Tax Alert

Highlights of Nigeria's 2023 Budget of Economic Growth and Sustainability

Highlights (NGN'Billion)	2023 Proposed	2022 Budget	% Change
Aggregate Revenue	9,725	9,969	-2.4%
Aggregate Expenditure	20,507	17,320	18.41%
Statutory Transfers (incl. capex)	744	818	-9%
Recurrent Non-Debt	8,271	7,109	16.36%
Sinking Fund	248	293	-15.38%
Debt Service (excl. sinking fund)	6,310	3,685	71.21%
Capital Expenditure	4,934	5,415	-8.88%
Capex % of total expenditure	24.06%	31.27%	-23.05%
Projected budget deficit	(10,782)	(7,351)	46.65%
Assumptions			
Benchmark oil price per barrel	$70	$73	-4.11%
Oil production (mbpd)	1.69	1.60	5.62%
Exchange rate (Naira to US$1)	435.57	410.15	6.20%
Target inflation	17.16%	13.00%	32.00%
GDP Growth rate	3.75%	4.20%	-10.71%

President Muhammadu Buhari presented the 2023 Budget proposal ("the Budget") to the Joint Session of the National Assembly on 7 October 2022. The Budget tagged "Budget of Fiscal Sustainability and Transition'' is designed to achieve the National Development Plan 2021 to 2025 and assist with the smooth transition from one administration to another.

Highlights

- The budget expenditure of N20.51trn represents the highest in Nigeria's history, and is to be (partly) funded by expected revenue of N9.73 trn. The country's highest recorded deficit of N10.78trn (4.78% of estimated GDP) is to be financed by new borrowings, privatisation proceeds and drawdown on loans already secured for specific projects.
- The budget deficit exceeds the expected revenue of N9.73 trn by about 11%. Put in perspective, Nigeria needs to generate an additional 111% of its current revenue (i.e. more than double its revenue) to be able to meet its expenditure needs without borrowings.
- The non-debt recurrent expenditure (NDRE) of N8.27trn remains the largest expense in the budget (about 40%), and is 16% higher than the 2022 revised budget of N7.11trn. It includes personnel cost of N4.99trn, which accounts for 60.33% of NDRE.
- The second largest expense, debt service expenditure estimated at N6.31trn grew by 71% from 2022. It represents 31% of the estimated budget expenditure for 2023. The astronomical growth in debt service demonstrates that there may be a wider gap in the budgeted deficit of 2022 which has necessitated more borrowings, in addition to increasing interest rates.
- Capital expenditure (excluding statutory transfer component) of N4.93trn represents about a quarter of the 2023 budget expenditure, and decreased by 8.88% from 2022.
- 2023 estimated revenue of N9.7trn is lower than the 2022 revised budget amount of N9.9trn, representing a 2.4% decline.

The President touched on critical areas requiring urgent funding, including:

Human Capital Development - The Federal Government (FG) seeks to resolve the ongoing crisis in public universities, and has made a provision of N470bn in the budget for revitalising and enhancing salaries of civil servants in tertiary institutions. The government stated its intention to equip existing hospitals and rehabilitate infrastructure, with emphasis on local production of basic medicines/vaccines.

Defence and Internal Security - The FG stated its intention to prioritise security in the Budget through equipping and motivating security personnels. Out of the N4.5trn budgeted for Ministries, Department and Agencies, expenses for Defence and the National Security Adviser account for N1.2trn (26%).

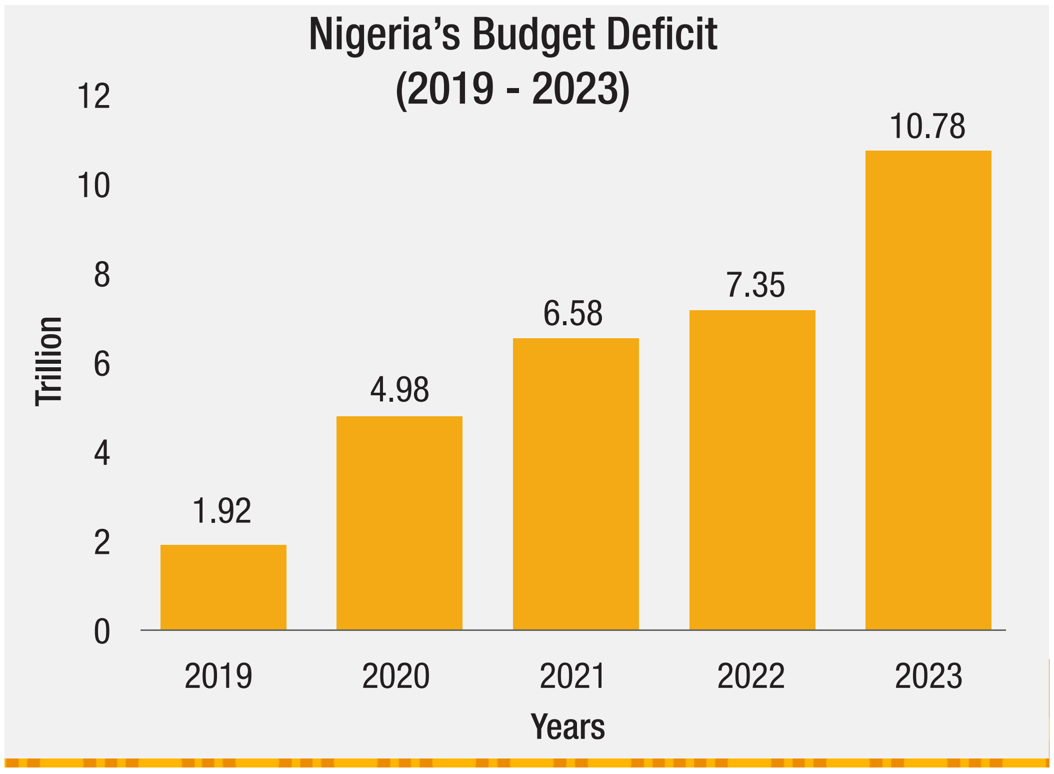
2022 Finance Bill - The President mentioned that consultations are ongoing on the 2022 Finance Bill, a document that amends current tax and fiscal laws, and the Bill would be forwarded to the National Assembly for review and signing into law.

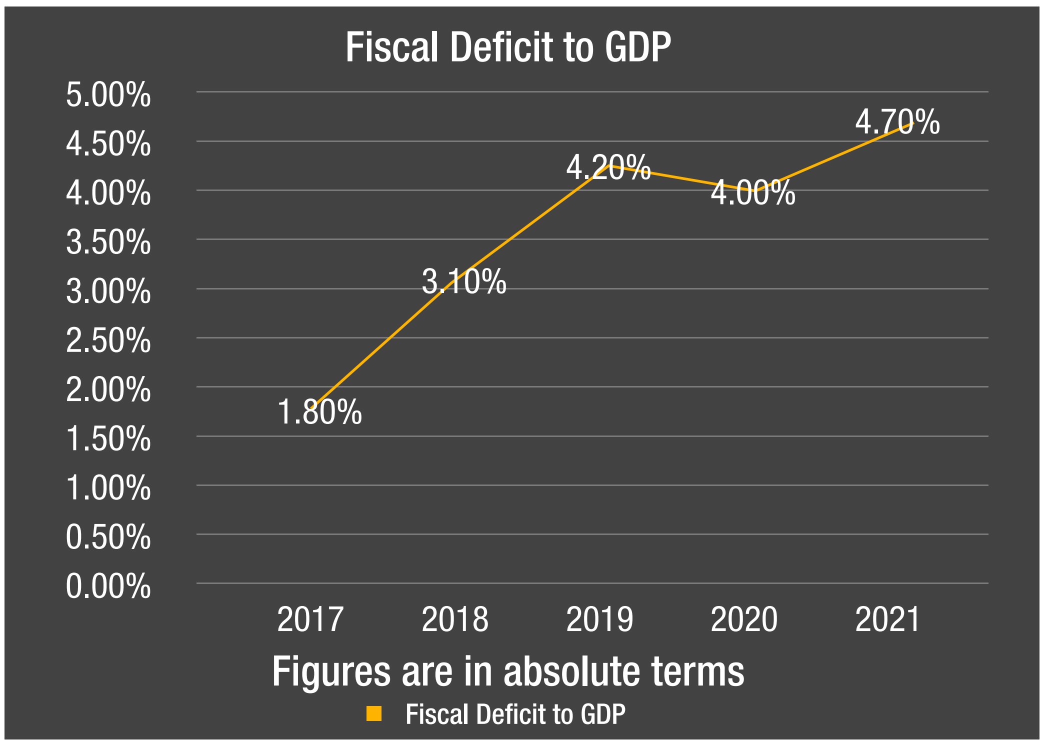
Takeaway

Nigeria faces numerous challenges ranging from global headwinds such as high interest rates, supply chain disruptions, rising energy and food prices, to local challenges such as insecurity, rising debt, high inflation, low crude oil production and crude oil theft, labour issues and flooding.

Despite increased focus on revenue generation by the current administration, Nigeria has not met its revenue targets in the recent past. The FG’s 2021 fiscal year aggregate revenue underperformed by approximately 25% compared to target. There may be worries around the assumptions surrounding the 2023 estimated revenue as crude oil exports have been below target due to underproduction and theft. Still, the oil output benchmark in the 2023 Budget has been pegged at 1.69mbd, 30% higher than average year to date crude oil production of 1.3mbd (as at June 2022).

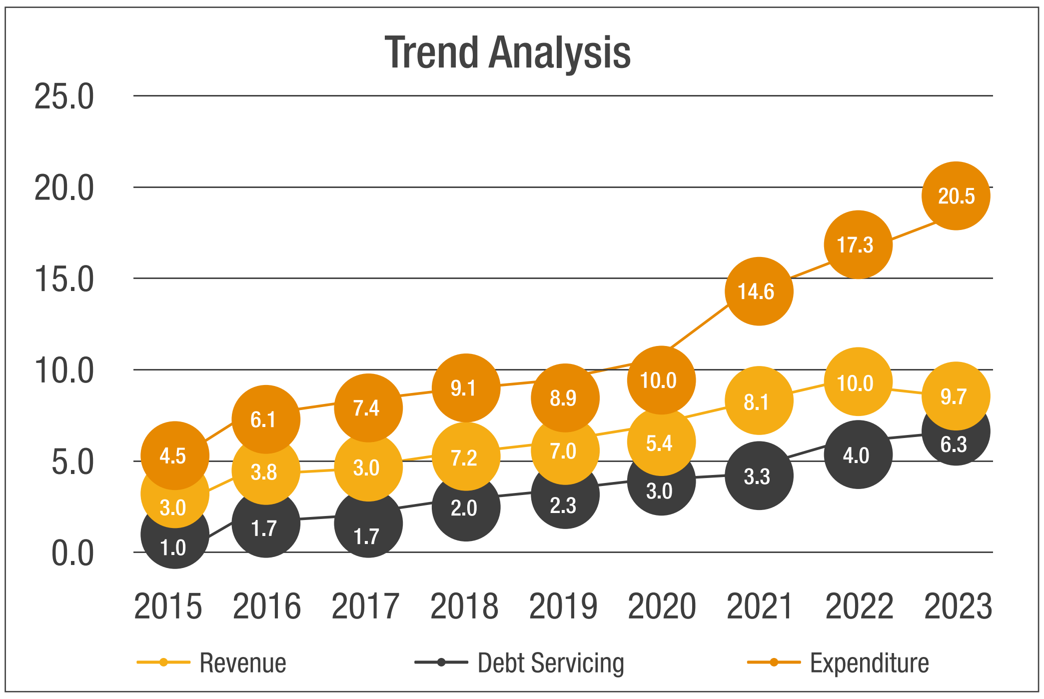
Low revenue mobilisation typically translates to high borrowings, implying increased debt service costs. In 2023, the debt service cost of about N6trn, represents about 31% of the Budget. This underscores the need for urgent action to address revenue underperformance and expenditure efficiency. The quick-fix strategy of over-auditing compliant taxpayers and increasing tax rates cannot change the revenue trajectory of the country. There needs to be an overhaul of the tax system (both legal and administrative) and more investment in technology for identification and profiling of taxpayers.





The enactment of the Petroleum Industry Act (PIA) is expected to attract more investment into the oil and gas sector. However, this may take time to actualise and is dependent on its strict implementation. There are indications that subsidies may soon be expunged as subsidy approvals (N3.6trn) were included in the 2023-2025 Medium Term Expenditure Framework (MTEF) and Fiscal Strategic Paper (FSP), only up until May 2023. However, there are also calls by some members of the Senate for this period to be extended. It is hoped that subsequent social interventions would be channelled directly at vulnerable members of the society.

Concerted and coordinated efforts are required to mobilise revenue, improve the policy environment and address insecurity in order to boost domestic investment and attract foreign direct investment.



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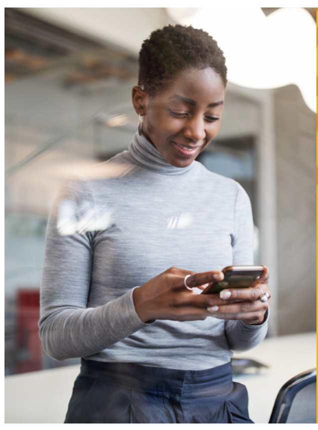

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