# SUMMARY

President Muhammadu Buhari presented the proposed 2021 budget to the National Assembly on October 8, 2020. Labeled the Budget of Economic Recovery and Resilience, the early presentation followed the precedent set last year when the draft 2020 budget was presented to the National Assembly early and was passed in time to revert to the January-December fiscal year. The 2021 budget is presented as the country reels from the economic impact of the Covid-19 pandemic and Nigeria’s imminent return to recession after barely 3 years.

Recognising the challenging global and domestic environment, the President explained the Budget would deliver on the goals of the Economic Sustainability Plan and reiterated the Government’s commitment to lifting 100 million Nigerians out of poverty over the next 10 years. Nevertheless, the proposed budget’s credibility will depend to a large extent on the underpinning parameters and fiscal assumptions; while the figures relating to oil price and production sound reasonable, the suggested exchange rate of N379 (per US Dollar) and a closing rate of inflation of 11.95 % may be overly optimistic.

Federal Government revenue is estimated atN7.88tn (about €17.4billion)[[1]](#footnote-1), while the proposed budget envisages expenditure of N13.08tn (about €28.9 billion). The proposed total budget is 21% higher than last year’s revised budget, with unsurprisingly, recurrent expenditure receiving the largest share.

With expenditure outweighing revenue by about € 11.5 billion (3.63% deficit), the President acknowledged that revenue generation remains the major challenge; as at July 2020, oil revenue performed well above the Government’s much lowered post-COVID-19 budget target due to a rebound in global oil prices, yet non-oil tax revenues fell below projections. New measures are therefore being introduced to scrutinize more closely, Government Owned Enterprises (GOEs), as well as to areas of expenditure, notably personnel costs, which is projected at 33% for 2021.

# DETAILS AND ASSESSMENT

The 2021 budget proposal should be seen against the backdrop of the Covid-19 pandemic that significantly affected oil prices, the major source of Government revenues. The shutdown of the economy in the second quarter also led to the contraction of the economy to -6.1% in Q2 and a forecast of -4.2% in Q3. President Buhari acknowledged the imminent return of Nigeria to recession, expected with the forthcoming Q3 results. The Government revised the 2020 budget to reflect the effects of the pandemic on the economy and social sectors. Following the trend of 2020, the 2021 budget will also be accompanied by a Finance Bill (yet to be presented) which seeks to deliver on the objectives of the Economic Sustainability Plan (ESP), by adopting counter-cyclical fiscal policies and by enhancing the efficiency of fiscal incentives.

**With a rebound in oil prices, the revised 2020 budget Performance has improved**. As at July 2020, the Federal Government had realised N2.1tn (€4.6bn), representing 68% of targeted revenue in the revised budget. Oil revenues exceeded target by 168% as oil prices appreciated to over $40 per barrel against a revised post-COVID-19 budget of $28 per barrel. However, non-oil revenues achieved only 73% of the revised target during the same period under review. On the expenditure side, N5.37tn out of the pro-rated N5.82tn had been spent. As at September 2020, a deficit of N3.27tn representing 66% of the revised budget deficit for the whole year had been incurred. According to President Buhari, debt service obligations, payment of statutory transfers and staff salaries were up to date, while overhead costs had been significantly covered. See comparison in table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Budget Parameters** | **2020 Approved Budget** | **2020 Revised Budget** | **2021 Proposed Budget** | **Percentage Change** |
| Oil Price Benchmark price | US$57 per barrel | US$28 per barrel | US$40 per barrel | 43% |
| Oil production volume (bpd) | 2.18 million | 1.80 million | 1.86 million (including 300,000- 400,000 bpd in condensates) | 3% |
| Average exchange rate | ₦305/ US$1 | ₦360/ US$1 | ₦379/ US$1 | 5% |
| GDP Growth rate (%) | 2.93 | -4.42 | 3 | 168% |
| Capital expenditure | ₦2.47 trillion | ₦2.69 trillion | ₦3.85 trillion | 43% |
| Statutory transfers | ₦0.56 trillion | ₦0.43 trillion | ₦0.48 trillion | 13% |
| Debt service | ₦2.43 trillion | ₦2.68 trillion | ₦3.12 trillion | 16% |
| Recurrent expenditure (non-debt) | ₦4.49 trillion | ₦4.94 trillion | ₦5.65 trillion | 14% |
| Total revenue | ₦8.42 trillion | ₦5.84 trillion | ₦8.43 trillion | 44% |
| Total expenditure | ₦10.59 trillion | ₦10.81 trillion | ₦13.08 trillion | 21% |
| Statutory transfer | ₦0.56 trillion | ₦0.43 trillion | ₦0.48 trillion | 13% |
| Debt service | ₦2.43 trillion | ₦2.68 trillion | ₦3.12 trillion | 16% |
| Recurrent expenditure (non-debt) | ₦4.49 trillion | ₦4.94 trillion | ₦5.65 trillion | 14% |
| Total revenue | ₦8.42 trillion | ₦5.84 trillion | ₦7.89 trillion | 34.9% |
| Total expenditure | ₦10.59 trillion | ₦10.81 trillion | ₦13.08 trillion | 21% |
| Fiscal deficit | ₦2.17 trillion | ₦4.98 trillion | ₦5.20 trillion | -4.4% |
| Inflation | 11.02% | 10.81% | 11.95% |  |

The proposed 2021 budget contains **a deficit of N5.2tn (about €11.5billion)** representing 3.64% of estimated GDP. The bulk of the deficit will be financed through borrowing (accounting for 82% of proposed financing), proceeds of privatization (and draw-downs on approved multilateral and bilateral loans. The deficit slightly exceeds the 3% of GDP proposed under the Fiscal Responsibility Act 2007. According to the Budget Office of the Federation, 82.5% of revenues for the first half year, 2020 went into debt service. With N4.3tn in new foreign and domestic borrowing (33% of the 2021 budget) debt service could be challenging if revenues do not improve significantly.

Total Federal Government **revenue estimated at N7.88tn (about €17.4billion)** is made up of the Federal Government’s share of Federation Account revenues (44.4%), independent revenues (12.2%), aid and grants (4.5%), special funds/account receipts (3.8%), Government owned enterprises (net of operating surpluses) (17.1%) and others (18%). It is noteworthy that the Federal Government receives 52.68% of Federation account revenues and 15% of VAT, while States and Local Governments share 26.72% and 20.60% respectively of Federation Account revenues and 85% of VAT. A detailed breakdown of all revenue sources and the details of the 2021 Finance Bill is expected to be released by the Minister of Finance, Budget and National Planning in due course. However, President Buhari disclosed in his budget speech that oil and non-oil revenues due to the Federal Government account for 25.4% and 18.9% of total revenues respectively.

The proposed budget envisages an **aggregate expenditure of N13.08tn (about €28.9 billion),** which can be estimated at around 9.2% of GDP, very low, reflecting a very narrow tax base. The total budget is 21% higher than the N10.8tn revised 2020 budget. The breakdown of the 2021 budget shows that recurrent expenditure has the largest share with N5.65tn (43.2% of total budget) followed by debt service: N3.34tn (25.6% of total budget), Capital budget: N3.60tn[[2]](#footnote-2) (27.5% of total budget) and Statutory Transfers: N484bn (3.7% of total budget). Personnel costs remain the largest single expenditure item and is projected to gulp 33% of the 2021 budget. Though President Buhari has given approval for the implementation of the report on Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies to cut cost, overheads in the 2021 budget are projected to increase by N626bn (€1.3bn) due to inclusion of the overheads of 50 additional Government owned enterprises and newly created agencies.

**The capital budget is 43% higher than the revised 2020 budget and will focus on completing ongoing projects.** Key sectors include works and housing (10.5%), transportation (mainly railways) (6.6%), power (5.1%) water resources (4.0%), health (3.4%), education (3.1%) and defence (3.1%) amongst others. The allocation to the health sector capital budget was increased by 157% to build and equip new facilities nationwide in response to the dilapidated facilities as exposed during the Covid-19 crisis. Education, which usually accounts for a large portion of the budget, was further increased by 65%. Ongoing Chinese-funded and built railway projects were also allocated a huge share of capital allocation to meet counterpart funding obligations. The **security budget** is estimated to be around 15.9% of the total budget, while social sector spending stands at 9.6%.

The Buhari administration has demonstrated strong political will in cutting wasteful spending it can no longer afford through the removal of the petrol subsidy, moving to service-based tariffs in the electricity sector and transmission of the much awaited Petroleum Industry Bill (PIB) to the National Assembly for consideration.

The 2021 budget proposals reflects **Nigeria’s obligations under the OPEC production cuts.** With its quota of 1.4mbpd, it will rely on condensates of between 300,000 and 400,000bpd to meet its budget projections (condensates are not included in OPEC quotas). If the trend of 1.8mbpd recorded in June 2020 is sustained, and global economies do not return to lockdown as winter approaches, then the country could meet its targets. The outlook for oil prices in 2021 remain above $40 per barrel which is also good for Government revenues.

**The World Bank has withheld approval of Nigeria’s loan request** of $1.5bn pending the undertaking of reforms by the Government. These include the unification of the various exchange rates, particularly the official rate and the Investors and Exporters (I&E) rate. The budget is predicated at an exchange rate of N379/$1 which is at variance with the N388/$1 at the I&E window. GDP growth projection of 3.0% exceeds IMF forecast of 2.2% but remains within range. However, the inflation target remains unrealistic particularly as petrol and electricity prices have gone up with the removal of their subsidies, and a weakening Naira makes imports more expensive. In addition, the closure of the land borders since August 2019 has contributed to rising food prices with inflation already at 13.2% in August. As a point of reference, the Economic Sustainability Plan forecasts inflation at 14%.

**The Covid-19 pandemic further highlighted the need for increased revenue generation.** According to President Buhari’s speech, oil and non-oil revenues account for 25.4% and 18.9% of projected revenues respectively. The Government has introduced measures to increase Government revenues particularly from Government owned agencies where Treasury Directors are now being posted to those agencies to ascertain the actual level of revenue generated. Those revenue-generating agencies are to remit 80% of the revenues generated to Government coffers. Rising cost of debt service remains the underlying reason for these measures. According to the Budget Office Implementation Report for half-year 2020, 82.5% of all federal revenues went to debt service. Since the Buhari administration assumed office in 2015, external debt has increased by 205%. Loans of up to $22.8bn mainly for infrastructure projects recently approved are yet to be drawn down. With new borrowings of N4.3tn for the 2021 budget, revenue mobilization should remain the top priority for Government.

For the second consecutive year, **a Finance Bill will accompany the 2021 Federal Budget.** Though the contents of the 2021 Finance Bill is yet to be unveiled, this policy enables speedy amendments to key legislations without the delays associated with the National Assembly processes. The Minister of Finance, Budget, and National Planning will present the breakdown of the budget and the bill in the coming days, and this will throw more light on the fiscal policy incentives being proposed.

In what the Government sees as a commitment to the security sector, **overall allocations to security** (Defence, Interior, Police, the Office of the National Security Adviser and special military operations) amounted to N2.09tn (around **15.9% of total allocations**) but also represents an increase of 46% from N1.78tn in the 2020 budget. On the other hand, **overall allocations to the social sector** (Health, Education and Humanitarian Affairs, Disaster Management and Social Development) amounted to N1.25tn or **9.6% of the total budget**. This also represents an increase of 27% over the 2020 budget.

**On the recurrent side**, the Ministry of Defence has the largest budget (14.8% of recurrent exp.) followed by Education (9.6%) the Police (7.8%), Health (6.7%) and Interior (4.0%). **The capital expenditure** reveals the emphasis on infrastructure projects with the highest allocation going to the Ministry of Works and Housing (11.2% of capital exp.), followed by Finance, Budget and National Planning (10.6%), Transport (7.1%), Power (5.5%) and Water Resources (4.2%).

**The revenue shortages due to the Covid-19 pandemic has provided the right opportunity to embark on critical reforms.** President Buhari reiterated his commitment to the deregulation of the downstream petroleum sector, leading to the discontinuation of the inefficient petrol subsidies and the implementation of service-based electricity tariffs.According to the Government, the funds that would have been used for the subsidy payments will now be deployed to other priority sectors while social safety nets will be deployed through the already existing Social Investment Programme. (SIP)**.** The reforms being undertaken reflect the views of the Presidential Economic Advisory Council and despite the unpopularity of the policies, demonstrates strong political will on the part of the President to reform.President Buhari also submitted the Petroleum Industry Bill (PIB) to the National Assembly for consideration. The bill seeks to provide the legal certainty required to attract investments into the oil and gas sector. Reforms are needed to bring new production volumes on stream and the absence of complaints from the International Oil Companies (IOCs) could imply that the new PIB meets the aspirations of all parties concerned.

**The 2021 budget focuses on some critical infrastructure projects.** These include several power projects, including funding for the Power Sector Recovery Plan, counterpart funding for several ongoing Chinese-funded railway projects, construction of new health facilities across the geo-political zones to address the dilapidated health facilities and several water projects. It is commendable that the emphasis is on completion of ongoing projects.

1. In addition to the official and spot market rate, there is also an informal exchange rate, which gives a value of around 25% less in local currency terms. However, for the purpose of this report, the official rate is used for conversion. [↑](#footnote-ref-1)
2. There is a discrepancy in the figure in the budget document (N3.60tn) and the President’s speech (N3.85tn). This will be clarified when the Minister of Finance, Budget and National Planning makes the public presentation of the budget. [↑](#footnote-ref-2)