REVENUE INFLOW TO THE FEDERATION ACCOUNT: THE ROLE AND EXPERIENCES OF THE CENTRAL BANK OF NIGERIA

A Presentation Delivered at the 2025 RMAFC Members' Retreat

Uyo, Akwa Ibom State

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April 2025

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1.0 INTRODUCTION

1.1 The Federation Account And The Strategic Role Of The Central Bank Of Nigeria.

Nigeria's Federation Account is critical to the nation's fiscal federalism. Serving as a centralized pool for all revenues accruing to the federation, it is governed by Section 162(1) of the 1999 Constitution, which mandates that all revenues—whether derived from oil, gas, taxes, or duties—be paid into this account before distribution among the Federal, State, and Local Governments. This mechanism ensures a structured and equitable approach to public finance across tiers of government.

Central to the operation of the Federation Account is the Central Bank of Nigeria (CBN), which acts as the banker and economic adviser to the Federal Government. Its role extends beyond mere custodianship to foreign earnings conversion, and statutory allocation disbursement. The CBN's statutory authority in this domain is defined under the CBN Act of 2007, which empowers it to manage the monetary aspects of public finance and align its operations with broader macroeconomic objectives.

The CBN's influence extends into fiscal planning and policy formulation through its contributions to the Medium-Term Fiscal Framework (MTFF) and Medium-Term Expenditure Framework (MTEF). These rolling three-year plans are vital instruments in guiding public sector revenue and expenditure strategies. The CBN provides projections and policy advice on key macroeconomic indicators such as inflation, exchange rate, and interest rate benchmarks—inputs that are critical for credible and sustainable fiscal planning.

Furthermore, by leveraging its analytical capacity and data infrastructure, the CBN helps to insulate the economy from fiscal shocks. This is especially important in an environment characterised by volatile oil prices, fluctuating tax receipts, and mounting expenditure pressures. The Bank's capacity to forecast revenue dynamics and manage cash flows helps in stabilising the economy and ensuring effective fiscal management.

In the aftermath of global disruptions such as the COVID-19 pandemic, and now the unilateral trade tariff imposition by USA, the role of the CBN became even more pronounced. It undertook structural reforms in ensuring sustainable economic growth through interventions and monetary operations that enhanced transparency, improved liquidity, and supported government efforts to diversify its revenue base. Also, through technological interventions such as the Treasury Single Account (TSA) and e-collection platforms, the CBN has automated the real-time transfer of funds into the Federation Account, curbing revenue leakages and fostering fiscal discipline.

In summary, the CBN's role in the management of Federation Account is multifaceted—from financial operations to policy coordination. It straddles both monetary and fiscal domains, enabling it to manage revenue inflows efficiently while guiding broader macroeconomic policy choices that shape the fiscal sustainability of Nigeria.

This paper explores the CBN's dual role in managing the Federation Account and shaping macroeconomic outcomes. It specifically highlights the Bank's experiences in supporting revenue generation, maintaining price and exchange rate stability in ensuring a predictable and efficient revenue management system, opportunities for strengthening fiscal-monetary framework, policy recommendations for enhancing revenue and fiscal resilience in Nigeria and consolidating fiscal stability through strategic Central Banking. The subsequent sections of the paper delve deeper into each of these themes.

2.0 FEDERATION ACCOUNT OPERATIONS AND MANAGEMENT AT CBN.

Federation Account is a key element of Nigeria's Fiscal Federalism system, which aims at pooling some identified revenue items and distributing same to the different tiers of Government.

In practical terms, the CBN receives inflows from oil-producing and tax-collecting agencies, converts foreign currency components into naira through monetization, and disburses the converted resources to the three tiers of government upon authorization by the Office of the Accountant General of the Federation (OAGF). These functions are intricately linked with Nigeria's liquidity management strategy, monetary policy implementation, and exchange rate stabilisation framework.

Operationally, the CBN performs the following in the management of the federation account:

- **Structure, Flow and Custodianship of the Federation Account.**
    - There are 5 major revenue reporting agencies namely NNPCL, FIRS, NCS, NUPRC and Ministry of Solid Minerals.
    - Each of these agencies maintain several revenue accounts both in Naira and FX.
    - There are various revenue subheads as listed below:

SN	AGENCY	REVENUE (N)	REVENUE (FX)
1	NNPC	1. Domestic Crude Oil Cost 2. Domestic Gas receipt	1. NNPC Crude 2. NNPC Gas
2	DPR (NUPRC)	1. Gas Sales Royalty 2. Miscellaneous Oil Royalty	1. Gas Flared 2. Joint Venture Royalty 3. Gas Royalty 4. Production Sharing Royalty 5. Miscellaneous Oil Royalty 6. Concession Rentals
3	FIRS	1. Company Income Tax 2. Petroleum Profit Tax 3. Electronic Money Levy Transfer (EMTL)	1. Company Income Tax (CIT) -CIT Oil - CIT Non-oil 2. Petroleum Profit Tax (PPT) 3. Value Added Tax (VAT) 4. Taxes - Withholding Tax (WHT) - Capital Gain Tax (CGT) - Stamp Duties
4	NCS	1. Import Duty 2. Excise Duty 3. Fees Acct 4. Auction sales 5. 2008-2012 CET Special Levy 6. Penalty Charge	
5	MSMD	1. Fees 2. Royality	

- **Enabling collections**
    - Define revenue collection codes for each of the revenue types due to federation account.
    - Provide platforms for collections and settlement into the various accounts.

- Provide settlement report for reconciliation.

- **Monthly accounting of the revenues to FAAC (NGN and FX)**
  - CBN shares account statement to agencies (Naira & FX) and provide access for direct view of the statement via platforms.
  - Prepares aggregate Revenue component (Month end balances and other mandates (FX and Naira)).
  - Reconciles with relevant agencies
  - Monetization of FX inflows and advise agencies with rate used.
  - Prepares the final federation account revenue component and submit to OAGF (Statutory revenue, VAT, EMTL, Project Gazelle etc)
- **Releases to beneficiaries subject to mandate from OAGF**
  - Fund the federation account from all various revenue account.
  - Receive mandate(s) from OAGF and credit relevant beneficiaries.

3.0 FEDERATION ACCOUNT – THE CBN'S EXPERIENCE

3.1 Oil Revenue: Structure and Volatility

Historically, oil revenue has dominated the Federation Account inflows, primarily through crude oil sales, Petroleum Profit Tax (PPT), royalties, and upstream corporate income taxes. Three major factors drive these revenue items:

- Global crude oil prices,
- Nigeria's production volumes, and
- The benchmark oil price set in the annual appropriation law.

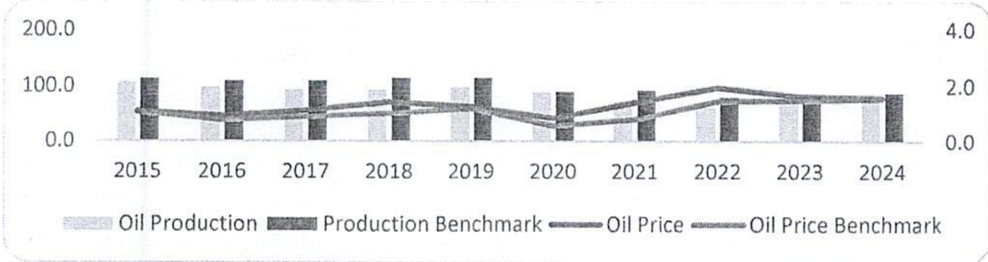
While global oil prices are inherently volatile—reacting to geopolitical tensions, global demand shifts, and OPEC supply quotas—domestic production has increasingly been constrained by structural issues such as:

- Crude oil theft and pipeline vandalism,
- Underinvestment in exploration and infrastructure,

- Operational inefficiencies in upstream assets.

A notable observation from the last decade is that oil prices have often exceeded Nigeria's benchmark projections, yet actual oil production consistently fell below the target. For instance, during the commodity price crash between 2014 and 2016 and the COVID-19 pandemic, Nigeria experienced a dual shock: a steep fall in oil prices and declining output, resulting in a major contraction in Federation Account inflows (see figure 1).

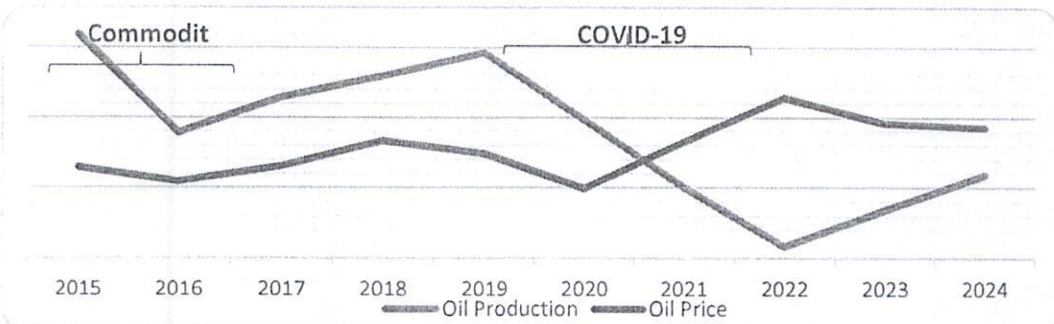
Figure 1: Crude Oil Price and Production



Source: OPEC Annual Reports

Despite a recovery in global oil prices by 2021–2022, Nigeria could not fully benefit due to persistent sub-optimal crude oil production. Consequently, while prices rose, overall oil revenue contributions remained subdued. This mismatch between price windfalls and output capacity emphasizes the fragility of relying on oil revenue for fiscal planning (see figure 2).

Figure 2: Trends in Oil Production, Quota, and Prices (2015–2024)

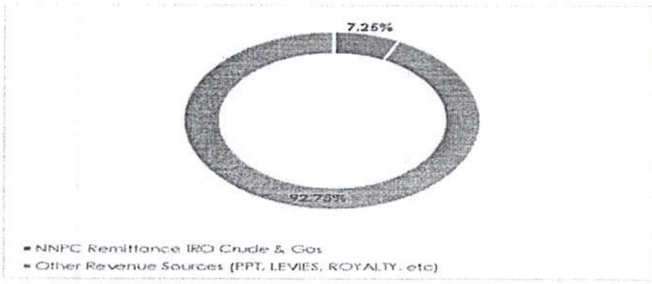


Source: OPEC Annual Reports

3.2 Crude Oil Remittances into the Federation Account and impact.

Inspite the inability of the nation to benefit from the boomish period of increase in production and oil prices, the CBN has noticed worrying fluctuatuations in the remittances of, in particular, oil and gas revenues. For instaace, between 2017 to 2024 of $89.208b received, crude oil and gas remittances accounted for only 7.25% while oil taxes represent 92.75%

Figure 3: % Contribution of Crude Oil Remittances (2017-2024)



Source: BKSD

We further observed an imbalance between foerign currency inflows into the federation account against demand made by the government to fund their FX obligations. As shown in the table/graph below, in 2021 total oil revenue was $6.2b out of which government obligation was $32.297b to service external debt, trade finance and other invisibles transactions. This indicates a variance of $26.082 that was paid from the CBN reserves. Ordinarily, the accrued revenue should have added to our reserve. Same pattern was observed in 2022 to 2023 while in 2024 the servicing of these transactions recorded a positive outcome

3.3 Undiversified Streams of Revenue

Revenue streams into the Federation account have remained undiversified. The sources have remained, largely, stagnant in both oil and non-oil sectors. The lack of deliberate innovations in increasing revenue streams has made other mineral resources redundant and unexplored. This is despite the provision of the Development of Natural Resources Fund in the Allocation of Revenue (Federation Account) Act

2004 (LFN). For instance, no FX inflows from Solid Mineral while the NGN is very negligible.

3.4 Poor saving culture at the time of revenue boom

The Allocation of Revenue (Federation Account) Act 2004 (LFN) had made provisions for stabilization account for savings and used for the rainy day. The Bank also noticed the efforts in the establishment of the Excess Crude/PPT/ Royality accounts. However, all these funds are being utilized without replenishment. This unstable saving culture is not in tandem with the provisions of the Fiscal Responsibility Act that encourages savings from the Federation account.

3.5 Exchange Rate Dynamics

Statutory oil and non-oil foreign inflows are monetized into naira at prevailing market rates. The transition to a market-determined exchange rate regime in June 2023 led to the tremendous increase in the Naira value of dollar-denominated receipts. For instance,

- The monetised portion of the Federation Account rose from ₦3.82 trillion in 2022 to over ₦12.45 trillion in 2024.
- Exchange gain—previously marginal—skyrocketed to ₦5.64 trillion in 2024, compared to ₦20 billion in 2022.

The Federation may appear to have gained, for the CBN, this is purely an injection of money into the economy with adverse effect on monetary policy. This often, compelled the Bank to use monetary policy instruments (OMO) to mitigate against inflationary pressure at a huge cost.

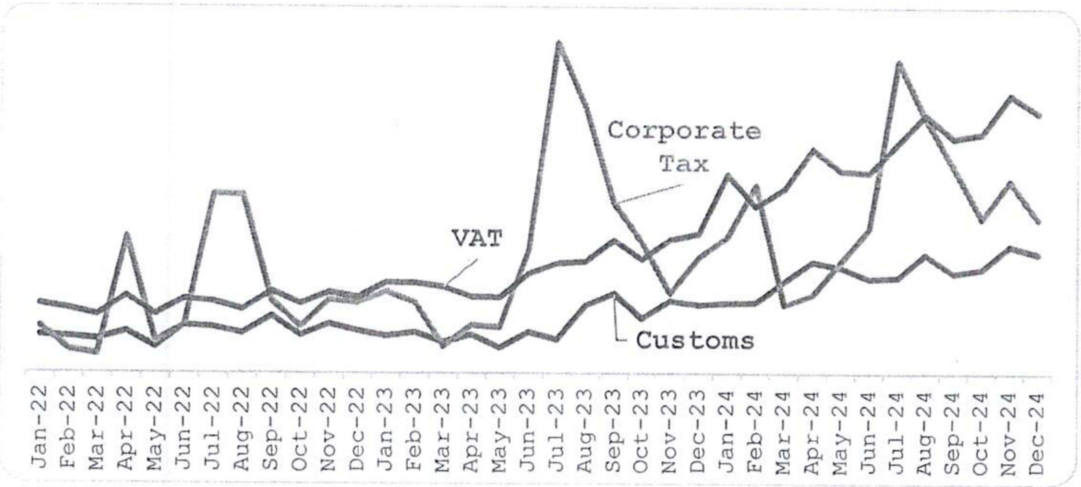
3.6 Seasonality in Revenue Flows

Federation Account inflows are not uniform throughout the year. There is a pronounced seasonal pattern, especially in corporate tax and VAT collections. Economic activity and tax filings typically peak mid-year due to the fiscal calendar of most corporate entities, with June often seeing large inflows from Company Income Tax (CIT).

VAT collections, on the other hand, are more evenly distributed due to monthly filing schedules, though some spikes occur during periods of account reconciliation. Customs revenues exhibit irregular patterns, heavily influenced by foreign exchange policy, import cycles, and trade flows.

Understanding this seasonality is essential for effective fiscal planning, especially aligning cash flows with expenditure needs. In years when revenue inflows dip sharply at the beginning or end of the year, the government often draws down from the Excess Crude Account or other stabilisation buffers to maintain minimum allocation thresholds.

Figure 4: Monthly Trends in VAT, Corporate Tax, and Customs Revenue (2022–2024)



Source: OAGF

4.0 CBN's Support for Revenue Generation and Fiscal Sustainability

4.1 Non-Oil Revenue: Resilience and Reform-Led Growth

The COVID-19 crisis acted as a catalyst for Nigeria to recalibrate its revenue model. Following the oil price shock of 2020, the government intensified reforms to boost non-oil revenue. As a result, non-oil receipts—including corporate income tax (CIT), value-added tax (VAT), and customs duties—have not only grown in volume but also in relative significance.

This structural shift was supported by:

- The Finance Acts (2019–2023): These introduced pivotal changes, including increased VAT from 5% to 7.5%, rationalized tax incentives, and new digital services taxes.
- Expansion of the tax net: Focused on the informal sector and digital platforms, enabling broader tax compliance.
- Automation of collection: that enables real-time reconciliation and remittance of revenues.

Notably, customs duties and VAT collections have shown particularly strong resilience, even in periods of subdued economic activity.

4.2 Foreign Exchange Rate Policy and Monetization of Foreign Revenue

One of the most impactful policy reforms the CBN introduced recently was the transition to a market-determined exchange rate regime in June 2023. This reform included unifying multiple exchange rate windows, clearing accumulated foreign exchange backlogs, and introducing new platforms such as the B-Match and FX Code systems to enhance transparency and price discovery.

Though the initial outcome was a sharp naira depreciation, the reform led to significant fiscal windfalls. Since statutory oil and non-oil foreign inflows are monetized into naira at prevailing market rates, the depreciation expanded the value of dollar-denominated receipts.

These exchange rate dynamics demonstrate how monetary policy can influence fiscal space, indirectly boosting government spending capacity in naira terms. However, it also raises the need for caution in expenditure planning to avoid inflationary spillovers from monetized revenue booms. In addition, it created liquidity management concern to the bank with associated cost during Open Market Operations that is a core monetary

4.3 Inflation Control and Its Fiscal Implications

Persistent inflation undermines revenue effectiveness by eroding the real value of tax collections and transfers. It discourages investment, reduces consumer purchasing power, and distorts fiscal projections. In recent years, Nigeria has experienced episodes of heightened inflation—surging to 18.6 per cent in June 2022, accelerating further to 21.9 per cent by February 2023, and peaking above 30.0 per cent in early 2024—driven by supply chain disruptions, exchange rate pressures, subsidy removal, and food insecurity.

In response to the elevated inflationary pressures, the CBN adopted a tight monetary stance, reflected in a consistent upward adjustment of the Monetary Policy Rate (MPR) over the last three years. This deliberate tightening aimed to:

- Curb demand-pull inflation,
- Rein in inflation expectations,
- Restore confidence in the naira.

In parallel, efforts by the National Bureau of Statistics (NBS) to rebase and expand the CPI basket provided a more representative measure of price movements. As of March 2025, inflation declined to 24.23 per cent, down from a peak of 34.8 per cent in December 2024.

The macro-fiscal connection is clear: lower inflation protects the real value of indirect taxes such as VAT and customs duties, thereby stabilizing the Federation Account.

4.4 The Treasury Single Account (TSA) and E-Government Systems

The CBN's role in implementing the Treasury Single Account (TSA) has significantly transformed Nigeria's public financial management. Since 2015, all federal MDAs have been required to consolidate their accounts with the CBN, eliminating idle balances and fragmentation of government funds.

This reform, complemented by the e-collection scheme/platforms that:

- Enabled real-time credit of government revenues,
- Reduced the cost of borrowing,
- Improved oversight of public cash flows.

As such, the TSA had promoted effective and efficient way of collecting and remitting of federation account revenues by the relevant agencies.

4.5 Financial System Stability and Inclusion

Beyond macroeconomic management, the CBN ensures the resilience of Nigeria's financial sector—crucial for sustaining the revenue capacity of all tiers of government. A sound and well-capitalized banking system is essential for facilitating credit expansion, supporting private sector growth, and ensuring efficient financial intermediation—all of which contribute to increased economic activity and, by extension, higher tax revenues.

In March 2024, the CBN raised minimum capital requirements for banks to ₦500 billion, ₦200 billion, and ₦50 billion for international, national, and regional banks, respectively. This reform is aligned with the goal of building a financial sector that can support a trillion-dollar economy by 2030.

Simultaneously, the Bank continues to deepen financial inclusion, which grew from 45.0 per cent in 2006 to 51.0 per cent in 2023. By bringing more economic actors into the formal financial system, financial inclusion strengthens the foundation for equitable taxation, enhances the traceability of economic activities, and supports more effective and sustainable fiscal planning.

5.0 Opportunities for Strengthening Fiscal-Monetary Framework

While significant progress has been made in enhancing macroeconomic management, a few areas present valuable opportunities for further strengthening, particularly in ways that can enhance revenue generation and improve fiscal administration. These include:

5.1 Deepening Monetary-Fiscal Synergy:

The Central Bank and the Fiscal Authorities continue to take commendable steps towards reducing reliance on deficit financing through Ways and Means advances. These reforms mark a positive shift toward reinforcing monetary policy independence and ensuring long-term debt sustainability. With continued discipline and cooperation, the historical challenges associated with fiscal dominance can be progressively addressed thereby reducing borrowing and inflationary financing.

5.2 Enhancing Policy Coordination:

Constructive dialogue between monetary and fiscal authorities is already underway, providing a solid foundation for deeper collaboration. Introducing a formal coordination framework will enhance macroeconomic policymaking, particularly during economic transitions, by aligning goals and ensuring consistent execution.

5.3 Improving Data Integration and Responsiveness

Efforts to modernize and integrate data systems are gaining momentum, offering a significant opportunity to improve real-time information sharing between fiscal and monetary authorities. Streamlining these systems will enhance the Central Bank's ability to proactively respond to fiscal developments, strengthening macroeconomic resilience.

6.0 Policy Recommendations: Enhancing Revenue and Fiscal Resilience in Nigeria

The following forward-looking recommendations are proposed to deepen resilience and ensure fiscal robustness across all tiers of government:

6.1 Strengthen Fiscal Buffers and Stabilisation Mechanisms:

The experience of the 2020 oil price crash, when crude fell below US$20 per barrel—well below Nigeria's benchmark of US$57—exposed the country's vulnerability to external shocks. FAAC disbursements dropped significantly, prompting the government to withdraw US$150 million from the Sovereign Wealth Fund's stabilization component.

This underscores the critical importance of fiscal buffers. To that end:

- Savings should be encouraged during economic booms.
- Consideration should be given to setting up a formal rainy-day fund with predefined triggers and withdrawal rules.

Well-capitalized buffers reduce reliance on debt, smooth FAAC allocations, and anchor investor confidence.

6.2 Institutionalise Revenue Planning and Seasonal Forecasting

Revenue inflows exhibit well-defined seasonal trends. For instance:

- CIT peaks mid-year due to corporate filing cycles.
- VAT inflows show regular monthly patterns but may spike during reconciliation periods.
- Customs collections fluctuate with trade volumes and FX availability.

To enhance fiscal planning:

- Federal and subnational governments should adopt cash-flow-based budgeting models anticipating revenue seasonality.
- Revenue forecasting tools should be strengthened with collaborative input from the CBN, leveraging its econometric capabilities.
- Revenue-generating agencies (FIRS, Customs) should publish disaggregated monthly forecasts incorporating seasonality.

Such forecasting precision will improve fiscal discipline, reduce arrears, and promote more efficient public spending.

6.3 Deepen Tax Reforms and Reassess Revenue Equity

Tax reforms implemented since 2019 have demonstrated strong revenue potential, particularly with the VAT increase and digital tax initiatives. However, sustainable taxation goes beyond collection efficiency—it must balance equity, growth, and administrative capacity.

Recommendations include:

- Periodic reviews of tax expenditures and incentives to eliminate distortions.
- Expanding digital tax frameworks to cover emerging sectors (crypto, e-commerce, gig economy).
- Strengthening subnational revenue autonomy, especially for states with strong IGR potential.

That said, policymakers must weigh higher taxes against broader welfare goals. Excessive taxation may crowd out private investment or increase inequality. Thus, any reform should be guided by incidence analysis and social impact assessments.

6.4 Expand Public Finance Management Reforms to Subnational Governments.

While the Federal Government has made significant strides—particularly through the TSA, GIFMIS, and the Fiscal Sustainability Plan (FSP)—reforms at the sub-national level remain uneven.

To consolidate these gains:

- States and LGAs should be incentivized to adopt versions of the TSA tailored to their fiscal structures.
- Digitization of revenue and expenditure processes should be mandatory under new fiscal transparency legislation.
- Capacity-building support should be provided to state accountants-general and revenue boards to manage these systems.

The federal experience demonstrates that automation reduces leakages, enhances transparency, and enables better fiscal control. With most states still heavily dependent on FAAC transfers, improving subnational fiscal governance is essential to long-term sustainability.

7.0 Conclusion: Consolidating Fiscal Stability through Strategic Central Banking

The Federation Account remains a cornerstone of Nigeria's fiscal framework, representing the mechanics of intergovernmental resource distribution and the broader objectives of national economic management. In this intricate system, the Central Bank of Nigeria (CBN) stands as a stabilizing force—balancing liquidity, preserving the real value of public revenue, and guiding fiscal operations through informed monetary strategy and policy collaboration.

This paper has explored the structure, flows, and dynamics of the Federation Account, highlighting the significant shift in revenue composition—especially the rise of non-oil revenues—and the implications of volatile oil income, policy reforms, and macroeconomic shocks. It has unpacked the CBN's strategic contributions, including:

- Managing the monetization of foreign earnings,

- Anchoring inflation expectations,
- Supporting FX reform and revenue conversion,
- Institutionalizing the TSA and automating revenue systems,
- Steering financial system stability and inclusion,
- And contributing to coordinated fiscal policy formulation.

Each of these contributions speaks to a larger truth: fiscal sustainability in Nigeria is not just a function of revenue generation but a product of monetary-fiscal synergy, institutional integrity, and forward-looking policy design. Going forward, several imperatives emerge. Some of these include the need to:

i. Build Stronger Fiscal Buffers to absorb shocks and insulate budget execution from the volatility of oil prices and global economic cycles.

ii. Integrate Seasonality into Fiscal Planning to align cash flow availability with spending obligations and minimize fiscal mismatches.

iii. Institutionalize Coordination Across Tiers of Government.

iv. Deepen Tax and Administrative Reforms, ensuring the tax system is efficient, equitable, and supportive of inclusive growth.

v. Cascade Public Finance Reforms to the Subnational Level to replicate the gains of federal fiscal digitization and broaden accountability.

In essence, the CBN's experience with the Federation Account illustrates a central bank's powerful role—not just as a monetary authority but as a strategic partner in nation-building and fiscal modernization.

With sustained reforms, strengthened collaboration, and a shared commitment to transparency and macroeconomic stability, Nigeria is poised to transform its revenue system into a more reliable, inclusive, and development-oriented platform for national progress.