

The 2021 Budget

and opportunities for
Nigerian Businesses



All enquiries should be forwarded to:

The Economic Intelligence Group
Access Bank Plc
14/15 Prince Alaba Abiodun Oniru,
Victoria Island, Lagos
T: 01-2712005-7, 0700 300 0000
E: economicintelligence@accessbankplc.com



more than banking

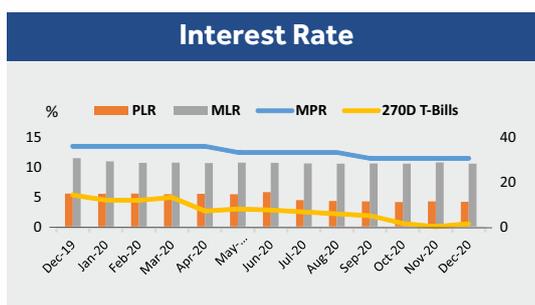
Disclaimer: This report is our opinion on the Nigerian macroeconomic landscape and investment environment. Reliance upon information in this report is at the sole discretion of the recipient/reader. Access Bank PLC does not warranty its completeness, timeliness or accuracy. Past performance is not a guarantee of future results. Any forecast contained herein is for illustrative purposes only and is not to be relied upon as advice or interpreted as a recommendation. Always consult your financial advisor before making investment decisions.

Outline

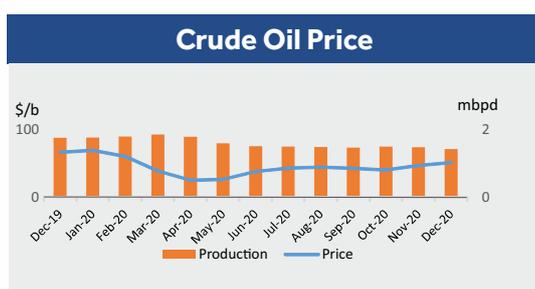
- Macroeconomic Update
- The 2021 Budget and Opportunities for Nigerian Businesses
 - Highlights of 2021 Budget of Economic Recovery & Resilience
 - Sectoral opportunities engraved in the 2021 budget
- Key Changes in the new Nigerian Finance Act 2020

Macroeconomic Update

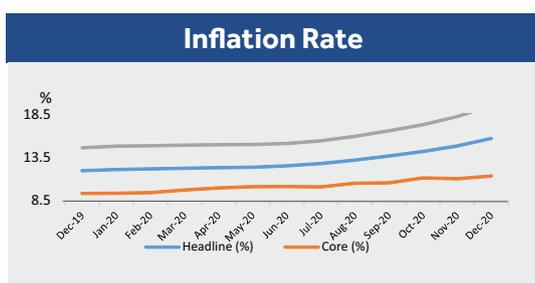
- 2021 looks promising but overhanging hyper debt obligations and economic fractures could have a significant pull effect on growth prospects. Proactiveness will be the growth language for the year.
- Forecasts appear favourable in the medium term with all things being equal, but the African economy will hang in the balance due to the lack of resources to give the necessary boost. We could see commodities price soar in correlation with global economic growth.
- The year's outlook will also depend on new Biden administration's ability to rejuvenate bilateral relations with key African economies and its successes could prove invaluable to Africa's aspirations.



- The Monetary Policy Rate (MPR) stayed unchanged at 11.5% after the Monetary Policy Committee (MPC) held its first meeting for 2021 in January.
- The Prime Lending Rate (PLR) and Maximum Lending Rate (MLR) declined to 11.35% and 28.31% respectively in December from 11.6% and 28.85% posted in November.
- The 270-Day Treasury Bills (T-Bills) rose further in January 2021 to 1.36% from 0.62% posted in December 2020.

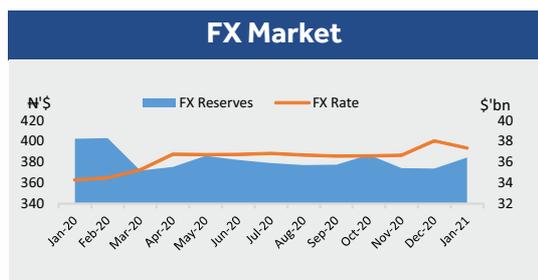


- Oil prices sat at \$55.75 per barrel at the end of January 2021 rising from \$50.94/b recorded at the end of 2020.
- Crude oil production in Nigeria reached 1.420 million barrel per day (mbpd) in December 2020 compared to 1.448mbpd posted in November.
- Oil prices surged as the latest report of encouraging coronavirus vaccine trials had traders anticipating a recovery in demand.
- Stricter enforcement of oil quota by OPEC continues in order to boost oil prices amidst forecasted lower oil demand.



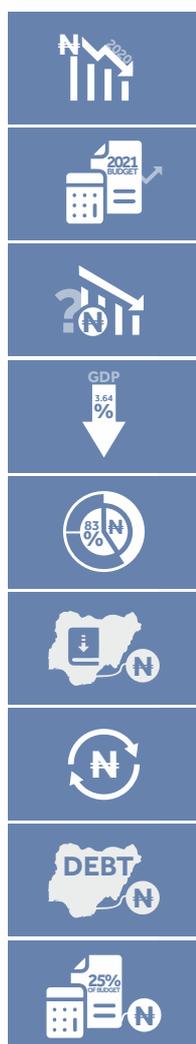
- Inflation rose to 15.75% at year-end 2020 from 14.89% posted in November 2020.
- This came on the back of the weakened Naira and the lingering effects of coronavirus-induced supply disruptions
- Year on year prices rose mostly for food items reaching 19.56% relatively to 18.30% in November with core inflation also rising to 11.37% from 11.05% recorded in October 2020.

Macroeconomic Update



- External reserves settled at c. \$36.43bn at the end of January 2021. This represents an increase by \$1.06bn from December
- This increment reflects the improvement in global oil prices and the approval of the \$1.5bn World Bank loan.
- The Naira appreciated in January 2021 with N/\$ closing at ₦393.45/\$, up from ₦400.33/\$ recorded in December at the NAFEX window. This shows a 1.72% appreciation.

Highlights of the 2021 Budget of Economic Recovery & Resilience



2020 had an unprecedented negative effect on the global and domestic economy plunging the economy into a recession

The 2021 budget is focused on boosting the economy and pulling it out of recession and record growth

A worrying trend in the Nigerian budget is the ballooning budget deficit which brings up questions of how these deficits will be funded

The 2021 Budget deficit (inclusive of Government Owned Enterprises and project-tied loans) is projected at ₦5.20 trillion. This represents 3.64 percent of estimated GDP, slightly above the 3 percent threshold set by the Fiscal Responsibility Act, 2007

Recurrent expenditure plus deficit is equal to 83% of the budget, and these are qualities of an inefficient framework

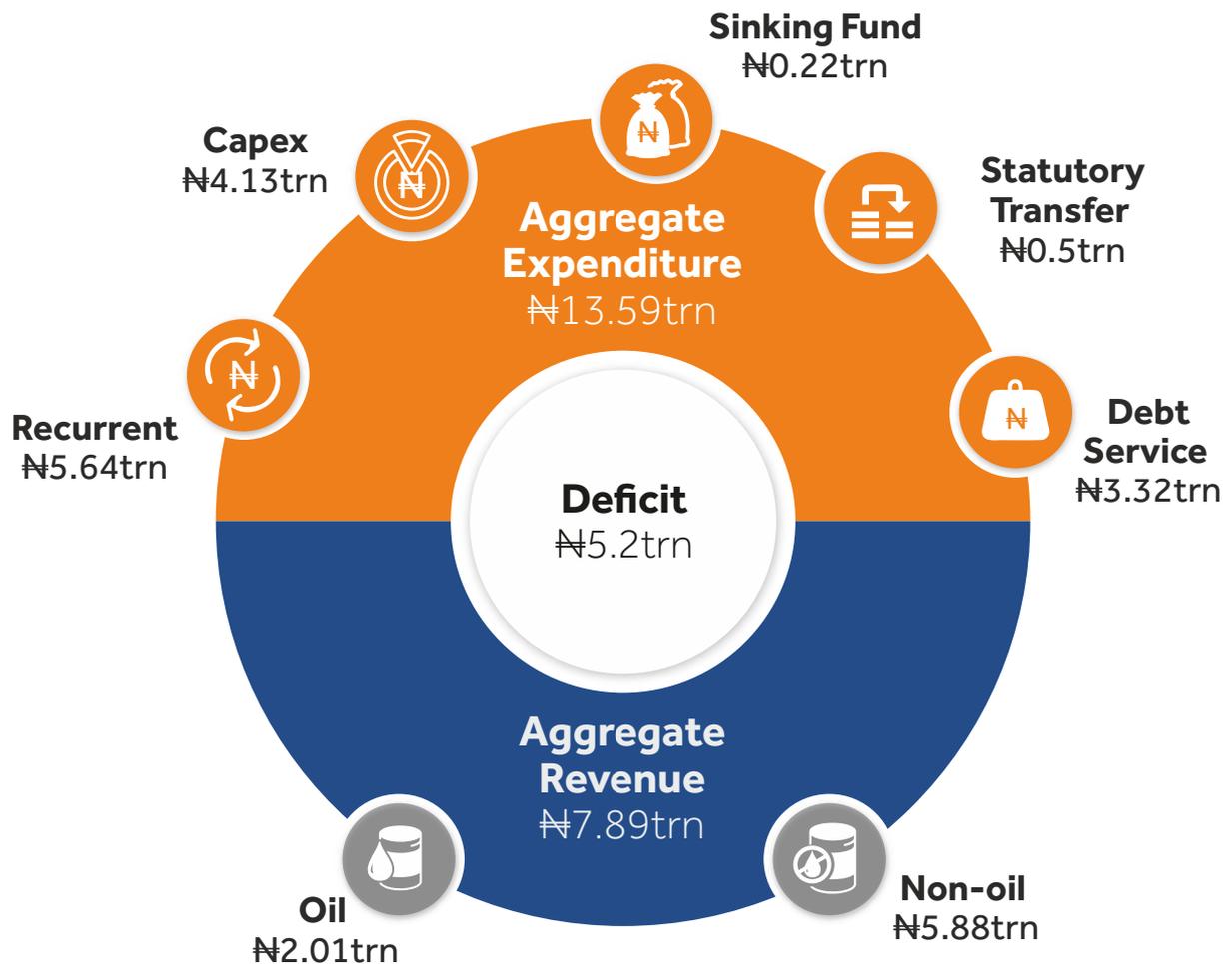
Nigeria's foreign borrowings approaches critical levels as debt service gulps over 60% of Government revenue and the remainder expended on salaries leaving an infrastructure funding gap that will require more borrowings

A pattern is emerging in the design of the Nigeria budget where Debt service gulps a sizable portion. CAPEX remains depressed and recurrent expenditure increasing

Nigeria's debt portfolio currently stands at ₦6trn (\$15.8bn). The budgeted debt service for 2021 is 94% of actual debt service in 2020 but the actual payments was 11% above the revised budget

This means that Nigeria will spend at least 25% of its budget on debt service, i.e. 1 out of every 4 Naira will be expended on debt servicing

Highlights of the 2021 Budget of Economic Recovery & Resilience



Key Assumptions

				
Oil Price \$40/b	Oil Production 1.86mbpd	Exchange Rate ₦379/\$	Inflation Rate 11.95%	GDP Growth 3.0%

Sectoral opportunities engraved in the 2021 budget

The Federal Government expanded its expenditure in the 2021 budget amidst the depressing impact of COVID-19 on its revenue. This expansionary fiscal policy is expected to salvage the economy from the brunt of the pandemic. Allocations have been made to key economic sectors, and businesses in these sectors can leverage on this to become increasingly productive and agents of employment, thus stimulating economic growth.

Sectors	Allocation	Opportunities
Agriculture 	<ul style="list-style-type: none"> • ₦110 billion was allocated to the agriculture sector • ₦7.29 billion for rural infrastructure development • ₦3.4 billion for infrastructure support service. 	<ul style="list-style-type: none"> • Businesses can benefit from initiatives the Government will roll out in 2021. These initiatives could be in form of subsidized loans and grants • Government investments will increase the diversity of exports and job creation.
Health 	<ul style="list-style-type: none"> • ₦132 billion was allotted to the Health sector. This excludes other funding initiatives. 	<ul style="list-style-type: none"> • The global pandemic has provided a new lens on how imperative a strong health care system is in the country. Thus, various initiatives have come about in this sector, which includes loans for pharmaceutical funding to boost local production which will make drugs more accessible and affordable to the public • Private institutions like Access Bank have taken ingenuity in the services it provides. For instance, the Bank has come up with a Healthcare plan in partnership with Hygeia, that costs ₦6,000 annually for medical access of up to ₦400,000 throughout the year.
Works and Housing 	<ul style="list-style-type: none"> • The Government has apportioned ₦404 billion for this sector • ₦17 billion for housing projects • ₦190 billion for over 55 road projects 	<ul style="list-style-type: none"> • Through the National Social Housing Programme (NSHP) the Government is set to construct 300,000 homes where 1-bedroom houses can be bought for ₦2,000,000. This is an avenue to own a house at a discounted price which aids in providing the necessity of shelter • Increased job availability • Government partnerships with management contractors, Manufactures, Suppliers, and project managers.

Sectoral opportunities engraved in the 2021 budget (cont'd)

Sectors	Allocation	Opportunities
Transport 	<ul style="list-style-type: none"> • Capital budget of ₦255 billion • Transport estimates of ₦204 billion • Marine transport estimates ₦845 million • Overhead of ₦359 million. 	<ul style="list-style-type: none"> • The land allocation is heavily concentrated on numerous railway projects, with key trade links within the country being targeted. E.g. Lagos-Ibadan- Kano, Ibadan-Kano, Abuja (Idu)-Kaduna Railway line, completion of Itakpe-Ajaokuta-Warri rail track and structures. • This will aid in providing efficient and cost-effective means of transportation and aid with trade movement within the country.
Power 	<ul style="list-style-type: none"> • ₦198 billion was apportioned to the Power sector to fund its recovery project and other projects • ₦17 billion was allocated for Rural Electrification projects across the country. 	<ul style="list-style-type: none"> • The Power sector is important in fostering economic activity particularly private investment and job creation. The economic cost of power shortage in Nigeria is estimated to be around \$28 billion. • The budget is allocated to projects like the Kashimbila Transmission Distribution Expansion Programme; which will utilize the stranded power from the grid and Nigeria Electricity and Transmission Access Project; reducing household and business cost on alternative source of electricity.
Aviation 	<ul style="list-style-type: none"> • ₦89 billion was allocated to the Aviation sector. • Major allocations include the construction of the second runway of Nnamdi Azikiwe International Airport Abuja, critical safety and security projects, airport certification nationwide, purchase of fire trucks for airports, and Development of Aerospace 	<ul style="list-style-type: none"> • The Government plans to double the number of airports in the country by 2023 • This with further boost interconnectivity and allow for quicker trade transactions. • This would in turn create more employment in the Aviation sector while increasing its contribution to the GDP

Sectoral opportunities engraved in the 2021 budget (cont'd)

Sectors	Allocation	Opportunities
Humanitarian Affairs 	<ul style="list-style-type: none"> Total capital budget of ₦60.1 billion 	<ul style="list-style-type: none"> Part of the budgeted amount aims to provide N-Power devices, tools and consumables, the development and deployment of SIP Management Information System (NASIMS), Project Raise Application Software, community infrastructure project, solar kiosks, and ICT operational support equipment/vehicles. These initiatives will further help create development opportunities

Key Changes in the New Nigerian Finance Act 2020

The Finance Bill 2020 which took effect from January 1, 2021, introduced over Eighty (80) amendments to Fourteen (14) different laws. In this article, we share our opinions and verdicts on Twenty (20) key changes from the Act.

	Area	What it means?	Our Verdict
1	Compensation for loss of office up to ₦10m exempted from capital gains tax. Tax due on excess above ₦10m is to be deducted by the payer and remitted within the time specified under the PAYE Regulations.	Payments to senior executives or consultants forced to retire with severance package more than ₦10m; The excess above ₦10m will attract taxes. This might be of minimum impact to large companies, but could significantly affect MSMEs.	Neutral
2	Minimum tax for companies in respect of returns for years of assessments due between 1st Jan 2020 and 31st Dec 2021 has been reduced from 0.5% to 0.25% of gross turnover less franked investment income.	Reduction in taxes for companies within the specified period to assist companies to assimilate the new Finance Act 2020. Franked investment income is dividend income already taxed by the originating company. We believe that this incentive has no impact in the long run because of its expiratory timeline.	Neutral

Key Changes in the New Nigerian Finance Act 2020 (cont'd)

	Area	What it means?	Our Verdict
3	Cost of donation made in cash or kind to any fund set up by government in respect of any pandemic or natural disaster to be tax deductible subject to a maximum of 10% of assessable profit after other allowable donations.	Donations are largely tax deductible before this act, so this development is made to capture natural disasters which happened to be a new experience in Nigeria. We believe it has no significant impact to businesses.	Neutral
4	FIRS may prescribe the form of accounts other than audited financial statements for small and medium companies as defined under CITA.	FIRS will identify other accounts that will serve the same purpose as audited financial statements for MSMEs. This is a positive development as MSMEs struggle with the concept of audited financial statements due to multiple factors. It will further aid credit penetration in the MSME space.	Positive
5	Service of notice of assessment and objections under CITA may be done via courier service, email or other electronic means as may be directed by FIRS in a notice. Tax Appeal Tribunal may conduct its hearing remotely via virtual means, using such technology or application as may be necessary to ensure fair hearing.	FIRS has accepted electronic channels as an official means of communication and dialogue. This is a step in the right direction towards efficiency. We expect this to improve the turnaround time on Tax administration.	Positive
6	Public character for the purpose of tax exemption requires an organization or institution to be registered in accordance with relevant laws in Nigeria and does not distribute or share its profits in any manner to members or promoters.	This addresses the NGO and Charitable industry players labelled as Institutions of Public Character (IPCs), that actively seek tax exemptions due to their operations are not allowed to share their profits with promoters to qualify for tax exemptions. We believe that this is intended to clarify all existing NGOs and upcoming NGOs of the Government's stance on tax exemption	Neutral

Key Changes in the New Nigerian Finance Act 2020 (cont'd)

	Area	What it means?	Our Verdict
7	A small or medium company engaged in primary agricultural production may be granted pioneer status for an initial period of 4 years and an additional 2 years (making a total of 6 years).	Pioneer status is a special tax holiday incentive affordable to players in select industries by Government, aimed at encouraging investment in that sector. We believe this is positive step as the Government continues to encourage investment in the Agriculture sector but to aid this development, keen attention needs to be paid to the supply chain infrastructure.	Positive
8	Gross income for personal relief purposes has been redefined as income from all sources less non-taxable income, exempt items and income on which no further tax is payable. In the case of an enterprise, less all allowable business expenses and capital allowance.	A reclarification on tax computation methodology.	Neutral
9	Exemption of low-income earners earning minimum wage or less from personal income tax.	People earning ₦30,000 or below are exempt from income tax. This should have no impact as this wage class ordinarily do not remit tax and reside majorly in the informal sector where a tax structure is absent.	Neutral
10	Goods liable to excise duties have been expanded to include telecommunication services provided in Nigeria as may be prescribed in the law or an Order issued by the President.	Telecommunication devices will become more expensive due to imposition of Import tax. We believe this to be retrogressive given the lag in the technology infrastructure in Nigeria which should be catalysed rather than discouraged by the new tax regime.	Negative
11	Reduction of import duty on Tractors from 35% to 5%; Mass transit vehicles for transport of more than 10 persons and Trucks from 35% to 10%, and reduction of import levy on Cars from 30% to 5%.	Vehicles are expected to be cheaper due to lower import tax duties. We see this as a positive development as the Government aims to improve logistics being a key element for industrialization to thrive.	Positive

Key Changes in the New Nigerian Finance Act 2020 (cont'd)

	Area	What it means?	Our Verdict
12	<p>Taxable supply with respect to goods is defined to include where the beneficial owner of the right in or over goods is a taxable person in Nigeria or the goods or right is situated, registered or exercisable in Nigeria. Services include those consumed by a person in Nigeria whether rendered within or outside Nigeria excluding employment; and in respect of incorporeal, includes exploitation of a right, acquisition of or assignment of rights by a person in Nigeria and incorporeal connected with tangible or immovable asset located in Nigeria. Goods exclude land and building, money, or securities.</p>	<p>Foreign vendors are required to remit tax for businesses and supply carried out in Nigeria. We believe this is a positive step to boost local patronage, reap benefits from the the African Continental Free Trade Area (AFCFTA), Government revenues and employment by inflating foreign services cost and need for tax management by a local representative.</p>	Positive
13	<p>A non-resident person that makes a taxable supply to Nigeria is required to register for tax and obtain TIN, include VAT on its invoice, and may appoint a representative in Nigeria for the purpose of its tax obligations. The FIRS may issue guidelines for this purpose.</p>	<p>Foreign vendors are required to remit Value Added Tax (VAT) for businesses and supply done in Nigeria. This should boost local patronage and employment by inflating foreign services cost and need for tax management by a local representative.</p>	Positive
14	<p>Exemption of commercial airline ticket from VAT and hire or lease of agricultural equipment for agricultural purposes.</p>	<p>Cost of operations in the Aviation and Agriculture industries are expected to reduce due to VAT exemptions. We believe this should have minimum impact on airline fares because what drives fares are demand and with other means of transport plagued by insecurity, high airfares will remain.</p>	Positive

Key Changes in the New Nigerian Finance Act 2020 (cont'd)

	Area	What it means?	Our Verdict
15	Deletion of electronic bank transfer as transaction liable to stamp duty and introduction of electronic money transfer levy of ₦50 on electronic transfer of money deposited in any bank or financial institution on any account on sums of ₦10k or more.	Deposits of ₦10,000 and above will attract a transfer levy of ₦50 instead of the stamp duty accruable to the Government. This simply appears as a substitution of nomenclature and clearly defining the sharing ratio which was in dispute under the previous stamp duty regime.	Neutral
16	Accountant General for the Federation to open dedicated accounts for each tax type for the payment of tax refunds to be administered by the FIRS and funded based on annual budgets for tax refund for each tax-type as may be approved by the National Assembly.	Each tax type will have a dedicated account to boost accountability.	Positive
17	For companies operating in the free trade zones, exemption from taxes is subject to compliance with tax filing and returns obligation to the FIRS under section 55(1) of CITA.	All companies operating in free trade zones are tax-exempt but must file their returns to the FIRS. We believe this is to reiterate to companies under this umbrella to file their returns regardless of their tax exemption status.	Neutral
18	Establishment of a Crisis Intervention Fund of ₦500b or other sums as may be approved by the National Assembly, and by way of trust, as a sub-fund of the Crisis Intervention Fund, an Unclaimed Funds Trust Fund.	There will be special fund set aside to manage crisis events such as the current pandemic. This will provide a foundation to withstand such economic shocks arising from force majeure in the future.	Positive

Key Changes in the New Nigerian Finance Act 2020 (cont'd)

	Area	What it means?	Our Verdict
19	Unclaimed dividends in a listed company and unutilized amounts in a dormant bank account outstanding for 6 years or more to be transferred to the Unclaimed Funds Trust Fund as a special debt to the Federal Government to be managed by the Debt Management Office and shall be available to the shareholder or account holder at any time together with the yield thereon.	All idle funds such as unclaimed dividends and dormant accounts for a period of 6 years will be managed in a trust fund as a special debt to the Government. We believe this is positive as idle funds could be used for development as the owner and the Government both enjoy the yields. Contrary to public opinion the owners of these idle funds will be able to claim their funds with respective yields.	Positive
20	Balance of operating surplus of a corporation shall be paid to the CRF of the Federation on a quarterly basis. Finance Minister may affect a direct deduction from TSA or other accounts of a corporation to enforce compliance. Also, it is prohibited to reduce contract values or splitting of procurement to evade the use of the appropriate procurement method.	National Corporations are discouraged from keeping excess cash from operations and are directed to remit excess to the Consolidate Revenue Fund (CRF) for optimum utilization of resources. We believe this will curb corruption and plug wastage in the Government operations.	Neutral



**got a
complaint,
feedback or
enquiry?**
we would love
to hear from you.

Please reach out to us on any of the following channels:



Email: contactcenter@accessbankplc.com



Live Chat: <https://www.livechat.accessbankplc.com/>



Social Media: Facebook, Instagram, Twitter



Tamada: <https://tamada.accessbankplc.com/>



WhatsApp Banking: 09090901901



Telephone: 07003000000, 01-2802500, 01-2712005-7



Ombudsman: CC-ombudsman@accessbankplc.com (For failed POS transactions- the failed transaction decline receipt will be required)

Don't forget to provide your transaction details such as account number, date of transaction, amount and beneficiary details where applicable.

Remember, Access Bank will never ask for your full card PAN, PIN, OTP, Password or BVN. If you receive any suspicious phone call, text message or email, report to us immediately.

Thank you for choosing Access Bank

For more information

T 01-2712005-7
E contactcenter@accessbankplc.com
W www.accessbankplc.com



Services tailored just for you, to meet your style, taste and comfort

Access Bank will never ask for your complete card number, PIN or One-Time Password. If you lose your phone, please call us immediately.