2024-2026
MEDIUM TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY PAPER

2024-2026

MTEF & FSP

Budget Office of the Federation
Federal Ministry of Budget and Economic Planning

September, 2023

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The economic and fiscal estimates presented in the 2024-26 MTEF/FSP incorporate assumptions, narratives and judgments based on information available at the time of preparation. These estimates are subject to uncertainty. This MTEF/FSP provides details of the historical performance of Budget forecasts for the macroeconomic aggregates of real and nominal GDP, as well as for estimates of government revenues & expenditure. The Fiscal Strategy Paper also presents a number of economic forecasts / projections and key underlying assumptions as well as Government's medium-term outlook.

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LIST OF ACRONYMS

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

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

NAFEX	the Nigerian Autonomous Foreign Exchange
NASS	National Assembly
NBET	Nigerian Bulk Electricity Trading
NCS	Nigeria Customs Service
NEDC	North East Development Commission (NEDC).
NEXIM	Nigerian Export-Import Bank
NIRP	Nigeria Industrial Revolution Plan
NNPC	Nigerian National Petroleum Corporation
NPA	Nigeria Ports Authority
NSSP	National Social Safety Net Programme
OAGF	Office of the Accountant General of the Federation
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PCOA	Put-Call Option Agreement
PFM	Public Finance Management
PIGB	Petroleum Industry Governance Bill
PMS	Premium Motor Spirit
PPP	Public Private Partnership
PPT	Petroleum Profit Tax
PRG	Partial Risk Guarantees
PRMRC	Presidential Revenue Monitoring & Reconciliation Committee
PSRP	Power Sector Recovery Program
PSRO	Power Sector Recovery Operations
PV	Photovoltaic
SDG	Sustainable Development Goals
SIP	Social Investment Programme
SSI	Safe School Initiative
TE	Tax Expenditure
TES	Tax Expenditure Statement
TSA	Treasury Single Account

UK	United Kingdom
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook
YoY	Year on Year

1.0 INTRODUCTION

The recently concluded democratic transition marked a significant milestone in Nigeria's political landscape. Sound fiscal management that ensures discipline in resource allocation, and macroeconomic stability can only be sustained with political stability. Effective fiscal planning is crucial to steer the nation towards economic growth and prosperity. The Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF&FSP) serves as a vital tool in Nigeria's medium-term planning process, providing a comprehensive framework for prudent fiscal management and resource allocation.

Medium-term planning plays a pivotal role in achieving sustainable economic development and promoting effective governance. By extending beyond short-term budgeting, medium-term planning ensures coherence, stability, and predictability in fiscal policy. The MTEF&FSP facilitates the alignment of policy objectives with the available financial resources. This ensures that developmental priorities are supported, and resources are allocated efficiently to achieve desired outcomes. The MTEF&FSP operationalises high-level fiscal objectives in concrete terms and in a manner that demonstrates credibility and political will. A transparent and publicly available MTEF&FSP helps in promoting accountability. The MTEF&FSP is the cornerstone of the budget formulation process, which brings together the various commitments and constraints in one place to enable decision-makers to consider how to meet constraints such as fiscal rules.

The Federal Government has embarked on comprehensive economic reforms aimed at reducing the country's dependence on oil revenues and diversifying the economy. The new Administration is committed to implementing bold and progressive policies to transform the economy. The MTEF&FSP sets out initiatives in sectors such as agriculture, manufacturing, solid minerals, and technology to stimulate growth and create jobs. Provisions and estimates in the 2024-2026 MTEF&FSP are properly aligned to national developmental aspirations as contained in the Medium-Term National Development Plan 2021 – 2025 (NDP 2021-25) and Agenda 2050. Key policy measures and expenditure projections aimed at economic reforms and diversification, efficiency in domestic revenue mobilisation, fiscal discipline and debt management and inclusive economic growth are enunciated in this MTEF&FSP. These initiatives are aimed at boosting productivity, attracting investments, and improving living standards as envisioned in the NDP 2021-2025.

The 2024-2026 MTEF&FSP is built on prudent economic assumptions and revenue/expenditure estimates. The MTEF&FSP lays out the fiscal measures to promote domestic manufacturing and lessen import dependency. Recognizing the critical role of infrastructure in economic development, the MTEF&FSP elucidates on the initiatives to sustain ongoing aggressive investment in infrastructure development. Other crucial objectives enunciated in the MTEF&FSP include achieving improved security, good governance, as well as greater investment in education, health and social protection to alleviate poverty.

The MTEF&FSP will benefit from consultation with a wide variety of relevant stakeholders to ensure that the document is representative of the collective aspirations of stakeholders. In preparing this document, inputs were obtained from various relevant stakeholders, including government agencies, organised private sector (OPS), civil society organisations (CSOs) and international development partners through bilateral discussions, technical working sessions and expert consultations.

As an instrument of strategic communication, government shall use this document for engagement with key stakeholders and the citizenry in general, to generate consensus and buy-in for public policies, as well as communicate the strategies of government to engender effective coordination of fiscal, monetary and trade policies. Ministries, Departments and Agencies (MDAs) are expected to implement policies, projects, and programmes outlined in this MTEF&FSP to improve the business environment, improve human capital development. and ultimately guarantee that the economy maintains a significant growth trajectory.

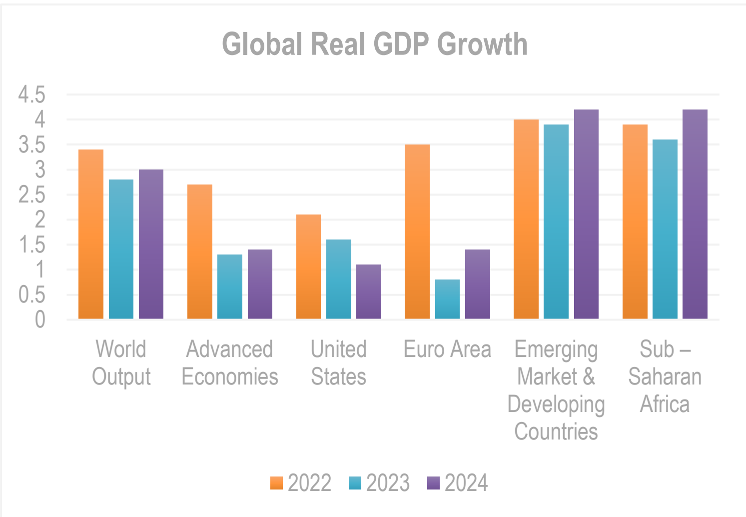
2.0 ECONOMIC AND FISCAL OUTLOOK

2.1 Global Economic Developments and Implications

Although trade volumes have recovered somewhat, supply-chain disruptions and rising geo-political tensions have brought the risks and potential benefits and costs of geo-economic fragmentation to the centre of the policy debate. This is resulting in growing emphasis on regionalization and diversification of supply chains to enhance resilience by many countries. The Covid-19 pandemic accelerated digital transformation across sectors, with increased adoption of remote work, e-commerce, and digital services. Technological advancements in areas such as artificial intelligence, blockchain, and automation continue to reshape industries and drive innovation. The focus on environmental sustainability and climate action has intensified globally. Governments are increasingly adopting green policies and transitioning towards renewable energy sources to mitigate the impact of climate change and achieve sustainability goals.

Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. US economic data showed mixed outcomes in the first quarter of 2023. Real Gross Domestic Product (GDP) expanded at an annualized rate of 1.1% in first quarter 2023 from 2.6% growth in fourth quarter of 2022, However, the headline figure masks diverging trends of private consumption growth which surged to 3.7%), up from just 1% in the fourth quarter of 2022, but this was largely offset by a steep decline in private inventory investment.

The US labour market strengthened with improved job creation across various sectors which has contributed to reducing unemployment and improving employment opportunities for workers. The US economy is projected to maintain a steady growth trajectory in the medium term, with an average GDP growth rate of around 2.5% - 3% per annum. The labour market is expected to continue improving, with further declines in the unemployment rate and increased job creation.



Euro Area GDP grew at 3.5%, performing better than expected in 2022. The IMF has revised EU GDP growth up to 0.9% in 2023 (from 0.8%) and 1.5% in 2024 (from 1.4%), virtually closing the gap with potential output by the end of the forecast horizon. Growth in emerging and developing Europe is projected to rise to 1.8% in 2023 and to rise further to 2.2% in 2024. The forecast for Russia in 2023 has been revised upward to 1.5% reflecting hard data (on retail trade, construction, and industrial production) that point to a strong first half of the year, with a large fiscal stimulus driving that strength.

There is a wide variation in in economic growth across Africa. While some countries have experienced consistent economic growth, others have seen recent setbacks in growth. The continent's three biggest economies have been responsible for the continent's overall slow economic growth. Egypt and Nigeria had an average GDP growth rate of 4.8% and 7.9% respectively between 2000 and 2010, but average growth rate has shrunk to 3.6% for Egypt and 3.1% for Nigeria in the decade between 2010 and 2019. The World Bank recently projected Nigeria's GDP growth rate to reach 2.8% in 2023, marking a slight revision downward from earlier forecasts. Growth in Sub Sahara Africa is expected to slow from 3.7% in 2022 to 3.2 %2023, with a moderate improvement to 3.9% projected for 2024.

Global financial conditions have prompted monetary policy tightening. Inflationary pressures continue to be in focus in 2023. Elevated inflation in Advanced economies has constrained investment spending and the recovery of output growth. In the Emerging Markets and Developing Economies, inflationary pressure remains heightened amid several headwinds. Advanced economies have experienced record inflation levels due to factors such as supply chain disruptions, increased demand, and rising commodity prices. Central Banks had implemented expansionary fiscal policies to support economic recovery in the wake of covid-19 induced recessions. Stimulus measures, infrastructure investments, and social welfare programmes had been crucial in driving economic growth, creating jobs, and addressing income disparities.

	Estimate	**Projections**	
Real GDP annual percent change	2022	2023	2024
World Output	3.5	3.0	3.0
Advanced Economies	2.7	1.5	1.4
United States	2.1	1.8	1.0
Euro Area	3.5	0.9	1.5
Emerging Market & Developing Countries	4.0	4.0	4.1
China	3.0	5.2	4.5
India	7.2	6.1	6.3
Brazil	2.9	2.1	1.2
Sub – Saharan Africa	3.9	3.5	4.1
Nigeria	3.3	3.2	3.0
South Africa	1.9	0.3	1.7
Low- Income Developing Countries	5.0	4.5	5.2
Source: IMF-WEO July, 2023			

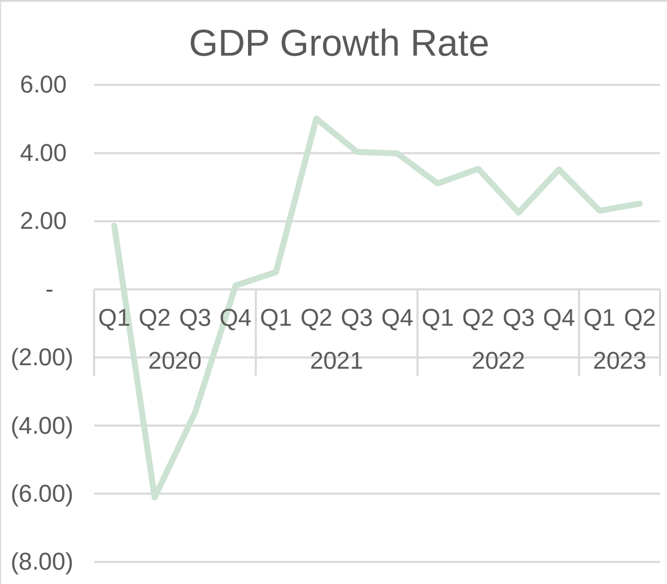
The upturn remains fragile, and risks are tilted to the downside. Uncertainty over the evolution of the Russia-Ukraine war and its global impact remains a key concern.

The persistence of inflation is another key downside risk. Core inflation is proving sticky, on the back of strong services price increases and higher profits in some sectors. The impact of higher interest rates is increasingly being felt across the economy, and restrictive monetary policy, while necessary, risks further exposing financial vulnerabilities, in particular in countries with high debt.

The multiple shocks besetting the global economy could leave long-lasting scars that will keep economic prospects below their pre-crisis levels over the medium term. Public debt- to-GDP ratio soared across the world during COVID-19 and is expected to remain elevated, posing a growing challenge for policymakers, particularly as real interest rates are rising across the world.

2.2 Domestic Economic Environment

GDP growth and Sectoral Performance

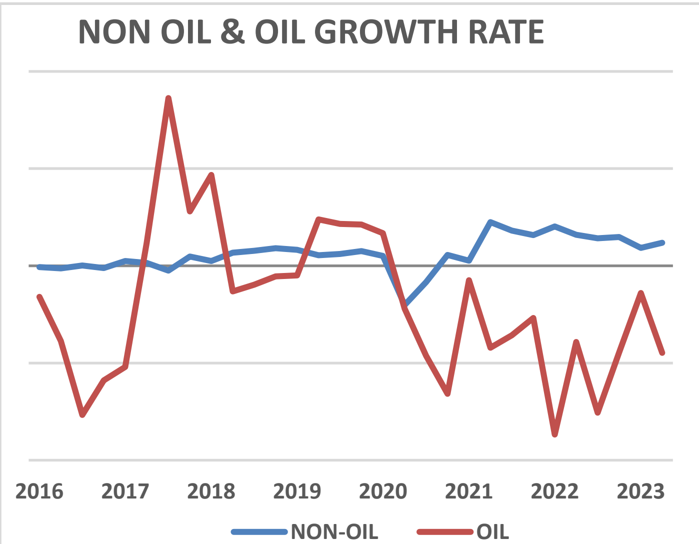


Source: National Bureau of Statistics

Real Gross Domestic Product (GDP) grew by 2.51% (year-on-year) in the second quarter of 2023 slower than 3.54% recorded in the second quarter of 2022.

The economy posted positive, albeit lower than expected growth, for the eleventh consecutive quarter, in spite of a multitude of headwinds. The growth performance was driven largely by the sustained non- oil sector growth. The non-oil sector grew by 3.58% in real terms in Q2 2023. This rate was lower by 1.19% points compared to the rate recorded in Q2 2022.

Non-oil sector growth was driven by Information and Communication (Telecommunication); Financial and Insurance (Financial Institutions); Trade; Agriculture (Crop production); Manufacturing (Food, Beverage & Tobacco); Construction; and Real Estate, subsectors.



Source: National Bureau of Statistics

Oil sector, which has contracted since Q1 2020, further declined by -13.43% in Q2 2023 compared to -4.21% in Q1 2023 and -11.77% in Q2 2022. Contraction is largely owing to years of underinvestment, crude-oil theft, and pipeline vandalism. Large-scale oil theft from pipelines and wells that has hobbled oil output and crimped exports in recent years.

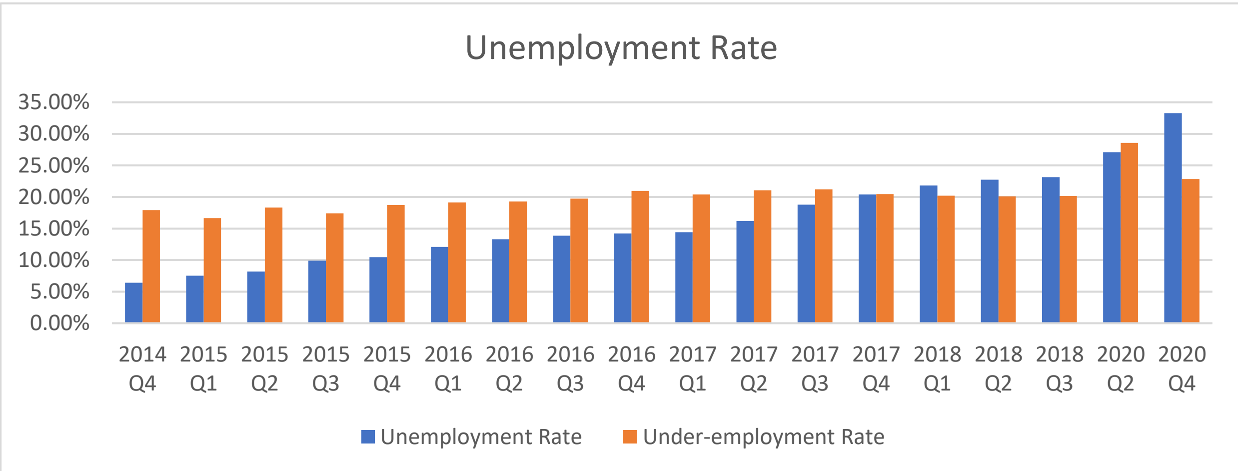
Average daily oil production was 1.22 million barrels per day (mbpd), lower than the daily average production of 1.43mbpd recorded in the same quarter of 2022 and lower than production volume of 1.51 mbpd by 0.29mbpd in the first quarter of 2023.

Output growth recovery is expected to continue reasonably in the near term. Government aims at attaining a 6% real GDP growth on average from 2023 to 2026. Economic growth is constrained by structural issues, lingering security crisis and weak domestic revenue mobilization. Ongoing reforms are aimed at easing elevated financing needs, driven by higher borrowing costs, lower oil production, and persistent fiscal pressures. The World Bank recently reviewed Nigeria's economic outlook downward lowering 2023 GDP growth forecast to 2.8% from earlier projection of 3.0%. NBS however projects a 3.75% growth for the Nigerian economy in 2023, which we are sticking with based on the experience of the recent past.

2.3 Unemployment and Underemployment

The latest labour force statistics in Nigeria puts Nigeria's unemployment rate at 4.1% in Q1 2023 and 5.3 % in Q4 2022 following a new methodology adopted by the National Bureau of Statistics (NBS). The revision of its methodology is in line with the International Labour Organization (ILO) guidelines. The new methodology defines employed individuals as those of working age people who engaged in any activity to produce goods or provide services for pay and profit.

The initial methodology considered persons engaged in any productive activity for at least 20 hours a week.



Source: National Bureau of Statistics

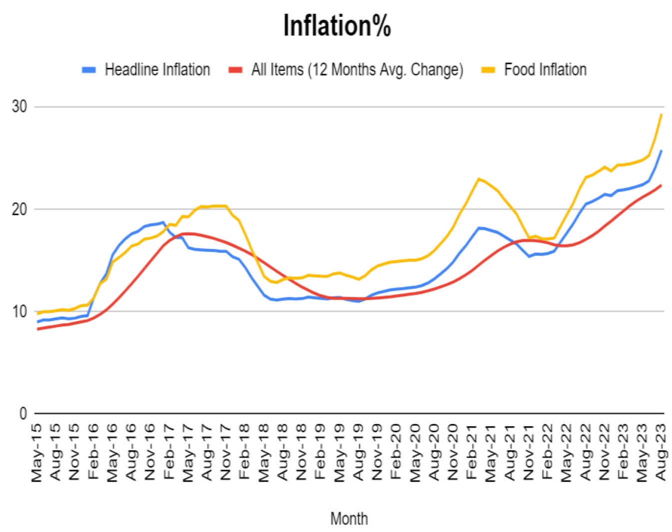
As at the fourth quarter, 2020 under the old methodology, unemployment rate stood at 33.3% in Q4 2020 from 27.1% recorded in Q2 2020.

The revised methodology provides broader measures of labour underutilization, addresses gender bias in work statistics, facilitates integration of labour statistics with other emerging social and economic indicators. The new Labour force Statistics shows that 36.4% in Q4 2022 and 33.2% in Q1 2023 of employed persons worked less than 40 hours per week in both quarters. This was most common among women, individuals with lower levels of education, young people, and those living in rural areas. Underemployment rate which is a share of employed people working less than 40 hours per week and declaring themselves willing and available to work more was 13.7% in Q4 2022 and 12.2% in Q1 2023. The share of wage employment was 13.4% in Q4 2022 and 11.8% in Q1 2023.

The revised unemployment/underemployment data however indicate significant cause for concern, especially with regard to the youth. Sustained real GDP growth, implementation of government policy and programmes targeted at supporting labour intensive sectors and improvement in business operating environment are expected to further reduce unemployment and poverty rates in the country.

2.4 Monetary Sector

Inflation

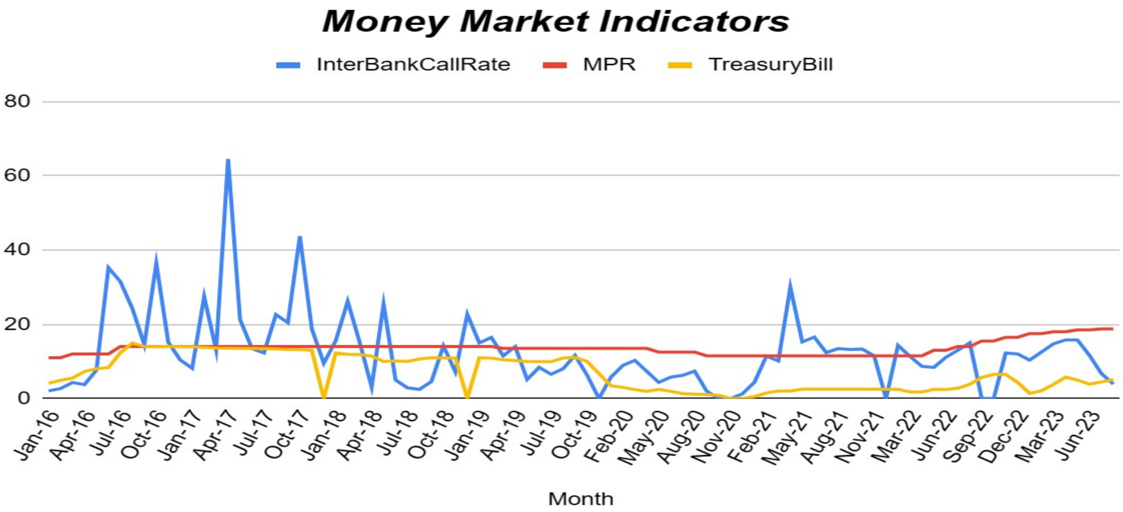


Inflationary pressures persist, as headline inflation (year-on-year) rose to 25.8% in the month of August 2023, representing 1.72% increase from 24.08% recorded in July 2023. On a month-on-month basis, headline inflation accelerated by 0.29% to 3.18% in August 2023 from 2.89% in July 2023.

The lingering insecurity in major food-producing areas; high cost of transportation driven by rising energy costs occasioned by petrol subsidy removal; activities of middlemen in the food distribution channels; as well as the persistence of shocks from legacy infrastructural bottlenecks, remain major drivers of the inflationary pressure. The unification of the Foreign Exchange (FX) market segments continues to weigh on consumer prices.

Interest Rate

The Federal Government has signalled its desire for lower interest rates to bolster investment and consumption in ways that ensure sustained economic growth. The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) has consistently raised the Monetary Policy Rate (MPR) as a policy response to the surge in inflation. The MPR is the baseline interest rate in the economy from which every other interest rate within the economy is supposed to take a queue. In reality however, market interest rates in Nigeria appear decoupled from the MPR, and so the effectiveness of MPC's rate actions has been questionable.



Source: Central Bank of Nigeria

The Monetary Policy Committee (MPC) introduced a higher Cash Reserve Ratio (CRR in order to further tighten money supply. The CRR empowers the CBN to sequester up to 32.5% of customer deposits held by deposit money banks, effectively restricting the banks from accessing the money. Treasury bill rate has been on a steady rise, and Fixed deposit rates (one, three, six and twelve months) have also been rising.

Exchange Rates

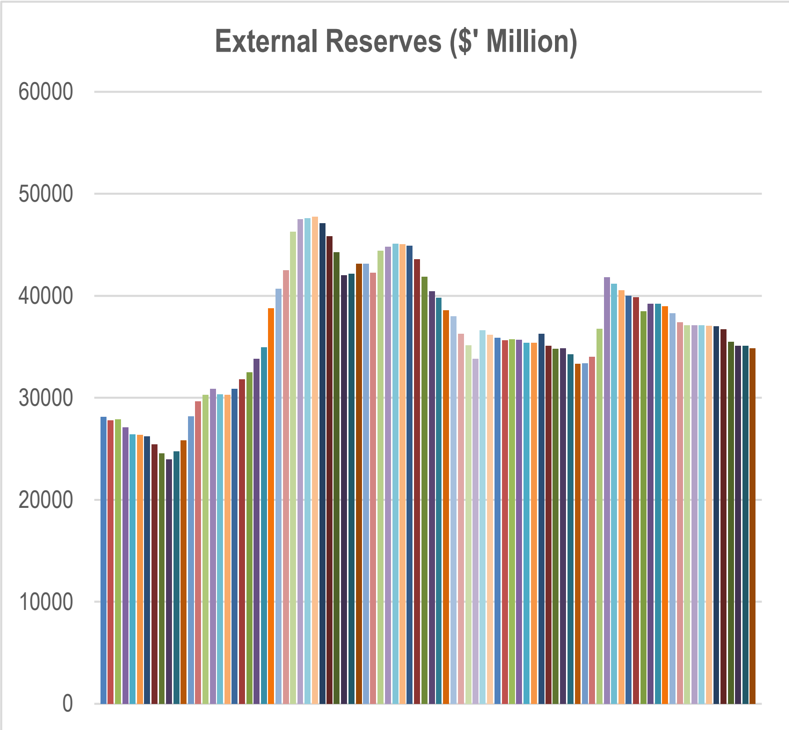
Exchange rate management in Nigeria has posed a significant economic challenge over the years. The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favourable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability. Nigeria operates a managed float exchange rate system in which the Central Bank of Nigeria (CBN) intervenes in the foreign exchange market to influence the value of the Naira against other currencies.

The CBN recently abolished rate segmentation thereby eliminating multiple exchange rates, and authorizing banks to buy and sell foreign exchange at market rates at the Importer and Exporter (I&E) window. The CBN has published a drifting conversion standard framework in the trade market by giving dealers at the I&E window the opportunity in the swapping scale assurance. The Bank is implementing measures to stabilise rates to drive up investment in the economy. Institutional reforms are being deepened to ensure that the intended goal of improved efficiency is achieved.

Foreign Exchange Reserve

Foreign exchange reserve in Nigeria has seen a steady decline in recent years. Nigeria recorded a total foreign exchange inflow of $72.4 billion in 2022, marking a 23.3% decline compared to the $94.3 billion recorded in 2021 and also a 37.4% decline compared to $115.6 billion received in 2020. Conversely, a total of $40.99 billion was recorded as outflow in the same period, slightly lower than $41.62 billion recorded in the previous year. This indicates a net surplus of $31.39 billion in 2022.

CBN's dollar supply in the FX market has been impacted by the drying inflows of dollar into the Nigerian economy. Total foreign exchange supply by the CBN to the economy in 2022 amounted to $15.27 billion, 15.3% lower than $18.03 billion supplied in 2021, all of which were supplied to I&E window, small and medium scale enterprises, and invisibles. The decline in the amount of foreign exchange supplied by the CBN is partially attributed to the halt of FX sales to Bureau De Change (BDC) operators as in previous years



Source: Central Bank of Nigeria

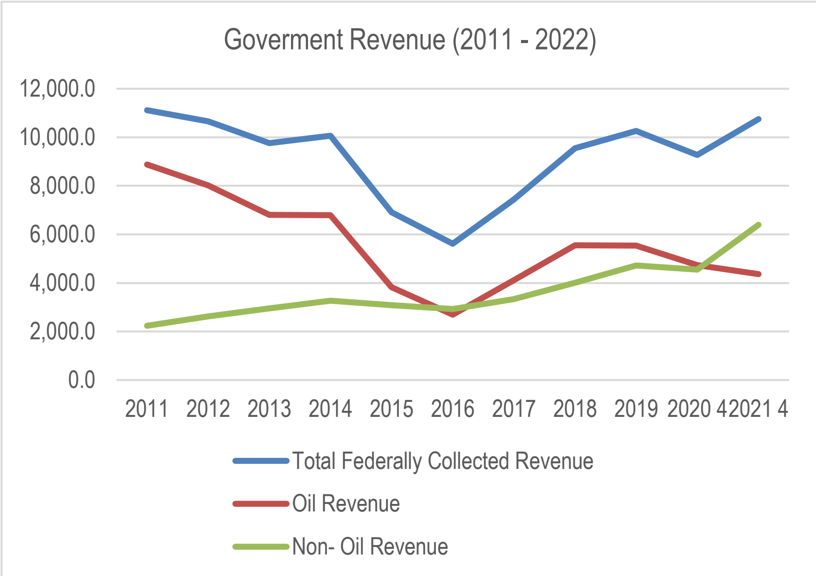
The decline in FX inflows has also affected the nation's external reserves as the apex bank continues to defend the naira and fund import bills at the expense of the reserve level. Nigeria's external reserves declined by $3.44 billion in 2022 to close at $37.1 billion. As of 21st September 2023, the reserves level has dropped to $33.28 billion. The CBN continues to adopt policies towards increasing foreign exchange inflows into the country, especially through non-oil export and improved diaspora remittances.

The Central Bank of Nigeria is implementing measures to attract foreign exchange inflows especially from portfolio investors, Foreign Direct Investments (FDI) and export proceeds. Year-to-date, $1.7 billion was repatriated to the economy while about US$970 million was sold at the I&E window. The current level of foreign reserve provides sufficient import cover. However, there appears to be a loss of confidence in the market and consistent erosion of the reserve.

2.5 Fiscal Sector

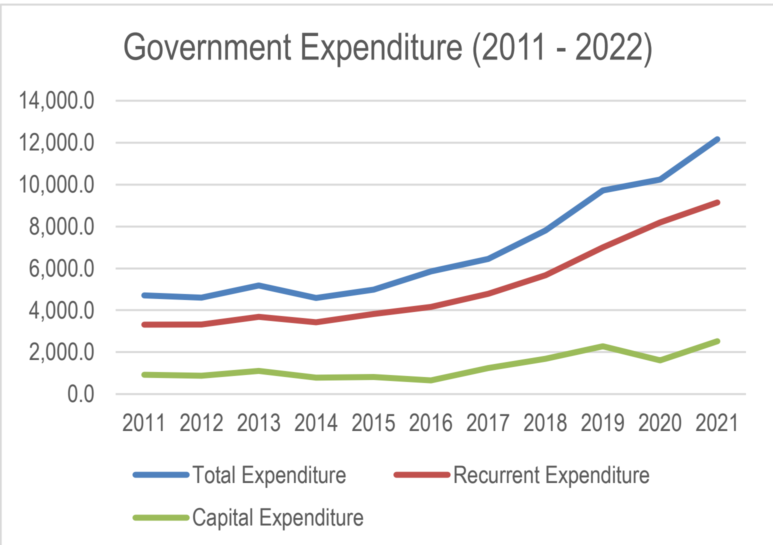
Government Revenue

Improving domestic revenue mobilisation has been the thrust of reforms of the Federal Government. Poor government revenue has constrained the ability of government to meet its fiscal obligations. Reform efforts have been targeted at addressing weak domestic revenue mobilisation, dwindling oil revenue occasioned by industrial scale oil theft, and inadequacies in the tax administration system.



Nigeria's tax to GDP ratio was recently revised to 10.86% from the 5- 6% estimates where it had hovered for about a decade. This is due largely to the consitent growth in non oil revenue since 2015 and the inclusion of federal and sub-national revenue items that had previously been left out of the computation. Further improvement is expected as the reforms take deeper root. Tighter fiscal prudence measures with emphasis on achieving value for money, process automation and efficiency are also being implemented. These measures are expected to optimise tax revenues and remittances by Government owned enterprises. Institutional reforms to automate the revenue collection functions, implement tax harmonization to eliminate multiple taxation and improve voluntary compliance are also being implemented.

Government Expenditure

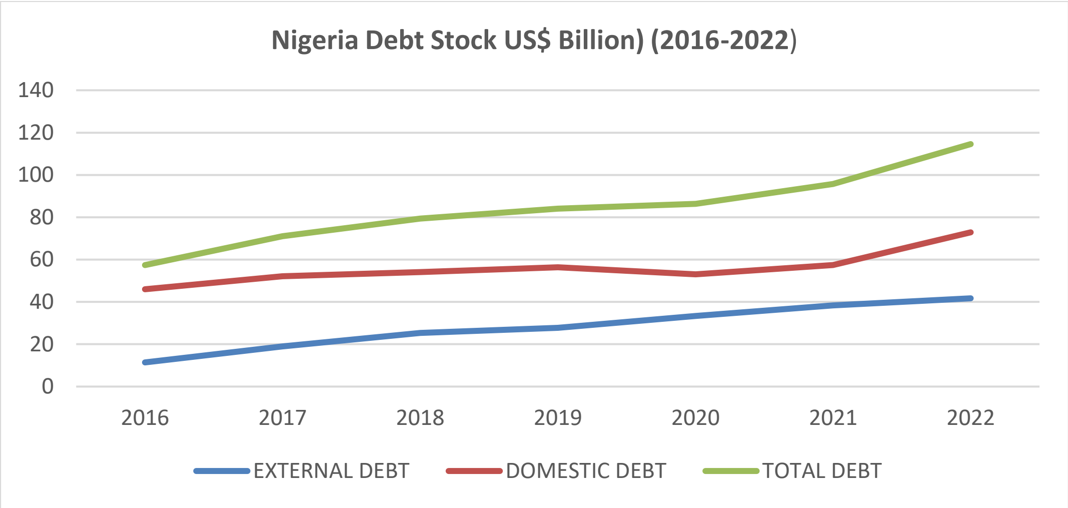


Government expenditure remains an important instrument in the development process. Government channels spending to areas of priority with a view to enhancing and promoting inclusive growth. Recent growth in government expenditure is attributable to the Federal Government's expansive investment in critical infrastructures and ambitious social protection scheme through the Social Investment Programme (SIP). Expansionary fiscal measures have been employed to spur economic activities by putting more money into the hands of consumers and businesses as a key part of government's policy response to accelerate recovery in the wake of two successive economic recessions.

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

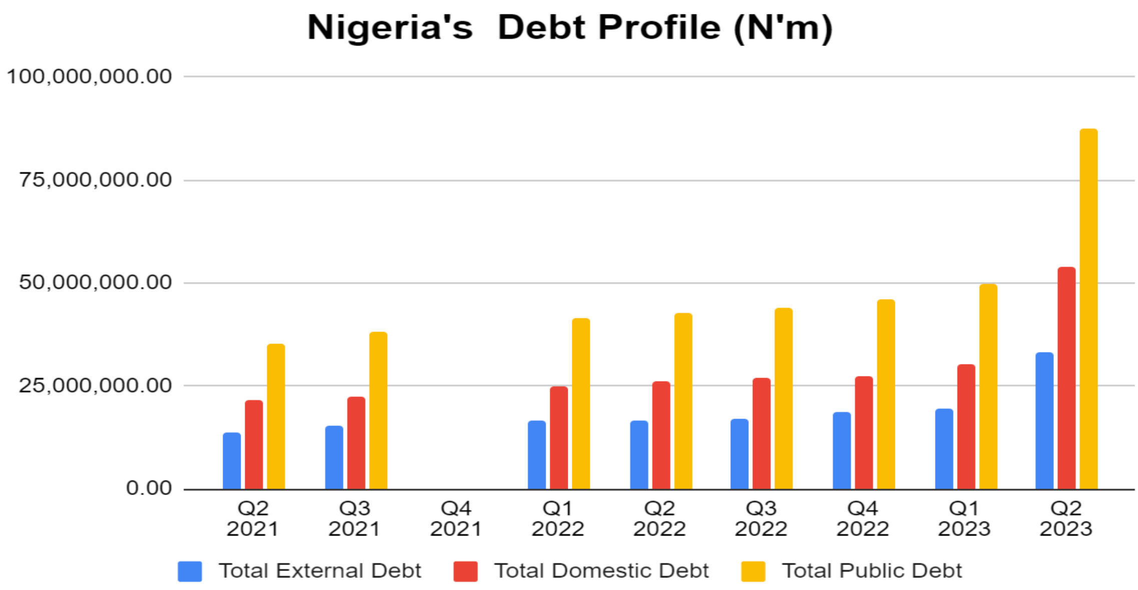
Public Debt

There has been a significant increase in public debt over the years. The rising debt levels are attributable to the need for finance budget deficits in the wake of inadequate revenues, especially oil revenues. Sustainable debt management is a key priority of fiscal authorities in Nigeria. Borrowing activities, debt servicing, and debt sustainability are managed and monitored by the Debt Management Office (DMO) with the primary objective of ensuring that Nigeria's debt remains sustainable and does not pose a significant risk to the country's economy.



Source: Debt Management Office

Nigeria's public debt profile as at June 2023 stood at N 87.38 trillion ($113.42 billion). This figure includes both domestic (incl. Securitized CBN Ways and Means advances) and external debt. The debt composition is skewed more towards domestic debt of N54.13 trillion ($70.26 billion), while external debt amounted to N33.25 trillion ($43.16 billion).



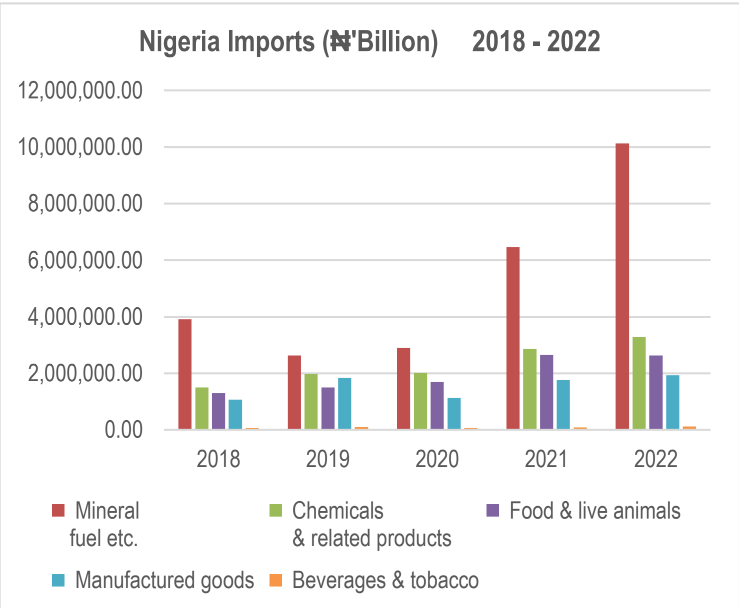
Source: Debt Management Office

The sustainability of public debt remains a significant concern, as high debt servicing costs and limited fiscal space constrain the government's ability to invest in critical sectors such as healthcare, education, and infrastructure.

2.2.4 External Sector

Trade

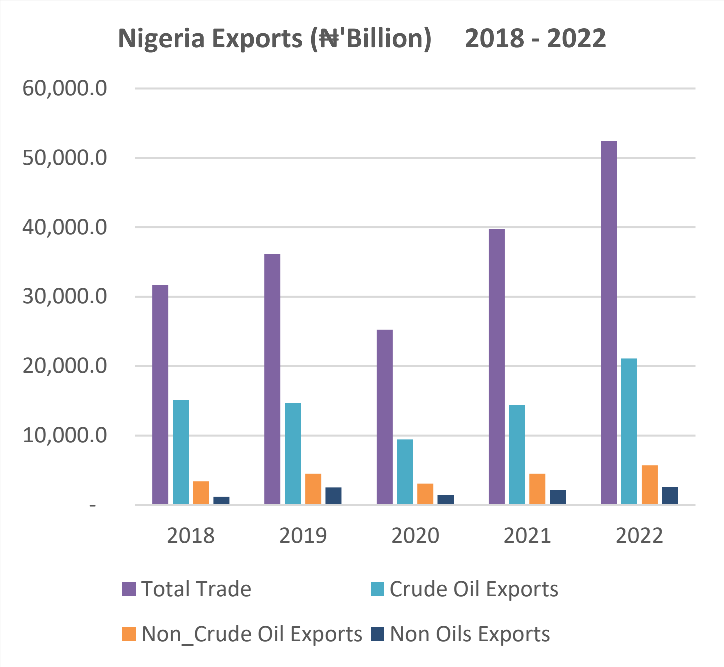
Foreign trade stood at N12.74 trillion in Q2 2023, total exports stood at N7.02 trillion and total imports amounted to N5.73 trillion. Total imports increased by 2.99% compared to the value recorded in the first quarter of 2023 (N5.56 trillion) but declined by 10.37% when compared to the value recorded in the corresponding quarter of 2022 (N6.39 trillion)



Source: National Bureau of Statistics.

Top five countries of origin of imports to Nigeria in Q2 2023 were China, United States, Belgium, India and Netherlands. With import valued at N1.27 trillion representing 22.17%) China is the largest country of origin for Nigerian imports. The values of imports from the top five countries amounted to N3.44 trillion representing a share of 60.05% of total imports. Premium Motor Spirit import accounted for 21.5% (N1.23 trillion). Other imports included used Vehicles, and Automotive Gas oil (AGO).

Total exports increased by 8.15% when compared to the amount recorded in the first quarter of 2023 (N6.49 trillion) but declined by 5.20% compared to the corresponding quarter in 2022 (N7,400.89 billion).



Source: National Bureau of Statistics

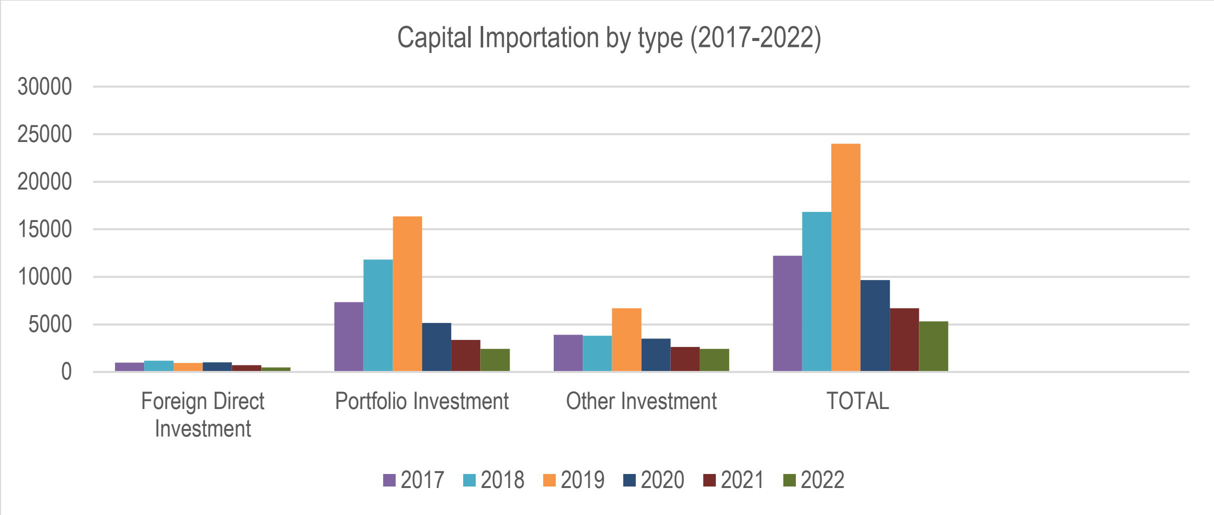
The top five export destinations in Q2, 2023 were Netherlands with N788.85 billion representing 11.24% of total exports, United States of America with N718.63 billion, Indonesia with N550.18 billion, France with N540.73 billion and Spain with N504.45 billion. Altogether, exports to the top five countries amounted to 44.23% of the total value of exports.

The largest export product was 'Petroleum oils and oils obtained from bituminous minerals, crude' valued at N5.59 trillion representing 79.63%. Others were Liquefied Natural Gas (LNG), liquefied' billion and Urea.

Capital Importation

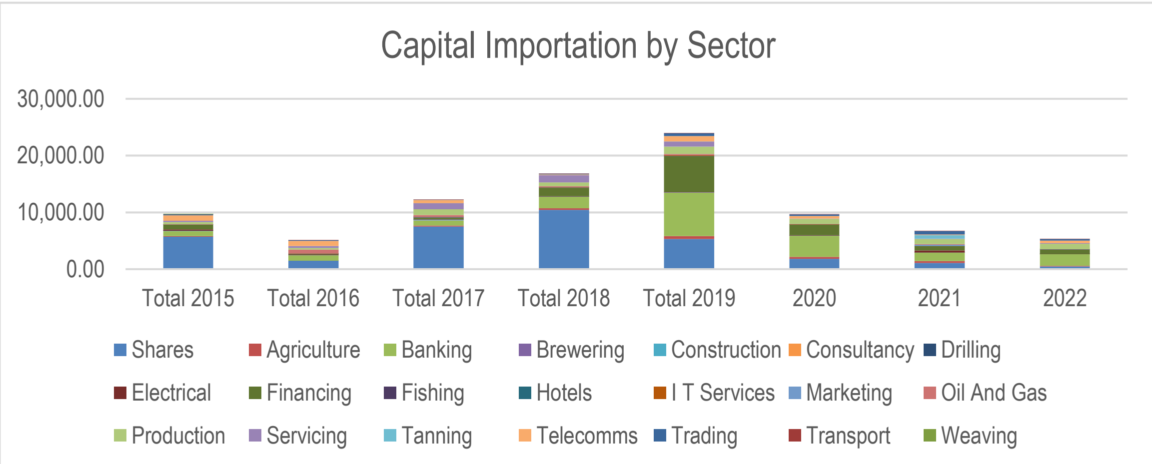
There has been a steady decline in Nigeria's capital importation for three consecutive years, from an annual level of $16.812 billion in 2018 to a paltry $5.32 billion in 2022. Quarterly data also showed capital importation declined by 51.51% from $2.187billion recorded in Q4 2021 to $1.06 billion in Q4 2022. Trade credits, Loans, Currency deposits represent the largest component of capital importation in 2022 accounting for 65.17% ($691.23 million) of total capital imported in Q4 2022. This was followed by Portfolio Investment with 26.89% ($285.26 million) and Foreign Direct Investment (FDI) with 7.94% ($84.23 million).

Government is implementing various policy reforms to attract capital inflows. These include the ease of doing business initiatives, improvements in the regulatory environment, and efforts to diversify the economy away from oil dependency. These reforms aim to create a more investor-friendly climate and enhance the attractiveness of Nigeria as an investment destination but the desired effects are yet to materialise.



Source National Bureau of Statistics

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



Source: National Bureau of Statistics

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

3.0 REVIEW OF 2022 BUDGET PERFORMANCE

The performance of the 2022 budget parameters somewhat reflected the continuous gradual recovery of the global economy. Table 3.1 shows that oil production was about 400kbpd lower than the target. Inflation and GDP trailed their targets, while oil prices performed above the budget benchmark price.

Table 3.1: Performance of key 2022 Budget parameters

Description	2022 Budget	2022 Actual
Oil Price Benchmark (US$/b)	73.0	105.88*
Oil Production (mbpd)	1.6+	1.24+
Exchange Rate (N/$)	410.2	402.28^
Inflation (%)	16.11	18.77++
GDP Growth Rate (%)	3.55	3.10**

+ Average production as at December 2022, exclusive of volumes for repayment of arrears.
** Average price of Bonny Light crude as at December 2022*
^ CBN exchange rate FY, 2022.
++ NBS Inflation rate FY 2022, (21.34% as of December 2022);
*** NBS FY 2022 GDP growth rate. [Q4 2022 real GDP growth was 3.52%].*
Source: BOF, NBS, CBN, NNPC, OPEC, PRM&RC

3.1 Revenue Outturns

3.1.1 Oil Revenue

Gross oil and gas revenue was projected at N9.37 trillion for FY2022, but actual receipt was N6.54 trillion, representing 69.8% performance. After all deductions (including 13% derivation) and petrol subsidy, the net oil and gas revenue to the Federation Account was N1.61 trillion. This is N2.93 trillion, a mere 35.4% of the target. Lower-than-budget oil production volume, as well as cost overruns, was responsible for the poor performance of oil and gas revenue. Spending on PMS subsidy exceeded the provision of N4 trillion by N105.16 billion.

Table 3.2 2022 Revenue Performance

	Fiscal Items	2022 Budget	Actuals (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
A	**OIL REVENUE**				
a	Gross Oil and Gas Revenue	9,369.96	6,538.09	(2,831.87)	-30.2%
b	Deductions*	4,831.04	4,929.32	98.29	2.0%
c	**Net Oil and Gas Revenue**	**4,538.93**	**1,608.77**	(2,930.16)	-64.6%
B	**NON-OIL REVENUE**				
a	**Non-Oil Taxes**	**6,448.52**	**7,019.98**	571.46	8.9%
i	*Corporate Tax*	1,987.78	2,821.50	833.72	41.9%
ii	*VAT*	2,441.80	2,511.52	69.72	2.9%
iii	*Customs*	2,018.94	1,686.96	(331.98)	-16.4%
b	**Deductions**	**467.14**	**472.88**	5.74	1.2%
c	**Net Non-Oil Taxes**	**5,981.38**	**6,547.10**	565.73	9.5%
d	Other Revenues**	216.86	135.41	(81.45)	-37.6%
e	**Net Non-Oil Revenue**	**6,198.24**	**6,682.52**	484.28	7.8%
	* This include 13% derivation and transfer to Nigeria Police Trust Fund				
	** These include revenue from Soild Minerals after derivation, and Electronic Money Transfer				
	Note: The Net Non-Oil Revenue refers to those accurable to the Federation; thus, it excludes FGN Independent Revenues				

Source: BOF, OAGF, PRMRC

3.1.2 Non-Oil Revenue

Non-oil revenue outperformed the budget. The projection for non-oil taxes was N6.45 trillion, but N7.02 trillion was collected. This represents a performance of 108.9%. Corporate Income Tax (CIT) and Value Added Tax (VAT) collections were N2.82 trillion and N2.51 trillion, representing 141.9% and 102.9% performances respectively. Customs collection was N1.69 trillion, which is 83.6% of the target.

3.1.3 Federation Revenue Distributable

Table 3.3 Federation Account Revenue and VAT Distributable, 2022 (N Billion)

The accretions to the Main Pool and VAT Pool federation accounts were N5.82 trillion and N2.34 trillion respectively. In addition, N125.55 billion was available for distribution among the three tiers of government from the Electronic Money Transfer Levy. From the Main Pool, the Federal Government received N3.07 trillion, while the States and Local Governments received N1.56 trillion and N1.20 trillion, respectively. From the VAT Pool, the Federal, State and Local governments received N351.28 billion, N1.17 trillion and N819.66 billion, respectively.

	Fiscal Items	2022 Budget	Actuals (Jan-Dec)	Variance
		Billions of Naira		Billions of Naira
A	**Net Federation Account Distributable***	**8,475.08**	**5,823.84**	(2,651.24)
i	FGN's Share (52.68%)	4,464.67	3,068.00	(1,396.68)
ii	States' Share (26.72%)	2,264.54	1,556.13	(708.41)
iii	LG's Share (20.60%)	1,745.87	1,199.71	(546.16)
B	**Net VAT Pool Account Distributable**	**2,262.08**	**2,341.90**	79.82
iv	FGN's Share (15%)	339.31	351.28	11.97
v	States' Share (50%)	1,131.04	1,170.95	39.91
vi	Local Govt.'s Share (35%)	791.73	819.66	27.94
C	**Electronic Money Transfer Levy (EMTL) Distributable**	**209.77**	**125.55**	(84.22)
vii	FGN's Share (15%)	31.46	18.83	(12.63)
viii	States' Share (50%)	104.88	62.77	(42.11)
ix	Local Govt.'s Share (35%)	73.42	43.94	(29.48)

Source: BOF, OAGF, PRMRC

3.1.4 FGN Revenue

Table 3.4 FGN 2022 Revenue Profile (N Billion)

		2022 Amended Budget	Actual (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
S/N	**AGGREGATE FEDERAL GOVERNMENT REVENUE**	**9,969.17**	**8,805.75**	**(1,163.42)**	**-11.7%**
	FEDERAL RETAINED REVENUES (excl. GOEs)	**8,240.78**	**6,611.71**	**(1,629.07)**	**-19.8%**
A					
1	Oil Revenue	2,190.37	776.35	(1,414.02)	-64.6%
2	Share of Dividend (NLNG & BOI)	195.72	101.70	(94.02)	-48.0%
3	Minerals & Mining Revenue	2.92	4.74	1.83	62.6%
4	Non-Oil Revenue:	**2,258.39**	**2,388.91**	**130.52**	**5.8%**
i	CIT	909.30	1,289.69	380.39	41.8%
ii	VAT	316.69	327.87	11.17	3.5%
iii	Customs Revenues	834.12	694.42	(139.70)	-16.7%
iv	Federation Account Levies	71.97	59.36	(12.61)	-17.5%
v	Share of Electronic Money Transfer Levy	29.37	17.58		
vi	Share of Oil Price Royalty	96.94			
B		**5,321.77**	**5,534.04**	**212.28**	**4.0%**
1	FGN Independent Revenue	2,616.22	1,402.43	(1,213.78)	-46.4%
2	FGN Drawdowns from Special Accounts/Levies	300.00	175.79	(124.21)	-41.4%
3	Signature Bonus / Renewals / Early Renewals	280.86	280.86	(0.00)	0.0%
4	Domestic Recoveries + Assets + Fines*	26.93	7.15	(19.79)	-73.5%
5	Grants and Donor Funding	63.38	1,145.11	1,081.74	1706.8%
6	Education Tax (TETFUND)	306.00	328.67	22.68	7.4%
7	GOEs Retained Revenue	1,728.39	2,194.04	465.65	26.9%

The FY 2022 FGN revenue was projected at N9.97 trillion. The actual FGN revenue was N8.81 trillion. Of this, oil revenue was N776.35 billion (representing 35.4% performance), while non-oil tax revenue was N2.39 trillion (105.8% performance). The contributions of CIT and VAT to FGN non-oil tax revenue were N1.29 trillion and N327.87 billion, respectively, representing 141.8% and 103.5% of the Budget. Customs collections were N753.78 billion, of which N694.42 billion was from import duties, excise, and fees, and N59.36 billion was from Special Levies. FGN share of Electronic Money Transfer Levy was N15.66 billion. Other revenues collected include independent revenues of N1.40 trillion, draw-down of N175.79 billion from Special Accounts, Signature bonus of N280.86 billion, Domestic recoveries of N7.15 billion, and Education Tax of N328.67 billion. N2.19 trillion accrued as Government Owned Enterprises (GOEs) retained revenue, while Grants/Aid was N1.15 trillion.

3.2 Expenditure Outturns

The actual expenditure for FY 2022 was N14.27 trillion out of the FGN Budget of N18.14 trillion (78.7% of the Budget). Recurrent expenditure was N194.09 billion, higher than the budget estimate of N11.08 trillion. Of the N11.28 trillion spent on recurrent expenditure, N4.18 trillion was spent on personnel costs and pensions. Debt service was N5.66 trillion, representing 40% of aggregate expenditure and 64% of revenue. Debt service cost exceeded budget by N1.68 trillion mainly due to interest on Ways and Means of N1.89 trillion and generally higher interest rates on borrowings. The actual capital spending of N2.18 trillion was 65% of the budget.

Table 3.5 FGN 2022 Expenditure Performance

	Fiscal Items	2022 Amended Budget + Supplementary Budget	Actual (Jan-Dec)	Variance	
		Billions of Naira		Billions of Naira	%
S/N	**AGGREGATE FGN EXPENDITURE**	**18,139.24**	**14,267.72**	**3,871.52**	**-21.3%**
	FGN EXPENDITURE (excl. GOEs and Project-tied Loans)	**15,267.61**	**13,410.37**	**1,857.25**	**-12.2%**
A	**Statutory Transfers**	**817.70**	**810.12**	**7.58**	**-0.9%**
B	**Recurrent Expenditure**	**11,086.71**	**11,280.80**	**(194.09)**	**1.8%**
1	**Non-Debt Recurrent Expenditure**	**7,108.62**	**5,624.21**	**1,484.41**	**-20.9%**
	Non-Debt Recurrent Expenditure (excl. GOEs)	**6,039.89**	**5,050.15**	**989.74**	**-16.4%**
i	Personnel Costs (MDAs)	3,717.43	3,494.37	223.07	-6.0%
ii	Personnel Costs (GOEs)	617.72	297.15	320.58	-51.9%
iii	Pensions & Gratuities including Service wide pension	577.86	387.32	190.54	-33.0%
iv	Overheads (MDAs)	376.38	371.73	4.65	-1.2%
v	Overheads (GOEs)	451.00	276.91	174.09	-38.6%
vi	Other Service Wide Votes	937.92	715.31	222.61	-23.7%
vii	Presidential Amnesty	65.00	65.00	-	0.0%
iv	TETFUND - Recurrent	15.30	16.43	(1.13)	
v	Special Intervention Programme	350.00		350.00	-100.0%
2	**Debt Service**	**3,978.09**	**5,656.58**	**(1,678.49)**	**42.2%**
i	Domestic Debt	2,562.15	2,571.47	(9.32)	0.4%
ii	Foreign Debt	1,123.23	1,191.66	(68.43)	6.1%
iii	Sinking Fund	292.71		292.71	-100.0%
iv	Interest on Ways & Means		1,893.45	(1,893.45)	
C	**Aggregate Capital Expenditure**	**6,234.83**	**2,176.80**	**4,058.03**	**-65.1%**
	Capital Expenditure (MDAs + Others)	4,431.93	1,893.51	2,538.42	-57.3%
	GOEs Capital Expenditure	647.08	283.29	**363.79**	-56.2%
	Multi-lateral/Bilateral Project-tied loans	1,155.82		**1,155.82**	-100.0%

4.0 REVIEW OF 2023 BUDGET IMPLEMENTATION

The FY 2023 started with some dampened optimism for global growth due to a second wave of the COVID-19 pandemic despite then ongoing mass vaccination in major economies. Global supply chains are yet to fully recover from the impact of the covid-19 pandemic while other headwinds have developed to drag down the global economy. These include the Russia-Ukraine war which has disrupted global food and energy markets.

4.1 Revenue Outturns

4.1.1 Oil Revenue

Table 4.1 2023 Revenue Performance (Jan–July)

	Fiscal Items	2023 Budget	Prorata	Actuals (Jan-July)	Variance	
		Billions of Naira			Billions of Naira	%
A	**OIL REVENUE**					
a	Gross Oil and Gas Revenue	9,384.72	5,474.42	4,148.14	(1,326.28)	-24.2%
b	Deductions*	4,764.42	2,779.25	2,462.22	(317.02)	-11.4%
c	**Net Oil and Gas Revenue**	**4,620.30**	**2,695.17**	**1,685.92**	(1,009.25)	-37.4%
B	**NON-OIL REVENUE**					
a	**Non-Oil Taxes**	**7,534.84**	**4,395.32**	**5,270.10**	874.78	19.9%
i	*Corporate Tax*	2,092.67	1,220.72	2,515.65	1,294.93	106.1%
ii	*VAT*	2,953.77	1,723.03	1,789.74	66.70	3.9%
iii	*Customs*	2,488.40	1,451.57	964.72	(486.85)	-33.5%
b	**Deductions**	**577.97**	**337.15**	**305.68**	(31.47)	-9.3%
c	**Net Non-Oil Taxes**	**6,956.87**	**4,058.17**	**4,964.42**	906.25	22.3%
d	Other Revenues**	144.58	84.34	140.79	56.45	66.9%
e	**Net Non-Oil Revenue**	**7,101.45**	**4,142.51**	**5,105.21**	962.70	23.2%
	* This include 13% derivation and transfer to Nigeria Police Trust Fund					
	** These include revenue from Soild Minerals after derivation, and Electronic Money Transfer Levy					
	Note: The Net Non-Oil Revenue refers to those accurable to the Federation; thus, it excludes FGN Independent Revenues					

The gross oil and gas revenue was projected at N9.38 trillion. As of July 2023, N4.16 trillion was realized from the prorated sum of N5.47 trillion. This represents about 75.8% performance. After accounting for deductions (including 13% derivation), net oil and gas revenue inflows to the Federation Account amounted to only N1.69 trillion. This is N1.01 trillion or 37% less than the target. Net non-oil revenue also outperformed the prorate target by N962.70 billion or 23.2%.

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4.1.2 Federation and VAT Pool Accounts Distributable

The amount available for distribution from the Federation Account – Main Pool was N1.86 trillion. Of this, the Federal Government received N981.39 billion, while the States and Local Governments received N497.78 billion and N383.76 billion, respectively. Federal, State and Local governments received N167.68 billion, N558.95 billion and N391.26 billion, respectively from the VAT Pool Account.

Table 4.2 Federation Account Revenue and VAT Distributable, 2023 (N Billion)

	Fiscal Items	2023 Budget	Prorata	Actuals (Jan-July)	Variance
		Billions of Naira			Billions of Naira
A	**Net Federation Account Distributable***	**8,985.38**	**5,241.47**	**5,673.23**	431.77
i	FGN's Share (52.68%)	4,733.50	2,761.21	981.39	(1,779.81)
ii	States' Share (26.72%)	2,400.89	1,400.52	497.78	(902.75)
iii	LG's Share (20.60%)	1,850.99	1,079.74	383.76	(695.98)
B	**Net VAT Pool Account Distributable**	**2,736.38**	**1,596.22**	**1,117.90**	(478.32)
iv	FGN's Share (15%)	410.46	239.43	167.68	(71.75)
v	States' Share (50%)	1,368.19	798.11	558.95	(239.16)
vi	Local Govt.'s Share (35%)	957.73	558.68	391.26	(167.41)

Source: BOF, OAGF, PRMRC

4.1.3 FGN Revenue

Table 4.3 2023 FGN Revenue Profile (Jan–July) N Billion

S/N		2023 Budget	Pro Rata (Jan-July)	Actual (Jan-July)	Variance	
		Billions of Naira			Billions of Naira	%
S/N	**AGGREGATE FEDERAL GOVERNMENT REVENUE**	**11,045.11**	**6,442.98**	**5,187.86**	**(1,255.12)**	**-19.5%**
	FEDERAL RETAINED REVENUES (excl. GOEs)	**8,626.00**	**5,031.83**	**4,833.09**	**(198.75)**	**-3.9%**
A						
1	Oil Revenue	2,229.64	1,300.62	813.58	(487.04)	-37.4%
2	Share of Dividend (NLNG & BOI)	81.79	47.71	46.22	(1.48)	-3.1%
3	Minerals & Mining Revenue	3.64	2.13	3.85	1.72	81.0%
4	Non-Oil Revenue:	**2,465.61**	**1,438.27**	**1,836.96**	**398.69**	**27.7%**
i	CIT	933.28	544.41	1,156.27	611.85	112.4%
ii	VAT	383.09	223.47	234.30	10.83	4.8%
iii	Customs Revenues	949.59	553.93	386.33	(167.60)	-30.3%
iv	Federation Account Levies	167.19	97.53	46.63	(50.89)	-52.2%
v	Share of Electronic Money Transfer Levy	19.09	11.14	13.43	2.29	20.6%
vi	Share of Oil Price Royalty	13.37	7.80			
B		**6,264.43**	**3,654.25**	**2,487.24**	**(1,167.01)**	**-31.9%**
1	FGN Independent Revenue	3,169.07	1,848.63	1,038.62	(810.01)	-43.8%
2	FGN Drawdowns from Special Accounts/Levies	300.00	175.00	38.00	(137.00)	-78.3%
3	Signature Bonus / Renewals / Early Renewals	57.05	33.28	209.35	176.07	529.1%
4	Domestic Recoveries + Assets + Fines*	27.90	16.27		(16.27)	-100.0%
5	Grants and Donor Funding	43.03	25.10	480.19	455.09	1813.1%
6	Education Tax (TETFUND)	248.27	144.82	366.32	221.50	152.9%
7	GOEs Retained Revenue	2,419.11	1,411.15	354.77	(1,056.38)	-74.9%

As of July 2023, FGN's retained revenue was N5.19 trillion, approximately 80.5% of the prorata target of N6.44 trillion. The FGN share of oil revenues was N813.58 billion (62.6% performance), while non-oil tax revenues totalled N1.84 trillion (a performance of 127.7%). CIT and VAT collections were N1.16 trillion and N234.30 billion, representing 212.4% and 104.8% of their respective targets. Customs collections (made up of import duties, excise and fees, as well as federation account special levies) recorded N432.96 billion out of N651.46 billion (66.5% of target). Other revenues amounted to N2.49 trillion, of which Independent revenue (mostly transfers from GOEs and MDAs) was N1.04 trillion.

4.2 Expenditure Outturns

Table 4.4 2023 FGN Expenditure Performance (Jan-July)

S/N	Fiscal Items	2023 Budget + Supplementary	Pro Rata (Jan-July)	Actual (Jan-July)	Variance	
		Billions of Naira			Billions of Naira	%
S/N	**AGGREGATE FGN EXPENDITURE**	**22,646.73**	**13,210.59**	**8,598.50**	**4,612.09**	**-34.9%**
	FGN EXPENDITURE (excl. GOEs and Project-tied Loans)	**18,456.21**	**10,766.12**	**8,445.58**	**2,320.55**	**-21.6%**
A	**Statutory Transfers**	**967.49**	**564.37**	**551.18**	**13.19**	**-2.3%**
B	**Recurrent Expenditure**	**14,886.97**	**8,684.06**	**7,190.24**	**1,493.82**	**-17.2%**
1	**Non-Debt Recurrent Expenditure**	**8,329.37**	**4,858.80**	**3,254.99**	**1,603.81**	**-33.0%**
	Non-Debt Recurrent Expenditure (excl. GOEs)	**6,745.65**	**3,934.96**	**3,134.30**	**800.66**	**-20.3%**
i	Personnel Costs (MDAs)	4,103.59	2,393.76	2,338.67	55.09	-2.3%
ii	Personnel Costs (GOEs)	912.32	532.19	68.44	463.74	-87.1%
iii	Pensions & Gratuities including Service wide pension	854.81	498.64	273.52	225.12	-45.1%
iv	Overheads (MDAs)	443.28	258.58	188.81	69.77	-27.0%
v	Overheads (GOEs)	671.40	391.65	52.24	339.41	-86.7%
vi	Other Service Wide Votes	1,066.55	622.15	277.07	345.09	-55.5%
vii	Presidential Amnesty	65.00	37.92	37.92	(0.00)	0.0%
iv	TETFUND - Recurrent	12.41	7.24	18.32	(11.07)	
v	Special Intervention Programme	200.00	116.67		116.67	-100.0%
2	**Debt Service**	**6,557.60**	**3,825.27**	**3,935.25**	**(109.99)**	**2.9%**
i	Domestic Debt	3,295.11	1,922.15	1,708.12	214.03	-11.1%
ii	Foreign Debt	1,814.76	1,058.61	530.48	528.13	-49.9%
iii	Sinking Fund	247.73	144.51		144.51	-100.0%
iv	Interest on Ways & Means	1,200.00	700.00	1,696.65	(996.65)	
C	**Aggregate Capital Expenditure**	**6,792.27**	**3,962.16**	**857.08**	**3,105.08**	**-78.4%**
	Capital Expenditure (MDAs + Others)	4,185.48	2,441.53	824.84	1,616.69	-66.2%
	GOEs Capital Expenditure	835.39	487.31	32.24	**455.07**	-93.4%
	Multi-lateral/Bilateral Project-tied loans	1,771.40	1,033.32		**1,033.32**	-100.0%

The aggregate expenditure for FY 2023 is estimated at N21.83 trillion, with a prorata spending target of N12.29 trillion at end of July. The actual spending was N8.60 trillion. Of this amount, N3.94 trillion was for debt service, and N2.68 trillion for Personnel cost, including Pensions. Only about N857.08 billion (25% of the pro-rata budget) has been released for MDAs' capital expenditure as of July 2023. This level of performance is partly explained by the introduction of the "Bottom-up Cash Plan" arrangement with effect from 2023.

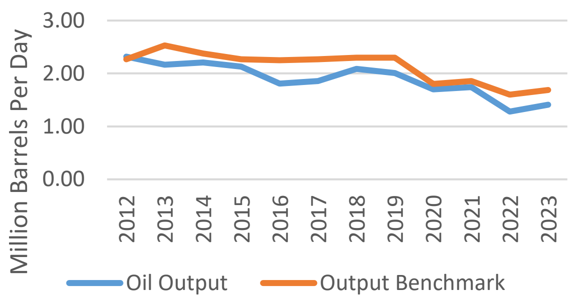
5.0 ASSUMPTIONS UNDERLYING 2024 - 2026 REVENUE PROJECTIONS

5.1 Oil Revenues Assumptions

5.1.1 Domestic Crude Oil Production

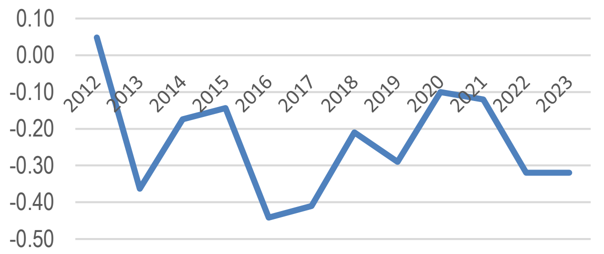
The significance of crude oil and gas production in the Nigerian economy has reduced significantly in recent times. The contribution of the sector to the real GDP declined from 8.78% in 2019 to 8.16% in 2020, 7.24% in 2021, and 5.67% in 2022. From 1.81 million barrels a day (mbpd) in 2016, average crude oil and condensate production (net of incremental production for Repayment Arrears) peaked at 2.09 mbpd in 2018 but declined continually thereafter to 1.7 mbpd in 2020 and 1.28 mbpd in 2022. Data from the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) shows that an average of only 1.37 mbpd of crude oil was produced between January and July 2023.

Figure 5.1: Actual and Benchmark Crude Oil Output in Nigeria



As Figure 5.1 shows, actual daily crude oil production has trended below budget projections since 2013. The divergence increased markedly recently, reflecting production challenges such as increased cases of crude oil theft and pipeline vandalization, shutdown of flow stations for pipeline leakage repairs, terminal maintenance, and flare management. Crude oil production shortfalls increased recently from an average of 0.10 mbpd in 2020, to 0.12 mbpd in 2021 0.32 mbpd in 2022 and 0.32mbpd in 2023 (January to July) (Figure 5.2).

Figure 5.2: Crude Oil Production Shortfall



Crude oil production challenges resulted in drastic reduction in oil output. Hence, Nigeria has been unable to significantly benefit from current high prices in the international markets. Crude oil production is projected to increase starting from 2023, but may still fall following the withdrawal of oil majors from onshore oil exploration/production. To further stabilize and balance the crude oil market, the Organization of Petroleum Exporting Countries (OPEC) and its allies recently agreed to cut global production by 1.393 mbpd

Crude oil production challenges have significantly affected crude oil output, exports and revenue performance over time. However, PMS subsidies have had a more significant adverse impact on oil revenues, as the policy was implemented as offset against oil receipts by NNPC. The sum of N4.0 trillion was provisioned in the 2022 Federation Fiscal Framework for PMS subsidy. The NNPC deducted a total of N4.105 trillion for PMS subsidy in 2022, while N1.923 trillion was deducted between January and May 2023.

An average of 1.57 million barrels of crude oil was produced per day over the last 3 years. Following consultations with stakeholders, crude oil production is projected at 1.78mbpd, 1.80mbpd, 1.81mbpd in 2024, 2025 and 2026 respectively. We have taken a conservative medium term crude oil outlook to ensure budget realism, in spite of the ambitious post-PIA aspirations of the sector and expectations of improvements in domestic crude oil production.

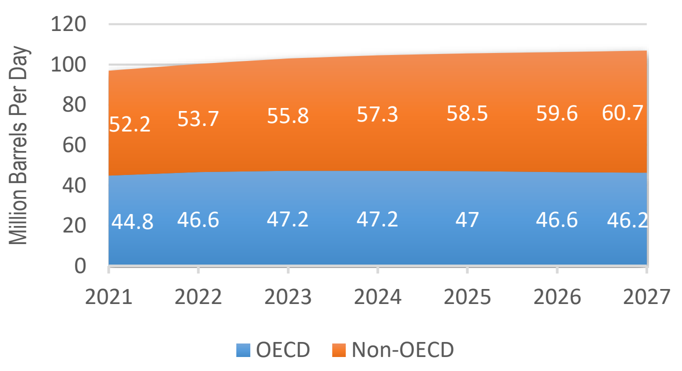
5.1.2 Global Crude Oil Demand and Supply

Global Crude Oil Demand

The Organization of Petroleum Exporting Countries expects global crude oil demand to continue to expand over the medium-term, rising from 100.3 mbpd in 2022 to 103.0 mbpd in 2023, 104.4 mbpd in 2024, 106.3 in 2026 and reaching almost 107 mbpd in 2027, which will represent an impressive increase of 10 mbpd compared to 2021.

Most of the increase in global crude oil demand is expected from non-OECD members, mainly China, India, other Asia and the Middle East countries, which will account for 8.6 mbpd of the medium-term growth (Figure 5.3). Of this, however, more than 5 mbpd will be realized in the period to 2024. China is projected to have the highest oil demand growth and largest incremental demand over the forecast period.

Figure 5.3: Medium Term Global Oil Demand Outlook



Aviation, road transportation and petrochemical sectors are expected to be the main contributors to future increment in crude oil demand. Crude oil is expected to remain the number one fuel in the global primary energy mix. However, the share is projected to reduce from 31% in 2021 to below 29% in 2045.

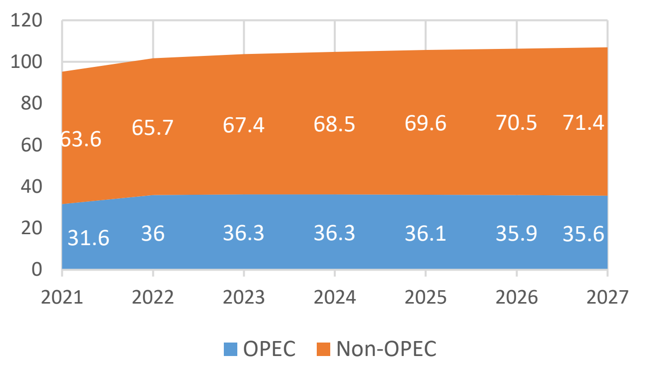
Global medium term oil demand growth is expected to be affected by low global GDP growth, changing consumer behaviour, and progress in public acceptance of more energy-efficient technologies and lower-emission solutions. Increasing sales of new electric vehicles (EVs), especially in China, Europe and the USA, will start to have a material impact on oil demand as its share of global passenger car fleet is projected to grow to 3%-4%. This will be supplemented by ongoing efficiency improvements, and further structural shifts in the GDP composition towards less energy- and oil-intensive sectors in a number of countries.

Despite appreciable progress in the penetration of EVs, internal combustion engines are expected to remain the dominant technology for both passenger and commercial road transport vehicles, with continuously improving fuel efficiency. Similarly, conventional aircraft engines are expected to remain the leading technology in the aviation sector.

Global Crude Oil Supply

Global crude oil supply is expected to continue its post-pandemic rebound. It is projected to increase from 101.7 mbpd in 2022 to 104.8 mbpd in 2024, 106.5 mbpd in 2026 and 107.1 mbpd in 2027 driven by strong demand recovery and supportive fundamentals. The healthy growth is attributable to the restoration of significant shut-in volumes related to the COVID-19 pandemic, favourable economics and growing investment. Non-OPEC liquids supply is expected to also continue its post-pandemic rebound in the medium term. OPEC projects it to grow from 63.6 mbpd in 2021 to 71.4 mbpd in 2027 (Fig. 5.4). The US is expected to remain the leading medium-term source of non-OPEC liquids supply growth, providing 3.9 mbpd or 50% of incremental output.

Figure 5.4: Medium Term Global Oil Supply Outlook



Other major sources of medium-term non-OPEC supply growth are Brazil, Guyana, Canada and Norway. However, Russian liquids supply may decline by about 0.7 mbpd in the medium-term due to geopolitical tensions consequent on the Russia-Ukraine conflict.

OPEC liquids are expected to grow from 31.6 mb/d in 2021 to 42.4 mbpd in 2045, an increase of 10.7 mbpd. This means the group's collective output will see its global market share rise from 33% in 2021 to 39% in 2045.

World crude oil supply is projected to slightly outstrip demand by 0.3 mbpd in 2024, 0.2 mbpd in 2025-2026 and 0.1 mbpd in 2027.

5.1.3 Crude Oil Price Benchmark

Figure 5.5: Bonny Light Crude Oil Price (US$/Barrel)

Crude oil prices have declined from their record levels in 2022 but remain well above their pre-pandemic (2015-2019) average. The surge in prices after Russia's invasion of Ukraine has been moderated by a combination of slowing economic activity and favourable winter weather.

As Figure 5.5 shows, Bonny light crude oil price has declined from an average of US$104.80 per barrel in 2022 to US$97.31 per barrel by September 26, 2023.

The World Bank identified upside risks to crude oil prices to include possible disruptions in supply due in part to trade restrictions, intensifying geopolitical tensions and adverse weather events. The major downside risk is disappointing global growth.

Following the OPEC+ announcement on June 4 to extend crude oil production cuts through 2024, Energy Information Administration (EIA) forecasts global oil inventories to fall slightly in late-2023 and early-2024. This is expected to put some upward pressure on crude oil prices. Hence, EIA forecasts Brent crude oil spot price to average US$79 per barrel in the second half of 2023 and US$84 per barrel in 2024. The World Bank projects the price of Brent crude oil to average US$84.00 in 2023, rising slightly afterwards to an average of US$86.00 per barrel in 2024.

In consultation with the relevant stakeholders, a benchmark oil price of US$73.96 per barrel has been proposed for 2024, US$73.76 per barrel in 2025 and US$69.90 per barrel in 2026. These estimates took account of crude oil market fundamentals, market sentiments and global economic outlook. The budget crude oil benchmark price was set well below forecasts to ensure budget realism.

5.2 Non-Oil Revenue Baseline Assumptions

The assumptions underlying the non-oil revenue forecasts for the period 2024-2026 are outlined below. In view of the declining revenue from crude oil, Government has continued to implement various reform measures to further widen the revenue base, modernize and further improve tax administration, and enhance non-oil revenue collections.

The medium-term non-oil revenue forecasts are based on sustenance and acceleration of these reform efforts by the new Administration in order to enhance the contribution of non-oil revenue sources to funding the FGN budget. The medium-term non-oil revenue estimates were premised on anticipated growth in the different tax bases, the effective tax rate, and the projected tax collection efficiency. Tax rates are assumed to remain largely the same during the period.

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

Import duty projections are based on the cost, insurance and freight (CIF) value of imports, applicable tariffs, and a projected efficiency factor. The growth of the nominal tax base is assumed to be driven by tax elasticity in the medium term. Other considerations include the foreign exchange rate, effective implementation of extant tax laws, the implementation of the Common External Tariff (CET) 2022-2026, and renewed focus on the implementation of the Africa Continental Free Trade Agreement (AfCFTA).

Companies Income Tax (CIT)

The CIT projections are based on estimated nominal GDP, Companies' Profitability Ratio, and further improvement in collection efficiency. The Gross Operating Profits of firms for which CIT forecast was derived is assumed to average N9.3 trillion for 2024, 10.6 trillion for 2025 and 11.2 trillion for 2026, after adjusting for firms in the informal sector. Estimates were derived taking into consideration significant growth of domestic economic activities as well as the effective implementation of the National Development Plan 2021-2025. Other important assumptions include significant improvement in the Nigerian business and investment environment and successful broadening of the tax net. More importantly, the historical growth in the volume of online transactions is expected to be sustained.

Value Added Tax (VAT)

The VAT was projected using estimated aggregate nominal consumption, taking into account vatable items and collection efficiency. Consumption expenditure on which VAT is charged is assumed to increase from an average of N35 trillion in 2024, to N40 trillion in 2025 and N45 trillion in 2026, after adjusting for exemptions, zero rated items and companies whose turnover fall below the N25 million threshold. Like the CIT, more VAT payers are expected to be brought into the tax net with the effective implementation of the provisions of the various Finance Acts. The VAT projections over the medium-term are based on holding the rate at 7.5%. Raising the VAT rate however remains a policy option for government to keep in view over the medium term.

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

Electronic Money Transfer levy

The Electronic Money Transfer levy will continue to be implemented in the medium-term. Compliance with the approved Regulations governing the administration of the levy will be enforced to significantly improve collections over the medium term. Estimates were based on the projected volume of eligible online transfer transactions of 2.7 trillion in 2024, 3.1 trillion in 2025 and 3.8 trillion in 2026.

FGN Independent Revenue

The Independent revenue of the Federal Government was estimated taking into consideration recent efforts aimed at addressing revenue leakages, excessive spending and weak accountability of Government-Owned Enterprises (GOEs). The estimation of Operating Surpluses (the main component of FGN Independent Revenues) is based on strict and effective implementation of the various measures introduced to ensure that GOEs operate in a more fiscally responsible manner. Additional measures and tighter performance management framework will be introduced to ensure greater fiscal discipline among the GOEs and substantially improve remittances in the short to medium term. Accordingly, independent revenue collections are expected to be considerably higher than projections. Expected improvements in returns on government owned investments/assets from the restructuring of Ministry of Finance Incorporated (MOFI) have not been factored into these projections.

6.0 MEDIUM-TERM MACROECONOMIC FRAMEWORK: PARAMETERS AND TARGETS FOR 2024-2026

6.1 Macroeconomic Projections

The key parameters driving the medium-term revenue and expenditure framework are presented in the Table below.

Table 6.1: Key Parameters and other Macroeconomic Projections

Description	2023	2023 Revised Forecast (as at July 2023)	2024	2025	2026
Oil Price Benchmark (US$/b)	75.0	75.0	73.96	73.76	69.90
Oil Production (mbpd)	1.69	1.72	1.78	1.80	1.81
Exchange Rate (N/$)	435.57	700.00	700.00	665.61	669.79
Inflation (%)	17.16	17.16	21.40	20.30	18.60
Non-Oil GDP (N'bn)	214,049.5	214,049.5	223,989.2	249,188.0	278,251.7
Oil GDP (N'bn)	11,457.8	11,457.8	12,316.0	13,225.7	14,272.0
Nominal GDP (N'bn)	225,507	225,507	236,305.2	262,413.7	292,523.7
GDP Growth Rate (%)	3.75	3.75	3.76	4.22	4.78
Imports	24,385.6	24,385.6	32,453.5	33,401.3	34,515.4
Nominal Consumption (N'bn)	121,933.1	121,933.1	163,227.8	189,992.8	218,594.2

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

The assumptions underlying the 2024-2026 Medium-Term Expenditure Framework indicate that economic growth rate over the next three years would be higher than the modest rates recorded since the end of the recession in 2020. Accordingly, economic growth is projected to increase to 3.76%, 4.22% and 4.78% in 2024, 2025 and 2026, respectively, mainly due to strong political will to take tough decisions and implement necessary reforms. Most of the growth in real GDP during the period will be driven by the anticipated increase in domestic oil refining capacity, telecommunications, crop production, slight growth in investment and employment, with the bulk of projected growth coming from the non-oil sector. The Renewed Hope Agenda (RHA) of the Tinubu Administration has significantly higher growth targets than the NDP 2021-25. The NDP is therefore undergoing a review to align its growth aspirations with the RHA.

Consumption in nominal terms is projected to increase to N163.23 trillion in 2024 and N218.59 trillion in 2026 substantially due to expected increase in wages and cash transfers to households to mitigate the negative impact on their real income of petrol subsidy removal.

Import of goods is projected to increase to N32.45 trillion in 2024 and gradually to N34.51 billion in 2026 due mainly to the effects of depreciation of the domestic currency and imported inflation. Imports will remain high over the medium term due to the weak import substitution capacity occasioned by inefficient domestic production relative to more efficient foreign producers. The real economy is experiencing sustained inflationary pressures, worsened by high energy costs, and a depreciating Naira.

In the face of persistent inflation, economic growth during the medium term will continue to be adversely impacted because of the effort to keep monetary policy tight to help prevent higher inflation from becoming entrenched. Inflationary pressure is projected to continue at 21.4% in 2024. A slight reduction in inflation pressure is anticipated from 2025 and 2026 due to the lag effect of tight monetary policy on demand for goods and services, expected lower deficit financing and reduction in supply-side constraints occasioned by a drastic reduction in domestic insecurity, improved infrastructure, and generally better operating environment for businesses.

6.2 2024-2026 Medium-Term Fiscal Framework (MTFF)

6.2.1 Federation Account Revenues

The projected fiscal outcomes in the medium term show improved revenue inflows into the federation account, attributable to the removal of petrol subsidy, exchange rate liberalization and increased collection of non-oil taxes.

The net amount accruable to the Federation Account is projected at N24.54 trillion. This is 106.9% higher than the 2023 projection. N20.70 trillion is projected to flow into the Main Pool, while N3.66 trillion and N174.24 billion are projected to accrue to the VAT Pool and EMTL, respectively, in 2024. Total oil revenues will be N13.82 trillion, about 56.3% of total Federation Account receipts and 66.8% of Main Pool receipts. Other components of the Federation Account revenues include Corporate Tax of N3.04 trillion, Customs Revenue of N2.65 trillion, Special Levies of N511.88 billion, NLNG Dividend of N667.95 billion, and revenues from Solid Minerals of N9.39 billion.

In 2024, the share of the Federal Government from the Main Federation Account Pool will be N10.90 trillion, while the States and Local governments are projected to get N5.53 trillion and N4.26 trillion, respectively. The revenue shares from the VAT Pool and EMTL are projected to be N549.46 billion and N26.14 billion, respectively, for the Federal Government, N1.83 trillion and N87.12 billion for the States, and N1.28 trillion and N60.98 billion for the Local governments, respectively.

Table 6.2: Federation Account – Main Pool, VAT and EMTL Revenues (2024 – 2026)

FISCAL ITEMS	2023 Budget Approved by NASS	2024 Proposal	2025	2026
Budget Oil Production Volume Net Incremental Oil Prodution for Repayment Arrears (mbpd)	**1.69**	**1.78**	**1.80**	**1.81**
Projected Budget Benchmark Price (US$ per barrel)	**75.00**	**73.96**	**73.76**	**69.90**
Average Exchange Rate (N/US$)	**435.57**	**700.00**	**665.61**	**669.79**
NET FEDERATION ACCOUNT (MAIN POOL)	**9,030,528,378,089**	**20,802,700,283,521**	**21,581,041,103,669**	**22,060,538,437,963**
Transfer to Police Trust Fund (0.5% of Fed. Acct.)	45,152,641,890	104,013,501,418	107,905,205,518	110,302,692,190
NET FEDERATION ACCOUNT - MAIN POOL (after 0.5% transfer to Police Trust Fund)	**8,985,375,736,198**	**20,698,686,782,103**	**21,473,135,898,151**	**21,950,235,745,773**
Net Oil Revenue after Costs, Deductions & Derivation	4,597,197,314,933	13,818,908,074,426	14,085,896,195,516	14,596,522,539,407
Net Solid Minerals Revenue after Derivation	7,514,013,071	9,392,516,339	11,740,645,424	11,740,645,424
NLNG Dividend	153,732,619,872	667,553,460,000	665,529,780,683	56,556,853,267
Net Corporate Tax Distributable	1,924,288,830,489	3,036,242,280,088	3,386,214,588,759	3,789,865,089,597
Net Customs Revenue Distributable	1,957,924,806,341	2,654,709,885,826	2,796,944,689,293	2,951,204,331,322
Net Special Levies Distributable	344,718,151,493	511,880,565,423	526,809,998,476	544,346,286,757
NET FEDERATION ACCOUNT (VAT POOL)				
Net Federation Account - VAT Pool (after CoC and Transfers to NEDC and NPTF)	**2,736,375,247,640**	**3,663,095,695,937**	**4,263,746,611,082**	**4,905,607,614,917**
FEDERATION ACCOUNT (EMTL)	**137,032,655,344**	**175,111,289,611**	**195,124,908,924**	**215,014,086,445**
Transfer to Police Trust Fund (0.5% of Fed. Acct.) from EMTL	685,163,277	875,556,448	975,624,545	1,075,070,432
Net Electronic Money Transfer Levy after transfer to NPTF	**136,347,492,067**	**174,235,733,163**	**194,149,284,379**	**213,939,016,013**
DISTRIBUTION				
Distribution - Federation Account (Main Pool, VAT Pool and EMTL)	**11,858,098,475,906**	**24,536,018,211,203**	**25,931,031,793,612**	**27,069,782,376,703**
Main Pool	**8,985,375,736,198**	**20,698,686,782,103**	**21,473,135,898,151**	**21,950,235,745,773**
FGN's Share of Federation Account (52.68%)	4,733,495,937,829	10,904,068,196,812	11,312,047,991,146	11,563,384,190,873
States' Share of Federation Account (26.72%)	2,400,892,396,712	5,530,689,108,178	5,737,621,911,986	5,865,102,991,271
Local Govt.'s Share of Federation Account (20.60%)	1,850,987,401,657	4,263,929,477,113	4,423,465,995,019	4,521,748,563,629
VAT Pool	**2,736,375,247,640**	**3,663,095,695,937**	**4,263,746,611,082**	**4,905,607,614,917**
FGN's' Share of VAT Pool Account (15%)	410,456,287,146	549,464,354,390	639,561,991,662	735,841,142,238
States' Share of VAT Pool Account (50%)	1,368,187,623,820	1,831,547,847,968	2,131,873,305,541	2,452,803,807,458
Local Govt.'s Share of VAT Pool Account (35%)	957,731,336,674	1,282,083,493,578	1,492,311,313,879	1,716,962,665,221
Electronic Money Transfer Levy (EMTL)	**136,347,492,067**	**174,235,733,163**	**194,149,284,379**	**213,939,016,013**
FGN's' Share (15%)	20,452,123,810	26,135,359,974	29,122,392,657	32,090,852,402
States' Share (50%)	68,173,746,034	87,117,866,581	97,074,642,190	106,969,508,007
Local Govt.'s Share (35%)	47,721,622,224	60,982,506,607	67,952,249,533	74,878,655,605

6.2.1 FGN Revenue

The 2024 FGN Revenue is projected at N16.96 trillion (N5.91 trillion or 54% more than the 2023 Budget). Of the aggregate revenue available to fund the 2024 Budget, N6.95 trillion or 41% is projected to come from oil-related sources. The balance of N10.01 trillion is to be earned from non-oil sources. The FGN share of non-oil tax is projected at N3.52 trillion compared to N2.43 trillion in 2023, while its share of Minerals and Mining revenues is N4.56 billion in 2024 from N3.64 billion in 2023. The projection for Independent Revenue has been moderated to N1.91 trillion, down from N3.17 trillion, while the projection for Grants and Donor funded projects is N639.92 billion.

More dividends from the Bank of Industry, Development Bank of Nigeria, Galaxy Backbone, and Bank of Agriculture have been recognized in the 2024 projections, bringing the projection to N316.68 billion compared to N81.79 billion in 2023. The projected sum of other revenues, including FGN's share of Oil Price Royalty, Education Tax, Electronic Money Transfer Levy, and Drawdowns from Special Accounts, is N736.04 billion.

Table 6.3: Overview of the Revenue Framework

	FISCAL ITEMS	2023 Budget Approved by NASS	2024 Proposal	2025	2026
AMOUNT AVAILABLE FOR FGN BUDGET (excluding GOEs retained revenue)		**8,625,998,338,101**	**14,097,920,521,036**	**14,293,896,683,564**	**14,797,955,265,578**
a	**Share of Oil Revenue**	**2,229,640,697,742**	**6,702,170,416,097**	**6,831,659,654,825**	**7,079,313,431,612**
b	**Dividends**	**81,786,706,388**	**334,797,174,557**	**333,143,962,366**	**37,459,838,068**
	NLNG	*74,560,320,638*	*323,763,428,100*	*322,781,943,631*	*27,430,073,835*
	Bank of Industry	*7,226,385,750*	*5,534,053,940*	*4,695,537,160*	*3,552,626,680*
	Development Bank of Nigeria		*2,920,000,000*	*2,520,000,000*	*2,790,000,000*
	Bank of Agriculture		*2,429,692,517*	*2,966,481,575*	*3,487,137,554*
	Galaxy Backbone		*150,000,000*	*180,000,000*	*200,000,000*
c	**Share of Minerals & Mining**	**3,644,296,339**	**4,555,370,424**	**5,694,213,031**	**5,694,213,031**
d	**Share of Non-Oil Taxes**	**2,433,154,452,006**	**3,521,207,272,130**	**3,851,259,624,668**	**4,220,211,684,311**
	Share of CIT	*933,280,082,787*	*1,472,577,505,843*	*1,642,314,075,548*	*1,838,084,568,454*
	Share of VAT	*383,092,534,670*	*512,833,397,431*	*596,924,525,551*	*686,785,066,088*
	Share of Customs	*949,593,531,075*	*1,287,534,294,626*	*1,356,518,174,307*	*1,431,334,100,691*
	Share of Federation Acct. Levies	*167,188,303,474*	*248,262,074,230*	*255,502,849,261*	*264,007,949,077*
e	Share of Electronic Money Transfer Levy (formerly called Stamp Duty)	19,088,648,889	24,393,002,643	27,180,899,813	29,951,462,242
f	Share of Oil Price Royalty	13,366,750,326	21,400,442,583	17,513,224,501	162,800,944,613
g	Revenue from GOEs	3,873,416,174,946	4,069,565,246,556	4,387,477,031,247	4,745,915,124,664
h	GOEs Operating Surplus (80% of which is captured in Independent Revenue)	(1,454,304,201,187)	(1,208,484,776,894)	(1,381,028,451,271)	(1,561,706,089,473)
i	Independent Revenue	3,169,072,692,545	1,907,775,748,763	2,092,245,206,405	2,226,756,631,719
j	Draw-down from Special Levies Accounts	300,000,000,000	300,000,000,000	300,000,000,000	300,000,000,000
k	Signature Bonus / Renewals / Early Renewals	57,048,776,004	251,455,481,172	83,455,481,178	-
l	Domestic Recoveries + Assets + Fines	27,898,500,000	-	-	-
m	Grants and Donor Funding	43,028,488,073	639,923,474,400	338,087,750,215	297,290,993,426
n	Education Tax (TETFUND)	248,268,329,787	390,242,138,267	413,656,666,563	438,476,066,557
AMOUNT AVAILABLE FOR FGN BUDGET (including GOEs)		**11,045,110,311,860**	**16,959,000,990,698**	**17,300,345,263,540**	**17,982,164,300,769**

6.2.2 FGN Expenditure

6.2.3 Aggregate Expenditure

The FGN's 2024 aggregate expenditure is estimated at N26.01 trillion. This includes the provision of N2.73 trillion for GOEs' expenditures and grants/donor-funded projects amounting to N639.92 billion. This is higher than the corresponding 2023 FGN aggregate expenditure estimate of N22.65 trillion (which includes the N819.54 billion supplementary provision) by 14.8% (or about N3.36 trillion).

The 2024 expenditure estimate includes statutory transfers of N1.30 trillion and non-debt recurrent expenditure of N10.26 trillion (including N200 billion for the recurrent component of the Special Intervention Programme). The provisions of N8.25 trillion and N243 billion have been made for Debt Service and Sinking Fund to retire maturing bonds issued to local contractors/creditors, respectively, in the 2024 budgeted expenditure. A total of N6.78 trillion (inclusive of N1.02 trillion for GOEs) is provided for personnel and pension costs, an increase of N904.49 billion or 15% over the 2023 provision. This is 40% of the projected aggregate revenues for 2024.

The provision for Statutory transfer includes N114.80 billion (representing 1% of the consolidated revenue fund) earmarked for the Basic Health Care Provision Fund (BHCPF) and N117.67 billion for the North-East Development Commission (NEDC). In addition, N137.21 billion has been set aside in the service-wide votes for GAVI/Routine Immunization.

The aggregate amount available for capital expenditures in the 2024 budget is N6.87 trillion. This represents 26% of total expenditure and is about 5% less than the 2023 provision of N7.27 trillion. The 2024 provision comprises N2.31 trillion for MDAs, N855.70 billion for capital supplementation, N908.09 billion for capital component of statutory transfers, N7 billion for Family Home Fund, N820.91 billion capital budget of GOEs, N639.92 billion for donor/grant funded expenditures and N941.19 billion funded by project-tied multilateral/bilateral loans. Other provisions, including TETFUND capital and transfer to the Nigeria Sovereign Investment Authority (NSIA), amount to N392.13 billion.

Table 6.4: Overview of the Expenditure Framework

FISCAL ITEMS		2023 Budget Approved by NASS + Supplementary	2024 Proposal	2025	2026
STATUTORY TRANSFER		**967,486,010,536**	**1,296,546,596,947**	**1,274,474,245,026**	**1,309,442,061,183**
DEBT SERVICE		**6,309,870,967,327**	**8,247,298,455,073**	**10,060,930,623,529**	**11,611,911,778,541**
SINKING FUND		**247,726,644,470**	**243,662,151,758**	**240,151,732,268**	**300,000,000,000**
RECURRENT (NON-DEBT)		**8,329,370,195,637**	**10,256,794,611,173**	**9,513,917,222,455**	**9,823,891,748,823**
a	Personnel Costs (MDAs)	4,103,593,137,536	4,492,668,968,008	4,582,522,347,368	4,674,172,794,316
b	Personnel Costs (GOEs)	912,320,744,988	1,017,413,229,133	1,078,603,027,244	1,181,920,949,117
c	Overheads (MDAs)	443,276,374,887	664,914,562,331	698,160,290,447	733,068,304,969
d	Overheads (GOEs)	671,403,880,673	892,204,551,288	994,674,670,618	1,073,531,843,644
e	Pensions, Gratuities & Retirees Benefits	854,812,179,406	1,265,131,274,415	827,862,188,757	827,862,188,757
f	Other Service Wide Votes (including GAVI/Immunization)	1,066,550,461,658	1,639,949,919,085	1,046,411,864,693	1,046,411,864,693
g	Presidential Amnesty Programme	65,000,000,000	65,000,000,000	65,000,000,000	65,000,000,000
h	TETFUND - Recurrent	12,413,416,489	19,512,106,913	20,682,833,328	21,923,803,328
SPECIAL INTERVENTIONS (Recurrent)		**200,000,000,000**	**200,000,000,000**	**200,000,000,000**	**200,000,000,000**
AGGREGATE CAPITAL EXPENDITURE		**7,265,388,311,198**	**6,871,009,784,478**	**7,310,632,751,783**	**7,334,502,334,672**
a	Capital Supplementation	1,384,105,508,000	855,700,746,339	855,700,746,339	855,700,746,339
b	Capital Expenditure in Statutory Transfers	473,116,443,962	908,089,990,854	883,862,848,843	917,253,037,855
c	Special Intervention Programme (Capital) - Family Home Fund	7,000,000,000	7,000,000,000	7,000,000,000	7,000,000,000
d	Amount Available for MDAs Capital Expenditure	2,502,124,677,119	2,306,069,846,227	2,335,514,645,399	2,460,768,822,197
e	GOEs Capital Expenditure	835,387,348,099	820,908,398,828	804,070,709,084	809,686,754,648
f	TETFUND Capital Expenditure	235,854,913,298	370,730,031,353	392,973,833,235	416,552,263,229
g	Grants and Donor Funded Projects	43,028,488,073	639,923,474,400	338,087,750,215	297,290,993,426
h	Multi-lateral / Bi-lateral Project-tied Loans	1,771,404,182,322	941,186,853,893	1,675,908,994,167	1,407,448,772,365
i	FGN Share of Oil Price Royalty Transferred to NSIA	13,366,750,326	21,400,442,583	17,513,224,501	162,800,944,613
Capital Expenditure (Exclusive of Transfers)		**6,792,271,867,236**	**5,962,919,793,624**	**6,426,769,902,939**	**6,417,249,296,817**
TOTAL FGN BUDGET (Excluding GOEs & Project-tied Loans)		**18,456,209,529,125**	**22,335,508,575,432**	**22,962,986,325,105**	**24,989,906,565,590**
TOTAL FGN BUDGET (Including GOEs & Project-tied Loans)		**22,646,725,685,206**	**26,007,221,608,575**	**27,516,243,726,217**	**29,462,494,885,364**

6.2.4 Fiscal Deficit and Deficit Financing

The budget deficit is projected to be N9.05 trillion in 2024, down from N11.60 trillion budgeted in 2023. This represents about 53% of total FGN revenues and 3.83% of the estimated GDP. The high projected level of fiscal deficit in 2024 is partly attributable to the proposed salary review of Federal workers across board, increased pension obligations resulting from payments into the Redemption Fund, Pension Protection Fund, an increase in pensions in line with the new minimum wage, and higher debt service cost. At 3.83%, the projected level of deficit is higher than the 3% threshold stipulated in the Fiscal Responsibility Act (FRA), 2007, but significantly lower than the 2023 level of 5.18%. The goal of the administration is to bring the deficit under 3% of GDP within the medium term. The deficit will largely be financed by domestic borrowings, considering the narrow window for external financing.

Table 6.5: Deficit, Financing and Critical Ratios

FISCAL ITEMS		2023 Budget Approved by NASS + Supplementary	2024 Proposal	2025	2026
TOTAL FGN BUDGET (Including GOEs & Project-tied Loans)		**22,646,725,685,206**	**26,007,221,608,575**	**27,516,243,726,217**	**29,462,494,885,364**
Total Fiscal Deficit (including Project-tied Loans)		**(11,601,615,373,346)**	**(9,048,220,617,877)**	**(10,215,898,462,677)**	**(11,480,330,584,594)**
GDP		**225,507,296,343,920**	**236,305,190,724,943**	**262,413,705,561,062**	**292,523,682,667,292**
DEFICIT/GDP (including Project-tied Loans)		**(5.14%)**	**(3.83%)**	**(3.89%)**	**(3.92%)**
TOTAL FGN EXPENDITURE		**22,646,725,685,206**	**26,007,221,608,575**	**27,516,243,726,217**	**29,462,494,885,364**
Total Non-Debt Expenditure		**16,089,128,073,410**	**17,516,261,001,744**	**17,215,161,370,420**	**17,550,583,106,823**
Capital Expenditure as % of Non-Debt Expenditure		45%	39%	42%	42%
Capital Expenditure as % of total FGN Expenditure		32%	26%	27%	25%
Capital Expenditure (Inclusive of Transfers, but exclusive of GOEs Capital & Project-tied loans) as % of FGN Expenditure		21%	20%	18%	17%
Recurrent Expenditure as % of total FGN Exp (incl. GOEs + Project-tied Loans)		68%	74%	73%	75%
Debt Service to Revenue Ratio (incl. GOEs + Project-tied Loans)		57%	49%	58%	65%
Deficit as % of FGN Revenue (incl. GOEs + Project-tied Loans)		105%	53%	59%	64%
ADDITIONAL FINANCING					
a	Privatization Proceeds	206,182,616,701	298,486,421,740	37,500,000	-
b	Multi-lateral / Bi-lateral Project-tied Loans	1,771,404,182,322	941,186,853,893	1,675,908,994,167	1,407,448,772,365
c	New Borrowings	**9,624,028,574,324**	**7,808,547,342,244**	**8,539,951,968,511**	**10,072,881,812,229**
	Domestic Borrowing	*7,863,130,247,022*	*6,040,937,020,465*	*6,415,515,078,747*	*8,940,432,042,472*
	Foreign Borrowing	*1,760,898,327,302*	*1,767,610,321,779*	*2,124,436,889,764*	*1,132,449,769,757*
Sub-Total		**11,601,615,373,346**	**9,048,220,617,877**	**10,215,898,462,677**	**11,480,330,584,594**

7.0 MEDIUM TERM OBJECTIVES, POLICIES AND STRATEGIES

This Fiscal Strategy Paper highlights the macroeconomic and fiscal policy objectives of the government over the period 2024-2026 and the strategies to be implemented to achieve them. It was prepared against the backdrop of subsisting macroeconomic, fiscal and development challenges in the country such as low economic growth, high inflation, insecurity, insufficient public service delivery, inadequate revenues, significant infrastructure deficits and weak social indicators.

The medium-term fiscal strategy takes account of current events with important implications for Government's ability to raise revenues, finance its expenditures and manage its debt. The strategy recognizes the need to cushion the effects of economic reform measures on the poor and economically vulnerable in ways that create opportunities for job creation, increased productivity and inclusiveness.

7.1 Macroeconomic Policy Objectives

In line with the goals of the National Development Plan 2021-2025, in the medium term, government aims at restoring and preserving macroeconomic stability, improving the business and investment environment, achieving high and inclusive economic growth, facilitating employment and job creation as well as promoting human capital and social development. To achieve these objectives, fiscal, monetary and trade policies will be aligned and implemented in a very coordinated manner.

7.1.1 Restoring and Preserving Macroeconomic Stability

A stable macroeconomic environment is important to catalyse private investment and accelerate economic growth. It enables businesses and households to effectively plan their production, investment and consumption activities. Currently, rising inflation and other macroeconomic headwinds threaten the survival of local businesses.

Over the medium term, Government will strengthen macroeconomic management and implement policies aimed at restoring and preserving macroeconomic stability for higher investment, and inclusive and sustainable growth. This includes strategies to moderate inflationary pressures, provide critical infrastructure to lower the cost of doing business, lower market interest rates, and sustain market reflective exchange rate through pragmatic foreign exchange management. Rising inflation from policy distortions and supply shocks will be addressed through sequenced and coordinated mix of trade, monetary and fiscal policies to improve economic performance and protect human welfare.

Nigeria has transitioned to a more transparent foreign exchange management system. It is projected that the current volatility in the Naira exchange rate will moderate and the Naira will begin to appreciate as fiscal, monetary and trade policies become better aligned. This outcome will be aided by policies that seek to eliminate uncertainty and restore investors' confidence in the exchange rate market.

The macroeconomic environment will be further stabilized as Nigeria sets on a fiscally sustainable path through accelerated domestic revenue mobilisation and better expenditure management, moderate fiscal deficits, and a healthy debt sustainability framework.

7.1.2 Improving Business and Investment Environment

Investment opportunities abound in the various sectors of the Nigerian economy. However, private investment has been very low. Nigeria's business environment is characterized by uncertainty, security concerns, policy instability and inadequate physical infrastructure. The new administration is committed to addressing the key challenges impeding business growth. Current efforts aimed at improving the business and investment environment for private investment to thrive and drive growth will be sustained. Government will introduce more business and investment-friendly reforms for businesses to thrive nationwide. Government intends to lighten tax burdens, as well as harmonise and effectively manage existing taxes.

Government will pursue necessary reforms in the regulatory environment to position Nigeria as an investment destination of choice. The leadership has demonstrated strong commitment and political will for the implementation of bold and progressive policies required to transform the economy. Government is also committed to ensuring robust and wide consultation with stakeholders in the medium term, within the framework of predictable, coherent and consistent policies.

Defence and internal security will continue to be accorded top priority. Current efforts to properly equip and motivate the valiant personnel in the armed forces, police and paramilitary units will also be sustained. The internal security architecture will be overhauled and new operational strategies will be introduced to enhance law enforcement capabilities and safeguard lives, properties and investments across the country. The various services will work proactively and collaboratively to address subsisting security challenges nationwide to achieve enduring peace, stability and public safety in order to provide the secure environment required for economic activities to thrive in various communities. The improvement in the security situation will further improve the investment environment.

Power generation and supply have continued to be poor despite the privatization of generation and distribution since November 2013, with over N2 trillion spent by the government on subsidising the value chain. As long as power supply remains abysmal, industrial development will remain elusive. The new administration will promote the ideals of a competitive electricity market, open the sector to competition, provide affordable electricity to consumers, and increase power generation/distribution capacity.

In the medium term, government will also increase investment in capacity expansion of critical power grid infrastructure, especially projects that can be delivered quickly to optimize grid reliability, interconnectedness and wheeling capacity. In addition, the government will address the challenges confronting the sector in a very comprehensive manner. The power sector governance reform will be reviewed and the implementation of energy transition plans will be accelerated.

More importantly, government will facilitate the provision of critical infrastructure to lower the cost of doing business. It is expected that these efforts will enhance economic activities, domestic productivity, competitiveness and incentivize private investment thereby contributing towards realising the projected growth. Government will also enhance the access of small and medium enterprises in key sectors of the economy to sustainable finance to enhance their activities and improve their operational efficiency.

7.1.3 Achieving High and Inclusive Economic Growth

The decline of Nigeria’s real GDP growth rate from the 3.52% recorded in the fourth quarter of 2022 to 2.31%in the first quarter of 2023 underscores the need to sustain and accelerate economic growth in the medium term. Nigeria's economy is projected to grow by 3.76% in 2024. It is estimated that the economy will sustain the growth trajectory in the medium term, rising from 4.22% in 2025 to 4.78% in 2026. To realize the projected real GDP growth targets, high-impact initiatives will need to be implemented.

Production activities have been hampered across the country by security challenges such as banditry, kidnapping, terrorism, insurgency and general insecurity. However, the security situation is gradually improving nationwide with recent massive Government investments in the procurement and production of modern defence and security equipment.

The most productive and growth-enhancing sectors will continue to be prioritised in the allocation of resources, especially sectors that have job creation capacity and those that focus on exports. Capital budget allocation will reflect Government priorities in key sectors of the economy. In addition, competition, innovation and domestic productivity will be enhanced while new private investment will be incentivized. Government will further strengthen the frameworks for concessions and public private partnerships, including working with the legislature to address legal and regulatory bottlenecks undermining private investments in key sectors.

The Federal Government regards business owners/investors, whether local and foreign, as critical engines in the effort to achieve higher and inclusive GDP growth. Government will design and implement measures to formalize the informal sector businesses, and enhance their capacity to produce. In addition to improving their operational efficiency, enhancing the access of small and medium enterprises to sustainable financing would further accelerate economic growth. The pursuance of internal security with renewed vigour is expected to boost economic activities. Furthermore, Electricity supply is also expected to improve considerably in the medium term to support economic growth.

7.1.4 Facilitating Employment and Job Creation

Unemployment and underemployment remain high in Nigeria despite previous efforts. Low skill levels also impact labour productivity. It is therefore urgently important to renew efforts aimed at harnessing the vast economic potentials of the very large Nigerian youthful population. To create adequate productive employment and prepare young people to fill them, government will review the implementation framework of current interventions aimed at ensuring productive engagement of the youths to prevent them from engaging in criminal activities and other anti-social behaviour. Existing initiatives, like the Youth Empowerment Fund, will be improved for delivery effectiveness as well as improved outcomes and impact. The goal of the new administration is to create the enabling environment for the creation of new jobs and empower youths with digital skills for technology-related jobs.

In the medium term, several skills development and work opportunity programmes will be implemented to enhance the employability of our youths, tackle the high level of youth unemployment and further promote youth development. Government will open up more sectors of the economy to competition and investment, and intensify efforts to enhance the capacity of the workforce, through investment in education and training, and through measures to support people to set up businesses or move between jobs and sectors as the economy grows.

Falling consumer demand has resulted in the closure of some businesses thus worsening the unemployment situation. Definite non-inflationary measures will be implemented to empower consumers and stimulate consumer demand. Government will ensure that economic growth is jobs-rich to further boost consumer income.

To promote and reap demographic dividend, the Government will facilitate new economic opportunities for more Nigerian youths to gain skills for employability and entrepreneurship.

7.1.5 Promoting Human Capital and Social Development

Human capital is the most critical resource for national development. However, Nigeria's performance across all major human capital development indices is currently below the global average and even the average for developing economies in sub-Saharan Africa. This underscores the urgent need to prioritise and scale up human capital investment in Nigeria. Hence, human development will be prioritised in the medium term with focus on health, education, and social protection for the poor, vulnerable and lower income groups.

Social investments serve as a catalyst for economic growth through larger labour force, higher labour productivity, innovations, income growth and improved wellbeing of the population. It is therefore imperative to ensure significant investment in social services, effective service delivery and equitable access to social services in Nigeria. Low revenues and regressive fuel subsidies had undermined government's ability to adequately finance investment in education and health sectors. Social spending had also been characterized by low levels of efficiency and value for money. To expand access to services and improve outcomes, government will focus on ensuring value for money, greater transparency and accountability and scaled up collaboration with the private sector. Financial management processes and payment systems will be automated in service delivery institutions to plug revenue leakages. More robust accountability frameworks on resource utilisation will also be introduced. Government will also leverage private and development capital to address gaps in human capital investment. A more sustainable model of funding tertiary education will be implemented.

The high poverty rate and inequality have been worsened by high inflation and unemployment in Nigeria recently. Government has been leveraging National Social Investment Programmes (NSIP) in its effort to build resilience, and provide economic and social support, as well as pathways out of poverty. In the medium term, Government will review and strengthen the national safety net coordination and delivery systems. In addition, current social investment programmes will be reviewed to enhance implementation effectiveness across the country. In particular, the coverage of the National Social Safety Nets project will be further expanded to provide targeted cash transfers to poor and vulnerable households. In addition, efforts would be made to graduate existing beneficiaries into inclusive productive activities and new full-time jobs. To cushion the unintended negative consequences of current reform measures, well-targeted social safety nets will be provided to the poor and vulnerable households.

7.2 Fiscal Policy Objectives and Strategies

In the medium term, Government is committed to implementing transformative fiscal policy reforms aimed at achieving the following:

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

7.2.1 Enhancing Government Revenue and Reducing Fiscal Pressures

Current domestic revenue mobilization efforts are constrained by low tax rates, weak tax administration and high tax expenditures. Some progress has been made since introduction of the Strategic Revenue Growth Initiative (SRGI). However, government revenue is still low relative to target and fiscal pressures persist. It is imperative therefore to review current revenue mobilisation policies and institutional frameworks for revenue collection.

In the medium term, the Federal Government will adopt innovative ways to expand government's fiscal space, diversify revenue sources and raise the revenues required to finance its expenditure. The medium-term target is to increase the Public Revenue-to-GDP ratio to 15 percent, up from about 10% currently. It is expected that growth, in the medium term, will generate the revenue necessary for future expansion of public service delivery, rebuild fiscal space, and narrow new borrowing requirement.

Higher revenue collections would enable the Government to deliver public services more effectively, enhance infrastructure investment, improve investment in human capital booster-establish fiscal buffers.

Oil Revenue**:** In view of the considerable reduction in the fiscal significance of crude oil recently, Government will implement measures aimed at revamping oil revenue while pursuing diversification away from dependence on the volatile oil revenues to finance the budget.

In particular, government will stamp out oil theft and pipeline vandalism in the Niger Delta in order to substantially grow oil and gas production. Government will introduce technology to track crude oil production and trace crude taken illegally from Nigeria. Government will also aggressively grow domestic refining capacity with the goal of becoming a net exporter of refined products. The implementation of the Host Community Trust Fund, in line with the Petroleum Industry Act, will be implemented to secure the cooperation of oil producing communities.

Tax Revenues**:** Non-oil revenues are more stable and sustainable sources than oil revenue. To improve non-oil revenue receipts, revenue sources will be diversified by opening up new frontiers and reviving hitherto latent sources. In particular, Government will unlock the potentials of the solid minerals sector. Some tax administration reform measures have recently been introduced for seamless payment of taxes. Additional measures will be implemented in the medium term to further improve tax administration and expand the non-oil revenue base. In addition, measures to support the growth of businesses in the informal sector are expected to bring more of them into the tax net and increase tax revenue. Strategies to achieve the revenue projections of the Service in the medium term include:

i. **Finance Acts:** Leveraging on relevant provisions in the Finance Act, 2019, 2020, 2021 and 2022 and subsequent years to support businesses, expand the tax net and optimise revenue collection.

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

c. Reduction of revenues forgone through tax expenditures (corporate bonds interest income exemptions, Capital Gains Tax exemptions, etc) and eliminating double dipping.

d. Further implementation of international tax standards, including domestic charge of withholding taxes on technical service fees and specific software royalties paid to foreign companies.

e. **Technology:** Leveraging technology, such as the automated tax administration system (TaxPro Max and E-services) to further simplify tax processes, drive voluntary tax compliance, increase revenue collection and create a tax environment that is conducive for taxpayers to fulfil their tax obligations.

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

g. **Data Mining Portal:** Effectively using technology and tax intelligence to further support compliance efforts – desk reviews, audits, and investigation. Create a Real Time Online Data Mining Portal to enhance the Strategic Intelligence and Data Mining function of the FIRS and access data to validate information provided by taxpayers or reveal non-compliant taxpayers.

h. **Tax Audit/Investigation:** Introduction of new tax audit and investigation measures to strengthen risk-based audit selection and early closure of unresolved audit/investigation cases.

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

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

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

l. Sustenance of taxpayer education, engagement/enlightenment through the print and electronic media (TVs, Radios, Newspapers), workshops as well as other outreaches.

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

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

o. Intensifying engagements with the Federal and States MDAs as well as other taxpayers to ensure all outstanding debts are recovered, and recalcitrant taxpayers are compelled to comply. It is imperative to ensure effective collaboration among the tiers of government to enhance tax payer confidence and compliance.

Customs Revenue:

In the medium term, the Nigeria Customs Service (NCS) will prioritize its trade facilitation role, driving efficiency in service delivery, enforcement and revenue generation. There will be renewed emphasis on transparency, professionalism and compliance in customs operations. Through technologically-driven, collaborative and intelligence-led customs operations, the NCS will enhance collaboration with international partners, law enforcement agencies, customs administration of other countries to combat illicit trade and secure national interests.

The following strategies will be implemented to improve Customs revenue collections over the period 2024-2026, despite the fact that some of them have been recently suspended:

i. Addressing all subsisting challenges to the transition and successful implementation of the e-Customs Project geared towards complete automation and simplification of Customs processes, including payments, in every Customs formation.

ii. Commencement of the implementation of the penalties and other measures embedded in the newly reviewed Customs and Excise Management Act (CEMA) Cap C45 L.F.N. 2004 in the medium term.

iii. Robust and intensified anti-smuggling campaign and border management drive in collaboration with other government law enforcement agencies, towards reducing to the barest minimum, illicit trade and acts of economic sabotage that create sphere for revenue leakages. Artificial Intelligence Instrument will be used in border surveillance under the e-Customs Project to check smuggling and enhance revenue collection;

iv. Prioritisation of continuous and exhaustive Post Clearance Auditing mechanism to recover revenue losses.

v. Notable improvement in accruable revenue from excise duty collection upon the introduction and full implementation of excise duty on Single Use Plastics (SUPs).

vi. The upward review of excise duties on alcoholic beverages, cigarettes and tobacco products which becomes effective June 1, 2024, will measurably increase accruable revenue from excise activities.

vii. Full implementation of Excise duty on Telecommunication Services in line with the presidential approval published in Official Gazette No. 88 Vol. 109 of 11th May 22 as conveyed vide Finance Act, 2023. This is expected to grow excise revenue significantly and enhance budgetary performance.

viii. Staff capacity development through training of the existing workforce and recruitment of new officers to promote efficiency, intelligence gathering, manpower re-enforcement and most importantly, improved revenue generation.

ix. Effective implementation of the customs trade modernization project and ensuring that the modernized and digitalized service do not lead to job losses. This is expected to quadruple customs collection from the current N210 billion per month. The Fast Track

Trader Programme will be upgraded to enhance trade facilitation;

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

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

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

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

xiv. Assessment and monitoring of all revenues collected on behalf of the Service by the various designated commercial banks. This will create avenue for genuine reconciliation of all accrued revenues against claimed remittances to the various designated government accounts. This will also guide against diversion of any collectible revenue;

xv. Automation of all transit procedures from mother Ports to Bonded terminals and/or from Command to Command to drastically reduce transit leakages occasioned by diversion of cargo among others;

xvi. The use of the Government Integrated Financial Management Information System (GIFMIS) module to enhance collection, reconciliation and audit trail of all relevant proceeds to block all opportunities to defraud the system;

xvii. Continuous collaboration and engagement with stakeholders and relevant players to achieve the Service's expectations in the medium term, and enhance compliance by bridging gaps and building confidence among players in the trade chain; and

xviii. Automation of the processing of arriving international passengers under the Passenger Entry System (PES) at the Arrival Hall of all international entry points to enhance revenue collection, unlike the extant passage of passengers without appropriate assessment.

Independent Revenues:

To further enhance independent revenue generation and collection, Government will continue to optimize the operational and collection efficiency of the GOEs. The key elements of the medium-term initiatives include:

- Regular monitoring and monthly/quarterly reporting of revenue and expenditure performance of GOEs by the Office of the Accountant General of the Federation and Budget Office of the Federation; a dashboard has been developed to facilitate the budget performance monitoring process; Monthly remittance of interim operating surplus and reconciliation of cumulative remittances at year end after audit;

- Submission of annual budgets by GOEs to the Budget Office of the Federation for review and compilation for submission to the National Assembly along with the national budget; Consideration and passage of budget of the GOEs alongside the main budget of the Federal Government;

- Subjecting annual budget of GOEs to the same level of scrutiny, procurement and monitoring processes as for MDAs;
- Mandatory use of the Treasury Single Account for all financial transactions;
- Exclusion of agencies with capacity for self-funding from allocations in the Federal Budget;
- Imposition of appropriate sanctions for unauthorized use of Internally Generated Revenues;
- Introduction of incentive mechanism for good revenue generation performance; and
- Amendment of relevant sections of the Acts establishing some of the GOEs to reflect current economic realities and policy thrust of government.

7.2.2 Creating Fiscal Space for human capital and Infrastructure Investments

In 2024-2026, Government will endeavour to create additional fiscal space for sustained public sector human capital and infrastructure spending.

To create additional fiscal space for human capital and infrastructure investments, Government will ensure strict compliance with tax laws in all sectors and the remittance of all revenues due to government. Expenditures will be assessed by the contribution to growth and revenue-generating capacity. The Government will continue to clean the payroll and rationalize the wage bill. Efforts will also be intensified in the medium term to extend the Integrated Payroll and Personnel Information System to all MDAs to improve the effectiveness and efficiency of payroll administration. As part of expenditure rationalisation measures, funding of professional bodies and councils will be discontinued effective January 1, 2024. As self-funded entities, the organisations will be fully responsible for their personnel, overhead and capital expenditures.

Nigeria requires a huge outlay of resources to close current infrastructure gaps and boost its economic performance. Government will develop projects that are good candidates for Public Private Partnership (PPP) by their nature for private sector participation. Government will leverage private and donor capital to supplement human capital and infrastructure investments from the Budget. In this respect, Government will further strengthen the frameworks for concessions and public private partnerships (PPPs). Capital projects that are good candidates for PPP by their nature will be developed for private sector participation.

7.2.3 Mobilising Private Capital for Energy Transition

Government is aware of the immense possibilities of attracting considerable Foreign Direct Investment (FDI), fostering GDP growth, driving industrialization, and creating millions of jobs through the implementation of the Energy Transition Plan (ETP)Initiatives like the Africa Renewable Energy Manufacturing Initiative (AREMI), which create opportunity for industrialisation through energy transition related interventions such as electronic vehicle (EV) assembly and Solar Photovoltaic (PV) manufacturing for Africa. Analysis from AREMI indicates that Africa can experience approximately 6.4% increase in GDP between 2021 and 2050 that is directly attributable to the energy transition. Relatedly, 8-14 million energy transition jobs can be created in Africa by 2030.

Nigeria will position to take a leading role in Africa over the medium term to ensure it is able to meet its Energy Transition targets, as well as attract investment to fund the additional $10billion [annually] required to meet the aspirations of the Energy Transition Plan to achieve net zero by 2060. This will be achieved through private capital funding as well as high-level fundraising through multilateral engagements (including with G7, G20, United Nations General Assembly, etc), to mobilize significant financing. An example in this regard is the Just Energy Transition Partnership (JET-P) through which G7 countries have mobilized about $46.7 billion into South Africa, Indonesia, Vietnam and Senegal over the past two years.

7.2.4 Enhancing Fiscal Prudence and Transparency

Fiscal management will be strengthened in the medium term. Government will further enhance the budget formulation and implementation process and improve the efficiency and quality of its spending. Budget proposals by MDAs will be properly scrutinized to allow only priority spending and ensure value for money. Measures will be introduced to significantly improve the implementation of programmes and projects by MDAs. Government intends to enhance fiscal prudence and transparency through the following measures:

- Deemphasis and significant reduction of non-critical administrative spending;
- Prioritization of the completion of ongoing projects;
- Extension of the roll-out of Integrated Personnel and Payroll Information System (IPPIS) and other technology-enabled solutions to ensure real-time management and tracking of government spending;
- Implementation of civil service reforms to reduce the cost of governance including policies that facilitate merger and streamlining of overlapping MDA functions and imposition of moratorium on the creation of new agencies. The need to create new agencies will be rigorously evaluated; only when no agency exists that performs the same function that such need may be considered;
- Agency-by-agency review of functions, expenditure patterns and staffing levels, outputs and results, and identification of functions to privatize.
- Increased public-sector transparency, especially for oil and gas operations and accounting;
- Review of Sectors and activities eligible for Pioneer Tax Holiday Incentives under the Industrial Development (Income Tax Relief) Act (‘IDITRA’);
- Review of current suite of Fiscal Incentives including Auto Policy Incentives and Import Duty Exemptions; to further improve fiscal transparency, the estimated cost of main tax expenditures and revenues forgone in a year will be reported in the Tax Expenditure Statement; and
- Further strengthening treasury controls to speedily detect, eliminate and sanction instances of financial waste, misappropriation and corruption.

7.2.4 Ensuring Sustainable Deficit and Debt Levels

The recent increase in federal budget deficit reflects the systemic revenue mobilization challenges, declining and volatile oil and gas revenues, and sharp increase in fuel subsidy costs. The limited deficit financing options necessitated the reliance on money financing with the associated macroeconomic dislocations and cost. The discontinuation of fuel subsidies, reduction in waivers and tax expenditures, higher crude oil production and high oil prices are expected to reduce budget deficits and current government fiscal pressures.

Government will explore cheaper and more flexible borrowing options to finance fiscal deficits.

Total public debt is projected to increase to 37.1 percent of GDP in 2023, very close to our self-imposed debt sustainability threshold of 40 percent of GDP. In addition, FGN Debt Service-to-Revenue ratio at 73.5 percent far exceeds the recommended threshold of 30 percent. Focus in the medium term will be on accelerating the implementation of revenue mobilization measures for remarkable increase in government revenue.

7.3 Monetary Policy Objectives and Strategy

The conduct of monetary policy by the Central Bank of Nigeria would be guided in the medium term (2024-2026) by benchmarks on key monetary aggregates estimated using the Monetary Programming Framework. The framework takes cognizance of the inter-relationship and interconnectedness of the real, fiscal, external, and monetary sectors of the economy. The quantitative targets are necessary to achieve internal and external balances in the economy.

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

Monetary policy in the medium term will focus on achieving price stability that is conducive to growth. To achieve this, the objectives of monetary policy would remain price, monetary, and financial system stability conducive for sustainable inclusive growth and development in Nigeria.

Monetary targeting shall continue to be the strategy for the conduct of monetary policy over the medium term, while efforts to transit to inflation targeting framework remain on course. Consequently, managing the growth of broad money (M3) would remain the intermediate target, while movements in short-term rate would be closely monitored to counteract volatility and appropriately anchor financial market expectations.

7.3.1 Monetary Policy Stance

The strong headwinds from the COVID-19 pandemic, the ongoing Russia-Ukraine war, and the subsequent surge in global commodity prices introduced considerable challenges and vulnerabilities, posing significant risks to both financial and macroeconomic stability.

In the domestic economy, there were twin challenges of rising inflation and sluggish growth. The key drivers of the sluggish growth in 2023Q1 include rising uncertainties in macroeconomic environment occasioned by the 2023 general elections, insecurity, and spill over from the global environment.

The CBN will continue to focus on monetary, price and financial system stability that delivers inclusive and sustainable growth in 2024-2026. The Bank will continue to adopt a non-inflationary policy stance, by deploying liquidity management measures that would deliver price and financial stability during the period.

The CBN Monetary Programme was designed on the assumption that government spending would continue to be expansionary to drive the Renewed Hope (RH) manifesto of the new government. This is anchored on market price liberalization, infrastructure development, and leveraging Public-Private-Partnerships (PPP) as catalyst to economic growth.

Sequel to the above, the detailed projections for the monetary variables during the period 2024-2026 period are presented in Table 7.1 below.

Table 7.1: Selected Macroeconomic Projections for the 2024 – 2026 MTEF

S/N	Indicator	Dec-23	2024	2025	2026
1	Narrow Money (M1) (Billion Naira)	23,168.72	28,448.75	32,006.19	35,563.63
2	M1 Growth Rate (%)		22.79	12.50	11.11
3	Broad Money (M2) (Billion Naira)	61,618.53	74,609.30	85,120.40	95,637.95
4	M2 Growth Rate (%)		20.05	15.06	13.10
5	Broader Money (M3) (Billion Naira)	61,620.37	74,611.14	85,122.24	95,639.79
6	M3 Growth Rate (%)		20.05	15.06	13.10
7	Net Foreign Assets (NFA) Billion Naira)	5,904.17	6,235.60	6,526.74	6,817.88
8	NFA Growth Rate (%)		5.61	4.67	4.46
9	Net Domestic Credit (NDC) (Billion Naira)	76,946.55	80,994.40	84,836.19	88,677.97
10	NDC Growth Rate (%)		14.70	12.58	11.18
11	Net Credit to Government (NCg) (Billion Naira)	29,499.24	27,077.74	24,656.23	22,234.72
12	NCg Growth Rate (%)	19.64	-8.21	-8.94	-9.82
13	Private Sector (DCp) (Billion Naira)	47,447.31	53,916.66	60,179.96	66,443.25
14	DCp Growth Rate (%)	13.50	13.63	11.62	10.41
15	External Reserves (US$ billion)	35.13	38.39	41.95	45.84
16	Average Exchange Rate (N/$)	771.35	700	665.61	669.79

Source: CBN Staff Estimates

Broad Money projections reflect the inflation and growth trajectory for the period are based on money growth, as inflation is considered a monetary phenomenon, and an adjustment factor to capture the structural component of inflation.

The projections of the Net Foreign Assets are based on the expected moderation in foreign exchange market intervention and expectation of higher foreign investment, with an attendant increase in claims on non-residents in the economy, compared to the liabilities to non-residents.

The projection for the Net Domestic Credit though on the upward trajectory, reflects the expected credit dynamics in the economy. Credit to the Government is expected to decrease over the period due to the expected significant reduction in fiscal deficits arising from the removal of fuel subsidy. On the other hand, credit to the private sector is expected to increase owing to the government's plan to achieve a higher level of growth driven by the private sector.

The projections for the External Reserve reflect the expected moderate accretion due to the various reforms in the energy sector. The expected improvement in the business environment because of the unification of the exchange rate, and the full implementation of the Petroleum Industry Act with improved transparency in NNPC Limited operations is expected to improve the level of inflows – both Portfolio and Foreign Direct Investment. These projections could be further revised if the outcomes of the various reforms vary considerably from what is anticipated.

The recent shift in exchange rate management towards a market-determined rate for the Naira will be sustained over the medium term. However, the projections for 2024, 2025, and 2026 reflect gradual stability in rate as equilibrium price is achieved in the foreign exchange market.

7.3.2 Challenges to Monetary Policy and Domestic Economic Outlook

The outlook for the domestic economy in the short-to-medium term indicates that inflationary pressure would persist due to fuel subsidy removal, free-floating exchange rate, lingering insecurity/banditry issues in agricultural producing areas of the country, spillover effects from the Russian-Ukraine war, among others. These might constitute challenges for the projections during the period 2024 - 2026. Other development, that might distort the set goals include change in the Monetary Policy Stance of the Bank, change in the Fiscal Policy Stance of the Government, and/or implementation of some High Impact Policies especially due to change in government.

Despite the above challenges, the CBN shall continue to fine-tune its foreign exchange management policy to achieve stability. More importantly, monetary policy would remain proactive in achieving a safe, stable, and sound financial system in line with its mandate. Generally, the CBN, through its policies in 2024 – 2026, would continue to monitor the monetary policy environment and complement the efforts of the fiscal authority and other critical stakeholders of the Nigerian economy to ensure that inflationary pressures and other ancillary macro variables do not constitute a drag in the effort to put the economy on firm growth trajectory.

8.0 ANALYSIS & STATEMENT ON CONSOLIDATED DEBT & CONTINGENT LIABILITIES

8.1 Nigeria's Current Debt Profile

8.1.1 Debt Stock

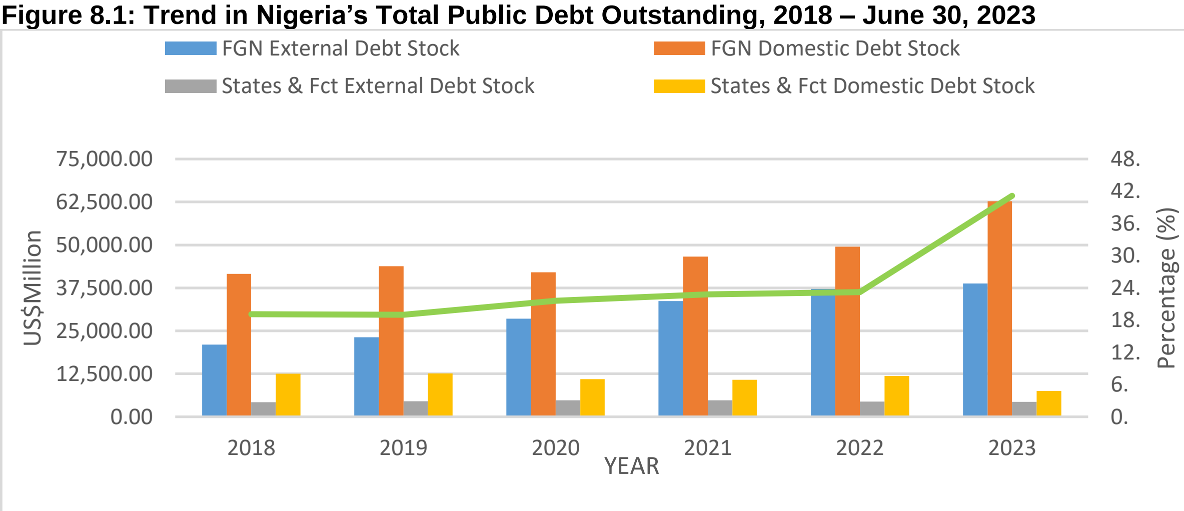
Nigeria's Total Public Debt Stock comprising Federal Government of Nigeria (FGN), 36 States, and Federal Capital Territory (FCT) as at December 31, 2022 was N46,250,367.94 million (USD103,110.84 million). Of this, N18,702,251.88 million (USD41,694.91 million) was External Debt, accounting for 40.44% of the total. The remaining N27,548,116.06 million (USD 61,415.93 million) was Domestic Debt component, accounting for 59.56% of the total.

The Total Public Debt **increased by** N6,694,335.44 million (USD7,331.20 million) in 2022**, from** N39,556,032.50 million (USD95,779.64 million) **in 2021.** The increase was due to both External and Domestic Borrowing. External Borrowing increased by N2,847,020.63 million (USD3,303.60 million), mainly due to a USD1.25 billion Eurobond issued in March 2022, a USD260 million Syndicated Loan for a rail project, and additional disbursements from existing multilateral and bilateral creditors. A USD300 million Diaspora Bond was redeemed in June 2022. Domestic Borrowing increased by N3,847,314.81 million (16.23%), due to new borrowing by FGN to finance the Budget Deficit and the issuance of Promissory Notes, as well as new borrowing by Sub-national Governments from banks and the local capital market.

By June 30, 2023, the Total Public Debt Stock was N87,379,401.75 million (USD113,423.77 million), an increase of 88.93% or N41,129,401.75 million from the N46,250,367.94 million (USD103,110.84 million) reported on December 31, 2022. External Debt accounted for 38.0% (N33,248,976.79 million or USD 43,159.19 million), while Domestic Debt accounted for 62.0% (N54,130,424.96 million or USD70,264.58 million). The increment was mainly due to new borrowing by FGN and Sub-national Governments, the addition of the N22.7 trillion securitised Ways and Means Advances, and the depreciation of Naira.

Figure 8.1 shows the trend in Total Public Debt outstanding for the period, 2018 – H1, 2023.

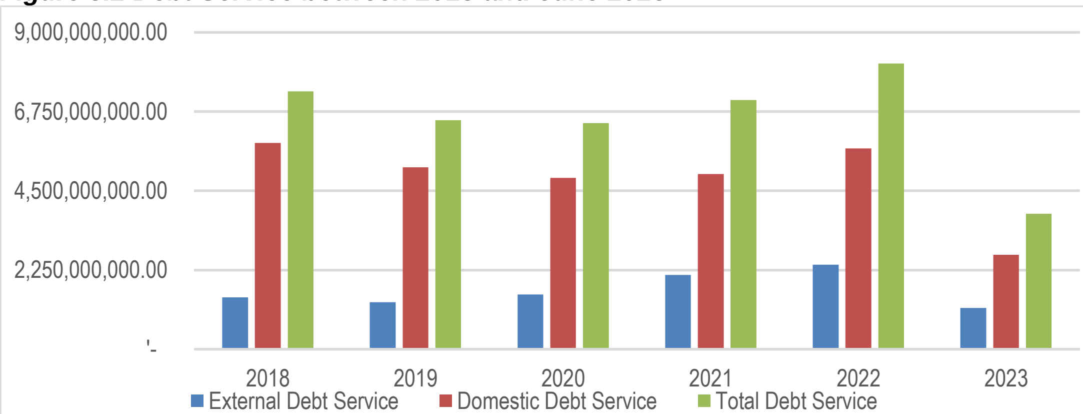
Figure 8.1: Trend in Nigeria's Total Public Debt Outstanding, 2018 – June 30, 2023



Source: DMO

The Debt Service comprising External Debt Service of FGN, States and FCT, as well as FGN Domestic Debt Service amounted to USD8,114.48 million in 2022 (External Debt Service amounted to USD2,405.47 million, while Domestic Debt Service was USD5,709.01 million) compared to USD7,083.47 million in 2021. The increase of USD1,031.01 million or 14.56% in 2022 was largely due to principal repayments on Multilateral and Bilateral debts, and the redemption of a Diaspora Bond in June 2022. From January to June 2023, the Debt Service totalled USD3,852.97 million. Of this figure, the External Debt Service accounted for USD1,169.63 million, while Domestic Debt Service accounted for USD2,683.34 million.

Figure 8.2 Debt Service between 2018 and June 2023



Source: DMO

8.1.2 Debt Management Strategy

The Medium-Term Debt Management Strategy (MTDS) serves as a guide to the borrowing activities of the Government in the medium-term of four (4) years. The MTDS focuses on the development of an optimal borrowing structure to meet the Government's financing needs, taking into consideration cost of borrowing and the associated risks. The subsisting MTDS is for the period 2020-2023.

Nigeria's Total Public Debt as a percentage of GDP was 23.20% as at December 31, 2022, but it rose sharply to 41.15% by June 2023 due to an increase in the Debt Stock from N46,250,367.94 million (USD103,110.84 million) in December, 2022 to N87,379,401.75 million (USD113,423.77 million) in June 2023. At 41.15%, the ratio exceeds Nigeria's self-imposed limit of 40% in MTDS 2020-2023 but is within the 55% and 70% thresholds recommended by the International Monetary Fund (IMF)/World Bank (WB) and the Economic Community of West African States respectively. Approval to raise the Limit is in process.

The exposure of the Total Public Debt portfolio to exchange rate risk remains moderate, as the share of Domestic Debt in the Total Public Debt was 60% as at December 2022 and 62% as at June 2023. Target Ratio of the Domestic to External Debt under the MTDS 2020-2023 is 70:30, which may be achieved by end of the year 2023. The exposure to refinancing risk remained stable as a result of the strategy of issuance of long-term securities in the domestic and international markets in addition to accessing long term funds from multilateral and bilateral lenders. Moreover, the share of short-term debt in the Total Domestic Debt was only 20% in 2022 and 12% in June 2023, well within the 25% Limit. Sovereign Guarantees as percentage of GDP stood at 1.88% as at December 31, 2022 and 1.84% as at June 30, 2023, which were well within the 5% self-imposed threshold.

Table 8.1: Medium Term Debt Strategy [MTDS] 2020 – 2023 Key Targets

S/N	Indicator	Targets	Actual				Remarks
		2022-2023	2020	2021	2022	June 203	2022
1	**Fiscal Sustainability** i. Total Public Debt/GDP	Max. 40%	21.61%	22.80%	23.20%	41.15%	Approval for an increase is in process
	ii. Sovereign Guarantees/GDP	Max. 5%	2.75%	2.64%	1.88%	1.84%	On Target
2	**Portfolio Composition** i. Domestic: External Debt mix.	Max 70: Min 30	61:39	60:40	60:40	62:38	Target may be met by December 2023
	ii. Domestic Debt. Long Term: Short Term	Min 75: Max 25	73:17	80:20	80:20	88:12	On Target
3	**Refinancing Risk** i. Average Time to Maturity (Years)	Min. 10 Years	10.74 Years	10.28 Years	9.70 Years	9.70 Years	Subject to market conditions, more long-term securities will be issued
	ii. Variable Rate Debt as % of Total Debt	Less than 5%	2.75%	2.90%	3.16%	3.16%	On Target
	iii. Debt maturing in 1 year as % of total debt	Max. 20%	14.50%	14.60%	14.37%	14.37%	On Target

Source: DMO

8.1.3 Nature and Fiscal Implications of Contingent Liabilities

The Government will continue to encourage private sector operators to participate in financing infrastructure development through the use of Public-Private Partnership (PPP) arrangements to address the issue of infrastructure deficit in Nigeria in the face of fiscal constraints. PPP arrangements may require the issuance of Sovereign Guarantees to private sector entities to execute projects which are explicit Contingent Liabilities.

The FGN has improved its ability to monitor and manage the risks associated with Contingent Liabilities that could arise from these projects, and mitigate against the crystallization of the Guarantees. As at December 31, 2022, the Contingent Liabilities of Government amounted to N3.74trillion, representing 1.88% of GDP, compared to N4.58 trillion or 2.64% of GDP in 2021. The decrease was due to the full repayment of N1.478 billion loan guarantee to the Nigerian Export-Import (NEXIM) Bank outstanding in 2021, and the payment assurance facility to Nigeria Bulk Electricity Trading (NBET), which was closed out on September 23, 2022.

As part of efforts to account for the full exposure of FGN to Contingent Liabilities, and to ensure proper management of same, a Framework on Sovereign Guarantees and Contingent Liabilities is being developed.

Table 8.2 FGN Contingent Liabilities, 2022-2026 (N' Billion)

S/N	Liability Type	2022	2023	2024	2025	2026
1.	Federal Mortgage Bank of Nigeria	5.238	5.238	-	-	-
2.	FCDA- Katampe Infrastructure Project	-	7.441	7.441	7.441	7.441
3.	Nigeria Ports Authority – Lekki Deep Seaport	7.441	39.621	535.83	535.83	535.83
4.	Nigerian Export-Import (NEXIM) Bank	22.951	-	-	-	-
5.	Nigeria Mortgage Refinance Company Plc	26.913	22.95	19.864	16.776	13.68
6.	Payment Assurance Facility for Nigeria Bulk Electricity Trading Plc	-	-	-	-	-
7.	Power Sector Contingent Liabilities Put-Call Option Agreement (PCOA)	642.961	3,946.29	3,862.76	3,955.53	3,980.37
8.	Power Sector Contingent Liabilities – Partial Risk Guarantees (PRG)	107.513	514.25	522.89	535.39	538.74
9.	Legacy FGN Exposure from PHCN Successor Companies	-	1,649.98	-	-	-
10.	NNPC – AKK Gas Pipeline Project	1,138.613	-	-	-	-
11.	Family Homes Fund Limited (FHFL)	1,102.062	200.00	200.000	200.000	200.000
12.	Pension Arrears for MDAs	684.991	650.742	618.21	587.29	587.29
13.	Others	-	900.000	1,200.000	1,200.000	1,200.00
	Total	**3,738.683**	**7,936.51**	**6,967.00**	**7,038.26**	**7,063.35**

Source: DMO

**** Exchange rate 2022 (N448.55/$); 2023-2026 [2023 ($/650: July - Dec); 2024 ($/660.84); 2025 ($/665.61); 2026($/669.79)]***

NOTE

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

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

3. *NPA LEKKI PORT-Amount guaranteed is USD800 Million. However, only US$60 million has been utilised as at December 31, 2022.*

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

5. *The Guarantee is to enable NMRC raise long term funds from the Capital Market by issuing Bonds for the purpose of refinancing mortgages created by Eligible Mortgage Lenders. N29 billion (N8 billion-Series 1 Bond; N11 billion Series 2 Bond; N10 billion Series 3) has been utilised out of total Guarantee available in the sum of N440 billion. However, NMRC is servicing the bond and thus has reduced the outstanding bond to N22.95billion.*

6. *FGN Guarantee to Central Bank of Nigeria for providing NBET a Payment Assurance Facility, for its obligations to Gencos in the sum of N1.301 trillion. The Facility has been fully implemented and closed out.*

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

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

9. *Figures were provided by BPE on FGN's exposure in respect of the debt component of the purchase price of the PHCN successor companies.*

10. *FGN Guarantee for the Ajaokuta-Kaduna-Kano (AKK) Gas Pipeline Project undertaken by the Nigeria National Petroleum Corporation (NNPC). The Guarantee covers 85% (US$2,456,944,166.11) of the total cost (US$2,890,522,548.36) of the Project. The Guarantee has not been utilised.*

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

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

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

9.0 RISKS TO THE MEDIUM-TERM OUTLOOK

The medium-term outlook for the global economy is challenging. There are a number of risks, including the Russia-Ukraine war, which continues unabated, with severe implications on global food and energy prices; protracted supply bottlenecks, financial stress, global inflation, etc. The government will need to implement policies that can help to mitigate these risks and ensure sustainable economic growth over the medium term.

The risks outlined in this Fiscal Strategy Paper highlight the potential challenges that the FGN may face over the medium term. While the probability of crystallization varies for each risk, Government shall maintain a proactive approach to risk mitigation as this is essential to safeguard fiscal stability and ensure sustainable economic growth.

The rapid accumulation of public debt, with resultant high debt service costs, has created potential fiscal risks for the FGN. If not managed prudently, high debt levels can negatively impact FGN's ability to fund essential expenditures. The probability of crystallization of this risk is moderate, considering factors such as borrowing conditions and debt sustainability. To mitigate this risk, the FGN shall adopt a more prudent debt management strategy, enhanced debt transparency, strict adherence to fiscal rules and overall improvement in public financial management.

The global economy is constrained by rising global inflation, which poses a significant risk to inclusive growth over the medium term. However, there is optimism for a reversal of this trend in the medium term, driven by the implementation of government programmes and policies outlined in section 7 of this document. The FGN adopts an inclusive approach to growth, aiming to bridge the inequality gap that has been further exacerbated by the Covid-19 pandemic. By implementing targeted strategies, the FGN anticipates fostering economic opportunities and reducing disparities, ultimately contributing to a more equitable society.

9.1 Global Economic Trends & Geo-Political Tensions

The medium-term outlook highlights the risk of a decelerating global economic recovery. Similarly, the potential for financial stress looms as fiscal support measures implemented during the Covid-19 pandemic diminish. Reduced government spending and withdrawal of economic stimulus packages may strain businesses and individuals, impacting economic stability and growth prospects. Increased debt burdens and limited access to capital may further exacerbate financial pressures. Global risks being monitored are:

1. **Rising Global Inflation**: Inflationary pressures pose a significant risk over the medium term. Factors such as supply disruptions, increased production costs, and pent-up consumer demand may contribute to rising prices worldwide. Elevated inflation can erode purchasing power, disrupt business operations, and create economic uncertainty.

2. **Geopolitical Tensions and Trade Disputes**: Geostrategic rivalries and trade disputes continue to generate uncertainty in the global economic landscape. Tensions between major powers, such as the United States, China, and Russia, could lead to trade restrictions, tariffs, and geopolitical confrontations. These actions have the potential to disrupt global trade flows, hampering economic growth and increasing market volatility.

3. **Climate Change and Environmental Risks**: The medium-term period also calls for heightened attention to climate change and environmental risks. Increasing concerns over sustainability and the need to transition to greener economies may lead to regulatory changes, carbon pricing mechanisms, and shifts in consumer preferences. Failure to address these challenges adequately could result in economic disruptions and stranded assets. The full implementation of Nigeria's Energy Transition Plan [ETP] is expected to mitigate such challenges.

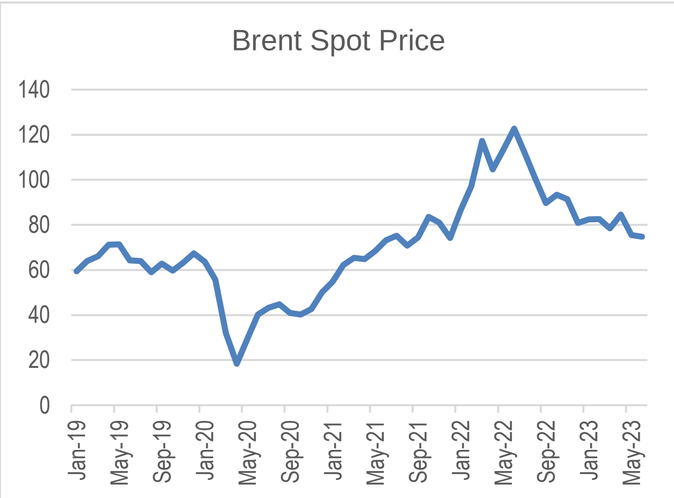
4. **Technological Transformations and Disruptions**: Rapid advancements in technology, including artificial intelligence, automation, and digitalization, introduce both opportunities and risks. The medium term will witness transformative changes in various sectors, altering job markets, and necessitating adaptation. Failure to embrace and navigate these technological shifts could lead to economic disparities and structural unemployment.

5. **Health Pandemics and Biological Threats**: While the world continues to grapple with the aftermath of COVID-19 pandemic, the medium term remains susceptible to potential new health pandemics and biological threats. The emergence of novel viruses or pathogens could disrupt global health systems, hamper economic activities, and necessitate stringent public health measures. Nigeria shall continue to strengthen health systems to adequately respond to such threats on a case-by-case basis.

9.2 International Oil Market Developments

9.2.1 Oil Prices

Oil prices traditionally are susceptible to significant volatility over the years. Factors such as geopolitical tensions, OPEC+ production decisions, supply disruptions, and fluctuations in global economic conditions usually contribute to price fluctuations. Market sentiment and speculator activity have also influenced short-term price movements.



Source: EIA

The Russia-Ukraine war sent oil price soaring in H1 2022, the highest price rally since 2008, moderating towards average $87pb thereafter.

Average oil price forecast in the Medium Term is $73.96/pb, $73.76/pb and $69.90/pb for 2024, 2025 and 2026 respectively. This is premised on a historical trend review as well as the averages of a number of forecasting institutions, factors affecting market fundamentals, global economic recovery, plans by governments and market sentiments.

Overall, price is expected to sustain at current levels in 2024, moderating slightly over the medium term. Oil prices have shown great promise with forecasts expected to trend above the conservative price range projected over the medium term, even as volatility risk persists

9.2.2 Oil Demand & Supply Risks

As efforts progressed and economies reopened, post-Covid, global oil demand has rebounded, although at a varied pace across regions. OPEC and its allies, collectively known as OPEC+, have played a crucial role in stabilizing the oil market, and will continue to be the mitigating factor for this risk. Through coordinated production cuts and adjustments, OPEC+ has aimed to balance supply and demand, prevent excessive price fluctuations, and support market stability. Geopolitical tensions and conflicts continue to impact the international oil market. Regional disputes, sanctions, and security concerns in major oil-producing countries can lead to supply disruptions and affect global oil prices. Ongoing developments in key regions, such as the Middle East, Russia, and Venezuela, have implications for oil market stability.

9.2.3 Energy Transition and Decarbonization Efforts

Increasing global focus on environmental sustainability and the energy transition has influenced the oil market. Efforts to reduce greenhouse gas emissions, promote renewable energy sources, and diversify energy portfolios have impacted long-term oil demand forecasts. This transition has led to a re-evaluation of investment strategies and corporate initiatives within the oil and gas industry. Governments worldwide, including Nigeria, have implemented and revised energy policies and regulations to address climate change and promote sustainable practices. Stricter emission standards, carbon pricing mechanisms, and renewable energy targets have the potential to reshape the future oil market landscape and investment decisions.

9.3 Exchange Rate Risks

Monitoring and managing exchange rate risks remains important for the Central Bank of Nigeria (CBN) to promote economic stability and attract investment. Implementing policies that support diversification, boost export competitiveness, attract foreign investment, and ensure prudent monetary management can help mitigate exchange rate risks and enhance Nigeria's resilience to external shocks. The recent adoption of the managed float of the Naira at the investors and Exporters [I&E] window is expected to eradicate multiple exchange rates and maintain a favourable external reserves position.

9.4 Risks to FGN Revenue Outlook

Non-oil revenues, such as taxes, customs duties and surpluses of government owned enterprises can be subject to volatility. Economic downturns, changes in tax policies, or shifts in consumer behaviour can impact non-oil revenue performance. The probability of crystallization of this risk is moderate, considering factors such as economic conditions and policy stability. To mitigate this risk, the FGN would focus on strengthening tax administration, improving tax compliance, and promoting a diversified economy to reduce dependence on specific sectors.

Nigeria is a major oil producer, and oil revenue accounts for a significant portion of government revenue. However, oil revenues have remained low even with the passage of the Petroleum Industry Act [PIA] largely due to PMS subsidy, oil theft, low investment and generally weak management of the sector. These factors have resulted in decline in oil revenue, putting pressure on the government's finances and widening budget deficit.

With PMS subsidy gone, projected oil revenue receipts over the medium term are showing promise, especially with oil prices projected to remain high. Strategic revenue growth drives will be sustained across all FGN revenue streams.

9.5 Sensitivity of Budget aggregates to Macro-economic conditions

The budget aggregates of the Federal Government of Nigeria (FGN) are inherently sensitive to macroeconomic conditions, as they directly impact revenue generation, expenditure commitments, and overall fiscal performance. Macroeconomic variables such as GDP growth, inflation rates, exchange rates, and oil prices play a crucial role in shaping the fiscal landscape.

Changes in these factors can significantly influence budget revenues, expenditures, and fiscal deficit levels. For instance, a decline in GDP growth may lead to reduced tax revenues, while high inflation rates can escalate expenditure obligations. Exchange rate fluctuations can affect import costs and impact budget allocations, particularly for sectors heavily reliant on imports. Moreover, volatility in oil prices can have a substantial impact on oil revenue projections, which in turn affects the overall budget balance positively or negatively as the case may be.

To mitigate the sensitivity of budget aggregates to macroeconomic conditions, the FGN shall pursue prudent fiscal policies, including maintaining fiscal buffers, diversifying revenue sources, implementing effective macroeconomic management, and promoting economic resilience through sectoral diversification and prudent debt management, as well as ensuring that the medium-term projections are based on observed historical relationships between the variable factors.

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

Table 9.1: Risks Likelihood, Impact and Mitigation Strategies

Risk	Likelihood (H/M/L)	Impact (H/M/L)	Mitigation
Debt sustainability	H	H	Adopt a prudent debt management strategy, continue to manage debt sustainability, optimize debt structure, and explore debt restructuring options to ease debt service burdens. This risk remains elevated from previous year. The FG however, plan to stick with fiscal responsibility Act threshold that limit borrowings by reverting to deficit/GDP ceiling of 3%. The DMO shall closely monitor market developments.

Social and Security Challenges post PMS Subsidy removal	M	H	Provide palliative measures, invest in human capital development, improve security infrastructure, promote social inclusion. Improve social safety nets, develop targeted support programs.
Domestic oil production shocks	L	H	Strengthen security measures, improve infrastructure, and enhance operational efficiency in the oil sector. Improve surveillance capabilities, enhance law enforcement efforts, collaborate with local communities and international partners.
Volatility in Oil Prices	M	H	Diversify revenue sources, maintain fiscal buffers, and hedge oil price risks. Traditionally, the FG maintains a conservative outlook to oil price benchmark for fiscal projections over the medium term.
Foreign Exchange Supply / Rate Risk	M	H	Implement prudent monetary policies, manage foreign exchange reserves, and promote exchange rate stability
Failure to meet revenue projection	M	M	Improve tax administration, enhance tax compliance, and diversify the economy to reduce dependence on oil revenue. Ensure strict monitoring and reconciliation of projected revenues.
Economic Growth and Business Environment	M	M	Implement growth-enhancing policies, support private sector development, and attract investment to stimulate economic growth.
Insecurity in parts of the country	M	H	The mitigation action largely remains the same from previous year, a twin track approach of dialogue and military force shall be deployed in the event of an upsurge in major security breaches This is affecting economic activities in virtually all states. Governments ongoing efforts in restoring order, enforcement and socio-economic interventions shall continue and are expected to mitigate this risk
Slow implementation of the Energy Transition Plan	M	L	The FGN approved Energy transition plan is ambitious but implementable. Funding Nigeria's energy mix for a sustainable economic growth will be critical to mitigating this risk

Natural disaster	L	H	This risk remains unchanged from the previous year. No indication or warning issued from any of the responsible FGN agencies monitoring. Flash floods however remain a recurring manageable incidence. Enhance disaster preparedness and response mechanisms
Failure of Power Sector Recovery Operations	L	H	The Power Sector Recovery Operations has been largely successful. Additional Financing has been negotiated and will be finalised to run for the next four years over the course of the medium term, to further improve the liquidity of the sector and reposition the sector towards fiscal sustainability and market reflective tariff.

It is important to note that the likelihood, impact, and potential mitigations provided in the table above are largely subjective assessments, and may vary based on specific circumstances and future developments. Regular monitoring, risk assessment, and proactive policy measures are necessary to effectively address these risks and mitigate their potential impacts.

ANNEXURE 1: 2022 TAX EXPENDITURES STATEMENT

TAX EXPENDITURES STATEMENT
& MEDIUM TERM (2024-2026) PROJECTION

CONTENT

INTRODUCTION

Nigeria has made significant progress in governance, investment, economic and social development, but the public finance situation remains fragile due to a slow pace of investment, a slowdown in trade growth, a high level of debt and a decline in commodity prices. Tax expenditures reporting enhances fiscal transparency thereby providing the impetus to boost domestic taxation, strengthen the fight against fraud, tax evasion, illicit financial flows and corruption, and stimulate analysis by civil society, the private sector and academia.

This tax expenditures statement covers the estimates of national tax expenditure related to Value Added Tax (VAT), Corporate Income Tax (CIT), Customs, and Excise duties, Petroleum Profit Tax (PPT), and Tertiary Education Tax in Nigeria. The purpose of this statement is to provide further transparency around policy-motivated 'expenditures' made through the tax system. Tax expenditures take the form of an exemption, allowance, preferential tax rate, deferral, or offset that reduces a tax obligation to achieve a specific policy objective. The concept recognises that the result is similar whether a government chooses to spend directly on/or forego revenue from certain individuals, groups, or activities. Data on all classes of tax expenditures are currently unavailable.

i. The preparation of this Statement is in furtherance of deepening transparency and efficiency in public finance management in Nigeria.

Definition of Terms

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

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

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

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

Tax incentives

Tax incentives are fiscal measures to guide, regulate, promote economic activity, encourage, or discourage behaviour or activities deemed desirable or undesirable. Tax incentives are aimed at achieving desired objectives such as, to stimulate investments in the local economy, create job opportunities, transfer of technology, among others.

Tax Exemption

This involves remission or waiver of a national tax, a fee or a charge. Suppliers of goods that are exempt can neither charge output VAT nor claim input VAT. Thus, no VAT is chargeable on the supply of exempt goods or services.

Zero Rating

This involves total waiver of taxes on goods and services mainly due to their societal importance or are consumed in foreign jurisdictions. Thus, no VAT is payable on the supply (it is charged at 0%). The suppliers of zero-rated goods or services claim input VAT.

Tax expenditure, with respect to VAT, therefore, is the revenue foregone due to exemptions, zero-rating of certain goods and services as well as exemptions from payment by certain bodies or persons.

2.0 LEGAL FRAMEWORK AND BENCHMARK SYSTEM IN NIGERIA

The Fiscal Responsibility Act (FRA 2007) requires that all tax expenditures must be appraised for revenue impact before approval. Tax incentives, when granted whimsically can impede competitiveness and market efficiency. However, tax incentives can be a veritable instrument for driving economic development and equitable resource distribution and allocative efficiency. The FRA 2007 obliges the Honourable Minister of Finance, Budget and National Planning to provide an evaluation of the budgetary and financial implications of any proposed tax expenditure in the year that it becomes effective and in the following three years. Importantly, Section 29 (1) of the FRA states “Any proposed tax expenditure shall be accompanied by an evaluation of its budgetary and financial implications in the year it becomes effective and in the three subsequent years, and shall only be approved by the Minister, if it does not adversely impair the revenue estimates in the annual budget or if it is accompanied by countervailing measures during the period mentioned in this subsection through revenue increasing measures such as tax rate raises and expansion of the tax base”. In other words, Section 29 requires the introduction of any new tax expenditure to be revenue neutral.

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

2.1 Benchmark Tax Treatment and Tax Expenditures

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

The Benchmark Tax System refers to the most neutral tax system possible applying to all taxpayers or operations, with the least possible discrimination. It is the tax system that applies to all taxpayers or economic transactions and indicates, for each tax, the duty or fee, the tax base, the standard tax rate, the tax entity, and the time frame.

Identification of the standard treatment is the first step in estimating the value of tax expenditure. The baseline which measures the normal tax structure is what is known as the benchmark tax system. The determination of the benchmark tax system makes it possible to indicate the reference standard and the deviation from the norm and thus the tax expenditure. Sources of tax expenditure could be:

- Tax Exemptions;
- Tax credits;
- Tax reductions;
- Reduced tax rates;
- Tax deductions;
- Tax allowances.

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

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

3.0 APPROACHES TO ESTIMATING TAX EXPENDITURES

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

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

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

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

Data received from the FIRS limited the the opportunity for detailed analysis; it is hoped that more comprehensive data will be available for subsequent exercises and future policy design, with specific compliance actions to improve tax collections. Tax Expenditures have thus been computed based on certain broad approximations and will need to be done in more detail upon receipt of requested data from FIRS colleagues.

4.0 REVENUE FORGONE ESTIMATES

Aggregate 2022 Nigeria Tax Expenditures

Tax Classification	(₦ Billion)
Companies Income Tax	534.81
Value Added Tax	1,404.4
Petroleum Profits Tax (PPT)	129.45
Customs Duties	307.55
Imports Value Added Tax (VAT)	167.18
Other Customs Levies	78.08
Total	**2,621.47**

Source: FIRS, NCS, FMFBNP, BOF computations

Aggregate tax expenditures amounted to N2.62 trillion. This is approximately 1.32% of the nominal GDP at basic prices.

TAX EXPENDITURES PROJECTION IN THE MEDIUM TERM (2023-2026) (N' billion)

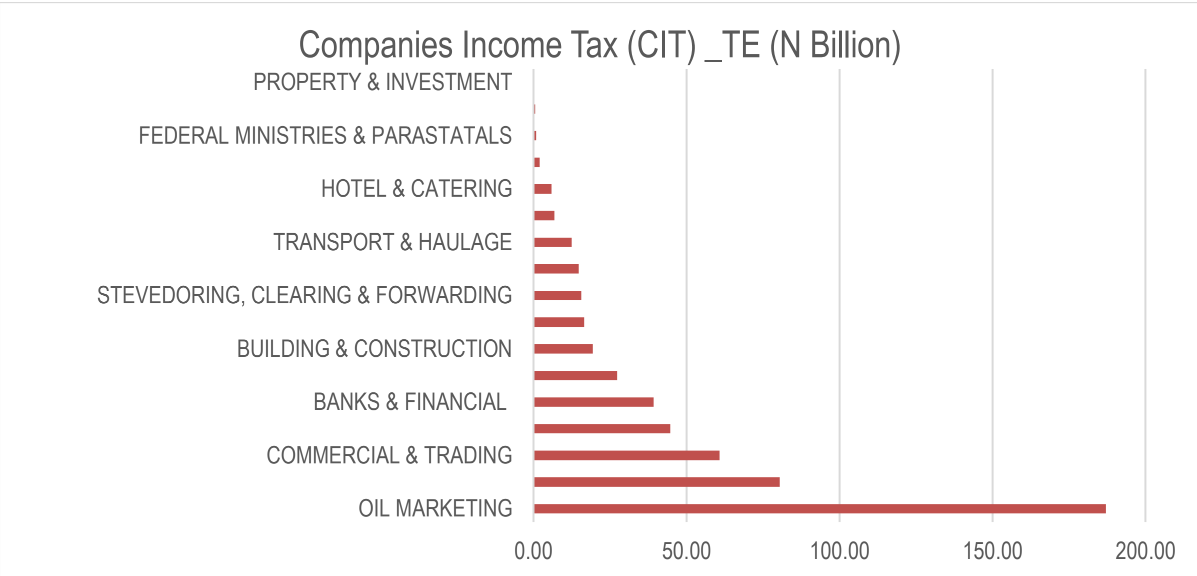
	2022	2023f	2024f	2025f	2026f
Companies Income Tax	534.81	641.77	770.13	924.15	1108.98

Value Added Tax*	1,404.40	1,263.96	1,137.56	1,365.08	1638.09
Customs Duties	307.55	338.31	372.14	446.56	467.88
Import Value Added Tax (VAT)	167.18	183.90	202.29	242.75	291.29
Petroleum Profits Tax (PPT)	129.45	142.40	156.63	187.96	225.55
Other Customs Levies	78.08	74.18	70.47	66.94	63.70
Total	**2,621.47**	**2,644.52**	**2,709.22**	**3,233.44**	**3,795.49**

**Value Added Tax estimates and forecasts ***These are forecasts based on developments in the domestic and global economic environment.*

4.1 CIT/PPT Revenue Forgone Estimates

The corporate tax benchmark remains unchanged. Based on a 30% effective tax rate and tax CIT expenditures at N534.81 billion amounted to 19% of total Companies Income Tax collection (Gross CIT collection of ₦ 2.83 trillion). Oil marketing companies accounted for a sizeable percentage of total CIT forgone (35%).



	2022f	2023f	2024f	2025f
Companies Income Tax	658.08	789.70	947.64	1,137.16
Value Added Tax*	3,719.55	3,347.59	3,012.83	3,615.40
Customs Duties	307.55	338.31	372.14	446.56
Imports Value Added Tax (VAT)	237.60	261.36	287.50	345.00
Petroleum Profits Tax (PPT)	371.47	408.62	449.48	539.37

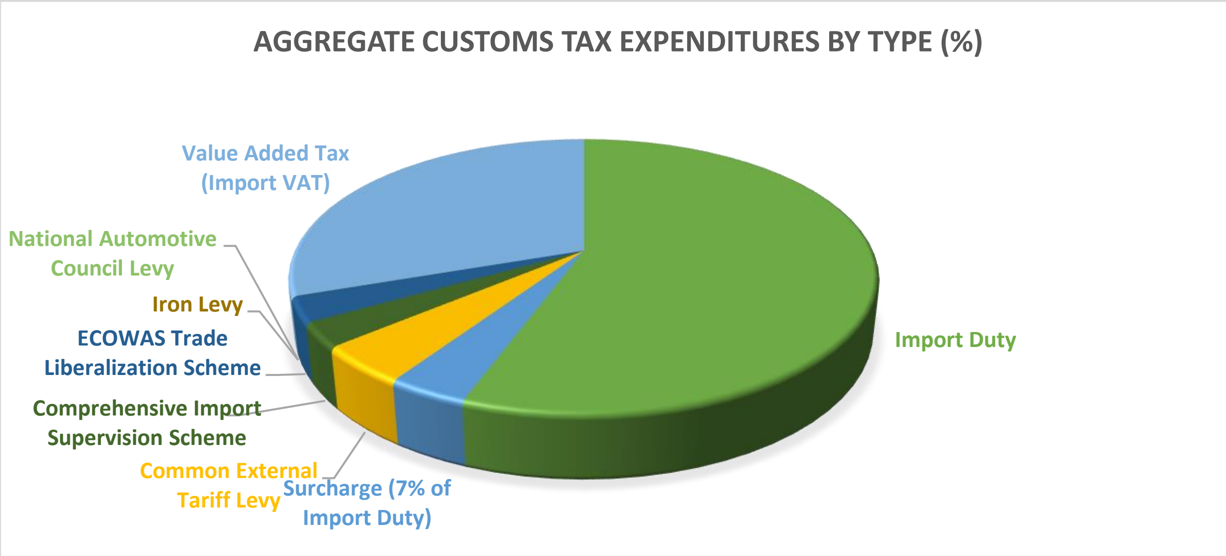
RITCS	44.26	45.26	46.26	55.51

4.2 Customs Exemptions

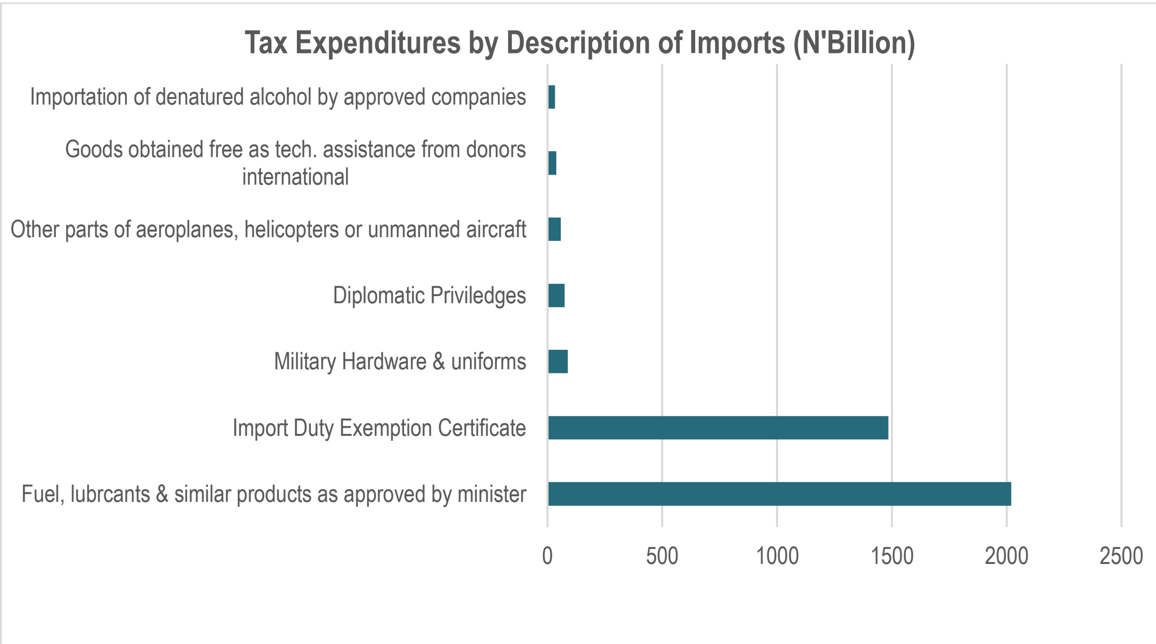
Description	2022
Import Duty	**307.55**
Surcharge (7% of Import Duty)	**20.88**
Common External Tariff Levy	**24.87**
Comprehensive Import Supervision Scheme	**15.81**
ECOWAS Trade Liberalization Scheme	**16.39**
Iron Levy	**0.11**
National Automotive Council Levy	**0.02**
Value Added Tax (Import VAT)	**167.18**
TOTAL	**552.81**

Total customs exemptions for 2022 amounted to ₦ 552.81 billion. This is a remarkable decrease from ₦2.296 trillion recorded last year. The exemptions comprised of VAT relief granted on imports (N167.18 billion), waivers and concessions on import duty (N307.55 billion), ECOWAS Trade Liberalization Scheme (ETLS) (N 16.39 billion), Surcharges (N20.88 billion), Comprehensive Import Supervision Scheme (CISS) (N 15.81billion), and other levies. This is a sizeable revenue forgone relative to the total customs revenue of ₦1.340 trillion collected in 2022.

Composition Of Customs Tax Expenditures

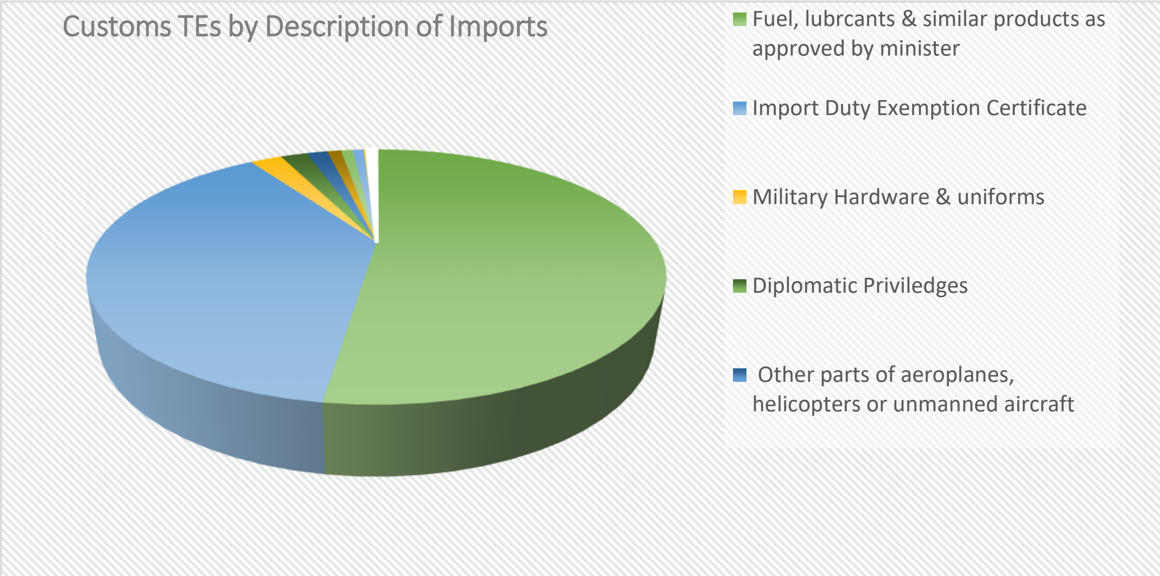


Tax Expenditures by Description of Imports



The exemptions applied to imported goods covered by diplomatic privileges, military hardwares, fuels & lubricants, Hospital & Surgical equipment, Aircraft (their parts and ancillary equipment), plant and machinery imported for use by companies in export processing zones, Health and medical, Import Duty and VAT on Commercial airlines. Of the N307.55 billion in import duty waiver, fuel, lubricants & similar products accounted for largest share, about 38% of the total import duty granted.

COMPOSITION OF CUSTOMS TAX EXPENDITURES BY DESCRIPTION OF IMPORTS



Customs Tax Expenditure by Sources

In terms of country of supply, five countries accounted for about 50% of total customs relief with Togo accounting for over half of total relief granted. China, Benin, India ,France and United States of America are the other top sources of supplies benefitting from the reliefs.

4.2.1 Import Value Added Tax Expenditure Analyses

Exemptions on Value added taxes applied to imported goods granted by the provision of tax laws and reciprocal diplomatic conventions. Products covered include diplomatic privileges, military hardwares, fuels & lubricants, Hospital & Surgical equipment, Aircraft (their parts and ancillary equipment), plant and machinery imported for use by companies in export processing zones, Health and medical.

IMPORT VAT EXEMPTIONS BY PRODUCTS

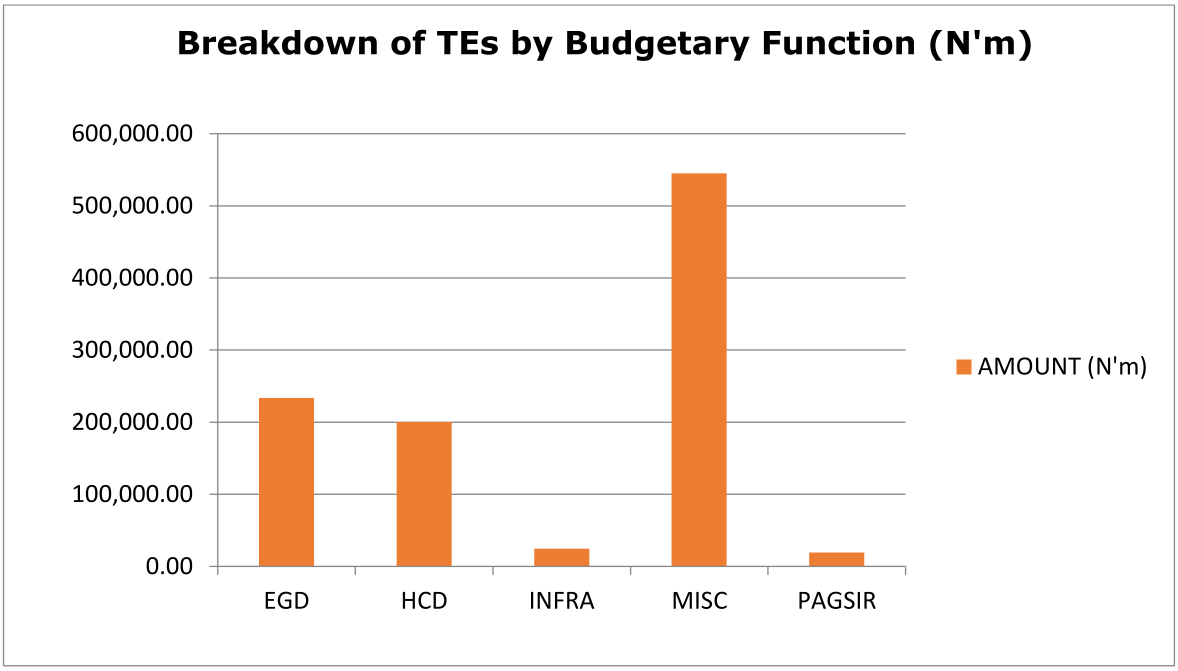
Description	VAT (₦)
Fuel, lubricants & similar products as approved by minister	115,601,802,078
Import Duty Exemption Certificate	40,481,541,024
Military Hardware & uniforms	4,404,882,108
Arms & ammunition imported by NPF,NCS & other para-military services	1,630,546,916
Personal Effects	1,576,730,696
Goods obtained free as tech. assistance from donors international	1,120,187,266
Diplomatic Privileges	476,654,868

Military Hardware	418,448,625
Consular Officers	282,013,708
Goods imported for Consular Officers	216,601,102
Life-saving appliances	201,987,769
Diplomatic Privileges	119,172,568
Diapers and sanitary products	26,274,382
Plant & machinery imported for use by companies in EPZ	16,207,255
Excise duty exemption on some imported goods.	8,432,478
Perishable Goods	7,997,091
Others	587,906,673
TOTAL	**167,177,386,607**

4.2.2 Breakdown by Budgetary Function

Given the quantum of the import VAT tax expenditure, it became necessary to carry out further analysis by looking at the breakdown of the tax expenditures by budgetary functions. The budgetary functions exemptions are as follows; Economic Growth and Development; Human Capital Development; Infrastructure Development; and Public Administration, which covers Governance, security, and international relations. However, there were some discretionary approvals for which could not be classified under any budgetary function. Exemptions granted to improve infrastructure constituted a mere N25 billion, about 2% of the total import VAT tax expenditure. These analyses show that the rationale for granting exemptions needs to be interrogated and the expected benefits assessed regularly.

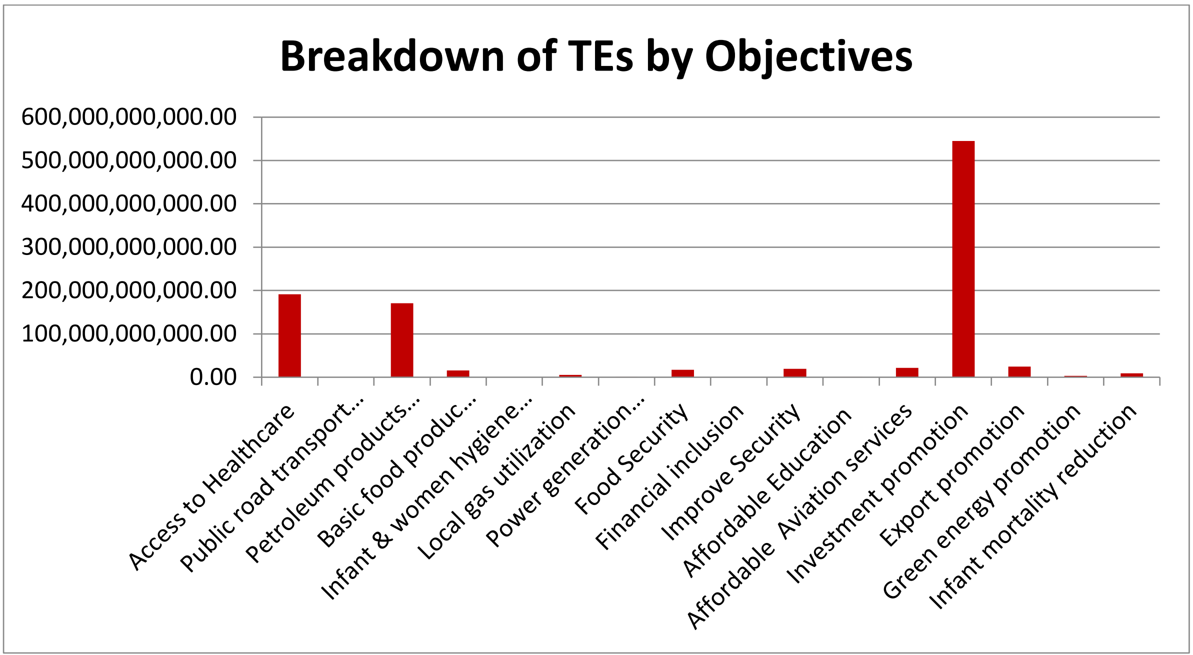
Breakdown of TEs by Budgetary Function



4.2.3 Breakdown of TE by Objectives

Fifteen major objectives are listed by the government of Nigeria for which exemptions are granted. These range from Access to healthcare to promotion of exports. The promotion of economic activities and stimulation of investments in the economy had the highest share of the total import VAT TE. From the results of the analyses, it is important that the government of Nigeria should begin carry out the cost-benefit analyses of the grant of exemptions to ensure that the objectives for which the exemptions are granted are achieved.

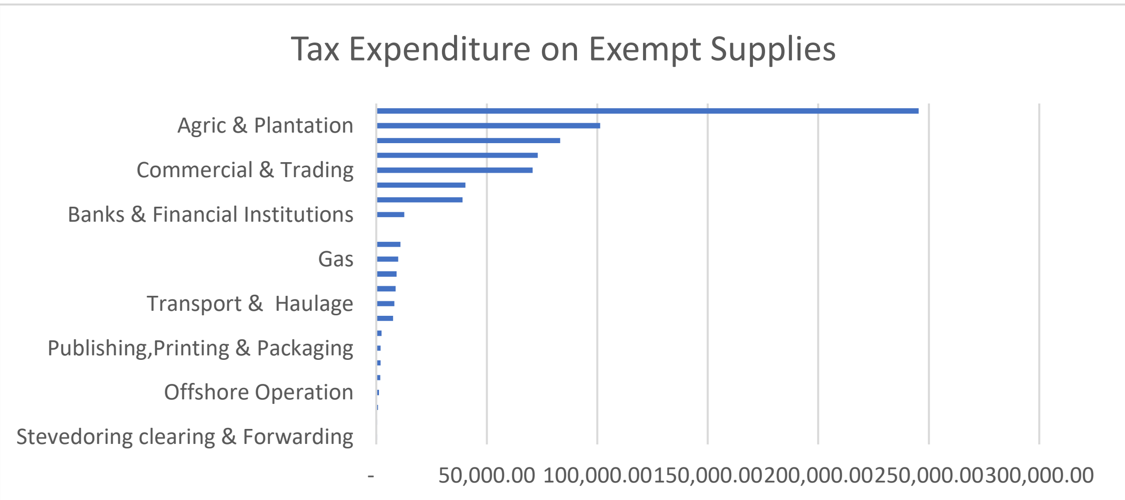
Breakdown of TEs by Objectives



4.3 Tax Expenditure Analysis (Domestic Value Added Tax)

Domestic Value Added Tax exemptions in 2022 amounted to N1.404 trillion, comprising tax expenditures on exempt supplies estimated at N731.04 billion and tax expenditures on zero rated supplies at N673.36 billion. Other manufacturing sector benefited the highest from zero rated supplies, at 33.6%, other manufacturing sector has the highest share of exempted and zero-rated supplies at 85.14% followed by Agriculture & Plantation 13.86% and oil production sector with 11.38%.

Tax Expenditure on Exempt Supplies by Sector

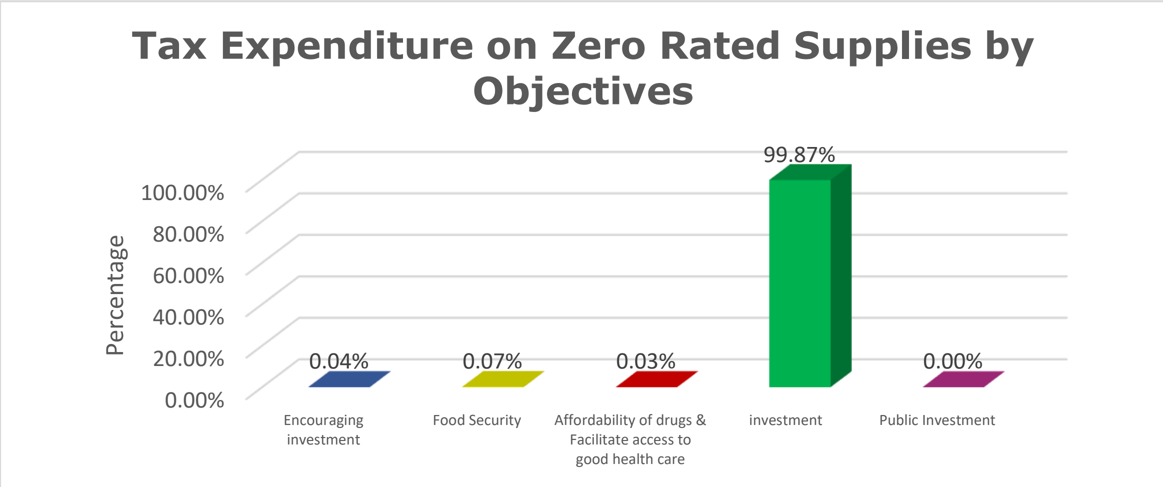


Tax Expenditure on Exempt & Zero-Rated Supplies by Sectors (N billion)

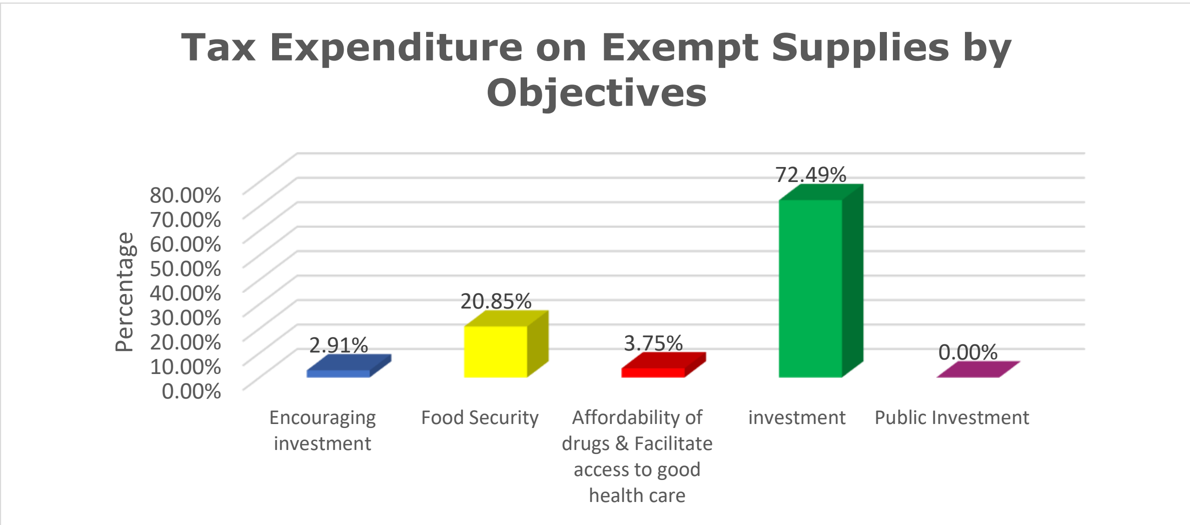
Sectors of activity	Tax Expenditure on Exempt Supplies	Tax Expenditure on Zero Rated Supplies
Oil Production	83,202.93	622,373.66
Other Manufacturing	245,459.97	9,662.71
Agric & Plantation	101,301.20	9,457.58
Professional Services	39,007.63	8,872.44
Transport & Haulage	8,185.73	8,185.73
Commercial & Trading	70,734.19	6,972.29
Pharmaceuticals, Soap & Toiletries	40,347.46	2,474.44
Petro-Chemicals & Refineries	7,641.04	956.08
Building & Construction	1,914.97	731.67
Conglomerate	10,893.97	730.00
Hotel & Catering	8,835.97	719.74
Automobile Assembly	2,341.15	709.23
Oil Marketing	9,145.70	415.19
Offshore Operation	1,248.90	304.67
Textile & Garment Industry	307.18	270.36
Mining	73,142.06	264.94
Publishing, Printing & Packaging	1,945.51	85.44
Property & Investment	779.86	82.74
Gas	9,884.67	64.88
Banks & Financial Institutions	12,659.32	22.36
Breweries, Bottling & Beverages	1,757.24	0.48

Tax Expenditure Breakdown by Objectives

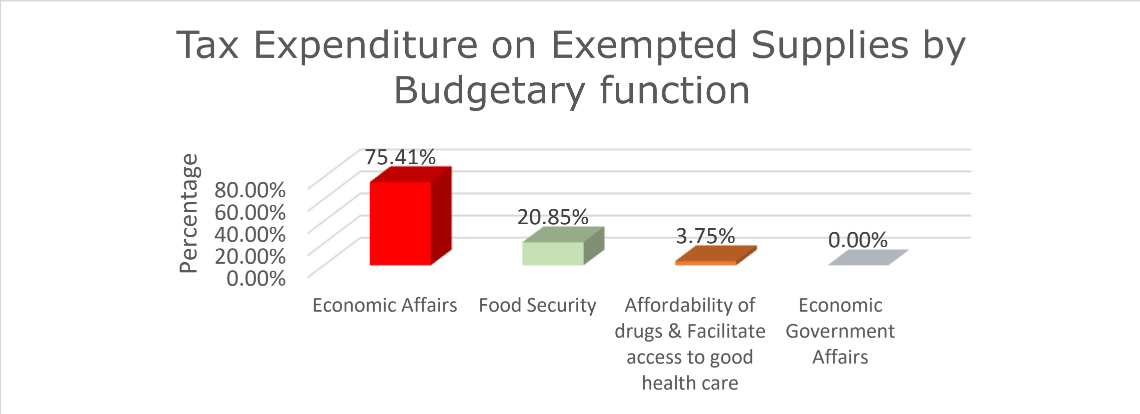
The major objective of granting tax expenditure in Nigeria is investment promotion. Investment promotion, under the breakdown by objectives had the highest share of 72.49%. Similarly, investment promotion as an objective of granting tax expenditure led to zero-rating of supplies to the tune of 99.87%. It is therefore imperative to evaluate the impact of the tax expenditure on the economy of Nigeria.

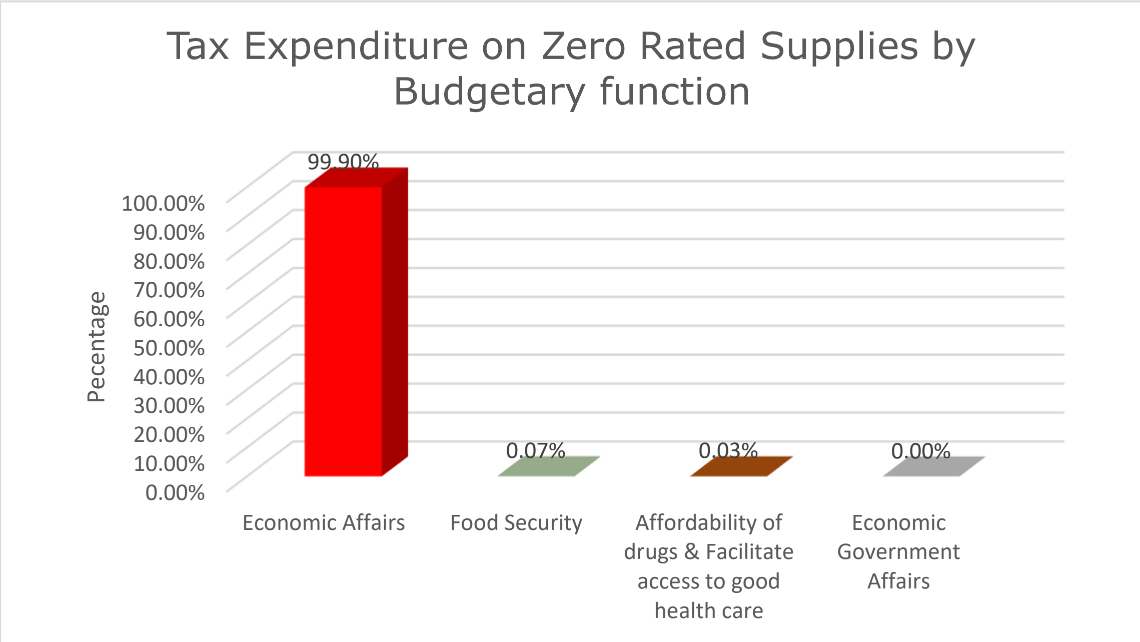


Tax Expenditure on Exempt Supplies by Objectives



Tax Expenditure on Exempted Supplies by Budgetary Function





4.4 Ratio Analyses of Tax Expenditure to tax revenue, tax expenditure to Gross Domestic Product (GDP).

4.4.1 Tax Expenditure to GDP Ratio:

Expressing tax expenditures as a percentage of the Gross Domestic Product (GDP) provides a unique framework to appraise government policies on exemptions, deductions, credits, or preferential tax rates in the context of the size of economy. The tax expenditures to GDP ratios provide insights into the magnitude of these forgone revenues relative to the size of the economy. Nigeria's Tax Expenditures to GDP ration in 2022 stood at 1.32%.

Companies Income Tax: The tax expenditures for Companies Income Tax amount to ₦534.81 billion, which represents approximately 0.27% of the Gross Domestic Product (GDP).

Value Added Tax (VAT): The tax expenditures for Value Added Tax amount to ₦1,404.40 billion, representing approximately 0.70% of the GDP.

Petroleum Profits Tax (PPT): The tax expenditures for Petroleum Profits Tax amount to ₦129.45 billion, which represents approximately 0.06% of the GDP.

Customs Duties: At ₦307.55 billion, Customs Duties Tax Expenditures are approximately 0.15% of the GDP.

Tax Classification	Tax Expenditures (₦ Billion)	Tax Expenditures / GDP Ratio	Tax Expenditures / Revenue Ratio
Companies Income Tax	534.81	0.27%	4.67%
Value Added Tax	1,404.40	0.70%	12.27%
Petroleum Profits Tax (PPT)	129.45	0.06%	1.13%
Customs Duties	307.55	0.15%	2.69%
Imports Value Added Tax (VAT)	167.18	0.08%	1.46%
Other Customs Levies	78.08	0.04%	0.68%
Total	2,621.47	1.32%	22.91%

The total tax expenditures as a ratio of total Government revenue collected in 2022 stood at 22.91%. Tax expenditures due to domestic VAT is 12.27% of total government revenue and 57% the amount collected at VAT in 2022. This underscores the necessity for either a review of the rate or the schedule of items exempted form VAT.

5. RECOMMENDATIONS AND CONCLUSION

The costs of tax expenditures have a unique feature of being largely invisible to policy makers and citizens. Their cost is simply netted out of overall tax revenues. Tax expenditures are not treated as explicit spending at all but as reductions in taxes The annual TES provides a description of the Federal Government of Nigeria's tax expenditures and, where possible, the estimated value or order of magnitude of the tax expenditure. The TES is intended to provide evidence for fiscal policy analysis, especially the need to appraise the costs and benefits associated with waivers and concessions and to facilitate scrutiny of tax expenditures by the legislature, civil society organisation, the media and the general public. Transparent reporting of tax expenditures also helps inform debate on the efficiency and equity of the tax system.

Nigeria has made significant progress in entrenching transparency in its fiscal operations, these improvements have received global acclaim. This should be extended to tax expenditures management. Incorporating tax expenditures into the budget would increase budget transparency. Transparency and equity should also be entrenched in the management and administration of tax expenditures. Decisions to grant exemptions should only be made after the revenue to be foregone estimates have been made and communicated to decision-makers by competent authorities (FIRS and NCS).

All Exemption decisions should be in writing, with the name of the beneficiaries, clear terms and conditions, as well as specific duty/tax/levies treatment, as appropriate. The procedures for the application process, and the importing /exporting as well as tax reporting processes, should be readily available to the public, business, and the international community (Diplomatic and Non-Government Organisation). As the reforms in tax expenditures management intensify, periodic appraisal of the objective for each tax expenditure is essential. Cost benefit analysis of each tax expenditure should be conducted, and reports published. Where sunset clauses exist, they should be applied dutifully.

2022 Tax Expenditure Estimate have shown government's deliberate drive to rationalise waivers and concessions granted to individuals and businesses. The marked decline in the estimates of revenues forgone suggests a reduction in the incidence of discretional approvals. Successive tax expenditure statement has been drawing attention to the need for a more efficient management of tax incentives with a view to ensuring that desired outcomes are achieved.

The tax expenditure reporting process has benefitted for improved collaboration between relevant stakeholders. Many development partners are engaging with different stakeholders in an uncoordinated fashion. In order to enhance fiscal monitoring of the efficacy of tax expenditures, it is desirable that oversight functions be strengthened, and relevant agencies of government should prepare detailed monthly reports on exemptions within their respective sectors. This will also facilitate oversight functions by the relevant fiscal authorities and the legislature. Tax expenditures should be managed with equal rigour as Budget appropriations – in the same ways as Budget financial outlays are scrutinized and subjected to strong controls to prevent abuse and waste. Nigeria's commitment to this global best practice is enshrined in FRA 2007.

Beyond simply measuring tax expenditures and presenting them alongside explicit spending, the budget process could be modified to include a single cap on all spending—discretionary, mandatory, and tax expenditures—to facilitate trade-offs of tax expenditures and explicit spending. For a cap to be effective, there must also be incentives for policy makers to abide by the cap. The oversight of the Presidential Revenue Monitoring and Reconciliation Committee (PRMRC) on tax expenditure management will provide impetus for greater efficiency in tax expenditure related issues.

Although significant data gaps still exist constraining the depth of analysis and the utility of the statement for policy purpose, the report provides the direction for improved management of tax incentives. As stakeholders understand the data requirement better, with more efficient deployment of technology and improved data collection strategies, it is hoped that subsequent editions will benefit from quality, comprehensiveness and timeliness of relevant data. The report brings to the fore the necessity for better management of the process of prequalifying beneficiaries for eligibility, monitoring beneficiary economic activities to ensure adherence to the terms of the grant and finally evaluation of the outcomes to ensure that the objective for granting the tax expenditures are achieved.

EXPLANATORY NOTES

Nigeria Reference Tax System

Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity. Benchmarks may also incorporate structural elements of the tax system, for example, the progressive income tax rate scale for individual taxpayers. The benchmark used for 2022 TEs follows international best practice and ECOWAS regional directives on national refence tax system

VAT Reference Tax System

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

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

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

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

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

CIT Reference Tax System

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

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

Type	Rate
Medium-sized companies (companies with gross annual turnovers greater than N25m but less than N100 million).	20%
Large companies (Companies with annual gross turnovers higher than N100m).	30%

Petroleum Profit Tax

PPT is levied on the income of companies engaged in the upstream petroleum operations, that have not executed a conversion contract in line with the Petroleum Industry Act.

PPT Benchmark Tax System

Reference rate: This rate is fixed based on the nature of the company's operation. These are: 85% for petroleum operations carried out under a Joint Venture (JV) arrangement with the Nigerian National Petroleum Corporation (NNPC) or any traditional oil concession after 5 years.

• 65.75% for non-PSC operation in its first 5 years during which the company has not fully amortised all pre-production capitalised expenditure

• 50% for petroleum operations under Production Sharing Contracts (PSC).

Reference Taxable amount: This is determined in accordance with the Petroleum Profit Act (PPTA) Cap P13, LFN 2004 (as amended), Deep Offshore & Inland Basin Production Sharing Contracts (PSC) Act (2019)]

Import Duties

Import duties are in the form of taxes, levies payable on goods imported into or exported from Nigeria. The rates of customs duties are either specific or on an ad valorem basis, that is, it is based on the value of goods.

Import Duties Benchmark Tax System

Reference rate: Import duties apply on various goods based on Harmonised System (HS) Codes at rates ranging between 5% to 35% as provided in the CET.

Reference taxable amount: The amount is determined in accordance with the Excise Tariff, Etc (Consolidation) Act, CAP 49, LFN, 2004.

Excise Duties

Excise duties are payable on the manufacture, sale or use of specified locally manufactured goods. The tax may also be levied on services, consumption and imported goods.

Excise Duties Benchmark Tax System

Reference rate: Excise Duties are charged on applicable products either on ad-valorem basis, fixed charge per unit, or both. Excise Duties are also applicable on the importation of the relevant products. The table of products and rates are as follows:

Excise Duties rates

Products	Rate
Tobacco	20% + N2.90
Beer & Stout	N0.35
Wines	N1.50
Spirit	N2.00
Non-alcoholic, carbonated and sweetened beverages (including fruit juices and energy drinks)	N10 per litre

Reference taxable amount: The various duties are governed by the Custom and Excise Management Act (CEMA) and several other Acts and Regulations relating to customs and excise matters

Capital Gain Tax (CGT)

A capital gains tax is the tax on profits realised on the sale of a non-inventory asset. CGT can also be defined as tax chargeable on capital gains accruing to any person (company or individual) making a disposal of assets. The most common capital gains are released from the sale of stocks, bonds, precious metals, real estate, and property.

CGT Benchmark Tax System

Reference rate: This rate is fixed at 10% on the capital gains from the disposal of an asset.

Reference taxable amount: The amount is determined by the provision of Capital Gains Tax Act, Cap C1 LFN 2004 (as amended).

Stamp Duty

Stamp duty is a tax that is levied on single property purchases or documents. A physical revenue stamp has to be attached to or impressed upon the document to show that stamp duty has been paid before the document is legally effective.

Stamp Duty Benchmark Tax System

Reference rate: Stamp duty is chargeable either at fixed rates or ad valorem (i.e., in proportion to the value of the consideration) depending on the class of instrument. An "Electronic Money Transfer" levy is applicable on electronic receipts or electronic transfer for money deposited in a financial institution, on any type of account. The applicable levy is ₦50 on any transfer of ₦10,000 or more. The levy is to be accounted for by the person to whom the transfer or deposit is made.

Reference taxable amount: This is determined by the provision of the Stamp Duties Act, CAP S8, LFN 2004 (as amended).

2.1.8 Education Tax

Education Tax is payable by all Nigerian companies on assessable profits, that is, tax-adjusted profits before deducting capital allowances and prior year tax losses.

Education Tax Benchmark Tax System

Reference rate: Education Tax is charged at the rate of 2.5% of assessable profit. The rate was increased from 2% to 2.5% via the 2021 Finance Act.

Reference taxable amount: The amount is determined by the provisions of Education Trust Fund (Establishment, Etc.) Act 2011.

2.1.9 Royalty

Royalties are a type of income earned by the owner of an asset or property from a third party for the use of the asset or property. Examples of royalties are non-renewable resources royalties, patent royalties, music royalties etc. Royalty payments are usually outlined in a licensing agreement between the owner of the asset and the third party.

In Nigeria, the Petroleum Industry Act (PIA) provides in the Seventh Schedule to the Act that all production of petroleum including production tests shall be subject to royalties on a non-discriminatory basis with respect to all licensee and lessees and paid into the Federation Account and verified by the Commission and for royalty purposes condensates shall be treated as crude oil and natural gas liquids shall be treated as natural gas. The chargeable volume for royalty purpose shall be calculated by ascertaining the quantity of natural gas, crude oil, condensates, and natural gas liquids produced in the relevant month from each field operated by the licensee and lessee under a regulation or guideline.

Royalty Benchmark Tax System

Royalty Rates

Royalties based on production (Calculated on field basis)		
Royalty type	**Percent**	**Remarks**
On shore areas:		Includes shallow water fields, marginal fields with crude oil and condensate production not more than 10,000 bopd during a month
For the first 5,000 bopd	5%	All royalties are charged at a rate percentum of the chargeable volume of the crude oil and condensates produced from the field area in the relevant month
Next 5,000 bopd, for the share of production over 5,000 bpd	7.50%	
Production more than 10,000 bopd during a month, the share of production over 10,000 bpd	15%	
Shallow water	12.50%	Up to 200m water depth
Deep offshore		Greater than 200m water depth
Production during a month of not more than 50,000 bopd	5%	
Production during a month above 50,000 bopd		
	7.50%	
Frontier basins	7.50%	
Production for natural gas and natural gas liquids	5%	Chargeable volume
Natural gas produced and utilized in-country	2.50%	Chargeable volume
Royalty by price		
Crude oil and condensates		
Below 50 USD		
100 USD	0%	Per barrel
Above 150 USD	5%	Per barrel
	10%	Per barrel