next meeting 26 Oct.

PRESENTATION TO THE NATIONAL ECONOMIC COUNCIL ON THE FGN'S 2011-2013 MEDIUM-TERM FISCAL FRAMEWORK (MTFF)

A Presentation to the National Economic Council by
Federal Ministry of Finance/Budget Office
28 September 2010

OUTLINE

- Purpose of NEC Consultation on MTEF
- Recovery from Global Economic Recession
- Macroeconomic Background
- Key Macroeconomic Assumptions
- Benchmark Price for Oil
- Protecting Oil Revenue
- 2011-2013 Revenue Framework
- Focus on Real Sector Growth
- Managing Rising Debt Profile
- End Notes

PURPOSE OF NEC CONSULTATION ON MTEF

- Under the Fiscal Responsibility Act (FRA) 2007, the Budget is required to be based on the Medium-Term Expenditure Framework (MTEF) which:
  - Must be approved by FEC & the National Assembly
  - Includes: a Macroeconomic Framework, a Fiscal Strategy Paper, Expenditure/Revenue Frameworks, Consolidated Debt Statement etc

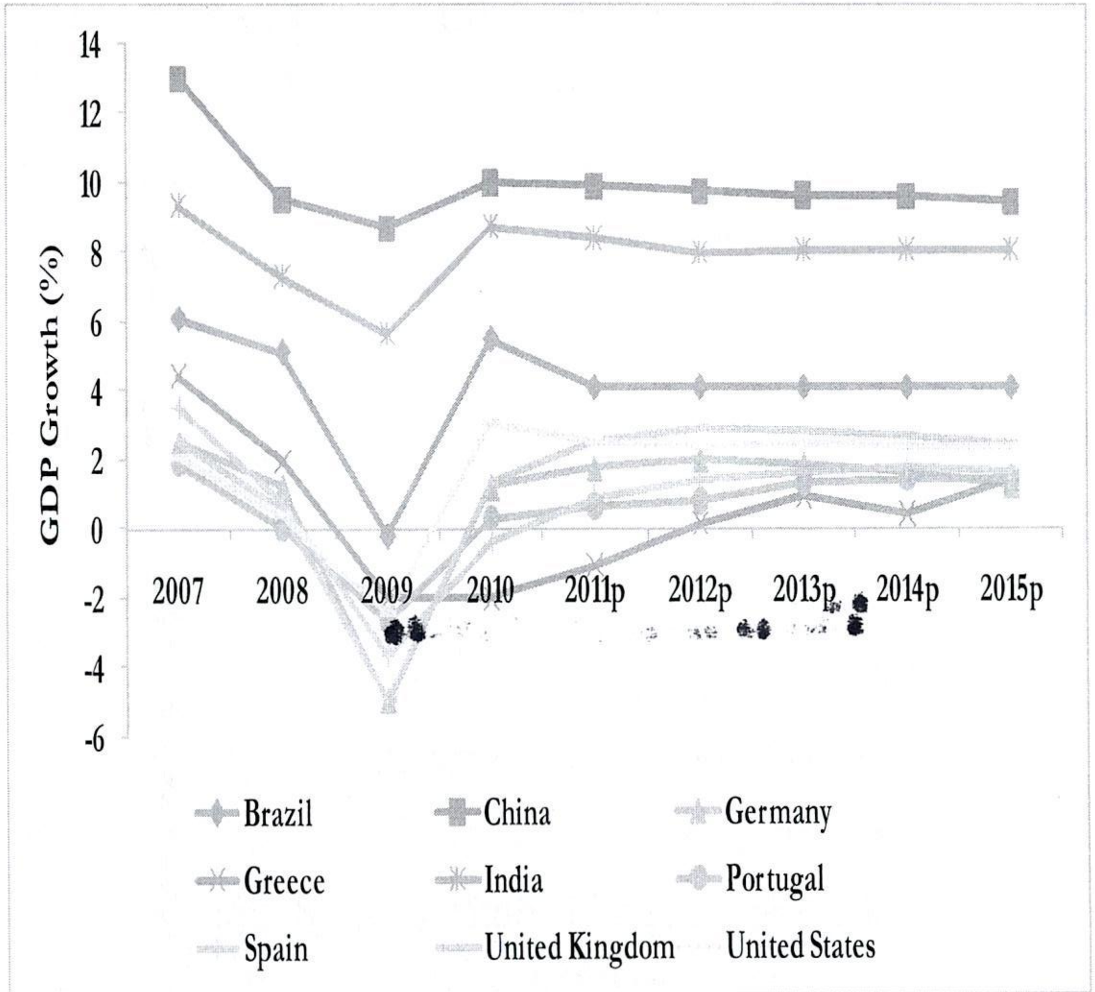
- Consultation with NEC important as outcome also required by SLGs for their own budget preparation
- Key macroeconomic & baseline assumptions:
  - Benchmark Oil Price & Production)including business arrangements)
  - Exchange rate
  - Real GDP growth rates
  - Inflation

These have a bearing on Projected Revenue for Federal, State & Local Governments

RECOVERY FROM GLOBAL ECONOMIC RECESSION

- Recovery from the global economic crisis is being led by developing countries like China and India.
- Crisis has affected Nigeria mainly through international market for oil, capital & financial markets, FDI and remittances.
- In response, Government has adopted an accommodative monetary policy (reduction of MPR, liquidity ratio, cash reserve requirement) and expansionary fiscal policy (increased government spending).

ACTUAL AND PROJECTED ANNUAL PERCENTAGE CHANGE IN REAL GDP, SELECTED ECONOMIES



MACROECONOMIC BACKGROUND

- Macroeconomic reforms introduced since 2003 have created an environment for strong and sustained economic growth over the 2004-2009 period with GDP growth averaging about 7%.
- As of August 2010, headline inflation had moderated to 13.7% while food and core inflation are at 15.1% and 12.4% respectively.
- Naira/US$ exchange rate has also been relatively stable since late 2009 with greater convergence between the official and parallel rates.
- Following the recent banking crisis, stability is returning to the banking sector which is positioning it to provide a stimulus to the real sector.
- Going forward, emphasis will be placed on a single-digit inflation rate, the convergence of the official and parallel exchange rates and special interventions targeted at specific sectors of the economy to stimulate non-oil growth

KEY MACROECONOMIC ASSUMPTIONS

Items	2011f	2012f	2013f
Real GDP Growth Rate (%)	7	7.5	7.5
CPI Inflation Rate (%)	9	8.5	8.5
Nominal Exchange Rate (N/$)	150	150	150
Oil Benchmark Price ($/barrel)	58	60	62
Oil Production (million barrels per day)	2.30	2.40	2.45

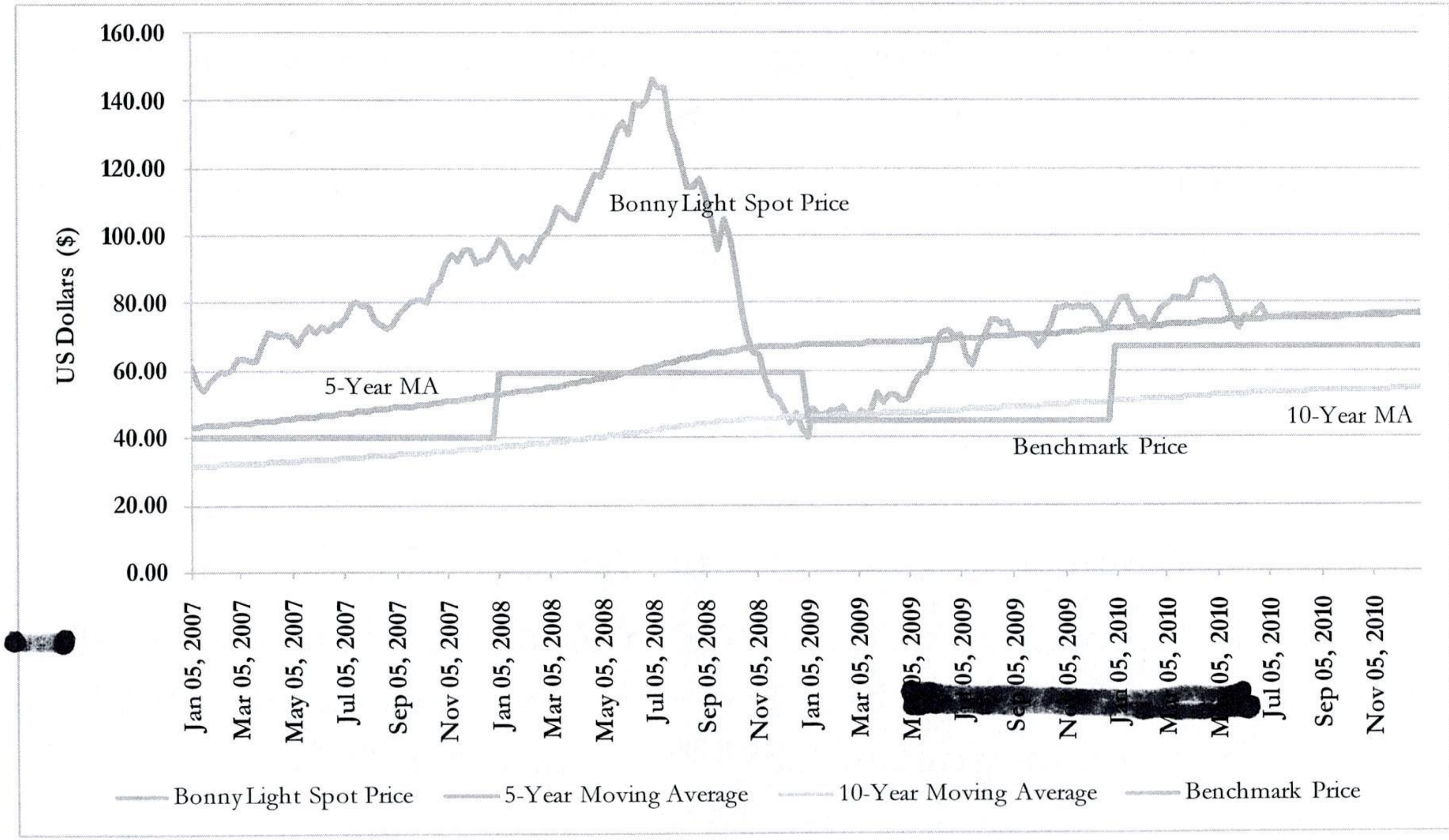
- Vision 20:2020 document projects GDP growth of 10.9%, 11.8% and 13.1% for 2011, 2012 and 2013 respectively. Projections rationalised as in table above after consultations with the NPC.
- Oil Benchmark Price estimated using [redacted] ten-year moving averages in line with international best practice.
- Oil Production determined after consultations with NNPC and taking into consideration improved security in Niger Delta.
- Projections for Nominal Exchange Rate and Inflation Rate also based on consultation with CBN and NBS respectively.

BENCHMARK PRICE FOR OIL (1)

- Oil demand in the medium term will largely be driven by emerging markets such as China and India while the United States is expected to remain the largest consumer of petroleum products over the medium term.
- Debt crisis in the Euro zone, its possible contagion effects and possibility of a double-dip recession pose downside risks to positive oil demand and price movements.
- Future outlook for the price of oil remains highly uncertain. We must consider the possible impact of changes in the pattern of demand from China and other emerging economies. Also possibility of Iraq production recovery
- In line with international best practice, we have utilised [redacted] 10 year moving averages and set an oil benchmark price of US$58 per barrel for 2011.

BENCHMARK PRICE FOR OIL (2)

MARKET PRICE, 5 AND 10-YEAR MOVING AVERAGE AND BENCHMARK PRICE



PROTECTING OIL REVENUE

- **Need to protect oil revenue due to its inherent volatility and impact on Government earnings.**
- **Oil price hedging strategy to protect oil revenue currently under development as preliminary work with experts in the area of financial/commodity hedging already commenced.**
- **Sovereign Wealth Fund (SWF) to replace the Excess Crude Account (ECA) also under development. The SWF will comprise of the following elements:**
  - Inter-generational savings: *legal framework for access to funds under development.*
  - Stabilisation fund: *to mitigate the effects of oil shocks to the fiscal system.*
  - Infrastructure fund: *large proportion of SWF will be dedicated to financing infrastructure in conjunction with investment from private sector (PPP).*
- **Legal and financial advisers being engaged and development of structure of the SWF underway.**

2011-2013 REVENUE FRAMEWORK (1)

- Gross Federally Collected Revenue: N7.202tn for 2011
  - Slight increase from N6.999 tn projected for 2010 Budget

- 2011 FY – Oil Revenue: N5.022tn (compared to N4.902 tn for 2010)
  - Benchmark Price: US$58/barrel
  - Forecast production: 2.3 mbpd
  - Due to relative peace in Niger Delta as result of Amnesty, we expect oil production to improve in the medium term.

- 2011 FY – Non-Oil Revenue: N1.958tn
  - Estimate of N1.867tn for 2010 more realistic compared to 2009 projections.
  - Lingering impact of global economic recession has resulted in non-oil revenue shortfalls.
  - As effects of stimulus kick in, expect modest increase of 4.88% in non-oil receipts in 2011 compared to 2010.
- Audit of all revenue-generating agencies underway to identify and resolve revenue leakages and internal plans for increasing revenue collection have been requested from both the NCS and FIRS.

2011-2013 REVENUE FRAMEWORK (2)

- FAAC & VAT Pool Share of consolidated revenue:
- 2011 FG Revenue from FAAC & VAT pool projected at N2.233 (up by 3.41% from 2010 Amended Budget)
  - States Governments' share: up by 4.2%
  - Local Governments' share: up by 4.1%
  - Federal Consolidated Government's share: up by 3.8%

- Advantage is that these figures are more realistic, and would minimize chances of requiring future downward revision
- With excess crude oil account now depleted, it is critical to avoid overestimating the revenue since there is no room for augmentation in event of any shortfall
- With rising domestic debt profile, there is hardly any fiscal space for continued borrowing. Therefore, prudential fiscal stance needed
- In any case, if we out-perform the target, the excess (savings) still belongs to all three tiers of government, and they have the prerogative to decide its usage

FOCUS ON REAL SECTOR GROWTH

- Government's fiscal strategy is directed at enhancing economic growth through active encouragement of real sector growth:
  - AMCON operations expected to strengthen and deepen the capital market.
  - Direct interventions in specific areas of the economy, such as the N150 billion intervention fund being driven by CBN and BOI, will provide cheap long-term credit to manufacturers.
  - New gas policy and dedication of power to industrial clusters will help to boost industrial output.
  - Work underway to shorten the time for goods clearance at the ports, (eventually to no more than 48 hours) and review the import prohibition list and tariff structure.
  - Several enterprise development programmes focused on job creation in more labour intensive sectors of the economy under development.

END NOTES

- 2011-2013 Projections set against background of recovery from global economic crisis.
- Key Assumptions for 2011FY:
  - Benchmark Oil Production (2.3mbpd) & Price ($58/b)
  - Exchange rate at N150/$
  - Target inflation rate: 9% (8.5% for both 2012FY & 2013FY)
  - Target GDP growth: estimated at 7% (7.5% for both 2012FY & 2013FY)
- Strategies to protect oil revenue receipts, such as oil price hedging and creation of SWF, now being developed, to ensure room for countercyclical fiscal policy
- Estimates for 2011-2013 quite conservative given fragility of global economic recovery and performance of oil and non-oil revenue in the first three quarters of 2010.
- Government is placing emphasis on real sector growth and is spearheading several initiatives to drive this objective.
- Rising debt profile is an increasing concern to Government; hence, need for prudential fiscal stance at all levels of government.