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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9th April, 2020
Fiscal Risks arising from COVID-19 Emerging Global Economic Crisis
International Responses to Global Economic Crisis
Nigeria’s Current Economic Realities & Challenges
Responding to the Covid-19 & Oil Price Decline Crisis:
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Conclusion
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
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.
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
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
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
RESPONDING TO COVID-19 AND FALL 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.
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 **N649 billion**
- 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
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
**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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