Executive summary

On 14 December 2016, President Muhammadu Buhari formally presented the 2017 Budget proposal (the budget) to the joint session of the National Assembly for approval. The N7.28 trillion budget, titled *The Budget of Recovery and Growth* is expected to be higher than the 2016 budget by about 20.4%.

The budget is premised on a crude oil benchmark price of US$42.5 per barrel as against US$38 per barrel used in the 2016 budget and emphasizes the need to diversify the economy, increase exports and reduce the overall reliance on the oil and gas sector of the Nigerian economy.

This Alert summarizes the key budget provisions.
Detailed Discussion

Highlights

<table>
<thead>
<tr>
<th>Parameters Underpinning the Budget</th>
<th>2017</th>
<th>2016</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil production (mbpd)</td>
<td>2.2</td>
<td>2.2</td>
<td>0%</td>
</tr>
<tr>
<td>Price per barrel ($)</td>
<td>42.5</td>
<td>38</td>
<td>10.5%</td>
</tr>
<tr>
<td>Projected GDP growth (%)</td>
<td>2.5%</td>
<td>4.4%</td>
<td>-42.8%</td>
</tr>
<tr>
<td>Average exchange rate (N/US$)</td>
<td>305</td>
<td>197</td>
<td>54.8%</td>
</tr>
<tr>
<td><strong>Revenue (N Trillion)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate revenue</td>
<td>4.94</td>
<td>3.86</td>
<td>28%</td>
</tr>
<tr>
<td>Oil revenue</td>
<td>1.99</td>
<td>0.82</td>
<td>143%</td>
</tr>
<tr>
<td>Non-oil revenue</td>
<td>1.37</td>
<td>1.45</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Independent revenue</td>
<td>0.81</td>
<td>1.51</td>
<td>-46.3%</td>
</tr>
<tr>
<td><strong>Expenditure (N Trillion)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate expenditure</td>
<td>7.28</td>
<td>6.06</td>
<td>20.4%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>2.24</td>
<td>1.80</td>
<td>24.4%</td>
</tr>
<tr>
<td>Non-debt recurrent expenditure</td>
<td>2.98</td>
<td>2.65</td>
<td>12.5%</td>
</tr>
<tr>
<td>Budget deficit</td>
<td>2.32</td>
<td>2.22</td>
<td>4.5%</td>
</tr>
<tr>
<td>Fiscal deficit (% of GDP)</td>
<td>2.14%</td>
<td>2.16%</td>
<td>-0.92%</td>
</tr>
<tr>
<td>External borrowings</td>
<td>1.07</td>
<td>0.98</td>
<td>9.18%</td>
</tr>
<tr>
<td>Internal borrowings</td>
<td>1.25</td>
<td>0.90</td>
<td>38.9%</td>
</tr>
</tbody>
</table>

Fiscal balance

The projected fiscal deficit for 2017 is put at 2.14% of Gross Domestic Product (GDP). This deficit resulting in a proposed cumulative amount of N2.32 trillion is expected to be financed by domestic borrowing of N1.25 trillion and N1.07 trillion from external sources.

Tax revenue

Tax revenue from non-oil is proposed to be reduced by 5.5% from N1.45 trillion in 2016 to N1.37 trillion in 2017. However, tax revenue from oil is expected to increase by 143% from N0.82 trillion in 2016 to N1.99 trillion in 2017. The Government intends to diversify the economy and in doing this, it plans to use revenue from oil to revive the agricultural and industrial sectors of the economy.

Tax waivers and exemptions

The Government has planned to set aside a sum of N50 billion as the Federal Government’s contribution for the expansion of existing, as well as the development of new, Export Processing and Special Economic Zones, which will be developed in partnership with the private sector.
It also proposed that a sum of N20 billion be set aside to revive the Export Expansion Grant (EEG) which will be used in the form of tax credits granted to companies to enhance and create investments and job opportunities in the development of the agriculture and mining sector. This is also directed at companies to take advantage of the opportunities to export processed agricultural and manufactured goods and reduce the reliance on importation as emphasized by the budget speech.

**Joint Venture Funding in the Oil and Gas Industry**

Effective from January 2017, the Federal Government has indicated that it will no longer make a provision for Joint Venture cash-calls. All Joint Venture operations are expected to be subject to a new funding mechanism that will allow for cost recovery.

This arrangement is expected to enhance exploration and production activities, with a resultant net positive impact on government revenues. This positive impact is expected to be allocated to infrastructure, agriculture, solid minerals and the manufacturing sectors.

**Infrastructure development**

Capital expenditures are expected to be financed by a budget of N2.24 trillion in 2017. This reflects a 24% increase in comparison to the budget of 2016. The Government intends to focus on the rapid development of infrastructure especially rail, roads and power.

Overall, Infrastructural projects received a substantially higher allocation to stimulate a multiplier effect on productivity, employment and also promote private sector investments into the country.

**Transportation - Railways:** The modernization of the railway system is a priority in 2017 and it is expected to receive a boost of N213.14 billion as counterpart funding for the Lagos-Kano, Calabar-Lagos, Ajaokuta-Itakpe-Warri railway, and Kaduna-Abuja railway projects.

**Power:** The power sector is expected to receive more capital from the Government across the power sector value chain and to resolve the liquidity problems of the sector, provisions have been made in the 2017 budget to clear the Government’s outstanding electricity bills.

**Agriculture**

Agriculture is to receive a historic high allocation of N92 billion to complement the efforts of the Federal Ministry of Agriculture and Central Bank of Nigeria to enhance the productivity of the sector. As this is the sector that the Government intends to use to diversify the economy, policies will be focused on the integrated development of the agricultural sector by facilitating access to inputs, improving market access, providing equipment and storage as well as supporting the development of commodity exchanges.

A sum of N15 billion was budgeted for the recapitalization of the Bank of Industry and the Bank of Agriculture, with an additional US$1.3 billion for the commencement of the Development Bank of Nigeria.

The budget however emphasized on the cost-cutting drive of the Government in 2017, this the Government claims will be achieved by reducing overhead costs by 20%.

**Implications**

Based on certain parameters in the proposals, it is evident that the 2017 budget is centered on shifting the country’s dependence on oil revenue and imports to non-oil revenue and exports to drive the recovery and growth of the Nigerian economy. The diversification of the economy is expected to be achieved by increasing the economy’s dependence on locally produced and manufactured goods that will promote export to other countries.

To achieve this, the Government has proposed in its plans to increase the focus on the development of infrastructure that will increase internally generated revenue for the Government. Furthermore, certain sectors like the agricultural sector, have received an increased focus by the Government as they will serve as useful tools to negate the over reliance on the oil and gas sector of the economy.
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EYG no. 04429-161Gbl
1508-1600216 NY
ED None

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