

## Nigerian Government presents 2020 budget proposal to National Assembly

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### Executive summary

On 8 October 2019, Nigerian President Muhammadu Buhari formally unveiled the Federal Government's Budget proposal for 2020 titled "Budget of Sustaining Growth and Job Creation" (the Budget) before the joint sitting of the National Assembly. The President presented a record ₦10.33 trillion<sup>1</sup> (US\$33.8b) budget with an estimated 2020 revenue target of ₦8.15 trillion, a 7% increase compared to the 2019 relative estimate.

The Budget is projected on a crude oil benchmark price of US\$57 per barrel at an exchange rate of ₦305 to the United States (US) dollar and an estimated 2.18 million barrels per day (mbpd) production as against US\$60 per barrel used in the 2019 budget. Furthermore, the Budget is expected to be financed by, among others, the additional revenue that would be derived from a proposed increase in the Value Added Tax (VAT) rate from 5% to 7.5%. The Federal Government forecast shows the economy will expand by 2.93% in 2020, driven largely by non-oil output.

This Alert summarizes the key budget framework.

## Detailed discussion

### Highlights

Parameters underpinning the Budget	2020	2019	Variance
Oil production (mbpd)	2.18	2.3	(5%)
Price per barrel (US\$)	57	60	(5%)
Projected GDP growth (%)	2.93	3.01	(3%)
Average exchange rate (₦/US\$)	305	305	–
Average Inflation rate (%)	10.81	9.98	8%
<b>Revenue (₦ Trillion)</b>			
Aggregate revenue	8.15	6.97	17%
Oil revenue	2.64	3.73	(29%)
Non-oil revenue	1.81	1.39	30%
Independent revenue	3.70	1.85	100%
<b>Expenditure (₦ Trillion)</b>			
Aggregate expenditure	10.32	8.82	17%
Capital expenditure	2.14	2.03	(5%)
Non-debt recurrent expenditure	4.88	4.04	21%
Budget deficit	2.17	1.85	17%
Fiscal deficit (% of GDP)	1.52	1.33	14%

### Revenue

Revenue from non-oil is projected to increase by 30% from the proposed figure of ₦1.39 trillion in 2019 to ₦1.81 trillion in 2020. However, revenue from oil is projected to decrease by 29% from the proposed figure of ₦3.73 trillion in 2019 to ₦2.64 trillion in 2020. The Government intends to continue to pursue its goal of revenue diversification by allocating a larger share of the expected total revenue to non-oil revenue sources.

### Budget expenditure breakdown

The estimated Federal Government expenditure in 2020 is ₦10.33 trillion. The expenditure estimate includes statutory transfers of ₦556.7 billion, non-debt recurrent expenditure of ₦4.88 trillion and ₦2.14 trillion of capital expenditure (excluding the capital component of statutory transfers). Debt service is estimated at ₦2.45 trillion, and provision for sinking fund to retire maturing bonds issued to local contractors is ₦296 billion.

The non-debt recurrent expenditure includes ₦3.6 trillion for personnel and pension costs, an increase of ₦620.28 billion over 2019. This increase reflects the new minimum wage as well as proposals to improve remuneration and welfare of the Police and Armed Forces.

In the area of capital expenditure, the Government intends to focus wholly on the completion of ongoing projects. The Federal Government stated that Ministries, Department and Agencies (MDAs) will not be allowed to admit new projects into their capital budget for 2020, except adequate provisions had been made for the completion of all ongoing projects. The Federal

Government also plans to leverage the private sector funding through its tax credit schemes to ensure that its capital expenditure programs are sustained.

Due to Nigeria's commitment towards meeting its debt service obligations, 71% of the provisions meant for debt servicing has been allocated towards servicing domestic debt which accounts for about 68% of the country's total debt.

### **Introduction of a Finance Bill**

The Finance Bill proposes an increase of the VAT rate from 5% to 7.5%. The proposed Budget is expected to be financed partly by the additional revenue that would be derived from this increase. The Finance Bill has also expanded the list of VAT exempt items to include 10 additional specific food items.

Under the Finance Bill, there is a proposal to raise the threshold for VAT registration to ₦25 million in turnover per annum. This means that businesses below the threshold no longer need to charge VAT when they sell goods or provide services to customers. However, such businesses will still be required to pay VAT when they purchase goods and services liable to VAT.

### **Consolidating the Social Intervention Programme**

The Government intends to consolidate its efforts to ensure the equitable reallocation of economic resources through a focused interest on inclusive growth and shared prosperity. Through the newly created Ministry of Humanitarian Affairs, Disaster Management and Social Development, the Government intends to improve further on the implementation of the National Social Investment Programme. The National Social Investment Programme, geared towards creating jobs and economic opportunity for local farmers and cooks, providing funding to artisans, traders, youths, and supporting small businesses with business education and mentoring is already yielding results.

### **Regional spending priorities for Peace, Security and Development**

To build on the efforts towards maintaining peace and security in the Niger Delta, ₦65 billion has been retained in the 2020 Budget for the Presidential Amnesty Programme. Furthermore, a capital provision of ₦37.87 billion has been made for use by the North East Development Commission for rebuilding efforts targeted towards securing peace in the North East region.

### **Increasing the efficiency of port operations**

By implementing a single customs window, it is expected that the efficiency of port operations will be greatly improved resulting in better lead times in the areas of vessel and cargo handling. It should also lead to the issuance of more licenses to build modern terminals in existing ports, especially outside Lagos.

### **Presentation of two Petroleum Industry Executive Bills to the National Assembly**

In a bid to complete the reforms in the Petroleum Industry, the Federal Government intends to present two Petroleum Industry Executive Bills to the National Assembly. The objectives of these bills are to provide clarity and certainty into the activities in the industry as well as attract further investments into the sector which will ultimately result in the increase in jobs and public private partnerships.

### **Reintroduction of the bill to review the terms of deep offshore oil field contracts**

The Federal Government intends to re-present the Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Bill 2018 not passed by the 8th National Assembly to raise an extra US\$500 million in 2020 and over one billion dollars from 2021.

### **Development of successor medium - and long - term economic development plans**

Due to the imminent expiration of the Nigeria Vision 20-2020 and the Economic Recovery and Growth Plan (ERGP) 2017-2020, the Government has directed the reconstituted Ministry of Finance, Budget and National Planning to commence preparations towards the development of successive plans

## **Implications**

It is expected that the 2020 budget will build on the gains of the 2019 budget, which was aimed at reducing the country's dependence on oil revenue and imports. Following the 2019 Budget of Continuity, the 2020 Budget of Sustaining Growth and Job Creation was designed to accelerate the pace of Nigeria's economic recovery, promote economic diversification, enhance competitiveness and ensure social inclusion.

To achieve these objectives, the Federal Government has proposed its plans to continue to develop infrastructure; identify alternative means of funding new projects by continuing to pursue public private partnerships; as well as enhancing the various social investment programs; reducing the nation's longstanding challenge of unemployment.

The introduction of a Finance Bill provides a chance to revitalize Nigeria's tax codes and laws. This is especially important as the Finance Bill contains several provisions

relating to taxation, duties, exemptions and reliefs to be enjoyed by citizens and investors alike. The projected growth continues to be fragile while revenue remains a challenge with the Government's rising debt profile. Again, the benchmark crude oil price for the budget proposal seems more realistic than in previous years although the benchmark crude oil production target seems ambitious when compared to current actual productions.

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## Endnote

1. The sign ₦ represents Naira, the currency of Nigeria (code: NGN).

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