



THE MACROECONOMIC FRAMEWORK OF THE 2017 FEDERAL BUDGET AND ECONOMIC RECOVERY

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on the 2017 Federal Budget



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1.0 Introduction

- A budget is not just a set of revenue and expenditure plans by the Government
- It is a quantitative expression of government's financial plans with a focus to systematically achieve macroeconomic goals and induce socio-economic development
- The 2017 Budget encapsulates government's economic and growth plan, and how government intends to utilize available resources to actualize them



1.0 Introduction.../2

- Key considerations in preparing the Budget:
 - The economic context or state of the economy. Usually influenced by:
 - Global economic environment
 - Domestic macro-environment
 - Government's development priorities – The Plan
 - Macroeconomic Framework: assumptions and projections
 - Sustainability of deficit and debt
 - Economic and Social benefits



2.0 The Economic Context underlying the 2017 Budget Proposal

- Recovery of the global economy remains slow and fragile
 - Global GDP growth projected at 3.1% for 2016 from 3.2% in 2015
 - Growth was impacted by a number of factors such as :
 - Protracted period of lower commodity prices (especially, oil prices)
 - Major macroeconomic realignments in China to a new growth model
 - Increasing divergence in monetary policy in major economies
 - Uncertain economic, political and institutional implications of BREXIT
 - Weak demand in advanced economies and its spill-over effects
 - Geopolitical tensions in several countries
 - Global growth expected to rise in 2017 to 3.4%



2.0 The Economic Context underlying the 2017 Budget Proposal.../2

- ❑ The aforementioned factors created spillovers through trade, exchange rates, asset markets, and capital flows to the Nigerian economy

- ❑ On the domestic side, the main challenges in economy include:
 - Crude oil production shut-ins resulting from vandalism of oil facilities.
 - 4 strategic oil fields affected including Trans-Niger Pipeline and Nembe Creek Trunkline axis as well as the Qua - Iboe Terminal
 - Insurgency in parts of the North East
 - Increase in electricity tariffs, kerosene and PMS prices in the first half of the year
 - Foreign Exchange (FX) scarcity

- ❑ These constrained fiscal operations, real sector activities, and the external accounts.



2.0 The Economic Context underlying the 2017 Budget Proposal.../3

❑ As a result of these setbacks:

- Contraction in growth (-2.24% in Q3)
- High unemployment rate (13.9% as at Q3)
- Higher inflation rate (18.55% as at December 2016, from 18.48% in November 2016). This shows some slack in the inflation trend
- Foreign reserves were down to as low as \$24.8 billion as at 1st December 2016 but has inched up to N\$27.3 billion as at 17th January 2017
- Weak corporate sector performance resulting from lower credit quality and rising non-performing loans.



3.0 The Economic Recovery and Growth Plan

- ❑ A Strategic Implementation Plan (SIP) for the 2016 Budget was developed early in 2016, which laid down government's key socio-economic development aspirations and strategies, as a pre-cursor to a fuller medium-term plan.
- ❑ A Medium Term Economic Recovery and Growth Plan (ERGP 2017 - 2020) is being finalised to address current economic challenges, restore growth, and reposition the economy for sustained inclusive growth.
- ❑ The ERGP is different from the previous plans and visions that have been developed and not effectively implemented.



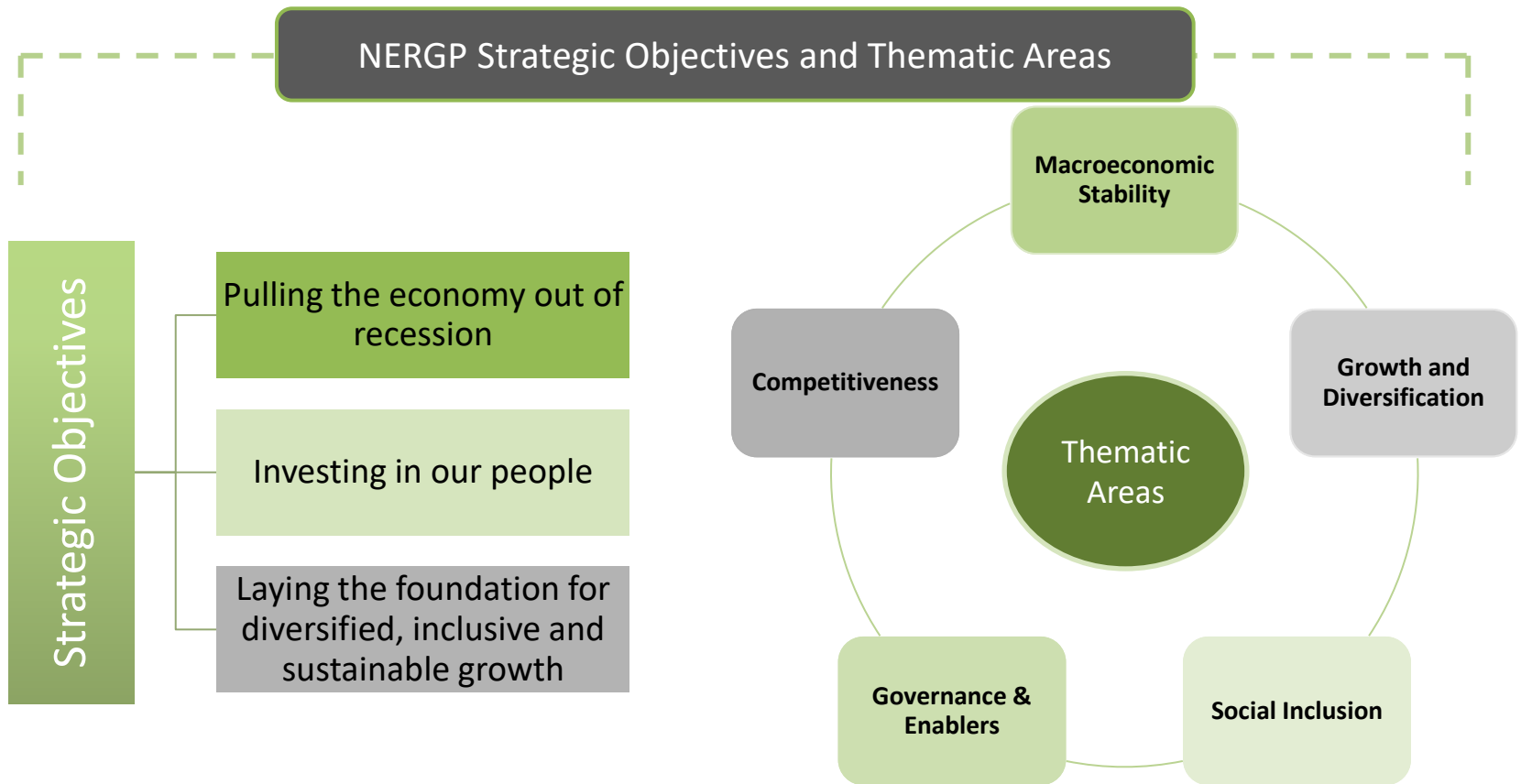
3.0 The Economic Recovery and Growth Plan.../2

- ❑ Implementation will be driven by:
 - ❑ Strong political will;
 - ❑ Close partnership and strong collaboration between public and private sectors especially in the areas of Agriculture, Manufacturing, Solid Minerals and Services;
 - ❑ Rigorous implementation plan (for instance, it forms the basis of the 2017 Budget); and,
 - ❑ Delivery Unit

- ❑ The ERGP builds on the existing 2016 SIP, and contains strategic objectives and enablers required to revive the economy.



3.0 The Economic Recovery and Growth Plan.../3





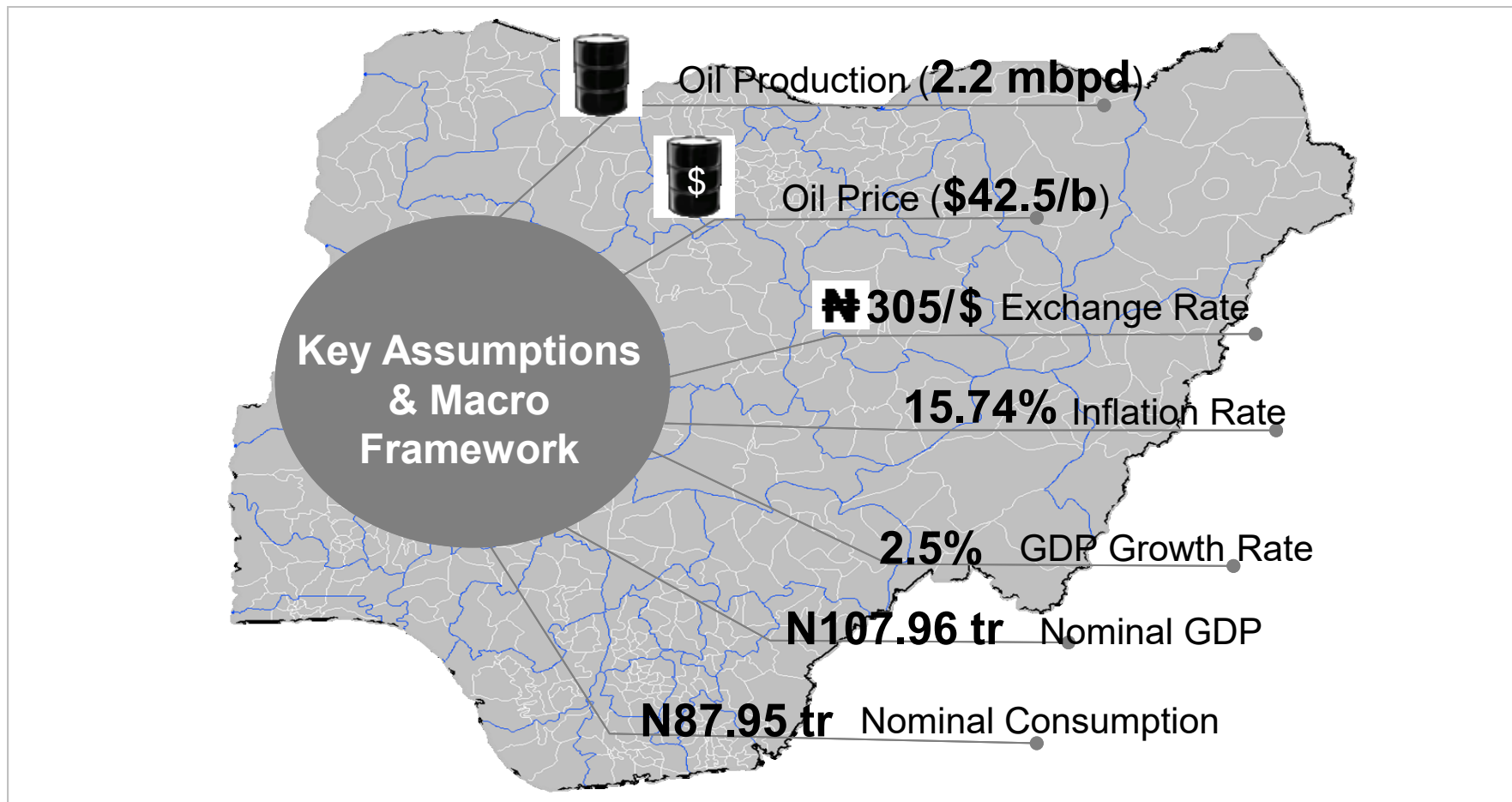
3.0 The Economic Recovery and Growth Plan.../4

- ❑ 59 Strategies have been developed for implementation to achieve the strategic objectives of the ERGP.
- ❑ 12 of these strategies have been prioritized based on their importance to the success of the plan:
 - ❑ Restore oil production to 2.2mbpd and reach 2.5mbpd by 2020
 - ❑ Privatize selected assets
 - ❑ Accelerate non-oil revenue generation
 - ❑ Drastically cut costs
 - ❑ Align monetary, trade and fiscal policies
 - ❑ Expand Infrastructure especially Power, Roads and Rail
 - ❑ Revamp the 4 existing refineries
 - ❑ Improve Ease of Doing Business
 - ❑ Expand social investment programmes
 - ❑ Deliver on agricultural transformation
 - ❑ Accelerate implementation of National Industrial Revolution Plan using Special Economic Zones
 - ❑ Focus on priority sectors in order to generate jobs, promote exports, boost growth and upgrade skills



4.0 The 2017 Budget: Key Assumptions and Macroeconomic Framework

- ❑ The 2017 Budget proposal reflects many of the reforms and initiatives in the ERGP
- ❑ It is based on the following assumptions:





4.0 The 2017 Budget: Key Assumptions and The Macroeconomic Framework.../2

❑ To arrive at these assumptions inputs were obtained from FIRS, DPR, CBN, OAGF, NBS, NCS, DMO and BPE

❑ Oil Price Benchmark

- International market forecasts such as Citi Bank, Bloomberge, EIA, WorldBank, etc., projected oil price to range between US\$56/b and US\$65/b for 2017.
- We assumed a much lower market price of US\$53.1/b. This was marked down by 20% to allow for some savings as well as variations in the oil price

❑ Exchange Rate

- N305/US\$1 based on the current official exchange rate was adopted for the medium term.

Note: Issues relating to exchange rate policy, interest rates and other monetary policy indicators are within the purview of the Central Bank



4.0 The 2017 Budget: Key Assumptions and Macroeconomic Framework.../3

❑ Oil Production

- Crude oil production is projected at 2.2 million in 2017, same as in 2016.
- This projection has accounted for loses that may arise due to Security/Sabotage/Theft.
- Loses have been projected to range between 108,000bpd and 160,000bpd ring-fenced to recover production costs of Modified carry Arrangement (MCA).
- Gas Production for 2017 Budget increased to 6,647.22 mmscf per day from 6,512 mmscf in 2016 out of which 662.72 mmscf per day is set aside for Re-injection, Offshore Power Generation, and Recoveries & Flaring while 1,626.36 mmscf is set aside for JV Cost of Recovery.
- Net Gas produced for revenue stands at 4,356.14mmscf per day.



4.0 The 2017 Budget: Key Assumptions and Macroeconomic Framework.../4

□ Projected Nominal Consumption, Nominal GDP, and GDP Growth Rate

- Nominal GDP is projected at N107.96 trillion in 2017. This is N776.20 billion lower than the initial projection of N108.73 trillion (due to reduction in level of economic activities).
- Growth Rate, originally projected at 3.7% for the three years were revised downward to 2.50% for 2017.
- Aggregate Consumption is projected to increase from N82.34 trillion in 2016 to N87.95 trillion in 2017.
- These projections assume a gradual recovery of domestic activities resulting from initiatives highlighted earlier.
- Nominal GDP and projected Growth rate as bases for computing corporate taxation
- Value-Added Tax and Customs revenue are based on Nominal Consumption and Imports respectively



4.0 The 2017 Budget: Key Assumptions and Macroeconomic Framework.../5

- ❑ Customs Revenue Collection is projected to be N717.14 billion in 2017 against N862.41 billion approved for 2016.

Due to:

- Lowered economic activities which led to lower import volumes estimated at about N4,362 billion (Jan-Sept., 2016);
- Lowered import volumes on the account of restriction of 41 Items from accessing Forex;
- Prohibition on the imports of rice across land borders affected the collections of the NCS as rice is a high duty attracting commodity
- The impact of zero duty on machinery and equipment in the agriculture and power sectors since January 31st 2012.



4.1 The 2017 Budget Framework

An Overview of the Revenue Framework

FISCAL ITEMS		2016 Approved Budget	2017 Proposal	2017 Approved by NASS
Oil Production Volume (Mill Barrels per day)		2,200	2,200	2,200
Projected Budget Benchmark Price (US\$ per barrel)		38.00	42.50	44.50
Average Exchange Rate		197.00	305.00	305.00
FGN Retained Revenue		3,855,740,432,515	4,942,231,948,132	5,078,899,724,950
a	Share of Oil Revenue	717,552,872,400	1,985,508,131,586	2,122,175,908,405
b	Share of Dividend (NLNG)	95,545,000,000	29,585,000,000	29,585,000,000
c	Share of Minerals & Mining	6,901,228,158	1,064,532,425	1,064,532,425
d	Share of Non-Oil	1,454,694,382,138	1,373,211,428,771	1,373,211,428,771
	Share of CIT	867,458,267,330	807,823,799,444	807,823,799,444
	Share of VAT	198,244,286,560	241,920,000,000	241,920,000,000
	Share of Customs	326,435,418,187	277,562,873,948	277,562,873,948
	Share of Federation Acct. Levies	62,556,410,061	45,904,755,379	45,904,755,379
e	Independent Revenue	1,505,880,000,000	807,570,000,000	807,570,000,000
f	FGN's Share of Actual Bal. in Special Accts	10,788,751,405	6,643,655,741	6,643,655,741
g	FGN's Balances in Special Levies Accounts	14,378,198,416	9,289,357,517	9,289,357,517
h	FGN's Unspent Bal. of previous Fiscal Year	50,000,000,000	50,000,000,000	50,000,000,000
i	FGN's Share of Signature Bonus		114,298,470,334	114,298,470,334
j	Recovery from Swiss. (US\$320 Mill)		97,600,000,000	97,600,000,000
k	Domestic Recoveries + Assets + Fines		261,897,225,484	261,897,225,484
l	Other FGN Recoveries		205,564,146,274	205,564,146,274



4.1 The 2017 Budget Framework.../2

An Overview of the Expenditure Framework and Fiscal Deficit

FISCAL ITEMS	2016 Approved Budget	2017 Proposal	2017 Approved b NASS
FGN Retained Revenue	3,855,740,432,515	4,942,231,948,132	5,078,899,724,950
FGN Expenditure	6,059,677,358,227	7,298,507,709,937	7,303,900,012,186
Statutory Transfers	351,370,000,000	419,020,648,000	424,412,950,248
Debt Service	1,361,880,000,000	1,663,885,430,499	1,663,885,430,499
Sinking Fund to retire mature loans	113,440,000,000	177,460,296,707	177,460,296,707
Recurrent (Non-Debt)	2,345,389,236,196	2,629,151,756,196	2,629,151,756,196
a Personnel Costs (MDAs)	1,748,331,555,044	1,866,201,009,318	1,866,201,009,318
b Overheads	163,392,000,000	219,841,846,394	219,841,846,394
c SWV Pensions	110,000,000,000	89,977,053,528	89,977,053,528
d CRF Pensions	188,105,681,152	191,631,846,956	191,631,846,956
e Other Service Wide Votes	115,560,000,000	146,500,000,000	146,500,000,000
f Presidential Amnesty Programme	20,000,000,000	65,000,000,000	65,000,000,000
g Refund to Special Accounts		50,000,000,000	50,000,000,000
Special Intervention Programme (Recurrent)	300,000,000,000	350,000,000,000	350,000,000,000
Capital Exenditure (Exclusive of Transfers)	1,587,598,122,031	2,058,989,578,536	2,058,989,578,536
Fiscal Deficit	(2,203,936,925,712)	(2,356,275,761,805)	(2,225,000,287,235)
GDP	102,921,720,000	107,958,331,860,000	107,958,331,860,000
DEFICIT/GDP	-2.14%	-2.18%	-2.06%



4.2 Initiatives with Social Inclusion Benefits in the 2017 Budget

- ❑ A new Social Housing Programme
 - N100 billion provisioned for a new Social Housing Programme towards a N1 trillion fund

- ❑ Special Economic Zone Projects
 - N50 billion for Special Economic Zone Projects to be set up in each of the geo-political zones to drive manufacturing / exports.

- ❑ Export-Expansion Grant (EEG)
 - N20 billion voted for the revival of EEG in the form of tax credits

- ❑ Recapitalisation of Bank of Industry (BOI) and Bank of Agriculture (BOA)
 - N15 billion provisioned to support these development finance institutions to support Micro, Small and Medium Scale Enterprises (MSMEs)



4.2 Initiatives with Social Inclusion Benefits in the 2017 Budget.../2

❑ Special Intervention Programme

- N500 billion for FGN Special Intervention Programme (including Home Grown School Feeding Programme, Government Economic Empowerment Programme, N-Power Job Creation Programme, Conditional Cash Transfers and Social Housing Fund).

❑ Education

- N5 billion for the provision of security infrastructure in 104 colleges (Perimeter fencing, Solar Street light, solar powered motorised borehole & CCTV)

These initiatives will support economic diversification and social inclusion in our growth-drive as articulated in the Plan



5.0 Concluding Remarks

- The 2017 Budget framework acknowledges the current economic situation.
- It is based on an articulate medium term recovery and growth plan that reflects government's strategy to restructure, reset, reposition and diversify the economy for sustained economic growth.
- The underlying assumptions, parameters and projections take into cognizance the dynamics in the economic system
- The 2017 Budget has been designed to deliver economic and social benefits.



Thank You!