2023 - 2025
MEDIUM TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY PAPER

# 2023 - 2025
# MTEF & FSP

Budget Office of the Federation
Federal Ministry of Finance, Budget and National Planning.
July 2022

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The economic and fiscal estimates presented in the 2023-25 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.

This document is available at – www.budgetoffice.gov,ng

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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 |
| ARMOR | Accelerated Revenue Mobilisation Reforms |
| 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 |
| 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 |
| NSSP | National Social Safety Net Programme |
| OAGF | Office of the Accountant General of the Federation |
| OECD | Organisation for Economic Cooperation and Development |
| OPEC | Organisation of Petroleum Exporting Countries |
| 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 |
| SSI | Safe School Initiative |
| 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

Successive Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF&FSP) in Nigeria serve as the pre-budget statement. It is prepared as a multi-year planning tool to communicate the development aspirations of government. It is also a measurable framework for translating plans to public goods and services, and forms the basis of the annual budget, which sets out the resource requirements for implementing government's programmes and projects, while maintaining fiscal discipline in resource allocation, and ensuring macroeconomic stability. This practice has been consistently followed since 2007 underscoring a strong nexus between development planning and budgeting.

The importance the Administration accords development planning is demonstrated in the reinforcement of the medium- and long-term planning culture. Development of sectoral programs, sector objectives, projections on outputs and activities are properly aligned to extant development plans. Annual budgets are targeted at achieving developmental aspirations as identified in development plans and enunciated in the respective MTEF&FSP. The 2023-2025 MTEF&FSP is designed to accentuate the implementation of National Development Plan 2021 – 2025 (NDP 2021-25). As envisioned in the NDP 2021-25, the 2023-2025 MTEF&FSP is framed to implement policies, programmes and policies aimed at unlocking the potential in all sectors of the economy for a sustainable, holistic, and inclusive national development. The key objectives include achieving economic diversification, increased investment in infrastructure, improved security and good governance, investment in education and health and social investment to alleviate poverty.

In furtherance of the commitment to public financial management reforms aimed at greater budgetary predictability, fiscal transparency and enhanced public participation, the process leading to the preparation of the 2023-2025 MTEF&FSP has benefitted from broad based consultations with all critical stakeholders including the organised private sector (OPS), development partners, civil society organisations (CSOs) and community-based organisations (CBOs). Moreover, understanding that budgetary decision making should engender greater political accountability for expenditure outcomes, the National Assembly has been crucial to the consultative procedure.  The process also involves rigorous engagements with relevant officials of Ministries, Departments and Agencies (MDAs) to ensure credible assumptions, and improved inter-/ intra-sectoral resource allocation by effectively prioritizing all expenditures to ensure they attain government's socio-economic development aspiration.

The MTEF&FSP has improved efficiency in Public Financial Management (PFM) in Nigeria. The 3-year rolling structure of the acts as an embedded mechanism to update the projections and reduce divergence between plans/forecasts and outturns.  It is expected that the implementation of the policies, projects, and programmes outlined in this MTEF&FSP by MDAs will increase our stock of critical economic infrastructure, improve the business environment, as well as deliver a marked improvement in human capital development and ultimately guarantee that the economy maintains the growth trajectory.

## 2.0 ECONOMIC AND FISCAL OUTLOOK

### 2.1 Global Economic Developments and Implications

The global economy was yet to fully recover from the devastation of COVID-19 pandemic when the Russian invasion of Ukraine exacerbated economic woes contributing to a significant hike in inflation and slowdown in global growth. This crisis upon a crisis has threatened global food and energy security.

Resultant sanctions against Russia will continue to have a considerable impact on the global supply chain as both it and Ukraine are major players in the global commodities market. With both countries significantly interconnected to the global financial markets, trade and global capital flows are expected to experience some downturn. Rapid increase in fuel and food prices have resulted in massive social tensions and living cost crises in many economies across the world. Expectedly, the hardest hit are the poor and vulnerable populations in low-income countries.

| | Estimate | Projections | |
|---|---|---|---|
| ***Real GDP annual percent change*** | 2021 | 2022 | 2023 |
| World Output | 6.1 | 3.6 | 3.6 |
| Advanced Economies | 5.2 | 3.3 | 2.4 |
| United States | 5.7 | 3.7 | 2.3 |
| Euro Area | 5.3 | 2.8 | 2.3 |
| Emerging Market & Developing Countries | 6.8 | 3.8 | 4.4 |
| China | 8.1 | 4.4 | 5.1 |
| India | 8.9 | 8.2 | 6.9 |
| Brazil | 4.6 | 0.8 | 2.6 |
| Sub – Saharan Africa | 4.5 | 3.8 | 4.0 |
| Nigeria | 3.6 | 3.4 | 3.1 |
| South Africa | 4.9 | 1.9 | 1.4 |
| Low- Income Developing Countries | 4.0 | 4.6 | 5.4 |
| *Source: IMF-WEO April, 2022* | | | |

Advanced economies have experienced strong labour market recoveries, but unemployment, especially among the youth, remains at unacceptably high levels. This is a key driver of the illegal migration to Europe and other developed countries. Emerging market economies continue to grapple with employment rates remaining below pre-pandemic levels due to weaker economic recoveries.

Developed and emerging economies alike are experiencing continuing supply chain disruptions and production shortages, now magnified by the effects of Russia's invasion of Ukraine. The unprecedented shock could leave long-lasting scars that will keep economic prospects below their pre-crisis levels over the medium term.

The International Monetary Fund (IMF) in its World Economic Outlook (WEO, April, 2022) revised its forecasts for global economic growth and inflation. Global economic growth projection has been revised downward. Growth is projected to slow amidst headwinds stemming from the Russia-Ukraine crisis and the lingering impacts of COVID-19 pandemic in parts of the world. World output is projected to decelerate from an estimated 6.1 % in 2021 to 3.6 % in 2022 and 2023, a further decline to 3,3% is forecast beyond 2023. The US economy contracted –0.4% in the first quarter of 2022 arising from a steep rise in imports. The economy is projected to grow at 3.7% and 2.3% in 2022 and 2023 respectively.

Inflation projections have been reviewed upwards: 5.7% in advanced economies and 8.7 % in emerging market and developing economies. Inflation accelerated in the United States and Eurozone to 8.5% (41-year high!) and 7.5%, respectively, with high energy prices as the principal driver. Turkey, Venezuela, Zimbabwe and Yemen are amongst economies considered hyperinflationary.

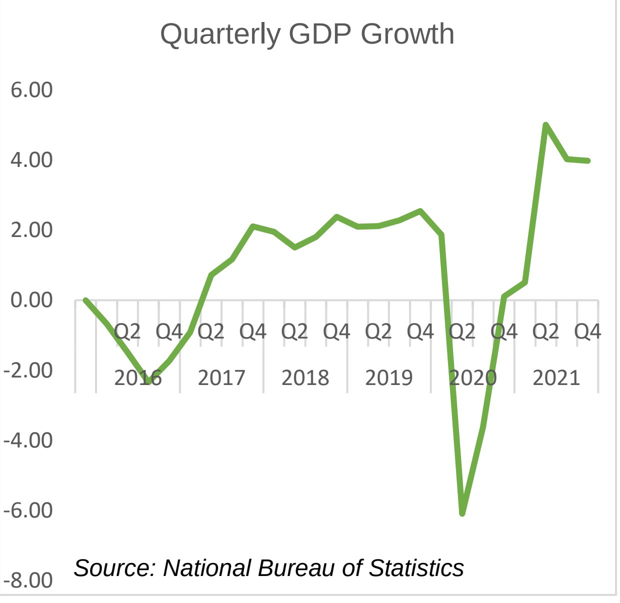
Central Banks across the world have embarked on policy measures aimed at curbing rising inflation. The U.S. Federal Reserve raised rates by the most since 1994 with a 75-basis point hike. The Bank of England also maintained its stance on gradual increases in interest rates as inflation rate inches towards 11%. Benchmark rate in Britain was raised by 25 basis points to 1.25%, the highest since 2009, and the economy faces the risk of contraction in the April-June quarter.

Russia's invasion of Ukraine has triggered major energy supply and food security crises hiking commodity prices to new highs, with wider implications for the global economy. Russia is the world's second-largest producer of natural gas, behind the United States. It has the world's largest gas reserves, and is the largest gas exporter. Organisation for Economic Co-operation and Development (OECD) countries are top destinations for Russian energy exports accounting for nearly 75% of its natural gas exports in 2021 (IEA). Germany, Turkey, Italy, Belarus, and France received most of that natural gas from Russia. China and Japan are among other top destinations.

Economic sanctions on Russia have necessitated Europe's quest for alternative energy sources. Although the broadest global spill overs are likely through commodity prices, direct trade linkages with Russia and Ukraine add a further layer of disruptions. Baltic states (Estonia, Latvia and Lithuania.) and eastern European countries whose key export destinations are Russia and Ukraine will suffer reduced external demand for their products. Food protectionism is on the rise in many developing countries. India, the world's second largest exporter of wheat, has banned wheat export and capped sugar export. Indonesia and Argentina have also announced a halt on palm oil export and ban on exports of certain beef cuts respectively, thereby threatening food security across the world and aggravating food inflation.

## 2.2 Domestic Economic Environment.

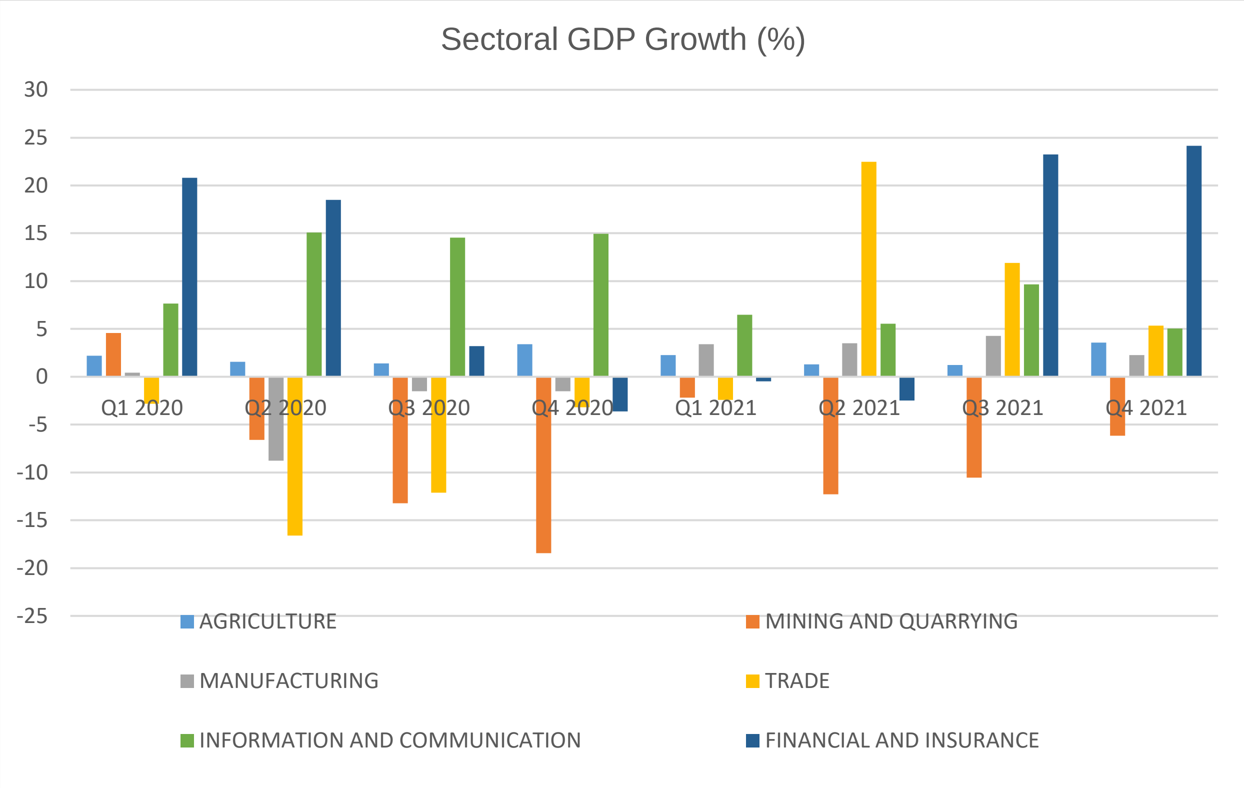
### GDP growth and Sectoral Performance.




*Source: National Bureau of Statistics*

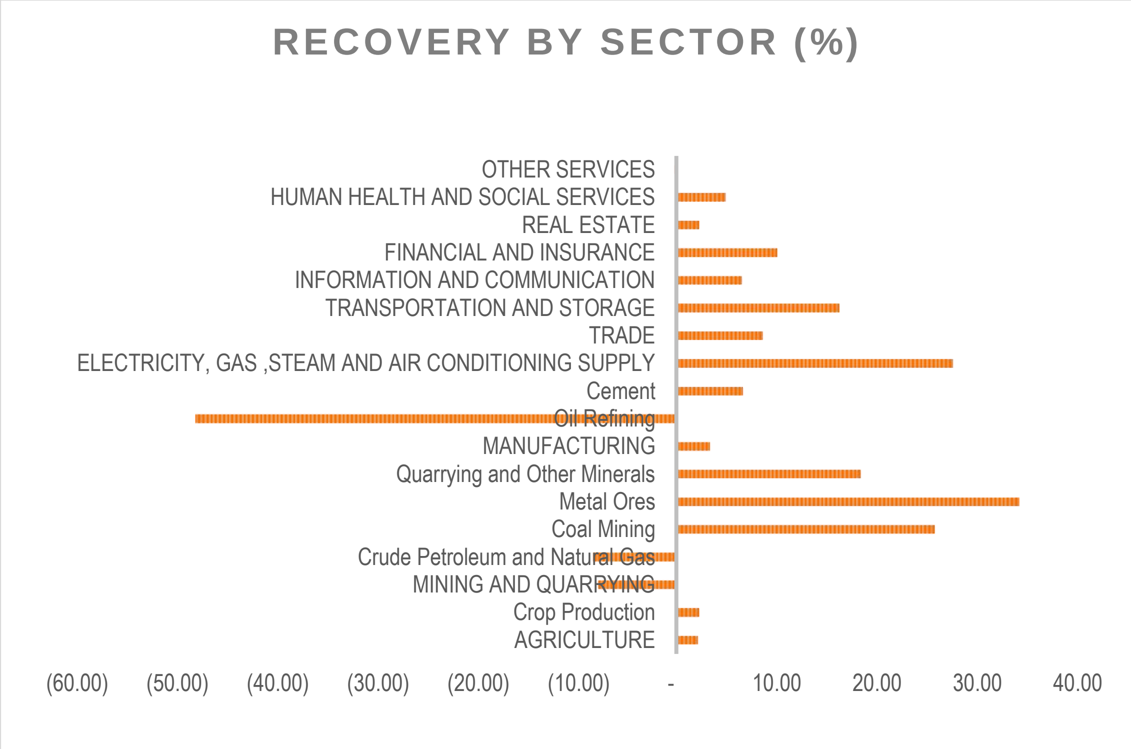
The Nigerian economy has shown a steady improvement from the economic downturn in 2020, recording its fifth consecutive quarterly GDP growth in Q1 2022. In the third quarter of 2021, Nigeria's real GDP at basic prices grew by 4.03% on a year-on-year basis, The growth momentum was maintained in the fourth quarter 2021 and first quarter 2022, with growth rates of 3.98% and 3.11% respectively. COVID-19 induced disruptions in 2020 had resulted in a perfect V-shaped recession, following quarterly decline in Q2 and Q3 2020 with the full year ending in a 1.92% contraction. Annual growth of 2021 stood at positive 3.40% signaling an impressive rebound from the 1.92% contraction in 2020.

Growth in the economy has been mostly driven by the non-oil sector giving credence to the revenue source diversification agenda of government. The non-oil sector expanded by 4.7% in Q4-2021 year on year, bringing full year 2021 growth to 4.4%, a significant rebound from the 1.3% contraction in 2020. The services sector grew by 5.6%; Specifically, growth in Information Communication Technology (ICT), financial services and trade sub-sectors were 6.6%, 10.1% and 8.6% year on year respectively. Increased internet penetration and data usage, strong credit creation and resumption of international travel are some of the factors that contributed to solid expansion in these sectors. Agricultural and manufacturing sectors grew by 2.1% and 3.4% respectively. The agricultural sector remained resilient in spite of security concerns, low irrigation, limited inputs, and legacy infrastructure challenges, with strong food demand bolstering growth in the sector. Growth in manufacturing reflected stronger household and business consumption on account of the reopening of economic activities and improvement in supply chains. Foreign exchange illiquidity and supply-side challenges continued to limit the manufacturing sector's output growth.




*Source: National Bureau of Statistics*

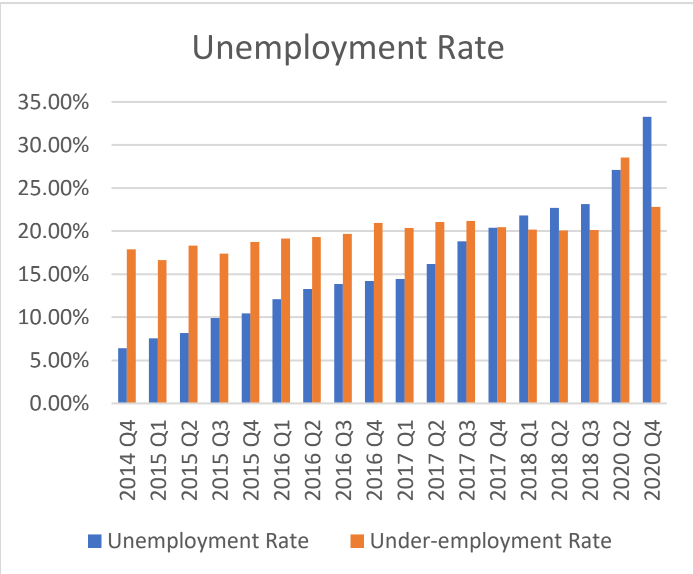
Contribution of the oil sector to the GDP has been declining. From a pre-pandemic level of 9.5% of GDP in the first quarter of 2020, oil sector contribution declined to 7.2% in 2021. The oil sector contracted for the seventh consecutive quarter with a negative growth of 8.1% in Q4-2021, bringing FY-2021 oil sector negative growth to 8.3%. The sustained contraction in oil sector GDP due to persistent decline in crude oil production has led to Nigeria's inability to meet its OPEC+ production data. The passage of the Petroleum Industry Act (PIA) 2021 is expected to attract the much-needed capital investment in the oil and gas sector.




*Source: National Bureau of Statistics*

Economic recovery is expected to be sustained in the medium term. The International Monetary Fund (IMF) has projected the Nigerian economy to grow by 3.4% in 2022, up from 2.7% earlier projected. This is higher than the 3.2%growth rate projection in the National Development Plan 2022-2025, but lower than NBS' projection of 4.2% growth in 2022.

## 2.3 Unemployment and Underemployment




*Source: National Bureau of Statistics*

Nigeria's unemployment rate stood at 33.3% in Q4 2020 from 27.1% recorded in Q2 2020, indicating that about 23,187,389 (23.2 million) Nigerians remain unemployed. The increase in the unemployment rate figures can be partly attributed to the effect of the Covid-19 induced lockdown which caused many organisations to reduce their work force as a means to cope. The report shows that the estimated number of persons in the economically active or working-age population (15 – 64 years of age) during the reference period of the survey (Q4, 2020) was 122,049,400.

The spatial dimension of the unemployed labour force has significant planning implications. There has been an uptick in unemployment among both 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. A recent IMF survey suggested that unemployment rates have recovered to pre-pandemic levels as firms have reopened business operations.

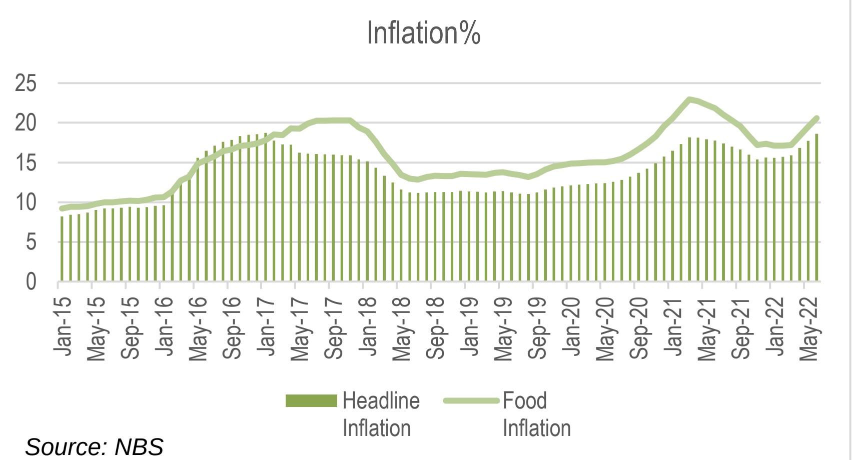
Sustained real GDP growth, implementation of government policy and programmes targeted at supporting labour intensive sectors and improvement in business operating environment are expected to further reduce unemployment and poverty rates in the country.

## 2.4 Monetary Sector

### *Inflation*

Global trends have exerted inflationary pressure on the domestic economy. Nigeria's major trading partners – China, Unites States, India and the European Union are battling record high inflation rates. Inflationary pressures are mounting as stoking factors are not abating. Additionally, supply chain disruptions, cost pressures, exchange rate depreciation pass-through and insecurity are some of the factors fuelling inflation in the local economy. Inflation climbed to 18.6% in June 2022, the highest in over five years, and the fifth consecutive monthly rise. Consumer Price Index report by the National Bureau of Statistics (NBS) showed that inflation rate surged further to 18.6% compared to 17.71% recorded in May 2022. This is according to the recently released CPI report for the month of June 2022, by the National Bureau of Statistics (NBS).

The urban inflation rate increased to 19.09% (year-on-year); this is 0.74% points higher than the 18.35% recorded in June 2021, while the rural inflation rate increased to 18.13% in June 2022 from 17.16% recorded in the corresponding period of 2021.

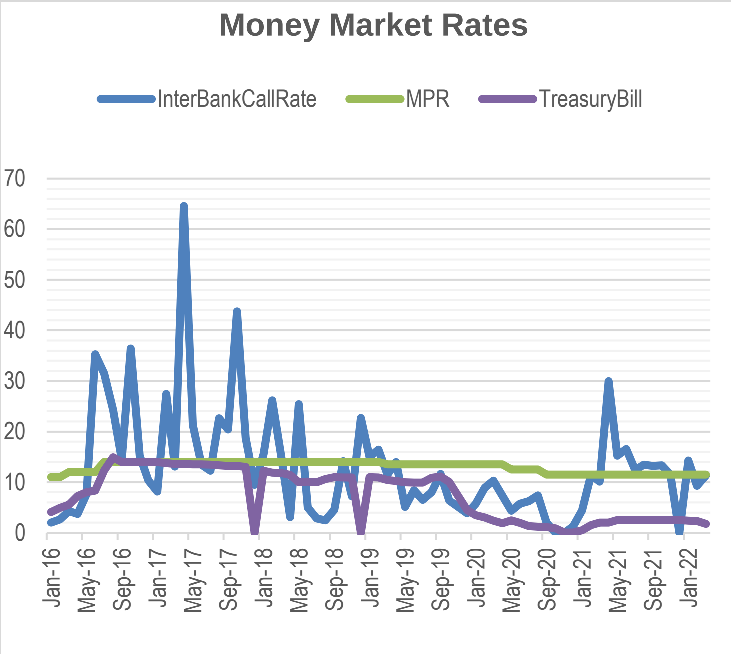



*Source: NBS*

Across the sub-indices, the composite food index inched to 20.6% year on year in June 2022 from 19.5% in May 2022. The rise in food inflation is reflective of rising input costs (fertilisers & seeds) and the end of the harvest season, both of which have contributed to weaker food supply and, consequently, higher prices. It is noteworthy that the Russia-Ukraine crisis induced disruption is also a driver of cost-push food inflation. The rise in core inflation was mostly due to rising energy prices exacerbated by the Russia-Ukraine war

### *Interest Rate*

Sustained inflationary pressure informed the decision of the Monetary Policy Committee (MPC) to raise the monetary policy rate (MPR) by 150 basis points at its meeting in May, 2022 after maintaining the policy rate at 11.5% since September 2020. Capital flow reversals and stock market sentiments were other crucial considerations for the rate hike decisions.




The Central Bank of Nigeria (CBN) has through its interventionist programmes deployed funds to output stimulating and employment - generating sectors of the economy.

The CBN has employed discretionary Cash Reserve Ratio (CRR) policy to effectively control the level of money supply in the economy.

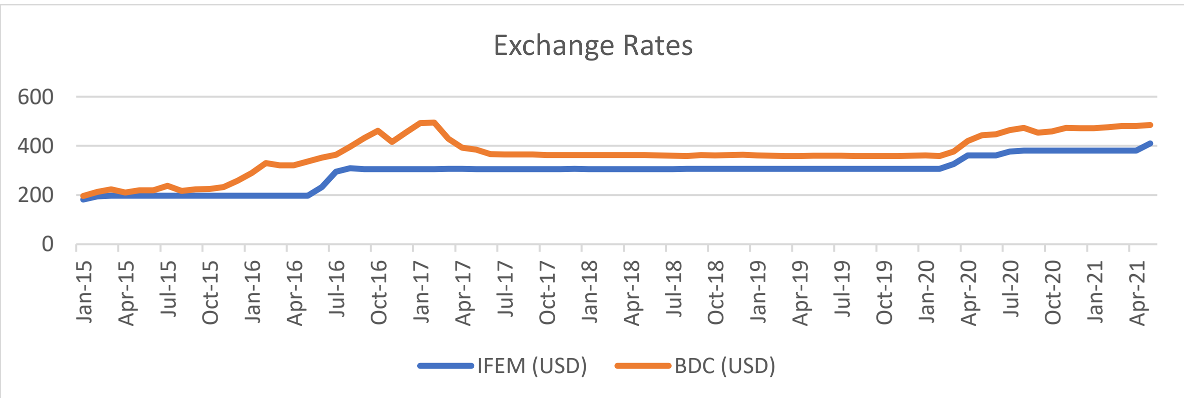
The CBN has also further extended the interest rate forbearance it granted to borrowers of some of its intervention funds by one year. The CBN charges 9% for its interventionist loans but reduced it to 5% when the pandemic struck in 2020.

*Source: Central Bank of Nigeria*

Treasury bill rate has been on a steady decline, down to 1.75% in March 2022 after maintaining a 2.5% level for six months from May 2021. Fixed deposit rates (one, three, six and twelve months) have also been moderating – the latest figures for these indicate that in March 2022, one-month deposit rate was 1.92%, 2.9% for three months, 2.84% for six months, and 4.89% for 12 months deposit.

## *Exchange Rates*

Nigeria has maintained a regime of flexible and responsive monetary policy stance in its pursuit of stability in prices, including foreign exchange rates. Overlapping global economic crisis has led to adjustments in the value of the Naira amongst other restrictive policies by the CBN. Dependence on oil for foreign exchange earnings, continuous budget deficit financing through borrowings, declining foreign investment inflows and rising capital flight have exacerbated the pressure on the value of the Naira. The Central Bank of Nigeria (CBN) adopted the investors and exporters' (I&E) window as the official exchange rate and has given indication of its ultimate commitment to rates convergence to eradicate multiple exchange rates.

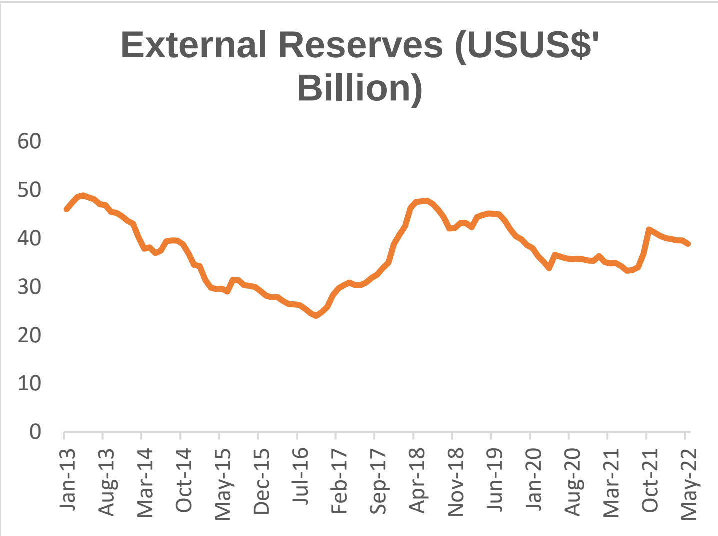



*Source: Central Bank of Nigeria*

## *Foreign Exchange Reserve*

Nigeria's external reserve declined from US$40.21 billion on January 25, 2022 to US$38.66 billion on June 16, 2022, representing a 3.5% decline, and the lowest level in seven months.

The continuous decline in the external reserve level is attributable to the Central Bank's intervention in the official market aimed at ensuring the stability of the exchange rate and the failure of Nigeria to meet its crude oil production quota. The Organization of Petroleum Exporting Countries (OPEC) increased Nigeria's production quota to 1.72 million bpd for March 2022 from 1.7 million bpd and 1.68 million bpd in February and January respectively, despite its being unable to meet previous targets.




*Source: Central Bank of Nigeria*

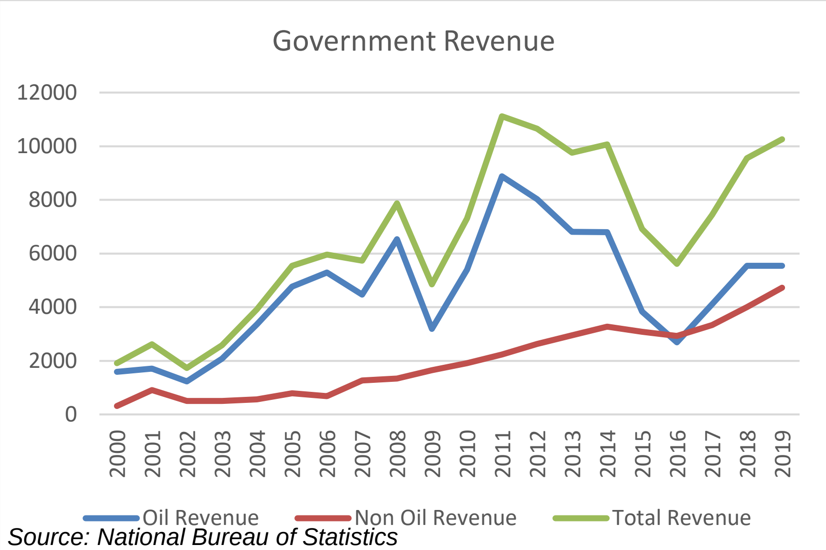
Major sources of foreign exchange inflows into Nigeria include proceeds from oil and non-oil exports, diaspora remittances and Foreign Direct/Portfolio investments. The Central Bank has taken several actions to increase Nigeria's export, improve liquidity across the FX windows and encourage the inflow of diaspora remittances. Diaspora remittance to Nigeria rose by 11.2% in 2021 to US$19.2bn from the US$17.21bn recorded in 2020.

The World Bank projects Nigeria's Diaspora remittance inflow to increase by 7.1% in 2022 reflecting the gains of the continued adoption of official bank channels and the expectation that more migrants will likely send more money home to support families in the face of increases in cost of living. This is expected to reverse the decline in the foreign reserve position and strengthen the current account balance, which has been in a net deficit since Q1 2019.

A slew of policies is being implemented by the CBN to boost the supply and manage demand of foreign exchange in the economy. The ''Naira-4-Dollar'' scheme took effect on March 8, 2021 and entails the payment of N5 bonus for every one Dollar remitted to serve as an incentive for both senders and recipients of money transfers. The CBN also introduced the ''RT200 FX Programme'' aimed at mobilising US$200 billion in foreign exchange repatriation from non-oil exports, over the next 3-5 years.

## 2.5 Fiscal Sector

### Government Revenue



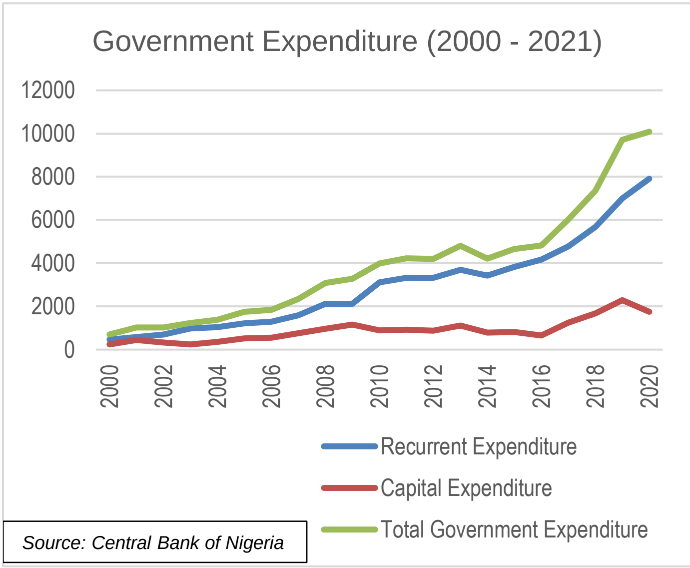

*Source: National Bureau of Statistics*

Revenue generation remains the major fiscal challenge of the Federal Government. The systemic resource mobilization problem has been compounded by recent economic recessions. Recognising that domestic revenue mobilisation is important for sustainable development, the Federal Government has instituted the Strategic Revenue Growth Initiatives (SRGI) to improve government revenue and entrench fiscal prudence, with emphasis on achieving value for money. These measures include improving the tax administration framework, including tax filing and payment; as well as introduction of new and/or further increases in existing pro-heath taxes like excise on sugar sweetened beverages, tobacco and alcohol. Mixed reactions have greeted the implementation of these measures.

Non-oil revenues have however grown consistently since 2015. Oil revenues on the other hand are still challenged owing to the structural constraints bedeviling the sector, including the unsustainable subsidy on petrol, which operates as a first-line charge against gross oil revenues. The Petroleum Industry Act 2021 is intended to address these structural issues in the sector. The target however remains to grow government revenues from currently about 9% of GDP to 15% by 2025.

### Government Expenditure

Expansionary fiscal stance has been sustained over the life of the Administration. Government has committed to massive investment in social protection through the Social Investment Programme (SIP) and critical infrastructures, especially in the transportation sector. The objective of this policy is to shore up the sock of infrastructure to support industrialisation and make the economy globally competitive.

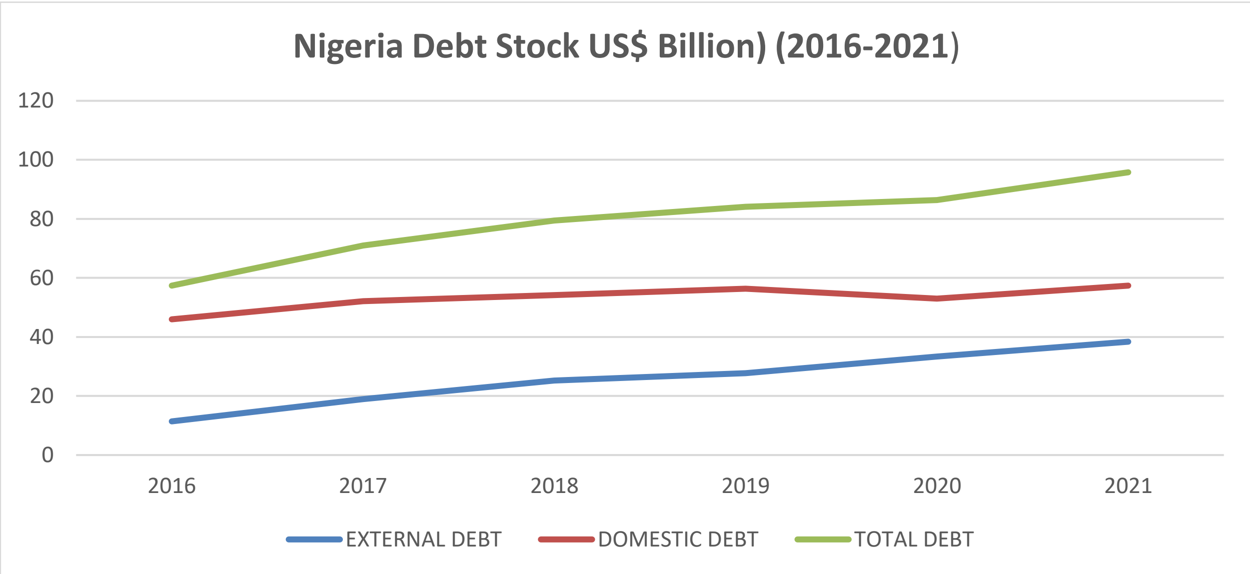



*Source: Central Bank of Nigeria*

Social investment programmes like the Conditional Cash Transfer (CCT) are targeted at alleviating poverty amongst the most vulnerable demography, thereby promoting a more inclusive growth. A rise in nominal public expenditure without a corresponding increase in domestic revenue has resulted in a burgeoning budget deficits and public debt stock.

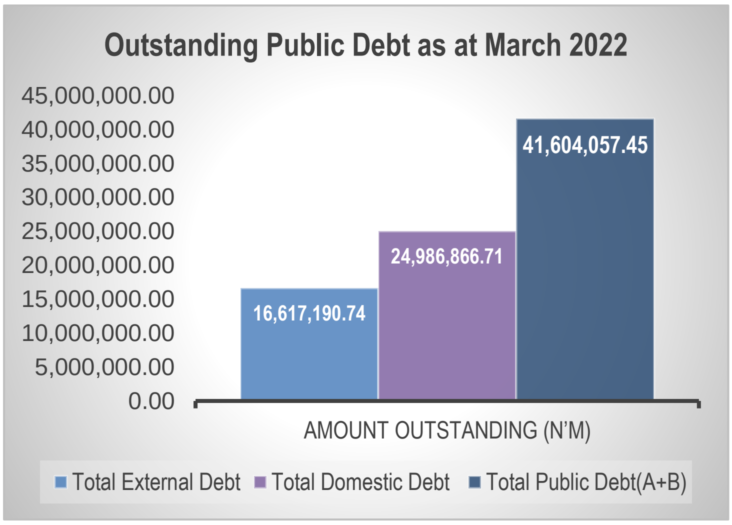
### *Public Debt*

Nigeria's total public debt as at March 2022 stood at N41.6 trillion. This represents a N2.048 trillion or 5% increase in three months when compared to the N39.56 trillion recorded as at December 2021. This however does not include FGN's CBN Ways and Means outstandings currently estimated at about N20 trillion.




*Source: Debt Management Office*

The Federal Government has sustained public expenditures to support economic recovery by resort to debt in the face of weak revenue performance. The borrowings are mostly for capital expenditure and human development, as specified in the Fiscal Responsibility Act (2007).

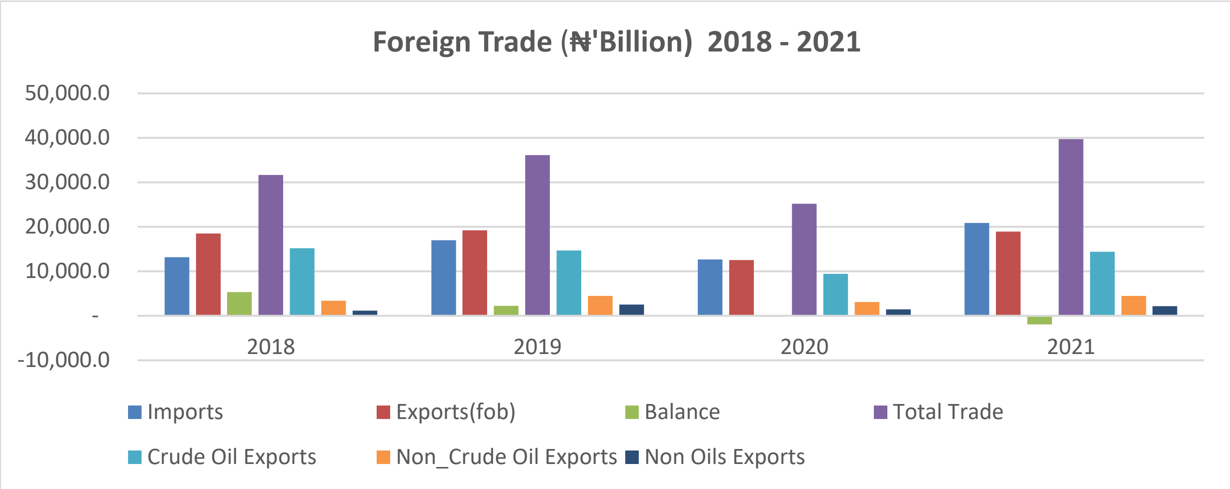



Public debts are from a combination of domestic and external sources. Domestic debt stock accounts for approximately 60% of total debt stock. Total external debt is currently $38.39bn. Government is striving to keep public debt within stainable limits; total Public Debt-to-GDP ratio currently stands at 22.47% (excluding Ways & Means). Even with Ways & Means, it still remaining within Nigeria's self-imposed limit of 40%.

## 2.2.4 External Sector

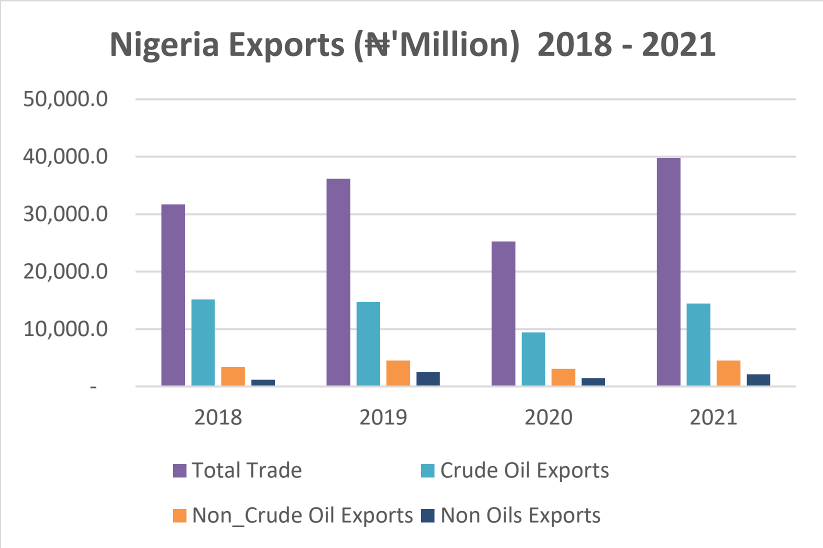
### *Trade*

Nigeria's balance of trade improved marginally in Q4 2021, with a steady rise in exports and imports. Total trade in Q4 2021 rose by 74.71% compared to the value recorded in the corresponding quarter of 2020. Annual comparison shows that total trade was 57.60% higher in 2021 than the value recorded in 2020. However, the balance of trade remains negative.




The value of total imports in Q4 2021 increased by 11.33% compared to the value recorded in Q3, 2021 and by 69.41% against the same quarter in 2020 while total imports was 64.11% higher in 2021 than the value recorded in 2020. Agricultural imports grew by 38.35% in Q4, 2021 compared to the value recorded in Q3, 2021 and it also increased by 118.51% over the value recorded in the corresponding quarter of 2020.

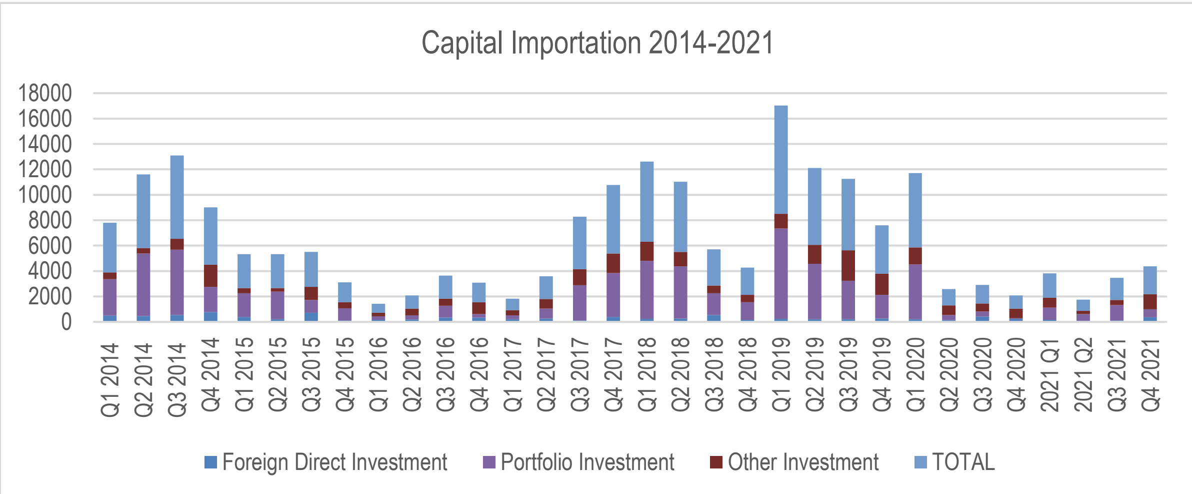
Annual values of total export were 50.99% higher in 2021 than recorded in 2020.The value of total exports in Q4, 2021 increased by 12.27% when compared to the value recorded in Q3, 2021; it also rose by 80.52% compared to the value in Q4, 2020. The value of agricultural goods exports in Q4. 2021 grew by 67.12% compared to Q3 2021 and by137.93% compared to Q4 2020.




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. Exports of agricultural raw materials, energy goods, and solid minerals were higher in 2021 that the 2020 levels.

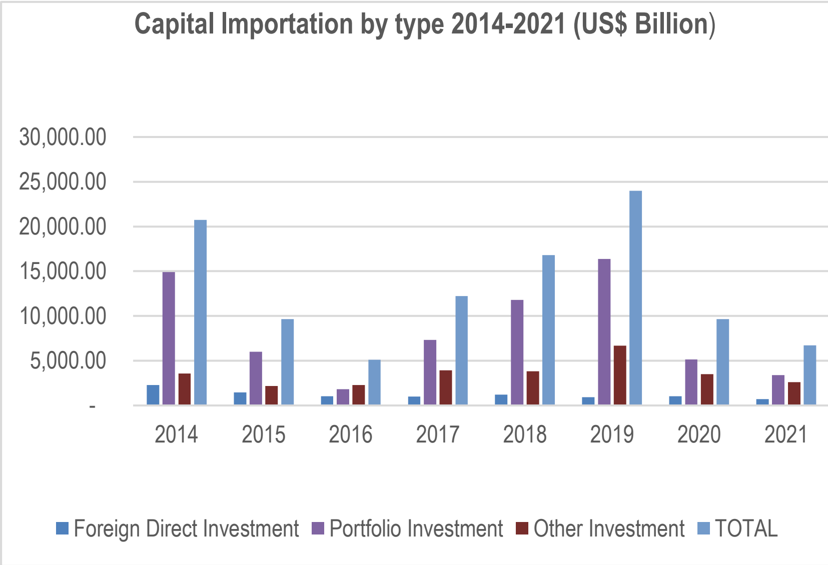
### *Capital Importation*

Capital inflow into Nigeria in 2021 stood at US$6.7 billion, dropping by 31% compared to the US$9.7 billion received in the previous year. This is the lowest amount since 2016 when it recorded US$5.12. The economy has consequently experienced major foreign exchange constraints.




***Source National Bureau of Statistics***

Foreign capital inflow to the domestic economy was adversely affected by the relative attractiveness of securities in the international financial market, particularly in the United States.




*Source: National Bureau of Statistics*

Foreign Portfolio Investment (FPI) was the largest amount of capital importation by type, US$3.39 billion, this is however 34.1% lower compared to US$5.14 billion recorded in 2020. Foreign direct investment in Nigeria was a paltry US$698.78 million, 32% lower than the US$1.03 billion recorded in the preceding year.

## 3.0 REVIEW OF 2021 BUDGET PERFORMANCE

The performance of the 2021 budget parameters, reflects the gradual recovery of the global economy from the effects of the COVID-19 pandemic. Table 3.1 shows that oil production fell, and inflation trailed their targets, while oil price and GDP closed better than projected.

Table 3.1: Performance of key 2021 Budget parameters

| Description | 2021 Budget | 2021 Actual |
|---|---|---|
| Oil Price Benchmark (US$/b) | 40.0 | **71.28 |
| Oil Production (mbpd) | 1.86 | ^^1.48 |
| Exchange Rate (N/$) | 379.0 | 383.0 |
| Inflation (%) | 11.95 | +16.98 |
| GDP Growth Rate (%) | 3.00 | 3.40 |

**Average price of Nigerian crude for the period.
^^Average production, exclusive of volumes for repayment of pre-2016 cash call arrears.
+ Average inflation rate FY 2021.
*Source: BOF, NBS, CBN, NNPC, OPEC*

## 3.1 Revenue Outturns

### 3.1.1 Oil Revenue

Gross oil and gas revenue for FY2021 was projected at N5.19 trillion, while actual receipt was N4.26 trillion, representing 82.2% performance. After deductions (including 13% derivation), the net oil and gas revenue inflow to the Federation Account was N2.05 trillion. This is N2.12 trillion (or 50.8%) short of the target. The lower-than-budget performance of oil and gas revenue is attributable to lower oil production volume (by an average of nearly 400,000 bpd) as well as cost overruns, which exceeded the budget by N1.38 trillion. Spending on PMS subsidy, which was not provided for in the 2021 Fiscal Framework, was largely responsible for the cost overrun.

Table 3.2 2021 Revenue Performance

| | Fiscal Items | 2021 Budget | Actuals (Jan-Dec) | Variance | |
|---|---|---|---|---|---|
| | | Billions of Naira | | Billions of Naira | % |
| A | **OIL REVENUE** | | | | |
| a | Gross Oil and Gas Revenue | 5,185.57 | 4,260.46 | (925.11) | -17.8% |
| b | Deductions* | 1,018.30 | 2,208.96 | 1,190.66 | 116.9% |
| c | **Net Oil and Gas Revenue** | **4,167.26** | **2,051.50** | (2,115.77) | -50.8% |
| B | **NON-OIL REVENUE** | | | | |
| a | **Non-Oil Taxes** | **4,602.23** | **5,134.53** | 532.30 | 11.6% |
| *i* | *Corporate Tax* | 1,496.53 | 1,721.41 | 224.88 | 15.0% |
| *ii* | *VAT* | 1,838.35 | 2,072.85 | 234.51 | 12.8% |
| *iii* | *Customs* | 1,267.35 | 1,340.26 | 72.91 | 5.8% |
| b | **Deductions** | **341.67** | **316.06** | (25.61) | -7.5% |
| c | **Net Non-Oil Taxes** | **4,260.55** | **4,818.47** | 557.92 | 13.1% |
| d | Other Revenues** | 505.46 | 303.02 | (202.44) | -40.1% |
| e | **Net Non-Oil Revenue** | **4,766.02** | **5,121.49** | 355.47 | 7.5% |
| | * This include 13% derivation | | | | |
| | ** These include revenue from Soild Minerals after derivation | | | | |
| | Note: The Net Non-Oil Revenue refers to those accurable to the Federation; thus, it excludes FGN Independent Revenues | | | | |

*Source:* BOF, OAGF, PRMRC

### 3.1.2 Non-Oil Revenue

Non-oil revenue outperformed the budget. The projection for non-oil taxes was N4.60 trillion, but N5.13 trillion was actually collected. This represents a performance of 111.6%. Corporate Tax and VAT collections were N1.72 trillion and N2.07 trillion, representing 115% and 112.8% performances respectively. Customs collection was N1.34 trillion, which is 5.8% above the target.

### 3.1.3 Federation Revenue Distributable

Table 3.3 Federation Account Revenue and VAT Distributable, 2021 (N Billion)

The accretions into the Main Pool and VAT Pool accounts were N5.17 trillion and N1.89 trillion respectively. In addition, Electronic Money Transfer Levy (EMTL) of N111.84 billion was available for distribution among the three tiers of government. From the Main Pool, the Federal Government received N2.72 trillion while the States and Local Governments received N1.38 trillion and N1.06 trillion respectively. From the VAT Pool, the Federal, State and Local governments received N284.24 billion, N947.46 billion and N663.22 billion respectively.

| | Fiscal Items | 2021 Budget | Actuals (Jan-Dec) | Variance |
|---|---|---|---|---|
| | | Billions of Naira | | Naira |
| A | **Net Main Pool Federation Account Distributable** | **6,730.24** | **5,166.23** | (1,564.01) |
| i | FGN's Share (52.68%) | 3,545.49 | 2,721.57 | (823.92) |
| ii | States' Share (26.72%) | 1,798.32 | 1,380.42 | (417.90) |
| iii | Local Govt.'s Share (20.60%) | 1,386.43 | 1,064.24 | (322.19) |
| | | | | |
| B | **Net VAT Pool Account Distributable** | **1,703.04** | **1,894.92** | 191.88 |
| iv | FGN's Share (15%) | 255.46 | 284.24 | 28.78 |
| v | States' Share (50%) | 851.52 | 947.46 | 95.94 |
| vi | Local Govt.'s Share (35%) | 596.07 | 663.22 | 67.16 |
| | | | | |
| C | **Electronic Money Transfer Levy (EMTL) Distributable** | **500.00** | **111.84** | (388.16) |
| vii | FGN's Share (15%) | 75.00 | 16.78 | (58.22) |
| viii | States' Share (50%) | 250.00 | 55.92 | (194.08) |
| ix | Local Govt.'s Share (35%) | 175.00 | 39.14 | (135.86) |

*Source:* BOF, OAGF, PRMRC

### 3.1.4 FGN Revenue

Table 3.4 FGN 2021 Revenue Profile (N Billion)

| | | 2021 Budget +Suppl. Budget | Actual (Jan-Dec) | Variance | |
|---|---|---|---|---|---|
| | | Billions of Naira | | Billions of Naira | % |
| S/N | **AGGREGATE FEDERAL GOVERNMENT REVENUE** | **8,121.41** | **6,098.73** | **(2,022.68)** | **-24.9%** |
| | **FEDERAL RETAINED REVENUES (excl. GOEs)** | **6,772.58** | **4,788.45** | **(1,984.13)** | **-29.3%** |
| **A** | | | | | |
| 1 | Oil Revenue | 2,011.02 | 997.83 | (1,013.18) | -50.4% |
| 2 | Share of Dividend (NLNG) | 208.54 | 208.54 | 0.00 | 0.0% |
| 3 | Minerals & Mining Revenue | 2.65 | 3.30 | 0.64 | 24.3% |
| 4 | Non-Oil Revenue: | **1,488.92** | **1,792.58** | **303.65** | **20.4%** |
| i | CIT | 681.72 | 787.39 | 105.68 | 15.5% |
| ii | VAT | 238.43 | 403.68 | 165.26 | 69.3% |
| iv | Customs Revenues | 508.27 | 559.34 | 51.07 | 10.0% |
| v | Federation Account Levies | 60.51 | 42.16 | (18.35) | -30.3% |
| **B** | | **4,410.28** | **3,096.48** | **(1,313.80)** | **-29.8%** |
| 1 | FGN Independent Revenue | 1,061.90 | 1,251.28 | 189.38 | 17.8% |
| 2 | FGN Drawdowns from Special Accounts/Levies | 435.00 | 138.00 | (297.00) | -68.3% |
| 3 | Signature Bonus / Renewals / Early Renewals | 677.02 | 381.27 | (295.75) | -43.7% |
| 4 | Domestic Recoveries + Assets + Fines* | 32.68 | - | (32.68) | -100.0% |
| 5 | Electronic Money Transfer Levy (formerly Stamp Duty)* | 500.00 | 15.66 | (484.34) | -96.9% |
| 6 | Grants and Donor Funding | 354.85 | | (354.85) | -100.0% |
| 7 | GOEs Retained Revenue | 1,348.84 | 1,310.28 | (38.55) | -2.9% |

The FGN revenue was projected at N8.12 trillion, while actual was N6.10 trillion for 2021. Of this, oil revenue was N997.8 billion (representing 49.6% performance) while non-oil tax revenue was N1.79 trillion (120.4% performance). The FGN share of CIT and VAT were N787.39 billion and N403.68 billion respectively, representing 116% and 169% of the Budget. Customs collections were N601.50 billion, of which N559.34 billion was from import duties, excise, and fees, and N42.16 billion was from Special Levies. Other revenues collected include independent revenues of N1.25 trillion, draw-down of N138 billion from Special Accounts, Signature bonus (on oil & gas leases) of N381.27 billion, and FGN share of Electronic Money Transfer Levy of N15.66 billion. N1.31 trillion accrued as GOEs retained revenue.

## 3.2 Expenditure Outturns

The actual expenditure for FY 2021 was N13.04 trillion (89.5% more than the Budget) as against the FGN Budget of N14.57 trillion. Recurrent expenditure was slightly higher than budget. The higher-than-budgeted debt service cost was due to interest on Ways and Means. Of the N9.15 trillion spent on recurrent expenditure, N3.71 trillion was spent on personnel costs and pensions. Debt service was N4.22 trillion, representing 35% of aggregate expenditure and 69% of total revenue. The actual capital spending of N3.39 trillion was less than the budget by 31.9%.

Table 3.5 FGN 2021 Expenditure Performance

| | Fiscal Items | 2021 Budget +Suppl. Budget | Actual (Jan-Dec) | Variance | |
|---|---|---|---|---|---|
| | | Billions of Naira | | Billions of Naira | % |
| S/N | **AGGREGATE FGN EXPENDITURE** | **14,570.76** | **13,035.37** | **1,535.38** | **-10.5%** |
| | **FGN EXPENDITURE (excl. GOEs and Project-tied Loans)** | **12,512.23** | **12,069.40** | **442.83** | **-3.5%** |
| A | **Statutory Transfers** | **496.53** | **496.52** | **0.00** | **0.0%** |
| B | **Recurrent Expenditure** | **9,089.68** | **9,145.06** | **(55.38)** | **0.6%** |
| 1 | **Non-Debt Recurrent Expenditure** | **5,765.30** | **4,923.41** | **841.90** | **-14.6%** |
| | **Non-Debt Recurrent Expenditure (excl. GOEs)** | **4,752.06** | **4,457.97** | **294.09** | **-6.2%** |
| i | Personnel Costs (MDAs) | 3,046.46 | 3,046.47 | (0.00) | 0.0% |
| ii | Personnel Costs (GOEs) | 701.16 | 310.09 | 391.07 | -55.8% |
| iii | Pensions & Gratuities including Service wide pension | 504.19 | 356.12 | 148.07 | -29.4% |
| iv | Overheads (MDAs) | 382.58 | 375.41 | 7.17 | -1.9% |
| v | Overheads (GOEs) | 312.08 | 155.34 | 156.74 | -50.2% |
| vi | Other Service Wide Votes | 403.82 | 403.79 | 0.03 | 0.0% |
| vii | Presidential Amnesty | 65.00 | 59.59 | 5.41 | -8.3% |
| viii | Special Intervention Programme | 350.00 | 216.60 | 133.41 | -38.1% |
| 2 | **Debt Service** | **3,324.38** | **4,221.65** | **(897.27)** | **27.0%** |
| i | Domestic Debt | 2,183.49 | 2,054.44 | 129.05 | -5.9% |
| ii | Foreign Debt | 940.89 | 946.29 | (5.40) | 0.6% |
| iii | Sinking Fund | 200.00 | 0.60 | 199.40 | -99.7% |
| iv | Interest on Ways & Means | | 1,220.33 | (1,220.33) | |
| C | **Aggregate Capital Expenditure** | **4,984.55** | **3,393.79** | **1,590.76** | **-31.9%** |
| | Capital Expenditure (MDAs + Others) | 3,939.27 | 2,893.25 | 1,046.01 | -26.6% |
| | GOEs Capital Expenditure | 335.59 | 130.61 | **204.98** | -61.1% |
| | Multi-lateral/Bilateral Project-tied loans | 709.69 | 369.93 | **339.76** | -47.9% |

## 4.0 REVIEW OF 2022 BUDGET IMPLEMENTATION

The FY 2022 started with some dampened optimism for global growth due to protracted second wave of the COVID-19 pandemic despite the then 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 Out-turns

### 4.1.1 Oil Revenue

Table 4.1 2022 Revenue Performance (Jan–Apr)

| | Fiscal Items | 2022 Budget | Prorata | Actuals (Jan-Apr) | Variance | |
|---|---|---|---|---|---|---|
| | | Billions of Naira | | | Billions of Naira | % |
| A | **OIL REVENUE** | | | | | |
| a | Gross Oil and Gas Revenue | 9,369.96 | 3,123.32 | 1,231.96 | (1,891.36) | -60.6% |
| b | Deductions* | 4,831.04 | 1,610.35 | 348.48 | (1,261.86) | -78.4% |
| c | **Net Oil and Gas Revenue** | **4,538.93** | **1,512.98** | **883.48** | (629.49) | -41.6% |
| B | **NON-OIL REVENUE** | | | | | |
| a | **Non-Oil Taxes** | **6,448.52** | **2,149.51** | **1,991.51** | (158.00) | -7.4% |
| *i* | *Corporate Tax* | 1,987.78 | 662.59 | 697.03 | 34.43 | 5.2% |
| *ii* | *VAT* | 2,441.80 | 813.93 | 767.42 | (46.51) | -5.7% |
| *iii* | *Customs* | 2,018.94 | 672.98 | 527.05 | (145.93) | -21.7% |
| b | **Deductions** | **467.14** | **155.71** | **645.96** | 490.24 | 314.8% |
| c | **Net Non-Oil Taxes** | **5,981.38** | **1,993.79** | **1,345.55** | (648.24) | -32.5% |
| d | Other Revenues** | 216.86 | 72.29 | 12.11 | (60.18) | -83.2% |
| e | **Net Non-Oil Revenue** | **6,198.24** | **2,066.08** | **1,357.66** | (708.42) | -34.3% |
| | * This include 13% derivation and transfer to Nigeria Police Trust Fund | | | | | |
| | ** These include revenue from Soild Minerals after derivation, and Electronic Money Transfer Levy | | | | | |
| | Note: The Net Non-Oil Revenue refers to those accurable to the Federation; thus, it excludes FGN Independent Revenues | | | | | |

The gross oil and gas revenue was projected at N9.37 trillion for full year 2022. As of April 2022, N1.23 trillion was realized out of the prorated sum of N3.12 trillion. This represents 39.4% performance. The net accretion to the Federation Account has been negatively impacted by the high cost of PMS subsidy resulting from both an increase in the landing cost of PMS and daily consumption. After accounting for deductions (including 13% derivation), net oil and gas revenue inflows to the Federation Account amounted to only 883.48 billion, i.e N629.49 billion or 41.6% less than the prorata target.

### 4.1.2 Federation and VAT Pool Accounts Distributable

The amount available for distribution from the Federation Account – Main Pool was N1.52 trillion. Of this, the Federal Government received N802.50 trillion while the States and Local Governments received N407.04 billion and N313.81 billion respectively. Federal, State and Local governments received N107.67 billion, N358.90 billion and N251.23 billion respectively from the VAT Pool Account.

Table 4.2 Federation Account Revenue and VAT Distributable, 2022 (N Billion)

| | Fiscal Items | 2022 Budget | Prorata | Actuals (Jan-Apr) | Variance |
|---|---|---|---|---|---|
| | | Billions of Naira | | | Billions of Naira |
| A | **Net Federation Account Distributable*** | **8,475.08** | **2,825.03** | **1,523.35** | (1,301.68) |
| i | FGN's Share (52.68%) | 4,464.67 | 1,488.22 | 802.50 | (685.73) |
| ii | States' Share (26.72%) | 2,264.54 | 754.85 | 407.04 | (347.81) |
| iii | LG's Share (20.60%) | 1,745.87 | 581.96 | 313.81 | (268.15) |
| | | | | | |
| B | **Net VAT Pool Account Distributable** | **2,262.08** | **754.03** | **717.80** | (36.23) |
| iv | FGN's Share (15%) | 339.31 | 113.10 | 107.67 | (5.43) |
| v | States' Share (50%) | 1,131.04 | 377.01 | 358.90 | (18.11) |
| vi | Local Govt.'s Share (35%) | 791.73 | 263.91 | 251.23 | (12.68) |

*Source:* BOF, OAGF, PRMRC

### *4.1.3 FGN Revenue*

Table 4.3 2022 FGN Revenue Profile (Jan–Apr) N Billion

| | | 2022 Amended Budget | Pro Rata (Jan-Apr) | Actual (Jan-Apr) | Variance | |
|---|---|---|---|---|---|---|
| | | Billions of Naira | | | Billions of Naira | % |
| S/N | **AGGREGATE FEDERAL GOVERNMENT REVENUE** | **9,969.17** | **3,323.06** | **1,630.60** | **(1,692.46)** | **-50.9%** |
| | **FEDERAL RETAINED REVENUES (excl. GOEs)** | **8,240.78** | **2,746.93** | **1,493.09** | **(1,253.84)** | **-45.6%** |
| **A** | | | | | | |
| 1 | Oil Revenue | 2,190.37 | 730.12 | 285.38 | (444.75) | -60.9% |
| 2 | Share of Dividend (NLNG) | 195.72 | 65.24 | 46.85 | (18.39) | -28.2% |
| 3 | Minerals & Mining Revenue | 2.92 | 0.97 | 1.18 | 0.20 | 21.0% |
| 4 | Non-Oil Revenue: | **2,258.39** | **752.80** | **632.56** | **(120.24)** | **-16.0%** |
| i | CIT | 909.30 | 303.10 | 298.83 | (4.27) | -1.4% |
| ii | VAT | 316.69 | 105.56 | 102.97 | (2.59) | -2.5% |
| iii | Customs Revenues | 834.12 | 278.04 | 210.02 | (68.02) | -24.5% |
| iv | Federation Account Levies | 71.97 | 23.99 | 15.24 | (8.75) | -36.5% |
| v | Share of Electronic Money Transfer Levy | 29.37 | 9.79 | 5.50 | | |
| vi | Share of Oil Price Royalty | 96.94 | 32.31 | | | |
| **B** | | **5,321.77** | **1,773.92** | **664.64** | **(1,109.29)** | **-62.5%** |
| 1 | FGN Independent Revenue | 2,616.22 | 872.07 | 394.09 | (477.98) | -54.8% |
| 2 | FGN Drawdowns from Special Accounts/Levies | 300.00 | 100.00 | 40.14 | (59.86) | -59.9% |
| 3 | Signature Bonus / Renewals / Early Renewals | 280.86 | 93.62 | 70.21 | (23.40) | -25.0% |
| 4 | Domestic Recoveries + Assets + Fines* | 26.93 | 8.98 | 7.15 | (1.83) | -20.4% |
| 5 | Grants and Donor Funding | 63.38 | 21.13 | | (21.13) | -100.0% |
| 6 | Education Tax (TETFUND) | 306.00 | 102.00 | 15.54 | (86.46) | -84.8% |
| 7 | GOEs Retained Revenue | 1,728.39 | 576.13 | 137.51 | (438.62) | -76.1% |

As of April 2022, FGN's retained revenue was only N1.63 trillion, 49% of the prorata target of N3.32 trillion. The FGN share of oil revenues was N285.38 billion (representing 39% performance), while non-oil tax revenues totalled N632.56 billion – a performance of 84%. CIT and VAT collections were N298.83 billion and N102.97 billion, representing 99% and 98% of their respective targets. Customs collections (made up of import duties, excise and fees, as well as federation account special levies) trailed target by N76.77 billion (34.08%). Other revenues amounted to N664.64 billion, of which Independent revenue was N394.09 billion.

## 4.2 Expenditure Outturns

The aggregate expenditure for 2022 is estimated at N17.32 trillion, with a prorata spending target of N5.77 at end of April. The actual spending as of April 31st was N4.72 trillion. Of this amount, N1.94 trillion was for debt service, and N1.26 trillion for Personnel cost, including Pensions. As at April, N773.63 billion has been spent on capital expenditure.

Table 4.4 2022 FGN Expenditure Performance (Jan-Apr)

| | Fiscal Items | 2022 Amended Budget | Pro Rata (Jan-Apr) | Actual (Jan-Apr) | Variance | |
|---|---|---|---|---|---|---|
| | | Billions of Naira | | | Billions of Naira | % |
| S/N | **AGGREGATE FGN EXPENDITURE** | **17,319.70** | **5,773.23** | **4,717.74** | **1,055.5** | **-18.3%** |
| | **FGN EXPENDITURE (excl. GOEs and Project-tied Loans)** | **14,448.07** | **4,816.02** | **4,556.54** | **259.48** | **-5.4%** |
| **A** | **Statutory Transfers** | **817.70** | **272.57** | **289.89** | **(17.32)** | **6.4%** |
| **B** | **Recurrent Expenditure** | **11,086.71** | **3,695.57** | **3,654.22** | **41.35** | **-1.1%** |
| 1 | **Non-Debt Recurrent Expenditure** | **7,108.62** | **2,369.54** | **1,715.48** | **654.06** | **-27.6%** |
| | **Non-Debt Recurrent Expenditure (excl. GOEs)** | **6,039.89** | **2,013.30** | **1,581.76** | **431.54** | **-21.4%** |
| i | Personnel Costs (MDAs) | 3,717.43 | 1,239.14 | 1,133.94 | 105.20 | -8.5% |
| ii | Personnel Costs (GOEs) | 617.72 | 205.91 | 99.59 | 106.32 | -51.6% |
| iii | Pensions & Gratuities including Service wide pension | 577.86 | 192.62 | 129.09 | 63.53 | -33.0% |
| iv | Overheads (MDAs) | 376.38 | 125.46 | 163.58 | (38.12) | 30.4% |
| v | Overheads (GOEs) | 451.00 | 150.33 | 34.13 | 116.20 | -77.3% |
| vi | Other Service Wide Votes | 937.92 | 312.64 | 132.71 | 179.93 | -57.6% |
| vii | Presidential Amnesty | 65.00 | 21.67 | 21.67 | (0.00) | 0.0% |
| iv | TETFUND - Recurrent | 15.30 | 5.10 | 0.78 | | |
| v | Special Intervention Programme | 350.00 | 116.67 | | 116.67 | -100.0% |
| 2 | **Debt Service** | **3,978.09** | **1,326.03** | **1,938.74** | **(612.71)** | **46.2%** |
| i | Domestic Debt | 2,562.15 | 854.05 | 1,198.57 | (344.52) | 40.3% |
| ii | Foreign Debt | 1,123.23 | 374.41 | 334.24 | 40.17 | -10.7% |
| iii | Sinking Fund | 292.71 | 97.57 | | 97.57 | -100.0% |
| iv | Interest on Ways & Means | | - | 405.93 | (405.93) | |
| **C** | **Aggregate Capital Expenditure** | **5,415.30** | **1,805.10** | **773.63** | **1,031.47** | **-57.1%** |
| | Capital Expenditure (MDAs + Others) | 3,612.39 | 1,204.13 | 746.15 | 457.98 | -38.0% |
| | GOEs Capital Expenditure | 647.08 | 215.69 | 27.49 | **188.21** | -87.3% |
| | Multi-lateral/Bilateral Project-tied loans | 1,155.82 | 385.27 | | **385.27** | -100.0% |

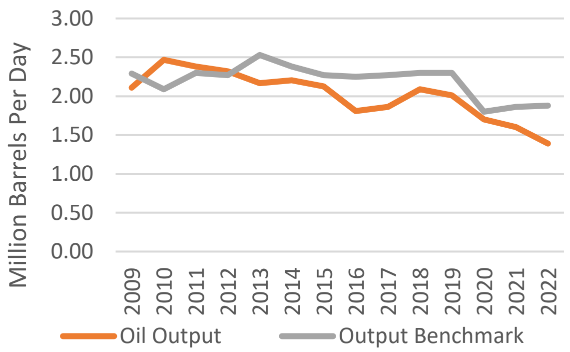
# 5.0 ASSUMPTIONS UNDERLYING 2023 - 2025 REVENUE PROJECTIONS

## 5.1 Oil Revenues Assumptions

### *5.1.1 Domestic Crude Oil Production*

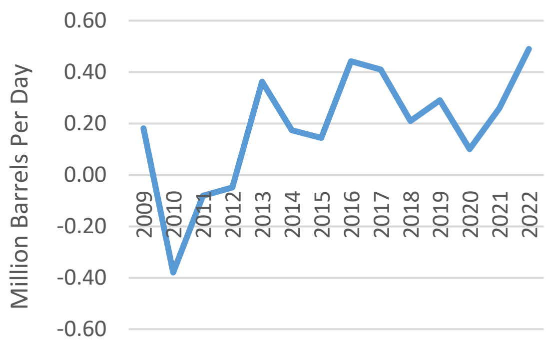
The contribution of crude oil production to Nigeria's real GDP declined sharply from 9.25% in the first quarter of 2021 to 6.63% in the first quarter of 2022. Rising from 1.81 million barrels a day (mbpd) in 2016, average crude oil and condensate production (net of incremental production for Repayment Arrears) peaked at 2.09 mbpd in 2018 but declined continually thereafter to 2.01 mbpd in 2019, 1.7 mbpd in 2020 and 1.48 mbpd in 2021. As Figure 5.1 shows, actual daily crude oil production has been below budget projections since 2013. However, reflecting increased cases of crude oil theft and pipeline vandalism, the divergence between the output projection.

**Figure 5.1: Actual and Benchmark Crude Oil Output in Nigeria**




Source: NNPC, BOF, NBS

**Figure 5.2: Divergence Between Actual Crude Production and Projection**




and actual output has increased markedly recently (Figure 5.2). The Organization of Petroleum Exporting Countries (OPEC) recently increased Nigeria's oil production quota from 1.735 mbpd to a total of 1.799 mbpd, as part of efforts to stabilize and balance the crude oil market. Data from the Nigerian National Petroleum Corporation (NNPC) shows that only an average of 1.32 mbpd of crude oil was produced between January and April 2022.

Crude oil production was 0.38 mbpd (20 percent) below the 1.86mbpd benchmark for the 2021 budget. Between January and April 2022, crude oil production volume was also 0.29 mbpd (18 percent) below the 1.60 mbpd adjusted production for 2022. The NNPC attributed recent production disruptions to various challenges including crude oil theft, pipeline vandalization, shutdown of flow stations for pipeline leakage repairs, terminal maintenance, pump and flare management.

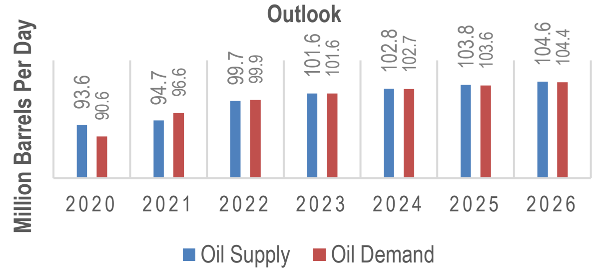
These challenges have significantly affected crude oil exports and revenue performance during the period. The NNPC only lifted a total of 8.80 million barrels of crude oil in April 2022, representing a 10% decrease from the 9.77 million barrels lifted in March 2022. However, more significant is the impact of subsidies on Petroleum Motor Spirit (PMS) supply in the downstream sector. The sum of N4.0 trillion was provisioned in the 2022 Federation Fiscal Framework for the implementation of the PMS subsidy policy in 2022. The NNPC deducted a total of N1.43 trillion between February and December 2021, while N947.53 billion was deducted for PMS subsidy between January and April 2022. The deductions increased continually from N210.38 billion in January to N219.78 in February, N245.77 billion in March, N271.59 billion in April, 2022. A direct result of the deductions is the considerable reduction in the fiscal significance of crude oil in recent times. There was no remittance from the NNPC to the Federation Account from January up till April 2022.

An average of 1.77 million barrels of crude oil was produced per day over the last 3 years. Following consultations with stakeholders, crude oil production is projected at 1.69mbpd, 1.83mbpd, 1.83mbpd in 2023, 2024 and 2025 respectively. These conservative medium term oil output projections were adopted to ensure budget realism, despite the ambitious post PIA aspirations of the sector.

### *5.1.2 Global Crude Oil Supply and Demand*

The Organization of Petroleum Exporting Countries forecasts global crude oil demand to continue to expand over the medium-term, primarily as part of the COVID-19 crisis recovery process and reaching 104.4 mbpd by 2026. Factors likely to influence oil demand include emerging shift in consumer behaviour as tele/homeworking becomes a norm for many companies following from the pandemic, significant restriction of tourism to home and neighbouring countries rather than long-distance travel, and progress in public acceptance of more energy-efficient technologies and lower-emission solutions. India is projected to have the highest oil demand growth and largest incremental demand over the forecast period. Road transportation sector demand is projected to expand remarkably, supported by increased demand in the residential, industrial and aviation sectors.

Figure 5.3: Medium Term Oil Demand and Supply Outlook



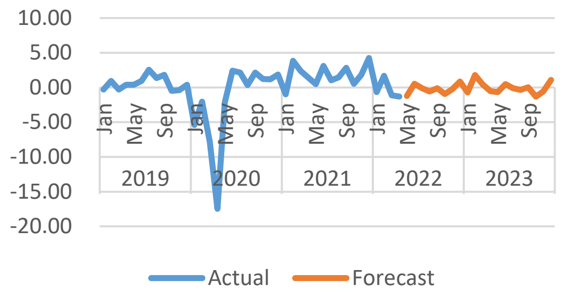

World crude oil demand increased from 90.6 mbpd in 2020 to 96.6 mbpd in 2021 reflecting the global economic recovery from the COVID-19 pandemic. OPEC forecasts slowing growth of global crude oil demand over the medium term, rising from 99.9 mbpd in 2022 to 101.6 mbpd in 2023, 102.7 mbpd in 2024 and reaching 103.6 mbpd in 2025. In general, the medium-term demand forecasts are much higher than the pre-Covid-19 level.

The increase in global crude oil demand is expected primarily from non-OECD countries, mainly India, other Asian and OPEC countries. Crude oil demand growth in the non-OECD region is expected to be driven by an expanding middle class, high population growth rates and stronger economic growth potential.

Global crude oil supply declined sharply in 2020 due largely to the historic OPEC+ supply cuts in response to the negative impact of COVID-19 pandemic on oil demand and prices. According to OPEC, global oil supply is expected to rise sharply from about 93.6mbpd in 2020 to 101.6mbpd in 2023, 103.8mbpd in 2025 and 104.6mbpd in 2026 (Fig. 5.3). As crude oil demand improves, following the global economic recovery and world crude oil market stabilization efforts, market fundamentals are anticipated to remain stable and supportive, thus encouraging a return to upstream activity and investment. World crude oil supply is forecast to just be enough to meet demand in 2023. EIA forecasts decline of Russia's production of total liquid fuels from 11.3 mbpd in the first quarter of 2022 to 9.3 mbpd in the fourth quarter of 2023 However, supply is estimated to slightly outstrip demand by 0.5mbpd over the period 2024-2026.

Oil is expected to retain the highest share in the global energy mix until 2045. In 2020, oil accounted for 30% of global energy requirements. The share of oil is anticipated to gradually increase to over 31% by 2025 reflecting post-pandemic oil demand recovery.

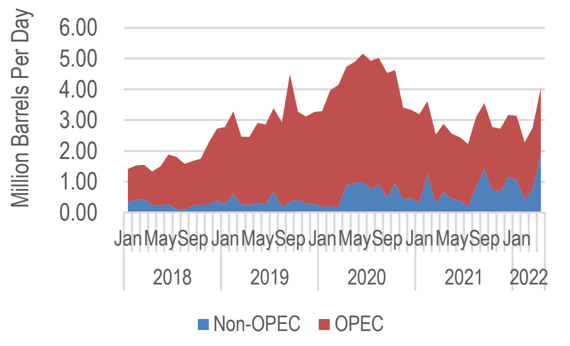
**Figure 5.4: Total Crude Oil and Other Liquids Inventory Net Withdrawals (million barrels per day)**




Current oil inventory levels are low globally following seven consecutive quarters of global oil inventory drawdowns from the third quarter of 2020 to the first quarter of 2022 (Figure 5.4). This contributed to the upward pressure on prices and amplifies the potential for oil price volatility. According to the Energy Information Administration (EIA), the impact of this on oil price in the medium term will largely depend on the extent to which prevailing and potential future sanctions imposed on Russia will affect its oil production and the sale of its oil in the global market.

Energy Information Administration reported a sharp increase in total unplanned crude oil supply disruptions from 21.0mbpd in 2018 to 37.3mbpd in 2019 and a peak of 52.1mbpd in 2020. However, unplanned supply disruptions declined afterwards to 34.8mbpd in 2021 and 12.2mbpd between January and April 2022. As Figure 5.5 shows, over 80% of unplanned crude oil supply disruptions occurred in OPEC member countries in 2018-2022 with Nigeria contributing a significant portion of it.

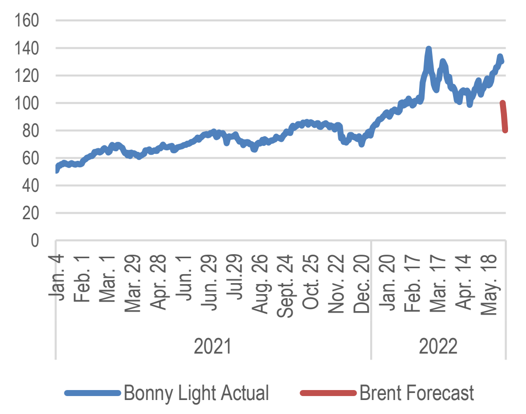
Fig. 5.5: Unplanned Crude Oil Supply Distruptions




### *5.1.3 Crude Oil Price Benchmark*

The world oil market strengthened recently due to the rebounding global economy led by emerging economies, generally faster-than-expected demand recovery, supply shocks due to upstream investment cuts and production shut downs, heightened geopolitical tensions and global supply-chain disruptions. The market tightening also reflects the decline in global oil inventories, enhanced energy efficiency and greater penetration of alternatives to oil. As Figure 5.6 shows, Bonny light crude oil price increased steadily recently from an average of US$71.09 per barrel in 2021 to US$133.73 per barrel by May 31, 2022.

**Figure 5.6: Crude Oil Price (US$/Barrel)**




The World Bank projects the price of Brent crude oil to average $100.00 in 2022, the highest level since 2013. However, it is expected to decline afterwards to an average of $92.00 per barrel in 2023 and an average of $80.00 per barrel by the end of 2024.

The lower projected crude oil price in the medium term is based on the vulnerability of the global economy to COVID-19 risks, sluggish GDP recovery, high oil supply due to resumption of production from Iran, Venezuela and Libya and escalating electric vehicle sales due to increased affordability, acceptability and penetration. Other factors include quick roll-out of Clean Energy Agenda and Policies globally, energy transition and policy limitations on hydrocarbon growth as well as ease of limitations on upstream petroleum development by the West due to energy security.

The EIA forecasts that the Brent crude oil price will decline from an average of US$111 per barrel in the third quarter of 2022 to an average of US$97 per barrel in 2023. Thus, the world oil price outlook generally remains highly volatile. The forecasts considered the heightened levels of uncertainty resulting from a variety of factors, including Russia's full-scale invasion of Ukraine, the volume and timing of new crude oil production, and the impact of the coordinated release of petroleum supplies from strategic reserves in the United States and in Europe. On the back of fears of a possible recession in some major economies, however, Citibank recently warned that Brent crude oil price may drop to $65 pb in 2023.

In consultation with the relevant stakeholders, a benchmark oil price of US$70 per barrel has been proposed for 2023. Crude oil price is projected to decline afterwards to US$66 per barrel in 2024 and US$62 per barrel in 2025. These estimates took account of crude oil market fundamentals, market sentiments and global economic outlook. It is imperative to set public budget crude 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 2023-2025 are outlined below. In view of the declining fiscalised crude oil and the destabilizing effects of its fluctuations, Government has been implementing various reform measures to widen the revenue base, modernize and further improve tax administration and enhance non-oil revenue collections. In general, the medium-term non-oil revenue forecasts are based on the sustenance of these efforts by the government 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 improvements in the operations of the various tax administrators. Tax rates are assumed to remain largely the same during the period.

#### *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 a projection efficiency factor. The growth of the nominal tax base is assumed to be driven by tax elasticity in the medium term. Other considerations include the foreign exchange rate, implementation of Common External Tariff (CET) 2022-2026, effective implementation of the Africa Continental Free Trade Agreement (AfCFTA).

### *Companies Income Tax (CIT)*

The CIT projections are based on estimated nominal GDP, Companies' Profitability Ratio, and further improvement in collection efficiency. The Gross Operating Surplus of firms for which CIT forecast was derived is assumed to average N9.3 trillion for 2023 to 10.6 trillion for 2024 and 11.2 trillion for 2025 after adjusting for firms in the informal sector. Estimates were derived taking into consideration significant growth of domestic economic activities as well as the effective implementation of the National Development Plan 2021-2025. Other important assumptions include improvement in the Nigeria business environment, stable tax rate and successful broadening of the tax net. In addition, the historical growth trend in the volume of online transfer transactions is expected to be sustained.

### *Value Added Tax (VAT)*

The VAT was projected using estimated aggregate nominal consumption, taking into account vatable items and collection efficiency. Consumption expenditure on which VAT is charged is assumed to increase from an average of N35 trillion in 2023, to N40 trillion in 2024 and N45 trillion in 2025 after adjusting for exemptions, zero rated items and companies whose turnover falls below N25 million threshold. 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 Acts 2020 and 2021. The VAT projections over the medium-term are based on holding the rate at 7.5%.

In the medium term, Government will intensify efforts aimed at improving VAT coverage and collection efficiency. Wider coverage and improved collection efficiency will be achieved through nationwide VAT registration and monitoring, and deployment of ICT (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.

### *Electronic Money Transfer levy*

The Electronic Money Transfer levy will continue to be implemented in the medium-term. The recently approved Regulations governing the administration of this levy is expected to boost collections over the medium term. Estimates were based on the projected volume of eligible online transfer transactions of 2.7 billion in 2023, 3.1 billion in 2024 and 3.8 billion in 2025.

### *FGN Independent Revenue*

The Independent revenue of the Federal Government was estimated taking into consideration efforts aimed at curbing revenue leakages, excessive spending 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 the various measures introduced to ensure that GOEs operate in a more fiscally responsible manner. GOEs will be required to observe the 50% maximum cost-to-income ratio and substantially improve remittances in the medium term, under a tighter performance management framework. Hence, the 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 2023-2025

## 6.1 Macroeconomic Projections

The key parameters driving the medium-term revenue and expenditure framework reflect Nigeria's multiple domestic challenges and the fragile recovery of the global economy due to the vestiges of the COVID-19 pandemic compounded by the Russian-Ukraine war.

Table 6.1: Key Parameters and other Macroeconomic Projections

| Description | 2021 Revised Forecast | 2021 Actual | 2022 Amended Budget | 2022 Revised Forecast (as at July 2022) | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Oil Price Benchmark (US$/b) | 40.0 | 43.0 | 73.0 | 73.0 | 70.0 | 66.0 | 62.0 |
| Oil Production (mbpd) | 1.86 | 1.48 | 1.60 | 1.60 | 1.69 | 1.83 | 1.83 |
| Exchange Rate (N/$) | 410.0 | 383.0 | 410.15 | 410.15 | 435.57 | 435.92 | 437.57 |
| Inflation (%) | 15.00 | 16.98 | 13.00 | 16.11 | ** 17.16 | 16.21 | 17.21 |
| Non-Oil GDP (N'bn) | 154,102.1 | 166,439.5 | 169,697.4 | 188,278.1 | 214,049.5 | 239,691.9 | 268,553.1 |
| Oil GDP (N'bn) | 14,500.5 | 9,636.0 | 14,684.6 | 10,652.0 | 11,457.8 | 12,316.0 | 13,225.7 |
| Nominal GDP (N'bn) | 168,602.6 | 176,075.5 | 184,382.0 | 198,930.0 | ***225,507.3 | 252,177.4 | 280,797.9 |
| GDP Growth Rate (%) | 2.50 | 3.40 | 4.20 | 3.55 | 3.75 | 3.30 | 3.46 |
| Imports | 30,348.5 | 20,844.0 | 33,188.8 | 23,145.3 | 24,385.6 | 26,346.6 | 27,634.4 |
| Nominal Consumption (N'bn) | 136,568.1 | 118,437.1 | *149,349.4 | 120,172.6 | 121,933.1 | 123,693.5 | 125,454.0 |

***Source***: *Ministry of Finance, Budget & National Planning; NNPC; BOF; NBS*
***Notes:*** *(i) * The initial projection is not likely to be achieved based on current trends.*
*(ii) The medium-term projections deviate from the projections in the National Development Plan (NDP) 2021-2025. They have been updated based on a combination of current realities and a modified medium-term outlook. For instance, inflation and growth in the NDP are projected at **14.93% and ***4.39%, respectively, for 2023.*

The Russian invasion of Ukraine, resulting in higher crude oil prices, has worsened Nigeria's economic performance. On the fiscal side, oil revenue accretion to the Federation Accounts is much lower due to the huge petrol subsidy costs, which are recovered from crude oil and gas revenues before remittance to the federation account. The real economy is experiencing sustained inflationary pressures, worsened by high energy costs, while external account and exchange rate pressures persist. These factors and the medium-term outlook underly the medium-term projections.

In the medium term, real GDP growth is projected at 3.75% in 2023, from a revised projection of 3.55% in 2022 – a downward revision from the 2022 budget prediction. Growth is expected to moderate to 3.30% in 2024 before picking up to 3.46% in 2025. The inflation rate is projected to average 17.16% in 2023, up from the revised average of 16.11% for 2022. Upward pressure on prices is expected to be driven by the current and lagged effect of the global price surge due to the Russian-Ukraine war, domestic insecurity, rising imports, and exchange rate depreciation, as well as other supply-side constraints. It is envisaged that shocks from global environment, domestic challenges like insecurity and fiscal expansion would not only induce inflationary pressure but impact exchange rate and interest rates. Consequently, it is projected that the naira will depreciate to N435.57/US$ in 2023, N435.92/US$ in 2024 and N437.57/US$ in 2025.

Growth in nominal consumption has been adjusted in line with revised estimates based on changes in the components of GDP and historical performances. Consequently, the medium-term consumption is projected at N121.93 trillion, N123.69 trillion and N125.45 trillion for 2023, 2024 and 2025, respectively. Investment, especially from foreign sources, is expected to drag due to interest rate hikes in advanced economies and other domestic challenges, including insecurity and a perturbed business environment.

With actual imports in 2021 at N20.84 trillion and a revised projection of N23.15 trillion for 2022, the projections for 2023, 2024 and 2025 are set at N24.39 trillion, N26.35 trillion and N27.63 trillion, respectively.

## 6.2 2023-2025 Medium Term Fiscal Framework (MTFF)

### *6.2.1 Federation Account Revenues*

The projected fiscal outcomes in the medium term are presented under two scenarios based on the underlying budget parameters/assumptions, as follows: In scenario 1 - the Business-as-Usual scenario, it is assumed that the subsidy on PMS (amounting to N6.72 trillion) will be fully provided by the Federation in 2023. In scenario 2 – the Reform scenario, it is assumed that a petrol subsidy will be provided up to mid-2023 (N3.36 trillion). In addition, a more aggressive stance will be taken on the NNPC and CBN to remit dividends and operating surplus, including arrears, owed to the Federal Government.

**Scenario 1**

This is the Business-as-Usual scenario, which assumes that the subsidy on PMS will be sustained throughout 2023, amounting to N6.72 trillion. Based on this, the net amount accruable to the Federation Account is projected at N7.76 trillion. The Main Pool, VAT Pool, and Electronic Money Transfer Levy (EMTL) are projected at N4.89 trillion, N2.74 trillion, and N136.35 billion, respectively, in 2023. Oil revenue at N498.06 billion is a negligible 6.4% of total Federation Account receipts as it will be eroded by the fuel subsidy. Other components of the Main Federation Account revenues include Corporate Tax - N1.92 trillion, Customs Revenue - N1.96 trillion, Special Levies - N344.72 billion, NLNG Dividend - N153.73 billion, and Solid Minerals - N7.51 billion. The share of the Federal Government from the Main Federation Account Pool will be N2.57 trillion, while the States and Local governments are projected to get N1.31 trillion and N1.01 trillion, respectively, in 2023. From the VAT Pool, the Federal Government is projected to receive N410.46 billion, the States N1.37 trillion, and the Local governments N957.73 billion. The shares of EMTL are N20.45 billion, N68.17 billion and N47.72 billion, respectively, for the Federal States and Local governments.

**Scenario 2**

This is termed the Reform scenario. In this scenario, it is assumed that the PMS subsidy will end by June 2023, in line with the government's 18-month extension announced at the beginning of 2022. Based on this assumption, the net amount accruable to the Federation Account is projected to be higher at N11.10 trillion. The Main Pool is projected at N8.23 trillion, while the VAT Pool and EMTL are projected at the same level as in scenario 1, i.e., N2.74 trillion and N136.35 billion, respectively, in 2023. The share of oil revenue will be N3.84 trillion, about 34.6% of total Federation Account receipts. Other components of the Federation Account revenues will remain as in scenario 1: Corporate Tax - N1.92 trillion, Customs Revenue - N1.96 trillion, Special Levies - N344.72 billion, NLNG Dividend - N153.73 billion, and Solid Minerals - N7.51 billion. The share of the Federal Government from the Main Federation Account Pool will be N4.33 trillion, while the States and Local governments are projected to get N2.20 trillion and N1.69 trillion, respectively, in 2023. The revenue shares from the VAT Pool and EMTL will be at the same level as scenario 1, where the Federal

Government is projected to receive N410.46 billion, the States N1.37 trillion, and the Local governments N957.73 billion from the VAT Pool; while from EMTL N20.45 billion, N68.17 billion and N47.72 billion will go to the Federal, States and Local governments respectively.

Table 6.2: Federation Account – Main Pool, VAT and EMTL Revenues (2023 – 2025)

| FISCAL ITEMS | Amended 2022 Framework | 2023 Scenario 1 - Business As Usual | 2023 Scenario 2 - Subsidy Reform | 2024 | 2025 |
|---|---|---|---|---|---|
| **Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)** | **1.60** | **1.69** | **1.69** | **1.83** | **1.83** |
| **Projected Budget Benchmark Price (US$ per barrel)** | **73.00** | **70.00** | **70.00** | **66.00** | **62.00** |
| **Average Exchange Rate (N/US$)** | **410.15** | **435.57** | **435.57** | **435.92** | **437.57** |
| **NET FEDERATION ACCOUNT (MAIN POOL)** | **8,523,576,046,045** | **4,910,796,431,596** | **8,268,416,481,196** | **12,835,601,845,648** | **13,181,013,331,918** |
| Transfer to Police Trust Fund (0.5% of Fed. Acct.) | 48,492,527,862 | 24,553,982,158 | 41,342,082,406 | 64,178,009,228 | 65,905,066,660 |
| **NET FEDERATION ACCOUNT - MAIN POOL (after 0.5% transfer to Police Trust Fund)** | **8,475,083,518,183** | **4,886,242,449,438** | **8,227,074,398,790** | **12,771,423,836,419** | **13,115,108,265,259** |
| Net Oil Revenue after Costs, Deductions & Derivation | 4,516,230,421,954 | 498,064,028,173 | 3,838,895,977,525 | 7,640,952,250,369 | 7,460,912,693,824 |
| Net Solid Minerals Revenue after Derivation | 6,011,202,666 | 7,514,013,071 | 7,514,013,071 | 9,392,516,339 | 11,740,645,424 |
| NLNG Dividend | | 153,732,619,872 | 153,732,619,872 | 153,732,619,872 | 153,732,619,872 |
| Net Corporate Tax Distributable | 1,874,850,814,324 | 1,924,288,830,489 | 1,924,288,830,489 | 2,208,520,241,533 | 2,560,174,201,254 |
| Net Customs Revenue Distributable | 1,719,828,043,369 | 1,957,924,806,341 | 1,957,924,806,341 | 2,350,573,846,211 | 2,500,340,422,331 |
| Net Special Levies Distributable | 148,397,663,459 | 344,718,151,493 | 344,718,151,493 | 408,252,362,095 | 428,207,682,554 |
| **NET FEDERATION ACCOUNT (VAT POOL)** | | | | | |
| **Net Federation Account - VAT Pool (after CoC and Transfers to NEDC and NPTF)** | **2,262,078,931,572** | **2,736,375,247,640** | **2,736,375,247,640** | **2,948,568,037,340** | **3,138,214,153,388** |
| **FEDERATION ACCOUNT (EMTL)** | **210,819,469,760** | **137,032,655,344** | **137,032,655,344** | **157,587,553,646** | **189,105,064,375** |
| Transfer to Police Trust Fund (0.5% of Fed. Acct.) from EMTL | 1,054,097,349 | 685,163,277 | 685,163,277 | 787,937,768 | 945,525,322 |
| **Net Electronic Money Transfer Levy after transfer to NPTF** | **209,765,372,411** | **136,347,492,067** | **136,347,492,067** | **156,799,615,877** | **188,159,539,053** |
| **DISTRIBUTION** | | - | | | |
| **Distribution - Federation Account (Main Pool, VAT Pool and EMTL)** | **10,946,927,822,166** | **7,758,965,189,146** | **11,099,797,138,498** | **15,876,791,489,637** | **16,441,481,957,700** |
| **Main Pool** | **8,475,083,518,183** | **4,886,242,449,438** | **8,227,074,398,790** | **12,771,423,836,419** | **13,115,108,265,259** |
| FGN's Share of Federation Account (52.68%) | 4,464,673,997,379 | 2,574,072,522,364 | 4,334,022,793,283 | 6,727,986,077,026 | 6,909,039,034,138 |
| States' Share of Federation Account (26.72%) | 2,264,542,316,059 | 1,305,603,982,490 | 2,198,274,279,357 | 3,412,524,449,091 | 3,504,356,928,477 |
| Local Govt.'s Share of Federation Account (20.60%) | 1,745,867,204,746 | 1,006,565,944,584 | 1,694,777,326,151 | 2,630,913,310,302 | 2,701,712,302,643 |
| **VAT Pool** | **2,262,078,931,572** | **2,736,375,247,640** | **2,736,375,247,640** | **2,948,568,037,340** | **3,138,214,153,388** |
| FGN's' Share of VAT Pool Account (15%) | 339,311,839,736 | 410,456,287,146 | 410,456,287,146 | 442,285,205,601 | 470,732,123,008 |
| States' Share of VAT Pool Account (50%) | 1,131,039,465,786 | 1,368,187,623,820 | 1,368,187,623,820 | 1,474,284,018,670 | 1,569,107,076,694 |
| Local Govt.'s Share of VAT Pool Account (35%) | 791,727,626,050 | 957,731,336,674 | 957,731,336,674 | 1,031,998,813,069 | 1,098,374,953,686 |
| **Electronic Money Transfer Levy (EMTL)** | **209,765,372,411** | **136,347,492,067** | **136,347,492,067** | **156,799,615,877** | **188,159,539,053** |
| FGN's' Share (15%) | 31,464,805,862 | 20,452,123,810 | 20,452,123,810 | 23,519,942,382 | 28,223,930,858 |
| States' Share (50%) | 104,882,686,206 | 68,173,746,034 | 68,173,746,034 | 78,399,807,939 | 94,079,769,526 |
| Local Govt.'s Share (35%) | 73,417,880,344 | 47,721,622,224 | 47,721,622,224 | 54,879,865,557 | 65,855,838,668 |

### *6.2.1 FGN Revenue*

**Scenario 1**

The 2023 FGN Revenue is projected at N6.34 trillion, out of which only N373.17 billion or 5.9% comes from oil-related sources. The balance of N5.97 trillion is to be earned from non-oil sources.

**Scenario 2**

In addition to subsidy reform, this scenario assumes an aggressive implementation of cost-to-income limits of GOEs, resulting in additional operating surplus remittances of N500 billion. With these, the 2023 FGN Revenue is projected at N8.46 trillion (15.1% or N1.51 trillion less than the 2022 Budget) but N2.12 trillion more than scenario 1. Of this, N1.99 trillion or 23.6%, 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 N57.07 billion from N280.86 billion projected in 2022.

Table 6.3: Overview of the Revenue Framework

| | FISCAL ITEMS | Amended 2022 Framework | 2023 Scenario 1 - Business As Usual | 2023 Scenario 2 - Subsidy Reform | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)** | | **1.60** | **1.69** | **1.69** | **1.83** | **1.83** |
| **Projected Budget Benchmark Price (US$ per barrel)** | | **73.00** | **70.00** | **70.00** | **66.00** | **62.00** |
| **Average Exchange Rate (N/US$)** | | **410.15** | **435.57** | **435.57** | **435.92** | **437.57** |
| **AMOUNT AVAILABLE FOR FGN BUDGET (excluding GOEs retained revenue)** | | **8,240,777,990,640** | **5,151,337,895,483** | **7,271,641,390,919** | **9,627,909,343,139** | **9,599,929,817,641** |
| a | **Share of Oil Revenue** | **2,190,371,754,648** | **241,561,053,664** | **1,861,864,549,100** | **3,705,861,841,429** | **3,618,542,656,505** |
| b | **Dividends** | **195,716,305,950** | **81,786,706,388** | **81,786,706,388** | **80,876,885,588** | **80,876,885,588** |
| | *NLNG* | *187,397,535,000* | *74,560,320,638* | *74,560,320,638* | *74,560,320,638* | *74,560,320,638* |
| | *Bank of Industry* | *8,318,770,950* | *7,226,385,750* | *7,226,385,750* | *6,316,564,950* | *6,316,564,950* |
| c | **Share of Minerals & Mining** | **2,915,433,293** | **3,644,296,339** | **3,644,296,339** | **4,555,370,424** | **5,694,213,031** |
| d | **Share of Non-Oil Taxes** | **2,132,083,163,179** | **2,433,154,452,006** | **2,433,154,452,006** | **2,821,962,553,400** | **3,101,380,299,951** |
| | *Share of CIT* | *909,302,644,947* | *933,280,082,787* | *933,280,082,787* | *1,071,132,317,143* | *1,241,684,487,608* |
| | *Share of VAT* | *316,691,050,420* | *383,092,534,670* | *383,092,534,670* | *412,799,525,228* | *439,349,981,474* |
| | *Share of Customs* | *834,116,601,034* | *949,593,531,075* | *949,593,531,075* | *1,140,028,315,412* | *1,212,665,104,830* |
| | *Share of Federation Acct. Levies* | *71,972,866,778* | *167,188,303,474* | *167,188,303,474* | *198,002,395,616* | *207,680,726,039* |
| e | Share of Electronic Money Transfer Levy (formerly called Stamp Duty) | 29,367,152,138 | 19,088,648,889 | 19,088,648,889 | 21,951,946,223 | 26,342,335,467 |
| f | Share of Oil Price Royalty | 96,943,894,289 | 13,366,750,326 | 13,366,750,326 | 17,306,145,651 | 12,835,076,039 |
| g | Revenue from GOEs | 3,806,600,375,927 | 2,232,114,703,577 | 2,232,114,703,577 | 2,341,258,774,100 | 3,264,219,519,061 |
| h | GOEs Operating Surplus (80% of which is captured in Independent Revenue) | (2,078,211,097,139) | (1,043,319,113,158) | (1,043,319,113,158) | (1,097,442,098,433) | (753,525,758,823) |
| i | Independent Revenue | 2,616,217,091,075 | 1,682,491,894,006 | 2,182,491,894,006 | 2,278,947,315,582 | 2,057,482,879,416 |
| j | Draw-down from Special Levies Accounts | 300,000,000,000 | 300,000,000,000 | 300,000,000,000 | 300,000,000,000 | 300,000,000,000 |
| k | Signature Bonus / Renewals / Early Renewals | 280,855,138,079 | 57,048,776,004 | 57,048,776,004 | 57,048,776,009 | - |
| l | Domestic Recoveries + Assets + Fines | 26,933,139,822 | 27,898,500,000 | 27,898,500,000 | 28,946,000,000 | 8,160,000,000 |
| m | Grants and Donor Funding | 63,376,918,168 | 43,028,488,073 | 43,028,488,073 | 26,309,405,392 | 63,413,689,755 |
| n | Education Tax (TETFUND) | 305,998,000,000 | 248,268,329,787 | 248,268,329,787 | 284,143,103,442 | 325,201,781,889 |
| **AMOUNT AVAILABLE FOR FGN BUDGET (including GOEs)** | | **9,969,167,269,428** | **6,340,133,485,902** | **8,460,436,981,337** | **10,871,726,018,806** | **12,110,623,577,879** |

### *6.2.2 FGN Expenditure*

### *6.2.3 Aggregate Expenditure*

**Scenario 1**

In this scenario, given the severely constrained fiscal space, it is not feasible to make any provision for MDAs' capital expenditure in 2023 beyond what can be funded through multilateral/bilateral loan-funded and donor-funded projects. The FGN's 2023 aggregate expenditure is estimated at N18.75 trillion, which is N1.43 billion (8.3%) higher than the 2022 budget. The sums of N20.78 trillion and N23.05 trillion are projected to be spent by the FGN in 2024 and 2025, respectively.

The breakdown of the 2023 expenditure estimate includes statutory transfers of N609.17 billion; non-debt recurrent expenditure of N8.52 trillion (including N350 billion for the recurrent component of the Special Intervention Programme). The provisions of N6.42 trillion and N247.73 billion have been made for Debt Service and Sinking Fund to retire maturing bonds issued to local contractors/creditors, respectively. The provision for debt service includes N1.20 trillion to service Ways & Means borrowings from the Central Bank of Nigeria (CBN). A total of N6.15 trillion (inclusive of N779.31 for GOEs) is provided for personnel and pension costs. This represents an increase of N1.24 trillion over the 2022 budget estimates. This is 37.7% of projected aggregate revenues for 2023.

The aggregate capital expenditures (capex) planned in the 2023 budget is N3.26 trillion. This represents 17% of total spending. Of this aggregate capital, no allocation has been made for MDAs' capital. However, N437.43 billion is provided as service-wide vote capital (capital supplementation), N306.34 billion is the capital component of statutory transfers, N7 billion is the Family Home Fund of the Special Intervention Programme, N450.39 billion is the capital budget of GOEs, N40.52 billion for donor/grant-funded expenditures, N13.37 billion transfer to Nigeria Sovereign Investment Authority (NSIA) and N1.77 trillion for projects to be funded with multilateral and bilateral loans.

### Scenario 2

The FGN's 2023 aggregate expenditure is estimated at N19.76 trillion, N2.44 billion (14.1%) higher than in 2022. This includes the provision of N1.68 trillion for GOEs' expenditures, grants/donor-funded projects/programmes amounting to N40.52 billion, and N1.77 trillion for multilateral and bilateral project-tied loans. The sums of N20.78 trillion and N23.05 trillion are projected to be spent by the FGN in 2024 and 2025, respectively.

The breakdown of the 2023 expenditure estimate includes statutory transfers of N722.11 billion; non-debt recurrent expenditure of N8.52 trillion (including N350 billion for the recurrent component of the Special Intervention Programme). The debt service provision of N6.31 trillion in 2023 is N106.08 billion lower than in scenario 1 due to the lower borrowing requirements. N247.73 billion has been provided as Sinking Fund and N1.20 trillion to service borrowings from CBN. The provision of N6.15 trillion (inclusive of N779.31 for GOEs) for personnel and pension costs is as in scenario 1.

The aggregate capital expenditure planned in the 2023 budget is N4.37 trillion. This represents 22% of total spending (short of the 30% target set by the current administration) and is 25.4% less than the 2022 provision of N5.86 trillion. In the outer years, capital expenditure is about 17% of total spending – still below the 30% Capex target. Of the planned capital expenditure for 2023, only N1.00 trillion is MDAs' treasury funded capex, N437.43 billion is capital supplementation, N411.37 billion is the capital component of statutory transfers, N7 billion is the Family Home Fund capital component of the Special Intervention Programme, N450.39 billion is the capital budget of GOEs, N40.52 billion for donor/grant-funded expenditures, N13.37 billion transfer to NSIA and N1.77 trillion for multilateral and bilateral project-tied loans.

Table 6.4: Overview of the Expenditure Framework

| FISCAL ITEMS | | Amended 2022 Framework | 2023 Scenario 1 - Business As Usual | 2023 Scenario 2 - Subsidy Reform | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)** | | **1.60** | **1.69** | **1.69** | **1.83** | **1.83** |
| **Projected Budget Benchmark Price (US$ per barrel)** | | **73.00** | **70.00** | **70.00** | **66.00** | **62.00** |
| **Average Exchange Rate (N/US$)** | | **410.15** | **435.57** | **435.57** | **435.92** | **437.57** |
| **STATUTORY TRANSFER** | | **817,699,410,208** | **609,168,849,599** | **722,109,468,797** | **882,360,368,413** | **900,271,626,535** |
| **DEBT SERVICE** | | **3,685,375,317,302** | **6,415,953,044,242** | **6,309,870,967,327** | **8,060,429,029,023** | **10,428,263,580,761** |
| **SINKING FUND** | | **292,711,793,135** | **247,726,644,470** | **247,726,644,470** | **232,002,962,545** | **233,002,962,545** |
| a | Sinking Fund to retire maturing bond to Local Contractors | 292,711,793,135 | 247,726,644,470 | 247,726,644,470 | 232,002,962,545 | 233,002,962,545 |
| **Sub-Total** | | **292,711,793,135** | **247,726,644,470** | **247,726,644,470** | **232,002,962,545** | **233,002,962,545** |
| **RECURRENT (NON-DEBT)** | | **7,108,621,131,850** | **8,522,742,458,276** | **8,522,742,458,276** | **8,715,640,423,640** | **8,403,076,691,292** |
| a | Personnel Costs (MDAs) | 3,717,432,596,125 | 4,547,575,971,000 | 4,547,575,971,000 | 4,684,003,250,130 | 4,684,003,250,130 |
| b | Personnel Costs (GOEs) | 617,724,992,745 | 779,313,511,833 | 779,313,511,833 | 833,990,459,384 | 619,373,793,114 |
| c | Overheads (MDAs) | 376,379,579,862 | 451,655,495,834 | 451,655,495,834 | 451,655,495,834 | 451,655,495,834 |
| d | Overheads (GOEs) | 451,001,890,322 | 451,001,890,322 | 451,001,890,322 | 451,001,890,322 | 451,001,890,322 |
| e | Pensions, Gratuities & Retirees Benefits | 577,862,188,757 | 827,862,188,757 | 827,862,188,757 | 827,862,188,757 | 827,862,188,757 |
| f | Other Service Wide Votes (including GAVI/Immunization) | 937,919,984,040 | 1,037,919,984,040 | 1,037,919,984,040 | 1,037,919,984,040 | 937,919,984,040 |
| g | Presidential Amnesty Programme | 65,000,000,000 | 65,000,000,000 | 65,000,000,000 | 65,000,000,000 | 65,000,000,000 |
| h | TETFUND - Recurrent | 15,299,900,000 | 12,413,416,489 | 12,413,416,489 | 14,207,155,172 | 16,260,089,094 |
| **SPECIAL INTERVENTIONS (Recurrent)** | | **350,000,000,000** | **350,000,000,000** | **350,000,000,000** | **350,000,000,000** | **350,000,000,000** |
| **AGGREGATE CAPITAL EXPENDITURE** | | **5,862,274,043,664** | **3,264,816,233,967** | **4,369,837,076,946** | **3,450,684,065,826** | **3,665,965,845,880** |
| a | Capital Supplementation | 437,432,000,000 | 437,432,000,000 | 437,432,000,000 | 437,432,000,000 | 437,432,000,000 |
| b | Capital Expenditure in Statutory Transfers | 446,977,605,142 | 306,344,435,399 | 411,365,278,378 | 560,686,307,900 | 577,633,648,639 |
| c | Special Intervention Programme (Capital) - Family Home Fund | 7,000,000,000 | 7,000,000,000 | 7,000,000,000 | 7,000,000,000 | 7,000,000,000 |
| d | Amount Available for MDAs Capital Expenditure | 2,716,942,380,838 | - | 1,000,000,000,000 | 1,200,000,000,000 | 1,500,000,000,000 |
| e | GOEs Capital Expenditure | 647,079,937,729 | 450,385,464,550 | 450,385,464,550 | 442,851,694,870 | 439,975,706,979 |
| f | TETFUND Capital Expenditure | 290,698,100,000 | 235,854,913,298 | 235,854,913,298 | 269,935,948,270 | 308,941,692,795 |
| g | Grants and Donor Funded Projects | 63,376,918,168 | 43,028,488,073 | 43,028,488,073 | 26,309,405,392 | 63,413,689,755 |
| h | Multi-lateral / Bi-lateral Project-tied Loans | 1,155,823,207,500 | 1,771,404,182,322 | 1,771,404,182,322 | 489,162,563,743 | 318,734,031,674 |
| i | FGN Share of Oil Price Royalty Transferred to NSIA | 96,943,894,289 | 13,366,750,326 | 13,366,750,326 | 17,306,145,651 | 12,835,076,039 |
| **Capital Expenditure (Exclusive of Transfers)** | | **5,415,296,438,523** | **2,958,471,798,568** | **3,958,471,798,568** | **2,889,997,757,926** | **3,088,332,197,241** |
| **TOTAL FGN BUDGET (Excluding GOEs & Project-tied Loans)** | | **14,448,074,062,723** | **15,301,957,746,128** | **16,308,816,288,411** | **18,563,423,933,227** | **21,223,861,636,284** |
| **TOTAL FGN BUDGET (Including GOEs & Project-tied Loans)** | | **17,319,704,091,019** | **18,754,062,795,155** | **19,760,921,337,438** | **20,780,430,541,546** | **23,052,947,058,373** |

## *6.2.4 Fiscal Deficit and Deficit Financing*

### Scenario 1

The budget deficit is projected to be N12.41 trillion in 2023, up from N7.35 trillion budgeted in 2022, representing 196% of total FGN revenues, or 5.50% of the estimated GDP. This is significantly above the 3% threshold stipulated in the Fiscal Responsibility Act (FRA), 2007. It is instructive to note that this deficit level is despite a projected depreciation of the exchange rate and the fact that there will be no provision for treasury-funded MDAs' capital projects in 2023! Essentially, this massive deficit will be funding debt service and recurrent expenditure. The deficit will largely be financed by domestic borrowings, considering the narrowed window for external financing.

### Scenario 2

In this scenario, the budget deficit is projected to be N11.30 trillion in 2023, up from N7.35 trillion in 2022. This represents 5.01% of the estimated GDP, above the 3% threshold stipulated in the Fiscal Responsibility Act (FRA), 2007. This deficit level assumes that petrol subsidy reform will be implemented from mid-2023 in line with the timeline for suspension thereof.

It is important to note that MDAs' capex has been constrained by low revenues, huge petrol subsidies, increasing personnel and pension, and high debt service costs. Of significant concern is the debt service to revenue ratio projected at 82% in scenario 1 and 60% in scenario 2, and the deficit to revenue ratio projected at over 100% in both scenarios.

Table 6.5: Deficit, Financing and Critical Ratios

| FISCAL ITEMS | Amended 2022 Framework | 2023 Scenario 1 - Business As Usual | 2023 Scenario 2 - Subsidy Reform | 2024 | 2025 |
|---|---|---|---|---|---|
| **Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)** | **1.60** | **1.69** | **1.69** | **1.83** | **1.83** |
| **Projected Budget Benchmark Price (US$ per barrel)** | **73.00** | **70.00** | **70.00** | **66.00** | **62.00** |
| **Average Exchange Rate (N/US$)** | **410.15** | **435.57** | **435.57** | **435.92** | **437.57** |
| **Fiscal Deficit (excluding GOEs and Project-tied Loans)** | **(6,207,296,072,083)** | **(10,150,619,850,645)** | **(9,037,174,897,492)** | **(8,935,514,590,088)** | **(11,623,931,818,643)** |
| **Total Fiscal Deficit (including Project-tied Loans)** | **(7,350,536,821,591)** | **(12,413,929,309,253)** | **(11,300,484,356,100)** | **(9,908,704,522,740)** | **(10,942,323,480,494)** |
| **GDP** | **184,381,975,950,038** | **225,507,296,343,920** | **225,507,296,343,920** | **252,007,918,860,872** | **281,778,837,835,771** |
| **DEFICIT/GDP (excluding GOEs and Project-tied Loans)** | **(3.37%)** | **(4.50%)** | **(4.01%)** | **(3.55%)** | **(4.13%)** |
| **DEFICIT/GDP (including Project-tied Loans)** | **(3.99%)** | **(5.50%)** | **(5.01%)** | **(3.93%)** | **(3.88%)** |
| **TOTAL FGN EXPENDITURE** | **17,319,704,091,019** | **18,754,062,795,155** | **19,760,921,337,438** | **20,780,430,541,546** | **23,052,947,058,373** |
| **Total Non-Debt Expenditure** | **13,341,616,980,581** | **12,090,383,106,443** | **13,203,323,725,641** | **12,487,998,549,979** | **12,391,680,515,067** |
| Capital Expenditure as % of Non-Debt Expenditure | 44% | 27% | 33% | 28% | 30% |
| Capital Expenditure as % of total FGN Expenditure | 34% | 17% | 22% | 17% | 16% |
| Capital Expenditure (Inclusive of Transfers, but exclusive of GOEs Capital & Project-tied loans) as % of FGN Expenditure | 28% | 6% | 11% | 12% | 13% |
| Recurrent Expenditure as % of total FGN Exp (incl. GOEs + Project-tied Loans) | 66% | 83% | 78% | 83% | 84% |
| Debt Service to Revenue Ratio (incl. GOEs + Project-tied Loans) | 37% | 82% | 60% | 63% | 76% |
| Deficit as % of FGN Revenue (incl. GOEs + Project-tied Loans) | 74% | 196% | 134% | 91% | 90% |
| **ADDITIONAL FINANCING** | | | | | |
| a Privatization Proceeds | 90,731,800,000 | 206,182,616,701 | 206,182,616,701 | 581,490,350,102 | 1,405,000,000 |
| b Multi-lateral / Bi-lateral Project-tied Loans | 1,155,823,207,500 | 1,771,404,182,322 | 1,771,404,182,322 | 489,162,563,743 | 318,734,031,674 |
| c **New Borrowings** | **6,103,981,814,091** | **10,436,342,510,230** | **9,322,897,557,078** | **8,838,051,608,895** | **10,622,184,448,820** |
| *Domestic Borrowing* | *3,534,050,919,825* | *8,349,074,008,184* | *7,458,318,045,662* | *7,070,441,287,116* | *8,497,747,559,056* |
| *Foreign Borrowing* | *2,569,930,894,266* | *2,087,268,502,046* | *1,864,579,511,416* | *1,767,610,321,779* | *2,124,436,889,764* |
| **Sub-Total** | **7,350,536,821,591** | **12,413,929,309,253** | **11,300,484,356,100** | **9,908,704,522,740** | **10,942,323,480,494** |
| | | - | | | |
| **Grand -Total (Revenue + Financing)** | **17,319,704,091,019** | **18,754,062,795,155** | **19,760,921,337,438** | **20,780,430,541,546** | **23,052,947,058,373** |

# 7.0 MEDIUM TERM OBJECTIVES, POLICIES AND STRATEGIES

This Fiscal Strategy Paper was prepared against the backdrop of prevailing challenges in the country such as low economic growth, insecurity, insufficient public service delivery, significant infrastructure deficits and weak social indicators. Hence, the Paper highlights the macroeconomic and fiscal policy objectives of the government over the period 2023-2025 and the strategies to be implemented to achieve them.

## 7.1 Macroeconomic Policy Objectives

In the medium term, government aims at accelerating inclusive economic growth, stabilizing the macroeconomic environment, improving the business and investment environment, facilitating employment and job creation, improving the Balance of Payments position, as well as promoting poverty reduction and equity. To achieve these objectives, efforts will be made to ensure better alignment and coordinated implementation of fiscal, monetary, exchange rate and trade policies.

### *7.1.1 Accelerating Economic Growth*

Nigeria’s 3.11 percent real GDP growth in the first quarter of 2022 indicates sustenance of growth since the exit from recession in fourth quarter of 2020. The growth recorded further represents an improvement in economic performance and gradual economic stability.

In the medium term, the focus will be on sustaining and accelerating economic growth. Nigeria’s economy is expected to grow by 3.75 percent in 2023. It is projected that the economy will sustain the modest growth over the medium term, 3.3 percent in 2024 to 3.46 percent in 2025. The federal government’s expenditure plans to be implemented in 2023-2025 will support the achievement of these real GDP growth targets. Achieving the targets and accelerating economic growth in the medium term requires continuous productivity improvement, which in turn, requires investment in people, and boosting competition and innovation.

The renewed effort of government to secure lives and property is expected to boost economic activities. Electricity supply is also expected to improve considerably over the period to support the industrial sector. It is expected that growth, in the medium term, will generate the revenue necessary for future expansion of public service delivery, rebuild fiscal buffer, and reducing new borrowing requirements.

### *7.1.2 Stabilizing the Macroeconomic Environment*

A stable macroeconomic environment is essential to accelerate economic growth. It enables businesses and households to effectively plan their production, investment and consumption activities. In the medium term, policies will be implemented to stabilize the macroeconomic environment for rapid and sustainable growth.

This includes strategies to reduce market interest rates, moderate inflationary pressures, improve critical infrastructure to lower the cost of doing business, and stabilize the exchange rate. Furthermore, the government is redoubling its revenue generation efforts to moderate fiscal deficits. These, in addition to a healthy debt sustainability framework, will support stability in the macroeconomic environment.

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, which are mostly structural, as well as pursue job creation interventions in the medium term.

### *7.1.3 Improving Business and Investment Environment*

Government will sustain current efforts aimed at improving the business and investment environment for 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 capacity/efficiency and further accelerate economic growth.

### *7.1.4 Facilitating Employment and Job Creation*

The current levels of unemployment and underemployment are both a cause and a consequence of conflict, insecurity and instability in Nigeria. 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.

Several skills development and work opportunity programmes will be implemented to enhance the employability of our youths, and tackle the high level of youth unemployment. Initiatives like the Special Public Works Programme to provide work opportunities to 774,000 youths across the 774 local Government areas of Nigeria will be sustained. Also, the 75 billion Naira Nigeria Youth Investment Fund will be effectively implemented to further promote youth development. In addition, government will ensure that growth continues to be jobs-rich.

In the medium term, Government will open up more 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 businesses or move between jobs and sectors as the economy grows. Government will provide opportunities for more Nigerian youths to gain skills for employability and entrepreneurship.

### *7.1.5 Improving Balance of Payments Position*

External balance is at the core of trade policy and foreign exchange management in the medium term. Efforts will be intensified to enhance non-oil exports, increase export complexity and reduce import dependency in order to improve the balance of payments position. A key objective is to diversify the composition of exports to include manufactured goods and high value-added services as the digital economy expands. Shifts in the composition of imports away from items like food and petroleum products will also support the attainment of this objective.

Nigeria will take advantage of the opportunities offered by the African Continental Free Trade Area (AfCFTA) to explore new export markets. Non-oil export is expected to rise to about 2 percent of GDP by 2025 while oil export as a percentage of GDP is expected to decline from 10.6 percent in 2021 to 9.5 percent in 2025. Exports of services are expected to rise from N1.9trn in 2021 to N6.5trn in 2025; representing an increase from about 1.0 percent in 2021 to close at 2 percent of GDP by 2025. As a result, Nigeria's current account balance is projected to rise from N436.9 billion in 2021 to N3.2 trillion in 2025.

### *7.1.6 Promoting Poverty Reduction and Equity*

Poverty and inequality are key human welfare issues in Nigeria. The high poverty rate is worsened by high unemployment. Government will leverage the National Social Investment Programmes (NSIPs) to provide conditional cash transfers and empower the poor and vulnerable households. In addition, efforts will be made to graduate existing beneficiaries of the National Social Safety Net Programme (NASSP) into inclusive productive activities. The National Poverty Reduction and Growth Strategy will also be implemented to comprehensively address these challenges.

The effective implementation of government's social investment programmes will contribute towards addressing the twin problems of poverty and inequality 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 millions of people out of poverty.

It is expected that improved revenue collections in the medium term would provide the resources required for the Nigeria Investment and Growth Fund in line with the strategies underlying the national poverty reduction and growth strategy.

## 7.2 Fiscal Policy Objectives and Strategies

In the medium term, Government remains committed to sustaining fiscal policy reforms, enhancing fiscal resilience and ensuring fiscal and debt sustainability. This will be achieved through the following:

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

### *7.2.1 Enhancing Government Revenue and Reducing Fiscal Pressures*

Much progress has been made to boost revenues since the launch of the Strategic Growth Initiative (SRGI) in 2019. However, fiscal pressures have intensified in 2021 and 2022 following the lingering economic effects of the COVID-19 pandemic and global economic uncertainty, compounded by the Russia-Ukraine war.

The Revenue-to-GDP ratio of the Federal Government is yet to reach the desired level. Hence, the Federal Government has commenced the implementation of the World Bank supported Accelerating Revenue Mobilization Reforms (ARMOR) programme, to bolster the SRGI efforts to increase revenue and reduce growing fiscal deficits. ARMOR comprises of critical domestic revenue mobilisation policy and institutional measures.

Recent developments underscore the urgent need to significantly increase government non-oil revenue collection. The Federal Government is committed to using innovative ways to raise the revenues required to finance its expenditure and diversify its revenue sources. Accordingly, recent reform efforts aimed at expanding government's fiscal space will be sustained in the medium term to reap the full benefits. The medium-term target is to increase the Revenue-to-GDP ratio to 15 percent. Higher revenue collections would enable the Government to deliver public goods and services more effectively, enhance infrastructure investment, and improve investment in human capital. Higher-than-expected revenues would be used to boost fiscal buffers, either by enhancing the excess crude account or reducing public debt.

Oil Revenue**:** Despite the recent recovery of oil prices in the international market, revenue from crude oil sales has declined remarkably. In view of the considerable reduction in the fiscal significance of crude oil recently, Government will intensify domestic non-oil revenue mobilization efforts aimed at further reducing dependence on the volatile oil revenues to finance the budget.

Tax Revenues**:** Non-oil revenues remain more stable than oil revenue. To improve non-oil revenue receipts tax administration will be improved and efforts will be sustained to expand the 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.

In 2021, the FIRS crossed the N6 trillion threshold for the first time despite the lingering effects of the COVID-19 pandemic. Strategies to achieve the revenue projections of the Service in the medium term include:

a. Leveraging on relevant provisions in the Finance Acts, 2019, 2020 and 2021 to widen the tax net and to optimise collections.

b. Expanding the list of VAT collection agents currently limited to MDAs and Oil and Gas Companies, to include Telecoms, Banks and other Financial Institutions, Companies in Construction, Aviation, etc., in line with Section 14 (3) of the VAT Act. The law now empowers the FIRS to appoint any person as its agent to withhold or collect VAT and remit same to the Service.

c. Reduction of revenues forgone through tax expenditures, including corporate bonds interest income exemptions, Capital Gains Tax exemptions, and tax avoidance by schemes by businesses. Overlaps and opportunities for tax expenditure double dipping will be eliminated.

d. Further implementation of international tax standards including domestic charge of withholding taxes on foreign providers for technical service fees and specific software royalties.

e. Leveraging technology to further simplify tax processes, ease voluntary tax compliance, increase revenue collection and create a tax environment that is conducive for taxpayers to fulfil their tax obligations. The deployment of the automated tax administration system (the TaxPro Max) in June 2021 has significantly improved tax administration and the deployment of resources.

f. Scaling up automation of VAT in major supermarkets, the hospitality sector and other key outlets nationwide to block leakages and improve VAT collection.

g. Effective use of technology and tax intelligence to further support compliance efforts – desk reviews, audits, and investigation. A Real Time Online Data Mining Portal will be created to enhance the Strategic Intelligence and Data Mining function of the FIRS and access data to validate information provided by taxpayers or reveal non-compliant taxpayers.

h. Introduction of new tax audit and investigation measures to strengthen risk-based audit and early closure of unresolved audit/investigation cases.

i. Linking FIRS database to that of relevant agencies such as NIBSS, NCS, NCC, CAC, etc which can be harnessed for third-party intelligence gathering to improve and enforce compliance.

j. Strengthening Monitoring and Evaluation Framework of all constituent functions and staff of the Service.

k. Enhancing stakeholder collaboration and engagement to check leakages, evasion as well as to enforce and improve compliance.

l. Sustenance of taxpayer education, engagement/enlightenment through the media, workshops as well as other outreaches.

m. Enhancing the capacity of tax revenue professionals to effectively discharge their responsibilities in handling of tax cases.

n. Monitoring banks and other financial institutions to conduct reconciliation and to ensure deduction and remittance of the Electronic Money Transfer levy.

o. Intensify engagements with the Federal and State MDAs as well as other taxpayers to ensure all outstanding debts are recovered, and recalcitrant taxpayers are compelled to comply.

## Customs Revenue:

In the medium term, the NCS will introduce frameworks for recovering duties, taxes and appropriate fees from transactions conducted over electronic networks. The Federal Government will also further enhance port efficiency, strengthen anti-smuggling measures, review tariffs and waivers and issue more licenses to build modern terminals in existing ports, especially outside Lagos. The following strategies will be implemented to improve Customs revenue collections over the period 2023-2025:

i. Full implementation of E-Customs Project geared towards simplification of Customs processes and automation of all forms of manual payments in every Customs formation. In addition to improved revenue performance, this would further enhance the integrity of the Service's operations;

ii. Robust and intensified anti-smuggling and border management drive towards blocking and minimizing revenue leakages. Artificial Intelligence Instrument will be used in border surveillance under the E-Customs Project to check smuggling and enhance revenue collections;

iii. Enhancement of Post Clearance Audit and Systems Audit risk management mechanisms to stimulate recovery of revenue losses;

iv. Full implementation of Excise duty on Telecommunication Services, Alcoholic, Sugar Sweetened Beverages (SSBs), Cigarettes and Tobacco products. Therefore, Excise revenue is expected to grow exponentially because of the introduction of the Telecommunication Service charge and SSBs;

v. Effective implementation of the customs trade modernization project and ensuring that the modernized and digitized/computerized service do not lead to job losses. This is expected to quadruple customs collection from the current N210 billion per month. The Fast Track Trader Programme will be upgraded to enhance trade facilitation;

vi. The introduction of 2.5 percent Export charge on the re-exportation of all imported goods as conveyed through the 2022 Fiscal Policy Measures;

vii. Series of Import Adjustment Tax (IAT) with additional levies on 172 tariff lines of the Extant ECOWAS CET;

viii. Full implementation of the 2022 - 2026 ECOWAS Common External Tariff;

ix. Introduction of green surcharge on imported vehicles and excise duty on gambling and lotteries including online betting;

x. 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;

xi. 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;

xii. 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;

xiii. Staff capacity development through training of the existing workforce and recruitment of new officers;

xiv. 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;

xv. Collaboration with stakeholders and relevant players to enhance compliance by bridging gaps and building confidence among players in the trade chain; and

xvi. 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:

The independent revenue of the Federal Government hit the N1 trillion mark in 2021. To further enhance independent revenue generation and collection, Government will continue to maximize the huge potentials and optimize the operational and collection efficiency of the

GOEs. In many countries, GOEs operate efficiently and generate significant revenues to fund government budget. Extant laws limiting cost-to-revenue ratio of GOEs to maximum of 50 percent will be enforced. Technology and ICT solutions will be effectively deployed to ensure compliance and enhance existing and new revenue streams. In addition, the performance of GOEs will be further enhanced through the effective implementation of the approved Performance Management Framework. The key elements of the medium-term initiatives include:

- 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 the GOEs alongside the main budget of the Federal Government;
- Mandatory use of the Treasury Single Account for all financial transactions;
- Monthly 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 revenue generation performance; and
- Amendment of relevant sections of the Acts establishing some of the GOEs to reflect current economic realities and policy thrust of government.

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

### *7.2.2 Creating Fiscal Space for Infrastructural Development*

The sharp increase in recurrent costs has significantly constrained the allocation for capital investment. Accordingly, over the medium term, Government will be unable to allocate a minimum of 30 percent of budgeted expenditure to capital projects as planned. However, Government will endeavour to create the fiscal space for some public sector infrastructure spending in 2023-2025. The most productive and growth-enhancing sectors will continue to be prioritised in the allocation of resources.

Capital budget allocation will reflect Government priorities in key sectors of the economy. To keep personnel costs at sustainable levels, we will continue to clean the Federal Government payroll and rationalize the wage bill. Hence, efforts will be intensified to extend the Integrated Payroll and Personnel Information System to all MDAs to improve the effectiveness and efficiency of payroll administration.

Government will leverage private and donor capital to supplement capital allocations from the Budget. In this respect, 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.

### *7.2.3 Enhancing Fiscal Prudence and Transparency*

The Government remains committed to improving the efficiency and quality of its spending in the medium term. Federal expenditure will continue to be properly scrutinized to allow only essential spending and ensure value for money. We will also continue to strengthen the budget formulation and implementation process. Government intends to enhance fiscal prudence and transparency through the following measures:

- Deemphasis and significant reduction of non-critical administrative spending;
- Prioritization of the completion of ongoing projects;
- Extension of the roll-out of Integrated Personnel and Payroll Information System (IPPIS) and other technology-enabled solutions to ensure real-time management and tracking of government spending;
- Implementation of civil service reforms to reduce the cost of governance including policies that facilitate merger and streamlining of overlapping MDA functions and imposition of moratorium on the creation of new agencies. The need to create new agencies will be rigorously evaluated; only when no agency exists that can perform the same function would such be considered;
- Increased public-sector transparency, especially for oil and gas operations;
- Review of Sectors and activities eligible for Pioneer Tax Holiday Incentives under the Industrial Development (Income Tax Relief) Act ('IDITRA');
- Review of current suite of Fiscal Incentives including Auto Policy Incentives and Import Duty Exemptions;
- 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. The policy effectiveness of all tax expenditures will be evaluated with a view to their rationalisation over the medium term;
- Rationalisation of Government rental accommodation and centralization of electricity payment for some MDAs; and
- Further strengthening treasury controls to speedily detect, eliminate and sanction instances of financial waste, misappropriation and corruption.

Towards ensuring sustainable public expenditures in the medium term, the Government will intensify efforts aimed at improving the effectiveness and efficiency of payroll administration.

All modules of the Integrated Personnel and Payroll Information System (IPPIS) will be implemented across all agencies of government to fully automate personnel records and salary payment processes, with the goal of further cleaning the payroll and eliminating the incidence of ghost workers. In addition, the restriction on non-critical recruitment will be sustained to further control personnel costs.

### 7.2.4 Ensuring Sustainable Deficit and Debt Levels

Federal budget deficit has risen sharply recently following the implementation of government's expansionary fiscal policy measures to contain the impact of the COVID-19 Pandemic, protect the poor and vulnerable, as well as to resuscitate the Nigerian economy. The significant decline in revenue generating capacity necessitated the reliance on new borrowings. The fiscal space further narrowed with the sharp increase in fuel subsidy costs.

In the medium term, Government will implement revenue and expenditure reform measures to strengthen government finances and reduce the growth of fiscal deficits. This is expected to reduce the rate of debt accumulation, the growth of debt service obligations, and deficit monetization. The financing needs of the Government will continue to be met mostly from the domestic market. Additionally cheaper and long-tenor funds available to Nigeria from Multilateral creditors, whilst taking cognizance of Nigeria's limited funding envelopes.

To ensure debt sustainability, total public debt will be kept within our self-imposed debt sustainability threshold of 40 percent of GDP. Furthermore, Government will consider other prudential limits like Debt Service/Revenue Ratio to ensure continuing sustainability of FGN's debts.

## 7.3 Monetary Policy Objectives and Strategy

The Central Bank of Nigeria's (CBN) provides targets on key monetary aggregates over a medium-term period (2023 - 2025) to guide the design and implementation of monetary policy. The targets are based on the expected stance of both monetary and fiscal authorities during the period while Monetary Programme framework is used to generate the targets. The framework provides an overview of the inter-relationship and interconnectedness of the four macroeconomic sectors of the economy, namely, the real sector, fiscal sector, external sector, and monetary sector.

The Programme is normally hinged on realistic assumptions about likely developments in the four macroeconomic sectors during the Programme horizon. However, the Programme is subject to revision in the event of new information or shocks that were not anticipated at the time the forecast was being made.

The forecast for 2023-2025 period was prepared in March 2022 based on medium term macroeconomic outlook at that time. There are, however, quite several developments since that period, notably in the external sector, which have affected some of the variables used in the forecast.

Specifically, the following factors have altered the outlook on key variables in the external sector.

- The Russia and Ukraine crisis has assumed a new and worrisome dimension with severe implications on oil and energy prices

- The resurgence of COVID -19 in some advanced economies, which has led to slowdown in economic activities in those countries.
- Renewed elevated inflation in major economies, prompting monetary tightening in these economies with the inherent negative impact on capital inflow to emerging markets economies.
- Heightened insecurity in the domestic economy and the attendant negative impact on confidence level.

The immediate impact of these developments is sudden and sharp increase in capital outflow from domestic economy, triggering renewed pressure in the foreign exchange market and the accompanied currency depreciation. It is expected that these developments may continue up to the end of the current fiscal year while the 2023 general election may pose additional pressure. It is expected, however, that the various initiatives of the Bank such as RTX US$200 billion, 100 for 100 PPP, and various initiatives to strengthen the banking sector would boost confidence and begin to yield visible dividend from 2023.

Consequently, the pressure in the foreign exchange market is expected to subside from the third quarter of 2023. In light of the foregoing our earlier targets on key monetary targets for 2023 particularly on the external sector, have been revised as indicated in table 7.1 below.

**Table 7.1: Selected Macroeconomic Projections for the 2023 - 2025 MTEF**

| INDICATOR | 2023 | 2024 | 2025 |
|---|---|---|---|
| **Narrow Money (M1) (Billion Naira)** | 23,588.37 | 27,878.73 | 28,546.17 |
| **M1 Growth Rate (%)** | 12.42 | 18.19 | 2.39 |
| **Broad Money (M2) (Billion Naira)** | 56,611.41 | 66,908.16 | 68,509.99 |
| **M2 Growth Rate (%)** | 12.42 | 18.19 | 2.39 |
| **Broader Money (M3) (Billion Naira)** | 56,611.41 | 60,680.19 | 69012.13 |
| **M3 Growth Rate (%)** | 12.42 | 7.18 | 13.73 |
| **Net Foreign Assets (NFA) Billion Naira)** | 9,168.75 | 9,464.78 | 9,782.80 |
| **NFA Growth Rate (%)** | 3.10 | 3.23 | 3.36 |
| **Net Domestic Credit (NDC) (Billion Naira)** | 59,985.46 | 65,304.54 | 73,546.85 |
| **NDC Growth Rate (%)** | 6.36 | 8.87 | 12.62 |
| **Net Government Credit (NGC) (Billion Naira)** | 14,421.84 | 13,725.37 | 12,838.32 |
| **NGC Growth Rate (%)** | 8.22 | 2.99 | -3.67 |
| **Private Sector (DCp) (Billion Naira)** | 45,563.62 | 51,579.18 | 60,708.53 |
| **DCp Growth Rate (%)** | 29.46 | 46.55 | 72.49 |
| **External Reserves (US$ billion)** | 45.5 | 48.72 | 55.2 |
| **Average Exchange Rate (N/$)** | 435.57 | 435.92 | 437.57 |

### *7.3.1: Challenges to the Outlook*

Beside the shocks from global environment, domestic challenges like insecurity and and fiscal expansion could further induce inflationary pressure with negative consequences for the general price level, exchange rate and interest rates.

Despite the above challenges, the Bank shall continue to fine-tune its foreign exchange management policy to achieve stability. More importantly, monetary policy would remain proactive in achieving a safe, stable and sound financial system in line with its mandate.
Generally, the Bank through its policies in 2023 - 2025 would continue to monitor the monetary policy environment and complement the efforts of the fiscal authority and other critical stakeholders of the Nigerian economy to ensure that inflationary pressures and other ancillary macro variables do not constitute a drag in the effort to recover from the current health crises.

Therefore, monetary policy would remain responsive in ensuring price stability, and a safe and sound financial system to rejig Nigeria's growth trajectory, in the face of a slowdown in the global economic growth.

# 8.0 ANALYSIS & STATEMENT ON CONSOLIDATED DEBT & CONTINGENT LIABILITIES

## 8.1 Nigeria's Current Debt Profile

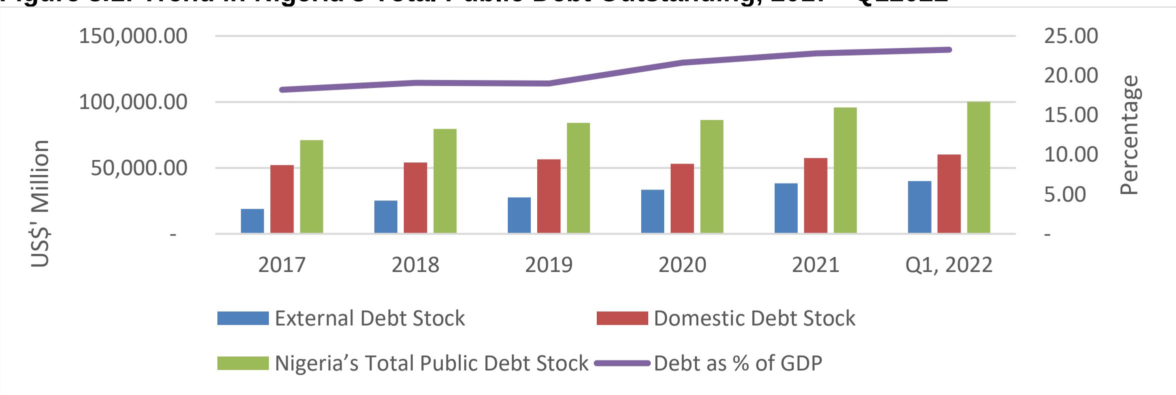
### *8.1.1 Debt Stock*

Nigeria's Total Public comprising External and Domestic Debts of the Federal Government of Nigeria (FGN) and Thirty-Six (36) State Governments and Federal Capital Territory (FCT) was ₦39,556,032.50 million (US$95,779.64 million) as at December 31, 2021 compared to ₦32,915,514.85 million (US$86,392.54 million) as at December 31, 2020, representing an increase of ₦6,640,517.65 million (US$9,387.10 million) or 20.17 percent in Naira terms. The increase in the Total Public Debt stock was in both Domestic and External Debt components of the Debt Portfolio.

Total External Debt stock stood at ₦15,855,231.25 million (US$38,391.32 million) or 40.08 percent of the Total Public Debt stock, while the Total Domestic Debt stock was ₦23,700,801.25 million (US$57,388.32 million) or 59.92 percent of the Total Public Debt stock. The increase in the Total External Debt stock in the year was largely as a result of the issuance of US$4.00 billion Eurobonds in the International Capital Market and, disbursements from existing Multilateral and Bilateral creditors. Similarly, the growth in the Total Domestic Debt stock, was from new issuances of domestic securities (FGN Bonds, Treasury Bills and Sukuk) to fund the 2021 Appropriation Act, the issuance of Promissory Notes for the settlement of government's outstanding contractual obligations during the review period, as well as domestic borrowing by the Sub-nationals.

The Total Public Debt Stock as at March 31, 2022 stood at ₦41.604 trillion (USD100.069 billion). The growth in the Debt stock by ₦2.048 trillion or 5.189 percent, when compared to the Stock of ₦39.556 trillion (USD95.779 billion) as at December 31, 2021, was due to External and Domestic Borrowings in Q1, 2022. The increase in External Debt was mainly as a result of the issuance of USD1.25 billion Eurobonds in the International Capital Market in March 2022, and disbursements from existing external Multilateral and Bilateral Creditors. Total Domestic Debt Stock increased by ₦1.286,065.46 million from ₦23,700,801.25 million in December 31, 2021 to ₦24,986,866.71 million in March 31, 2022 representing an increase of 5.437 percent mainly from new borrowing to implement the 2022 Appropriation Act. Figure 1.1 shows the trend in total public debt outstanding for the period, 2017 to Q1, 2022.

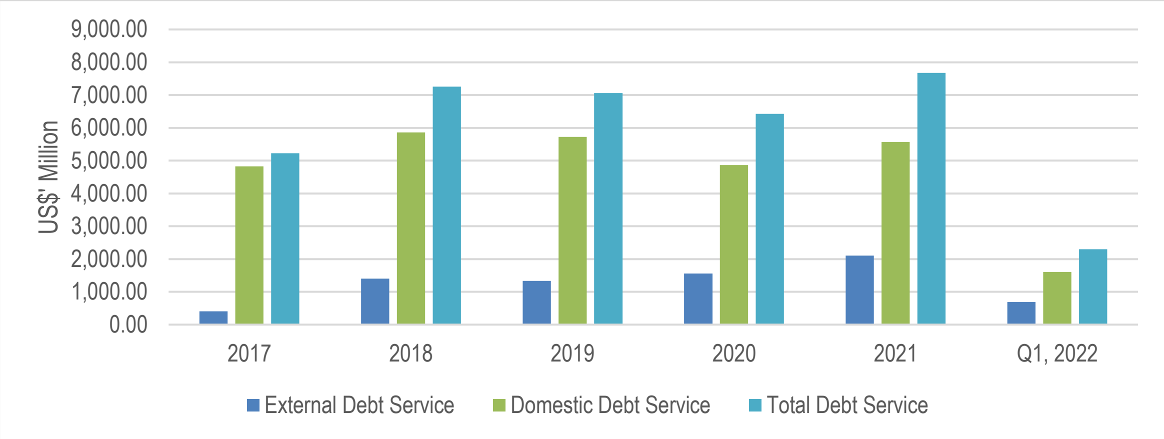
**Figure 8.1: Trend in Nigeria's Total Public Debt Outstanding, 2017 - Q12022**




***Source: DMO***

The Total FGN's Public Debt service comprising External debt service of FGN, States & FCT, as well as FGN Domestic Debt service amounted to US$7,675.39 million in 2021 (External debt service amounted to US$2,109.03 million while domestic debt service was US$5,566.36) compared to US$6,424.17 million in 2020. The increase of US$1,251.22 million or 19.48 percent during the period was largely due to principal repayments made on Multilateral and Bilateral debts as well as the redemption of a USD500 million Eurobond in January 2021. The Total Debt Service for Q1 2022 stood at USD2.302 billion (External - USD694.01 million, Domestic - USD1,608.38 billion).

***Figure 8.2 FGN's Total Debt Service***




***Source: DMO***

The Ways and Means Advances (included in Consolidated Revenue Fund Overdraft) at the Central Bank of Nigeria (CBN), currently totalling about N20 trillion is not part of the total public debt stock. Plans are ongoing for the securitization of the Ways and Means Advances that would involve restructuring it into a longer tenor amortizing facility with a lower interest rate.

### *8.1.2 Debt Management Strategy*

Public Debt is implemented using a Medium-Term Debt Management Strategy (MTDS). 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 of borrowing. The subsisting MTDS is for the period 2020 – 2023.

Nigeria's Total Public Debt as percentage of GDP ratio stood at 22.80 percent as at December 31, 2021, which is still within 55 percent threshold recommended by the International Monetary Fund (IMF) and World Bank (WB), as well as the Nigeria's self-imposed Limit of 40 percent set in MTDS, 2020-2023. Though the Portfolio remains vulnerable to revenue and exports shocks, the revenue challenges are being addressed by the Government through its on-going Strategic Revenue Growth Initiatives. Also, the exposure of the Total Public Debt portfolio to exchange rate risk remains moderate, as the share of Domestic Debt in the Total Public Debt was high at 60 percent.

The Target Ratio under the MTDS, 2020-2023 is 70:30. It should be noted that the 70:30 is expected to achieved at the end of the year 2023. The exposure to refinancing risk remained stable as a result of the strategy of issuance of long-dated securities in the domestic and international markets in addition to accessing long term funds from multilateral and bilateral lenders. Meanwhile, the FGN's Contingent Liabilities as a percentage of GDP was to 2.64 percent in 2021 compared to 2.75 percent in 2020.

*Table 8.1: The performance and Key Targets of the Debt Management Strategy*

| Portfolio Composition | | 2020 Actual | 2021 Actual | 2020-2023 Target |
|---|---|---|---|---|
| | Domestic: External | 61:39 | 60:40 | Max.70:Min.30[1] |
| | Domestic Debt Mix: Long: Short | 83:17 | 70:30 | Min. 75:Max. 25[1] |
| **Risks** | | | | |
| **Refinancing** | Debt maturing in 1 year as % of total debt | 14.50% | 14.60% | Max. 20% |
| | Average Time to Maturity (Years) | 10.74 years | 10.28 years | Min. 10 years |
| **Interest rate** | Variable Rate Debt as % of Total Debt | 2.75% | 2.90% | Less than 5% |
| **Fiscal Sustainability ratios** | | | | |
| | Total Public Debt as % of GDP | 21.61% | 22.80% | 40%[2] |
| | Sovereign Guarantees as % of GDP | 2.75% | 2.64% | Max. 5% |

***Source:DMO***

[1]The introduction of New Domestic Debt from the Issuance of Promissory Notes and expectations of the inclusion of Ways and Means Advances and SOEs' debts in the FGN's Debt Stock will result in an increase in the Domestic Debt and may also result in more short-tenored Debt in the Debt Stock.

[2]Increased to accommodate New Borrowings to fund Budget, issuance of more Promissory Notes and the proposal to report 5 SOEs' debts (including AMCON) in the FGN's Balance Sheet in line with the IMF's guidelines, and proposed inclusion of Ways and Means.

The continuous 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*

Given the fiscal constraint faced by the Government and the need to address the infrastructure deficit in the country to engender economic growth and development, the Federal Government of Nigeria (FGN) will continue to use Sovereign Guarantees subject to receipt of required approvals and other forms of off-balance sheet products to support the Private Sector operators involved in infrastructure development, under the Public-Private Partnership (PPP) arrangements. These Sovereign Guarantees will constitute explicit Contingent Liabilities.

The Sovereign Guarantees will be monitored and managed to ensure that the inherent risks from these projects are mitigated and the Guarantees do not crystalize. Following the expected increase in the use of PPP arrangements to address the infrastructure gaps in the country, the MTDS 2020 – 2023 includes a Target Contingent Liability Limit of 5 percent of GDP. As at December 31, 2021, the Contingent Liabilities of Government rose to N4.58 trillion, representing an increase from the N4.18 trillion recorded in 2020.

Contingent Liabilities were 2.75 percent of GDP in 2020 and 2.64 percent in 2021. Table 1.2 shows the actual Contingent Liability profile of the FGN for the period, 2020-2021 and projected liability for the Medium-term, 2022-2025.

*Table 8.2 FGN Contingent Liabilities, 2020-2025 (N' Billion)*

| | Liability Type | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| 1. | Federal Mortgage Bank of Nigeria | 5.238 | 5.238 | 5.238 | NIL | NIL | NIL |
| 2. | FCDA- Katampe Infrastructure Project | 7.441 | 7.441 | 7.441 | NIL | NIL | NIL |
| 3. | Nigeria Ports Authority – Lekki Deep Seaport | NIL | 24.600 | 24.98 | 328.000 | 328.000 | 328.000 |
| 4. | Nigerian Export-Import (NEXIM) Bank | 2.746 | 1.478 | NIL | NIL | NIL | NIL |
| 5. | Nigeria Mortgage Refinance Company Plc | 26.839 | 24.99 | 24.49 | 21.40 | 18.32 | 15.23 |
| 6. | Payment Assurance Facility for Nigeria Bulk Electricity Trading Plc | 971.711 | 1,022.59 | 718.260 | 555.635 | 555.635 | 555.635 |
| 7. | Power Sector Contingent Liabilities Put-Call Option Agreement (PCOA) | 401.637 | 663.01 | 673.12 | 2,489.201 | 2,396.547 | 2,396.547 |
| 8. | Power Sector Contingent Liabilities – Partial Risk Guarantees (PRG) | 90.842 | 98.27 | 99.77 | 324.375 | 324.375 | 324.375 |
| 9. | Legacy FGN Exposure from PHCN Successor Companies | 962.064 | 1,040.756 | 1,056.62 | 1,056.62 | 1,056.62 | 1,056.62 |
| 10. | NNPC – AKK Gas Pipeline Project | 931.181 | 1,007.347 | 1,022.70 | 1,022.70 | 1,022.70 | 1,022.70 |
| 11. | Family Homes Fund Limited (FHFL) | NIL | NIL | 200.000 | 200.000 | 200.000 | 200.000 |
| 12. | Pension Arrears for MDAs | 785.296 | 684.99 | 650.74 | 618.20 | 587.29 | 557.93 |
| 13. | Others | NIL | NIL | 500.000 | 900.000 | 1,200.000 | 1,200.00 |
| | **Total** | **4,184.998** | **4,580.722** | **4,983.362** | **7,516.145** | **7,689.492** | **7,657.039** |

***Source: DMO***

Note: Dollar Denominated obligations were converted at the exchange rate of US$1: ₦379 (2020), US$1: ₦410 (2020), and US$1: N416.25 (2022-20225)

1 The FGN provided a Guarantee for the Bond issued by FMBN to refinance mortgages provided for purchases of FGN non-essential residential houses. Out of the N32 billion Bonds issued N5.238 billion is outstanding.

2 The Guarantee was issued on behalf of the Federal Capital Development Authority (FCDA) in the sum of N61.2 billion in respect of a bank facility for Deanshanger Projects Limited for the provision of infrastructure in Katampe District, Abuja. The current outstanding amount confirmed by FCDA is N7,440,504.380.68

3 NPA LEKKI PORT-Amount guaranteed is USD800 Million. However, only US$60 million has been utilized as at December 31, 2021.

4 FGN Guarantee to NEXIM for US$50 million Master line of credit from African Development Bank (AfDB) to finance part of the cost of the Export Oriented Small and Medium Enterprises financing programme of NEXIM.

5 The Guarantee is to enable NMRC to raise long-term funds from the Capital Market by issuing Bonds to refinance mortgages created by Eligible Mortgage Lenders. N29 billion (N8 billion-Series 1 Bond; N11 billion Series 2 Bond; N10 billion Series 3) has been utilized out of the total Guarantee available in the sum of N440 billion. However, NMRC is servicing the bond and thus has reduced the outstanding bond to N26.8 billion.

6 FGN Guarantee to Central Bank of Nigeria for providing NBET a Payment Assurance Facility, for its obligations to Gencos in the sum of N1.301 trillion.

7 Figures are based on NBET's submissions on Put-Call Option Agreements (PCOA) with Gencos.

8 Figures are based on NBET's submissions on Partial Risk Guarantees (PRG) issued to Gencos.

9 Figures were provided by Bureau for Public Enterprises (BPE) on FGN's exposure in respect of the debt component of the purchase price of the PHCN successor companies.

10 FGN Guarantee for the Ajaokuta-Kaduna-Kano (AKK) Gas Pipeline Project undertaken by the Nigeria National Petroleum Corporation (NNPC). The Guarantee covers 85% (US$2,456,944,166.11) of the total cost (US$2,890,522,548.36) of the Project.

11 The Guarantee is to enable Family Homes Fund Limited (FHFL) to raise funds by issuing Debentures up to the cumulative maximum limit of N200 Billion to facilitate the implementation of the National Social Housing Programme through the construction of up to 300,000 Homes across the 36 States of the Federation and the FCT, for the benefit of low and medium-income earners.

12 Pension arrears for MDAs Data provided by PENCOM to DMO. Outstanding Retirement Benefits Liability of the FGN for certain categories of its employees. The amount has been projected to reduce by 5% annually.

13 Others: As part of efforts to further develop infrastructure, there will be a growing use of off-balance sheet products such as Guarantees, Letters of Comfort, and similar instruments, by the Government. Thus, it is expected that Contingent Liabilities will increase, as more off-balance sheet products are used to support infrastructural development.

## 9.0 RISKS TO THE MEDIUM-TERM OUTLOOK

The Russia – Ukraine war is central to key risk indicators over the medium term. Russia supplies around 19% of the world's natural gas and 11% of global oil. The war has resulted in a surge in commodity prices, disrupting food and energy exports from both countries. This is one of the reasons why energy prices have jumped alarmingly, eclipsing the $100pbl for the first time in almost 4 years. Gas spot prices in Europe are now more than 10 times higher than a year ago while the cost of oil has nearly doubled over the same period. The price shock risks increasing poverty and disrupting the production of goods and services worldwide also increases business uncertainty. Food and energy security uncertainty are triggers for civil unrest, political and insecurity risks as consumers spending power fades and inflationary pressures increase.

Overall, the outlook is clouded by a number of downside risks, with global recovery set to decelerate amid protracted supply bottlenecks, financial stress amid diminished fiscal support, global inflation and lingering global health concerns including new virus variants amid covid-19 flare-ups in some countries. The base effect of the pandemic has left the world with a dynamic global economic environment with Nigeria as well as other African economies struggling to create new opportunities for its growing workforce. There is an expected reversal of this trend over the medium term with implementation of Government programmes and policies outlined in section 7 of this document. The FGN inclusive view/approach to growth is expected to close the inequality gap which was worsened by the pandemic.

### 9.1 Global Economic Trends & Geo-Political Tensions

With the global risk of the Covid-19 pandemic now downgraded reasonably largely due to the success of the ongoing global vaccination programme, there appears to be a general weaker than expected economic recovery due to global inflation. Post covid supply shocks, stimulus packages from around the world and geo-political tensions have resulted in global inflation. This is however expected to be short-lived, as much of the elevated inflation are attributable to base effect.

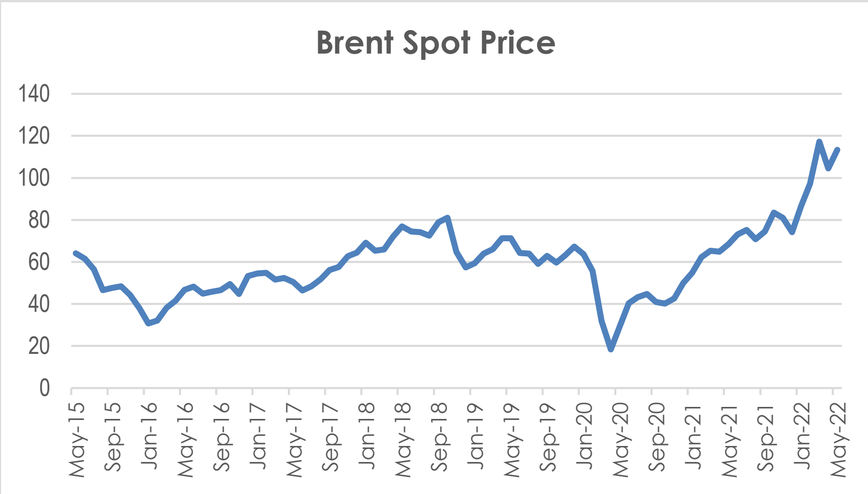
Global political developments over the medium term will revolve around power competition between the world powers and their allies in a show of force via proxy wars. The US-China relationship is also one to watch over the medium term. With competition likely to reignite US-China trade & policy rivalry from recent past. Climate change also remains a key trend over the medium term with many countries considering it a national security threat likely to lead to resource conflict, energy and food shortages and forced migration.

There will be implications for crude oil pricing on account of the Russia – Ukraine conflict. This could get worse with the Russia-Lithuanian tensions. Markets can expect prices to rally if there is any other trigger between Russia and NATO backed Lithuania, which could disrupt energy supply to Europe and drive oil prices higher.

Indeed, with winter approaching, Europe is bracing up for the possibility of being cut off from Russian gas supply. This has led to Germany firing up coal plants and rolling back significant progress made towards climate action by increasing carbon emissions.

## 9.2 International Oil Market Developments

### 9.2.1 Oil Prices




The Ukraine war sent oil price briefly above $139 a barrel in March 2022, the highest price point since 2008 and moderated at $113.94 and $117.72 in May and June 2022 respectively. This has worsened inflationary pressures domestically and globally. Average oil price forecast in the Medium Term is 2023: $70/bbl, 2024: $66/bbl, 2025: $62/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 is expected to average at current levels in 2023, moderating slightly over the medium term. Overall, oil prices have shown great promise with forecast expected to trend above the price range projected over the medium term, as volatility risk persists.

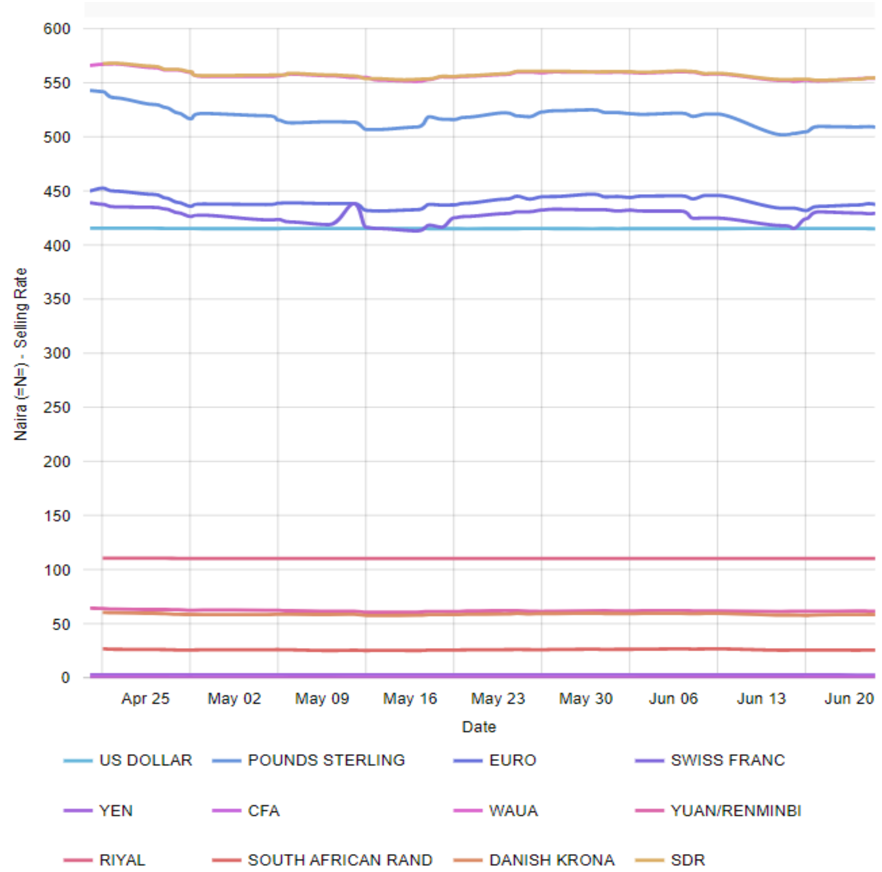
### 2.2.2 Oil Demand & Supply Risks

COVID lockdowns in China, where a Beijing outbreak has prompted the resumption of mass testing, have curbed oil demand. However, OPEC has stuck with its forecast for 2022. The global oil demand is expected to exceed pre-pandemic levels in 2022. Russian invasion of Ukraine however, poses a significant risk. On the supply side, OPEC has cut 2022 Russian output, but leaves US shale steady. With the US president hinting at using emergency powers to add oil refining capacity as part of measures to help ease high fuel prices. Downside risks to supply are however high. Insecurity and risks persists domestically as well as in Iraq, Libya, Iran and UAE.

## 9.3 Exchange Rate Risks

The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favourable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability.

Figure 9.2 Exchange rates Monthly Moving Average (CBN)




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 continue to implement the unification policy 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 N415.83/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 Risks to FGN Revenue Outlook

PMS subsidy remains a major risk to oil revenue outturn. Projected oil revenue receipts over the medium term remain a concern with oil prices above $100pb due to subsidy arrangements. However, FGN's efforts to improve domestic revenue mobilisation is on course and bearing fruit in the non-oil sector. Non-oil revenues have been on the right trajectory due to specific interventions and amendments to existing laws via the Finance Act and the Strategic Revenue Growth Initiative [SRGI]. The SRGI is expected to metamorphose into the Accelerating Resource Mobilisation Reforms (ARMOR), and would be designed as a programme for result, with key policy actions that will see significant improvement of revenues.

## 9.5 Sensitivity of Budget aggregates to Macro-economic conditions

Different policy options and macroeconomic indicators determine the output of FGN's revenue projections, expenditure targets and overall budget deficit. In section 6 of this strategy paper, 2 scenarios were modelled for business as usual and subsidy reforms. Both scenarios have different effect on the revenue and expenditure side of the framework.

Similarly, different oil price and production numbers modelled for percentage change at different price point as well as production figures. With the current fiscal space shrinking, government may have to reduce planned expenditure in the event that unanticipated changes in economic conditions occur. Such budgetary pressures, as a result of such change(s) may 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 | H | H | This risk is slightly elevated from previous year due to FG's plans to limit borrowings by reverting to deficit/GDP ceiling of 3% post covid-19 response. 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.<br><br>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. |
| Domestic oil production shocks | L | H | This risk is unchanged from last year. In fact, new JV are expected to come onstream over the medium term delivering additional production buffers. In addition to that, production targets have been retained at circa 2022 targets for 2023 and adjusted for 2024 and 2025 to align with expected improvement to overall production. |
| Oil price shocks | M | H | This is an external risk. The FGN shall however, as an OPEC member country rely on OPEC and OPEC+ to achieve price stabilization through quota/production cap agreements where applicable.<br><br>The FG maintains a conservative outlook to oil price benchmark for fiscal projections over the medium term. |
| 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 for 2023. The CBN however, expects this to taper downwards over the medium term. But the average exchange rate is maintained at 410.15 for fiscal modelling. |
| Failure to meet revenue projection | M | H | Further to the PIA and Mr. Presidents approval to extend the subsidy regime to cushion effect of inflation on Nigerian, it is expected that there would be some subsidy reform over the medium term to shore up oil revenues.<br><br>Similarly, non-oil revenue focused domestic revenue mobilization reforms shall be sustained. The SRGI and its planned successor programme ARMOR will be targeted at mitigating this risk |
| Insurgency, Banditry/ Insecurity in parts of the country | M | H | The Federal Government approved the Safe School Initiative (SSI) to curb incessant attacks on school children.<br><br>Ensure close coordination of FGN and state governments, including through more frequent coordination meetings.<br><br>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<br><br>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 |
| Slow implementation of the Energy Transition Plan | M | L | The FGN approved Energy transition plan is ambitious. Funding Nigeria's energy mix for a sustainable economic growth will be critical to mitigating this risk |
| Natural disaster | L | H | This risk remains unchanged from the previous year. No indication or warning issued from any of the responsible FGN agencies monitoring. Flash floods however remain a recurring manageable incidence. |
| Failure of Power Sector Recovery Operations | L | H | The likelihood of this risk is further downgraded from the previous year. The Power Sector Recovery Operations is now effective and disbursing.<br><br>Additional Financing is being discussed to further improve the liquidity of the sector and reposition the sector towards fiscal sustainability and market reflective tariff. |

## ANNEXURE 1: 2021 TAX EXPENDITURES STATEMENT

# TAX EXPENDITURES STATEMENT
# & MEDIUM TERM (2023-2025) PROJECTION

## CONTENT

## MAJOR CHANGES IN 2021 TAX EXPENDITURES

The 2021 Tax Expenditures Statement (TES) includes an evaluation of tax expenditures following the ECOWAS regional tax expenditure evaluation matrix.

The 2021 TES also includes Nigerian Reference Tax System. A standard fiscal reference is the benchmark against which the deviations, in the form of exemptions on rates or bases are assessed.

Ceilings were established for the following tax expenditures: VAT relief granted on imports, waivers and concessions on import duty, ECOWAS Trade Liberalization Scheme (ETLS), Surcharges, Comprehensive Import Supervision Scheme (CISS), and levies.
Estimates of tax expenditures for Value Added Tax on local consumption, Company Income Tax (CIT).

## 1.0 INTRODUCTION

The purpose of this statement is to provide further transparency around policy-motivated 'expenditures' made through the tax system. Tax expenditures take the form of an exemption, allowance, preferential tax rate, deferral, or offset that reduces a tax obligation to achieve a specific policy objective. The concept recognises that the result is similar whether a government chooses to spend directly on/or forego revenue from certain individuals, groups, or activities. The fiscal cost of a small sub-section of expenditures with readily accessible data is quantified in Table 2 of the statement. The government does not currently collect data on all tax expenditures as the compliance and administration costs of collecting additional data exceed the value that such data might provide.

The preparation of this Statement is in furtherance of the commitment of the Administration to deepening transparency and efficiency in public finance management in Nigeria. The Fiscal Responsibility Act, 2007 (FRA 2007) requires the Honourable Minister of Finance, Budget, and National Planning, to cause to be prepared a Tax Expenditures Statement (TES), but it was not until 2020 that compliance with this requirement commenced.

Tax expenditures (TEs) are, broadly, tax incentives and concessions that fall outside a reference tax system or benchmark. They can include:

1. A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment.
2. Tax expenditures typically involve tax exemptions, deductions or offsets, concessional tax rates and deferrals (delays in paying tax) of tax liability.
3. Deductions (which reduce total assessable income); or offsets (which directly reduce the amount of tax payable).

The Tax Expenditures Statement provides a comprehensive listing of TEs under the tax laws identifying each by type, recipient, and amount. The TES stipulates the methodological approach detailing the benchmark system and the measurement framework.

Tax expenditures are used by governments to promote policy objectives and provide an alternative mechanism to direct expenditures. As such, they influence the Budget position like direct expenditures. Alternatively, they may be viewed as opportunity costs, which impact revenues that if collected would be available to fund other government policies and/or improve the Government's Budget position.

## 2.0 LEGAL FRAMEWORK AND BENCHMARK SYSTEM IN NIGERIA

Tax expenditures have significant revenue implications, especially for an economy like Nigeria's grappling with the challenges of domestic revenue mobilization. Specifically, the Fiscal Responsibility Act (FRA) requires that all tax expenditures must be appraised for revenue impact before approval. Tax incentives, when granted whimsically can impede competitiveness and market efficiency. However, tax incentives can be a veritable instrument for driving economic development and equitable resource distribution and allocative efficiency.

The FRA 2007 obliges the Honourable Minister of Finance, Budget and National Planning to provide an evaluation of the budgetary and financial implications of any proposed tax expenditure in the year that it becomes effective and in the following three years. Importantly, Section 29 (1) of the FRA states "Any proposed tax expenditure shall be accompanied by an evaluation of its budgetary and financial implications in the year it becomes effective and in the three subsequent years, and shall only be approved by the Minister, if it does not adversely impair the revenue estimates in the annual budget or if it is accompanied by countervailing measures during the period mentioned in this subsection through revenue increasing measures such as tax rate raises and expansion of the tax base". In other words, Section 29 requires the introduction of any new tax expenditure to be revenue neutral.

Additionally, the revised National Tax Policy 2017 states "Any incentive to be granted should be broad, sector based, tenured and transparent. Implementation should be properly monitored, evaluated periodically, reported and kept under review. Revenue forgone from tax incentives or concessions should be quantified against expected benefits and reported annually. Where the benefits cannot be quantified, qualitative factors must be considered and tax policies on investments should not promote monopoly such as entry barriers or otherwise prevent competition''

## 2.1 Benchmark Tax Treatment and Tax Expenditures

The benchmark tax treatment is the standard tax treatment applicable generally to taxpayers, activities, or goods and services, and is set separately for each tax. It is based on the norms applicable under the Nigerian tax system. This approach is considered simpler, and less open to debate, than the alternative of defining the benchmark for each tax by reference to the "optimal" design of the tax from an economic and policy perspective, such as the Haig Simons notion of comprehensive income for the purposes of the CIT. The benchmark for each tax takes account of the key structural features of the tax: namely (i) tax base; (ii) tax rate; (iii) tax unit; and (iv) tax period. However, most tax expenditures relate to measures affecting the tax base or tax rates.

In broad terms, a tax expenditure is any measure in the revenue or other laws that provides for a tax treatment of a particular activity, sector, or goods or services, or a particular class of taxpayer, that differs from the benchmark tax treatment and that results in a reduction in a taxpayer's liability. This is consistent with section 56 of the FRA 2007, which defines "tax expenditure projections" to mean "the projected amount expected to be utilized in the granting of tax relief or [a] tax holiday". Tax expenditures can take various forms, including exemptions, concessionary deductions, tax credits, concessionary tax rates, duty or tax waivers, or deferral of a tax liability. Importantly, a tax measure is a tax expenditure only if it is a departure from the benchmark tax treatment. Some exemptions and concessionary rates form part of the benchmark tax treatment and, therefore, are not tax expenditures. For example, the zero-rating of exports under the VAT is not a tax expenditure as it is a structural feature of the VAT, which taxes domestic consumption.

Some tax expenditures give rise to a permanent reduction in the tax liability of a taxpayer. Examples include tax exemptions, concessionary tax rates, and duty or tax waivers. Other tax expenditures provide a timing advantage to taxpayers by either deferring the recognition of income or advancing the allowance of deductions. Examples include accelerated depreciation and investment tax credits. A timing difference is an advantage to a taxpayer because of the time value of money.

There may be policy aspects of the benchmark tax treatment that the Government may decide to cost to determine whether they are working as intended or to help formulate policies in the future. The methodology used for costing tax expenditures may be useful also for this purpose. For example, in future, the tax expenditure methodology may be used to cost departures in the Nigerian tax laws from global best practice. However, the 2021 Statement will focus only on tax expenditures.

## 3.0 APPROACHES TO ESTIMATING TAX EXPENDITURES

There are three principal approaches to estimating tax expenditures, each approach placing emphasis on different variables in the fiscal mix. The approaches are:

- revenue forgone approach
- revenue gain approach; and
- outlay equivalence approach.

Revenue forgone is a measure of government revenue lost to various waivers and concessions. Revenue gain approach measures how much revenue could increase if a particular tax concession were removed. Outlay equivalence approach estimates how much direct budgetary allocation would be required to provide a benefit equivalent to the tax expenditure.

Expectedly, the different approaches for measuring tax expenditures will result in significantly different estimates. We have adopted the revenue forgone approach which essentially measures how much tax revenue is reduced relative to benchmarks on account of tax expenditures. Revenue forgone is estimated based on actual returns filed with the revenue authority.

### *Reference Tax System*

Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity. Benchmarks may also incorporate structural elements of the tax system, for example, the progressive income tax rate scale for individual taxpayers. The benchmark used for 2021 TEs follows international best practice and ECOWAS regional directives on national refence tax system

The Reference Tax System (RTS) is the most neutral tax system possible that applies to all taxpayers or economic transactions, with the least possible discrimination or discretion. Each class of tax expenditures Value Added Tax (VAT), Companies Income Tax (CIT), Petroleum Profit Tax (PPT) is evaluated relative to the respective reference benchmark.

## *VAT Reference Tax System*

- The relevant tax legislations are Value Added Tax Act (VATA CAP VI LFN, 2004), and Value Added Tax (VAT) (Modification) Order, 2021

- Reference rate: this rate is the applicable rate for each class of tax. The VAT rate is 7.5%; reduced to 0% for exports,

- Reference taxable amount: this is determined in accordance with the relevant provisions of Value Added Tax Act (VATA CAP VI LFN, 2004), and Value Added Tax (VAT) (Modification) Order, 2021

- Tax thresholds and taxable persons / businesses: By the operation of section 38 of the Finance Act 2019, Section 15 of the VAT Act exempts a vatable person whose taxable supplies has not attained a value equivalent to N25 million

- Derogating provisions to be considered as part of the RTS include provisions contained in various conventions and protocols to which Nigeria is a signatory:
  i. the Vienna Convention on Diplomatic Relations,
  ii. the Florence Agreement and its Nairobi Protocol (VAT exemption on books and manuals, etc.),
  iii. the Chicago Convention (exemption on aircraft refuelling),
  iv. the revised Kyoto Convention and
  v. Article 8(8), (9) and (10) of the 2009 ECOWAS VAT Directive, as amended by the 2017 Directive.

## *CIT Reference Tax System*

The benchmark CIT treatment is a flat rate of tax imposed at 30% of the taxable income of a company for an accounting year. The taxable income of a company is the tax base for the CIT and is the total income derived by the company during the accounting year reduced by the total deductions allowed to the company for the year. The benchmark CIT does not include capital gains as these are subject to separate taxation under the CGT Act. Expenditures incurred to derive income charged to tax are allowed as a deduction. Operating expenditure is deducted outright in the tax year in which it is incurred, and capital expenditure is deducted on a depreciation or amortization basis over the useful life of the expenditure. A net loss for a tax year is carried forward as a deduction in the following tax year.

Nigerian companies are subject to CIT on their worldwide income with a credit for foreign tax provided as relief from double taxation. Non-Nigerian companies are subject to CIT only on Nigerian source income. Dividends, interest, royalties, and rent paid to non-residents are subject to final withholding tax at the rate of 10%. Tax treaties allocate taxing rights over income and gains arising from transactions between residents of the two Contracting States to the treaty. In broad terms, tax treaties do this by either excluding or limiting source country taxation over income and gains derived by a resident of the other Contracting State. Nigeria's taxing rights under a tax treaty form part of the CIT benchmark as it applies to residents of the other Contracting State to the treaty. This is particularly relevant to the taxation of business profits, dividends, interest, and royalties under tax treaties. For example, the benchmark taxation of interest paid to non-residents is withholding tax imposed at the rate of 10% of the gross amount of interest. However, the lower tax treaty rate of 7.5% is the benchmark rate applicable to interest paid to a resident of South Africa.

The data received from the FIRS offers the opportunity for much more detailed analysis; and can be used for future policy design, with specific compliance actions to improve tax collections. There were however some inconsistencies and interpretation challenges (see separate Annex). Tax Expenditures have thus been computed based on certain broad approximations and will need to be done in more detail upon receipt of requested data from FIRS colleagues. This initial statement should therefore be seen as interim, and subsequent iterations of the Tax Expenditures Statement (TES) will provide more detailed analysis and insight.

## 3.1 Data Availability and Approaches to Mitigate Data Gaps

The Statement includes the best estimates of the cost of the main tax expenditures based on the best, currently, available data for the 2021 year. In some cases, the available data related to previous periods and some assumptions were required to make them usable for the 2021 year. Further, some tax expenditures were unquantifiable as there was insufficient data to produce a reliable estimate.

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 2021. The National Bureau of Statistics has recently migrated Nigeria's economic statistics protocol based on the International Standard of Industrial Classification (ISIC) of economic activities from ISIC 3.1 to ISIC 4.0. They had used ISIC 3.1 for Q1 and Q2 2022, whilst employing ISIC 4.0 for Q3 and Q4 respectively. The NBS has yet to conclude work on the harmonized sectoral classification.

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 (PIS). The returns of the PIS entities provide a good estimate of the cost of PIS tax expenditures. These are derived from reasonable assumptions of profit level indicators and effective tax rates based on the performance of PIS entities. To estimate overall CIT tax expenditure these estimates are used, in conjunction with information obtained from return data in the limited number of returns filed online. The estimates will be improved with the availability of disaggregated data. 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 concession has been the most challenging due to the lack of data from the relevant regulatory authorities. Furthermore, 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 such returns. This Statement includes an estimate of revenue forgone from Export Processing Zones.

## 4.0 REVENUE FORGONE ESTIMATES

*Aggregate 2021 Nigeria Tax Expenditures*

| Tax Classification | (N Billion) |
|---|---|
| **Companies Income Tax** | 548.40 |
| **Value Added Tax** | 3,870.00 |
| **Petroleum Profits Tax (PPT)** | 337.70 |
| **RITCS** | 78.66 |
| **Customs Duties** | 1,841.69 |
| **Imports Value Added Tax (VAT)** | 111.15 |
| **Total** | **6,786.6** |

*Source: FIRS, NCS, FMFBNP, BOF computations*
*Aggregate tax expenditures amounted to N6.68 trillion. This is approximately 4% of the GDP.*

### 4.1 CIT/PPT Revenue Forgone Estimates

The estimation of revenue forgone in Company Income Tax and Petroleum Profit Tax incentives and concessions in 2021 has yet to be concluded. This is due to the difficulties in collecting data for the exercise.

The corporate tax benchmark remains unchanged. Based on a 30% effective tax rate and a gross CIT collection of ₦ 1.721 trillion, we do not expect the estimates to be significantly different from 2020 forecasts. Banks and financial institutions are projected to account for a sizeable percentage of total CIT forgone.

| Tax Expenditures (₦ Billion) | 2020 ** | 2021f *** | 2022f*** | 2023f*** | 2024f*** |
|---|---|---|---|---|---|
| Companies Income Tax | 457 | 548.40 | 658.08 | 789.70 | 947.64 |
| Value Added Tax* | 4,300 | 3,870.0 | 3,483.0 | 3,134.7 | 2,821.2 |
| Customs Duties | 600 | 720 | 792 | 871.2 | 958.32 |
| Petroleum Profits Tax (PPT) | 307 | 337.70 | 371.47 | 408.62 | 449.48 |
| RITCS | | 78.66 | 43.6 | 45.26 | 46.26 |

**Value Added Tax estimates and forecasts comprise of Compliance Gap and Policy TES*
***These are computed estimates for 2020 TES*
****These are forecasts based on developments in the macroeconomy*

Total tax credit issued in 2021 under the Road Infrastructure Tax Credit Scheme (RITC) amounted to ₦78.66 billion

### 4.2 Customs Exemptions

Total exemptions for 2021 amounted to ₦2.296 trillion. The exemptions comprised of VAT relief granted on imports, waivers and concessions on import duty, ECOWAS Trade Liberalization Scheme (ETLS), Surcharges, Comprehensive Import Supervision Scheme (CISS), Excise and levies. This is a sizeable revenue forgone relative to the total customs revenue of ₦1.340 trillion collected in 2021.

*Aggregate Customs Exemptions.*

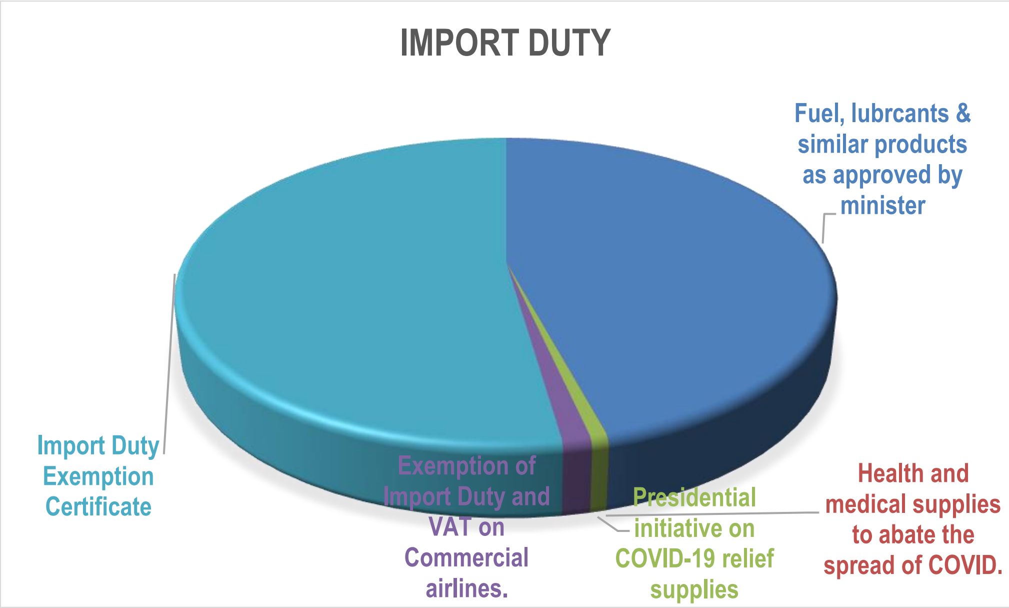
| Description | 2020 (₦) | 2021 (₦) |
|---|---|---|
| Import Duty | 305,648,255,461 | 435,840,653,071.6 |
| Surcharge (7% of Import Duty) | 21,284,691,333 | 30,377,961,218.3 |
| Common External Tariff Levy | 223,985,964,966 | 1,419,135,090,286.9 |
| Comprehensive Import Supervision Scheme | 28,868,580,367 | 130,038,401,082.7 |
| ECOWAS Trade Liberalization Scheme | 19,257,494,989 | 72,905,636,613.0 |
| Iron Levy | 113,776 | 115,879.0 |
| National Automotive Council Levy | 1,082,191,169 | 41,392,036.0 |
| Value Added Tax (Import VAT) | 179,601,187,036 | 208,238,244,299.8 |

The exemptions applied to imported goods covered by diplomatic privileges, military hardwares, fuels & lubricants, Hospital & Surgical equipment, Aircraft (their parts and ancillary equipment), plant and machinery imported for use by companies in export processing zones, Health and medical supplies to abate the spread of COVID. Other exemptions include reliefs on Presidential initiative on COVID-19 supplies, Import Duty and VAT on Commercial airlines.

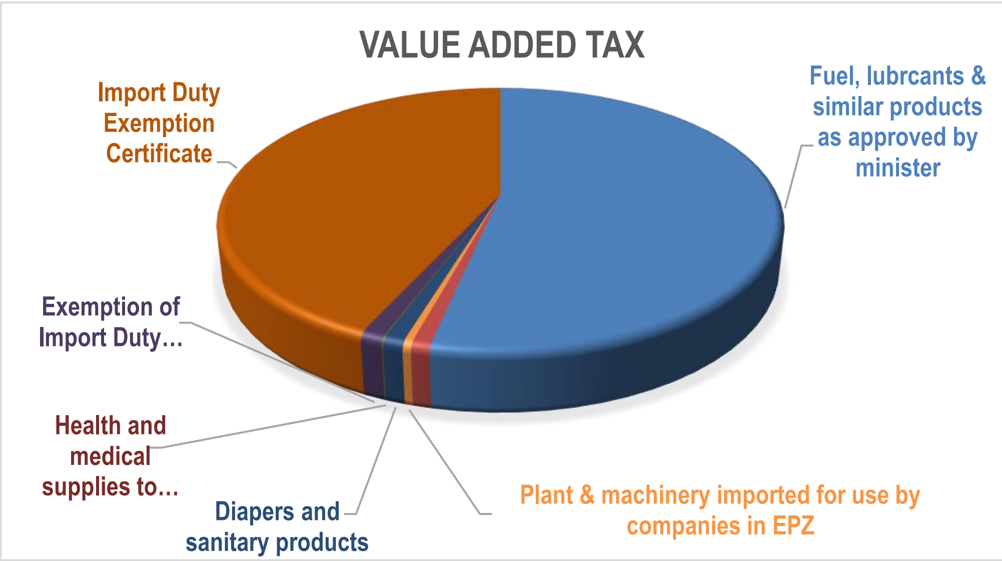
Estimating the tax expenditure on customs and VAT relief granted on imports was constrained by the quality of available data. Tax expenditures estimated based on the Nigerian tax reference system amounted to ₦1.953 trillion including ₦1.419 trillion from waivers of Common External Tariff Levy, which constitutes 72.6% of all customs tax expenditures. Import VAT tax expenditures amounted to NGN ₦111 billion. Of the ₦1,419 billion from waivers of Common External Tariff Levy, import duties exemption certificate (IDEC) amounted to ₦1.417 trillion.

*Customs Tax Expenditures*

| Description | Amount (N billion) |
|---|---|
| **Import Value Added Tax** | 111.15 |
| **Import Duty** | 216.88 |
| **Ecowas Trade Liberalisation Scheme** | 67.16 |
| **Surcharge** | 15.10 |
| **CISS** | 125.68 |
| **Common External Tariff Levy** | 1,416.87 |




Of the ₦216.88 billion import duty waivers granted, petroleum products (fuels and lubricants) accounted for 46%.

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In terms of country of supply, five countries accounted for about 92% of total customs relief with China accounting for nearly half of total relief granted. Singapore, Netherlands, Togo, Benin and India are the other top sources of supplies benefitting from the reliefs.

## 5. CONCLUSION

The annual TES provides a description of the Federal Government of Nigeria's tax expenditures and, where possible, the estimated value or order of magnitude of the tax expenditure. The TES is intended to provide evidence for fiscal policy analysis, especially the need to appraise the costs and benefits associated with waivers and concessions and to facilitate scrutiny of tax expenditures by Parliament and parliamentary committees, the media and the general public. Transparent reporting of tax expenditures also helps inform debate on the efficiency and equity of the tax system.

Inter-agency collaboration is required for the success of the TES preparation exercise. The exercise is data intensive and most of the concerned agencies are in the process of strengthening their internal data gathering systems to ensure that subsequent TES preparation benefits from more comprehensive datasets. Going forward, the Tax Expenditure Committee (TEC) will intensify the effort to enhance collaborations among relevant stakeholders to build a robust computational model. Further data simulations will require expertise from FIRS, NCS, NIPC, NBS and TSD (FMFBNP). Further training will be organized for officials of the relevant MDAs to build capacity.

Transparency and equity should be entrenched in the management and administration of tax expenditures. Decisions to grant exemptions should only be made after the revenue to be foregone estimates have been made and communicated to decision-makers by competent authorities (FIRS and NCS). All Exemption decisions should be in writing, with the name of the beneficiaries, clear terms and conditions, as well as specific duty/tax/levies treatment, as appropriate. The procedures for the application process, and the importing /exporting as well as tax reporting processes, should be readily available to the public, business, and the international community (Diplomatic and Non-Government Organisation)

As the reforms in tax expenditures management intensify, periodic appraisal of the objective for each tax expenditure is essential. Cost benefit analysis of each tax expenditure should be conducted, and reports published. Where sunset clauses exist, they should be applied dutifully.

In order to enhance fiscal monitoring of the efficacy of tax expenditures, it is desirable that relevant agencies of government should prepare detailed monthly reports on exemptions within their respective sectors. This will also facilitate oversight functions by the relevant fiscal authorities and the legislature. Tax expenditures should be managed with equal rigour as Budget appropriations – in the same ways as Budget financial outlays are scrutinized and subjected to strong controls to prevent abuse and waste. Nigeria's commitment to this global best practice is enshrined in FRA 2007