
2008-2010 MEDIUM TERM FISCAL STRATEGY PAPER

**Executive Brief to the Federal Executive Council
FMF/Budget Office of the Federation
August 15, 2007**

OUTLINE

1. Background
 - Challenges and Issues 2006-2007
 - Excess Crude Account/Benchmark Price
2. 2008-2010 Medium Term Expenditure Framework
 - Key Assumptions
 - Medium Term Revenue Framework
 - Medium Term Expenditure Framework
 - Deficit
3. Analysis of Key Macroeconomic/Budget Ratios
4. Fiscal Risks

2006-7 CHALLENGES&ISSUES

- Poor forecasting of total oil revenues
 - Over-estimate of production
 - Underestimate of T1, T2 and other tax deductibles for PPT

| S/N | FAAC OIL REVENUES (=N= billions at Market Price) | 2006 Budget | 2006 Actual | | 2007 Budget (to July) | 2007 Actual (to July) |
|-----|--|-------------|-------------|--|-----------------------|-----------------------|
| 1 | Crude Oil Sales | 3,257 | 3,246 | | 1,705 | 1,516 |
| 2 | PPT | 1,995 | 1,438 | | 1,022 | 543 |
| 3 | Royalties | 675 | 597 | | 333 | 247 |
| 4 | TOTAL | 5,927 | 5,281 | | 3,059 | 2,306 |

2006-7 CHALLENGES&ISSUES

- Combined impact of these challenges
 - ‘Effective’ benchmark price of oil used to achieve budget revenue was much higher than ‘original’ benchmark

| S/N | US\$ per barrel | 2006 | 2007 UP TO JULY |
|-----|---|-------|-----------------|
| 1 | Proposed Budget Benchmark Price | 35.00 | 40.00 |
| 2 | Correct Budget Benchmark Price taking into account actual PPT tax structure | 40.75 | 47.00 |
| 3 | Actual Budget Benchmark taking into account actual PPT tax structure, excess crude financing and production shortfall | 41.88 | 63.80 |

EXCESS CRUDE ACCOUNT

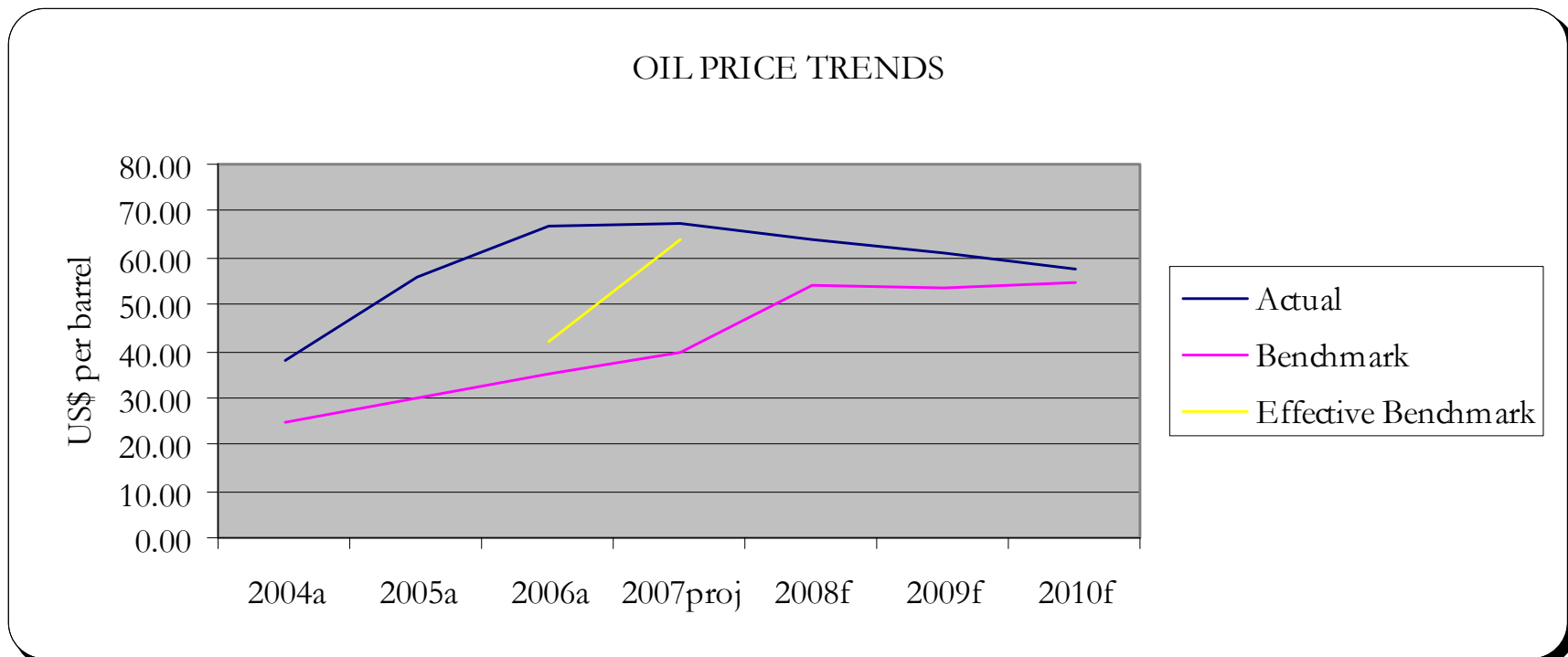
- Purpose of the Excess Crude Account
 - Protect planned budgets against shortfall due to volatile oil prices
 - Smooth government spending to ensure maximum efficiency of investment in development projects
 - This may include creating a fund to finance critical infrastructure investment that will benefit all Nigerians

EXCESS CRUDE ACCOUNT

- IMF Research (2005) suggests that using a ‘moving-average’ of historical oil prices is the best way to protect against oil price volatility and smooth expenditure
 - Average of past 4 years was shown to be optimal
 - May use more years in 2009/10 as oil price has since trended upwards

| YEAR | US\$ pb |
|--------------------|----------------|
| 2004 Average | 37.99 |
| 2005 Average | 55.68 |
| 2006 Average | 67.03 |
| 2007 Average | 67.40 |
| 2008 (3.5-year MA) | 53.83 |
| 2009 (6-year MA) | 53.44 |
| 2010 (7-year MA) | 54.51 |

KEY ASSUMPTIONS

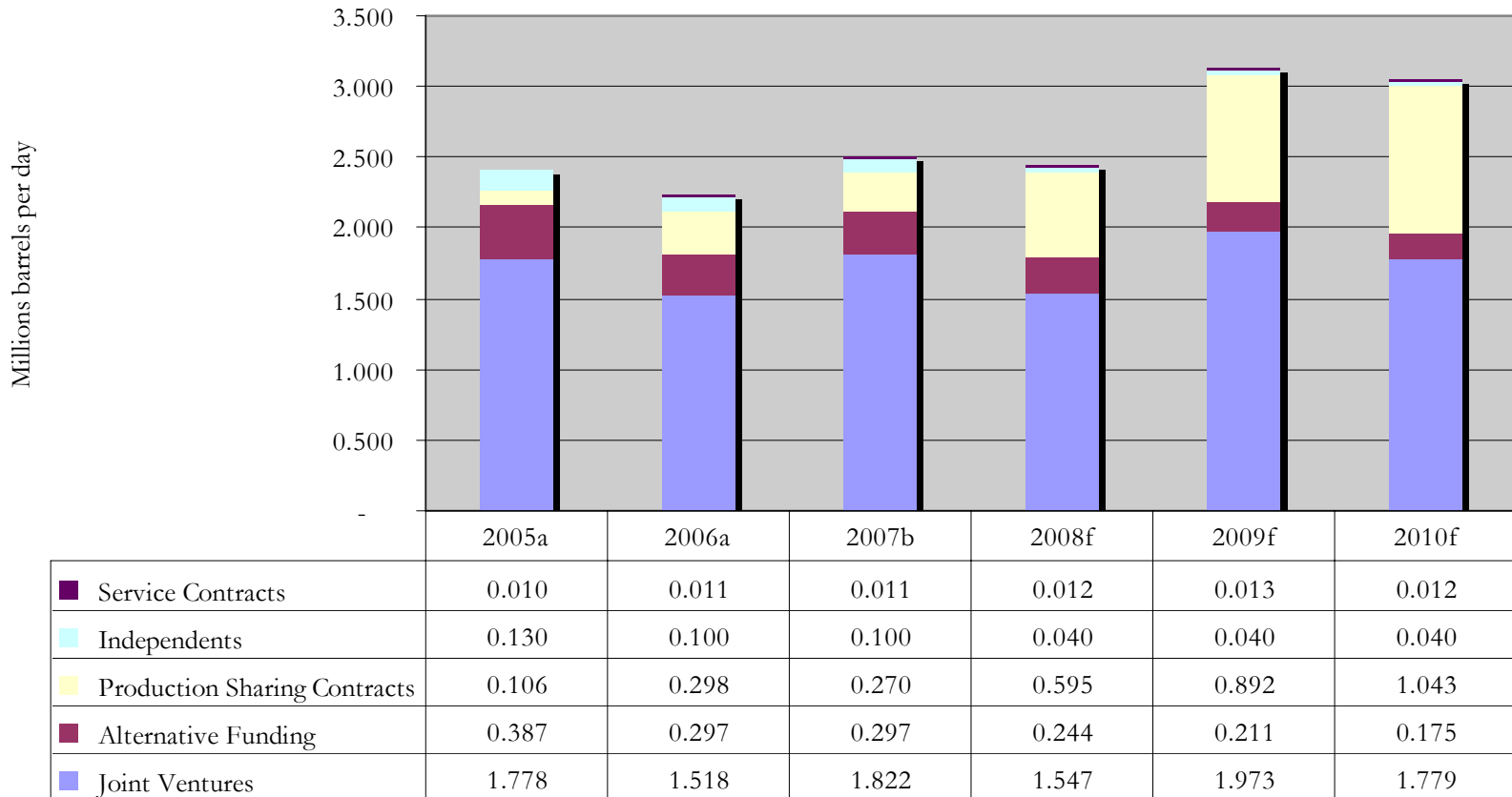


KEY ASSUMPTIONS

| OIL PRODUCTION (Millions of barrels/day) | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Joint Ventures | 1.778 | 1.518 | 1.822 | 1.547 | 1.973 | 1.779 |
| Alternative Funding | 0.387 | 0.297 | 0.297 | 0.244 | 0.211 | 0.175 |
| Production Sharing Contracts | 0.106 | 0.298 | 0.270 | 0.595 | 0.892 | 1.043 |
| Independents | 0.130 | 0.100 | 0.100 | 0.040 | 0.040 | 0.040 |
| Service Contracts | 0.010 | 0.011 | 0.011 | 0.012 | 0.013 | 0.012 |
| Total Production | 2.411 | 2.224 | 2.500 | 2.438 | 3.129 | 3.049 |

- These figures have been agreed with NNPC/NAPIMS
 - Conservative estimate of JV production for 2008 to avoid continued shortfall in revenue
 - Higher PSC projection for 2008 based on current increased production from new deepwater PSC fields e.g. Bonga

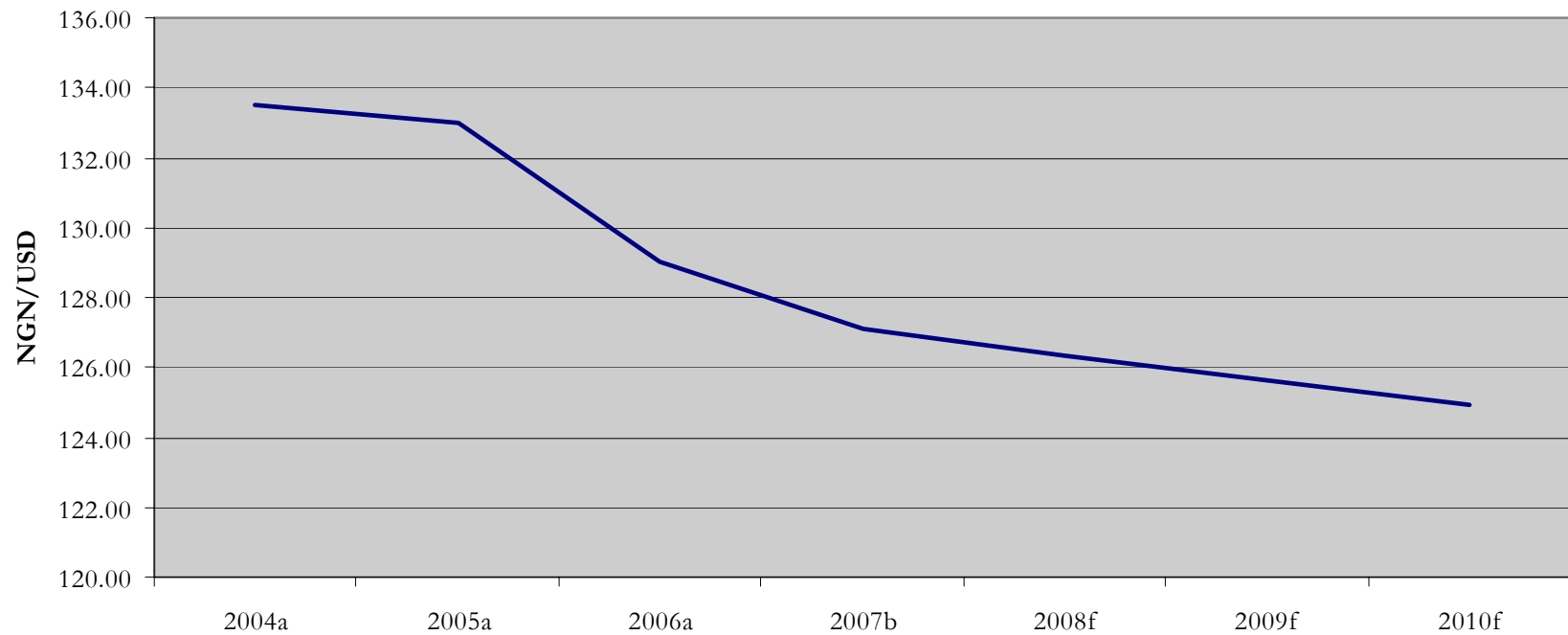
KEY ASSUMPTIONS



KEY ASSUMPTIONS

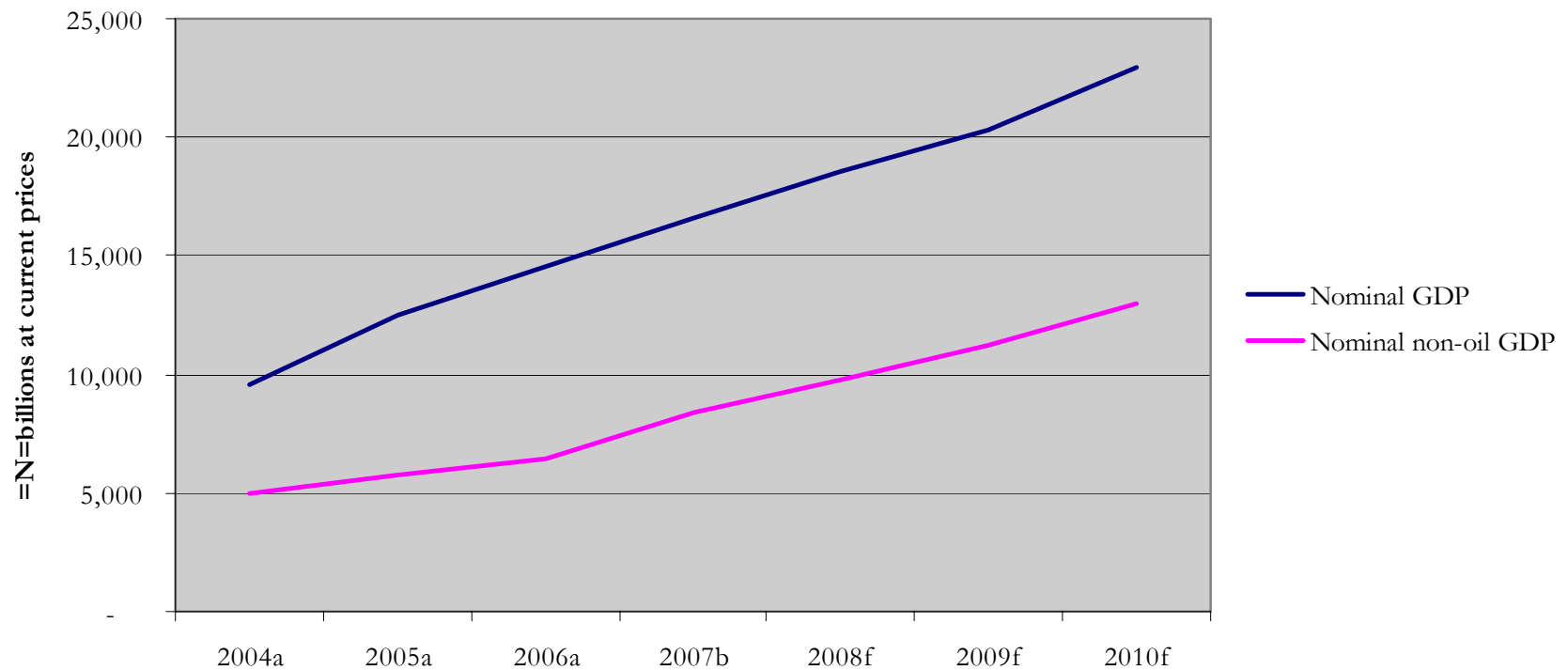
AVERAGE EXCHANGE RATE (NGN/USD)

Source: Central Bank of Nigeria



KEY ASSUMPTIONS

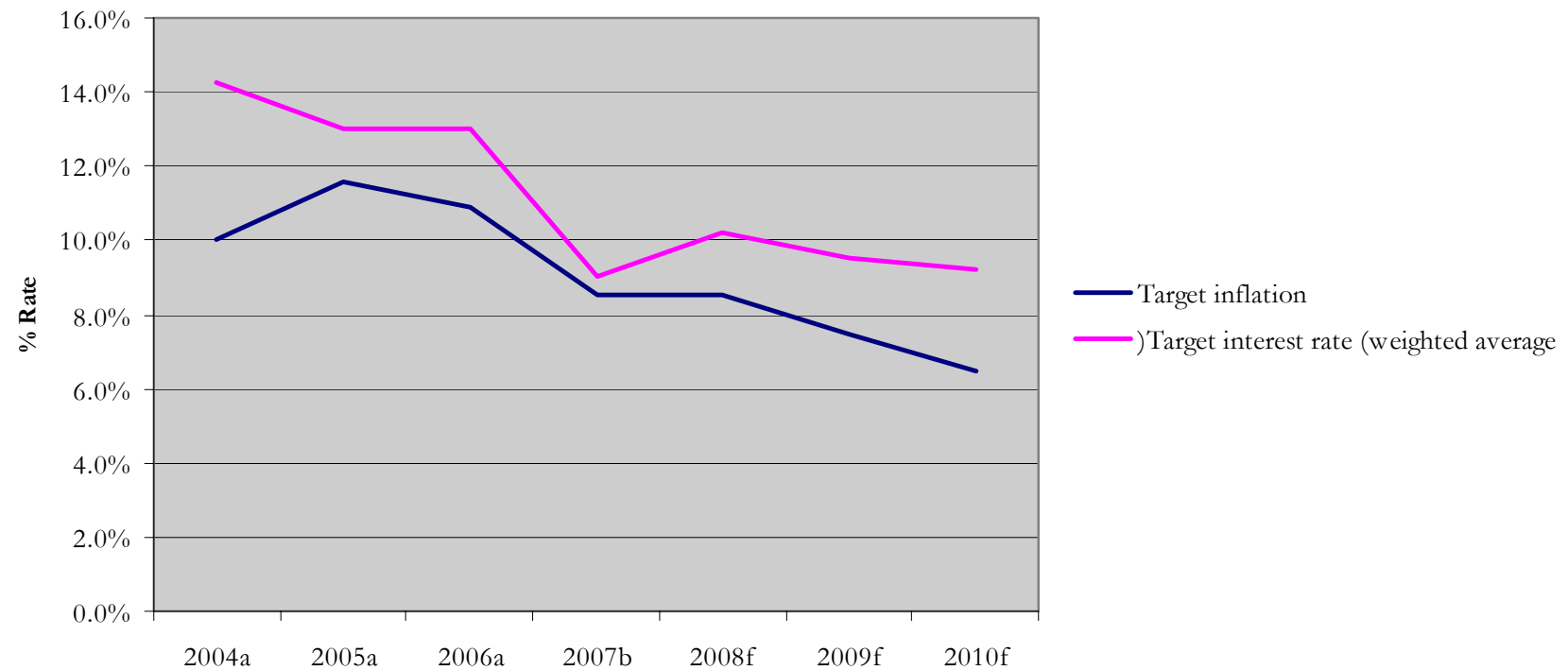
GROSS DOMESTIC PRODUCT (At Current Prices)
Source: Central Bank of Nigeria/IMF



KEY ASSUMPTIONS

TARGET INFLATION AND INTEREST RATES

Source: Central Bank of Nigeria



KEY ASSUMPTIONS

| | 2008f | 2009f | 2010f |
|--|-------|-------|-------|
| Technical cost of JV oil companies (US\$/barrel) | | | |
| Operating expenses (T1) | 4.77 | 4.73 | 4.79 |
| Capital expenses (T2) | 3.96 | 4.39 | 5.39 |
| Petroleum Investment Allowance (10%) | 0.40 | 0.44 | 0.54 |
| Gas Investment Write-up (AGFA) | 6.10 | 6.25 | 8.22 |
| | | | |
| Technical cost of PSC/SC oil companies (US\$/barrel) | | | |
| Operating expenses (T1) | 3.19 | 1.87 | 1.56 |
| Capital expenses (T2) | 9.28 | 3.84 | 2.67 |
| Investment Tax Allowance | 4.64 | 1.92 | 1.33 |
| Cost Recovery | 9.43 | 11.41 | 10.32 |
| | | | |
| Technical cost of Gas companies | | | |
| Operating expenses (T1) - in USD | 0.89 | 0.69 | 0.68 |

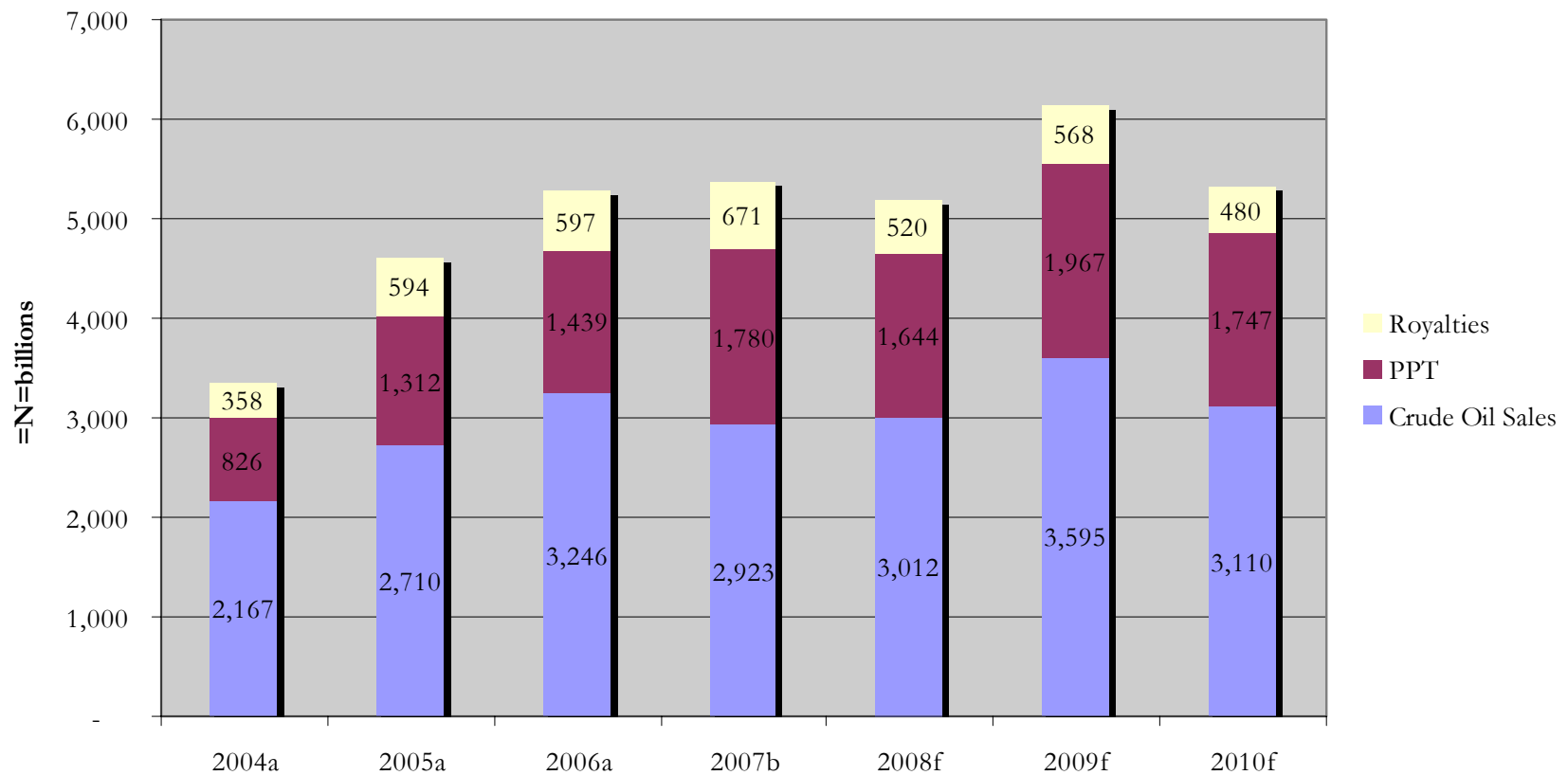
- These figures have been agreed following detailed work by NAPIMS, FIRS and Budget Office and are based on actual investment programmes submitted by the Oil Companies

REVENUE FRAMEWORK

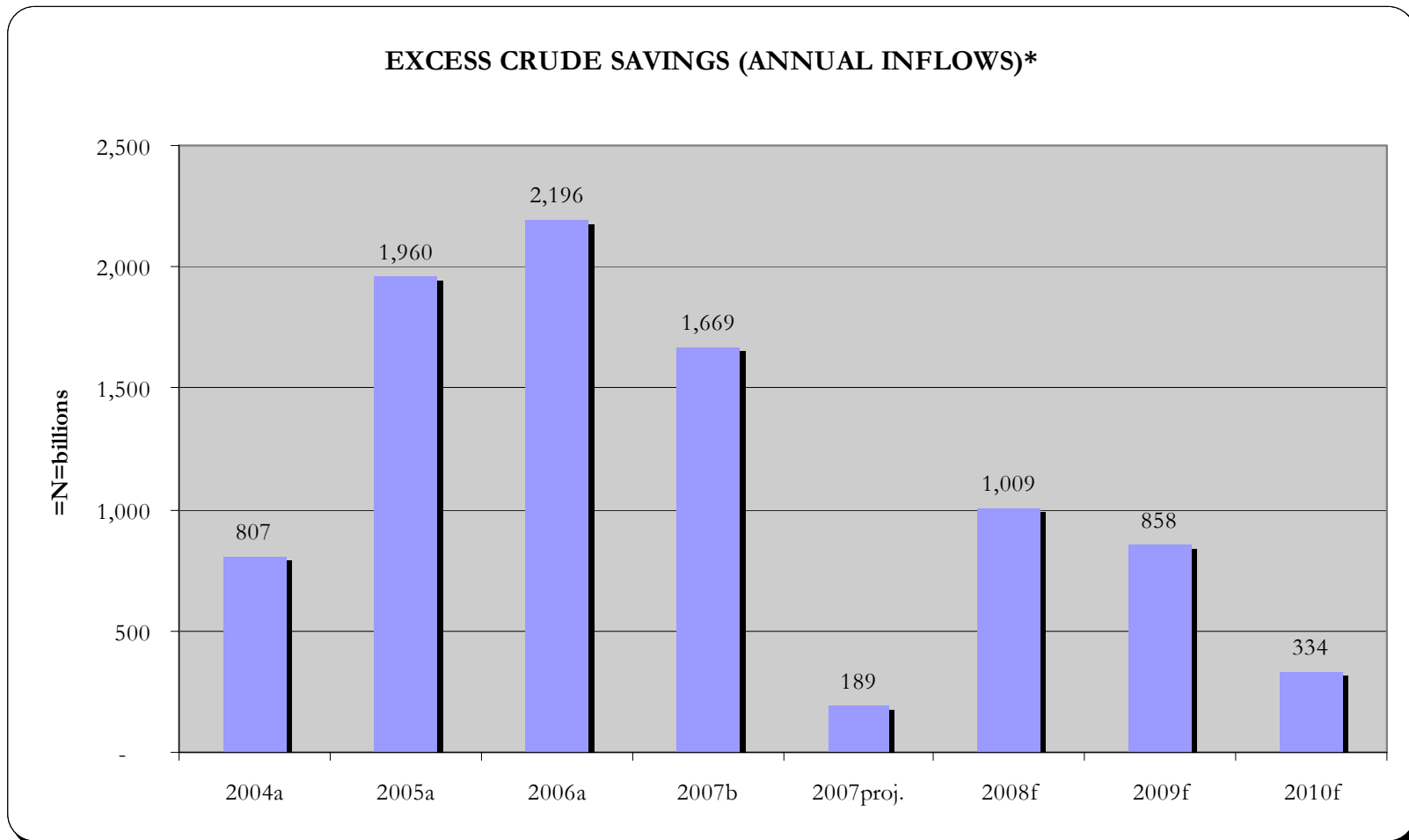
| | 2004a | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns |
| Crude Oil Sales | 2,167 | 2,710 | 3,246 | 2,923 | 3,012 | 3,595 | 3,110 |
| PPT | 826 | 1,312 | 1,439 | 1,780 | 1,644 | 1,967 | 1,747 |
| Royalties | 358 | 594 | 597 | 671 | 520 | 568 | 480 |
| SUB-TOTAL | 3,351 | 4,616 | 5,282 | 5,374 | 5,175 | 6,130 | 5,336 |
| | | | | | | | |
| Excess Crude Oil Sales | 522 | 1,058 | 1,419 | 797 | 482 | 441 | 160 |
| Excess PPT | 199 | 596 | 562 | 632 | 436 | 350 | 148 |
| Excess Royalties | 86 | 306 | 215 | 239 | 91 | 67 | 26 |
| SUB-TOTAL | 807 | 1,960 | 2,196 | 1,669 | 1,009 | 858 | 334 |

REVENUE FRAMEWORK

OIL REVENUE AT MARKET PRICE



REVENUE FRAMEWORK



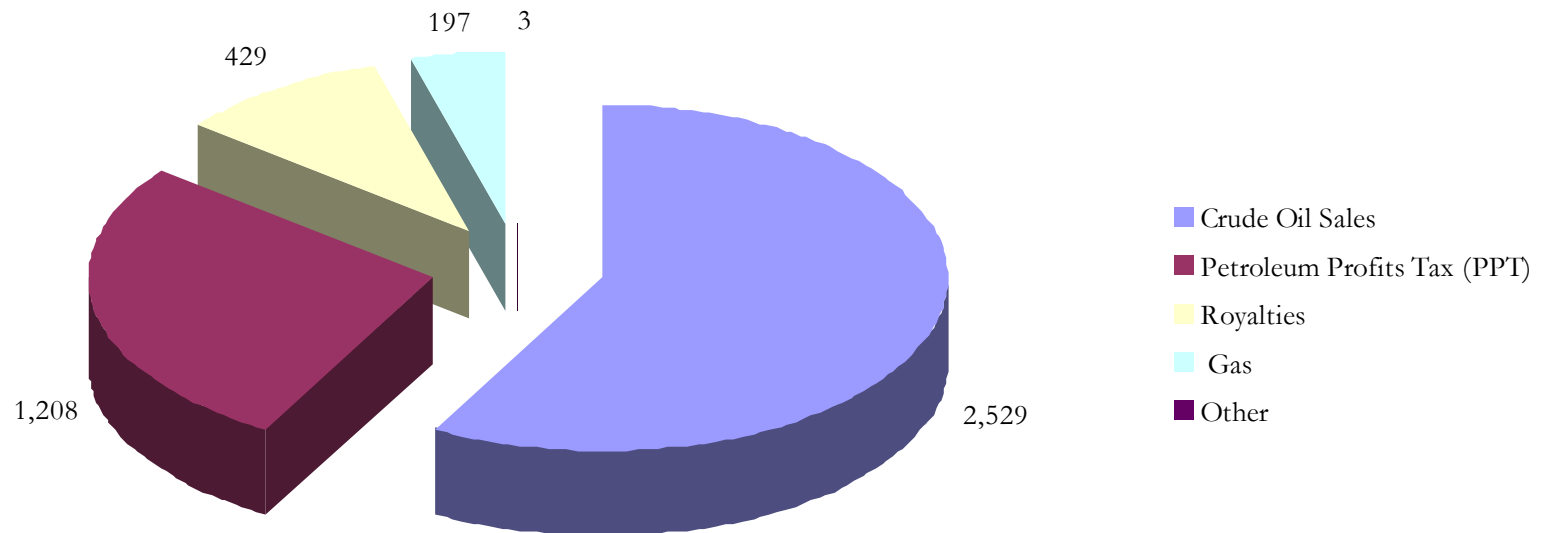
*This projection will be changed to reflect the conclusions of the Presidential Committee on Excess Crude Savings as and when necessary

REVENUE FRAMEWORK

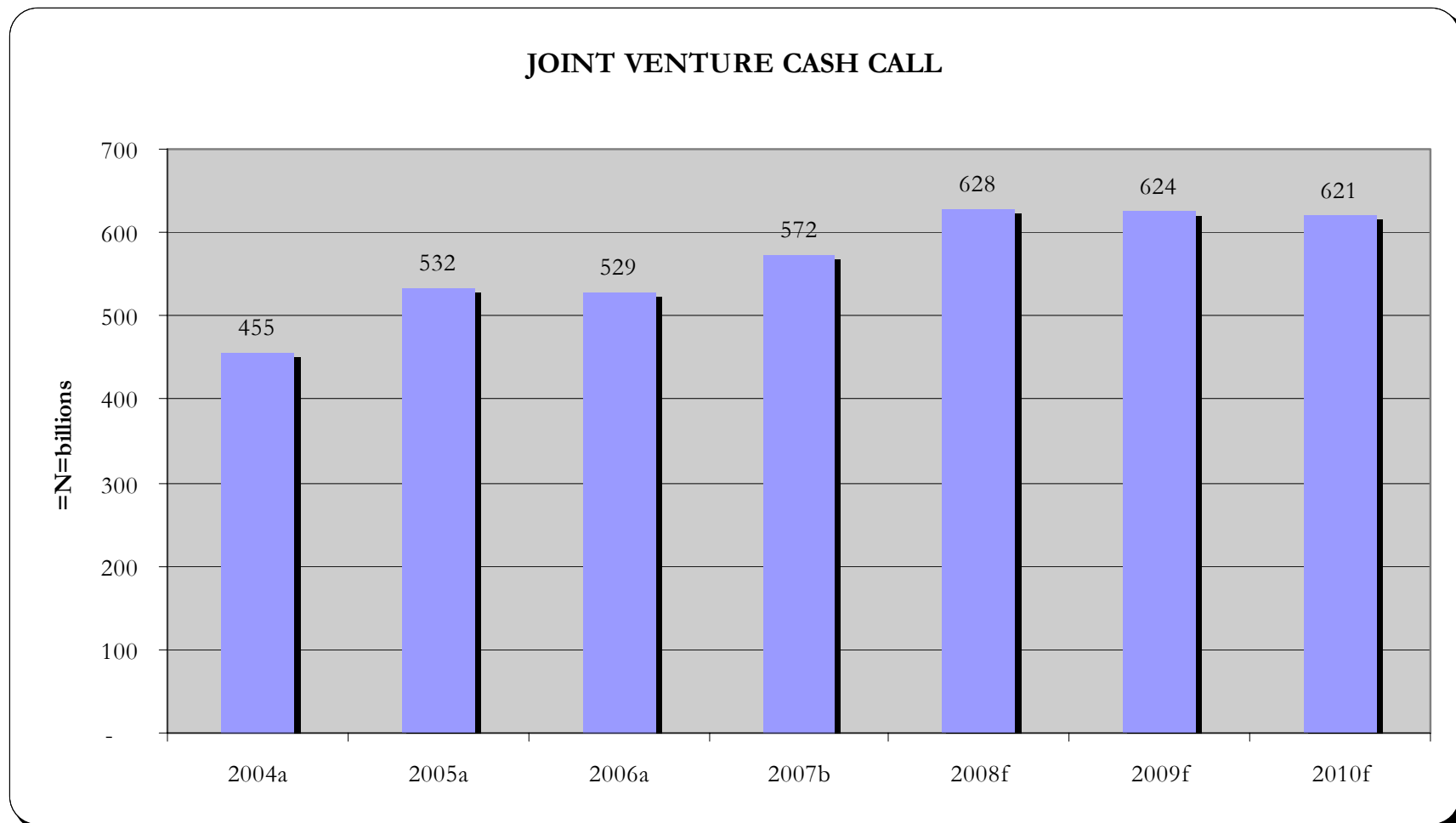
| INFLOWS | 2004a | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns |
| Crude Oil Sales | 1,645 | 1,652 | 1,890 | 2,126 | 2,529 | 3,155 | 2,949 |
| Petroleum Profits Tax (PPT) | 627 | 716 | 909 | 1,148 | 1,208 | 1,617 | 1,599 |
| Royalties | 272 | 288 | 414 | 431 | 429 | 500 | 454 |
| Gas | - | - | - | 95 | 197 | 165 | 157 |
| Other | - | 144 | 3 | 4 | 3 | 4 | 4 |
| SUB-TOTAL - Oil Revenue | 2,545 | 2,800 | 3,217 | 3,805 | 4,366 | 5,441 | 5,162 |
| Joint Venture Cash Calls (JVCC) | 455 | 532 | 529 | 572 | 628 | 624 | 621 |
| SUB-TOTAL - Oil Revenue to FAAC | 2,090 | 2,268 | 2,688 | 3,233 | 3,738 | 4,817 | 4,542 |
| | | | | | | | |
| Companies' Income Tax | 130 | 162 | 232 | 299 | 364 | 447 | 550 |
| Customs & Excise Duty | 258 | 233 | 178 | 230 | 270 | 301 | 352 |
| Cost of collection - CIT | - | 6 | 9 | 12 | 15 | 18 | 22 |
| Cost of collection - Customs | - | 16 | 12 | 16 | 19 | 21 | 25 |
| SUB-TOTAL Non-oil Revenue to FAAC | 388 | 372 | 388 | 501 | 601 | 709 | 855 |
| | | | | | | | |
| TOTAL - FAAC | 2,478 | 2,640 | 3,077 | 3,734 | 4,339 | 5,526 | 5,397 |
| | | | | | | | |
| Value Added Tax | 160 | 190 | 230 | 265 | 323 | 378 | 442 |
| Cost of collection - VAT | - | 8 | 9 | 11 | 13 | 15 | 18 |
| TOTAL - VAT POOL | 160 | 182 | 221 | 254 | 310 | 363 | 424 |

REVENUE FRAMEWORK

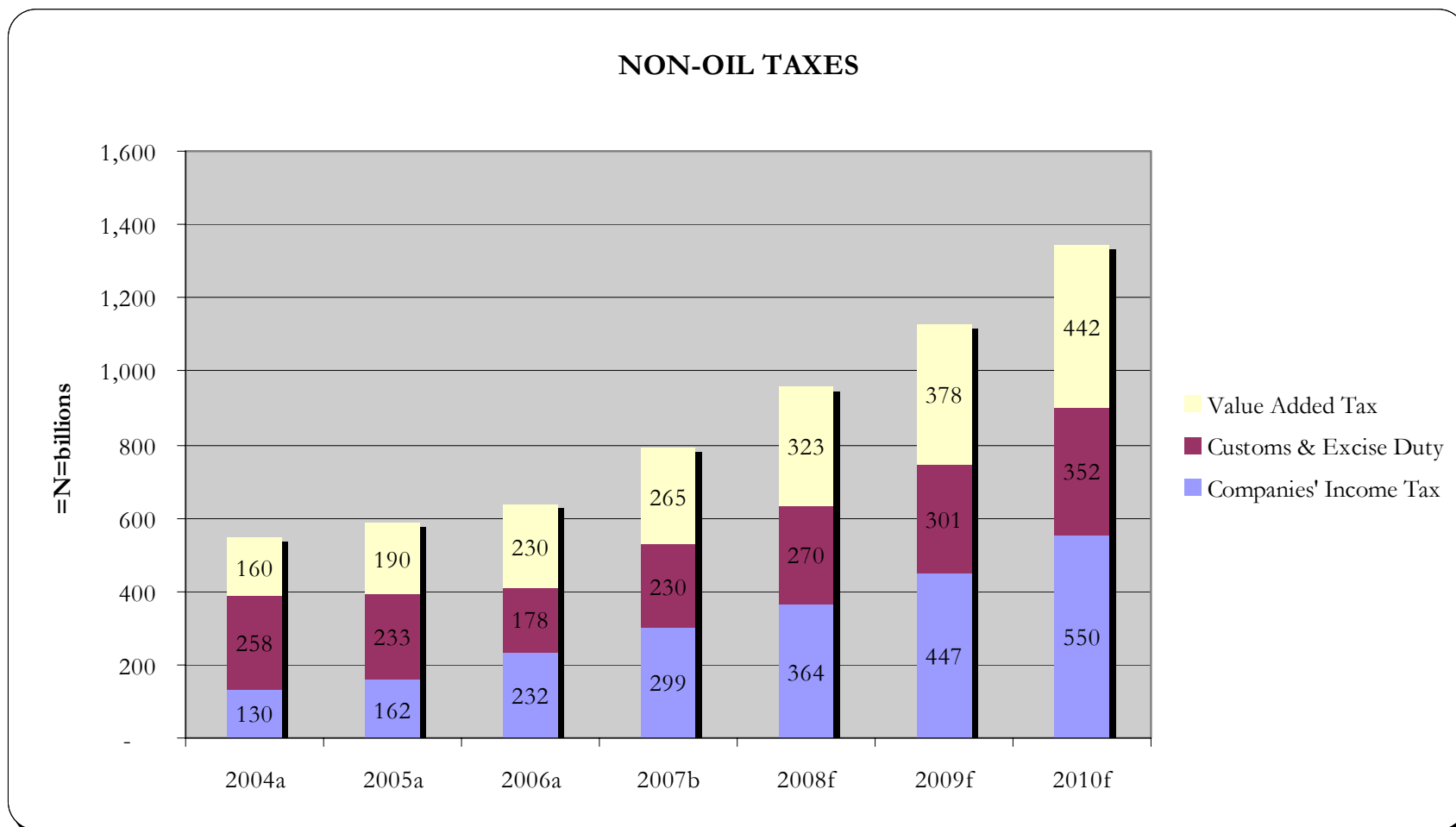
2008 FAAC OIL REVENUE AT BENCHMARK PRICE (=N=bns)



REVENUE FRAMEWORK



REVENUE FRAMEWORK



REVENUE FRAMEWORK

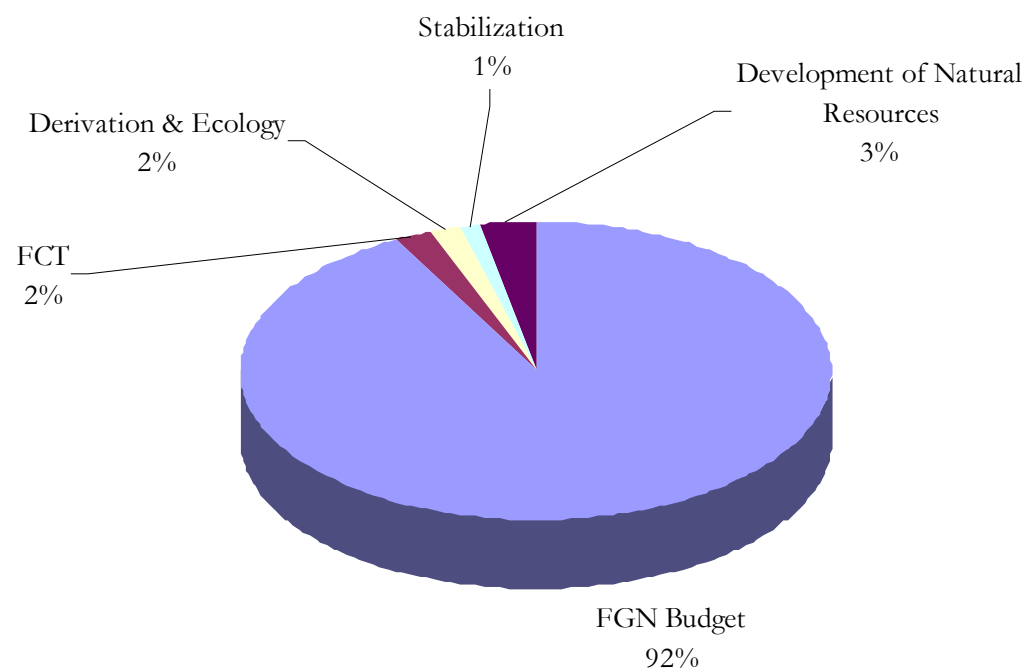
| OUTFLOWS | 2004a | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns |
| FEDERATION ACCOUNT | | | | | | | |
| Federal government | 1,162 | 1,236 | 1,437 | 1,746 | 2,030 | 2,581 | 2,532 |
| State Governmnets | 590 | 627 | 729 | 886 | 1,029 | 1,309 | 1,284 |
| Local Governments | 454 | 483 | 562 | 683 | 794 | 1,009 | 990 |
| Derivation | 272 | 295 | 349 | 420 | 486 | 626 | 590 |
| ACCOUNT | 2,478 | 2,640 | 3,077 | 3,734 | 4,339 | 5,526 | 5,397 |
| VAT POOL | | | | | | | |
| Federal government | 24 | 27 | 33 | 38 | 47 | 54 | 64 |
| State Governmnets | 88 | 100 | 121 | 140 | 171 | 200 | 233 |
| Local Governments | 48 | 55 | 66 | 76 | 93 | 109 | 127 |
| TOTAL - VAT POOL | 160 | 182 | 221 | 254 | 310 | 363 | 424 |
| TOTAL OUTFLOWS | 2,637 | 2,823 | 3,297 | 3,989 | 4,649 | 5,889 | 5,821 |
| <i>Year-on-year % Growth</i> | <i>0.0%</i> | <i>7.0%</i> | <i>16.8%</i> | <i>21.0%</i> | <i>16.5%</i> | <i>26.7%</i> | <i>-1.1%</i> |

REVENUE FRAMEWORK

| | 2004a | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| FEDERAL GOVERNMENT SHARE | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns | =N= bns |
| FGN Budget | 1,092 | 1,163 | 1,354 | 1,643 | 1,912 | 2,427 | 2,391 |
| FCT | 24 | 25 | 29 | 36 | 42 | 53 | 52 |
| Derivation & Ecology | 22 | 23 | 27 | 33 | 39 | 49 | 48 |
| Stabilization | 11 | 12 | 14 | 17 | 19 | 24 | 24 |
| Development of Natural Resources | 37 | 39 | 46 | 56 | 65 | 82 | 81 |
| GOVERNMENT | 1,186 | 1,263 | 1,470 | 1,784 | 2,076 | 2,636 | 2,596 |
| FEDERAL BUDGET SHARE | | | | | | | |
| Oil revenue | 904 | 979 | 1,134 | 1,364 | 1,577 | 2,032 | 1,916 |
| VAT | 22 | 26 | 31 | 36 | 43 | 51 | 59 |
| CIT | 63 | 75 | 108 | 139 | 169 | 208 | 256 |
| Customs | 125 | 105 | 80 | 104 | 122 | 136 | 159 |
| SUB-TOTAL | 1,114 | 1,185 | 1,354 | 1,643 | 1,912 | 2,427 | 2,391 |
| Independent revenue | 59 | 65 | 33 | 134 | 120 | 132 | 145 |
| TOTAL | 1,173 | 1,250 | 1,387 | 1,777 | 2,032 | 2,559 | 2,536 |
| <i>Year-on-year % Growth</i> | <i>0.0%</i> | <i>6.5%</i> | <i>10.9%</i> | <i>28.1%</i> | <i>14.3%</i> | <i>25.9%</i> | <i>-0.9%</i> |

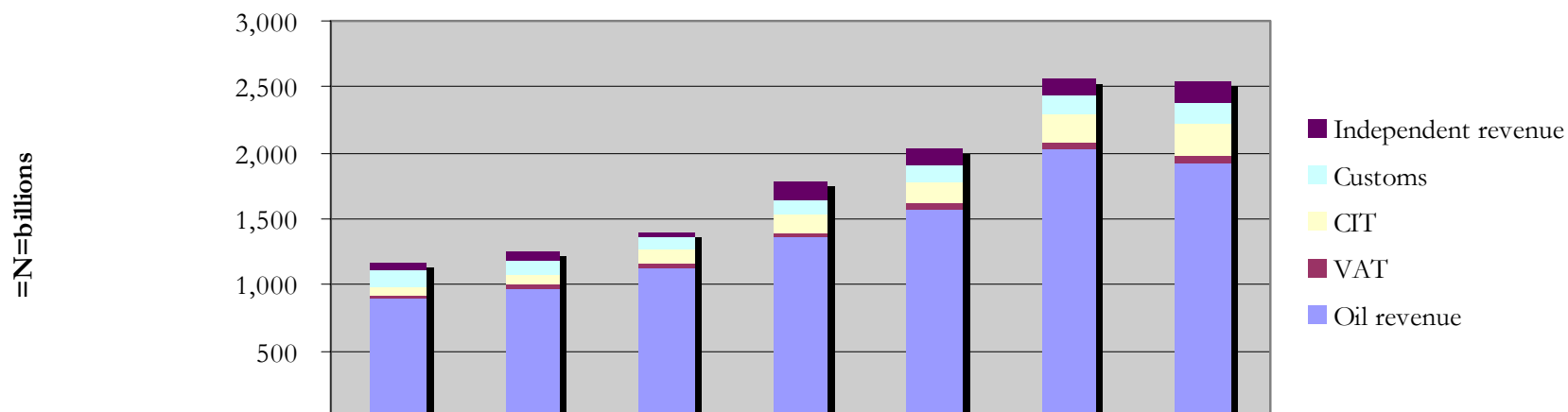
REVENUE FRAMEWORK

BENEFICIARIES OF 2008 FEDERAL GOVERNMENT REVENUE



REVENUE FRAMEWORK

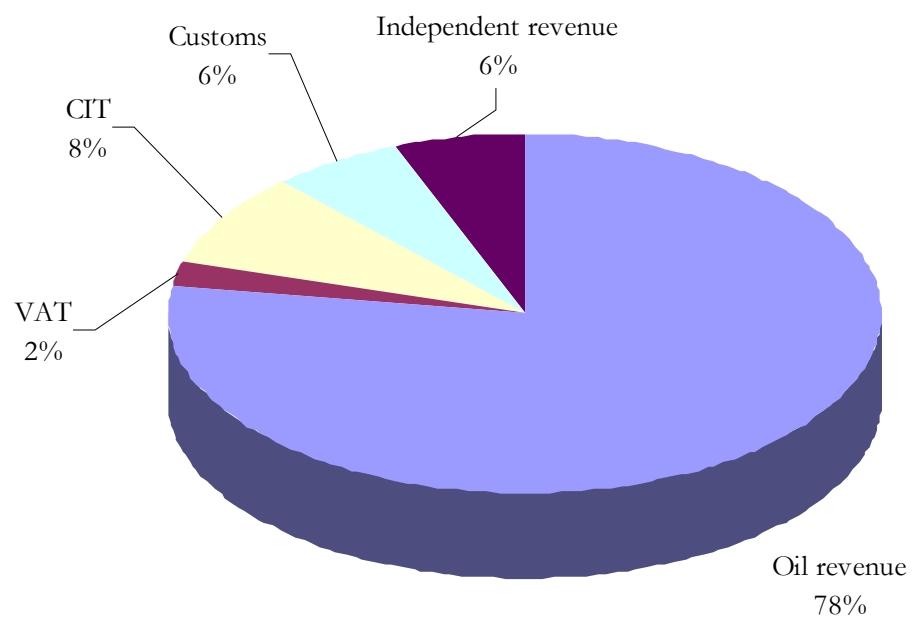
FEDERAL GOVERNMENT BUDGET REVENUE



| | 2004a | 2005a | 2006a | 2007b | 2008f | 2009f | 2010f |
|---------------------|-------|-------|-------|-------|-------|-------|-------|
| Independent revenue | 59 | 65 | 33 | 134 | 120 | 132 | 145 |
| Customs | 125 | 105 | 80 | 104 | 122 | 136 | 159 |
| CIT | 63 | 75 | 108 | 139 | 169 | 208 | 256 |
| VAT | 22 | 26 | 31 | 36 | 43 | 51 | 59 |
| Oil revenue | 904 | 979 | 1,134 | 1,364 | 1,577 | 2,032 | 1,916 |

REVENUE FRAMEWORK

SOURCES OF 2008 FEDERAL BUDGET REVENUE



SUMMARY OF REVENUE FRAMEWORK

- Principles that underpin 2008-2010 Revenue Framework
 - Realistic projections of oil production provided by NNPC/NAPIMS
 - Accurate reflection of PPT tax structure agreed with FIRS/NAPIMS
 - Benchmark oil price selected to protect against volatile oil price
 - Non-oil tax projections agreed with revenue agencies to ensure ambitious but realistic targets
 - Significant increase in FGN Independent Revenue due to improved oversight of Agencies, Parastatals and SOEs

EXPENDITURE FRAMEWORK

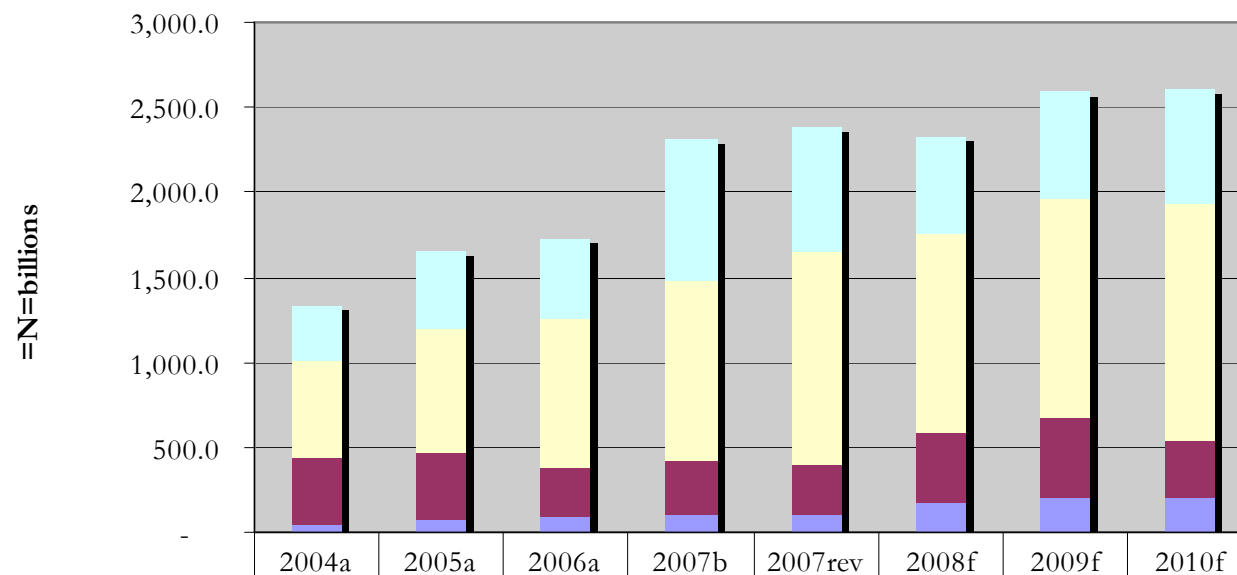
- Expenditure areas that will be fully funded in 2008-2010 Medium Term Expenditure Framework to avoid historical problems
 - 2005-2007 under-funding of NDDC against statutory entitlement
 - 2006/7 under-funding of Pension Redemption Fund
 - 2003/4 under-funding of PAYG pensions that led to pension arrears
 - As capital budget has increased utilization has fallen due to limited spending capacity in MDAs

| CAPITAL BUDGET PERFORMANCE | 2004a | 2005a | 2006a | 2007 (to June) |
|------------------------------------|--------------|--------------|--------------|----------------|
| Capital Appopriation (=N=bns) | 349.6 | 487.6 | 567.5 | 419.1 |
| Final Capital Expenditure (=N=bns) | 315.7 | 447.5 | 467.5 | 160.2 |
| <i>Utilisation %</i> | <i>90.3%</i> | <i>91.8%</i> | <i>82.4%</i> | <i>38.2%</i> |

EXPENDITURE FRAMEWORK

| FEDERAL GOVERNMENT BUDGET | 2004a | 2005a | 2006a | 2007b | 2007rev | 2008f | 2009f | 2010f |
|--------------------------------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
| | =N=bns | =N=bns | =N=bns | =N=bns | =N=bns | =N=bns | =N=bns | =N=bns |
| TOTAL REVENUE | 1,153 | 1,229 | 1,387 | 1,729 | 1,777 | 2,032 | 2,559 | 2,536 |
| Statutory Transfers | 42.2 | 78.9 | 91.6 | 102.3 | 102.3 | 171.5 | 204.4 | 205.3 |
| Debt Service | 396.0 | 394.0 | 282.6 | 326.0 | 297.0 | 412.3 | 472.1 | 335.3 |
| Recurrent (Non-debt) | 570.6 | 730.3 | 888.1 | 1,050.3 | 1,256.9 | 1,175.5 | 1,283.3 | 1,390.5 |
| Capital | 315.7 | 447.5 | 467.5 | 830.7 | 730.0 | 567.7 | 625.5 | 673.0 |
| TOTAL EXPENDITURE | 1,324.5 | 1,650.7 | 1,729.8 | 2,309.3 | 2,386.2 | 2,326.9 | 2,585.5 | 2,604.2 |
| <i>Year-on-year Growth</i> | <i>0.0%</i> | <i>24.6%</i> | <i>4.8%</i> | <i>33.5%</i> | <i>37.9%</i> | <i>-2.5%</i> | <i>11.1%</i> | <i>0.7%</i> |
| SURPLUS (DEFICIT) | (171.9) | (421.4) | (342.7) | (580.3) | (609.2) | (295.0) | (26.4) | (68.5) |
| GDP | 9,604 | 12,547 | 14,575.0 | 16,589 | 16,589 | 18,528 | 20,286 | 22,991 |
| <i>Deficit/GDP ratio</i> | <i>-1.8%</i> | <i>-3.4%</i> | <i>-2.4%</i> | <i>-3.5%</i> | <i>-3.7%</i> | <i>-1.6%</i> | <i>-0.1%</i> | <i>-0.3%</i> |

EXPENDITURE FRAMEWORK



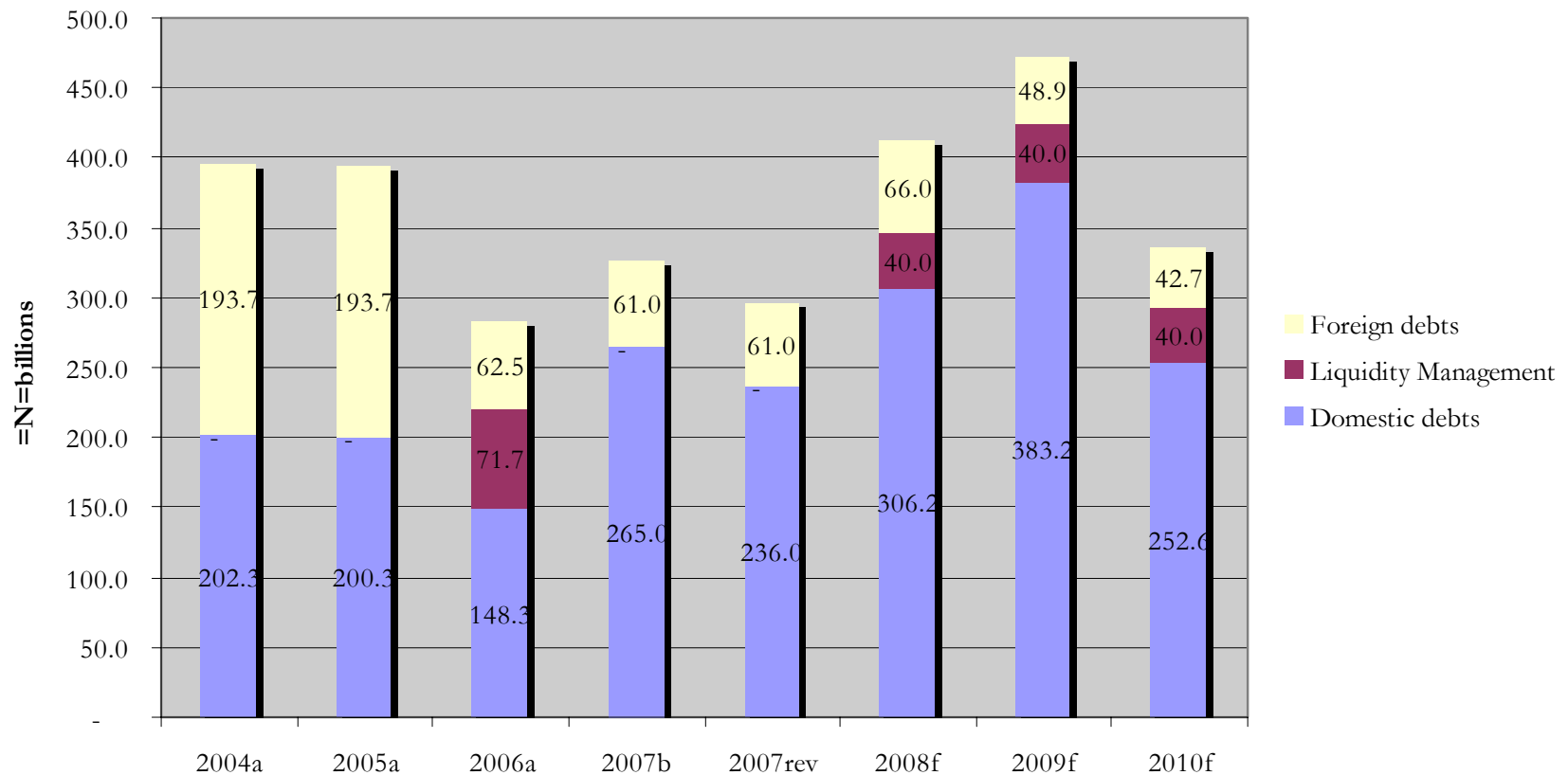
| | 2004a | 2005a | 2006a | 2007b | 2007rev | 2008f | 2009f | 2010f |
|------------------------------|-------|-------|-------|---------|---------|---------|---------|---------|
| ■ CAPITAL EXPENDITURE | 315.7 | 447.5 | 467.5 | 830.7 | 730.0 | 567.7 | 625.5 | 673.0 |
| ■ TOTAL RECURRENT (NON-DEBT) | 570.6 | 730.3 | 888.1 | 1,050.3 | 1,256.9 | 1,175.5 | 1,283.3 | 1,390.5 |
| ■ TOTAL DEBT SERVICE | 396.0 | 394.0 | 282.6 | 326.0 | 297.0 | 412.3 | 472.1 | 335.3 |
| ■ TOTAL TRANSFERS | 42.2 | 78.9 | 91.6 | 102.3 | 102.3 | 171.5 | 204.4 | 205.3 |

EXPENDITURE FRAMEWORK

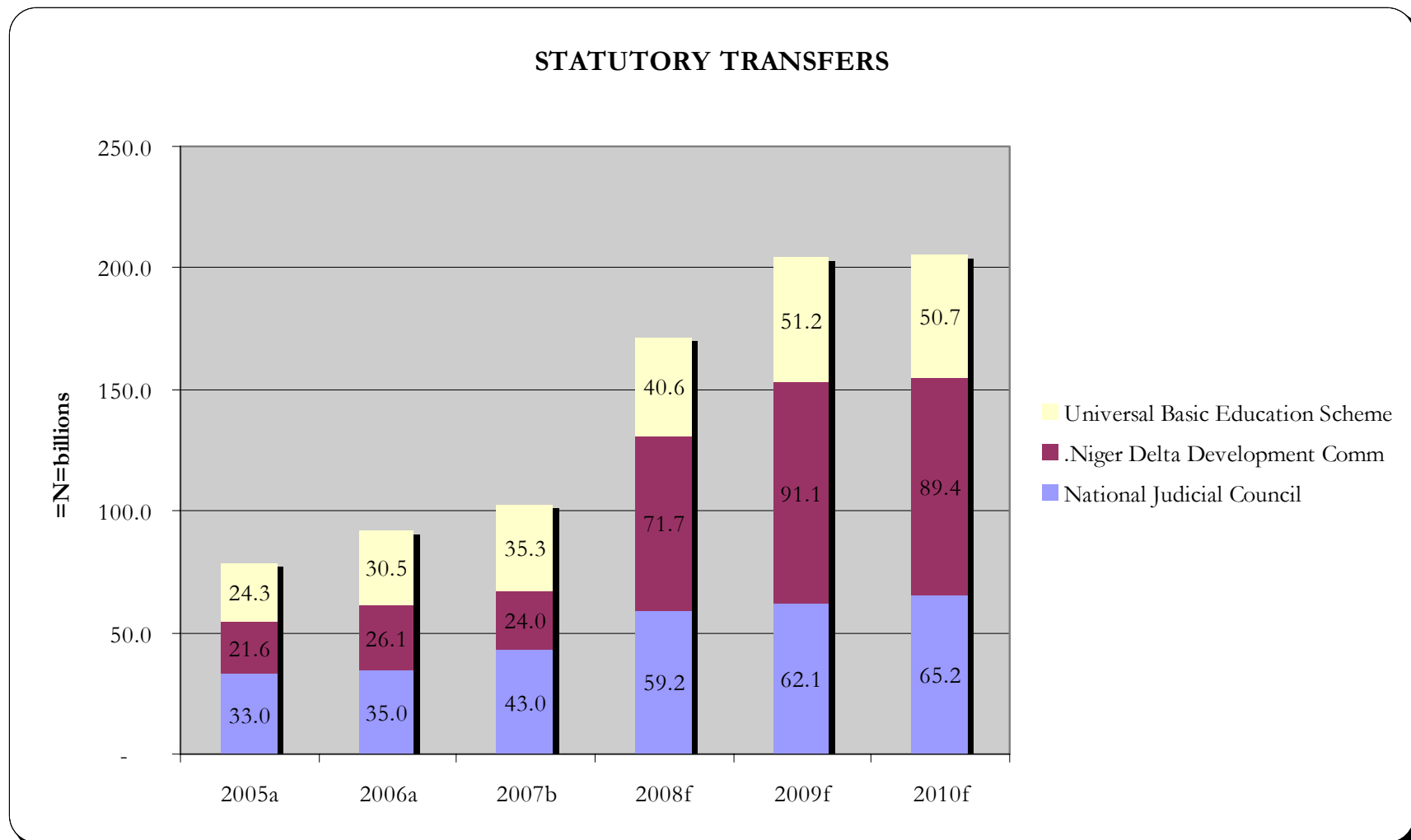
| FEDERAL GOVERNMENT BUDGET (=N=bns) | 2004a | 2005a | 2006a | 2007b | 2007rev | 2008f | 2009f | 2010f |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| National Judicial Council | - | 33.0 | 35.0 | 43.0 | 43.0 | 59.2 | 62.1 | 65.2 |
| Niger Delta Development Comm. | - | 21.6 | 26.1 | 24.0 | 24.0 | 71.7 | 91.1 | 89.4 |
| Universal Basic Education Scheme | - | 24.3 | 30.5 | 35.3 | 35.3 | 40.6 | 51.2 | 50.7 |
| TOTAL TRANSFERS | 42.2 | 78.9 | 91.6 | 102.3 | 102.3 | 171.5 | 204.4 | 205.3 |
| Domestic debts | 202.3 | 200.3 | 148.3 | 265.0 | 236.0 | 306.2 | 383.2 | 252.6 |
| Liquidity Management | - | - | 71.7 | - | - | 40.0 | 40.0 | 40.0 |
| Foreign debts | 193.7 | 193.7 | 62.5 | 61.0 | 61.0 | 66.0 | 48.9 | 42.7 |
| TOTAL DEBT SERVICE | 396.0 | 394.0 | 282.6 | 326.0 | 297.0 | 412.3 | 472.1 | 335.3 |
| Personnel costs | 356.7 | 443.3 | 527.6 | 547.5 | 732.0 | 745.9 | 844.3 | 955.9 |
| Pensions | 85.8 | 84.0 | 100.9 | 103.0 | 109.3 | 131.0 | 130.8 | 132.6 |
| Overheads | 128.1 | 203.0 | 222.6 | 289.8 | 285.6 | 275.0 | 288.2 | 302.1 |
| Petroleum Support | - | - | - | 75.0 | 75.0 | - | - | - |
| Public Service Reform | - | - | 37.0 | 35.0 | 55.0 | 23.6 | 20.0 | - |
| TOTAL RECURRENT (Non-Debt) | 570.6 | 730.3 | 888.1 | 1,050.3 | 1,256.9 | 1,175.5 | 1,283.3 | 1,390.5 |
| CAPITAL EXPENDITURE | 315.7 | 447.5 | 467.5 | 830.7 | 730.0 | 567.7 | 625.5 | 673.0 |
| TOTAL EXPENDITURE | 1,324.5 | 1,650.7 | 1,729.8 | 2,309.3 | 2,386.2 | 2,326.9 | 2,585.5 | 2,604.2 |
| <i>Year-on-year Growth</i> | <i>0.0%</i> | <i>24.6%</i> | <i>4.8%</i> | <i>33.5%</i> | <i>37.9%</i> | <i>-2.5%</i> | <i>11.1%</i> | <i>0.7%</i> |

DEBT SERVICE

DEBT SERVICE PAYMENTS (INC PRINCIPAL)

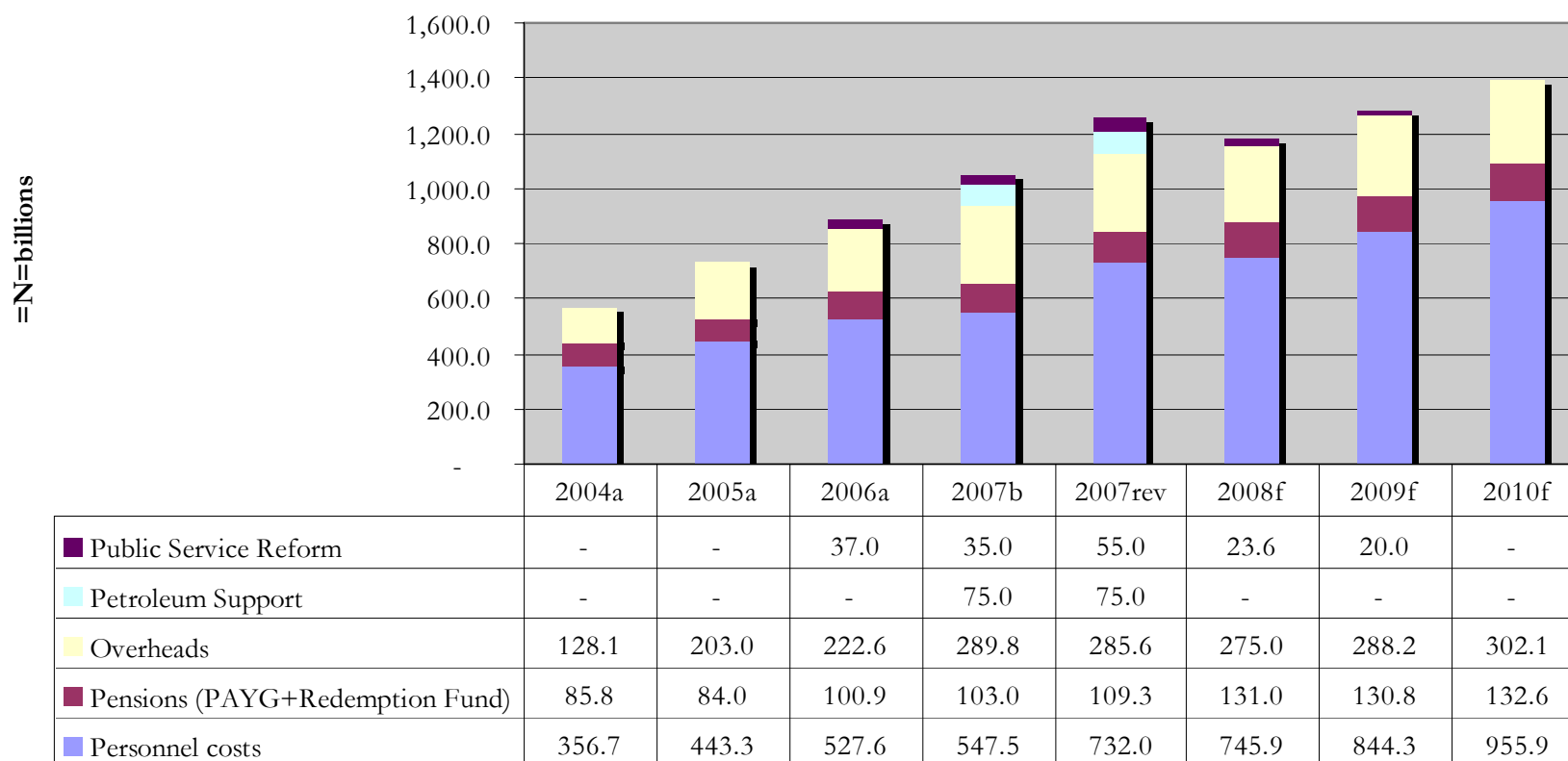


STATUTORY TRANSFERS

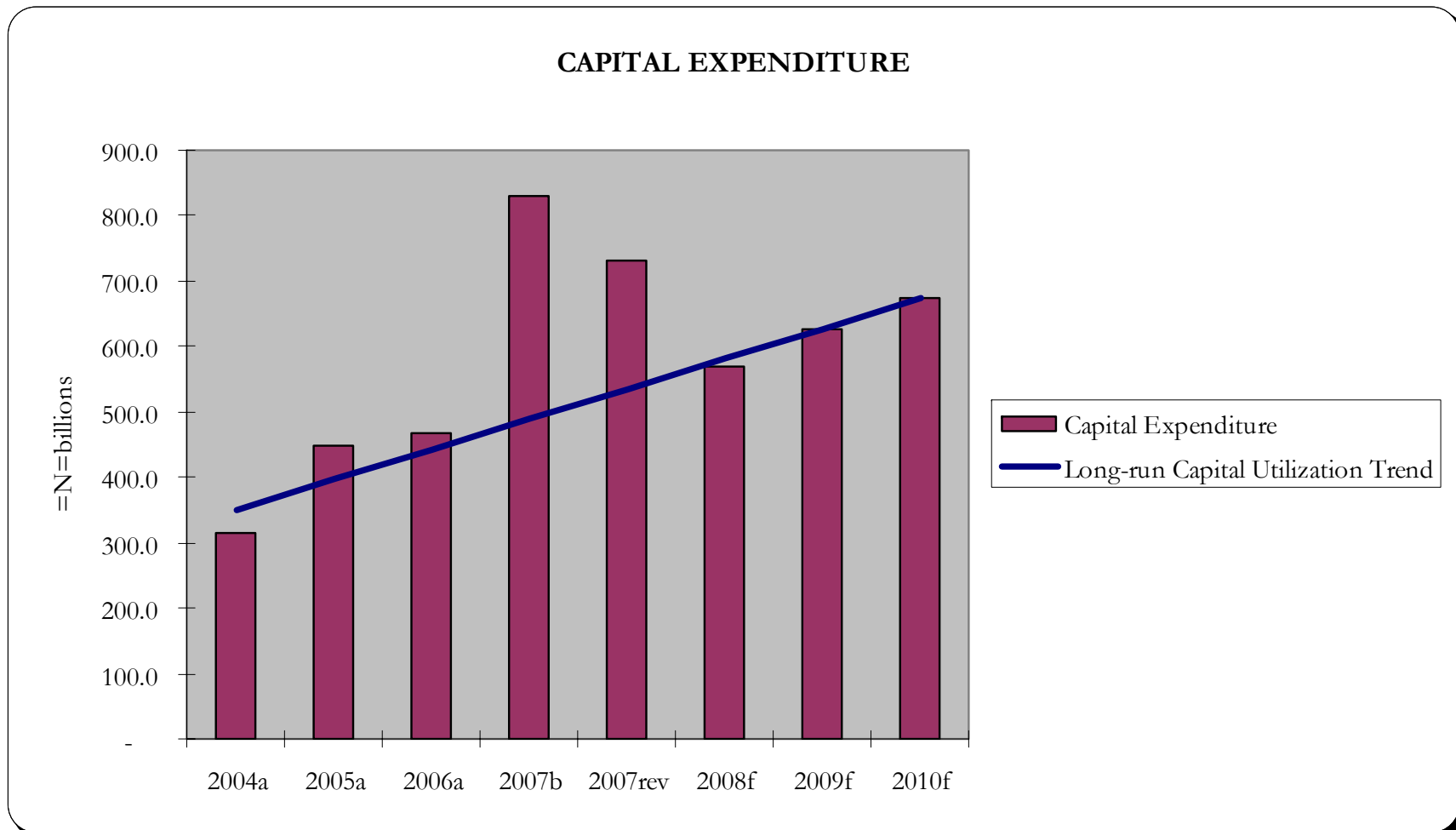


MDA EXPENDITURE

RECURRENT (NON-DEBT) EXPENDITURE

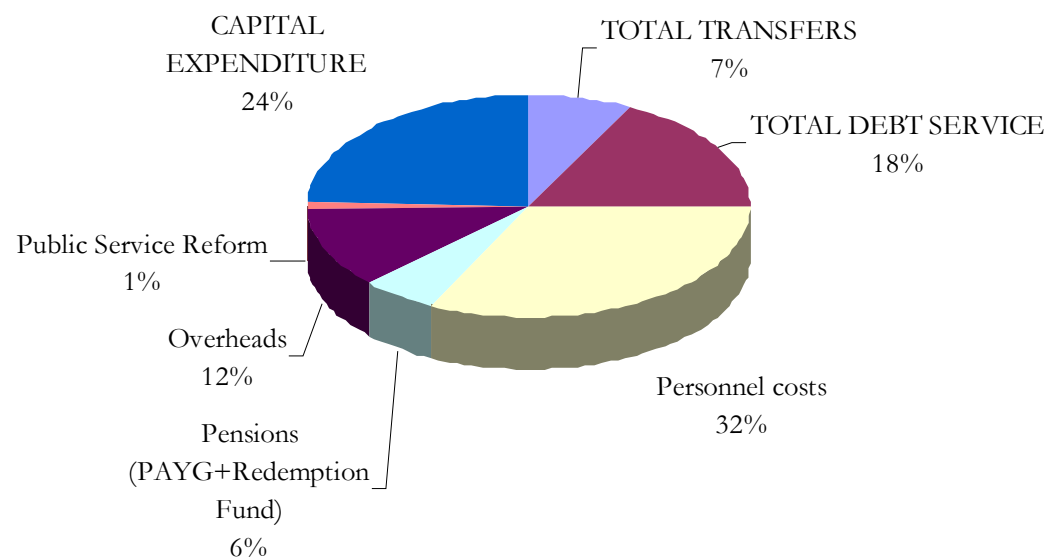


MDA EXPENDITURE



MDA EXPENDITURE

2008 FGN BUDGET BREAKDOWN



MDA EXPENDITURE

- MDA Expenditure Envelopes are still being determined
- These envelopes will be allocated in order to optimally distribute Federal Government funds on the basis of
 - Delivering Mr. President's 7-point Policy Agenda
 - Addresses priority issues facing the Administration

DEFICIT FINANCING

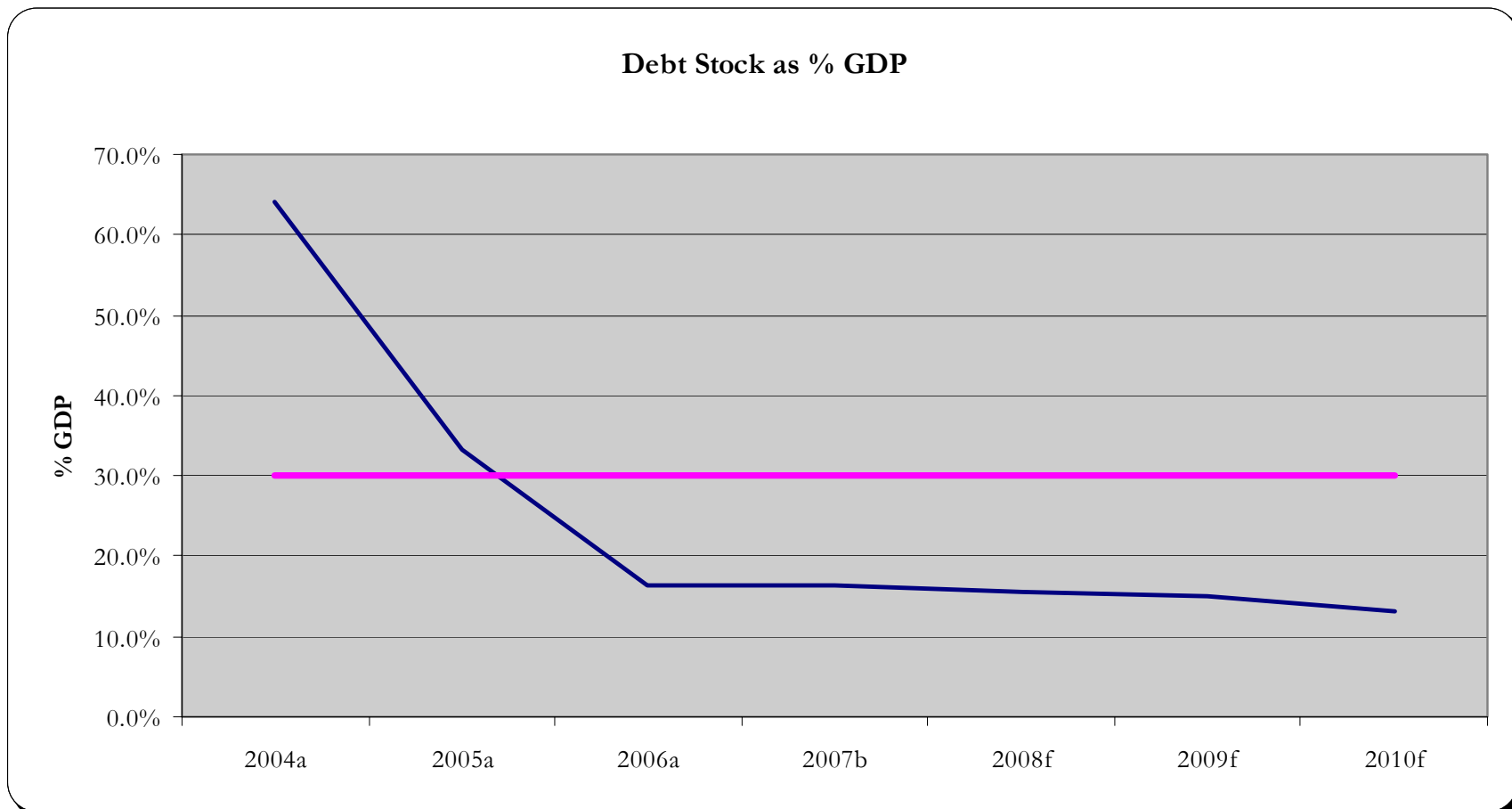
- Proposal: run a small deficit in 2008 whilst JV oil production is low and then eliminate deficit in 2009-2010 as oil revenues rise

| FEDERAL GOVERNMENT BUDGET | 2004a | 2005a | 2006a | 2007b | 2007rev | 2008f | 2009f | 2010f |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| TOTAL REVENUE | 1,152.6 | 1,229.3 | 1,387.1 | 1,729.0 | 1,777.0 | 2,031.9 | 2,559.1 | 2,535.8 |
| TOTAL EXPENDITURE | 1,324.5 | 1,650.7 | 1,729.8 | 2,309.3 | 2,386.2 | 2,326.9 | 2,585.5 | 2,604.2 |
| SURPLUS (DEFICIT) | (172) | (421) | (343) | (580.3) | (609.2) | (295.0) | (26.4) | (68.5) |
| FINANCING | | | | | | | | |
| Excess Crude | 20.7 | 202.0 | 240.6 | 105.0 | 105.0 | - | - | - |
| Borrowing from 3% Natural Resources | 50 | - | - | 100.0 | 100.0 | - | - | - |
| Signature Bonus | - | 15.0 | 19.8 | 40.0 | 68.9 | 30.0 | - | 60.0 |
| Proceeds of sale of government properties | - | - | 30.9 | 125.0 | 125.0 | 30.0 | - | - |
| Domestic borrowing | 101.3 | 144.0 | - | 200.0 | 200.0 | 200.0 | - | - |
| Privatization Proceeds | - | - | 19.3 | - | - | 35.0 | 25.0 | - |
| TOTAL FINANCING | 172.0 | 361.0 | 310.6 | 570.0 | 598.9 | 295.0 | 25.0 | 60.0 |
| FINANCING SURPLUS (DEFICIT) | 0.1 | (60.4) | (32.2) | (10.3) | (10.3) | 0.0 | (1.4) | (8.5) |
| <i>Deficit/GDP ratio</i> | <i>-1.8%</i> | <i>-3.4%</i> | <i>-2.4%</i> | <i>-3.5%</i> | <i>-3.7%</i> | <i>-1.6%</i> | <i>-0.1%</i> | <i>-0.3%</i> |

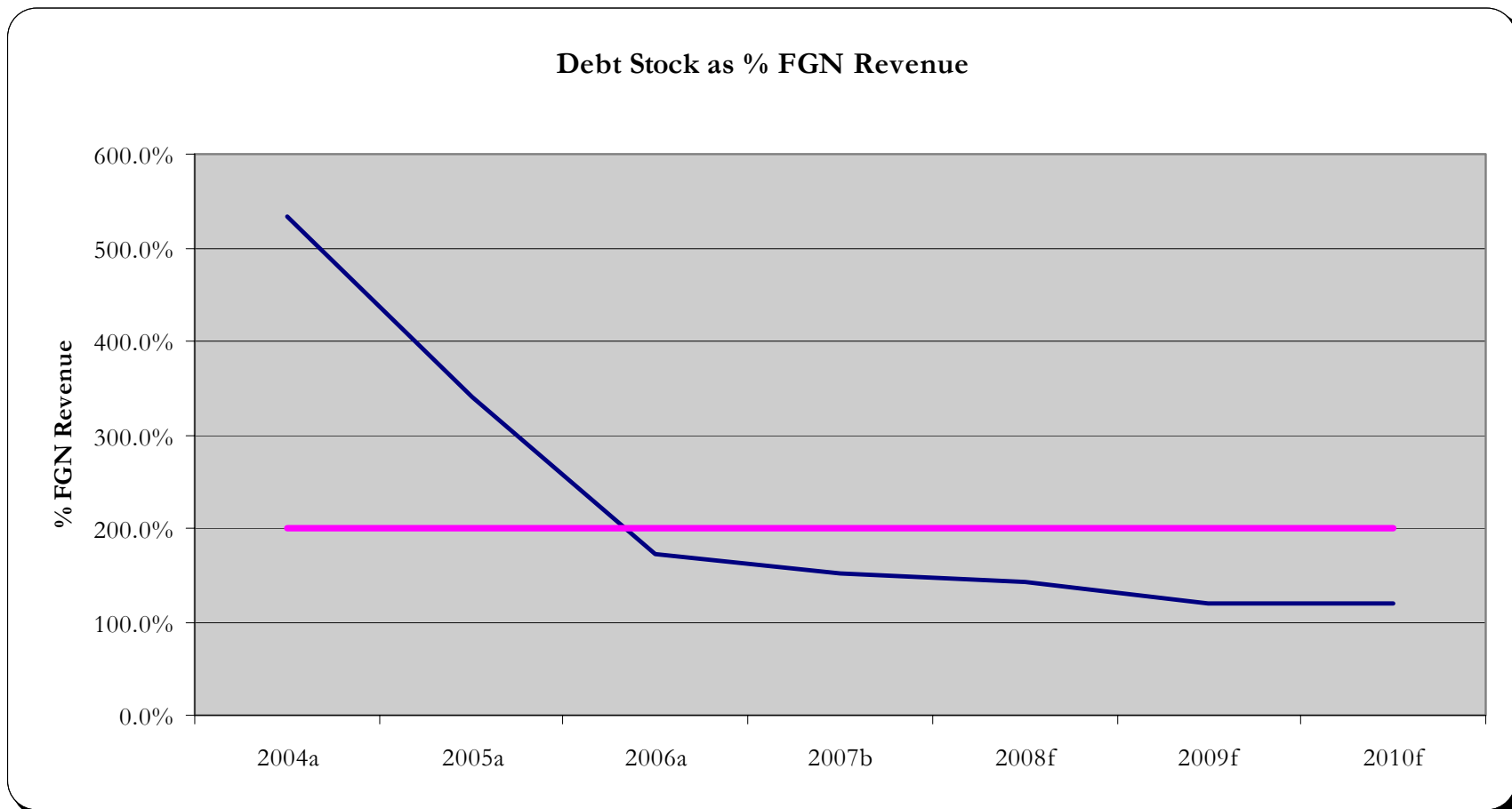
DEFICIT FINANCING

- Definitions of sustainable borrowing
 - Debt Stock
 - Less than 30% GDP
 - Less than 200% revenue
 - Debt Service
 - Less than 25% of revenue
 - Deficit
 - Less than 3% of GDP
- Using these definitions to test borrowing of
=N=200billion in 2008

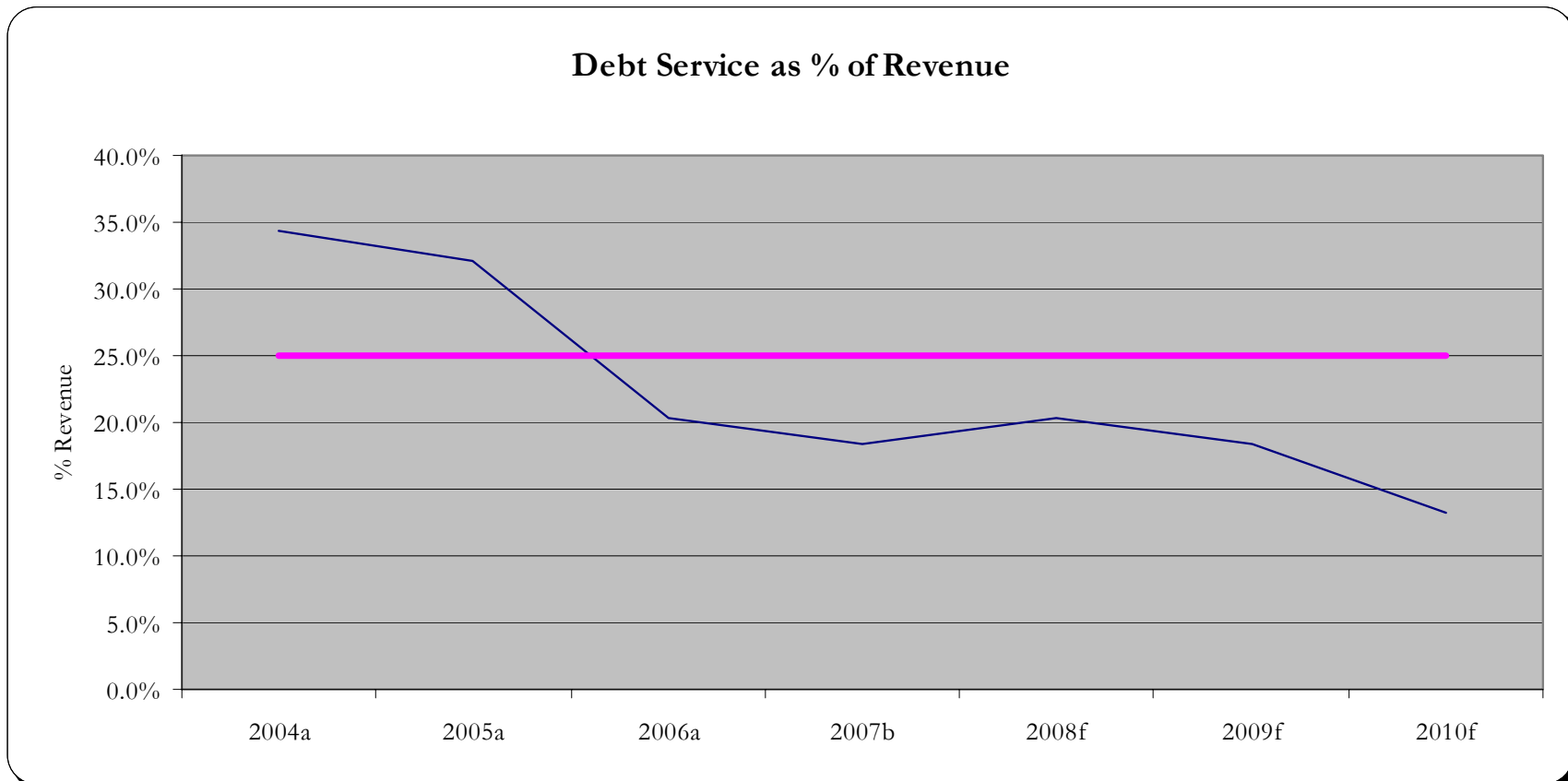
DEFICIT FINANCING



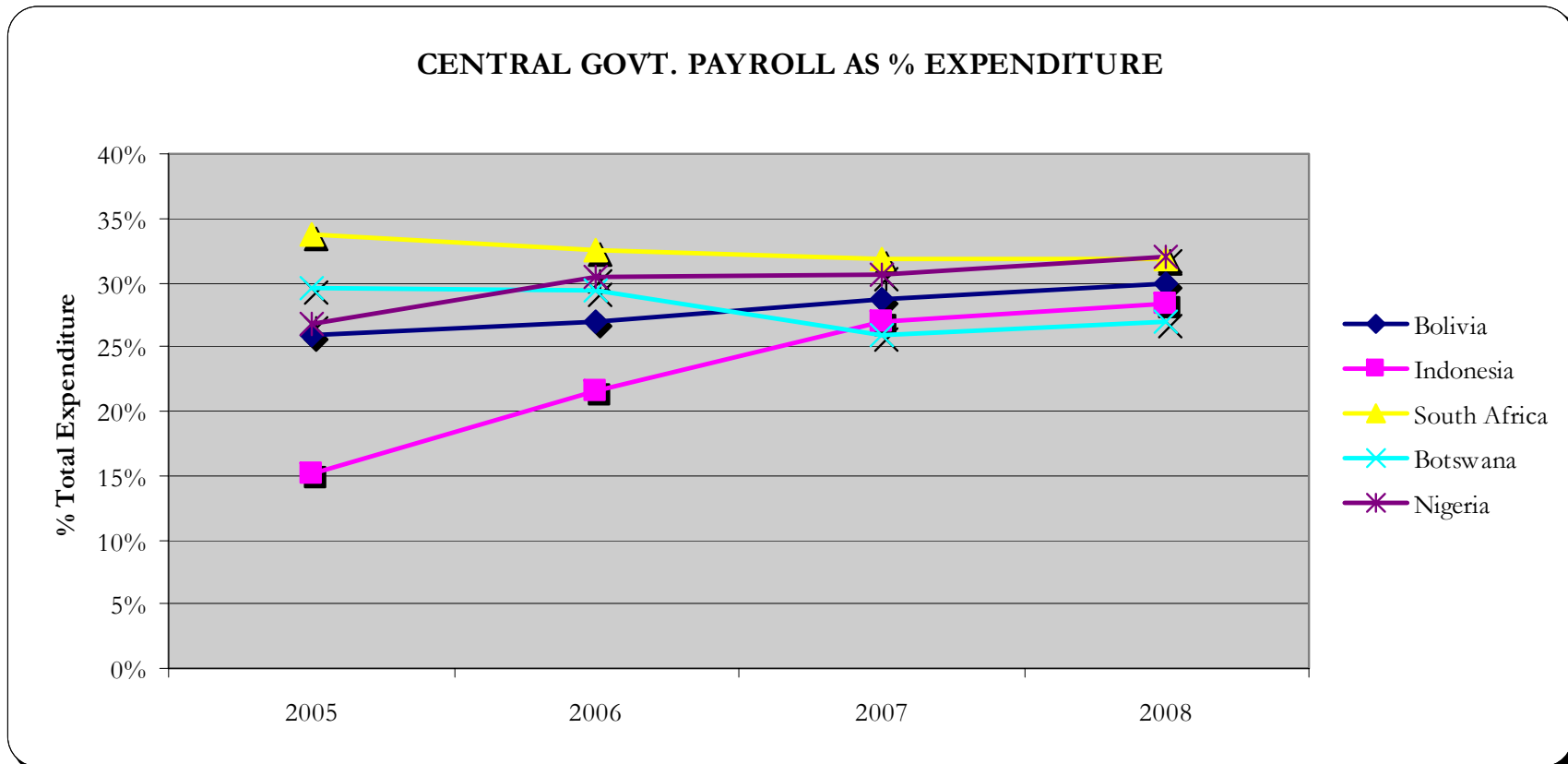
DEFICIT FINANCING



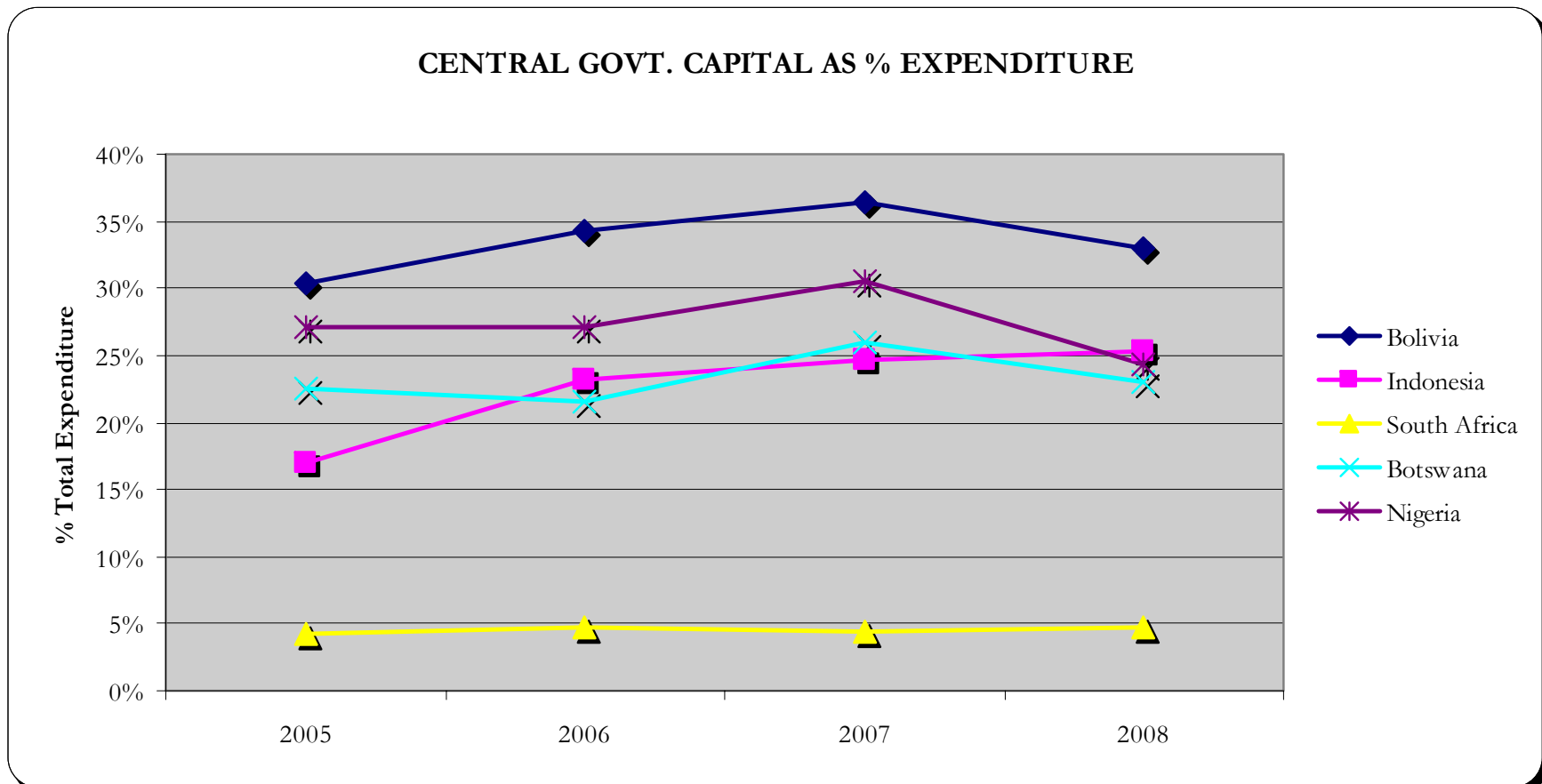
DEFICIT FINANCING



BENCHMARKING



BENCHMARKING

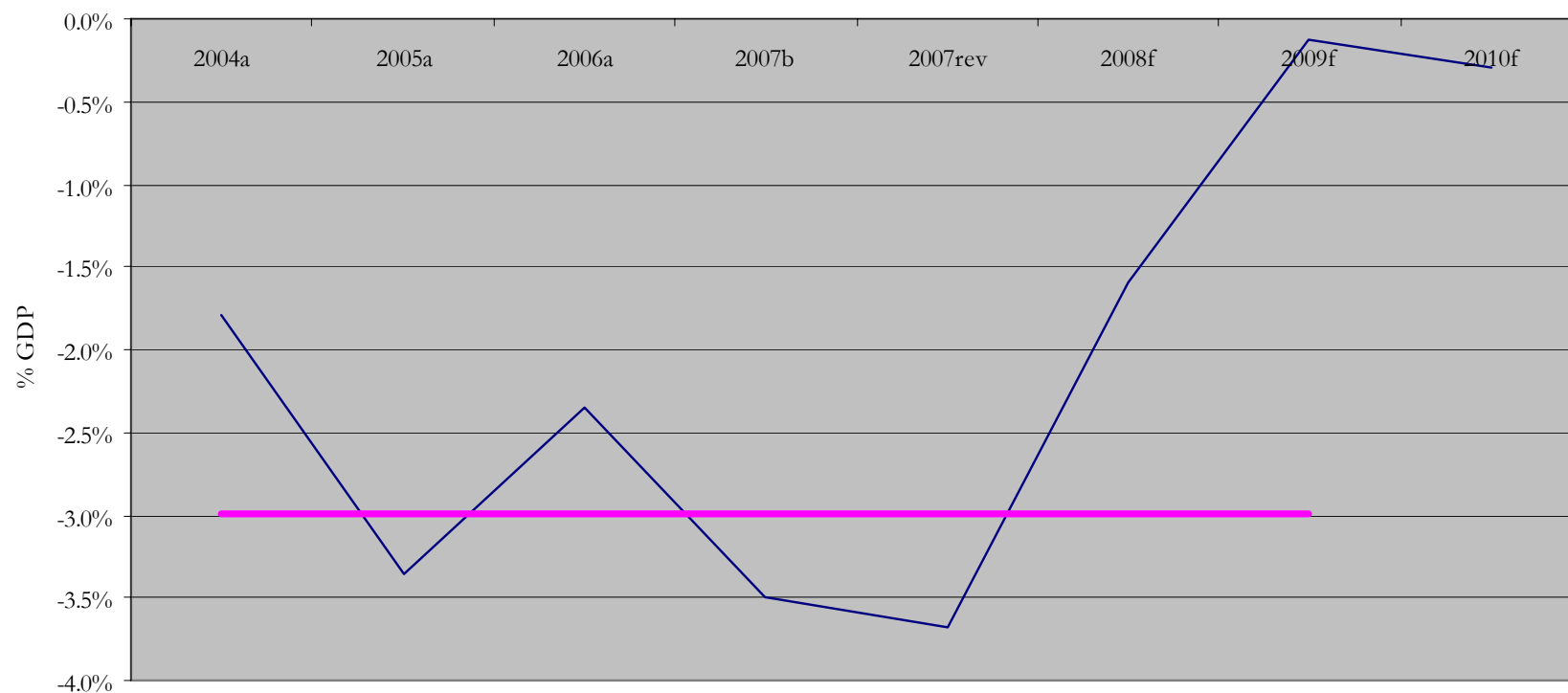


ANALYSIS OF KEY RATIOS

| KEY BENCHMARKS | 2004a | 2005a | 2006a | 2007b | 2007rev | 2008f | 2009f | 2010f |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| GDP | 9,604 | 12,547 | 14,575.0 | 16,589 | 16,589 | 18,528 | 20,286 | 22,991 |
| <i>Deficit/GDP ratio</i> | -1.8% | -3.4% | -2.4% | -3.5% | -3.7% | -1.6% | -0.1% | -0.3% |
| FGN Spending as % GDP | 13.8% | 13.2% | 11.9% | 13.9% | 14.4% | 12.6% | 12.7% | 11.3% |
| Non-Oil GDP | 5,005 | 5,783 | 6,490 | 8,446 | 8,446 | 9,781 | 11,262 | 12,947 |
| FGN Spending as % Non-oil GDP | 26.5% | 28.5% | 26.7% | 27.3% | 28.3% | 23.8% | 23.0% | 20.1% |
| Consolidated FGN Spending | 1,324.5 | 1,650.7 | 1,729.8 | 2,309.3 | 2,386.2 | 2,326.9 | 2,585.5 | 2,604.2 |
| Con. FGN Revenue (Benchmark+ECA) | 1492.9 | 2056.4 | 2313.5 | 2433.1 | 2481.1 | 2457.7 | 2921.2 | 2676.8 |
| Consolidated Surplus (Deficit) | 168 | 406 | 584 | 124 | 95 | 131 | 336 | 73 |
| <i>Consolidated Surplus (Deficit) as % GDP</i> | <i>1.8%</i> | <i>3.2%</i> | <i>4.0%</i> | <i>0.7%</i> | <i>0.6%</i> | <i>0.7%</i> | <i>1.7%</i> | <i>0.3%</i> |

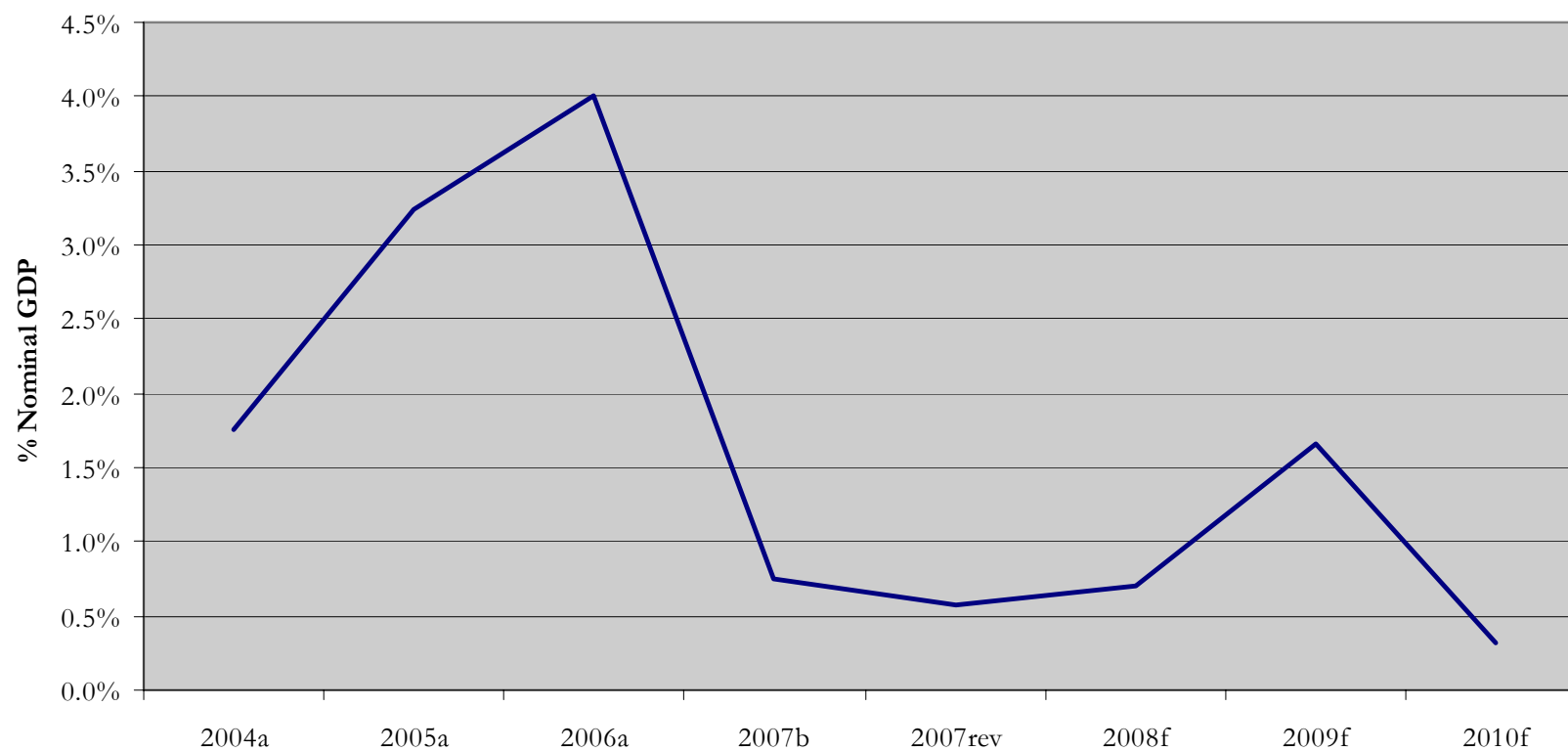
ANALYSIS OF KEY RATIOS

FGN Deficit as % GDP at Benchmark Oil Price



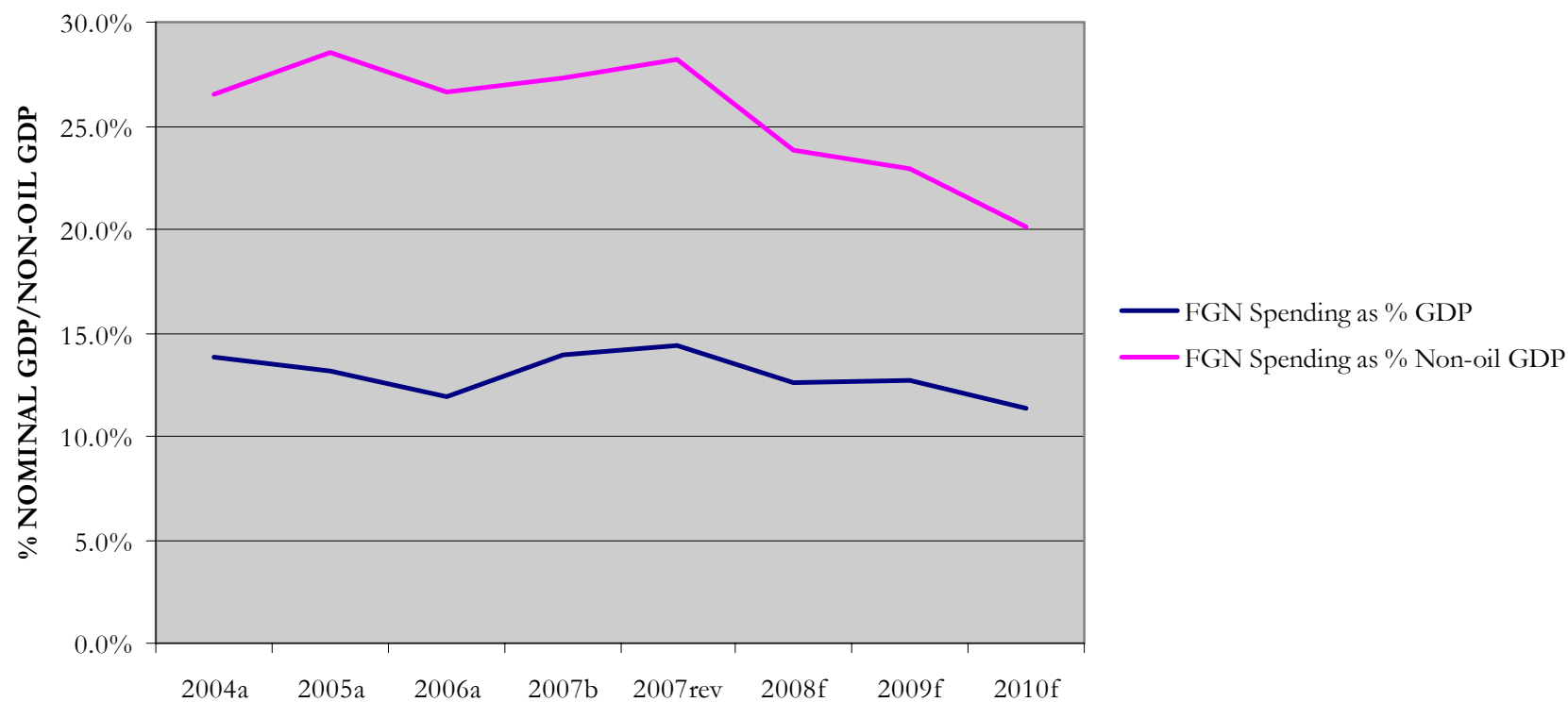
ANALYSIS OF KEY RATIOS

Consolidated FGN Surplus (Deficit) as % GDP



ANALYSIS OF KEY RATIOS

SIZE OF FEDERAL GOVERNMENT SPENDING



FISCAL RISKS

- Macroeconomic Risks
 - GDP growth rate below target
 - Reduce non-oil tax revenue
 - Increase deficit/debt stock as % GDP
 - Inflation goes into double digits
 - Additional funds required for liquidity management
 - Prudent fiscal policy proposed in this framework for 2008-2010 will help control inflation
 - Exchange Rate – Exchange rate appreciation will reduce government's income from oil exports and PPT
 - CBN are committed to a stable exchange rate 2008
 - Future developments under floating regime will need to be addressed from 2009 onwards

FISCAL RISKS

- NNPC JVCC requirements
 - In early 2007 NNPC made a proposal for a substantial increase in the level of JVCC funding
 - Current funding level US\$5 billion per year 2008-2012
 - NNPC requested an *additional* US\$7 billion per year 2008-2012
 - The purpose of this investment is to
 - Reverse several years of under-investment in new JV oil production
 - Move Nigeria towards being a diversified oil *and* gas economy
 - Generate significant additional extra revenue for Government
 - This investment choice is a fundamental policy decision for the new Administration.
 - The modalities of this investment remain to be determined – consequently the potential costs and additional revenues have not been incorporated into the Medium Term Expenditure Framework

FISCAL RISKS

- Revenue
 - Further production cuts in Niger Delta
 - Substantial increase in funding to NDDC has been included in 2008 Budget Framework as part of the Administrations broader efforts to reduce disruption
 - 2008-2010 Revenue Framework based on conservative oil production targets (in particular for JV)
 - Market oil price falls below benchmark
 - Use of prudent benchmark to guard against this, excess crude savings available for revenue smoothing
 - Non-performance of revenue collection agencies
 - Revenue targets provided by agencies – should be achievable
 - Cost of collection provides incentive for effective collection

FISCAL RISKS

- Expenditure
 - Further increase in salary
 - 2008-2010 MTEF assumes implementation of Consolidated Salary in 2008 but no further increase
 - Further 10% annual increase applied in 2009 and 2010
 - Increase in overhead budget due to lack of due process in recurrent spending
 - Low Capital Budget Utilization
 - Adopt more realistic capital budget for 2008 versus 2007
 - Review capital performance mid-2008 and revise budget if necessary
 - Contingent liabilities crystallize
 - Severance benefits from NEPA and other privatizations
 - Other NEPA liabilities taken on by government
 - Pension fund shortfall for FGN Parastatals
 - Additional Local contractor arrears
 - FGN can issue bonds to cover such liabilities if revenue is not available

IMPLEMENTATION OF THE POLICY SUPPORT
INSTRUMENT (PSI)-AN UPDATE

A PRESENTATION BY
DR SHAMSUDEEN USMAN, OFR
MINISTER OF FINANCE

Outline

- Concepts and Background Information on (PSI)
- Reviews of the PSI
- Issues and Concerns from the 3rd Review of the PSI
- Missed targets and Benchmarks under the 3rd Review of the PSI
- Targets and Benchmarks under the 4th Review of the PSI
- Challenges Going Forward
- What Next After the 4th Review

Background Information on PSI

- Nigeria's PSI –a two year medium term economic programme based on National Economic Empowerment and Development Strategy (NEEDS)
- PSI was approved by the Executive Board of the IMF at the instance of Nigeria in October 2005.

PSI seeks to :

- assist Nigeria to develop a well-articulated and sound policy framework, including prudent macroeconomic policies,
- Strengthen institutions
- ensure a governance structure conducive to private sector activity.

Successful reviews under IMF Policy Support Instrument (PSI)

1st Review in April, 2006

- 2nd Review in December, 2006
- 3rd Review completed on 27 June 2007
- 4th Review scheduled for 20-30 August 2007. Outcome to be presented to the IMF Board in October 2007

Concerns and Issues from the 3rd Review of the PSI

The major areas of concern to the IMF Executive Board were:

- Deviation from the oil-price based fiscal rule
- Perceived weakening of policy implementation in view of number of waivers demanded (i.e. 5 waivers)
- Misreporting of the US\$ 200 million non-concessional loan;
- MOU for a US\$ 2.5 billion potential credit line with China for the railway project could undermine the Debt Sustainability Framework (DSF).
- Breach in reserve money target and the acceleration of broad money growth

Concerns and Issues from the 3rd Review of the PSI (Cont'd)

- Lack of timeliness and low quality of monetary data undermine the basis for sound monetary policy formulation and implementation
- Failure to meet 5 structural benchmarks and two assessment criteria
- Lack of timeliness and low quality of monetary data undermine the basis for sound monetary policy formulation and implementation
- Failure to meet 5 structural benchmarks and two assessment criteria

Missed targets and Benchmarks under the 3rd Review

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|---|-------------------------|---------|
| BPSR | Intro pers. & payroll info system (IPPIS) | Sept 2006 | not met |
| FIRS | Conduct nationwide taxpayer enumeration | Dec 2006 | not met |

Missed targets and Benchmarks under the 3rd Review(cont'd)

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|---|-------------------------|---------|
| CBN | (i)estab prudential std for consol supervsn | Dec 2006 | not met |

Missed targets and Benchmarks under the 3rd Review (cont'd)

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|--|-------------------------|---------|
| NCS | expand the oprtns. of the large importers/ Exporters unit to handle at least 50% of trade | Dec 2006 | not met |

Missed targets and Benchmarks under the 3rd Review(cont'd)

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|-----------|---|-------------------------|---------|
| BMPIU/PPB | finalize and issue procurement manual | Sept 2006 | not met |
| NEITI | Appoint Auditors to conduct audit of oil & gas sector for 2005 & 2006 | March 2007 | not met |

Missed targets and Benchmarks under the 3rd Review(cont'd)

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|--|-------------------------|---------|
| CBN | Target on Reserve Money | March 2007 | Not met |
| BPSR | Complete paymt. of severance benefits & training prog. to retirees | March 2007 | not met |

Missed targets and Benchmarks under the 3rd Review(cont'd)

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|---|-------------------------|---------|
| BPE | Award Mgt Contract for Transmission companies | March 2007 | Not met |

Targets and Benchmarks for the MDAs under the 4th Review

| Agency | Pending Issue | Expected Date of Achvmt | Remarks |
|--------|---|-------------------------|---------|
| BPE | bid opg. For the sale of Abuja Elect. Distrbn plc | May 2007 | pending |
| FIRS | Complete implementation of HR Mgt systems | June 2007 | pending |

Targets and Benchmarks for the MDAs under the 4th Review (cont'd)

| Agency | Pending Issue | Expected Date of Achvmnt | Remarks |
|--------|--|--------------------------|---------|
| BPSR | Restructuring of MDAs | May 2007 | pending |
| NPC | Issue reports of SEEDS benchmarking exercise for 36 states | June 2007 | pending |

Targets and Benchmarks for the MDAs under the 4th Review (cont'd)

| Agency | Pending Issue | Expected Date of Achvmnt | Remarks |
|--------|--|--------------------------|---------|
| BPSR | Complete restructuring of five parastatals in terms of right sizing and right staffing | May 2007 | pending |

Challenges : Going Forward

- Meeting assessment criteria and structural benchmarks under the 4th Review (see attached appendix)
- Keeping government spending within projected limits
- Remaining vigilant regarding inflation
- Improving effectiveness of monetary policy

Challenges :Going Forward (cont'd)

- Refraining from acquisition of non-concessional debt and ensuring debt sustainability
- Maintaining macroeconomic stability to sustain high (double digit) GDP growth rates for poverty reduction and meeting MDGs

What Next After the 4th Review

- Previous Administration had taken a decision not to extend the PSI when it terminates in October 2007
- A successor program to strengthen the economic gains under PSI to be put in place.
- External oversight by IMF necessary for international credibility and acceptability
- The successor program would be in addition to the Article IV Consultation which takes place on an annual cycle

THANK YOU