Overview of the 2015 Budget: Explanation and Analysis of Fiscal Policy, Components and Numbers

August 2015

Opening Remarks

- The budget is a plan *implementation tool*, and as such, it does not (and should not) stand alone.
- It is in essence a *derivative*, which has evolved from a three-year rolling, *Medium Term Expenditure Framework* (MTEF) in Nigeria.
- The MTEF is not a plan, neither does it take its essence from any *long-term plan* that defines our future as a nation, especially that of our economy.
- And, after all is said and done, it is *the economy* that comes central to all human endeavours.

Opening Remarks (contd.)

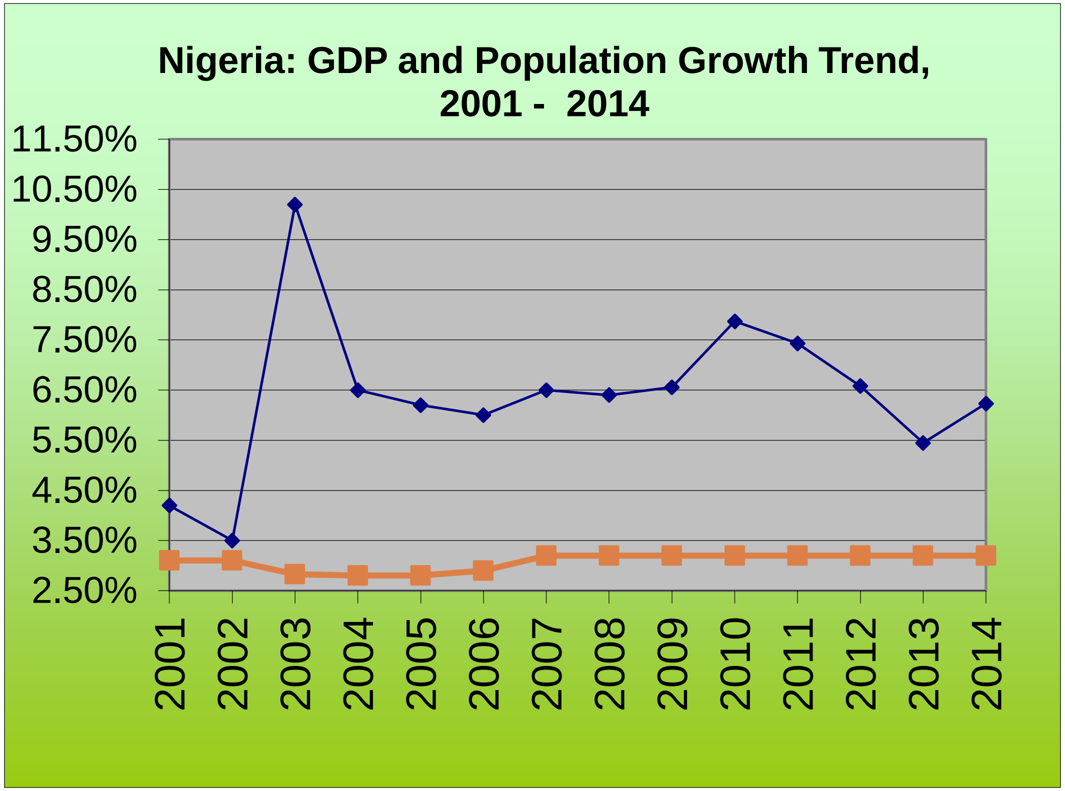
- We have tended to think more of how much is *available to spend*, rather than ask the tough questions of why, on what, how and when we must spend?
- This raises upfront the issue of where the *responsibility for budgeting* should reside – Federal Ministry of Finance or the National Planning Commission?
- Also, the office of the Minister of Coordination of the Economy is an *aberration* and *distraction* that is more political than real substance to drive inclusive growth. A four-year experiment with that has proven skeptics like me right.

Opening Remarks (contd.)

- The Federal Government Budget 2015 was *themed* "**A Transition Budget**" with the *focus* on:
  - "…managing the revenue challenge in a manner that protects the most vulnerable while safely transiting to a broader based non-oil driven economy…"
- This immediately posts *key issues* as:
  - Revenue challenge -- the inescapable reality of 'sunset' for oil;
  - The vulnerable – our attention; and
  - Non-oil activities – our future.
- If we have the correct *interpretation*, each of these should be reflected in the various components of the budget.

Background to Budget 2015

- The Nigerian economy has grown robustly up until end-2014.
- The average annual growth rate of 6.4% has been non-inclusive, extenuated poverty and inequality, and produced dismal development indices.



Background to Budget 2015 (contd.)

- By GDP size, Nigeria ranked **21st** with GDP of **$594.26 billion**, coming from 26th in 2013 (at $510 billion) when her GDP was rebased!
  - **International Monetary Fund** (2014)

Vision 20:2020

No longer relevant as goal to pursue; focus should be on *inclusive growth*!

Background to Budget 2015 (contd.)

- Nigeria created **15,000** US$ millionaires in 2014, following the global pattern of the last ten years of expanding economic inequality.

46% of global wealth

1%

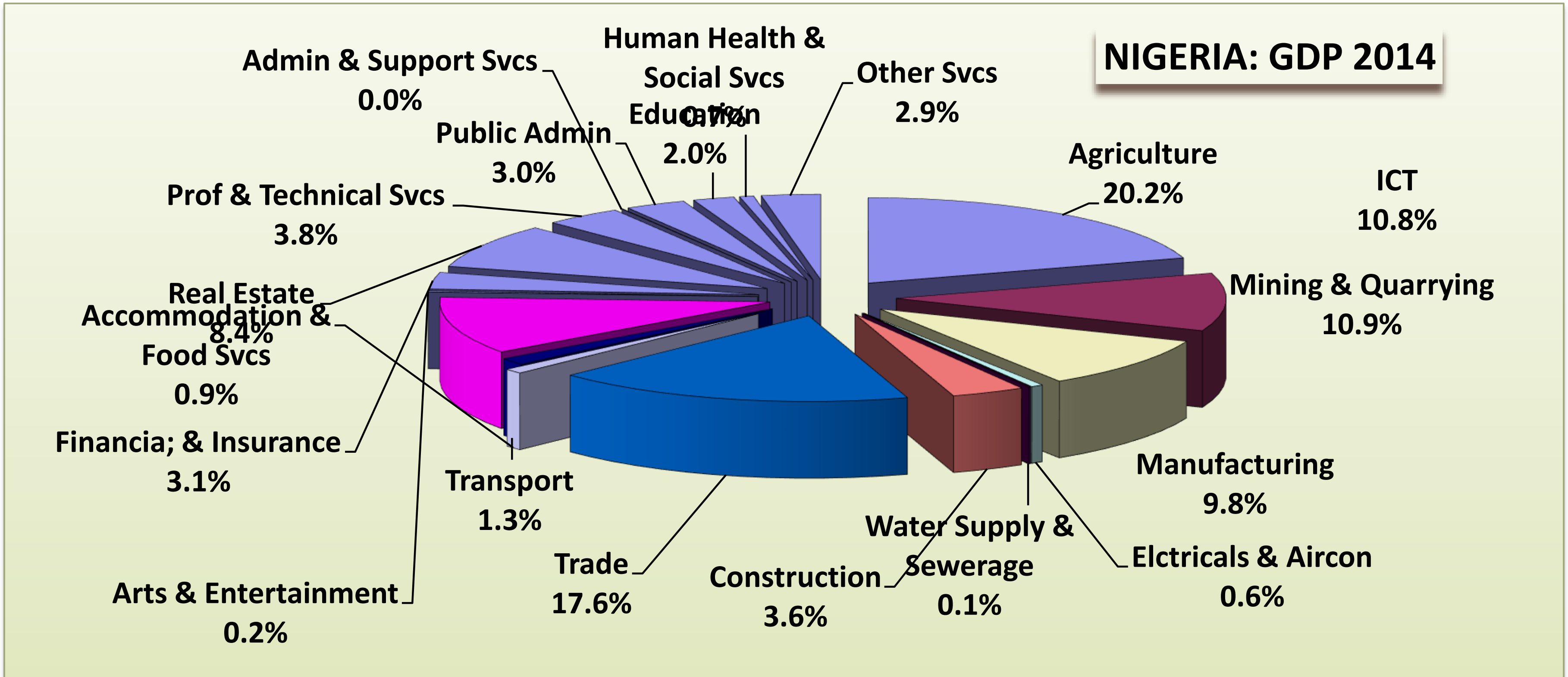
Background to Budget 2015 (contd.)

- Based on world Development Indices by the World Bank, green is *improvement* and red is *worse*.

2013	GNI / capita	Life Expectancy (years)	School Enrolment (Primary)	Poverty Headcount	Access to Potable Water (rural)
Nigeria	2,710	52	85%	46%	49%
South Africa	7,190	56	102%	45.5%	88%
Ghana	1,770	61	109%	24.2%	81%
Egypt	3,140	71	113%	25.2%	99%
Mexico	9,940	77	105%	52.3%	91%
Indonesia	3,580	71	109%	11.3%	76%
Turkey	10,970	75	100%	2.3%	99%

Background to Budget 2015 (contd.)

- The economy is diversified by *<u>GDP contribution</u>*.



Background to Budget 2015 (contd.)

- The economy is generally said to be non-diversified as it is highly *oil-dependent* in **foreign earnings** and **government revenue**.
  - ***Petroleum oil*** accounted for ***97.28%*** of the value of *exports* during 2000 to 2013 and **77.8%** of *foreign earnings* during 2001 to 2010, and ***74.4%*** of *government revenue* during 2000 to June 2014.
- The oil economy is weakening and endangered, with continuing weak linkage to the non-oil economy.
  - Apart from competing African producers, OPEC members no longer collaborate as they did and shale oil production is pushing towards a break-even price of **$28/bbl!**

Background to Budget 2015 (contd.)

- The massive fall in *oil prices*, from an average of **$114/bbl** in 2013 to **$57.76** as at 21st July 2015 for Nigeria's Bonny Light crude, dampened earnings and revenue.
- The price has been hovering in the range $46 to $58 at a time Nigeria needs about ***$112/bbl*** to balance her budget!
  - The election prognosis triggered *confidence deficit* and *flight to safety* by portfolio investors and put FDI on edge.
  - This has put persistent *pressure on the Naira* in the FX market and justified the CBN introducing capital control measures.

The real problem is not the falling oil prices, but massive fiscal indiscipline!

Budget 2015 Assumptions

- Oil price assumption: US$53/bbl
  - Actual 2014: $100.35/bbl
- Oil production target: 2.2782 mbd
  - Actual Production 2014: 2.21 mbd
  - Actual Export 2014: 1.76 mbd
- Exchange rate policy: +/- 3% of ₦190/$.
  - Devalued twice from N155.75/$ to NN165 and then N168
- Monetary policy: tight – MPR was 13%
- GDP Growth rate: 5.5%
- Deficit to GDP ratio – 1.12%.

FGN Budget 2015 Estimates

- **Proposed expenditure: ₦4,658.56 billion**
  - Recurrent: **₦2.607.13 billion** or ***55.96%*** of total
    - 6.2% increase over ₦2,454.888 billion appropriated in 2014.
  - Capital: **₦577.775 billion** or ***12.40%*** of total.
    - Dipped by 48.4% from ₦1.119bn appropriated in 2014 in spite of poor infrastructure in the country.
  - Statutory Transfers: **₦520.036 billion** or ***11.16%*** of total.
    - Recurrent: ₦375.616 billion
    - Capital: ₦144.42 billion
  - Debt Servicing: **₦953.62 billion** or ***20.47%*** of total.

FGN Budget 2015 Estimates (contd.)

- Recurrent: ₦2.607.13 billion.
  - Payrolls: ₦1,830.22 billion (**70.2%**)
  - Overheads: ₦177.6 billion (6.8%)
  - Pensions & Gratuities: ₦291.054 billion (**11.2%**)
  - Service-Wide Pensions: ₦231.06 billion (8.9%)
  - Other Service-Wide Votes: ₦13.917 billion (0.5%)
  - Presidential Amnesty Programme: ₦63.281 billion (2.4%)

FGN Budget 2015 Estimates (contd.)

- Capital: **₦577.775 billion**
  - MDA Envelope: ₦556.995 billion (**96.4%**)
  - SURE-P: ₦20.78 billion (3.6%)
- Statutory Transfers: **₦520.036 billion**
  - Recurrent: **₦375.616 billion**
    - NDDC: ₦46.72 billion (12.4% of recurrent)
    - UBE: ₦68.38 billion (18.2%)
    - National Judicial Council: ₦73.00 billion (19.4%)
    - INEC: ₦62.00 billion (16.5%)
    - National Assembly: ₦120.00 billion (**31.9%**)
    - Public Complaints Commission: ₦4.00 billion (1%)
    - National Human Rights Commission: ₦1.516 billion (0.4%)
  - Capital: **₦144.42 billion**

FGN Budget 2015 Estimates (contd.)

- Debt servicing: **₦953.62 billion**
  - Domestic: ₦894.61bn or **93.8%** of total;
  - Foreign: ₦59.01bn or **6.2%** of total
- Here, we need to ask ourselves hard questions.
  - ***Why*** did we borrow and why are we still borrowing?
  - Is it ***justifiable***?
  - From ***where*** and at what ***cost***?
  - What's the debt ***burden***?

Yet, there is provision of only ₦3 billion for payment of debts to local contractors!

- Borrowing largely funded ***consumption*** – highly unproductive!
- WE NEED TO APPLY THE **BRAKES**!

Revenue-Expenditure Nexus

- **Expected revenue:** **₦3,452.355 billion**
    - Compared to **₦3,731 billion** in 2014 – a drop of 7.5% at a time of 6.2% planned increase in spending!
    - This is against the concepts of *prudence* and *sustainability*.

- **Fiscal deficit:** **₦1,041.009 billion** or **1.09% of GDP**
    - *There is provision of N145.515 billion for **fuel** and **kerosene subsidy**!*

MDA Allocations: Who Gets What?

- The following sectors received the most allocations:
  - **Education - N492.0 billion (12.09%)**
  - **Defence - N358.5 billion (8.81%)**
  - **Police - N329.7 billion (8.10%)**
  - **Health - N257.5 billion (6.33%)**
  - **Interior - N156.6 billion (3.58%)**
  - **National Security Adviser - N84.1 billion (2.07%)**
  - **Niger Delta - N59.3 billion (1.46%)**
  - **Works - N39.6 billion (0.97%) and**
  - **National Assembly - (undisclosed!)**

Supposedly geared towards more *inclusive growth* and *job creation*, although not convincing.
With **Works Ministry** with capital vote of **N11.2 billion**!

Recurrent-Capital Expenditure Nexus

- The nexus between recurrent and capital expenditure proposals *worsened* (ratio **4.51:1**) when compared with the past budgets and fiscal outcomes.
  - It was **3.22:1** in 2014, **1.56:1** in 2013, **2.47:1** in 2012, **1.12:1** in 2010 and a 10-year historical average of **1.86:1**.
- Obviously, something was missing in the ***budgeting process*** – either the *right questions* were not asked, or the questions asked were left *unanswered*!

Strengthening Non-Oil Revenue

- The oil/non-oil revenue relationship suggests an improvement.
  - Gross: Federally Collectable: **N9,778.381 billion**
  - Oil N5,431.204 billion (55.5%)
  - Non-Oil N4,347.177 billion (44.5%)
  - Net: Total **N7,552.090 billion**
  - Oil N3,407.843 billion (45.1%)
  - Non-Oil N4,144.157 billion (54.9%)

Strengthening Non-Oil Revenue (contd.)

- Non-Oil Revenue is in three major components:
  - Customs (less 7% cost): N869.047 billion (**21%**)
  - FIRS (less refunds + 4% cost) N2,785.816 billion (**67.2%**)
  - FGN Independent Revenue: N489.294 billion (**11.8%**)
- Efforts in the budget to strengthen non-oil revenue are nothing extraordinary.
  - Taxes on luxury items will throw in N17.729 billion.
- The bulk (**92.6%**) of tax revenue is expected from **CIT** and **VAT**!
  - Growing these is where redemption lies.

The Crux of the Matter

- Budget *implementation*.
  - Capital expenditure proposals are hardly implemented to reasonable levels as in other advancing countries (especially emerging and frontier economies).
  - Worse still is the *high project cost* in Nigeria and low value-for-money. The corruption factor!
- Lower CIT rate can incentivize compliance, and closer monitoring of collection by FIRS personnel could raise FIRS revenue by between 5% to 12.5%.
- A 1.5% increase in VAT rate will throw in additional N369.7 billion assuming the same rate of consumption in budget 2015.

End Notes

- There is no doubt that the 2015 Federal Government Budget is *structurally defective*.
- Though reflecting the structure of the economy as heavily oil dependent, but it also shows *indiscipline* in financial management and focused implementation strategy.
- What is even more obvious is the disconnect between a *long-term plan* and the budget as implementation tool.
- There is a clear *internal inconsistency*, as the budget goals of job creation and inclusive growth are not well reflected in its structure.

End Notes (contd.)

- Nigeria can surely do a lot *better* than this.
- We only need to return to the *basic rules* and *principles* of budgeting.
- Also, our top government functionaries need to appreciate that they don't know it all and need to *consult widely* on policy matters.
- Their job stops at *policy formulation*.
  - Real *implementation* resides with those entities that are impacted, and largely on how they respond to those policies.
  - If they comply, the policy succeeds.
  - If they begin to cut corners, the policy fails!

Thank You &

God Bless

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