Fiscal Impact of “lower for longer” petroleum prices and investment outlook in established and prospective petroleum producers

A Presentation on the recent experience of Nigeria in terms of the fiscal impact of the fall in oil prices.

Mkpa, Aniefok Bassey

February 2018
Outline

- Introduction
  - Fiscal Implications of the Fall in Oil Prices
    - Federal Government Finances
    - Inflation: Composite Year-on Change (%)
    - Real GDP Growth Rate, Q1 2013 – Q2 2017
    - Naira – Dollar Exchange Rate
    - OPEC Members' real GDP growth rates PPP based weights
  - Investment Outlook: Economic Diversification through increased local production
    - Increasing local production
    - Investing in infrastructure
    - Anchors Borrowers Programme
    - Economic Recovery and Growth Plan
- Conclusion
Crude oil prices were steadily above $100 per barrel from 2011 through to mid-way 2014.

The crude oil price crashed drastically from June 2014. These lower oil prices sustained up until 2017 when crude oil prices started making gradual gains.

The average price of crude oil from 2015 to 2017 was about $47 per barrel.

By January 2018, the prices have steadily been recovering with a price peak of about $71 per barrel\[1\].

---

Fiscal Implications of the Fall in Oil Prices
Fiscal Implications of Fall in Oil Prices

- In Nigeria, from 2006 to 2015, the petroleum sector generated about 74% of government revenues[1].

- Petroleum exports revenue represents over 90% of total exports revenue[2].

- Statistics from the National Bureau of Statistics show that the petroleum sector contributed 10.04% of total real GDP in Q3 2017 a decline from 13.42% recorded in Q3 2012[3].

- The economy of Nigeria is fragile due to its total dependence on primary production such that both the dominance of crude oil production and dominance of crop production in the non-oil sector ensure that the economy does not have the dynamism (value-addition) to withstand external shocks.

Fiscal Implications of Fall in Oil Prices

- This level of dependence of the economy of Nigeria on the primary production of crude oil makes it very vulnerable to lower oil prices for sustained periods.
- The oil price crash depleted the nation’s real income and foreign exchange earnings
  - The total federally collected oil revenues declined from approximately NGN6.8 Trillion in 2014 to NGN3.8 Trillion in 2015 to NGN2.7 Trillion in 2016[1].
  - It is relevant to note that during this period of decline, the level of oil production also drastically declined due to restiveness in the Niger Delta region.
- The amount of financing (net domestic loans) taken increased from NGN835.68 billion in 2014 to NGN1.56 trillion in 2015 to NGN2.21 trillion in 2016[1].
- The nation had to adjust both government expenditure and imports hastily in the short duration due to this.

FEDERAL GOVERNMENT FINANCES

Total Federally Collected Revenue
Oil Revenue
Non-Oil Revenue

Figures from the National Bureau of Statistics show a hike in the inflation rate in Nigeria from January 2016. This hike in inflation was driven by the ripple effect of the extant foreign exchange policy, an increase in petrol price also driven by the exchange rate and a surge in food prices. Amid acute foreign exchange shortages, businesses were deprived of the ability to import inputs, ultimately resulting in a contraction of the economy in Q1 2016.

Real GDP Growth Rate, Q1 2013 - Q2 2017

The culmination of the crash in global crude oil prices; the decline in oil production due to restiveness in the Niger Delta; and the hike in the inflation rate resulted in the economy experiencing an outright contraction in 2016, driving it into recession.

Even though the petroleum sector accounts for only about 10% to 15% of the nation’s GDP, most other sectors rely on it for their inputs.

Source: National Bureau of Statistics
In May 2016, in the face of severe pressures on external reserves and foreign exchange supply crises, the CBN shifted from its fixed rate policy in favour of a flexible and multiple market model, which implied a floating exchange rate regime. As a result the official exchange rate of the Naira to the dollar increased from about NGN197 to NGN306.

Source: TRADINGECONOMICS.COM
The impact in Nigeria was observed to be relatively large when compared to other oil exporting countries due to the level of dependence of the economy on revenue generated from the petroleum sector.

Note: Aggregates were compiled on the basis of 2011 GDP weights using 2011 purchasing power parities (PPP).

Source: OPEC Annual Statistical Bulletin 2017
Investment Outlook

Economic Diversification through increased local production
Increasing Local Production

- This demise has spurred on the Federal Government of Nigeria to vigorously implement initiatives to diversify the nation’s economy.

- In October 2016, President Muhammadu Buhari reiterated the determination of his administration to diversify the economy through increased local production of goods and services at the 22nd Nigerian Economic Summit, themed “Made in Nigeria”.

- The Nigerian Government setup various strategies and initiatives to boost increased domestic production of good and services to diversify the economy. Some of these are:
  - Increasing the capital budget
  - Anchor Borrowers’ Programme
  - Economic Recovery and Growth Plan
Investing in Infrastructure

We're taking concrete steps to reduce Nigeria's reliance on oil, by investing in infrastructure and addressing the stubborn problems that have held our economy back. In the 2016 budget we invested about 1.3 Trillion in capital projects, and we've already done the same in 2017.

Govt of Nigeria
@AsoRock

Amount Released from Federal Budget for Roads in 2015: 19 billion Naira

Amount Released for Roads in 2016: 220 billion Naira

Amount Released for Roads in 2017: 284 billion Naira

Source: @FinMinNigeria

#GovtAtWorkNG #TheYearOfInfrastructure

9 Feb 2018
Anchor Borrowers’ Programme

- In November 2015, the Anchor Borrowers' Programme (ABP) is established and facilitated by the Central Bank of Nigeria (CBN) in the Agricultural sector, particularly in the pursuit of domestic self-sufficiency in rice and wheat production. The intention is to create a linkage between anchor companies involved in food processing and small holder farmers (SHFs) of key agricultural commodities.

- The programme thrust of the ABP is provision of farm inputs in kind and cash (for farm labour) to small holder farmers to boost production of these commodities, stabilize inputs supply to agro-processors and address the country’s negative balance of payments on food.

- Other objectives of the ABP are to:
  - Increase banks’ financing to the agricultural sector
  - Reduce agricultural commodity importation and conserve external reserves
  - Increase capacity utilization of agricultural firms
  - Create new generation of farmers/entrepreneurs and employment
  - Deepen the cashless policy and financial inclusion
  - Reduce the level of poverty among smallholder farmers
  - Assist rural smallholder farmers to grow from subsistence to commercial production levels.
The Economic Recovery and Growth Plan (ERGP), a Medium Term Plan for 2017 – 2020, has been developed for the purpose of restoring economic growth.

The Plan recognises the need to leverage Science, Technology and Innovation (STI) and build a knowledge-based economy.

The ERGP is also consistent with the aspirations of the Sustainable Development Goals (SDGs) given that the initiatives address its three dimensions of economic, social and environmental sustainability issues.

The principles of the ERGP are: to focus on tackling constraints to growth; leverage the power of the private sector; promote national cohesion and social inclusion; allow markets to function and uphold core values.
Economic Recovery and Growth Plan

- The broad objectives of the ERGP are:

  I. Restoring Growth

  II. Investing in our people
      - Social inclusion
      - Job creation and youth empowerment
      - Improved human capital

  III. Building a globally competitive economy
      - Investing in infrastructure
      - Improving the business environment
      - Promoting digital-led growth
The revenues generated from the petroleum sector are very volatile and are affected by numerous long- and short-term factors.

Low oil prices have considerable macroeconomic, fiscal, and policy connotations. When sustained affects oil exporting economies detrimentally by reducing real incomes, foreign earnings and as a result economic activities.

The oil price decline also provides a major window of opportunity to implement initiatives to diversify oil-dependent economies.

The Nigerian Government have taken advantage of this window and are aggressively implementing various strategies and initiatives aimed at the diversification of the nation’s economy.
Thanks for listening