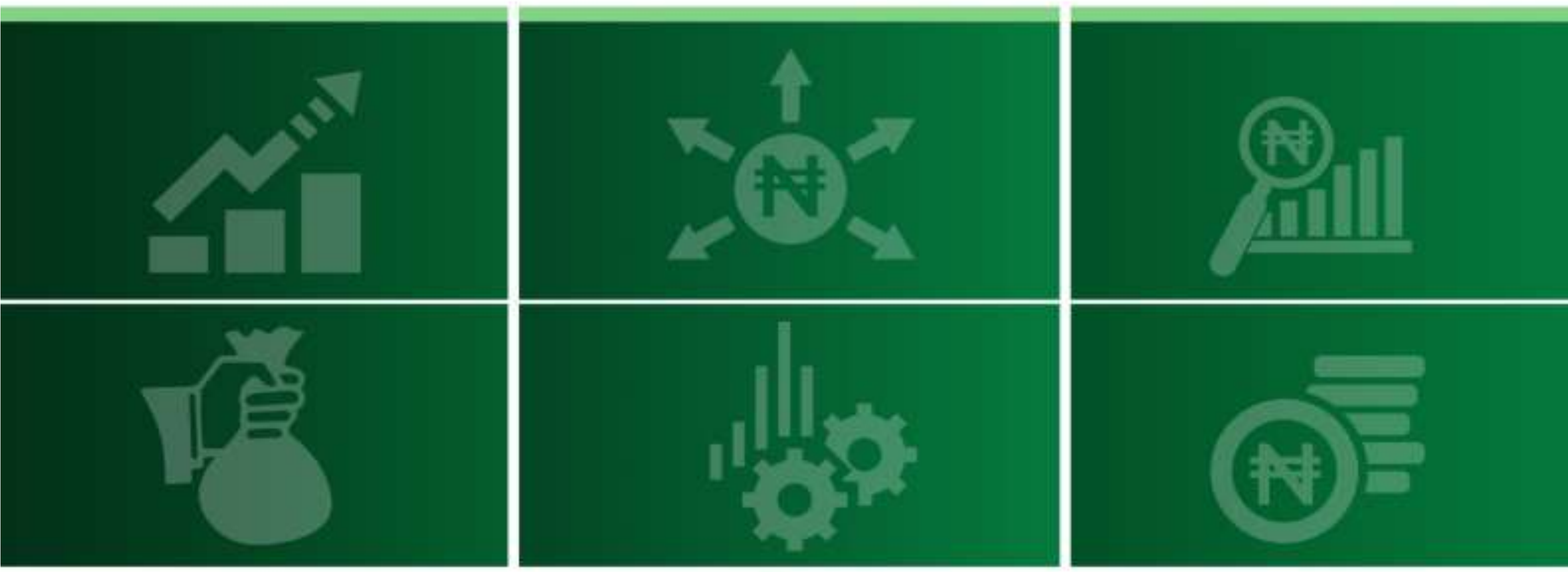
THE 2018-2020 Medium Term Expenditure Framework and Fiscal Strategy Paper



Budget Office of the Federation
Federal Ministry of Budget & National Planning
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ACRONYM	DESCRIPTION
ADB	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
CCT	Conditional Cash Transfer
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
GEEP	Government Enterprise and Empowerment Programme
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
INEC	Independent National Electoral Commission
IPPIS	Integrated Personnel and Payroll Information System
JV	Joint Venture
LPFO	Low Pour Fuel Oil
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
NDDC	Niger Delta Development Commission
NESI	Nigerian Electricity Supply Industry
NIRP	Nigeria Industrial Revolution Plan
NJC	National Judicial Council
NNPC	Nigerian National Petroleum Corporation
NPV	Net Present Value
NSCIP	National Supply Chain Integration Project
NSIA	Nigerian Sovereign Investment Authority
OAGF	Office of the Accountant General of the Federation
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
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
SIP	Strategic Implementation Plan
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
STEM	Science, Technology, Engineering and Math
SWV	Service Wide Votes
TPP	Trans-Pacific Partnership
TSA	Treasury Single Account
UBEC	Universal Basic Education Commission
UK	United Kingdom
USD	United States Dollar
USA	United States of America
VAT	Value Added Tax
VSF	Victims Support Fund
WEO	World Economic Outlook

1.0 INTRODUCTION

This document outlines Government's economic agenda, fiscal policies, as well as projected incomes and expenditures for the period 2018-2020. Section 11 of the Fiscal Responsibility Act (FRA), 2007 mandates the preparation of the Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP). The MTEF/FSP is composed of the macroeconomic framework, fiscal strategy and medium term fiscal framework. The macroeconomic framework provides analysis of key global and domestic macroeconomic trends of recent years, fiscal effects, policy responses, future policy direction and macroeconomic projections and assumptions underpinning the medium term fiscal framework.

The MTEF/FSP communicates the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities of the government over the three-year period. It also details the plans for achieving government's defined objectives, and highlights the key assumptions underpinning revenue projections and fiscal targets as well as potential fiscal risks over the medium term. Furthermore, it articulates the nature of Federal Government's debt liabilities, their fiscal significance, and measures aimed at reducing them. The MTEF also provides the basis for the preparation of revenue and expenditure estimates for the Annual Federal Budget. Hence, the MTEF reflects efforts towards multi-year perspective in budgeting to allocate public resources among competing needs on a rolling basis over the medium term. The 2018-20 MTEF/FSP is drawn from the Economic Recovery and Growth Plan (ERGP) 2017-2020

The 2018-2020 fiscal strategy of Government is focused on broadening revenue receipts by identifying and plugging revenue leakages, improving the efficiency and quality of capital spending, greater emphasis on critical infrastructure, rationalisation of recurrent expenditure, and gradual fiscal consolidation to maintain the fiscal deficit below 3% of GDP as prescribed by the FRA, 2007. The key thrust of the 2018-2020 MTEF and FSP are in line with the goals of the present Administration as articulated in the ERGP 2017-2020.

2.0 ECONOMIC AND FISCAL OUTLOOK

Government recognizes that our economic growth aspirations can only be achieved in a stable macroeconomic environment. The strategies in this MTEF/FSP will seek to promote growth in the real sector, supported by policies to foster low inflation, stable exchange rates and sustainable fiscal and external balances. This necessitates alignment and internal consistency of monetary and fiscal policies to strengthen the real and external sectors of the economy.

2.1 The Global Economy: Recent Developments and Outlook

Global economic activity is projected to rebound in the medium term. World growth is expected to rise from 3.2% in 2016 to 3.5% in 2017 and further to 3.6% in 2018. This projection is predicated on the expectations of recovery in investment, manufacturing and trade. Higher commodity prices and strong global demand for oil have provided fiscal relief for commodity exporters.

Mixed results have characterized economic performance across emerging markets and developing economies. Growth in China and India remain strong, reflecting continued policy support, whereas Brazil remains mired in a deep recession and geopolitical factors hold back growth in parts of the Middle East and Turkey.

The emergence of a new President in the United States (US) also generated new uncertainties. US withdrawal from the global climate change agreement and the Trans-Pacific Partnership (TPP) and ongoing renegotiation of other trade agreements are threats to the fragile global trade recovery. Consumer prices in the US eased to 2.2% year-on-year in April 2017. This is the lowest inflation rate thus far this year due to a slowdown in energy, transport and health cost. China's trade surplus fell to US$38.5 billion in April 2017 from USD 39.16 billion surplus a year earlier but above market consensus of a US$35.50 billion surplus, as exports rose less than imports. In the review period, sales grew by 8.0% from a year earlier to US$180 billion. In yuan-denominated terms, exports increased by 14.3% from a year earlier.

Table 2.1: Global Economic Growth (%)

	Estimate	Projections	
	2016	2017	2018
World Output	3.2	3.5	3.6
Advanced Economies	1.7	2.0	1.9
United States	1.6	2.1	2.1
Euro Area	1.8	1.9	1.7
Japan	1.0	1.3	0.6
Emerging Market & Developing Economies	4.3	4.6	4.8
China	6.7	6.7	6.4
India	7.1	7.2	7.7
Brazil	-3.6	0.3	1.3
Sub-Saharan Africa	1.3	2.7	3.5
South Africa	0.3	1.0	1.2

Source: IMF July WEO

Unexpected developments such as the British vote to leave the European Union (EU) fuelled political and economic uncertainty in the global markets, which could pose significant macroeconomic fallouts. Initial market reactions to the vote were severe as stock prices around the world collapsed, the yield of government bonds of EU periphery countries increased, and the value of the Pound Sterling against the U.S Dollar tanked 10%, its sharpest one-day decline in many years. Again, with the effects of the Brexit still unfolding, the extent of its medium to longer term implications on the global stage remains unknown.

Despite the geo-political challenges within the Euro-zone, recent data shows that industrial output in the area increased by 1.9% year-on-year in March 2017. Within the zone, the highest growths were registered in Estonia (14.8%) and Latvia (10%). A decrease of -2.2% was observed in the Netherlands.

On the African continent, there is generally strong recovery on the back of higher commodity prices. Scheduled elections over the medium term in several African countries however raise concerns about political instability, which could in turn create economic dislocations.

2.2 The Nigerian Economy: Implications of Global developments and Domestic constraints

The economy slipped into recession at the end of second quarter 2016 triggered by the decline in oil price from mid-2014. Attacks on oil pipelines and production facilities by militants in the Niger Delta, further reduced production from 2.1mbpd in January to 1.82mbpd average for the full year 2016. The decline in commodity prices laid bare structural weaknesses plaguing the economy including uptick in inflation, monetary liquidity deterioration and slow-down in economic activity causing the economy to contract in 2016 for the first time in over 20 years. insurgency in the North East also adversely impacted agricultural output as well as economic activities in that part of the country.

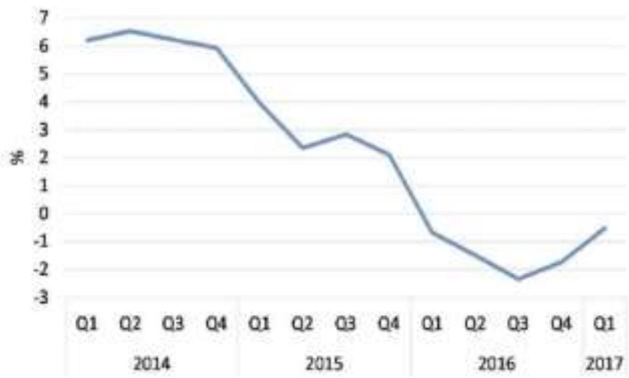
The massive decline in the nation's foreign exchange (FX) earning hampered local manufacturing capacity and was tending to a prospect of a disorderly currency depreciation as the Central Bank worked towards preventing a sharp decline in foreign reserves. To ease the FX crunch in the economy, the Central Bank announced on April 24, 2017 the creation of an FX trading window for investors and exporters where they can trade Naira at a market-determined rate. This appears to have significantly improved FX supply from non-CBN sources and helped to stabilize the market. Nevertheless, the persisting scenario of multiple N/$ exchange rates remains a source of concern to market operators and prospective investors.

Recent economic indicators suggest that growth is slowly picking up and public finances are improving as government is intensifying the implementation of the Economic Recovery and Growth Plan (ERGP).

2.2.1 Growth

As noted earlier, decline in economic growth since the second quarter of 2014 culminated in a recession at the end of the second quarter 2016 when the economy experienced two consecutive quarters of negative economic growth. Softer contraction in Q4, 2016 and Q1, 2017 have signalled economic recovery in 2017. The economy contracted marginally by 0.52% in Q1 2017 up from -1.73% in Q4 of 2016, and -1.58% for full year 2016, as more economic sectors are recording growth or slower rate of contraction. The oil sector contracted by 11.64% while the non-oil sector grew by 0.72% in Q1 2017, largely reflecting the growth recorded in agriculture and solid minerals, and recovery in manufacturing, construction and services sectors.

Figure: 2.1 Real GDP Year-on-Year Growth



Source: NBS

Government measures to boost the economy are yielding desired results, efforts at minimizing production disruptions and shut-ins in the oil sector are also recording successes signalling a rebound in the economy this year. Though the pace of the recovery is fragile and under pressure, government is determined to sustain the gains. Oil prices have recovered from the multi-year low observed at the start of 2016 and stabilized since end 2016 largely due to the compliance with an output cut deal reached by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries late last year. The deal was extended for another nine months in May, 2017. While the ERGP forecasts a GDP growth rate of 2.19% for 2017, the MTEF/FSP has revised this down to 1.5% for 2017 in view of current realities.

Figure 2.2 Inflation & Monetary Policy Rate Trend (%)

2.2.2 Inflation

The steady rise in general price levels since 2015 has abated. In June 2017 consumer prices increased by only 1.58% in June month-on-month, down from the 1.88% in May. Headline inflation in June was 16.10%, down from 16.25% in May, marking the fifth consecutive month in which inflation eased after continuously increasing in 2016.

At its July monetary policy meeting, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) left the monetary policy rate and all other monetary policy mechanisms unchanged, meeting market expectations. The monetary policy rate stands at 14% and the liquidity ratio at 30%. The Committee also left the asymmetric corridor of plus 200 and minus 500 basis points around the key rate unchanged and the Cash Reserve Requirements at 22.50%.

2.2.3 Unemployment and Underemployment

One major consequence of drop in output of the Nigerian economy is the attendant job losses. The underemployment rate in 2016 rose from 19.7% in Q3 to 21.0% in Q4 while the national unemployment rate increased to 14.2% in Q4, slightly up from 13.9% in Q3 in the same year.

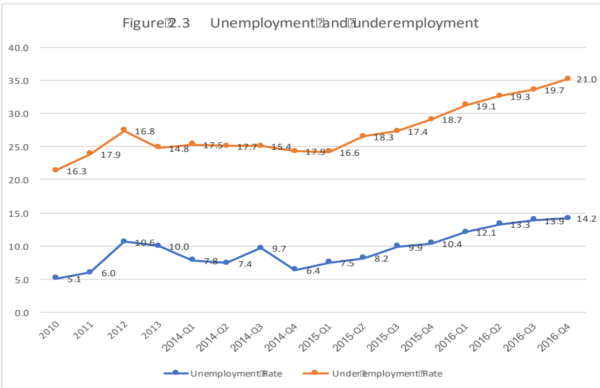


Figure 2.3 Unemployment and underemployment

Underemployment continues to be predominant in rural areas, 25.8% of rural residents were underemployed in Q4 2016 compared to 10.5% of urban residents. Given that the nature of rural jobs is largely unskilled, unemployment is more of a concern in urban areas where more skilled labour is required. The unemployment rate in the urban areas was 18.4% compared to 12.3% in the rural areas, as the preference is more for formal white-collar jobs, which are located mostly in urban centres.

3.0 REVIEW OF 2016 BUDGET PERFORMANCE

The 2016 Budget was predicated on a benchmark oil price of U$38 per barrel, oil production of 2.2 million barrels per day (mbpd), and an exchange rate of N197 to US$1.00. Based on these as well as other macro assumptions including inflation of 9.81% and 4.3% GDP Growth rate, an aggregate revenue of N3.86 trillion was projected to fund the 2016 Budget of N6.06 trillion. The deficit of N2.20 trillion (or 2.14% of GDP) was to be financed by borrowing and some recoveries from fraudulent oil and gas concessions. A Strategic Implementation Plan (SIP) with clear priorities and verifiable targets was designed to guide the implementation of the 2016 Budget.

Table 3.1 Performance of Selected Indicators and Key Parameters, 2016

S/N	Description	FY Budget	Actual
1.	Real GDP Growth (% , YoY)	4.37	-1.58
2.	Oil Production (mbpd)	2.2	1.82
3.	Oil Price ($pb)	38	42.09
4.	Inflation Rate (%)	9.81	18.55
5.	Exchange Rate (N/$)	197	305
6.	Debt Service / Revenue (%)	38	47
7.	Fiscal Deficit/GDP (%)	-2.14	-2.34

Source: BOF

The performance of selected indicators and key parameters of the 2016 budget indicated in Table 3.1 are reflective of some of the challenges in FY 2016. Some economic indicators like Revenues, GDP growth rate, exchange rate and inflation all fell below projections.

3.1 Revenue Outturns

Gross oil and gas revenue was N2,695.43 billion (N839.40 billion or 23.75% less than projected). The shortfall was mainly due to oil production shut-ins resulting from the vandalisation of strategic oil facilities including major pipelines and export terminals such as Trans-Forcados pipeline, Tebidada-Brass pipeline, Qua Iboe terminal, Trans-Niger Pipeline and Nembe Creek Trunkline by Niger Delta militants. Consequently, oil production averaged 1.82mbpd for the full year 2016. However, with lower-than-projected deductions for crude oil production costs, net oil revenue was N1,438.76 billion (FGN share - N697.80bn) – representing a shortfall of N40.73 billion. Since over 90% of the country's foreign exchange earnings come from the petroleum sector, lower foreign exchange earnings impacted adversely on the level of non-oil revenues, as significant amount of non-oil activity depend on the availability of foreign exchange. Consequently, net Non-Oil revenue was N1,462.91 billion (N1,141.94 billion or 43.8% less than projections for the year 2016).

Table 3.2 FGN Revenue Profile FY 2016 (N'Billion)

Description	Budget	Actual	Variance
Oil Revenue	717.55	697.80	(19.75)
Customs	388.99	247.42	(141.57)
CIT	867.46	457.91	(409.55)
VAT	198.24	108.72	(89.52)
FG Independent Revenue	1,505.88	237.75	(1,268.13)
Other Revenues	177.61	1,197.89	1020.28
Balance in Special Levy Account	*14.38*		*(14.38)*
Unspent Balance	*50.00*		*(50.00)*
FGN's Share of Bal. in Special Account	*10.79*		*(10.79)*
Receipts from NLNG	*95.55*	*14.26*	*(81.29)*
NNPC Refund to FGN		*69.94*	*69.94*
Share of Excess PPT		*108.72*	*108.72*
Exchange Rate differential		*179.23*	*179.23*
Others	*6.90*	*825.75*	*818.85*
FGN Retained Revenue	**3,855.73**	**2,947.49**	**(908.24)**

Source: OAGF

As at year-end, FGN's 2016 actual revenue was N2.95 trillion (76.4% of the N3.86 trillion budgeted). Oil revenue was N697.8 billion (97.2% of budget, Despite the fact that crude oil production was 17% below budget, actual oil revenues closed at 97% of budget due to slightly higher average price than the benchmark, as well as the adjustment in exchange rate from N197/$ on which the budget was based to N305/$ from Mid-2016); Company Income Tax (CIT) and Value Added Tax (VAT) collections were N457.91 billion and N108.72 billion respectively, representing 52.8% and 54.8% of amounts budgeted; while Customs collections of N247.42 billion implied a 63.6% performance. Independent revenues were most significantly less than projections – only 15.8%.

3.2 Expenditure Outturns

The 2016 Budget had an expenditure outlay of N6,060.68 billion. Actual spending was N5,358.83 billion (N701.65 billion or 11.6% short of the budget). While the recurrent spending, including provisions for debt service, was almost fully released, N77.35 billion (about 42% more than the planned spending) was used to service foreign debt. This is attributable to Naira depreciation which warrants more Naira to meet foreign debt obligations.

Table 3.3 FGN Expenditure Outturn FY 2016 (N'Billion)

Description	Budget	Actual	Variance
AGGREGATE EXPENDITURE	**6,060.48**	**5,358.83**	**(701.65)**
Statutory Transfer	**351.37**	**344.00**	**(7.37)**
Recurrent Debt	**1,475.32**	**1,384.90**	**(90.42)**
Domestic Debts & Int. on Ways & Means	1,307.40	1,236.11	(71.29)
Foreign Debts	54.48	77.35	22.87
Sinking Fund to retire maturing loans	113.44	71.44	(42.00)
Recurrent Non-Debt	**2,646.39**	**2,410.46**	**(235.93)**
Personnel Cost	1,748.33	1,689.94	(58.40)
Overhead Cost	163.39	149.28	(14.11)
Pension & Gratuities including Service wide pension	298.105	184.76	(113.35)
Other Service wide vote including Presidential Amnesty and Special Intervention Programme (Recurrent)	436.56	386.48	(50.08)
Capital Releases	**1,587.40**	**1,219.47**	**(367.93)**
Source: OAGF			

Despite the shortfall in revenue, debt service obligations and personnel costs were met. Similarly, overhead costs were largely covered. It is important to note that although capital expenditure suffered because key recurrent spending had to be met first, the amount of N1,219.47 billion released for capital under the 2016 budget is the highest aggregate nominal capital releases for a single fiscal year in Nigeria. This was achieved despite the lower oil prices and revenue shortfalls, underscoring government's commitment to investing in critical infrastructure.

3.3 Fiscal Deficit

The 2016 budget had a deficit of N2,411.34 billion (compared to budget of N2,200 billion), which was estimated at about 2.34% of GDP (slightly higher than the budget projection of 2.14%). The fiscal deficit is attributable to low revenues relative to planned spending, as explained above. Therefore, the shortfall in projected revenues was dealt with largely by cutting spending.

4.0 REVIEW OF 2017 BUDGET IMPLEMENTATION

The 2017 Budget of Recovery and Growth was designed to restore the Nigerian economy to a path of sustainable and inclusive growth. Although the 2017 Budget was prepared before the finalisation of the 2017-2020 Economic Recovery and Growth Plan ERGP (ERGP), it drew extensively from the policies set out in the ERGP. Thus, the goals and targets of the budget are set out in the ERGP. A review of the 2017 budget performance indicates reasonable progress on its implementation and achievement of some set targets. The Budget was based on the following fiscal and macroeconomic indicators:

Table 4.1: Fiscal and Macroeconomic Indicators FY 2017

S/N	Indicator	2017 Budget	2017 Actuals
1.	Real GDP Growth	1.5% (previously 2.19)	0.55% (2nd quarter 2017)
2.	Oil Production *(including Condensate)*	2.2 mbpd	1.9 mbpd (as of July 2017)
3.	Benchmark Oil Price	$44.5 per barrel	$49.8 per barrel (as of July 2017)
4.	Inflation Rate	15.7%	16.1% (as of June 2017)
5.	Exchange Rate ₦/$	305.0	305.7 (as of July 2017)

Source: BOF, NBS, CBN, NNPC

4.1 Revenue Outturns

The projected revenue for the 2017 fiscal year was N5,084.40 billion, based on the parameters adopted in the 2017-2019 MTFF. As of June 2017, N2,429.65 billion of total revenues (N2,542.20 billion) projected for the first half of the year was realised. Oil revenue was N960.87 billion against the prorata of N1,061.09 billion, implying a shortfall of 9%. Total non-oil revenues, which include Corporate Income Tax (CIT), Value-Added Tax (VAT), Customs Revenues, Federation Account Levies and Special Account balances, fell short of target by 49%. Customs revenue was the best performing non-oil revenue category with N132.97 billion of N138.78 billion collected.

As the fiscal year progresses, it is expected that non-oil revenues, especially CIT, will improve due to the seasonality in remittance of these revenue items. The slow pace of recovery in non-oil revenues is expected to gain momentum as improvements in tax collection efforts and policies to improve the environment for doing business in Nigeria yield results and spillover to the wider economy. As oil production further increases due to the relative stability in the Niger Delta region, oil revenues are expected to improve.

Table 4.2 FGN Revenue Performance (Jan –June) 2017

		2017 Approved Budget	Pro Rata (Jan-June)	Actuals (Jan-June)	Variance
		Billions of Naira			Billions of Naira
S/N	**FEDERAL RETAINED REVENUES**	**5,084.40**	**2,542.20**	**2,429.65**	**- 112.55**
A	**FGN 48.5% Share of:**	**3,503.08**	**1,751.54**	**1,313.75**	**- 437.80**
1	Oil Revenue	2,122.18	1,061.09	960.87	- 100.22
2	Minerals & Mining Revenue	1.06	0.53	-	- 0.53
3	Non-Oil Revenue:	1,379.84	689.92	352.88	- 337.04
i	CIT	807.82	403.91	157.38	- 246.53
ii	VAT	241.92	120.96	62.54	- 58.42
iii	Customs Revenues	277.56	138.78	132.97	- 5.81
iv	Federation Account Levies	45.90	22.95		- 3.32
v	Actual Balance in Special Accounts	6.64	3.32	-	- 3.32
B	**FGN Revenues (100%)**	**872.36**	**436.18**	**119.38**	**- 316.80**
1	FGN Independent Revenue	807.57	403.79	119.38	- 284.40
2	FGN Balances in Special Levies Account	14.79	7.40	-	- 7.40
3	FGN Unspent Balance of Previous Fiscal Year	50.00	25.00	-	- 25.00
C	**Others**	**708.95**	**354.47**	**996.52**	**327.66**
1	Refund by NNPC	-	-	23.31	23.31
2	Exchange Rate Differences	-	-	134.39	134.39
3	Special Distribution from ECA & PPT account	-	-	184.76	184.76
4	Receipts from NLNG	29.59	14.80	-	- 14.80
5	Recoveries	565.06	282.53	-	- 282.53
6	Settlement of state component of coupon payment	-	-	41.57	
7	Transfer from CDF to CRF	-	-	526.48	
8	Provision for foreign debt service	-	-	55.80	
9	TSA Pool A/C	-	-	3.69	
10	Mopped up Capital	-	-	26.53	
11	FGN Share of Signature Bonus	114.30	57.15	-	- 57.15

Source: OAGF

4.2 Expenditure Outturns

The delayed approval of the 2017 Budget constrained expenditures, particularly on the capital budget. Although implementation of the 2017 capital budget only came into effect after the approval of the budget in June 2017, releases on the 2016 capital budget were made till the 5th May 2017. Recurrent expenditure releases were made based on the constitutional provision that allows spending of up to 50% of the previous year's budget until the current years' budget is passed, up to June ending.

Expenditure items underperformed the targets set in the Medium-Term Expenditure Framework (MTEF). Total FGN expenditure of N7,441.18 billion was approved for the 2017 fiscal year; however, only 83% of the N3,720.59 billion projected for January to June 2017 was utilised. Expenditure outturns, especially on priority programs in the capital budget, are projected to improve significantly in the latter half of the year as revenues improve.

Table 4.3 FGN Expenditure Performance (Jan –June) 2017

		2017 Approved Budget	Pro Rata (Jan-June)	Actuals (Jan-June)	Variance
		Billions of Naira			Billions of Naira
S/N	**FGN EXPENDITURE**	**7,441.18**	**3,720.59**	**3,101.33**	**- 619.26**
A	**Statutory Transfers**	**434.41**	**217.21**	**209.02**	**- 8.19**
B	**Recurrent Expenditure**	**4,832.27**	**2,416.13**	**2,892.31**	**476.18**
1	**Non-Debt Recurrent Expenditure**	**2,990.92**	**1,495.46**	**1,947.57**	**452.11**
i	Personnel Costs	2,165.68	1,082.84	1,489.69	406.85
a	Salaries	1,884.07	942.03	1,346.41	404.38
b	Pensions & Gratuities including Service wide pension	281.61	140.80	143.28	2.47
ii	Overheads	219.84	109.92	76.54	- 33.38
iii	Service Wide Votes including Presidential Amnesty Program	215.40	107.70	381.34	273.64
iv	Refund to Special Accounts	40.00	20.00	-	- 20.00
v	Special Interventions (Recurrent)	350.00	175.00	-	- 175.00
2	**Debt Service**	**1,841.35**	**920.67**	**927.74**	**7.07**
i	Domestic Debt	1,488.00	744.00	871.94	127.94
ii	Foreign Debt	175.88	87.94	55.80	- 32.14
iii	Sinking Fund	177.46	88.73	-	- 88.73
3	**Others**	**-**	**-**	**17.00**	
i	Refund to MDAs and Banks	-	-	17.00	
C	**Capital Expenditure**	**2,174.50**	**1,087.25**	**-**	**- 1,087.25**

Source: OAGF

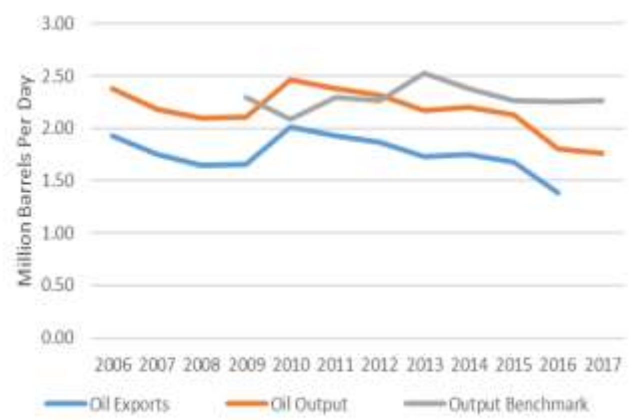
5.0 ASSUMPTIONS UNDERLYING OIL AND NON-OIL REVENUE PROJECTIONS IN 2018-20

5.1 Assumptions Underlying Oil Revenues

5.1.1 Oil Production

Nigeria has relied on revenues from crude oil sales for more than five decades. Consequently, production challenges such as crude oil theft, pipeline leakages due to vandalism and production shut-ins have continued to affect government revenues from the oil sector. For instance, there were 94 pipeline vandalized points in April 2017 compared to the corresponding period of April 2016 which recorded 214 cases. This significant improvement is attributable to Government's engagements with stakeholders in the Niger Delta region, as well as improved security arrangements. Accordingly, crude oil output and export has been far below projections in recent times Figure 5.1). Average oil production fell from 2.04mbpd in February 2016 to 1.52mbpd in August 2016 before rising to 2.2mbpd by June 2017. Oil production is expected to improve over the medium term as gains from the amnesty initiative and government's increased engagement with militants and stakeholders in oil producing communities result in increased stability in the region. In addition, progress on the passage of the Petroleum Industry Bill as well as sustained security of 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



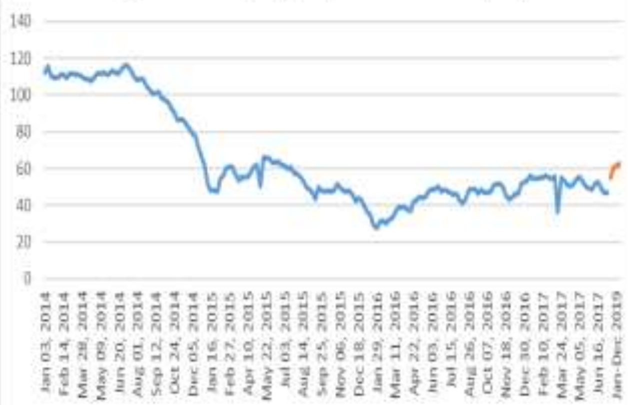
Source: NNPC, BOF, CBN

Based on the foregoing, including wide consultations with key industry stakeholders, average oil production is estimated at 2.3mbpd, 2.4mbpd, and 2.5mbpd for 2018, 2019 and 2020 respectively.

5.1.2 Oil Price Benchmark

Crude oil prices rose by 8% in the first quarter of 2017, averaging almost $53/pb. Prices are projected to range from $50 to $60/bbl in 2018 as the market regains balance, with shale production limiting larger price gains.

Figure 5.2: Bonny Light Spot Price Futures (US$)

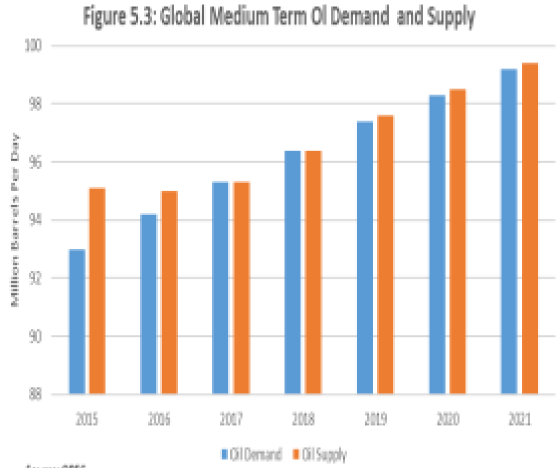


Source: JP Morgan, World Bank

The price of Nigeria's Bonny Light crude oil price rebounded from an average of $44.08 in the international oil market in 2016 to about $51.5 in the first half of 2017 (Figure 5.2). However, the market price declined by $4.21 from $54.98 in January 2017 to $50.77 in May 2017. The fall in price reflects market's impatience with the generally slow pace of global inventory drawdown, even after major oil producing countries decided late 2016 to reduce oil production by about 1.8mbpd in the first half of 2017, and slim possibility of deeper production adjustments (Figure 5.3).

The Organization of Petroleum Exporting Countries (OPEC) anticipates slightly lower growth in world oil demand in 2017 relative to 2016. Demand is expected to rise by just 1.1mbpd from 2016 levels, reaching 95.3mbpd in 2017, 96.4mbpd in 2018 and 97.4mbpd in 2018-2020 (see Figure 5.3). However, global oil supply is estimated to average 95.3mbpd and 96.4mbpd in 2017

Figure 5.3: Global Medium Term Ol Demand and Supply



Source: OPEC

and 2018 respectively. This is higher by 0.3mbpd and 1.1mbpd, year-on-year. In the 2018-2020 medium term, world oil output is projected at about 97.5mbpd. In sum, global demand is not expected to significantly outstrip supply in the medium term in spite of demand remaining robust.

The outlook for oil price remains highly uncertain. Nonetheless, positive price movements are expected in the near-term. The World Bank expects crude oil prices to reach an average of \$55pb in 2017, a 26% increase over 2016, and \$60pb in 2018 (Figure 5.2).

The increase reflects upward pressure on prices from rising oil demand, extension of OPEC/non-OPEC output cut agreements, greater compliance by producers, and supply outages among major exporters like Libya, Nigeria and Venezuela. Energy Information Administration estimates historical OPEC unplanned oil supply disruptions at 8.9mbpd as at May 2017 down from about 22.2mbpd in 2016. Disruptions were largely recorded in Iran, Libya, Nigeria, Iraq, Kuwait and Saudi Arabia (Figure 5.4). Non-OPEC production outages declined from 6.4mbpd in 2014 to 5.7mbpd in 2016, reaching 2.4mbpd by May 2017. Most non-OPEC production outages occurred in Yemen, South Sudan and Canada.

Figure 5.4: Unplanned OPEC Crude Oil Supply Disruptions (million barrels per day)

Source: EIA

On the downside, weak compliance with production cut agreements and rising output from elsewhere, especially the United States, persistently high stocks, supported by the faster-than-expected rise in U.S. shale oil production could limit the upward potential of prices, as would slower demand growth.

The benchmark oil price for the medium term was based on moving average (MA) model. The MA model de-links the benchmark price from short and medium-term fluctuations in the market price of oil. The model forecasts higher prices of \$84/b and \$73/b on the 10-year and 15-year moving averages for 2018 (Figure 5.5). However, in line with current realities in the international oil market including weakening outlook of futures prices occasioned by rising oil and unconventional oil supplies and slow economic recovery, as well as other potential downside risks, a benchmark oil price of \$45pb for 2018, \$50pb for 2019 and \$52pb in 2020 have been proposed.

Figure 5.5: Bonny Light Spot Price, 15-Year MA, 10-Year MA, Benchmark Price (Nov. 2005-July 2017)

Source: BOF, JP Morgan

The fluid dynamics of the market keeps price forecasts very volatile thus requiring regular revisions. Therefore, the Administration's strategy is to benchmark below the forecasts to cushion the budget from the effects of price fluctuations.

5.2 Non-Oil Revenue Baseline Assumptions

Over the years, Government has continued to introduce measures to broaden its revenue base and improve revenue collection. Non-oil revenue projections for the 2018-2020 period are guided by expected growth in non-oil output and improved efficiency in revenue collection. Projections were made considering the various measures to improve non-oil tax revenue, including: improved compliance and enforcement activities; implementation of the Integrated Tax Administration System project; full self-assessment regime for all taxpayers; increased deployment of ICT; and stepping up of anti-smuggling activities by the Customs Service. The underlying tax bases are as follows:

Customs collections: These are predicated on the cost, insurance and freight (CIF) value of imports, applicable tariffs, and an efficiency factor. A fairly aggressive tax elasticity was assumed to drive nominal growth of the tax base in the medium term. In addition, other policy concerns including improved implementation of a flexible 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 as a result of new strategic plans 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 nominal GDP, companies' profitability ratio, and an efficiency factor. Despite the initial lull in economic activities, ongoing efforts to improve the business environment as well as the strategic implementation of the 2017 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, are expected to positively impact projections for CIT and personal income taxes. Specifically, a 10% year-on-year improvement in collection efficiency is envisaged.

Value Added Tax (VAT): This is based on an estimate of aggregate national consumption, considering vatable items and collection efficiency. Aggregate national consumption is estimated at N90.48 trillion for 2018 from N83.84 trillion estimated for 2017, ongoing broadening of the tax base and collection efficiency. The VAT projections over the medium-term are currently based on maintaining the rate at 5% while focusing intensely on broadening the coverage. In other words, the contemplated increase in the VAT rate on luxury items has not been factored into the projections. VAT collection is projected to increase by about 42% in 2018. Government may, however, review the VAT rate within the medium-term period.

FGN Independent Revenue: Over the years, leakages and weak accountability have characterized revenues of Government Owned Enterprises (GOEs), and other revenue-generating MDAs. These challenges necessitated series of reforms including implementation of the Treasury Single Account (TSA), stipulation of a maximum cost-to-income ratio of 75%, and the ongoing review of the revenue and cost profiles of some revenue agencies. It is envisaged that these efforts, as well as the recent Executive Orders on budgets, which directs that any revenue or other funds of an Agency in excess of the amounts budgeted and duly expended shall accrue to the consolidated revenue fund of the Federal Government, will yield substantial improvements in remittances by these GOEs and MDAs in the medium term.

6.0 FISCAL STRATEGY FOR 2018 - 2020

The performance of the Nigerian economy reflects both global economic conditions and structural constraints in the domestic economy, as outlined in Section 2. Thus, rebuilding the macro-fiscal and economic fundamentals of the economy remains government's top priority, and the Economic Recovery and Growth Plan (ERGP) 2017-20, launched in April 2017, is government's blueprint. Therefore, this fiscal strategy paper highlights government's medium term fiscal objectives as well as the policies to achieve the objectives. The design of the medium term fiscal strategy is guided by contemporary events which have real implications for Government's ability to fund its expenditure obligations as well as manage its debt profile.

6.1 Medium-Term Fiscal Policy Objectives

Broadly, and in line with the goals of the ERGP 2017-20, the medium term fiscal strategy of Government is focused on the recovery of the economy and promotion of sustained inclusive growth. Specifically, government's fiscal strategy will be directed at:

i. accelerating growth, intensifying economic diversification and promoting inclusiveness;
ii. achieving macroeconomic stability;
iii. enhancing oil revenues and accelerating non-oil revenues;
iv. addressing recurrent and capital spending imbalance;
v. improving efficiency and quality of public spending; and,
vi. maintaining deficit/debts within sustainable limits.

Achieving these objectives require supportive coordinated policies – fiscal, monetary and trade policies. Thus, the medium term fiscal strategy is consistent with the Central Bank's monetary policy framework, which is designed to foster sustainable economic growth, low inflation, low interest rates, market reflective exchange rates and a strong balance of payments position. It is also in line with the Government's long-term sustainable debt strategy which ensures Nigeria's debt stock, and corresponding debt service costs, are maintained at appropriate and manageable levels.

The strategy recognizes the need to deliberately cushion the effects of adjustments on the poor and economically vulnerable in a manner that creates opportunities for job creation, productivity and inclusiveness.

6.2 Medium-Term Policies

6.2.1 Accelerating growth, intensifying economic diversification and promoting inclusiveness

Fiscal policy will be geared towards accelerating the pace of growth, intensifying economic diversification efforts and promoting inclusiveness. The economy is expected to recover and grow over the medium term, 3.5%, revised downward from the 4.8% in the ERGP for 2018 but still reaching 7% in 2020.

To achieve the expected broad-based growth, the economy needs higher levels of private investment. Fiscal stimulus will be applied in the medium term through a package of spending to stimulate domestic demand and business investment in the economy. In this regard, building on the 2017 Budget initiatives, the expansionary drive on public sector infrastructure spending will be sustained. Efforts geared towards stimulating private sector capital and participation in investments in energy, transport, housing, and agriculture will also continue. This will be supported by improvement in the implementation of capital budget and efficiency of spending generally.

Government will work towards strengthening 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.

6.2.2 Achieving Macroeconomic Stability

To achieve our growth aspirations, a key requirement is a stable macroeconomic environment with low inflation, stable (market reflective) exchange rates and sustainable fiscal and external balances. This requires that monetary, trade and fiscal policies are well aligned to ensure coherence and effective coordination. In recognition of the fact that fiscal measures are required to stabilize the macroeconomy, government will introduce appropriate policies to stem the impacts of external and domestic shocks, and catalyse domestic production.

This would further create a business environment conducive to investments, productivity and inclusive growth. The inflation rate is projected to trend downwards from 16.1% in June 2017 to single digit by 2020. It is also projected that the exchange rate will stabilize 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.

6.2.3 Enhancing Oil Revenues and Accelerating Non-Oil Revenue Generation

Efforts are being made to increase production to 2.3mbpd in 2018 and reach 2.5mbpd by

2020. This is expected to increase export earnings and revenues, and reduce fiscal deficit and debt service ratios.

Government’s strategy is to deepen engagements with stakeholders in the Niger Delta to achieve enduring peace and end attacks on oil facilities. In addition, a new cost recovery funding mechanism is being implemented for joint venture (JV) cash call arrangements. Also, pipeline security will be enhanced to attract new investments and polluted areas will be cleaned. The passage of the Petroleum Industry Governance Bill (PIGB) and introduction of new regulations consistent with the Bill are expected to reduce uncertainties and further promote new private sector investments in the oil sector. Oil revenues will be used to develop and diversify the economy, not just sustain consumption as was done in the past.

The implications of over-dependence on crude oil for fiscal sustainability underscores the need to focus more on non-oil revenue sources to finance government spending. These sources 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%.

Non-oil revenue will be enhanced 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. Whistle-blowing - 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, tax on luxury items and other indirect taxes will be introduced to capture a greater share of the informal economy while ensuring that more businesses in the informal sector are formalized.

To further increase the tax base, the VAT rate for luxury items will be raised from 5 to 15% from 2018. In addition, 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 engage non-compliant taxpayers to ensure compliance.

To boost customs collections, the transformation and modernization of the Nigerian Custom Service will be accelerated through a 2-3-year strategic plan. 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 per cent duty on the imports of equipment and machinery required for strategic sectors will be retained. The service will enhance port efficiency by introducing a single customs window, speeding up vessel and cargo handling and issuing more licences to build up 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 we 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.

6.2.4 Addressing Recurrent and Capital Spending Imbalance

In the last two years, our fiscal strategy included efforts to address the imbalance between recurrent and capital spending, which, in 2015 stood at 84% recurrent and 16% for capital. Between 2015 and 2017, there has been substantial improvement in Federal Government capital budget allocation. In line with the Strategic Implementation Plan (SIP) 2016, the share of recurrent spending has been reduced to about 69.8% and capital spending increased to 30.2% in 2016.

In the medium term, Government intends to continue to allocate at least 30% of its spending to execution of capital projects. This is in line with the ERGP. Challenges, however, remain in the effort to further reduce the proportion of recurrent expenditure, particularly personnel cost which currently accounts for about 30% of the Federal budget. The biometric verification of government employees will be accelerated and extended to all MDAs.

6.2.5 Improving Efficiency and Quality of Public Spending

Government is committed to improving the efficiency and quality of spending. Thus, public expenditure will be properly scrutinized to ensure value for money. To achieve this, the budget formulation process will be strengthened, while overhead expenditure provisions will be guided by recommendations of the Efficiency Unit, capital projects will be evaluated for consistency with ERGP Implementation Plan (ERGP-IP) as well as set performance indicators. Thus, over the next three years, the legal and regulatory framework will be strengthened to improve the relationship between expenditure and outcomes.

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 Government seed-funding in roads, housing, and agriculture, e.g., the Road Trust Fund, Family Home Fund.

6.2.6 Maintaining Deficit/Debts within Sustainable Limits

Nigeria's public debt has increased significantly in recent years as the Federal Government has increased borrowing to finance its budget deficits. Although the country currently has low debt levels relative to total output, its low ratio to revenue poses substantial risk to the public debt portfolio. Yet the country needs additional resources (including debt resources) to fund economic recovery and diversification. Government is cautious of the implications of its expansive fiscal policy programme under a tight revenue profile. The fiscal deficit will be maintained within the 3% level stipulated by the Fiscal Responsibility Act 2007 but at an average of about 1.93% of GDP, but declining to less than 1% by 2020. Debt financing will be restructured gradually in favour of foreign financing while domestic financing is de-emphasized. Thus, while the proportionate share of foreign financing will increase from the current level of about 28% to almost 72% in 2020, domestic financing will decrease gradually from about 54% in 2016 to about 26% in 2020. This will prevent the crowding out of the private sector, and accord private capital a leading role in driving growth.

6.3 Strategic Socio-Economic and Development Priorities

6.3.1 Macroeconomic Stability

The outlook of macroeconomic aggregates is expected to be stable in the medium term. Fiscal and monetary authorities have intensified efforts to accentuate economic growth in a stable macroeconomic environment. Monetary, trade and fiscal policies are being aligned to ensure coherence and effective coordination.

Since the introduction of the managed floats in the operations of the foreign exchange market, the Central Bank of Nigeria has enhanced foreign currency liquidity and stability in exchange rates. Fiscal authorities are sustaining efforts at ramping up non-oil revenue, through improved tax administration. The government is committed to ensuring a more diversified fiscal revenue base thus reducing budget deficits. Trade policies are aimed at minimizing the vulnerability of the economy to external shocks, which in turn increases its prospects for sustained growth.

6.3.2 Agriculture and Food Security

Ensuring growth in agriculture is a top priority of government. Agriculture has a huge potential for sustained growth and reduction of poverty given the large numbers of people currently engaged in the sector. The sector is also of strategic importance in the efforts to achieve diversification and structural transformation of the economy. The goal of government is to grow agriculture to attain self-sufficiency in certain crops and livestock production, hence ensuring that Nigeria produces all its food needs and becomes a net exporter of the major staples. Value chains in rice production, tomato, palm produce, sugar and wheat are being vigorously pursued to ensure that Nigeria saves the foreign exchange currently required for food imports. The ERGP targets national self-sufficiency in rice (2018) and wheat (2019) within the period covered by this fiscal plan.

However, conflicts between farmers and herdsmen in parts of Nigeria pose a major threat to agricultural production and food security. The conflicts have their roots in access to farmlands and grazing lands to support their respective economic activities. The geographic extent of insurgency in the North East is also abating, increased government support in the form of inputs and funding are signalling increasing production and strengthening food security.

6.3.3 Industrialisation for Job Creation and Development

In line with Nigeria Industrial Revolution Plan (NIRP), 2014, the ERGP prioritizes industrial sectors in which Nigeria has a competitive and comparative advantage; namely: agro allied and agro processing; metals and solid minerals processing; oil and gas related industries; construction, light manufacturing, and services. It is estimated that annual growth in manufacturing will average 4.74%, rising from 4.12% in 2017 to 8.15% by 2020. Already, as at first quarter 2017, real growth in manufacturing GDP rose to 1.36%. The industrialisation strategy will create sustainable jobs especially among the youths. Emphasis is also given to Micro, Small and Medium Enterprises (MSMEs) in the service sector in view of the sector's potential for value addition and job creation.

Some initial steps by government to promote industrialisation for job creation and development include: the 'Zero Oil' plan – that seeks to increase Nigeria's market share in priority sectors over the next 10 years; the 60-day National Action Plan on Ease of Doing Business; the development of Special Economic Zones (SEZ) which has been provisioned for in the 2017 Budget; the N-Power Initiative to promote large-scale skill development; and the Smart Nigeria

Digital Economy Project amongst others. These multi-sectoral initiatives will have nation-wide impact on business activities with potentials for job creation, employment, and economic growth.

These initiatives are already yielding positive results. For instance, the 60-day National Action Plan on Ease of Doing Business in Nigeria has led to: the reduction of time required to register businesses from 10 days to 2 days; harmonization of information, hitherto in four forms, required on arrival at the airport to one form with only 15 questions; reduction in touchpoints for physical examination of cargo between importer and government agencies; and, e-submission of Visa-on-Arrival applications, among others. All these measures, are part of government's efforts to remove critical bottlenecks and bureaucratic constraints to doing business in Nigeria with a target of moving Nigeria 20 steps upwards in the World Bank Ease of Doing Business Index.

In addition, strengthening key value-chains through backward integration by the development of production linkages to the primary commodity sector is priority to government. This necessitated the new policy to boost local processing of tomatoes which will give a boost to agro-allied industry by providing fiscal incentives for local producers to increase their competitiveness. The policy is expected to significantly reduce the import bill on tomato-based imports and curb wastage through post-harvest losses. Other measures in respect of this initiative include: prohibition of the importation of tomato paste, powder or concentrate put up for retail sale; prohibition of the importation of tomatoes preserved otherwise by vinegar or acetic acid; increase in the tariff on tomato concentrate to 50% with an additional levy of $1,500/MT; and, restriction of the importation of tomato concentrate to the seaports to address the abuse of the ECOWAS Trade Liberalisation Scheme (ETLS). At least 60,000 new jobs are expected to be created by the implementation of these new policies. Other value chains in crop, livestock and fisheries sub-sectors are also being developed under the Agriculture Promotion Policy. Staple Crop Processing Zones are being developed to link farm clusters with food manufacturing plants.

A multi-pronged approach has been adopted to increase the capacity of MSMEs to contribute to national output. The Development Bank of Nigeria, which has a key mandate to increase access to finance to MSMEs, is taking off with initial funding of US$1.3 billion. This is to complement initiatives being implemented by government agencies such as the skills development initiatives of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN); the MSME Business Clinics implemented in partnership with the Federal Capital Territory Administration (FCTA); the National Collateral Registry developed to deepen credit delivery to MSMEs by encouraging the use of moveable assets as collateral for loans, the Anchor Borrower's Programme and other financing schemes administered by the Central Bank of Nigeria (CBN); and financing support and capacity development provided by the Bank of Industry (BOI), and Bank of Agriculture (BOA).

Another sector that holds significant promise for job creation especially among the teeming unemployed youth is the creative and entertainment industry, which contributes 1.6% to the GDP. The major support to this industry from government will be the enforcement of anti-piracy and copyright laws.

6.3.4 Expanding Power, Transport, and ICT Infrastructure

Nigeria's total infrastructure stock represents only 35% of GDP which is far below the 70% average of peer emerging market economies. It estimated that, at least, US$3 trillion must be invested in infrastructure over the next 30 years to bridge the gap. Government will continue to leverage private sector capital, including FDIs to raise the required funds. Emphasis will be to tackle the infrastructure challenges in the power, transport and the ICT sector are discussed.

(a) Power

The Federal Government Economic and Recovery Growth Plan 2017-2020 (ERGP) sets out the medium-term structural reforms to diversify Nigeria's economy, including expanding power sector infrastructure as one of the top priorities. The Power Sector Recovery Programme (PSRP) was designed on this basis. Improving power infrastructure is one of the critical factors to unlocking the potential of the Nigerian economy. Government aims to achieve 10GW of operational capacity by 2020 and to improve the energy mix through greater use of renewable energy.

The PSRP, approved by the Federal Executive Council on 22nd March 2017, has been set-up. It is a series of carefully thought out policy actions, operational, governance and financial interventions to be implemented by Federal Government of Nigeria (FGN) over the next five (5) years to restore the financial viability of Nigeria's power sector, improve transparency and service delivery, and reset the Nigerian Electricity Supply Industry (NESI) for future growth. The objectives of the Program are to:

- Restore the sector's financial viability;
- Improve power supply reliability to meet growing demand;
- Strengthen the sector's institutional framework and increase transparency;
- Implement clear policies that promote and encourage investor confidence in the sector; and
- To establish a contract-based electricity market

Some key issues to be addressed through the PRSP include: eliminating accumulated cash deficits in the sector; develop and implement an appropriate and sustainable electricity tariff that supports liquidity over time; enforce discipline and accountability by electricity distribution companies (DISCOs); ensure grid stability; promote sector transparency and an effective communication strategy; and, promote electricity access and renewable energy.

Already, a facility of N701 billion by the Central Bank of Nigeria (CBN) to fund the Nigerian Bulk Electricity Trading Plc (NBET) was approved on the 1st of March 2017 and is being implemented. In addition, N40 billion service-wide provision to settle reconciled outstanding electricity bills of FGN institutions as part of strategy to revamp the ailing power sector was set aside in the 2017 Federal Budget. The Federal Government will continue to implement the PSRP over the 2018-2020 medium term period, thus addressing the binding constraints which had previously incapacitated the sector.

Table 6.1. Funding Requirements for Tariff[1] trajectory

(Breakdown of funding 2017 to 2021 (N' Billion)

	2017	2018	2019	2020	2021	Total
WB P4R	-	61	122	122	-	305
FGN Power Assets Ownership Restructuring / DISCO Debts	-	315	-	-	-	315
CBN Financing Facility	401	301	-	-	-	702
Budgetary Provision	-	194	251	59	107	612
Total	401	871	373	181	107	1,934

(b) Transport

Government recognizes the importance of a well-developed transport infrastructure in Nigeria, to support economic activities in Nigeria and position it to achieve the development objectives in the ERGP. Thus, it has prioritized investments in transport infrastructure in the medium term. This is to be supported by strong public private sector partnerships as government alone cannot fund the required level of investment in the sector. The revitalisation of the 3,500km network Lagos-Kano narrow-gauge railway is underway is benefiting from such partnerships. Also, it is expected that the Abuja Light Rail system will also go into operation in the first quarter of 2018 following a test run year-end 2017.

(c) ICT and Telecommunications Infrastructure

Investments in ICT and telecommunications infrastructure are essential for greater competitiveness of the economy. For this reason, government has linked Nigeria's industrial policy to a digital-led strategy for growth. A Smart Nigeria Digital Economy Project is being developed to actualise this strategy. The overall goal is to increase the contribution of ICT and ICT-enabled activities to GDP by increasing broadband coverage, promoting e-government and establishing ICT clusters, especially in the SEZs. One of such initiatives is the Smart Cities Initiative aimed at creating smart, sustainable cities which integrate ICT in the management of infrastructure and other government assets. In addition, efforts are on-going towards developing a functional ICT curriculum at the primary, secondary and tertiary level. At the tertiary level focus will be on building local capabilities in cutting edge ICT technologies. It is expected that ICT expansion will lead to the creation of new economic sectors, improve productivity and create new jobs, especially in software and hardware engineering.

6.3.5 Human Capital Development

One of the strategic objectives of the ERGP is investing in the Nigerian people. A healthy and well-educated population is a prerequisite for sustained inclusive economic growth. The Sustainable Development Goals (SDGs) serve as an overarching framework and provides measurable targets to guide delivery of government programmes aimed at meeting these objectives. Strategies have been developed to achieve these goals and they will be deployed through programmes in these sectors:

(a) Health

i. Improved accessibility, affordability and the quality of healthcare delivery remains a priority of government. This requires developing the primary health care system,

[1] The scenario assumes a maximum of 30% increase in tariff in July 2019 for all customer classes. This is followed by a maximum of 14% increase for all customers in July 2020.

expanding healthcare coverage to all local governments, and increasing its access. The expected outcome will be an improvement in health indicators such as infant and maternal mortality rates. To achieve these objectives, government has identified the need for strategic action in four priority areas. They are: strengthening the policy environment, improving the quality of healthcare, enhancing National Health Security and Emergency Response Readiness.

ii. The achievement of Universal Health Coverage is an important goal of government. It is expected that the funding provision for the Basic Healthcare Provision Fund (BHCPF) of 1% of the Consolidated Revenue Fund (CRF) will be implemented over the medium term. Also, an 'Emergency Action Plan to Achieve the 90-90-90 Target by 2020' has been developed and is to be complemented by the development of HIV care models at facility and community level. Government is also working to ensure vaccine security and financing as Nigeria transitions out of the Global Alliance for Vaccines and Immunization program by 2022. Specifically, vaccine production is expected to commence in the medium term. Other programmes which will be carried forward in the medium term include the launch of the Saving One Million Lives Program for Results (PforR), the National Supply Chain Integration Project (NSCIP) and the 'Warehouse-in-a-Box (WiaB) to address constraints in the healthcare supply chain system.

iii. As part of the humanitarian response to the crisis in the North East, a Health Sector Response to Humanitarian Crisis Plan has been designed to mobilise health actors at all tiers of government to ensure access to essential health services for all affected populace. A health and nutrition emergency plan was developed for Borno state. State-specific operational plans with assistance from the Victims Support Fund (VSF) have also been developed. Emergency responses were successfully mobilised to respond to the and multi-sectoral teams were set up to monitor and mitigate against the re-emergence of these incidents. Surveillance efforts were also intensified. Emergency response plans that managed Lassa Fever and Polio outbreaks in 2015 and 2016 have been institutionalised for adoption in the event of future crises.

iv. In response to the rise in the burden of non-communicable diseases government has committed to improving the capacity of seven tertiary hospitals in collaboration with the Nigerian Sovereign Investment Authority (NSIA). This is a first step towards attracting private sector capital into the healthcare space in Nigeria. Partnerships with private companies and foundations to expand access to malaria interventions are also being established.

(b) Education

To address challenges undermining the education system government will be rolling out several initiatives over the medium term. These include the establishment of best-in-class technical and vocational institutes, improvements in teacher quality and educational curriculums at all levels, improved funding mechanisms to incentivise education performance, prioritisation of education for girls and other underserved groups and increased investment in Science, Technology, Engineering and Math (STEM) education. Also, a draft education reform plan tagged has been developed to guide the nation in the achievement of the education goals.

(c) Social Inclusion

The promotion of social inclusion - ability of all citizens and groups to take part in society, is a key objective of the government. The level of social exclusion has resulted from several factors including insurgency in the North East and environmental degradation and disaffection in the Niger Delta. The main strategies to improve the level of social inclusion are the implementation of social safety net programmes targeted at the vulnerable and the introduction of social programmes for the aged and physically challenged.

Through the Home-Grown School Feeding Programme, 1,051,000 primary school children in 8,587 schools across 7 states are being fed daily with more than 11,000 cooks employed. The target by year-end 2017 is 3 million children and this will be scaled up significantly over the medium term. State governments such as Lagos, have taken steps to adopt the school feeding programme. The Conditional Cash Transfer (CCT) Programme is also being up-scaled to reach 1 million of the poorest and most vulnerable Nigerians. 35 states and the FCT have signed a Memorandum of Understanding and 5 states have been selected for a pilot program. It is being implemented in partnership with the World Bank using its Community-Based Targeting model and N5,000 is being paid as a monthly stipend to beneficiaries in about 70,000 households in Bauchi, Borno, Cross Rivers, Ekiti, Kwara, Kogi, Niger, Osun and Oyo states.

These and other social inclusion programmes including: N-Power which is addressing the challenge of youth unemployment by providing opportunities for large scale skills acquisition; and, Government Enterprise and Empowerment Programme (GEEP) developed to facilitate micro-enterprise finance access to market women and traders, artisans, youths and farmers, will be expanded over the medium term. Already, 3,162,451 people belonging to 26,924 registered cooperatives have been registered for GEEP. 57,234 interest-free (except a one-time low administrative fee) loans have been issued across 28 States and the FCT.

6.4 Medium-Term Macroeconomic Framework: Macroeconomic Parameters and Targets for 2018-2020

The medium-term revenue forecast is driven by key macroeconomic projections (Table 6.2). The GDP is projected to grow at 3.5% in 2018, while inflation is expected to moderate to 12.42%.

Table 6.2: Macroeconomic Framework (2018 – 2020)

	2017	2018	2019	2020
Inflation (%)	15.74	12.42	13.39	9.90
Non-Oil GDP (N'bn)	99,256	107,108	117,858	127,591
Oil GDP (N'bn)	5,542	5,981	6,581	7,124
Total GDP (N'bn)	104,798	113,089	124,439	134,715
GDP Growth Rate (%)	1.50	3.50	4.50	7.00
Consumption (N'bn)	77,551	83,686	99,551	107,772

Source: Ministry of Budget & National Planning

Growth in the medium term is based on the assumptions of average oil production of 2.2mbpd, benchmark oil prices of US$45pb, and an average exchange of N305/$. It is also based on an average yearly reduction in the unemployment rate by 11.7% over the medium term. While Oil GDP is projected to record higher growth rate, the major driver of growth is the non-oil sector. The oil and gas sector is also expected to rebound as production stabilizes around 2.3mbpd, oil price (although lower than pre-June 2014 prices) gradually improves, and government's successful transition from the traditional JV Cash Call budget to the self-funding mechanism.

The nominal GDP is expected to increase from N104,798 billion in 2017 to N134,715 billion in 2020. Similarly, consumption expenditure is projected to grow from N83,686 billion in 2018 to N107,772 billion in 2020. These are reflective of a gradual recovery of the economy.

6.5 2018 – 2020 Medium-Term Fiscal Framework: 2018 Budget Projections

The aggregate revenue to fund the 2018 budget is projected at N5.65 trillion (11.0% or N562.50 billion over the 2017 estimate of N5.08 trillion). 43.2% of this is projected to come from oil sources while the balance is to be earned from non-oil sources.

Aggregate expenditure is estimated at N8.60 trillion (this include grants and donor funding of N199.91 billion naira). This provision exceeds 2017 aggregate expenditure estimate of N7.44 trillion by 15.5% (or about N1.16 trillion). Of the total expenditure estimates, up to N2.60 trillion (inclusive of capital in transfers) is targeted at capital expenditure, representing 30.0% of the budget. The allocation of this resource among the various spending Ministries, Department and Agencies (MDAs) of government is driven by government's execution priorities and strategic focus outlined in the ERGP. Over the medium term, government will continue to focus on critical sectors that quickly turn-around real sector growth. A provision of N1.93 trillion has been made in the medium term to address the constraints which had previously incapacitated the power sector in line with the PSRP. Other key spending includes personnel cost which is estimated at N2.12 trillion and debt service of N2.03 trillion.

Following from the revenue projections and expenditure estimates, the fiscal deficit is estimated to increase by about N592.75 billion (or 25.0%) from the estimate of N2.36 trillion in

2017. Although this remains below the maximum (that is, 3% of GDP) stipulated in the *Fiscal Responsibility Act, 2007,* it is however higher than the projected levels in the ERGP.

Thus, initiatives are ongoing to explore ways of generating additional revenues to bring down the fiscal deficit by way of government assets ownership restructuring / sales. It is projected to take a downward turn afterwards over the medium term.

Table 6.3: 2018-2020 Medium Term Fiscal Framework

	FISCAL ITEMS	2017 B	2018 Proj.	2019 Proj.	2020 Proj.
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)		**2.20**	**2.30**	**2.40**	**2.50**
Projected Budget Benchmark Price (US$ per barrel)		**44.5**	**45.0**	**50.0**	**52.0**
Average Exchange Rate (N/US$)		**305**	**305.0**	**305.0**	**305.0**
		N	**N**	**N**	**N**
AMOUNT AVAILABLE FOR FGN BUDGET		**5,084,401,765,818**	**5,646,889,208,404**	**6,327,109,410,558**	**6,833,915,697,583**
a	**Share of Oil Revenue**	**2,122,175,908,405**	**2,441,563,319,652**	**3,241,025,375,451**	**3,811,735,083,286**
b	**Share of Dividend (NLNG)**	**29,585,000,000**	**29,917,415,730**	**34,805,882,353**	**56,246,305,882**
c	**Share of Minerals & Mining**	**1,064,532,425**	**1,170,985,667**	**1,288,084,234**	**1,458,341,548**
d	**Share of Non-Oil**	**1,373,211,428,771**	**1,385,281,578,205**	**1,557,486,032,966**	**1,691,172,974,411**
	Share of CIT	807,823,799,444	794,688,449,303	906,103,365,935	966,768,887,292
	Share of VAT	241,920,000,000	207,862,890,147	264,104,467,650	300,721,164,460
	Share of Customs	277,562,873,948	324,859,497,742	324,250,217,851	353,153,840,876
	Share of Federation Acct. Levies	45,904,755,379	57,870,741,012	63,027,981,531	70,529,081,783
e	Independent Revenue	807,570,000,000	847,948,500,000	890,345,925,000	930,387,071,250
f	FGN's Share of Actual Bal. in Special Accts	6,643,655,741	9,297,994,473	6,973,495,854	5,230,121,891
g	FGN's Balances in Special Levies Accounts	14,791,398,385	17,213,444,629	12,910,083,472	9,682,562,604
h	FGN's Unspent Bal. of previous Fiscal Year	50,000,000,000	-	-	-
i	FGN's Share of Tax Amnesty Income	-	87,840,000,000	-	-
j	FGN's Share of Signature Bonus	114,298,470,334	114,298,470,334	-	-
k	Recovery from Swiss. (US$320 Mill)	97,600,000,000	-	-	-
l	Domestic Recoveries + Assets + Fines	261,897,225,484	374,000,000,000	203,379,583,341	40,000,000,000
m	Other FGN Recoveries	205,564,146,274	138,437,708,421	168,979,167,030	67,591,666,812
n	Grants and Donor Funding	-	199,919,791,292	209,915,780,857	220,411,569,899
FGN Expenditure		**7,441,175,486,757**	**8,595,667,113,904**	**8,979,136,675,853**	**9,081,765,135,516**
Statutory Transfers		**434,412,950,249**	**451,458,654,074**	**480,558,085,850**	**506,606,901,842**
Debt Service		**1,663,885,430,499**	**2,028,011,577,001**	**2,372,095,551,031**	**2,556,734,127,919**
Sinking Fund to retire maturing bond to Local Contractors		**177,460,296,707**	**220,000,000,000**	**220,000,000,000**	**220,000,000,000**
Recurrent (Non-Debt)		**2,640,920,033,436**	**3,169,117,545,129**	**3,167,973,925,316**	**2,996,442,403,072**
a	Personnel Costs (MDAs)	1,884,069,286,558	2,122,268,415,101	2,107,936,875,969	2,107,936,875,969
b	Overheads	219,841,846,394	245,200,853,273	210,000,000,000	200,000,000,000
c	SWV Pensions *[+ Presidential Amnesty Programme, and Special Interventions for 2016 only]*	89,977,053,528	151,977,053,528	100,000,000,000	120,000,000,000
d	CRF Pensions	191,631,846,956	191,631,846,956	220,000,000,000	220,000,000,000
e	SWV Power Sector Reform Programme	-	194,339,376,271	251,402,049,347	59,438,777,103
f	Other Service Wide Votes	138,700,000,000	198,700,000,000	208,635,000,000	219,066,750,000
g	Presidential Amnesty Programme	76,700,000,000	65,000,000,000	70,000,000,000	70,000,000,000
h	Refund to Special Accounts	40,000,000,000	-	-	-
Special Intervention Programme (Recurrent)		**350,000,000,000**	**350,000,000,000**	**350,000,000,000**	**350,000,000,000**
Capital Expenditure (Exclusive of Transfers)		**2,174,496,775,867**	**2,377,079,337,699**	**2,388,509,113,656**	**2,451,981,702,683**
Fiscal Deficit		**(2,356,773,720,939)**	**(2,948,777,905,500)**	**(2,652,027,265,295)**	**(2,247,849,437,933)**
GDP		**107,958,331,860,000**	**113,088,878,152,768**	**124,438,730,249,469**	**134,715,369,764,605**
Deficit / GDP		**(2.18%)**	**(2.61%)**	**(2.13%)**	**(1.67%)**
Capital Expenditure as % of Non-Debt Expenditure		42.17%	40.92%	41.28%	43.22%
Capital Expenditure (transfers inclusive) as % of total FGN Expenditure		31.73%	30.22%	29.36%	30.00%
Recurrent Expenditure as % of total FGN Expenditure		68.27%	69.78%	70.64%	70.00%
Debt Service to Revenue Ratio		32.73%	35.91%	37.49%	37.41%
Deficit as % of total FGN Revenue		46.34%	52.22%	41.92%	32.89%

Source: BOF

7.0 ANALYSIS & STATEMENT ON CONSOLIDATED DEBT & CONTINGENT LIABILITIES

7.1 Nigeria's Current Debt Profile

7.1.1 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. Nigeria's total public debt stock at the end of the first quarter of the 2017 fiscal year was N19.16 trillion (or US$62.9 billion), representing about 18% of nominal GDP. The projected Net Present Value (NPV) of Total Public Debt to GDP at the end of 2016 is 13.5%.

Although this is approaching the Nigeria Debt Management Office (DMO) stipulated threshold for NPV of public debt to GDP of 19.39%, it is well 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 Federal Government's domestic debt stock accounts for 63% of the total debt stock, the states' domestic debt is 15% while the external debt of both the Federal and State Governments represents the residual of 22%. Thus, domestic debt represents 80% of the debt stock of the federation.

Figure 7.1: Trend in Nigeria's Total Public Debt (2011-2015)

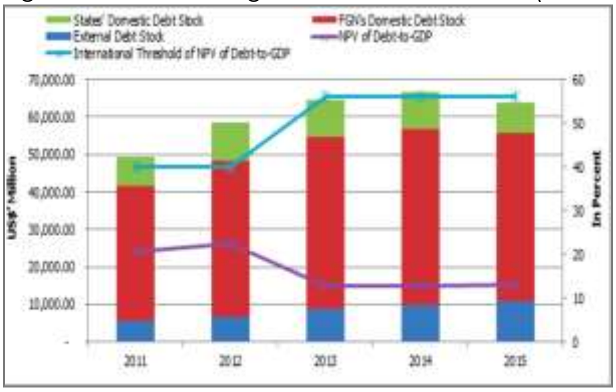
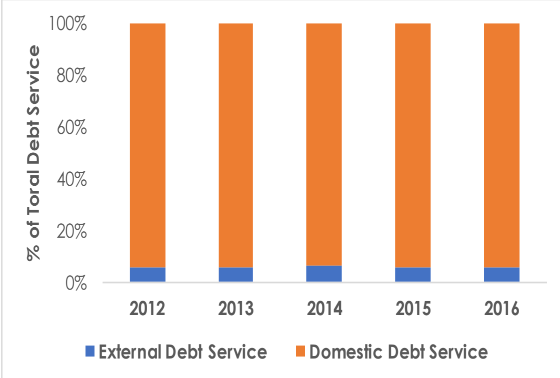


Figure 7.2: Debt Service Payments (2012-2016)



Source: Debt Management Office

7.1.2 Debt Service Payments

Although Nigeria's debt stock places it at a low risk of debt distress, rising debt service payments relative to revenues have become a source of concern as it places a squeeze on government's ability to fund its expenditure programmes. Due to the decline in government revenues, the debt service payment trend is worrying, and it emphasises the need for government to grow its revenues and reduce borrowing costs as well as borrowing. Of greater concern is the contribution of domestic debt service payments to the debt service ratio as domestic debt service is currently 91.3% of total debt service. The potential risks arising from this position are being addressed through Nigeria's current debt management strategy.

7.2 Debt Management Strategy

Nigeria is currently implementing the 2016-2019 Debt Management Strategy which addresses many of the concerns arising from the current composition of Nigeria's debt stock and debt service ratios. The rising domestic debt profile was part of an ongoing strategy to deepen the domestic debt market and reduce exposure to exchange rate risk associated with debt contracted in foreign currency. This strategy has yielded good results with the development of several debt instruments; however, the rising cost of servicing domestic debt has led to a realignment of this strategy. This will entail a rebalancing of the debt portfolio from an 84:16 distribution between domestic and external debt to a 60:40 ratio by the end of the 2019 fiscal year. Thus, longer term external financing will form a significant part of Nigeria's debt portfolio going forward.

To mitigate exchange rate risk, new borrowing will be contracted to fund investment projects at concessional rates where possible. Also, projects to be financed with external loans will be those that will support non-oil export, and/or reduce import dependence such that there will be no risk of external debt overhang. Appropriate borrowing limits have been set for new domestic and external borrowing in 2017 to operationalize this objective. In addition, the domestic debt profile is being restructured to smooth out interest and amortization payments. Thus, a domestic debt composition with a 75:25 ratio for long to short term debt has been set for the end of the 2019 fiscal year. In combination with ongoing fiscal strategies to improve government revenues it is expected that debt service costs as a share of revenues will decline.

7.3 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 federal government bears a significant portion of the risk associated with these projects. Given the potential fiscal implication if the liabilities relating to these investment projects materialize, the federal government has developed a strong monitoring mechanism to ensure projects are completed on schedule and within legal stipulations in contract documents.

Provision has also been 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. Although additional work is required to account for the full extent of FGN contingent liabilities, the declining size of total liabilities, which is due to the gradual settlement of debt obligations, is a positive development.

Table 7.3: FGN Contingent Liabilities (2012-2016)

	Liability Type	2012	2013	2014	2015	2016
				In Billions of Naira		
1	AMCON Guarantee	1,742.00	1,742.00	-	-	-
2	Local Contractor's Debts	233.94	233.94	233.94	233.94	159.29
3	Federal Mortgage Bank of Nigeria (FMBN)	32.00	32.00	32.00	6.91	5.24
4	Guarantee on Agriculture	174.71	-	-	-	-
5	Nigeria Export Import Bank (NEXIM)	-	-	-	39.40	61.00
6	FCDA - Katampe Infrastructure Project	-	-	-	7.44	7.44
7	Nigeria Mortgage Refinance Company (NMRC)	-	-	-	8.00	8.00
8	Lekki Port LFTZ Enterprise - Lekki Deep Se Port	-	-	-	157.60	0.00
9	World Bank Partial Risk Guarantee for A & other Solar IPPs	-	-	-	46.69	72.29
10	Pension Arrears for MDAs	1,322.43	1,271.06	1,231.04	1,156.49	1,132.21
	TOTAL	**3,505.08**	**3,279.00**	**1,496.98**	**1,656.47**	**1,445.46**

Source: Debt Management Office

8.0 RISKS TO THE MEDIUM TERM OUTLOOK

The Nigerian economy is making a gradual recovery from an economic recession. However, risks likely to slow the pace of recovery or overturn the progress made thus far persist. These risks exist both within the local environment and global economy and have the potential to curtail the medium-term economic targets set in the ERGP. Thus, in developing the 2018-2020 fiscal strategy, critical risks have been identified and assessed and mitigating strategies proposed.

8.1 Global Economic Trends & Geo-Political Tensions

According to the IMF's World Economic Outlook (WEO) of July 2017, world economic growth is projected to rise from 3.2% in 2016 to 3.5% in 2017 and 3.6% in 2018. The 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. As the US raises interest rates to tackle rising inflation, spill overs to emerging market economies are expected as investors move to a more stable environment to take advantage of higher rates.

Significant upheavals in political structures in major economies such as the US, the United Kingdom (UK) and France have fostered uncertainty about future policy direction in key areas. The move towards protectionism as more economies adopt inward-looking trade strategies is a threat to international economic cooperation. The US withdrawal from the Paris Agreement on Climate Change could also pose a setback to efforts to bring countries together to tackle the urgent issues relating to climate change. As trade agreements, most significantly 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 programs designed to take advantage of Nigeria's large population by stimulating domestic economic activity to address local needs.

8.2 International Oil Market Developments

8.2.1 Oil Prices

Oil prices are not expected to recover to the high levels attained prior to 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 about $50 per barrel up till mid 2017, 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, is expected to have a dampening effect on future price increases, especially as cost of shale production continues to decline. Thus, the medium-term outlook is for prices to hover close to the $50 per barrel mark. To safeguard its revenues, Nigeria will continue to implement a countercyclical fiscal policy by projecting revenues based on a benchmark oil price lower than oil price forecasts.

8.2.2 Oil Demand & Supply Risks

The modest projections for global economic growth over the medium-term point towards a moderate increase in oil demand. 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 production. OPEC has signalled its intent to maintain the current agreements till March 2018 to bring global inventory levels down and this will be counterbalanced by expectations of an 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 on stream.

Oil market movements are determined by a confluence of factors, many of which are external to the Nigerian economy. At present, Nigeria's oil production is below target and as the Petroleum Industry Bills are signed into law, 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. The volatility and downward movement of oil prices have led to a renewed drive for an increase in non-oil revenues which are more stable and broad-based. The strategies to mitigate the impact of oil price shocks range from short to long term, aimed at moving the economy towards diversification of revenues and foreign exchange earnings.

8.3 Exchange Rate Risks

About 90% of Nigeria's foreign exchange earnings originate from oil revenues. The prolonged oil price shock has led to a steep depreciation of the Naira against the US Dollar. The limited supply of foreign exchange has moderated the demand for imports, especially of consumer goods. Business activities have also been constrained given the reliance on imports of capital goods and other production inputs. To address these risks, the Central Bank of Nigeria has made efforts to meet the demand for forex through sanctioned channels. This is being implemented alongside a strategy to maintain external reserves at optimal levels. 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 being addressed by favouring borrowing at concessional rates under long-term borrowing arrangements. The adoption of these policies and strategies should result in a considerable reduction in the debt service burden.

8.4 Risks to Non-Oil Revenue

The restructuring of Nigeria's revenue profile to increase earnings from non-oil revenues is underway. The downturn in the economy led to a dampening in business activities resulting in a reduction in tax revenues. Given the fragility of the recovery, strategies are under implementation to ensure the return of business enterprises to greater profitability is not jeopardised. Thus, 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.

On the public-sector side, work on expanding Internally Generated Revenues (IGRs) from MDAs and Government Owned Enterprises (GOEs) continues and this will include legislative amendments to laws which contravene the 2007 Fiscal Responsibility Act. Some other initiatives to boost non-oil revenues would also require legislative actions, the outcomes of which requires collaboration between the Executive and Legislature.

Specific strategies to be adopted include a one-time tax amnesty, elimination of multiple taxes and deployment of trained tax officers to collect revenues, Implementation of these initiatives will ultimately result in increased compliance and a widening of the tax base. An increase in the VAT rate on luxury items from 5% to 15% by 2018 is being considered while customs revenues are also targeted for increase as leaks are plugged and modernisation reforms in the Nigeria Customs Service are implemented.

8.5 Transition from Development Aid Arrangements

Nigeria's relationship with several development partners is in transition due to its reclassification as a middle-income country in 2014. Due to the change in status, Nigeria 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. GAVI, the Vaccine Alliance placed Nigeria on a 5-year transition path in 2017. Thus, by 2022, Nigeria will be expected to bear the full costs or seek alternative funding for vaccines, estimated at over US$300 million annually. Other significant partner relationships are already evolving as commitments to Nigeria by the United States President's Emergency Plan for AIDS Relief (PEPFAR) and the Global Fund to Fight AIDS, Tuberculosis and Malaria amongst others are currently on a downward trajectory. These changes will have significant fiscal implications given Nigeria's low revenue profile. Increased debt service payments, if accelerated repayment clauses are triggered, will also increase the fiscal burden. To address these changes, an Aid Transition Plan is being developed. The plan would signal Nigeria's commitment to limiting the impact of this transition, provide a decision framework for mainstreaming affected development-partner assisted programmes into the government budget and make recommendations on the pace and manner of transition.

To extend the risk-analysis, the likelihood and possible impact of conceivable risks are further assessed in Table 8.1

Table 8.1: Risks Likelihood, Impact and Mitigation Strategies

Risk	Likelihood (H/M/L)	Impact (H/M/L)	Mitigation
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.
Domestic oil production shocks	M	H	With renewed government commitment to dialogue, engagements and implementing lasting solutions to the Niger-delta agitations, it is expected that production cuts due to militancy will significantly reduce, except in the event of technical breakdown.
Oil price shocks	M	H	From all indications, the current moderate crude oil price trend is likely to persist given supply-side factors. The main fiscal tool to address this is the continued adoption of a conservative oil

			price benchmark for fiscal projections.
Insurgency	M	H	Bold efforts from this administration in quelling the insurgency in the North-East will be sustained and managed. A twin track approach of dialogue and military force shall be deployed in the event of an upsurge in major security violations.
Foreign Exchange Supply / Rate Risk	M	H	As crude oil revenues stabilise, the CBN is implementing policies to liberalize the FX market, curb speculative activities, commit to meeting forex demands while building external reserves.
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.
Development Aid Transition – especially Vaccine Financing	H	H	An Aid Transition Plan to manage Nigeria's graduation from significant development partner-assisted programmes is being developed. To address the immediate concern of loss of vaccine financing, alternative funding arrangements are being negotiated. To address local production of vaccines in the long term, a Joint Venture Agreement with Biovaccines Nigeria Limited, co-owned by FGN and May & Baker Nig. Plc was signed in June 2017.
Subnational government bailouts	M	M	Many state governments appear to have developed a dependency on the bailouts from the FGN to guarantee their fiscal sustainability. These bailouts exacerbate liquidity pressures in the economy but are nonetheless useful in driving consumption expenditure, a key ingredient for economic growth. They cannot however continue indefinitely. The Federal Ministry of Finance has already commenced a process to gradually wean the states off the bailouts. The improving trend in monthly Federation Account allocations will also help in this regard, just as will the settlement of FGN obligations to the states. Subnational governments will also be encouraged to grow their IGR

Failure of Power Sector Recovery Programme	H	H	The FG has fast-tracked a N701bn CBN facility to NBET, as part of the PSRP. 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. Without concrete reform actions, access to these support facilities may not materialize.