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**ASSIGNMENT**

Budget is a financial and/ or quantitative statements prepared and approved prior to a defined period of time for the purpose of attaining a given objective. It is an economic and financial documents that highlight government policies which designed to promoted economic growth, full employment and enhance the quality of life of its citizenry. In the light of these, to what extent do you think the emergence of COVID-19 pandemic will hamper the purpose, objective and implementation of year 2020 budget of the Federal and State governments in Nigeria. Suggest measures that can be taken to mitigate the challenges.

**The impact of the emergence of COVID-19 pandemic on the purpose, objective and implementation of year 2020 budget of the Federal and State governments in Nigeria**

The global humanitarian and economic crisis caused by the COVID-19 pandemic is having a severe impact on Nigeria, Which has led to the economic cost to rise high. Containment policies to limit the propagation of the outbreak—including to restrict movement and encourage social distance—and a sharp fall in oil prices is causing a fall in economic activity. Our preliminary assessment suggests a contraction in real GDP of 3.4 per cent this year, a 6.5 percentage points drop relative to our previous estimate. Given the uncertainty as to the depth and duration of this crisis, this estimate comes with downside risks.

Unsurprisingly, the COVID-19 crisis will also severely impact the budget. Lower growth and the sharp decline in oil prices are affecting tax revenues, which are projected to fall short of our target by about 3 per cent of GDP. The estimated cost of our pandemic emergency response plan, including additional health and social spending and fiscal stimulus targeted at the most affected sectors, is at least US$1.4 billion (0.3 per cent of GDP) in 2020. Together, these two factors will increase the overall deficit by about 2 per cent of GDP in 2020, despite expenditure reprioritization efforts. We estimate that the Government of Nigeria will require an additional US$11 billion (3 per cent of GDP) in 2020 to close the fiscal financing gap resulting from the shock.

Objective

The Nigerian government has amended the 2020 Appropriation Act to reflect the current economic realities as a result of the impact of the Coronavirus pandemic on the global economy.

The Minister of Finance, Budget and National Planning, Zainab Ahmed, said that with the coronavirus pandemic triggering a global economic crisis, the fiscal assumptions behind the budget are no longer realistic.

Since the outbreak of the coronavirus, growth in most economies have gone into reverse, with the worst impact felt by commodities-dependent economies like Nigeria, following unprecedented decline in crude oil prices.

When President Muhammadu Buhari signed 2020 Appropriation Act on December 17, 2019, the N10.59 trillion Budget consisted of N4.84 trillion recurrent expenditure, N2.46 trillion capital expenditure, N2.72 trillion for debt servicing, N2.28 trillion for fiscal deficit and deficit-to-Gross Domestic Product (GDP) ratio of 1.52 per cent.

The Appropriation Act was also predicated on projections of crude oil production of 2.18 million barrels per day, oil benchmark of $57, exchange rate of N305 to the dollar, gross domestic product (GDP) growth rate of 2.93 per cent, inflation rate of 10.81 per cent and the statutory transfer of N556.7 billion.

However, following the impact of the pandemic, the finance minister said Brent crude oil price crashed to an all-time low of $19.125 per barrel as at last Friday, April 3, while oil production in 2020 year-to-date has dropped significantly below 2.0 million barrels per day.

"Because the 2020 Appropriation Act was based on certain fiscal assumptions, we have been compelled to revisit them given the emerging economic realities," Mrs Ahmed said.

She said with projected oil revenues significantly affected, government has been compelled to revise the benchmark oil price for 2020 to $30 per barrel and oil production to 1.7 million barrels per day.

Similarly, she said the government has also resolved to adjust downwards its non-oil revenue projections, including various tax and customs receipts as well as proceeds of the privatisation exercises.

"In this regard, the Budget Office is currently working on a revised 2020 - 2022 Medium-Term Expenditure Framework / Fiscal Strategy Paper (MTEF/FSP) as well as an Amendment to the 2020 Appropriation Act," she said.

The proposed amended budget, the minister explained, would provide for the COVID-19 Crisis Intervention Fund and other adjustments required due to the decline in international crude oil prices.

She said the government has also commenced engagements with the leadership and key committees of the National Assembly on the plans, such that once the 2020 amendment budget was completed, the government would expeditiously seek necessary presidential and legislative approvals.

As the Coronavirus that has become a global menace rages on, President Muhammadu Buhari has set up a committee to assess its impact on Nigeria’s 2020 budget.

The committee has the mandate to assess how the budget will be affected by the crash of crude oil prices to $30 per barrel.

The committee, which is chaired by the Minister of Finance, Budget and National Planning, Zainab Ahmed has other members. They are Central Bank of Nigeria (CBN) Governor, Godwin Emefiele, Minister of State for Petroleum Resources, Mr Timipre Sylva, Minister of State for Budget and National Planning, Mr Clement Agba and the Group Managing Director of the Nigerian National Petroleum Corporation, Mr Mela Kyari.

The Federal Government has disclosed plans to reduce the 2020 budget by as much as  N1.5 trillion.

The disclosure was made by the Minister of Finance, Budget and National Planning, It was said that there will be a cut of 20% from the capital expenditure of the 2020 budget while recurrent expenditure will be reduced by as much as 25%. She had earlier in the month hinted at the possibility of reducing the 2020 budget due to the coronavirus outbreak. Other measures were implemented in the face of the current economic realities occasioned by COVID-19. One of those measures is the cut in crude oil benchmark from $57 per barrel to $30 per barrel in the revised budget. The President Muhammadu Buhari led-administration also reduced the oil bench mark from $57 per barrel to $30 per barrel, as the oil production volume was dropped from 2.17 million barrel to 1.70 million barrel. The exchange rate was increased from N305 to N360 per dollar. The global crude oil prices are now less than $30 per barrel.

That is cutting down on the size of the federally funded upstream projects of the Petroleum sector. The reason being that they want to be able to receive more revenue by less reduction from NNPC.

The reduction of the crude oil price from $57 per barrel to $30 means that we are going to get so much less revenue, almost 45 percent loss as we planned. And because of that, we have to amend a number of projections in the budget as well as in the MTEF to reflect our current reality.

“They also need to adjust Customs revenue which has been budgeted at N1. 5 trillion but we are adjusting it downwards because they anticipate that trade volumes will reduce and once trade volume is reduced, Customs revenue will be significantly impacted as a result.”

Also employees would continue to pay salaries and would not sack workers, but would not be recruiting or increasing its workforce size for the time being.

Reports also have it that capital projects across ministries, departments and agencies was reduced by 20% and pegged at N312.82 billion.

On concerns of the economy slipping back into recession, The MOF said the budget cut would result in about 40 to 45% reduction and also it will affect states because it means FAAC will be significantly reduced.

“FAAC is just a pool of funds and we share what is realized, so it will affect the states as well. So they are expecting the states to take similar measures to amend the plans that we have made and bring them down to current realities.

“On plans to scale back VAT and excise duty, I am not making any commitment on that right now because these are provisions in the law in the Finance Act and as you know, we will, even in the amendment to the MTEF and the budget, have to engage with the National Assembly. The fiscal authorities are working with the fiscal authority team and we will get the President’s approval before they come up with what we will announce to the public.”

The Federal Government has also slashed the 2020 budget by N318 billion and sent it to the National Assembly. The government reduced the estimate from N10.594 trillion to N10.276 trillion.

The emergence of COVID-19 and its increasing incidence in Nigeria has called for drastic review and changes in the earlier revenue expectations and fiscal projections. Compared to events that led to recession in 2016, the current state of the global economy poses more difficulties ahead as the oil price is currently below US$30 with projections that it will dip further going by the price war among key players in the industry. Unfortunately, the nation has grossly underachieved in setting aside sufficient buffers for rainy days such as it faces in the coming days. In addressing these daunting economic challenges, the current considerations to revise the budget downward is inevitable. However, certain considerations that are expected in the review must not be left out. The assumptions and benchmarks must be based on realizable thresholds and estimates to ensure optimum budget performance, especially on the non-oil revenue components.

The decision to cut the retail price of gasoline under a price modulation arrangement is a welcome development. The cut is expected to curb rising inflation, especially food price inflation which will mainly benefit the poor. However, rather than the price capping regime introduced, by which it is expected of the Petroleum Products Price Regulation Agency (PPPRA) to constantly issues monthly guide on appropriate pricing regime. It is expected that the government will use this opportunity to completely deregulate the petroleum industry in line with existing suggestions and reports. In the event that the global economy becomes healthier and crude oil prices increases, the government might return to the under-recovery of the oil price shortfall by the Nigerian National Petroleum Corporation (NNPC). A policy that annually costs the government huge revenue and recurring losses to the NNPC.

Basically, the Nigerian government essentially must lead economic diversification drive. It is one practicable way to saddle through the current economic uncertainties and instabilities. What the consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policymakers, is that the one-tracked, monolithic reliance on oil is failing. Diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and services sectors, should be further intensified.

**MEASURES THAT CAN BE TAKEN TO MITIGATE THE CHALLENGES**

In order to develop some strong resilience against these external shocks, the country needs to develop some short term reforms and actions to reduce the impacts of the Coronavirus pandemic on the Nigerian economy. In a report published by the Nigerian Economic Summit Group (NESG), some of the needed short-term reforms are highlighted below.

* Restructuring Nigeria’s debt basket to allow for more domestic borrowing: Here, the government needs to increase the domestic debt limit because this is key to the country’s ability to secure external debts. This will ensure that there is enough funding to stimulate economic activities and growth through stimulus spending by the government.
* Review of 2020 budget to reflect current realities in terms of revenue and implement broader budget reforms: This calls for the urgent need to review the  2020 budget to reflect current realities. All non-productive spending should be dropped for projects with high impact on productive sectors and economy. In addition, the procurement process needs to be reformed so as to allow for timely execution of capital projects and judicious use of public funds. Note that the government has already taken steps in this regard, as discussed above.
* The Government should stop the determination of fuel price: The Government should reconsider its role in the petroleum downstream sector, especially with price regulation. The best option now is to stop fuel price determination/control and let market forces dictate the price. This will ensure the limited available resources are judiciously used for infrastructural development rather than supporting consumption through subsidy.
* Monetary Policy Consolidation: The government needs to make some critical monetary reforms such as moving away from multiple exchange rates, among others. Also, there is the need to create an instrument for maturing Open Market Operation (OMO) securities in order to get into the buy-in by investors. This will help mop-up liquidity in the system and reduce inflationary pressure. Most importantly, the government must work on strengthening the Central Bank of Nigeria (CBN)’s balance sheet, which will provide some support to the financial system and ensure its stability.
* Work on attracting FDI: The Government should also work on consolidating all policies that affect trade, economic activities, and investments. The current business and investment environments are hostile to both foreign and local investors. The provisions of the Finance Act 2020 show examples of the kind of activities required. For example, there was about $58.4 billion worth of foreign direct investments (FDI) that were delayed in 2019 due to unclear regulations in the country. In the same view, there is an urgent need to stop total reliance on the government for infrastructural funding. A more private sector-driven approach should be considered. A framework for Public-Private Partnership should also be strengthened.
* Stop ad-hoc policymaking and engage stakeholders: The policymaking approach must be properly coordinated and consistent with existing plans. Engagement with relevant stakeholders before critical decisions are made should be practised across board. Also, relevant government Ministries, Departments, and Agencies(MDA) must conduct a cost-benefit analysis in the process. Not only does this send the proper signal to investors, but it also provides concrete evidence to support or challenge a course of action.
* Urgently revisit the closure of the land borders: The NESG urged the government to work with regional neighbours towards resolving the issues concerning the reopening of land borders as the adverse effects of border closure on trade and employment are increasing.