

FOR CONSULTATIVE PURPOSES ONLY



DRAFT 2021 – 2023 MTEF/FSP VIRTUAL CONSULTATIVE SESSION WITH CSO's, ORGANISED PRIVATE SECTOR & THE GENERAL PUBLIC

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OUTLINE

- I. Introduction & Background***
- II. Global Outlook: Recent Development & Prospects***
- III. Nigerian Economy: Implications of Global & Domestic Developments***
- IV. Update on 2020 Revised Budget***
- V. Overview of 2020 Fiscal outcomes – (Jan - May 2020)***
- VI. Underlying Assumptions driving Macroeconomic Parameters and Targets***
- VII. Overview of the 2021-2023 MTRF***
- VIII. Conclusion***

INTRODUCTION & BACKGROUND

INTRODUCTION & BACKGROUND



- The Nigerian economy faced serious challenges in H1 2020, with the macroeconomic environment and significantly disrupted by the Covid-19 pandemic.
- **Crude oil prices declined sharply** in the world market, with **Bonny Light crude oil price dropping from a peak of US\$72.2 pb on January 7, 2020 to below US\$20 pb in April, 2020.**
- In effect, **the US\$57 crude oil price benchmark on which the 2020 budget was based** became unsustainable.
- Another key development in the international crude oil market is the massive output cut by OPEC and its allies (OPEC+) to stabilize the world oil market, with Nigeria contributing about 300,000 bpd of production cuts.
- The impact of these developments is about **65% decline in projected net 2020 government revenues** from the oil and gas sector, with adverse consequences for foreign exchange inflows into the economy.

INTRODUCTION & BACKGROUND .../2



- Nigeria is exposed to spikes in risk aversion in the global capital markets, which will put further pressure on the foreign exchange market as foreign portfolio investors exit the Nigerian market.
- Unless we achieve a very strong Q3 2020 economic performance, the Nigerian economy is likely to lapse into a second recession in four years, with significant adverse consequences
- In response to the developments affecting the supply of foreign exchange to the economy, the Central Bank of Nigeria (CBN) **adjusted the official exchange rate recently to N360 per US\$1.**
- The disruptions in global trade and logistics would negatively affect custom duty collections in 2020. The COVID-19 containment measures, though necessary, are inhibiting domestic economic activities, with consequential negative impact on taxation and other government revenues. It is therefore imperative to adjust the previously projected Customs duty, Stamp Duty, Value Added Tax, and Company Income Tax revenues.

GLOBAL OUTLOOK: RECENT DEVELOPMENT & PROSPECTS

GLOBAL ECONOMIC OUTLOOK



Medium Term Outlook



Sub-Saharan Africa is projected to **decline by -3.2% in 2020** and **recover steeply to 3.4% in 2021**

Advanced economy group will be hard hit by the pandemic. Growth is projected at **-8.0% in 2020 & +4.8% in 2021.**



Medium Term Outlook

- Recovery from the sharp contraction in the first quarter is underway in China, growth is projected at 1.0% in 2020, supported in part by policy stimulus.
- India's economy is projected to contract by 4.5% following a longer period of lockdown and slower recovery than anticipated in April.
- Latin American Countries are still struggling to contain infections, the two largest economies, Brazil and Mexico, are projected to contract by 9.1% and 10.5% respectively, in 2020.

GLOBAL ECONOMIC OUTLOOK .../3



Medium Term Outlook

| | 2019 | Projections | |
|--|------|-------------|------|
| | | 2020 | 2021 |
| World Output | 2.9 | -4.9 | 5.4 |
| Advanced Economies | 1.7 | -8.0 | 4.8 |
| United States | 2.3 | -8.0 | 4.5 |
| Euro Area | 1.3 | -10.2 | 6.0 |
| Emerging Market & Developing Economies | 3.7 | -3.0 | 5.9 |
| China | 6.1 | 1.0 | 8.2 |
| India | 4.2 | -4.5 | 6.0 |
| Brazil | 1.1 | -9.1 | 3.6 |
| Sub-Saharan Africa | 3.1 | -3.4 | 3.4 |
| South Africa | 0.2 | -8.0 | 3.5 |

Source: IMF, WEO, June 2020

- For the first time, all regions are projected to experience negative growth in 2020.
 - There are, however, substantial differences across individual economies, reflecting the evolution of the pandemic and the effectiveness of containment strategies and variation in economic structure.
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- Spillovers from weaker external demand will hurt growth prospects for emerging market and developing economies. Excluding China, practically every other economy in the world is projected to record negative GDP growth in 2020.

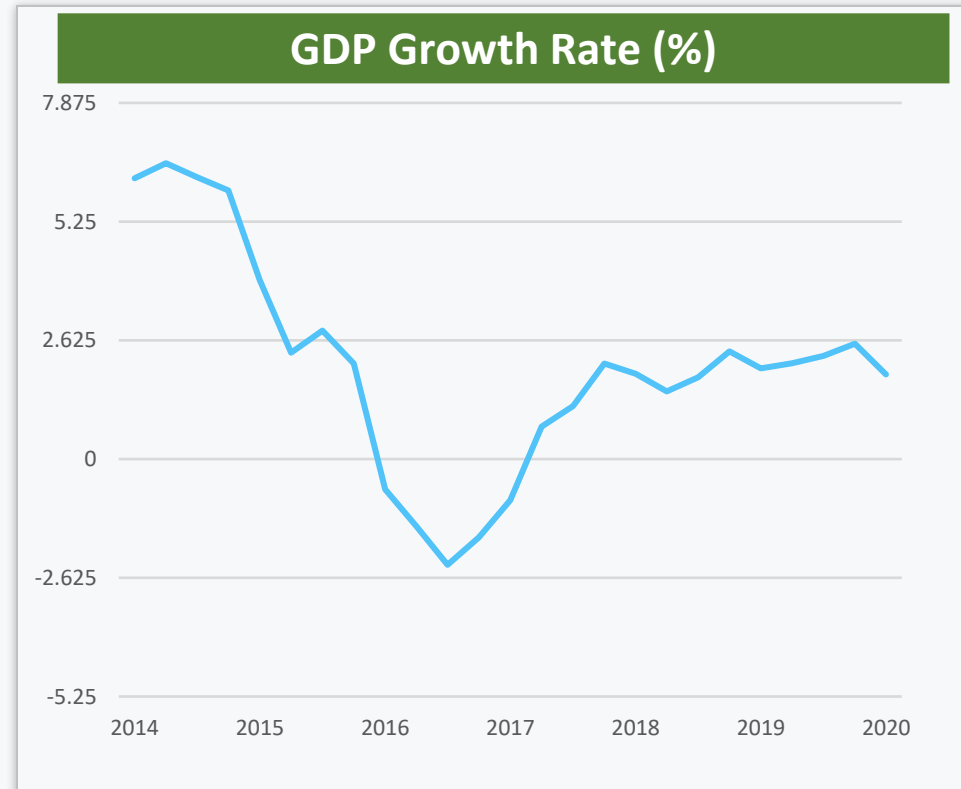
THE NIGERIAN ECONOMY: IMPLICATIONS OF GLOBAL & DOMESTIC DEVELOPMENTS

DOMESTIC DEVELOPMENTS .../3



GDP

- Real GDP declined from 2.55% in Q4 of 2019 to 1.87% in the first quarter of 2020.
- This reflects the earliest effect of global disruptions caused by Covid-19 pandemic, especially the oil price crash and restricted international trade.
- Nigeria's real GDP is now projected by the National Bureau of Statistics (NBS) to contract by 4.2% in 2020, as against the previous projected growth of 2.93%.
- Q2 and Q3 2020 GDP growth are projected to be negative, which means that the economy will lapse into a second recession in 4 years



DOMESTIC DEVELOPMENTS .../2



Medium Term Outlook

- Non-oil sector growth moderated to 1.55% in real terms in Q1 2020, from 2.47 percent recorded in Q1 2019, driven mainly by Telecommunications, Financial Services, Crop Production, Mining & Quarrying and Construction sub-sectors.
- The contribution of the non-oil sector to GDP declined from 92.68% in Q4 2019 to 90.5% in Q1 2020.
- Trade contracted by 2.82%, while ICT slowed to only 7.65% from 11.08% 2019 full year growth.
- Quarrying, Road transport, Accommodation and Food Services as well as real estate recorded weaker performance in Q1 2020 relative to Q1 2019.

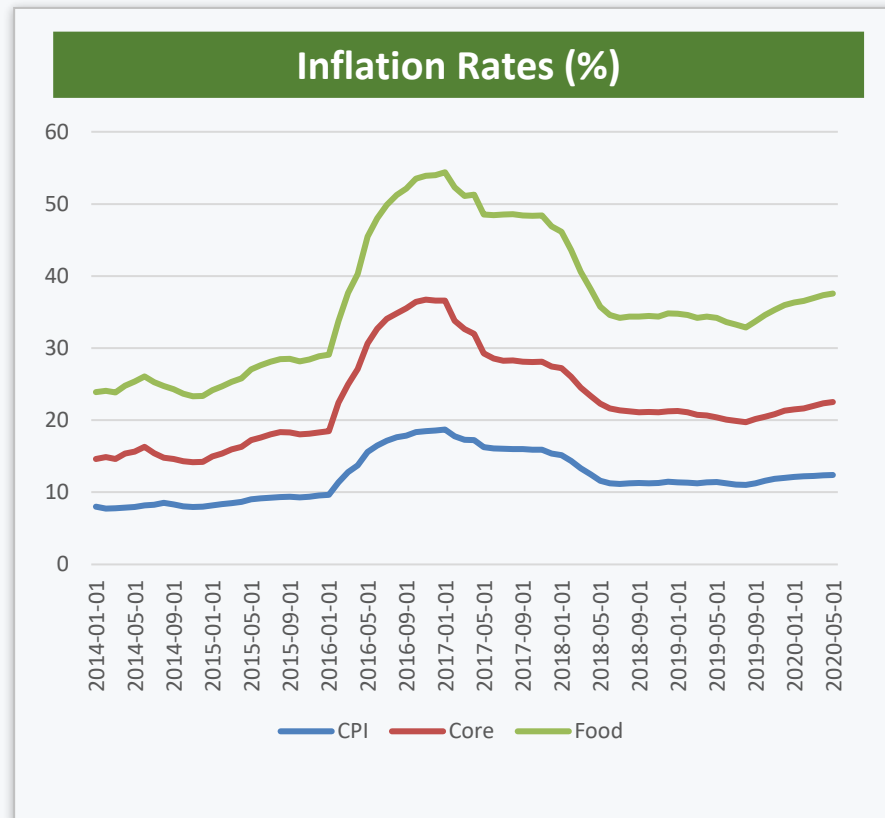
DOMESTIC DEVELOPMENTS .../3



Medium Term Outlook

Inflation rate increased for the ninth consecutive month by 12.4% (year-on-year) in May 2020.

- Highest rate recorded since May 2018.
- This is 0.06% higher than the 12.34% recorded in April 2020.
- Driven largely by rise in cost of food, exacerbated by insecurity and inter-state travel disruptions owing to the coronavirus pandemic.



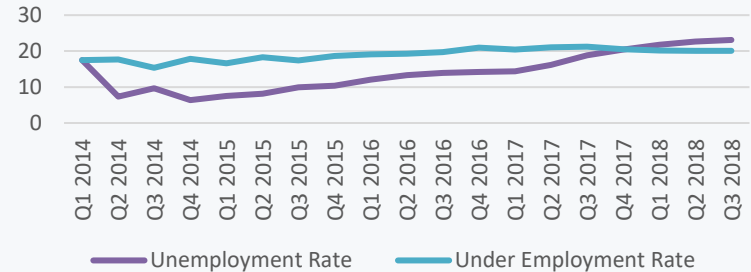
DOMESTIC DEVELOPMENTS .../4



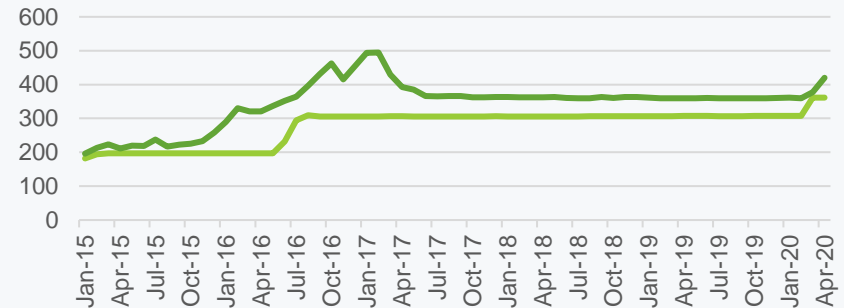
Medium Term Outlook

- NBS reported unemployment rate of 23% in Q3 2018.
- Total number of unemployed people increased from 17.6 million in Q4 2017 to 20.9 million in Q3 2018.
- CBN recently adjusted the official exchange rate upwards to N360/US\$1.
- At the Importers & Exporters forex window (IEFX), where the bulk of forex transactions occur, exchange rate depreciated from N362/US\$1 in January 2020 to over N385/US\$1 currently.

Employment/Underemployment Rates



Exchange Rates

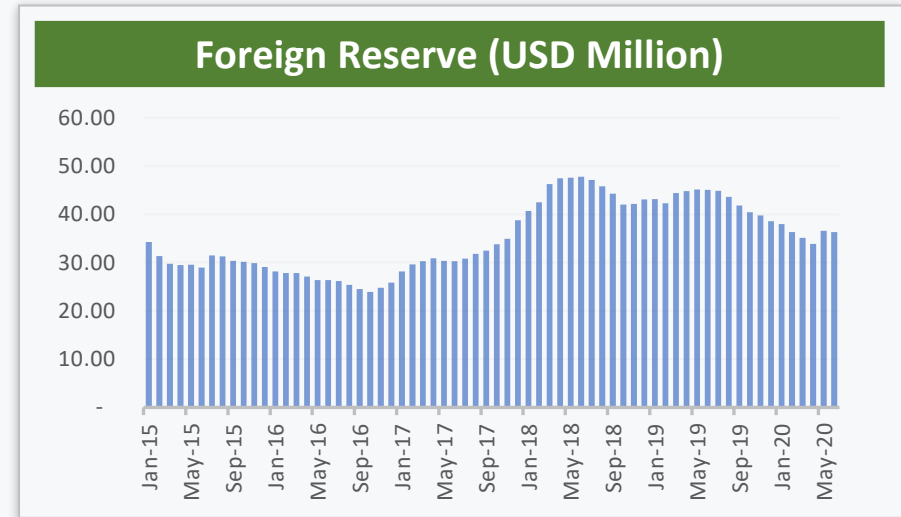


DOMESTIC DEVELOPMENTS .../5



Medium Term Outlook

- External reserve declined to **US\$36.38bn** as at June 2020 from **US\$45.12bn** as at June 2019.
- Decline in foreign reserves is attributable to the reduction in crude oil receipts following the sharp decline in world crude oil prices.
- Poverty rate is still high; NBS classified 40.1% of the Nigerian population (82.9m Nigerians) as poor in the 2019 Poverty and Inequality in Nigeria Report recently published.
- On human capital development, Nigeria ranked 152 out of 157 countries in the World Bank's 2018 Human Capital Index.



UPDATE ON 2020 REVISED BUDGET

UPDATE ON 2020 REVISED BUDGET



Highlights of 2020 Budget Revision

| SCHEDULE | 2020 APPROPRIATION REVISION | VARIANCE | 2020 APPROPRIATION AMENDMENT |
|--|-----------------------------------|-----------------|------------------------------------|
| | =N= | =N= | =N= |
| STATUTORY TRANSFERS | 398,505,979,362 | 29,526,207,430 | 428,032,186,792 |
| DEBT SERVICE <i>(Including Sinking Fund)</i> | 2,951,710,000,000 | | 2,951,710,000,000 |
| TOTAL RECURRENT (NON-DEBT) | 4,928,525,467,849 | 13,743,784,085 | 4,942,269,251,934 |
| TOTAL CAPITAL SUPPLEMENTATION: | 437,841,529,333 | 172,490,000,000 | 610,331,529,333 |
| TOTAL CAPITAL EXPENDITURE | 2,230,912,585,842 | 257,876,847,502 | 2,488,789,433,344 |
| AGGREGATE EXPENDITURE | 10,509,654,033,054 | 301,146,839,018 | 10,810,800,872,072 |

UPDATE ON 2020 REVISED BUDGET



Highlights of 2020 Budget Revision

- Overall, the 2020 Revised Budget shows an increase of N301bn over the amount proposed by Mr. president. The difference of **N301bn** is broken down as follows;
 - 10% cuts in allocations to Statutory Transfer Agencies and arms of government were reinstated by the National Assembly **N25.53bn**
 - Increase in contingency provision in service wide votes by **N12.5bn.**
 - **N185.9bn** Federation intervention included in FGN Budget
 - **N4bn** for Hazard allowance for Health workers
 - **N3bn** for social Housing
 - **Other adjustments amount to N70bn.**

OVERVIEW OF 2020 FISCAL OUTCOMES (JAN - MAY 2020)

OVERVIEW OF 2020 FISCAL OUTCOMES – (JAN - MAY 2020)



2020 Budget Parameters Performance

- The performance of the 2020 budget parameters shows that GDP growth, oil production and inflation fell below target.

| Description | 2020 Budget Revised | Jan - May 2020 Actual |
|------------------------------|---------------------|-----------------------|
| Oil Price Benchmark (US\$/b) | *28.0 | **38.64 |
| Oil Production (mbpd) | ^1.80 | ^^1.88 |
| Exchange Rate (N/\$) | 360.0 | 360.0 |
| Inflation (%) | 14.13 | +12.4 |
| GDP Growth Rate (%) | `(4.42) | ``1.87 |

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

^This is the revised oil production target (2.18mbpd initially approved); ^^This is average production, exclusive of production for repayment of cash call arrears.

+ This represents inflation rate as at May, 2020.

`This is the revised GDP growth rate post-covid-19 (initially 2.93%); ``This is the Q1 2020 GDP growth rate.

Source: BOF, NBS, CBN, NNPC, OPEC

UPDATE ON 2020 BUDGET IMPLEMENTATION (JAN – MAY)



Revenue Performance

- As at end of May 2020, FGN's retained revenue was N1.48 trillion, 56% of target:
 - FGN share of oil revenues was N701.6 billion (representing 166% of the prorata revised 2020 budget) while non-oil tax revenues totaled N439.32 bn (65% of revised target).
 - Companies Income Tax (CIT) and Value Added Tax (VAT) collections were N213.24 billion and N68.09 billion, representing 62% and 58% respectively of the prorata revised targets for the period.
 - Customs collections was N158 billion (73% of revised target).

- Other revenues amounted to N339.51 billion, of which Independent revenues was N80.22 billion (21% of target). Recoveries and Stamp duty collected during the period are yet to be booked in the fiscal accounts.

UPDATE ON 2020 BUDGET IMPLEMENTATION (JAN – MAY) .../2



Revenue Performance

| | | 2020 Revised Budget | Pro Rata (Jan-May) | Actuals (Jan-May) | Variance | |
|------------|--|---------------------|--------------------|-------------------|-------------------|-------------|
| | | Billions of Naira | | | Billions of Naira | % |
| S/N | FEDERAL RETAINED REVENUES | 5,365.42 | 2,622.00 | 1,481.28 | (1,140.72) | -44% |
| A | | | | | | |
| 1 | Oil Revenue | 1,013.77 | 422.40 | 701.60 | 279.20 | 66% |
| 2 | Share of Dividend (NLNG) | 80.38 | 33.49 | | (33.49) | -100% |
| 3 | Minerals & Mining Revenue | 1.90 | 0.79 | 0.85 | 0.06 | 7% |
| 4 | Non-Oil Revenue: | 1,624.93 | 677.06 | 439.32 | (237.73) | -35% |
| i | CIT | 821.67 | 342.36 | 213.24 | (129.12) | -38% |
| ii | VAT | 284.11 | 118.38 | 68.09 | (50.29) | -42% |
| iv | Customs Revenues | 450.70 | 187.79 | 149.28 | (38.52) | -21% |
| v | Federation Account Levies | 68.46 | 28.52 | 8.72 | (19.80) | -69% |
| B | | 2,644.45 | 1,101.85 | 339.51 | (762.34) | -69% |
| 1 | FGN Independent Revenue | 932.84 | 388.68 | 80.22 | (308.47) | -79% |
| 2 | FGN Drawdowns from Special Accounts/Levies | 645.00 | 268.75 | 189.31 | (79.45) | -30% |
| 3 | Signature Bonus / Renewals / Early Renewals | 350.52 | 146.05 | 69.99 | (76.06) | -52% |
| 4 | Domestic Recoveries + Assets + Fines | 237.01 | 98.76 | | (98.76) | -100% |
| 5 | Stamp Duty | 200.00 | 83.33 | | (83.33) | -100% |
| 6 | Grants and Donor Funding | 42.70 | 17.79 | | (17.79) | -100% |
| 7 | Grants and Donations for COVID-19 Crisis Intervention Fund | 186.37 | 77.65 | | (77.65) | -100% |
| 8 | Grants and Donor Funding | 50.00 | 20.83 | | (20.83) | -100% |



Expenditure Performance

- On the expenditure side, **N9.97 trillion** was appropriated (excluding GOEs and Project tied loans), while **N3.52 trillion** (representing **84.8% of the prorata N4.16 trillion**) was spent.
- Of the expenditure,
 - **N1.25 trillion** was for debt service, and
 - **N1.32 trillion** for Personnel cost, including Pensions.
- As at end of May 2020, only **N253.33 billion** had been released for **capital expenditure**, (*largely due to the budget revision exercise*).

2021 – 2023
UNDERLYING ASSUMPTIONS
DRIVING MACROECONOMIC
PARAMETERS AND TARGETS

KEY ASSUMPTIONS & MACRO-FRAMEWORK



2021 – 2023 MTEF Projections

- The key parameters as well as other macroeconomic projections driving the medium-term revenue and expenditure framework have been revised in line with the emergent realities. The new figures are presented in the table below.

| Description | 2019 Actual | 2020 Budget | 2021 | 2022 | 2023 |
|------------------------------|-------------|-------------|-----------|-----------|-----------|
| Oil Price Benchmark (US\$/b) | 67.2 | 28.0 | 40.0 | 40.0 | 40.0 |
| Oil Production (mbpd) | 1.96 | 1.80 | 1.86 | 2.09 | 2.38 |
| Exchange Rate (N/\$) | 305.0 | 360.0 | 360.0 | 360.0 | 360.0 |
| Inflation (%) | 11.98 | 14.15 | 11.95 | 10.94 | 11.02 |
| Non-Oil GDP (N'bn) | 131,810.1 | 131,155.5 | 132,592.2 | 134,154.5 | 139,304.9 |
| Oil GDP (N'bn) | 12,400.4 | 8,691.9 | 10,102.2 | 12,640.0 | 12,159.5 |
| Nominal GDP (N'bn) | 144,210.5 | 139,517.5 | 142,192.1 | 146,072.8 | 150,497.7 |
| GDP Growth Rate (%) | 2.27 | (4.20) | 3.00 | 4.68 | 3.86 |
| Nominal Consumption (N'bn) | 119,281.6 | 117,913.7 | 118,887.3 | 120,835.4 | 125,157.3 |

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

- Oil GDP growth rate has a strong positive correlation with real GDP growth in Nigeria. Consequently, changes in the underlying drivers of oil GDP will significantly affect real GDP performance

KEY ASSUMPTIONS & MACRO-FRAMEWORK .../2



2021 – 2023 MTEF Projections

- Although Nigeria's total production capacity is 2.5 mbpd, current crude production is about 1.4mbpd (in compliance with the OPEC+ production quota), and an additional 300,000bpd of condensates, totalling about 1.7mbpd.
- World Bank forecasts that crude oil prices will rise gradually from an average of US\$42 pb in 2021 to \$44.5 pb in 2022, and US\$47 pb in 2023.
- EIA expects Brent crude oil prices to average \$41 pb during the second half of 2020 and \$50 pb during 2021, reaching \$53 pb by the end of 2021
- With oil price projected to remain low and volatile in 2020, and Nigeria's compliance with the OPEC+ cuts by reducing base production to between 1.412 mbpd and 1.579 mbpd from June to end of the year, growth in Oil GDP is expected to decline in 2020.

KEY ASSUMPTIONS & MACRO-FRAMEWORK .../3



2021 – 2023 MTEF Projections

- Oil GDP is expected to contract by 12.96% in 2020, year on year, causing an economy-wide drag resulting in slower growth in non-oil GDP by -3.6%, year on year. Based on this, real GDP is expected to decline by 4.2% in 2020.
- The nominal GDP is expected to increase from N130,836.1 billion in 2020 to N132,125.4 billion in 2021 and then up to N138,415.8 billion in 2023. Similarly, consumption expenditure is projected to stay flat at N118,735.2 billion in 2020 and N118,468.7 billion in 2021 and grow to N124,358.5 billion by 2023, reflecting a gradual steadiness in the recovery.
- Inflation, however, is expected to remain above single digit over the medium term, given the structural issues impacting on cost of doing business, including high cost of food distribution.

OVERVIEW OF THE 2021-2023 MEDIUM TERM REVENUE FRAMEWORK (MTRF)

OVERVIEW OF THE 2021-2023 MTRF



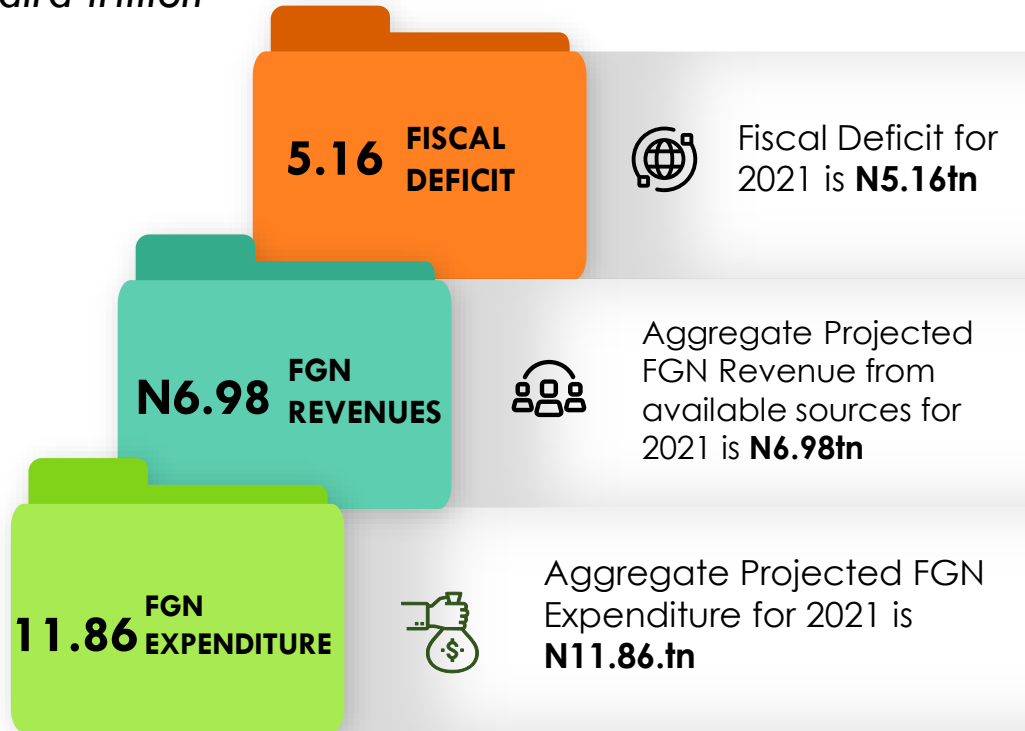
Federation Account Revenues (2021 – 2023)

| FISCAL ITEMS | 2020 Revised Budget | 2021 Proj. | 2022 Proj. | 2023 Proj. |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Budget Oil Production Volume Net Incremental Oil Production for Repayment Arrears (mbpd) | 1.80 | 1.86 | 2.09 | 2.38 |
| Projected Budget Benchmark Price (US\$ per barrel) | 28.00 | 40.00 | 40.00 | 40.00 |
| Average Exchange Rate (N/US\$) | 360.0 | 360.0 | 360.0 | 360.0 |
| NET FEDERATION ACCOUNT | 4,893,871,873,398 | 6,716,252,560,381 | 7,863,988,644,285 | 8,633,955,060,301 |
| Transfer to Police Trust Fund (0.5% of Fed. Acct.) | 24,469,359,367 | 41,588,404,181 | 45,325,299,256 | 47,673,792,327 |
| NET FEDERATION ACCOUNT (after 0.5% transfer to Police Trust Fund) | 4,869,402,514,031 | 6,674,664,156,200 | 7,818,663,345,029 | 8,586,281,267,974 |
| Net Oil Revenue after Costs, Deductions & Derivation | 2,090,239,792,299 | 4,090,852,736,865 | 4,665,563,949,852 | 5,331,705,103,312 |
| Dividend Payment (NLNG) | | | | |
| Net Solid Minerals Revenue after Derivation | 3,908,604,642 | 5,464,729,697 | 6,011,202,666 | 6,612,322,933 |
| Net Corporate Tax Distributable | 1,694,159,591,664 | 1,405,604,726,453 | 1,777,644,067,841 | 1,834,954,611,150 |
| Net Customs Revenue Distributable | 929,272,831,724 | 1,047,978,550,179 | 1,227,855,299,079 | 1,266,916,145,143 |
| Net Special Levies Distributable | 141,145,505,197 | 124,763,413,007 | 141,588,825,590 | 146,093,085,436 |
| Actual Balances in Special Accounts | 10,676,188,505 | - | - | - |
| Distribution | | | | |
| FGN's Share of Federation Account (52.68%) | 2,565,201,244,392 | 3,516,213,077,486 | 4,118,871,850,162 | 4,523,252,971,969 |
| States' Share of Federation Account (26.72%) | 1,301,104,351,749 | 1,783,470,262,537 | 2,089,146,845,792 | 2,294,254,354,803 |
| Local Govt.'s Share of Federation Account (20.60%) | 1,003,096,917,890 | 1,374,980,816,177 | 1,610,644,649,076 | 1,768,773,941,203 |
| Total Federation Account Distribution (Net) (100.00%) | 4,869,402,514,031 | 6,674,664,156,200 | 7,818,663,345,029 | 8,586,281,267,974 |
| NET VAT POOL ACCOUNT DISTRIBUTABLE | 2,029,386,290,994 | 1,703,044,482,541 | 1,814,180,937,067 | 1,879,068,876,704 |
| FGN's Share of VAT Pool Account (15%) | 304,407,943,649 | 255,456,672,381 | 272,127,140,560 | 281,860,331,506 |
| States' Share of VAT Pool Account (50%) | 1,014,693,145,497 | 851,522,241,271 | 907,090,468,533 | 939,534,438,352 |
| Local Govt.'s Share of VAT Pool Account (35%) | 710,285,201,848 | 596,065,568,889 | 634,963,327,973 | 657,674,106,846 |
| Total VAT Pool Account Distribution (Net) (100.00%) | 2,029,386,290,994 | 1,703,044,482,541 | 1,814,180,937,067 | 1,879,068,876,704 |

OVERVIEW OF THE 2021-2023 MTFF

FGN 2021 Outlook

Naira trillion



2021

BUDGET OUTLOOK

The **2021-2023 MTEF/FSP** is the pre-budget statement that provides the framework for the development of the **2021 Budget**. It is being framed against the backdrop of a **challenging global macroeconomic environment** as well as domestic factors. We aim to keep the deficit within the 3% ceiling over the medium term, and are therefore working on identifying new revenue sources and/or cost reductions.

CONCLUSION

CONCLUSION



- We have revised the 2020 FGN budget and will accelerate implementation to maintain budget process credibility, enhance GDP growth and promote social inclusion.
- The draft 2021 – 2023 MTEF/FSP has been prepared against the backdrop of heightened global economic uncertainty.
- The draft 2021-2023 Medium Term Fiscal Framework shows that there are continuing global challenges due to the COVID-19 pandemic.
- The medium-term outlook for Nigeria suggests that fiscal risks are somewhat elevated, largely due to Covid-19 related disruptions which have exacerbated structural weaknesses in the economy.
- Nigeria faces significant medium-term fiscal challenges, especially with respect to its revenues.

CONCLUSION .../2



- In furtherance of our objective of greater comprehensiveness and transparency in the budget process, the FGN 2021 Budget will reflect the revenues & expenditures of all significant GOEs (excl. NNPC), not just 10 as in the 2020 budget.
- Weaker-than-expected economic performance threatens the ambitious revenue growth targets, as seen in the 2020 revised budget and the updated medium-term projections.
- Achieving fiscal sustainability and macro-fiscal objectives of government will require bold, decisive and urgent action. Government is determined to act as may be required.
- Thus, key reforms will be implemented with increased vigour to improve revenue collection and expenditure management.

WE WELCOME YOUR INPUTS/COMMENTS

A

DOMESTIC REVENUE MOBILIZATION

What are new incremental revenue sources that Government should focus on?

B

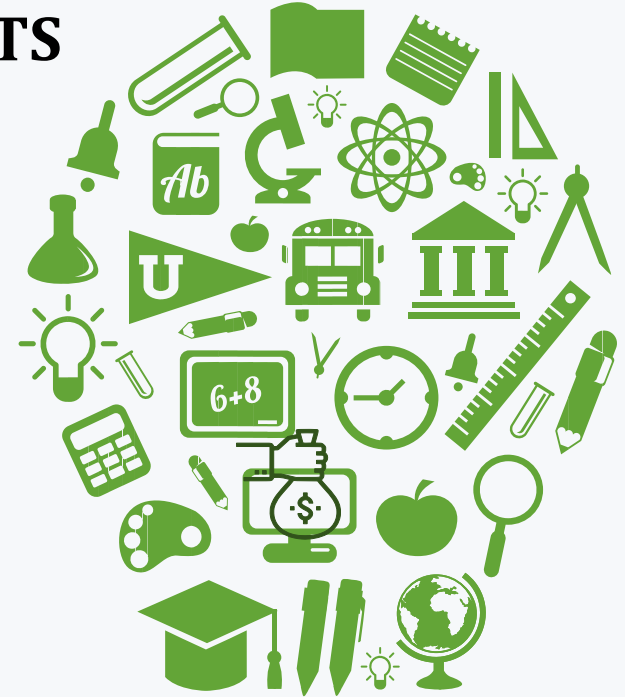
COST SAVINGS

Are there government programmes that may help in cost savings? Plug leakages? Any new suggestion?

C

ANY POLICY ADVICE/TWEAK?

What are updates or recommendations to existing policies and programmes that may help improve service delivery and efficiency?



INPUT/IDEAS, COMMENTS & SUGGESTIONS TO THE FGN

THANK YOU!

Any Questions?