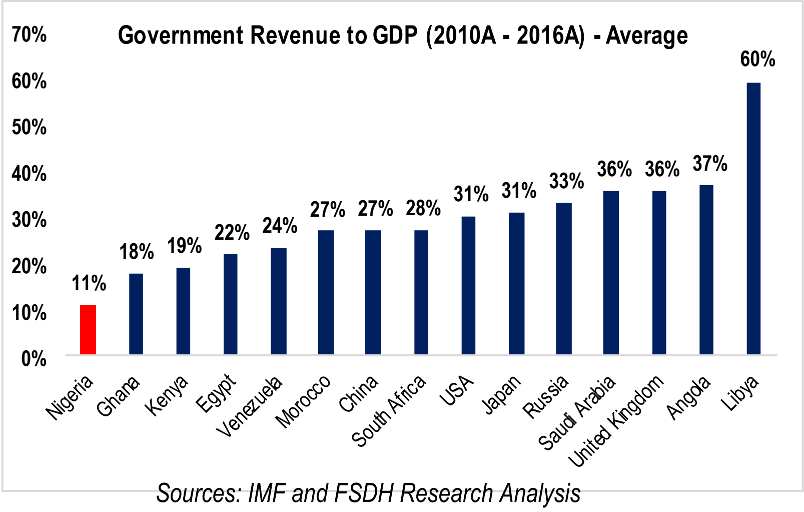
Addressing the Problem of Weak Revenue Generation in Nigeria

The 2018-2020 MTEF and FSP will focus on some areas which we think are critical in raising the revenue generating capacity of the Nigerian economy.

The 2018-2020 Medium-Term Expenditure Framework (MTEF) and the Fiscal Strategy Paper (FSP) that the Federal Government of Nigeria (FGN) released on 20 October, 2017 will focus on some areas which we think are critical in raising the revenue generating capacity of the Nigerian economy. The MTEF/FSP forms the basis on which the FGN's yearly budget is developed. The focus of the 2018-2020 MTEF/FSP is to achieve the following: broaden revenue receipts by identifying and plugging revenue leakages; improve the efficiency and quality of capital spending; place greater emphasis on critical infrastructure; rationalise recurrent expenditure; and fiscal consolidation to maintain the fiscal deficit below 3% of the Gross Domestic Product (GDP). **FSDH Research's analysis of the data that the International Monetary Fund (IMF) released shows that Nigeria recorded the lowest revenue to GDP ratio (at 11%) between 2010 and 2016 among some selected countries**. Some of the reasons for the low performance are: revenue leakages; weak infrastructure and institutions; inadequate structures to unlock revenue from agriculture, which is the largest contributor to the country's GDP; and overreliance on one product (oil) as the source of revenue. Some of the effects of this situation are widespread poverty and income inequality; and unsustainably high debt service to revenue. Thus, concerted polices and efforts are required to address these challenges in order to develop the Nigerian economy.



Sources: IMF and FSDH Research Analysis

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The MTEF projects a benchmark crude oil price of US$45 per barrel for 2018 (US$44.5 in 2017 budget); oil production estimate of 2.3mbd (2.2mbd in 2017); and an average exchange rate of N305/US$ same as in 2017. It projects a GDP growth rate at 3.5% in 2018 in line with the projection of FSDH Research but higher than the projection of IMF at 1.9%. The MTEF expects inflation rate to end the year 2018 at 12.42% lower than 15.74% for 2017. Based on these assumptions, estimated aggregate revenue for the FGN for 2018 is N5.65trn, 11% higher than N5.08trn approved in the 2017 budget. The oil revenue is projected to contribute N2.44trn. Non-oil revenues (Companies Income Tax, Value Added Tax, Customs and Excise duties, and Federation Account Levies) are estimated at N1.39trn; Independent Revenue: N847.95bn; Recoveries: N512.44bn; and Others (including mining): N459.66bn. The proposed expenditure for 2018 is N8.60trn, 15.59% increase over 2017 of N7.44trn. Adjusting the proposed

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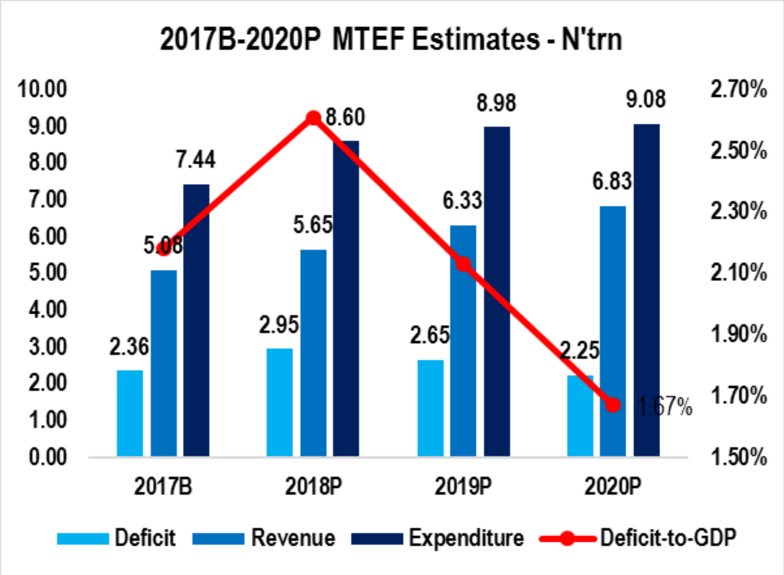
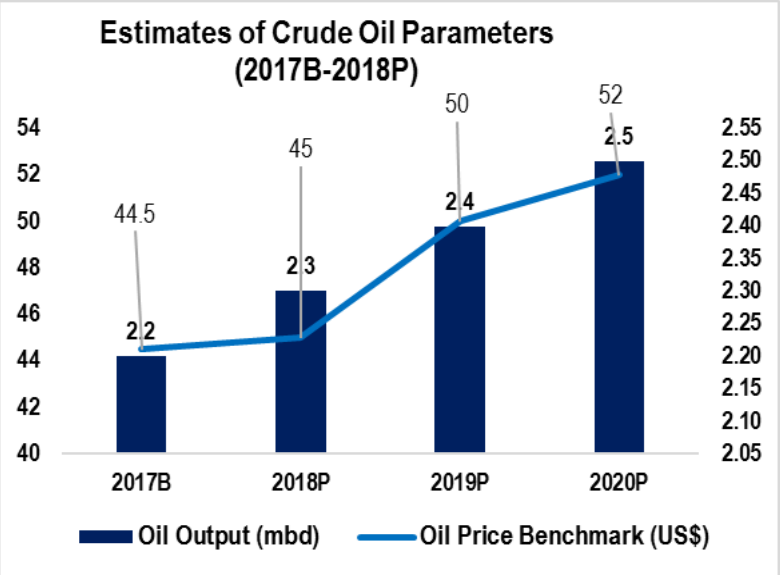
expenditure by the projected inflation rate to end the year, it represents a marginal growth in real term. The aggregate expenditure comprises: Statutory Transfers: N451.46bn; Debt Service: N2.03trn; Sinking Fund: N220bn; Recurrent Expenditure: N3.17trn; Special Intervention Programme: N350bn and Capital Expenditure of N2.28trn.This fiscal plan will result in a deficit of N2.95trn for 2018, which is about 2.61% of GDP.

Indicators	2016A	2017B	2018P	2019P	2020P
Oil Production (mbd)	1.82	2.2	2.3	2.4	2.5
Oil Price Benchmark (US$)	42.09	44.5	45.0	50.0	52.0
Exchange Rate (N/US$)	305	305	305	305	305
Inflation Rate	18.55%	15.74%	12.42%	13.39%	9.90%
GDP Growth Rate	1.58%	1.50%	3.50%	4.50%	7.00%
Fiscal Deficit to GDP	2.34%	2.34%	2.34%	2.34%	2.34%
Debt Service to Revenue	47%	32.73%	35.91%	37.49%	37.41%
Ratio Deficit to FGN Revenue	81.81%	46.30%	52.22%	41.92%	32.89%
Source: Budget Office of the Federation (BOF). A: Actual, B: Budget, P: Projected					

FSDH Research reiterates that a well functional infrastructure is critical for the economy to generate revenue.

FSDH Research notes that the expected average oil production is aggressive, while the expected average exchange rate is conservative. In addition, the expected capital expenditure of about N7.22trn between 2018 and 2020 is not sufficient to lift the economy from the current infrastructure deficiency. **FSDH Research reiterates that a well functional infrastructure is critical for the economy to generate revenue and since government is constrained by funds to address this, it is imperative to develop other constructive and innovative ways to fund the infrastructure.** The rough estimate of the infrastructure expenditure gap in Nigeria at the moment is about N30trn.





Sources: MTEF 2018-2020/FSP and Budget Office of the Federation

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