

FOR CONSULTATIVE PURPOSES ONLY



2019 – 2021 MEDIUM TERM EXPENDITURE FRAMEWORK & FISCAL STRATEGY PAPER



PUBLIC CONSULTATION WITH CSO'S, MEDIA, ORGANISED
PRIVATE SECTOR & THE **GENERAL PUBLIC**

SEN. UDOMA UDO UDOMA, CON

Hon. Minister, Ministry of Budget & National Planning

Thursday, 18th October, 2018



OUTLINE

- 1 Introduction
- 2 Global Outlook: Recent Developments & Prospects
- 3 The Nigerian Economy: Implications of Global and Domestic Developments
- 4 Underlying Assumptions driving the Macroeconomic Parameters and Targets for the Medium Term Expenditure Framework (MTEF)
- 5 Overview of the 2019 – 2021 MTEF
- 6 Conclusion



Background & Context

- The Nigerian economy emerged from recession in Q2 2017, and the macroeconomic environment has stabilized and is recovering gradually.
- This has renewed confidence in the country's growth prospects.
- The Economic Recovery and Growth Plan (ERGP), which underpins government's economic recovery actions, is the basis for medium term fiscal strategy to achieve sustained economic growth, diversification and social inclusion.



Background & Context .../2

- ❑ **The 2019 - 2021 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP)**
 - outlines FG fiscal policies/ strategies and macroeconomic projections for 2019 - 2021
 - Provides the broad framework for the annual budget in line with the Fiscal Responsibility Act (FRA) 2007

- ❑ The key thrusts of the 2019 - 2021 MTEF/FSP are consistent with the goals of **The ERGP**.
 - *aimed at sustaining growth and diversifying the productive base of the economy*

- ❑ The MTEF/FSP also reflects the key ERGP execution priorities and overarching objectives.

GLOBAL OUTLOOK: RECENT DEVELOPMENTS AND PROSPECTS



GLOBAL ECONOMIC OUTLOOK

Global economic recovery is projected to **remain steady** at its 2017 level of **3.7%** in 2018 and 2019.



Sub-Saharan Africa is projected to continue to **grow rising** from 2.7% in 2017 to **3.1% and 3.8%** in **2018 and 2019** respectively.



GLOBAL ECONOMIC OUTLOOK .../2

- The steady rate of global economic recovery is based on the expectations of investment rebound resulting from improved investor confidence, strengthening commodity prices, rising aggregate demand and accommodative monetary policy.
- The forecast also reflects the negative effects of rising trade barriers, tightening of monetary policy, reversal of capital flows to emerging market economies, geopolitical tensions, and higher oil import bills.
- Growth in advanced economies is expected to decline from 2.4% in 2018 to 2.1% in 2019.



GLOBAL ECONOMIC OUTLOOK .../3

- In the Euro area, growth is projected to slow down from 2.4% in 2017 to 2.0% in 2018 and 1.9% in 2019.
- Emerging Market and Developing Economies (EMDES) in Asia are expected to maintain their robust performance, growing at 6.5% in 2018 and 2019.



GLOBAL ECONOMIC OUTLOOK .../4

| | 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 | | | |

□ In the United States, near-term momentum in the economy is expected to strengthen temporarily, with growth projected to rise from 2.2% in 2017, to 2.9% in 2018. In 2019, growth will slow down to 2.5%.

- US withdrawal from Trans Pacific Partnership (TPP), its all-out trade war with China and ongoing renegotiation of other trade agreements are threats to the fragile global growth recovery.
- Following the announcement in September that the South African economy (Africa's second largest economy after Nigeria) had fallen into a recession, growth projection was downgraded to 0.8% this year, down from the initial projection of 1.5% in April.

The Nigerian Economy: Implications of Global & Domestic Developments



Domestic Developments

- Macroeconomic stability has been largely achieved. Growth is expected to increase from 0.8% in 2017 to 2.1% in 2018 and 3.01% in 2019 with the continuing implementation of the ERGP as well as an improved outlook for oil prices.
- Employment growth usually slows down during recession and takes some time to recover. Therefore, it is not surprising that the National Bureau of Statistics data shows that unemployment and underemployment remain high in Nigeria.
- We expect more diversified and inclusive growth over the medium-term, and reduction in the rate of unemployment, as we continue to implement the policies and programmes of the ERGP.



Domestic Developments .../2

- Considerable success has been recorded in containing the insurgency in parts of the Northeast, with economic activities recovering.
- Recurring conflicts between farmers and herdsmen in some parts of the country as well as incidence of flooding have affected agricultural production. As a result, while the agriculture sector grew in real terms by 3.0% in Q1 2018, it only grew by 1.19% in Q2 2018.
- Militancy in the Niger Delta has generally abated, although breaches of pipelines still regularly occur. This was partly responsible for the production level dropping to 1.84mbpd in the 2nd quarter from 2mbpd in the first quarter.



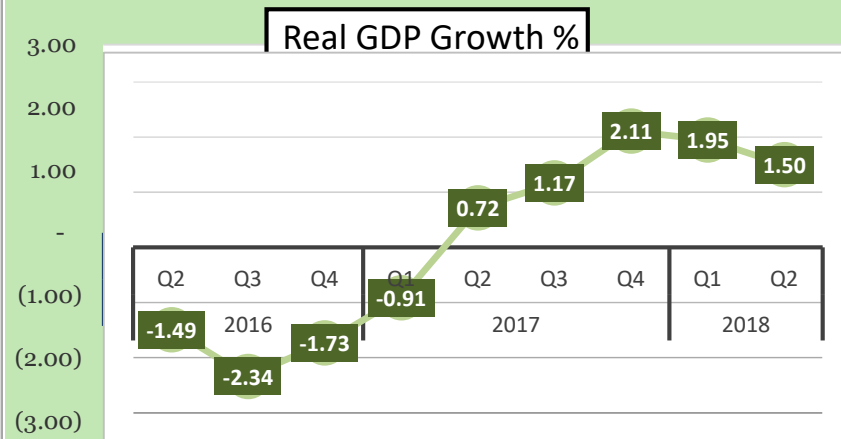
Domestic Developments .../2

- Inflation is beginning to inch up, after 18 consecutive months of decline, in Aug (11.23%) and Sept. (11.28%) as the base effect has begun to wear off.
- The forthcoming 2019 elections may also create concerns for some economic actors; this could have an impact on the rate of Foreign Portfolio Investments.

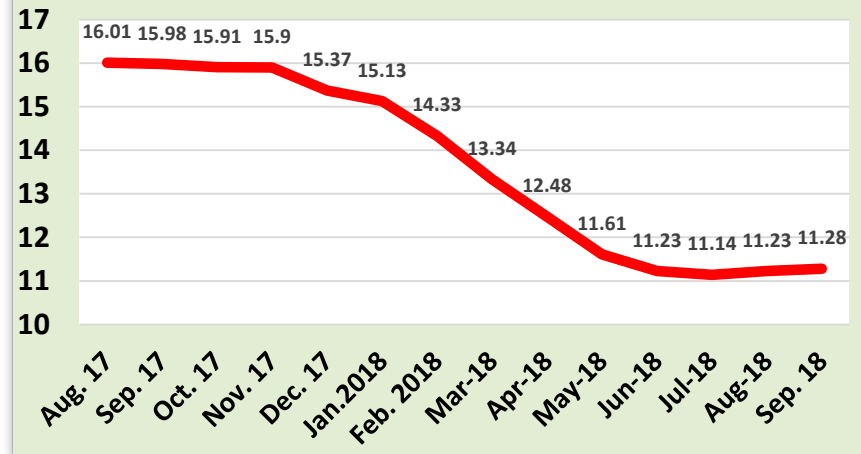


Domestic Developments .../3

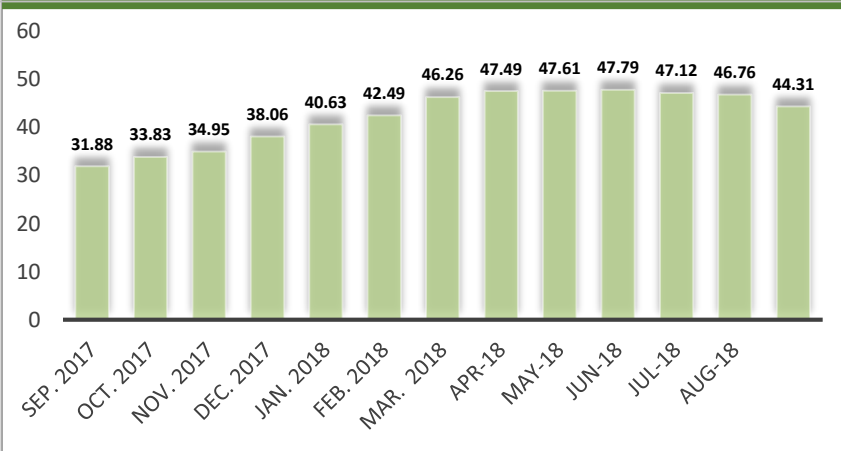
GDP growth (%)



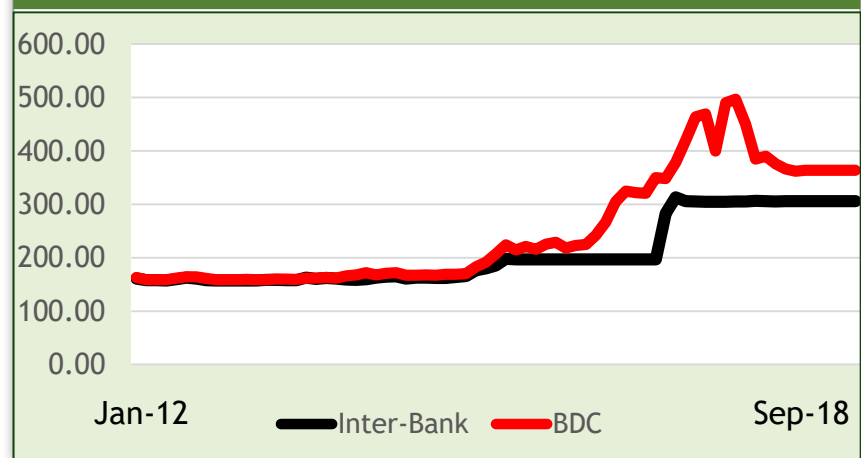
Inflation (%)



Foreign Reserves



Exchange rates



Underlying Assumptions driving the Macroeconomic Parameters & Targets for the MTEF



Key Assumptions & Macro-Framework of 2019 – 2021 MTEF

The medium-term revenue and expenditure framework is driven by key parameters and macroeconomic projections.

| | Description | 2018 Budget | Actuals as at Q2 | 2019 Projection | 2020 Projection | 2021 Projection |
|----------|--|------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| 1 | Oil Production Volume* (mbpd) | 2.3 | 1.90 ** | 2.30 | 2.44 | 2.62 |
| 2 | Exchange Rate (N/US\$) | 305 | 305.95 | 305 | 305 | 305 |
| 3 | Inflation | 12.4 | 11.28⁺ | 9.98 | 9.43 | 9.58 |
| 4 | Nominal GDP (N bn) | 113,088 | 59,164 | 139,811 | 154,110 | 168,932 |
| 5 | GDP Growth Rate (%) | 3.5% | 1.50% | 3.0% | 3.6% | 3.9% |

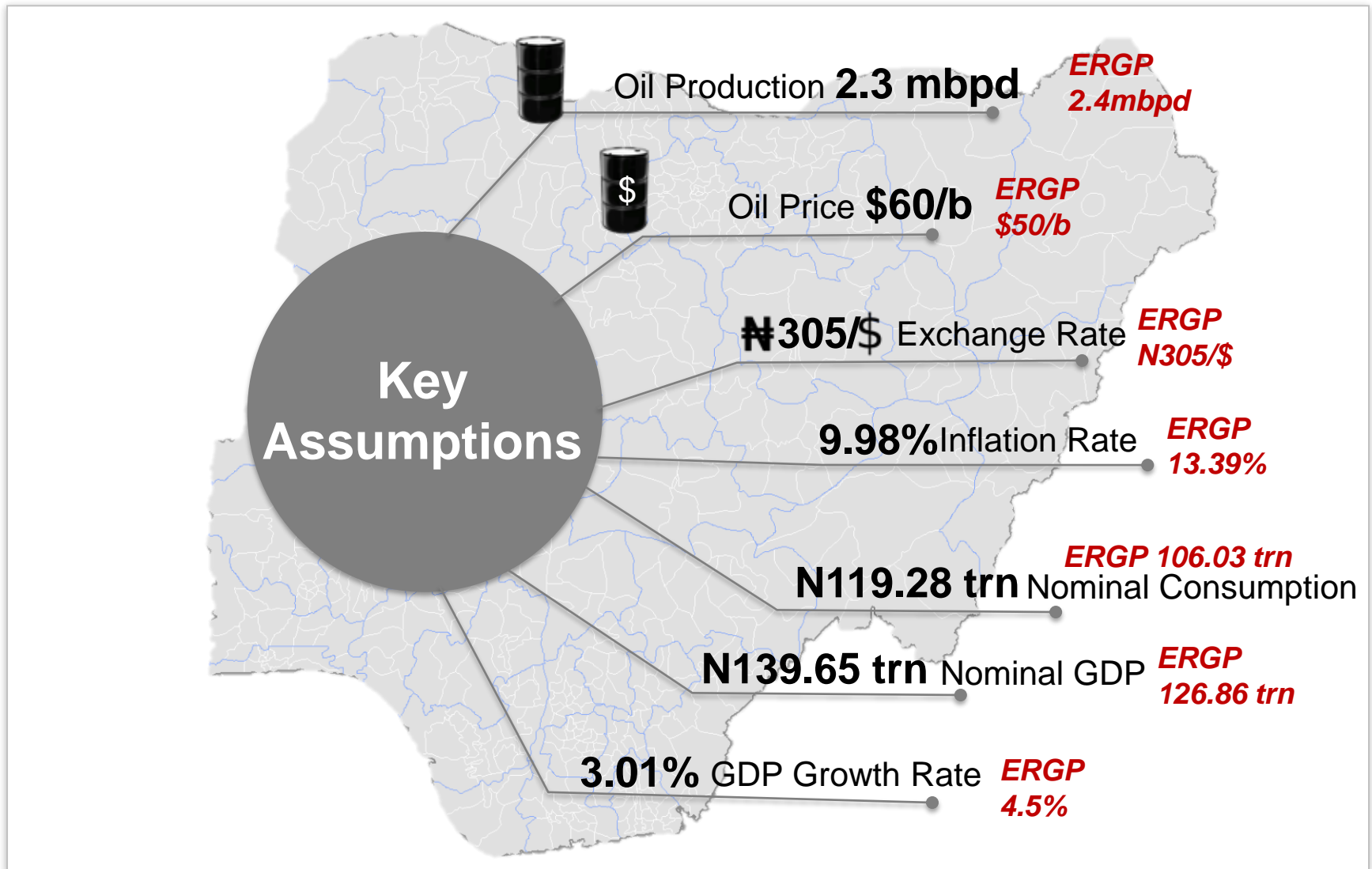
Source: MBNP, NNPC, BOF, NBS

*Includes Condensates **Production has reached 2.15 as of Sept. 2018 .

⁺September, 2018 inflation



Key Assumptions & Macro-Framework of 2019 Budget



Overview of the **2019 – 2021** **MTEF**



2019 - 2021 MTF – An Overview

An Overview of the Revenue Framework

| FISCAL ITEMS | | 2018 Budget (As Passed) | 2019 Proj. | 2020 Proj. | 2021 Proj. |
|--|--|----------------------------|--------------------------|--------------------------|--------------------------|
| Budget Oil Production Volume Net Incremental Oil Production 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 |

Source: BOF, NNPC, NCS, MBNP, NBS, FIRS, DPR



2019 - 2021 MTF – An Overview .../2

An Overview of the Expenditure Framework

| FISCAL ITEMS | | 2018 Budget (As Passed) | 2019 Proj. | 2020 Proj. | 2021 Proj. |
|--|--|----------------------------|--------------------|-------------------|--------------------|
| Budget Oil Production Volume Net Incremental Oil Production 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 | 506,860,342,965 | 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 | 220,000,000,000 | 220,000,000,000 | 220,000,000,000 |
| RECURRENT (NON-DEBT) | | 3,516,477,902,077 | 4,753,409,587,691 | 4,649,104,287,792 | 4,871,541,825,974 |
| a | Personnel Costs (MDAs) | 2,118,267,388,701 | 2,248,253,637,544 | 2,360,666,319,421 | 2,478,699,635,392 |
| b | Personnel Costs (GOEs) | | 160,504,766,016 | 166,434,138,437 | 171,722,828,635 |
| c | Overheads (MDAs) | 246,486,583,989 | 246,486,583,989 | 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 | 527,071,579,377 | 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 | 434,494,211,778 | 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 | Transfers 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 | 2,793,593,789,919 | 2,383,904,809,114 | 2,568,785,720,548 |
| a | Capital Supplementation | 377,600,000,000 | 288,450,000,000 | 288,450,000,000 | 288,450,000,000 |
| b | Capital Expenditure in Statutory Transfers | 264,213,646,515 | 255,278,200,781 | 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 | 1,333,933,668,033 | 1,467,327,034,836 | 1,614,059,738,320 |
| 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 | 2,538,315,589,138 | 2,126,188,604,736 | 2,281,739,738,320 |
| TOTAL FGN BUDGET (Excluding GOEs Budget & Project-tied Loans) | | 9,120,334,988,226 | 8,651,222,445,717 | 8,986,689,037,153 | 9,484,180,578,858 |
| TOTAL FGN BUDGET | | 9,120,334,988,226 | 10,162,599,632,886 | 9,811,817,284,893 | 10,341,165,355,384 |

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

Source: BOF, NNPC, NCS, MBNP, NBS, FIRS, DPR



2019 - 2021 MTFE – An Overview .../3

An Overview of Deficit, Financing & Critical Ratios

| FISCAL ITEMS | 2018 Budget (As Passed) | 2019 Proj. | 2020 Proj. | 2021 Proj. |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Budget Oil Production Volume Net Incremental Oil Production 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 | 8,651,222,445,717 | 8,986,689,037,153 | 9,484,180,578,858 |
| TOTAL FGN BUDGET | 9,120,334,988,226 | 10,162,599,632,886 | 9,811,817,284,893 | 10,341,165,355,384 |
| Fiscal Deficit (excluding GOEs Budget & Project-tied Loans) | (1,954,464,993,775) | (1,684,233,396,086) | (2,895,414,369,110) | (2,522,679,661,650) |
| Total Fiscal Deficit | (1,954,464,993,775) | (2,240,249,536,334) | (2,895,414,369,110) | (2,522,679,661,650) |
| 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%) | (1.20%) | (1.88%) | (1.49%) |
| Capital Expenditure as % of Non-Debt Expenditure | 45% | 36% | 33% | 33% |
| Capital Expenditure as % of total FGN Expenditure | 34% | 27% | 24% | 25% |
| Capital Expenditure (Exclusive of GOEs Capital & Project-tied loans) as % of FGN Expenditure | | 20% | 21% | 22% |
| Recurrent Expenditure as % of total FGN Expenditure | 66% | 73% | 76% | 75% |
| Debt Service to Revenue Ratio | 28% | 31% | 38% | 35% |
| Deficit as % of total FGN Revenue | 27% | 32% | 48% | 36% |
| ADDITIONAL FINANCING | | | | |
| a Privatization Proceeds | 306,000,000,000 | 172,474,317,643 | 126,522,715,909 | 46,351,702,042 |
| b Non-Oil Asset Sales | 5,000,000,000 | - | - | - |
| c Multi-lateral / Bi-lateral Project-tied Loans | | 556,016,140,249 | - | - |
| d New Borrowings | 1,643,464,992,872 | 1,511,759,078,443 | 2,768,891,653,201 | 2,476,327,959,608 |

Conclusion



Conclusion

- We have accelerated 2018 budget implementation to maintain budget process credibility, enhance GDP growth and promote social inclusion.
- The draft 2019-2021 Medium Term Fiscal Framework shows that Nigeria faces significant medium-term fiscal challenges, especially with respect to revenue generation.
- Thus, key reforms will be implemented with increased vigour to improve revenue collection and expenditure management.
- Achieving fiscal sustainability and macro-fiscal objectives of government will require bold, decisive and urgent action.



Thank You!