Nigerian Government presents 2015 Budget

Executive summary

On 17 December 2014, Nigeria’s Coordinating Minister for Economy and Finance, Dr. Ngozi Okonjo Iweala, presented the 2015 Budget proposal (the budget) to the National Assembly. The appropriation bill was addressed in the second reading on the floor of the Senate on 15 January 2015, with the Senate describing it as a deficit budget and grossly inadequate.

The budget is premised on the price of oil at N65 per barrel even though the current price of oil is at about N50 per barrel.

This Alert summarizes key budget provisions.

Detailed discussion

Highlights

<table>
<thead>
<tr>
<th>Parameters underpinning the Budget</th>
<th>2014</th>
<th>2015</th>
<th>Variance</th>
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</thead>
<tbody>
<tr>
<td>Oil production (mbpd)</td>
<td>2.39</td>
<td>2.28</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Price per barrel</td>
<td>77.50</td>
<td>65.00</td>
<td>-19.2%</td>
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<tr>
<td>Projected GDP growth</td>
<td>6.75%</td>
<td>5.50%</td>
<td>-22.7%</td>
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<tr>
<td>Average exchange rate (N/US$)</td>
<td>160</td>
<td>165</td>
<td>3.0%</td>
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<table>
<thead>
<tr>
<th>Revenue (N Trillion)</th>
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</thead>
<tbody>
<tr>
<td>Federally collected revenue</td>
<td>10.9</td>
<td>6.9</td>
<td>-57.7%</td>
</tr>
<tr>
<td>Revenue available to the Federal Government</td>
<td>3.7</td>
<td>3.6</td>
<td>-2.8%</td>
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<table>
<thead>
<tr>
<th>Expenditure (N Billion)</th>
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</thead>
<tbody>
<tr>
<td>Statutory transfers (N Billion)</td>
<td>399</td>
<td>412</td>
<td>3.2%</td>
</tr>
<tr>
<td>Debt servicing</td>
<td>712</td>
<td>943</td>
<td>24.5%</td>
</tr>
<tr>
<td>Recurrent (non debt) expenditure</td>
<td>2,430</td>
<td>2,616</td>
<td>7.1%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1,101</td>
<td>634</td>
<td>-73.7%</td>
</tr>
<tr>
<td>Aggregate expenditure (n trillion)</td>
<td>4.64</td>
<td>4.46</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Fiscal deficit (% of GDP)</td>
<td>1.90%</td>
<td>0.79%</td>
<td>140.5%</td>
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</table>
Tax revenue
Revenue from tax is proposed to increase by N160 billion in 2015. This is to be achieved by increasing the tax base and improving efficiency in tax collection. An estimated increase of N460 billion over and above 2014 levels is anticipated in the periods of 2015 to 2017.

Tax waivers and exemptions
The Government proposed a review of tax waivers and exemptions, including the pioneer status exemption granted to certain companies. This is projected to unlock up to N36 billion of additional tax revenue in 2015 resulting from the current misapplication of this exemption.

Luxury surcharges
A surcharge on certain luxury items was proposed as follows:
- 10% import surcharge on new private jets
- 39% import surcharge on luxury yachts
- 5% surcharge on luxury cars
- 3% surcharge on champagnes, wines and spirits
- 1% FCT Mansion Tax on residential properties with a value of N300 million and above to help drive increase in non-oil revenue

These surcharges are expected to yield a total of about N10.56 billion in 2015.

Tax policy improvements
The Government aims to identify tax opportunities and to streamline certain taxes and levies while it looks to boost others. It proposed a 5% increase in the current Value Added Tax (VAT) rate which it expects to yield about N614 billion in revenue.

Fiscal balance
Projected fiscal deficit in 2015 is put at 0.79% of Gross Domestic Product (GDP) and it will be expected to remain under 1% of GDP in the medium term. This deficit resulting in a proposed cumulative amount of N755 billion is expected to be financed by domestic borrowing of N570 billion, and N255 billion from other sources.

Other key proposals (sector focus)

Housing
The Nigerian Mortgage Refinance Company will expand the current participating state governments in reviewing existing titling and property registration processes with a view to reducing the associated cost from an average of 16% to 3%.

Insurance
The proposed objective for the sector is to increase the total insurance premiums from N300 billion currently to N1 trillion, increase the number of insurance policy holders from 3 million today to 10 million and to increase the number of direct jobs created from 30,000 people to 100,000 people.

Manufacturing
Focus for the sector is to continue with the implementation of the National Industrial Revolution Plan (NIRP), to continue with the support to private companies particularly the Small and Medium Enterprise (SME) sector. To encourage more private sector participation, the Government has recommended honoring the Negotiable Duty Credit Certificate (NDCC) and will continue reviewing the Export Expansion Grant (EEG).

Oil and Gas
The emphasis on this sector is to work with the National Assembly to get the Petroleum Industry Bill passed into law.
In addition, the Delta Gas & Petrochemical complex starting in 2015 is expected to spark a revolution in the gas industry and emphasis will also be placed on gas and power initiatives in the country.

**Agriculture**

The Government plans to increase investment in the sector by the introduction of a $100 million Government and Donor Fund for agricultural financing in Nigeria. In addition, self-employment initiatives under the Youth Employment Agriculture Programme (YEAP) and Nigerian Schools Agricultural Programme (NSAP) have all been launched.

**Solid minerals**

Solid Minerals sector is expected to take off and begin substantial contributions to the Federation Account starting with N14 billion incorporated as non-oil revenues in the 2015 budget.

**Infrastructure development**

**Power:** Increased commitment by gas suppliers to increase the supply of gas to power by about 900 million standard cubic feet per day in 2015 and increased focus on gas pipeline security. Progress to be made in the construction activities at the 700MW Zungeru power plant and plans to continue towards the takeoff of the 3050MW Mabilla power plant.

**Roads:** Considerable progress to be made in the completion of some major road projects such as East – West road, the dualization of the Abuja_Abaji-Lokoja road, Lagos Ibadan Expressway and Niger Bridge.

**Aviation:** Investment to be made in the upgrading of the country’s air navigational and security systems to maintain safety in the skies. Work is expected to be completed on the remodeling of the remaining airport terminals across the country.

**Implications**

Based on certain parameters in the proposals, it is evident that the 2015 budget is aimed at promoting the drive for diversification in the Nigerian economy to reduce dependency on oil and increase focus on internally generated revenue through developmental expenditure on other projects and tax policies. There is a clear focus on increasing tax revenue by widening the tax base. It would appear that projected revenues from import surcharges can be improved with increased surcharge on some consumption goods and services.

However, the price of oil as is currently set by the budget remains key as price fluctuations would impact the realization of the budget. In effect, going by the current price of crude oil which currently fluctuates around $50pb in the international market, it is imperative that the Government reviews its $65 benchmark if it is to adequately fund the budget. Currently, it has already started the implementation of some of its proposals as the current price at which petrol is sold has been reduced from N97 to N87.
For additional information with respect to this Alert, please contact the following:

**Ernst & Young Nigeria, Lagos**
- Abass Adeniji +234 802 301 3597 abass.adeniji@ng.ey.com
- Edem Andah +234 708 768 1113 edem.andah@ng.ey.com
- Chinyere Ike +234 803 571 7211 chinyere.ike@ng.ey.com
- Ogochukwu Isiadinso +234 802 712 5450 ogochukwu.isiadinso@ng.ey.com

**Ernst & Young Advisory Services (Pty) Ltd., Johannesburg**
- Justin Liebenberg +27 11 772 3907 justin.liebenberg@za.ey.com

**Ernst & Young LLP (United Kingdom), Pan African Tax Desk, London**
- Leon Steenkamp +44 20 7951 1976 lsteenkamp@uk.ey.com
- Gonçalo Dorotea Cevada +44 20 7951 2162 gcevada@uk.ey.com

**Ernst & Young LLP, Pan African Tax Desk, New York**
- Dele A. Olaogun +1 212 773 2546 dele.olaogun@ey.com
- Mzukisi Ndzipo +1 212 773 9917 mzukisi.ndzipo@ey.com
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