2019-2021
MEDIUM TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY PAPER

2019-2021

MTEF & FSP

Budget Office of the Federation
Federal Ministry of Budget and National Planning

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LIST OF ACRONYMS

ACRONYM	DESCRIPTION
AfDB	African Development Bank
ADF	African Development Fund
ADR	Average Duty Rate
AMCON	Asset Management Corporation of Nigeria
BHCPF	Basic Healthcare Provision Fund
BoA	Bank of Agriculture
BOF	Budget Office of the Federation
BOI	Bank of Industry
BVN	Bank Verification Numbers
CBN	Central Bank of Nigeria
CET	Common External Tariff
CIF	Cost, Insurance and Freight
CIT	Companies Income Tax
CPIA	Country Policy and Institutional Assessment
CRF	Consolidated Revenue Fund
DISCOs	Distribution Companies
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
ECA	Excess Crude Account
ELTS	ECOWAS Trade Liberalisation Scheme
ERGP	Economic and Recovery Growth Plan
EU	European Union
FAAC	Federation Account Allocation Committee
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FG	Federal Government
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
FX	Foreign Exchange
FY	Financial Year
GAVI	Global Alliance for Vaccines
GDP	Gross Domestic Product
GOEs	Government Owned Enterprises
IAT	Import Adjustment Tax
ICT	Information and Communication Technology
IDA	International Development Association
IGR	Internally Generated Revenues
IMF	International Monetary Fund
IPPIS	Integrated Personnel and Payroll Information System
JV	Joint Venture
MBNP	Ministry of Budget and National Planning
MBPD	Million Barrels Per Day
MDAs	Ministries, Departments and Agencies
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Enterprises
MTFF	Medium-Term Fiscal Framework

MTEF	Medium-Term Expenditure Framework
NASS	National Assembly
NBET	Nigerian Bulk Electricity Trading
NCS	Nigeria Customs Service
NEXIM	Nigerian Export-Import Bank
NIRP	Nigeria Industrial Revolution Plan
NNPC	Nigerian National Petroleum Corporation
OAGF	Office of the Accountant General of the Federation
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PBC	Peoples Bank of China
PIGB	Petroleum Industry Governance Bill
PMS	Premium Motor Spirit
PPP	Public Private Partnership
PPT	Petroleum Profit Tax
PSRP	Power Sector Recovery Program
SEZ	Special Economic Zones
SDG	Sustainable Development Goals
STEM	Science, Technology, Engineering and Math
SWV	Service Wide Votes
TSA	Treasury Single Account
UK	United Kingdom
USD	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook

1. INTRODUCTION

Development planning becomes effective when articulated aspirations are supported by well-considered government investment programmes. The Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) is a 3-year transparent planning and budget formulation tool used for linking policy, planning and budgeting over a medium-term. The MTEF/FSP consists of the macroeconomic model that indicates estimates of revenues and expenditures, fiscal targets, risks as well as government financial obligations. Essentially, it establishes a credible basis for allocating public resources to strategic priorities while ensuring overall fiscal discipline. The goal is to improve the macro-fiscal situation as well as the impact of government policy.

Building on the recovery of the Nigerian economy from recession, the 2019-2021 MTEF/FSP is designed to ensure that strategic developmental objectives, as encapsulated in the Economic Recovery and Growth Plan (ERGP), 2017-2020 are translated into a transparent, realistic and implementable budget framework for the medium term. A consistent application of the MTEF/FSP improves macroeconomic stability and resource allocation, mirroring government spending priorities. The ERGP, which underpinned government's actions that lifted the economy out of recession remains the basis for government's fiscal strategy in the medium term for engendering sustained economic growth.

The 2019-2021 MTEF/FSP, unlike in previous years, provides information on the sectoral ceilings for Ministries, Departments and Agencies (MDAs) of government. This will give impetus to the ongoing drive of the Administration to accelerate investment in critical infrastructure and human capital to improve social welfare and build a globally competitive economy.

2.0 ECONOMIC AND FISCAL OUTLOOK

2.1 Global Economic Developments and Implications

2.1.1 Advanced Economies

The global economy showed resilience in 2017 as headwinds moderated giving way to prospects for stronger growth in 2018. There has been an upward review of growth projections in major economic blocs for 2018. Germany, Japan, Korea, United States (US), Brazil and China all grew at a rate that was higher than earlier anticipated during the first quarter of 2018. However, growth in the UK was a bit low at 1.3% in the aftermath of Brexit. Overall, growth in the advanced economies is projected at 2.4% for 2018 (0.1% higher than in 2017), and 2.1% in 2019.

Broad economic recovery, partly fueled by the effects of quantitative easing, plus the anticipated impact of the US$1.5 trillion tax cuts which have substantially reduced corporate taxes and income tax temporarily, have given impetus to higher expectations on growth prospects both in the US and globally.

Global output growth is revised downwards to 3.7% in 2018 from 2.9% earlier projected by IMF in April, 2018. World output growth is expected to remain steady at 3.7% in 2019, as the decline in advanced economy growth with the unwinding of the US fiscal stimulus and the fading of the favorable spillovers from US demand to trading partners is offset by a pickup in emerging market and developing economy growth. Thereafter, global growth is projected to slow to 3.6% by 2022–23, largely reflecting a moderation of growth in advanced economies.

Table 2.1: Global Economic Growth (%)

	Estimate	Projections	
	2017	2018	2019
World Output	3.7	3.7	3.7
Advanced Economies	2.3	2.4	2.1
United States	2.2	2.9	2.5
Euro Area	2.4	2.0	1.9
Emerging Market & Developing Economies	4.7	4.7	4.7
China	6.9	6.6	6.3
India	6.7	7.3	7.4
Brazil	1.0	1.4	2.4
Sub- Saharan Africa	2.7	3.1	3.8
South Africa	1.3	0.8	1.4
Source: IMF WEO, October 2018			

Global growth is increasingly susceptible to the threats of continuing normalization of monetary policy in the advanced economies; new U.S. trade policy; repudiation of the Iran nuclear deal by the US, uncertainties associated with the BREXIT negotiations; and rising geo-political tensions in the Middle-East and the Korean Peninsula.

The upsurge in crude oil prices which began in April, 2018 continues. This is reflected in the average crude oil price for August 2018 which was $74.13pb, representing a 7% increase from $72.22pb for April 2018. The upsurge was sustained by the lingering effects of the US withdrawal from the Joint Comprehensive Plan of Action Regarding Iran's Nuclear Program (the Iran Deal). Nonetheless, on the basis of encouraging growth in major oil consuming nations (China, US, EU and India) and moderating influence of major oil producers (Saudi Arabia and Russia), the $65pb World Bank projected average crude oil price for 2018 is likely to be realized unless the imminent trade wars threaten global growth prospects.

Global inflation is projected at 3.2% in 2018, driven by rising energy prices, and currency depreciations in some emerging market and developing economies. The core inflation in the United Kingdom averaged slightly more than 2% in the first half of 2018, lower than last year, as the effects of the large pound sterling depreciation of 2016–17 on domestic prices have gradually faded. In the euro area and Japan, core inflation remains weak at about 1 percent in the euro area and 0.3% in Japan.

The ensuing trade war between the US and China has significant implications for global trade. Also, the gradual shift towards protectionism, and its attendant implication for Nigeria's trade present the imperative for Nigeria to continue reforms towards a more productive base than an import destination/consumption harbour.

The recent hike in the US interest rates may have some impact on capital flows in Nigeria. Some of the public debt denominated in US dollars, which are at floating interest rates, as well as future borrowings are prone to the impact of higher interest rates.

2.1.2 Emerging Market and Developing Economies

Notwithstanding the sustained recovery in oil prices, aggregate demand is expected to continue to firm up. Growth is projected at 4.7% in 2018 and 2019 for emerging market and developing economies (EMDEs). There is also a forecast of rebound in investment, manufacturing and trade as well as the strengthening of domestic consumption.

Due to currency depreciations and rising energy prices, Inflation in the emerging markets and developing economies is projected to rise from 4.3% in 2017 to 5.0% in 2018. The Indian economy appears well positioned for 2018, after the highest GDP growth in seven quarters was recorded in Q1 2018. Private investment increased for the fourth consecutive month, and at the fastest pace since October 2016. The manufacturing and service sectors both benefited from a substantial increase in output on the back of a broad-based demand.

The Russian economy regained some steam in the first quarter of 2018 although growth was still moderate overall. Manufacturing and mining sectors activities have been boosted amid firmer commodity prices and strong demand. The recovery is expected to have broadly kept pace in the second quarter. Russia and Organization of Petroleum Exporting Countries (OPEC) members agreed to raise oil production, a move that should bode well for Russia's oil revenues going forward. Despite higher production, oil prices are expected to remain firm due to falling production in Venezuela and negative spill-overs from the U.S. sanctions on Iran. Amidst declining unemployment rate, the government has announced an upcoming increase in the VAT rate and a gradual raise in the retirement age, to keep government finances on a sustainable path.

In many EMDEs, currency stability or appreciations against the US dollar during the first half of 2018 helped keep a lid on core inflation. Core inflation is around historical lows in Brazil and Russia, where demand has been recovering from the deep contractions of 2015–16, while it has picked up in India after falling sharply in the second quarter of 2017 due to one-off factors. In China, core inflation remains broadly stable at about 2.0%.

Sustained output growth in EMDEs is significant for Nigeria especially in relation to trade. The bilateral currency swap agreement signed by the Central Bank of Nigeria (CBN) and the Peoples Bank of China (PBC) will not only strengthen trade in goods and services but also ease the financial flows required to facilitate investments in infrastructure necessary for improving the competitiveness of the economy.

2.1.3 Sub-Saharan Africa and ECOWAS Sub-Region

Growth in Sub-Saharan Africa is projected to experience modest uptick. Average growth in the region is estimated to rise from 2.7% in 2017 to 3.1% and 3.8% in 2018 and 2019 respectively. Countries in the region are expected to enjoy growth on the back of stronger global growth, higher commodity prices, and improved market access. However, the two largest economies in the region, Nigeria and South Africa, remain below the average growth trend, weighing heavily on prospects for the region.

Ethiopia and Eritrea officially ended a two-decade long war on 9 July,2018 agreeing to re-establish political, economic and transportation links. The peace agreement will give Ethiopia access to an Eritrean sea port, an economic boost for the landlocked country. The United Arab Emirates pledged USD 3 billion in aid and investments in mid-June, including USD 1 billion allocated for the Eritrean Central Bank to alleviate a severe foreign currency shortage.

Kenya's economy gained traction in Q1 2018, growing at the fastest pace since Q4 2016. A surging agricultural sector drove the economy's pick-up, as favourable weather conditions boosted output. Cote d'Ivoire and Ghana's economies also posted strong growth, albeit decelerating slightly from Q4 2017. Activity in Cote d'Ivoire was supported by solid cocoa output and improved investors' confidence, while a buoyant oil sector helped drive the expansion in Ghana.

Ghana's economy grew at 6.8% in the first quarter of 2018 indicative of continued loss of momentum at the outset of the year, after growth hit a five-year high in 2017. Weaker growth in the industrial sector weighed on economic activity, driven by a feeble increase in manufacturing production that mostly offset strong growth in mining and quarrying activities. In addition, agricultural output growth fell sharply in Q1, partly driven by a weak harvest. Together with a weaker Cedi, higher inflation signaled potential headwinds for sustained growth in domestic demand.

Vulnerabilities in the region are however escalating. Although external imbalances have narrowed, progress with fiscal consolidation has been mixed. The uptick in oil prices, political transitions and impending elections in many countries may reduce appetite for difficult reforms. This could undo the benefits of some ongoing reforms and increase policy slippages which hurt progress toward macroeconomic stabilization.

However, with many African countries signing on to the framework agreement for establishing the African Continental Free Trade Area (AfCFTA), there are possibilities of enhanced pan-African prosperity through increased intra-African trade.

2.2 Macroeconomic Performance of the Nigerian Economy

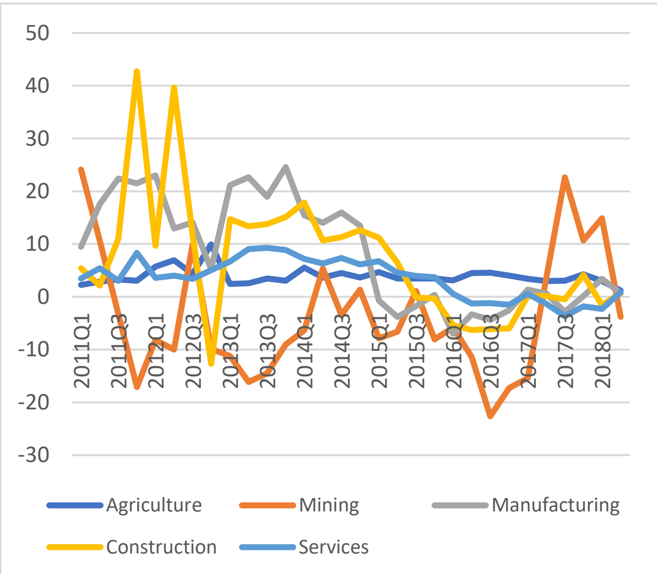
2.2.1 Real Sector

(a) GDP growth and Sectoral Performance

Figure 2.1: Real GDP Growth Rates 2016-2018

The emergence of the economy from recession at the end of Q2 2017 and the steady rebound of major macroeconomic indicators have renewed confidence in the country's growth prospects. The economy has witnessed a gradual return to macroeconomic stability as reflected in the fifth consecutive quarterly growth in real GDP in Q2 2018. Sectors that had posted negative growth have begun to show signs of recovery.

Figure 2.2: Sectoral Quarterly GDP Growth Rates, 2011 Q1 to 2018 Q2



The economy is dominated by primary production (agriculture and mining) which accounts for over 30% of GDP in Q2 2018 and rudimentary services, dominated by distributive trade, accounting for almost 55% of GDP. Manufacturing remains a small contributor to GDP. This underscores the need to intensify on-going efforts by Government to ensure diversification and encourage more vibrant manufacturing sector, especially the agro-processing sub-sector.

Although it is usual for agricultural GDP growth during the first quarter to be relatively lower than those of subsequent quarters, reflecting the seasonality of activities in the sector, the 3% growth recorded in Q1 2018, reflects the impact of security challenges on agricultural activities mainly in the North-East, North Central Zones and a few states in the North-West. This was further reflected in the even lower growth rate for the sector in Q2 2018.

The Purchasing Managers' Indices (PMI) for both the manufacturing and non-manufacturing sectors have remained above the 50 points threshold since April 2017. Overall, the manufacturing PMI in the month of September 2018 stood at 56.2 index points, indicating expansion in the manufacturing sector for the 18th consecutive month. These expansions were driven by improvements in business activities, production and employment across most sectors. The index had consistently stayed below the 50 points threshold between January 2016 and March 2017, mirroring the contraction in economic activities during that period.

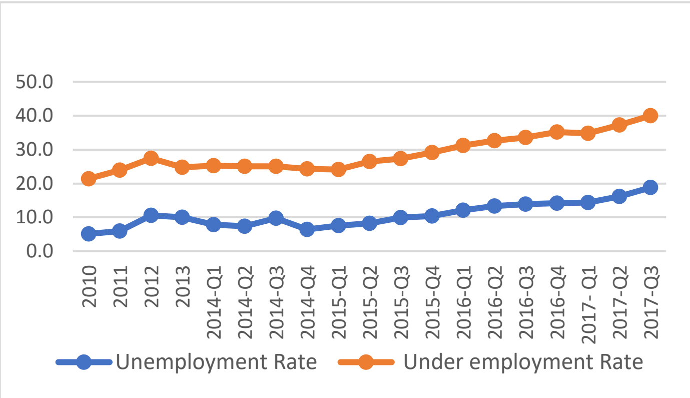
Manufacturing sector growth is trending upward reflecting the positive effects of exchange rate stability and improved foreign exchange (FX) management by the Central Bank. The performance of Manufacturing sector is also indirectly attributable to the oil sector (main FX source) performance given the degree of dependence of the sector on imported inputs. A more complementary monetary policy stance, proactive foreign exchange management and speedy completion of ongoing infrastructure projects such as roads, rail and power projects, will further enhance real sector growth.

These, along with complementary infrastructure development activities of State and Local Governments, should improve cost-competitiveness of the economy, attract domestic and foreign direct investment and sustain the growth momentum.

(b) Unemployment and Underemployment

The benefits of economic growth reach most people through improved employment and other income generating opportunities, and thus the emphasis of this Administration on creating job opportunities. It is in this regard that government's expansionary fiscal policies and budgetary spending particularly on critical infrastructure projects have been geared towards boosting economic activities. This is expected to translate into stable household incomes that is key to the expansion of consumption, savings and investment.

Figure 2.3: Unemployment and underemployment Rates

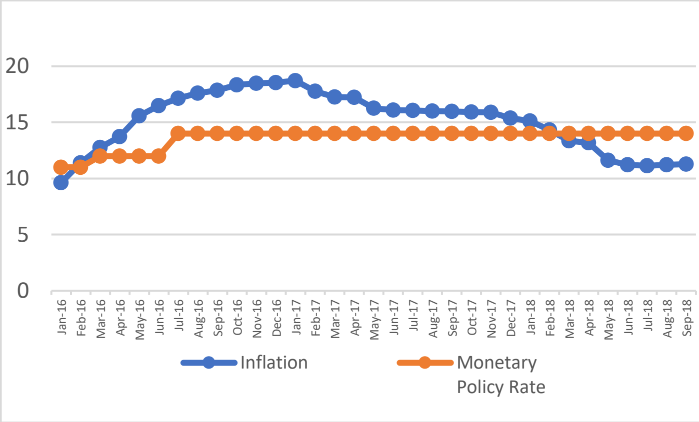


While unemployment rose to 18.8% in Q3 2017 from 13.9% in Q3 2016, underemployment rate rose to 19.7% in Q3 2017 up from 13.9% in Q3 2016. This may be explained by the fact that employment growth usually slows down during recession and takes some time to recover. It is expected that both unemployment and underemployment rates will decline in 2018 and in the medium-term as government's efforts at driving diversified and inclusive growth, as well as job creation yield results. These initiatives include investments in critical infrastructure, the N-Power scheme (under which 500,000 graduates have been employed to date), the Anchor Borrowers Programme (which has contributed significantly to the expansion in output of rice and other agricultural products), the Home-Grown School Feeding programme, as well as loans to Micro, Small, and Medium Scale Enterprises (MSMEs).

2.2.2 Monetary Sector

(a) Inflation

Figure 2.4: Monetary Policy Rate and Inflation (Jan 2016 – Sept 2018)



Inflation rates maintained their declining trend reflecting the impact of a number of factors, especially better harmony between fiscal and monetary policies. From a peak of 18.7% in January 2017, inflation started trending down gradually to 11.14% in July 2018. However, it ticked up slightly to 11.28% in September 2018. Food inflation started trending down gradually only in February 2018, largely due to improved output relative to demand.

(b) Interest Rate

At its September 2018 bimonthly meeting, the Monetary Policy Committee (MPC) of the CBN left the monetary policy rate (MPR) and other key monetary policy variables unchanged for the 9th consecutive time, citing market stability. The monetary policy rate stands at 14%, cash reserve ratio at 22.5%, liquidity ratio at 30% and the asymmetric corridor at +200 to 500 basis points.

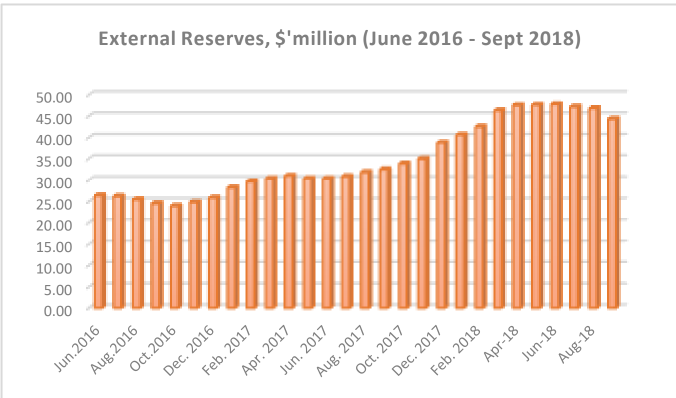
2.2.3 External Sector

(a) Trade

Trade surplus has been maintained for seven successive quarters since Q4 2016, owing to a sharp recovery in exports. The trade surplus moderated to N4.04 trillion by the end of 2017 representing a significant improvement to the deficit of N290.1 billion in 2016. In 2017, exports increased 59.47% y/y to N13.5 trillion, supported by a rebound in crude oil production and increases in export of agricultural goods, solid minerals and raw materials. Imports on the other hand grew by 8.5% y/y in 2017 to N9.56 trillion, a reflection of improved demand due to the increase in foreign exchange availability. As at Q2 2018, trade balance was a surplus of N2.37 trillion, which is a 399.82% increase from the figure in Q1 2017 estimated at N471.48 billion.

(b) External Reserves and Capital Flows

Figure 2.5: External Reserves (June 2016 – Sept. 2018)



There has been sustained accretion to foreign reserves. As at September 2018, external reserves stood at $44.31 billion. This development has led to stability in the Naira exchange rate. Declining premiums across the various segments of the foreign exchange market are bolstering investors' confidence. Capital importation, both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), have also grown considerably. The total capital imported in the fourth quarter of 2017 was $5,382.9 million, which was an annual growth of 247.5%, and quarterly growth of 29.9%. As at the end of 2017, total capital imported into Nigeria in the year was $12,228.6 million, an increase of $7,104.4 million or 138.7% over the amount recorded in 2016. As at H1 2018, capital importation to Nigeria stood at $1,181.7 million compared to $2,700 million in the corresponding period in 2017.

3.0 REVIEW OF 2017 BUDGET PERFORMANCE

The 2017 Budget of Recovery and Growth was designed to restore the Nigerian economy to a path of sustainable and inclusive growth in line with the policies, strategies and targets set out in the ERGP. Emphasis was on generating more non-oil revenue, which is less susceptible to vagaries in global oil supply and demand, as well as pursuing efficiency in spending with focus on critical ongoing projects that will stimulate economic recovery and growth.

The performance of the parameters underlying the 2017 budget are as follows:

Table 3.1 Performance of Key Parameters, 2017

S/N	Indicator	2017 Budget	2017 Actuals
1	Real GDP Growth	1.5%	0.83%
2	Oil Production *(including Condensate)*	2.2 mbpd	1.86 mbpd
3	Benchmark Oil Price	$44.5pb	$54.6pb
4	Inflation Rate	15.74%	15.37%
5	Exchange Rate ₦/$	305	305

3.1 Revenue Outturns

Oil Revenue

Gross oil and gas revenues accruing to the Federation was N4,084.35 billion (N1,250.10 billion or 23.43% less than projected). After deductions for costs of production, as well as 13% derivation, net oil revenue was N2,339.70 billion. This was N2,035.92 billion (or 46.5%) lower than the FY 2017 projection. The shortfall is mainly attributable to the lower oil production volume, which averaged 1.86mbpd in 2017, as well as deductions for PMS under-recovery (petrol subsidy).

Table 3.2 Oil and Non-Oil Revenue Profile FY 2017 (N'Billion)

		2017 Approved Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
A	**OIL REVENUE**				
a	Gross Oil and Gas Revenue	5,334.45	4,084.35	(1,250.10)	-23.4%
b	Deductions*	958.83	1,744.65	785.82	82.0%
c	**Net Oil and Gas Revenue**	**4,375.62**	**2,339.70**	(2,035.92)	-46.5%
B	**NON-OIL REVENUE**				
a	Non-Oil Taxes	4,259.19	2,791.58	(1,467.61)	-34.5%
i	*Corporate Tax*	1,742.05	1,206.29	(535.76)	-30.8%
ii	*VAT*	1,800.00	957.27	(842.73)	-46.8%
iii	*Customs*	717.14	628.03	(89.11)	-12.4%
b	Deductions	198.63	167.20	(31.43)	-15.8%
c	**Net Non-Oil Taxes**	**4,060.56**	**2,624.38**	(1,436.18)	-35.4%
d	Other Non-Oil Revenue**	76.89	0.00	(76.89)	-100.0%
e	**Net Non-Oil Revenue**	**4,137.45**	**2,624.38**	(1,513.07)	-36.6%
	* This include 13% derivation				
	** These are Net Minerals after derivation as well as Actual balances in special account				
	Note: The Net Non-Oil Revenue refers to those accurable to the Federal and available for sharing by the tiers of Government; thus, it excludes FGN Independent Revenues				

Non-Oil Revenue

Following the rebound of the economy from recession, greater availability of foreign exchange and stability in the exchange rate, declining inflation as well as improvements in general macroeconomic conditions, non-oil taxes showed some improvement over the prior year, although still short of targets for the year. Collections of import, excise and special levies amounted to N628.03 billion – about 88% of the annual projection while Corporate Taxes was N1,206.29 billion – about 69% of projection. VAT collection was N957.27 billion out of N1,800 billion. In aggregate, actual gross non-oil tax revenue was N2,791.58 billion (that is, about 3% of GDP[1]) or 66% of the N4,259.19 billion projected for the fiscal year. The variance between actual collections and projections may partly be attributed to continuing weaknesses in the revenue collection systems.[2] This re-enforces the need to sustain government's efforts at plugging leakages and generally strengthening non-oil revenue collections.

Federation and VAT Pool Accounts Distributable

Table 3.3 Federation Account Revenue and VAT Distributable 2017 (N'Billion)

		2017 Approved Budget	Actuals (Jan-Dec)	Variance
		Billions of Naira		Naira
A	**Net Federation Account**	**6,785.07**	**4,044.02**	(2,741.06)
i	FGN's Share (52.68%)	3,574.38	2,130.39	(1,443.99)
ii	States' Share (26.72%)	1,812.97	1,080.56	(732.41)
iii	Local Govt.'s Share (20.60%)	1,397.73	833.07	(564.66)
B	**Net VATPool Account**	**1,728.00**	**920.07**	(807.93)
iv	FGN's Share (15%)	259.20	138.01	(121.19)
v	States' Share (50%)	864.00	460.03	(403.97)
vi	Local Govt.'s Share (35%)	604.80	322.02	(282.78)

In FY2017, the amount available for distribution from the Federation Account was N4,044.02 billion (or 59.6%) of the N6,785.07 billion projected. Of this, the Federal Government received N2,130.39 billion while the States and Local Governments received N1,812.97 billion and N1,397.73 billion respectively.

From the Value Added Tax Pool Account, the distribution was N138.01 billion, N460.03 billion and N322.02 billion for the Federal, State and Local governments, respectively.

FGN Revenue

FGN's actual revenue was N2,667.37 billion (52% of the N5,084.40 billion budgeted) as at year-end 2017. Out of this oil revenue was N1,415.41 billion (67% of budget) while non-oil taxes and independent revenues were N956.67 billion (70% of the budget) and N295.29 billion (34% of the budget) respectively.

Table 3.4 FGN Revenue Profile FY 2017 (N'Billion)

	Fiscal Items	2017 Approved Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
S/N	**FEDERAL RETAINED REVENUES**	**5,084.40**	**2,667.37**	**(2,417.03)**	**-48%**
A					
1	Oil Revenue	2,122.18	1,415.41	(706.76)	-33%
2	Minerals & Mining Revenue	1.06	-	(1.06)	-100%
3	Non-Oil Revenue:	**1,373.20**	**956.67**	**(416.54)**	**-30%**
i	CIT	807.82	543.34	(264.48)	-33%
ii	VAT	241.92	130.05	(111.87)	-46%
iii	Customs Revenues	277.56	261.41	(16.15)	-6%
iv	Federation Account Levies	45.90	21.86	(24.04)	-52%
B		**879.01**	**295.29**	**(583.72)**	**-66%**
1	FGN Independent Revenue	807.57	295.29	(512.28)	-63%
2	Actual Balance in Special Accounts	6.64	-	(6.64)	-100%
3	FGN Balances in Special Levies Account	14.79	-	(14.79)	-100%
4	FGN Unspent Balance of Previous Fiscal Year	50.00	-	(50.00)	-100%
C	**Others**	**708.94**			
1	FGN Share of Dividend by NLNG	29.59			
2	FGN Share of Signature Bonus	114.30			
3	FGN Recoveries	565.06			

Despite oil price being higher than benchmark price on average, crude oil production fell short of target by 15.5%[3], and thus, was partly responsible for the lower oil revenues recorded. As regards non-oil revenue, Company Income Tax (CIT) and Value Added Tax (VAT) collections were N543.34 billion and N130.05 billion respectively, representing 33% and 46% shortfalls. Customs collections was N283.27 billion, of which N261.41 billion (representing 94% performance) was from import duties, excise and fees, while N21.86 billion (about 48% performance from projection) was from Special Levies. Performance of independent revenues,

[1] The GDP used here is the actual nominal non-oil GDP.

[2] Non-oil tax collection performance over the last 3 years (2015-2017) averaged 65%, with 2016 as the lowest performing year due to the slow-down in economic activities.

[3] Oil production averaged 1.86mbpd against 2.2mbpd projected for 2017.

although 37% of budget (N295.29 billion), is an improvement when compared with the 15.8% performance recorded in 2016.

3.2 Expenditure Outturns

Out of an expenditure outlay of N7,441.18 billion for the 2017 Budget, actual spending was N6,463.61 billion (N977.57 billion or 13% short of the budget). Recurrent non-debt expenditure was largely covered, as government continues to ensure that it pays workers' salaries as well as other recurrent costs, and debt service. Foreign debt service was slightly above projections as foreign debt obligations are denominated in foreign currency and affected by exchange rate movement. These spending were in spite of the shortfall in revenue as debt service obligations and personnel costs are non-discretionary spending of government.

Table 3.5 FGN Expenditure Outturn FY 2017 (N'Billion)

	Fiscal Items	2017 Approved Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
S/N	**FGN EXPENDITURE**	**7,441.18**	**6,463.61**	**977.57**	**13.1%**
A	**Statutory Transfers**	**434.41**	**434.41**	**(0.00)**	0.0%
B	**Recurrent Expenditure**	**4,832.27**	**4,589.22**	**243.04**	**5.0%**
1	**Non-Debt Recurrent Expenditure**	**2,990.92**	**2,765.33**	**225.59**	**7.5%**
a	Personnel Costs	1,884.07	1,865.62	18.45	1.0%
b	Pensions & Gratuities including Service wide pension	281.61	191.46	90.15	32.0%
ii	Overheads	219.84	140.05	79.79	36.3%
iii	Service Wide Votes including Presidential Amnesty Program and Special Interventions	565.40	568.20	(2.80)	-0.5%
iv	Refund to Special Accounts	40.00	-	40.00	100.0%
2	**Debt Service**	**1,841.35**	**1,823.89**	**17.45**	**0.9%**
i	Domestic Debt	1,488.00	1,465.04	22.97	1.5%
ii	Foreign Debt	175.88	181.40	(5.51)	-3.1%
iii	Sinking Fund	177.46	177.46	0.00	0.0%
C	**Capital Expenditure**	**2,174.50**	**1,439.97**	**734.52**	**33.8%**

Despite the delay in the passage of the 2017 Budget,[4] N1,439.97 billion was released for capital as at June 11, 2018.[5] This spending on capital was higher than the N1,219.47 billion released for capital under the 2016 budget, making it the highest aggregate nominal capital releases for a single fiscal year in Nigeria. More important is that a large share of the capital expenditure was spent on ongoing critical infrastructure projects. This further accentuates government's commitment to investing in critical infrastructure necessary for catalyzing growth and economic development.

3.3 Fiscal Deficit

The 2017 budget had a projected deficit of N2,356.02 billion (that is, at about 2.18% of GDP). This was to be financed mainly by borrowing. At the end of the fiscal year, N2,503.23 billion was borrowed against N2,321.77 budgeted. The slightly higher borrowing was a result of low revenues relative to planned spending.

4.0 REVIEW OF 2018 BUDGET IMPLEMENTATION

Following the 2016 Budget of Change and the 2017 Budget of Recovery and Growth, the 2018 Budget of Consolidation was designed to leverage on the successes of the previous budgets to drive Nigerian economy towards the goal of sustainable and inclusive growth. To achieve this, the thrust of the 2018 Budget includes leveraging private and development capital to catalyse more rapid growth.

In order to ensure that the 2018 Budget achieves set targets in line with the ERGP, the formulation of the Budget was guided by the ERGP Implementation Plan. The table below

[4] The 2017 Budget was passed on May 11, 2017 and signed into law on June 12, 2017.

[5] Clause 11 in the 2017 Appropriation Act allowed for the capital budget to run for 12 calendar months starting from the date it is assented into law.

highlights the performance of the key parameters driving the 2018 budget as at the end of August.

Table 4.1: Fiscal and Macroeconomic Indicators 2018

S/N	Indicator	2018 Budget	2018 Actuals
1.	Real GDP Growth	3.5%	1.50% (as at Q2)
2.	Oil Production *(including Condensate)*	2.3 mbpd	1.9 mbpd
3.	Benchmark Oil Price	$51 pb	$71.85 pb
4.	Inflation Rate	12.4%	11.23%
5.	Exchange Rate ₦/$	305.0	305.95

Source: BOF, NBS, CBN, NNPC

4.1 Revenue Outturns

4.1.1 Oil Revenue

The gross oil and gas federation revenues projected for the FY2018 is N7,618.07 billion out of which N5,078.71 billion was expected as at August 2018, but only N3,603.25 billion was realized. After deductions (including 13% derivation), net oil revenue inflows to the Federation Account amounted to N2.601.49 billion. This represents a shortfall of N1,506.21 billion (or 24.4% of the prorata amount). Lower than projected oil productions as well as PMS under-recoveries in the country are largely responsible for the shortfall. It is expected that oil production levels will improve due to the relative stability in the Niger Delta region and new production wells coming on stream.

Table 4.2 Revenue Performance (Jan–Aug) 2018

	Fiscal Items	2018 Approved Budget	Prorata	Actuals (Jan-Aug)	Variance	
		Billions of Naira			Billions of Naira	%
A	**OIL REVENUE**					
a	Gross Oil and Gas Revenue	7,618.07	5,078.71	3,603.25	(1,475.46)	-29.1%
b	Deductions*	1,456.52	971.01	1,001.76	30.75	3.2%
c	**Net Oil and Gas Revenue**	**6,161.55**	**4,107.70**	**2,601.49**	(1,506.21)	-36.7%
B	**NON-OIL REVENUE**					
a	Non-Oil Taxes	4,431.83	2,954.55	2,115.21	(839.34)	-28.4%
i	*Corporate Tax*	1,731.81	1,154.54	970.75	(183.79)	-15.9%
ii	*VAT*	1,546.49	1,031.00	699.21	(331.79)	-32.2%
iii	*Customs*	848.53	565.69	445.26	(120.43)	-21.3%
iv	*Tax Amnesty*	305.00	203.33		(203.33)	-100.0%
b	Deductions	226.63	151.09	105.73	(45.35)	-30.0%
c	**Net Non-Oil Taxes**	**4,205.20**	**2,803.47**	**2,009.48**	(793.99)	-28.3%
d	Other Revenues**	327.16	218.11	0.00	(218.11)	-100.0%
e	**Net Non-Oil Revenue**	**4,532.36**	**3,021.58**	**2,009.48**	(1,012.10)	-33.5%
	* This include 13% derivation					
	** These include Minerals after derivation as well as Actual balances in special account					
	Note: The VAT includes surcharge on luxury items. Also, the Net Non-Oil Revenue refers to those accurable to the Federal and available for sharing by the tiers of Government; thus, it excludes FGN Independent Revenues					

Source: OAGF

4.1.2 Non-Oil Revenue

As at August 2018, N2,115.21 billion has been generated as non-oil taxes out of N2,954.55 billion projected. This implies a collection performance of 71.6%. Of the amount collected for non-oil taxes, Corporate Tax and Customs collections were N970.75 billion and N445.26 billion, representing 84.1% and 78.7% collection performance respectively. Value Added Tax collection was N699.21 billion or 67.8% of the projection for first half of 2018.

After deducting cost of collections, the net non-oil taxes amounted to N2, 009.48 billion (77.7% of prorata amount).

As the fiscal year progresses and the economy continues on the path of recovery and growth, it is expected that non-oil revenues, especially income and consumption taxes, will improve due to the seasonality in remittance of income taxes as well as increase in activities that drive consumption. In addition, improvements in tax collection efforts and policies to improve the environment for doing business in Nigeria should also increase non-oil revenue.

4.1.3 Federation and VAT Pool Accounts Distributable

Table 4.3 Federation Account Revenue and VAT Distributable, 2018 (N'Billion)

	Fiscal Items	2018 Approved Budget	Prorata	Actuals (Jan-Aug)	Variance
		Billions of Naira			Naira
A	**Net Federation Account Distributable***	**8,913.40**	**5,942.26**	**3,939.74**	(2,002.53)
i	FGN's Share (52.68%)	4,695.58	3,130.39	2,075.45	(1,054.93)
ii	States' Share (26.72%)	2,381.66	1,587.77	1,052.70	(535.08)
iii	Local Govt.'s Share (20.60%)	1,836.16	1,224.11	811.59	(412.52)
B	**Net VAT Pool Account Distributable**	**1,482.23**	**988.16**	**671.24**	(316.92)
iv	FGN's Share (15%)	222.34	148.22	100.69	(47.54)
v	States' Share (50%)	741.12	494.08	335.62	(158.46)
vi	Local Govt.'s Share (35%)	518.78	345.85	234.93	(110.92)
C	**Tax Amnesty Income**	**292.80**	**195.20**	**0.00**	(195.20)
iv	FGN's Share (15%)	87.84	58.56	0.00	(58.56)
v	States' Share (50%)	204.96	136.64	0.00	(136.64)
	* This include share derivable from Signature Bonus				

As at August 2018, the amount available for distribution from the Federation Account was N3,939.26 billion (or 77.5%) of N5,942.26 billion expected. Of this, the Federal Government received N2,075.45 billion[6] while the States and Local Governments received N1,052.70 billion and N811.59 billion respectively.

Federal, State and Local governments received N100.69 billion, N335.62 billion and N234.93 billion respectively from the VAT Pool Account.

4.1.4 FGN Revenue

As at August 2018, FGN's actual revenues totalled N2,475.51 billion (this is 30% higher than the corresponding period in 2017 but only 52% of the N4,777.25 billion prorata target). Out of this, oil revenue was N1,301.09 (65% of budget) while non-oil taxes and independent revenues were N743.01 billion (76% of the prorata target) and N297.94 billion (53% of the prorata budget) respectively.

Table 4.4 FGN Revenue Profile (Jan – Aug) 2018 (N'Billion)

		2018 Approved Budget	Pro Rata (Jan-Aug)	Actuals (Jan-Aug)	Variance	
					Billions of Naira	%
S/N	**FEDERAL RETAINED REVENUES**	**7,165.87**	**4,777.25**	**2,475.51**	**(2,301.74)**	**-48%**
A						
1	Oil Revenue	2,998.86	1,999.24	1,301.09	(698.15)	-35%
2	Share of Dividend (NLNG)	31.25	20.83		(20.83)	-100%
3	Minerals & Mining Revenue	1.17	0.78	-	(0.78)	-100%
4	Non-Oil Revenue:	**1,472.77**	**981.85**	**743.01**	**(238.84)**	**-24%**
i	CIT	794.69	529.79	448.21	(81.58)	-15%
ii	VAT	207.51	138.34	93.97	(44.37)	-32%
iii	FGN Share of Tax Amnesty Income	87.84	58.56		(58.56)	-100%
iv	Customs Revenues	324.86	216.57	187.581	(28.99)	-13%
v	Federation Account Levies	57.87	38.58	13.25	(25.33)	-66%
B		**2,661.82**	**1,774.55**	**431.41**	**(1,343.14)**	**-76%**
1	FGN Independent Revenue	847.95	565.30	297.94	(267.36)	-47%
2	Actual Balance in Special Accounts		-	133.47	133.47	
3	FGN Balances in Special Levies Account	27.21	18.14	-	(18.14)	-100%
4	FGN Unspent Balance of Previous Fiscal Year	250.00	166.67	-	(166.67)	
5	FGN's Share of Signature Bonus	114.30	76.20		(76.20)	-100%
6	Domestic Recoveries + Assets + Fines	374.00	249.33		(249.33)	-100%
7	Other FGN Recoveries	138.44	92.29		(92.29)	-100%
8	Earmarked Funds (Proceeds of Oil Assets Ownership Restructuring)	710.00	473.33		(473.33)	-100%
9	Grants and Donor Funding	199.92	133.28		(133.28)	-100%

As regards non-oil revenue, Company Income Tax (CIT) and Value Added Tax (VAT) collections were N448.21 billion and N93.97 billion respectively, representing 85% and 68% of targets. Customs collections was N200.83 billion, of which N187.58 billion (representing 87% performance) was from import duties, excise and fees, while N13.25 billion (34% of projection) was from Special Levies. Independent Revenue was N297.94 billion (about 53% of target as at August).

4.2 Expenditure Outturns

Despite the delay in the passage of the 2018 Budget, implementation of the recurrent components of the budget actually commenced in January 2018 based on the constitutional

[6] This include the shares for Special Accounts like Stabilization Funds, Ecological Fund, Natural Resources and the Federal Capital Territory.

provision that allows spending of up to 50% of the previous year's budget until the current years' budget is passed into law, and up to June 30th.

Table 4.5 FGN Expenditure Performance (Jan – Aug) 2018

S/N	Fiscal Items	2018 Approved Budget	Pro Rata (Jan-Aug)	Actuals (Jan-Aug)	Variance	
		Billions of Naira			Billions of Naira	%
S/N	**FGN EXPENDITURE**	**9,120.33**	**6,080.22**	**3,642.16**	**2,438.07**	**40.1%**
A	**Statutory Transfers**	**530.42**	**353.61**	**265.92**	**87.70**	24.8%
B	**Recurrent Expenditure**	**5,720.31**	**3,813.54**	**3,371.86**	**441.69**	**11.6%**
1	**Non-Debt Recurrent Expenditure**	**3,516.48**	**2,344.32**	**1,828.93**	**515.39**	**22.0%**
a	Personnel Costs	2,118.27	1,412.18	1,258.02	154.16	10.9%
b	Pensions & Gratuities including Service wide pension	241.95	161.30	117.98	43.32	26.9%
ii	Overheads	246.49	164.32	124.19	40.13	24.4%
iii	Service Wide Votes	301.43	200.96	153.27	47.69	23.7%
iv	Presidential Amnesty	65.00	43.33	10.00	33.33	76.9%
v	Special Intervention Programme	350.00	233.33	32.00	201.33	86.3%
vi	SWV Power Sector Reform Programme (Transfers to NBET)	193.34	128.89		128.89	100.0%
vii	Payment from Special Accounts			133.47	(133.47)	
2	**Debt Service**	**2,203.84**	**1,469.22**	**1,542.93**	**(73.71)**	**-5.0%**
i	Domestic Debt	1,759.76	1,173.17	1,372.20	(199.03)	-17.0%
ii	Foreign Debt	254.08	169.39	163.02	6.37	3.8%
iii	Sinking Fund	190.00	126.67	7.71	118.95	93.9%
C	**Capital Expenditure**	**2,869.60**	**1,913.07**	**4.38**	**1,908.68**	**99.8%**

Of the N6,080.22 billion budgeted spending by August 2018, N3,642.16 billion has been spent. The spending was largely on recurrent expenditure, including N1,535.22 billion for interest payment on debt and N7.71 billion for Debt Sinking Fund. Other recurrent expenditure is closely on track. The capital expenditure only came into effect after the approval of the budget in June 2018, and N4.38 billion had been released as at August. However, as at October 17th, N486.29 billion has been released for capital expenditure.

5.0 ASSUMPTIONS UNDERLYING OIL AND NON-OIL REVENUE PROJECTIONS IN 2019 - 2021

5.1 Assumptions Underlying Oil Revenues

5.1.1 Crude Oil Production and Export

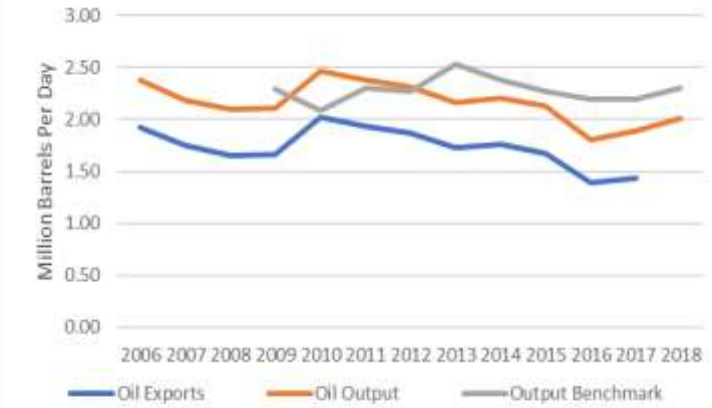
Oil production remains critical for the Nigerian economy, as it currently accounts for over 50% of federal government's revenues and over 90% of foreign exchange earnings. Hence, any disruptions to oil production have implications for government fiscal operations as well as Nigeria's trade and external reserves position.

Crude oil production averaged 1.94 million barrels per day (mbpd) between 2015 and 2017. Annual production averaged 2.13mbpd, 1.81mbpd and 1.89mbpd in 2015, 2016 and 2017 respectively. Production declined from an average of 1.84mbpd in January 2017 to 1.6mbpd in March 2017. The lower than budgeted output was mainly attributed to continuing security challenges resulting in intermittent production shut-ins and pipeline leakages attributed to activities of vandals as well as ageing pipelines. Onshore and shallow water assets, where government revenue take is higher, were much more susceptible to these factors. However, production is improving and has reached 2.15 mbpd by September 2018.

Repeated disruption in oil production as a result of breakdown or vandalization of oil pipelines (216 in January 2018, 148 in February 2018 and 224 in March 2018) continue to undermine the revenues from crude oil production and export. Efforts are being made to deepen engagements with stakeholders and improve security arrangements in the Niger Delta region.

Figure 5.1 shows crude oil output and exports have been far below projections for quite some time. In the medium term, crude oil production is expected to improve, considering the sustenance of the amnesty programme, and increased engagement with stakeholders in oil producing communities. More importantly, the passage of the Petroleum Industry Governance Bill (PIGB) and efforts to enhance security in onshore and shallow water locations are expected to reduce uncertainties and promote new private sector investments in the oil sector.

Figure 5.1: Crude Oil Production and Export in Nigeria



Source: NNPC, BOF, CBN

Considering these factors, average oil production is expected to improve over the medium term. Hence, base oil production (including condensates) is projected at 2.3mbpd, 2.44mbpd, 2.62mbpd in 2019, 2020, 2021 respectively. The projection for 2019 has been kept at the same estimate for the 2018 budget, rather than the 2.4 mbpd projected in the ERGP.

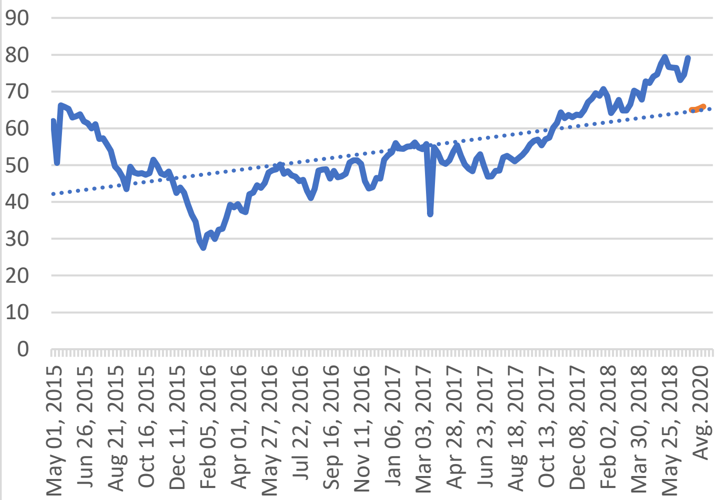
5.1.2 Oil Price Benchmark

The Organization of Petroleum Exporting Countries (OPEC) Reference Basket (ORB) averaged $50.2/b in 2017 and rose to $68.4/b in June 2018. Crude oil futures prices mostly fell on expectations that OPEC and participating non-OPEC producers in the 'Declaration of Cooperation' will gradually increase production to full conformity levels.

On average, crude oil price was $71.8/b by August 2018. This is 41% higher than the benchmark price of $51/b used in the 2018 budget.

In general, factors driving oil prices include rising tension in the Middle East, compliance with production agreements by OPEC and non-OPEC producers, alternative energy sources, seasonality, US stock position, and fluctuating value of US dollar. The price of Nigeria's Bonny Light crude oil price rebounded from an average of $52.04/b in the world oil market in 2017 to about $71.5/b in the first half of 2018 (Figure 5.2).

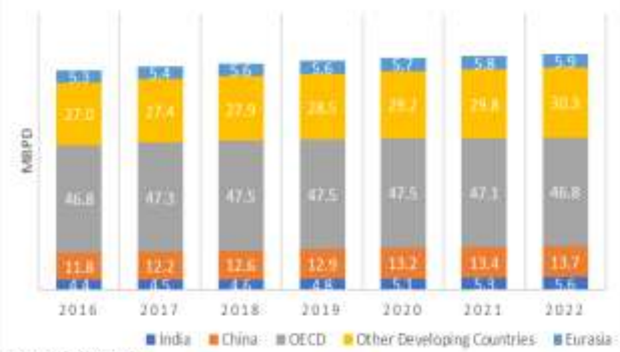
Figure 5.2: Bonny Light Spot Price (US$)



Sources: JP Morgan, World Bank

The main drivers of the increase in oil prices in 2018 include geopolitical supply disruptions, particularly in Venezuela and Libya, supply risks from America's decision to re-impose oil sanctions on Iran, and strong demand (Figure 5.3). The recent slight decline in oil price reflects concerns about the impact of a possible trade war on growth performance, the return of Libyan production, increased Saudi Arabian supply, and a seeming willingness of America to consider a more gradual reduction in Iranian oil sales.

FIG 5.3: MEDIUM TERM OIL DEMAND OUTLOOK



Source: OPEC (2017)

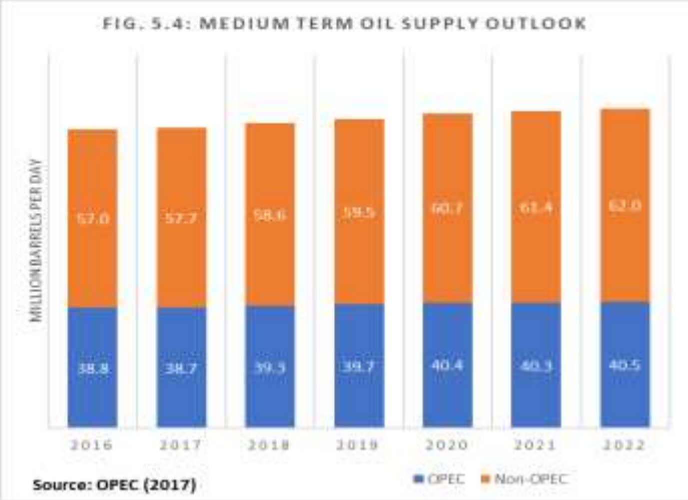
The Organization of Petroleum Exporting Countries (OPEC) forecast world oil demand to grow by 1.65mbpd in 2018, reaching a height of 98.85mbpd. This is expected to reflect the positive performance recorded in both OECD and non-OECD countries in the first quarter of 2018. The OECD countries experienced robust industrial activities and weather was colder than expected. In the non-OECD countries, the industrial sector performed better than expected and performance of the transportation sector was good.

In 2019, global oil demand is projected to increase by about 1.2mbpd. A slightly lower growth in 2019 relative to 2018. Hence, annual average global consumption is anticipated to surpass the 100mbpd threshold. Demand for oil in OECD countries is expected to rise slightly by 0.27mbpd. However, the non-OECD region is anticipated to lead oil demand growth in 2019 with an increase of around 1.18mbpd, most of which is attributed to China and India. India's demand is projected to rise slightly from 4.5mbpd in 2017, to 4.8mbpd in 2019 and 5.3mbpd in 2021. Thus, the oil demand outlook for India shows accelerated demand growth.

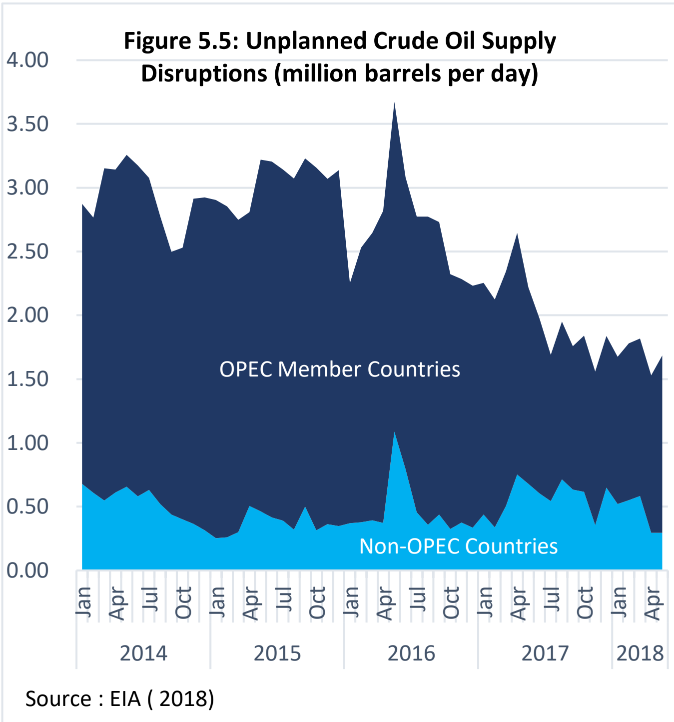
Due to decelerating economic growth and restructuring of China's economy, China's demand for oil is expected to increase by just an annual average of 0.3mbpd in the medium term to 13.4mbpd in 2021. This average yearly growth is significantly lower than the growth observed in the last few years (0.5mbpd between 2002 and 2006, 0.44mbpd between 2007 and 2011 and 0.42mbpd between 2012 and 2016). However, a steady acceleration in oil demand growth is projected in Latin America and the Middle East.

In the medium-term period, OPEC world oil demand outlook shows an increase of 6.9mbpd for 2016-2022, rising from 95.4mbpd in 2016 to 102.3mbpd in 2022 (Figure 5.3). This corresponds to an average annual increase of about 1.2mbpd. In 2019, demand is expected to rise by just 1.2mbpd from 2018 levels, reaching 100.7mbpd in 2020 and 101.5mbpd in 2021. Growth potentials are expected to be constrained by higher oil prices, lower population growth rates in the OECD and China, and the further penetration of alternative fuel vehicles.

On the supply side, OPEC estimates a steady rise in global oil supply from an average of 98.1mbpd in 2018 to 99.6mbpd in 2019, 101.1mbpd in 2020 and 101.7mbpd in 2021. In the 2019-2021 medium term, world oil output is projected at about 100.8mbpd. Total non-OPEC oil supply is forecast to grow from about 58mbpd in 2017 to 61mbpd in 2021 (Fig. 5.4). According to OPEC, the US accounts for most of the increase in supplies. Besides the US, Brazil and Canada are the most important contributors to non-OPEC supply growth in the medium-term. Oil supply from OPEC-members is expected to increase slightly by 0.4mbpd in 2018-2019.

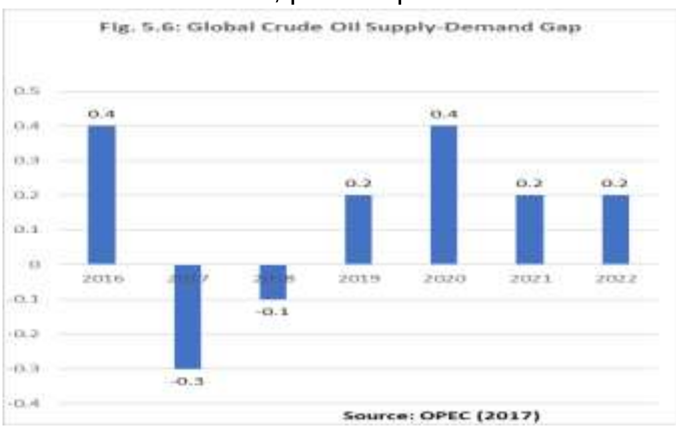


The Energy Information Administration estimates an increase in historical unplanned crude oil supply disruptions from 35.1mbpd in 2014 to 36.5mbpd in 2015, declining afterwards to 32.1mbpd in 2016 and 24.2mbpd in 2017. Between January and May 2018, unplanned supply disruptions amounted to 8.5mbpd. As depicted in Figure 5.5, about 80% of unplanned crude oil supply disruptions occur in OPEC member countries. However, unplanned OPEC oil supply disruptions declined from 32.1mbpd in 2015 to 26.4mbpd in 2016 and 17.4mbpd in 2017. Current disruptions were largely recorded in Libya and Nigeria. In Nigeria, the Trans Forcados pipeline was shut in May, affecting production of the Forcados crude oil stream. In addition, Shell declared force majeure on Bonny Light exports following the shutdown of the Nembe Creek Trunk Line. In Libya, outages also increased in June as two of the country's ports, Es Sider and Ras Lanuf, were shut down. Non-OPEC production outages increased from 4.4mbpd in 2015 to 6.8mbpd in 2017, reaching 2.2mbpd by May 2018. Significant non-OPEC production outages occurred in Canada.



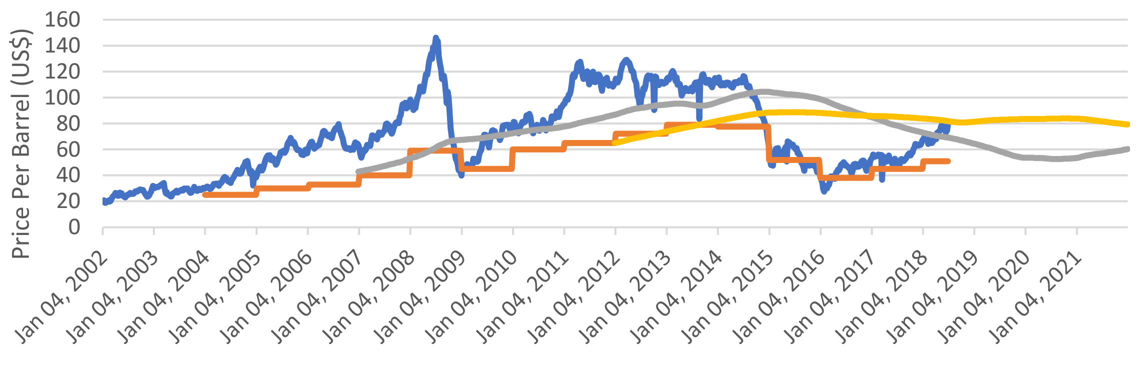
Based on forecast global oil demand and supply, demand is not expected to significantly outstrip supply in the medium term despite demand remaining robust (Figure 5.6). Oil demand exceeded supply by 0.3mbpd in 2017; it is also expected to surpass output in 2018 thus approaching parity. However, a rise in oil supply in 2018 may close the gap between available crude and demand.

The outlook for oil price remains highly uncertain. Nonetheless, positive price movements are expected in the near-term. The World Bank projects crude oil price to rise slightly from $65 in 2019 to $65.4 per barrel in 2020 and $65.9 per barrel in 2021 as the market regains balance, with shale production limiting larger price gains. It is difficult to predict oil prices set in a globally integrated market. The determination of the benchmark price of oil for the medium term was based on moving average



(MA) model. The MA was used to forecast the long-term trends in crude oil price. The model de-links the benchmark price from short and medium-term fluctuations in the market price of oil. The model forecasts crude oil prices of $59/b and $83/b on the 5-year and 10-year moving averages for 2019 (Figure 5.7). Estimates of the 5-year moving average shows initial decline in oil prices to $53pb in 2020, and an increase to $57pb in 2021. The output of the 10-year moving average forecast oil prices declining from an average of $84pb in 2020 to $82pb in 2021.

Figure 5.7: Bonny Light Spot Price, 5-Year MA, 10-Year MA, Benchmark Price, 2002-2021



Sources: BOF, JP Morgan

However, in line with current realities in the international oil market as well as consultations with the Nigerian National Petroleum Corporation (NNPC), a benchmark oil price of $60pb has been proposed for 2019, $56.46pb for 2020 and $56.53pb in 2021. The dynamics of the market keeps price forecasts very volatile thus requiring regular revisions. Therefore, the benchmark was set below the forecasts to cushion the budget from the effects of price fluctuations. This approach would help in building fiscal buffers to enable the country respond effectively to any negative shocks from the international oil price in the medium term.

The benefits of having adequate buffers during unforeseen downturns cannot be overemphasized. It is very important to prevent pro-cyclical policies which would require significantly reducing expenditure when oil prices are down, thereby impeding recovery and growth.

5.2 Non-Oil Revenue Baseline Assumptions

Non-oil revenue projections for the period 2019 to 2021 are based on the projections drawing from FGN Economic Recovery and Growth Plan 2017-2020. They are determined using expected growth in the relevant bases for different taxes, the effective tax ratio of collection, and an efficiency factor to account for operational improvements in the various agencies administering taxation. The underlying tax bases are as follows:

Import Duties, Excise, Fees and Special Levies

These are based on the cost, insurance and freight (CIF) value of imports, applicable tariffs, and an efficiency factor. A tax elasticity was assumed to drive nominal growth of the tax base in the medium term. In addition, other policy concerns include improved implementation of a market reflective foreign exchange rate regime, introduction of Common External Tariff (CET), gradual removal of Import Adjustment Tax (IAT), expected decrease in annual Average Duty Rate (ADR), expected increase in Import CIF because of new strategic focus in Nigerian Customs Service (NCS), and Import Duty on vehicles which has the highest tariff line in terms of revenue generation.

Companies Income Tax (CIT)

The estimation of CIT is based on the nominal GDP, Companies' Profitability Ratio, and an efficiency factor. As the economy gradually recovers, ongoing efforts to improve the business environment as well as the strategic implementation of the 2018 Budget designed to leverage private sector capital are expected to yield some results. In addition, improved collection efficiency arising from increased efforts at broadening and strengthening the tax net and greater use of technology, are expected to positively impact projections for CIT and personal income taxes. The Federal Inland Revenue Service (FIRS) is also actively pursuing policies aimed at reducing tax avoidance and evasion and increasing the tax bases. We expect that this will lead to a reduction in the adjustment factor for the CIT base.

Value Added Tax (VAT)

This is based on an estimate of aggregate nominal consumption, considering vatable items and collection efficiency. Nominal consumption is projected at N119.28 trillion for 2019 from 2018 estimates of N107.76 trillion. The VAT projections over the medium-term are currently based on maintaining the rate at 5% while focusing intensely on broadening the coverage and improving collection efficiency. With these improvements, VAT collections are expected to increase by about 10% in 2019. Over the medium term in line with the ERGP, an increase in VAT rate is contemplated. This will, however, sustain exemptions from good and services consumed mostly by the poor and vulnerable segment of the population.

FGN Independent Revenue

Revenue leakages and weak accountability have characterized Government-Owned Enterprises (GOEs), and other revenue-generating MDAs. These challenges necessitated the introduction of several reforms including implementation of the Treasury Single Account (TSA), reviewing their operational efficiency and generally ensuring they operate in more fiscally responsible manner. A new performance management framework is being developed for the GOEs under which they may be required to maintain maximum cost-to-income ratios. It is envisaged that these efforts, as well as the compliance with the Executive Order on budgets, would substantially improve remittances by GOEs and MDAs in the medium term.

Projections were made considering the various measures to improve non-oil tax revenue, including: stronger enforcement action against tax defaulters; improved compliance activities; implementation of the Integrated Tax Administration System project; full self-assessment regime for all taxpayers; increased deployment of new technology to improve revenue collection; and stepping up of anti-smuggling activities by the Customs Service. Government intends to sustain the increase in contribution of tax revenue to the budget through continuous reforms to modernise and further improve tax administration.

6.0 MEDIUM TERM MACROECONOMIC FRAMEWORK: PARAMETERS AND TARGETS FOR 2019-2021

6.1 Macroeconomic Projections

The medium-term revenue and expenditure framework is driven by key parameters as well as other macroeconomic projections (Tables 6.1). The GDP is projected to grow at 3.0% in 2019, while inflation is expected to moderate to 9.98%.

Table 6.1: Key Parameters and other Macroeconomic Projections (2019 – 2021)

	2018	2019	2020	2021
Oil Price Benchmark (US$/	51.0	60.0	56.5	56.5
Oil Production (mbpd)	2.30	2.30	2.44	2.62
Exchange Rate (N/$)	305.0	305.0	305.0	305.0
Inflation (%)	11.78	9.98	9.43	9.58
Non-Oil GDP (N'bn)	114,772.8	128,489.3	143,921.2	161,017.1
Oil GDP (N'bn)	11,396.0	11,163.5	10,769.3	10,183.4
Total GDP (N'bn)	126,168.8	139,652.7	154,690.6	171,200.5
GDP Growth Rate (%)	2.1	3.0	3.6	3.9
Consumption (N'bn)	107,764.5	119,281.6	132,125.8	146,227.5

Note: Figures for 2018 are revised estimates from earlier projection for 2018 Budget

Source: MBNP, BOF, NNPC, NBS

Growth in 2019 is based on the assumptions of average oil production of 2.3mbpd, benchmark oil prices of US$60/b, and an average official exchange rate of N305/$. Oil GDP is projected to record lower growth over the medium term, while the non-oil sector will continue as the major driver of growth in the economy. It is, however, expected that the self-funding mechanism for Joint Venture (JV) operations will sustainably guarantee JV oil and gas production and government revenue flows as it provides the required investment and restore the confidence of international oil companies whose equity investments are required to grow the JV oil and gas assets. As a result, base oil production is expected to increase significantly to 2.44mbpd in 2020 and 2.62mbpd in 2021.

The nominal GDP is expected to increase from N114,772.8 billion in 2018 to N128,489.3 billion in 2019 and then N161.017.1 billion in 2021. Similarly, consumption expenditure is projected to grow from N107,765 billion in 2018 to N146,228 billion in 2021. These are reflective of a gradual recovery of the economy.

6.2 2019-2021 Medium Term Fiscal Framework (MTFF)

6.2.1 Federation Account Revenues

The amount accruable to the Federation Account and VAT Pool Account amounts to N10.09 trillion and N1.64 trillion, respectively in 2019. Projection for oil revenues in 2019 is higher than in 2018 due to restored peace in the Niger Delta region and stability in production. Oil revenues contributes up to 75% of Federation Accounts. Other components of the Federation Account revenues include revenues from Corporate Tax N1.65 trillion, Customs Revenue N623.82 billion, Special Levies N111.62 billion, Solid Minerals N2.66 billion, Dividend Payment N82.25 billion and Actual Balances in Special Accounts N14.38 billion.

FGN’s share from the Federation Account is N5.31 trillion while the States and Local governments are projected to get N2.70 trillion and N2.08 trillion, respectively. For VAT, the Federal Government is projected to receive N245.72 billion, the States N819.07 billion, and the Local governments N573.35 billion.

Table 6.2: Federation Account and VAT Revenues (2019 – 2021)

FISCAL ITEMS	2018 Budget (As Passed)	2019 Proj.	2020 Proj.	2021 Proj.
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)	**2.30**	**2.30**	**2.44**	**2.62**
Projected Budget Benchmark Price (US$ per barrel)	**51.0**	**60**	**56.46**	**56.53**
Average Exchange Rate (N/US$)	**305.0**	**305.0**	**305.0**	**305.0**
NET FEDERATION ACCOUNT DISTRIBUTABLE	**8,677,730,287,891**	**10,087,909,139,740**	**10,173,602,422,049**	**11,697,022,600,640**
Net Oil Revenue after Costs, Deductions & Derivation	6,149,964,944,737	7,604,706,392,891	6,868,135,450,306	8,014,074,846,625
Dividend Payment (NLNG)	69,910,112,360	82,247,191,011	77,394,606,742	77,490,561,798
Net Solid Minerals Revenue after Derivation	2,414,403,438	2,655,843,782	2,835,966,529	3,029,828,470
Net Corporate Tax Distributable	1,638,532,885,161	1,648,489,315,182	2,356,395,419,831	2,660,706,652,030
Net Customs Revenue Distributable	669,813,397,407	623,816,698,894	678,765,220,832	738,552,493,139
Net Special Levies Distributable	119,321,115,489	111,615,356,012	179,292,001,333	195,080,401,220
Actual Balances in Special Accounts	19,171,122,624	14,378,341,968	10,783,756,476	8,087,817,357
Net Tax Amnesty Income (Distributable)	**292,800,000,000**			
NET VAT POOL ACCOUNT DISTRIBUTABLE	**1,482,234,929,623**	**1,638,137,597,486**	**1,787,459,404,789**	**1,954,918,601,755**
FGN's Share of Federation Account (52.68%)	4,571,428,315,661	5,314,310,534,815	5,359,453,755,935	6,161,991,506,017
States' Share of Federation Account (26.72%)	2,318,689,532,925	2,695,489,322,139	2,718,386,567,172	3,125,444,438,891
Local Govt.'s Share of Federation Account (20.60%)	1,787,612,439,306	2,078,109,282,787	2,095,762,098,942	2,409,586,655,732
Total Federation Account Distribution (Net) (100.00%)	**8,677,730,287,892**	**10,087,909,139,740**	**10,173,602,422,049**	**11,697,022,600,640**
FGN's' Share of VAT Pool Account (15%)	222,335,239,443	245,720,639,623	268,118,910,718	293,237,790,263
States' Share of VAT Pool Account (50%)	741,117,464,812	819,068,798,743	893,729,702,394	977,459,300,877
Local Govt.'s Share of VAT Pool Account (35%)	518,782,225,368	573,348,159,120	625,610,791,676	684,221,510,614
Total VAT Pool Account Distribution (Net) (100.00%)	**1,482,234,929,623**	**1,638,137,597,486**	**1,787,459,404,789**	**1,954,918,601,755**
SPECIAL DISTRIBUTION (SIGNATURE BONUS)				
FGN's Share of Signature Bonus (52.68%)	124,149,348,808	91,487,775,455	-	-
States' Share of Signature Bonus (26.72%)	62,970,208,811	46,403,822,327	-	-
Local Govt.'s Share of Signature Bonus (20.60%)	48,547,391,523	35,775,401,943	-	-
Total Special Distribution (100.00%)	**235,666,949,142**	**173,666,999,726**	**-**	**-**
SPECIAL DISTRIBUTION (TAX AMNESTY - VAIDS INCOME)				
FGN's Share of Tax Amnesty Income (30%)	87,840,000,000			
States' Share of Tax Amnesty Income (70%)	204,960,000,000			
Total Special Distribution (100.00%)	**292,800,000,000**			
TOTAL STATES	**3,327,737,206,548**	**3,560,961,943,208**	**3,612,116,269,566**	**4,102,903,739,768**
TOTAL LGCs	**2,354,942,056,197**	**2,687,232,843,850**	**2,721,372,890,618**	**3,093,808,166,346**

6.2.1 Revenue Framework

After redistribution to FCT, Ecological and Stabilization Fund as well as Development of Natural Resources, the amount available to FGN from its share of the Federation Account is N4.89 trillion. While net FGN's share of VAT (after 1% deduction for FCT) is N229.34 billion.

From the share of the Federation Account and VAT as well as other revenues, the aggregate revenue available to fund the 2019 budget is projected at N6.97 trillion (2.8% or N198.88 billion less than the 2018 estimate of N7.165 trillion). 52.9% of this is projected to come from oil sources while the balance is to be earned from non-oil sources. However, for the purposes of transparency and budget comprehensiveness, the 2019-2021 Medium Term Fiscal Framework includes revenues from major Government-Owned Enterprises (GOEs), which amounts to N955.36 billion. With this, the aggregate FGN revenue is projected at N7.92 trillion.

Table 6.3: Overview of the Revenue Framework

	FISCAL ITEMS	2018 Budget (As Passed)	2019 Proj.	2020 Proj.	2021 Proj.
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)		**2.30**	**2.30**	**2.44**	**2.62**
Projected Budget Benchmark Price (US$ per barrel)		**51.0**	**60**	**56.46**	**56.53**
Average Exchange Rate (N/US$)		**305.0**	**305.0**	**305.0**	**305.0**
AMOUNT AVAILABLE FOR FGN BUDGET		**7,165,869,994,451**	**6,966,989,049,631**	**6,091,274,668,042**	**6,961,500,917,208**
a	**Share of Oil Revenue**	**2,998,862,437,251**	**3,688,282,600,552**	**3,331,045,693,399**	**3,886,826,300,613**
b	**Share of Dividend (NLNG)**	**31,247,078,652**	**39,889,887,640**	**37,536,384,270**	**37,582,922,472**
c	**Share of Minerals & Mining**	**1,170,985,667**	**1,288,084,234**	**1,375,443,767**	**1,469,466,808**
d	**Share of Non-Oil**	**1,384,931,578,205**	**1,385,541,128,141**	**1,809,253,848,038**	**2,016,943,284,244**
	Share of CIT	*794,688,449,303*	*799,517,317,863*	*1,142,851,778,618*	*1,290,442,726,235*
	Share of VAT	*207,512,890,147*	*229,339,263,648*	*250,244,316,670*	*273,688,604,246*
	Share of Customs	*324,859,497,742*	*302,551,098,964*	*329,201,132,104*	*358,197,959,172*
	Share of Federation Acct. Levies	*57,870,741,012*	*54,133,447,666*	*86,956,620,646*	*94,613,994,592*
e	Revenue from GOEs (Top 9 excluding NNPC)		955,361,046,920	825,128,247,740	856,984,776,527
f	Independent Revenue	847,948,500,000	624,579,910,673	636,739,044,175	738,264,429,699
g	FGN's Share of Actual Bal. in Special Accts		6,973,495,854	5,230,121,891	3,922,591,418
h	FGN's Balances in Special Levies Accounts	27,213,444,629	12,910,083,472	9,682,562,604	7,261,921,953
i	FGN's Unspent Bal. of previous Fiscal Year	250,000,000,000	-	-	-
j	FGN's Share of Tax Amnesty Income (VAIDS)	87,840,000,000	-	-	-
k	FGN's Share of Signature Bonus	114,298,470,334	84,228,494,867	-	-
l	Domestic Recoveries + Assets + Fines	374,000,000,000	203,379,583,341	40,000,000,000	40,000,000,000
m	Other FGN Recoveries	138,437,708,421	-	-	-
n	Earmarked Funds (Proceeds of Oil Assets Ownership Restructuring)	710,000,000,000	710,000,000,000	-	-
o	Grants and Donor Funding	199,919,791,292	209,915,780,857	220,411,569,899	229,230,000,000
TOTAL FGN REVENUE		**7,165,869,994,451**	**7,922,350,096,551**	**6,916,402,915,782**	**7,818,485,693,735**

6.2.2 FGN Expenditure Framework

The FGN's expenditure budget is estimated at N8.83 trillion (this includes grants and donor funding of N209.92 billion). This provision is less than the 2018 appropriated expenditure of N9.12 trillion by 3.22% or about N293.70 billion. Of this, interest payments on debt is estimated at N2.14 trillion and while provision for Sinking Fund to retire maturing bonds to local contractors is N190 billion. Provisions for personnel in government Ministries, Department and Agencies is estimated at N2.29 trillion and pension costs is projected to be N504.39 billion. In addition, N51.22 billion (representing 1% of the consolidated revenue fund) has been earmarked for the Basic Health Care Provision Fund (BHCPF), N21.25 billion for GAVI/Routine Immunization in the service-wide votes (SWV), and N151.40 billion for the power sector reform programme.

With these provisions, only the sum of N1.38 trillion (exclusive of capital in statutory transfers) is available as amount for Capital Development Fund. With the inclusion of capital in statutory transfers, capital supplementation, and grant and donor funded projects, the capital expenditure amounts to N2.28 trillion. Government is committed to the provision of critical infrastructure to enhance growth and accelerate the pace of economic recovery.

6.2.3 Aggregate Expenditure

In line with best practices to improve transparency and budget comprehensiveness, the budget of the top 9 GOEs (excluding NNPC) of N995.36 billion, as well as Multi-lateral / Bi-lateral project-tied loans of N556.02 billion have been integrated into the 2019-2021 Medium Term Fiscal Framework (MTFF). This brings the proposed aggregate expenditure to an estimate of N10.16 trillion. With the inclusion of the GOEs capital estimated at N275.88 billion and Multi-lateral / Bi-lateral project-tied loans, aggregate capital expenditure (inclusive of capital in statutory transfers) is estimated at N3.12 trillion. This represents 30% of the aggregate projected Federal Government expenditure in 2019.

Table 6.4: Overview of the Expenditure Framework

	FISCAL ITEMS	2018 Budget (As Passed)	2019 Proj.	2020 Proj.	2021 Proj.
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)		**2.30**	**2.30**	**2.44**	**2.62**
Projected Budget Benchmark Price (US$ per barrel)		**51.0**	**60**	**56.46**	**56.53**
Average Exchange Rate (N/US$)		**305.0**	**305.0**	**305.0**	**305.0**
STATUTORY TRANSFER		530,421,368,625	492,360,342,965	509,479,391,761	540,470,822,285
DEBT SERVICE		2,013,835,365,699	2,144,014,113,092	2,307,045,000,604	2,427,412,968,805
SINKING FUND		190,000,000,000	120,000,000,000	220,000,000,000	220,000,000,000
RECURRENT (NON-DEBT)		**3,516,477,902,077**	**4,718,039,438,458**	**4,690,824,744,571**	**4,915,348,305,592**
a	Personnel Costs (MDAs)	2,118,267,388,701	2,287,987,405,905	2,402,386,776,200	2,522,506,115,010
b	Personnel Costs (GOEs)		160,504,766,016	166,434,138,437	171,722,828,635
c	Overheads (MDAs)	246,486,583,989	265,509,285,492	246,486,583,989	246,486,583,989
d	Overheads (GOEs)		159,145,947,296	163,354,957,010	163,218,302,672
e	Pensions, Gratuities & Retirees Benefits	241,950,173,668	504,388,747,211	473,002,144,160	473,002,144,160
f	SWV Power Sector Reform Programme (Transfers to NBET)	193,339,376,271	151,402,049,347	59,438,777,103	106,631,974,278
g	Other Service Wide Votes (including GAVI/Immunization)	301,434,379,448	363,050,424,848	431,766,127,602	437,779,538,283
h	Presidential Amnesty Programme	65,000,000,000	65,000,000,000	65,000,000,000	65,000,000,000
i	Basic Health Care Fund (1% of CRF)		51,219,751,964	51,844,414,914	59,467,445,656
j	Tansfers of GOEs Operating Surplus (80% of which is in FG Independent Revenues)		359,831,060,380	281,110,825,156	319,533,372,910
SPECIAL INTERVENTIONS (Recurrent)		**350,000,000,000**	**350,000,000,000**	**350,000,000,000**	**350,000,000,000**
AGGREGATE CAPITAL EXPENDITURE		**3,133,813,998,340**	**3,115,978,072,350**	**2,647,473,646,373**	**2,825,570,553,992**
a	Capital Supplementation	377,600,000,000	293,000,000,000	288,450,000,000	288,450,000,000
b	Capital Expenditure in Statutory Transfers	264,213,646,515	252,378,200,781	257,716,204,378	287,045,982,228
c	Special Intervention (Capital)	150,000,000,000	150,000,000,000	150,000,000,000	150,000,000,000
d	Amount Available for Capital Development Fund	2,172,080,560,533	1,378,788,677,235	1,516,667,544,959	1,668,334,299,454
e	GOEs (Top 9 excluding NNPC) Capital Expenditure		275,879,273,229	214,228,327,137	202,510,272,310
f	Grants and Donor Funded Projects	169,919,791,292	209,915,780,857	220,411,569,899	229,230,000,000
g	Multi-lateral / Bi-lateral Project-tied Loans		556,016,140,249		
Capital Expenditure (Exclusive of Transfers)		**2,869,600,351,825**	**2,863,599,871,569**	**2,389,757,441,994**	**2,538,524,571,764**
TOTAL FGN BUDGET (Excluding GOEs Budget & Project-tied Loans)		**9,120,334,988,226**	**8,826,636,578,915**	**9,291,978,331,191**	**9,784,771,891,921**
TOTAL FGN BUDGET		**9,120,334,988,226**	**10,338,013,766,084**	**10,117,106,578,931**	**10,641,756,668,447**

*In 2018, the provision for Basic Health Care Fund of N55.15 billion was embedded in Capital Supplementation

6.2.4 Sectoral Ceilings

The allocation of capital expenditure among the various spending Ministries, Department and Agencies (MDAs) of government is driven mainly by government's execution priorities and strategic focus outlined in the ERGP as well as the outcomes from the ERGP Focus Lab. Of the amount available for the capital development fund, N948.80 billion is provisioned for activities in line with the execution priorities of the ERGP, as government will continue to focus on critical sectors that quickly turn-around real sector growth. N240.86 billion and N104.74 billion were provisioned for other critical enablers of growth and inclusion such as security and social investments, respectively. A provision of N84.39 billion is for activities related to improving institutions and good governance. Additionally, transfers to the Universal Basic Education Commission and the Basic Healthcare Provision Fund are projected at N111bn and N51.2bn respectively. It is noteworthy that the bulk of expenditures on the Social Development sector tend to be recurrent in nature. For instance, while capital expenditure allocations to Education and Health in 2018 were N102.9bn and N86.5bn respectively, the allocations to recurrent expenditure were N439.3bn and 270bn respectively.

Table 6.5: Overview of the Sectoral Ceilings

	Sectoral Ceiling Breakdown	N	% Share
1	ERGP Execution Priorities	948,802,925,736	69%
2	Security	240,860,551,765	17%
3	Social Development	104,739,032,450	8%
4	Governance & Institutions	84,386,167,284	6%
	Amount available for Capital Development Fund	**1,378,788,677,235**	100%

6.2.5 Fiscal Deficit and Deficit Financing

Given the projected revenue and planned expenditure, the fiscal deficit is estimated at N1.86 trillion. This is about N95 billion (or 4.85%) less than the estimate of N1.95 trillion in 2018, and at 1.33% of GDP is well below the threshold (3% of GDP) stipulated in the Fiscal Responsibility Act (FRA), 2007.

Table 6.6: Deficit, Financing and Critical Ratios

FISCAL ITEMS	2018 Budget (As Passed)	2019 Proj.	2020 Proj.	2021 Proj.
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)	**2.30**	**2.30**	**2.44**	**2.62**
Projected Budget Benchmark Price (US$ per barrel)	**51.0**	**60**	**56.46**	**56.53**
Average Exchange Rate (N/US$)	**305.0**	**305.0**	**305.0**	**305.0**
AMOUNT AVAILABLE FOR FGN BUDGET	**7,165,869,994,451**	**6,966,989,049,631**	**6,091,274,668,042**	**6,961,500,917,208**
TOTAL FGN REVENUE	**7,165,869,994,451**	**7,922,350,096,551**	**6,916,402,915,782**	**7,818,485,693,735**
TOTAL FGN BUDGET (Excluding GOEs Budget & Project-tied Loans)	**9,120,334,988,226**	**8,826,636,578,915**	**9,291,978,331,191**	**9,784,771,891,921**
TOTAL FGN BUDGET	**9,120,334,988,226**	**10,338,013,766,084**	**10,117,106,578,931**	**10,641,756,668,447**
Fiscal Deficit (excluding GOEs Budget and Project-tied Loans)	**(1,954,464,993,775)**	**(1,859,647,529,284)**	**(3,200,703,663,149)**	**(2,823,270,974,713)**
Total Fiscal Deficit	**(1,954,464,993,775)**	**(2,415,663,669,533)**	**(3,200,703,663,149)**	**(2,823,270,974,713)**
GDP	**113,088,878,152,768**	**139,811,509,172,405**	**154,110,245,526,887**	**168,932,202,999,518**
DEFICIT/GDP	**(1.73%)**	**(1.33%)**	**(2.08%)**	**(1.67%)**
Capital Expenditure as % of Non-Debt Expenditure	45%	39%	35%	35%
Capital Expenditure as % of total FGN Expenditure	34%	30%	26%	27%
Capital Expenditure (Inclusive of Transfers, but exclusive of GOEs Capital & Project-tied loans) as % of FGN Expenditure		26%	26%	27%
Recurrent Expenditure as % of total FGN Expenditure	66%	70%	74%	73%
Debt Service to Revenue Ratio	28%	31%	38%	35%
Deficit as % of FGN Revenue	27%	27%	53%	41%
ADDITIONAL FINANCING	`			
a Sales of Government Property		-	-	-
b Privatization Proceeds	306,000,000,000	210,000,000,000	126,522,715,909	46,351,702,042
c Non-Oil Asset Sales	5,000,000,000	-	-	-
d Multi-lateral / Bi-lateral Project-tied Loans		556,016,140,249	-	-
e New Borrowings	**1,643,464,992,872**	**1,649,647,529,284**	**3,074,180,947,240**	**2,776,919,272,671**

The deficit will largely be financed by borrowing which is estimated at N1.65 trillion while about N210 billion will be derived from Privatization Proceeds, and N556.02 billion are loans secured for specific development projects. Government will, however, continue to explore ways of generating additional revenues to bring down the fiscal deficit including through government assets ownership restructuring / sales which was initially proposed to happen in 2018. The plan is to redeploy these assets to finance other critical projects that will benefit the economy in the near-term, while reducing borrowing requirements in the medium term.

7.0 MEDIUM TERM OBJECTIVES, POLICIES AND STRATEGIES

7.1 Medium-Term Fiscal Policy Objectives

In line with the goals of the ERGP 2017-2020, the medium-term fiscal strategy of Government for 2019-2021 is predicated on three main pillars: sustaining and enhancing economic growth, building a globally competitive economy, and increasing social inclusion by investing in our people. Over the medium term, Government will focus a large portion of its spending on key sectors which include Security, Infrastructure (including Power and Transportation), Agriculture, Manufacturing, Housing and Construction, Education, Health and Water Resources. By investing funds in these sectors, Government is working to reduce the infrastructure gap as well as support job-creating opportunities which will in turn foster greater and diversified economic growth.

Government will continue its fiscal strategy of directing resources to most productive and growth-enhancing sectors while efforts will be intensified to increase revenue. Government will also leverage private capital to supplement capital allocations from the Budget. The highlights of Government's fiscal strategy include:

i. enhancing economic growth and ensuring inclusiveness;
ii. promoting economic diversification;
iii. maintaining macroeconomic stability;
iv. increasing revenue generation;
v. rebalancing the distribution of Government spending;
vi. improving quality of spending; and,
vii. ensuring sustainable deficit levels.

To achieve these objectives, fiscal, monetary and trade policies will continue to be aligned and implemented in a very coordinated manner. The strategy recognizes the need to deliberately cushion the effects of adjustments on the poor and vulnerable members in the society.

7.1.1 Enhancing economic growth and promoting inclusiveness

Fiscal policy will be geared towards enhancing growth and promoting inclusiveness. The economy is expected to recover and grow over the medium term by 3.5%, reaching 3.9% in 2021. To realize this objective, new private investment will be harnessed and expansionary public sector infrastructure spending will be sustained.

Government will strengthen the frameworks for concessions and public private partnerships, including working with the legislature to address legislative and regulatory bottlenecks undermining private investments in key sectors. It is expected that growth, in the medium term, will generate the revenue necessary for future expansion of public service delivery, rebuild fiscal space, and narrow new borrowing requirement.

In addition, government support will be geared towards stimulating activities of Small and Medium-Scale Enterprises (SMEs).

7.1.2 Promoting Economic Diversification

The diversification of the productive base of the Nigerian economy has been a critical objective of Government for a long time. In the medium-term, Government will intensify its economic diversification efforts through targeted interventions to boost the non-oil economy. In particular, government will leverage Science, Technology and Innovation (STI) in developing the value-chain so as to boost growth of the non-oil sector. Supportive fiscal measures will be aimed at developing the entire value chain in key areas of the real sector including agriculture, manufacturing and solid minerals, among others. In addition, science and technology will be effectively harnessed to drive national competitiveness, productivity and economic activities in all sectors. Government acknowledges the importance of the non-oil sector, particularly, the solid minerals sector in its economic diversification strategy including in the areas of revenue and job creation. As part of the efforts to provide an enabling environment for economic diversification and growth, Government will accelerate the implementation of key infrastructure projects. This will further improve the domestic business environment, and secure both existing and new jobs.

7.1.3 Maintaining Macroeconomic Stability

Sustaining the positive trajectory of key macroeconomic variables is the thrust of macroeconomic policy. A coherent and stable macroeconomic environment is a pre-requisite for sustained growth. It engenders certainty and enables businesses and households to plan their production, investment and consumption activities.

In the medium term, macroeconomic objectives shall be to ensure stability in the macroeconomic environment, accelerate economic growth and enhance social inclusion through employment and job creation. The strategies of government as encapsulated in the ERGP are aimed at ensuring that the country achieves the global Sustainable Development Goals (SDGs). These goals include poverty eradication, zero hunger, good health, quality education, gender equality, water and sanitation, affordable and clean energy, decent economic growth, infrastructure and industrialisation.

Government has made significant progress in ensuring macroeconomic stability, thus laying the foundation for rapid and sustainable growth. Inflation is trending downwards, exchange rate is market reflective and stable, and external balance is positive.

Inflation has consistently decelerated recently, declining from 18.7% in January 2017 to 11.14% in July 2018. This represented 18 consecutive months of decline in headline inflation year on year. Despite rising to 11.28% in September 2018, it is currently below the ERGP target of 12.4% for 2018, and is projected to further trend downwards to single digit by 2019. The trend reflects the improved coordination of fiscal and monetary policies, exchange rate stability, improved oil export earnings and capital flows, as well as pragmatic management of foreign exchange supply to the market.

It is also projected that the exchange rate will generally remain stable as the monetary, fiscal and trade policies are fully aligned. This outcome will be achieved through policies that seek to remove uncertainty in the exchange rate and restore investors' confidence in the market. This includes strategies to reduce market interest rates; moderate inflationary pressures; provide critical infrastructure to lower the cost of doing business; and stabilize exchange rate. In addition, government is enhancing its revenue generation mechanism to moderate fiscal deficits. These, in addition to a healthy debt sustainability framework, will support stability in the macroeconomic environment.

7.1.4 Increasing Revenue Generation

Government's strategy is to continue engagements with stakeholders in the Niger Delta for lasting peace and conducive environment for oil production, distribution and export. In addition, pipeline security will be enhanced to attract new investments and polluted areas will be cleaned. The implementation of the Petroleum Industry Governance Bill (PIGB) is expected to reduce uncertainties and further promote new private sector investments in the sector. Oil revenues will be used to further diversify the production and revenue base of the economy.

Non-oil revenues are more predictable and less volatile. In the medium term, efforts will be geared towards increasing the ratio of non-oil tax revenue to GDP from the current rate of 6% to 15%.

Improvements in non-oil collections will be attained through improved tax and Customs administration and expanded non-oil revenue base. The tax system will be further strengthened by improving collection efficiency, enhancing compliance, and reorganizing the business practices of tax and revenue agencies. The whistle-blowing policy, which will not only uncover stolen funds but deter diversion of public funds for personal gains, will be sustained. Government will also identify and plug revenue leakages, improve tax compliance, tighten the tax code and broaden the tax net by employing appropriate technology. In addition, government will ensure that more businesses in the informal sector are formalized. Tax payment will be verified prior to licensing a vehicle while a broad audit campaign will be conducted to identify under-filing tax payers and non-compliant taxpayers will be engaged to ensure compliance.

To further improve Customs collections, government will continue to accelerate the transformation and modernization of the Nigeria Customs Service through a 2-3-year strategic plan which will see much greater deployment of technology. This will include an anti-smuggling strategy and rationalization of tariffs and waivers in line with priority sectors. Nevertheless, sector-based concessions and waivers and zero duty on the imports of critical equipment and machinery required for strategic sectors may be retained. Port operations efficiency will be enhanced by implementing a single customs window, speeding up vessel and cargo handling and issuing more licences to build modern terminals in existing ports, especially outside Lagos.

To improve the generation and collection of independent revenues, the Executive Order on budgeting by MDAs will be strictly implemented while the Executive will work with the legislature to amend some of laws establishing many of the GOEs. More importantly, the revenues and expenditures of MDAs will be monitored more closely through a new performance management framework currently under development.

7.1.5 Rebalancing the Distribution of Government Spending

Since the inception of this Administration, government's fiscal strategy has included efforts to address the imbalance between recurrent and capital spending. In 2015, 84% of the budget was allocated to recurrent spending while 16% was provided for capital projects. Federal Government capital budget allocation has improved significantly. From the 16% in 2015, it was increased to a minimum of 30% since 2016, i.e. 30.2% in 2016, 31.8% in 2017 and 31.5% in 2018. In 2019-2021, Government desires to continue to allocate at least 30% of its spending to the execution of capital projects in line with the ERGP. However, the main challenge in this regard is funding constraint. To ensure significant capital allocation, efforts will be intensified to enhance revenue collection. In addition, the Integrated Payroll and Personnel Information System will be extended to all MDAs to improve the effectiveness and efficiency of payroll administration.

In reality, even with the allocation of 30% or more of Federal Government spending to capital expenditure, government resources will still fall far short of the amount required to address the huge infrastructure deficit. Therefore, government intends to continue to utilize alternative mechanisms for financing capital projects in partnership with the private sector. The Roads Trust Fund and the Joint Venture arrangement by the NSIA are noteworthy examples in this regard.

7.1.6 Improving the Quality of Spending

Government remains committed to improving the efficiency and quality of its spending. Thus, public expenditure will be properly scrutinized to ensure value for money. To achieve this, budget formulation process will be further strengthened and capital projects will be evaluated in line with the ERGP objectives. Over the medium term, government intends to update its Public Expenditure and Financial Accountability (PEFA) assessment with the support of Development Partners.

As part of the cost minimizing measures, attention will continue to be paid to the costing of activities/projects, competitive bidding in public procurement, continuous audit of MDAs' operations and other public financial management reforms which have begun to yield results.

Other measures include:

i. Linking the Integrated Payroll and Personnel Information System (IPPIS) to Human Resources management systems and bank verification numbers (BVNs) to clean the civil service payroll;

ii. Limiting travel frequency, sitting allowances, printing and publication expenditures, etc.;
iii. Introducing allowable expenses guidelines and templates to control expenses of Government-owned enterprises;
iv. Developing and implementing a collective demand process for MDAs to take advantage of the benefits of group purchasing;
v. Optimizing overheads by sharing services across MDAs and maximizing the use of Federal Government buildings; and,
vi. Mobilizing private capital through alternative delivery mechanisms for capital expenditure in roads, transportation, housing, and agriculture, e.g., the Road Trust Fund, Family Home Fund, etc. The NSIA is also expected to play an increasing role in this respect.

7.1.7 Ensuring Sustainable Deficit Levels

The Debt Management Office (DMO) is pursuing a debt management strategy designed to lower the debt service cost by rebalancing the debt stock in favour of cheaper foreign currency borrowings. This would significantly create more fiscal space for the private sector in the domestic credit market with overall positive impact on interest rates. It would also accord private capital a leading role in driving growth. In addition, Government will step up efforts to dispose non-core assets with proceeds contributing to financing the deficit.

Fiscal deficit will be maintained within the 3% level threshold stipulated in the Fiscal Responsibility Act 2007. As efforts to enhance oil and non-oil revenue begin to yield results, government will ease off on deficit budgeting, which will contribute to engendering lower interest rates, as well as increasing consumer and business confidence.

7.2 Monetary Policy Objectives and Strategies

The medium-term monetary policy objectives as well as the strategies to achieve the objectives are outlined below.

7.2.1 Medium-Term Monetary Policy Objectives

The principal objective of monetary policy in the medium term is to accelerate economic growth while maintaining price stability. Stable prices reduce uncertainty for households and businesses and aid effective planning. In view of the need to restore strong growth performance, the key issue is how to balance the twin, sometimes conflicting, objectives of managing inflation while encouraging economic growth.

In addition, the Central Bank of Nigeria (CBN) will continue to take steps to strengthen the resilience of the banking sector, build investor confidence with attendant positive impact on capital inflows and further stabilization of Nigeria's exchange rate regime.

Specifically, in the medium term, the objectives of monetary policy will be to:

- Facilitate output growth, economic diversification and job creation;
- Ensure monetary and price stability, reducing inflation to single digit;
- Maintain stable and competitive exchange rate;
- Boost foreign reserves to safeguard the international value of the Naira;
- Promote a sound financial system in Nigeria;

- Ensure adequate supply of credit to the private sector at reasonable lending rates and minimum other charges; and,
- Promote external balance

Achieving these objectives requires complementary fiscal, and trade policies. The overarching goals of fiscal, trade and monetary policies collectively are to foster sustainable economic growth, low inflation, low real interest rates, market reflective exchange rates and a strong balance of payments position.

7.2.2 Monetary Policy Strategies and Outlook

7.2.2.1 Facilitating Output Growth, Economic Diversification and Job Creation

Monetary policy will be geared towards enhancing the pace of economic growth, intensifying economic diversification efforts and promoting job creation. The CBN is currently supporting growth in the rest of the economy through its dedicated intervention funds for small and medium enterprises, manufacturing, airlines and agriculture sectors. CBN's initiatives, such as the Anchor Borrowers Programme, allow participants in the agricultural value chain to access credit at single digit interest rates. The interventions in the critical sectors of the economy will be strengthened to enhance economic growth and reduce unemployment.

It is difficult to promote job creation in an environment with massive infrastructure deficit. The CBN will continue to encourage deposit money banks to increase the flow of credit to the real sector to accelerate economic recovery. A heterodox market reform approach is therefore apposite at this time to improve credit flow to productive sectors of the economy. Credit constrained businesses, particularly large corporations are encouraged to issue commercial paper to meet their credit needs and the CBN may, if need be, buy the instruments to complement the efforts of the Deposit Money Banks (DMBs) and other intermediaries. In addition, to incentivize DMBs to increase lending to the manufacturing and agriculture sectors, a differentiated dynamic cash reserves requirement (CRR) regime is being implemented to direct cheap long-term bank credit at 9%, with a minimum tenor of seven (7) years and two (2) years moratorium to support employment elastic sectors of the Nigerian economy.

7.2.2.2 Ensuring Price and Monetary Stability

Price stability is the core mandate of the CBN. Hence, the CBN will accord priority to price stability in its monetary policy decisions and actions. Accordingly, monetary policy will continue to provide an anchor for inflation expectations and steer inflation towards the single-digit target in the medium-term.

Fiscal, monetary and exchange rate policies will be better coordinated to moderate upward price pressures while enhancing aggregate demand, income and employment. In addition, the CBN will use liquidity management tools to reduce inflationary pressure and stimulate inclusive growth.

In general, monetary aggregates are expected to increase moderately in the medium term. Despite the non-expansionary monetary policy stance of the CBN recently, broad money supply (M2) grew by 2.79% in June 2018, annualised to 5.58%, compared with the provisional growth benchmark of 10.84% for 2018. The increase in M2 was largely driven by Net Foreign Assets (NFA), which grew by 18.15% in June 2018, annualised to 36.30%, compared with the provisional benchmark of 18.15% for 2018. The development reflected improvements in foreign receipts arising from favourable crude oil prices.

7.2.2.3 Maintaining Stable and Competitive Exchange Rate Regime

Rates in the foreign exchange market have been relatively stable over the past year, supported by continued CBN intervention in the market, sustained increase in the price of crude oil in the world market, as well as positive developments in the external sector. High level of activities has been recorded, particularly, at the Investors' and Exporters' (I&E) window of the foreign exchange market. The window has continued to supply liquidity in foreign exchange market, narrow exchange rate premium, and reduce speculative activities in the market. The average official Naira/US$ exchange rate was N305.96/$ as at Q3 2018, while the interbank rate has converged at an average of about N360/$ in line with the parallel markets as at Q3 2018. The CBN will sustain the relative stability in the foreign exchange market and improve the implementation of the market-determined exchange rate regime, to build confidence and encourage foreign exchange inflows.

The commencement of the $2.2 billion currency swap deal with the People's Bank of China (PBoC) and the availability of Renminbi currency to Chinese and Nigerian businesses would ease pressure in the US Dollar market. The implementation of the currency swap framework will be accelerated and the CBN will carry out sensitization programmes to create greater awareness among the public.

7.2.2.4 Boosting External Reserves

External reserves increased remarkably from US$23.81 billion in September 2016 to US$44.31 billion as at September, 2018. Further increases are expected in the near term in view of favourable crude oil prices. Efforts will be made to sustain current efforts aimed at maintaining investor confidence and ensuring accretion to external reserves. The Federal Government will also endeavour to build fiscal buffers to absorb possible future oil price shocks.

7.2.2.5 Promoting Sound Financial System

Nigeria's banking sector remains largely profitable, with capital adequacy and liquidity ratios generally above the recommended thresholds, especially for the systemically significant banks, thus giving assurance to the banking public that their money is in safe hands. The performance of deposit money banks has continued to improve, with the moderation in the levels of non-performing loans in the industry expected to continue in the medium term. The Federal Government will endeavour to accelerate the settlement of outstanding contractor debts, with attendant salutary effect on the banking sector. The CBN on its part will ensure stricter compliance with prudential guidelines in the medium term to further strengthen the sector and increase its resilience by:

- Encouraging banks to improve capital adequacy.
- Helping banks to embark on aggressive debt recovery efforts.
- Mitigating credit risks by limiting the concentration of credit of a certain risk category and enforcing limits on foreign exchange net open positions.
- Reinforcing supervision of banks and reporting transparency, including on non-performing loans.

The CBN, in partnership with the Nigeria Deposit Insurance Corporation (NDIC),will also strengthen its review of regular returns, carry out spot checks, monitor financial institutions on-site and off-site and conduct special investigations to ensure a safe, sound and stable financial system. Efforts will be required from the banks in the medium term to further improve asset quality and reduce non-performing loans through proper asset screening, to bring the ratio of non-performing loans from the current level of 12% to the prudential threshold of 5% by 2020. Regular stress tests will continue to be conducted to detect early warning signs on systemic risks and offer ways to deal with such risks.

7.2.2.6 Addressing High Credit Cost and Limited Private Sector Credit Access

The average maximum lending rate stood at about 31% in December 2017 while interest on deposits averaged 8.8%. The CBN will pursue measures to progressively reduce the wide interest rate spread.

Net domestic credit is projected to expand significantly over the medium-term, at an average annual growth rate of 15.8%, with the projected annual growth rate rising to 19.9% in 2020. This is in line with the ERGP's strategy of getting the private sector to truly become the engine of inclusive growth by increasing access to domestic credit.

Non-interest banking arrangements are becoming major sources of funding development expenditures worldwide. This financial arrangement is getting integrated within the global financial system and has the potential to boost prosperity and raise the standard of living of our people. Nigeria intends to explore the benefits of Islamic finance products, to attract foreign direct investment and deepen financial intermediation. For example, the Sukuk bond was successfully issued as an alternative source of financing key infrastructure projects across the country.

7.2.2.6 Promoting External Balance

To promote external balance, the CBN will continue to provide support intervention in critical sectors that could boost productivity, e.g., agriculture and manufacturing. Emphasis will be placed on supporting firms to producing exportable and import-substituting products. Trade policy tools to tackle dumping will complement these measures to improve the balance of payments position. The target is to raise non-oil exports as a ratio of total exports from 7.5% to 15% by 2020. In addition, FDI inflows, portfolio investments and diaspora remittances will be incentivized to increase appreciably over the medium term.

7.3 Key Sectoral Policy Initiatives

7.3.1 Accelerating Economic Growth and Job Creation

Economic growth is a pre-requisite for job creation. However, jobless growth as experienced in the past decade is not desirable for welfare improvements and inclusiveness. This explains the prominence government has accorded to job creation in the ERGP. The thrust of the ERGP strategy on job creation is the intensification of growth of sectors with potentials for massive job creation, and include:

- Boosting public works programmes;
- Scaling up the N-Power volunteer corps to provide temporary employment for graduates annually in education, agriculture and health;
- Accelerating the implementation of the Nigeria Industrial Revolution Plan (NIRP) using Special Economic Zones (SEZs) to generate jobs;
- Enforcing the local content policy to promote job creation through procurement processes;
- Expanding workfare programmes in collaboration with the States;
- Improving employability of school leavers and graduates, given the changing nature of work arising from increasing digitalization of the global economy;
- Developing local empowerment centres to disseminate and provide business support to entrepreneurs through apprenticeship and mentorship. To guarantee sustainability, incentives will be provided to participating employers, recognize participants and offer tax rebates;

- Providing incentives to corporate bodies and parastatals to expand opportunities for internships, traineeships for young new entrants into the labour market; and,
- Providing loans to Micro, Small and Medium Scale Enterprises (MSMEs).

7.3.2 Industrialisation through Public Private Partnerships

Government will continue to create enabling environment for Public Private Partnerships (PPP). This will be achieved by accelerating the implementation of the NIRP focusing on agro-processing and industrial hubs. Government will:

- Review / provide local fiscal and regulatory incentives to support the development of industrial cities, parks and clusters, especially around existing ports and transport corridors
- Revitalize export processing zones by reviewing local fiscal and regulatory incentives
- Rationalize tariffs and waivers on the equipment and machinery imports required for agro-industry
- Establish Special Economic Zones (SEZs) to provide dedicated infrastructure (power, transportation, ICT, Water, etc) to support hub productivity
- Facilitate technology acquisition and transfer in the SEZs by making available research output from local research institutes

7.3.3 Energy Sector Policy Initiatives

Enhancing power supply is a priority of Government, and it will continue to implement policies geared at ramping up power generation, transmission and distribution by:

- Optimizing the existing installed capacity available for generation
- Stopping the Gas Flaring
- Completing major gas infrastructure lines to plants and main trunk to facilitate gas supply for power generation
- Improving NBET's financial capability to support the electricity market
- Introducing strategy for capital market and banking programmes that ensure all Upstream industry operators get paid for each contract
- Reviewing the gas pricing structure to recover all prudent costs as services improve and give willing developers access to underdeveloped gas resources
- Accelerating standardization of the process for executing independent power projects (IPPs), including defining pricing, to encourage private-sector participation
- Deploying a clear, legal and commercial framework for investments in power projects
- Reducing transmission and distribution losses / energy theft
- Restructuring the Transmission Company of Nigeria to improve management and operational efficiency
- Implementing the National Renewable Energy and Efficiency Policy (NREEP)

7.3.4 Agriculture and Food Security

Reforms and programmes in the sector have resulted in significant increase in agricultural output and reduction in food imports. The medium-term goal is to turn Nigeria into a net exporter of key agricultural products, e.g., rice, tomatoes, vegetable oil, cashew nuts, groundnuts, cassava, poultry, fish, livestock.

Strategies to achieve food security in the medium term include:

- Supporting the integrated transformation of the agriculture sector by boosting productivity of the crop and other sub sectors;
- Boosting agriculture productivity by facilitating access to inputs, financing and extension services;

- Enhancing agricultural extension services, including through N-Power programmes, from the current ratio of 1:3,000 to 1:1,000 by 2020;
- Improving access to finance;
- Extending the Anchor Borrowers Programme to all States and major crops;
- Restructuring and Recapitalizing the Bank of Agriculture (BoA) to provide single-digit interest rate credit to small farmers through the network of micro-credit banks;
- Strengthening CBN schemes to improve access to finance for all players, including the Agricultural Credit Guarantee Scheme, Commercial Agriculture Credit Scheme (CACS) and the SME Credit Guarantee Scheme, including long term sunset clauses; and,
- Continuing to de-risk agricultural lending by expanding the scope of the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) through sufficient and timely funding, and enhancing the regulatory function of the Nigerian Agricultural Insurance Corporation (NAIC).

7.3.5 Social Investments: Health, Education and Social Welfare

Investing in our people is one of the three core objectives of the ERGP. In furtherance of this objective, Government is taking steps to enhance human capital development, particularly health, education and social intervention programmes in order to reduce poverty. Furthermore, Government will:

- Partner with State governments and the private sector to establish best-in-class vocational and technical institutes;
- Develop incentive programmes to encourage private sector and State investment in model technical and vocational education institutes;
- Revive and support new post-secondary school trade centres and technical schools;
- Introduce post-university skills development institutions (PUSDIs);
- Encourage schools to design and implement standard teacher coaching programmes comprising peer review through classroom visits, collaborative lesson planning and weekly sessions jointly to define objectives, track progress and impact, and share improvement ideas;
- Improve the quality of education by strengthening quality assurance;
- Review and restructure the education curriculum in line with international best practices;
- Improve the capacity of Federal, State and Local quality assurance inspectorates;
- Increase investment in Science, Technology, Engineering, Arts & Mathematics (STEAM) education;
- Develop and launch an ICT curriculum comprising computer science, information technology and digital literacy for primary and secondary school students;
- Partner with private organizations to organize innovative ICT competitions and subsidize professional qualifications for ICT;
- Improve funding mechanisms to incentivize education performance and increase access. Use the Tertiary Education Trust Fund (TETFUND) to incentivize high-performing tertiary institutions;
- Expand and sustain the home-grown school feeding to enhance school enrolment and combat stunting
- Revitalize primary health care centres and establish at least one functional primary health centre (PHC) in each ward to improve access to health care;
- Fully implement the National Health Insurance Scheme to mobilize domestic resources;
- Implement the provisions of the National Health Act;

- Make strategic investments in tertiary health care institutions in collaboration with the National Sovereign Investment Authority (NSIA) and other relevant stakeholders to reverse the outbound traffic for health tourism; and,
- Invest in the social housing programme.

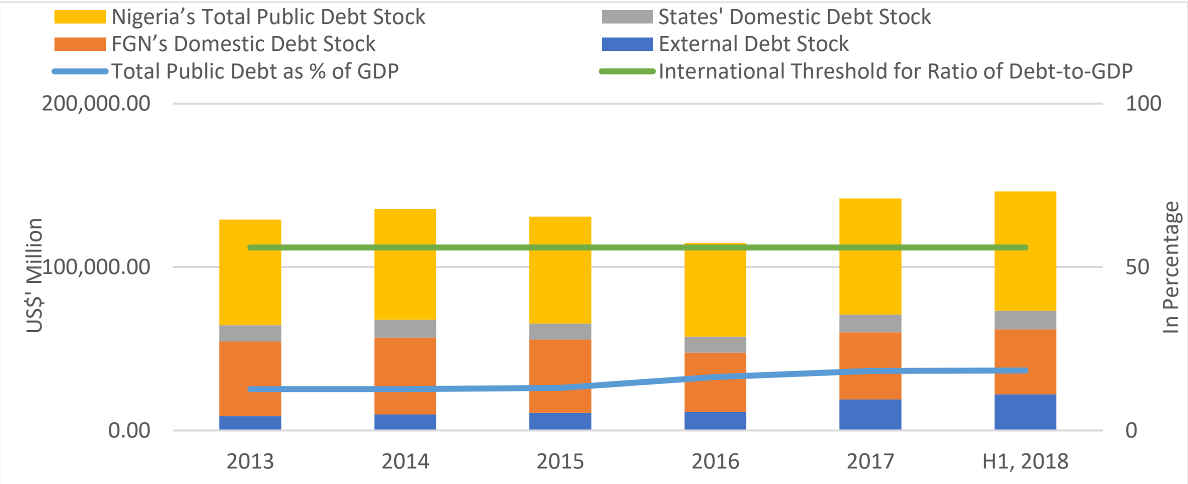
8.0 ANALYSIS & STATEMENT ON CONSOLIDATED DEBT & CONTINGENT LIABILITIES

8.1 Nigeria's Current Debt Profile

8.1.1 Debt Stock

Nigeria's Public Debt Stock remains within acceptable debt thresholds despite the recourse to debt financing to cover the significant decline in government revenues, due to lower international oil prices, especially between 2015 and 2017. Nigeria's Total Public Debt stock was ₦22.38 trillion (US$73.21 billion), as at June 30, 2018. Of the Total Public Debt stock, the Federal Government's Domestic Debt stock accounted for ₦12.15 trillion (54.30%), the States' Domestic Debt was ₦3.48 trillion (15.54%), while the External Debt of both the Federal and State Governments represented the balance of ₦6.75 trillion (30.16%). The ratio of Total Public Debt-to-GDP, which was 18.35% is still below Nigeria's self-imposed Debt Limit of Total Public Debt to GDP ratio of 25% (up to 2020), and far below the World Bank's debt sustainability threshold of 56% for Nigeria and other peer countries, based on its Country Policy and Institutional Assessment (CPIA) index ranking. The ratio of Total Public Debt to GDP was projected at 20.9% for 2018, based on the 2017 Debt Sustainability Analysis (DSA) report.

Figure 8.1: Trend in Nigeria's Total Public Debt (2013-H1, 2018)

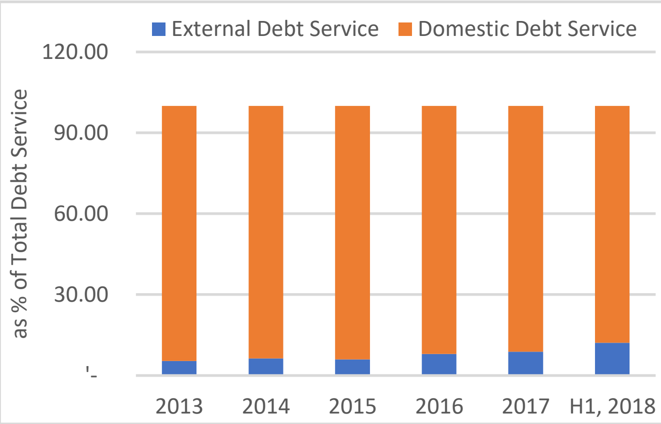


Source: DMO

8.1.2 Debt Service Payments

Figure 8.2: Debt Service Payments (2013-H1, 2018)

Although Nigeria's debt stock places it at a low risk of debt distress, high debt service payments relative to revenues have become a source of concern as it may constrain government's ability to fund its expenditure programmes. The decline in government revenues, which led to higher deficit and therefore higher borrowing, resulted in an increase in debt service payments to N1,612.9 million (US$5.288 billion) in 2017, from N1,336.5billion (US$4.381 billion) in 2016.



Source: DMO

Given the on-going fiscal strategies to improve government revenues, as well as the implementation of the Debt Management Strategy (DMS), it is expected that debt service costs as a share of revenues will decline.

8.2 Debt Management Strategy

Nigeria's Debt Management Strategy, 2016-2019, aimed at rebalancing Total Public Debt Stock to achieve an optimal ratio of 60:40 for Domestic to External Debt, and moderate Debt Service Costs. This involves the use of relatively cheaper external borrowing to substitute for the high cost domestic debts. In line with this Strategy, Nigeria in 2017 accessed the International Capital Market (ICM) for a total sum of US$4.8 billion through Eurobonds (US$4.5 billion) and a Diaspora Bond (US$300 million). The US$4.3 billion of this amount, was for the part-financing of 2016 and 2017 budget, while US$500 million was for the refinancing of short-tenored high cost domestic debt – the Nigerian Treasury Bills (NTBs). An additional US$2.5 billion was issued in February, 2018 for the refinancing of domestic obligations. With the proceeds of the US$3.0 billion Eurobonds issued for refinancing purposes, the DMO redeemed N849 billion NTBs, between December, 2017 and June, 2018. The implementation of the DMS, has led to a decline in the domestic debt component of the Public Debt, such that, as at June 30, 2018, the ratio of Domestic Debt to External Debt improved to about 70:30 from a ratio of 84:16 in 2015, 80:20 in 2016, and 73:27 in 2017.

In the same vein, following from the restructuring of the Domestic Debt Portfolio, Government's cost of new borrowing has significantly reduced, as a result of the lowering of Interest Rates in the domestic market, from over 18% per annum in Q1, 2017 to about 11-14% in H1, 2018. This translates to huge savings for the Government on new domestic borrowings, and therefore, more financial resources for funding key infrastructural projects, and a reduction of pressure on lending rates in the economy.

Similarly, due to the redemption of N849 billion NTBs, the structure of the domestic debt portfolio for the ratio of long-term to short-term has progressively improved from 70:30 in 2016, 72:28 in 2017, and now 76:24 by June 30, 2018. The Debt Management Strategy is still being implemented, and it is expected to result in a further reduction in the share of domestic debt, and, therefore, lower interest cost of domestic borrowing, as well as increase in the average maturity of Public Debt Stock.

8.3 Nature and Fiscal Implications of Contingent Liabilities

The Federal Government has improved its ability to monitor contingent liabilities and mitigate against the actualization of these obligations. In view of government's drive to develop large-scale infrastructure projects through various financing means, including Public-Private Partnerships, the issuance of Guarantees may be required to support Private Sector operators.

Provision is being made in the annual budget to offset liabilities such as pension obligations. In the case of local contractor debt, a sinking fund financed through the federal budget was created to amortize these bonds.

As part of efforts to account for the full exposure of FGN to Contingent Liabilities, and to ensure proper management of same, a Policy Framework on Contingent Liabilities are being developed. Table 8.1 shows the Contingent Liability Profile of the Federal Government for the period, 2013-2017.

Table 8.1: FGN Contingent Liabilities, 2013-2017 (₦' Billion)

S/N	Liability Type	2013	2014	2015	2016	2017
1.	AMCON Guarantee	1,742.00	-	-	-	-
2.	Local Contractors Debts	233.942	233.942	233.942	159.287	-
3.	Federal Mortgage Bank of Nigeria	32.00	32.00	6.91	5.24	5.238
4.	Nigerian Export-Import (NEXIM) Bank	-	39.40	39.40	61.00	15.250
5.	FCDA – Katampe Infrastructure Project			7.441	7.441	7.441
6.	Nigeria Mortgage Refinance Company Plc			8.00	8.00	7.583
7.	Lekki Port LFTZ Enterprise – Lekki Deep Sea Port	-	157.60	157.60	-	-
8.	World Bank Partial-Risk Guarantee in support of Azura-Edo IPP	-	-	46.689	72.29	72.285
9.	Pension Arrears for MDAs	1,271.062	1,231.035	1,156.49	1,132.21	1,043.535
	Total	**3,279.00**	**1,693.977**	**1,656.467**	**1,445.47**	**1,151.332**

Source: DMO

9.0 RISKS TO THE MEDIUM-TERM OUTLOOK

Having recovered from recession and posting five consecutive quarters of positive growth, the Nigerian economy has made firm recovery from an economic recession. The consolidation of this recovery is expected to continue over the rest of this year, with FY 2018 growth now projected at 2.1%. Nevertheless, risks likely to slow the pace of growth or overturn the progress made thus far persist. These risks exist both within the local environment and the global economy and have already curtailed the medium-term economic forecasts set in the ERGP. Consequently, in developing the 2019-2021 fiscal strategy, critical risks have been identified, reviewed and assessed, and mitigating strategies proposed.

9.1 Global Economic Trends & Geo-Political Tensions

The global economy is characterized by uncertainty. However, the sluggish economic recovery is expected to pick up pace while the global political terrain is expected to stabilize. According to the IMF's World Economic Outlook (WEO) of October 2018, world economic growth is projected to remain steady at its in 2017 level of 3.7% in 2018 and 2019. Advanced economies are projected to grow at a slower rate of 2.4%, Thus, prospects for a strong and sustained recovery in advanced economies over the medium term are limited due to persistent structural constraints hindering productivity increases. In view of the interconnectedness of the global economy, the potential for contagion effects, should these risks materialise, must be considered. The tit-for-tat imposition of tariffs between the US and China, the world's two biggest economies, may blossom into a full-scale trade war, which could potentially have a damaging economic effect on projected global economic growth rate.

The move towards protectionism as more economies adopt inward-looking trade strategies is a threat to international economic cooperation. Factors that could drag down growth include: escalating political and trade tensions, protectionism (as earlier mentioned) and 'waning popular support for global economic integration'. As trade agreements, most significantly, the ongoing, contentious Brexit talks, following the UK's withdrawal from the European Union, are redrawn, ripple effects could adversely affect emerging economies like Nigeria. To mitigate these risks, the ERGP balances an outward-looking export-led strategy with policies and programmes designed to take advantage of Nigeria's large population by stimulating domestic economic activity to address local needs.

9.2 International Oil Market Developments

9.2.1 Oil Prices

Oil prices have shown signs of significant recovery in 2018 more than it has ever been since the price collapse in late 2014 in the medium term. The recent rally in prices, from lows of $30 per barrel and below in early 2016 to 2018 average price (Jan – Aug) of circa $72 per barrel, was driven by constrained oil supplies resulting from OPEC production cuts. The ramping up of non-OPEC supplies in the medium term, especially from US shale oil production as well as the threats by Russia to increase production volumes, is expected to have a dampening effect on future price increases, especially as cost of shale production continues to decline and some OPEC member countries are tempted to increase production beyond allotted quota in the face of rising oil price. Thus, the medium-term outlook is for prices to hover close to an average $65 per barrel mark. To mitigate this risk, Government will continue to adopt a conservative benchmark for oil price in its budget formulation and build up buffers to safeguard against price and quantity shocks.

9.2.2 Oil Demand & Supply Risks

Following its June, 2018 meeting, OPEC member countries including Russia agreed to boost supply. The implementation of US sanctions on Iran as well as the outcome of the US trade tensions with China could threaten global supply and will most definitely have an impact on oil supply.

Conservative projections for global economic growth over the medium-term point towards a moderate increase in oil demand. The International Energy Agency (EIA) forecasts global oil demand is expected to rise by 1.5mbpd in 2018. Emerging economies in the Asia region are expected to drive most of the growth in demand as they gradually regain momentum in output growth. In response to the supply glut arising from an oversupply of product into the oil market, OPEC member countries agreed to production cuts, excluding Nigeria and Libya, which were exempt from the agreement. Compliance with the cuts led to a moderation in supply and corresponding increase in prices. However, there is concern about the impact of increasing production from both countries on prices in addition to the increase in output from non-OPEC countries. OPEC has signaled its intent to largely maintain the current agreements and be prepared to counter balance any aggressive push by the US to increase its production. On balance, supply is projected to outstrip demand in the medium term. Beyond 2020, oil supply growth is expected to stall unless much needed new investments in the oil industry come onstream.

On Supply side, further declines and supply shortages in Venezuela, Libya and Iran are envisaged. Also, reported outage at Canada's syncrude upgrader has strained the North American Oil market. At present, Nigeria's oil production is below target, but when the Petroleum Industry Bills are progressively signed into laws, deferred investments in the industry are expected to materialise and result in increased production. Efforts to ensure peace and clean up polluted communities in the Niger Delta region will also contribute to production increases. Overall, no major disequilibrium in supply and demand is expected in the global oil industry over the medium term.

9.3 Exchange Rate Risks

Over 90% of Nigeria's foreign exchange earnings come from crude oil production and export. Consequently, a prolonged oil price shock will lead to a steep depreciation of the Naira against the US Dollar, and constrain businesses given the reliance on imports of capital goods and other production inputs. To address these risks in the past, the Central Bank of Nigeria has resorted to managing the demand for forex through sanctioned channels. The CBN is seeking to build up foreign reserves to enhance its capacity to manage future shocks. On the demand side, the rebalance in the debt management strategy towards external borrowing implies an increase in exposure to foreign exchange risk as debt service obligations rise. This risk is however being addressed by favouring borrowing at concessional rates under long-term borrowing arrangements.

9.4 Risks to Non-Oil Revenue

Various reforms to improve Nigeria's revenue profile, especially those targeted at increasing earnings from non-oil revenues are on-going. Given the fragility of the recovery, great care is being applied to ensure that the return of business enterprises to sustained profitability is not jeopardised. Constraints to doing business in Nigeria are being addressed and work already carried out in this regard will be expanded over the medium term. Investments in infrastructure, particularly in power and transport, are also being prioritised to remove the structural impediments to growth.

Efforts are on-going to improve GOEs' revenue performance by reviewing their operational efficiencies and cost-to-income ratios, and generally ensuring they operate in a more fiscally responsible manner. Government shall consider legislative amendments to laws / GOEs enabling Acts which contravene the 2007 Fiscal Responsibility Act. Some other initiatives to boost non-oil revenues would also require legislative actions, and therefore robust collaboration between the Executive and Legislature is required to push through these amendments.

Ongoing strategies such as the elimination of multiple taxes and deployment of trained tax officers to collect revenues will be sustained and are expected to result in increased compliance and a widening of the tax base. An increase in the VAT rate on luxury items from 5% to 15% is also contemplated. Customs revenues are also targeted for increase as leaks are plugged and modernisation reforms in the Nigeria Customs Service are implemented.

9.5 Sensitivity of Budget aggregates to Macro-economic conditions

The 2019 – 2021 MTEF/FSP relies on macroeconomic and fiscal forecasts which are important for FGNs policy and decision making. The macroeconomic and fiscal forecasts in this fiscal strategy paper as well as the Budget to follow therefrom, are based on information available at the time of preparation, which also informs assumptions and professional judgments.

The revenue and expenditure estimates and projections contained in this document and the planned 2019 budget are based on a number of economic and other parameters. Should the economic outlook differ from that presented in the 2019 – 2021 MTEF/FSP, the revenue and expenditure estimates and projections would also change.

Thus, in the event that unanticipated changes in economic conditions occur, the impact of such change(s) will flow through to FGNs expenditure and revenue forecasts. This is particularly worrisome given the significant proportion of non-discretionary expenditure to total expenditure. To minimize this risk, the medium-term revenue forecast relies significantly on observed historical relationships between the variable factors. Should the risk materialize, however, Government may have to cut planned expenditures.

9.6 Transition from Development Aid Arrangements

Following Nigeria's reclassification as a middle-income country in 2014, Nigeria's relationship with several development partners is in transition. Nigeria has crossed the threshold for access to the International Development Association (IDA) funding of the World Bank, the African Development Fund (ADF) - the soft-loan window of the African Development Bank (AfDB), and other development partners which apply similar parameters for determining access to concessional financing. With Global Alliance for Vaccines & Immunisation (GAVI)extending Nigeria's transition from 2022 to 2028, the Federal Government has inaugurated a Technical Working Group for the Nigeria Aid Transition Plan (TWG-NATIP), whose mandate is to develop a comprehensive strategy for addressing the funding gap that may arise with the scaling down of development partner funding to Nigeria. The funding gap created by the gradual withdrawal of donor funding to critical programmes of government would therefore require additional government resources to cover same. In view of the potential fiscal and other implications of these changes, including larger debt burden to ensure sustainable development in Nigeria, Government is adopting an orderly aid transition.

The analysis of the above risks, as well as others, is summarized in Table 9.1

Table 9.1: Risks Likelihood, Impact and Mitigation Strategies

Risk	Likelihood (H/M/L)	Impact (H/M/L)	Mitigation
Domestic oil production shocks	M	H	Government's commitment to dialogue has shown its engagement strategy in the Niger-Delta has led to significant reduction to incidence of crude oil shut ins to oil production due to militancy. This will be sustained, while implementing lasting solutions to the Niger-Delta agitations. It is expected that production cuts due to militancy will become history over the medium term, except in the event of technical breakdown or force majeure.
Oil price shocks	M	H	The main fiscal tool to address this is the continued adoption of a conservative oil price benchmark for fiscal projections over the medium term.
Foreign Exchange Supply / Rate Risk	M	H	The exchange rate gap is narrowing. With earnings from crude oil stabilising, the CBN policies to liberalize the FX market has curb speculative activities, meeting forex demands while building external reserves, which has grown significantly over the last two years.
Failure to meet non-oil revenue projection	M	M	Key legislative amendments required to operationalise some of the specific interventions targeted at improving the IGR. Collection efficiency of major revenue generating agencies will also be improved upon. In addition, efforts are on-going to improve GOEs' revenue performance by reviewing their operational efficiencies and cost-to-income ratios and generally ensuring they operate in more fiscally responsible manner.
Development Aid Transition – especially Vaccine Financing	L	H	the Federal Government has inaugurated a Technical Working Group for the Nigeria Aid Transition Plan (TWG-NATIP), whose

			mandate is to develop a comprehensive strategy for addressing the funding gap that may arise with the scaling down of development partner funding to Nigeria.
Food shortage due to farmers herders clash and other environmental factors.	M	H	Increased security deployments to crisis prone areas, working with states and local communities to deploy peace-building & dialogue mechanisms. The government has also moved swiftly to constitute the National Food Security council, with Mr. President as Chairman. The council's broad objective is to: develop sustainable solutions to the farmers-herders clashes; climate change and desertification; grazing areas and lakes, rivers and other water bodies; oil spillage and its impact on Niger Delta fishing communities; piracy and banditry; agricultural research institutions and extension services.
Natural disaster	L	H	The FGN will maintain a minimum balance of N20bn in the ecological funds account for immediate emergency response in the event of a natural disaster.
Insurgency	M	H	A twin track approach of dialogue and military force shall be deployed in the event of an upsurge in major security violations.
Failure of Power Sector Recovery Programme	H	H	A $2.6bn World Bank facility (of which $1bn is a performance – based loan, designed as a budget support) to support the implementation of the FGN PSRP is under negotiation. Talks are also ongoing with AfDB and other DFI's to raise additional funding. Other government initiatives to restructure the sector and return it to viability are also being implemented as part of the programme.