

RESEARCH ISSUE Brief

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FGN 2018Q1 Revenue Performance: Implication for 2018 Budget Implementation

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Key Message

As government revenue performance for 2018Q1 falls below expectation by 22.85%, poor implementation of FGN 2018 budget implementation is imminent. Unfortunately, the nation's debt sustainability indices, would not make borrowing an easy way out.

I. Background

1. The 2018 FGN total expenditure of ₦9.120 trillion is predicated on a total expected revenue of ₦7.165 trillion thus, creating a budget deficit of ₦1.955 trillion
2. As 2018Q1, only 22.85% of the projected revenue of ₦7.165 trillion has been realized. This implies that earned government revenue for the 2018Q1 could not fund government spending for the same the period. As election draws near and the attention of the country's political class turns on election matters, a continuation of this trend implies that by December 2018, there could be a short fall of 28.2% in revenue to fund the budget of the Federal Government of Nigeria.
3. The 2018 budget expenditure was premised on oil price benchmark of 51 dollars per barrel, while crude oil production was bench-marked at 2.3 million barrels per day and exchange rate of ₦305 to one dollar.
4. Compared to the proposed budget benchmarks of 2.3 mbpd, crude oil price of US\$45 pb and average exchange rate of 305/US\$, the only variable increased when the 2018 budget was signed is the crude oil price - which was moved from US\$45pb to US\$51 pb.
5. Available data as at 2018Q1 shows that crude oil price stood at US\$74.72 pb while crude oil production stood at 1.94 mbpd with an average exchange rate of ₦305.15/US\$.

Table 1: Budget Assumption as Proposed in the 2018-2020 MTEF&FSP and used for the 2018 FGN Appropriation Act

S/N	Variables	Proposed by Executive	Approved by NASS	Signed by President	Actual Figures as at Dec 2017	Actual Figures as at 2018Q1
1	Crude oil production (mbpd)	2.3	2.3	2.3	1.96	1.94
2	Crude oil benchmark price (\$pb)	45	51	51	65.11	74.72
3	Average exchange rate (₦/\$)	305	305	305	305.5	305.15

Source: MBNP, CBN, NILDS Estimation

Table 2: Review of 2016 and 2017 MTEF Performance: Implication for 2018-2020 MTEF & FSP

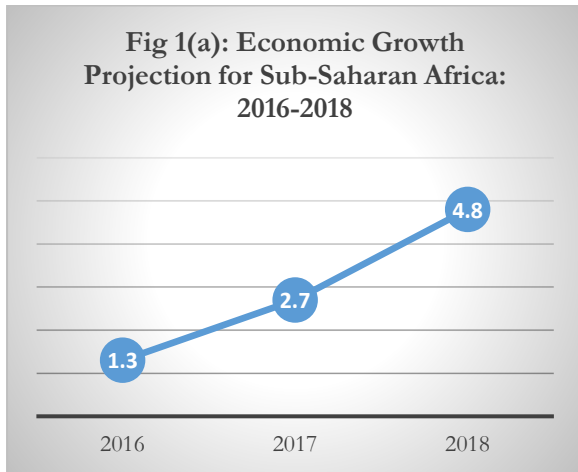
	2016 (Jan - Dec)		2017 (Jan - Dec)		2018
	Target	Actual	Target	Actual	MTEF
Real GDP growth (%)	4.37	-1.58	1.5% (previously 2.19)	0.82	3.5
Oil Production (mbpd)	2.2	1.82	2.2	1.96	2.3
Oil Price (\$pb)	38	42.09	44.5	65.11	45
Inflation Rate (%)	9.81	18.55	15.70%	15.37	12.42
Exchange Rate (₦/\$)	197	305	305/\$1	305.5	305

Source: MTEF and OAGF

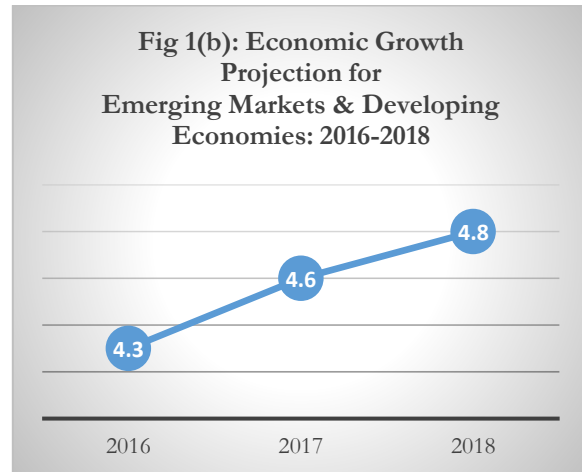
6. With the increasing price of crude oil in the international market and accompanied by below expectation crude oil production in Nigeria, perhaps there is need for a supplementary revenue framework seeking to increase the crude oil price from US\$51 to a price that should be agreed by the stakeholders involved with crude oil pricing which will then be considered for passage by the National Assembly.

II. Global and Domestic Economic Outlook

7. Although global economic projections for 2018 seems stable, external and domestic factors could have a significant impact on the performance of the Nigerian economy and the implementation of the 2018 FGN Budget. Amidst policy uncertainties in the US, geopolitical challenges in the Euro zone, strong growth in China and Brazil and strong recovery in Africa that is premised on higher commodity prices, global economic activities are projected to rebound in 2018. This is indicated in the IMF's growth projections for 2018 as shown in Fig 1(a & b).

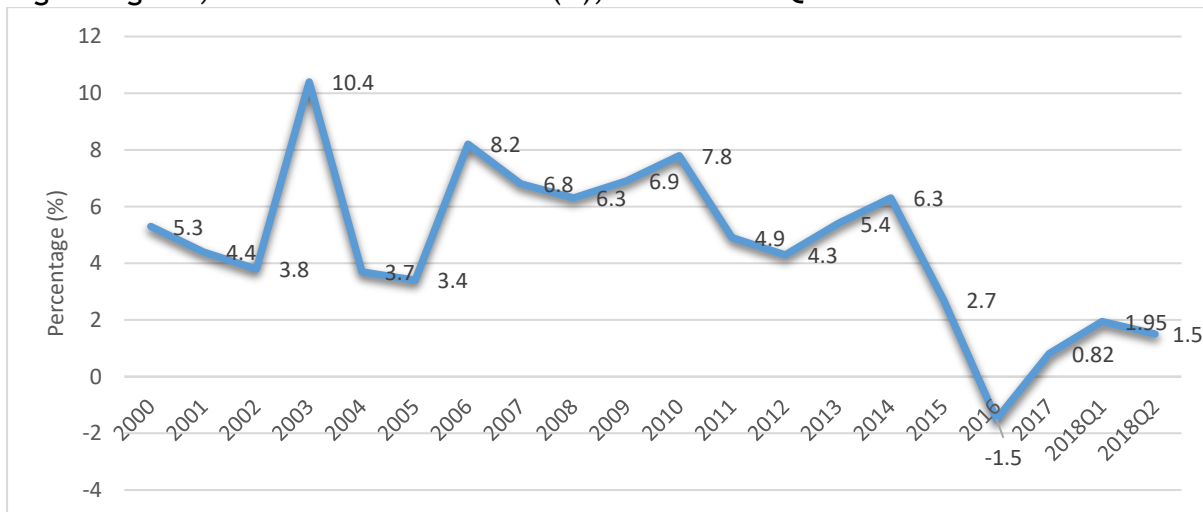


Source: IMF World Economic Outlook



Source: IMF World Economic Outlook

Fig 2: Nigeria, Real GDP Growth Rate (%), 2000 - 2018Q2



Sources: National Bureau of Statistics (NBS)

8. Domestic economic factors are also key to the implementation of the 2018 FGN Budget. Following steady recovery from economic recession (GDP growth rate is 0.82% in 2017 as shown in Fig 2) and poor implementation of the 2017 FGN capital budget, expectations for the 2018 FGN Budget are therefore very high as it is expected to return the economy to the path of rapid and sustainable growth. The decline in real economic growth recorded in 2018Q2 from 2018Q1, does not seem like the country is on the projected path for the SSA

region as predicted by global financial institutions.

III. Revenue Considerations

9. The budget, like a bird requires, two wings to fly. One is revenue and the other is expenditure. The weak revenue base available to fund FGNs budget should therefore be a concern to all stakeholders. It should be recalled that as at June 12th, 2018, the 2017 budget was still running. As at this period, total capital budget implementation of the 2017 FGN budget was ₦1.4399 trillion, accounting for about

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66.12% of the capital budget of ₦2.1778 trillion for that year. It is therefore of great concern where the nation is headed with 2018 FGN budget implementation.

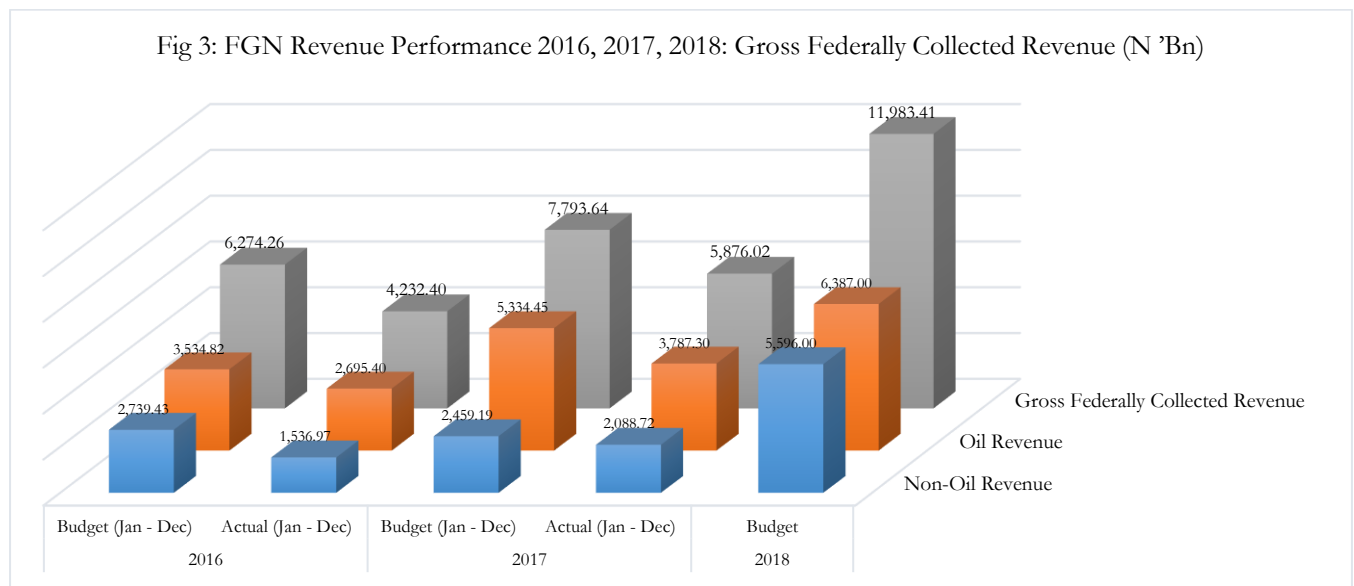
(GFCR) for 2018 at ₦11,983 billion. Compared to the huge short fall in realizing the targets for 2016 and 2017, this projection seems unrealistic.

**10. The Federal Government projects
Gross Federally Collected Revenue**

Table 3: FGN Revenue Performance 2016, 2017, 2018: Gross Federally Collected Revenue (₦ 'Bn)

Revenue Category	2016			2017			2018
	Budget (Jan - Dec)	Actual (Jan - Dec)	Variance	Budget (Jan - Dec)	Actual (Jan - Dec)	Variance	Budget (Jan - Dec)
Gross Federally Collected Revenue	6,274.26	4,232.4	(2,041.86) (32.54%)	7,793.64	5,876.02	(1,917.62) (24.61%)	11,983.41
Oil Revenue	3,534.82	2,695.4	(839.396) (23.75%)	5,334.45	3,787.30	(1,547.15) (29.0%)	6,387.0
Non-Oil Revenue	2,739.43	1,536.97	(1,202.46) (43.89%)	2,459.19	2,088.72	(370.47) (15.07%)	5,596.0

Source: Office of the Accountant General of the Federation (OAGF) & 2017 Appropriation Bill & MTEF



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11. The projected oil revenue of ₦2,441 billion set for 2018 seems realistic. Oil revenue realized from January to December 2017 was ₦3,787 billion. This is higher than the projected oil revenue of ₦2,441 billion proposed for 2018 (Table 4). The relaxation of oil production quota for Nigeria and OPEC production cuts may also have accounted for the rise in oil revenue. This is alongside the relative peace in the Niger Delta that allowed continuous oil production. The projected oil revenue accruable to the FG may be increased by an extra ₦1trillion considering the current oil price projections for

to block sources of leakage in revenue collection from PPT and Royalties.

12. The projected non-oil revenue for 2018 is ₦4,165 billion. The actual non-oil revenue increased from ₦1,536 billion in 2016 to ₦2,088 billion (see Table 5). The target for non-oil revenue is therefore not realistic. It will be important therefore for revenue collection agencies to improve their collection drive and block leakages in the collection and remittance system. The bulk of non-oil revenue is expected to come from Companies Income Tax (₦794 billion), followed by

Table 4: FGN Revenue Performance 2016, 2017 and 2018: Oil Revenue Sources (₦ 'Bn)

Revenue Category	2016			2017			2018
	Budget (Jan - Dec)	Actual (Jan - Dec)	Variance	Budget (Jan- Dec)	Actual (Jan- Dec)	Variance	Budget (Jan- Dec)
Oil Revenue	3,534.82	2,695.43	(839.39) (23.75%)	5,334.45	3,787.30	(1,547.15) (29.0%)	2,441.56
Crude oil & Gas sales	2,422.64	1,495.43	(927.21) (38.27%)	2,227.76	1,988.79	(238.97) (10.73%)	
PPT, Royalties & others	1,112.18	1,200.01	87.83 7.89%	3,106.69	1,798.51	(1,308.18) (42.11%)	

Source: Office of the Accountant General of the Federation (OAGF) & 2017 Appropriation Act

the fiscal year. To achieve the projected revenue from crude oil, it would also be important

Customs and Excise (₦324.9 billion) and Value Added Tax (₦207.9 billion).

Table 5: FGN Revenue Performance 2016, 2017 and 2018: Non-Oil Revenue Sources (₦ 'Bn)

Category of Revenue	2016			2017			2018
	Budget (Jan - Dec)	Actual (Jan - Dec)	Variance	Budget (Jan- Dec)	Actual (Jan- Dec)	Variance	Budget
Non-Oil Revenue	2,739.43	1,536.97	(1,202.46) (43.89%)	2,459.19	2,088.72	(370.47) (15.07%)	4,165
Custom and Excise	862.41	548.53	(313.88) (36.39%)	717.14	615.80	(101.34) (14.13%)	
VAT, CIT & other taxes	1,877.02	988.44	(888.58) (47.34%)	1,742.05	1,472.92	(269.13) (15.45%)	

Source: Office of the Accountant General of the Federation (OAGF) & 2017 Appropriation Act

IV. Debt and Debt Sustainability

13. As the rate of revenue accruals, the projected amount of ₦2,233.84 billion for debt service in 2018 is unhealthy and could affect the nation's external balance. Whereas Nigeria's debt concerns in terms of total debt to GDP is within

consequence is that the nation's debt stock would rise thus, depleting the nation's foreign reserve.

V. Recommendation

14. The following step could be considered:

- i. The actions of the CBN in

Table 6: DMO's Stipulated Debt and Debt Service Threshold

International Threshold (%)	Ratio	Nigeria's Current Status
40	Total Debt to GDP	14.12
150	External Debt to Exports	40.80
250	Total Debt to Revenue	377.02
20	Debt Service to Revenue	38.26
20	Debt Service to Exports	17.30

Source: DMO (2016) Annual National DSA Report.

the international threshold limits, it is way outside the limits in terms of total debt to revenue and debt service to revenue (see Table 6). The

managing the nation's foreign exchange should be commended as the nations projected average exchange rate has stayed within the predicted

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- window despite oscillations in the economy. However, a situation of exchange rate fixing should not be encouraged.
- ii. The National Assembly could initiate a debate on the need for the Executive to submit a supplementary revenue projection bill that seeks to increase the price of crude oil used to benchmark the budget from US\$51 pb to a higher price to be debated and agreed with agencies responsible for crude oil price analysis and forecast.
 - iii. While the amount for debt service passed in the 2018 Appropriation Act was reduced to ₦2,203.84 billion from the ₦2,233.84 billion proposed, it is important to ensure that Nigeria’s debt remains within sustainable limits in the short term while plans to exit indebtedness is in place for the long term.
 - iv. The projected FGN Independent Revenue in 2018 is ₦847.94 billion. Compared to the performance in achieving the targets for 2017, the 2018 proposal for FGN independent revenue is realistic (see Table 7).
 - v. The major sources of independent revenue in the 2017 budget were from refund to CRF, Settlement of coupon payment, Transfer Capital Development Account to CRF, provision for foreign debt service, TSA, Mopped up capital, NNPC Refund to FGN, Share of Excess PPT, Exchange Rate Difference, and Refund of Paris Club over reduction to CRF. It is therefore important that appropriate legal framework for these revenue sources are worked upon to ensure that monies generated are remitted to the federation account by all revenue generating agency.

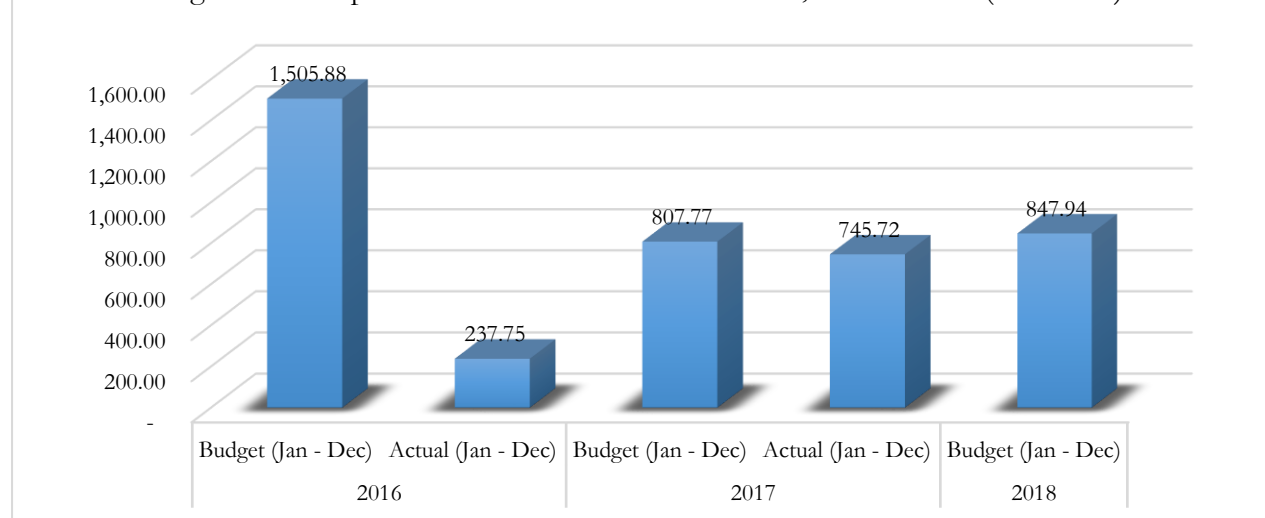
Table 7: FG Independent Revenue Performance 2016, 2017 & 2018 (₦ 'Billion)

Category of Revenue	2016			2017			2018
	Budget (Jan - Dec)	Actual (Jan- Dec)	Variance	Budget (Jan -Dec)	Actual (Jan - Dec)	Variance	Budget (Jan- Dec)
Independent Revenue	1,505.88	237.746	(1,268.13) (84.21%)	807.77	745.72	(62.05) (7.68%)	847.94

Source: Office of the Accountant General of the Federation (OAGF) & MBNP, NILDS Computation

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Fig 4: FG Independent Revenue Performance 2016, 2017 & 2018 (₦ 'Billion)



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