



2018 BUDGET

'Budget of Consolidation'

10 November 2017

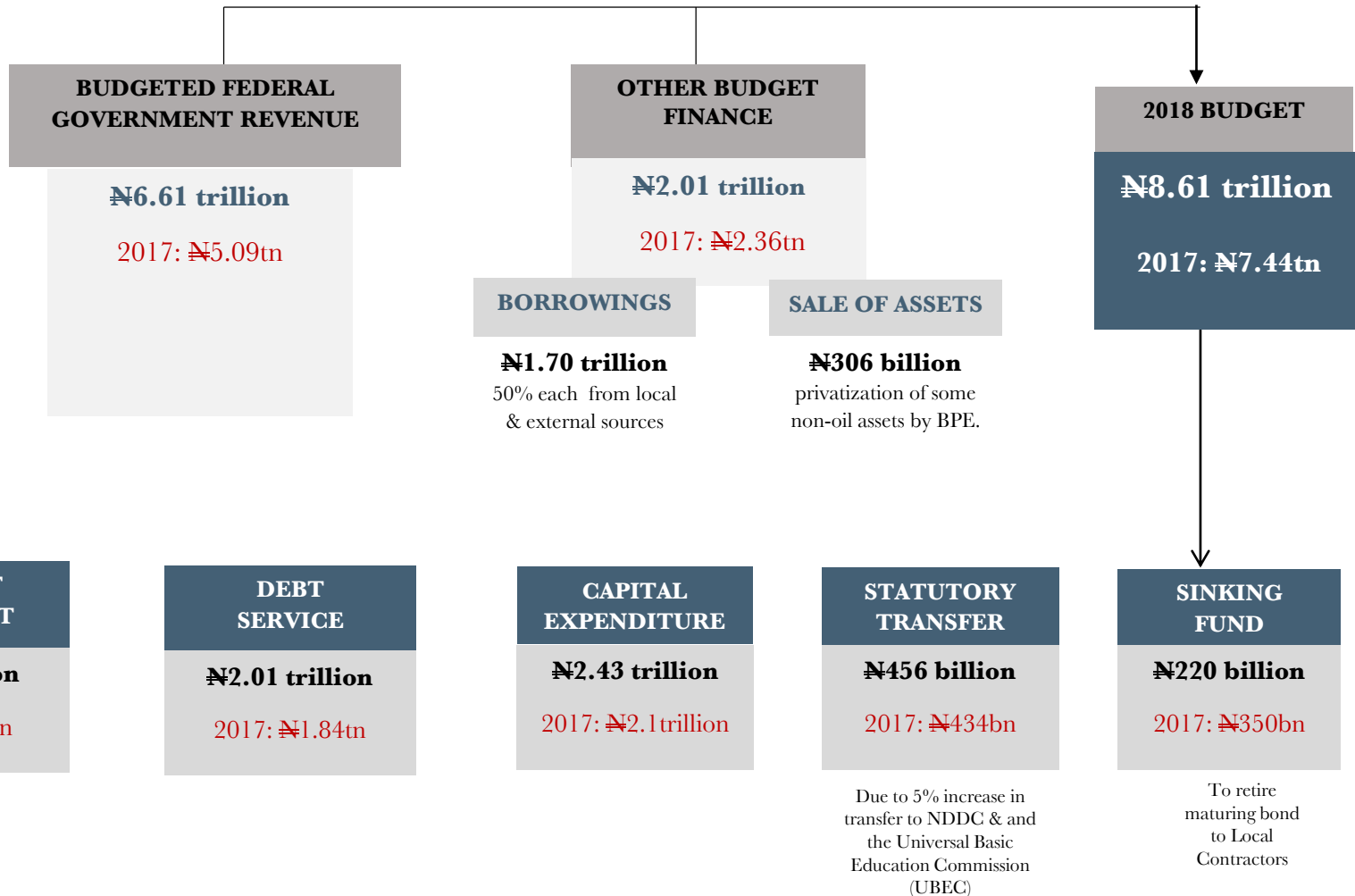
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2018 Budget

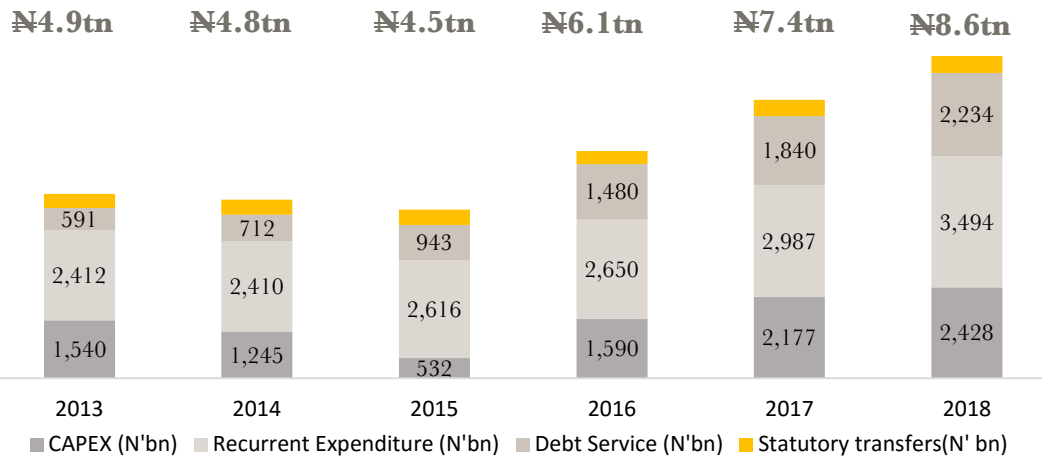


Buhari presented the Budget of Consolidation to the national assembly

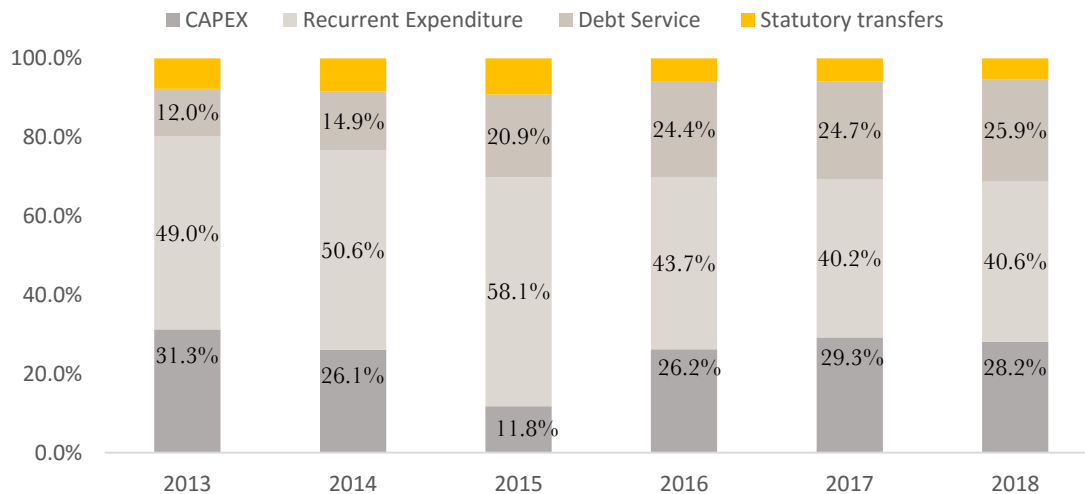


Recurrent still trumps capital outlay

challenges remain in reducing the proportion of recurrent outlay due to high personnel cost



- FG attributed the increase in personnel cost largely to provision for staff promotion arrears, and recruitments by the Military, Police Force and para-military agencies.
- Irrespective, despite the acclaimed savings of ₦180 billion monthly from elimination of ghost workers and savings by registering MDAs on the Integrated Personnel Payroll Information System (IPPIS) platform we note that the projections on personnel expenses are 14% higher relative to 2017 budget which raises doubts over the estimated savings.



*Debt service includes sinking fund
Source: Budget Office, ARM Research

Capital outlay mainly for ongoing projects

...many ongoing capital projects have been provided for in the 2018 Budget

Capital Expenditure (N'billion)	2016	2017	2018
Power, Works & Housing	423.0	553.7	555.9
Transportation	188.7	241.7	263.1
Special Intervention Programmes	200.0	150.0	150.0
Defence	130.9	139.3	145.0
Agriculture	46.2	103.8	119.0
Water Resources	46.1	104.2	95.1
Industry, Trade & Investment	5.9	81.7	82.9
Interior	61.7	63.8	63.3
Education	35.4	56.7	61.7
Health	28.7	55.6	71.1
FCT	29.3	30.4	40.3
Zonal Intervention Projects	100.0	100.0	100.0
North East Intervention Fund	12.0	45.0	45.0
Niger Delta	19.4	34.2	53.9

Source: Budget Office, ARM Research

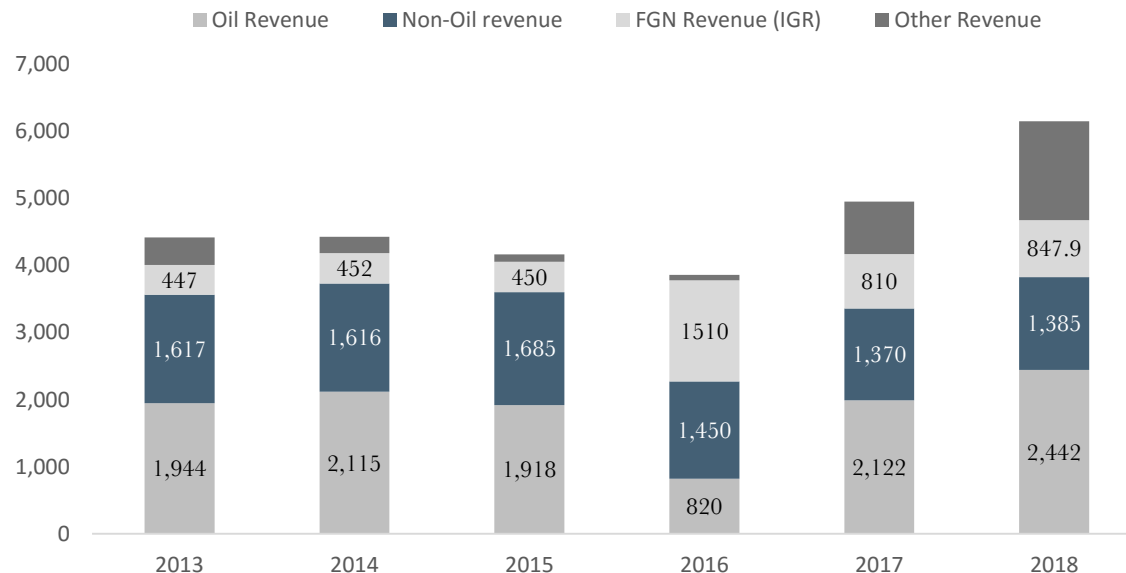
Key projects

- Mambilla hydro power project - ~~₦~~9.8 billion (inclusive of ~~₦~~8.5 billion counterpart funding)
- Transmission lines and substations - ~~₦~~12 billion (counterpart funding)
- National Housing Programme - ~~₦~~35.41 billion
- 2nd Niger Bridge - ~~₦~~10.00 billion
- Construction and rehabilitation of the strategic roads - ~~₦~~300 billion.

How realistic is the revenue assumption?

total revenue is 30% higher than prior year's budget

	2012	2013	2014	2015	2016	2017	2018
Crude Oil Price (\$/bbl.)	70.0	72.0	77.5	65.0	38.0	44.5	45.0
Production (mbpd)	2.5	2.0	2.3	2.3	2.2	2.2	2.3
Exchange Rate (\$1/N)	155	155	160	165	197	305	305



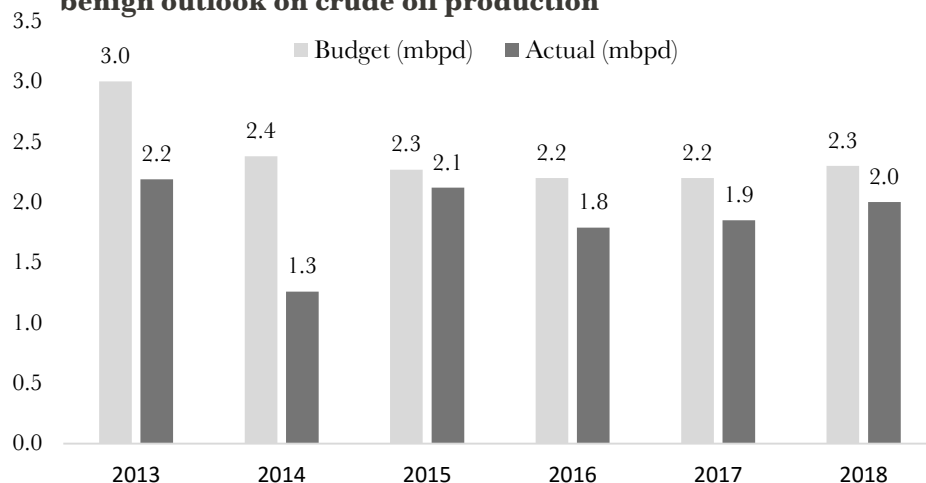
Revenue

- FG plans to raise the VAT rate for luxury items from 5% to 15%
- Companies Income Tax (CIT) - ~~₦~~794.7 billion
- Value Added Tax (VAT) - ~~₦~~207.9 billion
- Customs & Excise Receipts - ~~₦~~324.9 billion
- FG share of Tax Amnesty Income - ~~₦~~87.8 billion
- Recoveries - ~~₦~~512.4 billion
- Proceeds from the restructuring of government's equity in JV billion – ~~₦~~710 billion
- Other sundry incomes of ~~₦~~678.4 billion

Ambitious revenue guides to wider deficit

...actual will remain shy of projection

benign outlook on crude oil production



Only 51% of budgeted non-oil revenue in H1 17 was achieved

	2017 Budget	Budget (Jan - Jun 17)	Actual (Jan - Jun 17)
Crude Oil Price (\$'bbl.)	44.5	44.5	53.0
Production (mbpd)	2.2	2.2	1.8
Exchange Rate (\$1/N)	305	305	305
Oil revenue (₹mn)	2,122	1,061	961
Non-Oil (₹mn)	1,380	690	353
Others (₹mn)	1,589	791	1,116

Source: Budget Office, ARM Research

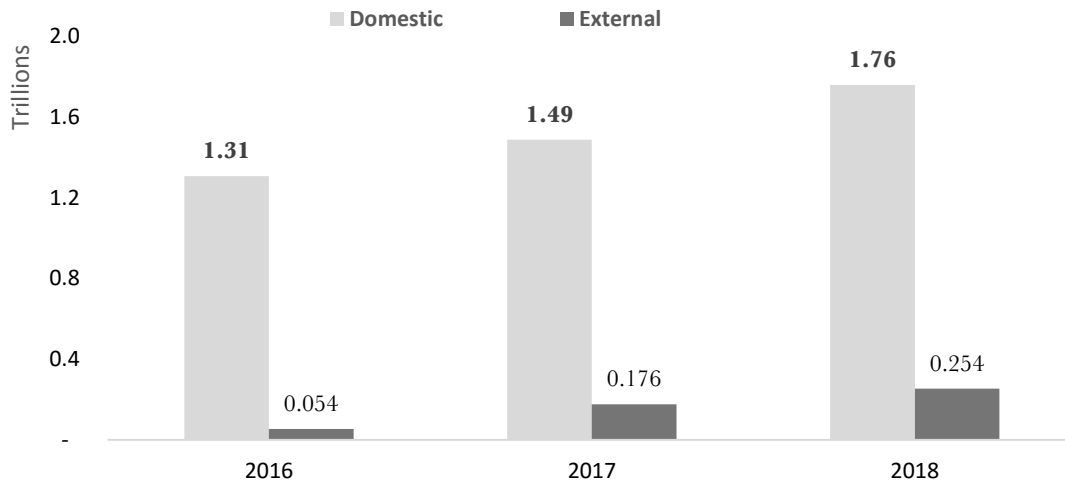
- Assumption for crude oil prices are roughly consistent in the near term
- But crude oil production assumption is much higher than our forecast and guides to an overly optimistic projection for oil revenue.
- Furthermore, the FG's projection for non-oil revenue is overly ambitious in our view.
- For context, government could only achieve about 51% of budgeted non-oil revenue in H1 17 on a prorated basis.
- While we believe that improved FX liquidity should provide support for imports and custom revenues, we note that imports activities still significantly lag 2014 and 2015 levels.
- Consequently, despite the FG plans to raise the VAT rate for luxury items from 5% to 15% from 2018, we think non-oil revenue will be shy from projections with 2018 fiscal deficit expected to come in higher than FG projections.

- We have assumed budget implementation of 90%
- Overall, we project fiscal deficit at ₦2.7 trillion - 41% greater than government projection.
- Thus, we see scope for elevated borrowing though tilting towards external sources.

	2018 Budget		Estimates	
		Bear	Base	Bull
Oil production (mbpd)	2.3	1.6	2.0	2.3
Oil price (\$/bbl)	45	30	50	60
Exchange rate (N/\$)	305	305	305	305
Oil and gas receipts (N' billion)	6,387	2,789	5,989	7,989
Net Oil Revenue (N' billion)	6,387	2,789	5,989	7,989
FG Share of oil revenue (N' billion)	2,442	1,060	2,276	3,036
Non-Oil revenue (N' billion)	1385	504	1,096	1100
FG independent revenue (N' billion)	847.9	213	743	800
Other revenue (N' billion)	1476	356	967	1250
FG Total revenue (N' billion)	6,607	2,133	5,081	6,186
FGN Expenditure (N' billion)	8,612	7,750	7,750	7,750
Fiscal deficit (N' billion)	-2,005	-5,617	- 2,669	-1,564

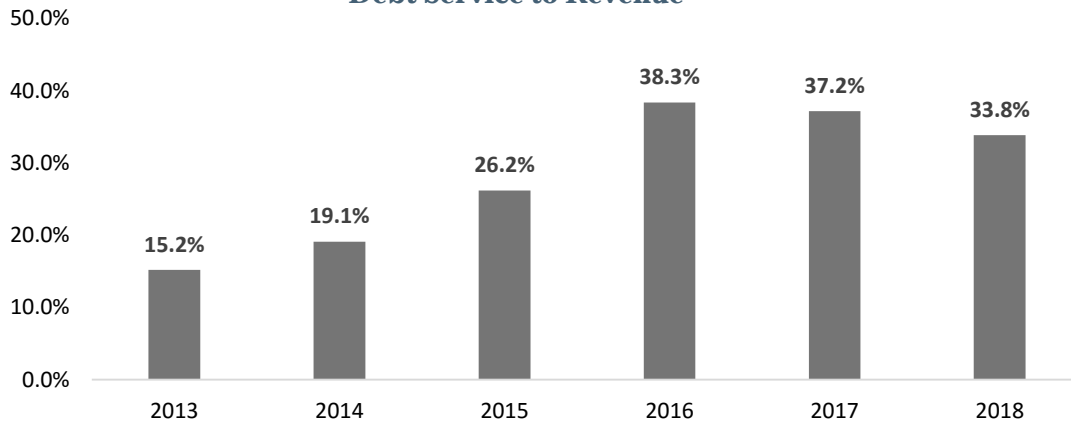
Debt strategy to change gear

Despite preference for external debt, local borrowing is still likely to run ahead



- Presently, domestic debt accounts for about 79% of the total debt.
- FG aims to reduce the proportion of our domestic debt to 60% by the end of 2019 and increase external debt to 40%.
- Plans to refinance maturing short-term debt with \$3 billion external refinancing.
- N3.7trillion (31% of the FG domestic debt) is in Treasury Bills with at interest cost of about 17%.
- We expect ramp-up in external and domestic borrowings

Debt Service to Revenue



Despite preference for external debt, local borrowing is still likely to run ahead

Scenario analysis of 2018 proposed borrowings

	(Asset sale + \$2.78bn foreign debt)	Asset sale + \$1.5bn foreign debt	Asset sale + \$1bn foreign debt	50% asset sale + \$2bn foreign debt	50% asset sale + \$1.5bn foreign debt	50% asset sale + \$1bn foreign debt	No asset sale + \$2.78bn foreign debt	No asset sale + \$1.5bn foreign debt	No asset sale + \$1bn foreign debt
N'billion									
Projected deficit	2,669	2,669	2,669	2,669	2,669	2,669	2,669	2,669	2,669
Sale of Assets	306	306	306	153	153	153	-	-	-
Foreign Borrowings	850	458	305	610	458	305	850	458	305
Domestic Borrowings	1,513	1,906	2,058	1,906	2,058	2,211	1,819	2,211	2,364
CBN ways and means*	220.6	221	221	221	221	221	221	221	221
Borrowings from capital market	1,292	1,685	1,837	1,685	1,837	1,990	1,598	1,990	2,143
2017 net issuance**	1,153	1,153	1,153	1,153	1,153	1,153	1,153	1,153	1,153
YoY increase ((N billion)	139	531	684	532	684	837	445	837	990

Source: Budget Office, ARM Research

* 5% of 2017 projected revenue

** Net issuance till date + projected borrowings over the rest of the year

Good on paper but implementation is crucial



The call for increasing Public-Private Partnership (PPP) and enabling policies gets louder

- All in all, the budget looks positive and aligns with the Economy recovery and growth plan (ERGP).
- That said, implementation is key
- In our view, the budget performance would be strongly impacted by the level of revenue accretion, as oil and non-oil revenues are largely susceptible to downside risks.
- Delivering on this target of consolidation will require a huge political will to rein in wasteful expenditure, a sustainable debt financing strategy as well as a focus on developmental Capital Expenditure (CAPEX).
- This brings us back to the urgent need to implement critical reforms that will encourage private sector participation to help bridge the funding gap.

Thank you





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