A Public Presentation of the

2014 FGN BUDGET

“A Budget for Jobs and Inclusive Growth”

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OUTLINE

GLOBAL ECONOMIC OUTLOOK

The 2014 Budget proposal was prepared against the backdrop of:

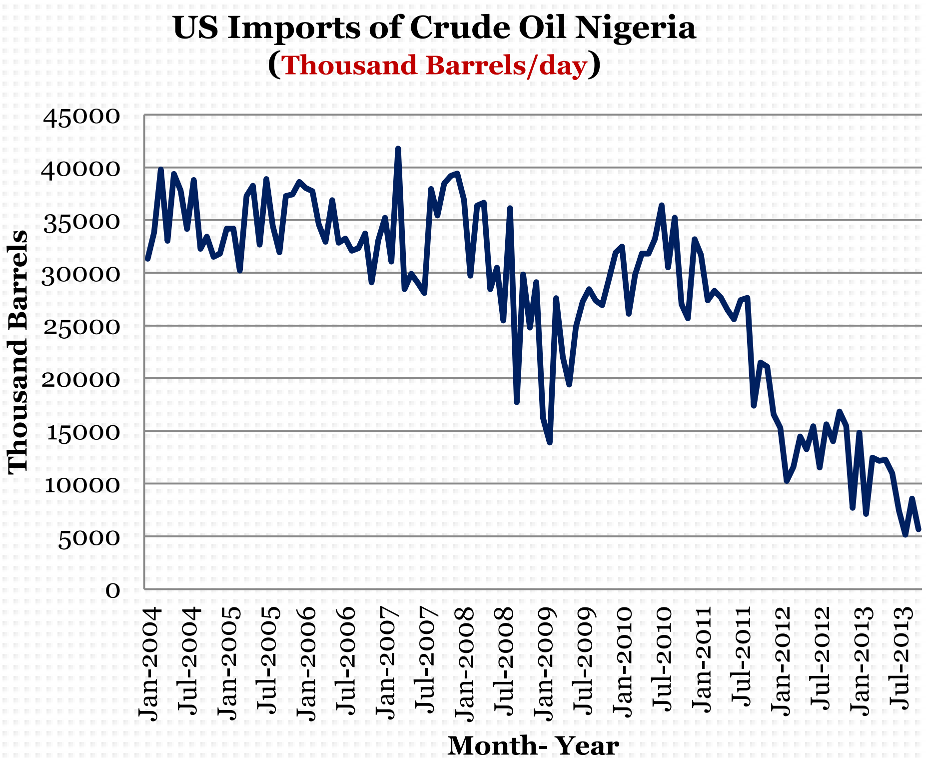
Global Economic Uncertainty and Fragile Recovery

- Global growth recovery, still in low gear and largely fragile
- Evidenced by a three-time downward revision of growth forecasts as at October 2013
- Forecasts revised downward to 2.9% and 3.6% for 2013 and 2014 respectively
- Growth in the US remains tenuous – Revised downward to 1.6% and 2.6% for 2013 and 2014 respectively
- Euro zone projected to contract by 0.4% as major risks reduce and financial condition stabilizes; however, credit bottlenecks persists

GLOBAL ECONOMIC OUTLOOK (2)

The 2014 Budget proposal was prepared against the backdrop of:

New Developments in the International Crude Oil Market



- Global oil output rising – Rising output from non-conventional Oil & Gas in North America/China; and emergence of new regional producers and exporters
- Implications for our economy – Demand & price implications for Nigerian oil, FDIs, etc
- US demand for Nigeria's oil already on a downward trend though India and China making up for the fall

DEVELOPMENTS IN THE DOMESTIC ECONOMY

The outlook for the Nigerian economy remains positive…

Nigeria's GDP growth – fastest in Africa

- Estimated 2013 GDP growth at 6.5% (NBS) or 7.2% (IMF)
- Growth improved from 6.18% in the 2nd quarter to 6.81% in 3rd quarter
- The increase in growth was attributed, largely, to the improvement in the contribution of the non-oil sector (particularly, agriculture, banking, real estate, hotel and restaurants, etc)

Exchange Rate is stable and Inflation is declining

- Naira/USD rate remained within N155-N160 band, though rising spread in BDC
- Inflation rate remains in single digits, 8% (as at December)

…however, home-grown difficulties persist

- Disruptions to Nigeria's oil production due to oil theft and oil pipeline vandalism
- Security challenges in some parts of the North East

DEVELOPMENTS IN THE DOMESTIC ECONOMY (2)

International validation of economy management, still strong!

Fitch: BB- Stable, up from previous BB- negative outlook

S&P: BB- Stable

Financial Action Task Force (FATF): - global money laundering - Nigeria removed from their international blacklist

2014 BUDGET – THEME and PRIORITIES

Theme	*"A Budget for Jobs and Inclusive Growth"*
Focus	• Job Creation • Infrastructure Development • Cost of Governance

2014 BUDGET – THEME and PRIORITIES (2)

Budget Priorities - *“A Budget for Jobs and Inclusive Growth”*

❖ Infrastructure Development

Power

- *Investments in transmission*
- *Strengthen Regulation*
- *Complete Privatization of NIPP projects*
- *Accelerate work on gas pipeline infrastructure*
- *Invest in hydro-electric power and clean energy*

Roads

- *Completion of East-West road*
- *Dualization of the Abuja-Abaji-Lokoja and Kano-Maiduguri road*
- *Increase pace of work on: Lagos-Ibadan expressway; Enugu-Port-Harcourt expressway; 2nd Niger bridge*

Aviation

- *Upgrading air navigation and security systems*
- *Strengthen Regulation*
- *Complete work on the remodelling of 11 airport terminals*
- *Accelerate work on 5 new airport terminals*
- *13 perishable cargo terminals*

2014 BUDGET – THEME and PRIORITIES (3)

Budget Priorities - *"A Budget for Jobs and Inclusive Growth"*

Governance

- *Personnel training (MDAs and Parastatals) to be in Nigeria; foreign training (only in exceptional cases). Guideline to be provided by government*

- *Implement various security and community measures to stem oil theft and pipeline vandalization (e.g. Governor Uduaghan-led Committee recommendation)*

- *Complete the deployment of* ***TSA*****,** ***GIFMIS*** *and* ***IPPIS***
- *Extension of IPPIS to more MDAs*

2014 BUDGET – THEME and PRIORITIES (4)

Job creation through sectoral initiatives…

Agriculture

- *Target input subsidies to 5 million farmers nationwide using e-wallet system*
- *Develop over 750,000 young Nagropreneurs by 2015 through the YEAP*
- *Establish new agro-industrial clusters to complement the staple crop processing zones*
- *Launch the Fund for Agriculture Finance in Nigeria (FAFIN) to serve as private equity fund to invest in agribusiness*

Manufacturing

- *Currently, 17 million registered SMEs which employ over 32 million Nigerians*
- *More jobs are imminent as these SMEs grow with continued support*
- *Implementation of the Nigeria Enterprise Development Programme (NEDEP)*
- *SMEs access to affordable finance and business development services*
- *Our CET policies will support emerging industries*

2014 BUDGET – THEME and PRIORITIES (5)

Job creation through sectoral initiatives…

Housing and Construction

- *Nigeria Mortgage Refinance Company (NMRC) has just been launched, and will*
    - *increase liquidity in the housing sector*
    - *Provide secondary market for mortgages*
- *Create over 200,000 mortgages over the next 5 years (opening opportunities for architects, masons, carpenters, painters, transporters, etc.)*
- *Expand mass housing scheme through restructuring the Federal Mortgage Bank*

2014 BUDGET – THEME and PRIORITIES (5)

Other initiatives to promote job creation…

YouWIN and SURE-P

Gender Budgeting

Peace and Security

The 3 pronged approach

1. Firm Security Response
2. Continued Political Dialogue
3. Package of Development. Assistance. (FINE)

❖These and other initiatives in 2013 created about 1.6 million jobs (NBS Data)

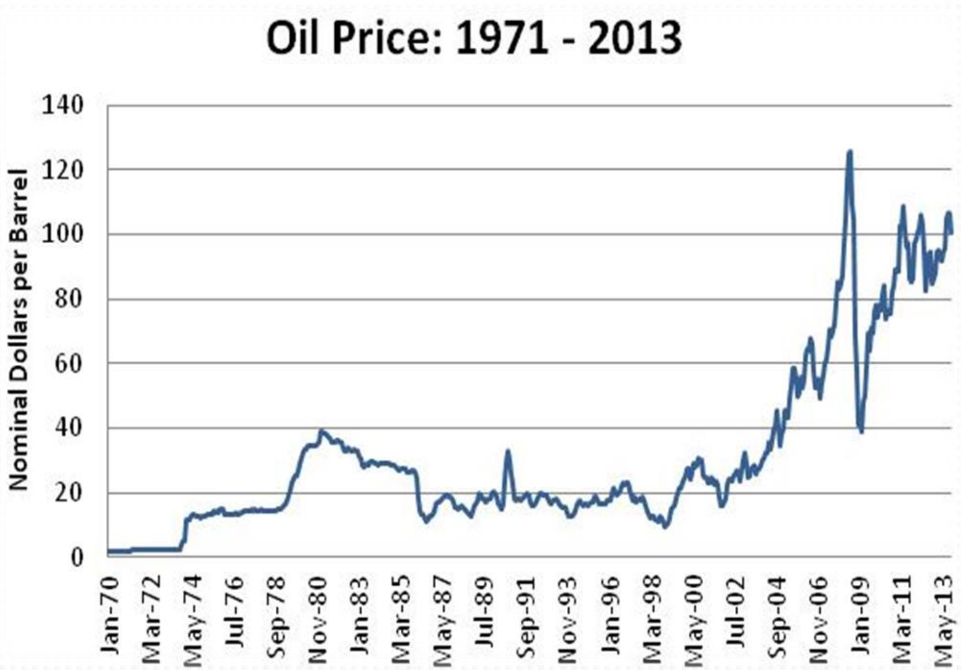
… GIFMIS and 2014 Budget Preparation – Glitches

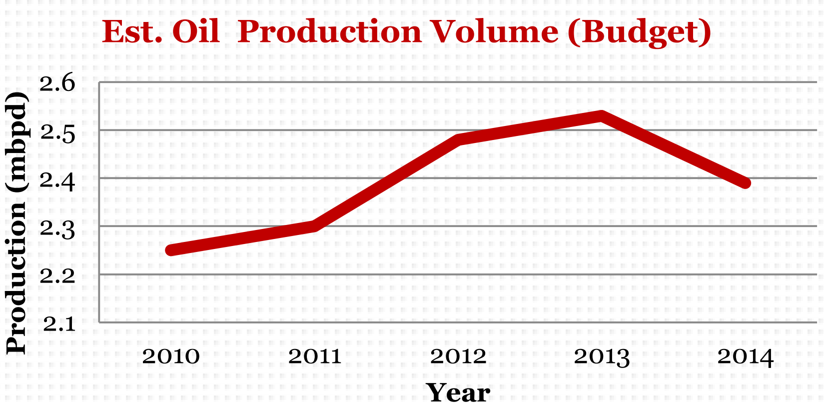
- **Deployment for budget preparation – 2014 Budget**
- **Observed errors in classification of projects/programmes. For example:**
  - ✓Security votes
  - ✓Purchase of aircraft, etc
- **Misclassifications due to new technology. This is not uncommon with new technology systems (e.g., Obamacare)**
- **Training for all MDAs to improve proficiency now in process,**
- **Sensitization across the country commenced in January**
- **GIFMIS reforms will move the country towards performance based budgeting**

2014 BUDGET - KEY ASSUMPTIONS

Key Assumptions

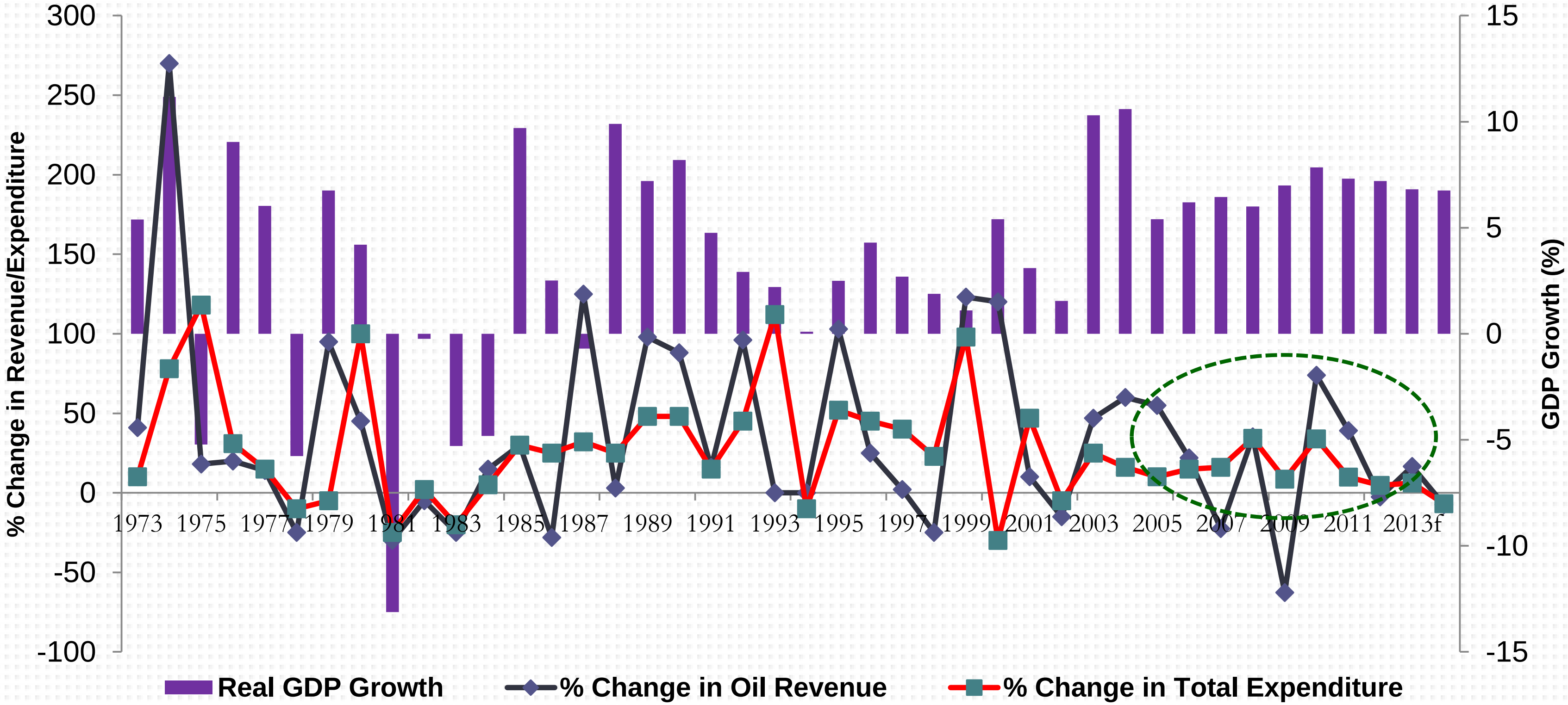
- Oil Benchmark Price: US$77.5/barrel
- Oil Production: 2.3883 mbpd
- Exchange Rate: N160/US$





2014 BUDGET - KEY ASSUMPTIONS

- *Pro-cyclical Public Expenditure Profile: Oil Revenue & Expenditure (1971 – 2014)*



2014 BUDGET – REVENUE PROJECTIONS

Shares to the three tiers based on statutory formula

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
Distribution to Federation Account (Main Pool)		
FGN's Share of Federation A/C (52.68%, incldg 4.18% for Special Funds)	3,506.34	3,284.25
States' Share of Federation Account (26.72%)	1,778.46	1,665.82
Local Govt.'s Share of Federation Account (20.60%)	1,371.12	1,284.28
Distribution to Federation Account (VAT Pool)		
FGN's' Share of VAT Pool Account (15%)	136.12	121.74
States' Share of VAT Pool Account (50%)	453.73	405.82
Local Govt.'s Share of VAT Pool Account (35%)	317.61	284.07
Summary of Distribution		
TOTAL FGN	**3,642.46**	**3,406.00**
TOTAL STATES	**2,232.19**	**2,071.63**
TOTAL LGCs	**1,688.73**	**1,568.35**

2014 BUDGET – REVENUE PROJECTIONS (2)

Revenue Projections

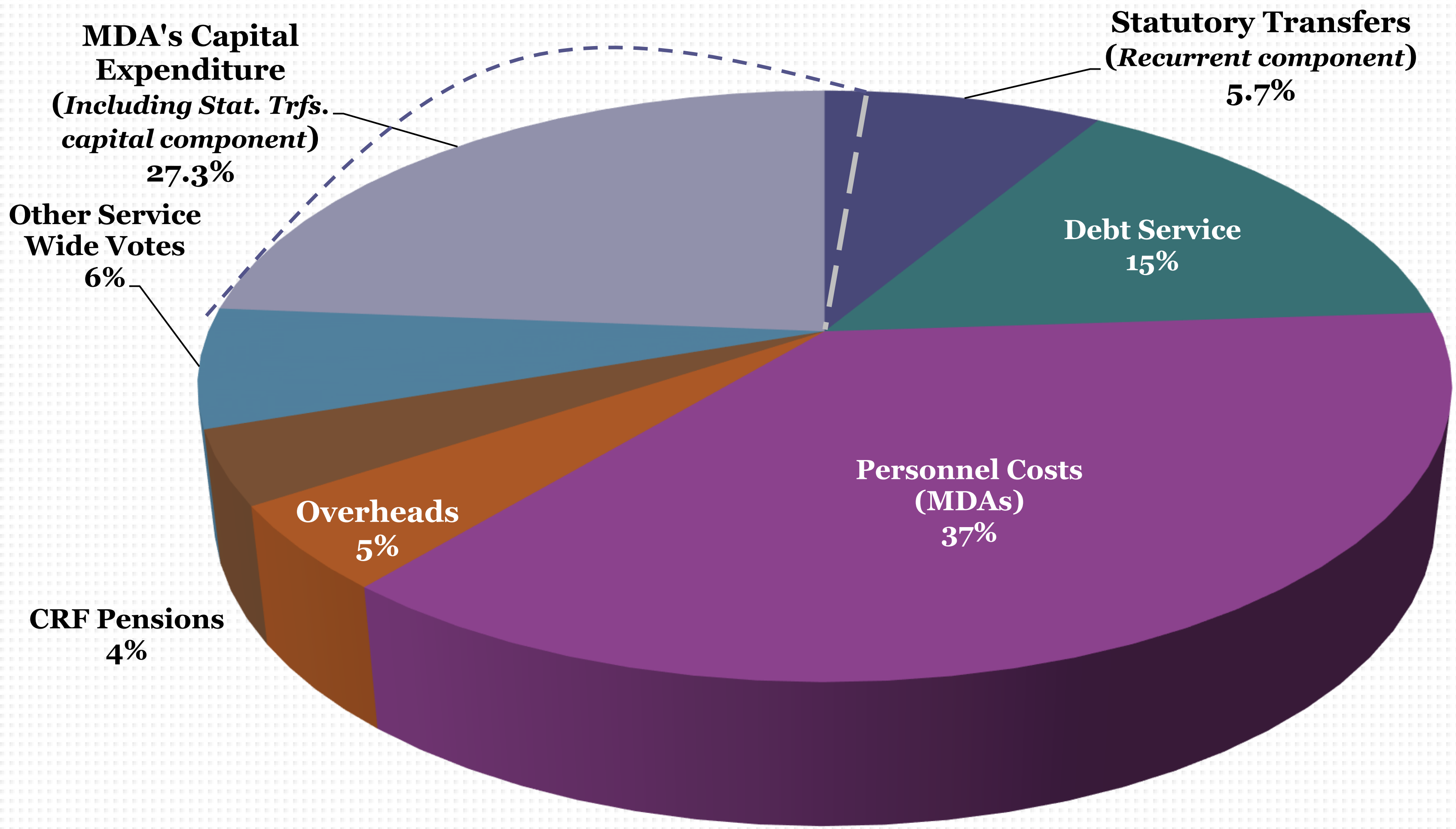
REVENUE ITEMS	2013 Budget	2014 Executive Proposal
Gross Federally Collectible Revenue (*incdg. FGN IGR, etc.*)	**11,041.61**	**10,453.39**
FGN Retained Revenue	**4,100.176**	**3,731.00**
Oil Revenue	**2,354.51**	**2,114.53**
Non-Oil Revenue	**996.71**	**1,021.41**
CIT	*457.24*	*454.54*
VAT	*127.05*	*113.63*
Customs	*357.66*	*352.89*
Share of Federation Acct. Levies	*54.77*	*100.34*
Independent Revenue	***455.78***	***452.04***
Share of Actual Bal. in Special Accts	***3.94***	***1.34***
Balances in Special Levies Accounts	***28.02***	***21.68***
Unspent Bal. of previous Fiscal Year	***261.21***	***120.00***

2014 BUDGET – EXPENDITURE PROFILE

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
TOTAL FGN'S RETAINED REVENUE (*incldg FGN Indep rev., etc.*)	**4,100.18**	**3,731.00**
TOTAL FEDERAL GOVERNMENT EXPENDITURE	**4,956.76**	**4,642.96**
Statutory Transfers	**387.98**	**399.69**
Debt Service	**591.76**	**712.00**
Recurrent expenditure (Non-debt)	**2,386.02**	**2,430.66**
Personnel Costs (MDAs)	*1,688.11*	*1,723.31*
Overheads	*237.87*	*216.77*
CRF Pensions	*143.24*	*187.45*
Other Service Wide Votes	*316.80*	*303.14*
MDAs' Capital Expenditure	1,591.00	1,100.61
Capital Expenditure (Inclusive of capital components of Stat. Trfs.)	-	**1,266.84**
Share of Capital as % of total expenditure	-	**27.29%**
Share of Recurrent as % of total expenditure	-	**72.71%**
Fiscal Deficit (Based on Regular Budget)	**-887.07**	**-911.96**
Deficit (as % of GDP)	**-1.85%**	**-1.90%**

2014 BUDGET – EXPENDITURE PROFILE (2)

Expenditure composition



2014 BUDGET –SURE-P

Expenditure composition

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
SURE-P	**273.522**	**268.370**
Capital component of SURE-P	*272.52*	*267.17*
Capital Expenditure (*Inclusive of capital components in Stat. Trfs & SURE-P*)	**2,028.66**	**1,534.01**
Agg. FGN Expenditure (Regular & SURE-P)	**5,260.76**	**4,911.33**
Share of Capital (Regular & SURE-P: as % of total expenditure)	**38.56%**	**31.23%**
Share of recurrent (as % of total	**61.44%**	**68.77%**
New Borrowings	**577.07**	**571.99**

CHALLENGES FACING THE BUDGET (REVENUE)

Oil Revenues

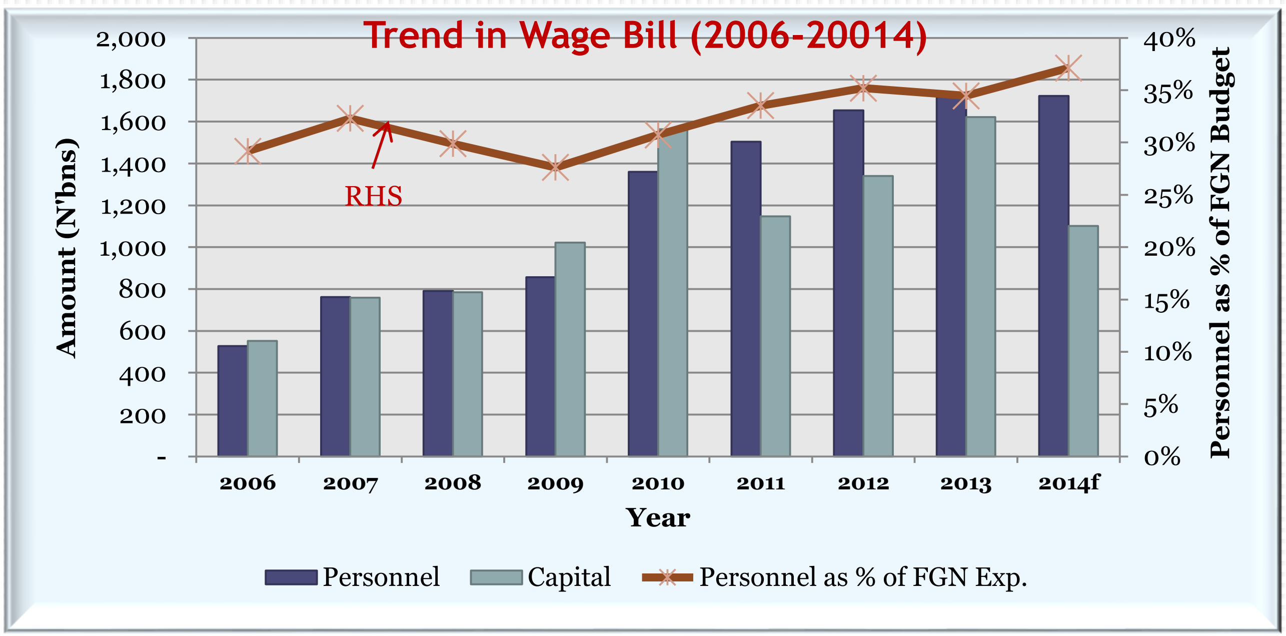
- Crude oil theft and pipeline vandalism
- At its peak, oil loss was over 300,000 bpd
- With efforts of security forces & community engagement, the loss has reduced

Non-Oil Revenues

- Shortfall in Independent Revenues
- Collection efficiency
- Insecurity in some parts of the North affecting economic activities and tax collection
- Fiscal policy – leading to reduction in government revenue but promoting job creation (e.g., Increase in tariff on rice and wheat)

CHALLENGES FACING THE BUDGET (EXPENDITURE)

- Personnel Spending:
  - Very high wage bill due to huge increases starting in 2009
    - In 2009, the total wage bill was N857 billion; now it's N1.72 trillion
    - Due to new pressures for wage and pension (military and civilian) increases, and
    - Ghost workers (especially in agencies yet to be included in the IPPIS)
  - As a result, the share of personnel cost as a percentage of aggregate expenditure increased from 29.17% in 2006 to 37.12% in 2014
  - High wage bill resulted in higher deficits and therefore higher borrowing
  - Any increase in the wage bill affects amount available for capital spending



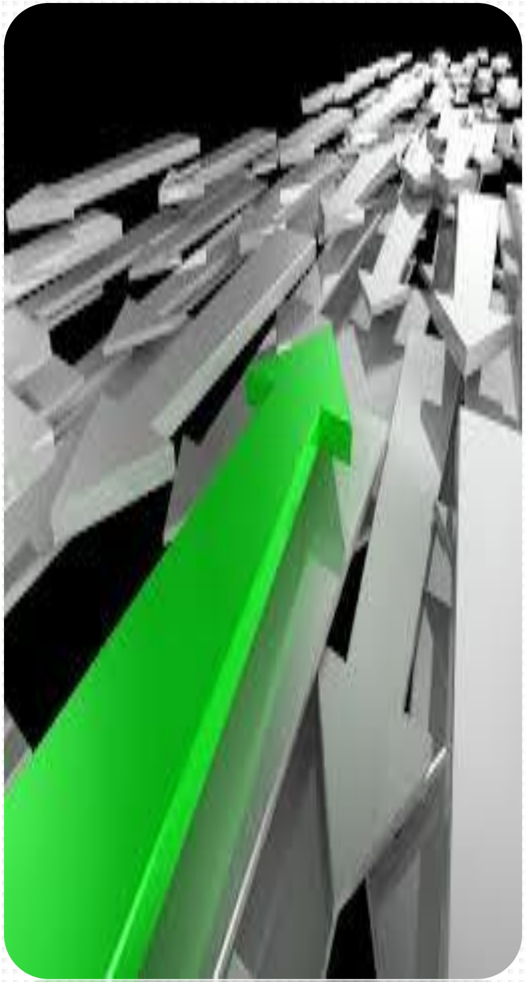
CHARTING THE WAY FORWARD

Revenue (Oil)

- Curb oil theft and pipeline vandalism
  - Reinforce security & monitoring of oil infrastructure
  - Accelerate sensitization of oil producing communities
- Accelerate passage of the Petroleum Industry Bill to:
  - Transform and open up the oil industry
  - Engender competition
  - Improve efficiencies

Revenue (Non-oil)

- Tax revenues
  - Broaden the tax base
  - Accelerate ongoing work by Mckinsey & Co. with the FIRS
- Customs duty and levies
  - Fiscal policies and curbing smuggling activities
- FGN Independent revenue
  - Improved collection and remittance of FGN Independent revenues



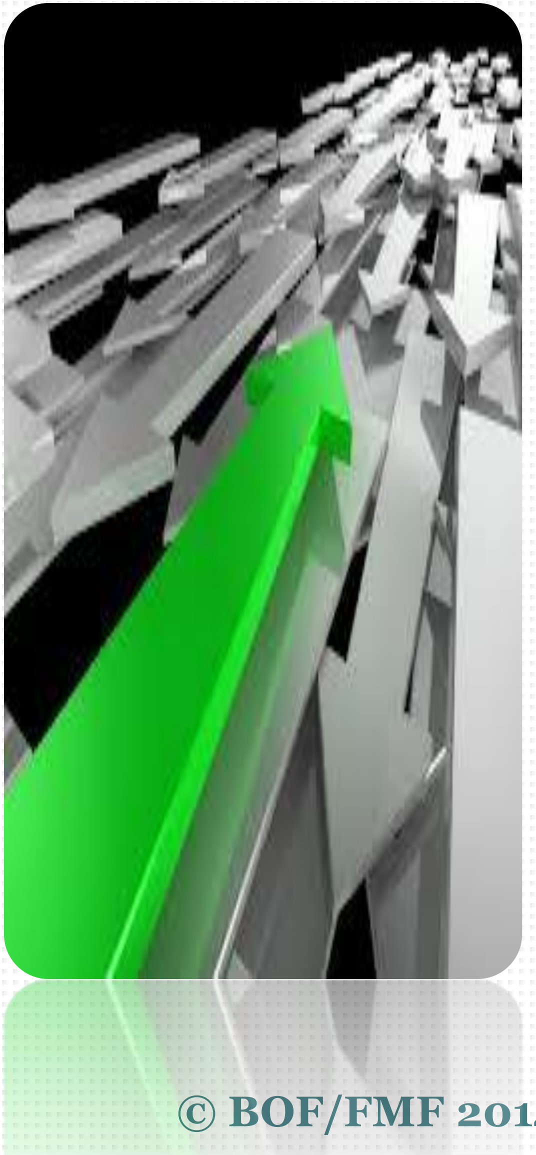
... CHARTING THE WAY FORWARD [2]

Recurrent expenditure

- Wage bill
  - All stakeholders to put national development first
  - IPPIS – extension to all remaining MDAs
  - National consensus on wage policy
- Accelerate plugging of leakages & wastages in expenditure

Capital expenditure

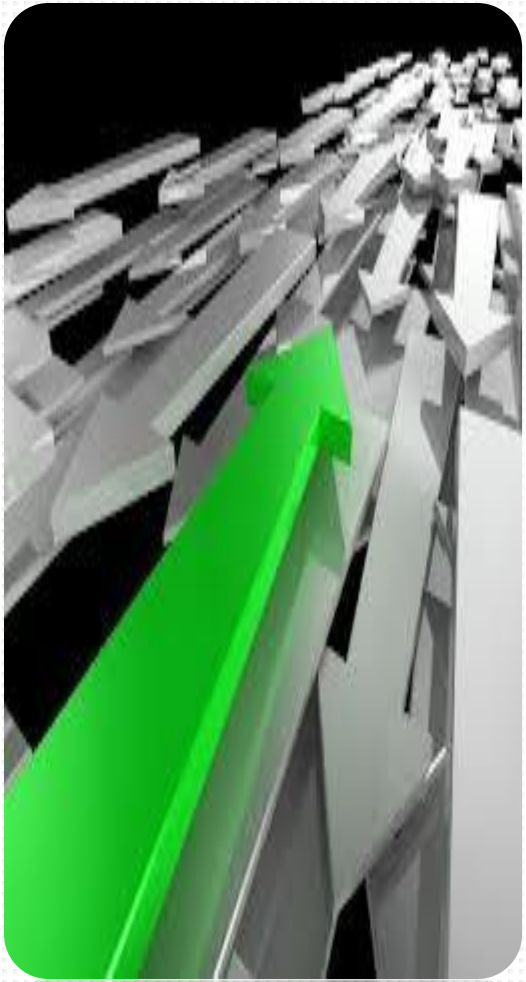
- *Nigeria Vision 20:2020 & Transformation Agenda*
  - Prioritization
  - Ongoing projects
- Goal-focused spending
  - Avoid spreading resources thinly



… CHARTING THE WAY FORWARD [3]

Public Financial System Reforms

- **Government Integrated Financial Mgt. Info. System (GIFMIS)**
  - ✓ Improved effectiveness and efficiency in budget preparation, execution and monitoring
  - ✓ Supports seamless transactions
  - ✓ Improve transparency, accountability and curb corruption
- **Treasury Single Account (TSA)**
  - ✓ Facilitate efficient cash management
  - ✓ Supports efforts at reducing cost of governance
- **Integrated Payroll and Personnel Info. System (IPPIS)**
  - ✓ Enhance efficient personnel cost planning and budgeting
  - ✓ Eliminating the ghost workers syndrome
- **Curbing Waste in Public Finance Management**
  - ✓ Efforts to rationalize MDAs
  - ✓ Foreign Training
  - ✓ Foreign Travel
- **These platforms are to be completely rolled out in 2014**



End Notes

- 2014 Budget prepared against backdrop of a fragile global economic recovery, but resilient domestic economy.
- A tight but realistic budget for 2014 given:
  - the projected decline in oil revenue due to lower oil production and benchmark price.
  - This affected capital allocation, but SURE-P Budget a major window to supplement capital expenditure.
  - Fiscal deficit around the same level as in 2013 (1.85 versus 1.9% of GDP).
- Budget focused on promoting job creation and inclusive growth through targeted public investments and other fiscal policy measures.
- The growing wage bill and revenue loss remain a critical challenge to the budget.
  - All stakeholders need to recognize this in order to accelerate economic development.
- We must persist with reforms in order to increase revenue generation and to curtail waste in expenditure
  - Extension of IPPIS to all MDAs; and
  - Curb non-essential foreign travels/training