Centre for the Study of the Economies of Africa

No 4 Dep street, off Danube Street, Maitama, FCT Abuja
Telephone: 09-8709090
Email: enquiries@cseaafrica.org
Website: www.cseaafrica.org

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Budget 2013 and the drive towards inclusive economic growth

Highlights of the budget

The budget proposal for fiscal year 2013 was presented to the joint session of the national assembly by President Goodluck Jonathan on October 10, 2012. Titled 'Budget of Fiscal Consolidation with Inclusive Growth', the budget proposal is tied to the 2013-2015 Medium Term Expenditure Framework (MTEF) which provides the fiscal path for the next three years. Table 1 shows that the total expenditure of N4.92trn is 4.8% higher than the approved expenditure for 2012 while the total revenue accruable to the federal government is projected at N3.89trn, 9.2% higher than the budgeted N3.56trn in 2012. Juxtaposing the planned expenditure and projected revenue for 2013, the government hopes to reduce the fiscal deficit to 2.17% of GDP as against 2.85% of GDP in 2012. However, the amount set aside for debt servicing increased by 5.7% to N591bn. A break-down of the expenditure shows that a total of N1.54trn is projected to be spent on capital projects compared to N1.34trn in 2012 while recurrent expenditure is down marginally by 0.6% to N2.41trn. Statutory transfers are down by 4.5% to N380bn from N398bn in 2012.

Table 1: Highlights of Budget 2013

	2012*	2013	% Change
Total Expenditure (Ntrn)	4.697	4.920	4.748
Total Govt. Revenue (Ntrn)	3.561	3.890	9.238
Fiscal Deficit (% of GDP)	2.850	2.170	-0.680
Domestic Debt Service (Ntrn)	0.559	0.591	5.725
Capital Expenditure (Ntrn)	1.340	1.540	14.925
Recurrent Expenditure (Ntrn)	2.425	2.410	-0.619
Statutory Transfers (Ntrn)	0.398	0.380	-4.523

2012 Budget As Passed by National Assembly
Source: 2013 Budget Speech by President Goodluck Jonathan

Assumptions and targets

The above expenditure, revenue and debt projections are based on the key assumptions and targets of the budget shown in Table 2. Oil price is projected at $75pb, 4.2% higher than the $72pb passed by the national assembly for year 2012. Similarly, oil production is projected at 2.53mbpd compared to 2.48mbpd in 2012. In terms of economic growth projection, the expectation is that the flood disaster experienced in some states is likely to affect agricultural output, thereby resulting in lower growth projection of 6.5%.

Table 2: Assumptions and Targets of Budget 2013

	2012	2013	% change
Oil Price($pb)	72.000	75.000	4.166
Oil Production(mbpd)	2.480	2.530	2.016
Real GDP Growth(%)	7.200	6.500	-0.700
Exchange Rate(N/$)	155	n/a	
Inflation (%)	9.5	n/a	

Source: 2013 Budget Speech by President Goodluck Jonathan

Key sectoral allocations

Table 3 shows the allocations to the key sectors of the economy. The joint allocation to defence and police is N668.56bn and is 13.6% of the total budget, but it is 27.5% lower than total defence allocation of N921.91bn in 2012. Education received N426.53bn or 8.7% of the total budget and is higher than N400.15bn budgeted in 2012. The health sector is to be allocated N279.23bn or 5.7% of the total budget and this is lower than the N282.77bn budgeted in 2012. A total of N81.41bn or 1.7% of the total budget is allocated to agriculture and rural development while the share to the power sector dropped from N161.42bn in 2012 to N74.26bn in 2013.

Table 3: Key Sector Allocations in the Budget

	2012 Allocation (Nbn)	2013 Allocation (Nbn)	2013 % of Total Budget
Defence	921.91*	348.91	7.07
Police		319.65	6.48
Health	282.77	279.23	5.67
Works	180.80	183.50	3.72
Education	400.15	426.53	8.66
Agriculture & Rural Dev.	78.98	81.41	1.65
Power	161.42	74.26	1.50

****Joint security allocation in 2012***

Source: 2013 Budget Speech by President Goodluck Jonathan

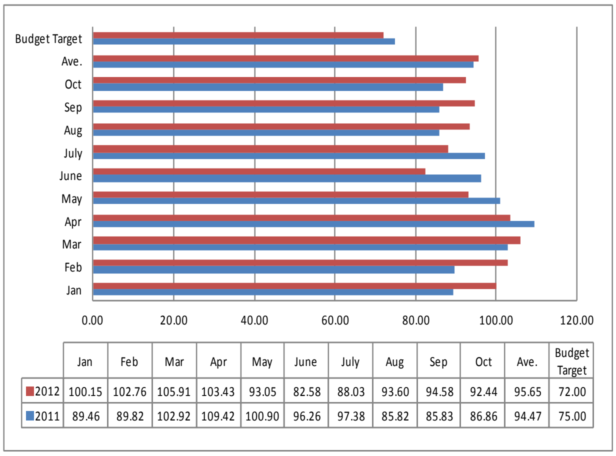
Putting the Budget in Perspective

The highlights: The budget office estimates that nominal GDP will increase to N47.8trn in 2013 from N39.9trn in 2012. Therefore, the total expenditure budget of N4.69trn passed by the national assembly in 2012 is 11.8% of GDP while the planned spending of N4.92trn in 2013 will amount to 10.3% of GDP. This implies that the FY2013 budget is a tightening compared to the 2012 level given that expected spending will decline relative to GDP. However, despite the contraction, the projected 15% increase in capital expenditure and 0.62% decline in recurrent spending confirm government's desire of achieving fiscal consolidation while not endangering growth. The expected reduction in fiscal deficit to 2.71% of GDP from 2.85% in 2012 is also in line with the goal of fiscal responsibility and consolidation.

However, domestic debt remains an issue given that the amount set aside to service debt in 2013 will increase by 5.7% to N591bn from N559bn in 2012. Although the President highlighted a change in strategy in management of domestic debt through the establishment of a sinking fund, in the near term, debt servicing will remain a burden for a number of reasons. First, despite the expected reduction in government borrowing to N727bn from N744bn in 2012, the amount set aside for debt service is N591bn and this is 38.4% of total capital expenditure. Second, the amount for debt service is more than the combined allocations to health, works and agriculture of N544.14bn while it is also higher than the joint allocations to education and power of N500.79bn. Third, government borrowing will continue to compete with the private sector for available loanable funds from the financial sector, thereby crowding out productive private sector investment. Nevertheless, given the efforts at managing government debt and the recent inclusion of Nigeria in the JP Morgan local currency government bond index, local debt will in the medium to long-term become sustainable. There are also no immediate worries about Nigeria's external debt which is estimated at about 18% of GDP, significantly lower than the international benchmark of 40% of GDP.

The assumptions and targets: The success or failure of budget 2013 will to a large extent depend on the assumptions and targets on which it is premised. Oil prices in 2012 remained at 2011 levels on the average (Figure 1), meaning that the budget benchmark is surpassed and the excess revenue channelled to the excess crude account (ECA). In 2013, oil markets may maintain the momentum that will see oil prices at higher levels than the budget benchmark of $75pb. However, developments in Europe and the continuing sluggishness in US recovery will affect the oil market. In other words, the continued and projected slow growth in the global economy will keep oil demand relatively flat as OPEC estimates only 0.87% increase in demand in 2013. On the supply side however, OPEC projects that supply may increase by 0.89mbpd in 2013. However, geopolitical tensions in the Middle East are likely to affect market sentiment and may keep oil prices higher than Nigeria's budget benchmark of $75pb. Nonetheless, should the benchmark price be increased to $80pb as being canvassed by the national assembly, the implication is that savings accruable to the ECA may reduce while the consequent fiscal expansion, especially in states, will result in inflationary pressures and real exchange rate appreciation.

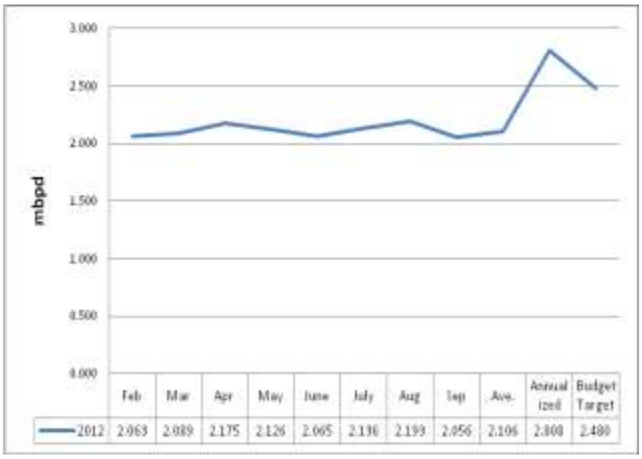
Figure1: Oil Price Movement 2011 and 2012



	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Ave.	Budget Target
2012	100.15	102.76	105.91	103.43	93.05	82.58	88.03	93.60	94.58	92.44	95.65	72.00
2011	89.46	89.82	102.92	109.42	100.90	96.26	97.38	85.82	85.83	86.86	94.47	75.00

Source: OPEC & FGN

Figure2: Oil Production in 2012



	Feb	Mar	Apr	May	June	July	Aug	Sep	Ave.	Annualized	Budget Target
2012	2.063	2.089	2.175	2.126	2.065	2.136	2.193	2.056	2.106	2.808	2.480

Source: OPEC, CSEA estimate and FGN

With respect to oil production target, production has actually improved thanks to the amnesty programme by the government that has brought peace to the oil producing Niger Delta region. Recently, the government has also added about 3,500 people in the amnesty programme. Therefore, given the trend of production in 2012, there is the possibility that the budget target of 2.53mbpd will be achieved. Figure 2 shows that Nigeria's oil production in the first 9 months of 2012 according to OPEC averaged 2.106mbpd. When annualized this becomes 2.808mbpd and is higher than the budget 2012 target of 2.48mbpd. Therefore, with the government taking necessary steps to check the problem of illegal bunkering, the 2.53mbpd target for 2013 may be achieved if the current trend in production is sustained. The only downside risk to the oil sector in 2013 is if there is delay in passage of the Petroleum Industry Bill as this may hold back further investors participation in the sector.

The assumption of lower real GDP growth of 6.5% in 2013 given the expected effects of the recent floods in the country is understandable. It therefore means that a sector like agriculture may contribute less than the projected 38.4% to GDP in 2013. However, there may be an improvement in the manufacturing sector's contribution to GDP if the current level of power generation and distribution are sustained. Therefore, a marginal improvement of the manufacturing sector contribution to GDP may be witnessed in 2013 from the projected 3% in the 2013-2015 MTEF. With respect to inflation, the FY2013 budget and the 2013-2015 MTEF did not provide projected inflation rates. However, the National Bureau of Statistics (NBS) estimates that inflation may remain at double digit of about 12.21% in 2013. Also, the impact of the recent flood disaster on agriculture produce may increase the food component of the inflation basket and consequently the average headline inflation rate for 2013. This implies that nominal interest rates are also likely to be at double digit, and at best, higher than inflation rate in order not to discourage investors. The downside risk will remain the effects of such double digit interest rates on economic growth. Based on inflation expectation, meeting the assumed exchange rate of N160/$ may be challenging except the central bank decides to support the currency by depleting the external reserves which is currently estimated at $41.7bn.

The sectoral allocations and other initiatives: Given that the budget emphasizes inclusive economic growth, the pattern of sectoral allocations shows that the government hopes for this inclusiveness by turning around critical social sectors of the economy such as health and education. The allocation to the education sector is high relative to other sectors even though the share in the national budget is still lower than the UNESCO benchmark of 26%. While the allocation to power sector is 3 times lower than that in 2012, the planned floating of infrastructure bond of $1 billion for completion of various projects in the sector has helped free up resources for other sectors. With the risk premium on developed countries, especially in the Eurozone on the rise, investors may take advantage of the window provided by the Nigeria Bond Market. The attractiveness of the market will also be boosted by the recent listing of Nigeria in the JP Morgan Bond Index. The 1.7% increase in allocation to the agriculture sector will also help sustain the various measures that the Ministry of Agriculture has been implementing in line with the Transformation Agenda of the government. However, the recent flood disaster across the country may imply that the agriculture sector may need more resources in 2013.

While the sectoral allocations appear to be well designed, other steps that may help government achieve inclusive growth in 2013 are the 0% duty on machinery and spare parts imported for local sugar manufacturing, the 5-year tax holiday for sugarcane to sugar value chain investors, 10% import duty and 50% levy on raw sugar, 20% duty and 60% levy on refined sugar and 10% import duty on brown rice and 100% levy on polished rice. All of these will boost domestic production and make the economy more competitive. Besides, activities in the solid minerals sector which contributes about 0.4% to GDP will be catalyzed by measures such as the 0% import duty and 0% VAT on machinery and equipment imported for use in the sector. Also, the 0% duty on Completely Knocked Down components (CKD) for mass transit buses of at least 40-seater capacity will boost the fleet of vehicles and ultimately reduce pressure on existing mass transit vehicles. However, the deplorable conditions of roads in the country increase the wear and tear and ultimately the maintenance cost of vehicles. There is therefore the need for improvement in roads maintenance across the country if the effects of the above policies are to be sustained. In addition, various initiatives outlined under the Community Service, Women and Youth Empowerment under the SURE-P will boost economic activities among women and also help ameliorate the problem of youth unemployment. The women empowerment initiatives will in particular have the broad effect of helping to achieve the gender equality objective of the millennium development goals. Also, the graduate internship programme as well as the YouWiN initiative is expected to continue to create more job opportunities for the teeming youth.

Conclusion

The assumptions of the budget appear reasonable and achievable. However, should implementation remain an issue as in previous years, then the objectives of the 2013 budget may not be achieved. Also, the flooding problem in some states may affect the agriculture sector and this could lead to an upward spiral in food prices in the coming months. Therefore, to alleviate the problem of food security and improve social protection due to the effects of the flooding, the government may have to provide more financing for the agriculture sector in 2013. This may be in the form of a supplementary budget. Nevertheless, the upside is that with the presentation of the budget to the national assembly in record time compared to previous years, it is expected that all grey areas between the executive and legislature will be sorted out in good time. The implementation of the FY2013 budget is therefore expected to commence without delay and this is likely to lay the foundation for achievement of the all round inclusive growth that the country desires.