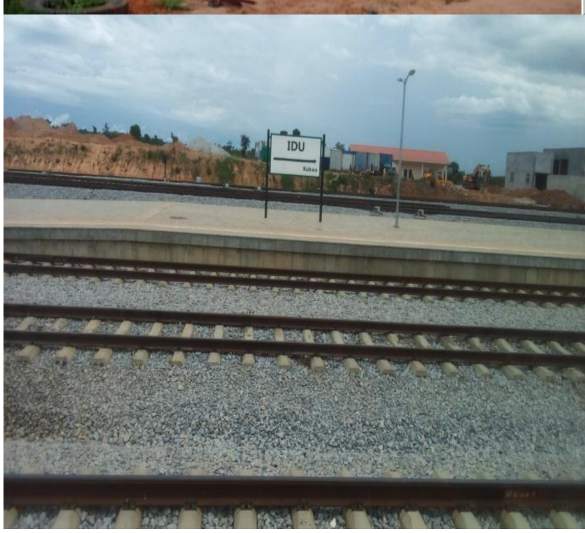
2018 SECOND QUARTER AND HALF YEAR
BUDGET IMPLEMENTATION REPORT





BUDGET OFFICE OF THE FEDERATION

Ministry of Budget and National Planning

FOREWORD

I am pleased to present to you the Second Quarter and Half-Year 2018 Budget Implementation Report (BIR), which analyses the budget performance for the period. The FGN Budget is a key policy instrument for delivering on the objectives of government. The 2018 Budget was titled "Budget of Consolidation" and is the third full year budget by the present administration. The Budget, like in 2017, continues to align with the Economic Recovery and Growth Plan (ERGP) designed to restore the Nigerian economy to the path of robust, sustainable and inclusive growth.

The publication of this report is mainly in fulfillment of Sections 30 and 50 of the Fiscal Responsibility Act (FRA), 2007 which requires the Budget Office of the Federation (BOF) to prepare quarterly Budget Implementation Reports. These Reports are to be submitted to the Joint Finance Committee of the National Assembly (NASS) and the Fiscal Responsibility Commission (FRC). They are also to be circulated extensively to all stakeholders and the general public through electronic and other media. I congratulate the Budget Monitoring and Evaluation Department (Budget Office of the Federation), the National Monitoring & Evaluation Department (Ministry of Budget & National Planning) and the relevant Ministries, Departments and Agencies (MDAs) for their hard work and keen efforts in preparing this Report. I also appreciate the vital roles of both the Fiscal Responsibility Commission and the National Assembly's Joint Finance Committee in promoting best practices in public financial management. I look forward to the continued strengthening of our cooperative work in this regard.

In conclusion, I urge readers of the budget implementation reports to uphold active interest in government public financial management in Nigeria. I also encourage you to use the various media provided by government to contribute towards the enhancement of budgetary outcomes for the benefit of all Nigerians.

Sen. Udoma Udo Udoma, CON
Honourable Minister of Budget and National Planning

PREFACE

The Budget Office of the Federation (BOF) carries out quarterly monitoring and evaluation of the implementation of Annual Budgets and produces the reports thereof in accordance with the Fiscal Responsibility Act 2007. This second quarter Budget Implementation Report (BIR) is one of the in-year reports to be prepared by the BOF for the assessment of the 2018 budget performance. In addition to adherence to the provisions of the FRA 2007, these reports are also designed to enhance budget transparency, accountability and credibility as a key component of Nigeria's commitment to the Open Government Partnership (OGP).

The budget preparation, execution, monitoring and evaluation system in Nigeria has continued to evolve. The BOF has continued to implement critical reforms/initiatives that have progressively delivered more purposeful, implementable and fairly comprehensive budget in a more effective manner. Appropriate technology and models are being adopted to ensure timely and accurate budget preparation, implementation and review. Revenue estimation and mobilization however remains a key challenge for budget implementation in Nigeria especially as the key source has historically remained concentrated in a very volatile oil sector. Revenue projections for 2018 have so far fallen significantly short of targets.

The execution of the 2018 Budget so far, as has been the case for several years now, was made further challenging due to its late passage as well. Despite these challenges, government was able to deliver ₦1,439.97 billion capital expenditure under the 2017 budget by end of Q2 2018. This considerably contributed to a sustained positive GDP growth recorded from Q2 2017 to date. The extension of the 2017 capital budget to June 12, 2018 enabled the government to continue its reflationary expenditure programme.

This Report is a product of joint efforts of financial and statistical agencies of government which provided necessary macro-economic data. I am very pleased by the combined efforts of the Budget Office of the Federation and the National Monitoring & Evaluation Department of MBNP in producing the report. I commend their hard work and wish them every success as they continue to carry out this important function.

Ben Akabueze
Director General (Budget Office of the Federation)

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TABLE OF ACRONYMS

A/C: *Account*

AIE: *Authority to Incur Expenditure*

AF: *Alternative Funding*

AEs: *Advanced Economies*

B: Billion

BDC: *Bureau De-Change*

BOF: *Budget Office of the Federation*

BREXIT: *Britain Exist*

CBN: *Central Bank of Nigeria*

CIT: *Company Income Tax*

DMO: *Debt Management Office*

ECA: *Excess Crude Account*

EMDEs: *Emerging Markets and Developing Economies*

EMEs: *Emerging Markets Economies*

ERGP: *Economic Recovery & Growth Plan*

FAAC: *Federation Account Allocation Committee*

FGN: *Federal Government of Nigeria*

FMF: *Federal Ministry of Finance*

GDP: *Gross Domestic Product*

IMF: *International Monetary Fund*

INEC: *Independent National Electoral Commission*

IPPIS: *Integrated Payroll and Personnel Information System*

JVC: *Joint Venture*

LNG: *Liquefied Natural Gas*

M2: *Money Supply*

MB&NP: *Ministry of Budget and National Planning*

MBPD: *Million Barrels Per Day*

MDAs: *Ministries, Departments and Agencies*

MPR: *Monetary Policy Rate*

MTFF: *Medium Term Fiscal Framework*

N: Naira

NBS: *National Bureau of Statistics*

NDDC: *Niger Delta Development Commission*

NHRC: *National Human Rights Commission*

NJC: *National Judiciary Commission*

NNPC: *Nigerian National Petroleum Corporation*

NTB: *Nigerian Treasury Bills*

OAGF: *Office of the Account General of the Federation*

ONSA: *Office of National Security Adviser*

OPEC: *Organization of Petroleum Exporting Countries*

OTC-FMDQ-OTC: *Over the Counter Financial Market Dealer Quotation*

PCC: *Public Complaint Commission*

PPT: *Petroleum Profit Tax*

PSC: *Production Sharing Contracts*

SC: *Service Contracts*

SWF: *Sovereign Wealth Fund*

TSA: *Treasury Single Account*

UBEC: *Universal Basic Education Commission*

US: *United States*

VAT: *Value Added Tax*

WEO: *World Economic Outlook*

ZBB: *Zero Base Budgeting*

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EXECUTIVE SUMMARY

The 2018 Budget was titled “Budget of Consolidation” with the main objective to strengthen and build on recent accomplishments of the Federal Government. Specifically, it was designed to sustain the reflationary fiscal policies of the past two years. In view of this, its key parameters and assumptions are as set out in the 2018-2020 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) while the key thrusts are also derived from the goals of the present Administration as articulated in the Economic Recovery and Growth Plan (ERGP) 2018-2020.

Nigeria’s Gross Domestic Product (GDP) grew by 1.50 percent (year-on-year) in real terms to ₦16.58 trillion. This depicts a 0.79 percentage points higher than the second quarter of 2017 growth of 0.72 percent. It is however 0.45 percentage points lower than 1.95 percent recorded in the first quarter of 2018. The performance was driven by the 2.05 percent expansion in non-oil GDP even as the oil sector contracted during the review period.

The inflation rates, though still high at the double-digit range, continued to moderate in the second quarter of 2018. Headline Inflation trended downwards for the seventeenth consecutive month to 11.23 percent in June 2018 from 11.61 percent, 12.48 percent and 13.34 percent in May, April and March 2018 respectively. Similarly, Food Inflation fell to 12.98 percent in June 2018 from 16.08 percent in March 2018 while Core Inflation also moderated to 10.39 percent in June 2018 from 11.18 percent in March 2018. This could be attributed to the relative stability in the foreign exchange market as well as the base effect.

Monetary aggregates grew in the second quarter relative to the first quarter of 2018. Broad Money Supply (M2) expanded by 1.60 percent (or ₦389.58 billion) from ₦24,424.42 billion in March 2018 to ₦24,814.00 billion in June 2018. This was mainly driven by the 18.15 percent rise in Net Foreign Assets (NFA) in June 2018. On the other hand, Net Domestic Credit moderated, driven by the decline in both Net Credit to Government and Credit to the Private Sector during the period under review. When compared to the level at the end of second quarter of 2017, broad money supply expanded by 14.49 percent (or ₦3,139.79 billion) in June 2018.

Contractionary monetary policy was maintained during the review period as the Monetary Policy Rate (MPR) was maintained at 14 percent, thus remaining constant since the second half of 2016. Other key monetary policy instruments were equally retained during the review period with the Cash Reserve Ratio (CRR) and the Liquidity Ratio retained at 22.5 percent and 30 percent respectively. The average interbank call rate undulated during the period falling from 15.16 percent in March to 3.10 percent in April before surging up again to 25.43 percent in May and eventually coming down to 5.0 percent in June 2018. The average prime lending rate however decreased consistently during the period under review, falling from 17.35 percent in March to 16.78 percent in June 2018 while the average maximum lending rate moderated slightly from 31.55 percent in March to 31.17 percent in June 2018.

There was relative stability across all segments of the foreign exchange market during the review period. Specifically, the Naira/Dollar exchange rate at the Official/Inter-Bank markets opened at a monthly average of ₦305.74/US$ in March and appreciated slightly to ₦305.61/US$ in April before depreciating marginally to ₦305.83/US$ and ₦305.87/US$ in May and June 2018 respectively. On the other hand, the monthly average exchange rate of the Naira/Dollar at the Bureau De-Change (BDC) depreciated slightly from ₦362.07/US$ in March to ₦362.25/US$, ₦362.86/US$ and ₦360.66/US$ in April, May and June 2018 respectively. This was driven by the improve FOREX inflow as oil price continues to recover and have buoyed the Nigeria's gross official (external) reserve which rose from US$46.73 billion at the end of March to US$47.15 billion in June 2018.

The Federal Government domestic debt stock stood at ₦12,151.44 billion as at end of June 2018, representing a decrease of ₦425.32 billion (or 3.38 percent) from the ₦12,576.76 billion recorded in the first quarter of 2018. Nigeria's external debt stock (mostly low interest funds from multilateral financial institutions) stood at US$22,083.44 million as at 30th June, 2018, indicating an increase of US$11.53 million (or 0.05 percent) and US$7,036.44 million (or 46.76 percent) above US$22,071.91 million and US$15,047.0 million recorded in the first quarter of 2018 and second quarter of 2017 respectively. The above development reflects FG's drive to increase the ratio of low interest foreign debt to reduce debt service. The total public Debt/GDP ratio stood at 18.68 percent as at the end of June 2018 and was below the country specific threshold of 25 percent and international threshold of 56 percent.

The implementation of the budget in the first half of 2018 was affected by the poor revenue outturn as oil production and exports remained below the Budget estimates while the performance of the economy, though improving, continued to limit non-oil revenue receipt. The price of crude oil at the international market however averaged US$74.35 in the second quarter of 2018 depicting an average of US$70.58 per barrel in first half of 2018. This represents an increase of US$19.58 per barrel (or 38.39 percent) above the US$51.0 per barrel oil price benchmark set for 2018 Budget. This could be attributed to the increase in demand of oil at world market and the implementation of OPEC agreement to cut down crude oil production. Domestic crude oil production however lagged at an average of 1.92mbpd in June 2018 and 1.84mbpd in the second quarter of 2018 well below the 2.3 mbpd projected in the budget.

Revenue shortages therefore continued with Gross Oil Revenue of ₦2,686.12 billion in the first half of 2018. This translate to a ₦1,122.91 billion (or 29.48 percent) shortfall below the 2018 budget half year projection but was however significantly above the ₦1,587.70 billion generated in the corresponding period of 2017. Gross non-oil revenue of ₦1,434.06 billion received in half year period of 2018 also signifies a shortfall of ₦781.85 billion (or 35.28 percent) below the half year estimate of ₦2,215.92 billion. A breakdown of the non-oil revenue items showed that all the non-oil revenue items fell below their expected half year projections. The net distributable revenue to the three tiers of government after cost deductions therefore stood at ₦3,409.32 billion in the half year period of 2018, representing a shortfall of ₦1,817.06 billion (34.77 percent).

A total of ₦1,696.27 billion, excluding other funding sources, was received to fund the budget in the first half of 2018. This comprises ₦994.36 billion (58.62 percent) oil revenue and ₦701.91 billion (41.38 percent) non-oil revenue. The aggregate revenue receipt for the period was ₦1,886.66 billion (52.66 percent) lower than the half year projection for 2018 but ₦809.88 billion (91.37 percent) higher than the ₦886.39 billion reported in the first half of 2017. Total inflow for funding the FGN 2018 budget in the half year period stood at ₦1,735.64 billion indicating a shortfall of ₦1,847.30 billion (or 51.56 percent) below the half year estimate.

Actual expenditure in the first half of 2018 stood at ₦2,506.64 billion, indicating a decrease of ₦2,053.53 billion (or 45.03 percent) below the proportionate budget projection. This was however ₦46.82 billion (1.90 percent) higher than the actual expenditure of ₦2,459.82 billion recorded in the first half of 2017. A total of ₦1,204.17 billion was spent as non-debt recurrent expenditure in the first half of 2018 implying a reduction of ₦554.07 billion (or 31.51 percent) below the half year estimate of ₦1,758.24 billion. It was also below the non-debt recurrent expenditure of ₦1,323.06 billion reported in first half of 2017 by ₦118.89 billion (8.99 percent). Statutory Transfer was also allocated a total sum of ₦228.23 billion in the review period. No fund was however released for capital projects/programmes during the period due to the late passage of the 2018 Budget. A total of ₦739.09 billion was however released for capital projects under the 2017 budget during the review period.

Total Debt Services in the half year of 2018 stood at ₦1,074.24 billion indicating a decrease of ₦27.68 billion (2.51 percent) below the ₦1,101.92 billion projected for the half year period. The sum of ₦941.99 billion was used for domestic debt servicing while ₦114.52 billion was spent for external debt servicing during the period under review. The amount used for domestic debt servicing revealed a difference of ₦62.11 billion (7.06 percent) below its half year projection.

The revenue and expenditure outturn of the Federal Government resulted in a fiscal deficit of ₦771.0 billion in the first half of 2018. This was ₦206.23 billion (21.10 percent) below the projected half year deficit of ₦977.23 billion. It was however, above the fiscal deficit of ₦348.56 billion recorded in first half of 2017. The deficit was financed through domestic borrowing of ₦577.91 billion, thereby reflecting a negative net financing of ₦193.09 billion in the period under review. Overall, the outlook for key macroeconomic indicators point to positive economic performance in the remaining half of 2018. The expectation is premised on sustained robust level of external reserves, improved fiscal spending owing to rising revenue, relative stability in the foreign exchange market and high level of activities, particularly at the Investors and Exporters (I&E) window, as well as increase in crude oil production and prices. These developments are highly inspiring, nevertheless, the GDP growth remained largely fragile with downside risks building up. The economy could therefore benefit from further modifications and incentives. Specifically, fiscal consolidation needs to be enhanced as the urgency to reflate subsides with exit from the economic recession. Efforts therefore need to be directed as macroeconomic adjustment towards a low oil price regime.

1.0 INTRODUCTION

Global macroeconomic and financial environment is anticipated to improve in the 2018 fiscal year. The tepid economic recovery is expected to pick up pace and the global political terrain is expected to stabilize. The International Monetary Fund (IMF) projected global GDP growth at 3.9 percent in 2018 up from 3.7 percent in 2017. Emerging markets and developing economies are expected to lead with GDP growth of 4.9 percent, while advanced economies are projected to grow at a slower rate of about 2 percent.

The 2018 Budget was titled “Budget of Consolidation”. The main objective is to strengthen and build on the recent accomplishments of the Federal Government. Specifically, it will sustain the reflationary policies of the past two year budgets. In view of this, the key parameters and assumptions for the 2018 Budget are as set out in the 2018-2020 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) which key thrust are derived from the goals of the present Administration as articulated in the Economic Recovery and Growth Plan (ERGP) 2018-2020.

The 2018-20 MTEF/FSP document presents the socio-economic context in which the 2018 Budget was prepared, along with the fiscal policy objectives and spending priorities of the government over the three-year period. In line with the fiscal strategy, the 2018 Budget of the Federal Government focused on increasing revenue receipts by enhancing efficiency in the oil sector, broadening tax base as well as identifying and plugging revenue leakages. The budget also aims at improving the efficiency and quality of capital spending, greater emphasis on critical infrastructure, rationalization of recurrent expenditure, and gradual fiscal consolidation to maintain the fiscal deficit below 3% of GDP as prescribed by the FRA, 2007.

To consolidate on the momentum of the 2017 Budget’s implementation, many ongoing capital projects have been provided for in the 2018 Budget. This is in line with the government’s commitment to appropriately fund ongoing capital projects to completion. By allocating 30.8 percent of the 2018 Budget to capital expenditure, the Federal Government had also demonstrated its strong commitment to investing in critical infrastructure capable of spurring growth and creating jobs in the Nigerian economy. Key capital spending MDAs/Programmes in the 2018 Budget include: Power, Works and Housing; Transportation; Special Intervention Programmes; Defence; Agriculture and

Rural Development; Water Resources; Industry, Trade and Investment; Interior; Education; and Health.

In addition, the 2018 Budget also aims to continue with achievements recorded in the implementation of the 2017 Budget by making adequate provisions for counterpart funding obligations. It will focus on completing all ongoing projects and therefore carries forward, all strategic uncompleted projects from previous budget. Specifically, attention will be given to the following key projects and programmes: Mambilla Hydro Power Project; Earmarked Transmission Lines and Substations; National Housing Programme; the 2nd Niger Bridge; and Construction and Rehabilitation of the Strategic Roads. Regional spending priorities were also given special attention including the Presidential Amnesty programme in the Niger Delta as well as the interventions for the development of the North East.

The 2018 Budget also provided for Social Intervention Programme reflecting the Federal Government's commitment to pursuing gender-sensitive, pro-poor policies including catering for the most vulnerable. The implementation of the Conditional Cash Transfer (CCT) programme, as well as the National Home-Grown School Feeding programme will therefore continue in 2018. These initiatives are already creating jobs and economic opportunities for local farmers and cooks, providing funding to artisans, traders and youths, as well as supporting small businesses with business education and mentoring.

This Report provides comprehensive information on the 2018 Second Quarter and Consolidated Half Year Budget Implementation. The other parts of the Report are arranged as follows: Following this, Introductory Section, Section 2 reviews the macroeconomic performance, highlighting performance of the real, monetary and external sectors. Section 3 presents an analysis of government's revenue receipts and expenditure in the period under review, while Section 4 is a brief conclusion of the Report.

2.0 MACROECONOMIC DEVELOPMENTS AND ANALYSIS

2.1 PERFORMANCE OF THE GLOBAL ECONOMY

Global growth upsurge continued during the review period, approaching its two-year mark. The pace of the expansion in some economies appears to have peaked and growth has become uneven across countries. Among advanced economies, divergence growth performance between the United States on one side, and Europe and Japan on the other, are widening. Growth is also becoming less synchronized among emerging market and developing economies, reflecting the combined effects of rising oil prices, higher yields in the United States, sentiment shifts following escalating trade tensions, and domestic political and policy uncertainty. While financial conditions remain generally fair, these factors have resulted to drops in capital inflow, higher financing costs, and exchange rate pressures, more acute in countries with fragile fundamentals or higher political risks.

High-frequency data present a varied picture of near-term global activity. Retail sales volumes appear to have picked up in the second quarter, and survey data of purchasing managers for the service sector remain generally strong. Industrial production, however, appears to have moderated, and survey data of purchasing managers in manufacturing indicate a dwindling of new export orders. Commodity prices and inflation therefore edged up, mainly reflecting supply shortfalls and increase in global oil prices (16 percent increase between February to early June 2018). The Organization of Petroleum Exporting Countries (OPEC) and Non-OPEC oil producers had however agreed in June to raise oil production by about one million barrels per day from current levels, correcting the recent undershooting of the November 2016 group target.

Market outlooks suggest that declining capability in Venezuela and US sanctions on Iran may pose difficulties for the group to deliver steadily the agreed upon production increase. Market prospects, however, indicate prices are likely to decline over the next 4 – 5 years due mainly to increased US shale production. The increase in fuel prices had lifted headline inflation in advanced and emerging market economies. Core inflation had also strengthened in the United States as the labour market had stiffened further, and inched up in the euro area. Similarly, core inflation in emerging markets increased, reflecting pass-through effects from currency depreciation in some cases and second-round effects of higher fuel prices in others. Prices of agricultural commodities have increased slightly, reflecting falling excess supply.

Overall, world economic growth is projected to remain robust in the short to near-term. Downside risks to growth are financial tension, trade tensions, and non-economic factors including slower reforms or change in policy objectives, political uncertainty, geopolitical risks and domestic strives as well as extreme weather and other natural disasters. The overall risk has also tilted to the downside as the prospects of sustained global growth diminishes. There is therefore the need to advance policies that extends the current expansion and strengthen resilience. Though policy priorities understandably differ across countries, there is the need to direct policies at raising potential output and ensuring the benefits are shared by all. Enhancing multilateral cooperation within open rule-based trade system is also critical.

2.2 DOMESTIC MACROECONOMIC PERFORMANCE

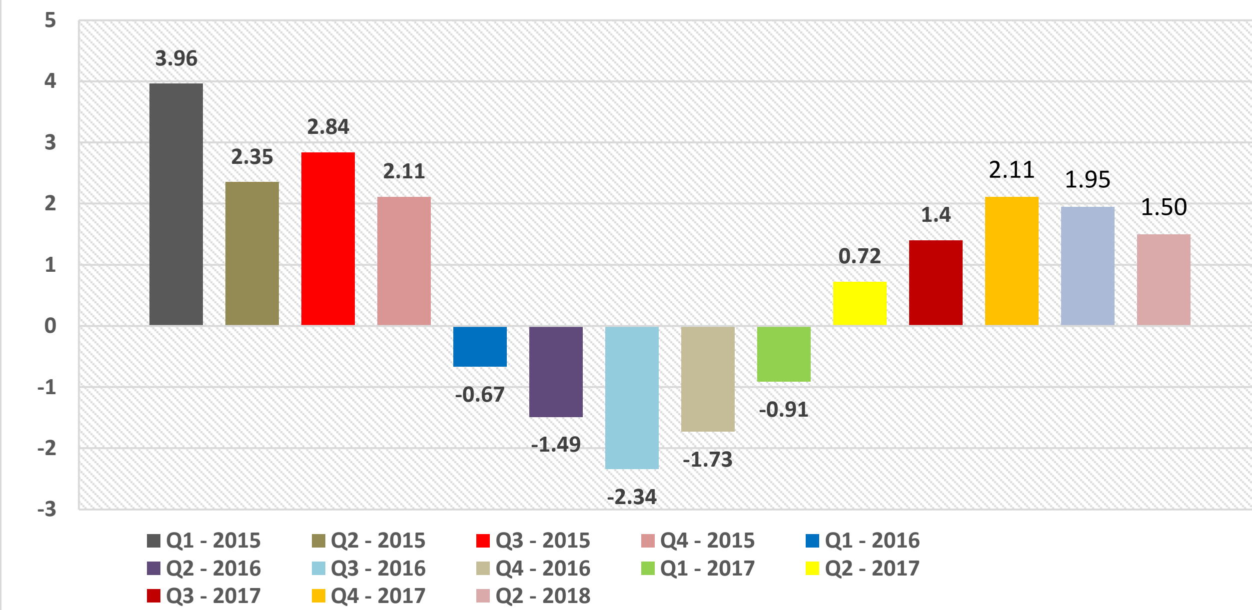
The outlook to sustaining the Nigerian economic recovery over the medium term remains positive and is anchored on oil price recovery, improved fiscal spending and stability in the foreign exchange market. The GDP performance in the quarter under review showed a positive trend, with growth being driven by developments in the non-oil sector. The growth however remains very fragile as such, there is the need for the speedy implementation of the 2018 Federal Government Budget as well as the strategies in the Economic Recovery and Growth Plan (ERGP) to strengthen output growth.

2.2.1 Developments in Real Sector

2.2.1.1 GDP Growth:

Nigeria's Gross Domestic Product (GDP) grew by 1.50 percent (year-on-year) in real terms to ₦16.58 trillion in the second quarter of 2018. This was 0.79 percentage points higher when compared to the 0.72 percent recorded in the second quarter of 2017, but 0.45 percentage points lower than 1.95 percent recorded in the first quarter of 2018. On a quarter on quarter basis, real GDP growth was 2.94 percent. In the quarter under review, aggregate GDP stood at ₦30.69 trillion in nominal terms. This represents a 7.85 percent increase in nominal GDP when compared to the preceding quarter (₦28.46 trillion) and 13.57 percent increase when compared to the corresponding quarter of 2017 (₦27.03 trillion). Growth in the second quarter of 2018 was driven by developments in the non-oil sector as Services sector recorded its strongest positive growth since 2016. However, the relatively slower growth when compared to the first quarter of 2018 and second quarter of 2017 could be attributed to developments in both the oil and some other non-oil sub-sectors.

Figure 2.1: GDP Percentage Growth (Q1 2015 – Q2 2018)

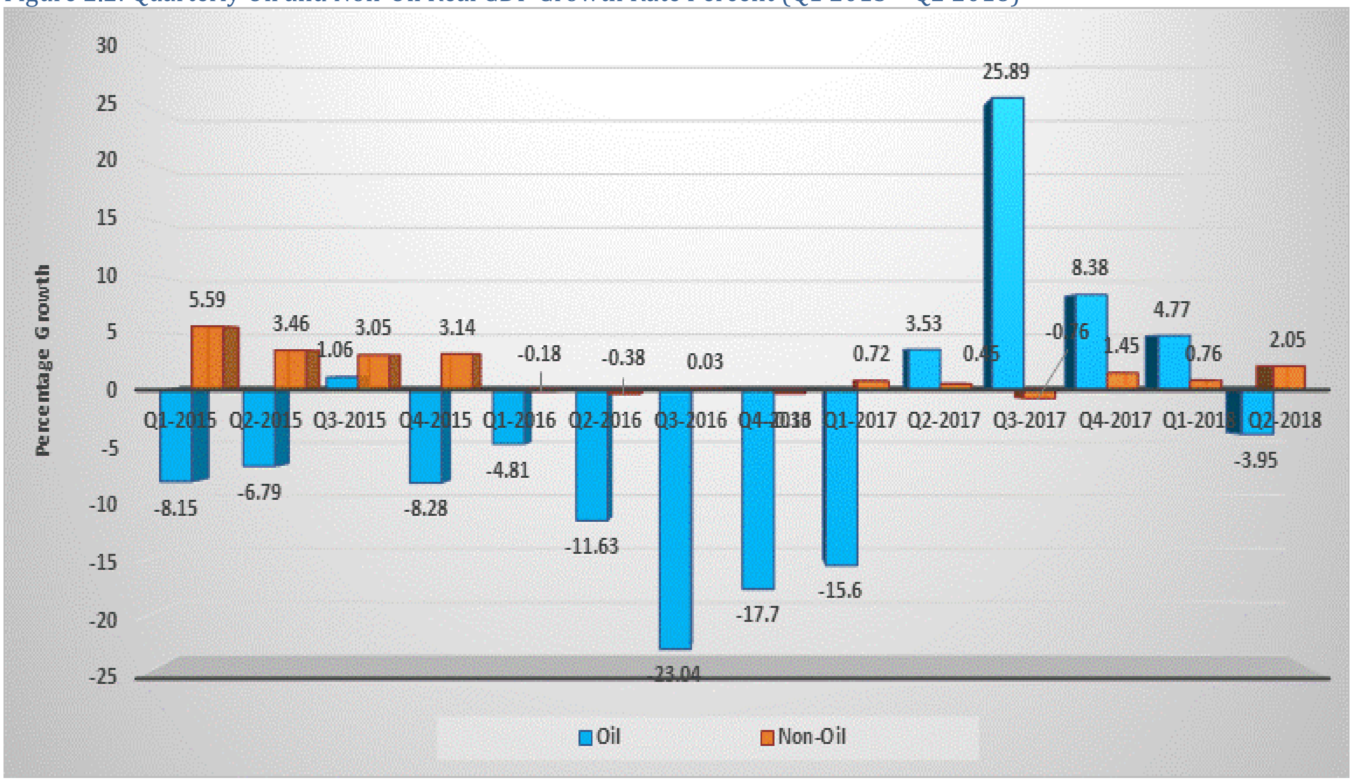


Source: National Bureau of Statistics, 2018

2.2.1.2 Oil Sector:

An average daily oil production of 1.84 million barrel per day (mbpd) was recorded in the second quarter of 2018. This figure was 0.15mbpd and 0.03mbpd lower than the 1.99mbpd and 1.87mbpd reported in first quarter of 2018 and second quarter of 2017 respectively. Real growth of the oil sector was –3.95 percent (year-on-year) in second quarter of 2018 indicating a decrease by 7.48 percentage points when compared to the rate recorded in the corresponding quarter of 2017. Growth also decreased by 18.72 percentage points relative to the first quarter of 2018. Quarter-on-Quarter, the oil sector recorded a growth rate of –8.34 percent in the second quarter of 2018. The Oil sector contributed 8.55 percent to total real GDP in period under review, down from the 9.61 percent and 9.04 percent recorded in the preceding quarter of 2018 and corresponding period of 2017 respectively. The developments in the oil sector occurred at the same time as crude oil price (Brent) has continued to rise from $65.32 per barrel in January, reaching $76.98 in May, before falling slightly to $74.4 per barrel in June.

Figure 2.2: Quarterly Oil and Non-Oil Real GDP Growth Rate Percent (Q1 2015 – Q2 2018)



Source: National Bureau of Statistics, 2018

2.2.1.3 Non-Oil Sector:

The non-oil sector grew by 2.05 percent in real terms during the quarter under review. This represents an increase of 1.29 percent and 1.6 percent when compared to the rates recorded in the preceding quarter of 2018 and the second quarter of 2017 respectively. The non-oil sector was mainly driven by Information and Communication Services. Other notable drivers included Construction, Agriculture, Transportation & Storage and Other Services. In real terms, the non-oil sector contributed 91.45 percent to the nation's GDP, as against 90.39 percent and 90.96 percent reported in the first quarter of 2018 and second quarter of 2017 respectively.

The Agricultural sector grew by 10.64 percent year-on-year in nominal terms, indicating an increase of 4.84 percent and a decline of 1.89 percent when compared with the performances of first quarter of 2018 and second quarter of 2017 respectively. Crop Production remains the major driver of the sector as it accounted for 92.06 percent of overall nominal growth of the sector. In the second quarter of 2018, Agriculture contributed 18.78 percent to nominal GDP. This figure was higher than the 17.42 percent recorded in the first quarter of 2018 but was lower than the 19.28 percent reported in the second quarter of 2017 respectively.

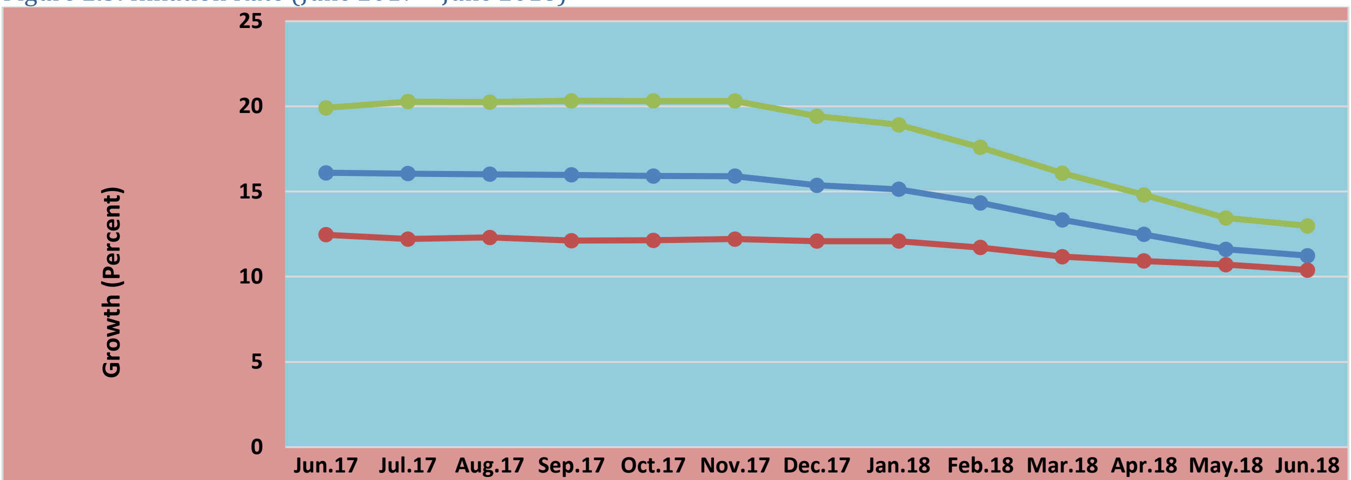
The agricultural sector grew by 1.19 percent (year-on-year) in real terms in the second quarter of 2018, indicating a decrease of 1.81 percent and 1.82 percent when compared to the growth reported in the first quarter of 2018 and second quarter of 2017 respectively. The sector contributed 22.86 percent to overall GDP in real terms in the second quarter of 2018. This reflects an increase of 21.65 percent and a decrease of 22.93 percent over the rates reported in the first quarter of 2018 and second quarter of 2017 respectively.

2.2.2 Developments in Prices

The general changes in price level, although still high at the double-digit range, continued to moderate in the second quarter of 2018. Headline Inflation (year-on-year) trended downwards for the seventeenth consecutive month to 11.23 percent in June 2018 from 11.61 percent, 12.48 percent and 13.34 percent in May, April and March 2018 respectively. Similarly, Food Inflation (year-on-year) fell to 12.98 percent in June 2018 from 13.45 percent, 14.80 percent and 16.08 percent in May, April and March 2018 respectively. Core Inflation (year-on-year) also fell to 10.39 percent in June 2018 from 10.71 percent, 10.92 percent and 11.18 percent in May, April and March 2018 respectively.

The moderation in inflation notwithstanding, current inflation rate is still above targeted single digit. The objective of the policy stance remains to accelerate the reduction in the inflation rate to single digit to promote economic stability, boost investor confidence, and promote foreign capital inflows with complementary impact on exchange rate stability. The concern on the threat posed by incessant Herdsmen - Farmers crisis in some key food producing states and its expected negative impact on food prices still remains.

Figure 2.3: Inflation Rate (June 2017 – June 2018)



	Jun.17	Jul.17	Aug.17	Sep.17	Oct.17	Nov.17	Dec.17	Jan.18	Feb.18	Mar.18	Apr.18	May.18	Jun.18
Headline Inflation	16.1	16.05	16.01	15.98	15.91	15.9	15.37	15.13	14.33	13.34	12.48	11.61	11.23
Core Inflation	12.46	12.21	12.3	12.12	12.14	12.21	12.09	12.09	11.71	11.18	10.92	10.71	10.39
Food Inflation	19.91	20.28	20.25	20.32	20.31	20.31	19.42	18.92	17.59	16.08	14.80	13.45	12.98

Source: National Bureau of Statistics, 2018

Inflation forecast for the near term points to further moderation in price level in the short term. However, the downside risks to inflation included: the impact of excess liquidity that could arise from the implementation of the approved N9.12 trillion 2018 FGN budget; pre-election spending; anticipated review of salaries and wages; security challenges; and monthly Federation Account Allocation Committee (FAAC) injections. Although these could boost aggregate demand, it would equally exert upward pressure on domestic prices for the rest of the year. There is therefore, the call for a coordinated fiscal, monetary and exchange rate policies to stem the upward build-up in price pressures.

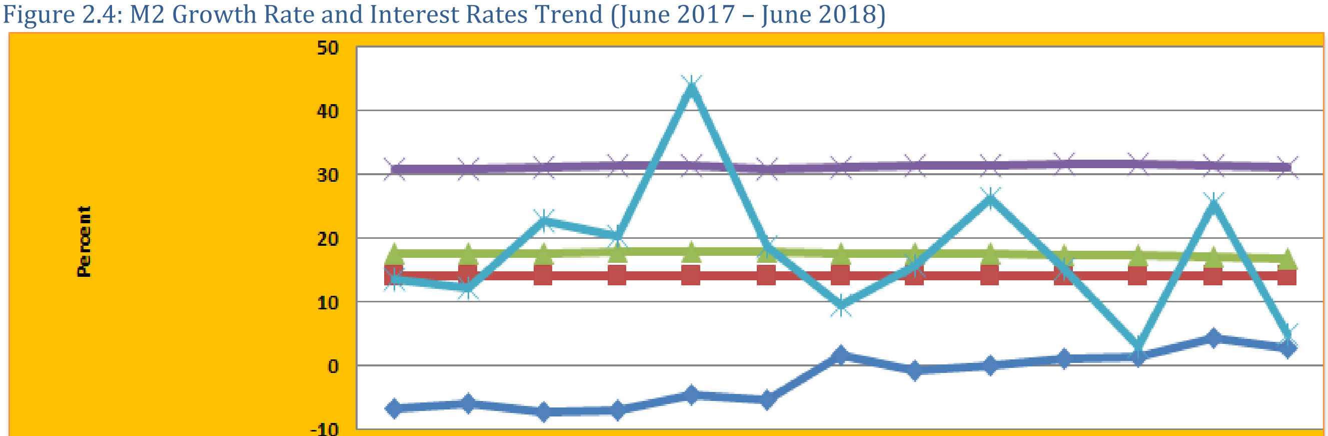
2.2.3 Developments in Money Market

Monetary aggregates grew in the second quarter relative to the first quarter of 2018. Broad Money Supply (M2) grew by 1.60 percent (or ₦389.58 billion) from ₦24,424.42 billion in March 2018 to ₦24,814.00 billion in June 2018. The increase in M2 was mainly driven by Net Foreign Assets (NFA), which grew by 18.15 percent in June 2018. The development also reflected improvements in foreign receipts arising from favourable crude oil prices. On the other hand, Net Domestic Credit decreased as a result of the fall in Net Credit to Government and Credit to Private Sector during the period under review. Net Domestic Credit declined by 6.32 percent (or ₦1,725.77 billion) from ₦27,293.98 billion in March

2018 to ₦25,568.21 billion in June 2018. The development was driven largely by the decrease in net credit to government. Net Credit to Government reduced by 33.35 percent (or ₦1,644.41 billion) from ₦4,930.75 billion in March 2018 to ₦3,286.34 billion in June 2018. Similarly, Credit to Private Sector also decreased by 0.36 percent (or ₦81.36 billion) from ₦22,363.23 billion in March 2018 to ₦22,281.87 billion in June 2018. When compared to the level at the end of second quarter of 2017, broad money supply expanded by 14.49 percent (or ₦3,139.79 billion) in June 2018.

Relative to the first quarter of 2018, Narrow Money Supply (M1) decelerated in the second quarter of 2018. The M1 registered a 3.02 percent (or ₦332.87 billion) decline from ₦11,033.98 billion in March 2018 to ₦10,701.11 billion at the end of the second quarter 2018. The drop in M1 is traceable to the decline in both the Demand Deposit and the Currency Outside Bank as at June 2018 from the March 2018 rates.

Figure 2.4: M2 Growth Rate and Interest Rates Trend (June 2017 – June 2018)



	Jun.17	Jul.17	Aug.17	Sep.17	Oct.17	Nov.17	Dec.17	Jan.18	Feb.18	Mar.18	Apr.18	May.18	Jun.18
M2 Growth Rate	-6.83	-5.92	-7.38	-6.94	-4.62	-5.43	1.74	-0.74	0.01	1.18	1.38	4.26	2.79
MPR	14	14	14	14	14	14	14	14	14	14	14	14	14
Prime Lending Rate	17.59	17.65	17.69	17.88	17.86	17.77	17.71	17.5	17.53	17.35	17.24	17.08	16.78
Maximum Lending Rate	30.94	30.94	31.2	31.39	31.39	30.95	30.99	31.39	31.40	31.55	31.56	31.29	31.17
Inter-Bank Call Rate	13.46	12.28	22.63	20.44	43.78	18.78	9.49	15.58	26.19	15.16	3.10	25.43	5.0

Source: Central Bank of Nigeria, 2018

The Central Bank of Nigeria (CBN) maintained a Monetary Policy Rate (MPR) of 14 percent in the review period, making the rate constant since the second half of 2016. Other key monetary policy instruments were equally retained during the review period as the Cash Reserve Ratio (CRR) and the Liquidity Ratio remained at 22.5 percent and 30 percent respectively. The MPR was retained at 14 percent in recent time as the macroeconomic and financial environment appears fairly balanced with improvements in output growth and inflation. Holding policy at the current stance was therefore needed to support further moderate inflation.

The average interbank call rate fell from 15.16 percent in March to 3.10 percent in April before surging up again to 25.43 percent in May and eventually coming down to 5.0 percent in June 2018 respectively. The average prime lending rate decreased consistently during the period under review, falling from 17.35 percent in March to 17.24 percent, 17.08 percent and 16.78 percent in April, May and June 2018 respectively. The average maximum lending rate on the other hand, increased slightly from 31.55 percent in March to 31.56 percent in April before falling to 31.29 percent and 31.17 percent in May and June 2018 respectively (figure 2.4).

2.2.4 Developments in the External Sector

2.2.4.1 External Trade

Nigeria's external trade improved significantly in the second quarter of 2018. Total trade expanded by ₦835.18 billion from ₦5,339.24 billion in quarter two 2017 to ₦6,569.99 billion in the review period. This was driven the 43.83 percent (year-on-year) increase in export to ₦4,463.30 billion in quarter two of 2018 from ₦3,103.15 billion in the same period of 2017. The increase in exports was boosted by higher sales of crude oil; agricultural goods; solid mineral; manufactured goods; raw material and energy. Exports were thus buoyed by 53.74 percent and 31.96 percent expansion in crude oil and non-oil exports respectively.

Imports on the other hand decreased by 19.95 percent (year-on-year) to ₦2,106.69 billion in the second quarter of 2018 from ₦2,631.66 billion in the same period in 2017. The decline in imports was mainly due to lower purchases of food and live animals; mineral fuel; miscellaneous manufactured articles; raw material; oils, fats & waxes & beverages and tobacco. The development led to the significant expansion of trade balance by ₦1,885.12 billion or 400 percent from ₦471.49 billion in quarter two 2017 to ₦2,356.61 billion in period under review.

2.2.4.2 Balance of Payment

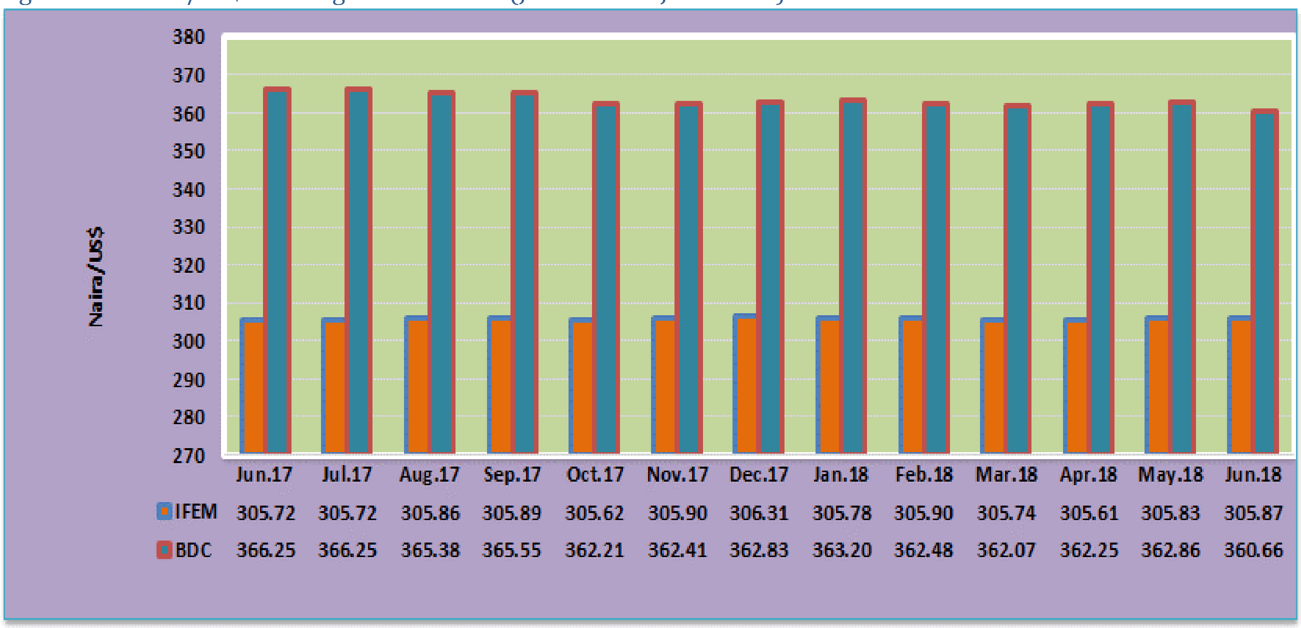
The CBN provisional Balance of Payments (BOP) estimates for second quarter of 2018 indicated a positive outcome, although the overall balance of payments surplus decreased to US$503.97 million as compared to a surplus of US$7,321.96 million in the first quarter of 2018. This was however a major improvement when compared to a surplus of US$298.66 million recorded in the corresponding period of 2017. Specifically, the Current Account Balance (CAB) improved significantly from a surplus of US$3,523.00 million in the preceding quarter to a surplus of US$5,735.86 million in quarter two of 2018. The financial account balance indicated a higher net incurrence of financial liabilities of US$1,792.62 million in the review period as against US$909.16 million recorded in the preceding period

2.2.4.3 Exchange Rates

There was notable satisfaction with the high level of activities in the Investors' and Exporters' (I&E) window of the foreign exchange market which continued to supply liquidity in foreign exchange market, narrow exchange rate premium, and reduce speculative activities in the market. The Naira exchange rates therefore witnessed consistent stability across all segments of the foreign exchange market during the review period. Specifically, the Naira/Dollar exchange rate at the Official/Inter-Bank markets opened at a monthly average of ₦305.74/US$ in March and appreciated slightly to ₦305.61/US$ in April before depreciating marginally to ₦305.83/US$ and ₦305.87/US$ in May and June 2018 respectively. On the other hand, the rate of the Naira/Dollar at the Bureau De-Change (BDC) depreciated slightly from ₦362.07/US$ in March to ₦362.25/US$, ₦362.86/US$ and ₦360.66/US$ in April, May and June 2018 respectively.

The rates in the foreign exchange market have therefore remained relatively stable in near term, and this was supported by continued intervention in the market by the CBN, sustained increase in the price of crude oil in the international market, as well as other positive developments in the external sector.

Figure 2.5: Naira/US$ Exchange Rates Trend (June 2017 – June 2018)

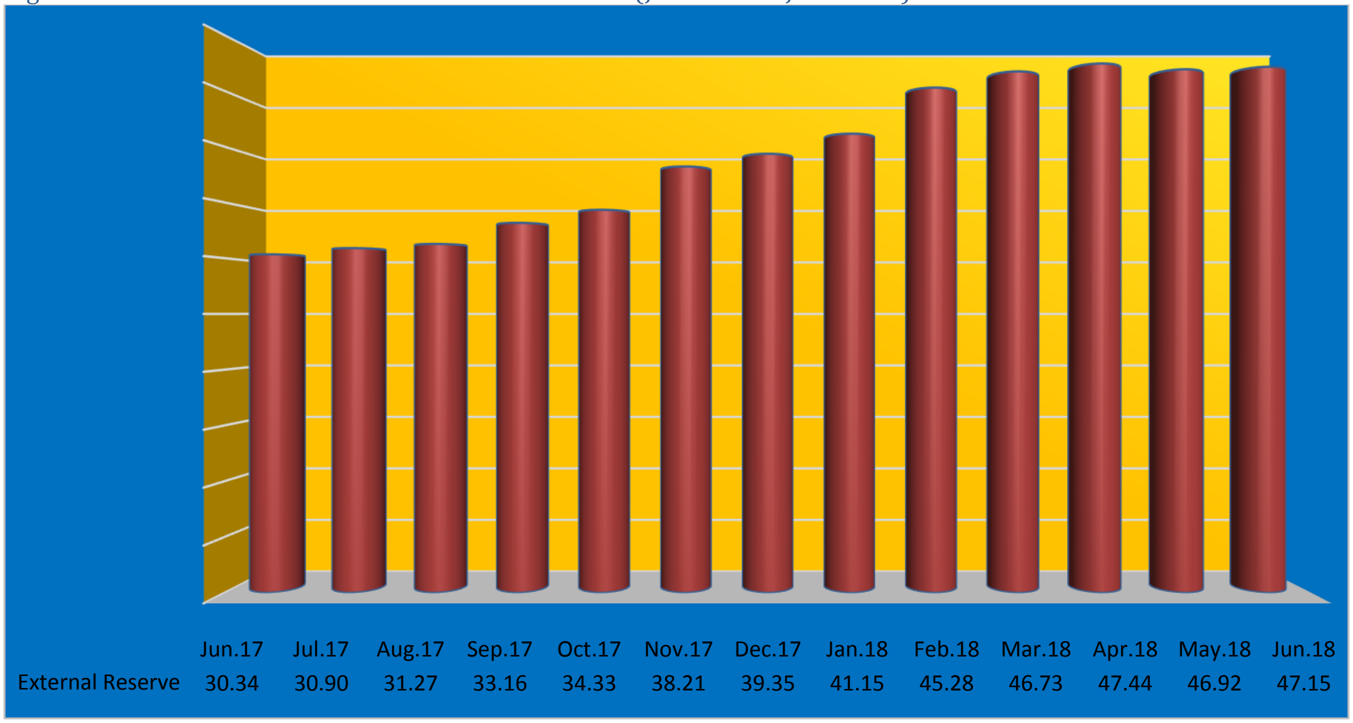


Source: Central Bank of Nigeria, 2018

2.2.4.4 External Reserves

Figures from the CBN showed that Nigeria's gross official (external) reserve increased at the end of the second quarter of 2018. It rose from US$46.73 billion at the end of March to US$47.44 billion, US$46.92 billion and US$47.15 billion in April, May and June 2018 respectively. This represents an increase of US$0.42 billion (or 0.90 percent) above the figure reported at the end of March 2018. Relative to the end of second quarter of 2017 level of US$30.34 billion, the external reserves at the end of second quarter of 2018 grew by US$16.81 billion (or 55.41 percent). There are likely possibilities of expected further increase in the level of external reserves in the near term, bearing in mind the favourable crude oil prices. The buildup in reserve is critical to the Federal Government efforts to build fiscal buffers against possible oil price shocks in the future.

Figure 2.6: Level of External Reserves in Billion Dollars (June 2017 – June 2018)



Source: Central Bank of Nigeria, 2018

2.2.5 Debt Stock

2.2.5.1 Total Public Debt Stock

The Nigeria's total public debt outstanding as at June 30, 2018 was N22, 379,666.27 million (US$73,207.94 million), compared to N19,636,982.66 million (US$64,194.19 million) in the corresponding period of 2017, representing an increase of N2,742,683.61 million (US$9,013.81 million) or 13.97 percent. The increase in the total debt portfolio was reflected in both the external and domestic components. The increase of N2,148,030.31 million (US$7,036.44 million), in external debt stock was largely on account of the additional issuance of Eurobonds of US$2.5 billion in February, 2018.

2.2.5.1 Domestic Debt Stock

The Federal Government domestic debt stock stood at ₦12,151.44 billion as at end of June 2018, representing a decrease of ₦425.32 billion (or 3.38 percent) below the ₦12,576.76 billion recorded in the first quarter of 2018. The 2018 second quarter debt figure was however ₦117.99 billion (or 0.98 percent) above the ₦12,033.45 billion reported in the same period of 2017. The decrease in domestic debt relative to the first quarter of 2018 was due to the reduction in net issuance of FGN Bonds, Nigeria Treasury Bill and Nigeria Treasury Bond during the period. A breakdown of the domestic debt stock as at 30th June, 2018 revealed that ₦8,927.66 billion (or 73.47 percent) is for FGN Bonds, ₦2,953.58 billion (or 24.31 percent) is for Nigerian Treasury Bills (NTBs), ₦150.99 billion (or 1.24 percent) is for Treasury Bonds, ₦8.52 billion (or 0.07 percent) is for FGN Savings Bond, ₦100.0 billion (or 0.82 percent) is for FGN Sukuk and ₦10.69 billion (or 0.09 percent) is for Green Bond.

2.2.5.2 External Debt Stock

Nigeria's external debt stock stood at US$22,083.44 million as at 30th June, 2018 indicating an increase of US$11.53 million (or 0.05 percent) and US$7,036.44 million (or 46.76 percent) above US$22,071.91 million and US$15,047.0 million recorded in the first quarter of 2018 and second quarter of 2017 respectively. A breakdown of the external debt stock as at 30th June, 2018 revealed that Multilateral Debts amounted to US$10,883.70 million (or 49.28 percent), Non-Paris Club Bilateral Debts amounted to US$2,399.74 million (or 10.87 percent) while Commercial (Euro-Bond) accounted for the balance of US$8,800.0 million (or 39.85 percent).

3.0 FINANCIAL ANALYSIS OF THE 2018 BUDGET IMPLEMENTATION

3.1 Key Assumptions and Projections

The 2018 Budget was derived from the 2018-2020 Medium Term Fiscal Framework (MTFF) which was prepared in line with the objectives of the ERGP. To ensure that many Nigerians were carried along in the Federal Budget matter, series of consultations were held with all relevant stakeholders within the economy. Developments at the international level were also taken into consideration in arriving at some of the key assumptions in the framework. The key Assumptions and Targets of the 2018 Budget are as tabulated in table 3.1.

Table 3.1: Key Assumptions and Targets for the 2016 - 2018 Budget

KEY ASSUMPTION & TARGETS	2016	2017	2018
Projected Production (in mbpd)	2.2	2.20	2.30
Budget Benchmark Price (per barrel in US)	38	44.50	51
Technical Cost of JVC Pbl to Oil Companies			
Operating Expenses (T1) in US $	10.29	10.43	11.24
Capital Expenses (T2) in US $	11.12	10.85	11.97
Technical Cost of PSC Pbl to Oil Companies			
Operating Expenses (T1) in US $	8.22	8.85	8.7
Capital Expenses (T2) in US $	19.62	17.86	11.01
Investment Tax Credit	4.94	2.85	2.13
Technical Costs of SC pbl to Oil Company			
Operating Expenses (T1) in US $	18.62	18.62	22.79
Capital Expenses (T2) in US $	2.44	2.05	2.05
Investment Allowances	2.996	0.46	0.46
Weighted Average Contribution Rates			
Weighted Average Rate of PPT - JV Oil	85%	85%	85%
Weighted Average Rate of PPT - PSC Oil	50.17%	50.2%	50.2%
Weighted Average Rate of PPT - SC Oil	85%	85%	85%
Weighted Average Rate of PPT - Independent (Indigenous	85%	85%	85%
Weighted Average Rate of PPT - Marginal	51.6%	51.6%	85%
Royalty Rates			
Weighted Average Rate of Royalties - JV Oil	19.1%	19.1%	18.67%
Weighted Average Rate of Royalties - PSC	4.5%	4.5%	2.3%
Weighted Average Rate of Royalties - SC Oil	18.5%	18.5%	18.5%
Weighted Average Rate of Royalties -Independent	19.3%	19.3%	19.31%
Weighted Average Rate of Royalties - Marginal	9.3%	9.3%	9.3%
Average Exchange Rate (NGN/US$)	197	305	305
VAT Rate	5%	5%	5%
CIT Rate	30%	30%	30%

Source: BOF, NNPC, FIRS and NCS, 2018

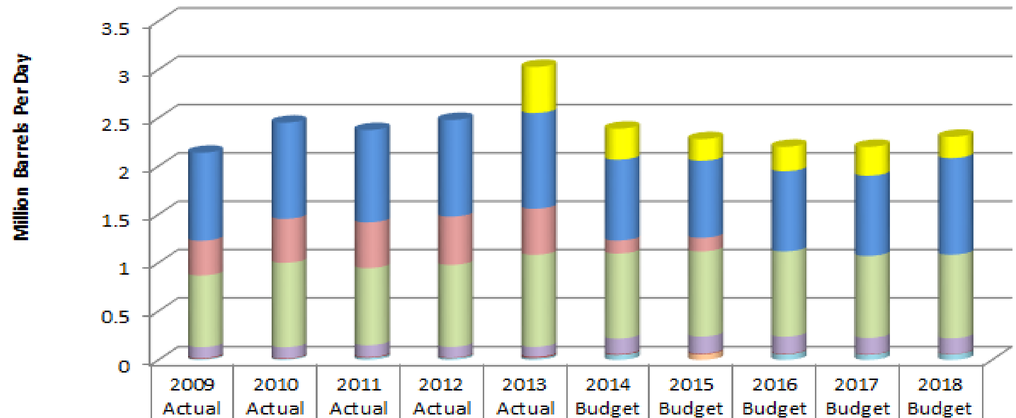
3.1.1 Budget Benchmark Oil Price and Production

Due to the unstable nature of oil price in the world market, Government continued the use of benchmark oil production and prices for its yearly budgets. This was to protect budget expenditures from the uncertainties in the prices of oil at the global market. The budget benchmark price of oil for the 2018 Budget was therefore fixed at US$51.0/barrel while oil production was pegged at 2.3 million barrels per day (mbpd).

Government policy to increase efficiency and therefore reduce cost in the oil sector was reflected in the budget framework for 2018 fiscal year. The Technical Cost comprising average of operating expenses and capital expenses were moderated in the 2017 as well as in the 2018 fiscal year compare to the rates in 2016 particularly for the Production Sharing Contracts (PSCs). The average expenses [Capital (T1) and Operating (T2)] for the JVs production arrangement fell from US$21.41 per barrel (pb) in 2016 to 21.28 pb in 2017 before rising to US$23.21 pb in 2018. The average expenses for the PSC however dropped significantly to US$19.71 pb in 2018 from 26.71 in 2017. This is driven by the drastic reduction in Capex for PSC and is expected to be further driven down in the near to medium term to complement efforts at increasing revenue inflow for the country.

The share of oil production by business arrangements remained relatively stable with the JVs and PSCs dominating at approximately 43 and 37 percent respectively. Information on expected contributions of oil production by business arrangements are presented in Figure *3.1* while the analysis of contributions and duties for key oil taxes that are projected to accrue to the Federation are also represented in *Table 3.2*. These rates remained largely unchanged with the rates in the 2017 budget framework.

Figure 3.1: Budget Oil Production by Business Arrangements 2009 – 2018



	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Budget	2016 Budget	2017 Budget	2018 Budget
Modified Carry Arrangement					0.476	0.32	0.223	0.252	0.298	0.22
Joint Ventures	0.91	0.995	0.955	1	0.991	0.837	0.798	0.830	0.831	1
Alternative Funding	0.36	0.455	0.474	0.5	0.477	0.135	0.141	0	0	0
Prod. Sharing Contracts	0.736	0.868	0.793	0.843	0.947	0.875	0.876	0.878	0.843	0.86
Independents	0.113	0.115	0.122	0.11	0.104	0.16	0.176	0.176	0.168	0.16
Service Contracts	0.009	0.007	0.008	0.005	0.013	0.008	0.007	0.006	0.005	0.004
Marginal Fields	0.011	0.01	0.022	0.02	0.019	0.053	0.059	0.059	0.055	0.06

Source: NAPIMS/NNPC, 2018

Table 3.2: Detailed Assumptions for Oil Production and Taxes (2018)

Share of Oil Production	***2018 Production Volume (mbpd)***	***2018 Percentage***
Joint Ventures	1.00	43.48%
Alternative Funding		
Modified Carry Arrangement	0.22	9.57%
Production Sharing Contracts	0.86	37.39%
Independents	0.16	6.96%
Service Contracts	0.004	0.17%
Marginal	0.06	2.61%
Base Production	2.30	100%
Repayment Arrears	0.21	8.37%
Total Oil Production	2.51	100%
PPT Rates		
Weigthed Average -JV/AF/Independent/Marginal		85%
Weigthed Average -PSC		50.2%
Weigthed Average -SC		85%
Royalties Rates		
Weighted Average-JV/AF/Independent/Marginal		18.67%
Weigthed Average-PSC		2.3%
Weigthed Average-SC Oil		19.31%

Source: NNPC and BOF, 2018

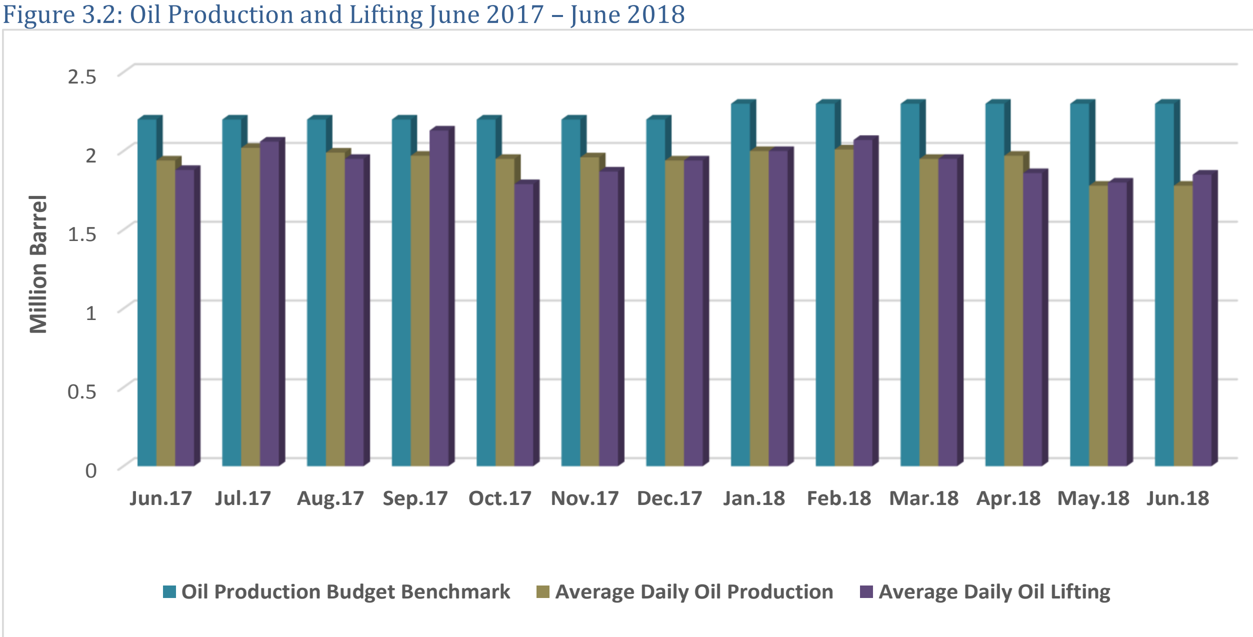
3.2 Analysis of Revenue Performance:

3.2.1 Performance of Key Oil Revenue Parameters:

The price of crude oil at the international market averaged US$74.35 per barrel in the second quarter of 2018, indicating an increase of US$7.55 per barrel (or 11.3 percent) and US$24.52 per barrel (or 49.21 percent) above US$66.80 per barrel and US$49.83 per barrel reported in the first quarter of 2018 and second quarter of 2017 respectively. The rise in the price of crude oil during the period can be attributed to the increase in its demand at the world market and the agreement reached by OPEC and other oil producing countries to cut down on production and supply.

Provisional data from the Nigerian National Petroleum Corporation (NNPC) revealed that the average oil production and lifting (including Condensates) in the second quarter of 2018 was 1.84mbpd. The figure showed a shortfall of 0.46mbpd (or 20 percent) below the 2.3mbpd projected in the 2018 Budget. The volume of oil production in the period was also 0.15mbpd and 0.03mbpd below the 1.99mbpd and 1.87mbpd reported in the first quarter of 2018 and second quarter of 2017 respectively.

Figure 3.2: Oil Production and Lifting June 2017 – June 2018



Source: NNPC, 2018

The above translates to an average monthly oil production and lifting of 55.86 million barrels and 55.70 million barrels respectively in the second quarter of the year. The reduction in the quantity of oil production during the quarter as against the predicted budget figure could be ascribed to legacy issues of crude oil theft, illegal bunkering and pipeline vandalism as well as delay in repair of vandalized pipelines.

3.3 Aggregate Revenue of the Federation:

The 2018 Fiscal Framework projected a gross Federally Collectible Revenue of ₦13,218.23 billion, consisting of ₦7,618.07 billion (or 57.63 percent) oil revenue and ₦5,600.16 billion (or 42.37 percent) non-oil revenue. This translates to prorate quarterly projection of ₦1,904.52 billion and 1,400.04 billion in gross oil and non-oil revenue respectively. Below are the breakdowns of the real performance of the oil and non-oil revenue earnings in the second quarter of 2018.

3.4 Oil Revenue Performance:

Gross Oil Revenue stood at ₦1,398.06 billion in the second quarter of 2018. This translate to a ₦506.46 billion (or 26.59 percent) shortfall when compared with the quarterly budget estimate. However, the performance was ₦110.0 billion (or 8.54 percent) and ₦608.85 billion (or 77.15 percent) above the ₦1,288.06 billion and ₦789.21 billion generated in the first quarter of 2018 and corresponding period of 2017. A breakdown of the oil revenue performance in the second quarter of 2018 revealed that only Crude Oil Sales of ₦440.48 billion and Gas Sales of ₦114.15 billion exceeded their quarterly estimate of ₦305.69 billion and ₦63.02 billion by ₦134.79 billion (or 44.09 percent) and ₦51.13 billion (or 81.13 percent) respectively. The other remaining oil revenue items fell below their respective quarterly projections. Petroleum Profit and Gas Taxes of ₦552.14 billion, Royalties (Oil &Gas) of ₦288.89 billion, Rent of ₦0.10 billion, Gas Flared Penalty of ₦0.90 billion and Other Oil & Gas Revenue of ₦1.40 billion fell below their quarterly estimates of ₦895.97 billion, ₦483.03 billion, ₦0.42 billion, ₦1.18 billion and ₦1.46 billion by ₦343.82 billion (or 38.37 percent), ₦194.14 billion (or 40.19 percent), ₦0.32 billion (or 75.29 percent),

₦0.29 billion (or 24.24 percent) and ₦0.06 billion (or 4.25 percent) respectively. On the other hand, Licenses & Early License Renewal and Exchange Gain yielded nothing in the quarter. Please see *Table 3.4*.

3.4.1 Net Oil Revenue:

The actual Net Oil Revenue that accrued into the Federation Account in the second quarter of 2018, was ₦998.61 billion, depicting a decrease of ₦541.78 billion (or 35.17 percent) below the estimated quarterly budget of ₦1,540.39 billion. The net oil revenue inflow in the second quarter of 2018 was also lower than the ₦1,051.62 billion net oil revenue recorded in the first quarter of 2018 by ₦53.01 billion (or 5.04 percent). It was however ₦541.72 billion (or 118.57 percent) above the ₦456.89 billion performance reported in the second quarter of 2017 (Table 3.4). The poor Net Oil Revenue performance in the second quarter of 2018 when compared with the quarterly projection is attributable to the higher fiscal deduction during the review period especially for the Joint Venture cash call.

3.4.2 Half Year Oil Revenue Performance:

Gross Oil Revenue of ₦2,686.12 billion was collected in the first half of 2018 as against ₦3,809.03 billion prorate budget projection for the period. This reflect a decline of ₦1,122.91 billion (or 29.48 percent) below the prorate budget estimate for the period but also a ₦1,098.42 billion (or 69.18 percent) above the half year gross oil revenue of ₦1,587.70 billion recorded in the first half of 2017. A breakdown of the revenue by sub-head indicates that only Crude Oil Sales of ₦702.11 billion, Gas Sales of ₦211.74 billion and Other Oil & Gas Revenue of ₦2.99 billion surpassed their half year projections of ₦611.38 billion, ₦126.05 billion and ₦2.93 billion by ₦90.73 billion (or 14.84 percent), ₦85.69 billion (or 67.98 percent) and ₦0.06 billion (or 2.06 percent) respectively.

The remaining Oil Revenue items fell below their respective half year projections. Petroleum Profit & Gas Taxes of ₦1,217.50 billion, Royalties (Oil & Gas) of ₦549.86 billion, Rent of ₦0.21 billion and Gas Flared Penalty of ₦1.72

billion fell below their half year projected estimates of ₦1,791.93 billion, ₦966.06 billion, ₦0.84 billion and ₦2.36 billion by ₦574.43 billion (or 32.06 percent), ₦416.20 billion (or 43.08 percent), ₦0.63 billion (or 74.91 percent) and ₦0.65 billion (or 27.37 percent) respectively (Table 3.4). On the other hand, Licenses & Early License Renewal and Exchange Gain yielded nothing in the half year period. These low performances were mainly as a result of the lower than projected oil production during the review period.

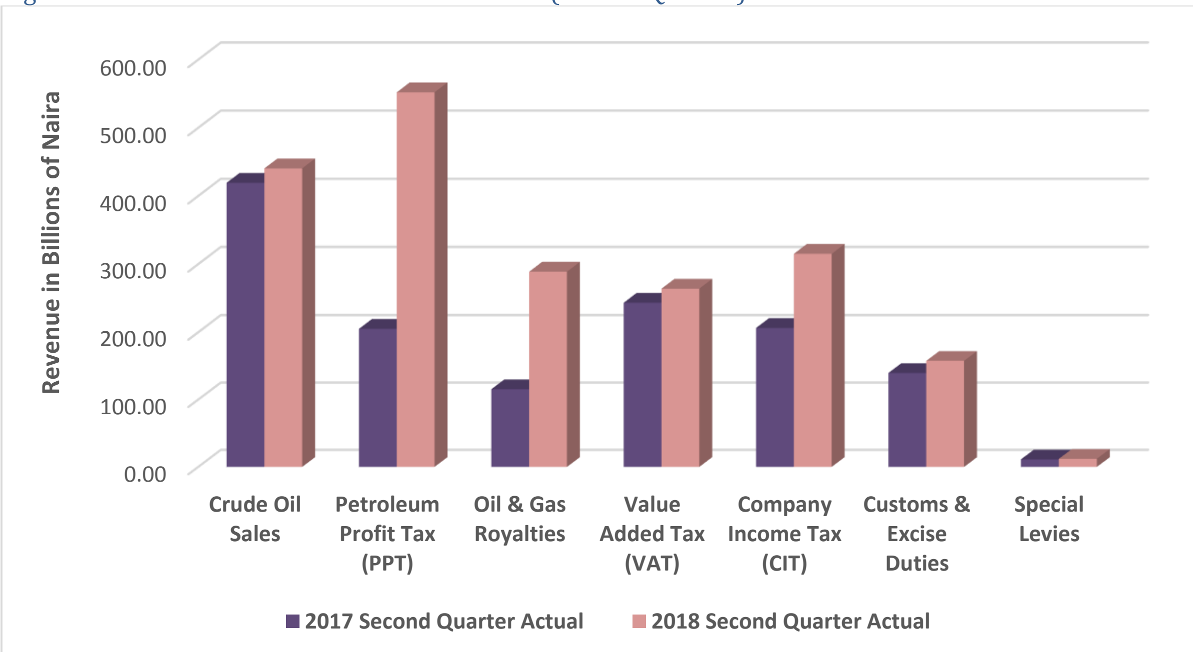
Table 3.3: Performance of Revenue in the Second Quarter of 2018 Vs 2017

Revenue Items	2017	2018	Variance	
	2nd Quarter Actual	2nd Quarter Actual	2nd Quarter 2018 Vs 2nd Quarter 2017	
Oil Revenue	**N'bns**	**N'bns**	**N'bns**	**%**
Crude Oil Sales	**419.32**	**440.48**	**21.16**	**5.05**
Petroleum Profit Tax (PPT)	**205.07**	**552.14**	**347.07**	**169.24**
Royalties	**115.42**	**288.89**	**173.47**	**150.29**
Gross Oil Revenue	**789.21**	**1,398.06**	**608.85**	**77.15**
Net Oil Receipts	**456.89**	**998.61**	**541.72**	**118.57**
Non-Oil Revenue				
Value Added Tax (VAT)	**243.31**	**264.00**	**20.69**	**8.50**
Company Income Tax (CIT)	**206.38**	**315.13**	**108.75**	**52.69**
Customs & Excise Duties	**139.59**	**157.62**	**18.03**	**12.92**
Special levies	**11.08**	**11.98**	**0.90**	**8.12**
Gross Non-Oil Revenue	**600.35**	**748.73**	**148.38**	**24.72**
Net Non-Oil Receipts	**552.37**	**711.69**	**159.32**	**28.84**

Source: OAGF and Budget Office of the Federation, 2018

Revenue performance significantly increased when compared to the level in 2017 for all revenue sources and broad category in the second quarter of 2018 (Figure 3.3). This reflect the stronger revenue drive of government and is going to be sustained going forward.

Figure 3.3: 2017 Vs 2018 Revenue Performance (Second Quarter)



Source: OAGF and Budget Office of the Federation, 2018

3.5 Non-Oil Revenue Performance:

Gross non-oil revenue of ₦748.73 billion was received in the second quarter of 2018 signifying a shortfall of ₦359.23 billion (or 32.42 percent) below the quarterly estimate of ₦1,107.96 billion. A breakdown of the non-oil revenue items showed that all the non-oil revenue items fell below their respective quarterly expectations. Value Added Tax of ₦264.0 billion, Company Income Tax of ₦315.13 billion, Customs & Excise Duties of ₦157.62 billion and Special Levies of ₦11.98 billion were below their quarterly estimates of ₦386.0 billion, ₦432.95 billion, ₦180.06 billion and ₦32.08 billion by ₦122.0 billion (or 31.61 percent), ₦117.82 billion (or 27.21 percent), ₦22.44 billion (or 12.46 percent) and ₦20.10 billion (or 62.65 percent) respectively. On the other hand, Revenue Dividend by Companies / Investments Funded by FAAC, Solid Minerals & Other Mining Revenue, Tax Amnesty and Surcharge on Luxury Items which had quarterly projections of ₦16.11 billion, ₦0.69 billion, ₦76.25 billion and ₦0.63 billion respectively yielded nothing in the quarter.

When compared with their corresponding first quarter performances, Company Income Tax, Customs & Excise Duties and Special Levies grew by ₦58.27

billion (or 22.69 percent), ₦9.08 billion (or 6.11 percent) and N2.10 billion (or 21.21 percent) respectively while Value Added Tax fell by ₦6.06 billion (or 2.24 percent). The improved performances of some of the non-oil revenue items in the second quarter of 2018 can be ascribed to the increase in economic activities, expansion in the tax base and the improvement in the performance of the revenue collecting agencies during the period. Nonetheless, it is expected that this trend together with the other remaining non-oil revenue item will get better in the third quarter of 2018 following the expected release of funds for 2018 capital projects/programmes.

3.5.1 Half Year Non-Oil Revenue Performance:

The gross non-oil revenue in the first half of the year amounted to ₦1,434.06 billion depicting a shortfall of ₦781.85 billion (or 35.28 percent) below the half year estimate of ₦2,215.92 billion. The outcome also showed that receipts from all the non-oil revenue items were below their corresponding estimates. Value Added Tax of ₦534.06 billion, Company Income Tax of ₦571.99 billion, Customs & Excise Duties of ₦306.16 billion and Special Levies of ₦21.86 billion respectively fell short by ₦237.94 billion (or 30.82 percent), ₦293.91 billion (or 33.94 percent), ₦53.96 billion (or 14.98 percent) and ₦42.29 billion (or 65.92 percent) when compared with their projections for half year of 2018. On the other hand, Revenue Dividend by Companies / Investments Funded by FAAC, Solid Minerals & Other Mining Revenue, Tax Amnesty and Surcharge on Luxury Items which had half year projections of ₦32.21 billion, ₦1.39 billion, ₦152.50 billion and ₦1.25 billion respectively yielded nothing in the half year period.

Table 3.4: Net Distributable Revenue as at June, 2018 (Oil Revenue at Benchmark Assumptions)

S/NO	DESCRIPTION	2018 BUDGET			2018 ACTUAL			VARIANCE					
		Annual	Quarterly	Half Year	First Quarter	Second Quarter	Half Year	2nd Quarter Actual Vs Quarterly Budget		2nd Quarter Actual Vs First Quarter Actual		Half Year Actual Vs Half Year Budget	
A	OIL REVENUE	₦b	₦b	₦b	₦b	₦b	₦b	₦b	%	₦b	%	₦b	%
1	Crude Oil Sales: Export	1,222.76	305.69	611.38	261.63	440.48	702.11	134.79	44.09	178.85	68.36	90.73	14.84
2	Crude Oil Sales: Domestic												
3	Gas Sales (NLNG Feedstock Sales & Upstream Liquid Gas)	252.09	63.02	126.05	97.58	114.15	211.74	51.13	81.13	16.57	16.98	85.69	67.98
4	PPT & Gas Income @ 30% CITA	3,583.86	895.97	1,791.93	665.36	552.14	1,217.50	(343.82)	(38.37)	(113.21)	(17.02)	(574.43)	(32.06)
5	Oil Royalties & Gas Royalties	1,932.13	483.03	966.06	260.98	288.89	549.86	(194.14)	(40.19)	27.91	10.70	(416.20)	(43.08)
6	Rent	1.68	0.42	0.84	0.11	0.10	0.21	(0.32)	(75.29)	(0.00)	(2.99)	(0.63)	(74.91)
7	Gas Flared Penalty	4.73	1.18	2.36	0.82	0.90	1.72	(0.29)	(24.24)	0.07	9.02	(0.65)	(27.37)
8	Licenses & Early License Renewal	395.00	98.75	197.50	0.00	0.00	0.00	(98.75)	(100.00)	0.00		(197.50)	(100.00)
9	Exchange Gain	219.97	54.99	109.98	0.00	0.00	0.00	(54.99)	(100.00)	0.00		(109.98)	(100.00)
10	Other Oil and Gas Revenue	5.86	1.46	2.93	1.59	1.40	2.99	(0.06)	(4.25)	(0.18)	(11.64)	0.06	2.06
11	Sub Total	7,618.07	1,904.52	3,809.03	1,288.06	1,398.06	2,686.12	(506.46)	(26.59)	110.00	8.54	(1,122.91)	(29.48)
12	DPR Cost of Collection		0.00	0.00	10.54	11.65	22.19	11.65		1.11	10.54	22.19	
13	Joint Venture Cash Calls		0.00	0.00	68.64	214.08	282.72	214.08		145.45	211.92	282.72	
14	Transfer to Lagos State 13% Derivation		0.00	0.00	0.13	0.00	0.13	0.00		(0.13)	(100.00)	0.13	
15	Gas Infrastructure Development& Other Gas Expenses	297.71	74.43	148.86	0.00	0.00	0.00	(74.43)	(100.00)	0.00		(148.86)	(100.00)
16	NESS Fees	238.11	59.53	119.06	0.00	0.00	0.00	(59.53)	(100.00)	0.00		(119.06)	(100.00)
17	Transfer to Excess Crude Oil ,on PPT from Oil		0.00	0.00	0.00	24.50	24.50	24.50		24.50		24.50	
18	Sub-Total	7,082.24	1,770.56	3,541.12	1,208.75	1,147.83	2,356.58	(622.73)	(35.17)	(60.93)	(5.04)	(1,184.54)	(33.45)
19	Less 13% Derivation of Net Oil Revenue	920.69	230.17	460.35	157.14	149.22	306.36	(80.96)	(35.17)	(7.92)	(5.04)	(153.99)	(33.45)
20	TO FEDERATION ACCOUNT (OIL)	6,161.55	1,540.39	3,080.77	1,051.62	998.61	2,050.22	(541.78)	(35.17)	(53.01)	(5.04)	(1,030.55)	(33.45)
B	DIVIDEND OF COMPANIES/INVESTMENTS FUNDED BY FAAC												
21	Dividend of Companies/Investments Funded by FAAC	64.43	16.11	32.21	0.00	0.00	0.00	(16.11)	(100.00)	0.00		(32.21)	(100.00)
22	TO FEDERATION ACCOUNT (DIVIDEND OF COMPANIES/INVESTMENTS FUNDED BY FAAC	64.43	16.11	32.21	0.00	0.00	0.00	(16.11)	(100.00)	0.00		(32.21)	(100.00)
C	SOLID MINERALS & OTHER MINNING REVENUE												
23	Total Solid Mineral Revenue	2.78	0.69	1.39	0.00	0.00	0.00	(0.69)	(100.00)	0.00		(1.39)	(100.00)
24	Less 13% Derivation of Net Solid Minerals	0.36	0.09	0.18	0.00	0.00	0.00	(0.09)	(100.00)	0.00		(0.18)	(100.00)
25	TO FEDERATION ACCOUNT (SOLID MINERALS)	2.41	0.60	1.21	0.00	0.00	0.00	(0.60)	(100.00)	0.00		(1.21)	(100.00)
D	NON-OIL REVENUE												
26	Value Added Tax (VAT)	1,544.00	386.00	772.00	270.06	264.00	534.06	(122.00)	(31.61)	(6.06)	(2.24)	(237.94)	(30.82)
27	Tax Amnesty	305.00	76.25	152.50	0.00	0.00	0.00	(76.25)	(100.00)	0.00		(152.50)	(100.00)
28	Surcharge on Luxury Items	2.50	0.63	1.25	0.00	0.00	0.00	(0.63)	(100.00)	0.00		(1.25)	(100.00)
29	Corporate Tax (CIT, Stamp Duties & CGT)	1,731.81	432.95	865.90	256.86	315.13	571.99	(117.82)	(27.21)	58.27	22.69	(293.91)	(33.94)
30	Customs: Import, Excise & Fees	720.23	180.06	360.11	148.54	157.62	306.16	(22.44)	(12.46)	9.08	6.11	(53.96)	(14.98)
31	Special Levies (Federation Account)	128.30	32.08	64.15	9.88	11.98	21.86	(20.10)	(62.65)	2.10	21.21	(42.29)	(65.92)
32	Sub-Total	4,431.83	1,107.96	2,215.92	685.34	748.73	1,434.06	(359.23)	(32.42)	63.39	9.25	(781.85)	(35.28)
33	Cost of Collection and Other Deductions	226.63	56.66	113.31	37.93	37.04	74.97	(19.62)	(34.63)	(0.89)	(2.36)	(38.34)	(33.84)
34	4% Cost of Collection (VAT)	61.76	15.44	30.88	10.80	10.56	21.36	(4.88)	(31.61)	(0.24)	(2.25)	(9.52)	(30.82)
35	4% Cost of Collection (Tax Amnesty)	12.20	3.05	6.10	0.00	0.00	0.00	(3.05)	(100.00)	0.00		(6.10)	(100.00)
37	4% Cost of Collection (CIT)	68.27	17.07	34.14	10.03	12.52	22.56	(4.54)	(26.62)	2.49	24.82	(11.58)	(33.92)
38	7% Cost of Collection (Customs & Special Levies)	59.40	14.85	29.70	11.09	11.87	22.95	(2.98)	(20.10)	0.78	7.01	(6.75)	(22.71)
39	FIRS Tax Refunds	25.00	6.25	12.50	6.01	2.09	8.10	(4.16)	(66.58)	(3.92)	(65.22)	(4.40)	(35.23)
40	TO FEDERATION ACCOUNT (NON-OIL)	2,427.67	606.92	1,213.83	388.15	458.25	846.40	(148.66)	(24.50)	70.10	18.06	(367.43)	(30.27)
41	Total VAT Pool	1,482.24	370.56	741.12	259.25	253.44	512.69	(117.12)	(31.61)	(5.82)	(2.24)	(228.42)	(30.82)
42	Net Tax Amnesty	292.80	73.20	146.40	0.00	0.00	0.00	(73.20)	(100.00)	0.00		(146.40)	(100.00)
44	Net Surcharge on Luxury Items	2.50	0.63	1.25	0.00	0.00	0.00	(0.63)	(100.00)	0.00		(1.25)	(100.00)
45	Net Non-Oil Revenue	4,205.20	1,051.30	2,102.60	647.40	711.69	1,359.09	(339.61)	(32.30)	64.29	9.93	(743.51)	(35.36)
46	Sub-Total: FEDERATION ACCOUNT	8,656.06	2,164.01	4,328.03	1,439.76	1,456.86	2,896.63	(707.15)	(32.68)	17.10	1.19	(1,431.40)	(33.07)
47	Actual Balances in Special Accounts	19.17	4.79	9.59	0.00	0.00	0.00	(4.79)	(100.00)			(9.59)	(100.00)
48	TOTAL FEDERATION ACCOUNT	8,675.23	2,168.81	4,337.61	1,439.76	1,456.86	2,896.63	(711.95)	(32.83)	17.10	1.19	(1,440.99)	(33.22)
E	TOTAL DISTRIBUTION												
1	Federation Account	8,675.23	2,168.81	4,337.61	1,439.76	1,456.86	2,896.63	(711.95)	(32.83)	17.10	1.19	(1,440.99)	(33.22)
2	VAT Pool Account	1,482.24	370.56	741.12	259.25	253.44	512.69	(117.12)	(31.61)	(5.82)	(2.24)	(228.42)	(30.82)
3	Net Tax Amnesty	292.80	73.20	146.40	0.00	0.00	0.00	(73.20)	(100.00)	0.00		(146.40)	(100.00)
4	Net Surcharge on Luxury Items	2.50	0.63	1.25	0.00	0.00	0.00	(0.63)	(100.00)	0.00		(1.25)	(100.00)
5	GRAND TOTAL	10,452.76	2,613.19	5,226.38	1,699.02	1,710.30	3,409.32	(902.89)	(34.55)	11.28	0.66	(1,817.06)	(34.77)

Source: OAGF and Budget Office of the Federation, 2018

Table 3.5: Actual Performance of Non-Oil Revenue Categories (Second Quarter) 2009 – 2017

Description	SECOND QUARTER (ACTUAL)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	9 - Year Average
	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn
Customs & Excise Duties	29.03	30.99	46.42	53.09	43.87	61.47	55.87	46.09	139.59	56.27
Company Income Tax	47.62	60.19	62.14	73.29	85.22	110.75	74.20	79.93	206.38	88.86
Value Added Tax	14.62	19.24	21.46	24.43	26.03	26.09	27.31	26.16	243.31	47.63
FGN Independent Revenue	25.12	49.25	59.48	28.78	17.19	12.88	10.31	59.10	97.49	39.96

Source: OAGF and BOF, 2018

Further analysis of second quarter non-oil revenue performance revealed that the key non-oil revenue sub-heads, had shown some trend of improvement especially in 2017, notwithstanding some few years of fluctuations. Table 3.5 and 3.6.

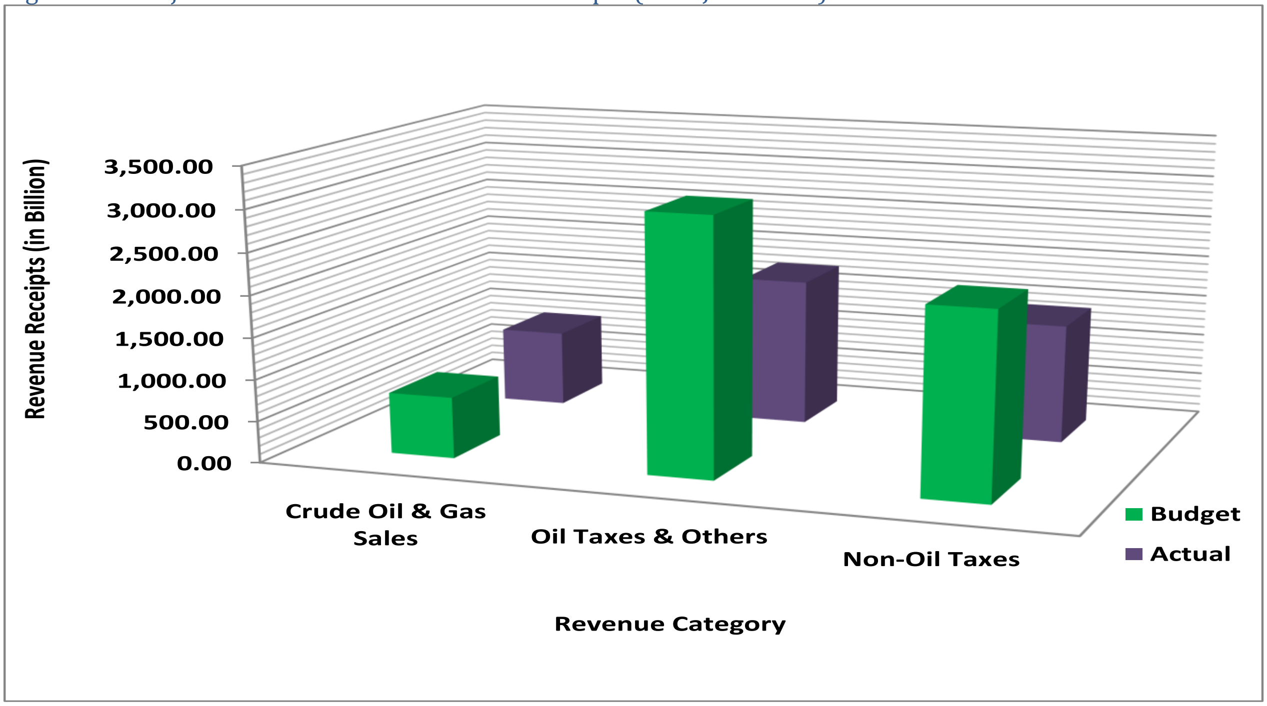
Table 3.6: Percentage Growth in Non-Oil Revenue Performances (Second Quarter) 2010 – 2017

Description	2010	2011	2012	2013	2014	2015	2016	2017	8 - Year Average
Customs & Excise Duties	6.75%	49.79%	14.37%	-17.37%	40.12%	-9.11%	-17.50%	202.86%	33.74%
Company Income Tax	26.40%	3.24%	17.94%	16.28%	29.96%	-33.00%	7.72%	158.20%	28.34%
Value Added Tax	31.60%	11.54%	13.84%	6.55%	0.23%	4.68%	-4.21%	830.08%	111.79%
FGN Independent Revenue	96.06%	20.77%	-51.61%	-40.27%	-25.07%	-19.95%	473.23%	64.96%	64.76%

Source: OAGF and BOF, 2018

Overall, with the exception of Crude Oil & Gas Sales, the actual performance of other revenue categories were below their 2018 half year budgeted figures. The underperformance was however, more severe for Oil Taxes & Others as well as Non-Oil Taxes (Figure 3.4).

Figure 3.4: Projected Vs Actual FAAC Revenue Receipts (as at June 2018)

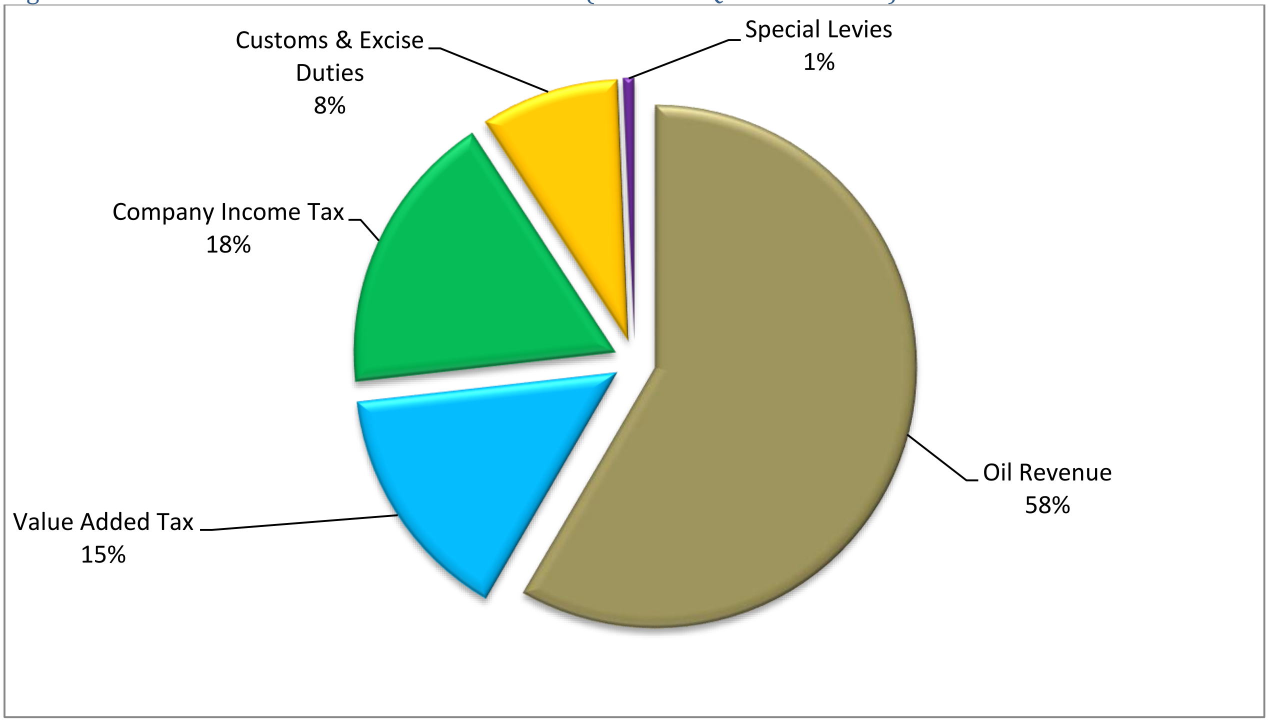


Source: Budget Office of the Federation, 2018

3.6 Distributable Revenue:

The net distributable revenue available for sharing among the three tiers of government (after the deduction of all costs) stood at ₦1,710.30 billion in the second quarter of 2018. This represented a shortfall of ₦902.87 billion (or 34.55 percent) when compared with the quarterly projection of ₦2,613.17 billion. A breakdown by sources indicated that oil revenue accounted for 60.01 percent of the shortfall while the balance came from non-oil revenue items; 12.97 percent from VAT, 12.09 percent from CIT and 4.38 percent from Customs & Excise etc. (Figure 3.5).

Figure 3.5: Contributions to Distributable Revenue (in the 2nd Quarter of 2018)



Source: Budget Office of the Federation, 2018

3.7 Excess Crude Account

Analysis of the reports of the Excess Crude Account (ECA) indicate that despite the noticeable improvement in the price of oil in the world market which started since the second half of 2016, nothing was transferred to the ECA in the second quarter of 2018. This might be connected with the shortfall in production and lifting of output during the quarter. However, the sum of US$122.23 was withdrawn from the account as Bank Charges (April – June 2018). On the other hand, a total of US$88.06 million being accrued interest on fund investment (February – April) and April 2018 allocation was received into the ECA within the period of this report. The ECA had an opening balance of US$1,828.68 million as at 31st March 2018 and a closing balance of US$1,916.74 million as at 30th June 2018 (Table 3.7).

Table 3.7: Net Excess Crude Account

Description	2017 Actual (N'bn)			2018 Actual (N'bn)		
	First Quarter	Second Quarter	Half Year	First Quarter	Second Quarter	Half Year
Inflows						
Transfer to Excess Crude Oil Account	97.89	33.65	131.54	0	0	0
Outflows						
Payment for Petroleum Product Subsidy	0	0	0	0	0	0
Augmentation: Distribution among tiers of Govt.	0	0	0	0	0	0
Transfer for Special Intervention Fund	0	0	0	0	0	0
Transfers Int. trf - SWF	0	0	0	0	0	0
Transfer to Nigeria Sovereign Investment Authority	US$250. 0 million (or N76.25 billion)	0	US$250. 0 million (or N76.25 billion)	0	0	0
Amount approved by Mr. President as advance payment for the purchase of Super Tucano Aircraft	0	0	0	US$496.37 million	0	US$496.37 million
Bank Charges	0	0	0	0	US$122.23	US$122.23
Total Outflow	US$250. 0 million (or N76.25 billion)	0	US$250. 0 million (or N76.25 billion)	US$496.37 million	US$122.23	US$496.37 million
Net Excess Crude Account	21.64	33.65	55.29	(US$496.37million)	(US$122.23)	(US$496.37million)

Source: Office of the Accountant General of the Federation, 2018

3.8 FGN Budget Revenue

The sum of ₦7,165.87 billion was projected to fund the Federal Budget, translating to a quarterly share of ₦1,791.47 billion. A total of ₦889.64 billion, excluding other funding sources, was received in the second quarter of 2018. This amount was ₦901.84 billion (or 50.34 percent) lower than the quarterly projection but ₦83.0 billion (or 10.29 percent) higher than the ₦806.64 billion reported in the first quarter of 2018. The aggregate revenue in the second quarter of 2018 was also ₦383.25 billion (or 75.68 percent) above the ₦506.39 billion recorded in the second quarter of 2017.

The sum of ₦484.33 billion received in the second quarter of 2018 from oil sources was lower than the quarterly estimate of ₦747.09 billion by ₦262.76 billion (or 35.17 percent) for the period. Likewise, all the non-oil revenue items fell below their quarterly budget projections. FGN Share of VAT of ₦35.48 billion, Customs & Excise Duties of ₦71.10 billion, Special Levies of ₦5.40 billion, Company Income Tax of ₦145.75 billion and Independent Revenue of ₦147.58 billion were below their corresponding quarterly budget estimates of ₦51.88 billion, ₦81.21 billion, ₦14.47 billion, ₦198.67 billion and ₦211.99 billion by ₦16.40 billion (or 31.61 percent), ₦10.12 billion (or 12.46 percent), ₦9.06 billion (or 62.65 percent), ₦52.92 billion (or 26.64 percent) and ₦64.41 billion (or 30.38 percent). On the other hand, FGN Share of Company Investment by FAAC, FGN Share of Solid Minerals Revenue, Share of Net Tax Amnesty, Share of Surcharge on Luxury Items, Share of Actual Balances in Special Accounts, Domestic Recoveries, Other Recoveries, Proceeds of Oil Assets and Grant & Donor Funding yielded nothing in the quarter. Some of the above, mentioned followed the same pattern of their respective performances at the Federation Account level *(Table 3.8)*.

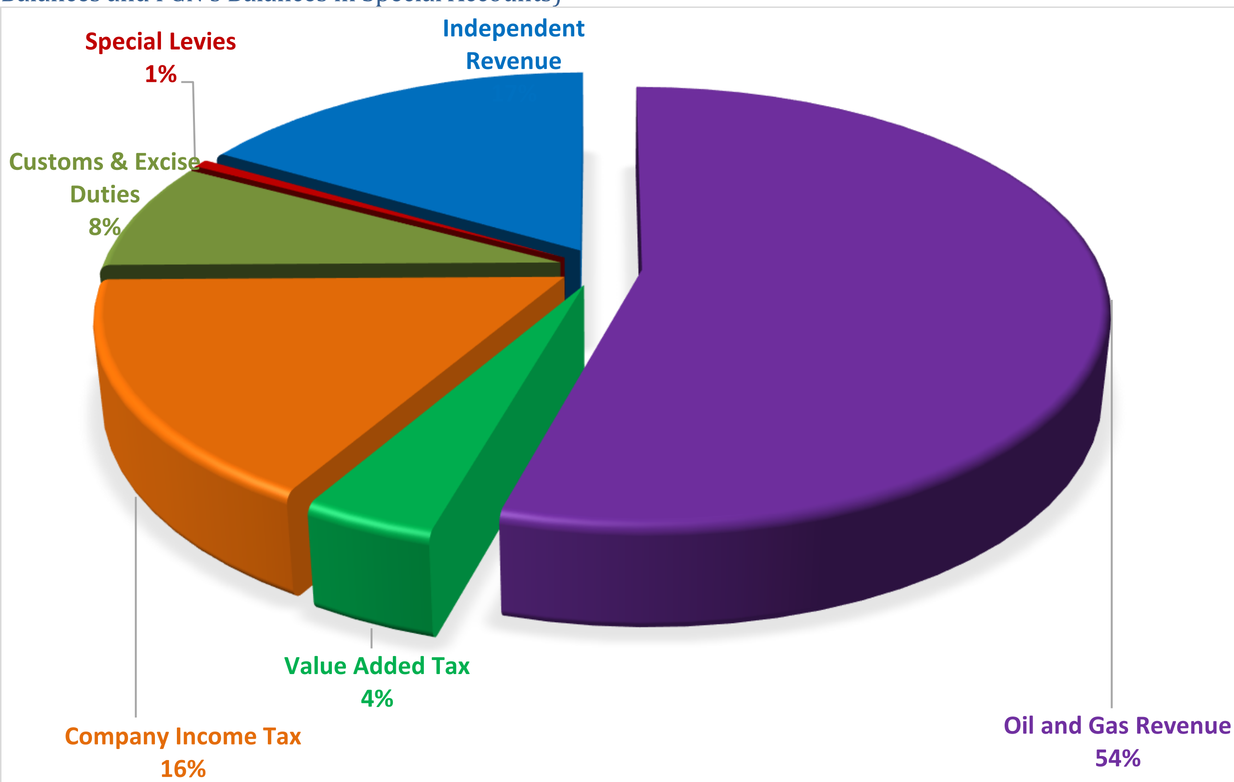
Table 3.8: Inflows to the 2017 Federal Budget as at June 2018

S/No	DESCRIPTION	2018 BUDGET			2018 ACTUAL			VARIANCE					
		Annual	Quarterly	Half Year	First Quarter	Second Quarter	Half Year	Second Quarter Actual Vs Quarterly Budget		Second Quarter Actual Vs First Quarter Actual		Half Year Actual Vs Half Year Budget	
1	Inflow for the Federal Budget (CRF)	₦b	₦b	₦b	₦b	₦b	₦b	₦b	%	₦b	%	₦b	%
2	FGN Share of Oil Revenue	2,988.35	747.09	1,494.18	510.03	484.33	994.36	(262.76)	(35.17)	(25.71)	(5.04)	(499.82)	(33.45)
3	FGN Share of Non-Oil Revenue	1,630.00	407.50	815.00	224.55	257.73	482.28	(149.77)	(36.75)	33.18	14.78	(332.72)	(40.82)
4	FGN Share of Company/Investment Funded by FAAC	31.25	7.81	15.62	-	-	-	(7.81)	(100.00)	-		(15.62)	(100.00)
5	FGN Share of Solid Minerals	1.17	0.29	0.59	-	-	-	(0.29)	(100.00)	-		(0.59)	(100.00)
6	FGN Share of Value Added Tax (VAT)	207.51	51.88	103.76	36.30	35.48	71.78	(16.40)	(31.61)	(0.81)	(2.25)	(31.98)	(30.82)
7	FGN Share of Net Tax Amnesty	87.84	21.96	43.92	-	-	-	(21.96)	(100.00)	-		(43.92)	(100.00)
8	FGN Share of Surcharge on Luxury Items	1.21	0.30	0.61	-	-	-	(0.30)	(100.00)	-		(0.61)	(100.00)
9	FGN Share of Company Income Tax (CIT)	794.69	198.67	397.34	116.80	145.75	262.55	(52.92)	(26.64)	28.96	24.79	(134.80)	(33.92)
10	FGN Share of Customs: Import, Export & Fees	324.86	81.21	162.43	67.00	71.10	138.09	(10.12)	(12.46)	4.10	6.12	(24.34)	(14.98)
11	FGN Share of Special Levies (Federation Account)	57.87	14.47	28.94	4.46	5.40	9.86	(9.06)	(62.65)	0.94	21.20	(19.07)	(65.92)
12	FGN Share of Actual Balances in Special Accounts	9.30	2.32	4.65	-	-	-	(2.32)	(100.00)	-		(4.65)	(100.00)
13	FGN's Share of Signature Bonus	114.30	28.57	57.15	-	-	-	(28.57)	(100.00)	-		(57.15)	(100.00)
14	FGN Independent Revenue	847.95	211.99	423.97	72.05	147.58	219.63	(64.41)	(30.38)	75.53	104.82	(204.34)	(48.20)
15	Unspent Balance from 2017	250.00	62.50	125.00	-	-	-	(62.50)	(100.00)	-		(125.00)	(100.00)
16	FGN's Balances in Special Levies Accounts	27.21	6.80	13.61	-	-	-	(6.80)	(100.00)	-		(13.61)	(100.00)
17	Domestic Recoveries + Assets + Fines	374.00	93.50	187.00	-	-	-	(93.50)	(100.00)	-		(187.00)	(100.00)
18	Other FGN Recoveries	138.44	34.61	69.22	-	-	-	(34.61)	(100.00)	-		(69.22)	(100.00)
19	Earmarked Funds (Proceeds of Oil Assets Ownership Restructuring)	710.00	177.50	355.00	-	-	-	(177.50)	(100.00)	-		(355.00)	(100.00)
20	Grants and Donor Funding	199.92	49.98	99.96	-	-	-	(49.98)	(100.00)	-		(99.96)	(100.00)
21	TOTAL RETAINED REVENUE	7,165.87	1,791.47	3,582.93	806.64	889.64	1,696.27	(901.83)	(50.34)	83.00	10.29	(1,886.66)	(52.66)
22	Other Financing Sources	-	-	-	12.98	26.38	39.37	26.38		13.40	103.24	39.37	
23	Exchange Rate Difference	-	-	-	12.98	26.38	39.37	26.38		13.40	103.24	39.37	
24	TOTAL INFLOW	7,165.87	1,791.47	3,582.93	819.62	916.02	1,735.64	(875.45)	(48.87)	96.40	11.76	(1,847.30)	(51.56)

Source: Budget Office of the Federation and the OAGF, 2018

Oil and Gas revenue continued to dominate revenue inflow of government accounting for 54.44 percent of total revenue in the review period. Other revenue sources are as depicted in figure 3.6.

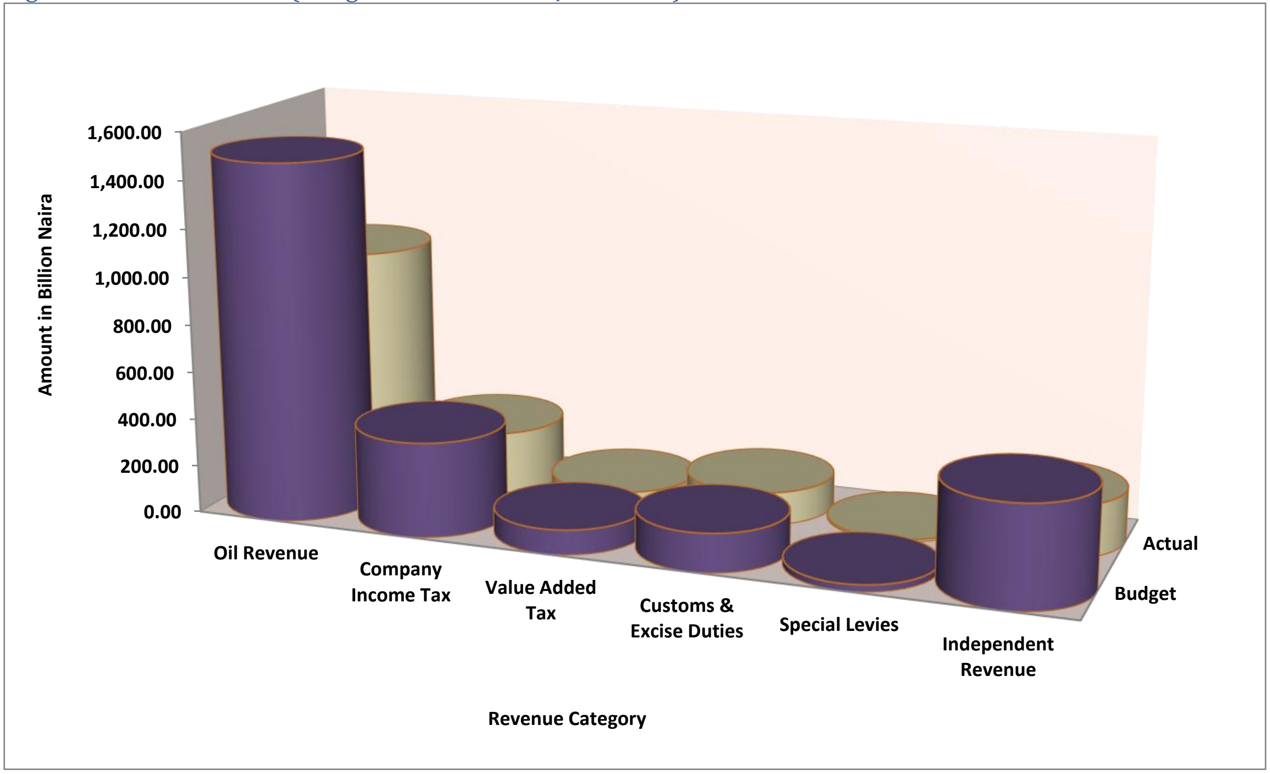
Figure 3.6: Contributions to the FGN Budget Revenue in the Second Quarter of 2018 (Excluding FGN's Unspent Balances and FGN's Balances in Special Accounts)



Source: The OAGF and Budget Office of the Federation, 2018

The oil revenue equally contributed largely to the revenue shortfall experienced in the quarter under review accounting for ₦262.76 (or 29.14 percent) of the entire revenue shortfall. Other major contributors included the Earmarked Fund accounting for ₦177.50 (or 19.68 percent), Independent Revenue accounting for ₦64.41 (or 7.14 percent) and CIT, Customs, Special Levies, Share of Signature Bonus and Unspent Balances with combined share of ₦163.17 billion (or 18.09 percent) etc. of the revenue shortfall (Figure 3.7).

Figure 3.7: FGN Revenue (Budget Vs Actual as at June 2018)



Source: The OAGF and Budget Office of the Federation, 2018

3.8.1 Total Inflow of the Federal Government

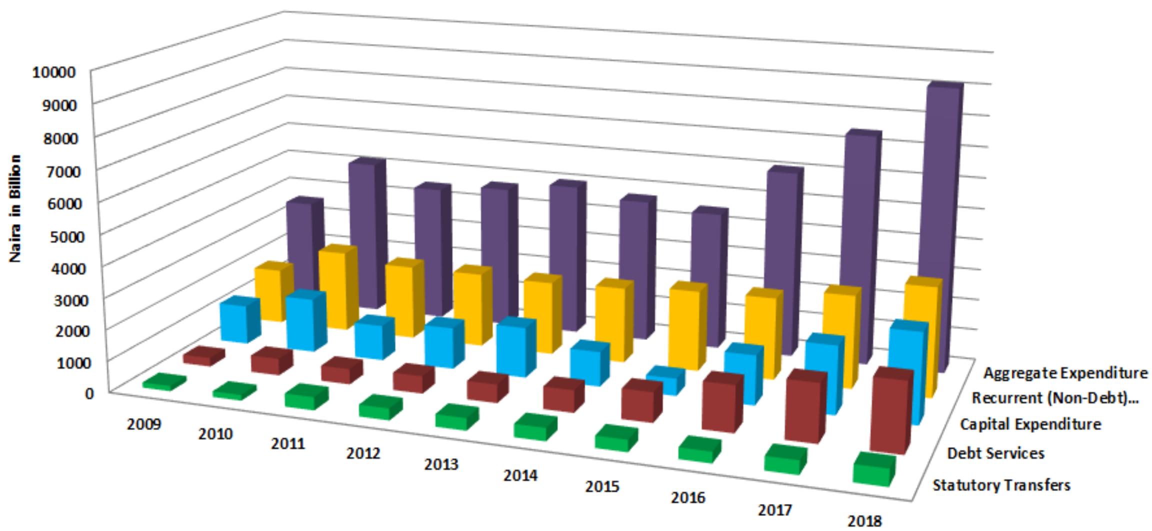
Total Retained Revenue of the Federal Government stood at ₦1,696.27 billion in the first half of 2018. This represents a ₦1,886.66 billion or 52.66 percent shortfall from prorate budget estimate. This was augmented by the Exchange Rate Difference of ₦39.37 billion. Total inflow as at the end June 2018 therefore stood at ₦1,735.64 billion representing a shortfall of ₦1,847.30 billion (or 51.56 percent) of prorata budget estimate for the period.

3.9 Expenditure Developments:

A total of ₦9,120.34 billion was appropriated for expenditure in the 2018 Budget. Of this amount, ₦3,516.48 billion (or 38.56 percent) was for Recurrent (Non-Debt) Expenditure, ₦2,203.84 billion (or 24.16 percent) was for Debt Services, ₦530.42 billion (or 5.82 percent) was for Statutory Transfers and ₦2,869.60 billion (or 31.46 percent) was for Capital Expenditure. The aggregate Federal

Government expenditure for the period translates to a prorate quarterly expenditure outlay of ₦2,280.08 billion in 2018. Actual expenditure in the second quarter of 2018 stood at ₦1,093.85 billion, translating to a ₦1,186.23 billion (or 52.03 percent) expenditure shortfall for the period (Table 3.10).

Figure 3.8: 2009 – 2018 Budget Expenditure Profile



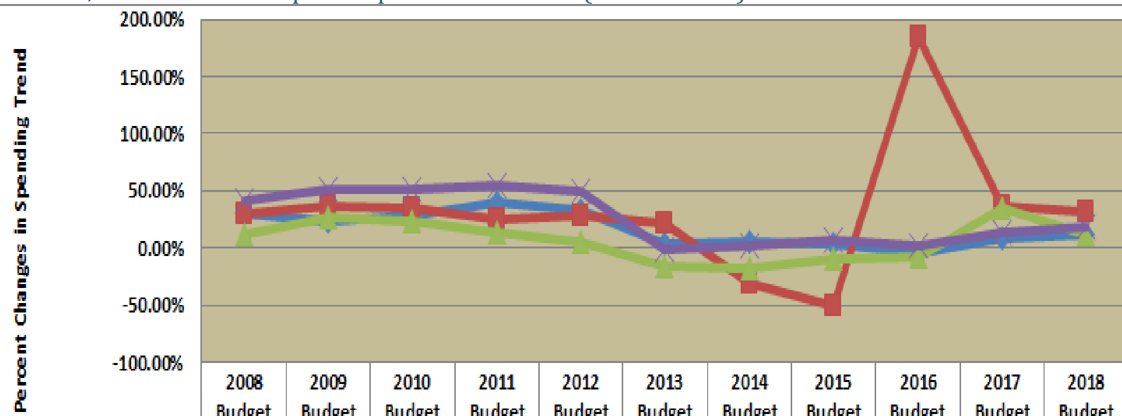
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Statutory Transfers	168.62	183.58	417.83	372.59	387.98	408.69	375.62	351.37	434.41	530.42
Debt Services	283.65	542.38	495.1	559.58	591.76	712	953.62	1,475.32	1,841.35	2,203.84
Capital Expenditure	1,280.71	1,764.69	1,146.75	1,339.99	1,621.48	1,119.62	557.00	1,587.40	2,174.50	2,869.60
Recurrent (Non-Debt) Expenditure	1,824.71	2,669.01	2,425.07	2,425.05	2,386.03	2,454.89	2,607.13	2,646.39	2,990.92	3,516.48
Aggregate Expenditure	3,557.69	5,159.66	4,484.74	4,697.21	4,987.24	4,695.19	4,493.36	6,060.48	7,441.18	9,120.33

Source: Budget Office of the Federation, 2018

3.9.1 Non-Debt Recurrent Expenditure

Total non-debt recurrent expenditure of ₦609.95 billion was spent in the second quarter of 2018. This implies a decrease of ₦269.17 billion (or 30.62 percent) below the quarterly estimate of ₦879.12 billion. It is however ₦15.73 billion (or 2.65 percent) above ₦594.22 billion but ₦76.27 billion (or 11.11 percent) below ₦686.22 billion levels of expenditure reported in the first quarter of 2018 and second quarter of 2017 respectively. Government continued to prioritize capital expenditure over nonessential recurrent non-debt expenditure in the face of continuing revenue constraint. The strategic initiatives of Government aimed at cutting down recurrent costs were therefore vigorously pursued during the period. This include the continued roll-out of the Integrated Payroll and Personnel Information System (IPPIS) across MDAs, activation of more module like (Assets, Inventory and Procurement Subsystem) of the GIFMIS platform as well as the use of the Treasury Single Account (TSA). The above efforts have also enabled government to halt further increases in overhead as well as enabled considerable increases in capital expenditure from the 2016 fiscal year (Figure 3.9).

Figure 3.9: Personnel, Overhead and Capital Expenditure Trends (2008 – 2018)



	2008 Budget	2009 Budget	2010 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget	2017 Budget	2018 Budget
Personnel Costs (MDAs)	29.88%	24.08%	28.66%	40.01%	33.89%	3.37%	4.79%	3.46%	-4.47%	7.76%	12.43%
Capital Spending	29.66%	36.00%	34.20%	25.57%	27.47%	21.01%	-30.95%	-50.25%	184.99%	36.99%	31.97%
Overheads	12%	27.20%	23.06%	14.07%	5.57%	-15.94%	-17.37%	-9.65%	-8%	34.55%	12.12%
Recurrent (Non Debt)	41.88%	51.28%	51.72%	54.07%	49.72%	-1.62%	2.06%	6.20%	1.51%	13.02%	17.57%

Source: BOF and OAGF, 2018

3.9.2 Debt Service:

Total Debt Services in the second quarter of 2018 stood at ₦369.78 billion indicating a decrease of ₦181.18 billion (or 32.88 percent) below the ₦550.96 billion projected for the quarter. A total of ₦439.94 billion was proposed for domestic debt service in the quarter under review but ₦298.36 billion was actually used for the service of the debt. This indicated a difference of ₦141.58 billion (or 32.18 percent) below the quarterly estimate.

The sum of ₦63.52 billion was proposed for the service of external debt in the quarter under review. Actual external debt service payment however amounted to ₦57.44 billion (or US$181.53 million) indicating a difference of ₦6.08 billion (or 9.57 percent) below the quarterly projection.

Table 3.9: FGN Budget Expenditure and Fiscal Account (in N' Billion) as at June 2018

S/No	Item	2018 BUDGET			2018 ACTUAL			VARIANCE					
		Annual	Quarterly	Half Year	First Quarter	Second Quarter	Half Year	Second Quarter Actual Vs Quarterly Budget		Second Quarter Actual Vs First Quarter Actual		Half Year Actual Vs Half Year Budget	
		₦b	₦b	₦b	₦b	₦b	₦b	₦b	%	₦b	%	₦b	%
A	TOTAL RETAINED REVENUE	7,165.87	1,791.47	3,582.94	806.64	889.64	1,696.27	(901.83)	(50.34)	83.00	10.29	(1,886.66)	(52.66)
B	Exchange Rate Difference	0.00	0.00	0.00	12.98	26.38	39.37	26.38		13.40	103.24	39.37	
C	TOTAL INFLOW	7,165.87	1,791.47	3,582.94	819.62	916.02	1,735.64	(875.45)	(48.87)	96.40	11.76	(1,847.30)	(51.56)
D	EXPENDITURE:												
1	RECURRENT (NON-DEBT):												
2	Personnel Cost	2,118.27	529.57	1,059.13	452.93	395.62	848.54	(133.95)	(25.29)	(57.31)	(12.65)	(210.59)	(19.88)
3	CRF Pensions	198.95	49.74	99.48	47.51	32.80	80.30	(16.94)	(34.06)	(14.71)	(30.96)	(19.17)	(19.27)
4	SWV Pensions [+ Special Interventions for 2016 only]	43.00	10.75	21.50	0.00	0.00	0.00	(10.75)	(100.00)	0.00		(21.50)	(100.00)
5	Overhead Cost	246.49	61.62	123.24	22.08	78.99	101.07	17.37	28.18	56.91	257.76	(22.18)	(17.99)
6	SWV Power Sector Reform Programme	193.34	48.33	96.67	0.00	0.00	0.00	(48.33)	(100.00)	0.00		(96.67)	(100.00)
7	Other Service Wide Votes (+ Pension	301.43	75.36	150.72	46.21	86.05	132.26	10.69	14.19	39.85	86.23	(18.46)	(12.25)
8	Presidential Amnesty Programme	65.00	16.25	32.50	5.00	5.00	10.00	(11.25)	(69.23)	0.00	0.00	(22.50)	(69.23)
9	Special Intervention (Recurrent)	350.00	87.50	175.00	20.50	11.50	32.00	(76.00)	(86.86)	(9.00)	(43.90)	(143.00)	(81.71)
10	Sub-Total (Non-Debt)	3,516.48	879.12	1,758.24	594.22	609.95	1,204.17	(269.17)	(30.62)	15.73	2.65	(554.07)	(31.51)
11	Domestic Debts Service	1,759.76	439.94	879.88	643.63	298.36	941.99	(141.58)	(32.18)	(345.27)	(53.64)	62.11	7.06
12	Foreign Debts	254.08	63.52	127.04	54.08	57.44	111.52	(6.08)	(9.57)	3.37	6.22	(15.52)	(12.22)
13	Total Debt Service	2,013.84	503.46	1,006.92	697.71	355.80	1,053.51	(147.66)	(29.33)	(341.91)	(49.00)	46.59	4.63
14	Interest on Ways & Means		0.00	0.00	6.74	13.00	19.74	13.00		6.25	92.76	19.74	
15	Sinking Fund to Retire Maturing Loans	190.00	47.50	95.00	0.00	0.99	0.99	(46.51)	(97.92)	0.99		(94.01)	(98.96)
16	Sub-Total (Debt)	2,203.84	550.96	1,101.92	704.45	369.78	1,074.24	(181.18)	(32.88)	(334.67)	(47.51)	(27.68)	(2.51)
17	Total Recurrent Expenditure 2018	5,720.31	1,430.08	2,860.16	1,298.67	979.74	2,278.41	(450.34)	(31.49)	(318.93)	(24.56)	(581.75)	(20.34)
18	Capital Development Fund (Main)	2,172.08	543.02	1,086.04	0.00	0.00	0.00	(543.02)	(100.00)	0.00		(1,086.04)	(100.00)
19	Capital Supplementation	377.60	94.40	188.80	0.00	0.00	0.00	(94.40)	(100.00)	0.00		(188.80)	(100.00)
20	Special Intervention (Capital)	150.00	37.50	75.00	0.00	0.00	0.00	(37.50)	(100.00)	0.00		(75.00)	(100.00)
21	Grants and Donor Funded Projects	169.92	42.48	84.96	0.00	0.00	0.00	(42.48)	(100.00)	0.00		(84.96)	(100.00)
22	Sub-Total (Capital 2018)	2,869.60	717.40	1,434.80	0.00	0.00	0.00	(717.40)	(100.00)	0.00		(1,434.80)	(100.00)
23	TRANSFERS:												
24	Statutory Transfers	530.42	132.61	265.21	114.11	114.11	228.23	(18.49)	(13.94)	0.00	0.00	(36.98)	(13.94)
25	TOTAL ACTUAL EXPENDITURE	9,120.34	2,280.08	4,560.17	1,412.78	1,093.85	2,506.64	(1,186.23)	(52.03)	(318.93)	(22.57)	(2,053.53)	(45.03)
26	Fiscal Deficit	(1,954.47)	(488.62)	(977.23)	(593.17)	(177.83)	(771.00)	310.78	(63.60)	415.33	(70.02)	206.23	(21.10)
E	FINANCING ITEMS												
1	Privitization Proceeds	306.00	76.50	153.00	0.00	0.00	0.00	(76.50)	(100.00)	0.00		(153.00)	(100.00)
2	Non-Oil Asset Sales	5.00	1.25	2.50	0.00	0.00	0.00	(1.25)	(100.00)	0.00		(2.50)	(100.00)
3	Foreign Borrowing	849.67	212.42	424.84	0.00	0.00	0.00	(212.42)	(100.00)	0.00		(424.84)	(100.00)
4	Domestic Borrowing	793.79	198.45	396.90	407.91	170.00	577.91	(28.45)	(14.34)	(237.91)	(58.32)	181.01	45.61
5	Sub-Total	1,954.47	488.62	977.23	407.91	170.00	577.91	(318.62)	(65.21)	(237.91)	(58.32)	(399.33)	(40.86)
6	Net Deficit/Surplus	0.00	0.00	0.00	(185.26)	(7.83)	(193.09)	(7.83)		177.43	(95.77)	(193.09)	

Source: OAGF and Budget Office of the Federation, 2018

3.9.3 Statutory Transfers:

Expenditures for the statutory transfers stood at ₦114.11 billion in the second quarter of 2018. The same amount was released as transfers in the first quarter of 2018 and it translates to ₦18.49 billion (or 13.94 percent) decrease below the quarterly estimate of ₦132.61 billion in the 2018 budget. It is worthy to note that quarterly releases under this subhead are made on request by the beneficiaries and also subject to budgetary provisions and availability of funds. All releases are expected to be reconciled at the end of the year.

3.9.4 Capital Expenditure Performance:

Greater portion of Government's available budgetary resources were directed to structural reform of the economy and the provision of critical infrastructure in the roads, power, housing, rail and aviation sectors as well as the provision of physical and food security. In view of this, a total of ₦2,869.60 billion was allocated to capital spending in the 2018 Budget.

MDAs' Capital Vote Utilization:

No fund was however released for capital projects/programmes under the 2018 Budget in the quarter under review or first half of 2018. This was due to the late passage of the 2018 Budget. A total of ₦739.09 billion was however released for capital projects under the 2017 budget during the review period enabling seamless infrastructure financing in the 2018 fiscal year.

3.9.5 Budget Deficit and Performance of the Financing Items:

The 2018 Fiscal Framework estimated a quarterly fiscal deficit of ₦488.62 billion to be financed through earnings from Privatization Proceeds of ₦76.50 billion, Foreign Borrowing of ₦212.42 billion, Domestic Borrowing (FGN Bond) of ₦198.45 billion and Non-Oil Asset Sales of ₦1.25 billion.

The revenue and expenditure outturn of the Federal Government resulted in a fiscal deficit of ₦177.83 billion in the second quarter of 2018. This was ₦310.78

billion (or 63.60 percent) lower than the estimated fiscal deficit of ₦488.62 billion for the review period. It was however higher than the fiscal deficit of ₦144.98 billion recorded in the second quarter of 2017. A total of ₦170.0 billion was however realized from Domestic Borrowing (FGN Bond) while other sources of financing items did not materialize. This resulted in a ₦7.83 billion net deficit financing for the review period.

4.0 CONCLUSION

The macroeconomic indices that propelled the economy's exit from recession had continued to be positive and is likely to remain so in the near-term. The economy grew by 1.50 percent in the second quarter of 2018 with the oil sector recording a real growth of -3.95 percent (year-on-year) indicating a decrease of –7.48 percent points relative to the rate recorded in the corresponding quarter of 2017. The non-oil sector however grew by 2.05 percent in real terms during the reference quarter. This represents 1.60 percentage points increase compared to the rate recorded in the same quarter of 2017.

The performance of the non-oil sector of the economy in the review period was buoyed by the critical fiscal spending during the period. The Federal Government had continued to meet its non-discretionary expenditures even as budget execution continued to be adversely impacted by poor revenue outturn. Key releases of the 2017 capital budget were also carried out during the review period enabling greater economic performance. The economic performance in the quarter also signals better outlook and prospects for revenue and therefore budget implementation in the later part of the 2018 fiscal year. Revenue performance of the non-oil sector is expected to improve in subsequent quarters and combined with the recovery in oil production and likely increases in prices would result in higher outcome of 2018 Budget implementation.

The MBNP will remain committed to improve openness, transparency and accountability in budget preparation, implementation, monitoring & evaluation and feedback. In view of this, firm adherence to budget implementation guidelines and the governance framework on monitoring capital budget implementation will continue to be followed. Efforts would also be directed at enhancing efficiency in budget implementation, while creating effective project management planning geared towards improving the level of capital budget implementation in 2018 and beyond.