# 2014-2016 MEDIUM TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY PAPER: *Supporting Growth and Employment Generation*

## BACKGROUND

The Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) are documents that provide the basis for annual budget planning by indicating fiscal targets, revenue and expenditure estimates, government financial obligations in the medium term and the evaluation and analysis of the previous budget as well as an overview of consolidated debt and potential fiscal risks. These documents fulfill a requirement of the Fiscal Responsibility Act (FRA) 2007 which stipulates that the Minister of Finance shall prepare the MTEF and FSP and get them approved by the Federal Executive Council and National Assembly.

This policy brief is an analysis of the above policy documents in the light of the performance of the Nigerian Economy in the previous financial year which goes further to identify areas which require critical attention if the 2014 financial year is to see an improvement on the previous year.

## Overview of Nigeria's Economic Performance

Global

- Due to rising output from un-conventional oil production sources, the US imports of Nigeria's crude oil have been on the decline since 2010, judging from the emerging trends.
- Nigeria is obviously at risk in the future, if she continues to over-depend on oil and fails to diversify her economy, especially with the increased exploitation of shale oil and gas resources in China, which is about double that already identified in the US.
- Also, new regional producers like Ghana, Cote d' Ivore, Liberia and Uganda are adding to the supply such that previous importers of Nigerian crude oil are now producing and exporting oil.
- This is obviously going to have great impact on the international oil market in the medium term, hence the need for states to become more prudent in resource use and holistically look for ways to increase their sources of Internally Generated Revenue (IGR)

### Domestic

- Nigeria experienced a robust growth of 6.58% in 2012 despite the turbulent global economic environment.
- Fiscal deficit as a percentage of GDP in 2010 was 2.45%.
- The GDP growth for 2013 is estimated at 6.5% and projected at 6.75% in 2014. This figure is highly dependent on continued strong performance in agriculture, wholesale & retail, construction, real estate and other key economic sectors.
- Inflation, interest and exchange rates have remained relatively stable in the past year.
- In the first quarter of 2013, Nigeria experienced an output drop in oil production of almost 400,000 barrels per day. This was cushioned by the excess crude account which increased from $4.22 billion in August 2011 to about $9 billion at the end of 2012 and decreased to about $5 billion in June 2013.
- The balance in the Excess Crude Account (ECA) has increased from $4.22 billion in August 2011 to about $9 billion at the end of 2012. This has, however, declined to about $5 billion in June 2013, following series of draw-downs to meet the revenue shortfalls arising from the disruption to oil production. In addition, we have $1 billion in the Sovereign Wealth Fund (SWF) and our foreign reserves inclusive of the ECA balance have also grown steadily, reaching about $47 billion as at mid-July 2013.

## Budget Performance

### Expenditure

- In 2011, 25.6% of the budget was for capital expenditure, while 74.4% was for recurrent expenditure. In 2013, recurrent spending was reduced to about 68% which correspondingly raised capital spending to about 32%.
- In 2014, it is projected that a significant reduction in revenue will occur due to an anticipated fall in the global demand of crude oil caused by new regional producers and the increased exploitation of shale oil and gas resources by China and US, hence reducing the share of capital spending to about 26.6%.
- For government to be able to increase its level of capital expenditure, it will either have to source for revenue from non-oil sources or review its wage downwards because the current level of outlay of personnel cost is crowding out expenditure on capital spending needed to develop the nation, thereby constituting a major drain on public resources.
- These and many more are some of the anomalies described by Senator- Dr Bukola Saraki in his message to the National Assembly, where he blamed the national assembly for improper budget scrutiny.[1]

### Revenue

- In terms of revenue, the total gross oil revenue outturn stood at N8.026 trillion, down from N8.849 trillion in 2011. Non oil receipt totaled N949.8 billion compared to N 1.139 trillion in 2011.

[1] For more details about Saraki's message to the national assembly visit: http://www.pmnewsnigeria.com/2014/02/02/saraki-blames-national-assembly-for-improper-budget-scrutiny/

- The shortfall in non-oil revenue is attributed to factors including reduced customs receipts (due to government policy and rice production) and reduced FIRS collections (due mainly to security challenges in some parts of the country) among others.
- The shortfall in oil revenue, asides from fall in the demand for crude oil, has been attributed to oil pipeline vandalism. A committee headed by the Governor of Delta Sate, Dr Uduaghan has been commissioned to seek avenues of tackling this challenge.

### Oil Production

- Analogous to revenue projection, oil production has been projected at 2.3883mbpd as against 2.526mbpd budgeted in 2013.
- It is hoped that Government's efforts at tackling crude oil theft, bunkering and production shut-ins will yield further results in the medium term; hence production is estimated at 2.5007mbpd and 2.5497mbpd for 2015 and 2016 respectively.

### Fiscal Deficit

- Fiscal deficit is projected to rise slightly up from 1.8% of GDP projected for 2013 to about 1.9% of GDP in 2014, as a direct consequence of the declining revenue but helped by the expenditure restraint.

### Consolidated Debt & Contingent Liabilities

- As at March 2013, the total external debt stock stood at $6.67 billion. FGN's share of this was 63.5% while the 36 states and the FCT accounted for the balance of 36.5%. Similarly, domestic debt for the same period stood at N6.49 trillion, bringing the total debt to N7.53 trillion, that is, 17.75% of GDP.

## RECOMMENDATIONS/ IMPLICATIONS FOR STATES

- There is need to diversify the Nigerian economy and increase Internally Generated Revenue (IGR) at the state level in order to create jobs, reduce unemployment, reduce budget deficits and increase expenditure on infrastructural development.
- There is the need for states to intensify efforts aimed at stopping the illegalities in the oil sector.
- States should implement a more ambitious non-oil revenue programme; and, tighten fiscal policy by prioritizing spending and focusing on the completion of on-going capital projects. Also, states could leverage on private sector funds through Public Private Partnership (PPP) arrangements.
- There is need for states to sustain the increase in contribution of tax revenue to the budget through continuous reforms to modernize and further improve tax administration.
- Government should exercise fiscal prudence and limit its borrowing requirements in compliance with the Fiscal Responsibility Act, 2007.