

2022-2024

Medium Term Expenditure Framework and Fiscal Strategy Paper

2022 - 2024 MTEF & FSP



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

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The economic and fiscal estimates presented in the 2022-24 MTEF/FSP incorporate assumptions, narratives and judgments based on information available at the time of preparation. These estimates are subject to uncertainty. This MTEF/FSP provides details of the historical performance of Budget forecasts for the macroeconomic aggregates of real and nominal GDP, as well as for estimates of government revenues & expenditure. The Fiscal Strategy Paper also presents a number of economic forecasts / projections and key underlying assumptions as well as Government's medium-term outlook.

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LIST OF ACRONYMS

ACRONYM	DESCRIPTION
AfCTA	Africa Continental Free Trade Agreement
ADF	African Development Fund
ADR	Average Duty Rate
AKK	Ajaokuta-Kaduna-Kano
BHCPF	Basic Healthcare Provision Fund
BOF	Budget Office of the Federation
BOT	Balance of Trade
BOP	Balance of Payment
CBN	Central Bank of Nigeria
CBDC	Central Bank Digital Currency
CET	Common External Tariff
CIF	Cost, Insurance and Freight
CIT	Companies Income Tax
CRF	Consolidated Revenue Fund
DMO	Debt Management Office
DPR	Department of Petroleum Resources
DSSI	Debt Service Suspension Initiative
ECA	Excess Crude Account
EIA	Energy Information Administration
ERGP	Economic and Recovery Growth Plan
EU	European Union
FCDA	Federal Capital Development Authority
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FG	Federal Government
FGN	Federal Government of Nigeria
FMFBNP	Federal Ministry of Finance, Budget and National Planning

FRA	Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
FX	Foreign Exchange
FY	Financial Year
GAVI	Global Alliance for Vaccines
GDP	Gross Domestic Product
GENCOs	Electricity Generation Company
GOEs	Government Owned Enterprises
IAT	Import Adjustment Tax
ICT	Information and Communication Technology
I&E	Import and Export
IDA	International Development Association
IEA	International Energy Agency
IGR	Internally Generated Revenues
IMF	International Monetary Fund
IPPIS	Integrated Personnel and Payroll Information System
JV	Joint Venture
LIC	Low Income Countries
MBPD	Million Barrels Per Day
MDAs	Ministries, Departments and Agencies
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MSMEs	Micro, Small and Medium Enterprises
MTFF	Medium-Term Fiscal Framework
MTEF	Medium-Term Expenditure Framework
MTDS	Medium-Term Debt Strategy
MTNDP	Medium Term National Development Plan
NAFEX	the Nigerian Autonomous Foreign Exchange
NASS	National Assembly
NBET	Nigerian Bulk Electricity Trading

NCS	Nigeria Customs Service
NEDC	North East Development Commission (NEDC).
NEXIM	Nigerian Export-Import Bank
NIRP	Nigeria Industrial Revolution Plan
NNPC	Nigerian National Petroleum Corporation
OAGF	Office of the Accountant General of the Federation
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PBC	Peoples Bank of China
PCOA	Put-Call Option Agreement
PFM	Public Finance Management
PIGB	Petroleum Industry Governance Bill
PMS	Premium Motor Spirit
PPP	Public Private Partnership
PPT	Petroleum Profit Tax
PRG	Partial Risk Guarantees
PSRP	Power Sector Recovery Program
PSRO	Power Sector Recovery Operations
SDG	Sustainable Development Goals
SIP	Social Investment Programme
TE	Tax Expenditure
TES	Tax Expenditure Statement
TSA	Treasury Single Account
UK	United Kingdom
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook
YoY	Year on Year

1.0 INTRODUCTION

The Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF & FSP) is a major feature of the annual budget preparation cycle. It provides the basic structure for the estimates and assumptions that underlie the annual budgets. It is designed to facilitate several important outcomes: greater macroeconomic balance; improved allocative efficiency - inter- and intra-sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public funds. Integrating the top-down resource envelope projection with the bottom-up sectoral programme expenditure estimation ensures that the policy making, planning, and budgeting processes are linked and developed into a body of consistent goals to be achieved within a three-year period. This has become even more important for developing economies as severe economic consequences in the wake of the COVID-19 pandemic make the setting and attainment of development goals imperative.

In developing this MTEF&FSP, the broad strategic objectives of government for various sectors have been given extensive consideration. The expenditure framework reflects the resource constraints, government policies, and sector priorities within which decisions are made to maximize socioeconomic outcomes. The MTEF&FSP also endeavours to make public expenditures more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and stipulatory policies and programmes. The MTEF&FSP will seek to consolidate the gains of the Economic Sustainability Plan (ESP) 2020 and to incept the drive for the attainment of important outcomes of the Medium-Term National Development Plan 2021-25 which include sustainable and inclusive Gross Domestic Product (GDP) growth, enhanced macroeconomic balance, improved resource allocation, and a well-diversified economy.

The effectiveness of medium-term perspective in budgeting process on the economy depends ultimately on the credibility of the expenditure estimates and ceilings as well as how this information is used by decision makers, the private sector operators, and civil society organisations. The Administration has demonstrated commitment to Public Finance Management (PFM) reforms in Nigeria. Extensive consultations with relevant stakeholders, rigorous analysis and supportive fiscal arrangements have been employed to ensure that successive MTEF&FSP achieve the fiscal objectives through disciplined implementation of budgetary targets.

The 2022-2024 MTEF&FSP will provide guidance to Ministries, Departments and Agencies (MDAs) of the Federal Government in the formulation of policies and selection of projects and programmes to ensure economic development. The MTEF&FSP will also provide further impetus to the efforts at ramping up ongoing drive to accelerate investment in critical infrastructures and human capital, diversification of the government revenue base for enhanced social welfare and sustained improvement in business environment. Federal Government's annual budget for 2022-24 fiscal years, deriving from this MTEF&FSP will encapsulate government's plan to accelerate our economic recovery process, promote social inclusion and strengthen resilience of the economy.

2.0 ECONOMIC AND FISCAL OUTLOOK

2.1 Global Economic Developments and Implications

COVID-19 pandemic, though primarily a health crisis has left in its wake severe economic consequences for all countries around the world. The economic impact was exacerbated by the inter-dependencies among various economies. In spite of the localized lockdowns, supply chain disruptions and heightened uncertainties occasioned by renewed wave and new variants of Covid-19 virus, the global economic environment is expected to improve in the near term.

The International Monetary Fund (IMF) recently revised its forecasts for global economic growth in 2021 to 6.0% after 3.5% decline in 2020. Global economic growth is projected to moderate beyond 2022. The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and

	Estimate	Projections	
Real GDP annual percent change	2020	2021	2022
World Output	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Emerging Market & Developing Countries	-2.2	6.7	5.0
China	2.3	8.4	5.6
India	-8.0	12.5	6.9
Brazil	-4.1	3.7	2.6
Sub – Saharan Africa	-1.9	3.4	4.0
Nigeria	-1.8	2.5	2.3
South Africa	-7.0	3.1	2.0
Low: Income Developing Countries	0.0	4.3	5.2
<i>Source: IMF-WEO April, 2021</i>			

continued adaptation of economic activity to subdued mobility and contactless operations.

Sustained non-pharmaceutical COVID-19 containment measures, greater vaccine availability and improved therapies are expected to enhance global economic activity. Recovery paths have varied across countries, regions as well as across sectors. GDP levels are projected to remain well below the pre-pandemic level/trend through 2023 for most countries. Prices, however, are expected to rise globally due to the massive monetary and fiscal injections in several countries as stimulus packages to mitigate the impact of the COVID-19 pandemic.

Buoyed by the prospect of improved global oil demand, the Organization of the Petroleum Exporting Countries, and allies (OPEC+) eased production restraints. In a move aimed at reducing incentive to shift profits to low-tax offshore havens thereby boosting domestic revenues to fund post COVID recovery, the G7 has agreed to a deal stipulating a global corporate minimum tax rate of 15%.

The Euro Area is projected to rebound to a 4.4% growth in 2021. The recovery is anticipated to be driven by pent-up demand and higher household incomes. The lockdowns and other measures imposed to contain the spread of COVID-19 have led to a marked increase in the savings of European households. The closure of non-essential businesses and many leisure activities, together with restrictions on mobility and activity as well as increased uncertainty, have caused the savings rate in the Euro area to rise, peaking at around 25% during Q2 2020 in contrast to the 13% prior to the pandemic.

There are growing concerns about inflation in the United States as consumer prices surge amid significant slowing pace of job creation in April 2021, fuelling concerns of widespread

discrepancies in the labour market. GDP growth in the USA is expected to peak at 6.4% in 2021 and moderate to 3.5% in 2022.

Interest in cryptocurrencies from mainstream financial firms and corporations has surged this year. Regulators in the USA as well as in other parts of the world are developing frameworks for the treatment of the \$1.5 trillion cryptocurrency market. This is with a view to address concerns about consumer protection, money laundering and terrorist financing. Central Banks including some in the Emerging and Developing Economies (EMDEs) and working on introducing Central Bank Digital Currency (CBDC).

A new wave of the pandemic has slowed economic activities in India, Brazil and Turkey dampening growth prospects in three of Nigeria's major trading partners. China's economic growth slowed in 2020 to 2.3%, the lowest GDP growth rate in more than a decade. The Chinese economy has since seen a rebound, recording an unprecedented quarterly growth of 18.3% in the first quarter of 2021 compared to the same quarter last year. China is leading the global recovery from the pandemic, and it is on course for the necessary rebalancing to a sustainable growth path.

Economic activities in Sub-Saharan Africa region are expected to pick up in 2021 and 2022 albeit unevenly. The pandemic has put public finances under immense pressure. Many Sub-Saharan African countries rely on multilateral budget support facilities to meet Balance of Payment (BOP) needs. and others have increasingly taken on debt on non-concessional terms—from private lenders and non-Paris Club members. Public debts in emerging markets have surged to 50-year high. A debt relief programme, the Debt Service Suspension Initiative (DSSI), which allows Low Income Countries (LIC's) to suspend repayment of official bilateral credit has been extend by the G20 countries until the end of 2021.

With the commencement of trading, African countries are expected to leverage on the African Continental Free Trade Area (AfCFTA) Agreement to boost non-oil exports and increase foreign exchange inflows. As governments develop comprehensive industrial and trade strategies, offer direct incentives for businesses to produce for exports and implement port reforms, intra-African trade is anticipated to see a significant boost.

Domestic Economic Environment. **GDP growth and Sectoral Performance**

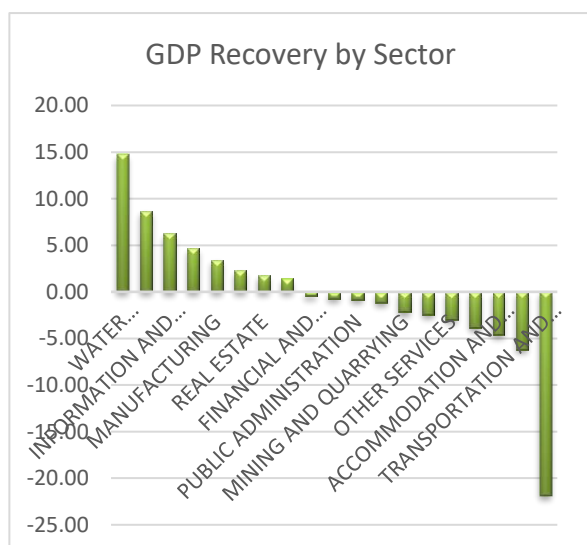


Source: National Bureau of Statistics

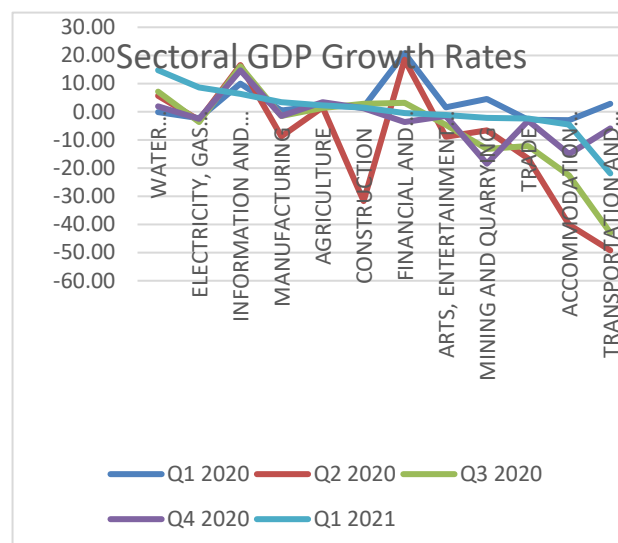
The Nigerian economy sustained a tepid recovery in first quarter of 2021 posting a Year-on-Year (YoY) GDP growth of 0.51%, consolidating the exit from recession in Q4 2020, and reflecting the easing of COVID-19 induced restrictions.

The growth was driven by the non-oil sector, which rose by 0.79% YoY masking the deterioration in oil GDP (-2.21% YoY). Sectoral growth in non-oil GDP growth was primarily in telecommunication and agriculture sectors recording 7.69% and 2.28% YoY growth,

respectively. Manufacturing sector grew by 3.4% YoY to aided by a boost in cement and food, beverage, and tobacco subsectors. Similarly, the output of the real estate and financial institutions subsectors increased by 1.77% and 0.15% YoY, respectively. Significant concerns persist over the performance of trade (-2.43% YoY) and road transport (-23.75% YoY) subsectors which are yet to rebound to pre-pandemic levels.



Source: National Bureau of Statistics

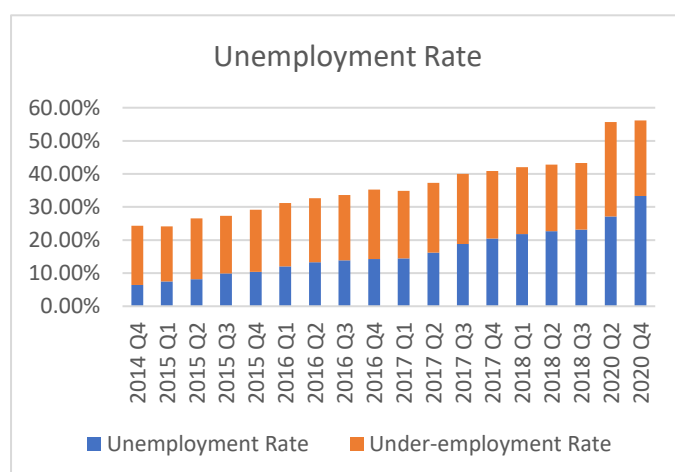


Source: National Bureau of Statistics

The fragility of the economic recovery is evinced by persistent recession in the oil sector, which has sustained contraction in oil output in the first quarter 2021. Oil output in Q1'21 fell to 1.72 million barrels per day (mbpd) from 2.07 mbpd in Q1 2020, attributable to reported shutdowns in Forcados and Okono terminals. The IMF's latest projection is for the Nigerian economy to grow by 2.5% in 2021, an upward revision from earlier estimate of 1.5%. The NBS' projected growth rate, and basis for the 2021 budget, was 3.0%, but it too has recently revised its 2021 forecast growth to 2.5%.

Unemployment and Underemployment

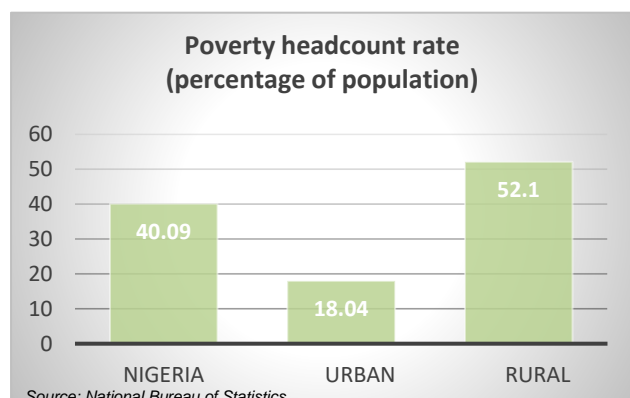
Reducing the incidence of high unemployment and underemployment in the economy is a major objective of fiscal and monetary policies in the medium term. The number of persons in the economically active or working age population (15 - 64 years of age) rose by 4.3% in Q4, 2020. Unemployment rate in Q4, 2020 was 33.3%, an increase from the 27.1% recorded in Q2, 2020. The underemployment rate declined from 28.6% in Q2, 2020 to 22.8%.



Source: National Bureau of Statistics

The spatial dimension of the unemployed labour force has significant planning implications. there has been an uptick in unemployment among rural and urban dwellers. Unemployment rate among rural dwellers rose to 34.5% in Q4, up from 28.2% in Q2, 2020, while urban unemployment was 31.3% up from 26.4%. Conversely, underemployment among rural dwellers declined to 26.9% from 31.5%, while the rate among urban dwellers decreased to 16.2% from 23.2% in Q2, 2020.

High unemployment/underemployment rates have implications for poverty incidence in the population. NBS' latest estimate is that 40.1% of the population (82.9 million people) are poor.

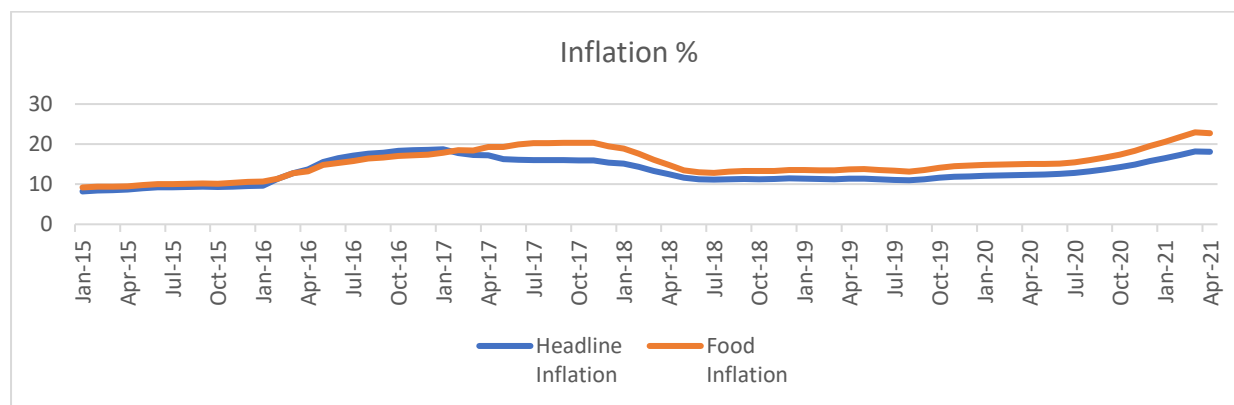


As the economy recovers, the continued support for high employment generating sectors, improvement in infrastructure and other deliberate efforts are expected to significantly reduce the current unemployment and underemployment rates in Nigeria, and consequently, reduce the poverty incidence. Concerted efforts at ramping up aspects of the Social Investment Programme (SIP) are also aimed at providing direct employment to the teeming youth population.

2.2.2 Monetary Sector

Inflation

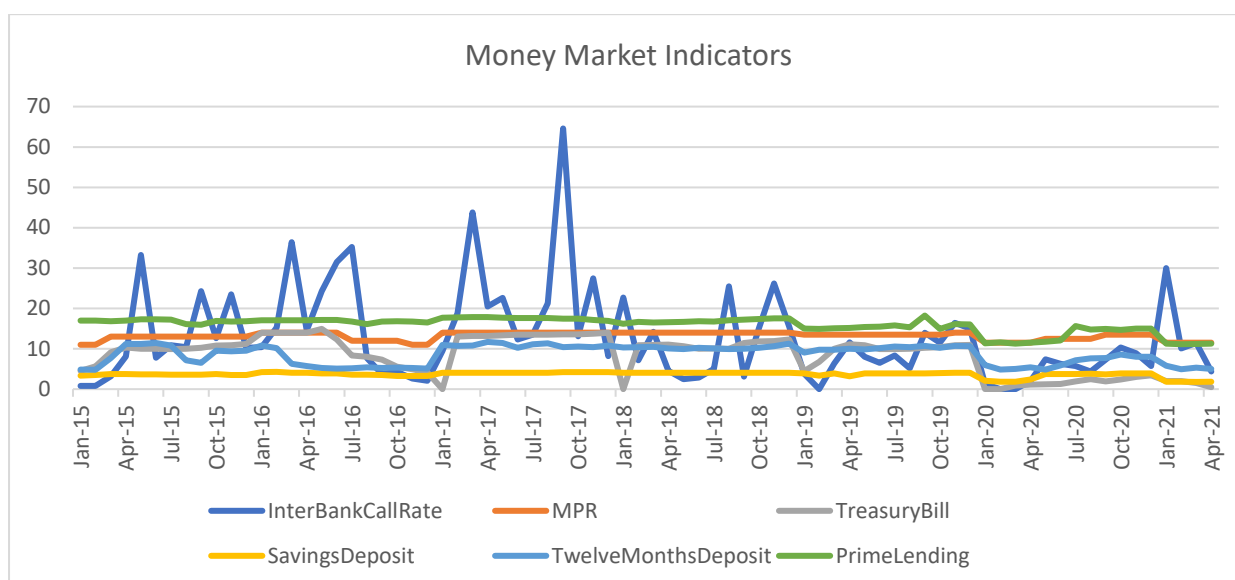
The persistent rise of inflation halted in April 2021 after nineteen consecutive months. From a four year high of 18.17% YoY in March, the consumer price index, (CPI) which measures inflation moderated for the second consecutive month to 17.93% in May 2021. This represents 0.19 % points lower than 18.12% recorded in April. Inflation is driven largely by surge in food prices (itself fuelled by structural issues and insecurity). Urban inflation rate increased by 16.09 in May higher than 15.63% recorded in April 2021, while the rural inflation rate increased by 17.36 % in May 2021 from 17.57% in April 2021. Inflationary pressure continues to weaken disposable income and manufacturers' profitability. It is currently about 100% above CBN's 9% target threshold.



Source: Central Bank of Nigeria

Interest Rate

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria has left the Monetary Policy Rate (MPR) unchanged at 11.50%. Other monetary parameters are also maintained in a move aimed at sustaining the gains of its accommodative stance and enable the Bank examine the impact of the policies already in operation. The MPC cited fragile post COVID-19 economic recovery and the need to sustain the plan to make low-cost credit available.

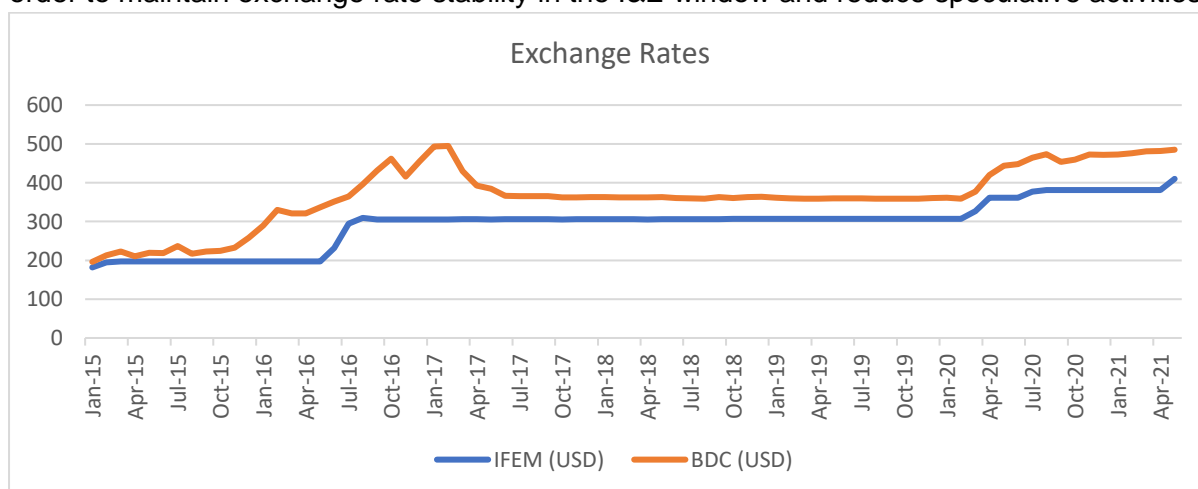


Source: Central Bank of Nigeria

The strategy of the CBN to mop up liquidity and encourage more targeted credit support to households, SMEs, health, agriculture, and manufacturing sectors has helped to manage inflationary pressure. Tightening of systemic liquidity on the back of the CBN's primary market activities have resulted in an uptick in money market rates thereby halting the equities market rally in May. Rising yields in the fixed income securities market reduced demand by investors. Market capitalisation fell from N20.847 trillion in April month to close at N20.035 trillion in May 2021. Similarly, the Nigerian Exchange (NGX) All-Share Index (ASI) declined by 3.5% in May 2021.

Exchange Rate

The Central Bank of Nigeria (CBN) has adopted the Nigerian Autonomous Foreign Exchange (NAFEX) Import and Export (I&E) window rate it introduced in 2017 as the official exchange rate. Most foreign exchange transactions in the economy are currently being conducted at this rate. This action is in furtherance of the steps towards ensuring clarity and improving market confidence with the prospects of easing the pressure on the exchange rate in the medium term. CBN has also embarked on measures to address foreign exchange supply shortage in order to maintain exchange rate stability in the I&E window and reduce speculative activities.

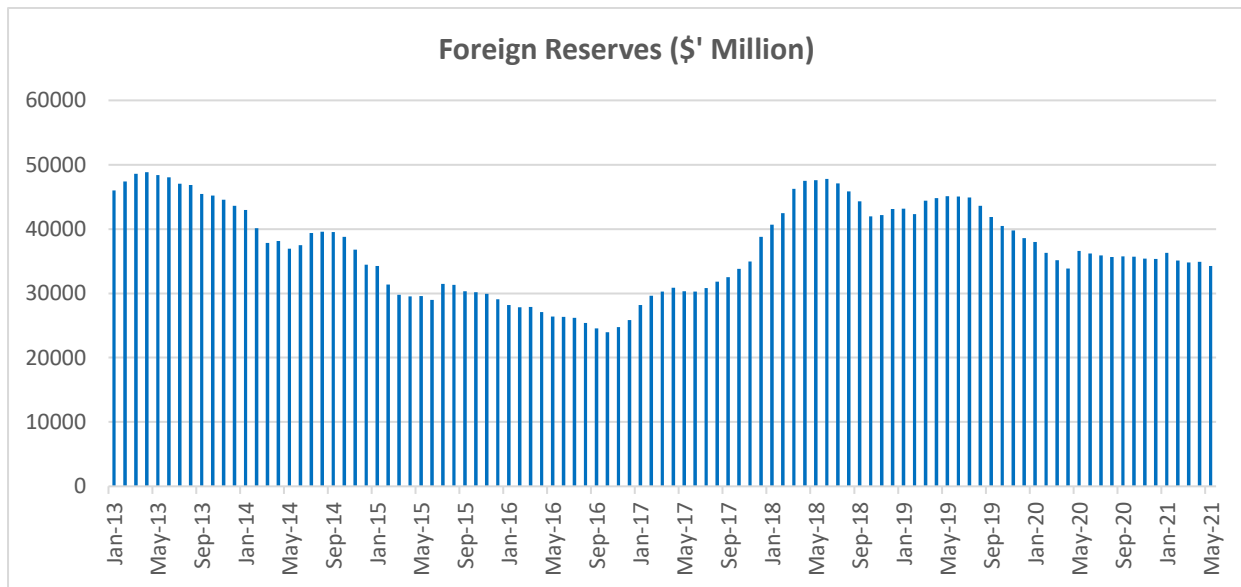


Source: Central Bank of Nigeria

Foreign Exchange Reserves

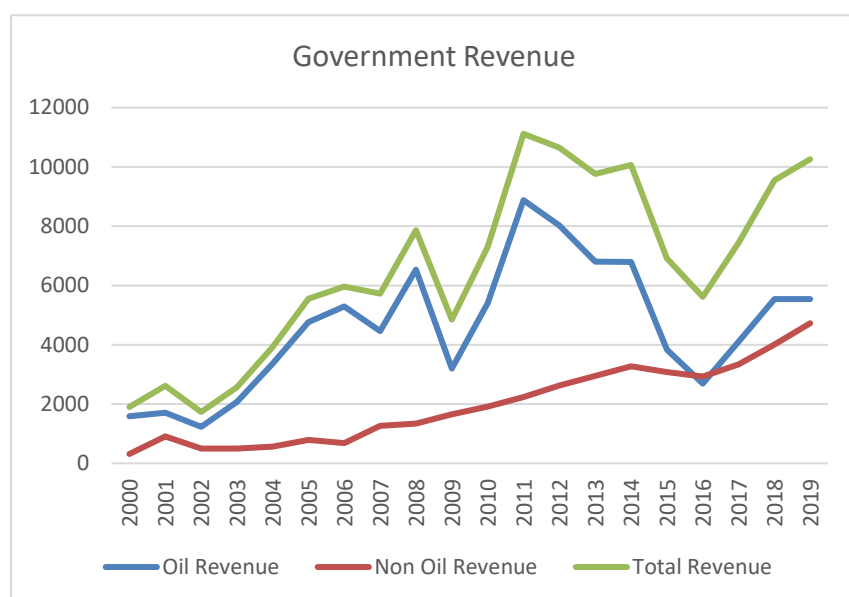
Nigeria's Foreign Exchange Reserves stood at US\$34.2 billion at the end of May 2021, a decline of \$640 million compared with \$35.1 billion in the previous month. The decline is partly attributable to the intervention of the CBN in the market to stabilize the exchange rate, and low foreign exchange inflows into the country. The reserves currently are sufficient to cover seven months of imports of goods and services.

The CBN has continued to implement a demand management framework, which is designed to bolster the production of items that can be produced in Nigeria, and aid conservation of external reserves. The framework includes a gradual liberalization of the foreign exchange market in order to smoothen exchange rate volatility and mitigate the impact which, rapid changes in the exchange rate could have on key macro-economic variables. The CBN has also instituted measures to boost foreign exchange inflows into the economy, including diaspora remittances. Nigeria's diaspora remittances fell by 27.7% in 2020. Remittances by Nigerians in diaspora fell to \$16.8 billion in 2020 from \$23.24 billion in 2019.



Source: Central Bank of Nigeria

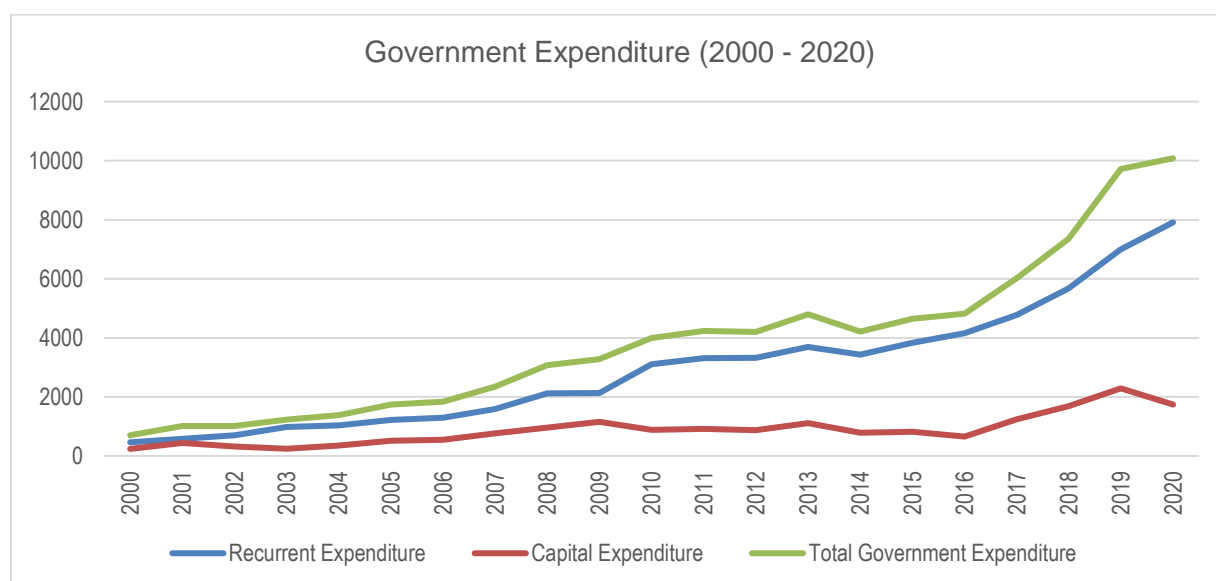
2.2.3 Fiscal Sector



Nigeria's revenue base is broadly categorised into two viz. oil and non-oil. Oil revenue is primarily from crude oil receipts while non-oil earnings are mainly from taxes collected. Receipts from both sources have collectively accounted for about 65% of total receipts since 2015. There has been consistent rise in the contribution of the non-oil sectors to government revenues, rising from a

paltry 16.5% in 2000 to 57.5% in 2020. Various measures are currently being implemented to diversify the sources of foreign exchange earnings in the economy.

As a result of the aggressive investment in critical infrastructure, government has embarked on expansionary fiscal policies. Hence, there has been a rise in nominal expenditure in the recent past. This has led to significant increase in public debt stock.



Source: National Bureau of Statistics

Tax Expenditure Statement

Even though the Fiscal Responsibility Act 2007 requires its preparation, the first Tax Expenditure Statement (TES) was prepared in 2020. Tax expenditures (TEs) take the form of an allowance, waiver, preferential tax rate, exemption, deferral, or offset that reduces a tax obligation to achieve a specific policy objective. The statement provides the policy maker the leverage to estimate the implicit cost of concessions granted and appraise the desirability such costs compared to the benefits. The concept recognises that TEs are not merely forgone

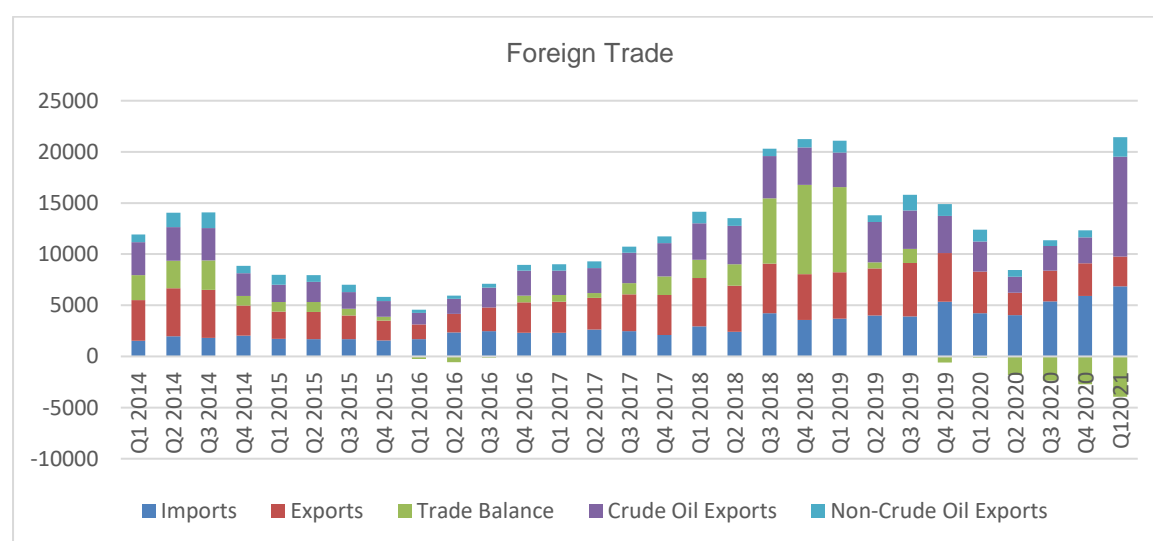
revenues but that the result is similar whether a government chooses to spend directly on or forgo revenue from certain individuals, groups, or activities. A TES, which includes an estimate of the amount of tax expenditures for 2020, and projections for 2022-24, is included as an appendix to this MTEF&FSP.

2.2.4 External Sector

Trade

Nigeria recorded a 10.3% decline in foreign trade in 2020 to NBS. The value of total imports in 2020 stood at N19.898 trillion or 17.3 % higher than the N16.96 trillion recorded in the previous year. Total exports also dropped by 34.8% from N19.19 trillion in 2019 to N12.522 trillion in 2020. International restrictions suppressed trade activities in 2020. Q1 2021 trade report brightens the prospect of a resurgence as total foreign trade rose to N9.8 trillion in the first quarter of 2021 with increases in both exports and imports. This represents a 6.99 % increase quarter on quarter and 14.13% YoY. Imports stood at N6.9 billion while exports were valued at N2.9 billion deepening trade deficits.

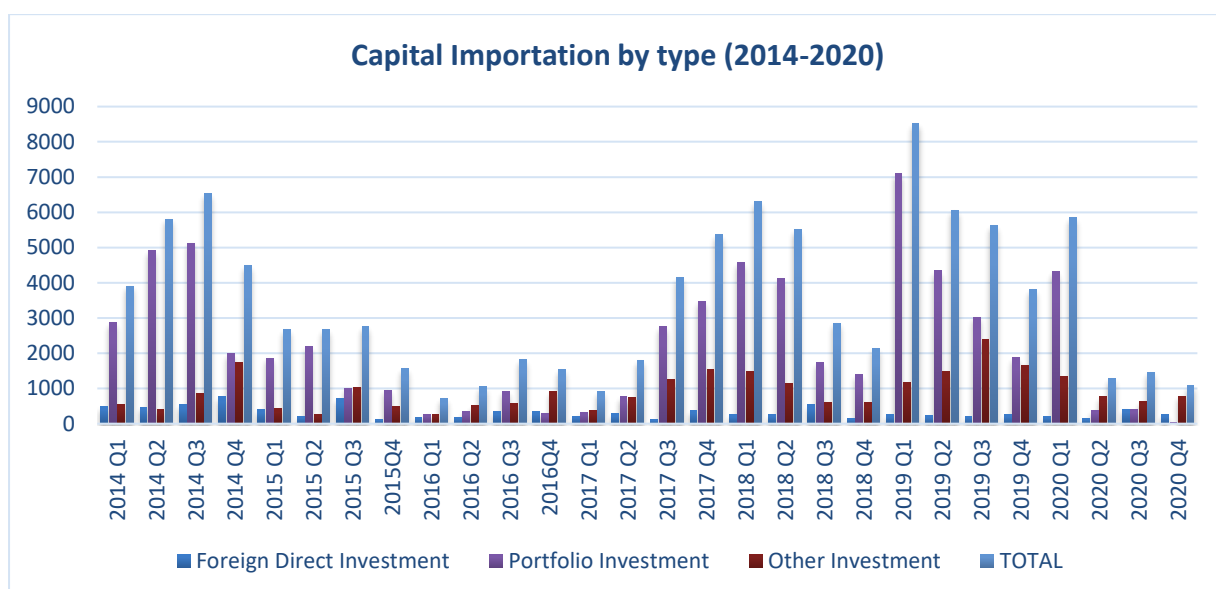
Nigeria exports primarily crude petroleum and other raw materials such as cocoa, rubber, palm kernels, organic oils, and fats. It imports secondary products such as chemicals, machinery, transport equipment, manufactured goods, food, and refined petroleum products. Crude oil export stood at N1,929.83 billion representing 66.38 % of the total export recorded in Q1, 2021. Current account deficit widened to 4% of GDP in 2020 from 3.6% of GDP in 2019, mainly due to a 45% collapse in exports.



Source: National Bureau of Statistics

Nigeria Capital Importation

Total value of capital importation in 2020 stood at \$9.7 billion, a decline of 59.65% when compared to \$24 billion in 2019. There was a decline across all the capital importation types- Foreign Direct Investment, Foreign Portfolio Investment, and Other Investments.



Source: National Bureau of Statistics

In Q4 2020, capital importation totalled \$1.069 billion, representing a 26.81% decline compared with the \$1.46 billion recorded in Q3 2020. Year-on-year, capital importation declined by 71.87% from \$3.8 billion recorded in the corresponding quarter of 2019. The largest amount of capital importation by type was received through other investment, which accounted for 73.22% (\$783.26million) of total capital importation. This is followed by Foreign Direct Investment (FDI), which accounted for 23.49% (\$251.27million) of total capital imported and Portfolio Investment, which accounted for 3.29 % (\$35.15 million) of total capital imported in the fourth quarter of 2020.

The decline in capital importation underscores the importance of ensuring improvement in the investment climate in Nigeria to win investors' confidence in the global competition for much needed foreign capital, especially at a time when the global economy is awash with liquidity.

3.0 REVIEW OF 2020 BUDGET PERFORMANCE

Relative to the revised 2020 budget, the performance of key budget parameters reflected the effects of the COVID-19 pandemic. Table 3.1 shows that oil production fell, and inflation trailed target, while oil price and GDP closed better than projected.

Table 3.1: Performance of key 2020 Budget parameters

Description	2020 Budget Revised	Jan - Dec 2020 Actual
Oil Price Benchmark (US\$/b)	*28.0	**43.02
Oil Production (mbpd)	^1.80	^^1.79
Exchange Rate (N/\$)	360.0	379.0
Inflation (%)	14.13	+14.89
GDP Growth Rate (%)	`(4.2)	``(2.48)

* Revised average crude oil benchmark price for 2020, initially set at \$57/b; **Average price of Nigerian crude for the period.

^Revised oil production target (initially 2.18mbpd); ^^Average production, inclusive of volumes for repayment of pre-2016 cash call arrears.

+ Inflation rate as at December, 2020.

`Revised GDP growth rate post-covid-19 (initially 2.93%); ``GDP growth rate was 0.11% in Q4 2020. Cumulative GDP growth rate for 2020 was -2.48%.

Source: BOF, NBS, CBN, NNPC, OPEC

3.1 Revenue Outturns

3.1.1 Oil Revenue

In FY 2020, gross oil and gas revenue was projected at N3.03 trillion. Actual receipt was N4.40 trillion, representing 45.2% performance over the budget. After deductions (including 13% derivation), net oil and gas revenue inflows to the Federation Account was N3.02 trillion. This is N914.87 billion (or 43.6%) more than the target. The remarkable performance in oil and gas revenue is attributable to the average market price of oil which was 54% higher than the budget oil price benchmark. In addition, oil and gas revenues were monetized at a higher rate than the budget benchmark – an outcome of an agreement between the fiscal and monetary authorities, which required dollar earnings to be exchanged at 2% less the Import & Export Window rate.

Table 3.2 2020 Revenue Performance

	Fiscal Items	2020 Revised Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira	Billions of Naira	Billions of Naira	%
A	OIL REVENUE				
a	Gross Oil and Gas Revenue	3,033.36	4,403.71	1,370.35	45.2%
b	Deductions*	932.62	1,388.09	455.47	48.8%
c	Net Oil and Gas Revenue	2,100.74	3,015.62	914.87	43.6%
B	NON-OIL REVENUE				
a	Non-Oil Taxes	5,146.00	3,863.11	(1,282.89)	-24.9%
i	Corporate Tax	1,798.62	1,479.12	(319.49)	-17.8%
ii	VAT	2,190.62	1,474.54	(716.08)	-32.7%
iii	Customs	1,156.77	909.46	(247.32)	-21.4%
b	Deductions	362.54	258.06	(104.49)	-28.8%
c	Net Non-Oil Taxes	4,783.46	3,605.06	(1,178.41)	-24.6%
d	Other Revenues**	14.58	169.32	154.74	1061.0%
e	Net Non-Oil Revenue	4,798.05	3,774.38	(1,023.67)	-21.3%
	* This includes 13% derivation				
	** This includes revenue from Solid Minerals after derivation				
	Note: The Net Non-Oil Revenue refers to those accruable to the Federation; thus, it excludes FGN Independent Revenues				

3.1.2 Non-Oil Revenue

N3.86 trillion was generated as gross non-oil taxes as against N5.15 trillion projected, representing a shortfall of 24.9%. Of this, Corporate Tax and VAT collections were N1.48 trillion and N1.47 trillion, representing 82.2% and 67.3% collection performance respectively. Customs collection was N909.46 billion, which is 78.6% of the target.

3.1.3 Main Federation Account Pool and VAT Pool Accounts Distributable

Table 3.3 Federation Account Revenue and VAT Distributable, 2020 (N'Billion)

The accretion into the Main Federation Account Pool and VAT Pool account were N5.42 trillion and. Of this, the Federal Government received N2.82 trillion while the States and Local Governments received N1.47 trillion and N1.13 trillion respectively from the Main Pool Account. Federal, State and Local governments received N205.69 billion, N686.66 billion and N479.96 billion respectively from the VAT Pool Account.

	Fiscal Items	2020 Revised Budget	Actuals (Jan-Dec)	Variance
		Billions of Naira		Naira
A	Net Federation Account Distributable (Main Pool)	4,869.40	5,418.68	549.28
i	FGN's Share (52.68%)	2,565.20	2,821.67	256.47
ii	States' Share (26.72%)	1,301.10	1,471.53	170.43
iii	Local Govt.'s Share (20.60%)	1,003.10	1,125.48	122.38
B	Net VAT Pool Account Distributable	2,029.39	1,371.32	(658.07)
iv	FGN's Share (15%)	304.41	205.69	(98.71)
v	States' Share (50%)	1,014.69	685.66	(329.03)
vi	Local Govt.'s Share (35%)	710.29	479.96	(230.32)

Source: BOF, OAGF, PRMRC

3.1.4 FGN Revenue

Table 3.4 FGN 2020 Revenue Profile (N'Billion)

		2020 Revised Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
S/N	FEDERAL RETAINED REVENUES (excl. GOEs)	5,365.42	3,937.34	(1,428.08)	-27%
A					
1	Oil Revenue	1,013.77	1,521.44	507.67	50%
2	Share of Dividend (NLNG)	80.38	144.00	63.62	79%
3	Minerals & Mining Revenue	1.90	2.09	0.19	10%
4	Non-Oil Revenue:	1,624.93	1,276.09	(348.85)	-21%
i	CIT	821.67	673.22	(148.45)	-18%
ii	VAT	284.11	192.66	(91.45)	-32%
iv	Customs Revenues	450.70	396.37	(54.33)	-12%
v	Federation Account Levies	68.46	13.84	(54.61)	-80%
B		2,644.45	993.73	(1,650.72)	-62%
1	FGN Independent Revenue	932.84	519.36	(413.48)	-44%
2	FGN Drawdowns from Special Accounts/Levies	645.00	384.11	(260.89)	-40%
3	Signature Bonus / Renewals / Early Renewals	350.52	78.72	(271.80)	-78%
4	Domestic Recoveries + Assets + Fines*	237.01	11.54	(225.47)	-95%
5	Stamp Duty*	200.00		(200.00)	-100%
6	Grants and Donor Funding	42.70		(42.70)	-100%
7	Transfers from Special Accounts for COVID-19 Intervention Across the Federation	186.37		(186.37)	-100%
8	Grants and Donations for COVID-19 Crisis Intervention Fund	50.00		(50.00)	-100%

Actual FGN revenues was N3.94 trillion by year-end 2020. Of this, oil revenue was N1.52 trillion representing 38.6% while non-oil tax revenue was N1.28 trillion representing 32.5% of total revenues. Relative to the budget, oil revenue was 73% while non-oil taxes were 79%. Company Income Tax (CIT) and Value Added Tax (VAT) were N673.22 billion and N192.66 billion respectively, representing 82% and 68% of the Budget. Customs collections was N410.21 billion, of which N396.37 billion was from import duties, excise and fees, and N78.72 billion was from Special Levies. Other revenues amounted to

N1.14 trillion, 28% of total revenues. This includes independent revenues of N519.36 billion, NLNG dividends of N144 billion and N384.11 billion drawdowns from special accounts among others.

3.2 Expenditure Outturns

Table 3.5 FGN 2020 Expenditure Performance

The FGN Budget for FY2020 was estimated at N9.97 trillion (excluding GOEs and project-tied loans). Actual expenditure was N10.16 trillion (1.8% more than the Budget). This is due to the higher-than-budgeted debt service cost. Debt service was 13.2% more than the budget provision. N3.19 trillion was spent on personnel cost and pension, and when combined with debt service gulps up to 64% of the Budget. For FY2020, N1.74 trillion (representing 89% of the capital budget) was spent on capital expenditure. It should be recalled that the implementation of the capital budget was extended to May 2021. This was done to ensure that funds which had been released for critical priority projects were fully utilized.

S/N	Fiscal Items	2020 Revised Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
	FGN EXPENDITURE (excl. GOEs and Project-tied Loans)	9,973.67	10,157.49	(183.82)	1.8%
A	Statutory Transfers	428.03	428.03	0.00	0.0%
B	Recurrent Expenditure	7,585.57	7,987.47	(401.90)	5.3%
1	Non-Debt Recurrent Expenditure	4,633.86	4,645.21	(11.35)	0.2%
a	Personnel Costs	2,827.65	2,827.65	0.00	0.0%
b	Pensions & Gratuities including Service wide pension	536.72	359.60	177.12	-33.0%
ii	Overheads	243.18	243.18	(0.00)	0.0%
iii	Other Service Wide Votes	397.33	262.18	135.15	-34.0%
	Other Service Wide Votes (COVID-19)	213.98	213.98	(0.00)	0.0%
iv	Presidential Amnesty	65.00	65.00	-	0.0%
v	Special Intervention Programme	350.00	303.87	46.13	-13.2%
vi	Payment from Special Accounts		369.75	(369.75)	
2	Debt Service	2,951.71	3,342.26	(390.55)	13.2%
i	Domestic Debt	1,873.34	1,871.94	1.40	-0.1%
ii	Foreign Debt	805.47	553.18	252.29	-31.3%
iii	Sinking Fund	272.90	4.58	268.32	-98.3%
iv	Interest on Ways & Means		912.57	(912.57)	
C	Capital Expenditure	1,960.07	1,741.98	218.09	-11.1%

4.0 REVIEW OF FGN 2021 BUDGET IMPLEMENTATION

The FY 2021 started with some dampened optimism for global growth due to protracted second wave of the COVID-19 pandemic amidst the ongoing vaccination in major economies. It is however, expected that growth will rebound as more people get vaccinated and activities increases in major economies.

4.1 Revenue Outturns

4.1.1 Oil Revenue

Table 4.1 2021 Revenue Performance (Jan–May)

	Fiscal Items	2021 Budget	Prorata	Actuals (Jan-May)	Variance	
		Billions of Naira			Billions of Naira	%
A	OIL REVENUE					
a	Gross Oil and Gas Revenue	5,185.57	2,160.65	1,490.76	(669.89)	-31.0%
b	Deductions*	1,018.30	424.29	614.22	189.93	44.8%
c	Net Oil and Gas Revenue	4,167.26	1,736.36	876.54	(859.82)	-49.5%
B	NON-OIL REVENUE					
a	Non-Oil Taxes	4,602.23	1,917.59	1,954.89	37.30	1.9%
i	Corporate Tax	1,496.53	623.55	646.16	22.61	3.6%
ii	VAT	1,838.35	765.98	854.18	88.20	11.5%
iii	Customs	1,267.35	528.06	454.55	(73.51)	-13.9%
b	Deductions	341.70	142.37	49.81	(92.57)	-65.0%
c	Net Non-Oil Taxes	4,260.53	1,775.22	1,905.09	129.87	7.3%
d	Other Revenues**	5.49	2.29	2.96	0.67	29.3%
e	Net Non-Oil Revenue	4,266.02	1,777.51	1,908.05	130.54	7.3%
* This include 13% derivation						
** These include revenue from Solid Minerals after derivation						
Note: The Net Non-Oil Revenue refers to those accruable to the Federation; thus, it excludes FGN Independent Revenues						

The gross oil and gas revenue was projected at N5.19 trillion. As of May 2021, N1.49 trillion was realized out of the prorated sum of N2.16 trillion. This represents 69% performance. Oil and gas deductions were N189.93 billion (or 44.8%) more than the budget. This is mainly attributable to petroleum subsidy costs which was not provided for in the 2021 Budget. After netting out deductions (including 13% derivation), net oil and gas revenue

inflows to the Federation Account amounted to N876.54 billion. This is N859.82 billion or 49.5% less than the projection as of May.

4.1.2 Federation and VAT Pool Accounts Distributable

Table 4.2 Federation Account Revenue and VAT Distributable, 2021 (N'Billion)

The amount available for distribution from the Federation Account was N2.78 trillion. Of this, the Federal Government received N998.57 trillion while the States and Local Governments received N506.59 billion and N390.48 billion respectively from the Main Pool Account. Federal, State and Local governments received N132.70 billion, N442.33 billion and N309.63 billion respectively from the VAT Pool Account.

	Fiscal Items	2021 Revised Budget	Prorata	Actuals (Jan-May)	Variance	
		Billions of Naira			Naira	%
A	Net Federation Account Distributable*	6,730.24	2,804.27	1,895.54	(908.72)	-32.4%
i	FGN's Share (52.68%)	3,545.49	1,477.29	998.57	(478.72)	-32.4%
ii	States' Share (26.72%)	1,798.32	749.30	506.49	(242.81)	-32.4%
iii	Local Govt.'s Share (20.60%)	1,386.43	577.68	390.48	(187.20)	-32.4%
B	Net VAT Pool Account Distributable	1,703.04	709.60	884.66	175.06	24.7%
iv	FGN's Share (15%)	255.46	106.44	132.70	26.26	24.7%
v	States' Share (50%)	851.52	354.80	442.33	87.53	24.7%
vi	Local Govt.'s Share (35%)	596.07	248.36	309.63	61.27	24.7%

Source: BOF, OAGF, PMRC

4.1.3 FGN Revenue

Table 4.3 2021 FGN Revenue Profile (Jan–May) N'Billion

		2021 Budget	Pro Rata (Jan-May)	Actuals (Jan-May)	Variance	
		Billions of Naira			Billions of Naira	%
S/N	AGGREGATE FEDERAL GOVERNMENT REVENUE	7,986.41	3,327.67	1,844.99	(1,482.68)	-44.6%
	FEDERAL RETAINED REVENUES (excl. GOEs)	6,637.58	2,765.66	1,844.99	(920.66)	-33.3%
A						
1	Oil Revenue	2,011.02	837.92	423.00	(414.93)	-49.5%
2	Share of Dividend (NLNG)	208.54	86.89	39.10	(47.79)	-55.0%
3	Minerals & Mining Revenue	2.65	1.10	1.44	0.33	30.0%
4	Non-Oil Revenue:	1,488.92	620.39	618.76	(1.63)	-0.3%
i	CIT	681.72	284.05	290.90	6.86	2.4%
ii	VAT	238.43	99.34	123.85	24.51	24.7%
iv	Customs Revenues	508.27	211.78	188.34	(23.43)	-11.1%
v	Federation Account Levies	60.51	25.21	15.66	(9.56)	-37.9%
B		4,275.28	1,781.37	762.70	(1,018.67)	-57.2%
1	FGN Independent Revenue	1,061.90	442.46	487.01	44.55	10.1%
2	FGN Drawdowns from Special Accounts/Levies	300.00	125.00	101.60	(23.40)	-18.7%
3	Signature Bonus / Renewals / Early Renewals	677.02	282.09	127.09	(155.00)	-54.9%
4	Domestic Recoveries + Assets + Fines*	32.68	13.61	-	(13.61)	-100.0%
5	Electronic Money Transfer Levy (formerly Stamp Duty)*	500.00	208.33	47.00	(161.33)	-77.4%
6	Grants and Donor Funding	354.85	147.86	-	(147.86)	-100.0%
7	GOEs Revenue (net Operating Surplus)	1,348.84	562.02	-	-	-

(86% of target). Other revenues amounted to N762.70 billion, of which Independent revenues was N487.01 billion.

4.2 Expenditure Outturns

Table 4.4 2021 FGN Expenditure Performance (Jan-May)

On the expenditure side, N4.86 trillion (representing 92.7% of the prorated budget) has been spent. This excludes GOEs' and project-tied debt expenditures. Of the expenditure, N1.80 billion was for debt service (37% of FGN expenditures); and N1.50 trillion for Personnel cost, including Pensions (31% of FGN expenditures). As at May, N978.13 billion had been released for capital expenditure.

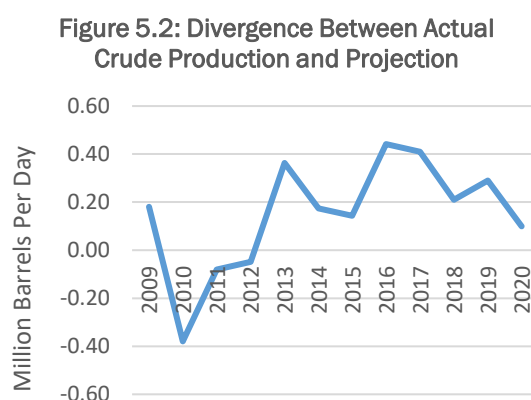
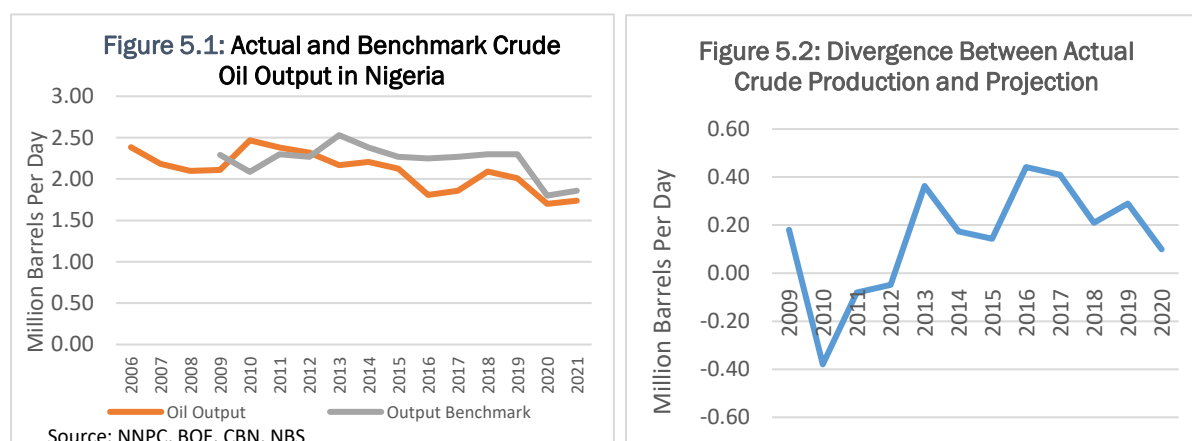
		2021 Budget	Pro Rata (Jan-May)	Actuals (Jan-May)	Variance	
	Fiscal Items	Billions of Naira			Billions of Naira	%
S/N	AGGREGATE FGN EXPENDITURE	13,588.03	5,661.68	4,857.31	804.37	-14.2%
	FGN EXPENDITURE (excl. GOEs and Project-tied Loans)	11,529.51	5,239.49	4,857.31	382.19	-7.3%
A	Statutory Transfers	496.53	206.89	206.89	0.00	0.0%
B	Recurrent Expenditure	8,966.35	3,735.98	3,672.29	63.69	-1.7%
1	Non-Debt Recurrent Expenditure	5,641.97	2,350.82	1,869.95	480.87	-20.5%
i	Personnel Costs (MDAs)	3,046.46	1,269.36	1,349.04	(79.68)	6.3%
ii	Personnel Costs (GOEs)	701.16	292.15	-	-	-
iii	Pensions & Gratuities including Service wide pension	504.19	210.08	149.12	60.96	-29.0%
iv	Overheads (MDAs)	325.88	135.78	151.90	(16.12)	11.9%
v	Overheads (GOEs)	312.08	130.03	-	-	-
vi	Other Service Wide Votes	337.19	140.50	198.21	(57.72)	41.1%
vii	Presidential Amnesty	65.00	27.08	21.67	5.42	-20.0%
viii	Special Intervention Programme	350.00	145.83	-	145.83	-100.0%
2	Debt Service	3,324.38	1,385.16	1,802.34	(417.18)	30.1%
i	Domestic Debt	2,183.49	909.79	913.11	(3.32)	0.4%
ii	Foreign Debt	940.89	392.04	408.71	(16.67)	4.3%
iii	Sinking Fund	200.00	83.33	-	83.33	-100.0%
iv	Interest on Ways & Means	-	-	480.52	(480.52)	-
C	Aggregate Capital Expenditure	4,125.15	1,718.81	978.13	740.68	-43.1%
	Capital Expenditure (MDAs + Others)	3,079.87	-	978.13	(978.13)	-
	GOEs Capital Expenditure	335.59	-	-	-	-
	Multi-lateral/Bilateral Project-tied loans	709.69	-	-	-	-

5.0 ASSUMPTIONS UNDERLYING 2022 - 2024 REVENUE PROJECTIONS

5.1 Oil Revenues Assumptions

5.1.1 Domestic Crude Oil Production

Crude oil production accounted for 9.25% of Nigeria's real GDP in the first quarter of 2021. Average fiscalised crude oil and condensate production increased sharply from 1.96 mbpd in December 2019 to 2.07 mbpd in January 2020 and declined afterwards to 1.42 mbpd in December 2020 with 1.22 mbpd crude only. As Figure 5.1 shows, actual daily crude oil production has been below budget projections since 2013. However, reflecting efforts towards



budget realism, the divergence between the output benchmark and actual output has declined significantly recently (Figure 5.2). Although Nigeria has capacity to produce 2.5mbpd, a total of about 1.4mbpd of crude is currently being produced in compliance with the OPEC+ production quota. This excludes 300,000bpd of condensates. Data from the Department of Petroleum Resources (DPR) indicates that an average of 1.8mbpd of crude oil (inclusive of condensates) was produced in the first half of 2021, including Condensates and about 127,000 bpd of production devoted to repayment of pre-2015 Joint Venture cash call arrears.

Crude oil production was 0.16mbpd (inclusive of condensates) below the 1.86mbpd benchmark for the 2021 budget. Production volume was also 0.12mbpd (7.7 percent) above the 1.56mbpd reported in the fourth quarter of 2020 and 0.38mbpd (18.5 percent) below 2.06mbpd recorded in the first quarter of 2020. The NNPC attributed recent production disruptions to challenges such as shutdown of flow stations for pipeline leakage repairs, community protests, terminal maintenance, pump and flare management, boiler failure and fire incidents. Theft of products and pipeline vandalism have also affected operations.

Reflecting collaborative efforts of the NNPC, local communities and other stakeholders, the incidence of vandalism declined from 65 pipeline points in April 2020 to 43 points in December 2020 and 27 points in January 2021. Hence, pipeline vandalization and crude theft have continued to affect crude oil revenue performance. However, more significant is the impact of subsidies on Petroleum Motor Spirit (PMS) supply in the downstream sector. To ensure continuous PMS supply and effective distribution across the country, a total of 1.44 billion litres of PMS translating to 46.30 million litres per day were supplied in January 2021. Consequently, the fiscal significance of the crude oil has declined considerably recently. The contribution of crude oil receipts to Federal Government's revenues declined from N437.8 billion in the first quarter of 2020 to N299.3 billion in the same period in 2021.

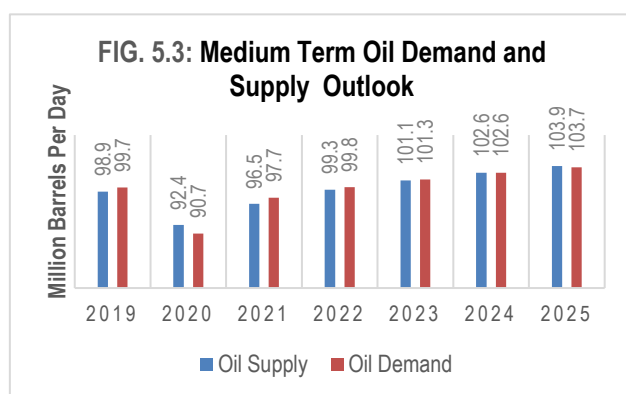
An average 1.93mbpd of crude oil was produced over the last 3 years. Hence, following consultations with stakeholders, crude oil production is estimated at 1.88mbpd, 2.23mbpd, 2.22mbpd in 2022, 2023 and 2024 respectively. This very conservative oil output benchmarks were adopted for the medium term to ensure greater budget realism.

5.1.2 Global Crude Oil Supply and Demand

The Organization of Petroleum Exporting Countries (OPEC) expects global crude oil demand to outstrip supply by 1.9 mbpd over the period 2021-2023. Crude oil demand declined sharply from 99.7 million barrels a day (mbpd) in 2019 to 90.7 mbpd in 2020. The outlook remains subject to heightened uncertainty associated with economic recovery from the COVID-19 pandemic. However, OPEC forecasts global crude oil demand to recover and rise sharply by 7.0 mbpd to 97.7 mbpd in 2021 and continue to grow at relatively healthy rates in the medium-term, reaching 99.8 mbpd in 2022, 101.3 mbpd in 2023 and 102.6 mbpd in 2024. Demand in 2025 is projected at 103.7 md/d. This represents an increase of 13.0 mbpd above the 2020 level. In general, the medium-term demand forecasts are much below pre-Covid-19 estimates.

The average growth in crude oil demand is projected to be about 1.5 mbpd over the medium-term period, declining from a projected 2.1 mbpd in 2021 to 1.3 mbpd in 2024. The increase in demand is expected primarily from non-OECD countries, mainly China and India. The rebounding Global GDP led by Emerging Economies, ongoing vaccination and easing of the COVID-19 pandemic have contributed to rising energy use. OPEC projects crude oil to remain the fuel with the largest share of global energy mix until 2045. However, natural is expected to be the fastest-growing fossil fuel between now and 2045, just like renewables.

According to OPEC, global crude oil supply declined sharply by 6.5 mbpd in 2020 due largely

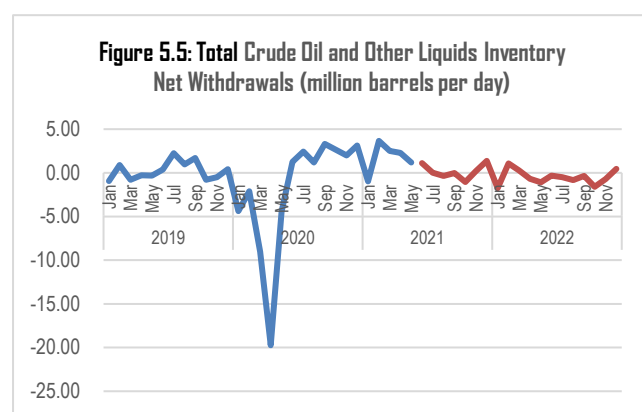
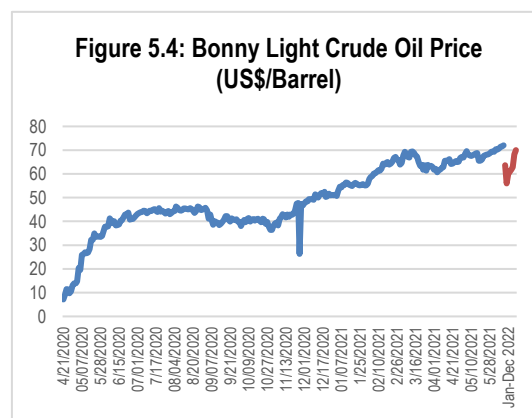


to the historic OPEC+ supply cuts in response to the negative impact of COVID-19 pandemic on oil prices. Global oil supply is expected to rise from an average of 92.4mbpd in 2020 to 96.5mbpd in 2021, 99.3mbpd in 2022 and 103.9mbpd in 2025 (Fig. 5.3). Medium-term supply recovery is expected to be driven mainly by non-OPEC production growth in Brazil, the USA, Norway, Guyana and Kazakhstan.

5.1.3 Crude Oil Price Benchmark

The world oil market strengthened recently due to early recovery of oil demand boosted by the reopening of major economies from the Covid-19 lockdown, assisted by the coronavirus vaccination programmes. The market tightening also reflects the decline in global oil inventories. As Figure 5.4 shows, Bonny light crude oil price increased steadily recently from an average of US\$42.12 per barrel in 2020 to US\$63.60 per barrel by June 11, 2021.

The Energy Information Administration (EIA) expects that global oil production will increase to match rising levels of global oil consumption. The rising oil production in the forecast is attributed largely to the OPEC+ decision to raise production. Rising production is expected to end the persistent global oil inventory draws that have occurred recently and lead to relatively balanced global oil markets in the second half of 2021 (Figure 5.5). Brent crude oil price is expected to rise from an average of \$41.69 in 2020, to an average of \$65.19 per barrel in 2021, reaching an average of \$60.49 per barrel by the end of 2022. EIA expects that continuing OPEC+

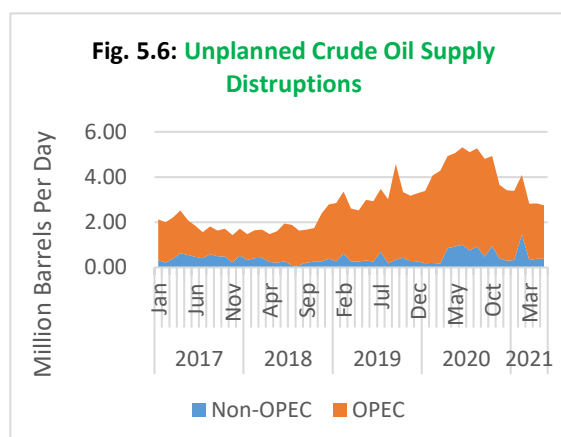


production growth and accelerating growth in U.S. tight oil production - along with other supply growth - will outpace decelerating growth in global oil consumption and contribute to lower oil prices in 2022.

Energy Information Administration reported a sharp increase in total unplanned crude oil supply disruptions from 21.9mbpd in 2018 to 38.1mbpd in 2019 and a peak of 54.2mbpd in 2020.

However, unplanned supply disruptions have declined significantly to 15.9mbpd between January and May 2021. As Figure 5.6 shows, over 80% of unplanned crude oil supply disruptions occurred in OPEC member countries in 2018-2021.

World oil price outlook remains highly uncertain considering the difficulty of predicting oil prices in the well-integrated market. However, the outlook indicates higher crude oil prices. The World Bank forecasts that crude oil prices will average US\$56 per barrel in 2021, up from an average of US\$41.3 per barrel in 2020. In the medium term, the World Bank expects crude oil price to rise gradually to an average of \$60.0 per barrel in 2022, rising afterwards to US\$61 per barrel in 2023 and \$61.9 per barrel in 2024.



In consultation with the NNPC and other stakeholders, a benchmark oil price of \$61 per barrel has been proposed for 2022 and 2023 while US\$62 per barrel is proposed for 2024. Considerations include factors underlying market fundamentals, global economic outlook and market sentiments. Recent experience highlights the need to also set the budget oil price benchmark well below forecasts to ensure budget realism.

5.2 Non-Oil Revenue Baseline Assumptions

The assumptions underlying the non-oil revenue forecasts for the period 2022-2024 are outlined below. Considering the destabilizing effects of oil sector revenue fluctuations,

Government has been implementing various reform measures under the Strategic Revenue Growth Initiative (SRGI) to widen the revenue base and improve non-oil tax revenue collection in the medium term. Government will sustain these efforts by widening the tax base and modernising and further improving tax administration in order to further increase the contribution of non-oil revenue sources towards funding the FGN budget. The medium-term non-oil revenue estimates are mainly determined using anticipated growth in the relevant bases for different taxes, the effective tax rate, and the projected tax collection efficiency factor taking account of operational improvements in the operations of the various tax administrators.

Customs Collections: Import Duties, Excise, Fees and Special Levies

Import duty projections are based on the cost, insurance and freight (CIF) value of imports, applicable tariffs, and an efficiency factor.

The nominal growth of the tax base is assumed to be driven by tax elasticity in the medium term. Considering the resumption of global trade, tax elasticity was assumed to drive the nominal growth of the tax base in the medium term. Other considerations include the foreign exchange rate regime, introduction of Common External Tariff (CET), implementation of the Africa Continental Free Trade Agreement (ACFTA), 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.

Companies Income Tax (CIT)

The CIT projection is based on the estimated nominal GDP, Companies' Profitability Ratio, and further improvement in collection efficiency. Estimates were derived taking into consideration the progress in COVID-19 vaccination and significant growth of domestic economic activities as well as the effective implementation of the Medium-Term National Development Plan. Other important assumptions include improvement in the Nigeria business environment, stable tax rate and successful broadening of the tax net. In addition, the historical trend in the volume of online transfer transactions is expected to be sustained. The CIT estimates include the target for Nigeria Liquefied Natural Gas (NLNG) for the period.

Value Added Tax (VAT)

The VAT was estimated using projected aggregate nominal consumption, taking into account taxable items and collection efficiency. Aggregate consumption is estimated at N149.35 trillion in 2022 from the revised N136.57 trillion estimated for 2021 (the initial estimate from NBS was 118.89 trillion). Like the CIT, more VAT payers are expected to be brought into the tax net with the effective implementation of the provisions of the Finance Act 2020 and improving collection efficiency. The VAT projections over the medium-term are based on holding the rate at 7.5%.

In the medium term, efforts to further improve the coverage and VAT collection efficiency will be accelerated. Wider coverage and improved collection efficiency will be achieved through nationwide VAT registration and monitoring, and deployment of auto-collect platforms in more sectors of the economy. In addition, the solution for deduction and remittance of VAT and WHT from State government contract payments is to be deployed in all the 36 states.

FGN Independent Revenue

The independent revenue of the Federal Government was estimated considering efforts to curb revenue leakages, excessive expenditures and weak accountability of Government-

Owned Enterprises (GOEs). The estimation of Operating Surpluses (the main component of FGN Independent Revenues) is based on strict and effective implementation of recent measures introduced to ensure that GOEs operate in a more fiscally responsible manner. Independent revenue collections are expected to be considerably higher than projections with greater fiscal discipline among the GOEs.

6.0 MEDIUM TERM MACROECONOMIC FRAMEWORK: PARAMETERS AND TARGETS FOR 2022-2024

6.1 Macroeconomic Projections

The key parameters as well as other macroeconomic projections driving the medium-term revenue and expenditure framework are indicative of gradually rebounding activities in both the global and domestic economy.

Table 6.1: Key Parameters and other Macroeconomic Projections

Description	2020 Budget	2020 Actual	2021 Budget	2021 Revised Forecast	2022	2023	2024
Oil Price Benchmark (US\$/b)	28.0	23.0	30.0	30.0	27.0	27.0	25.0
Oil Production (mbpd)	1.80	1.79	1.86	1.86	1.88	2.23	2.22
Exchange Rate (N/\$)	360.0	379.0	360.0	310.0	310.15	310.15	310.15
Inflation (%)	4.15	3.20	11.95	15.00	13.00	11.00	10.00
Non-Oil GDP (N'bn)	31,155.5	42,128.4	32,592.2	54,102.1	69,697.4	85,558.3	103,799.2
Oil GDP (N'bn)	3,691.9	4,195.6	4,102.2	4,500.5	4,684.6	5,594.7	7,976.6
Nominal GDP (N'bn)	39,517.5	52,324.1	42,192.1	68,602.6	84,382.0	101,153.0	121,775.8
GDP Growth Rate (%)	4.20	1.90	3.00	2.50	2.20	2.30	3.30
Imports	25,988.3	25,560.0	34,398.8	30,348.5	33,188.8	36,207.5	39,919.6
Nominal Consumption (N'bn)	17,913.74	19,919.29	18,887.27	36,568.11	49,349.40	62,933.91	79,638.41

Source: Ministry of Finance, Budget & National Planning; NNPC; BOF; NBS

As the global economy continues to recover from the effects of the Covid-19 pandemic, improved oil prices resulting from stronger global demand will result in improved fiscal positions for oil-importing countries like Nigeria.

Growth forecasts for 2021 have been revised based on Q1 results. Real GDP growth rate is projected to average 2.5% for 2021 (slightly down from 3.0% as per 2021 Budget projection). In the medium term, it is projected to rise to 4.2% in 2022 before moderating to 2.3% in 2023 and picking up to 3.3% in 2024. Growth drivers are expected to remain telecommunications, agriculture, cement, and broadcasting. Overall pre-election expenditure towards 2023 General Elections may also contribute to the growth-drive. Therefore, overall growth still likely to be muted in 2021.

Consumption remains under pressure but is projected to surge in the medium term growing from a revised N136,568.1 billion in 2021 to N149,349.4 billion by 2022. It is projected to rise to N179,638.4 billion in 2024, reflecting a gradual steadiness in the growth recovery. Investment will continue to drag due to forecast interest rate hikes in advanced economies as well as other domestic challenges including insecurity and perturbed business environment. Pre-election spending is likely to raise government expenditure, while net exports is projected to decline due to high imports and weakening exports. With actual imports in 2020 at N25,560 billion, performing over 100% of the budget projections, the 2021 projections have been revised upwards to N30,348.5 billion from N13,439.8 billion. Thereafter, it is projected to grow by about 10% annually in the medium term. The combined effect is a rise in nominal GDP from a revised N184,382.0 billion in 2021 to N184,382.0 billion in 2022 and then up to N221,775.8 billion in 2024.

Inflation rate is revised at 15% on average for 2021 (up from 12.25%) but 13% in 2022, 11% in 2023 and 10% in 2024. Upward pressure on prices is expected to be impacted by sluggish decline in headline rate as at mid-2021, insecurity, rising imports and exchange rate

depreciation. In addition, new analysis on the role of fuel, transport and electricity prices and border closure, imported food inflation are expected to put an upward pressure on prices. Downward pressures are expected to be motivated by base effects, and likely response of CBN to tame inflation amidst expected pre-election season spending.

6.2 2020-2022 Medium Term Fiscal Framework (MTFF)

6.2.1 Federation Account Revenues

Based on the key parameters driving the fiscal framework, the net amounts accruable to the Main Pool and VAT Pool Federation Account are projected at N10.52 trillion and N2.26 trillion respectively in 2022. The share of oil revenue is about 51.1% of total Federation Account receipts. Other components of the Federation Account revenues include revenues from Corporate Tax N1.87 trillion, Customs Revenue N1.72 trillion, Special Levies N148.40 billion, Solid Minerals N6.01 billion and Electronic Money Transfer Levy of N209.77 billion.

The share of the Federal Government from the Main Federation Account Pool is N5.51 trillion while the States and Local governments are projected to get N2.80 trillion and N2.16 billion, respectively in 2022. From the VAT Pool, the Federal Government is projected to receive N339.31 billion, the States N1.13 trillion, and the Local governments N791.73 billion.

Table 6.2: Federation Account and VAT Revenues (2022 – 2024)

FISCAL ITEMS	2021 Budget Passed by NASS	2022 Proj.	2023 Proj.	2024 Proj.
Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd)	1.86	1.88	2.23	2.22
Projected Budget Benchmark Price (US\$ per barrel)	40.00	57.00	57.00	55.00
Average Exchange Rate (N/US\$)	379.0	410.15	410.15	410.15
NET FEDERATION ACCOUNT (MAIN POOL)	6,772,148,183,209	10,519,239,717,127	13,864,798,242,891	14,767,515,253,606
Transfer to Police Trust Fund (0.5% of Fed. Acct.)	41,908,119,186	52,596,198,586	310,554,169,487	363,313,790,195
NET FEDERATION ACCOUNT - MAIN POOL (after 0.5% transfer to Police Trust Fund)	6,730,240,064,023	10,466,643,518,541	13,554,244,073,403	14,404,201,463,410
Net Oil Revenue after Costs, Deductions & Derivation	4,146,428,644,688	6,507,790,422,312	9,153,869,764,786	8,652,691,974,196
Net Solid Minerals Revenue after Derivation	5,464,729,697	6,011,202,666	6,612,322,933	7,273,555,226
Net Corporate Tax Distributable	1,405,604,726,453	1,874,850,814,324	2,198,543,496,579	2,417,014,498,120
Net Customs Revenue Distributable	1,047,978,550,179	1,719,828,043,369	1,876,259,987,600	2,068,620,127,352
Net Special Levies Distributable	124,763,413,007	148,397,663,459	318,958,501,506	1,258,601,308,516
Net Electronic Money Transfer Levy		209,765,372,411	241,230,178,273	289,476,213,927
Distribution				
FGN's Share of Federation Account (52.68%)	3,545,490,465,727	5,513,827,805,567	7,140,375,777,869	7,588,133,330,925
States' Share of Federation Account (26.72%)	1,798,320,145,107	2,796,687,148,154	3,621,694,016,413	3,848,802,631,023
Local Govt.'s Share of Federation Account (20.60%)	1,386,429,453,189	2,156,128,564,819	2,792,174,279,121	2,967,265,501,463
Total Federation Account Distribution (Net) (100.00%)	6,730,240,064,023	10,466,643,518,541	13,554,244,073,403	14,404,201,463,410
FGN's Share of VAT Pool Account (15%)	255,456,672,381	339,311,839,736	371,471,667,533	408,139,544,122
States' Share of VAT Pool Account (50%)	851,522,241,271	1,131,039,465,786	1,238,238,891,776	1,360,465,147,072
Local Govt.'s Share of VAT Pool Account (35%)	596,065,568,889	791,727,626,050	866,767,224,243	952,325,602,950
Total VAT Pool Account Distribution (Net) (100.00%)	1,703,044,482,541	2,262,078,931,572	2,476,477,783,552	2,720,930,294,144

6.2.1 Revenue Framework

The aggregate revenue available to fund the 2022 Budget is projected at N7.26 trillion (9% or N626.37 billion more than the 2021 Budget). Of this, N3.16 trillion or 49.1% is projected to come from oil related sources while the balance is to be earned from non-oil sources. The provision for Signature Bonus is down to N280.86 billion from N677.01 billion projected in 2021. With the retained revenues of the Government-Owned Enterprises (GOEs), excluding the NNPC and CBN, the aggregate FGN revenue is projected at N8.36 trillion.

Table 6.3: Overview of the Revenue Framework

FISCAL ITEMS	2021 Budget Passed by NASS	2022 Proj.	2023 Proj.	2024 Proj.
Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd)	1.86	1.88	2.23	2.22
Projected Budget Benchmark Price (US\$ per barrel)	40.00	57.00	57.00	55.00
Average Exchange Rate (N/US\$)	379.0	410.15	410.15	410.15
AMOUNT AVAILABLE FOR FGN BUDGET (excluding GOEs retained revenue)	6,637,575,467,981	7,263,944,617,205	8,762,451,426,482	9,215,713,059,757
a Share of Oil Revenue	2,011,017,892,674	3,156,278,354,821	4,439,626,835,921	4,196,555,607,485
b Share of Dividend (NLNG)	208,540,960,000	184,030,182,000	189,661,046,400	94,830,523,200
c Share of Minerals & Mining	2,650,393,903	2,915,433,293	3,206,976,622	3,527,674,285
d Share of Non-Oil Taxes	1,488,924,372,031	2,132,083,163,179	2,477,681,452,754	3,166,884,669,164
Share of CIT	681,718,292,330	909,302,644,947	1,066,293,595,841	1,172,252,031,588
Share of VAT	238,426,227,556	316,691,050,420	346,706,889,697	380,930,241,180
Share of Customs	508,269,596,837	834,116,601,034	909,986,093,986	1,003,280,761,766
Share of Federation Acct. Levies	60,510,255,308	71,972,866,778	154,694,873,230	610,421,634,630
Share of Electronic Money Transfer Levy (formerly called Stamp Duty)	500,000,000,000	29,367,152,138	36,184,526,741	43,421,432,089
e Revenue from GOEs	2,173,860,133,098	2,039,567,627,394	2,232,114,703,577	2,341,258,774,100
f GOEs Operating Surplus (80% of which is captured in Independent Revenue)	(825,023,025,138)	(944,298,935,002)	(814,226,892,523)	(661,031,281,755)
g Independent Revenue	1,061,898,590,939	1,089,243,957,812	1,220,264,847,149	1,314,264,632,639
h Transfers from Special Levies Accounts	300,000,000,000	300,000,000,000	300,000,000,000	300,000,000,000
i Signature Bonus / Renewals / Early Renewals	677,015,511,478	280,855,138,079	-	-
j Domestic Recoveries + Assets + Fines	32,675,085,307	26,933,139,822	33,587,644,833	33,587,644,833
k Grants and Donor Funding	354,852,661,650	62,238,096,061	62,238,096,061	62,238,096,061
AMOUNT AVAILABLE FOR FGN BUDGET (including GOEs)	7,986,412,575,941	8,359,213,309,597	10,180,339,237,536	10,895,940,552,103

6.2.2 FGN Expenditure Framework

6.2.3 Aggregate Expenditure

The FGN's 2022 aggregate expenditure is estimated at N13.98 trillion (this includes the provision of N1.44 trillion for GOEs' expenditures, and grants/donor funded projects/programmes amounting to N62.24 billion). This provision is higher than the corresponding 2021 FGN aggregate expenditure estimate of N13.59 trillion by 3% (or about N393.81 billion). The sums of N15.46 trillion and N16.77 trillion are projected to be spent by the FGN in 2023 and 2024 respectively.

The 2022 expenditure estimate includes statutory transfers of N613.36 billion; non-debt recurrent expenditure of N6.21 trillion (including N350 billion for recurrent component of the Special Intervention Programme). The provisions of N3.61 trillion and N292.71 billion have been made for Debt Service and Sinking Fund to retire maturing bonds issued to local contractors/creditors respectively in the 2022 budgeted expenditure. A total of N4.79 trillion (inclusive of N750.04 for GOEs) is provided for personnel and pension costs, an increase of N534.40 billion over 2021. This is 57% of projected aggregate revenues for 2022.

The provision for Statutory transfer includes, N53.93 billion (representing 1% of the consolidated revenue fund) earmarked for the Basic Health Care Provision Fund (BHCPF) as and N46.20 billion for the North East Development Commission (NEDC). In addition, N49.37 billion has been set aside in the service-wide votes for GAVI/Routine Immunization.

Having made these provisions, the aggregate amount available for capital expenditures in the 2021 budget is N3.61 trillion. This represents 26% of total expenditure (short of the 30% target set by the current administration), and is 17.3% less than the 2021 provision of N4.13 trillion. The 2022 provision comprises of N1.76 trillion for MDAs, N366.14 billion capital supplementation, N345.78 billion capital component of statutory transfers, N10 billion capital component of the Special Intervention Programme, N425.02 billion capital budget of GOEs, N62.24 billion for donor/grant funded expenditures and N638.32 billion funded by project-tied loans.

The N1.76 trillion available for MDAs' capital is N259.32 billion (representing 12.8%) less than the provision for MDAs in the 2021 Appropriation Act. The provision for development expenditure has been constrained by low revenues, increasing personnel and pension, as well as debt service costs, and huge funds used to finance the Federally funded upstream oil and gas projects. In addition, the continual provision of subsidy is a major drainer to overall government revenues.

Table 6.4: Overview of the Expenditure Framework

FISCAL ITEMS	2021 Budget Passed by NASS	2022 Proj.	2023 Proj.	2024 Proj.
Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd)	1.86	1.88	2.23	2.22
Projected Budget Benchmark Price (US\$ per barrel)	40.00	57.00	57.00	55.00
Average Exchange Rate (N/US\$)	379.0	410.15	410.15	410.15
STATUTORY TRANSFER	496,528,471,273	613,358,534,525	701,945,427,979	727,110,522,689
DEBT SERVICE	3,124,380,000,000	3,609,241,188,415	4,933,150,900,077	6,167,302,672,992
SINKING FUND	200,000,000,000	292,711,793,135	247,726,644,470	232,002,962,545
RECURRENT (NON-DEBT)	5,641,970,060,680	6,205,011,154,753	6,412,803,897,746	6,490,915,089,182
a Personnel Costs (MDAs)	3,046,464,689,489	3,469,178,444,276	3,573,253,797,604	3,573,253,797,604
b Personnel Costs (GOEs)	701,162,016,535	750,038,374,499	779,313,511,833	833,990,459,384
c Overheads (MDAs)	325,878,658,542	335,655,018,298	335,655,018,298	335,655,018,298
d Overheads (GOEs)	312,081,710,125	261,269,575,246	302,338,675,825	325,772,919,710
e Pensions, Gratuities & Retirees Benefits	504,191,130,679	567,002,149,814	584,012,214,308	584,012,214,308
f Other Service Wide Votes (including GAVI/Immunization)	337,191,855,311	406,867,592,621	423,230,679,878	423,230,679,878
h Presidential Amnesty Programme	65,000,000,000	65,000,000,000	65,000,000,000	65,000,000,000
SPECIAL INTERVENTIONS (Recurrent)	350,000,000,000	350,000,000,000	350,000,000,000	350,000,000,000
AGGREGATE CAPITAL EXPENDITURE	4,374,199,343,849	3,616,302,881,369	3,601,944,294,870	3,618,459,488,186
a Capital Supplementation (see appendix)	695,898,390,000	366,137,096,061	366,137,096,061	366,137,096,061
b Capital Expenditure in Statutory Transfers	249,049,989,627	354,784,001,633	439,552,139,816	463,601,102,811
c Special Intervention Programme (Capital)	10,000,000,000	10,000,000,000	10,000,000,000	10,000,000,000
d Amount Available for MDAs Capital Expenditure	2,019,119,204,546	1,759,804,022,579	1,759,804,022,579	1,759,804,022,579
e GOEs Capital Expenditure	335,593,381,300	425,024,504,882	450,385,464,550	442,851,694,870
f Grants and Donor Funded Projects	354,852,661,650	62,238,096,061	62,238,096,061	62,238,096,061
g Multi-lateral / Bi-lateral Project-tied Loans	709,685,716,725	638,315,160,152	513,827,475,803	513,827,475,803
Capital Expenditure (Exclusive of Transfers)	4,125,149,354,222	3,261,518,879,736	3,162,392,155,054	3,154,858,385,375
TOTAL FGN BUDGET (Excluding GOEs & Project-tied Loans)	11,529,505,061,490	11,907,193,935,785	13,412,153,897,316	14,655,747,083,016
TOTAL FGN BUDGET (Including GOEs & Project-tied Loans)	13,588,027,886,175	13,981,841,550,564	15,458,019,025,327	16,772,189,632,782

6.2.4 Fiscal Deficit and Deficit Financing

Budget deficit is projected to be N5.62 trillion in 2021 up from N5.60 trillion in 2020. This represents 3.05% of estimated GDP, which is marginally above the threshold of 3% stipulated in the Fiscal Responsibility Act (FRA), 2007. We consider this level of deficit necessary to sustain our recovery from recession, as well as ensure that critical ongoing infrastructure projects are completed.

The deficit will be mainly financed by new foreign and domestic borrowings of N4.89 trillion, N90.73 billion from Privatization Proceeds, and N638.32 billion drawdowns on existing project-tied loans.

Table 6.5: Deficit, Financing and Critical Ratios

FISCAL ITEMS		2021 Budget Passed by NASS	2022 Proj.	2023 Proj.	2024 Proj.
Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd)		1.86	1.88	2.23	2.22
Projected Budget Benchmark Price (US\$ per barrel)		40.00	57.00	57.00	55.00
Average Exchange Rate (N/US\$)		379.0	410.15	410.15	410.15
Fiscal Deficit (excluding GOEs and Project-tied Loans)		(4,891,929,593,509)	(4,643,249,318,580)	(4,649,702,470,834)	(5,440,034,023,259)
Total Fiscal Deficit (including GOEs and Project-tied Loans)		(5,601,615,310,234)	(5,622,628,240,967)	(5,277,679,787,790)	(5,876,249,080,680)
GDP		142,694,417,135,112	184,381,975,950,038	201,152,972,963,443	221,775,815,344,900
DEFICIT/GDP (excluding GOEs and Project-tied Loans)		(3.43%)	(2.52%)	(2.31%)	(2.45%)
DEFICIT/GDP (including GOEs and Project-tied Loans)		(3.93%)	(3.05%)	(2.62%)	(2.65%)
TOTAL FGN EXPENDITURE		13,588,027,886,175	13,981,841,550,564	15,458,019,025,327	16,772,189,632,782
Total Non-Debt Expenditure		10,263,647,886,175	10,079,888,569,014	10,277,141,480,779	10,372,883,997,245
Capital Expenditure as % of Non-Debt Expenditure		43%	36%	35%	35%
Capital Expenditure as % of total FGN Expenditure		32%	26%	23%	22%
Capital Expenditure (Inclusive of Transfers, but exclusive of GOEs Capital & Project-tied loans) as % of FGN Expenditure		29%	21%	20%	18%
Recurrent Expenditure as % of total FGN Exp (incl. GOEs + Project-tied Loans)		68%	74%	77%	78%
Debt Service to Revenue Ratio (incl. GOEs + Project-tied Loans)		39%	43%	48%	57%
Deficit as % of FGN Revenue (incl. GOEs + Project-tied Loans)		70%	67%	52%	54%
ADDITIONAL FINANCING					
a	Sales of Government Property	-	-	-	-
b	Privatization Proceeds	205,153,707,813	90,731,800,000	13,770,000,000	6,237,000,000
c	Non-Oil Asset Sales	-	-	-	-
d	Multi-lateral / Bi-lateral Project-tied Loans	709,685,716,725	638,315,160,152	513,827,475,803	513,827,475,803
e	New Borrowings	4,686,775,885,696	4,893,581,280,815	4,750,082,311,988	5,356,184,604,877
	Domestic Borrowing	2,343,387,942,848	2,446,790,640,407	2,375,041,155,994	2,678,092,302,438
	Foreign Borrowing	2,343,387,942,848	2,446,790,640,407	2,375,041,155,994	2,678,092,302,438

7.0 MEDIUM TERM OBJECTIVES, POLICIES AND STRATEGIES

This Fiscal Strategy Paper highlights the macroeconomic and fiscal policy objectives of the government over the period 2022-2024 and the strategies to be implemented to achieve them. In the medium term, government aims at accelerating economic growth, facilitating job creation and preservation, achieving macroeconomic stability and promoting poverty reduction and equity.

7.1 Macroeconomic Policy Objectives

Government's economic objectives include:

- i. Stimulating active private sector participation and inclusive economic growth;
- ii. Creating adequate productive employment and preserving jobs;
- iii. Ensuring macroeconomic stability; and
- iv. Promoting poverty reduction and equity.

To achieve these objectives, well-aligned fiscal, monetary and trade policies will be implemented in a very coordinated manner.

7.1.1 Engendering Active Private-Sector Participation and Inclusive Economic Growth

The Nigerian economy experienced its deepest recession in four decades in 2020. However, growth resumed in the fourth quarter in response to policy measures implemented by the government to counter the economic shock and mitigate the effects of the COVID-19 Pandemic. The measures protected the economy from deeper recession and facilitated quick recovery by creating additional fiscal space and maximizing the impact of the government's limited resources. As the Nigerian economy was still recovering from the 2016 recession when the pandemic occurred, the recovery is still weak.

Therefore, the focus in the medium term is on sustaining the economic recovery process and accelerating economic growth. The external environment is currently favourable, with recovery of crude oil prices and improving global growth. Nigeria's economy is now expected to grow by 2.5% in 2021. It is hoped that the economy will grow faster in the medium term, rising from 4.2% in 2022 to 2.3% in 2023 and 3.3% in 2024. The expenditure plans to be implemented in 2022-2024 will support the achievement of these real GDP growth targets. Achieving the targets in the medium term, growth in Nigeria require continuous productivity improvement, which in turn, requires investment in people, and boosting competition and innovation.

Government will sustain current efforts aimed at improving the business and investment environment for the private investment to thrive and drive growth. The fight against corruption will be intensified and relevant institutions will be further strengthened to enhance the security of life and property in the country. These efforts will enhance economic activities, domestic productivity, competitiveness and incentivize private investment thereby contributing towards realising the projected growth. Government will also enhance the access of small and medium enterprises in key sectors to sustainable financing to enhance their operational efficiency and further accelerate economic recovery.

7.1.2 Creating Adequate Productive Employment and Preserving Jobs

Current high levels of unemployment and underemployment are both a cause and a consequence of conflict, insecurity and instability. Hence, government will scale up current interventions aimed at ensuring productive engagement of the very large population of unemployed youths to prevent them from engaging in criminal activities and anti-social behaviour. Therefore, the immediate priority is to create adequate productive employment. In addition, government will ensure that growth continues to be jobs-rich.

Government will open up sheltered sectors of the economy to competition and investment, and intensify efforts to enhance the capacity of the workforce, through investment in education and training, and through measures to support people to set up business or move between jobs and sectors as the economy grows. To reap demographic dividend, the Government will provide opportunities for more Nigerian youths to gain skills for employability and entrepreneurship.

7.1.3 Ensuring Macroeconomic Stability

A stable macroeconomic environment is essential to enhance growth. It engenders certainty and enables businesses and households to plan their production, investment and consumption activities. In the medium term, policies will be implemented to stabilize the macroeconomic environment. The rate of inflation rose steadily from 2020 reaching a four-year high by March 2021 and decelerating recently. Current inflation is driven mainly by rise in the cost of food exacerbated by insecurity and conflict, pandemic-related shocks and market access. High inflation rates worsen poverty, depress economic activity and dampen growth. The mix of high inflation and high unemployment also exacerbate macroeconomic risks.

Therefore, a combination of fiscal, monetary, exchange-rate, and trade policies will be used to address the key sources of inflation in the medium term complemented by job creation interventions. Government is also sustaining its revenue generation efforts to reduce the need for deficit financing. This, in addition to enhanced debt sustainability will further support the stability of the macroeconomic environment.

7.1.4 Promoting Poverty Reduction and Equity

Poverty rate and inequality are key human welfare issues in Nigeria. The high poverty rate is worsened by high unemployment and the COVID-19 pandemic. Government will leverage the National Social Safety Nets Program (NASSP) to provide transfers to poor and vulnerable households. The COVID-19 Action Recovery and Economic Stimulus program will be implemented to support households, farmers, and firms. In addition, payment delivery mechanisms will be enhanced to facilitate payment delivery and strengthen accountability. Efforts will be made to graduate existing beneficiaries of the NASSP into inclusive productive activities.

The effective implementation of government's social investment programmes will contribute towards addressing the twin problems of poverty and in the country. These programmes along with other outcomes of economic growth and structural changes in the economy are expected to create new full-time jobs for the unemployed youths and lift million of people out of poverty.

7.2 Fiscal Policy Objectives and Strategies

The thrust of Government's fiscal policy in the medium-term is to sustain reforms, enhance fiscal resilience and ensure fiscal and debt sustainability. This will be achieved through the following:

- i. Improving government revenue;
- ii. Creating fiscal space for infrastructural development;
- iii. Enhancing fiscal prudence and transparency; and,
- iv. Ensuring sustainable deficit and debt levels.

7.2.1 Improving Government Revenue

Recent shocks underscore the urgent need to significantly diversify and improve government revenues and reduce the dependence on oil revenue sources. Government remains committed to using innovative ways to raise the revenues required to finance its expenditure and diversifying its revenue sources. The medium-term target is to increase the Revenue-to-GDP ratio to 15%. Higher revenue collections will enable Government to deliver public services more effectively, enhance infrastructure investment, and improve investment in human capital.

Recent reforms expanded government's fiscal space. Accordingly, these efforts will be sustained in the medium term to reap the full benefits. MDAs will still be required to use the new Appropriation Bill format to prepare their budgets, indicating revenues likely to be generated during the fiscal year.

Oil Revenue: In order to increase oil revenues, the NNPC will continue to implement measures aimed at further reducing the cost of crude oil production. Towards this end, major cost drivers such as logistics, security and transportation will be reduced. In addition, the licensing of Marginal Oil Fields and renewal of existing licences will be accelerated and production from previously shut-down oil wells will be ramped up.

Tax Revenues: Non-oil revenues remain more stable than oil revenue. To improve non-oil revenue receipts tax administration will be improved and non-oil revenue base will be expanded. In addition, the tax system will be further strengthened over the medium term by improving collection efficiency, enhancing compliance, and reorganizing the business practices of revenue agencies as well as employing appropriate technology. In addition, efforts will be made to bring more businesses in the informal sector into the tax net.

The FIRS was recently reorganised for optimal performance. Functions have been properly aligned with clear deliverables for efficiency and effectiveness. In addition, audit and investigation functions have been strengthened to check abuses and non-compliance as well as to enforce compliance. Strategies adopted by the Service to achieve revenue projections include:

- a. Effective use of technology and tax intelligence, especially in Large Taxpayers Offices, Medium Taxpayers Offices & Government Business Taxpayer Offices.
- b. Strengthening risk-based audit selection and early closure of unresolved audit/investigation cases.

- c. Enhanced use of third-party information for intelligence gathering.
- d. Strengthening Monitoring and Evaluation Framework of all constituent functions and staff of the Service.
- e. Enhanced stakeholder collaboration and engagement to check leakages, evasion as well as to enforce and improve compliance.
- f. Simplification of tax processes. Filing and payment of CIT, VAT and other taxes would be made easy through the full adoption of Tax ProMax and other IT solutions.
- g. Roll-out of Auto-VAT collect to major supermarkets and other key outlets nationwide to improve VAT collection.
- h. Audit and reconciliation of all banks to ensure deduction and remittance of electronic money transfer levy.
- i. Sustenance of taxpayer education, engagement/enlightenment through the media, workshops as well as other outreaches.

Customs Revenue: The Nigeria Customs Service will implement the following strategies to improve Customs revenue collections over the period 2022-2024:

- i. Full automation of all forms of manual payments in every Customs formation. In addition to improved revenue performance, this would further promote sanity and integrity of Service operations;
- ii. Advocacy for expansion of excisable items beyond alcoholic beverages and tobacco, including imported goods that have similar production line in Nigeria;
- iii. Assessment and monitoring of all revenues collected on behalf of the Service by the various designated commercial banks. This will create avenue for genuine reconciliation of all accrued revenues against claimed remittances to the various designated government accounts. This will also guide against diversion of any collectible revenue;
- iv. Automation of all transit procedures from mother Ports to Bonded terminals and/or from Command to Command to drastically reduce transit leakages occasioned by diversion of cargo among others;
- v. Acceleration of the modification and automation of excise and export platform in the Nigerian Integrated Customs Information System II (NICIS II);
- vi. The use of the Government Integrated Financial Management Information System (GIFMIS) module to enhance collection, reconciliation and audit trail of all relevant proceeds to block all opportunities to defraud the system;
- vii. Installation of scanners in various key Customs formations to streamline the current inefficient manual cargo examination method and aid trade facilitation;
- viii. Staff capacity development through training of the existing workforce and recruitment of new officers;
- ix. Intensification of anti-smuggling campaign beyond common boundary in collaboration

with other government law enforcement agencies to fight against smuggling activities and to curb trade irregularities and economic sabotage.

- x. Collaboration with stakeholders and relevant players to enhance compliance by bridging gaps and building confidence among players in the trade chain;
- xi. Use of Artificial Intelligence Instrument in border surveillance under the e-Customs Project to check smuggling and enhance revenue collection; and
- xii. Automation of the processing of arriving international passengers under the Passenger Entry System (PES) at the Arrival Hall of all international entry points to enhance revenue collection, unlike the extant passage of passengers without appropriate assessment.

Independent Revenues: To enhance independent revenue generation and collection, Government will continue to maximize the huge potentials and optimize the operational efficiency of GOEs to generate significant revenues to fund the FGN budget as obtainable in other countries. The performance of GOEs will be further enhanced through the effective implementation of the approved Performance Management Framework. The key elements of the reform initiative include:

- Performance contracts for Chief Executive Officers (CEOs) and key Management Staff, which will set Financial Indicators and Targets for each GOE;
- Limiting cost-to-revenue ratio to maximum of 50%;
- Regular monitoring and monthly publication of revenue and expenditure performance of GOEs by the Office of the Accountant General of the Federation;
- Quarterly tracking and publication of budget performance (revenue, expenditure and remittances) of GOEs by the Budget Office of the Federation; A dashboard has been developed recently to facilitate the budget performance monitoring process.
- Mainstreaming of annual GOEs' budgets into the Federal Government's Budget to ensure they are subjected to the same level of scrutiny, procurement and monitoring processes;
- Submission of annual GOEs' budgets to the Budget Office of the Federation for review and compilation for submission to the National Assembly along with the national budget;
- Consideration and passage of budget of GOEs alongside the main budget of the Federal Government;
- Mandatory use of the Treasury Single Account for all financial transactions;
- Quarterly remittance of interim operating surplus and reconciliation of cumulative remittances at year end after audit;
- Exclusion of agencies with capacities for self-funding from allocations in the Federal Budget;
- Imposition of appropriate sanctions for unauthorized use of Internally Generated

Revenues;

- Introduction of incentive mechanism for good performance in revenue generation; and
- Amendment of relevant sections of the Acts establishing some of the GOEs to reflect current economic realities and policy thrust of government.

The Accountant General of the Federation will deduct directly from the accounts of the GOEs forthwith all funds GOEs fail to remit. To further ensure transparency, the GOEs will be required to prepare their budgets using the GIFMIS platform.

7.2.2 Creating Fiscal Space for Climate-Smart Infrastructural Development

The increase in recurrent costs has restricted the amount available for capital investment. Hence, Government was recently unable to allocate a minimum of 30% of budgeted expenditure to capital projects as planned. Government will continue to pursue its fiscal strategy of targeted public sector infrastructure spending in 2022-2024. The most productive and growth-enhancing sectors will continue to be prioritised in the allocation of resources. The sectors include Security, Infrastructure (including Power and Transportation), Agriculture, Manufacturing, Housing and Construction, Education, Health and Water Resources. This strategy is aimed at improving infrastructure, facilitating employment creation and stimulating economic growth. Government will also continue to support the activities of Micro, Small and Medium-Scale Enterprises (MSMEs).

Nigeria is very vulnerable to climate change. However, existing infrastructure has largely not been designed to be climate smart. To address climate risks and integrate mitigation and adaptation measures in the implementation of Nigeria's capital investment programme, government will entrench the prioritisation and selection of climate-smart infrastructure projects in the medium term.

Government will also leverage private and donor capital to supplement capital allocations from the Budget. Furthermore, Government will further strengthen the frameworks for concessions and public private partnerships (PPPs). Capital projects that are good candidates for PPP by their nature will be developed for private sector participation. The Nigeria Infrastructural Company was established recently with a seed capital of one trillion naira to address Nigeria's infrastructure deficit in partnership with the private sector. It is expected that growth, in the medium term, will generate the revenue necessary for future expansion of public service delivery, rebuilding fiscal space, and narrowing new borrowing requirement.

7.2.3 Enhancing Fiscal Prudence and Transparency

The Federal Government amended the 2020 Budget by cutting nonessential spending. The Government remains committed to improving the efficiency and quality of its spending. Public expenditure will continue to be properly scrutinized to allow only essential spending and ensure value for money. Government intends to enhance fiscal prudence and transparency through the following measures:

- Review and implementation of Oronsaye Report to reduce the number of MDAs;
- Discontinuing fuel subsidies to create fiscal space for capital spending as well as increase Nigeria's fiscal and macroeconomic resilience. Electricity tariffs will also be adjusted to more cost-reflective levels in the medium term.

- Increased public-sector transparency, especially for oil and gas operations.
- Review of Sectors eligible for Pioneer Tax Holiday Incentives under the Industrial Development Income Tax Relief Act ('IDITRA');
- Review of Fiscal Incentives of the National Automotive Policy;
- Review of process and approvals of Import Duty Exemption Certificates;
- Evaluation of current suite of Fiscal Incentives including Auto Policy Incentives and Import Duty Exemptions;
- Tax Expenditure studies & review of Tax Expenditures;
- Consolidation of Government rental accommodation and centralization of electricity payment;
- Strengthening treasury financial controls to speedily detect, eliminate and sanction instances of waste, misappropriation and corruption.

To keep public expenditures at sustainable levels in the medium term, the Government will continue to clean the payroll and intensify efforts to complete the extension of the Integrated Payroll and Personnel Information System to all MDAs to improve the effectiveness and efficiency of payroll administration. In addition, all modules of the Integrated Personnel and Payroll Information System (IPPIIS) will be fully implemented across all agencies of government.

Towards realising the goal of controlling personnel costs, the restriction on non-critical recruitment outside of the Security and Healthcare sectors will be sustained.

To further improve fiscal transparency, the estimated cost of main tax expenditures and revenues forgone in a year will be reported in the Tax Expenditure Statement.

7.2.4 Ensuring Sustainable Deficit and Debt Levels

The Government recently implemented special expenditures to contain the COVID-19 Pandemic, protect the poor and vulnerable, as well as to resuscitate the Nigerian economy, accordingly, government fiscal deficit has increased significantly recently as these measures were undertaken amidst sharp decline in oil prices and revenue. Nevertheless, government will implement revenue and expenditure reform measures in the medium-term, aimed at strengthening government finances and reducing fiscal deficits overtime. As revenue collections improve, the need for deficit budgeting will decline.

The lower budget deficit will reduce the rate of debt accumulation, increase in debt service payments, and contain deficit monetization and the attendant macroeconomic dislocations. Government will also explore more flexible borrowing options to finance the federal government deficit to moderate the impact of monetary financing.

Total public debt will be kept within our self-imposed debt sustainability threshold of 40% of GDP to ensure debt sustainability. Government will consider setting other prudential limits like Debt Service/Revenue Ratio to ensure continuing sustainability of FGN's debts. Government will also negotiate a break on debt service with the Central Bank of Nigeria.

7.3 Monetary Policy Objectives and Strategy

The direction of the monetary policy by the Central Bank of Nigeria (CBN) in the medium term (2022-2024) is as outlined below. It is premised principally on the overall goal of engendering price stability with inclusive growth. Specifically, monetary policy measures would support the medium-term expenditure framework by ensuring that the ongoing recovery is strengthened while maintaining internal and external balances among the four macroeconomic sectors.

7.3.1: Review of Macroeconomic Conditions (2019-2021)

Macroeconomic conditions remain tenuous since 2019 as the economy grappled with myriad of shocks from both the global and domestic environments. As a small open economy, monetary policy at the Central Bank of Nigeria remains responsive to various changes in the global and domestic economic and financial environments. The major challenges to monetary policy arise from shocks emanating from the global environment, such as disruptions to the global supply chain due to the lingering impact of COVID-19 pandemic, slump in commodity prices and the ensuing economic slowdowns; which ultimately resulted in sharp capital reversals as investors rushed to seek safer havens.

On the domestic front, inflationary pressures persisted because of high food prices due largely to rising insecurity on account of farmers/herdsmen clashes around food producing communities. Other headwinds include increased exchange rate pressures leading to inflation pass-through to domestic prices, and hike in energy prices. These were compounded by long-standing structural issues in the Country, such as the decaying road network and inadequate power supply. The gross impact of these developments has been the subdued continued rise in unemployment; subdued output growth; rising public debt; bearish capital market conditions; and reduced accretion to external reserves.

However, following policy responses from the fiscal and monetary authorities, the economy witnessed marginal recovery in the last quarter of 2020 and first quarter of 2021 from the 2020 recession while headline inflation (year-on-year) decreased to 18.12 per cent in April 2021, from 18.17 per cent in March 2021, as result of some moderation to Food & Non-alcoholic beverages, which makes up 51.8 per cent of the inflation basket. In addition, net foreign exchange flow through the economy increased to US\$16.24 billion by the end of the first quarter 2021 from US\$16.09 billion at the end of the fourth quarter of 2020. However, the recovery is very fragile as there are many factors that if not properly managed, will pull the economy back to recession.

Given the above macroeconomic indicators, the focus of monetary policy over the medium term would be to minimize the adverse impacts of these headwinds and ensure that stable recovery conditions are sustained within the framework of monetary policy and its available tools, while working closely with the Federal Government in its capacity as Economic Adviser to the Government, to proffer solutions to the structurally induced inflationary pressure.

The Central Bank of Nigeria will continue to align the conduct of monetary policy with the overall macroeconomic goals as enshrined in the Medium-Term Expenditure Framework of the Federal Government. The Bank's projections were prepared using the CBN Monetary and Financial Programming Template, to obtain the indicative monetary aggregate benchmarks consistent with the overall macroeconomic objectives of the Federal Government of Nigeria.

Notwithstanding the foregoing, the Bank would periodically review the monetary programme to ensure consistency with evolving global and domestic macroeconomic condition and the

effectiveness of the applied monetary policy tools. In addition, the Bank would collaborate with other relevant public and private stakeholders to ensure effective coordination and implementation of the outlined strategies of the Medium-Term Expenditure Framework (MTF).

7.3.3: Medium Term Monetary Policy Stance (2022-2024)

The Central Bank of Nigeria would continue to adopt the medium-term framework (MTF) in the conduct of monetary policy in the fiscal years 2022/2024. In line with this, the monetary programme, 'the programme', for the 2021/2023 fiscal years is adjusted to accommodate anticipated new developments for the 2024 fiscal year. This is to obtain the relevant monetary aggregate benchmarks consistent with the desired overall macroeconomic objectives of the Federal Government. Accordingly, the monetary policy thrust would be anchored on the need to augment the fiscal policy effort to strengthen the ongoing recovery from covid-19 global pandemic, without hampering the attainment of price stability and the overall ancillary objectives of monetary policy. Consequently, the 2022/2024 programme was based on:

1. Monetary Policy stance that will strengthen the recovery of the economy from the depressing effects of the covid-19 pandemic while taking cognizance of the primacy of price stability;
2. Improved stability of the foreign exchange market to enhance long-term planning;
3. Moderate levels of accretion to external reserves from two opposing effects: (a) the reduced pressure from exchange rate intervention given the recent realignment in the value of naira; (b) the expected decline in foreign exchange rate earnings reflecting reduced oil revenue and the sluggish recovery of the global demand;
4. Domestic credit expansion to support the growth of the private sector, especially the critical sectors of the economy;
5. Expansion in agricultural and manufacturing output growth and creation of employment through targeted interventions, particularly the Micro, Small and Medium Enterprises (MSMEs) sectors, to improve household income;
6. A healthy external sector that would be resilient to the international commodity price shocks with expected positive impact on the balance of payment positions;
7. Continued collaboration with Fiscal authorities to reduce fiscal-straitjacket and ensure accelerated recovery of the economy from the effects of the global pandemic.

The CBN monetary programme was based on the assumption of the continued fiscal expansion to support the recovery and sustainability plan from the covid-19 pandemic, and commitments to the 2023 general election.

In line with the aforementioned development in the macroeconomy, the monetary programme for the 2022 – 2024 MTF included a benchmark of average exchange rate of \$USD/₦110.15 in accordance with the targeted macroeconomic fundamentals. The detailed macroeconomic projections for the framework based on these benchmarks are presented in Table 1.0.

Table 7.1 Selected Macroeconomic Projections for the 2022- 2024 MTEF

Indicator	2022	2023	2024
Narrow Money (M1) (Billion Naira)	21,614.40	24,089.70	26,565.00
M1 Growth Rate(%)	19.84	11.45	10.28
Broad Money (M2) (Billion Naira)	48,522.01	53,479.95	58,437.88
M2 Growth Rate(%)	11.52	10.22	9.27
Broader Money (M3) (Billion Naira)	48,537.47	53,495.50	58,453.54
M3 Growth Rate(%)	11.52	10.21	9.27
Net Foreign Assets (NFA) Billion Naira)	12,871.67	13,520.62	14,169.57
NFA Growth Rate(%)	24.61	5.04	4.80
Net Domestic Credit (NDC) (Billion Naira)	48,179.02	52,074.92	55,970.82
NDC Growth Rate(%)	3.56	8.09	7.48
Net Government Credit (NGC) (Billion Naira)	15,025.66	17,738.12	20,450.58
NGC Growth Rate(%)	12.89	18.05	15.29
Private Sector (DCp) (Billion Naira)	36,153.37	37,336.80	38,520.23
DCp Growth Rate(%)	8.85	3.27	3.17
External Reserves (US\$ billion)	35.77	36.77	37.76
External Reserves Growth Rate(%)	5.99	2.79	2.71
Average Exchange Rate (N/\$)	410.15	410.15	410.15

Source: Central Bank of Nigeria

7.3.4: Challenges to Monetary Policy and Outlook for the economy

To actualize the set goals, the monetary policy and credit stance need to provide for a higher banking system credit to accelerate economic growth recovery given the impact of the covid-19. However, the current uptick in inflation associated with the global health pandemic, security challenges, monetary and fiscal expansion could further induce inflationary pressure with negative consequences for the general price level such as exchange rate and interest rates – of which slow growth may continue in 2022.

In addition, a major assumption underpinning the projection is that the current improvement in the global economy would be sustained as access to COVID-19 vaccines improves and all forms of restrictions on economic activities are eased. It is noteworthy however that a setback in the vaccination efforts, which could affect global economic recovery would eventually hurt some of the projections on key macroeconomic aggregates.

Furthermore, the current security challenge could pose significant threat to the medium-term growth projection with a prospective spill over effect on the targets of other key macroeconomic indicators. The rising level of domestic debt is another key factor that could threaten the achievements of the targets on the macroeconomic indicators. The rising public debt has a high likelihood to cause a waning investors' confidence in the domestic financial markets with far reaching implications on key variables such as interest rate and exchange rate.

Finally, the medium-term outlook of crude oil price remains uncertain given the complex interaction of political and economic factors in the global space. In the event of adverse shock that leads to a plunge in the crude oil price below US\$50/barrel, the achievement of some of the targets may be at risk.

Overall, within the review period (2022 -2024), the stance of monetary policy would be cautious to enable the Bank to consistently anchor expectations and prevent market agents from overly engaging in speculative activities in response to the major existing shocks - COVID-19 and oil price. Consequently, the primary objective of monetary policy would remain

striking a balance between supporting the recovery of output growth while maintaining stable price development across inflation, exchange rate, and market interest rate.

8.0 ANALYSIS & STATEMENT ON CONSOLIDATED DEBT & CONTINGENT LIABILITIES

8.1 Nigeria's Current Debt Profile

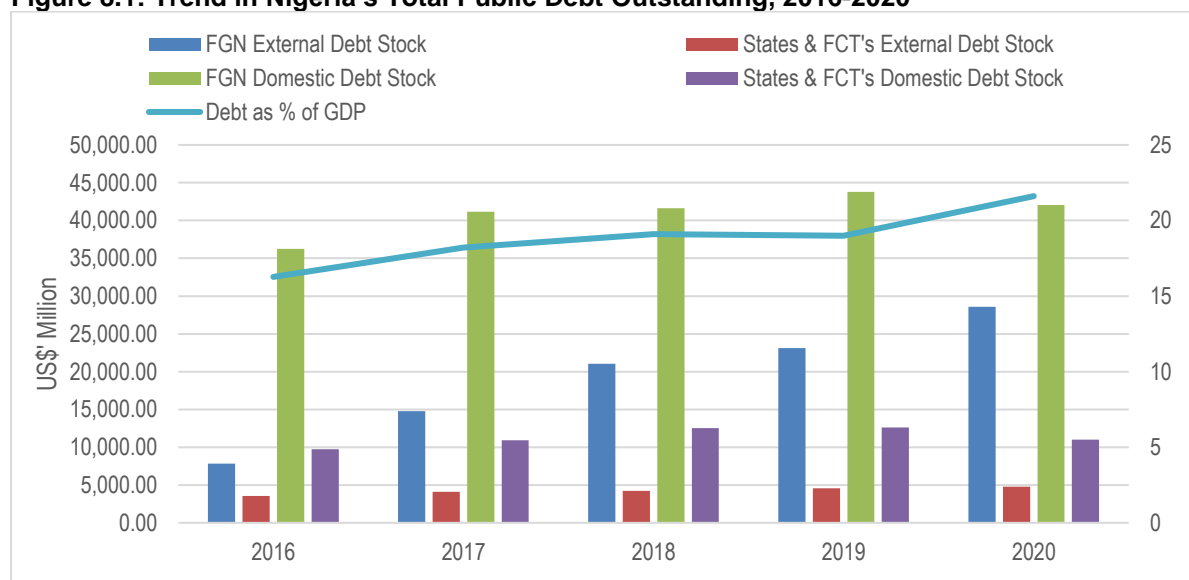
8.1.1 Debt Stock

Nigeria's Total Public Debt stock as at December 31, 2020 was N32.92 trillion (US\$86.39 billion) compared to N27.40 trillion (US\$84.05 billion) as at December 31, 2019, representing an increase of 20.12 percent in Naira terms. The increase in the Total Public Debt Stock was largely due to new Domestic and External Borrowing by the Federal and Sub-national Governments, and additional disbursements on existing Multilateral and Bilateral loans. In terms of the composition of the Total Public Debt Portfolio, Nigeria is working towards re-balancing its Public Debt Portfolio to the ratio of 70:30 percent between its Domestic and External Debt as stated in its Medium-Term Debt Management Strategy (MTDS) 2020 – 2023.

Specifically, in 2020, the share of the Domestic Debt dropped to 61.40% from 67.07% in 2019, while the share of the External Debt increased to 38.60% from 32.93% in 2019. The Federal Government's Domestic Debt accounted for 48.66% (N16.02 trillion) of the Total Public Debt, while the States & FCT accounted for 12.73% (N4.19 trillion), and the External Debt of the Federal Government's portion was 33.08% (US\$28.57 billion or N10.89 trillion), while the State & FCT accounted for 5.53% (US\$4.77 billion or N1.82 trillion).

The ratio of Nigeria's Total Public Debt as a percentage of GDP remained sustainable at 21.61% as at December 31, 2020. Also, the ratio was below Nigeria's country-specific Debt Limit of 40% (2020 to 2023), and below the revised WB/IMF's recommended threshold of 55% for Nigeria's peer group, and ECOWAS convergence threshold of 70 percent.

Figure 8.1: Trend in Nigeria's Total Public Debt Outstanding, 2016-2020



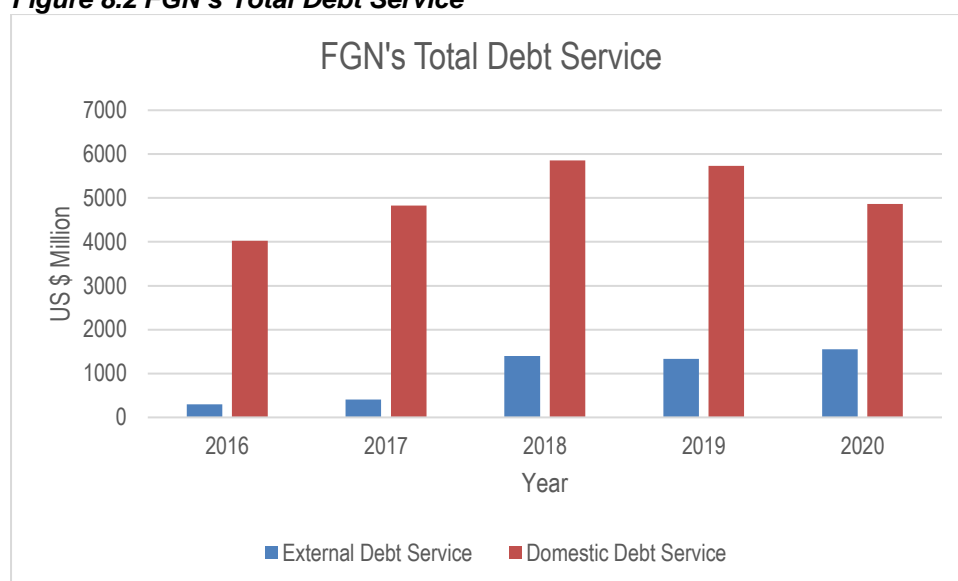
Source: DMO

The FGN's Total Public Debt service in 2020 amounted to US\$6,424.17 million relative to US\$7,062.47 million in 2019, reflecting a decrease of US\$638.30 million or 9.04 percent. The observed decrease of about 9.04 percent in Dollar terms is due to the Dollar/Naira exchange rate differentials between the fiscal year 2019 (US\$1/N326) and 2020 (US\$1/N381).

Debt service payments made during the year were both on External Debt and Domestic Debt. External Debt service were made on Multilateral and Bilateral debts, as well as the

Commercial debts. For Domestic Debt service, payments were made in respect of FGN Bonds, NTBs, Treasury Bond, FGN Savings Bond, FGN Sukuk and FGN Green Bond.

Figure 8.2 FGN's Total Debt Service



Source: DMO

8.1.2 Debt Management Strategy

Public Debt is implemented under a Medium-Term Debt Management Strategy (MTDS) which serves as a guide to the borrowing activities of the Government over four (4) years. The MTDS focuses on the development of an optimal borrowing structure to fund the Government's financing gap and needs, taking into consideration borrowing options, cost of borrowing and the associated risks with borrowing.

Debt Management is being implemented under a new MTDS, 2020-2023 which replaced the MTDS 2016-2019. Significant gains were recorded in the implementation of the MTDS 2016-2019 as most of the Targets were surpassed by the end of 2019. The Targets and the actual achievements as at end of 2019 are shown in Table 1.1.

Table 8.1: MTDS 2016-2019, Targets and Achievements

S/N	Indicator	Actual Dec. 31, 2015	Targets 2016-2019	Actual Dec. 31, 2019	Remark
1	Fiscal Sustainability: Total Public Debt as % of GDP	10.35%	Max. 25%	19%	Achieved
2	Portfolio Composition: Domestic: External Debt Mix	84.16	Max.60 Min.40	19:33	Significant improvement
3	Refinancing Risk: i. Average Tenor of Debt Portfolio	7.15 years	Min. 10 years	10.50 years	Target was exceeded
	ii. Long-Term : Short-Term Domestic Debt Mix	71.:29	Min.75:Max.25	79:21	Target was exceeded

The new MTDS 2020-2023, was based on the current Public Debt Stock, Government's borrowing needs in the medium-term (as stated in the 2021 Appropriation Act and the Medium-Term Expenditure Framework, 2021- 2023), as well as future global trends. Nigeria's 2020-2023 MTDS can be summarized as follows: "Borrowing will be from domestic and external sources but a larger proportion of new borrowing will be from domestic sources using long-term instruments while for External Borrowing, concessional funding from multilateral and

bilateral sources will be prioritised". The Targets for the MTDS 2020-2023 are shown in Table 1.2

Table 8.2: MTDS 2020-2023 Targets

S/N	Indicator	Target 2020-2023	Justification
i.	Fiscal Sustainability: Total Public Debt as % of GDP	Max. 40%	<ul style="list-style-type: none"> Increased from 25% to 40% in order to: accommodate new borrowings to fund Budget Deficits and other obligations of Government; Promissory Notes to be issued to settle Government Arrears, Ways and Means Advance at the Central Bank of Nigeria (CBN), and the Debt Stock of 5 State Owned Enterprises (SOEs). This ratio is still well below the WB/IMF's recommended threshold of 55% for countries in Nigeria's peer group and ECOWAS.
ii.	Portfolio Composition: Domestic: External Debt Mix	Max.70:Min.30	<ul style="list-style-type: none"> To accommodate new domestic borrowing, limit of 70% Ways and Means Advances and the debt-data of 5 SOEs.
iii.	Refinancing Risk: i. Average Tenor of Debt Portfolio ii. Long-Term:Short-Term Domestic Debt Mix	Min. 10 years Min.75:Max.25	<ul style="list-style-type: none"> To sustain the issuance of longer-tenored instruments with tenors of 10 years and above, in order to effectively manage Refinancing Risks.
iv	Guarantees: Sovereign Guarantees as % of GDP	Max. 5%	<ul style="list-style-type: none"> To use Off-balance Sheet Products to support economic development by offering guarantees to private companies that intend to execute public projects

Source:DMO

The implementation of the MTDS 2020-2023 is expected to moderate the level of debt-related risks, especially refinancing and exchange rate risk, and further improve the structure of the public debt portfolio.

8.1.3 Nature and Fiscal Implications of Contingent Liabilities

In order to address the issues of infrastructure deficit in Nigeria in the face of fiscal constraint, the Government will continue to encourage the Private sector operators to participate in financing infrastructure development through the use of Public-Private Partnership (PPP) arrangements. To motivate the private sector, the PPP arrangements may involve the issuance of Sovereign Guarantees which are explicit Contingent Liabilities.

The Federal Government of Nigeria (FGN) has improved its ability to monitor and manage the Contingent Liabilities that could arise from these projects, and mitigate against the actualization of the Guarantees. As at December 31, 2020, the Contingent Liabilities of Government amounted to N4.37 trillion, representing 2.87% of GDP, compared to N2.86 trillion or 1.98% of GDP in 2019.

In recognition of the expected increase in the use of PPP arrangements, the MTDS 2020 – 2023 includes a Target Contingent Liability Limit of 5% of GDP. This creates room for more of such operations when compared to the 1.98% as at December 31, 2019.

As part of efforts to account for the full exposure of FGN to contingent Liability, and to ensure proper management of same, a policy Framework on Contingent Liabilities is being developed. Table 1.3 shows the Contingent Liability profile of the Federal Government for the period 2020 and projected liability for the medium term.

Table 8.3 FGN Contingent Liabilities, 2020-2024 (N' Billion)

S/N	Liability Type	2020	2021	2022	2023	2024
1.	Federal Mortgage Bank of Nigeria	5.238	NIL	NIL	NIL	NIL
2.	FCDA- Katampe Infrastructure Project	7.441	NIL	NIL	NIL	NIL
3.	Nigeria Ports Authority – Lekki Deep Seaport	NIL	328.000	328.000	328.000	328.000
4.	Nigerian Export-Import (NEXIM) Bank	2.746	1.478	NIL	NIL	NIL
5.	Nigeria Mortgage Refinance Company Plc	26.839	23.752	20.664	17.576	14.489
6.	Payment Assurance Facility for Nigeria Bulk Electricity Trading Plc	971.711	880.885	718.260	555.635	555.635
7.	Power Sector Contingent Liabilities Put-Call Option Agreement (PCOA)	401.637	2,700.099	2,601.231	2,489.201	2,396.547
8.	Power Sector Contingent Liabilities – Partial Risk Guarantees (PRG)	90.842	151.913	324.374	324.375	324.374
9.	Legacy FGN Exposure from PHCN Successor Companies	962.064	1,040.756	1,040.756	1,040.756	1,040.756
10.	NNPC – AKK Gas Pipeline Project	931.181	1,007.347	1,007.347	1,007.347	1,007.347
11.	Family Homes Fund Limited (FHFL)	NIL	200.000	200.000	200.000	200.000
12.	Pension Arrears for MDAs	785.296	746.031	708.730	673.294	639.629
13.	Others	NIL	300.000	500.000	900.000	1,200.000
	Total	4,184.998	7,380.263	7,449.364	7,536.186	7,706.779

Source: DMO

Note: Dollar Denominated obligations were converted at exchange rate of US\$1: N379 (2020), and US\$1: N410 (2021-2024)

9.0 RISKS TO THE MEDIUM-TERM OUTLOOK

The 2020 pandemic has reduced demand and depressed imports. The result has temporarily narrowed current account deficits worldwide and dramatically widened another: the gap between government spending and revenues. Budget deficits averaged over 10% of GDP across emerging economies and have become a key concern globally for some emerging markets. Against experts' predictions and the dampening economic effects of the COVID-19 pandemic, Nigeria's year-on-year GDP grew 0.11% in Q4 2020, compared with a drop of 3.6% in Q3 of 2020. However, there was a rebound in the next quarter with the three non-oil revenue sectors leading the positive change; Agriculture, Industries and Services.

The Nation will expect more positive growth as normal economic activities have resumed following the easing COVID-19 pandemic restrictions. The fiscal policy response to the coronavirus pandemic has been relatively effective in mitigating rising fiscal and external vulnerability risks and limiting the Coronavirus medium-term negative economic and social implications. The Monetary Policy Committee of the CBN in January 2021 noted a positive output trend in Q1 2021. The outlook is optimistic that the domestic economy will follow the same streak over the medium-term while inflationary pressures ease moving into Q2 2021.

9.1 Global Economic Trends & Geo-Political Tensions

The success of the ongoing global vaccination programme is key to global economic recovery over the medium term. Failure to arrest the COVID-19 pandemic via a successful vaccination programme severely stresses Emerging Markets and developing economies, their political systems and institutions due to stressed fiscal conditions.

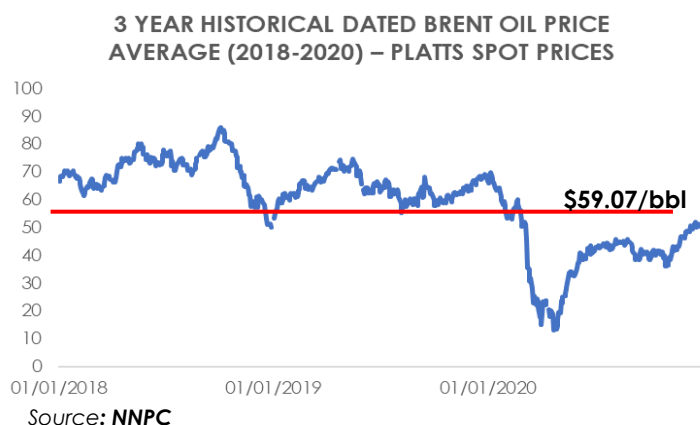
Political developments in Iran with the emergence of a new administration following their general elections could see resumption of talks around the 2015 nuclear deal. In a related development, after conducting a review of its policy toward North Korea, the US seeks direct diplomacy with Pyongyang, working with its allies. There is no imminent threat of regional armed conflict. However, tensions are predicted to escalate over the medium term, following North Korean provocations including long-range missile tests and possibly a nuclear test.

There will be implications for crude oil pricing on account of this geopolitical risk. The markets can expect prices to rally if there is any other trigger between the US and Iran, which could disrupt Middle East output and drive oil prices higher.

Throughout 2020, the US-China relationship soured on several fronts. The Biden administration appears to sustain many of the policies under the previous administration. Furthermore, China's military action to accelerate reunification with Taiwan or more forcefully assert claims in the South China Sea has shown further cracks in US, China & Taiwan relations, which has been relatively stable over the last 4 decades. China has launched the largest ever incursion into Taiwanese airspace. The U.S is also increasing its military presence and activities in south China sea, whilst stepping up diplomatic relations with its Taiwanese counterparts, in response. This remains a significant medium and long-term risk.

9.2 International Oil Market Developments

9.2.1 Oil Prices



Average oil price forecast in the Medium Term is 2022: \$57/bbl, 2023: \$57/bbl, 2024: \$55/bbl, and this is premised on a historical trend review as well as the averages of a number of forecasting institutions, factors affecting market fundamentals global economic recovery and plans by governments and market sentiments

Price growth is expected to be moderated by the lingering concern of COVID-19, increased energy efficiency, switching due to increased utilization of gas and alternatives for electricity generation are more reflections in the Medium Term. Overall, Oil prices have shown great promise with prices reaching \$74.35/b in June 2021 for the first time since October 2018.



The OPEC Reference Basket (ORB) gained \$6.67, a 12.3% increase, to average \$61.05/b for March 2021. Oil futures prices increased sharply in February 2021 as the ICE Brent front-month up \$6.96, or 12.6%, to average \$62.28/b. Capital outflow risks are a result of low domestic interest rates and high foreign holdings of domestic securities.

2.2.2 Oil Demand & Supply Risks

The oil demand forecast shows recovery compared to 2019 levels as both COVID-19 vaccination rates and global economic activity go up, combined with current petroleum supply limitations by the OPEC+. The OPEC Reference Basket (ORB) (including Bonny light) saw an average of 13.1% increase from January to February 2021. The later part of the year looks promising as the increased demand is expected from air and road public transport across the globe by Q4, 2021.

9.3 Exchange Rate Risks

Depreciation of the Naira against the US dollar and other major currencies poses a key risk to government's fiscal position. Over 80% of Nigeria's foreign exchange earnings is derived from Crude oil and gas export. In effect, the risk of the Naira depreciating against the US Dollar is a resultant risk should there be a protracted oil price shock, due to the fact that oil revenue receipts are in US dollars. Businesses that rely heavily on forex for imports of production inputs

and capital could also be constrained. To address the exchange rate risks, the Central Bank of Nigeria will pursue unification around its NAFEX market rate, which is the window where investors and exporters transact dollars at market determined rates. The CBN adjusted official exchange rate aligned with the NAFEX rate is currently N410.15/US\$1. In addition, the CBN is endeavouring to significantly improve its foreign reserves to be able to enhance its ability to manage exchange rate risks by defending the Naira against depreciation, where possible.

9.4 Digital & Cryptocurrency considerations

The Central Bank at its 279th Monetary Policy Rate (MPR) meeting assured Nigerians of the place of digital currencies in the country. The apex Bank will launch a digital currency over the medium term with a pilot likely between Q4 2021 – Q1 2022. With over 200m users worldwide and a 190% rise in global crypto users between 2018 – 2020, the key issue here for government is that of regulation as the acceptance level inches higher. The over \$1.9trn cryptocurrency market is largely unregulated in most countries around the world.

The Federal government is assessing the dynamics of the market and the risk to individuals and enterprises in this novel economic sector. Countries like the UK, Israel and Spain have classified players and transactions in the cryptocurrency market for tax purposes, the fluidity of the terms used to describe the different products and the possibility of illegal activities (with operators in the UK likely to be forced to close after failing to meet UK's anti-money laundering regulations). There is also income leakage due to remittances outside the formal International Money Transfer Operators (IMTOs). El Salvador for instance, has issued notices and legislation adopting the bitcoin cryptocurrency as legal tender. There is potential in the technology behind the blockchain market that local FinTech companies can harness. Thus, developing a regulatory framework will ease the risk of eventualities. If it remains unregulated, that could affect the willingness or ability of cryptocurrency traders to get value. A liquidity shock to the broader cryptocurrency market and their teeming Nigerian clients will be the most likely result.

9.5 Risks to Non-Oil Revenue

The FGN efforts to improve domestic revenue mobilisation suffered a major setback following the outbreak of COVID-19 in 2020. Decisive action had to be taken to address the pandemic as well as the economic crises that followed. The economic impact of the pandemic and the fiscal stimulus measures that government put in place to strengthen confidence and resilience by helping business stay afloat, help preserve employment as well as supporting households. Thus, governments approach to implement macroeconomic strategies to attract investment, grow the economy, create jobs as well as providing immediate fiscal strategies in response to the COVID-19 Pandemic and the domestic / global economic downturn. As such, emphasis was placed on no tax increases and very few fiscal incentives, providing fiscal relief for taxpayers; etc. slowed our medium-term diversification plans.

The Finance Act, 2020 indicates no increment in taxes. However, it focuses on improving efficiency in revenue collection process, audit and remittances. The FIRS will ensure that companies and employees have updated their tax filings and remittances accurately and seek to improve collection efficiency over the medium term.

VAT, CIT, Custom Duty collections have increased by an average of 9.72%, 11.50% and 13.66% respectively in the last three years. With innovative technology, the revenue collection process will continue to be made less cumbersome for Taxpayers and businesses while encouraging transparency in the remittance procedure. These measures will reduce fiscal

risks, and more sustainable economic recovery.

9.6 Sensitivity of Budget aggregates to Macro-economic conditions

Should the economic outlook differ from key assumptions and parameters as witnessed in 2020 following covid-19 pandemic disruptions as well as crash of crude oil prices, the 2022 – 2024 MTEF/FSP revenue and expenditure estimates and projections would also change, as the revenue and expenditure estimates and projections contained in this document and the planned 2022 Budget to follow therefrom, are based on available data and information for modelling at the time of preparation, which also takes into consideration assumptions and professional judgments of historical patterns.

With the current fiscal space, government may have to reduce planned expenditure in the event that unanticipated changes in economic conditions occur, by way of managing budgetary pressures, should the impact of such change(s) flow through to FGNs expenditure and revenue forecast. The impact of this risk is high, given the significant share of non-discretionary expenditure to total expenditure. To mitigate this risk, the medium-term projections are based on observed historical relationships between the variable factors.

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

Table 9.1: Risks Likelihood, Impact and Mitigation Strategies

Risk	Likelihood (H/M/L)	Impact (H/M/L)	Mitigation
Debt sustainability	M	H	<p>The DMO shall closely monitor market developments. Issuance techniques and pricing systems may need to be adapted to accommodate the market participants needs', monitor contingent liability more closely considering its long-term impact on debt sustainability & fiscal space.</p> <p>Ensure continuity of funding and adopt a flexible approach; if risk perception in the market is high, approaches could be needed to mitigate refinancing risk. If market access is lost, it is hard to regain.</p>
Domestic oil production shocks	L	H	<p>The JV business is positioned to grow oil production by up to 14% in the medium term from 1,146kbopd to 1,308kbopd across all business arrangements. The planned development wells in 2021 is 14 while 2022, 2023 and 2024 is 41, 53, and 52 respectively. Overall, production cuts due to militancy and theft have reduced significantly and due to governments intervention in the Niger Delta as pipeline security arrangements, except in the event of technical breakdown or force majeure.</p>

Oil price shocks	M	H	The FG shall continue to maintain a conservative outlook to oil price benchmark for fiscal projections over the medium term. The FGN shall work with OPEC and OPEC+ to achieve price stabilization through quota/production cap agreements where applicable.
Foreign Exchange Supply / Rate Risk	M	H	CBN policies to liberalize the FX market will curb speculative activities, meeting forex demands and stabilize external reserves. This necessitated the adjustment of the official exchange rate to align with the NAFEX rate, currently N410.15/US\$1.
Failure to meet non-oil revenue projection	M	H	Domestic revenue mobilization is expected to improve over the medium term as key revenue mobilization reforms are expected to bear fruit. GOEs' revenue performance is expected to improve further to the implementation of the provisions of the Finance ACT, 2020 as well as the Finance Act that is to follow the 2022 FGN Budget which will reinforce Performance Management clauses for the GOEs whilst reviewing their operational efficiencies and cost-to-income ratios and generally ensuring they operate in more fiscally responsible manner.
Insurgency, Banditry/ Insecurity in parts of the country	M	H	Ensure close coordination of FGN and state governments, including through more frequent coordination meetings. The mitigation action largely remains the same from previous year, a twin track approach of dialogue and military force shall be deployed in the event of an upsurge in major security breaches This is affecting economic activities in virtually all states. Governments ongoing efforts in restoring order, enforcement and socio-economic interventions shall continue and are expected to mitigate this risk
Food shortage due to farmers herders clash and other environmental factors.	H	H	The likelihood of this risk has now been elevated from the previous year following sustained issues between farmers and pastoralists over the last one year. The National Food Security council, that Mr. President Chairs will continue to provide oversight in this regard working closely with subnational governments. With food inflation inching upwards, release of grains from FGN strategic reserves is expected to supplement any shortage in the short to medium term, whilst lasting solutions are provided to forestall future occurrence.

Natural disaster	L	H	<p>No advisory issued by FGN disaster management agencies to suggest likelihood of an occurrence. Overall, outlook remains stable over the medium term. A N20bn minimum balance is maintained in the ecological funds account by the FGN for immediate emergency response in the event of a natural disaster in any part of the country, additional funds can be mobilized depending on severity and magnitude of disaster.</p> <p>The Federal Ministry of Humanitarian Affairs and Disaster Management is well positioned for first level response in any event.</p>
Failure of Power Sector Recovery Operations	M	H	<p>The likelihood of this risk has now been downgraded from the previous year. As the Power Sector Recovery Operations is now effective.</p> <p>The mitigation will be to restructure the PSRO to reflect current realities. Tariff review shall also be considered over the medium term, subject to NERC's review of the Multi Year tariff Order (MYTO)</p>

10 THE MEDIUM-TERM NATIONAL DEVELOPMENT PLAN STRATEGIC FRAMEWORK AND ITS MEDIUM-TERM EXPENDITURE FRAMEWORK

The Medium-Term National Development Plan (MTNDP) aims to lift 34 million people out of poverty and generate 25 million jobs by 2025. Nigeria can achieve these goals by expanding economic growth, growing an inclusive economy, leveraging its young workforce and enhancing execution capacity at the national level. The new Medium-Term Expenditure Framework enables the critical investments required to drive the policies, strategies and programmes of government towards this end. Therefore, all subsequent successive annual budgets will be aligned to MTNDP to ensure that the country is propelled on a trajectory that transitions from recovery to growth, from growth to resilience, and from resilience to competitiveness.

10.1 Embracing the Challenges & Opportunities Arising from the COVID-19 Pandemic

The Covid-19 pandemic threatens the realization of the Government's ambition to lift 100 million Nigerians out of poverty by 2030. The Nigerian economy contracted by 6.1% year-on-year in the second quarter of 2020 which was the steepest growth decline in a decade. In the fourth quarter of 2020, the economy returned to marginal growth expanding by 0.1% year-on-year. This rebound will need to be strengthened to prevent rising unemployment and poverty rates in the country. This underscores the urgency to put in place practical measures that will lead to economic recovery and expand job creation. The MTNDP 2021-2025 has been developed to urgently address the macroeconomic challenges by taking advantage of opportunities as well as pursuing relevant interventions.

The COVID-19 Pandemic has precipitated economic decline and recession at home and abroad as countries world-over battle with rising infections, new mutations, increases in hospitalisations and inevitable deaths. However, modern medicine has risen to the challenge, producing multiple vaccines in record time, through accelerated pharmaceutical manufacturing processes.

Nigeria must urgently seize the opportunities presented by emerging global trends such as:

- Increasing innovation as the global economy is transformed by the Fourth Industrial Revolution into a truly Digital Economy where skilled knowledge workers expand the growth of services and unlock the demographic dividend inherent in the predominantly youthful populations of Nigeria and other developing countries;
- The resurgence of global, continental and regional trade as well as commerce, underscored by recent events such as the consummation of the Africa Continental Free Trade Agreement; and
- The increasing convergence around the Climate Change Agenda, and the need for developed and developing countries alike to transition, in a phased and prudent manner, to facilitate the emergence of a Greener Economy characterised by sustainable, technology-enabled growth as renewable energy sources replace fossil fuels and lead to the reduction of carbon emissions.

It is within this challenging context that the MTNDP 2021-2025 vision's strategic statements are situated at a critically urgent and important time in our nation's history.

The MTNDP 2021-2025 is couched within a longer-term vision of Nigeria that sees her evolving into a largely industrialized economy that has unlocked its full potentials, achieved

inclusive growth, a significant reduction in poverty and unemployment and improved the quality of lives of its citizens

The plan is focused on the realistic next steps required on the journey towards unlocking the full potential of the public, private, and social sectors, boosting industrialization, implementing the underlying reforms required to achieve this, and, ultimately, driving sustainable and inclusive growth. It builds on previously articulated national policy priorities to:

- Build a thriving and sustainable economy.
- Enlarge agriculture output for food security.
- Attain energy sufficiency in power and petroleum products.
- Expand transport and other infrastructure development.
- Expand business growth, entrepreneurship, and industrialisation.
- Improve access to quality education, affordable healthcare, and productivity.
- Enhance social inclusion and reduce poverty.
- Build systems to fight corruption, improve governance and create national cohesion.
- Improve security for all.

These objectives may be captured, for clarity and simplicity, in the following target indices, to be achieved by [2025] viz.:¹

1. Real GDP Growth of at least [6%], resulting in a GDP (at current market prices) of at least [N300 trillion];
2. GDP per capita of at least [US\$3,500.00]; and
3. An unemployment rate of below [20%].

The MTNDP, which succeeds the ERGP and ESP, aims to achieve these targets in the medium-term horizon, principally by promoting private sector investment in the economy, incentivizing the emergence of new and innovative sectors in the service industry, and promoting industrialization as a key driver of economic growth.

10.2 Alleviating Poverty through Sustainable, Diversified & Inclusive Growth

At the heart of the MTNDP 2021-2025 lies the vital and urgent need for Nigeria to reduce and eradicate poverty in all its manifestations, by ensuring pro-poor, inclusive, diversified, sustained and sustainable economic growth that benefits the vast majority of Nigerian citizens, communities, cities as well as towns and villages nationwide.

Previous economic development plans have identified poverty alleviation as a critical priority. For instance, in 2004 the National Economic Empowerment and Development Strategy ('NEEDS')² detailed the dimensions of poverty as including:

¹ Similar to the Nigeria Vision 20:2020 First National Implementation Plan's targets of emerging amongst the top 20 global economies by 2020, through the achievement of GDP of not less than US\$900billion and GDP per capita of not less than US\$4,000.00.

² Part One – Vision & Macroeconomic Framework, Meeting Everyone's Needs: National Economic Empowerment and Development Strategy ('NEEDS'), Nigerian National Planning Commission, 2004.

- Lack of access to clean water, adequate food, decent shelter, appropriate clothing, basic education, essential healthcare and other basic services;
- Lack of access to land, tools, credit, supportive networks, assets and income, as well as empowerment through political power, confidence and human dignity; and
- Exposure to discrimination on grounds of gender, race, disability, age, ill-health whether caused by natural disasters (such as floods, droughts, disease, famine, etc.) or human-caused shocks (such as conflict, insurgency, civil unrest, market collapses, etc.).

Regrettably, the underlying drivers of poverty have not changed in the decades since 2004. Indeed, as harbingered by NEEDS, the present trends continue, Nigeria is not likely to fully achieve its Sustainable Development Goals ('SDGs') over the medium-term horizon, due to:

- Inequities in opportunities for all Nigerians, irrespective of ethnicity, social class and access to economic and political power, to achieve prosperity;
- The preoccupation of previous governments with controlling major sources of national income and wealth, which were then devoured by corruption, mismanagement, nepotism and associated vices that established a firm foothold in public service and the broader society; and
- The failure of government to deliver essential public services which could unleash the incredible but latent potential of the private sector, such that local and foreign investors, as well as micro, small, medium and larger businesses struggled to generate jobs, create wealth and achieve competitive advantages in their chosen niche markets due to the resulting unfavourable business environment.

10.3 The Vision's Focus on Good Governance to Unleash Private Sector's Potential

Government is focused on:

1. Enshrining good governance and fighting corruption;
2. Restoring and maintaining security across all regions of the nation; and
3. Piloting the Economy out of the recent periods of decline and recession, unto a trajectory of sustainable, pro-poor, inclusive and diversified economic growth, that benefits all Nigerians and not just a few.

Under the MTNDP 2021-2025, the government serves as the **facilitator, enabler and supporter of the private sector, as it drives economic activities through Nigerian businesses – micro, small, medium and large.**

As in previous National Development Plans, the government must continue to:³

³ Meeting Everyone's Needs: National Economic Empowerment and Development Strategy ('NEEDS'), Nigerian National Planning Commission, 2004, p. xi and xviii; and see generally, Nigeria Vision 20:2020 First National Implementation Plan (2010 – 2013).

1. Develop critical power, transportation, telecommunications and other infrastructure to stimulate the growth and emergence of a globally competitive private sector;
2. Diversify the economy away from an overdependence on oil, gas and solid minerals in a climate change sensitive and sustainability responsive way; and
3. Privatised, deregulate and liberalise relevant publicly owned enterprises or government-dominated industries to create and receive value for money from such divestments, create wealth, generate employment, expand industries, enhance global competitiveness and promote domestic competition in a manner that protects the most vulnerable and poor citizens and communities;
4. Reform government to make it smaller, leaner and better skilled, in a manner that pivots government as enabler, facilitator and regulator of business through deregulation and liberalisation to position the private sector as the engine of economic growth, as the executor, investor and manager of businesses;
5. Create the enabling legislative, regulatory and policy framework to advance private sector development; support the emergence and recognition of land, intellectual property and other private rights; accelerate trade competitiveness within Regional and Continental economic bourses; increase domestic revenue mobilisation to finance critical human capital and infrastructural investments necessary to enable private sector-led growth; as well as reduce the size, footprint and potential interference inherent in over-regulated and government-dominated market places.

10.4 Medium-Term National Development Plan Objectives

The emerging economic trajectory under the MTNDP is to be anchored by a sound macroeconomic framework. Thus, macroeconomic framework buttresses and undergirds MTNDP's four broad strategic objectives of:

1. Establishing a strong foundation for a diversified economy;
2. Investing in critical physical, financial, digital, and innovation infrastructure;
3. Building a solid framework and enhancing capacities to strengthen security and ensure good governance; and
4. Enabling a vibrant, educated, and healthy populace.

The forgoing quartet of Plan Objectives are underpinned by two broad sets of cross-cutting enablers namely:

- I. Investing in the social infrastructure and services required to alleviate poverty, drive inclusive economic empowerment, and reduce unemployment; and
- II. Promoting development opportunities across States to minimize regional economic and social disparities.

10.5 Critical Policy Priorities

To achieve the previously stated objectives and goals, the MTNDP 2021-2025 and subsequent development plans must revolve around the need to substantially change the structure of the Nigerian economy by reducing its dependence on oil and substantially de-linking its performance from movements of the oil market. This will provide the basis for

sustained and inclusive growth driven by increased productivity and macroeconomic stability, especially concerning inflation, foreign exchange, external balance and debt sustainability.

Policy action will therefore be directed towards the following:

- Prioritization and implementation of critical and strategic infrastructure projects that will directly boost production and productivity in the SME, agriculture, manufacturing and service sectors, in line with rapid growth, revenue and forex diversification objectives. The focus will be on electricity, road/rail and other transport, and broadband internet connectivity.
- Continued supportive interventions for manufacturing, agriculture and SME subsectors to fuel broader diversification efforts.
- Enhance non-oil forex earnings by attracting FDI, improving diaspora remittances and promoting non-oil exports.
- Measures to diversify revenue and increase tax to GDP ratio by improving tax administration, including the informal sector, and widening the tax base.
- A movement towards a unified, liberalized foreign exchange market.
- Institutional reforms and measures to create a conducive environment for private economic activity, non-oil exports and foreign direct investment.
- Prioritize quality education, health, research and technological capacity building.
- Institutional reforms in oil and gas (through the passage of Petroleum Industry Bill), public sector, law enforcement, judiciary, and secure property rights, including intellectual property.
- Social protection for the most vulnerable backed by an effective M&E framework and impact assessment methods.
- A multi-pronged and multi-tiered approach to address security threats and challenges.

ANNEXURE 1: TAX EXPENDITURE STATEMENT

TAX EXPENDITURES STATEMENT

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INTRODUCTION

As part of the commitment to deepen public finance management, tax expenditure statements are to promote transparency around policy-motivated 'expenditures' made through the tax system. The preparation of the Tax Expenditures Statement (TES) is a requirement under the Fiscal Responsibility Act, 2007 (FRA 2007), the first TES was prepared in 2020.

Tax expenditures (TEs) take the form of an allowance, waiver, preferential tax rate, exemption, deferral, or offset that reduces a tax obligation to achieve a specific policy objective. The statement provides the policy maker the leverage to estimate the implicit cost of concessions granted and appraise the desirability such costs compared to the benefits. The concept recognises that TEs are not merely forgone revenues but that the result is similar whether a government chooses to spend directly on or forgo revenue from certain individuals, groups, or activities.

This note outlines preliminary estimates of revenues forgone from Companies Income Tax (CIT), Value Added Tax (VAT), Petroleum Profit Tax (PPT) and Customs Duty. The purpose of the Statement is to provide data on the cost of tax expenditures for the purposes of evaluating the effectiveness of individual tax expenditures in achieving their policy goals. In other words, the Statement facilitates the undertaking of a cost/benefit analysis of tax expenditures. Ultimately, the Statement will provide for greater transparency, and inform discussion on the equity and efficiency of the tax system. As required under FRA 2007, the Statement will also include an indicative estimate of the cost of the main tax expenditures for the following three years.

This Statement is confined to revenue forgone on CIT, VAT, PPT and Customs Duty. The estimates take into account the provisions in the revenue and other laws that depart from the benchmark tax treatment (i.e., tax expenditures) for these taxes and duties and estimates the tax forgone for the 2020 fiscal year.

The estimates of the future costs of tax expenditures are indicative and based on assumptions of developments in the economy. The tax expenditure estimates were determined on a "revenue forgone" basis. This means that the estimates were based on the difference between the existing and benchmark tax treatments assuming taxpayer behavior is the same, i.e., there is no behavioral response to a reduction or removal of the tax expenditure. Total revenues forgone for 2020 are NGN 5.8 trillion, comprising as follows:

VAT (NGN Billions)	CIT (NGN Billions)	PPT (NGN Billions)	Customs (NGN Billions)
4,300	457	307	780

The commitment to publish annual TES reinforces public confidence and trust in the tax system and fiscal governance. It is important that tax expenditures are monitored and reviewed individually on their merits to ensure that they achieve their stated purposes at least cost to the public. It is also crucial that fiscal management sets rules to limit the expansion of tax expenditures, and possibly consider schemes requiring conversion of tax concessions into refundable tax credits. This could contribute to improve the progressivity of tax expenditures, which are notably inequitable in their incidence, as well as to improve the ability to evaluate such expenditures in a way comparable to direct outlay programs.

2. Data availability and approaches to mitigate data gaps

The scope and coverage of these estimates were limited by the dearth of quality data. The estimates of the cost of the main tax expenditures are based on the best, currently, available data for the 2020 fiscal year.

The following data limitations in estimating tax expenditures should be noted:

1. VAT: The VAT estimates are based on the Supply-Use Tables prepared by the National Bureau of Statistics (NBS) for 2010 (the most recent Supply-Use Tables available) adjusted, where possible, to 2019. The VAT tax expenditure estimates are produced using a “top-down” approach.
2. Corporate Income Tax and Petroleum Profit Tax: The CIT/PPT estimates are based on data provided by the Federal Inland Revenue Service (FIRS) on CIT collections and returns filed by entities which benefit from the Pioneer Industry Scheme (PSI). The returns of the PSI entities provide a good estimate of the cost of PSI tax expenditures. These are derived from reasonable assumptions of profit level indicators and effective tax rates based on the performance of PSI entities. To estimate overall CIT tax expenditure these estimates were used, in conjunction with information obtained from return data from the limited number of returns filed online. It is noted that tax expenditures in relation to CIT/PPT are the most complex given varying profit ratios of different business areas, variations of profitability between time periods and difficulties of estimating the level of taxable profits from accounting profits across business areas.
3. Export Processing Zones/Oil and Gas Free Zones: The calculation of tax expenditures related to EPZ and OGFZ concessions is the most challenging due to incomplete data from the relevant regulatory authorities. Further, given that the beneficiaries are not required to file any tax returns, the only source of information is the relevant authorities, which have powers to require returns. This Statement includes an estimate of revenue forgone from Export Processing Zones.
4. Customs Duties

Detailed customs data were not available. Data obtained from the Nigeria Customs Service have been aggregated, possibly rolling up commodity detail and masking much of the nuances of individual taxpayer analysis. Excise tax data were not provided. Excise taxes are commodity specific; without this detail in the customs data the underlying loss in excise at customs, which in turn impacts VAT were omitted from the estimation.

3.0 2020 TAX EXPENDITURES ESTIMATES

3.1 VAT Forgone Revenue Estimates

The international best practice for estimating VAT tax expenditures is to model the tax using the country's Supply Use Tables. In contrast to income tax where the liability rests with the tax filer, for VAT, in most instances, the tax liability rests with the "final consumer". The Nigerian VAT system is an invoice and credit system whereby firms, making taxable supplies, can often claim input tax credits for the VAT they incur on inputs into production. However, households making taxable purchases incur the tax. Firms making exempt supplies or supplies of services, are not eligible to claim input tax credits and therefore incur the tax. However, vendors do not know whether their sales are to businesses, eligible to claim input tax credits, or customers who cannot claim relief from the VAT.

Consequently, simply adding up the total amount of VAT reported on tax returns grossly overestimates the total amount of VAT revenue because the bulk of the VAT reported by firms is recovered as input tax credits. Nigerian tax expenditure estimates were generated using the most current (2010) Supply Use Tables for the country combined with data on total VAT collected from the Nigerian Bureau of Statistics. In contrast to last year's estimates, which were based exclusively on the VAT revenue potential, this year's are based on the VAT legislation, specifically schedule one. The model is designed around the relief provided in the VATA.

To the extent possible, each commodity exempted in schedule one is concorded with a commodity in the Nigerian supply use tables. Exempt commodities are not subject to tax however, firms making these goods and services incur unrecoverable tax because they cannot claim input tax credits. To emulate the Nigerian VAT, the model estimates the VAT as the product of final consumption expenditures and the legislated tax rate of 7.5% (households and governments) unless commodities are exempted, in which case, businesses pay unrecoverable VAT based on their expenditures on goods and services as reported in the Supply Use Tables.

The tax expenditures are the difference between the current tax system and a "benchmark", or ideal, tax system with full compliance. Where the current tax system is based on the rules set out in legislation in the benchmark assumes that all commodities are fully taxable. Whereas input tax credits are typically allowed on all inputs in most VAT systems, Nigeria denies input tax credits on services and some capital expenditures. Consequently, the benchmark tax system in the current model assumes that unrecoverable tax paid on services and some capital is a structural component of Nigeria's VAT system.

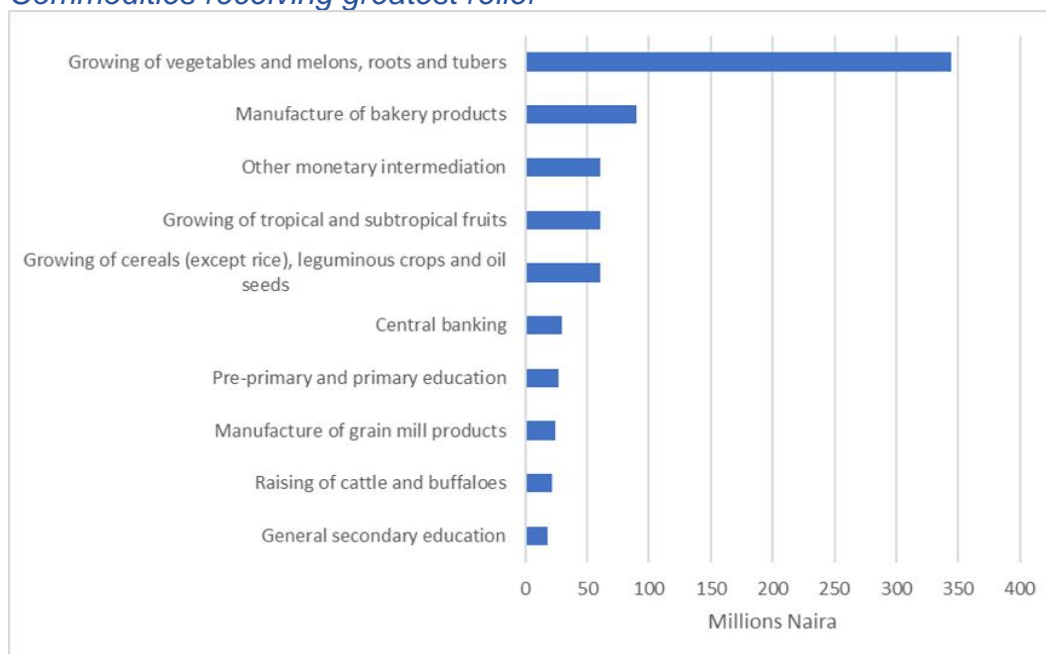
Typically, the only structural relief in the VAT system is zero-rating exports. Because firms located in the export zones or in the oil and gas sector are entitled to input tax credits on their purchases of capital inputs and because the zones are dedicated to export-oriented production, in the current model, it is assumed that all exports emanate from NEPZA and OGZA. The benchmark tax rate in the model is 7.5% because that was the prevailing rate during the 2020 fiscal year.

Results

As mentioned above, this year's estimates distinguish between relief granted in the legislation and compliance burden. If all commodities in the Nigerian VAT system were fully taxable the country could generate about 6 trillion Naira from their existing tax structure. However, according to the Nigerian Bureau Statistics, the VAT yielded about 1.8 trillion Naira. The difference between the two is the tax gap and is estimated to be about 4.3 trillion Naira. Of this, about 900 billion Naira are attributable to exemptions set out in legislation; the remaining 3.4 trillion Naira are attributable to the compliance gap.

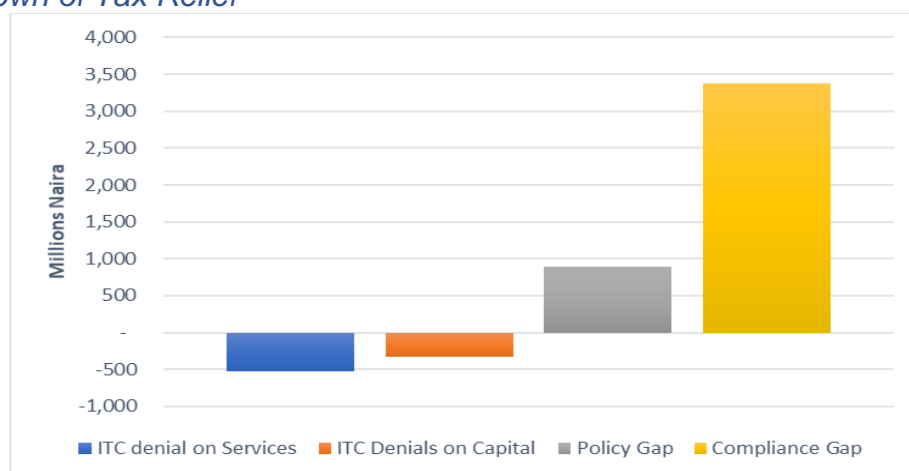
In most countries, there compliance gap is caused by several factors, including, underground economic activity, the informal sector, aggressive tax planning and problems in tax administration. However, in Nigeria some firms, notably in the financial sector, are granted relief from VAT. Because this relief is not set out in the VATA it is not captured as a tax expenditure in the current estimates. In the years to come, refinements to the estimates will include these amounts. As a result, it is likely that the current estimate of the policy gap is too low and the compliance gap too high. The extent of the difference will require additional information on the exemptions granted to specific firms.

Commodities receiving greatest relief



- Total VAT TEs are nearly NGN 900 billion
- Relief typically granted on a commodity basis
- The top 10 commodities combined account for over 80% of relief
- Exemptions on agriculture, banking and education are the biggest beneficiaries

Breakdown of Tax Relief



- Total forgone revenue is about NGN 4,300 billion
- Compliance gap is about NGN 3,377 billion (includes carte blanche relief)
- Policy tax expenditures are about NGN 900 billion
- Input tax credit denials on capital are about NGN 300 billion (low estimated)

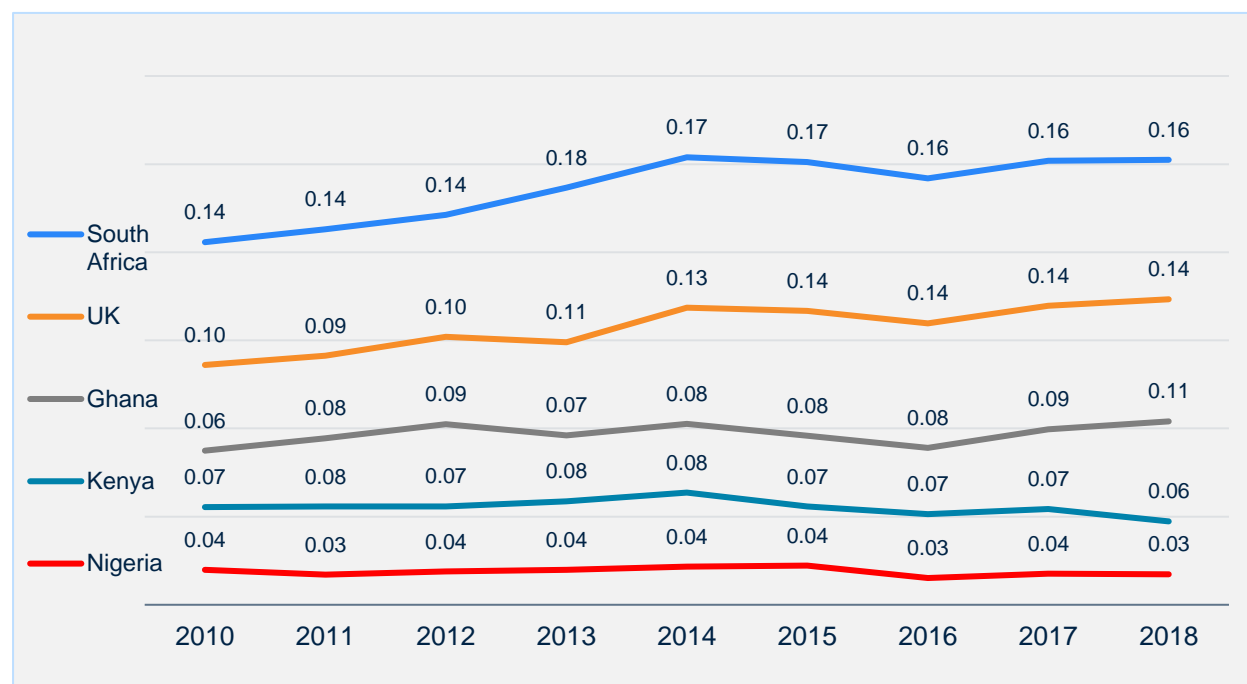
3.2 CIT Forgone Revenue Estimates

It was difficult to accurately determine CIT TEs because data are not sufficiently reliable. The analysis shows TEs of NGN 457 billion from CIT from Large Tax Offices (LTOs) and Medium Tax Offices (MTOs), compared with NGN 1.1 trillion computed last year. The huge difference is due largely to the inconsistencies in data formats and level of details obtained.

CIT TEs are estimated from taxpayer level data from nine LTOs and seven MTOs. Non-Oil, Manufacturing s accounted for 65% of TEs (NGN 297 bn), LTO Financials contributed to 15.8% of TEs (NGN 72 bn) while NGN 440 m (96% of total TE) was from Exemption of Profits under Section 23 of CITA

The sum of NGN 307 billion was estimated as the tax expenditures from Petroleum Profit Tax, only a partial computation of TEs from PPT is possible due to availability of data. Only Petroleum Investment Allowance (PIA) and Investment Tax Allowance (ITA) and Investment Tax Credit (PSC) were taken as TEs. CIT Collection Efficiency: Nigeria compares poorly to regional peers and Organisation for Economic Co-operation and Development (OECD) benchmark.

CIT Collection Efficiency Comparison



3.3 Customs Forgone Revenue Estimates

Estimating the tax expenditure on customs and VAT relief granted on imports was also constrained by the quality of available data. Preliminary estimates amounted to NGN 780 billion comprising NGN 600 billion from waivers of Import duties and NGN 180 billion from VAT on Import duties. This is a sizeable revenue considering that actual customs revenue collection for 2020 was NGN931.6 billion.

Two thirds of total relief is granted on an import duty exemption certificate, an additional 26% is on fuels, lubricants and similar products as approved by the minister. Relief of the CET levy accounts for about 42% while 15% is attributable to the VAT.

Customs Exemptions

Data Labels	2019	2020
Import Duty	127,743,238,543	305,648,255,461
Surcharge (7% of Import Duty)	8,643,315,651	21,284,691,333
Common External Tariff Levy	4,561,609,046	223,985,964,966
Comprehensive Import Supervision Scheme	2,640,358,630	28,868,580,367
ECOWAS Trade Liberalization Scheme	4,826,643,380	19,257,494,989

Iron Levy	393,218	113,776
National Automotive Council Levy	233,567,272	1,082,191,169
Value Added Tax (Import VAT)	64,426,480,102	179,601,187,036
Total	213,075,605,842	779,728,479,097

In terms of country of supply, five countries accounted for about 86% of total customs relief with China accounting for nearly two thirds of total relief granted. Netherlands, Togo, Benin and India are the other top sources of supplies benefitting from the reliefs. Nearly 40% of the tax total tax relief on imported goods is the relief granted on import duties the Common External Tariff Levy (CETL) accounts for nearly 30% of the tax relief, 23% of the tax relief is granted on VAT. Although, it is not immediately apparent that this is true tax relief because firms may have been eligible for input tax credits.

The extent of the VAT act relief depends on the firms that receive the imported goods. If the ultimate recipient of the good, who pays the VAT, is a service producer or making an exempt supply these are true tax expenditures. If however, these are purchases made by firms in the export or oil and gas zones then chances are these are not tax expenditures because these firms could claim tax relief. Relief of charges for the comprehensive import supervision scheme accounted for about 4% of the total tax relief on imports and 2% of the tax relief on imports is to the ECOWAS trade liberalization scheme.

Top 5 commodities as a percentage of the total import duty relief

Commodity	% total relief
Gas oil	26.20%
Other generators (for example, dynamos, alternators)	16.60%
Other article of heading 87.84 not specified.	16.60%
Stranded wire, cable, plaited bands and the like, of copper, not electrically insulated.	9.08%
Motor spirit, ordinary	5.55%

Top 5 importers accounted for over 70% of relief

Beneficiary Company	%of total relief
CNEEC NIGERIA LIMITED	38%
UNITED STATE AGENCY INTERNATIONAL DEVELOPMENT/NIGERIA	25%

PRUDENT ENERGY AND SERVICES LIMITED	4%
NIPCO PLC	4%
NIGER DELTA POWER HOLDING COMPANY LIMITED	2%

Customs relief by procedure code

