Economic Commentary

Fiscal Position Getting Critical

The Finance Minister presented a revised version of the budget to the National Assembly on Wednesday. In the revised framework, a lower oil price of $30/barrel was adopted from $57/barrel approved in December 2019. Also, she noted adjustments to non-oil revenue with the major change emanating from expected Customs revenue (from N1.5 trillion to N943 billion) and cut in income from planned privatization of some assets by 50%. Also, expenditure cut of N1.5 trillion was announced without clear guidance on the affected expenditure lines. While we believe these changes are necessary, the cut in expenditure limits the ability of the fiscal authority in providing adequate stimulus in the face of a critical economic shutdown.

In view of the revised oil price benchmark, we reckon that net oil & gas revenue to the federation account could decline 17.4% YoY to N2.17 trillion and FGN share of oil and gas revenue declining 28% YoY to N914 billion (higher than N698 billion in 2016). Also, with the still weak global demand, offering of material discounts as seen in the last few days, with Bonny light trading at a discount to Brent at $25/barrel, could see a much deeper moderation in oil revenue. In line with the cut to customs revenue and cosmetic changes for CIT and VAT, combined non-oil revenue could decline by 29% YoY to N942 billion (similar to 2016 and 2017). Also, with the Minister guiding to a 50% reduction in expected privatization proceeds, both independent revenue and other revenue expected to fall short of the prior year by 43% and 48% respectively. Overall, with the planned changes announced by the Minister, total 2020 FGN revenue could decline by 34% YoY to N2.58 trillion (similar to 2017).

On expenditure, given the limited clarity on the items to be adjusted, we identify capex as the major expenditure line to be revised significantly. On debt service, both World Bank and IMF on Wednesday announced a debt relief for poorest countries, with Nigeria listed. However, Multilateral debt service only accounts for 26% of total debt service over 9M 19, with bilateral and commercial debt service having proportion of 14% and 58% respectively. Assuming the entire multilateral obligations are given a forbearance, the impact on debt servicing will be minimal, when coupled with the impact of domestic debt service. As a result, we estimate debt service of N2.18 trillion compared to budget estimate of N2.73 trillion. We do not see any changes being made to recurrent expenditure in the short term, and assume a 100% implementation which results in total expenditure of N6.97 trillion and a deficit of N4.39 trillion (+8% YoY).

Despite the bountiful stimulus package of N3.5 trillion announced by the apex bank, there is yet to be a definitive plan from the fiscal authority. Irrespective of the size of the deficit, it is not a good time to cut expenditure especially when recurrent expenditure is sticky downwards. Notwithstanding the state of the nation’s rainy day funds, the unfolding events require much more sizeable stimulus than that offered by the CBN in the event of an escalation.

In all, to finance a large chunk of the deficit and the required stimulus from the fiscal authority, we do not rule out massive bailout funds from both IMF and the World Bank if events deteriorate beyond current levels. While the FGN currently has a total of $9.82 billion in outstanding obligation to the World Bank, it has a clean slate with the IMF. While a forbearance could be granted by the World Bank (not impossible), a resounding liquidity support is still needed to revive the economy and provide needed support if events escalate. Also, while noting the crowding out effect of such actions, a more aggressive borrowing from the domestic economy cannot also be ruled out. Post the pandemic phase, the FGN may have to revisit discussions on alternative financing arrangements, such as Public Private Partnerships in funding the infrastructure gaps in the country including much needed healthcare infrastructure.

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