



Nigeria's Economic Update: August 2022

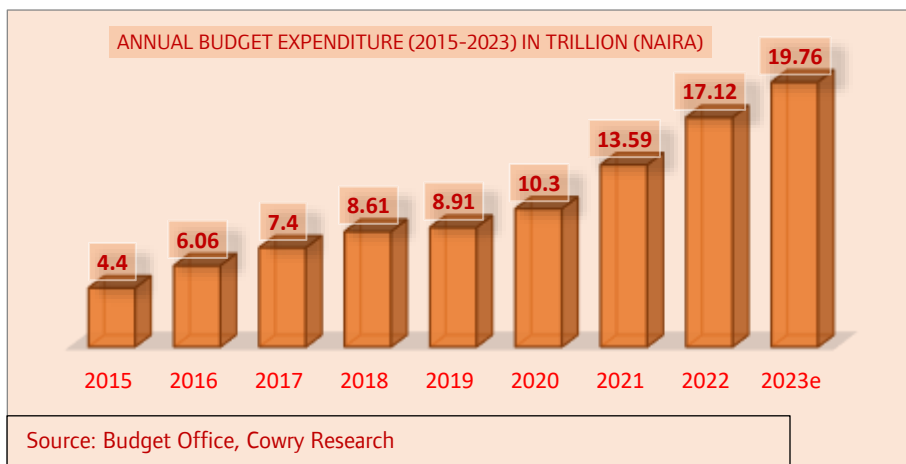
MPR: 14% July Inflation Rate:
19.64 %

Q2 Real GDP Growth Rate: 3.54%

No Respite for FG's Borrowings With N19.76trn In Proposal For 2023 Budget

A look at the FGN 2023 Budget Circular presented by Zainab Ahmed, Nigeria's Minister of Finance, Budget and National Planning, Nigeria's federal government has proposed the sum of N19.76 trillion for its 2023 budget while its revenue underperformance and expenditure efficiency at both federal and states levels remains a point for discussion. This may likely leave Nigeria hanging on a fiscal cliff.

Just in the wake of the oil theft mantra which has brought into light Nigeria's ineptness to benefit from the rally oil price to grow FX earnings, reserves and its current account balance, the aggregate FGN revenue available for budget (including GOEs) for fiscal year 2023 is projected at N8.46 trillion (15.1% or N1.51 trillion less than the 2022 Budget), while the aggregate expenditure level is projected to be N19.76 trillion (inclusive of N1.68 trillion for GOEs, N40.52 billion for grants/donor funded projects and N1.77 trillion for multilateral / bi-lateral loan funded projects).



A breakdown of the aggregate expenditure shows that there are Statutory Transfers of N722.11 billion, Debt Service of N6.31 trillion, Sinking Fund of N247.73 billion, N1.20 trillion to service borrowings from CBN and Recurrent (non-debt) expenditure of N8.52 trillion. Meanwhile, a total of N6.15 trillion (inclusive of N779.31 billion for GOEs) is provided for personnel and pension costs and then N4.37 trillion has been set aside for capital expenditures in 2023, representing 15% of the total expenditure (short of the 30% target set by the current administration), and is 25.4% less than the 2022 provision of N5.86 trillion.

The Minister, who disparaged that FG may be unable to provide for treasury-funded capital projects next year, especially due to dwindling revenue and payment of subsidies on PMS, also pointed out that crude oil production challenges and PMS subsidy deductions by the NNPC constitute a major threat to the country's revenue growth targets.

Furthermore, the budget deficit is projected to be N11.30 trillion in 2023, up from N7.35 trillion in 2022 which is 5.01% of the estimated 2023 GDP and defies the 3% threshold as enshrined in the Fiscal Responsibility Act, 2007. But with the constrained fiscal space for the FG, this deficit is projected to hit N12.41 trillion in

Key Macroeconomic Assumptions to Nigeria's Proposed Budget				
Description	2021 (Actual)	2022 (Revised)	2023e	2024e
Oil Price Benchmark (\$/b	71.3	73	70	70
Oil Production (mbpd)	1.48	1.6	1.69	1.69
Exchange Rate (N/\$)	383	410.15	435.57	435.57
Inflation (%)	16.98	16.11	17.16	17.16
Non-Oil GDP (N'bn)	166,439.50	188,278.10	214,049.50	214,049.50
Oil GDP (N'bn)	9,636.00	10,652.00	11,457.80	11,457.80
Nominal GDP (N'bn)	176,075.50	198,930.00	225,507	225,507
GDP Growth Rate (%)	3.4	3.55	3.75	3.75
Imports	20,844.00	23,145.30	24,385.60	24,385.60
Nominal Consumption (N'bn)	118,437.10	120,172.60	121,933.10	121,933.10

Source: Budget Office, Cowry Research

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2023 from N7.35 trillion this year and represents 196% of FGN's total revenue or 5.5% of the estimated GDP.

However, the projected fiscal outcomes for 2023 are presented under two scenarios where:

Case 1: FG's projected revenues for 2023 printing at N6.34 trillion with N373.17 billion or 5.9% expected from oil sources and N5.97 trillion from non-oil sources.

Case 2: In addition to subsidy reform, this scenario assumes an aggressive implementation of cost-to-income limits of GOEs, with these, the 2023 FGN Revenue is projected at N8.46 trillion (15.1% or N1.51 trillion less than the 2022 Budget) but N2.12 trillion more than case 1. Here, N990 billion or 23% is expected from oil sources.

Concerning debt servicing, N6.31 trillion has been allocated for 2023 and this amount comprises N3.29 trillion for domestic debt, N1.81 trillion for foreign debt, and falls in line with the projections by IMF that Nigeria will expend 100% of her revenues on debt services in 2023. Also, N1.2 trillion is allocated for the servicing of the Ways & Means with the CBN which currently stands above N20 trillion. For more clarity, it is expected that FG will turn to international lenders for more borrowings of over N11 trillion and consequently drive Nigeria's debt levels above N50 trillion.

Cowry's look at the key assumptions of the proposed 2023 budget raises the flag that more Naira devaluations will be made a reality as FG hopes for an exchange rate of N435.57/USD as against 2022 (revised) projections of N410.15/USD. Also, with projected daily oil production at 1.69mbpd and oil price benchmark at \$70, subsidy payments (N6.7 trillion) may likely gulp earnings from oil sources as FG has failed to take advantage of the current rise in the oil price which is above the \$73/b in the 2022 revised projections.

The above is predicated on the upward-pressure swings in prices which are heavily driven by the current and lag effect of the global price surge due to the Russia-Ukraine war, domestic insecurity, rising costs of imports, exchange rate depreciation as well as other supply-side constraints.

Meanwhile, we see FG's walk into the international debt market in 2023 (election year) dampened by rising yields which will place the debt management office (DMO) under pressure to deliver on the funding target. Thus, this looks quite a stretch given the tight liquidity conditions in the global debt market, adding more pressure on the external front due to constraints to tapping external borrowings.