FEDERAL REPUBLIC OF NIGERIA

2017-2019
MEDIUM TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY PAPER

August 2016

This *2017 – 2019 Medium-Term Expenditure Framework and Fiscal Strategy Paper* is prepared using the latest available information from various domestic and international authorities. Some of the information contained herein are unaudited or subject to revision.

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TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

The *Fiscal Responsibility Act* (FRA), 2007 makes statutory provisions requiring the Federal Government to prepare the Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) - a three-year planning tool that defines government's economic, social and development objectives and priorities. It also details the strategies to achieving government's defined objectives, and highlights the key assumptions behind revenue projections, strategic objectives behind the expenditure framework, and fiscal targets over the medium term. Furthermore, it articulates the nature and fiscal significance of government's debt and measures to reduce such liabilities.

The MTEF/FSP is a three-year planning tool that defines government's economic, social and development objectives and priorities.

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Government will utilize its principal fiscal policy tool – the public budget - as well as other associated policies to create the enabling mechanism that would lead to economic transformation.

Developments in both the global and domestic economy have continued to pose substantial challenges to the Nigerian economy. Against the backdrop of low oil prices, production losses to resurgence in militancy in the Niger Delta, and ongoing security concerns across parts of the country, the 2017-2019 MTEF/FSP articulates government's fiscal situation and agenda. Dwindling oil receipts and slowdown in economic activities resulting in lower tax yields and other internally generated revenues have produced a widening fiscal gap with salary arrears at sub-national levels; a weaker external current account and the introduction of exchange restrictions, lower financial sector resilience; and slower growth. Medium-term policy responses required to position the economy for global competitiveness are encapsulated in this 2017-2019 MTEF and FSP. Government plans to continue with targeted spending on critical economic sectors especially infrastructure, agriculture, solid mineral development and social investment in order to revamp the economy. Measures are also being implemented to enhance transparency and efficiency in the utilization of national resources so as to achieve more inclusiveness as the economy is being repositioned to positive growth path. The goal is to create opportunities for all segments of the economy and distribute the dividends of increased prosperity fairly across the society such that the indices of human development like unemployment, poverty, inequality, etc. trend in the right direction.

Government will utilize its principal fiscal policy tool – the public budget - as well as other associated policies to create the enabling environment that would lead to economic transformation. In this regard, it will focus on sourcing funds necessary for development by continuing to expand the revenue base; plug leakages in the system - both in revenue collection and in planned expenditure - through ensuring greater transparency and accountability in the use of public funds. Pursuing job creation by implementing enabling policies that support businesses and investment opportunities is a major concern of government in the medium term. This will unlock the economic potentials of the non-oil and high-employment sectors; thus, effectively realising the goal of a more diversified economy. The overall goal is to ensure that the majority of Nigerians become more productive and thriving, thereby reducing poverty.

The key thrust of the 2017-2019 MTEF and FSP are in line with the aspirations of the present Administration as is being articulated in the 2016 – 2019 medium-term development plan.

2. MACROECONOMIC FRAMEWORK

2.1 Global Outlook: Recent Developments and Prospects

The global economy continues in a protracted period of slow growth. This continues to slowdown global trade, weaken commodity prices and increased volatility in global financial markets.

The sluggish recovery of the global economy appears to have moderated amidst frail fundamentals and headwinds in developed economies, as well as emerging markets and developing economies. The global economic landscape is characterized by slowing global trade, weak commodity prices and increased volatility in global financial markets. Added to these developments are concerns about China's economic performance. The unwinding of prior year excesses in China's economy as it transits into a more balanced growth path, is taking its toll on the global economy.

GDP in the Euro area expanded by 0.5% in the first quarter of 2016, 0.1% less than 0.6% earlier estimated but better than the 0.3% growth rate recorded in the last quarter of 2015 which effectively brings the economic block back to pre-2008 crises levels. Growth in the Euro area is projected at 1.6% and 1.4% for 2016 and 2017 respectively.

In the United States, GDP growth slowed to 0.5% in Q1 2016, a steep decline from the 1.4% growth recorded in the last quarter of 2015. Accounting for this development are the contraction in non-residential fixed investment and energy businesses, dip in exports owing to a stronger dollar, moderation in government spending and private consumption expenditure.

Emerging markets and developing economies (EMDEs) have shown resilience in the face of plummeting commodity prices, tightening financial conditions, structural gridlocks, currency depreciations, and other country-specific and regional vulnerabilities. With a projected growth of 4.6% in 2017 from 4.1% in 2016, EMDEs is projected to account for most of the world's growth in 2016. The Chinese economy grew by 6.9% in 2015 and 6.7% in Q1, 2016. It kept its growth momentum in the second quarter of 2016 due to continued policy support. While retail sales suggested that private consumption was broadly stable in Q2, 2016, investment among state-sponsored companies soared in the same period, which partially compensated for slowing private investment. Moreover, a weakening yuan has resulted in growth in exports and consequently, in large trade surplus thus improving the contribution to growth from the external sector. Overall, growth is projected at 6.6% and 6.2% in 2016 and 2017 respectively. A further 3.3% output contraction is expected in Brazil in 2016 (following a contraction of 3.8% in 2015). This has resulted in a dip in employment and real income as well as domestic uncertainties which continue to constrain the government's ability to formulate and execute policies. Nevertheless, a 0.5% output growth is projected for 2017 as many of the large shocks from 2015–16 are expected to have run their course. Growth in India, which has been the world's fastest in emerging economies is projected to moderate at 7.4% for both 2016 and 2017. This is due to slowdown in public investments, declining exports and stressed corporate balance sheets. Notwithstanding unexpected delays in enacting enabling economic reforms, the ongoing strengthening of the financial sector will lead to improved investment climate – thus, the prospects for continued economic growth and improved demand for commodities are undiminished.

In Africa, Egypt, now second largest economy in Africa, has seen its GDP expand by 7.5% over the last 5 years owing to tightly managed Egyptian Pound. South Africa on the other hand has seen its GDP decline by 7% in first quarter of 2016 when compared with the last quarter of 2015 due largely to slowing demand from China and weak commodity prices. Furthermore, South Africa's credit rating is currently one notch above junk status, having been downgraded by Fitch in December 2015. In recent times, the country has experienced continued challenges in electricity supply, rising government debt levels, persistent current account deficits and stubbornly elevated unemployment rates. For oil exporting countries, protracted period of low prices and bouts of exchange rate depreciations could worsen corporate balance sheets, and a sharp decline in capital inflows could force a rapid compression of the already stifled domestic demand.

In spite of the infrastructural, policy, and other challenges inhibiting economic growth in the West African sub-region, growth is projected to improve over the medium term. Growth in Ghana declined to 3.5% in 2015 largely due to electricity crisis occasioned by disruptions in gas supplies from the West African gas pipeline stemming from disruptions in Nigeria's Niger Delta. Growth is however projected to recover to 4.5% and 7.7% in 2016 and 2017 respectively. Cote d'Ivoire was Africa's fastest-growing economy in 2015 at 8.6% owing to an impressive growth in commodity exports and public investment. The government intends to build on these gains by implementing series of sweeping reforms. These include a price guarantee scheme for farmers and private-public production boosting programme to boost agricultural export; and increase investment in public infrastructure by committing to a US$15 billion infrastructure fund over the next four years. Economic growth is projected to moderate from 8.6% in 2015 to 8.5% and 8.0% in 2016 and 2017 respectively.

Table 2.1: Global Economic growth (%)

	Estimate	Projections	
	2015	2016	2017
World Output	3.1	3.1	3.4
Advanced Economies	1.9	1.8	1.8
United States	2.4	2.2	2.5
Euro Area	1.7	1.6	1.4
Emerging Market & Developing Economies	4.0	4.1	4.6
China	6.9	6.6	6.2
India	7.6	7.4	7.4
Brazil	-3.80	-3.30	0.5
Sub-Saharan Africa	3.3	1.6	3.3
South Africa	1.3	0.1	1.0

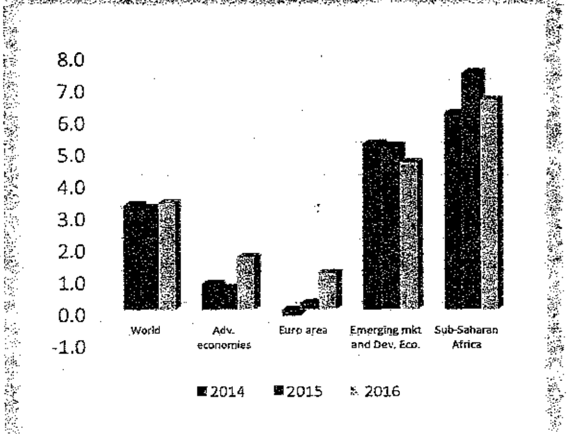
Source: WEO – IMF

In the light of increasing uncertainties and risks of weaker growth, baseline projection for global growth forecast has been revised downwards from 3.4% to 3.2% (*Table 2.1*).

Global Inflation

The monetary stance in most advanced countries remained largely stable as against the considerable divergence in monetary policies in emerging markets and developing economies, reflecting the diversity of shocks confronting them. Headline inflation has declined further in advanced economies, mostly reflecting the decline in the price of oil. In emerging market economies, lower commodity prices have also contributed to lowering headline inflation, but sizable currency depreciation has led to offsets on the upside in some economies. In the Euro area, headline inflation is projected to reach 0.4% in 2016 following monetary policy easing by European Central Bank. Japan is to be in a state of deflation of -0.2% while inflation in the United State is projected at 0.8% for 2016 from 0.1% in 2015.Unlike in advanced economies where inflation is relatively lower, inflation in sub Saharan Africa is projected at 6.4%.

Figure 2.1: Global Inflation



Source: WEO – IMF

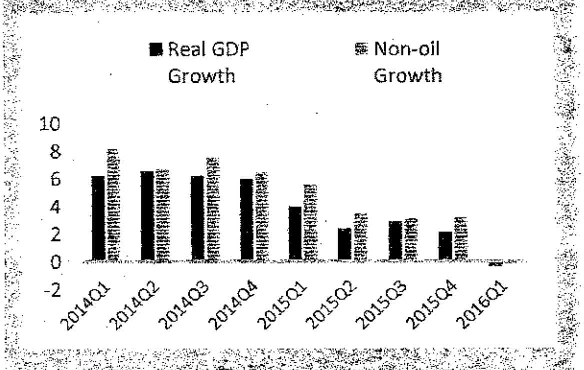
2.2 The Nigerian Economy: Implications of Global Developments for Nigeria

The Nigerian economy is not isolated from developments in the global environment. Decline in commodity prices, particularly oil, continues to impact on the fiscal space. However, this has given impetus to government's diversification programme.

The global economy is becoming more integrated than ever, with developments in parts of the globe having varying degrees of impact on other parts depending on the level of interdependence. The shocks of lower commodity prices, slow growth, regional disintegration among major trading partners and volatility in global monetary policy and capital flows are having implications on Nigeria. This has resulted in distributional and financial shocks, arising particularly from Nigeria's huge dependence on oil revenue.

The decline in oil price since mid-year 2014 has continued to expose the Nigerian economy to both domestic and external vulnerabilities. Decline in oil exports arising from moderation in growth in countries like India and China further reinforced the oil price effects, a reversal of the current account surplus as well as pressures on the foreign reserves and the exchange rate. Consequently, in order to accommodate the pressures on the reserves which stand at about US$26.36 billion[1] and allow effectiveness of fiscal adjustments, the foreign exchange policy has been revised. This has generated some pass-through effects on the volume of trade and inflation especially, given the nature of the exchange rate change and access restrictions. A flexible exchange rate policy has been instituted in order to stimulate trade and foreign investment in the economy.

Figure 2.2: Growth Rates (Year-on-Year)



Source: NBS and CBN

Given the strong historical and economic ties between Nigeria and the United Kingdom, the decision of Britain to leave the European Union (*BREXIT*) will potentially have significant impact on Nigeria's economy. Bilateral trade with the United Kingdom which currently stands at about six billion pounds may take a dip following a contraction in British economy. Existing trade agreements entered with the EU as a bloc may

[1] Central Bank of Nigeria (as at 30th June, 2016)

also have to be renegotiated. Inflow of remittances from Nigerians in the UK may also be adversely impacted in the medium term.

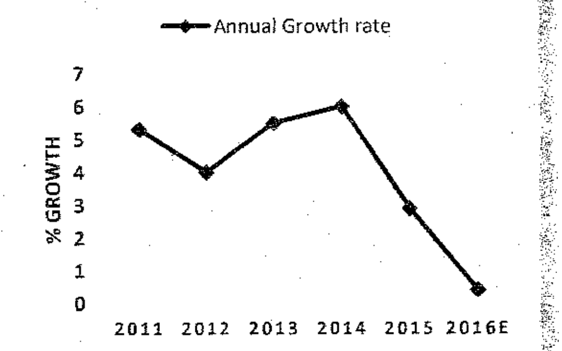
Growth

The economy recorded a negative growth of -0.36% in the first quarter of 2016 compared to a growth of 2.11% in the last quarter of 2015. Having grown by an average of 6% over the last ten years, the -0.36% growth rate recorded in Q1 2016 is Nigeria's worst quarterly growth rate since 2004. The poor economic performance is partly attributable to the underperformance of oil revenues which constrained government's investments in critical sectors of the economy as well as forex inflows which support the non-oil sector activities. Thus, the non-oil sector witnessed a negative growth of -0.18%, particularly in mining and industries despite the 3.09% and 0.8% growth in agriculture and services respectively.

Growth rate in 2016 is expected to fall from 2.79% in 2015 to 0.35% in 2016. However, with appropriate policy responses being introduced and the overall positive sentiments towards the economy, a rebound to growth path is expected in the following years.

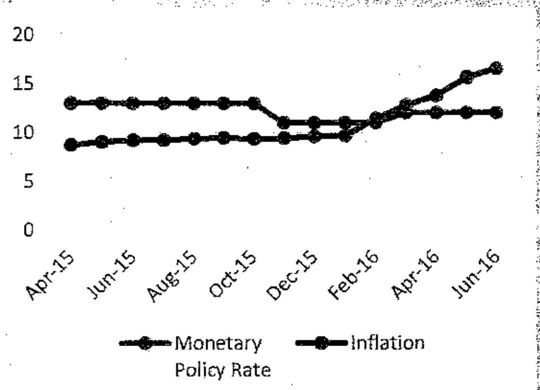
Although the underlying economic headwinds which inhibited growth in the first quarter of 2016 have not abated, concerted efforts are being made by both fiscal and monetary authorities to revamp the economy. In the oil sector, the combination of depressed but rising oil prices along with continuous disruption in production as a result of the resurgence of militant agitations in the Niger Delta could serve to taper growth. The wider consequences are revenue shortfalls and the attendant fiscal challenges, implications on foreign exchange supply and the risks of worsening the exchange rate trajectory, as well as the prospect of exacerbating inflationary pressures which could dampen business confidence.

Figure 2.3: Annual Growth Rates (%)



Source: NBS, Ministry of Budget & Nat. Planning and CBN

Figure 2.4: Recent Inflationary Trend



Source: NBS and CBN

Inflation

The headline inflation index trended upward to 16.5% as at June 2016. This movement in general price levels was driven largely by marked increase in both food and core sub-index which increased by 15.3% and 16.2% respectively, in June compared to 14.9% and 15.1% recorded in May. Foreign exchange pressure continues to negatively impact costs of imported goods while the latest increase in electricity tariffs and petrol price and overall rising food prices - which are driven by both seasonal and non-seasonal factors - all contributed to pushing up general price levels.

Unemployment and Underemployment

Nigeria has seen a persistent rise in the growth of a predominantly young labour force. Unemployment rate increased from 10.4% in the fourth quarter of 2015 to 12.1% in the first quarter of 2016. Arising from the decline in foreign exchange inflows and the attendant exchange rate controls, there has been a substantial constraint on the importation of some industrial inputs particularly by the manufacturing sector – thus slowing several employment generating activities. This has contributed significantly to rising unemployment level. Also, the level of underemployment rose to 19.1% in the first quarter of 2016, up from 18.7% in the last quarter of 2015. It is expected that with commencement of the flexible exchange rate policy, and appropriate fiscal policy responses, these constraints will gradually ease.

Arising from the decline in foreign exchange inflows and the attendant exchange rate controls, there has been a substantial constraint on the importation of some industrial inputs particularly by the manufacturing sector – thus slowing several employment generating activities.

Foreign Trade and Investment

In recent quarters, Nigeria's foreign trade volume as well as foreign direct and portfolio investment inflows have declined considerably. This is due largely, to foreign exchange constraints and the perception of uncertainty by investors. The United Nations Conference on

Trade and Development (UNCTAD) reported a general decline in foreign direct investment (FDI) flows to Africa in 2015. Estimated at $38 billion, FDI figures dipped by 31% from $54 billion recorded in 2014. The slump in commodity prices had reduced resource-seeking FDI. Data from the Nigeria Bureau of Statistics indicate that Nigeria's FDI inflow (in cash only) fell to $1.4 billion in 2015 from $2.27 billion in 2014; and to an estimated $0.17 billion in the first quarter of 2016.

Distributable Revenue

The fiscal impact of dwindling oil revenue is mostly observable in the pronounced reduction in the size of the distributable revenue pool. Sub-national governments have been faced with diverse fiscal imbalances resulting in their inability to meet overdue financial obligations especially payment of staff salaries. Oil receipts account for nearly 80% of revenues in the federation account which is shared by the three tiers of government. This trend has further reinforced government's commitments to fiscal reforms in public finance management which centre on fiscal discipline and expanding non-oil revenue base.

Domestic Macroeconomic and Socioeconomic Developments

Some recent developments in the domestic environment – such as changes in energy prices, insurgency and militancy in parts of the country - continue to impact the domestic economy in significant ways.

Several recent developments in the domestic environment continue to impact the domestic economy in significant ways. For instance, the increase in energy prices – electricity, household kerosene, premium motor spirit (PMS) and diesel prices - majorly accounted for the uptick in inflation. While considerable success has been recorded in containing the insurgency in the North Eastern part of the country, the devastating outbreak of tomato pest (*tuta absoluta)* and the recurring conflict between farmers and herdsmen in parts of the country have disrupted agricultural production. In the Niger Delta, the activities of oil pipeline vandals and the resurgence of militancy have heightened the risks of environmental pollution and crude oil production shut-ins.

These downside risks have accentuated the need for a continued implementation of government's macro-prudential framework as well as other critical reforms in the economy.

3. Review of 2015 Budget Performance

The performance of the 2015 Budget was undermined by major setbacks, particularly in the oil sector: oil production was less than projection due to oil pipeline vandalism and oil theft, in addition to oil price falling below budget reference price.

The 2015 Budget was premised on certain key parameters including a benchmark oil price of $53 per barrel (pb), oil production of 2.2782 million barrels per day (mbpd) and exchange rate of N190/$.

3.1 Revenue Outturns

Based on the above parameters, the revenue projection for the 2015 Budget was N3,452.35 billion, with oil revenue constituting 47.4%. The performance of the Budget was undermined by major setbacks, particularly in the oil sector: oil production was less than projection due to oil pipeline vandalism and oil theft, in addition to oil price falling below budget reference price. On average, oil production was 2.14mbpd while oil price at $47pb was 11.3% less than the budget benchmark price of U$53 per barrel. In addition, the general slowdown in economic activities leading to lower tax yields, and insurgency in parts of the North East affected the non-oil revenue performance.

Gross oil revenue was N3,753.55 billion (about 30.9% less than projection) as crude oil sales fell short of the projected N2,583.16 billion by N723.80 billion. Oil and gas royalties, petroleum profit taxes and gas income also fell short of their projections by N334.97 billion (about 21.2%) and N110.94 billion (about 17.1%) respectively. The net oil revenue (after costs and derivation) amounted to N2,511.79 billion (N865.27billion lower than the projections).

Gross non-oil revenue inflow was N2,353.75 billion representing 65.6% of projected non-oil revenue. This comprised N545.93 billion, N1,029.09 billion and N778.72 billion for Customs revenue, FIRS Company Income Tax (CIT) collection, and VAT respectively. After deductions for cost of collections, the net non-oil revenue was N2,230.29 billion.

Table 3.1: FGN Revenue Profile FY2014 & 2015
(in Billions of Naira)

	2014		2015	
	Budget	Actual	Budget	Actual
FGN's Share of Fed Account	3,023.66	2,878.12	2,695.01	1,937.33
FGN's Share of VAT	113.63	106.74	184.85	112.14
FGN IGR	452.04	295.33	489.29	401.06
Unspent Balance	120	7.56	50	-
Special Account	21.68	-	14.57	14.57
TOTAL	3,731.01	3,287.75	3,433.72	2,465.10

Source: BOF and OAGF

The shortfall in oil and non-oil revenue necessitated the downward revision of the revenue projection for the 2015 FGN's

Budget from N3,452.35 billion to N2,855.8 billion. The revenue shortfall affected distributions at both the national and sub-national levels. The Federal Government's actual retained revenue was N2,745.68 billion (*Table 3.1*); however, total inflow which accrued to FGN was N3,209.56 billion as N463.88 billion was generated into the TSA/e-collection pool account following the strict measures taken by the current administration to fully implement the TSA.

3.2 Expenditure Outturns

On the expenditure side, a total sum of N5,067.89 billion was budgeted (main and supplementary budgets). The supplementary budget was designed to cater for some expenditure exigencies including spending on security – Operation Lafiya Dole, emergency provision for subsidy claims, and provision for prison ration and feeding for Unity schools, among others. By end December 2015, the sum of N4,767.37 billion, or 94% was spent. While the recurrent spending, including provisions for debt service was almost fully released, about 73% of the N577.58 billion provisioned for capital expenditure (including the Subsidy Reinvestment and Empowerment Programme, SURE-P), was utilized by MDAs during the period. The shortfall in capital spending was due to funding challenges and the need to use available resources to meet recurrent needs.

Table 3.2: FGN Expenditure Outturn FY2014 & 2015
(in Billions of Naira)

	2014		2015	
	Budget	Actual	Budget	Actual
Recurrent Non-Debt	2,454.8[illegible]	2,216.77	3,171.05	2,550.07
Debt Service				
Domestic Debt	663.61	680.39	894.61	996.80
Foreign Debt	48.39	61.28	59.01	63.59
Transfers	408.69	377.37	386.23	338.55
Capital Expenditure	1,119.62	585.61	557.00	384.07
Payment to other A/Cs				217.10
Refund to MDA's from TSA				217.19
Total	4,695.21	4,121.47	5,067.89	4,767.37

Source: BOF & OAGF

3.3 Fiscal Deficit

As a result of the shortfall in revenue outturns and increase in expenditure provisions, the actual fiscal deficit for 2015 was N1,043.47 billion (that is, 1.09% of GDP). This was slightly higher than deficit level for the preceding year but was well within the limit of 3% of GDP stipulated by the *Fiscal Responsibility Act 2007.* The fiscal deficit was further increased by the provisions for the Supplementary budget.

4. REVIEW OF THE 2016 BUDGET IMPLEMENTATION[2]

The need to reflate the economy by investing in key critical infrastructure and social development programmes motivated the 2016 Budget of Change. Oil revenue projection was predicated on a benchmark oil price of $38pb, oil production of 2.2mbpd and exchange rate of N197/$. The non-oil revenue, however, was indicative of a more aggressive stance of government to drive its spending from non-oil sources.

4.1 Revenue Outturns

Based on the underlying parameters driving the Budget, the projected revenue was N3,855.74 billion. As at end of first half of the year, total FGN's retained revenue was N951.52 billion (or 50.6% less than prorated projections). The shortfall is largely attributable to the underperformance of non-oil revenue sources as Independent revenues and Federal Government's share in CIT collections were significantly less than projections by N646.32 billion (or 85.8%) and N271.76 billion (or 62.7%) respectively. The latter may be attributed to the fact that most companies commence remittance of their income taxes from second half of the year; thus, CIT performance is expected to pick up. The slow-down in economic

Table 4.1: FGN Retained Revenue FY2016 (as at June)
(in Billions of Naira)

FGN'S RETAINED REVENUE 2016 (Billions of Naira)					
FISCAL ITEMS	2016 Approved Budget	Prorata (Jan-June)	Actual (Jan-June)	Variance	
	N' Bills	N' Bills	N' Bills	N' Bills	%
a Share of Oil Revenue (48.5% of Net Oil Revenue)	717.55	358.78	406.03	47.26	13%
b Share of Minerals & Mining	6.90	3.45	-	(3.45)	-100%
c Share of Non-Oil	1,465.48	732.74	323.59	(409.15)	-56%
Share of CIT (48.5% of Net CIT Revenue)	867.46	433.73	161.97	(271.76)	-63%
Share of VAT (14% of Net VAT)	198.24	99.12	52.57	(46.55)	-47%
Share of Customs (48.5% Net of Customs Revenue)	326.44	163.22	103.39	(59.83)	-37%
Share of Federation Acct. Levies (48.5% of Net Levies)	62.56	31.28	5.66	(25.62)	-82%
FGN's Share of Actual Bal. in Special Accts	10.79	5.39	-	(5.39)	-100%
d Independent Revenue (100% of FGIR)	1,505.88	752.94	106.62	(646.32)	-86%
e FGN's Balances in Special Levies Accounts (100%)	14.38	7.19	-	(7.19)	-100%
f FGN's Unspent Bal. of previous Fiscal Year (100%)	50.00	25.00	-	(25.00)	-100%
g FGN's Share of Dividend by Companies/Investment funded by FAAC	95.55	47.77	-	(47.77)	-100%
h Refund by NNPC	-	-	34.97	34.97	
i Receipts from LNG	-	-	14.26	14.26	
j Exchanage rate differences	-	-	8.20	8.20	
Refund to 1st Quarter Capital Allocation	-	-	57.85	57.85	
FEDERAL RETAINED REVENUE	3,855.74	1,927.87	951.52	(976.35)	-51%

Source: BOF & OAGF

[2] Latest quarterly available reconciled data from the OAGF was at June 2016.

activities, security setbacks as well as monetary policy conditions contributed to the underperformance of other non-oil revenue sources like VAT and customs collections. On the oil revenue side, despite the lower-than-projected oil production especially in the second quarter, the performance of the oil revenue (at N406.03 billion) was higher than prorated projection by 13.2%.

4.2 Expenditure Outturns

Of the total appropriation of N6,060.48 billion, N2,419.38 billion had been spent as at June (for both recurrent and capital) with the shortfall in revenue inflow being made up by additional financing from borrowing and other sources. On the recurrent expenditure side, N1,479.56 billion has been released for the payment of Salaries, Pensions, Overheads, etc. - a sum slightly higher than the prorated sum of N1,323.19 billion (i.e., prorated for Jan – June) budgeted for the year - while debt service has been largely covered.

Table 4.2: FGN Expenditure FY2016 (as at June)
(in Billions of Naira)

FEDERAL GOVERNMENT EXPENDITURE 2016 (Billions of Naira)					
FISCAL ITEMS	2016 Approved Budget	Prorata (Jan-June)	Actual (Jan-June)	Shortfall	
	N' Bills	N' Bills	N' Bills	N' Bills	%
STATUTORY TRANSFER	**351.370**	**175.685**	**171.233**	**(4.45)**	**-2.5%**
DEBT SERVICE	**1,361.880**	**680.940**	**609.517**	**(71.42)**	**-10%**
a Service on Domestic Debt	1,307.400	653.700	567.915	(85.79)	-13.1%
b Service on Foreign Debt	54.480	27.240	30.711	3.47	12.7%
c States deferred loan deducted IFO DMO April '16	-	-	10.891	10.89	
SINKING FUND (to retire maturing loans)	**113.440**	**56.720**	-	**(56.72)**	**-100.0%**
RECURRENT (NON-DEBT)	**2,646.389**	**1,323.195**	**1,479.563**	**156.37**	**12%**
a Personnel Costs (MDAs)	1,748.331	874.166	**891.314**	17.15	2.0%
b Overheads	163.392	81.696	**55.418**	(26.28)	-32.2%
c Service Wide Vote (Pensions)	226.560	113.280	**69.984**	(43.30)	-38.2%
e CRF Pensions	188.106	94.053	**79.179**	(14.87)	-15.8%
f Presidential Amnesty Programme	20.000	10.000	-	(10.00)	-100.0%
g Special Interventions (Recurrent)	300.000	150.000	-	(150.00)	-100.0%
h Other Recurrent			82.610		
i Refund to MDAs from TSA, Banks & mopped up			301.058		
CAPITAL EXPENDITURE	**1,587.403**	**793.702**	**159.062**	**(634.64)**	**-80.0%**
a FGN's (MDAs & Statutory Bodies) Capital	1,184.960	592.480	159.062	(433.42)	-73.2%
b Capital Supplementation	202.443	101.222	-	**(101.222)**	-100.0%
c Capital in Special Intervention	200.000	100.000	-	**(100.000)**	-100.0%
TOTAL FGN EXPENDITURE	**6,060.482**	**2,292.581**	**2,419.375**	**126.794**	**5.5%**

Source: BOF & OAGF

It would be recalled that the 2016 Budget was only signed into law on 6 May 2016. It was only after this that releases for capital expenditure commenced. Added to this, capital spending in the first half of 2016 was lower than budgeted due to revenue challenges and the need to meet non-discretionary recurrent spending like payment of Salaries and Debt Service. As at July 18, 2016, aggregate capital releases (inclusive of capital share in Statutory Transfers) amounted to N331.58 billion for spending on critical infrastructure projects. These investments, in combination with other policy measures, are expected to drive and revive economic activities.

5. Revenue Trends and Assumptions Underlying Revenue Projections

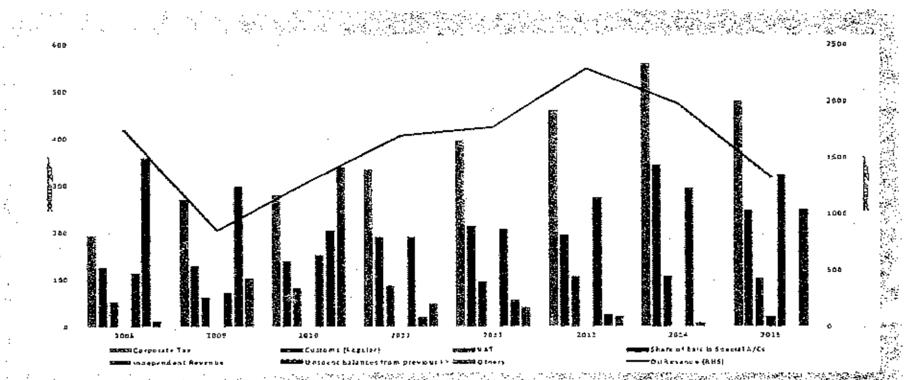
5.1 Revenue Trends

The need for a carefully articulated revenue profile cannot be overemphasized. The question of how much is available for Government's discretionary spending, and the fiscal balance are driven largely by the revenue profile. Thus, as government's spending plans respond to needs like developments in the wage bill, the infrastructure gap, and emerging security situations, they create fiscal gaps which must be closed. These developments engender a drive for other financing sources including borrowing from the capital market, thereby crowding out the fiscal space. This continues to generate further need for more revenues. In fact, a key determinant of how well the annual budget is implemented is the quality of revenue forecasts and the efficiency and effectiveness with which it is collected.

In fact, a key determinant of how well the annual budget is implemented is the quality of revenue forecasts and the efficiency and effectiveness with which it is collected.

The erstwhile heavy dependence on oil revenues which are subject to the vagaries of the international oil market, particularly in view of alternative oil production (shale oil & gas), and a slowdown in global economic growth, has in recent years, necessitated the promotion of diversified revenue generation-driven policies including a rising profile for non-oil revenues. However, an efficient and progressive tax system remains a cornerstone of government's strategy, supporting the values of social responsibility and inclusiveness. The trend in FGN revenues over the 2010 – 2015 period is presented in *Figure 5.1*.

Figure 5.1: Budget, Actual Revenues (2010 – 2015)



Source: BOF & OAGF

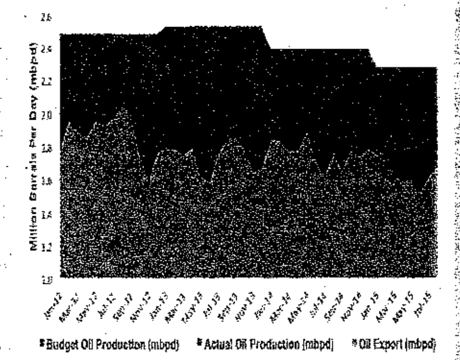
5.2 Assumptions Underlying Oil Revenues

5.2.1 Oil Production

Oil-based revenues have gained prominence in Nigeria's finances since the 1960s. However, in recent years, the challenges of oil production (including crude oil theft, pipeline vandalism and production shut-ins) have continued to undermine government's investments in the sector. Consequently, the actual oil production and export volumes continue to fall below projection as indicated in *Figure 5.2*. A gradual reversal of this trend is expected as government's increased engagement with oil producing communities continues. Furthermore, Government is continuing efforts to promote speedy consideration and passage of a *Petroleum Industry Bill (or Bills)*. This is expected to reduce uncertainties and promote new private sector investments in the oil sector over the medium-term. Thus, following extensive consultations with key stakeholders in the industry, and in consideration of the historical impact of production shocks on the fiscal space, the initial production estimates by the NNPC have been adjusted. Oil production has therefore been projected to average 2.2mbpd, 2.3mbpd and 2.4mbpd for 2017, 2018 and 2019 respectively.

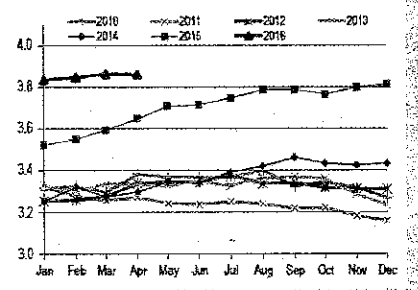
Following extensive consultations with key stakeholders, and adjustment to reflect historical trends, oil production has been projected at 2.2mbpd, for the 2017-2019 period.

Figure 5.2: Oil Production (Budget, Actual) & Export (2012 – 2016)



Source: BOF & CBN

Figure 5.3: Global Crude Oil Inventories (billion barrels)

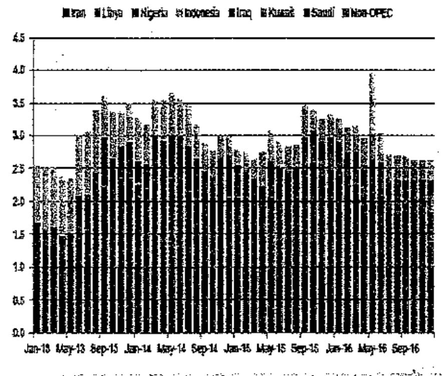


Source: EIA, IMF, IIF, Citi Research

5.2.2 Oil Price Benchmark

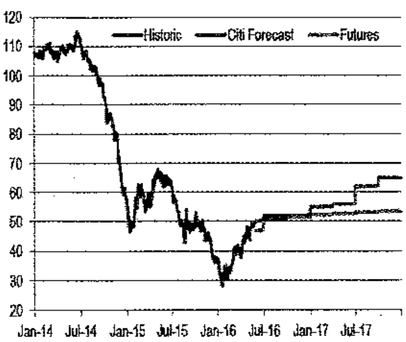
Crude oil prices in the international oil market recovered from a low of about $25 per barrel in mid-January to about $50 per barrel (as at June 23, 2016). This recent bumpy rally has been driven principally by oil price dynamics including a decline in non-Organization of Petroleum Exporting Countries (OPEC) output - mainly US shale - and temporary supply disruptions in some countries like Kuwait, Iraq, Libya, Canada and Nigeria. Also, while global oil demand growth has proved slightly

Figure 5.4: Global Supply Disruptions (million barrels per day)



Source: EIA, IMF, Citi Research

Figure 5.5: Bonny Light Spot Price Futures



Source: Bloomberg, Citi Research estimates

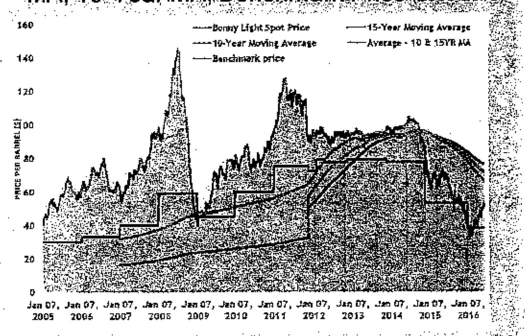
better than expected, a weaker U.S. dollar and improving sentiment on the broader financial markets have also boosted crude oil price.

Against this backdrop, international oil industry watchers forecast oil prices heading slowly towards an average of over $60pb in the near-term. Also, our conventional moving average model forecasts higher prices of $66/b and $76/b on the 10-year and 15-year moving averages for 2017.

However, as the impact of low oil prices gradually wears off, Iranian production is recovering swiftly following the removal of sanctions, while there also seems little prospect of any improvement in co-operation within the OPEC as proposed production freeze by major producers has not materialized. In addition, global oil inventories remain bloated and is still rising as *Figure 5.3* indicates. Logically, energy prices could potentially fall in the near-term if OPEC's output increases significantly and non-OPEC production does not fall, or in the event that the aggregate global demand declines. These fluid dynamics of the market keeps price forecasts very volatile and requiring regular revisions.

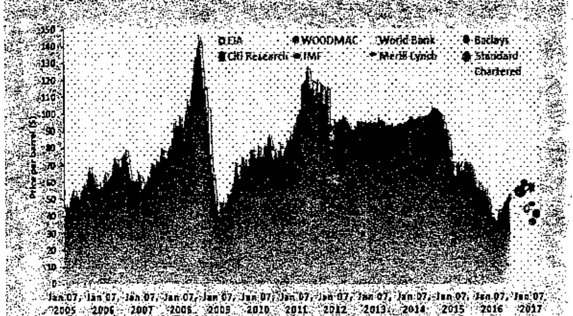
Therefore, the Administration's strategy over the near-term is to recognize price volatility, stay below the forecasts and cushion the budget from

Figure 5.6: Bonny Light Spot Price, 15-Year MA, 10-Year MA, Benchmark Price (2005-2016)



Source: BOF, JP Morgan

Figure 5.7: Looking Ahead at Oil Prices – Where forecasts see oil price per barrel in the near-term



Source: BOF, JP Morgan, Citi Research, Bloomberg the effects of price fluctuations. Accordingly, we have adjusted the medium-term framework to reflect relatively lower oil prices than the referenced forecasts; and proposed an oil price benchmark of $42.5pb, $45pb and $50pb for 2017, 2018, and 2019 respectively.

5.3 Non-Oil Revenue Baseline Assumptions

Over the years, Government has increasingly embarked on numerous non-oil sector reforms in its effort to broaden the revenue base and improve revenue collection. This has resulted in steady improvement in non-oil revenues. With the 2016 Budget of Change, the projected non-oil revenues assumed a dominant place in funding the federal budget. For the 2017-2019 period, the underlying assumptions for non-oil revenue remain guided by the improved efficiency of collection and expected growth in non-oil GDP; basically reflecting the major non-oil contributors to Nigeria's GDP.

The strategy is to continue the diversification of the non-oil revenues - which are more predictable and less volatile – to a position of prominence.

Customs collections are predicated on the Cost Insurance and Freight (CIF) value of imports, applicable tariffs and an efficiency factor. We have, however, programmed a somewhat lower Customs collection for 2017 compared to the projection for 2016 due to some considerations. These include the effects of the Central Bank's recent monetary policies, reduction in levies due to introduction of Common External Tariff (CET) from 2017 – 2019, 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 as the highest tariff line in terms of revenue generation. However, with the implementation of a coordinated border management strategy as well as reinforced anti-smuggling activities through intelligence gathering and networking, it is expected to match projections.

Companies Income Tax (CIT): The computation of CIT is based on nominal GDP; companies' profitability ratio; and an efficiency factor. In spite of the initial lull in economic activities in the economy highlighted earlier, government's ongoing efforts to improve the business environment and the strategic implementation of the 2016 Budget should begin to yield some results. Thus, projections for CIT are promising as the efficiency factor is expected to improve, given the heightened efforts of the FIRS in broadening and strengthening the tax net. FIRS has, in 2016, added about 700,000 companies to the tax base and is projecting a 10% year-on-year improvement in its collection efficiency. Also, tax income is expected to increase as government continues in its efforts to improve on the business environment.

Value Added Tax (VAT): This is predicated on an estimated aggregate national consumption of N80.05 trillion for 2017 down from about N91.96 trillion estimated for 2016, taking account of VATable items, 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. The matter of a rate review may however be revisited in due course. With ongoing reforms by the FIRS and renewed efforts at improving non-oil revenue, VAT collection is projected to increase by about 42% in 2017.

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 the *Treasury Single Account* (TSA) and the stipulation of a maximum cost-to-income ratio of 75% among others. The ongoing review of the revenue and cost profiles of a sample of these revenue agencies by the Presidential Initiative on Continuous Audit is expected to result in further improvement in accounting for their revenues. With these, government expects significant improvement in revenues from these GOEs and MDAs over the medium-term.

6. FISCAL STRATEGY FOR 2017 - 2019

The need to rebuild the macro-fiscal and economic fundamentals of the economy and engrain inclusive growth remains Government's top priority.

The state of the economy is reflective of the downside effects of recent global economic developments and domestic headwinds. Thus, the need to rebuild the macro-fiscal and economic fundamentals of the economy remains government's top priority. The strategies outlined in this document are designed to reposition the Nigerian economy from the shores of recession to a sustainable inclusive growth path. They build on the 2016-2018 medium-term fiscal strategies and carefully factored new realities, appropriate adjustment mechanisms and their implications as well as potential downside risks. Against this backdrop, the fiscal strategy for the 2017 – 2019 medium term is framed to fundamentally restructure the economy for enhanced productivity, efficiency and accountability in the management of national resources, and unlocking the real sector and private sector potentials for bolstering inclusive growth. This will require more than a coordinated and focused spending on critical sectors that have strong intensification of economic diversification potentials. It will also require supportive coordinated policies – fiscal, monetary and exchange rate policies, to deliver the needed economic transformation. This policy coordination is largely through the instrumentality of the Economic Management Team and the National Economic Council that have in attendance both fiscal and monetary authorities as well as other technical experts. Government will, however, continue to respect the instrument autonomy of the Central Bank of Nigeria. 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.

6.1 Macroeconomic Stability

Government recognizes that *proactive* fiscal measures are required to maintain a stable macroeconomic environment. Accordingly, government will drive policies that would foster macroeconomic stability, strong enough to withstand external and domestic shocks, and serve as catalyst to domestic production. The objective is to raise investors' confidence by creating a business environment conducive to investments, productivity and inclusive growth. This includes strategies to: manage inflation downwards; provide critical infrastructure to lower the cost of doing business; and more predictable and market reflective exchange rate. In addition, as part of its efforts at stabilizing the economy, government is improving its planning, budget preparation and execution strategies, enhancing oil and gas sector management, and pursuing an aggressive non-oil revenue generation mechanism. These, in addition to a healthy debt sustainability framework, will support stability in the macroeconomic environment.

6.1.1 Improved planning, budgeting, and Monitoring and Evaluation Framework

In its efforts to enhance efficiency in resource allocation while optimizing the impact of public expenditure, government will continue to programme its spending plans on predetermined medium term plans and strategies in order to achieve development objectives. This will be supported with the implementation of the Zero-Based Budgeting (ZBB) system introduced in 2016. This time, the budgeting process is being automated to minimize human interface and address other glitches experienced in the first implementation of the ZBB. A robust monitoring and evaluation framework has been instituted to ensure that projects and programmes are executed to deliver on economic priorities.

To support the implementation of the zero-based budgeting (ZBB) system introduced in 2016, the budgeting process is being automated to minimize human interface and address glitches experienced in the first implementation of the ZBB.

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6.1.2 Improving the Quality of Expenditure

Efficiency in public expenditure calls for measures to do more with less. As part of the cost minimizing measures, close scrutiny will continue to be paid to the costing of activities and competitive bidding in public procurement, continuous audit of MDAs' operations and other public financial management reforms which have begun to yield results. As part of the expenditure allocation and prioritization over the MTEF period, MDAs would be required to identify internal savings within their budget ceilings and programmes, for internal reallocation to defray funding needs for alternative programme activities within the respective vote ceilings.

Cost-containment measures through the Efficiency Unit, continuous audit of MDAs and the implementation other reforms like the TSA and IPPIS have begun to yield results

6.1.3 Oil & Gas sector management

In dealing with setbacks in the oil sector, government is working towards a coordinated reform in order to make the industry attractive to both local and international investors.

The developments in the oil and gas sector in the global environment and challenges in the domestic front signal a strong need to intensify ongoing reforms in the sector. While Nigeria is not immune to the implications of the dynamics in the global oil market, the domestic challenges in the sector which include maintaining government's investment in oil and gas while meeting pressing social needs, building indigenous participation and technology capacity in complex deep water environments, curbing crude oil theft and pipeline vandalism as well as the cost of environmental remediation are within the control of the government. In dealing with these setbacks, government is working towards a coordinated reform in order to make the industry attractive to both local and international investors. The objectives among others are to: create competitive business environment for enhanced exploration and exploitation of petroleum resources; design a fiscal framework that is flexible, stable and competitively stable; increase gas to power for domestic and commercial purposes; promote local content; and protect health and environment. This is further supported by the recent exchange rate policy introduced by the Central Bank of Nigeria.

6.1.4 Improve revenue mobilization from non-oil sector

The deep connection of the fiscal sector with the real, financial and external sectors of the economy requires that government focuses more on less volatile non-oil revenue sources to finance its spending. This can in many ways contain procyclical government spending (resulting from oil revenue fluctuations) which is inimical for economic growth and development. The oil sector which accounts only for 9.61% of Nigeria's GDP represents a larger share of its tax revenue, while the non-oil revenue performance, however, is yet to reflect the economic diversification efforts of the government. A framework is being developed to expand government non-oil revenue base and ensure optimal non-oil revenue mobilization. The tax system is being strengthened to respond to the current dynamics in the business environment. Through improved efficiency and a combination of measures that will be employed to enhance compliance, business practices of tax and revenue agencies will be reorganised.

6.1.5 Accountability & Transparency

Government will continue with public finance management reforms required to engender accountability and transparency. The operation of the Integrated Personnel and Payroll Information System (IPPIS) is not a one-off exercise and will continue in the medium term to clean out any glitch while those MDAs yet to be captured in the biometrics will be made to comply. Also, full compliance with the International Public Sector Accounting Standards

(IPSAS) will be pursued. In addition, there would be intensified efforts through the Efficiency Unit and the Bureau of Public Procurement (BPP) to ensure that public resources are used in the most efficient manner so that citizens get value for money. Some savings would be made with proper review and scrutiny of public expenditure (especially recurrent-type spending), thereby ensuring more funds are available for capital projects. Continuous audit of government expenditure is also being undertaken to promote probity in the management of public funds.

6.1.6 Sustainable Debt Management

Government is cautious of the implications of its expansive fiscal policy programme under a tight revenue profile, hence, the debt strategy is to maintain fiscal discipline and ensure that government borrowings are channelled to increase spending on critical infrastructure. We are projecting additional borrowing in the medium term, but, we are careful to keep it within the statutory threshold of 3% of GDP.

6.1.7 Intensifying Economic Diversification Efforts of the Government and Strengthening Linkages in the Economy

In continuation of its development strategy, the diversification of the economy away from oil and to create more job opportunities and generate more revenues would be reinforced. This would be with a focus on promoting the development of small and medium-scale enterprises particularly in the solid minerals and agricultural sectors. Government will sustain the development and implementation of best-fit policies and incentives to boost economic activities in the sectors. Also, with a view to plugging revenue leakages, the Government has stepped-up efforts to capture the informal sector in the tax net with the addition of about 700,000 tax payers in the tax base. This is expected to increase receipts from the FIRS, Nigeria Customs Service and other revenue generating and collecting agencies.

Government will continue to promote policies that will deliver a more diversified economy, and work at strengthening the linkages in the productive sectors of the economy.

Concerted efforts shall continue to be made to strengthen the linkages between the oil and non-oil sectors (particularly the petro-chemical sub-sector). Also, Government will continue to promote policies that will deliver a more diversified economy, and work at strengthening the linkages in the productive sectors of the economy. The objective is to increase the value-addition in the non-oil sectors, as well as promote exports capable of generating substantial foreign exchange.

6.2 National Social Development Programme

Government understands the disequilibrium in macroeconomic fundamentals, and is aware of the implications of adjustments towards a steady state. Therefore, it has resolved to remain committed to cushioning the effects, especially on the poor and vulnerable, through an integrated social inclusive development strategy. Along this line, government remains committed to providing for social programmes in the medium term.

Government will continue to pursue its gender-sensitive and inclusive job creation social intervention schemes as it recognizes that empowering women and girls is an effective way to achieve socially inclusive, pro-poor development. In this regard, continued support will be given to market women and artisans through cooperatives and cheap long-term financing to support business development and entrepreneurship. This support will also be extended to encourage entrepreneurship and innovations among young graduates.

6.3 Infrastructure for increased productivity and development

The thrust of this administration's public expenditure policy is to ensure that more resources are made available for the provision of critical infrastructure to enhance productivity and job creation, create a more conducive business environment (lower cost of doing business), and improve the living conditions of Nigerians.

To achieve an efficient coordinated infrastructure development programme, government is utilizing a multi-criteria analysis approach to capital appraisal, screening and prioritization in the 2017 budget preparation. Thus, in the medium-term, capital budgets will only admit items that are truly capital and aligned with government priorities. Spending on critical infrastructure will be targeted at increasing the stock of basic social amenities including primary health care centres, vocational training centres, safe drinking water, and mass social housing scheme. These will be supported by policies that would encourage private sector participation, lower cost of credit and increase liquidity within the mortgage sub-sector. The objective is to improve the living conditions of Nigerians while pursuing increased productivity per capita and more business opportunities.

6.4 Attracting private capital for infrastructure

Government recognizes the fact that bridging the country's infrastructure gap will require strong collaboration with the private sector as it cannot alone finance the gap. Thus, government will incentivise the private sector by providing an enabling environment to mobilise private capital for infrastructure development. This will include reviewing and strengthening frameworks for concessions and public private partnerships (PPP's). Important projects like railway construction, roads, inland waterways, and power generation, transmission and distribution that have multiplier effects on growth will continue to receive priority funding in the budget. However, government will pursue policies and programmes that will make these sectors increasingly attractive to private local and foreign investors.

Other sources of raising private resources over the period include joint ventures and asset sale. In addition, government is working towards setting up a US$25 billion Infrastructure Development Fund as a means of attracting non-budgetary resources. As the Fund becomes established, government may move some critical capital projects, and related budgetary resources, currently in the purview of MDAs to the Fund. This will ring-fence resources committed to the completion of the projects in a more efficient manner. Also, the *Sovereign*

Wealth Fund (SWF) will continue to be utilized to support the execution of critical capital projects like the completion of the second Niger Bridge. Government will also optimize opportunities for support in infrastructure from our development partners.

6.5 Improving Governance

Government is conscious of the overarching imperative of sound governance practices. Its commitment to global best practices will ensure efficiency in the management of public financial resources. Its zero-tolerance for corruption will engender a reduction of leakages of public resources. Administration of revenue collection will be more transparent thereby promoting probity and accountability. Government will intensify its efforts at recovering leaked public resources back to the treasury, improve revenue generation and collection as a way of limiting its borrowing requirements. Public expenditure will be properly scrutinized to ensure value for money.

6.6 Medium-Term Macroeconomic Parameters and Targets

The GDP growth for the medium term is based on the assumptions of average oil production of 2.2mbpd, 2.3mbpd and 2.4mbpd; average benchmark oil price of US$42.5pb, US$45pb and US$50pb for 2017, 2018 and 2019 respectively; as well as an average exchange of N290 per dollar. It is also based on an average growth in employment and labour productivity, as well as an average gross fixed capital formation of 9.41% of GDP.

GDP is projected to grow at 3.02% in 2017; while inflation is expected to moderate to 12.92%. Also, consumption is projected to increase to N80.05 trillion. This growth will be supported by the envisaged improvement in the implementation of the capital budget, and efficiency of funds utilization to support domestic demand during the period.

Growth in the medium-term will be supported by the envisaged improvement in the implementation of capital budget and efficiency of capital utilisation to support domestic demand during the period. The oil and gas sector is also expected to rebound with an average growth rate of 9.69 percent during the period. The year-on-year inflation rate is projected at 12.92% for 2017 and 12.57% for 2019.

The nominal GDP is expected to increase from N108,735 billion for 2017 to N129,773 billion for 2019. Similarly, private consumption expenditure is projected to grow from N80,048 billion for 2017 to N91,955 billion for 2019. These are important for future revenue projections, in addition to enhancing the capacity of the Government to increase spending on core social and economic programmes during the MTEF period.

Based on the foregoing, the GDP is projected to grow at 3.02% in 2017; while inflation is expected to moderate to 12.92%. These data are presented in *Table 6.1* below.

The thrust for the fiscal year 2017 Budget is to restore the economy to a sustainable inclusive growth path. Essentially, the focus is to utilize targeted spending in critical sectors that have quick transformative capabilities and strong linkages with medium term development plans to achieve a more developed infrastructure-base requisite to stimulate real sector productivity, job creation and increased private sector investment.

Table 6.1: Macroeconomic Framework (2016 – 2019)

	2016	2017	2018	2019
Inflation (%)	15.12	12.92	11.88	12.57
Nominal Non-Oil GDP (N'mn)	94,945,908.86	100,959,517.63	109,981,596.97	118,886,934.97
Nominal Oil GDP (N'mn)	3,598,048.06	7,775,017.23	8,997,777.59	10,885,780.07
Nominal GDP (N'mn)	98,543,956.92	108,734,534.86	118,979,374.56	129,772,715.04
GDP Growth Rate (%)	0.35	3.02	4.26	4.04
Consumption (N'mn)	75,320,192.12	80,048,314.23	84,458,359.61	91,955,466.42

Source: Ministry of Budget & National Planning

Government is currently working on a growth plan which will articulate strategies, policies and incentives to drive rapid growth in some key sectors of the economy. The implementation of this growth plan may significantly enhance the growth trajectory of the economy over the medium-term closer to the double digit growth rate which the economy actually requires.

6.7 Principles of the 2017 Budget

Repositioning the economy remains a top priority for government. Thus, the thrust of the fiscal year 2017 Budget is to restore the economy to a sustainable inclusive growth path. Essentially, the focus is to utilize targeted spending in critical sectors that have quick transformative capabilities and strong linkages with medium term development plans to achieve a more developed infrastructure-base requisite to stimulate real sector productivity, job creation and increased private sector investment. The value-chain that will link government focused-spending to productivity will ensure inclusiveness and more local content. Again, this will be complemented by other fiscal policies as well as monetary, trade and investment policies that will promote macroeconomic stability and extricate impediments to sector growths.

The following principles have been set to guide fiscal year 2017 Budget:

i. Realism and credibility: To guard against an unrealistic budget framework, revenue projections have been carefully determined, factoring the developments in the international oil market, actual non-oil revenue performances, domestic oil sector developments and reforms;

ii. Allocative Efficiency: This is achieved through justification and prioritization of spending as enshrined in the zero-based budgeting system;

iii. Strategic Priority Spending: Multi-Criteria Analytical (MCA) approach is being deployed to provide robust basis for projects' selections and resource allocation. This further strengthens the outcome of the ZBB process;

iv. Fiscal Deficit Target: Is set to remain within the 3% threshold set out in the *Fiscal Responsibility Act (FRA) 2007*. Specifically, it is targeted at about N2.7 trillion in nominal terms;

v. Transparency and Accountability: Through wider consultations/participation in the budget process as well as the deployment of the National Monitoring and Evaluation Framework; and

vi. Safety Nets: Considering the implications of various reforms on the poor and vulnerable groups, the 2017 Budget will continue in the provision of interventions in the areas of social programmes as a cushion.

Budget contributes to long-term changes that will reposition the economy. Thus, the 2017 Budget will be guided by 6 basic principles: realism and credibility; allocative efficiency, Strategic prioritization transparency & accountability and social safety nets.

6.8 Medium-Term Fiscal Framework: 2017 – 2019

Provisions in the MTFF are drawn from the government's development priorities over the medium term, and more specifically, driven by its fiscal strategy and reflect the broad aggregates of the government's annual budgets over the period. The aggregate revenue to fund the 2017 budget is projected to increase over the 2016 estimate of N3.855 trillion by about 8% (or about N313 billion). Thirty-three percent of this is to come from oil sources while the balance is derivable from non-oil sources – in consonance with the government's renewed focus on diversification of its revenue base.

The planned aggregate expenditure is estimated to exceed the provision of N6.06 trillion in the 2016 budget by 13.3% (or about N806 billion). The distribution of this resource among the spending categories is driven by government's strategic focus and the continuing efforts to complete and exit projects and programmes outlined in the *Strategic Implementation Plan of the 2016 Budget*. Over the medium term, government is strategically postured on reflating the economy while addressing issues around revenue generation. This informed the downward trajectory projected for the 2016-2018 medium-term. However, this trajectory is slightly altered for 2017 in order to make requisite provisions for some of its strategic programmes and projects over the medium term. Also, government will continue to provision for social intervention programmes in order to cater for the social and developmental need of poor and vulnerable Nigerians. Thus, recurrent (non-debt) expenditure and capital payments are projected to increase in nominal terms by N217.42 billion and N177.6 billion respectively in 2017 over the 2016 estimates. Details are presented in *Table 6.2* below.

Table 6.2: 2017 – 2019 Medium-Term Fiscal Framework

FISCAL ITEMS	2016 Approved Budget	2017 Proposed	2018 Proj.	2019 Proj.
Oil Production Volume (Mill Barrels per day)	**2,200,000**	**2,200,000**	**2,300,000**	**2,400,000**
Projected Budget Benchmark Price (US$ per barrel)	**38.00**	**42.50**	**45.00**	**50.00**
Average Exchange Rate	**197.00**	**290.00**	**290.00**	**290.00**
	N	**N**	**N**	**N**
FGN Retained Revenue (Amount available to fund Budget)	3,855,740,432,515	4,169,172,496,951	4,357,304,026,147	5,437,080,736,451
a Share of Oil Revenue	717,552,872,400	1,372,251,751,000	1,441,307,903,591	2,294,557,738,177
b Share of Dividend (NLNG)	95,545,000,000	14,111,414,500	18,378,735,500	25,139,781,000
c Share of Minerals & Minning	6,901,228,158	1,064,532,425	1,170,985,667	1,288,084,234
d Share of Non-Oil	1,454,694,382,138	1,508,539,186,980	1,616,771,192,353	1,775,954,176,264
Share of CIT	*867,458,267,330*	*902,831,557,652*	*985,712,987,698*	*1,077,542,476,097*
Share of VAT	*198,244,286,560*	*282,240,000,000*	*295,680,000,000*	*336,000,000,000*
Share of Customs	*326,435,418,187*	*277,562,873,948*	*293,277,202,812*	*299,746,552,874*
Share of Federation Acct. Levies	*62,556,410,061*	*45,904,755,379*	*42,101,001,844*	*62,665,147,293*
e Independent Revenue	*1,505,880,000,000*	*1,207,570,000,000*	*1,267,948,500,000*	*1,331,345,925,000*
f FGN's Share of Actual Bal. in Special Accts	*10,788,751,405*	*6,549,582,751*	*4,912,187,063*	*3,684,140,297*
g FGN's Balances in Special Levies Accounts	*14,378,198,416*	*9,086,029,296*	*6,814,521,972*	*5,110,891,479*
h FGN's Unspent Bal. of previous Fiscal Year	*50,000,000,000*	*50,000,000,000*	-	-
FGN Expenditure	6,060,677,358,227	6,866,335,052,740	6,847,573,238,276	7,117,671,597,899
Statutory Transfers	351,370,000,000	370,697,683,756	383,701,308,055	418,328,778,179
Debt Service	1,361,880,000,000	1,639,171,596,716	1,776,913,441,835	1,930,490,012,486
Sinking Fund to retire maturing loans	113,440,000,000	177,460,296,707	-	-
Recurrent (Non-debt)	2,346,389,236,196	2,563,805,681,152	2,536,955,681,152	2,568,850,000,000
a Personnel Costs (MDAs)	*1,748,331,555,044*	*1,815,000,000,000*	*1,833,150,000,000*	*1,833,150,000,000*
b Overheads	*163,392,000,000*	*180,000,000,000*	*180,000,000,000*	*180,000,000,000*
c SWV Pensions	*110,000,000,000*	*120,000,000,000*	*120,000,000,000*	*120,000,000,000*
d CRF Pensions	*188,105,681,152*	*188,105,681,152*	*188,105,681,152*	*220,000,000,000*
e Other Service Wide Votes	*116,560,000,000*	*145,700,000,000*	*145,700,000,000*	*145,700,000,000*
f Presidential Amnesty Programme	*20,000,000,000*	*65,000,000,000*	*70,000,000,000*	*70,000,000,000*
g Refund to Special Accounts		*50,000,000,000*	-	-
Special Intervention Programme (Recurrent)	300,000,000,000	350,000,000,000	350,000,000,000	350,000,000,000
Capital Exenditure (Exclusive of Transfers)	1,587,598,122,031	1,765,199,794,410	1,800,002,807,234	1,850,002,807,234
Fiscal Deficit	*(2,204,936,925,712)*	*(2,697,162,555,789)*	*(2,490,269,212,129)*	*(1,680,590,861,447)*
GDP	*102,921,720,000,000*	*108,734,534,850,000*	*118,979,374,570,000*	*129,772,715,040,000*
Deficit / GDP	*-2.14%*	*-2.48%*	*-2.09%*	*-1.30%*
Deficit to Revenue	*-57.19%*	*-64.69%*	*-57.15%*	*-30.91%*
Share of Capital as % of Non-Debt Expenditure	*39.93%*	*38.40%*	*39.07%*	*39.61%*
Share of Capital as % of total expenditure	*30.21%*	*28.24%*	*28.93%*	*28.86%*
Share of recurrent as % of total expenditure	*69.79%*	*71.76%*	*71.07%*	*71.14%*

Source: BOF

Based on the revenue and expenditure estimates, the fiscal deficit is estimated to increase by about N492 billion (or 22.32%) from the estimate of N2.204 trillion in 2016. However, while this remains below the maximum (i.e., 3% of GDP) stipulated in the *Fiscal Responsibility Act, 2007*, it is projected to take a downward turn afterwards. The deficit is to be financed mainly by borrowing as well as recoveries of misappropriated public funds/assets.

7. Analysis & Statement on Consolidated Debt & Contingent Liabilities

7.1 Debt Management Strategy

The debt management approach over the next medium-term and in particular, the 2017 fiscal year, will strategically focus on ensuring that the cost and risk profile of the federal government's public borrowings remain within statutory limits while being tailored to cover funding imperative for economic recovery. Since the country's debt relief deal with the Paris Club, the debt management policy has been to source the bulk of public debt from the domestic economy. The benefits included a deliberate development of the domestic bond market as well as reduced exposures to exchange rate risks.

Over the medium-term, government plans to expand its borrowing programme in response to difficult economic circumstances. The strategy would be to continue to support capital investment and improve the debt trajectory.

The debt management strategy takes into account benchmarks designed to manage refinancing, inflation and currency risks over the medium-term.

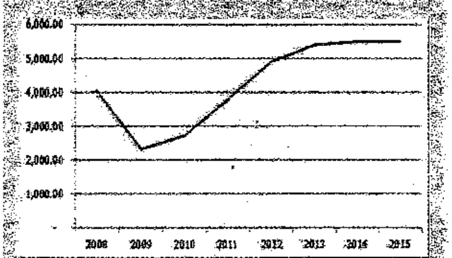
However, with the current economic situation and the need to free up resources for private sector investment taking into account that external financing sources are presently more viable for government, it has become expedient to tilt the national debt portfolio mix towards external sources. Over the medium-term, government will run a deficit budget which would lead to increased debt stock, and consequently, higher debt service to revenue ratio. Government will intensify efforts at growing revenues to manage the ratio. Also, considering Government's commitment to devoting FGN's public borrowings over the medium-term to capital expenditure, an element of the strategy is to ensure that the current status of about 31% short-term borrowing and 69% long-term borrowing adjusts to 25% short-term and 75% long-term. Thus, a multiple outcome of remixing between external and domestic composition on the one part, and within the domestic, between short and long-term debts, is achieved.

7.2 Total debt stock[3]

Nigeria's total public debt stock stood at $61.45 billion (about, N16.3 trillion) as at 30th June, 2016. The total debt stock is composed of external debt stock of $11.26 billion (or about N3.19 trillion) and domestic debt[4] stock of $50.19 billion (N13.11 trillion). Of the total domestic debt, the federal government was responsible for about 74.6%, while the 36 states and the FCT accounted for the balance.

7.3 Debt Service & Sustainability

Figure 7.1: Nigeria's Total Debt Service

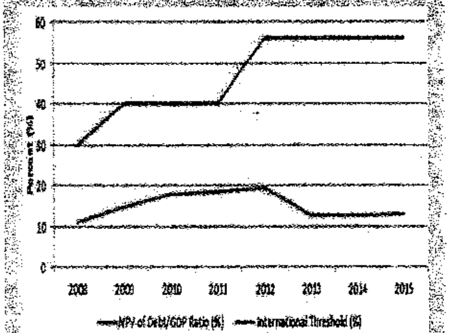


Source: Debt Management Office

While the Government maintains an expansionary fiscal policy over the short- to medium- term and despite the country's rising total debt service costs (see *Figure 7.1*), the strategy is to keep the debt to GDP ratio within the present country specific ratio of 19.39%, and potentially review same to not more than 25% in 2017. This is well within the global threshold of 56% for the country's peer group (See *Figure 7.2*). Government, in consideration of its debt sustainability position, will remain prudent in its borrowing programme. Borrowing would be geared towards funding critical capital projects that have potentials to effectively increase productivity, and hence, provide mechanism for refinancing the debt.

7.4 Nature & Fiscal Implication of Contingent Liabilities

Figure 7.2: Nigeria's Debt Sustainability Position



Source: Debt Management Office

Contingent liabilities may arise from government's guarantees in respect of Ministries, Departments and Agencies' (MDAs) contractual agreements or revenue collections. The strategy over the near-term is to focus the bulk of expenditure on the completion and exit from critical ongoing capital projects, thereby keeping the possibility of new liabilities low. However, as government continues to explore public-private-type development partnerships, particularly in its infrastructure development efforts, contingent liabilities could potentially arise. Government will maintain a strong regulatory framework so as to limit the number of new contingent liabilities in 2017.

[3] Figures are based on CBN official exchange rate of N283/$1 as at 30th June 20165, and N197/$ as at 31st December 2015 were used iro FGN and States Domestic debt, respectively.

[4] Actual domestic debt stock for the 36 states and the FCT was as at 31st December, 2015.

On the revenue side, contingent liabilities may arise from tax revenue collections. These potential liabilities are addressed in the medium-term expenditure framework.

8. Risks to the Medium-Term Outlook

The Nigerian economy has remained susceptible to a number of recurring risks and persistent shocks. These risks have posed setbacks to government finances, constrained economic growth, and consequently, slowed the pace of achieving development objectives. These shortcomings have been carefully considered in designing the medium-term strategy.

8.1 Oil Price: lower for longer and volatile

A major recurring risk has been the volatility of oil prices which distorts government's revenue outturns, expenditure programme, as well as planned deficit targets. In recent times, although oil prices are still volatile, they have plummeted significantly. The low crude oil price is more likely to persist for longer given that the underlying drivers of the negative price shock - mainly, supply-side factors such as higher oil production resulting partly from non-OPEC developments (especially, U.S shale oil) as well as higher-than-expected OPEC output - are unlikely to taper. In addition, there is less optimism that the demand-side factors, which have resulted primarily from weak economic activities in major market economies and are exerting downward pressures on crude oil prices, would ease off in the medium term as the fragile recovery of the global economy is projected to linger.

8.2 Oil Quantity Shocks

Also, through dialogue with stakeholders in the oil bearing communities in the Niger Delta region, and increased security measures to protect oil facilities, government is working towards a lasting solution to oil production disruptions.

The potential risk of declining fiscal outturns resulting from persistent lower oil prices may worsen due to activities of oil pipeline vandals and crude oil thieves. As a consequence, there are increased risks of pressures on the foreign reserves (due to foreign exchange supply shortages), exchange rate tensions as well as public debt portfolio risks. The risk-effects, however, depend on the extent of pass-through of oil price and quantity shocks on both fiscal and external sector accounts, as well as the size of fiscal buffer.

With diminished fiscal buffers, adjustments may be tougher. However, with the adoption of a comprehensive fiscal sustainability programme combined with supportive monetary and structural reform policies, these risks are being effectively managed. For instance, the oil price benchmark has been carefully determined to accommodate any downward volatility in oil futures prices. Also, through dialogue with stakeholders in the oil producing communities in the Niger Delta region, and increased security measures to protect oil facilities, government is working towards a lasting solution to oil production disruptions. The goal is to stabilize oil production around projected levels over the medium-term while ensuring that lives, infrastructure and economic activities are also enhanced in the oil bearing communities. In addition, government is shifting its focus to non-oil revenue sources as a measure of dousing any risk of oil revenue volatility on its finances.

Government is shifting its focus to non-oil revenue sources as a measure of dousing any risk of oil revenue volatility on its finances.

8.3 Risk to Non-oil Revenue: Insurgency, Economic slowdown and Drastic Weather Changes

Government recognizes the potential implications of a strong non-oil revenue drive and is, therefore, working to ensure proper coordination of its policies in a manner that would not be counter-productive or distort medium term fiscal projection. Slowdown in economic activities as well as insurgency in parts of the North-East remain potential risks to non-oil revenue. While insurgency contributes to the moderation of taxable activities around the region, lags in fiscal spending in critical economic sectors resulting from shortfalls may drag activities in the real sector with implications for government tax revenues and well as social welfare. There are also concerns about climate change effects on rainfall, and consequently, on agricultural productivity with spillover effects on food imports, forex demand and current account balances. Proactive flood/drought risk assessment, prevention and control measures as well as other potential damage-mitigation measures are being deployed in order to effectively curb the risks of drastic weather changes in the medium term.

The strategies outlined in this document recognize these potential risks, and therefore, have been designed to effectively contain the downside risks.

8.4 Exchange Rate Risk

With the launch of the new debt management strategy, a key concern is the potential increase in foreign exchange risk arising from the potential rise in external debt irrespective of the terms and conditions of the debt instruments. This risk implies that more resources might be required to refinance or service the debt, should the Naira depreciate below the levels at which the debt were incurred, particularly with the introduction of a flexible exchange rate regime. This potential risk is largely mitigated by the longer-term conditions of the debts during which the economy would have been sufficiently diversified for increased export earnings for ease of debt service payments.

9. CONCLUSION

The 2017–2019 MTEF and FSP is prepared against the backdrop of the challenging global economy and some peculiar developments in the domestic economy, which continue to impact the domestic economy. The twin - oil production and price – shocks continued to exacerbate internal and external imbalances while growth in the economy receded in the year due to a slow-down in economic activities. Fiscal buffers and monetary buffers were low and rising demand for forex continue to put pressure on the exchange rate, interest rates, and inflation. These developments resulted to loss of jobs particularly in the private sector. In the context of these challenges, and medium-term macroeconomic and fiscal risks, implementation of profound reforms which engender an efficient fiscal outlook and stimulate inclusive economic growth is planned for the next medium-term.

The fiscal policy thrust for the 2017 fiscal year and beyond takes ongoing strategies and interventions into consideration; and is continually focused on stimulating the economy with a strategic increase in key capital investment, public financial management reforms, improved job creation, and reduced cost of doing business in the country amongst others. They will engender social and physical security while creating jobs and improving the general welfare of Nigerians.