

Economic Update

Nigeria | Economy | Fiscal Operations | July 24, 2017

PAC RESEARCH

1Q'17 Fiscal operations: Actual revenue significantly lower than budget estimate

In the first quarter to March 2017, federally-collected revenue stands at ₦1,502 billion, lower than the budget estimate of ₦2,378 billion by 36.8% but higher than ₦1,277 billion and ₦1,338 billion recorded in the corresponding period of the previous year and the fourth quarter of 2016 respectively by 17.6% and 12.3%. The weakness in the revenue relative to the budget estimate in the period was due to the shortfall in receipts from both oil revenue source and non-oil revenue source. In the period, the oil sector revenue of ₦817 billion was lower than the budget estimate of ₦883 billion by 7.5% which was a result of lower production. On the contrary, the period's oil sector revenue was higher than ₦666 billion recorded in the first quarter of 2016 and ₦673 billion in the fourth quarter of the previous year by 22.7% and 21.4% accordingly. In addition, budgeted crude oil production for the year was 2.20 million barrel per day (mbpd) compared with the actual average daily production of 1.83 million barrel in the first quarter of 2017, down by 16.8%. On the other hand, Brent Crude Oil traded at an average price of US\$55.75 per barrel in the period, up by 31.2% compared with the proposed benchmark price of US\$42.50 per barrel. Also, the daily average price in the review period was higher than US\$43.81 per barrel in the corresponding period of the previous year by 27.3%.

Furthermore, the oil sector revenue contributed 54.4% to the total federally-collected revenue in the period compared with 52.2% and 50.3% in the first quarter of 2016 and the fourth quarter of 2016 respectively. Further analysis revealed that crude oil/gas sales accounted for 12.4% of the oil sector revenue, while Petroleum Profit Tax (PPT) and "Others" contributed 39.8% and 47.9% respectively. Crude oil/gas sales recorded revenue of ₦101 billion in the period, up by 23.2% y/y and 27.8% q/q compared with ₦82 billion in 1Q'16 and ₦79 billion in 4Q'16 in that order. Also, PPT/Royalties' revenue of ₦325 billion improved by 3.5% and 19.0% compared with ₦314 billion in the first quarter of 2016 and ₦273 billion in the fourth quarter accordingly. In the same way, revenue line item termed "Others" increased by 44.8% y/y and 21.8% q/q to ₦319 billion in the review period.

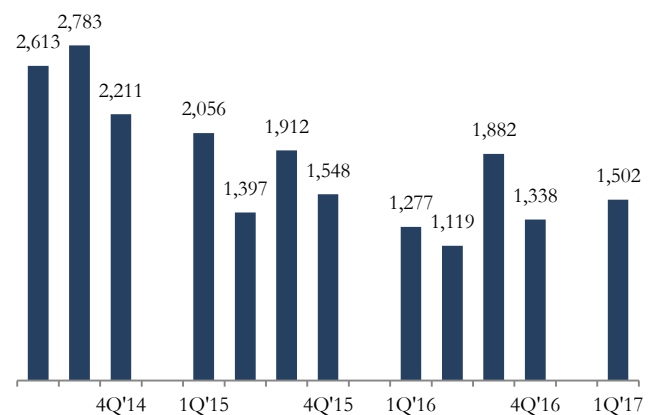
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Table 1: Gross Federation Account Revenue (₦ billion)

| | 4Q'15 | 1Q'16 | 2Q'16 | 3Q'16 | 4Q'16 | 1Q'17 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|
| Federally-collected revenue (gross) | 1,548 | 1,277 | 1,119 | 1,882 | 1,338 | 1,502 |
| Oil revenue | 831 | 666 | 537 | 817 | 673 | 817 |
| Non-oil revenue | 717 | 611 | 581 | 1,065 | 665 | 684 |

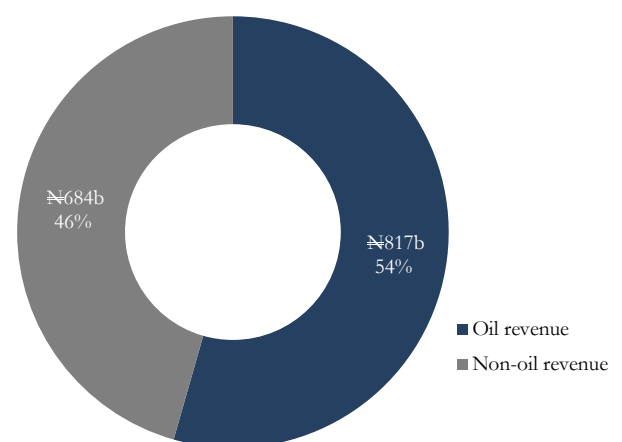
Source: CBN, PAC Research

Fig. 1: Gross federation account revenue (₦ billion)



Source: CBN, PAC Research

Fig. 2: Oil revenue and non-oil revenue in 1Q'17



Source: CBN, PAC Research

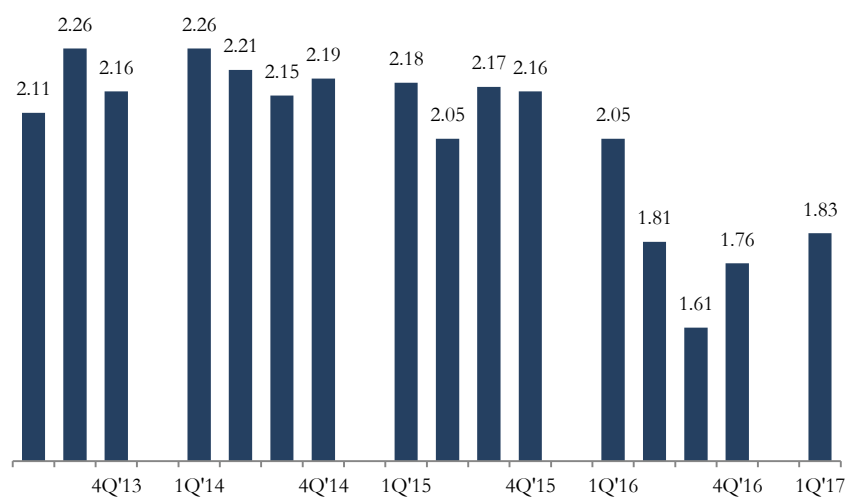
In our view, if the series of disruptions as a result of shut-downs in various oil terminals can be reduced drastically there will be improvement in crude oil production. However, if the production cut exception granted Nigeria by the oil cartel is reversed it will have an impact on the nation's crude oil output with consequent negative effect on the revenue from the sector.

Fig. 3: Prices of Brent crude oil (US\$ per barrel)



Source: Bloomberg, PAC Research

Fig. 4: Crude oil production (mbpd)



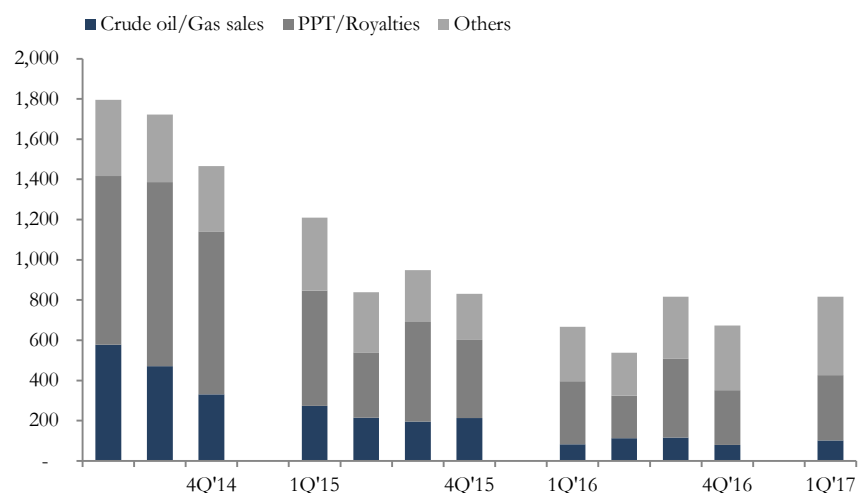
Source: CBN, PAC Research

Table 2: Components of gross oil revenue (₦ billion)

| | 1Q'15 | 2Q'15 | 3Q'15 | 4Q'15 | 1Q'16 | 2Q'16 | 3Q'16 | 4Q'16 | 1Q'17 |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Oil revenue | 1,211 | 839 | 949 | 831 | 666 | 537 | 817 | 673 | 817 |
| Crude/gas sales | 274 | 215 | 196 | 213 | 82 | 113 | 116 | 79 | 101 |
| PPT/Royalties | 573 | 325 | 495 | 389 | 314 | 213 | 392 | 273 | 325 |
| Others | 363 | 299 | 258 | 229 | 270 | 212 | 309 | 321 | 391 |

Source: CBN, PAC Research

Fig. 5: Components of crude oil revenue (₦ billion)



Source: CBN, PAC Research

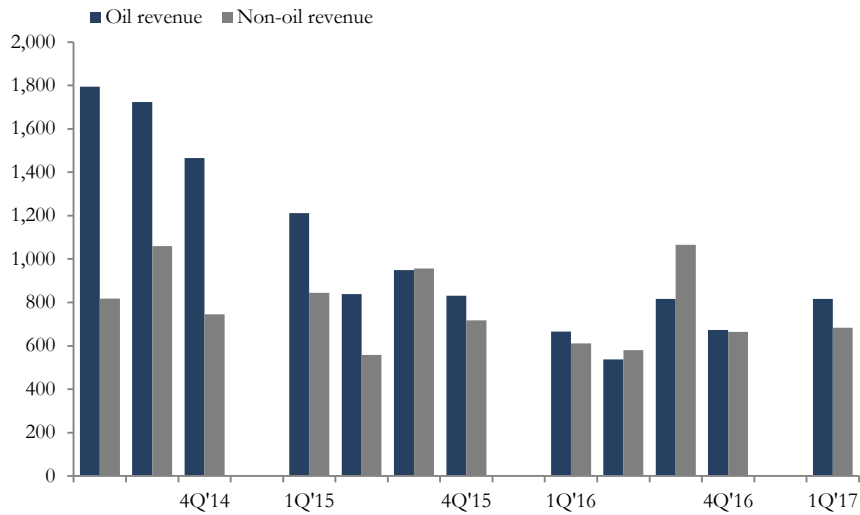
Non-oil revenue contributes 45.6% to total revenue. For the review quarter, non-oil revenue source recorded ₦684 billion, down by 54.2% compared with the budget estimate of ₦1,495 billion but it increased by 11.9% and 21.4% relative to ₦666 billion and ₦673 billion respectively in the first quarter and the fourth quarter of the previous year. The wide gap between the budgeted revenue and the actual revenue was due to a weakness in the receipts from all the components of non-oil revenue source except Customs and Excise Duties in the period.

Furthermore, Value Added Tax (VAT) contributed 32.5% to the total non-oil revenue in the period; it recorded ₦222 billion, up by 12.7% and 6.2% against ₦197 billion in 1Q'16 and ₦209 billion in 4Q'16 respectively. On the contrary, Company Income Tax declined by 9.7% and 15.0% to ₦159 billion against ₦176 billion in the first quarter of 2016 and ₦187 billion in the fourth quarter of the previous year accordingly, the revenue component accounted for 23.2% of the total non-oil revenue. Customs and Excise Duties recorded mixed performance in the period with revenue of ₦144 billion, up by 6.7% y/y but it declined by 8.3% q/q compared with ₦135 billion in 1Q'16 and ₦157 billion in 4Q'16 in that order. It is worthy of note to state that Customs and Excise Duties contributed 21.1% to the revenue source. The non-oil revenue line item termed "Others" improved by 54.4% and 42.0% to ₦159 billion against ₦103 billion and ₦112 billion respectively in the first and the fourth quarter of 2016.

The weak performance of the non-oil sector in the period reflected the harsh business operating environment which was consequent to the persistent scarcity of foreign exchange for importers, infrastructural deficiency and the dismal level of ease of doing business. In our view, if the efforts of the policymakers in improving the availability of foreign exchange and reducing the level of tax evasion among others can be sustained, there will be a significant improvement in the receipts from the revenue source in the months ahead. This will reduce the level of vulnerability of the nation's fiscal dependence on oil revenue.

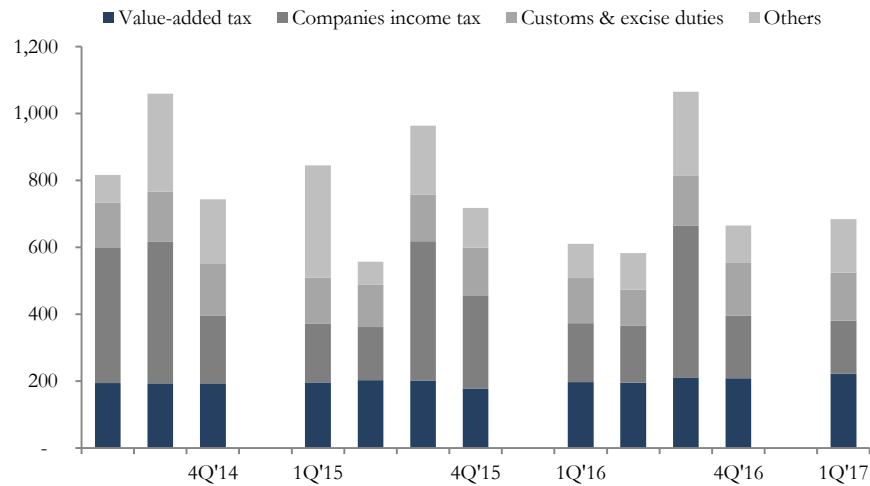
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Fig. 6: Oil revenue and non-oil revenue (₦ billion)



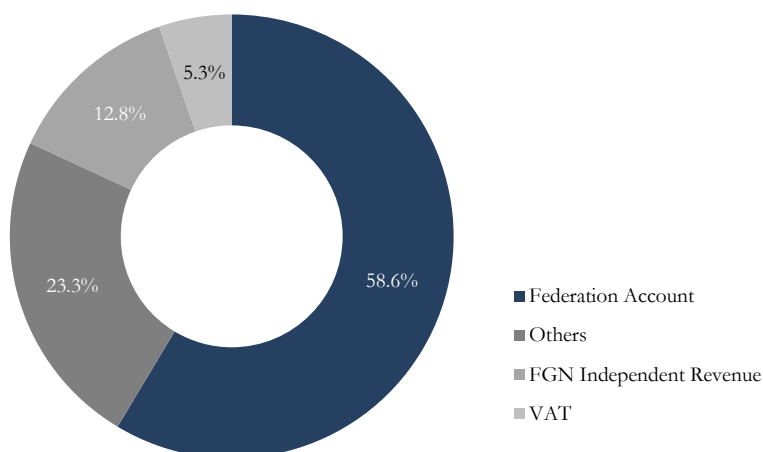
Source: CBN, PAC Research

Fig. 7: Components of gross non-oil sector revenue (₦ billion)



Source: CBN, PAC Research

Fig. 8: Components of Federal Government retained revenue in 1Q'17



Source: CBN, PAC Research

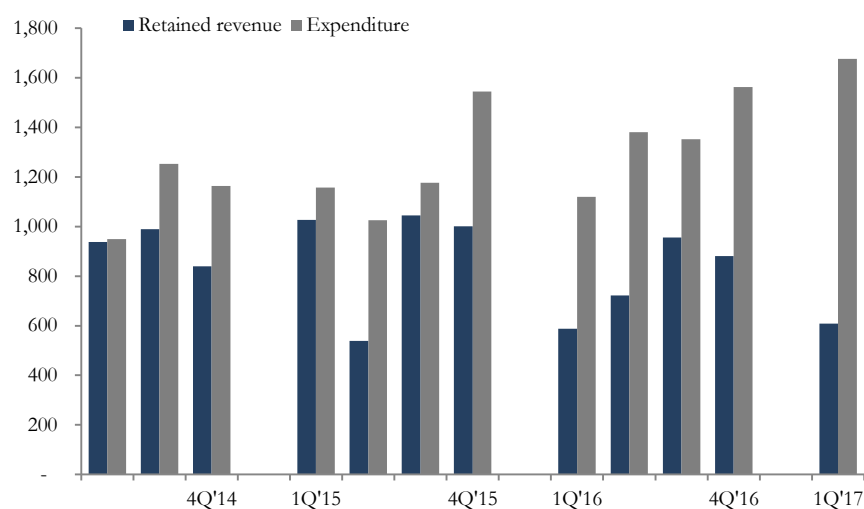
Table 3: Components of gross non-oil revenue (₦ billion)

| | 1Q'15 | 2Q'15 | 3Q'15 | 4Q'15 | 1Q'16 | 2Q'16 | 3Q'16 | 4Q'16 | 1Q'17 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Non-oil revenue | 845 | 558 | 964 | 717 | 611 | 581 | 1,065 | 665 | 684 |
| Value-added tax | 196 | 203 | 202 | 178 | 197 | 195 | 210 | 209 | 222 |
| Companies income tax | 175 | 159 | 416 | 279 | 176 | 172 | 454 | 187 | 159 |
| Customs & excise duties | 138 | 128 | 139 | 142 | 136 | 107 | 150 | 157 | 144 |
| Others | 336 | 68 | 207 | 119 | 103 | 109 | 251 | 112 | 159 |

Source: CBN, PAC Research

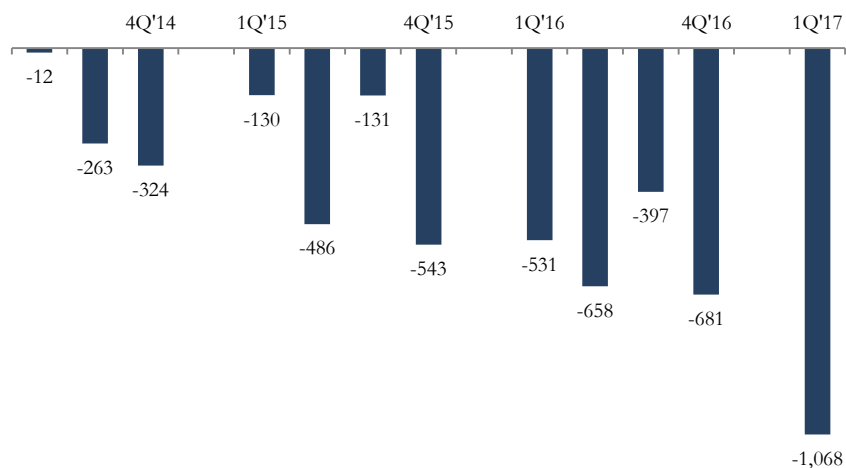
Federal Government's deficit exceeds budget estimate by 92.4% on the back of increased capital expenditure spending. For the review period, the total expenditure of the Federal Government amounted to ₦1,676 billion, up by 6.9% against the budget estimate of ₦1,568 billion. Also, the review quarter's total expenditure was higher by 7.3% and 49.8% compared with ₦1,562 billion and ₦1,119 billion respectively in the preceding quarter and the first quarter of 2016. The increase in the total expenditure was attributable to a rise in capital expenditure spending in the period which amounted to ₦531 billion against a sum of ₦84 billion in the fourth quarter of 2016. The capital expenditure in the period accounted for 31.7% of the total expenditure, while the re-current expenditure of ₦1,061 billion represented 63.3% and statutory transfer of ₦84 billion accounted for the balance of 5.0%. Further analysis revealed that non-debt component of the re-current expenditure accounted for 77.0%, that is, ₦817 billion whereas debt service of ₦244 billion represented 23.0%. Consequently, the fiscal operations of the Federal Government in the quarter resulted to a deficit of ₦1,068 billion, higher than the budgeted deficit of ₦555 billion by 92.4%. Also, the deficit was above the preceding quarter's deficit of ₦681 billion and the first quarter 2016 deficit of ₦531 billion by 56.8% and 101.1% accordingly.

The increase in the total expenditure was attributable to a rise in capital expenditure spending in the period which amounted to ₦531 billion...

Fig. 9: Federal Government's retained revenue and expenditure (₦ billion)

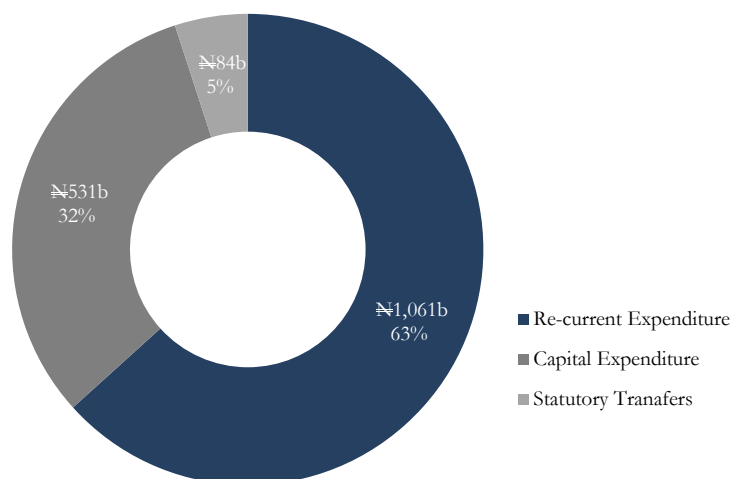
Source: CBN, PAC Research

Fig. 10: Federal Government's fiscal deficit (₦ billion)



Source: CBN, PAC Research

Fig. 11: Components of Federal Government expenditure in 1Q'17



Source: CBN, PAC Research

Table 4: Federal Government's fiscal operations (₦ billion)

| | 2Q'15 | 3Q'15 | 4Q'15 | 1Q'16 | 2Q'16 | 3Q'16 | 4Q'16 | 1Q'17 |
|------------------|-------|-------|-------|-------|-------|-------|-------|--------|
| Retained revenue | 539 | 1,045 | 1,005 | 588 | 722 | 955 | 881 | 608 |
| Expenditure | 1,025 | 1,176 | 1,544 | 1,119 | 1,380 | 1,352 | 1,562 | 1,676 |
| Deficit | -586 | -131 | -544 | -531 | -657 | -397 | -681 | -1,068 |

Source: CBN, PAC Research

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