes even in the face of heightened fiscal constraints.



COVID-19: Fiscal Risks arising FROM Emerging Global Economic Crisis .../3

International Responses to Global Corona Virus & Oil Price Crises

IMF launches a \$50billion Rapid Finance Instrument

- Member countries entitled to draw 50-100% of their contributions
- Not a standard IMF programme, but still requires Board approval

African Development Bank (AfDB) launches a \$3bn Social Bond to finance programmes designed to help African countries cope with fiscal challenges arising from economic the Covid-19 pandemic

European Central Bank ('ECB') €750 billion Pandemic Emergency Purchase Programme

- Package to complement €120 billion of additional asset purchases by the ECB
- Greek bonds will be included in the bank's asset purchases for the 1st time
- ECB to ease collateral standards to make it easier for banks to raise funds

Other major multi-lateral lenders announce similar initiatives

- **IMF/WORLD BANK appeal to G20** bilateral lenders to consider debt relief for emerging/developing country debtors

African Finance Ministers make a joint case for debt relief from lenders



COVID-19: Fiscal Risks arising FROM Emerging Global Economic Crisis .../4

International Responses to Global Corona Virus & Oil Price Crises

US Government passes a \$2+trillion Economic Stimulus Package

- Recovery Rebates for Low Income Individuals & Couples
- Loans to SMEs for Salaries, Mortgage Payments, Health Care, etc.
- Loans & fiscal support to Airlines & distressed industries, etc.

UK Govt. announces unprecedented Fiscal Stimulus Plan to cushion impact of the crisis

- Govt to pay 80% of Citizens Wages for 1st time (£10bn)
- 80% of the wages of workers whose jobs face the axe will be paid by the government, up to a maximum of £2,500 pounds a month
- Corporate Tax Holidays (£30bn) with suspension of VAT for a Quarter of the Fiscal Year
- Unlimited 12-month, interest-free loans for businesses
- £7 billion of additional welfare support, including an increase in universal credit payments.
- £1 billion pounds of support for renters
- Self-employed workers to get the equivalent of statutory sick pay

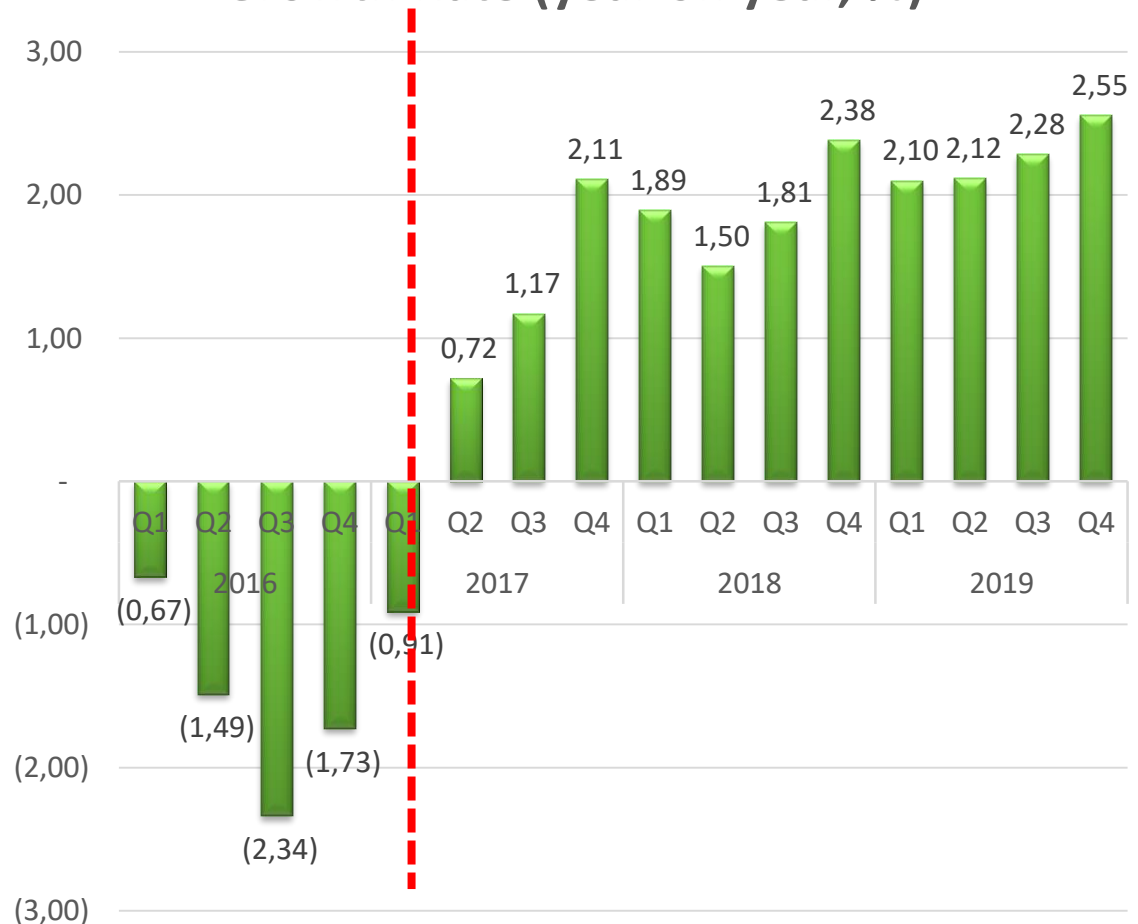


COVID-19: Fiscal Risks arising FROM Emerging Global Economic Crisis .../4

Nigeria's Current Economic Realities & Challenges

- Nigeria's Gross Domestic Product ('GDP') in Q4 2019 grew by 2.55% in real terms (year on year) compared to 2.28% in Q3 2019 and 2.38% in the corresponding quarter of 2018.
- In 2019, real GDP growth gradually picked up and remained above 2% each successive quarter, resulting in annual real GDP growth rate of 2.27%, compared to 1.91% in 2018.
- Furthermore, growth in Q4 was the strongest quarterly growth rate observed over the past 4 years. The Q4 report revealed steadily rising output growth on a year on year basis over the past 11 quarters since the economy emerged from recession in 2017.
- However, the outlook for 2020 is grim (possible recession), **due to COVID-19 & Oil Price Fall Fiscal Shocks**

Real Gross Domestic Product (GDP) Growth Rate (year on year, %)



RESPONDING TO COVID-19 AND FALL IN OIL PRICE



Responding to covid-19 and decline in oil price

Responding to the Covid-19 & Oil Price Decline Crisis:

Mr. President, on Monday, 9th March 2020, set up a Crisis Management Committee (CMC) comprising Senior Government officials [Headed by the Hon. Minister of Finance Budget & National Planning] to consider measures to address the fiscal pressures arising from the recent drop in oil prices. Another Presidential Task Force is dealing with the health crisis.

- The **CMC** concluded that Nigeria is currently facing significant fiscal risks, viz:
 - Highly vulnerable to the current global economic disruption caused by the COVID-19 crisis; &
 - Exposed to the risks of both a pronounced decline in oil prices & spikes in risk aversion in the global capital markets.
- Oil Revenues have declined by nearly 90% due to:
 - **Oil Production**: 2020 average production now projected at **1.7mbpd** vs. 2020 Budget of **2.18mbpd**; and
 - **Oil Prices**: 2020 average Oil Prices projected at **US\$30/b** vs. 2020 Budget benchmark of **US\$57/b**.
Note that average production cost of Nigerian crude is over \$30/b
- Although similar challenges were experienced in 2015/2016, Nigeria now has **considerably lower fiscal buffers**.
- The decline in international oil prices and / or domestic production may be magnified if a severe outbreak of the COVID-19 Pandemic occurs in Nigeria
- Accordingly, it is critical to design, approve & implement an Integrated Policy Framework, including an amendment of the 2020 budget to address these issues & ensure that Nigeria's fiscal position is significantly more robust to weather the current fiscal shocks.



Responding to covid-19 and decline in oil price .../2

*The Crisis Management Committee recommends **an Integrated Policy Framework comprising critical & complementary measures to attempt to forestall a decline into another recession.***

Revenue Measures:

- Increase Revenues by reducing NNPC's allowable deductions from oil revenues for strategic projects/programmes by a total of **N649billion**
- Transitioning to a PMS price modulation process to be driven by underlying global oil & gas prices.
- Accelerate Marginal Fields licensing and renewals of existing licenses;
- Ramp up oil production on shut-in wells;
- Adjust all Budgeted revenue lines in line with the new realities, viz: Customs revenues reduced from **N1.5tr** to **N943bn**; **Stamp Duty reduced from N464 bn to N200bn**; Privatisation proceeds cut by 50% from N252bn to N126bn



Responding to covid-19 and decline in oil price .../3

Expenditure Measures:

- Reduce MDAs' Capital Expenditure by 20%;
- Reduce overheads of MDAs, except the health and security sectors, by 16.7%;
- Reduce Capex and overheads for the Top 10 GOEs in FGN 2020 Budget by 25%; 80% of Savings from these Top 10 GOEs' cuts will be applied to increase their Operating Surpluses to be transferred to the Consolidated Revenue Fund (CRF); and
- Similar cost cutting measures will apply to all other GOEs.

Other Fiscal & Administrative Measures

- Control the fast-growing personnel cost by embargoing non-essential recruitment (with the exception of the Security & Healthcare sectors);
- Restructure Social Investment Programmes; and
- Design & launch other policy measures to be agreed with strategic MDAs.

Fiscal Stimulus Package:

The FGN is working on Fiscal Stimulus Package to:

- Provide fiscal relief for Taxpayers & key economic sectors
- Incentivize Employers to retain & recruit staff during the economic downturn
- Stimulate investment in Critical Infrastructure (Roads, Rail & Ports)
- Review non-essential tax waivers to optimize revenues
- Complement Monetary & Trade Interventions to respond to the crisis



Responding to covid-19 and decline in oil price .../4

COVID-19 Crisis Intervention Fund

N500bn



Mr. President has approved the establishment of a **N500 billion COVID-19 Crisis Intervention Fund**. The establishment of this COVID-19 Crisis Intervention Fund will involve drawing much-needed cash resources from various Special Funds and Accounts, in consultation and with the approval of the National Assembly. The sub-national governments are also being carried along in the conceptualisation and actualisation of this Fund.

An appeal has been launched for the private sector, other partners/friends of Nigeria as well as the general public to contribute to the Fund. **The N500 billion** is proposed to be utilized to:

- a) **Upgrade healthcare facilities** as earlier identified by the Presidential Task Force on COVID-19 and approved by Mr. President;
- b) Finance the Federal Government's Interventions to support Sub nationals in improving healthcare facilities;
- c) Finance the creation of a labour-intensive **Special Public Works Programme** to engage about 774,000 youth for about four months; and
- d) Fund any additional pro-poor interventions that may be approved by Mr. President.

CONCLUSION



Conclusion

AMENDMENT OF 2020 APPROPRIATION ACT

- The 2020 Appropriation Act was based on certain fiscal assumptions, which we have been compelled to revisit given the emerging economic realities.
- In this regard, the Budget Office is currently finalising a revised **2020 – 2022 Medium-Term Expenditure Framework / Fiscal Strategy Paper ('MTEF/FSP')** as well as an **Amendment to the 2020 Appropriation Act**.
- The proposed Amended Budget will provide for the **COVID-19 Crisis Intervention Fund** and other adjustments required **due to the decline in international oil prices**.
- We have also commenced engagements with the Leadership and key Committees of the legislature (National Assembly) to discuss our plans, such that once the **Executive's 2020 Amendment Budget** is completed, we shall expeditiously seek the requisite **Presidential and Legislative approvals**.

THANK YOU!

Any Questions?

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