

Highlights of 2021 Budget Proposals

October 2020

KPMG in Nigeria



His Excellency, the President of the Federal Republic of Nigeria, Muhammadu Buhari, GCFR, on Thursday, 8 October 2020, presented the 2021 Federal Government Budget Proposals before a joint sitting of the National Assembly (NASS).

The Proposed 2021 Budget, themed **“Budget of Economic Recovery and Resilience”**, is designed against the backdrop of a global economic crisis and domestic impact of COVID -19. The budget is expected to accelerate the pace of Nigeria’s economic recovery, promote economic diversification, enhance competitiveness and ensure social inclusion. The budget is also designed to further deliver on the goals of the Nigeria Economic Sustainability Plan (NESP) which was approved by the Federal Executive Council (FEC) on 24 June 2020. The NESP provides a clear road map for Nigeria’s post-Coronavirus economic recovery as a transitional plan, to take Nigeria from the Economic Recovery and Growth Plan (2017 – 2020) to the successor Medium-Term National Development Plan (2021 – 2023).

The proposed aggregate revenue and expenditure budgets for 2021 are ₦7.89 trillion and ₦13.08 trillion, respectively, resulting in ₦5.02 trillion fiscal deficit. The deficit will be financed mainly by new borrowings totalling ₦4.28 trillion, ₦205.15 billion from privatization proceeds and ₦709.69 billion from drawdowns on multilateral and bilateral loans secured for specific projects and programmes.

BUDGET COMPARATIVES

Revenue

Source of Revenue	2021 Proposed (N'trillions)	2020 Approved (N'trillions)	2020 Revised (N'trillions)	2020 Actual (July 2020) (N'trillions)
Oil revenue	2.01	2.76	5.84	0.992
Non-oil revenue	1.49	2.80		0.693
Other sources	4.39	2.86		0.415
Total	7.89	8.42	5.84	2.100

Expenditure

Expenditure	2021 Proposed (N'Trillions)	2020 Approved (N'Trillions)	2020 Revised (N'Trillions)	2020 Actual (July 2020) (N'Trillions)
Recurrent expenditure	5.65	4.84	4.94	5.37
Capital expenditure	3.60	2.46	2.49	
Statutory transfer	0.48	0.56	0.43	
Sinking fund	0.22	0.27	0.27	5.37
Debt servicing	3.12	2.45	2.68	
Total	13.08	10.58	10.81	5.37

KEY ASSUMPTIONS

Budget assumption/ Fiscal parameter	2021 Proposed (N'Trillions)	2020 Approved (N'Trillions)	2020 Revised (N'Trillions)	Percentage Change (Revised vs Proposed)
Benchmark oil price	US\$40 per barrel	US\$57 per barrel	US\$28 per barrel	43%
Oil production volume (bpd)	1.86 million	2.18 million	1.80 million	3%
Inflation rate (%)	11.95	10.81	14	-15%
Average exchange rate	₦379/US\$1	₦305/US\$1	₦380/US\$1	5%
GDP growth rate (%)	3	2.93	-4.42	168%

The proposed 2021 Budget estimates a daily oil production estimate of 1.86 million barrels per day (mbpd) (inclusive of condensates of 300,000 to 400,000 barrels per day), about 3% increase over the revised 2020 budget. Given the actual daily oil production of 1.80 mbpd as at June 2020, the proposed production volume for 2021 may be a realistic expectation.

The estimated benchmark oil price of US\$40 per barrel is fixed at a conservative and realistic price following the current fluctuations of oil prices (within US\$39 - US\$43 per barrel).

Non-oil revenue target in the 2021 budget proposal at ₦1.49 trillion represents a 46.8% decline from the 2020 approved budget and is 56% lower than the 2017 target of ₦3.4 trillion. It appears that the Federal Government has, in drafting the budget proposal, considered the effect of the COVID-19 pandemic on Nigerian businesses.

The budget estimates an exchange rate of ₦379 per US Dollar, projected Gross Domestic Product (GDP) growth at 3% and inflation closing at 11.95%. With a 6% decline in real GDP in the second quarter of 2020, and a projected negative GDP in the third quarter of 2020, an estimated GDP growth of 3% in 2021 may be ambitious.

PERFORMANCE OF 2020 BUDGET

The disruption of the world's economic activities due to the Covid-19 pandemic which led the fall in oil prices and the drastic reduction in demand for Nigeria's crude oil severely impacted the country's fiscal position and actualization of the 2020 budget.

As at July 2020, the Federal Government of Nigeria's (FGN) actual revenue available for the 2020 budget was ₦2.10 trillion. This represents 36% of the revised 2020 revenue and 68% of the pro-rated revised target. Surprisingly, oil revenue performed well above the budget target, by 168% due to recent rise in oil prices and non-oil tax revenues summed up to ₦692.83 billion, which is 12% of the revised revenue budget and 73% of the revised target.

GDP growth has, however, declined by 6.1% in the second quarter of 2020, ending the 3-year trend of modest real GDP

growth recorded since the second quarter of 2017. GDP growth is projected to be negative in the third quarter of 2020. Clearly, the managers of the economy will have their task cut out for them in ensuring that the Nigerian economy does not lapse into a second recession in four years, with significant adverse consequences.

With respect to expenditure, a total of ₦5.37 trillion had been spent as against the pro-rated expenditure of ₦5.82 trillion as at end of July 2020, accounting for a deficit of ₦3.27 trillion, which may be attributable to possible efficiencies or delayed expenditure.

Despite the economic challenges in the year, Nigeria managed to service its debt obligations and settle personnel costs and statutory transfers.

KEY TAKEAWAYS

1. Finance Bill, 2020

The Finance Bill, 2020 which is currently being finalised by the Minister of Finance, Budget and National Planning will be submitted to the NASS for passage into law alongside the 2021 Appropriation Bill. The Finance Bill, 2020 aims to support the realization of the 2021 revenue projections, adopt appropriate counter-cyclical fiscal policies and enhance the efficiency of fiscal incentives.

Clearly, with the country still reeling from the impact of the COVID-19 pandemic, a slow recovery is being projected and this likely informs the modest revenue expectations in the budgetary assumptions for non-oil revenue. It is clear that the economy will still require infusion of fiscal palliatives to help keep businesses afloat, inclusive of deferral of tax payments and, possibly, statutory transfers.

2. Increasing Employment Opportunities

Despite government's efforts to create more job opportunities for Nigerians in 2020, unemployment rate stood at 27.1% while underemployment rate stood at 28.6% as at June 2020.

To improve the unemployment and underemployment statistics, the Federal Government is implementing the Special Public Works programme to provide 774,000 employment opportunities to youths across the 774 local government areas of Nigeria. The FGN also recently introduced the ₦25 billion Nigeria Youth Investment Fund to cater to the investment needs of persons between the ages of 18 and 35 years.

3. Tax Expenditure Statement

The Federal Government intends to prepare and publish a Tax Expenditure Statement for 2019 ("the Statement"). This will set out the estimated cost of tax exemptions, incentives and rebates provided under Nigeria's revenue and other laws. The Statement is expected to contribute to public discussion on the use of our tax policies and system to achieve socio-economic development.

4. High Non-debt Recurrent Expenditure



Similar to the 2020 budget, non-debt recurrent expenditure estimated at ₦5.65 trillion, still accounts for a large portion of the total expected expenditure in 2021. This is about 43% of the total expenditure and a 14% increase over 2020 revised budget.

The allocation of a major part of the 2021 recurrent cost estimate seeks to ensure the continued payment of salaries and overheads in Ministries, Departments and Agencies (MDA) providing the critical public services.

5. New Focus for Capital Expenditure

The 2021 budget for capital expenditure was set at ₦3.85 trillion, a 43% increase when compared with the 2020 revised budget

In 2021, the FGN intends to focus on the completion of as many ongoing projects as possible, rather than the commencement of new projects.

Some of the existing target projects include:	
 Power sector	-Rural electrification access programmes
	-Kaduna LPFO Gas Fired power Plant
	-Mambilla Hydro Power Project
	-Zungeru Hydropower Project
 Transportation sector	-Lagos-Ibadan-Kano Line
	-Abuja-Kaduna Line
	-Port-Harcourt-Maiduguri Line
	-Itakpe-Ajaokuta-Warri Line

There may be need for the Government to evaluate the cost-benefit of these capital expenditures, especially given the significant economic impact of our increasing debt obligations and economic recession. For instance, the possibility of commercialising these projects may be evaluated with a view to realising locked-in value on project completion.

6. New Petrol Pricing Regime

The new petrol pricing regime implemented by the Federal Government is expected to create a more transparent operating model that will encourage investment growth in Nigeria. The Government in this light has stopped the subsidy payment with the aim of ensuring the downstream sector is fully deregulated and drive investment to the sector. This has also freed up resources that will be allocated to other priority areas. Although marketers of petroleum products in Nigeria may have some reservations, this is a step in the right direction as this will produce good results in the long-term.

With the Dangote refinery being scheduled to come onstream in late 2021, the potential impact on import substitution and foreign exchange utilisation may begin to be felt from 2022 and beyond.

7. Other Government Fiscal Strategies

a. Leveraging Technology

With the recent outbreak of the Covid-19 pandemic, economies have relied on technology to keep up economic activities. For example, in Nigeria, the revenue authorities have leveraged technology to receive tax returns and conduct tax audit exercises. Notwithstanding, a vast majority of MDAs in Nigeria are still struggling to match the digital growth attained by world countries before and during the pandemic.

There may be a renewed focus on technology in 2021, as the President in his proposed budget speech indicated the FGN's intention to leverage technology and automation, to address revenue leakages and effectively monitor independently generated revenues.

b. Ongoing Verification Exercise with Integrated Payroll and Personnel Information System (IPPIS)

The ongoing IPPIS verification exercise has helped plug recurrent personnel expenditure gaps that encouraged ghost workers and pensioners. Upon full completion of the verification exercise, it is expected that the country's recurrent expenditure will be appropriately managed.

c. Implementation of service-based electricity tariffs

The Government, in September 2020, approved the implementation of the proposed cost-reflective energy tariff for the Nigerian electricity supply industry. Under the service-based electricity tariff system, electric distribution companies will only be able to increase tariff rates for customers when they consult with customers and commit to increasing the number of hours of supply per day and quality of service.

The service reflective electricity tariffs will help resolve liquidity crisis in the power sector and make the sector attractive to foreign investment, thereby releasing funds for allocation to other priority areas.

For the second time in a row, the President has presented the 2021 budget proposal to the National Assembly early enough for prompt passage into law. It is expected that the legislative process of the passage of the 2021 Appropriation Bill will be expedited to enable implementation from 1 January 2021. The early passage of the Bill, once again, would bring a positive change to Nigeria's fiscal and economic landscapes.

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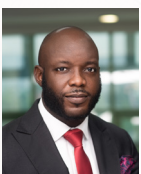
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