CORONATION

WWW.CORONATIONMB.COM ISSUE J/001 @CoronationMB MONDAY 11TH OCTOBER, 2021

A few slices from the fiscal cake

The ongoing Covid-19 pandemic which emerged in 2020 resulted in a global crisis. Nigeria was not immune to the crisis, hence felt the brunt as well. Nigeria experienced a twin shock, the health crisis (i.e. Covid-19 pandemic) and declining oil prices which negatively impacted the country's fiscal position.

An initial national budget of N10.6trn had been earmarked for 2020 with assumptions of USD57 per barrel, 2.18mbpd in oil production, an exchange rate of N305/USD and growth rate of 2.93% y/y. The emergence of the pandemic which triggered an economic downturn, quickly made these assumptions significantly optimistic. The benchmark price of oil for the 2020 budget was revised down to USD28/b while benchmark oil production was pegged at 1.8mbpd. We note that by end-December 2020 oil price stood at USD52 per barrel. Based on the revised 2020 budget framework, N5.4trn was projected to fund the budget pegged at N10.8trn (slightly higher than previous headline expenditure), resulting in an assumed deficit of N4.6trn.

Regarding revenue collection, based on data from the budget office of the federation, gross oil revenue stood at N3.8trn compared with projected collection of N3.0trn. This is 25.4% higher than the assumption but 21.1% below the actual gross oil revenue of N4.6trn recorded in the previous year. Meanwhile, gross non-oil revenue in the same period was N3.8trn, 36.8% below the N5.2trn budgeted and 8.6% above the actual gross non-oil revenue of N3.5trn recorded in 2019.

Turning to the country's debt profile, according to the debt management office, the total public debt stock at end-2020 stood at USD86.4bn (N32.9trn) with USD33.3bn (N12.7trn or 38.60%) for external debt and domestic debt stock of USD53bn (N20.2trn or 61.4%). A further breakdown of the external debt stock revealed that multilateral debt amounted to USD17.9bn (53.8%), non-Paris club bilateral debt amounted to USD4.1bn (12.2%), commercial (Euro-Bond) amounted to USD11.2bn (33.5%) while promissory notes accounted for the balance of USD186.7m (0.6%).

The impact of the pandemic on Nigeria's economy led to increased and urgent spending needs. Furthermore, in 2020 the FGN resorted to more CBN deficit financing. At end-2020, the historical stock of accumulated CBN ways and means lending to the FGN had risen to N12.4trn (USD30.2bn), about 7.72% of real GDP in 2020. It is worth noting that the CBN provided additional cushions such as, reducing interest rates on all CBN intervention facilities from 9% to 5%; granted a 1-year moratorium on principal repayment for CBN intervention facilities; created a N50bn targeted credit facility for affected households and MSMEs; granted regulatory forbearance to deposit money banks to restructure facilities in affected sectors and provided an additional N100bn intervention fund for health care systems.

Diving into the current fiscal year, the 2021 Budget of Economic Recovery and Resilience focuses on a post-Covid economic recovery and has economic growth featuring as the top priority. According to the budget office of the federation, the FGN aims to earn N7.9trn to fund the budget pegged at N13.6trn. The benchmark oil price is USD40 per barrel while the benchmark for oil production is pegged at 1.9mbpd, resulting in a projected budget deficit of N5.6trn with recurrent (non-debt) spending estimated at N5.9trn or 44.1% of total expenditure, while aggregate capital expenditure is estimated at N4.4trn or 32.2% of total expenditure). In July, the National Assembly passed and the President signed an additional N982.7bn supplementary budget to procure equipment for the military and COVID-19 vaccines. The overall deficit is to be financed from both domestic and external sources. This has had a visible impact in the fixed income market with average NTB yield increasing by 1045.9% from lows of 0.7% in Dec-2020 to 8.3% as at Sep-2021 and the average bond yield increasing by 83% from 6.1% in Dec-2020 to 11.2% in Sep-2021, on the back of domestic borrowing.

Oil revenue in 2021 was projected at N5.19trn. Meanwhile, as at May 2021, N1.49trn was realised out of the prorated sum of N2.16trn. However, oil and gas deductions were N189.93bn (or 44.8%) more than the budget. This is mainly attributable to petroleum subsidy costs which were not provided for in the 2021 budget. In the same period, non-oil tax revenues totalled N618.8bn comprising company income tax and value added tax collections, which were higher than the budget targets for the period with N290.9bn and N123.8bn, representing 102% and 125% respectively and customs collections which were N204.0bn. Other non-oil revenues amounted to N762.7bn, of which Independent revenues was N487.0bn.

The low rate of vaccination of the populace and depreciation of the Naira against the US dollar and other major currencies pose risks to the government's fiscal position. Based on the DMO's report, we note that the total public debt stock as at end-March 2021, had risen to N33.1trn (USD87.2bn) compared to N32.9trn (USD86.4bn) at end-December 2020.

In its efforts towards rebalancing public debt portfolio to the ratio of 70:30 between its domestic and external debt by using long term instruments to finance domestic debt and concessional funding from multilateral and bilateral sources for external, the FGN released its Medium-Term Debt Management Strategy (MTDS) 2020 – 2023 in February 2021. Nigeria's total public debt as a percentage of GDP remains sustainable at 22%, below the country-specific threshold of 25% and the international threshold of 56%. A further breakdown reveals that the total debt as at end-March 2021 comprises USD32.8bn (N12.4trn or 37.7%) for external debt and domestic debt stock of USD54bn (N20.6trn or 62.3%). As for the external debt stock in the same period, multilateral debt amounted to USD17.8bn (54.3%), non-Paris club bilateral debt amounted to USD4bn (12.7%), commercial (Eurobonds) amounted to USD10.6bn (32.5%), while promissory notes accounted for the balance of USD179.5m (0.6%).

On the sub-national level, we understand that as at end-March 2021, states (incl. FCT) total domestic debt was N4.1trn. Sub-national domestic debt for Lagos (N507bn), Rivers (N266bn), Ogun (N153bn), Anambra (N59.9bn), and Kaduna (N68.7bn) while the external debt stock for Lagos (USD1.4bn), Rivers (USD96m) Ogun (USD103m), Anambra (USD108m) and Kaduna (USD567m). The trend across expenditure profiles of most states is overdependence on their respective payouts from the Federation Account Allocation Committee (FAAC). The NBS data shows that in 2020 total FAAC payouts to the 36 states accounted for 64% of aggregate total revenue. Sub-nationals need to improve their collaboration with the private sector, overhaul their efforts at tax collection and consider coordinating with their respective local governments using technology.

Looking ahead, based on the FGN's Medium Term Expenditure Framework and Fiscal Strategy Paper, the FGN's 2022 aggregate expenditure is estimated at N13.9trn. This is 3% higher than the corresponding 2021 FGN aggregate expenditure estimate of N13.6trn. The aggregate amount available for capital expenditure in the 2022 budget is N3.6trn. This represents 26% of total expenditure (below the 30% target set by the current administration) and is 17.3% less than the 2021 provision of N4.1trn. The aggregate revenue available to fund the 2022 budget is projected at N8.4trn, resulting in a projected budget deficit of N5.62trn. The deficit is expected to be financed by new foreign and domestic borrowings, privatisation proceeds, and drawdowns on existing project tied loans.

Proper fiscal housekeeping is required to keep the economy afloat in the near term and drive it towards double digit growth in the medium to long term. Revenue generation remains imperative and the government needs to cling on to every possible stream of revenue from the non-oil sector. The anthem of revenue diversification has grown louder. An industrial take-off is required to boost productivity in the non-oil economy; private sector participation is also essential in expanding this non-oil economy. These two solutions are critical to the elimination of the country's structural challenges.

Chinwe Egwim
Chief Economist
Coronation Merchant Bank