

UNDERSTANDING THE
MEDIUM TERM EXPENDITURE
FRAMEWORK AND FISCAL
TERM PAPER

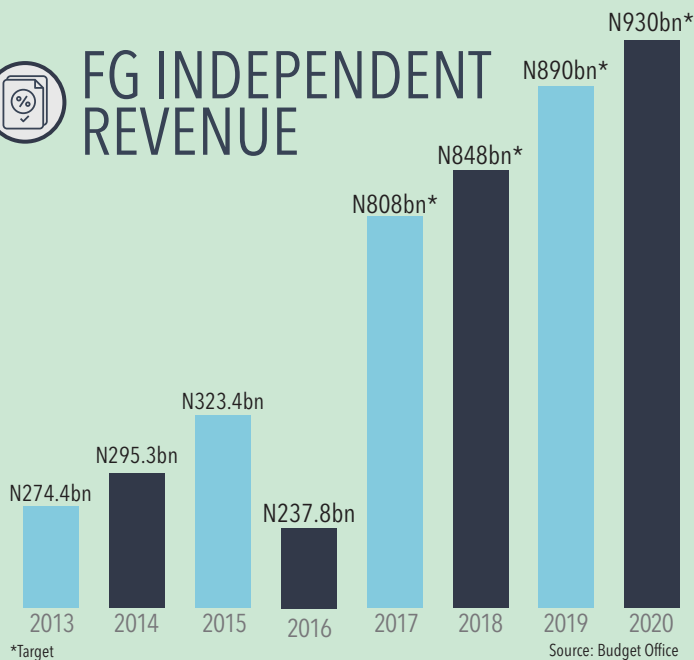
2018-2020

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FG INDEPENDENT REVENUE



For 2018, the FG expects some N848bn from independent revenue sources. So far, the actual receipt was only N119.38bn (Jan- June 2016) despite projecting annual income from independent revenue source at N807tn for 2017.

Federal government will need to do more work to ramp up revenue. At N848tn, we believe projection is too optimistic.



OIL PRODUCTION

Federal government's assumptions for 2018 put at 2.3mbpd could be too optimistic given that oil production as at July 2017 stood at 1.9mbpd against 2.2mbpd projected for 2017.

2.3m
Barrels



2018

2.4m
Barrels



2019

2.5m
Barrels



2020

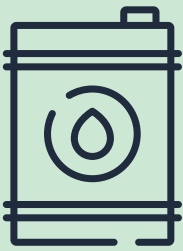
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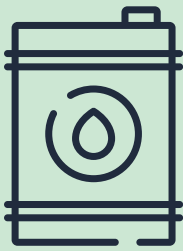
OIL PRICE

\$45/
Barrels



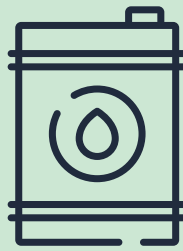
2018

\$50/
Barrels



2019

\$52/
Barrels



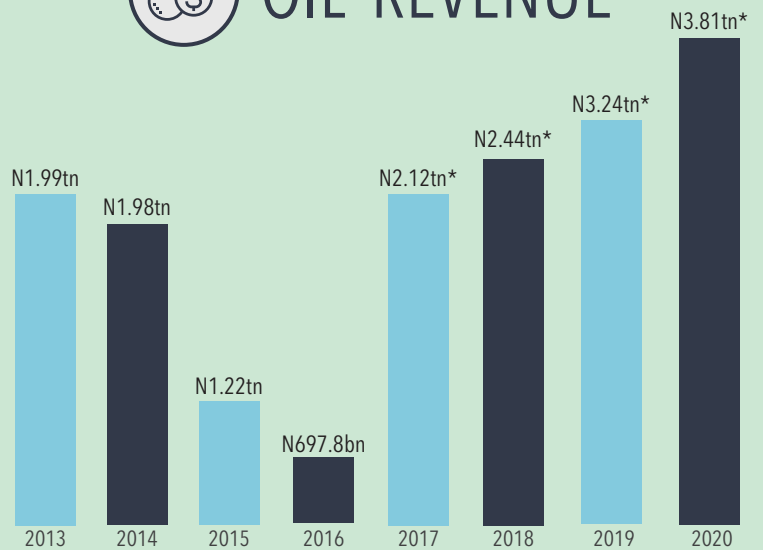
2020

The Federal government is projecting Oil price at \$45 per barrel for 2018 on the assumed back production of 2.3million barrel per day, with the exchange rate put at N305/\$1.



OIL REVENUE

Federal Government's actual oil related revenue projection of N2.44tn for 2018 seem realistic with a slight increase in Brent crude oil price at \$58 per barrel.



*Target

Source: Budget Office

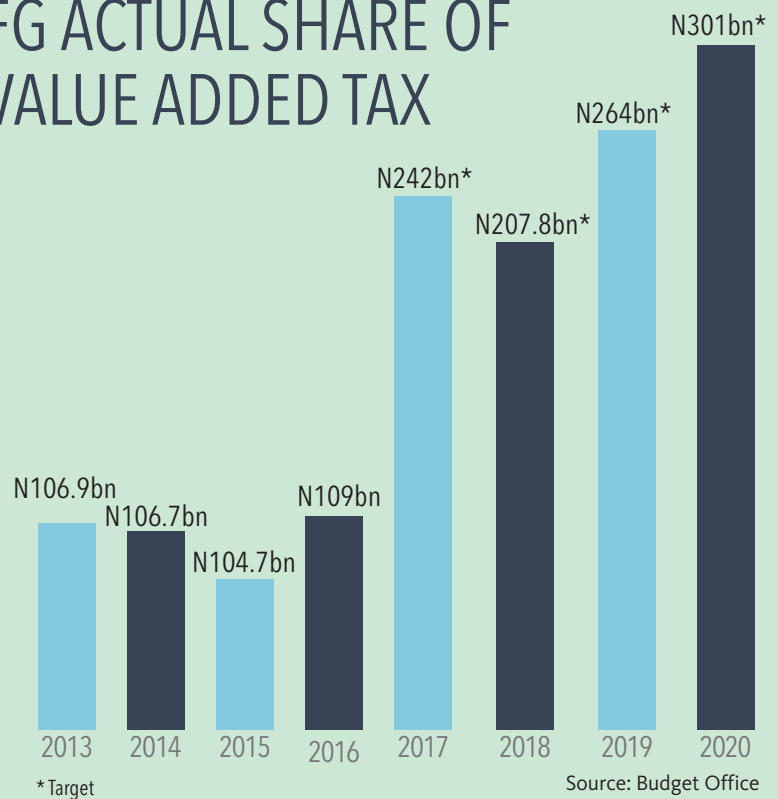
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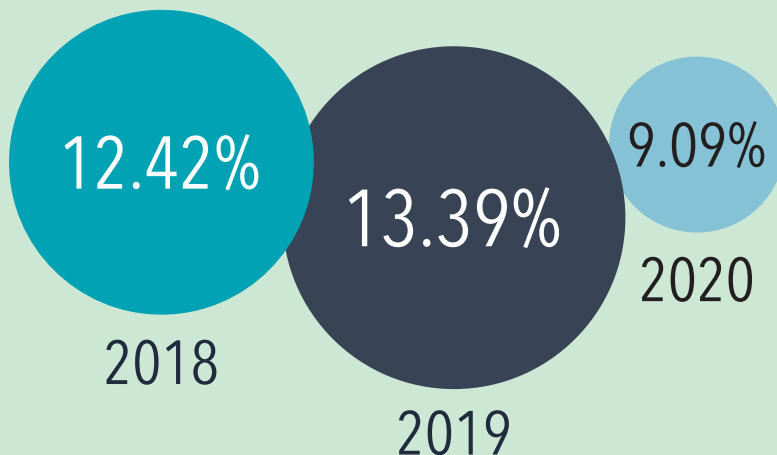


FG ACTUAL SHARE OF VALUE ADDED TAX

Even with a 14.13% decrease from 2017 figures of N242bn, a projection of N207.8bn for 2018 by the Federal Government is largely unrealistic considering the fact that only N62.54bn was realized between January and June 2017.



INFLATION



Federal Government has projected inflation rate at a 12.42% against a inflation figures of 2017 which stand at 16.1% given that the economy is out of recession.

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EXCHANGE RATE

N305/
\$1



2018

N305/
\$1



2019

N305/
\$1



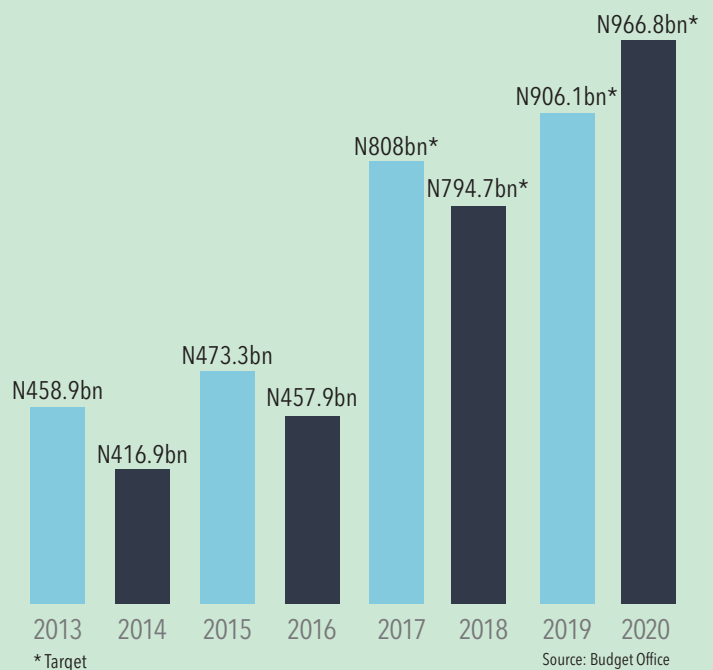
2020

Why is the exchange rate projection stagnant?



FG ACTUAL SHARE OF COMPANY INCOME TAX

Federal Government is expecting N794.7bn as its share of company income tax. Government's hope is based on the massive expansion of its tax base and improvement in collection efficiency. FG's actual share of company income tax receipt for Jan-June 2017 was approximately N157.38bn as against the budget target of N807.02bn. With this, we believe government's projection is overly optimistic.



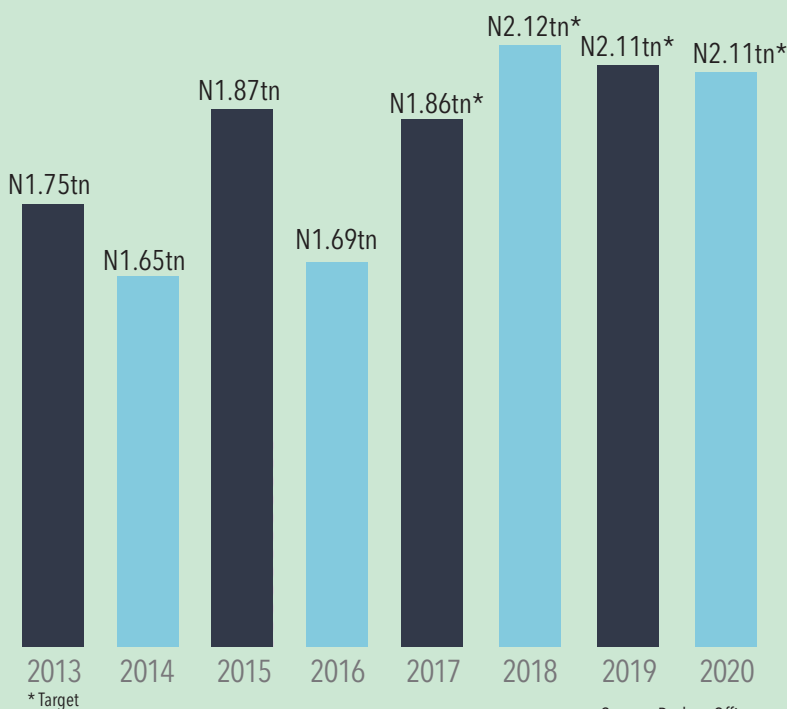
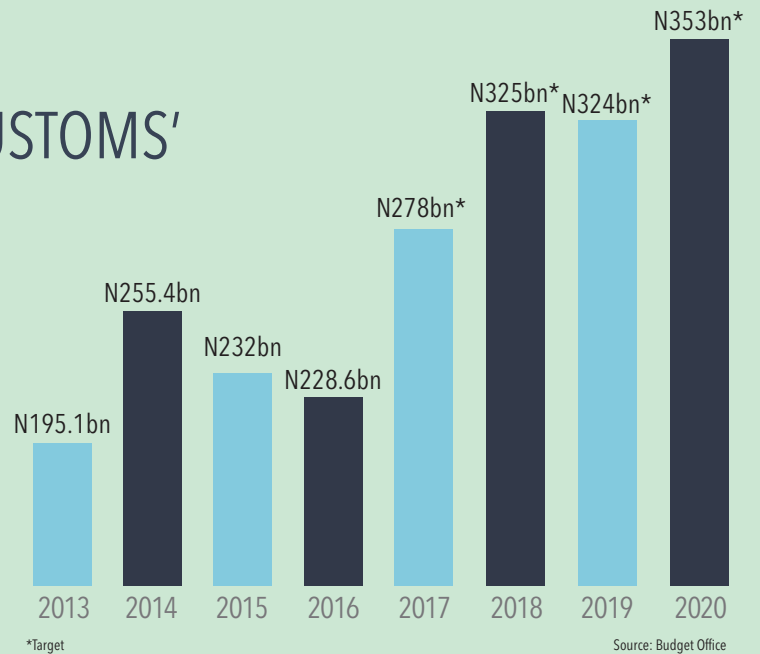
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FG ACTUAL SHARE OF CUSTOMS' AND EXCISE DUTIES

Federal government's projected share of revenue from Customs and Excise duties is approximately 14.5% higher than 2017 target of N278bn. Federal Government seeks to improve their efficiencies and broaden their reach so as to achieve the budget targets which sits at N325bn.



ACTUAL PERSONNEL COST

The Federal government is planning to increase spending on personnel cost from N1.86tn in 2017 to N2.12tn in 2018.

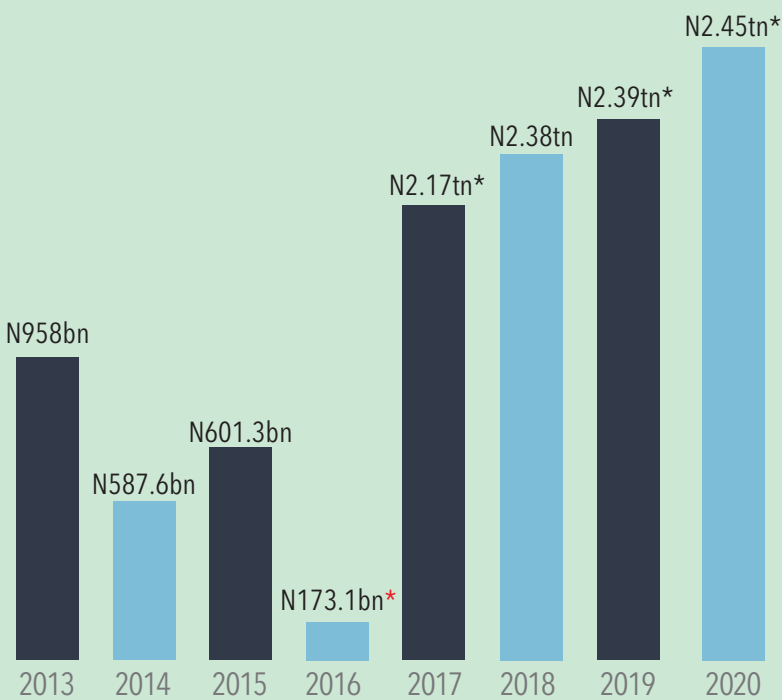
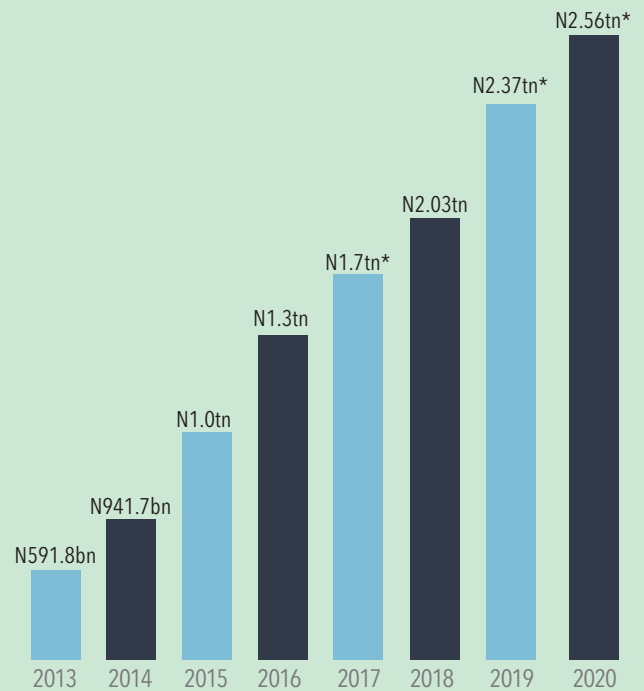
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ACTUAL DEBT SERVICING

Amount spent servicing outstanding debt was approximately N941bn, N1.06tn & N1.3tn in 2014, 2015 & 2016 respectively as N1.7tn was budgeted for 2017. However, the cost of servicing FG's debt is entering a worrisome state - now projected at N2.03tn for 2018. FG's revenue from oil is insufficient to "service" existing debt as such the need to expand the TAX base.



* Target * As at December 2016

Source: Budget Office



CAPITAL EXPENDITURE

Federal Government will need to direct spending into developmental capital projects as against administrative capital projects if it hopes to boost the economy. Federal Government makes a projection of N2.38tn for capital expenditure for 2018 fiscal year.

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Compared to previous years, The Medium Term Expenditure Framework does not include the Federation targets (Federal, State and LGAs) showing that the document is grossly incomplete. Company Income Tax, Value Added Tax and Independent Revenues are overly optimistic. There is also no immediate concern to reduce non-debt recurrent expenditure expected to rise to N3.17tn. Debt servicing costs are projected to rise to N2.56tn in 2020; this was N591bn five years ago. It is commendable that Grants and Donor Fund now appear in the MTEF document. There is no transparency as regards recoveries of stolen funds but N512bn is expected to come from all recoveries in 2018. How realistic is this?



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