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Nigeria: FY17 budget
Ambitious revenue target

Yvonne Mhango
+27 (11) 750 1488
YMhango@rencap.com

Nigeria's strategy to get the economy out of recession is captured by the following phrase: 'grow what we eat, and consume what we make'. With this phrase, President Muhammadu Buhari presented a FY17 budget outlining expenditure of NGN7.3trn, a 20% increase vs the FY16 projection. This budget is premised on an ambitious 28% increase in revenue to NGN4.9trn. As revenue in September was 25% below the pro-rata full-year projections, we struggle to see how the Federal Government of Nigeria (FGN) will meet this projection.

'Grow what we eat and consume what we make'

With the FY17 budget, the FGN plans to pull the economy out of recession and wean it off crude oil, via agriculture (by ultimately making Nigeria self-sufficient in food) and manufacturing (by producing what Nigerians consume, including petrochemicals, cement and light manufacturing products). We like the plans to focus on "rapid" infrastructure development, particularly rail and power. Buhari promised "tangible benefits" from 2017. We take this to mean we should see the stimulatory effects of the capex spend in the short term, which we find encouraging. We think the Presidential Enabling Business Council mandate of making it easier to do business – which Buhari mentioned – is critical, because the economy needs substantial private sector investment to help restore sustainable growth. Budget provisions to clear outstanding electricity bills and debt of NGN2.2trn owed to contractors and other third parties should improve liquidity, which is positive for growth.

Ambitious revenue target

The flaws in the FY17 budget emerge when we look at the revenue projections – an ambitious 28% increase to NGN4.9trn in FY17 – particularly when the FGN has failed to meet its FY16 target, due to low prices in 1Q16 and disruptions to crude oil production. At September, revenue was 25% below the pro-rata FY16 target. To the FGN's credit, it revised down its independent revenue projection for FY17, which at NGN807bn is almost half that projected for FY16. Even the non-oil revenue projection is 5% lower. However, this pragmatism was countered by a 140% increase in the FGN's oil revenue projections, to NGN2trn. This may in part be due to an optimistic assumption of oil production of 2.2mn b/d, which the country has failed to achieve since 2014 (Figure 2). This assumption is partly mitigated by a modest oil price assumption of $42.5/bl.

80% of budget will go towards capex, wages and debt servicing

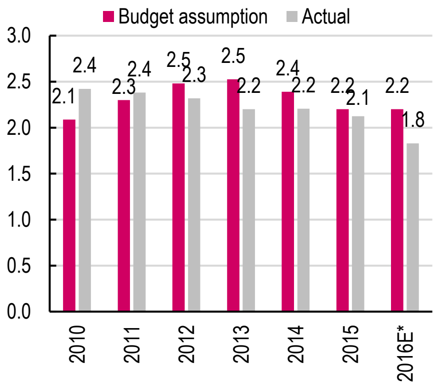
The FGN plans to raise spending in FY17 by 20% to NGN7.3trn ($23.2bn at official FX rate). The biggest allocations will go towards capex (NGN2.2trn, or 31% of the budget), personnel costs (NGN1.8trn; 25%) and debt servicing (NGN1.7trn; 23%). Education, defence and health services will get 7%, 5% and 4% of the budget, respectively. The main capex recipients will be power (24%), transportation (12%) and housing (4.5%). Buhari pointed out that despite capex suffering from project formulation delays and revenue shortfall, in May-October 2016 the FGN released a record-high amount of capex. Because of this, work resumed on some stalled projects, including the construction of new airport terminals, several road projects, key power transmission projects and completion of the Kaduna-Abuja railway.

Figure 1: Key items from FY16 vs FY17 budget, NGNbn (unless otherwise stated)

	FY16	FY17
Total revenue	**3,860**	**4,940**
– Oil revenue	820	1,985
– Non-oil revenue	1,450	1,373
– Independent revenue	1,510	807
Total expenditure	**6,058**	**7,298**
– Non-debt recurrent expenditure	2,650	2,980
- Debt service	1,360	1,660
– Capex	1,800	2,240
– **Budget deficit**	**2,220**	**2,360**
Assumptions:		
Benchmark crude oil price, $/bl	38.0	42.5
Oil production, mn b/d	2.2	2.2
FX rate, NGN/$	190	305

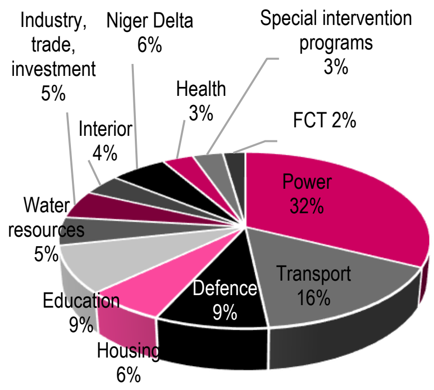
Source: Ministry of Budget and National Planning

Figure 2: Oil production: Budget assumption vs actual, mn b/d



*Actual estimate is based on the 9M16 production average.
Source: Ministry of Budget & National Planning, Central Bank of Nigeria

Figure 3: FY17 capex allocation, % of total



Source: Ministry of Budget and National Planning

- **Budget deficit target of 2.2% of GDP.** The FGN is targeting a flat financing gap vs its FY16 projection. However, at June 2016, the deficit came in wider than projected at 3.2% of GDP, by our estimate. This was largely due to a shortfall in revenue. As we expect revenue to come in below the FGN's FY17 projection, we forecast a wider deficit of c. 3% of GDP in FY17. This implies that borrowing will be higher than the FGN is currently projecting – suggesting further upside risk to debt servicing costs, which were already at two-thirds of revenue in June, a proportion we find concerning. Notably, the FGN did not reveal how it planned to finance the FY17 budget. Given the FGN's resource constraints, we expect a marked increase in foreign borrowing compared with the days when former finance minister Ngozi Okonjo-Iweala, who was averse to raising foreign debt (which she could afford to be, because revenue was high), was in office.
- **Stabilisation of sub-national government.** Only one of Nigeria's 36 states – Lagos – has internal revenue collections that allow it to be self-sustaining. The other states depend on allocations from the Federation Account for their administrations to function. The collapse in oil revenue and the recession have significantly hurt their finances. Buhari said that stabilising the states is a key objective. In June, a conditional budget support programme was introduced, which offered state governments NGN566bn ($1.8bn at today's official FX rate) to address their funding shortfalls. To participate, state governments were required to subscribe to certain fiscal reforms centred on transparency, accountability and efficiency, including publishing audited accounts and introducing biometric payrolls that will help them to eliminate 'ghost' workers. We think the conditions the FGN put in place for states to receive funding will play a positive role in helping to root out corruption at state level, and create more efficient and productive sub-national governments.

Figure 4: Nigeria – key economic forecasts

Ratings (Moody's/S&P/F): B1/B/B+	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Activity													
Real GDP (% YoY)						5.3	4.2	5.5	6.3	2.8	-1.4	0.5	2
Private consumption (% YoY)						2.6	0.3	29.3					
Government consumption (% YoY)						4.6	-2.0	1.4					
Investment (% YoY)						-29.8	1.9	10.5					
Oil production (mn b/d year-end)	2.4	2.2	2.1	2.1	2.4	2.4	2.0	2.2	2.2	2.1	1.6	1.6	1.9
Nominal GDP (NGNbn)	27,443	31,359	37,780	39,562	55,469	63,713	72,600	81,010	90,137	95,178	106,044	125,090	146,350
Nominal GDP (EURbn)	170	182	216	189	277	293	359	382	415	431	367	310	356
Nominal GDP ($bn)	214	249	317	264	367	408	462	508	546	481	392.757	339	401
Population (mn)	140	144	148	152	156	160	165	169	174	179	184	189	194
GDP per capita ($)	1,525	1,734	2,148	1,739	2,354	2,547	2,803	3,001	3,136	2,693	2,139	1,797	2,066
Gross national saving (% of GDP)	34.2	30.6	25.3	26.8	21.2	19.2	19.3	18.8	16.0	12.4	13.1	13.5	13.5
Stock of bank credit to corporate/household sector (NGNbn)	2,565	5,055	8,057	10,152	9,704	14,184	15,136	16,509	18,144	19,323	23,768	27,333	30,886
Stock of bank credit to corporate/household sector (% of GDP)	9.3	16.1	21.3	25.7	17.5	22.3	20.8	20.4	20.1	20.3	22.4	21.9	21.1
Loan to deposit ratio (%)	60.5	70.9	94.7	100.8	86.7	79.3	73.3	69.1	72.1	71.0	72.0	72.0	73.0
Prices													
CPI (average % YoY)	8.4	5.4	11.5	12.6	13.7	10.8	12.2	8.5	8.4	8.2	15.8	15.4	10.4
CPI (year-end % YoY)	8.6	6.6	15.1	13.9	11.8	10.9	12.0	8.0	8.1	9.6	19.8	11.8	9.0
Fiscal balance (% of GDP)													
Federal government balance	2.7	-0.3	0.6	-1.9	-2.5	-1.7	-1.5	-1.4	-0.9	-2.5	-3.2	-3.3	-2.2
Total public debt	8.1	8.5	7.5	9.6	9.6	10.2	10.4	10.4	10.6	11.5	14.3	15.4	15.0
External balance													
Exports ($bn)	58.8	54.8	80.7	60.0	75.1	93.3	96.0	95.1	83.9	45.9	34.5	36.3	39.5
Imports ($bn)	22.8	32.7	27.8	30.0	53.8	62.2	53.6	51.4	57.6	52.3	42.8	42.8	43.8
Trade balance ($bn)	36.0	22.1	52.9	30.0	21.3	31.1	42.5	43.8	26.3	-6.4	-8.3	-6.5	-4.3
Trade balance (% of GDP)	16.9	8.9	16.7	11.3	5.8	12.0	9.2	8.6	4.8	-1.3	-2.1	-1.9	-1.1
Current account balance ($bn)	36.8	27.9	29.3	14.0	13.4	8.8	20.4	20.7	6.2	-15.4	-2.6	-1.7	-3.2
Current account balance (% of GDP)	17.3	11.2	9.2	5.3	3.7	2.1	4.4	4.1	1.1	-3.2	-0.7	-0.5	-0.8
Net FDI ($bn)	8.8	6.0	5.5	5.8	4.0	7.7	4.2	3.0	2.9	2.5	2.0	2.2	2.4
Net FDI (% of GDP)	4.1	2.4	1.7	2.2	1.1	1.9	0.9	0.6	0.5	0.5	0.5	0.6	0.6
Current account balance plus FDI (% of GDP)	21.4	13.6	11.0	7.5	4.7	4.0	5.3	4.7	1.7	-2.7	-0.1	0.1	-0.2
Exports (% YoY, value)	18	-7	47	-26	25	24	3	-1	-12	-45	-25	5	9
Imports (% YoY, value)	70	44	-15	8	79	16	-14	-4	12	-9	-18	0	7
Foreign exchange reserves (ex. gold, $bn)	42.3	51.3	53.0	44.8	32.3	32.4	44.2	43.6	34.5	29.1	23.5	27.0	30.0
Import cover (months of merchandise imports)	22.3	18.9	22.9	17.9	7.2	6.3	9.9	10.2	7.2	6.7	6.6	7.6	8.2
Debt indicators													
Gross external debt ($bn)	4.1	3.9	4.1	4.5	5.6	5.9	6.5	8.9	11.5	10.7	15.0	17.5	19.0
Gross external debt (% of GDP)	1.9	1.5	1.3	1.7	1.5	1.4	1.4	1.7	2.1	2.2	3.8	5.2	4.7
Gross external debt (% of exports)	7	7	5.1	7.6	7.5	6.3	6.8	9.3	13.7	23.4	43.4	48.3	48.1
Total debt service ($bn)	6.7	1.0	0.4	0.4	0.3	0.4	0.3	0.5	0.5	0.4	0.5	0.6	0.7
Total debt service (% of GDP)	3	0.4	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Total debt service (% of exports)	11	1.8	0.5	0.7	0.4	0.4	0.3	0.5	0.5	0.9	1.5	1.6	1.8
Interest & exchange rates													
Monetary policy rate (MPR), % year-end	14.0	9.5	9.8	6.0	6.3	12.0	12.0	12.0	13.0	13.0	14.0	14.0	11.0
Broad money supply (% YoY)	50.7	58.1	58.0	17.1	7.1	15.8	12.0	14.7	16.0	18.2	16.0	12.0	18.0
Credit to the private sector (% YoY)	27.8	97.1	59.4	26.0	-4.4	46.2	6.7	9.1	9.9	6.5	23.0	15.0	13.0
3-month interest rate (T-bill year-end %)	6.9	7.8	6.9	4.3	7.5	14.1	11.7	10.9	10.8	5.7	21.0	14.0	12.0
3-month interest rate spread over $-Libor (ppts)	1.6	1.8	4.1	3.7	6.7	13.0	11.2	10.4	10.2	4.9	19.6	12.6	10.6
5Y yield (% year-end)	13.0	9.5	10.5	9.4	12.0	11.2	11.8	13.5	13.8	13.1	13.3	12.7	12.5
Exchange rate (NGN/EUR) year-end	170	172	195	214	203	206	206	221	222	219	429	383	440
Exchange rate (NGN/EUR) annual average	161	172	175	209	200	217	202	212	217	221	289	404	411
Exchange rate, NGN/$) year-end	129	118	140	150	152	159	156	160	183	199	390	348	383
Exchange rate (NGN/$) annual average	129	126	119	150	151	156	157	159	165	198	270	369	365

Source: IMF, World Bank, national statistics agency, central bank, Renaissance Capital estimates

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Renaissance Capital

Renaissance Capital research team

Head of Research & Turkish Product	Michael Harris	+44 (207)	005-7982	MHarris2@rencap.com
Deputy Head of Research	David Ferguson	+7 (495)	641-4189	DFerguson@rencap.com
Head of South African Research	Johann Pretorius	+27 (11)	750-1450	JPretorius2@rencap.com

Name	Telephone number		Coverage
Macro			
Charles Robertson	+44 (207)	005-7835	Global
Yvonne Mhango	+27 (11)	750-1488	Sub-Saharan Africa
Oleg Kouzmin	+7 (495)	258-7770 x4506	Russia/CIS
Equity strategy			
Daniel Salter	+44 (207)	005-7824	Global
Michael Harris	+44 (207)	005-7982	Turkey
Charles Robertson	+44 (207)	005-7835	Global
Vikram Lopez	+44 (207)	005-7974	Global
Financials			
Armen Gasparyan	+7 (495)	783-5673	Russia/CIS, CEE
Ilan Stermer	+27 (11)	750-1482	South Africa
Francois Du Toit	+27 (11)	750-1162	South Africa
Olamipo Ogunsanya	+234 (1)	448-5300 x5368	Sub-Saharan Africa
Balram Ramesh	+971 (4)	409-2054	MENA
Consumer/Retail/Agriculture			
David Ferguson	+7 (495)	641-4189	Russia/CIS, Africa
Kirill Panarin	+7 (495)	258-7770 x4009	Russia/CIS, Africa
Zaheer Joosub	+27 (11)	750-1427	South Africa
Olaloye Oyawoye	+234 (1)	448-5300 x5377	Sub-Saharan Africa/CEE
Robyn Collins	+27 (11)	750-1480	South Africa
Mohamed Zein	+971 (4)	409-2032	MENA
Amine Wafy	+971 (4)	409-2052	MENA
Media/Technology/			
David Ferguson	+7 (495)	641-4189	Russia/CIS, Africa
Kirill Panarin	+7 (495)	258-7770 x4009	Russia/CIS, Africa

Name	Telephone number		Coverage
Oil and gas			
Ildar Davletshin	+44 (207)	005-7954	EMEA
Temilade Aduroja	+234 (1)	448-5300 x5363	Sub-Saharan Africa
Evgeny Stroinov	+7 (495)	258-7770 x4046	Russia/CIS
Metals and mining			
Johann Pretorius	+27 (11)	750-1450	South Africa
Steven Friedman	+27 (11)	750-1481	South Africa
Kabelo Moshesha	+27 (11)	750-1472	South Africa
Vladimir Sklyar	+7 (495)	641-4188	Russia/CIS
Anastasia Burkhanova	+7 (495)	258-7770 x4594	Russia/CIS
Telecoms/Transportation			
Alexander Kazbegi	+41 (78)	883-4527	Global
Artem Yamschikov	+7 (495)	258-7770 x7511	Russia/CIS
Amine Wafy	+971 (4)	409-2052	MENA
Utilities/Electric Equipment			
Vladimir Sklyar	+7 (495)	641-4188	Russia/CIS/SSA/Pakistan
Anastasia Tikhonova	+7 (495)	604-4493	Russia/CIS/SSA/Pakistan
Fertilisers			
Vladimir Sklyar	+7 (495)	641-4188	Russia/CIS/MENA/Pakistan
Anastasia Burkhanova	+7 (495)	258-7770 x4594	Russia/CIS/MENA/Pakistan
Diversified/Industrials			
Brent Madel	+27 (11)	750-1160	South Africa
Metin Esendal	+44 (207)	005-7925	Turkey

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