

Economic Update

Nigeria | Economy | Fiscal Operations | July 06, 2017

PAC RESEARCH

4Q'16 Fiscal operations: Declining revenue widens fiscal deficit

In the fourth quarter to December 2016, federally-collected gross revenue amounted to ₦1,434 billion, down by 39.7% compared with the budgeted revenue estimate of ₦2,378 billion. Also, the actual revenue in the quarter was lower than ₦1,846 billion and ₦1,548 billion in the third quarter of 2016 and the fourth quarter of 2015 respectively by 22.3% and 7.4%. The decline in the revenue generated in the period was a result of weakness in both oil revenue and non-oil revenue sources; oil revenue of ₦673 billion was recorded in the period against budgeted estimate of ₦883 billion, i.e. a decline of 23.8%. Also, the non-oil revenue was down by 17.6% q/q and 19.0% y/y compared with ₦817 billion in the preceding quarter and ₦831 billion in the corresponding quarter of the previous year. We cannot ascertain the reason for the decline in the revenue generated from oil in the period compared with the preceding quarter; according to our analysis average oil production of 1.76 million barrel per day (mbpd) in the review quarter was higher than 1.61 mbpd in the third quarter of 2016 by 9.3%, although there was a decline of 18.5% against the production of 2.16 mbpd in the fourth quarter of 2015. In addition, average price of Brent Crude Oil in the fourth quarter of 2016 was US\$55.17 per barrel, i.e. a marginal increase of 0.7% compared with average price of US\$54.80 per barrel in the corresponding quarter of the previous year.

Furthermore, revenue from oil contributed 46.9% to total federally-collected revenue in the period compared with the contribution of 53.7% in the fourth quarter of 2015. Further analysis revealed that revenue from sale of crude oil i.e. ₦79 billion accounted for 11.7% of the total oil revenue in the quarter, while Petroleum Profit Tax/Royalties represented 40.6% of the oil revenue and the revenue line termed 'others' accounted for 47.7%. In addition, revenue from crude oil declined by 31.9% q/q and 62.9% y/y, while revenue derived from PPT/Royalties which stood at ₦273 billion dropped by 30.4% and 29.8% compared with ₦382 billion in the third quarter of 2016 and ₦389 billion in the fourth quarter of 2015 respectively. On the other hand, revenue from line items called 'others' was ₦321 billion, that is an increase of 3.9% q/q and 40.2% y/y.

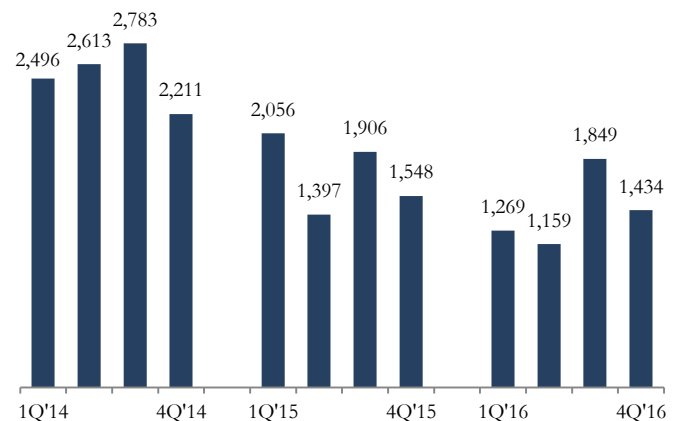
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Table 1: Gross Federation Account Revenue (₦ billion)

	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16
Federally-collected revenue (gross)	1,912	1,548	1,276	1,119	1,849	1,434
Oil revenue	949	831	666	537	817	673
Non-oil revenue	956	717	610	581	1,031	761

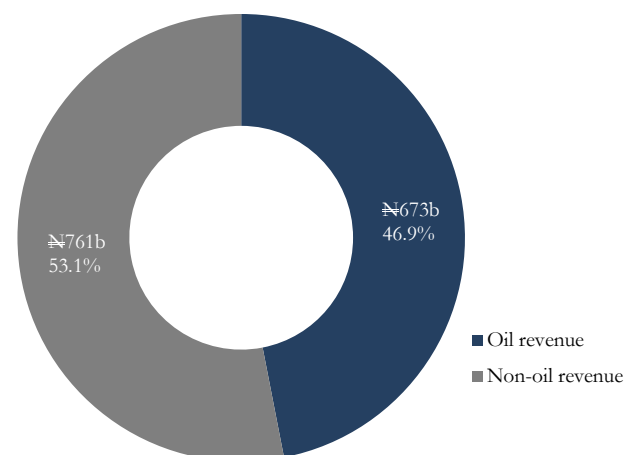
Source: CBN, PAC Research

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



Source: CBN, PAC Research

Fig. 2: Oil revenue and non-oil revenue in 4Q'16



Source: CBN, PAC Research

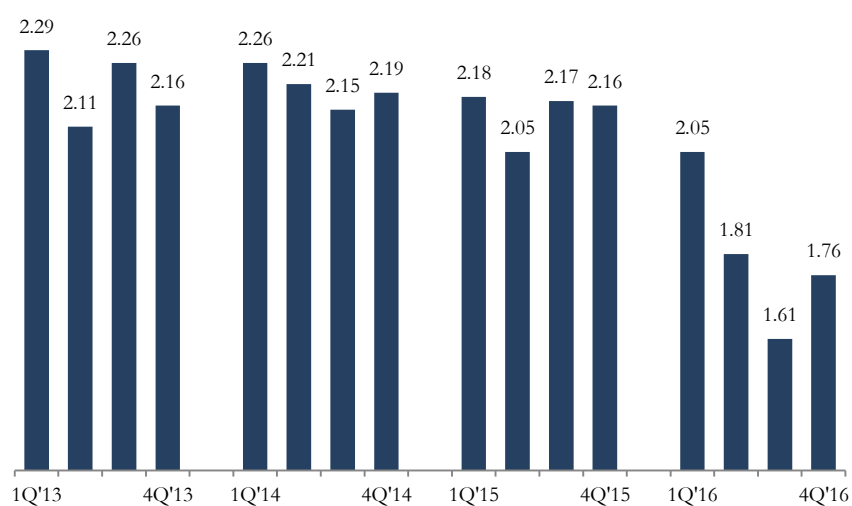
In our view, if the relative peaceful atmosphere in the oil producing region can be sustained and the optimism of improvement in the prices of crude oil in the international market on the back of production cut among members of the cartel can be achieved, then revenue from oil sources is expected to improve in the quarters ahead.

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



Source: Bloomberg, PAC Research

Fig. 4: Crude oil production (mbpd)



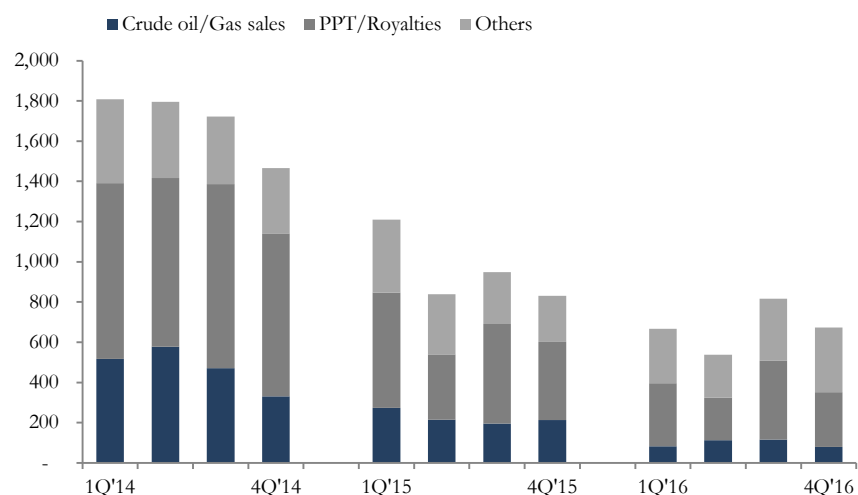
Source: CBN, PAC Research

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

	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16
Oil revenue	1,466	1,211	839	949	831	666	537	817	673
Crude/gas sales	331	274	215	196	213	82	113	116	79
PPT/Royalties	810	573	325	495	389	314	213	392	273
Others	325	363	299	258	229	270	212	309	321

Source: CBN, PAC Research

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



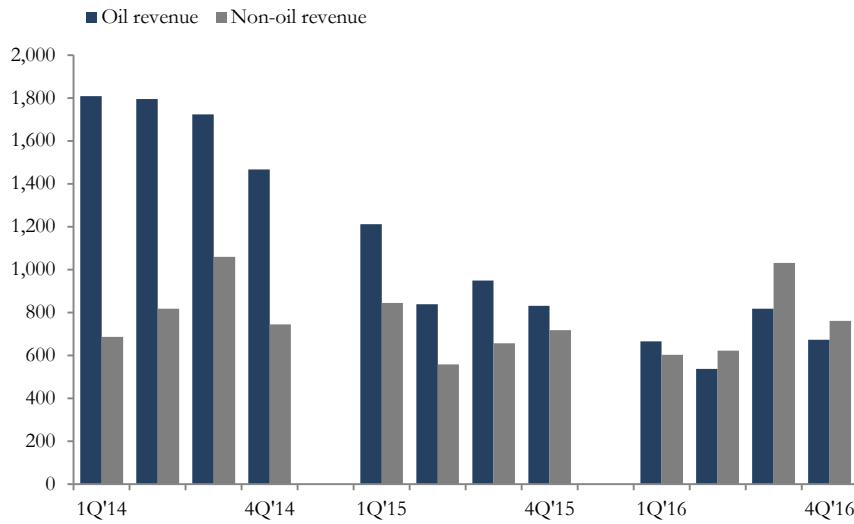
Source: CBN, PAC Research

Non-oil revenue declines by 26.2% q/q but increases by 6.1% y/y on the back of a higher revenue from FGN independent revenue source. In the review quarter, the performance of the non-oil revenue source was below the budgeted estimate, all the components of the revenue source declined compared with the preceding quarter. The sum of ₦761 billion generated in the quarter was down by 50.9% compared with the non-oil budgeted revenue estimate of ₦1,551 billion for the quarter. The weak performance of the revenue source was due to the lower revenue generated by all the components of the non-oil revenue source except Custom and Excise Duties compared with the budgeted estimates. In addition, the non-oil revenue for the quarter was down by 26.2% relative to ₦1,031 billion in the preceding quarter but higher by 6.1% compared with ₦717 billion generated in the fourth quarter of the previous year.

Furthermore, Value Added Tax (VAT) declined marginally by 0.5% q/q to ₦209 billion relative to ₦210 billion in the third quarter but it increased by 17.4% compared with ₦178 billion in the fourth quarter of the previous year. In addition, Customs and Excise Duties recorded a sum of ₦157 billion, up by 4.7% q/q and 10.6% y/y compared with ₦150 billion in the preceding quarter and ₦142 billion in the same period of the previous year respectively. Also, the revenue line item termed 'others' declined by 3.7% to ₦209 billion compared with ₦150 billion in the third quarter, on the contrary it improved by 75.6% relative to ₦119 billion generated in the fourth quarter of 2015. The weakness in the performance of the non-oil revenue source is a reflection of the declining business activities across the nation's border, which was consequent to the lingering issue of scarcity of foreign exchange and the general weakness in economic activities in the nation. In our view, if policymakers can sustain the current on-going efforts to reform tax collection policies and reduce the incidence of tax evasion among other factors, the non-oil sector revenue generation will improve, which might lead to a reduction in the level of reliance on revenue from oil sector.

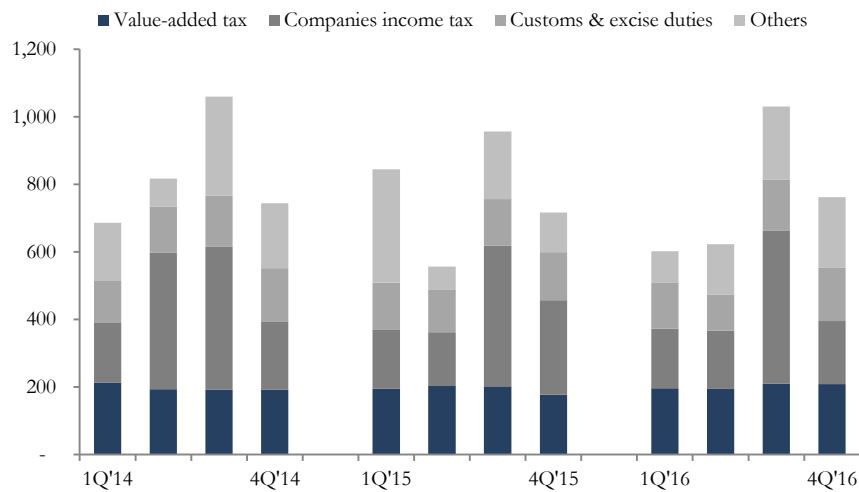
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Fig. 6: Oil revenue and non-oil revenue (₦ billion)



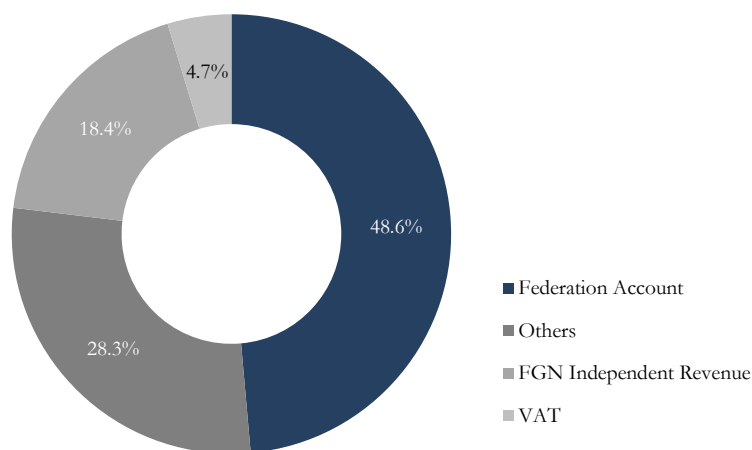
Source: CBN, PAC Research

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



Source: CBN, PAC Research

Fig. 8: Components of Federal Government retained revenue in 4Q'16



Source: CBN, PAC Research

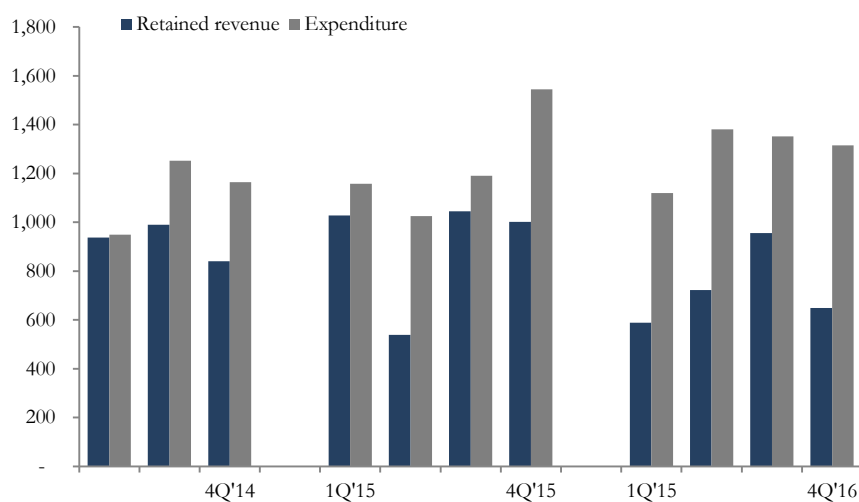
Table 3: Components of gross non-oil revenue (₦ billion)

	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16
Non-oil revenue	745	845	558	964	717	610	581	1,031	761
Value-added tax	193	196	203	202	178	197	195	210	209
Companies income tax	202	175	159	416	279	176	172	454	187
Customs & excise duties	157	138	128	139	142	136	107	150	157
Others	193	336	68	207	119	94	109	217	209

Source: CBN, PAC Research

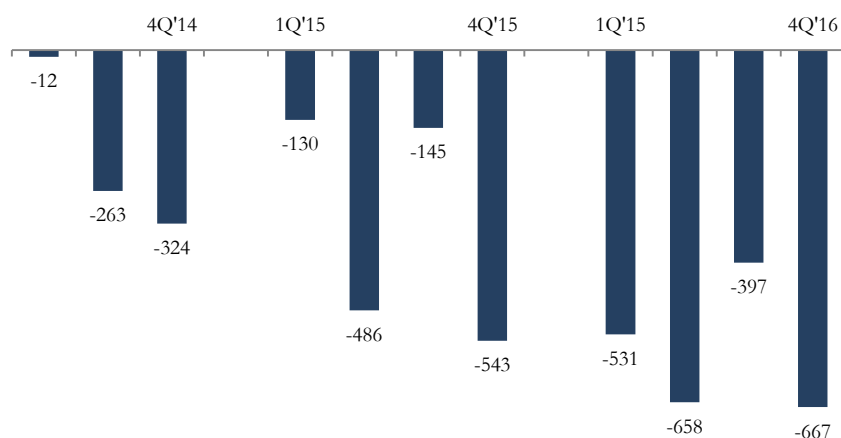
Federal Government's deficit exceeds budget estimate by 18.2%. For the review period, the total expenditure of the Federal Government of ₦1,315 billion was lower than budgeted estimate of ₦1,568 billion by 16.1%. This was due to a decrease in the level of capital expenditure in the period which accounted for 6.4% of the total expenditure while re-current expenditure represented 86.9% and statutory transfer was 6.7%. On the other hand, retained revenue of the Federal Government stood at ₦648 billion in the quarter, down by 32.1% and 35.2% against ₦955 billion in the third quarter of 2016 and ₦1,001 billion in the fourth quarter of the previous year respectively. Consequently, the fiscal operations of the Federal Government resulted to a deficit of ₦667 billion which was higher than the budgeted estimate of ₦555 billion by 1.6% in the period. Overall, total retained revenue of the Federal Government for the year was ₦2,913 billion against total expenditure of ₦5,666 billion which resulted to a total deficit of ₦2,753 billion. It is worthy of note to state that the actual total revenue for the year was lower than the budgeted revenue of ₦3,860 billion by 24.5%, also the actual total expenditure was lower than the budgeted total expenditure of ₦6,080 billion by 6.8% due to the inability of policymakers to fully implement the capital expenditure component of the budget. However, the actual deficit for the year of ₦2,753 billion was higher than the budgeted deficit of ₦2,222 billion by 18.2%.

Consequently, the fiscal operations of the federal Government resulted to a deficit of ₦667 billion which was higher than budgeted estimate of ₦555 billion by 1.6% in the period.

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

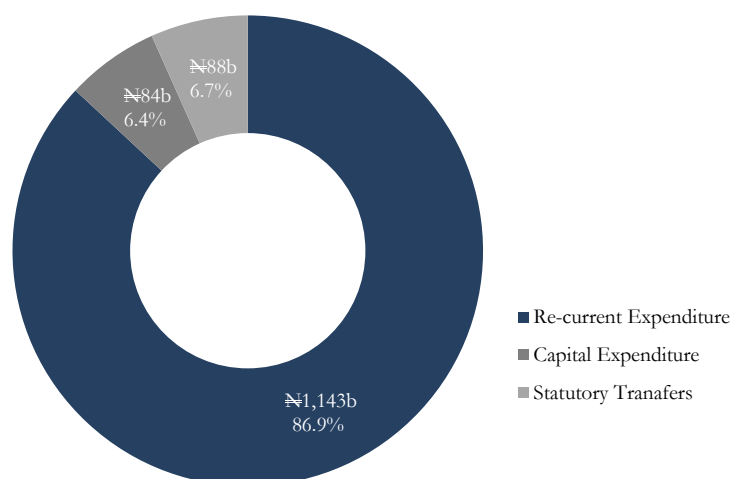
Source: CBN, PAC Research

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



Source: CBN, PAC Research

Fig. 11: Components of Federal Government expenditure in 4Q'16



Source: CBN, PAC Research

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

	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16
Retained revenue	1,027	539	1,045	1,005	588	722	955	648
Federation account	601	430	590	483	412	324	490	313
VAT account	28	29	29	26	28	28	32	30
FGN Independence revenue	280	10	17	62	40	101	204	119
Others/SURE-P	84	84	408	248	24	226	229	183
Expenditure	1,157	1,042	1,175	1,544	1,230	1,769	1,352	1,315
Re-current	1,033	814	1,013	945	896	1,284	1,038	1,143
Capital	60	163	72	463	221	350	216	73
Statutory transfers	64	48	90	136	114	135	97	88
Deficit	-129	-503	-131	-736	-725	-1,091	-397	-667

Source: CBN, PAC Research

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