



CENTRAL BANK OF NIGERIA

A magnifying glass with a black handle is positioned over a blue world map. The map shows various continents with white dots and lines representing global connections. The magnifying glass's lens is focused on the text 'FISCAL POLICY AT A GLANCE'.

# FISCAL POLICY AT A GLANCE

Monetary Policy Department



## ***Fiscal Policy at a Glance***

*'Fiscal Policy at a Glance' explains fiscal policy and related concepts using graphical illustrations. The publication is aimed at enhancing the knowledge base of users by compiling the concepts and explaining them in a unique, simple and reader friendly format. This pamphlet is therefore, a beautiful gift to those who seek to understand the rudiments of fiscal policy. It is part of the Central bank of Nigeria's efforts at promoting economic and financial literacy.*

*I invite you to enjoy a well-packaged literacy material.*

**Dr(Mrs) Sarah O. Alade**

Deputy Governor, Economic Policy

March 2017

## Acknowledgments



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We regret any errors of omission or commission in the book, and take responsibility for them.

**Moses k. Tule**

Director, Monetary Policy  
Central Bank of Nigeria  
March 2017

## **Disclaimer:**

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**[www.google.com](http://www.google.com)**

# Why Fiscal Policy

A nation can not achieve macroeconomic stability without fiscal policy. Fiscal Policy is required for economic growth and stabilization. It can be used to control the production and consumption of particular goods, services and products. The government increases aggregate demand by stabilizing taxes and increasing expenditure. It also boosts demand through tax cuts and increased transfer payments. These measures increase average household incomes and encourage consumer spending. In addition to regulating the demand side of the economy, fiscal policy influences aggregate output and employment by raising the level of infrastructure spending. Overall, fiscal policy can be deployed to correct economic imbalances in periods of recession and depression.

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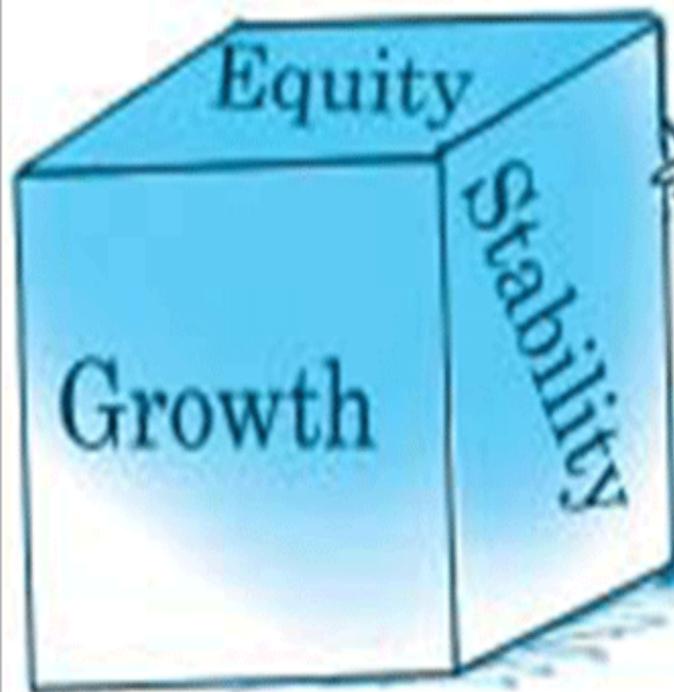
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**FISCAL  
POLICY  
AT A GLANCE**

## FISCAL POLICIES

These are government measures designed to influence the quantum and allocation of revenue and expenditure with the aim to achieving internal and external economic balance, as well as sustainable development. For optimum results, fiscal policy must have a handshake with monetary policy to achieve the primary goal of welfare maximisation for the citizenry, which is facilitated by internal and external economic stability as well as sustainable development.

Fiscal  
Policy



Growth

Equity

Stability

## INSTRUMENTS/TOOLS OF FISCAL POLICY

Taxes and government expenditure are the primary tools of fiscal policy, though in some jurisdictions grants and aid constitutes significant complementary tools. Fiscal policy is composed of a suit of revenue and expenditure policies/actions

Public Revenue can be categorized into

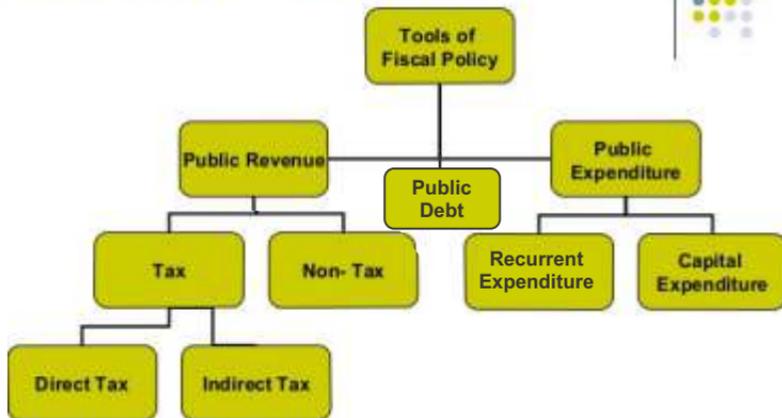
- Tax AND non-tax, and,
- Tax can be classified as
- Direct tax,
- Indirect taxes,

Public expenditure on the other hand can be categorized into:

- Recurrent, and
- Capital expenditure

Other tools of Fiscal Policy are: public borrowing, transfers etc.

# Tools of Fiscal Policy



## GOVERNMENT REVENUE

Public revenue are government income that are recurring by nature and available to meet the day to day expenses of government. They include: Taxes, privatization proceeds, sale proceeds of goods, interest received, commission received, rent received etc.

Public revenue is an important tool of fiscal policy and is the opposite of government spending. It is in form of taxes and non-tax revenue or oil and non-oil revenue.



## TAX REVENUE

This can be described as a financial charge or levy imposed on taxpayers, individuals or legal entities by government to raise funds to finance its programmes and expenditures. It is an offence under the law for anybody to fail to pay or evade taxes. Taxes consist of direct or indirect taxes. There are, however, consequences for evading or avoiding taxes.



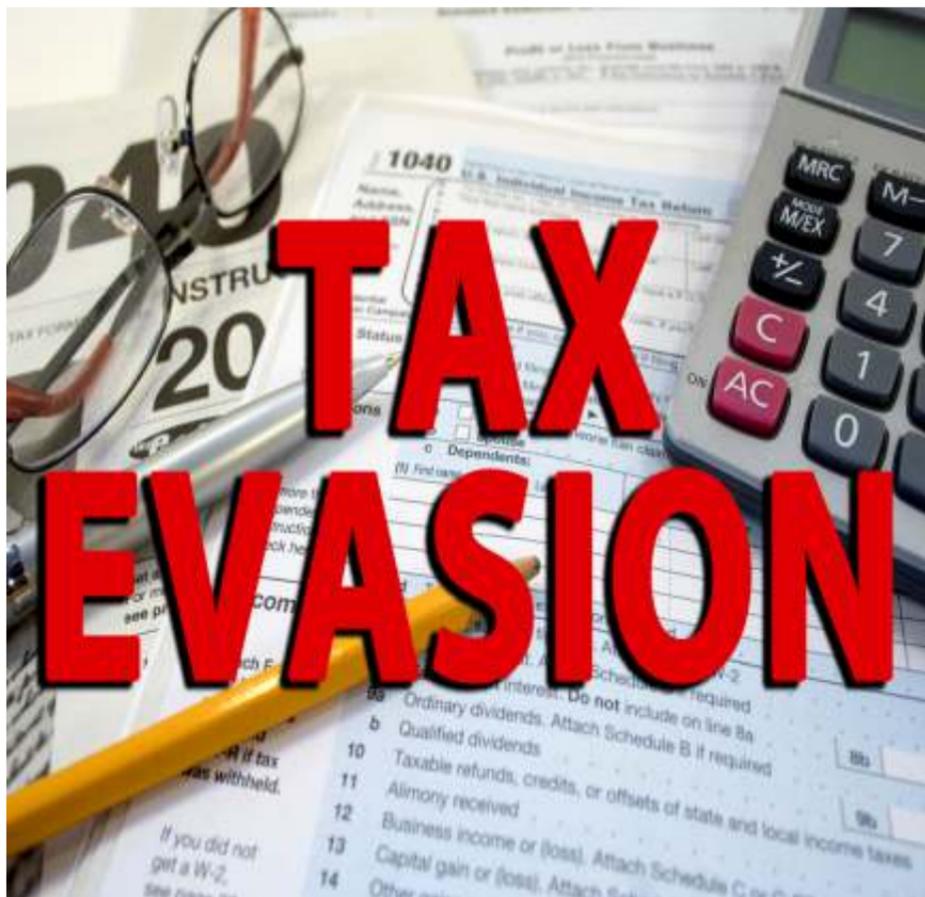
## TAX AVOIDANCE

Tax avoidance is the legitimate reduction of taxes, using methods approved by the tax authority. Businesses avoid taxes by taking all legitimate deductions and by sheltering income from taxes, setting up employee retirement plans and other means, all legal and under the Internal Revenue Code or state tax codes.



## TAX EVASION

Tax evasion, on the other hand, is the illegal practice of not paying taxes, by not reporting income, reporting expenses not legally allowed, or by not paying taxes owed. Tax evasion is most commonly thought of in relation to income taxes, but tax evasion can be practiced by businesses on state sales taxes and on employment taxes. In fact, tax evasion can be practiced on all the taxes of a business. Tax evasion is the illegal act or practice of failing to pay taxes which are owed. In businesses, tax evasion can occur in connection with income taxes, employment taxes, sales and excise taxes, and other federal, state, and local taxes.



**TAX**

**EVASION**

1040

U.S. Individual Income Tax Return

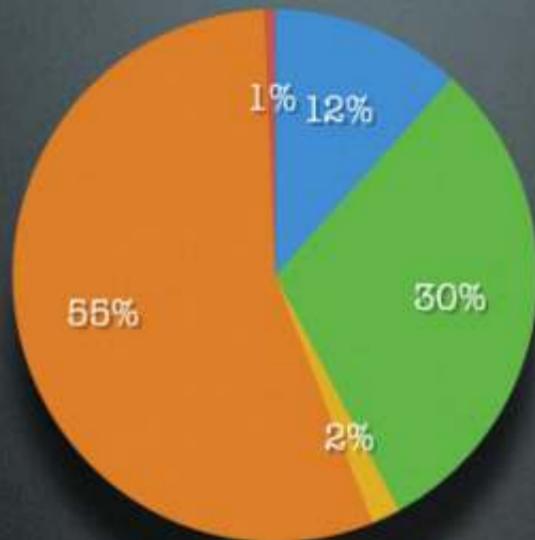
Dependents:

- 9 Ordinary dividends. Do not include on line 9a
- 10 Qualified dividends. Attach Schedule B if required
- 11 Taxable refunds, credits, or offsets of state and local income taxes
- 12 Alimony received
- 13 Business income or (loss). Attach Schedule C or D
- 14 Capital gain or (loss). Attach Schedule C or D
- 15 Other income

## NON- TAX REVENUE

This can be described as recurring sources of government revenue earned by the government from sources other than taxes e.g oil revenue, solid mineral revenue etc. In Nigeria, non tax revenue include proceeds from sale of government property, privatization proceeds, rents and leaves, surpluses of public corporations, dividends, etc.

# Non Tax Revenue



- Interest Receipts
- Dividends and Profits
- External Grants
- Other Non Tax Rev
- UT Receipts

## **DIRECT TAX**

This is a levy that the government imposes on the income, property, or wealth of people or companies. It is entirely borne by the entity that pays it, and cannot be passed on to another entity/person. Example of direct taxes is income tax, company tax.

# Direct Tax



## INDIRECT TAX

These are taxes that are levied by the government on entities in a supply chain. It is passed on to the consumer as part of the price of a good or service. The consumer is ultimately paying the tax by paying more for the product. An indirect tax is shifted from one taxpayer to another.

# INDIRECT Taxes



## GOVERNMENT SPENDING

This involves government expenditure on real goods and services. It includes payment of salaries, pension, unemployment benefits, spending on subsidies and grants. Other forms of public spending are payments of interest on debt and investment projects, etc. In Nigeria, government expenditure is classified into Capital, Recurrent, Non-debt Recurrent Expenditure and Statutory Transfers.



*Gary Varvel*  
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## CAPITAL EXPENDITURE

These are funds used by the government to acquire or provide physical assets such as property, industrial buildings or equipment for public usage with a life span of more than a year. This includes expenditure on roads construction, building of Hospitals, communication systems, public research spending and the provision of basic education and medical services etc. It can also be described as government investments on productive channels of the economy.



## RECURRENT EXPENDITURE

These are expenditures that are recurring in nature and do not result in the creation or acquisition of fixed assets. It is also described as an expenditure of government on the provision of goods and services consumed by the public within a fiscal year. This spending is recurrent because of the need for sustenance in the provision of these services. In Nigeria, recurrent expenditure include of domestic and foreign debt service as well as non-debt related expenditure.

# Debt Service

```
graph TD; A[Debt Service] --> B[Domestic Debts]; A --> C[Foreign Debts]; B --- B1[Moneys borrowed within Nigeria]; C --- C1[moneys borrowed from outside Nigeria];
```

## Domestic Debts

Moneys borrowed within Nigeria

moneys borrowed from outside Nigeria

## Foreign Debts

## **NON-DEBT RECURRENT EXPENDITURE**

These are recurrent expenditure that are not debt related. They include payment for overheads, salaries, pensions, social security benefits, miscellaneous expenses, etc. salaries and overhead are payments that are periodical in nature, e.g. monthly quarterly, annually.



# SOCIAL SECURITY BENEFITS

Name	Occupation	Address	Age	Date	Location	Zip
Idea						

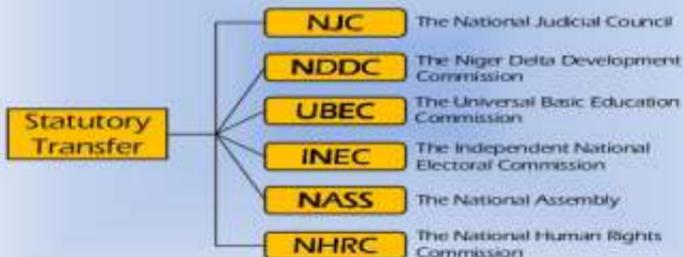
## STATUTORY TRANSFERS

They are funds transfers (enabled by law and backed by the constitution) that must be made to certain institutions every budget year for specific purposes. Some of the institutions that receive statutory transfers in Nigeria include: Niger Delta Development Commission, Universal Basic Education commission, National Assembly, INEC, Public Complaints Commission, National Human Rights Commission etc.



### Statutory Transfer:

The Federal Government is required by law to make certain mandatory expenditures annually in respect of:



## GOVERNMENT BORROWING

This can be described as funds borrowed by the government to spend on public services. When government revenues are insufficient to finance special projects/government expenditures then a government resorts to borrowing to make up the difference. Most governments have now observed that they need to borrow to finance even some current expenditure. The other terms used to refer to public borrowing are government debt, national debt or public debt.



## TYPES OF FISCAL POLICY

Governments adopt three types of fiscal policy namely:

- Expansionary Fiscal Policy– this entails a reduction in taxes or increase in government spending to induce increase in aggregate consumption, demand, investment and production levels. It is typically deployed to stimulate growth when the economy is operating below its full employment capacity. It is facilitated by an expansionary budget when government expenditure exceeds its revenue.
- Contractionary Fiscal Policy– this entails an increase in taxes or decrease in government expenditure to moderate aggregate consumption, demand, investment and production levels. It is typically deployed when the economy is operating above its full employment capacity, overheating and faced with rising inflation. It is facilitated by a contractionary budget when government revenue exceeds its expenditure
- Balanced or Neutral Fiscal Policy – this entails maintaining the level of taxes and expenditure to ensure that revenues match expenditure. This is typically deployed when the economy is operating at its full employment capacity and the government aims to maintain internal and external economic stability. A balanced budget comes when government revenue and expenditure are

# FISCAL POLICY:

The terms “expansionary” and “contractionary” are used the same way in relation to fiscal policy as to monetary policy.



## Expansionary Fiscal Policy

Helps speed up  
the economy,  
or increase  
economic growth



## Contractionary Fiscal Policy

Helps slow down  
the economy,  
or slow economic  
growth

## DEFICIT & DEFICIT FINANCING

Deficit is the budgetary situation where expenditure is higher than revenue. Deficit financing, is a practice adopted for financing excess expenditure with outside resources. The expenditure-revenue gap is financed by either printing of currency or through domestic & Foreign borrowing. Today most governments (both in the developed and developing economies) have deficit budgets and these are financed through borrowing. Hence the fiscal deficit is the ideal indicator of deficit financing. Other sources of deficit financing are: proceeds from privatization, FGN Bonds, Ways and Means Advances, Treasury bills, etc.



## COMPONENTS OF THE NIGERIAN FEDERAL GOVERNMENT BUDGET

Government budget refers to a financial plan which presents the government's proposed revenues and expenditure for a period usually a year. The government budget is a government document presenting the government's prepared revenues and expenditure for a financial year, presented by the Finance Minister, presented by the President to the Legislative, passed by the Legislative, and signed into law by the President. The components of the Federal budget on the revenue side are: share of the Federation Account, share of VAT pool Account, Federal Government independent revenue, share of Excess Crude Account and other sources. From the expenditure side, the components are: Recurrent non-debt expenditure, Capital expenditure, Transfers, and debt services.



## OIL REVENUE

Oil revenue is from the sale of crude oil and gas, Petroleum Profit Tax, Gas Tax, Royalties on oil and gas, gas flared penalties, rent etc. Subsidy payments on Premium Motor Spirit and Kerosene as well as Joint Venture Cash calls are deducted from the gross oil revenues to arrive at the net value. At present, it constitutes the bulk of gross federally collected revenue in Nigeria.



## NON-OIL REVENUE

It refers to revenues that are not oil related. They include:

- Those from Nigeria Customs Service such as import duty, excise duty and other levies.
- Revenue from Federal Inland Revenue Service (FIRS): Corporate Tax (Company Income Tax, Stamp Duties etc) VAT, Education Tax, NITDEF etc).
- FGN Independent Revenue consisting of Operating Surplus, Consolidated revenues, etc.



## TYPES OF BUDGET

Broadly speaking, government budget can be categorized into three types namely:

- Balanced budget
- Deficit budget
- Surplus budget

# TYPES OF BUDGET

DEFICIT  
BUDGET



EXPENSE > REVENUE

BALANCED  
BUDGET



EXPENSE = REVENUE

SURPLUS  
BUDGET



EXPENSE < REVENUE

## BALANCED BUDGET

This is a kind of budget where the total government receipt equals its expenditure. In this case there is no need for the government to borrow and increase the debt burden. Thus, neither a budget deficit nor a budget surplus exists in this case. More generally, it refers to a budget that has no budget deficit, but could possibly have a modest surplus.



**EXPENDITURES**

**REVENUE**

## **DEFICIT/EXPANSIONARY BUDGET**

A budget deficit occurs when government expenditure exceeds government income. Deficits are usually financed by borrowing. It is a term commonly used in government financial parlance rather than business or individual.

# DEFICIT



## **SURPLUS/CONTRACTIONARY BUDGET**

A surplus budget arises when the revenue of the government exceeds its expenditure. This is usually used to repay government debt. Surplus budgeting is used to correct imbalances arising from over-heating or excessive expansion of economic activities.



## FISCAL BUOYANCY

Fiscal buoyancy indicates the resilience in tax revenues as a result of government tax reforms to reduce revenue deficits and increase tax revenue growth. In particular, tax buoyancy measure the responsiveness of tax revenue efforts to the growth in national income or output. A buoyant tax system means that the tax yield increases more than the growth in national income or output. It provides substantial political benefits to the federal government for increasing social benefits and reduces the dependence on borrowing.

The positive effects of fiscal buoyancy include increased government expenditure on public infrastructure that will stimulate the economy, facilitate improved productivity and stimulate consumption, low interest rates and increased economic activity.



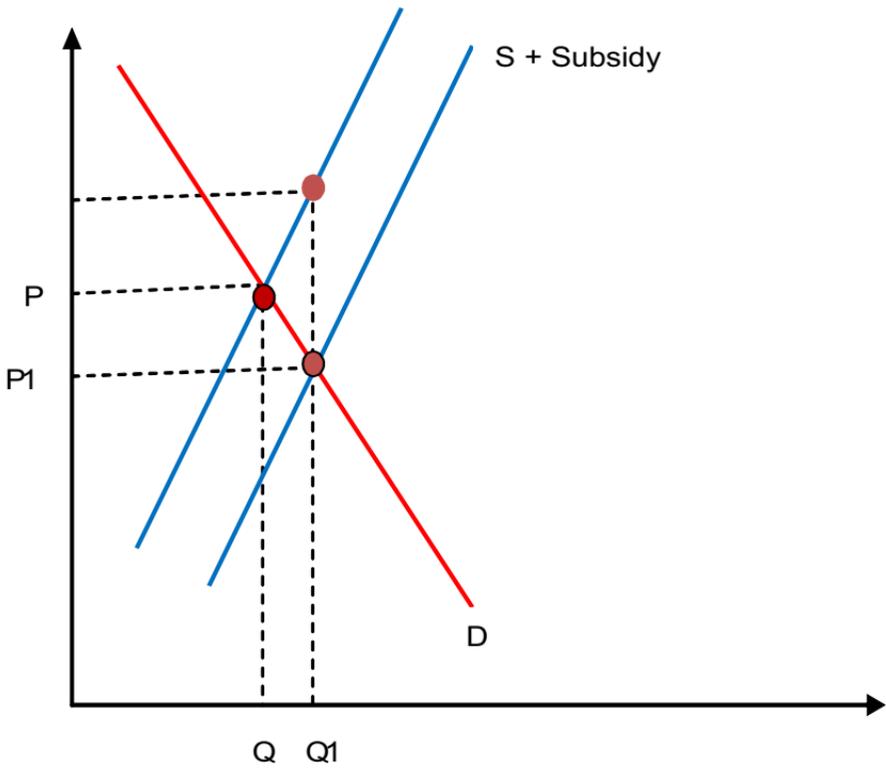
**TAX**



## SUBSIDY

A subsidy refers to direct monetary payments by the government to economic agents to support production and consumption of goods and services whose market prices are very high. It is a specific sum per unit given to a producer that would ultimately reduce price and increase output, depending on demand elasticity. The consumer is expected to get the full benefit of the subsidy in the form of reduced prices, but the producers obtain some benefits instead relating to extra revenue as well as from the full amount of the subsidy. There are two types of subsidies: income subsidy and consumption subsidy. Income subsidy is made to producers, while consumption subsidy is directed at final consumers of a product or service.

In Nigeria, the federal government provides fuel subsidies to suppliers of petroleum products to reduce the price of fuel and pass on the benefit of the reduced prices to consumers.



## LOAN CONDITIONALITIES

Loan conditionality is often associated with the pre conditions on aid money or loan provided by private financial institutions and multilateral institutions like the International Monetary Funds (IMF) and World Bank (WB) to different countries. Some countries can also lend to each other based on certain conditionality. Loan conditionality requires that the borrower or country adhere to certain rules relating to the use of the funds received and the repayment of the loan. Loan conditionality covers all the provisions, monitoring tools and guidelines that will ensure the country repays the loan when due or use the debt relief or bilateral aid for the intended purposes.

IMF conditionality also involves the design of some macroeconomic and structural policies that require the cooperation of the member country towards the realization of sustained high quality growth strong enough to solve the country's balance of payments problems.



## FISCAL OPERATIONS

Fiscal operations can be described as government measures, initiatives and plans undertaken towards the implementation of the budget. These include measures to facilitate government expenditure and revenue generation, maintaining prudent fiscal management, granting of public debt instruments and the management of public debt. Fiscal operations cover all government actions that are essential in the realization of budgetary policies.



## DEBT

The act of borrowing creates debt. In an organization, the resource in use, not contributed by the owners of the organization and does not in any way belong to members is regarded as debt. Debt may be classified into reproductive and dead-weight. Debt is said to be reproductive when a nation, state or organization borrows to purchase some kind of capital projects whose proceeds would help to repay the loan such as: electricity, road construction, factories, refineries, among others. On the other hand, those incurred to fund wars and current expenditures are known as dead-weight debts.



## PUBLIC DEBT

Public debt occurs when a government borrows to offset its deficit in the budget. Public debt may be domestic or external. That is, government in an attempt to finance its operations may incur debts by borrowing from the local or foreign markets.



## DOMESTIC DEBT

This refers to the debt owed to lenders or nationals or citizens of a country. The sources include; borrowing from banks, issuing of treasury bills, bonds, securitization or sterilized papers, among others. It is also referred to as internal debt and it complements the external debt of a country. The major sources of internal debt include: the central bank, commercial banks, the general public, other financial institutions etc.

A 3D rendered blue figure is shown in a dynamic, pushing posture, leaning against a large, dark blue, angular block. The block is tilted and has the word "DEBTS" written on its side in a light blue, sans-serif font. The figure's arms are extended, and its body is curved, suggesting a struggle or effort to move the heavy object. The scene is set against a plain white background with soft shadows on the ground.

DEBTS

## EXTERNAL DEBT

This is a debt owed to other nations or nationals and is repaid in foreign currencies. It shows the financial obligation between the borrowing nation and lending nation. External debts include short term which mature between one and two years, in some cases it involves long-term loans owed by one country to another or debts owed to non-residents of a country in a given period. The capacity to service external debt is defined in terms of the months of import cover provided by export earnings of the borrower country.



## DEBT SERVICE

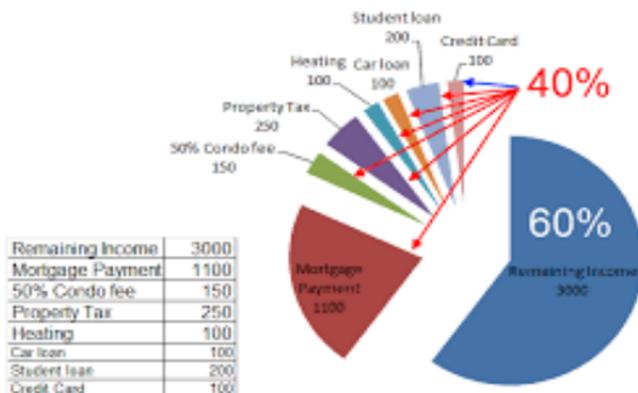
The amount required by a borrower (individual), firm or country to cover the repayment of interest and part of the principal that is due on a debt for a given time period. It is the amount of money required to make payments on the principal and interest on outstanding loans, the interest on bonds, or the principal on maturing bonds. An individual or company unable to make such payments is said to be "unable to service its debt." An example of debt service is a monthly loan payment.

# Debt Ratio Debt Service Coverage Ratio



More Details at <http://CAknowledge.in>

## Total Debt Service Ratio or TDS



## DEBT SUSTAINABILITY

Debt is sustainable if the expected present value of future primary balances covers the existing stock of debt. Thus, the sum of the existing stock of debt and the future stream of primary expenditure must be equal to the future stream of primary revenue or income.

From the pragmatic point of view, debt is sustainable if projected debt ratios are stable or decline, but sufficiently low. It is unsustainable, if projected debt ratios increase or remain significantly high. This definition obviates the difficulty of estimating the unobserved future income and expenditure associated with the academic definition of debt sustainability.

## Total Debt as Percentage of GDP

110

100

90

80

70

60

50

FY90

FY95

FY99

FY02

FY03

FY04

FY05

FY06

FY07

FY08

FY09

FY10

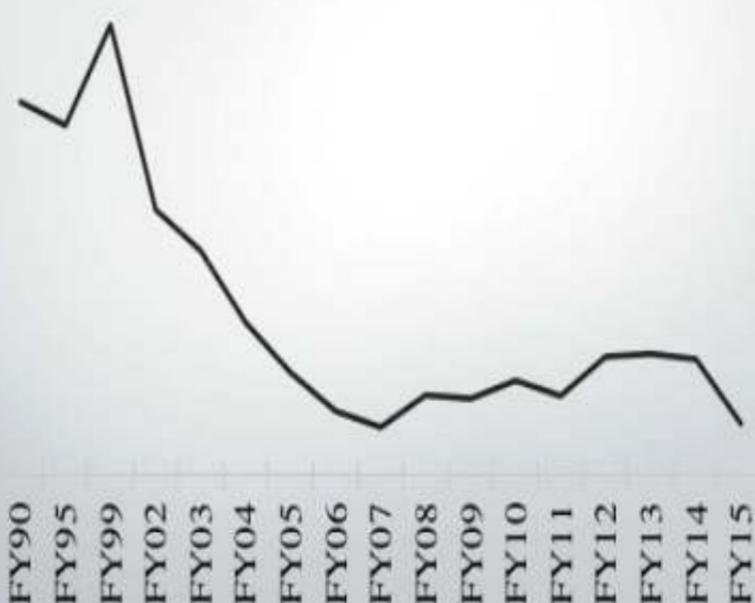
FY11

FY12

FY13

FY14

FY15



## FISCAL STRATEGY

According to Section 11, of the Fiscal Responsibility Act, 2007, A Fiscal strategy paper (FSP) is a statutory requirement that must be submitted to the National Assembly before the presentation of the National Budget by the Federal Government. It is a projection of how the revenue would be generated to finance the expenditure of government over the medium term, usually three years. It states the current fiscal priorities of government and assists in assessment of the prospect of achieving the policy objectives of the government. It also highlights possible areas of adjustment to the annual appropriation bill.



## FISCAL DOMINANCE

It refers to a situation where the desire of the fiscal authorities to meet its financial needs leads to extreme fiscal actions including mounting pressure on the central bank to print money to satisfy the fiscal needs even at the cost of rising inflation. In this context, the monetary authority's principal goal of price and monetary stability is subordinated to the fiscal authority's goal of economic growth and development. Thus government borrowing overwhelms the private sector's borrowing from the banking system, thus crowding out the former due to government's superior credentials as a risk-free borrower.

This is a common experience in most developing countries where central bank independence is not fully guaranteed.



## **MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)**

The MTEF documents the expenditure priorities of the government in the medium term, usually three years. In Nigeria, it replaces the 3-year rolling plan. Although, it is prepared annually, it is rolled over the three years ahead. It contains the budget constraints for each sector and sets criteria for performance monitoring of expected outcomes. It is one of the statutory requirements for the annual national budget presentation to the National Assembly.



## MULTILATERAL DEBT BUYBACK

### **Multilateral Debt Buy-Back**

This is an arrangement between highly indebted nations, private commercial creditors (i.e. Paris and London Club Lenders) and multinational institutions (i.e. IMF and IBRD), granting the debtor nation the option to repurchase and pay down on their existing debt obligations at a discount.



**BUYBACK**



## OVERALL FISCAL BALANCE

Overall Fiscal Balance is the net position of government financial operations for a fiscal/budget year. The overall balance can be greater than zero (i.e. fiscal surplus), less than zero (i.e. fiscal deficit) or equal to zero (i.e. balanced fiscal operations).





# DEFICIT



## FEDERALISM IN NIGERIA

Federalism is a constitutional arrangement that apportions lawmaking powers and functions to different tiers of government such that each tier of government is independent within its respective sphere of jurisdiction and competence. Under this structure, sovereignty is divided between the central (national) and regional (subnational) governments (i.e. comprising states and local governments).

# #TrueFiscalFederalism

Nigeria



## FISCAL FEDERALISM IN NIGERIA (II)

Fiscal federalism is a system that determines how revenue is generated, allocated and redistributed within a federal system.

Nigeria's federal system consists of:

- The Federal Government
- The State Governments; and
- The Local Governments



## FISCAL FEDERALISM IN NIGERIA

History – two dimensional

- Horizontal & Vertical

Horizontal

- 3 regions in 1960
- 12 states in 1967
- 19 states in 1976
- 21 states in 1987
- 30 states in 1991
- 36 states and FCT by 1996



## FISCAL FEDERALISM IN NIGERIA (IV)

- History
- Vertical
  - 1960
  - 1963
  - 1967
  - 1980
  - 1982
  - 1987
  - 1990
  - 1993
  - 1995
  - 1998
  - 2003

Tier of Government /Special Funds	Year										
	1960	1963	1967	1980	1982	1987	1990	1993	1995	1998	2003
1. Federal Government	70.00	65.00	65.00	55.00	55.00	55.00	50.00	48.50	48.50	48.50	46.63
2. State Government	30.00	35.00	35.00	34.50	34.50	32.50	30.00	24.00	24.00	24.00	20.00
3. Local Government*				8.00	10.00	10.00	15.00	20.00	20.00	20.00	20.37
4. Special Funds				2.50	0.50	2.50	5.00	7.50	7.50	7.50	13.00
i. Federal Capital Territory				2.50			1.00	1.00	1.00	1.00	
							1.00	1.00	1.00	1.00	13.00
Development of Mineral Production Areas						1.50	1.50	3.00	3.00	3.00	
Ecology						1.00	1.00	2.00	2.00	2.00	
Stabilisation					0.50		0.50	0.50	0.50	0.50	
<b>Total</b>	<b>100.00</b>										
<b>Notes:</b> Regions/States allocated funds to Local Governments between 1960 and 1967											

## BUDGET CYCLE

This captures the key stages and processes involved in the preparation, passage/approval implementation and assessment of the national budget. It typically consists of the following stages:

- Formulation – when all ministries, departments and agencies submit their inputs to the Budget office of the federation to be scrutinised and processed.
- Enactment – this is when the budget is assessed by the executive and presented to the National of Assembly for ratification and enactment into law
- Execution – this is when the budget is implemented through the issuance of mandates to the CBN for payments of monies to the relevant MDAs and initiatives by the Accountant General of the Federation, to enable them execute their projects and tasks as articulated in the budget.
- Audit and Assessment – this involves the regular assessment of the performance of the budget to ensure that mandates are consistent with the content of the budget as well as ensure that projects are financed appropriately.

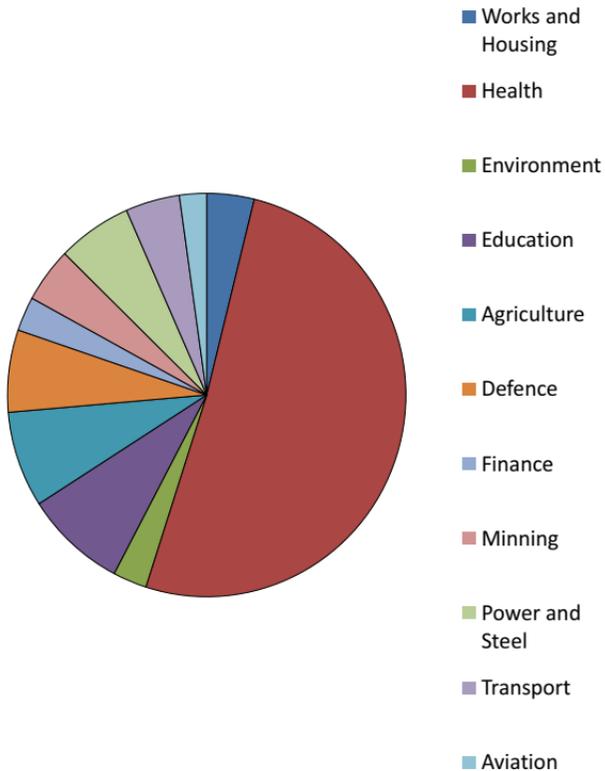
# Budget Cycle



## CONSOLIDATED BUDGET

Consolidated budget, also referred to as the “unified budget”, is a document that captures and consolidates all revenue sources and expenditure activities of the tiers of government. It captures budgetary items according to their categories and presents the consolidated totals of the sub-category of the items for ease of understanding and monitoring. Expenditure items are placed under two headings namely capital and recurrent expenditure, and in some jurisdictions it takes cognisance of extra-budgetary provisions. In other jurisdictions, expenditure items are captured according to the tier of government and the consolidated budget (i.e. total budget of the tiers of the government) represents the national budget

# Sectoral Allocation of Consolidated Government Budget



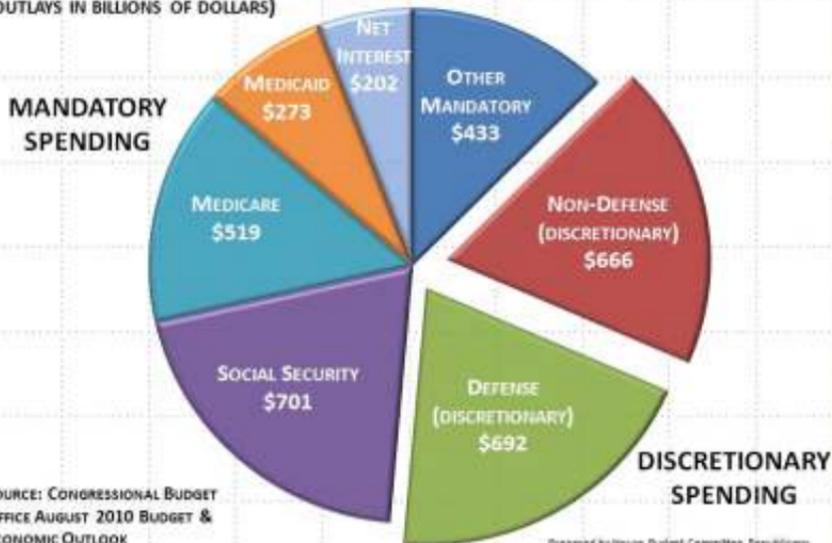
## **BUDGET APPROPRIATION**

This entails making provisions by setting aside moneys for a planned program, project, activity or initiative.

In Nigeria, the tiers of government make annual budget appropriations by setting aside moneys which are delegated to facilitate the execution of key activities, program, projects or initiatives as well as their daily operations.

# TOTAL SPENDING IN FY 2010 = \$3.5 TRILLION

(OUTLAYS IN BILLIONS OF DOLLARS)



SOURCE: CONGRESSIONAL BUDGET OFFICE AUGUST 2010 BUDGET & ECONOMIC OUTLOOK

Prepared by House Budget Committee Republicans

## EXTRA BUDGETARY EXPENDITURE

This refers to government expenditure or transaction items not included in the annual budget. They are typically captured under a medley of arrangements within the budget which include:

- Separate legislation setting up a fund to finance a specific project, activity, program or initiative from government revenue.
- Businesses sponsored and funded by the state but have operational independence from the state

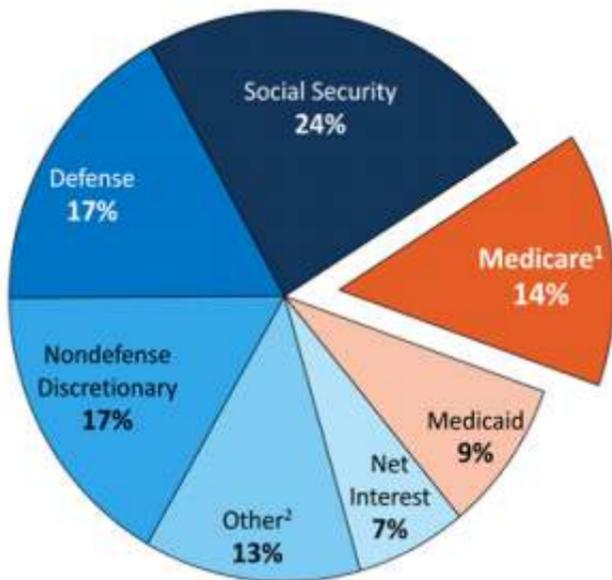
A key characteristics of extra-budgetary items is that the accounting standards and scrutiny applied to them are typically weaker than budget items.



## SPENDING RATIO

A spending ratio in budgeting is the amount allocated to a particular sector of the economy for the purpose of expenditure in a fiscal year as a percentage of the overall budget. It is simply an amount spent as a percentage of the total budget. In reviewing budget performance, it is important to use spending ratio to determine whether you are spending little or more per sector.

## Medicare as a Share of the Federal Budget, 2014



## ALLOCATIVE EFFICIENCY

This refers to government's capacity to distribute resources to public programs based on their effectiveness in helping the government actualise its objectives. The government must have an efficient mechanism for shifting resources from less efficient to more efficient as well as from old to new programs. It necessitates the availability of a mechanism for the prioritisation of objectives, as well as assessment of how much actual expenditure has contributed to government objectives vis-à-vis expected contribution to same.

In addition it mandates that government to imbibe the culture of evaluation and strategic planning to facilitate forward definition of objectives and continuous assessment of efforts/programs relative to the set out strategic objectives.



## ECO TAX (ENVIRONMENTAL TAX)

These are taxes levied to facilitate the internalisation of costs of environmental degradation on those responsible. In addition, they are designed to provide an incentive to economic agents to engage in environmentally friendly and ecologically sustainable activities. These taxes are instruments used by governments to address problems associated with environmental pollution and they include, amongst others, carbon and noise pollution tax. It is levied on a physical unit of a base item/activity that has been proven to negatively impact the environment.

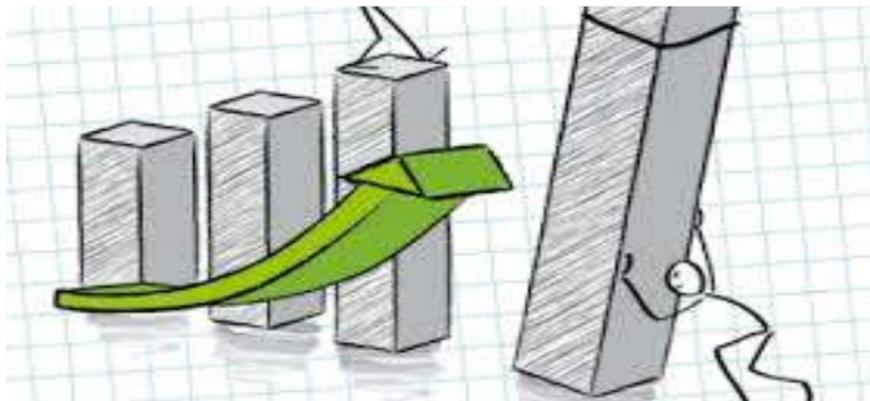


## **BUDGET FLEXIBILITY**

This refers to the ability of the budget to adjust to levels of economic activity by taking cognizance of production or sales levels.

The funds available to government MDAs is dependent on economic activity levels as well as tax revenues obtained from same.

It is relatively more sophisticated and flexible compared with the static budget which remains unchanged all year round, irrespective of levels of economic activity.



## Characteristics of Flexible Budgets



May be prepared for any activity level in the relevant range,

Show costs that should have been incurred at the actual level of activity, enabling "apples to apples" cost comparisons.

Help managers control costs.

Improve performance evaluation.

**Let's look at Larry's Lawn Service.**

## SAVINGS BONDS

Savings bonds are government issued debt securities designed to promote a savings culture amongst the citizenry as well as help the government raise funds in line with its borrowing needs.

They represent a cheap source of debt funds for the government relative to securing same from the financial markets and are deemed a safe investment outlet because of its backing by the government.



## RECIPROCITY

The practice of exchanging things with others for mutual benefit, especially privileges granted by one country or organization to another. It is a mutual commercial dealing between two or more countries having corresponding advantages or privileges granted by each country to its citizens. This could include a mutual recognition of residency for purposes of income tax liability, eligibility for resident tuition and the like.



## GAP FINANCING

This refers to short term funding availed to economic agents and governments to carry out daily operations, while in the process of securing adequate funds either from improved revenue collection or long term loans. They arise due to a shortfall in planned revenue relative to current expenditure obligations. Often no provision is made for such funding and the difference between total funding requirement and amount already availed on short term basis for the activity represents the funding gap for the activity/project.



## FISCAL RULE

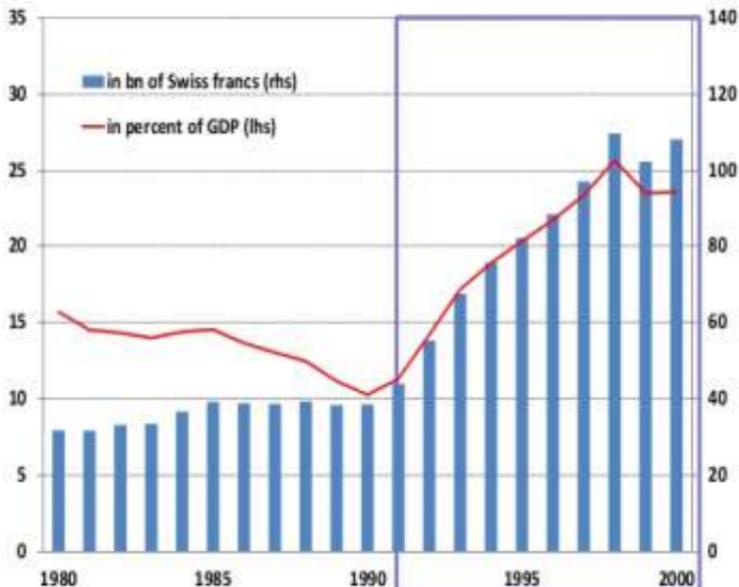
A fiscal rule is a legal constraint imposed on the operation of government activities to ensure that government budgeted spending and deficits are maintained within a numerical benchmark or limit.

It is designed to alter incentives and check mate spending pressures so as to ensure fiscal discipline and sustainability.



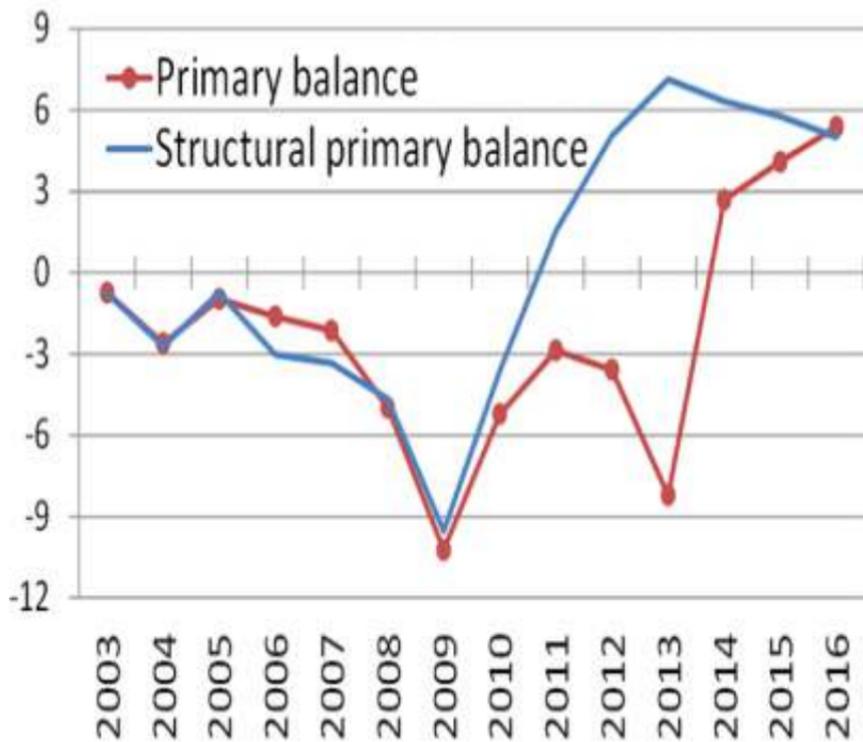
## A decade of debt

Federal government gross debt



## PRIMARY FISCAL BALANCE

Primary Fiscal Balance: The primary budget balance is the government fiscal balance that excludes interest payments. It can be expressed as: Primary balance equal to Government revenue minus Government expenditure (Less interest payment). It provides a measure of current fiscal effort of government, since interest obligations are predetermined by the size of previous deficits.



## SOVEREIGN WEALTH FUND (SWF)

These are special purpose vehicles created by states to warehouse part of revenues accruing to the government from natural resource extraction and for purposes including:

- Investment in and development of infrastructures,
- Economic stabilisation by addressing the challenges associated with volatility in commodity prices, and
- Engendering national savings; and
- Making provisions for future generations.



**Sovereign  
Wealth  
Fund**

## EXCESS CRUDE ACCOUNT (ECA)

The Excess Crude Account (ECA) is a special account created in 2004 by the Nigerian Government at the CBN to warehouse the positive difference in revenues accruing to the government when crude oil price were over and above the budget benchmark. A key objective of the ECA is to provide a mechanism to protect budget implementation from the adverse impact of revenue shortfalls associated with crude oil price volatility.

Its was envisaged as a mechanism for delinking the impact of movement in oil revenues on government expenditures and thus provide a pseudo external shock buffer for the economy.



## BOND INSURANCE

Bond insurance is a feature of a bond that provides added assurance to bond holders that in the event of a default on the part of the bond issuer, guaranteed principal and interest payments would be made to the holder by an insurance company. This is particularly important for governments with low credit worthiness that plan to raise funds through bond issuance.

**Financial  
and Bail Bond  
Insurance**



## DEBT STRUCTURE

Debt structure captures the time horizon and principal and interest repayment periods of debt agreement. The structure describes key attributes of national debt including:

- Tenor of the loan
- Maturity Date
- Principal & Interest Repayment Terms
- Provisions for loan repayment.

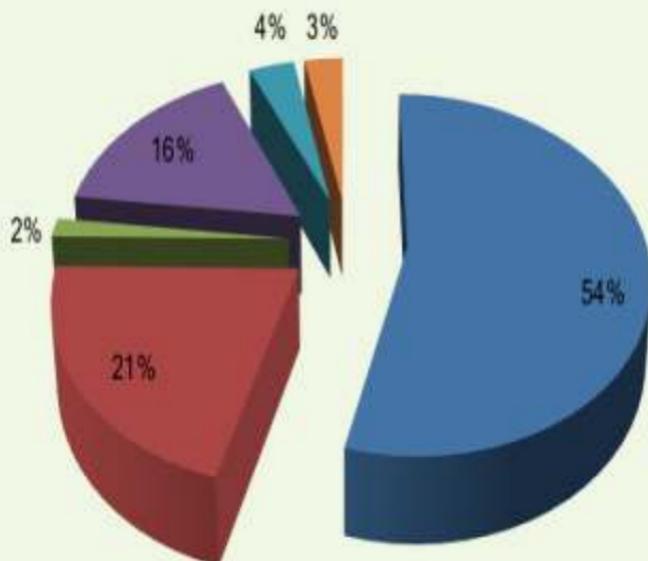
The Term Structure refers to the tenor of the debt obligation. They are typically classified as:

**Short term debt:** These are debt agreements with a tenor of 0 – 360 days. They are used to finance recurrent expenditure. These are typically obtained through issuance of Nigerian Treasury Bills

**Long Term Debt:** These are debt agreements with a tenor > 360 days. They are typically used to finance capital projects and obtained through the issuance of FGN Bonds, Treasury Bonds, Special Purpose Bonds , Eurobonds and loan agreements with multilateral organisations or governments.

## FGN'S DEBT STRUCTURE

- FGN BONDS
- NTBs
- TREASURY BONDS
- EXTERNAL - MULTILATERAL
- EXTERNAL - BILATERAL
- EUROBONDS



June 30, 2016

## FIRST LINE CHARGES

These are monies deducted at source from revenues accruing to the Nigerian Federation, the residual of which is deposited in the Federation Account with the Central Bank of Nigeria for appropriation. It also refers to deductions from budgetary provision of MDA, the residual of which is paid to the account of the MDA under the TSA structure.

They are typically deducted for specific purposes which include:

- Debt repayment
- Joint Venture Payments, and
- Obligations/contributions to multilateral and regional institutions
- Statutory Transfers

*Greece: Government Finances 2010-2012*

	€	%
<b>Revenue</b>	<b>265.3</b>	<b>100.0</b>
Taxes on production and imports	78.3	29.5
Taxes on income and property	55.2	20.8
Social contributions	83.7	31.6
Other	33.5	12.6
Capital transfers	14.5	5.5
<b>Expenditure</b>	<b>328.7</b>	<b>100.0</b>
Primary expenditure	290.8	88.5
Wages	77.8	23.7
Social benefits	139.3	42.4
Goods and services	32.7	9.9
Subsidies	2.1	0.6
Other current transfers	8.2	2.5
Capital transfers	30.6	9.3
Interest payments	37.9	11.5

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*Source: ELSTAT*

## REFINANCING

Refinancing also referred to as “Debt restructuring” entails replacing an existing debt with a new debt obligation under different and more favourable terms. The new terms take cognisance of: inherent risk, political risk, credit rating and worthiness, exchange rate risk amongst others.

The reasons for refinancing include:

- Lower interest rates
- Debt consolidation
- Lower monthly repayment
- Change and moderate risk profile (i.e. from variable to fixed costing)
- Improve cash flow management (i.e. free up cash)



## WAYS AND MEANS ADVANCES

This is a mechanism to provide the Federal Government of Nigeria (FGN) with financial assistance associated with cash flow mismatch by bridging the interval between expenditure and revenue receipts. Ways and means Advances are temporary overdraft facilities to the FGN, to provide support for financial difficulties faced by the FGN due to mismatch or revenue shortfall vis-à-vis her liabilities. They were initially created under the 1958 CBN Act (Cap 30 as amended) and amended in the CBN Decree of 1991.

It was to help finance FGN budget prior to the accrual of government revenue and was capped at 25% of estimated recurrent expenditure. All outstanding amounts must be repaid at the end of the fiscal year. According to the CBN 2007 Act, the Bank may grant temporal advances to the FGN in respect of temporary short-fall in of budget revenue at such a rate of Interest as the Bank may determine.

# WAYS & MEANS



## **SPECIAL PURPOSE BONDS**

Also referred to as Assessment Bonds, Special Purpose Bonds are issued for a specific project or purpose by the different tiers of government and its repayment is tied to revenue receipts from the benefactors of the projects/purpose for which the bond proceeds were deployed.



## DIASPORA BONDS

Diaspora Bonds are long term government security that a particular country sells to investors abroad. They are Bond issues by a country to its own citizen in the diaspora so as to tap into their wealth. It can be seen as an inexpensive way for governments to raise funds. Developing countries rely heavily on remittances and foreign direct investment as sources of funding. It enables increasing amounts of remittances into the country by helping nonresidents acquire assets back home. Developing countries depend on aid for disaster relief and infrastructure building, among many other reasons, that is why such countries engage in diaspora Bond issuance.



## FLAT TAX

This is a tax system in which a constant marginal tax rate is applied across board irrespective of income or profit earned. All individuals or corporations face the same tax rate regardless of their income or profit bracket. It is a proportional tax, but implementations is often progressive and sometimes regressive depending on deductions and exemptions in the tax assessment.



1PercentRevolution ©151

## FISCAL STABILITY

Fiscal stability explains the efforts of government in the application of fiscal policies to moderate the economy. When there is significant increase in wealth and consumption; taxes are an automatic stabilizing mechanism that can help moderate the magnitude of economic growth.

The fiscal authorities can increase the tax rate on income, sales, investment, profit and consumption to dampen an overheating economy as well as moderate consumption and aggregate demand.



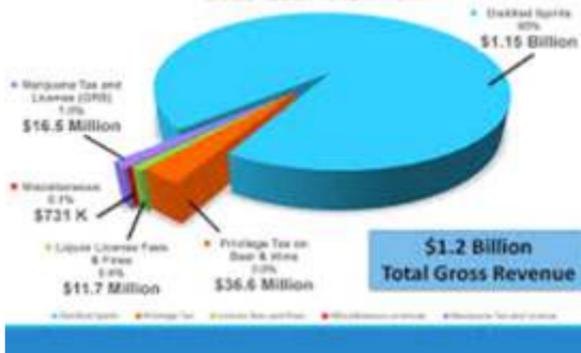
## The Fiscal Stability Treaty

Seamus Coffey

## GROSS REVENUE

This is the total amount generated from all the sale of goods and services of a firm or company or all the sources of revenue to a government. It accounts for all the income as shown on the income statement. When recording gross revenue, all of the incomes from sales are accounted for on the income statement. Net revenue is usually determined if there is a commission to be deducted from the gross revenue/or when a supplier receives some of the sales revenue. Gross revenue reporting separates sales and cost of goods sold.

## Projected Gross Revenue Sources 2015-2017 Biennium



## NET REVENUE

Net revenue refers to gross sales reduced by the cost of sales. This shows the difference of total goods sold minus the cost of goods sold. Net revenue to government is the amount available after deducting the cost of collection.

Figure 1

<b>Income Statement for Company XYZ, Inc.</b>	
<i>for the year ended December 31, 2008</i>	
<b>Total Revenue</b>	\$100,000
<b>Cost of Goods Sold</b>	(\$20,000)
<b>Gross Profit</b>	<b>\$80,000</b>
<b>Operating Expenses</b>	
Salary	\$10,000
Rent	\$10,000
Utilities	\$5,000
Depreciation	\$5,000
<b>Total Operating Expenses</b>	<b>(\$30,000)</b>
<b>Interest Expense</b>	<b>(\$10,000)</b>
<b>Taxes</b>	<b>(\$10,000)</b>
<b>Net Income</b>	<b>\$30,000</b>



## Gross vs. Net Revenue

### Gross Revenue

The money you brought in

### Net Revenue

The money you brought in  
*minus* the cost to bring it in

Gross revenue is meaningless

Paints only half the picture

Doesn't allow comparisons

Ignores THE BOTTOM LINE



## EXCISE DUTIES

Excise duty or tax is a tax on goods produced for sale in a given country. It could be levied on manufactured goods, company revenue or activity. An excise or excise tax (sometimes called a special excise duty) is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. Excises are distinguished from customs duties, which are taxes on importation. Products or goods that are usually levied includes taxes on alcoholic drinks or tobacco products.

# Excise Duty

## Types of Excise Duty

Type of Duty	Duty Type	Method of calculation
Basic Excise Duty (BED)	Excise	On Assessable Value
Special Excise Duty (SED)	Excise	On Assessable Value
AED (GSI)	Excise	On Assessable Value
AED (TTA)	Excise	On BED + SED
AED (TTW)	Excise	On BED + SED
AED (PH&T)	Excise	On BED + SED
NCCD	Excise	On BED + SED + AED (GSI)
Special AED	Excise	On Quantity
AED on High Speed Diesel	Excise	On Quantity
Educational Cess	Excise	On Total Excise Duty
SHE Cess on Excise duty	Excise	On Total Excise Duty
Countervailing Duty(CVD)	CVD	On Assessable Value
SED of CVD	CVD	On Assessable Value
AED (GSI) of CVD	CVD	On Assessable Value
AED (TTA) of CVD	CVD	On CVD + SED-CVD
AED (TTW) of CVD	CVD	On CVD + SED-CVD
AED (PH&T) of CVD	CVD	On CVD + SED-CVD
NCCD of CVD	CVD	On CVD + SED-CVD + AED (GSI)-CVD
Special AED of CVD	CVD	On Quantity
AED on High Speed Diesel of CVD	CVD	On Quantity
Educational Cess on CVD	CVD	On Total CVD
SHE Cess on CVD	CVD	On Total CVD

## FISCAL DECENTRALIZATION

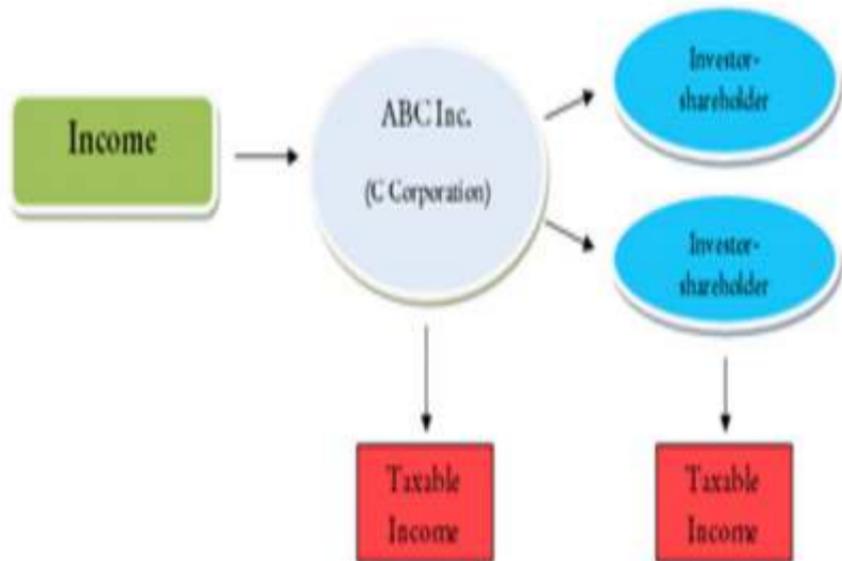
This involves the devolution of power and responsibilities of the central government (federal government) to the sub-national (state, local or municipal) governments or authorities. It deals with shifting some responsibilities for expenditure and/or revenue to lower levels of government. One important factor in determining the type of fiscal decentralization is the extent to which subnational entities are given autonomy to mobilize revenue and determine the allocation of their expenditure. This is aimed at attaining economic efficiency, equality and macroeconomic stability in the economy.



## DOUBLE TAXATION

When income tax is charged or paid twice on the same source of income earned by an individual or at the corporate level, it is described as double taxation. It is multiple when a single economic activity or income is taxed more than once, often by two or more different authorities in a way that may be unfair or illegal.

## DOUBLE TAXATION



## FISCAL BUFFERS

These refer to the earned resources and revenues of a nation that are saved or set aside for future needs and for stabilizing the economy. The presence of fiscal buffers enhance economic stability and confidence in the economy. It engenders budgetary and monetary policy discipline which may subsequently manifest in rapid economic growth for the country. Fiscal buffers enable the government and Monetary authorities to take very bold and daring policy measures.



## RESERVE FUND FOR FUTURE GENERATION (RFGF)

The reserve fund is a collection of money owned by a nation or state, which are invested in financial assets of various classes. Often times, the source of this fund is majorly from surpluses of the nation's budget. The aim of the sovereign fund varies according to the nation's economic situation at any given time and place. Reserve Funds are typically funded by excess revenue from commodity sales, some others are funded via the transfer of real assets such as holdings in companies or real estate or other assets owned by government. Nigeria's sovereign investment Authority was established by the Act of 2011 to receive, manage and invest in a diversified portfolios for the medium and long-term.



**Nigeria**

**Sovereign**

**Investment**

**Authority**

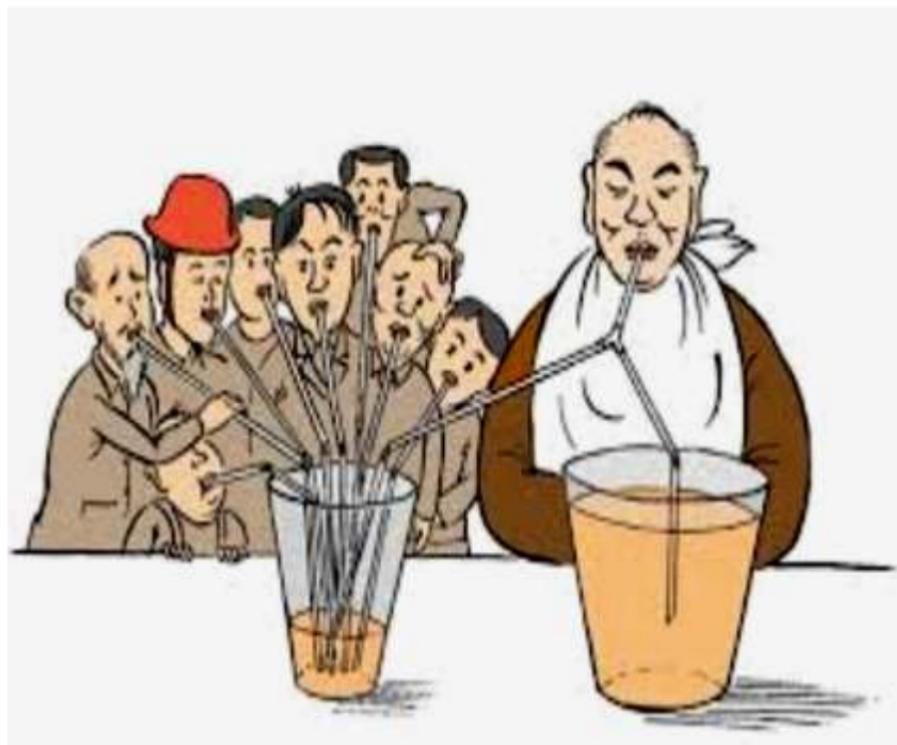
## STATE GENERAL RESERVE FUND

It is the sovereign wealth fund of the Sultanate of Oman, through which financial surpluses of government and excess oil revenue are managed and invested for future generation's benefits and development. It was established by a Royal Decree in 1980. It has an asset base of over US\$34 billion.



## INCOME DISTRIBUTION

It is an indication of how the wealth of a nation is shared amongst its population. It measures the extent of inequality or fairness with which income is distributed between the different segments of the population.



## EFFECTIVE TAX RATE

Effective Tax rate is the tax rate that would be paid by the taxpayer if his tax liability were to be deducted using a constant rate rather than progressive rate. It is usually computed as the percentage of taxpayers' tax liability in his total taxable income.

**Effective Tax Rate =**  
**[Total Taxes Paid]**



**[Total Income]**

**WHAT IS YOUR**



**EFFECTIVE TAX  
RATE?**

## WITHHOLDING TAX

This tax is imposed on income and deducted by a third party at source with the obligation of remitting same to the government. It is widely used in respect of dividends, interest, royalties and similar tax payments.



## JOINT VENTURE CASH CALLS (JVCS)

Joint Venture Cash calls (JVCs) refer to the counterpart funding arrangement between the Federal Government, represented by the Nigerian National Petroleum Corporation, NNPC, and the international oil companies and indigenous oil companies operating in the country. Under this arrangement, the government through NNPC pays annually 60 percent equity shareholding in various oil and gas fields.



## STABILIZATION FUND

This is the mechanism designed by the government or the monetary authorities to shield the domestic economy from sudden shocks arising from huge capital inflow such as oil boom. In some jurisdictions, it is called equalization fund because it is used to ensure that the influx of foreign capital does not affect the foreign exchange quotation of the local currency.



## SOCIAL SECURITIES

Social securities are social investment programmes to provide succor and support for the poor, vulnerable and unemployed. Examples of security programme include: Conditional Cash Transfer (CCT), School Feeding Programme, Government Economic Empowerment programme, N-power Job Creation Programme, etc.



## **NON-OIL BUDGET**

It is a budget funded by revenue from non-oil sources, such as proceeds from agricultural exports, solid minerals, services, agro-allied and semi manufactured goods, as well as revenue from internally generated sources.

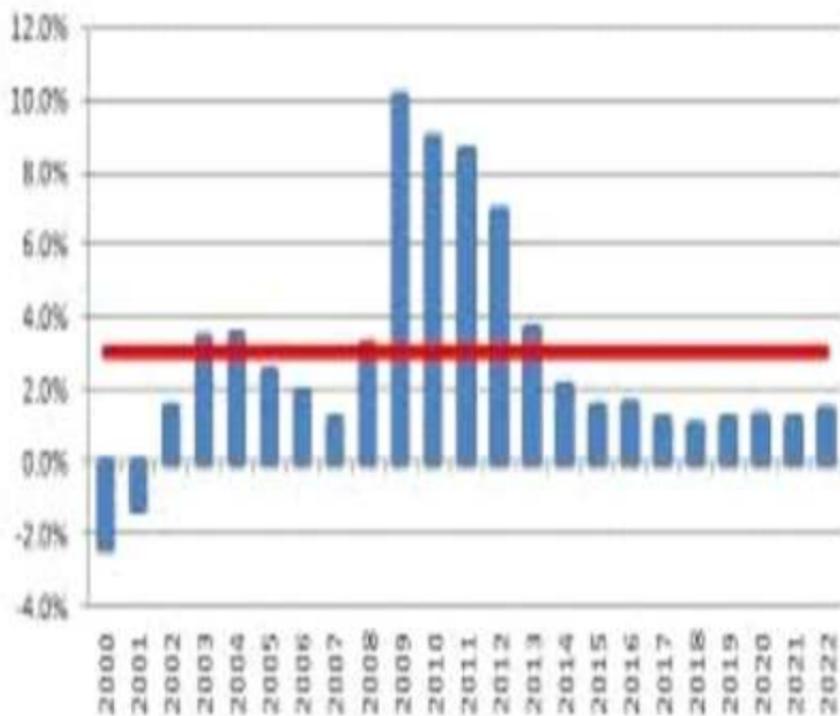


## DEFICIT TO GDP RATIO

The deficit-to-GDP ratio measures the proportion of the country's annual budget deficit to its total annual production.

Given that the deficit must be financed often from borrowing, it signifies the proportion of GDP that the borrowing will consume in order to successfully carry out government operations for the year towards delivering on its objectives.

## Deficit -- % GDP



## PRODUCTION SHARING

This is an agreement signed between a government and corporation regarding how much each will receive from the resource (normally oil) extracted from the country. It can also be accomplished between two countries, government and a corporation on how to share the production and extraction cost.



## INCOME TRANSFERS

Income transfer is the redistribution of income or benefits to the poor and unemployed in an economy. This form of payments takes place in a market system and it does not create output or involve the direct absorption of resources. Government income transfers are mostly a form of benefits to the jobless and the elderly towards reducing the poverty rate in the society.



## PERFORMING BUDGET

A Performing budget can be identified as a budget focused more on the potential results or output of services than on the inputs. It reflects the output of services based on the inputs of resources. The allocation of funds and resources by government is based, therefore, on the probable outcomes. It links funds provided to the public to the potential results.

A LOOK AT  
THE BUDGET



## CREDIT WORTHINESS

Credit worthiness is the assessment by a lender of a borrower's current and future ability to fulfill his debt obligations. It involves the valuation of a person, company or entity's ability to repay a loan and not default on their debts. Credit scores and ratings are used to indicate the credit worthiness of an individual or company (credit scores considers various factors such as payment records, repayment ability, age, income etc

# Credit Score

- Excellent
- Good
- Fair
- Uncertain
- Poor



## NON-CONTRIBUTORY INCOME SUPPORT

A Non-Contributory Income support provides a form of income security benefits to temporary workers, the elders , the less privileged in the society and all others that have no access to a contributory pension schemes or plans or are not eligible for contributory pension coverage.

It is typically limited to government workers, workers in the informal sectors, and the elderly among that could not participate in a contributory pension system and financed mostly from tax revenues .



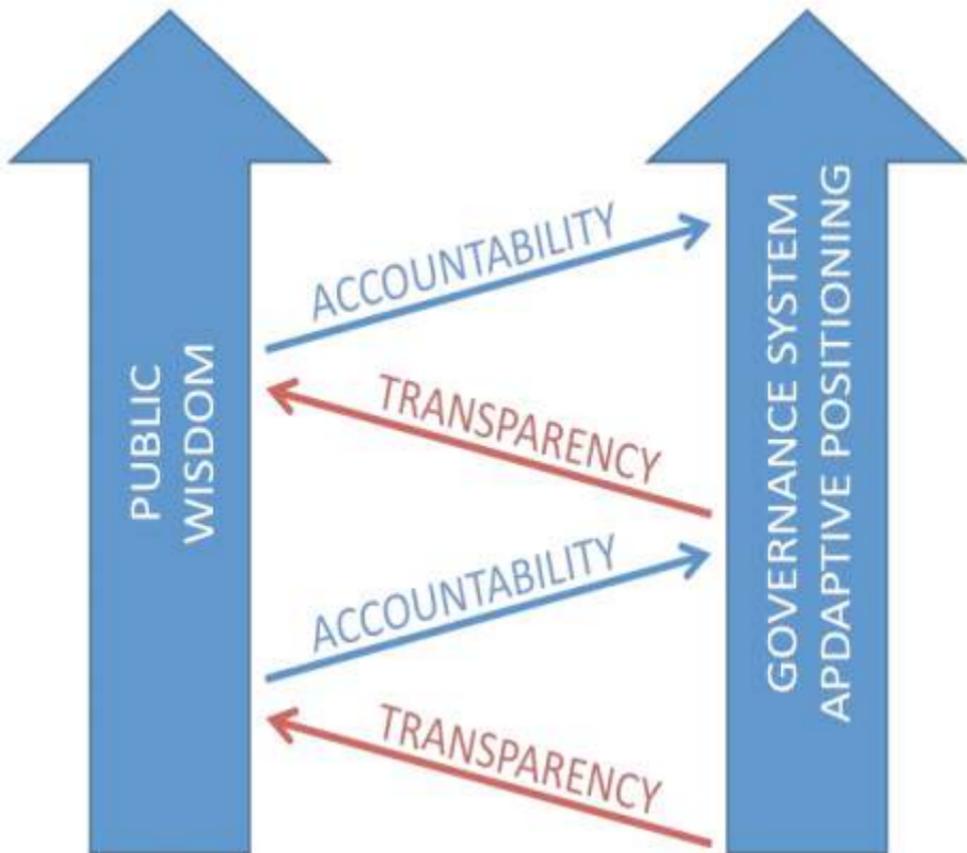
## SOVEREIGN RATING OF A COUNTRY

This is the credit rating of a country or sovereign institution to determine the country's credit standing. Countries normally invite well known rating agencies such as Moodys, Standard and Poors, and Fitch to evaluate their economic and political environment. Such assessments are essential to foreign investors and for accessing the international credit market.

Moody's		S&P		Fitch			
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+		A+			
A2		A		A		F1	Upper medium grade
A3	P-2	A-	A-2	A-	F2		
Baa1		BBB+		BBB+		Lower medium grade	
Baa2		BBB		BBB			
Baa3	P-3	BBB-	A-3	BBB-	F3		
Ba1		BB+		BB+		Non-investment grade speculative	
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+			B
B2		B		B			
B3	B-	B-					
Caa1	Not prime	CCC+	C	CCC	C	Substantial risks	
Caa2		CCC				Extremely speculative	
Caa3		CCC-				Default imminent with little prospect for recovery	
Ca		CC					
C		C					
/	D	/	DD	/	In default		
/			D				

## FISCAL TRANSPARENCY

Fiscal transparency refers to a comprehensive reporting of government's past, present and future public finances to the public in a clear, reliable and timely manner. It should provide an accurate picture of government's spending, investing and borrowing plans as well as how it manages public assets and liabilities.



## TAX ARREARS

These are taxes due to government but not yet paid. It is also used in many contexts to refer to tax payments made at the end of a period.

Other arrears in receipts could arise from non-payment of loans by government or nonpayment of bills for government services.

**TAX  
DUE**

The image features the words "TAX" and "DUE" stacked vertically in a large, bold, 3D red font. The letters have a metallic sheen and are set against a dark blue background with several bright, white light rays emanating from behind the text, creating a dramatic, high-contrast effect. The overall composition is centered and visually striking.

## ROYALTY REGIMES

These are regimes that apply royalty percentage on production levels. They are very common in countries that are rich in natural resources such as oil. Royalties are particularly useful for governments that are in dire need of revenue as this gives them some revenue regardless of the cost level. For instance, a production of 2000 barrels of crude oil per day and a 10% royalty rate, will result in 200 barrels which will automatically be distributed to the government. Some of the disadvantages of royalty regimes include: 1) a high royalty rate, will mean that the government will get a lesser portion of the total profit if costs are reduced over time. 2) royalties do not take into account the profitability of an oil and gas field.



# Royalties and Payments

to the Author a royalty as a percentage of net revenues accrued as described above in (1a) according to the following schedule, either as a percentage of retail sales of the Author's Work or as a percentage of net revenues realized by wholesale on-selling of the Work.

## INCOME TAX

It is a tax levied by governments on financial income generated by all entities within their jurisdiction. It varies with the taxpayer's income or profit. When taxed on businesses, it is called company income tax or corporate tax. The income tax is computed when the tax rate is multiplied on the taxable income .Businesses and individuals are required to file an income tax return yearly to determine whether they owe taxes or are eligible for a tax refund. It can also be described as an annual charge imposed on both earned income such as wages and salaries and unearned income such as dividends, interest, rents etc.



**INCOME  
TAX**  
**OFFICE**

## EXPORT

Exports refer to product or services sold abroad for the purpose of realizing foreign exchange. The sale of such goods or services adds to the gross output and foreign reserve earnings of the producing country. When used for trade, exports are bartered for other products or services in other countries.

# What are Exports?



## IMPORT

An import is goods or services brought into one country from a foreign country for sale, use, processing or re-export. The party bringing in the goods is called an importer. When the value of imports in an economy is higher compared with the value of exports, that country's balance of trade becomes negative.



## EXPORT DUTIES

Export duties consist of general or specific taxes levied on goods or services that are payable when the articles leaves the country or when the services are delivered to non-residents. It is simply a tax imposed on exports of some nations.

# TAX VS DUTY

TAX VS DUTY

## SINGLE TAXATION

Single taxation is a system of taxation that is based exclusively on one tax usually tax on land value. In this system, there is only one tax which is the major source of government revenue.

# SINGLE TAX

IS

SOCIETY'S  
LIBERATOR



## TRANSFER PAYMENTS

This refers to payments made or income received by the government whereby no goods or services are being paid for. It can also be described as payment made by a government for any purpose besides purchasing goods or services.

They include welfare benefits such as social security, old age or disability pensions, student grants, unemployment compensation, etc.

# ***Social Security***



# ***Medicare***



# ***Medicaid***

## GATE KEEPER

In budgeting, gate keeper refers to an individual or committee that scrutinizes budget line items to ascertain the merits of their inclusion as well as their values. The gate keeper is ultimately responsible for the effective implementation and performance of the budget.

In Nigeria, the gate-keeping responsibilities lie with the following:

- Ministry of Finance
- Budget office of the Federation
- Accountant General of the Federation
- Senate Budget Committee
- Presidency



**A LOOK**  
*at the*  
**BUDGET**



## DEBT CAPACITY

Debt capacity is an assessment of the capacity of an economic unit to absorb debt and meet the obligations attached to the debt within its tenor. It is affected by the current asset valuation of the economic unit and its current and projected future income/revenue stream. For a nation, it reflects the ability of the government to absorb further debt given its stock of assets, revenue base and future revenue income. An appropriate balance must be struck between the need for debt to fund capital projects and the ability to repay the debt obligations as they become due.



# Debt Capacity

From Davenport's May 5, 2015 Presentation:

Revised Based on Team's Response:

Future Debt Capacity 2016 - 2020		Future Debt Capacity 2016 - 2020	
Projected Maximum Debt Capacity 2016 - 2020	\$215,305,115	Projected Maximum Debt Capacity 2016 - 2020	\$215,305,115
Less: Estimated Bonds to be Issued from Approved 2016 - 2020 CIP	184,602,300	Less: Estimated Bonds to be Issued from Approved 2016 - 2020 CIP	184,602,300
Total Remaining Capacity After Approved CIP	\$30,702,815	Total Remaining Capacity After Approved CIP	\$30,702,815
Less: Baseball Stadium Issuance	27,755,000	Less: Baseball Stadium Issuance	31,085,000
Total Remaining Capacity	\$2,947,815	Total Remaining Capacity	(\$382,185)



## MANDATE

A mandate within fiscal operations typically is an instruction to the Central Bank to make specific payments to a government agency or unit or for a purpose. It is issued by the Accountant General of the Federation, acting on the instruction from the Budget Office of the Federation/Ministry of Finance. The mandate is backed by law.



## FISCAL SUSTAINABILITY

This refers to government's ability to maintain existing policies as well as spending and tax rates at current levels for the long term without hampering:

- its solvency,
- ability to meet maturing obligations when due and
- planned expenditures.



## **BUDGET YEAR**

This is typically 365/366 day calendar adopted by governments for the purpose of accounting, budget and taxation. The start period may vary depending on the jurisdiction, however in Nigeria, it commences on the first of January of each year.

The budget year typically coincides with the accounting year and forms the basis for financial reporting by economic units.

## CBO's Baseline Budget Projections

	Actual,													Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-	2016-	
In Billions of Dollars															
Revenues	3,021	3,251	3,514	3,628	3,730	3,847	4,004	4,164	4,359	4,560	4,772	4,999	10,723	41,577	
Outlays	3,506	3,677	3,928	4,044	4,184	4,442	4,690	4,931	5,244	5,465	5,657	6,007	21,289	48,584	
Deficit	-485	-426	-414	-416	-454	-596	-687	-767	-885	-895	-886	-1,008	-2,566	-7,007	
Debt Held by the Public at the End of the Year	12,780	13,175	13,821	14,338	14,864	15,528	16,277	17,102	18,044	18,993	19,933	21,001	n.a.	n.a.	
As a Percentage of Gross Domestic Product															
Revenues	17.5	18.2	18.9	18.6	18.3	18.1	18.1	18.0	18.1	18.1	18.2	18.3	18.4	18.3	
Outlays	20.3	20.6	21.1	20.8	20.6	20.9	21.2	21.3	21.7	21.7	21.6	22.0	20.9	21.3	
Deficit	-2.8	-2.4	-2.2	-2.1	-2.2	-2.8	-3.1	-3.3	-3.7	-3.6	-3.4	-3.7	-2.5	-3.1	
Debt Held by the Public at the End of the Year	74.0	73.0	74.4	73.6	73.0	73.1	73.5	74.0	74.8	75.5	76.1	76.9	n.a.	n.a.	

Source: Congressional Budget Office.

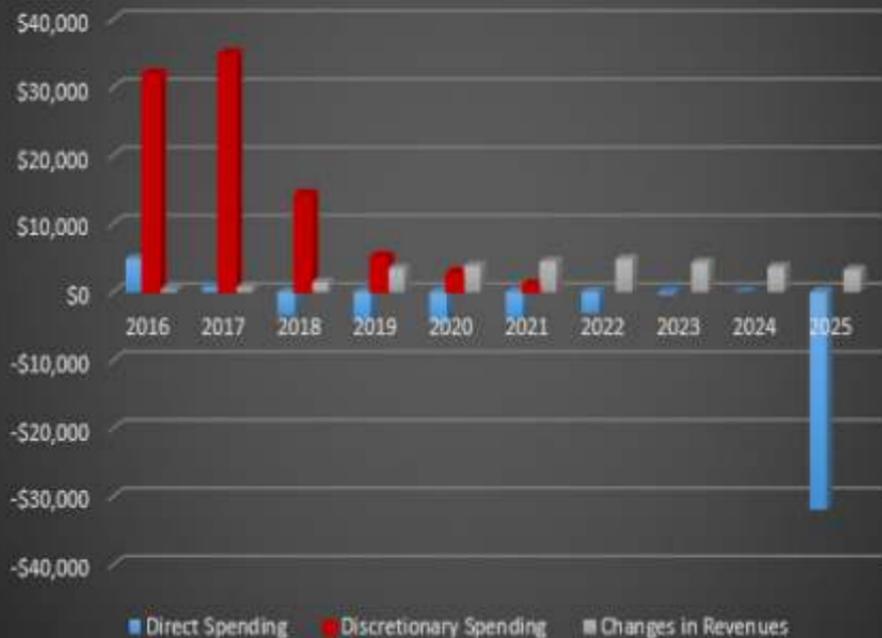
Note: n.a. = not applicable.

## BUDGET ACT

This is the regulation of public finances backed by law and provide a mechanism to ensure amongst others:

- Fiscal discipline,
- Effective public funds management based on an existing strategic plan and
- Internal and external macroeconomic stability.

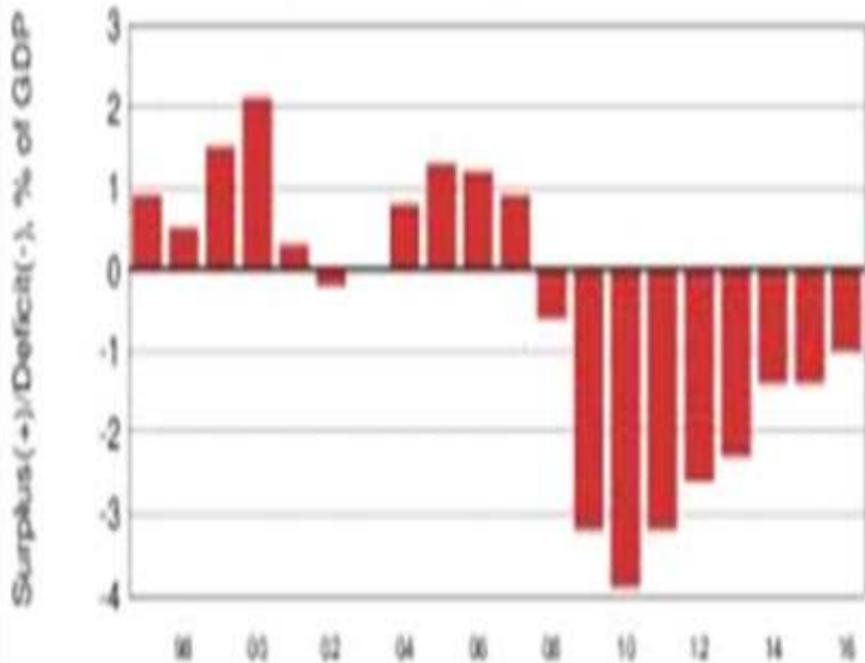
## Changes in Direct Spending, Discretionary Spending, and Revenues in the Bipartisan Budget Act of 2015 (in billions)



## CYCLICAL BALANCE

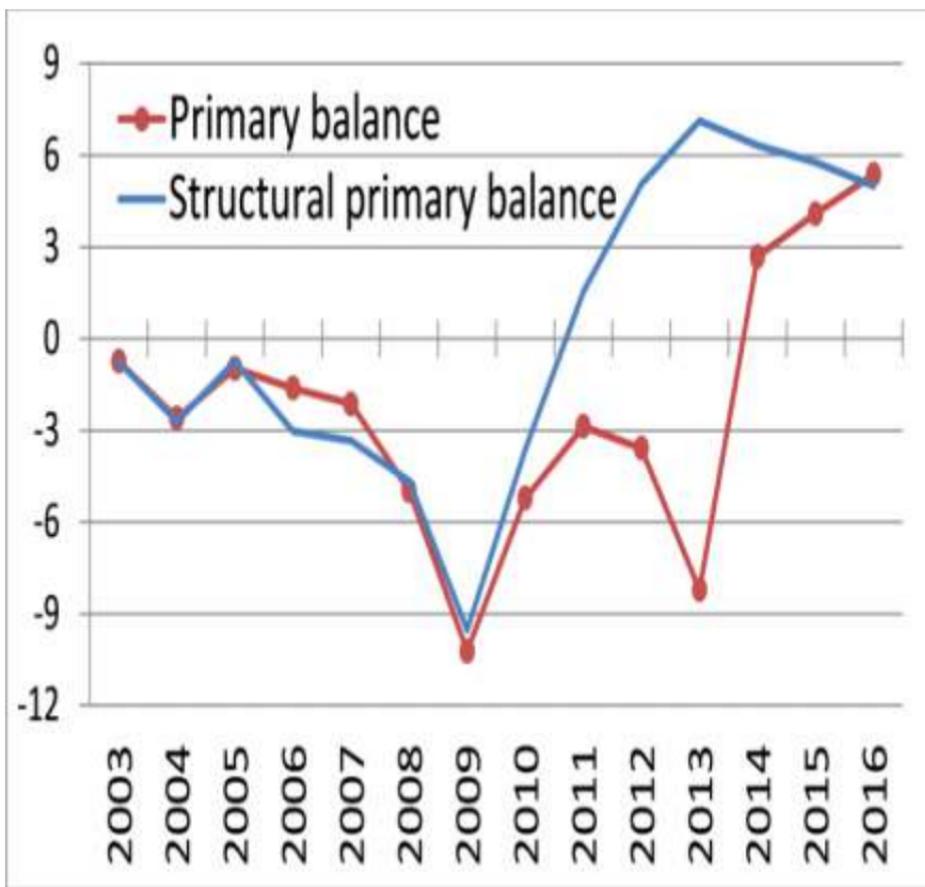
The cyclical component of the overall fiscal balance, computed as the difference between cyclical revenues and cyclical expenditures. The latter are typically computed using country-specific elasticities of aggregate revenue and expenditure series with respect to the output gap. Where unavailable, standard elasticities (0,1) are assumed for expenditure and revenue, respectively.

# Canada Cyclically-Adjusted Balance



## STRUCTURAL FISCAL BALANCE

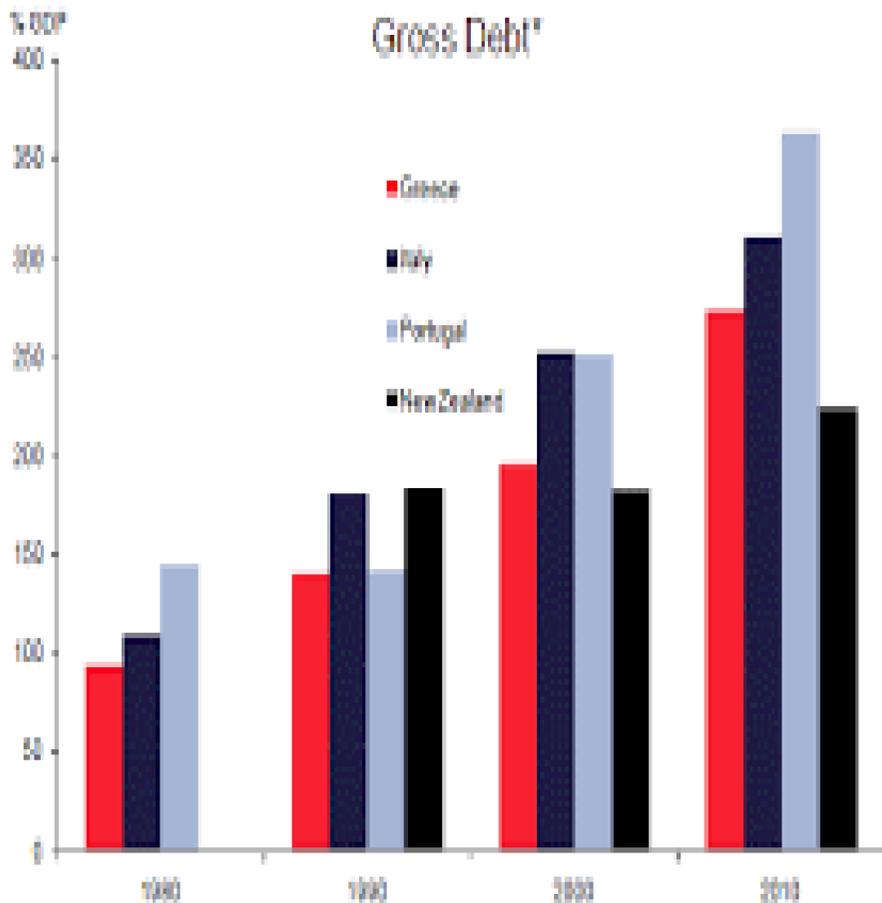
Structural Fiscal Balance is a fiscal term that is used to describe the difference in cyclical adjusted balance and other nonrecurring effects that go beyond the cycle. They are such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects).



## GROSS DEBT

The Gross Debt of a country takes into account all forms of liabilities that require the future payments of principal and interest by the debtor to the creditor. These include debts liabilities in the form of special drawing rights, currency, and deposits; debt securities; loans; insurance, pension, and standardized guarantee programs; and other accounts payable. (See the IMF's 2001 Government Finance Statistics Manual and Public Sector Debt Statistics Manual.)

## Gross Debt\*



Source: Commission of the EC, October 20, 2002

\*gross government debt as % of GDP (at market value)

## NET DEBT

The Net Debt of a country can be described as Gross debt minus financial assets corresponding to debt instruments. These financial assets are monetary gold and special drawing rights; currency and deposits; debt securities; loans, insurance, pensions, and standardized guarantee programs; and other accounts receivable. In some countries, the reported net debt can deviate from this definition based on available information and national fiscal accounting practices.

## Dinero Inc.

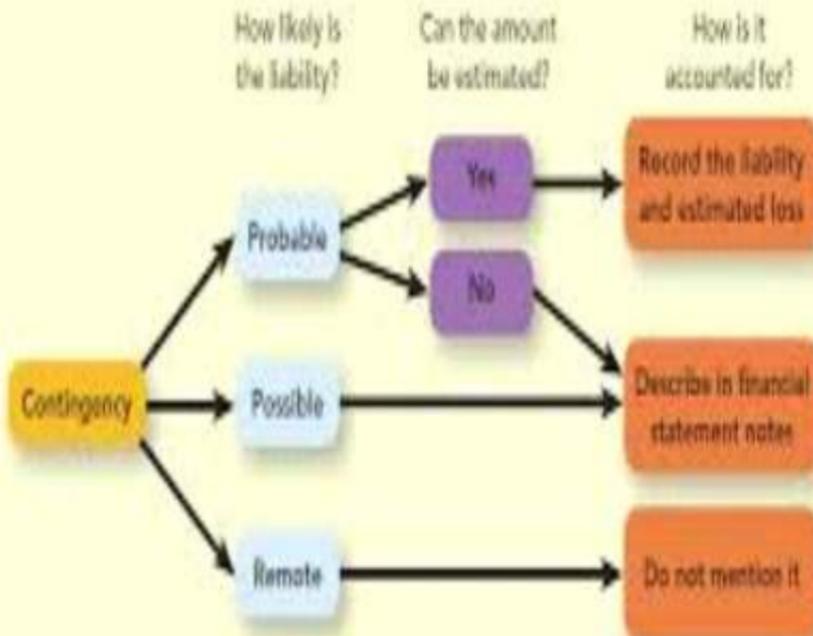
$$\text{NET DEBT} = \left( \begin{array}{c} \text{SHORT-TERM} \\ \text{LIABILITIES} \end{array} + \begin{array}{c} \text{LONG-TERM} \\ \text{LIABILITIES} \end{array} \right) - \left( \begin{array}{c} \text{CASH} \\ \text{EQUIVALENTS} \end{array} \right)$$

**\$2.5M      \$1M      \$6M      \$1.5M      \$3M**

## CONTINGENT LIABILITY

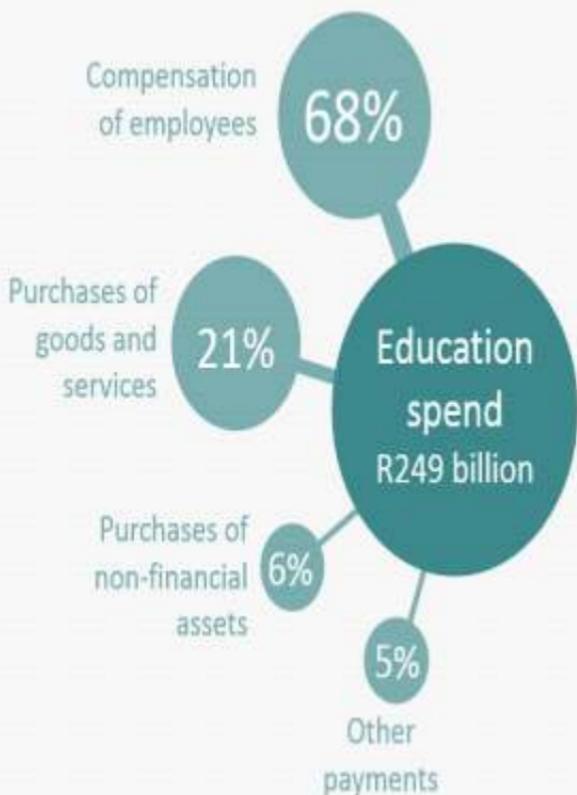
These are obligations of a government, whose timing and magnitude depend on the occurrence of some uncertain future event outside the government's control. It can be explicit (obligations based on contracts, laws, or clear policy commitments) or implicit (political or moral obligations) and sometimes arise from expectations that government will intervene in the event of a crisis or a disaster, or when the opportunity cost of not intervening is considered to be unacceptable.

## Accounting for Contingent Liabilities



## GENERAL GOVERNMENT

General government includes all government units and all nonmarket, nonprofit institutions that are controlled and financed by government, comprising the central, state, and local governments. It includes social security funds but does not include public corporations or quasi corporations.



Breakdown of  
general  
government  
spending on  
education  
2013/14

Source: Financial statistics of  
consolidated general government,  
2013/2014 (P9119.4)  
<http://www.statssa.gov.za>

## FISCAL AUSTERITY

The term Fiscal austerity is used when government cuts its spending and introduces higher taxes during periods of recession or very weak economic growth. Austerity implies that spending cuts and tax increases are likely to have an adverse impact on aggregate demand and economic growth. It refers to decisions by a government to reduce the amount of government borrowing (i.e. cut the size of a fiscal deficit) over a period of years.



GROWTH EMPLOYMENT  
RECOVERY INVESTMENT

AUSTERITY  
MEASURES



## FISCAL STIMULUS

Fiscal stimulus refer to increasing government consumption or transfers or lowering taxes. In Effect, this means increasing the rate of growth of public debt, except that particularly, Keynesians often assume that the stimulus will cause sufficient economic growth to fill that gap partially or completely. An increase in public spending or a reduction in the level of taxation that might be performed by a government in order to encourage and support economic growth. Most government bailout packages offered to various businesses can be considered a form of fiscal stimulus.



## TOBIN TAX

A Tobin Tax is a financial transactions tax. The tax involves applying a small charge of as little or less than 0.1 per cent on foreign currency transactions to protect countries from exchange-rate volatility caused by short-term currency speculation. A Tobin tax, suggested by Nobel Laureate in economic James Tobin, was originally defined as a tax on all spot conversions of one currency into another. Tobin's original tax was intended to put a penalty on short-term financial round-trip excursions into another currency.



## PROGRESSIVE TAX

Progressive Tax is a tax that takes an increasing proportion of income as income rises. Thus, the tax rate increases as the taxable amount increases. The term "progressive" refers to the way the tax rate progresses from low to high, with the result that a taxpayer's average tax rate is less than the person's marginal tax rate. Progressive tax takes a higher percentage of tax from people with higher incomes. The aim of progressive tax is:

- To help reduce inequality – taking lower average levels of tax from low wage earners, and taking more from higher incomes.
- To increase the incentive for people to take low paid jobs, e.g. move off benefits into work. If low income work has a low incidence of tax, it encourage people to enter the labour force and take a job.



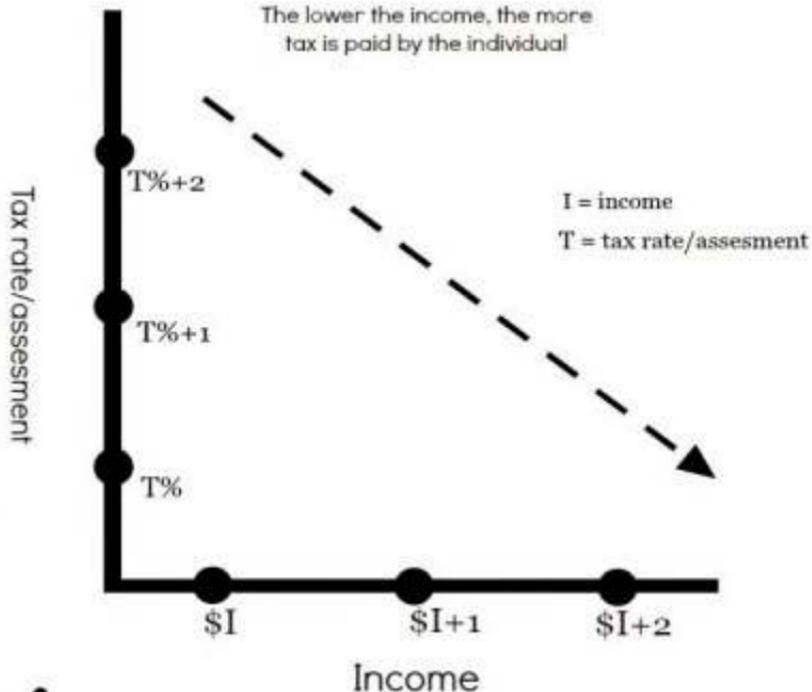
The Progressive Income Tax: A Tale

## REGRESSIVE TAX

Regressive tax is a tax that takes a smaller proportion of income as the taxpayer's income rises. A regressive tax is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. "Regressive" describes a distribution effect on income or expenditure, referring to the way the rate progresses from high to low, so that the average tax rate exceeds the marginal tax rate. A regressive tax may at first appear to be a fair way of taxing citizens because everyone, regardless of income level, pays the same amount. By taking a closer look, it is easy to see that such a tax causes lower-income people to pay a larger share of their income than wealthier people. True regressive taxes are not used as income taxes; they are used as taxes on tobacco, alcohol, gasoline, jewelry, perfume, and travel. An example of a regressive tax is a user fee, such as a business license. A regressive tax levies the same amount on each individual, but the proportionality of the tax affects those with a smaller income to a greater degree than those with higher incomes.

# A Regressive Tax

The lower the income, the more tax is paid by the individual



## PUBLIC SECTOR

Public Sector is a term used to refer to the general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities on behalf of the government. It is that portion of an economic system that is controlled by national, state or provincial, and local governments. Similar to the voluntary sector, organizations in the public sector do not seek to generate a profit. Funding for public services is usually raised through a variety of methods, including taxes, fees, and financial transfers from other levels of government. Examples of organizations in the public sector include: Education (Schools, Libraries), Electricity, Emergency Services, Fire Service, Healthcare, Infrastructure, Law Enforcement, Police Services, Postal Service, Levels of Government.

Public sector organizations exist at all the levels of government.



← Old State House

City Library →

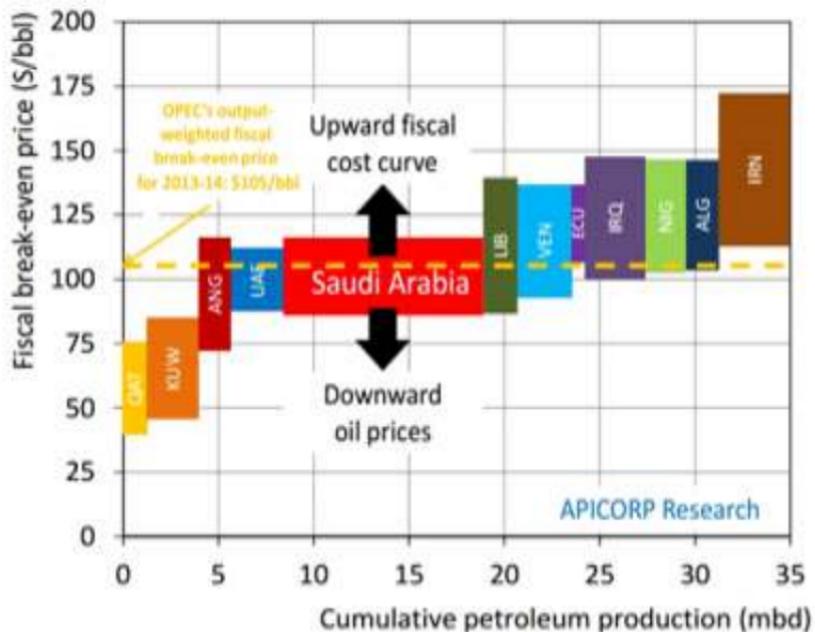
City Hall →

↑ Museum of Art

## BREAK-EVEN OIL PRICE

Breakeven oil price is a minimum per barrel price that an oil-exporting country needs in order to meet its expected spending needs while balancing its budget. Oil prices below this level would result in budget deficits unless government policies change. Breakeven prices have become popular among analysts and decision-makers in the public and private sectors as indicators of oil-producing countries' economic and political stability and as ingredients in oil price forecasts. There are, however, sharp limits to the insights that fiscal breakeven prices provide, and dangers in relying on them narrowly. In Nigeria, the break-even oil price is known as oil bench mark price which forms part of the government budget assumptions. Any price per barrel that is in excess of the bench mark goes into the an Excess Crude Account (ECA).

Figure 12: Current OPEC Fiscal Break-even Oil Prices



## FISCAL MULTIPLIER

Fiscal multipliers describes the ratio of a change in a country's economic output i.e ( $\Delta Y$ ) to a change in government spending or tax revenue ( $\Delta G$  or  $\Delta T$ ). Simply, it measures, the effect of a change in spending or revenue on the level of GDP. Economies that are highly indebted are vulnerable to higher levels of uncertainty and pessimism, and hence lower levels of marginal consumption following more government spending or less taxation. In a general sense, it measures the efficiency of fiscal policy.



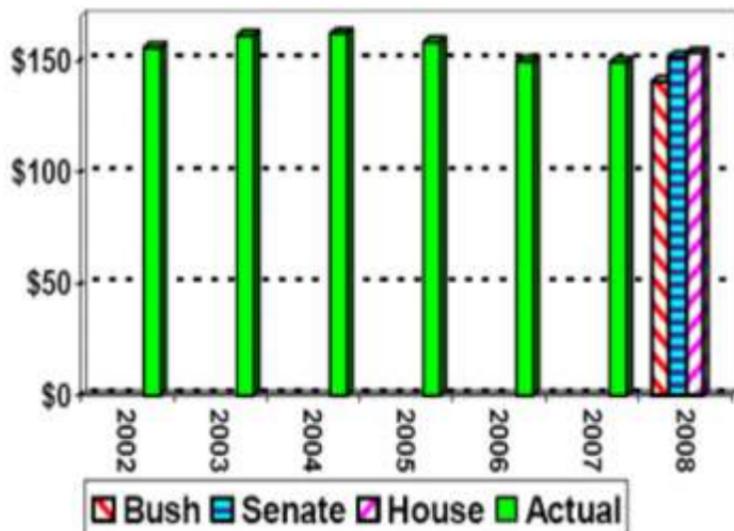
## APPROPRIATION

Appropriation is the act of setting aside money for a specific purpose. A government appropriates funds in order to delegate cash for the necessities of its business operations. This may occur for any of the functions of a business, including setting aside funds for employee salaries, research and development, dividends and all other uses of cash. Simply it is the authorization by the Legislature to spend money from the state treasury for purposes established in law

## FIGURE 2

### Discretionary funding in Labor-HHS- Education appropriations bills

(billions of dollars, adjusted for inflation and population)



## ALLOTMENT

Administratively-placed limits on the amount to be spent or encumbered for a legislatively-authorized purpose. Agencies develop a spending plan based on appropriations; then money is allotted for each expenditure. In the accounting system, allotments act as a control, prohibiting spending beyond the established limits.



## ANNUALIZATION

The practice of adjusting spending totals to determine the annual costs of programs that were funded for only a portion of the previous year. For example, the annualized cost of a program that cost \$500,000 for six months of operation is \$1,000,000.

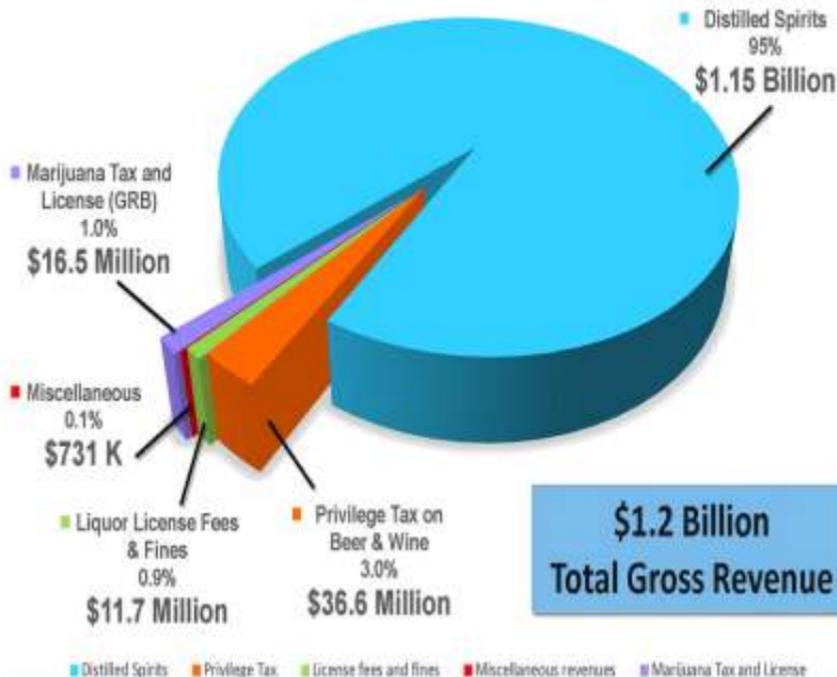
## Canada GDP, quarterly annualized rate



## BIENNIUM

The Legislature appropriates the major portion of the budget in the odd-numbered year session, and makes adjustments as needed during the even-numbered years. For example, the FY 2000-01 biennium would begin at midnight on June 30, 1999 and would end at midnight June 30, 2001

# Projected Gross Revenue Sources 2015-2017 Biennium



## CANCELLATIONS

Money appropriated but unspent and unencumbered at the end of a biennium, which is added back to the General Fund balance.

## Recent Floater Cancellations/Terminations (by Operator) in 2015

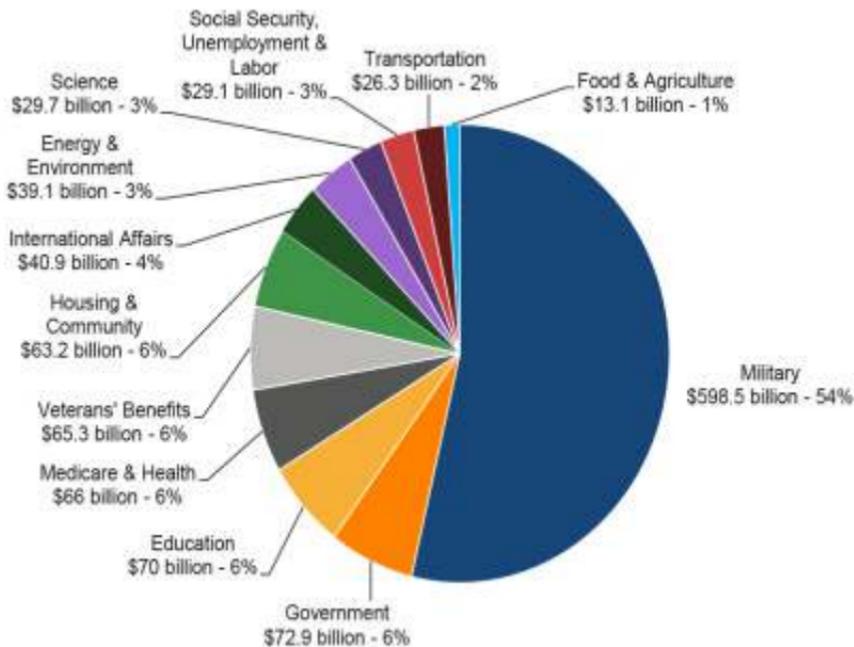
Notice Date	Operator	Contractor	Day Rate	Region	Cancellation/Termination Fee
<b>7th/6th Gen Floaters</b>					
30-Mar-2015	BP	Ensco	\$560,000	CoM	Lump sum \$160mm (covers termination date through original contract expiration of July '16)
16-Jul-2015	ConocoPhillips	Ensco	\$550,000	CoM	Full day rate for 2yrs
31-Aug-2015	Petrobras	Vantage Drilling	\$527,869	West Africa	In arbitration
17-Dec-2015	Statoil	Transocean	\$509,000	CoM	"fully compensated"
6-Jan-2016	Petrobras	Ensco	\$435,000	CoM	Petrobras believes contract is void
<b>5th Gen Floaters</b>					
15-Jul-2015	Petrobras	Diamond Offshore	~\$300,000	Brazil	None (DO indicated this may have been due to an issue of nonperformance)
24-Sep-2015	Petrobras	Odebrecht	\$345,087	Brazil	No details provided
<b>2nd-4th Gen Floaters</b>					
15-Jul-2015	PEMEX	Diamond Offshore	\$160,000	CoM	None
17-Dec-2015	Shell	Noble Corp	\$369,000	Alaska	90% of day rate
28-Dec-2015	Shell	Transocean	\$590,000	Alaska	"compensated via lump-sum payment"

Source: Company Reports, Barclays Research

## BUDGET

The plan or authorization for revenues and expenditures in a fixed period of time. The budget is submitted in three parts: (1) the President/Finance Minister's budget message, including a summary and the President/Finance Minister's recommendation on state financial policy, (2) the detailed operating budget and (3) the detailed capital budget.

## Discretionary Spending 2015: \$1.11 Trillion



## FISCAL NOTE

This can be referred to as the official estimate of costs or revenues for proposed legislation, prepared by agencies or fiscal staff. State law defines the required components of a fiscal note. The Department of Finance is responsible for oversight of the processing, preparation, delivery and updating of fiscal notes, and for assuring their accuracy and completeness.

## Fiscal Note & Local Impact Statement

123<sup>rd</sup> General Assembly of Ohio

BILL: S.B. 107 DATE: May 12, 1999  
STATUS: As Introduced SPONSOR: Sen. Latta  
LOCAL IMPACT STATEMENT REQUIRED: Yes  
CONTENTS: Modifies provisions of the Controlled Substance Law and Drug Abuse Law; modifies felony sentencing law.

### State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
Center of Revenue Fund			
Revenues	-\$	-\$	-\$
Expenditures	Factors increasing and decreasing costs, with the net effect uncertain.	Factors increasing and decreasing costs, with the net effect uncertain.	Factors increasing and decreasing costs, with the net effect uncertain.

Note: The net effect per S.B. 107 is through April 30, for example, FY 2000 (July 1, 1999 - April 30, 2000).

- DRC would experience an increase in annual incarceration costs, primarily due to longer prison stays for the following offenders:
  1. At least 35 inmates off parole annually.
  2. A few offenders convicted of attempting drug law violations.
  3. A few drug trafficking offenders who fail directly on penalty cut-off points.
- DRC would also experience a decrease in annual incarceration and post-release control supervision expenditures, primarily due to the following:
  1. Creation of a presumption in favor of treatment for community control violations involving drugs.
  2. Inmates would become eligible for judicial release after serving 4 of 5 years in prison, which could result in savings to ERIC in future years.
  3. Allowing the Parole Board to shorten the length of supervision for offenders whose time on post-release control is discretionary.
  4. A few offenders may not serve a prison term for providing money for drugs.
  5. A few offenders will not be prison-bound due to a revoking of the 4<sup>th</sup> factor that provides guidance to judges on sentencing relative to committing crimes while under community control or probation.
  6. A few offenders convicted of failure to appear would spend less time in prison.

### Local Fiscal Highlights

Ohio Legislative Budget Office - a nonpartisan agency that provides research for the Ohio General Assembly  
77 South High Street, 12<sup>th</sup> Floor, Columbus, Ohio 43260-6447 • 614-467-1074 • 1-800-848-0848 • [www.legis.state.oh.us](http://www.legis.state.oh.us)



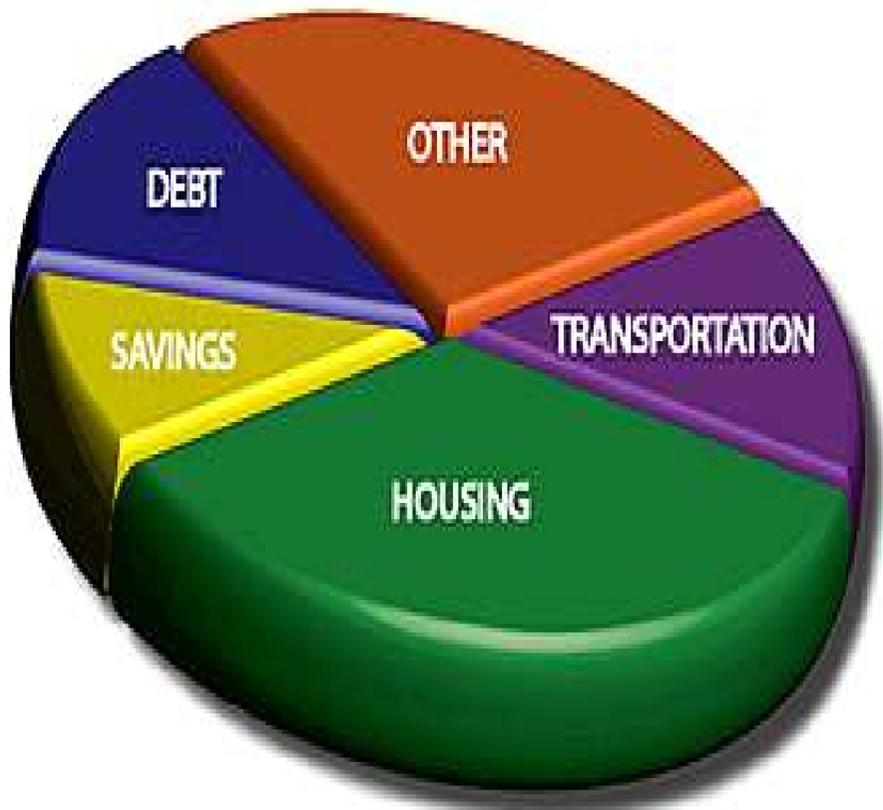
## GENERAL FUNDS

The largest fund in the state treasury, into which receipts from the major taxes are deposited (e.g., individual and corporate income, sales, motor vehicle, cigarette and liquor, etc.). Most of the money in the General Fund is not earmarked for specific purposes. The General Fund is the major source of funding for education, health care and human services and other major functions of government.



## SPENDING PLAN

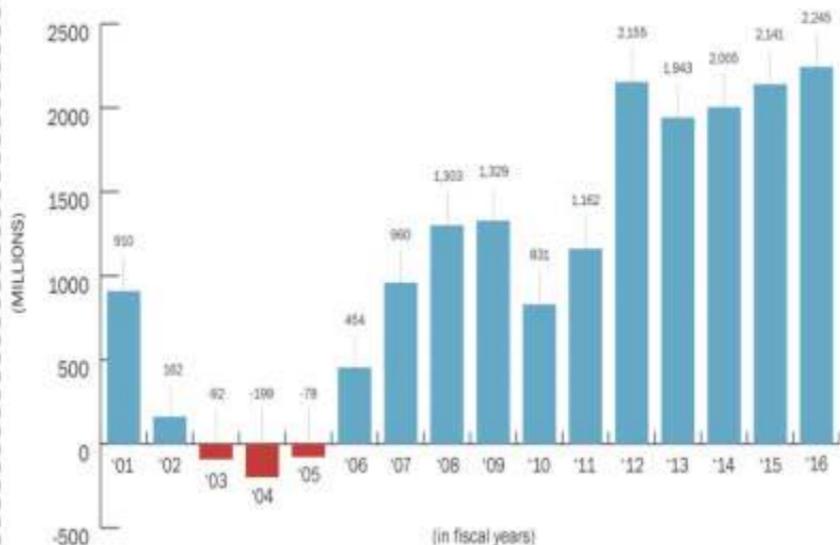
Developed by state agencies after the legislative appropriation process is completed. The plans must specify the purpose and amount required for each activity and must be within the amount and purpose of the appropriation.



## **BUDGET RESERVE**

The Reserve is like a savings account and serves as a hedge against an unforeseen economic downturn. Reserve funds may be spent in the event that expenditure are forecast to exceed revenues, but only after consultation with the Legislative Advisory Commission.

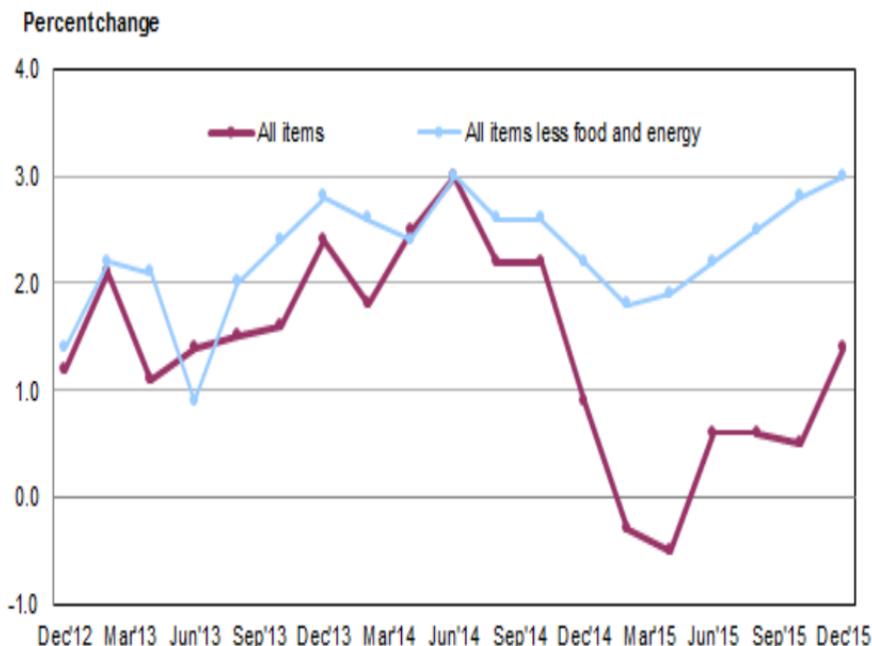
## LEVEL OF RESERVES



## CONSUMER PRICE INDEX (CPI)

A measure of inflation intended to capture the increased prices facing consumers for a fixed market basket of services and goods, including food, housing, transportation, clothing, medical care, and entertainment.

Chart 1. 12-month percent change in CPI for All Urban Consumers (CPI-U), Atlanta, December 2012–December 2015

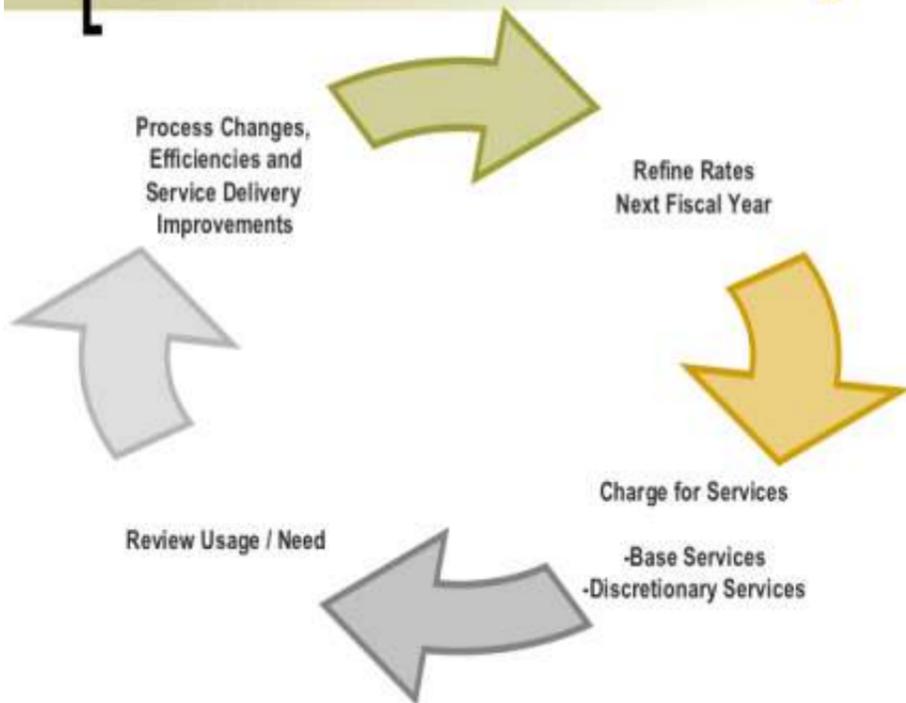


Source: U.S. Bureau of Labor Statistics.

## INTERNAL SERVICE FUNDS

This is a fund that is internal to the operation of state government that provides a variety of services to state agencies, such as computer services, motor pool, and printing. The funds must recover the full cost of services provided through billing back state agencies.

# Internal Service Fund Process



## REVENUE

Government revenue is money received by a government from external sources net of refunds and other correcting transactions, other than from the issuance of debt, liquidation of investments, and as agency and probate trust transactions. Government revenue excludes non-cash transactions such as receipt of services, commodities or other receipts in kind. Government revenue includes intergovernmental transfer.



## REVOLVING FUND

Funds established in law in which revenue (including loan repayments) is credited back to the fund for the same use as the original appropriation.

**UTILITY  
SAVINGS**

**REVOLVING  
FUND**

**ENERGY-EFFICIENCY  
PROJECTS**



## **SPECIAL FUNDS**

A grouping of revenues from certain sources from which certain expenditures are made. Revenues for these funds are usually dedicated and expenditures from the special funds are usually restricted to certain purposes.



## FIDUCIARY FUNDS

Account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or funds. These include pension trusts funds, nonexpendable trust funds (where the principal may not be expended, e.g., the Permanent School Fund, Environmental and Natural Resources Nonexpendable Trust Fund), expendable trust funds (e.g., the Municipal State-aid Street Fund, County State-aid Highway Fund Environment and Natural Resources Expendable Trust Fund, Reemployment Compensation Fund), and agency funds, such as the Deferred Compensation Fund.

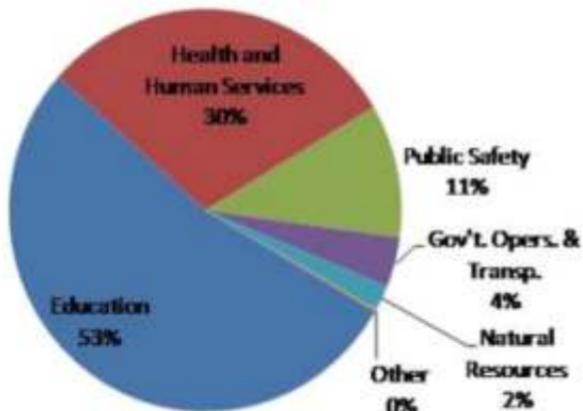


## **DIRECT APPROPRIATION**

An appropriation for a specific amount of money, for use during a specific time period. Most appropriations in omnibus bills are direct appropriations. Appropriations are usually for a single year of the biennium. However, legislation occasionally makes single year appropriations available in either year of the biennium.

## Appropriations by Function of Government, FY 2011

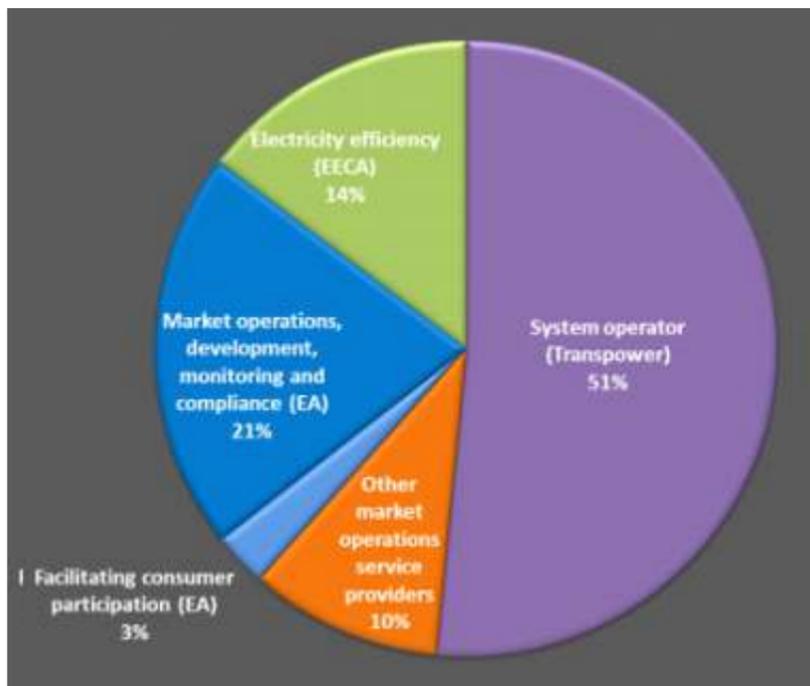
Total=\$6.7 billion



Source: Appropriation bills and summaries. Includes American Recovery and Reinvestment Act, Rainy Day Fund.

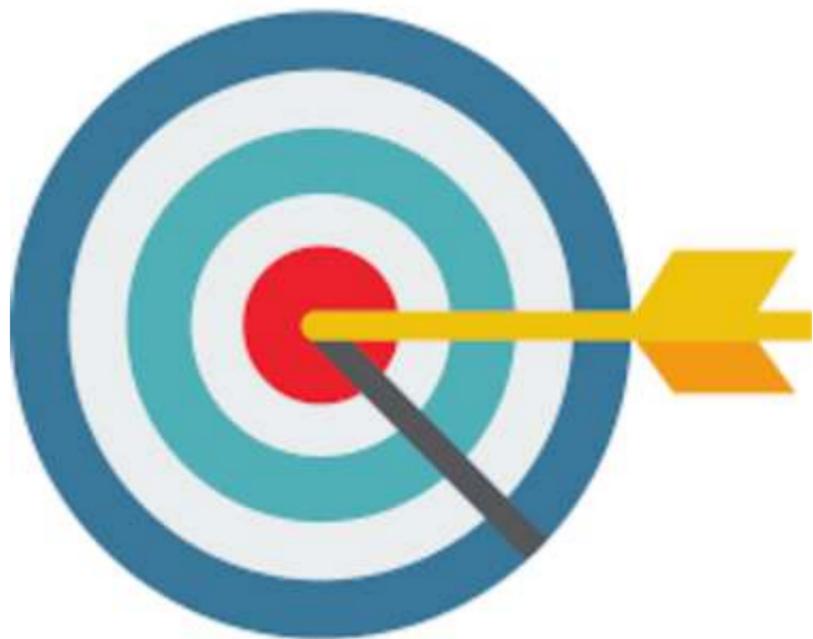
## OPEN APPROPRIATIONS

A form of standing appropriation where the level of funding necessary to fulfill obligations is made available in the fiscal year. The state fund balance shows an estimate of the amount expected to be spent. Many of the programs funded by formula (e.g., education aids and Homestead and Agricultural Credit Aid – HACA), and programs funded through fees, are open appropriations.



## TARGETS

In the legislative process, specific limits on spending and revenues, assigned by the House Ways and Means Committee, to reconcile the fiscal actions of committees and divisions with the Budget Resolution. The targets add up to the total limit on expenditures, revenues and the reserve level established in the Budget Resolution.



## STATE AIDS

This is defined in statute as programs by which the government provides financial assistance to political subdivisions to assist them in delivering public services, financing public facilities or reducing property taxes in connection with state mandates, programs and procedures.

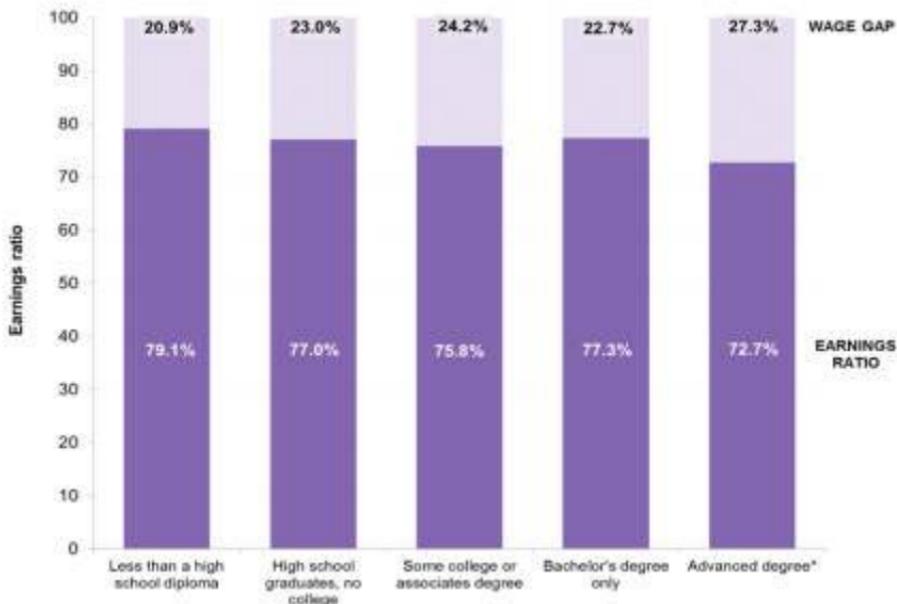


## PERSONAL INCOME

In national income accounting, personal income is the income received by individuals, owners of unincorporated businesses (including partnerships), non-profit institutions, private trust funds, and private non-insured welfare funds. Personal income is the sum of wage and salary disbursements, other labor income, proprietors' income, rental income of persons, dividends, and personal interest income and transfer payments, less personal contributions for social insurance.

## Women's to men's earnings ratios and wage gap by educational attainment

2014 women's median weekly earnings of full-time, wage and salary workers, 25 years and older as a percentage of men's



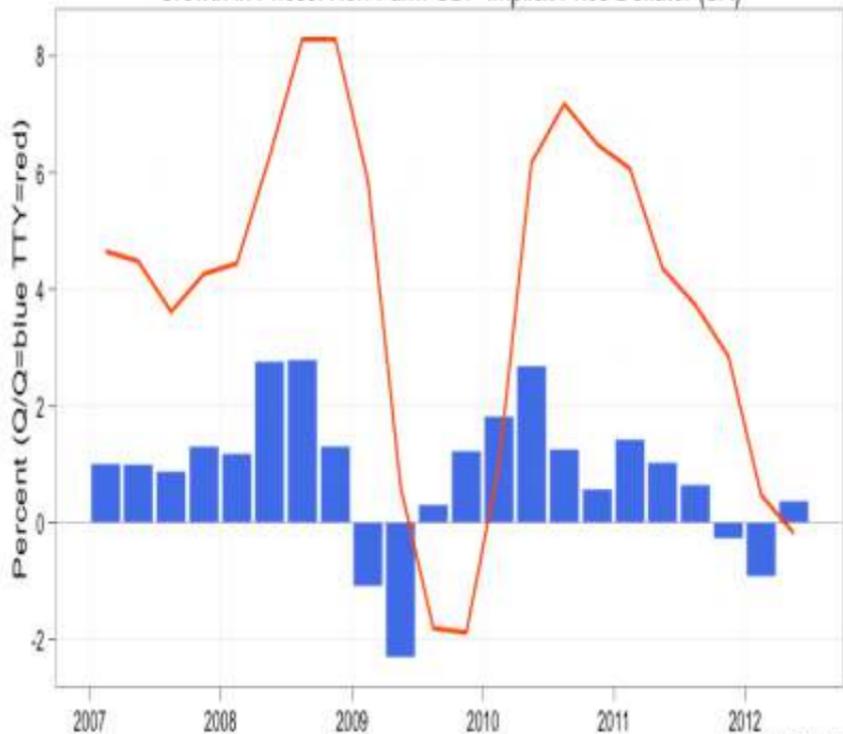
Note: Based on median weekly earnings of full-time, wage and salary workers, 25 years and older. \*Advanced degree includes people with masters, professional, and doctoral degrees.

Source: U.S. Bureau of Labor Statistics, Current Population Survey, 2014/ Graph by the Women's Bureau, U.S. Department of Labor.

## **GDP IMPLICIT PRICE DEFLATOR**

An inflationary measure intended to capture changes in the average price of goods and services. Unlike the CPI, which measures changes in the average consumer basket of goods and services, the price deflator measures a changing mix of economy-wide goods and services and includes consumer expenditures, private investment, government spending and exports net of imports.

Growth in Prices: Non-Farm GDP Implicit Price Deflator (SA)



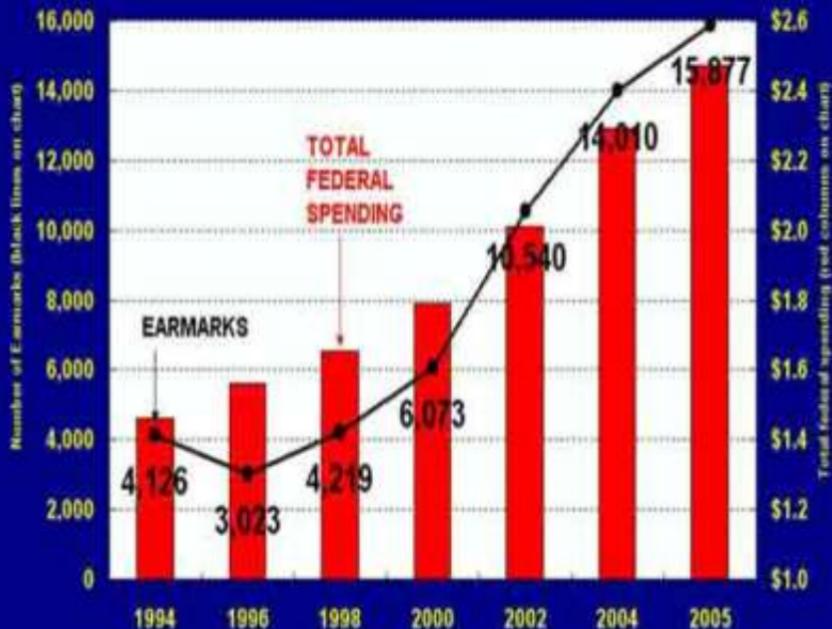
Source: ABS 5206/6401

## EARMARK

This is used to dedicate or designate a revenue stream for a specific purpose or expenditure. It can be defined as a commitment of money to meet an obligation that is expected to be incurred by the State for the payment of goods or services. Encumbrance is the accounting control device that agencies use to reserve portions of their allotments for expenditures that will soon be incurred. Agencies must encumber money before they can spend it, providing a system to keep track of outstanding obligations.

## EARMARKS INCREASE AS GOVERNMENT GETS BIGGER

(Number of earmarks, total federal government spending, in billions of dollars, by fiscal year)



Source: Congressional Research Service, Office of Management and Budget

## ENTERPRISE FUNDS

These are Funds that provide money for services to the general public through programs that are expected to recover their full costs, primarily through user charges. Examples include the Higher Education Services Office Student Loan Fund, the State Lottery Fund, the Chemical Money Matters Glossary, Page Dependency Treatment Fund, and the Private Employers Insurance Fund.



## CONTINGENCY FUNDS

This is an appropriation(s) that may be spent with approval of the Legislative Advisory Committee when the Legislature is not in session, to meet emergencies. In a specific period of time e.g two (2) years, a specific total amount is usually available for the contingency account from the revenue pool of government. Examples are the State Government Special Revenue Fund, and the Workers Compensation Fund.



Emergency  
Fund

## CARRY - FORWARD

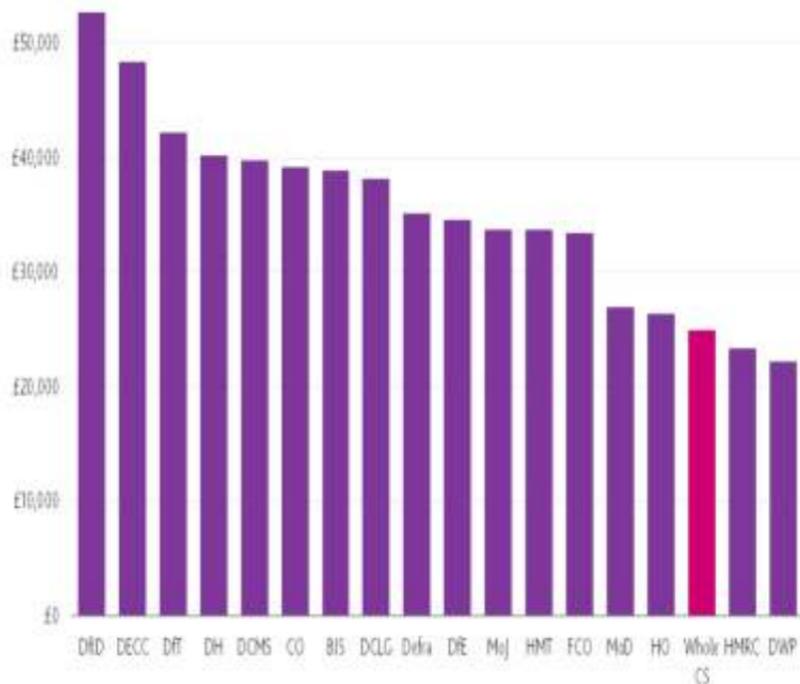
This refers to a practice of allowing government agencies to use unspent money in the year following the year for which it was appropriated. Upon the approval from the Ministry of Finance, agencies may carry forward unspent and unencumbered non-grant operating balances from the first Year of the biennium to the second. (The Legislature may spend an appropriation for all or part of a biennium in either year of the biennium. The Courts and Constitutional Officers may spend money from either year of the biennium if funds are insufficient in either the year.)



## DEPARTMENTAL EARNINGS

These are monies collected by state agencies through service user fees, occupational license charges, regulatory charges, special taxes and assessments and other revenues. In general, agencies are required to set charges at levels that neither significantly over recovers nor under recovers costs, including overhead costs, involved in providing the services.

## Median earnings by core department (full time equivalent), 2015



Source: Institute for Government analysis of ONS Annual Civil Service Employment Survey, 2015. We use the core organisation as defined by the ONS

## BOND RATING

It refers to rating for bonds to be issued that primarily reflects the ability of the issuer to repay the bonds. Better bond ratings result in lower interest rates for the bonds issued.

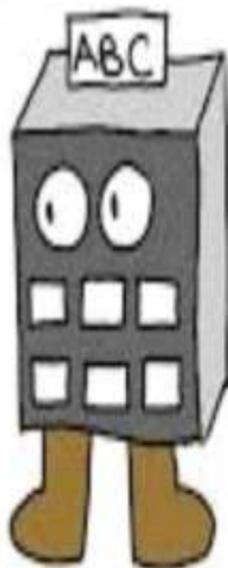
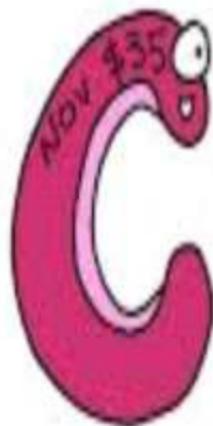
Higher rated bonds, known as investment grade bonds, are seen as safer and more stable investments that are tied to corporations or government entities that have a positive outlook.

S & P	Fitch	Moody's	Rating Description
AAA	AAA	Aaa	Prime
AA+	AA+	Aa1	High grade
AA	AA	Aa2	
AA-	AA-	Aa3	
A+	A+	A1	Upper medium grade
A	AA	A2	
A-	AA-	A3	
BBB+	BBB+	Baa1	Lower medium grade
BBB	BBB	Baa2	
BBB-	BBB-	Baa3	
BB+	BB+	Ba1	Non investment grade speculative
BB	BB	Ba2	
BB-	BB-	Ba3	
B+	B+	B1	Highly speculative
B	B	B2	
B-	B-	B3	
CCC+	CCC	Caa1	Substantial risks Extremely speculative In default with little prospect for recovery
CCC		Caa2	
CCC-		Caa3	
CC		Ca	
No Rating	DDD DD D	No Rating	In default lowest or not rated

## CALL OPTION

It is a stipulation in a bond contract that allows the issuer to buy back the bonds at a specified date. It can also be defined as an option to buy assets at an agreed price on or before a particular date. A call option gives the issuer flexibility to lower costs if interest rates drop by issuing bonds at a lower rate to “call” or buy back bonds that are paying a high rate of interest.

I can buy  
you for \$35  
on or before  
November



## MANDATES RELEASE

They are requirements imposed by one level of government on another.

Mandate may refer to requirements imposed by the funding level of government that must be met by the recipient governments in order to receive funds.

In Nigeria, the government releases mandates either for capital projects or recurrent expenses.



## ARBITRAGE

Arbitrage can be defined as the financial gain that can be reaped by selling tax-exempt bonds and reinvesting the bond proceeds at a higher, taxable, interest rate. For instance, if the principal of a 5 percent bond is invested at 7 percent, the 2 percent profit that results is the gain from arbitrage. Arbitrage is limited and regulated by tax laws.

—BUY—

**LOW**

—SELL—

**HIGH**

## AD VALOREM TAX

It is a tax that is measured by value. It is calculated based on the value of the asset, good or transaction; for example the ad valorem property tax, the mortgage registration tax. This type of tax is not imposed on the item's quantity, size, weight, or other such factor. Examples of ad valorem taxes include: Value added tax (VAT), import duties etc.

Other types of taxes include those based on consumption (e.g., sales), volume (e.g., gas) and ability to pay (e.g., income).



## DEDUCTIONS

Refers to a sum or amount subtracted, or allowed by law to be subtracted, from otherwise taxable income. It can also be described as any item or expenditure subtracted from gross income to reduce the amount of income subject to income tax. It is also referred to as an "allowable deduction. They are usually subtracted from adjusted gross income for documented and specific uses of money (itemized deductions).

GROSS

**DEDUCTIONS**

GOVT PEN

FEDL TAX

OTHRBFTS

TOTAL DEDUCTIONS

**NET PAY**

## MONEY MULTIPLIER

It is the number that describes the total change in the money supply resulting from a single deposit in a bank under a fractional reserve banking system. It equals the ratio of increase or decrease in money supply to the corresponding increase and decrease in deposits. In other words, it is the money used to create more money and is calculated by dividing total bank deposits by the reserve requirement. The size of the money multiplier effect depends on the percentage of deposits that banks are required to hold as reserves.

## MONEY MULTIPLIER

formula:

$$m = 1/r$$

**The money multiplier  $m$   
is the reciprocal of the  
Reserve Requirement  $r$**

*clarke-stevens.hubpages.com*

## OPEN MARKET OPERATIONS

The purchase and sale of government securities/bonds by the Central Bank as an instrument of monetary policy. It helps in reducing liquidity in the economy through sale of government securities. The central bank sells bonds to mop up liquidity from the system and buys back bonds to infuse liquidity into the system. These operations are often conducted on a need basis in a manner that moderates liquidity while helping banks to continue to lend.

The apex bank uses OMO along with other monetary policy tools such as cash reserve ratio and liquidity ratio to adjust the volume and price of money in the system.

Control Recession

Control Inflation

Central Bank

Central Bank

\$

Bonds

Bonds

\$

Banks

Banks

High  
Money  
Supply

\$

Low  
Interest  
RateLow  
Money  
Supply

\$

High  
Interest  
Rate

Individual / Companies

Individual / Companies

## **SPECIAL ACCOUNT**

They are funds within the Consolidated Revenue Fund regularly set aside as directed by appropriation for a particular purpose.

Amounts credited to a special account may only be spent for the designated purpose. Special accounts can only be established by a written determination of the Finance Minister or through an Act of Parliament.

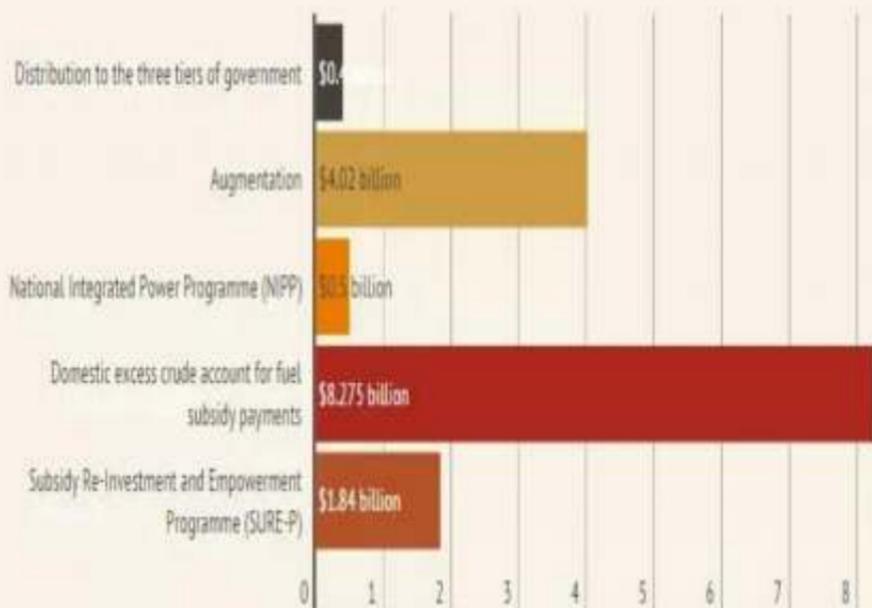


## AUGMENTATION

It is an increase to a previously authorized appropriation or allotment. This increase can be authorized by a Budgetary Act provisional language, control sections, or other legislation.

In Nigeria, the need for augmentation usually arises when the actual funds available for distribution to the three tiers of government in the Federation Account is less than the budgeted figure for the period.

# 2014 OIL MONEY SPENDINGS



## FISCAL YEAR

A fiscal year refers to the twelve month period used by governments or organizations for budgeting, forecasting and financial reporting. It refer to a period during which revenue is earned and received, obligations are incurred, encumbrances are made, appropriations are expended etc. In most countries, a fiscal year is usually a 12 month period. This is different from a calendar year which runs from January to December. It does not some-times follow the calendar year and could start at any point in the year and expire 12 months afterwards.

# Fiscal Year

*Calendar Fiscal Year*



*June Fiscal Year*

## GRANTS

It is used to describe the amounts of money received by an organization for a specific purpose but with no obligation to repay (in contrast to a loan, although the award may stipulate repayment of funds under certain circumstances).

For example, the state receives some federal grants for the implementation of health and community development programs, and the state also awards various grants to local governments, private organizations, and individuals according to the criteria applicable to the program.

Foundations

Corporations

Grants

State

Federal



## OVERHEAD

Those elements of cost necessary in the production of an article or the performance of a service that are of such a nature that the amount applicable to the product or service cannot be determined directly. Usually they relate to those costs that do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management, or supervision.

Carrying Cost

Electricity Cost

Indirect Labour Cost

Communication Cost

**Overhead Cost**



## SINKING FUND

A fund or account in which money is deposited at regular intervals to provide for the retirement of bonded debt. More explicitly, a sinking fund is a means of repaying funds borrowed through a bond issue through periodic payments to a trustee who retires part of the issue by purchasing the bonds in the open market.

Rather than the issuer repaying the entire principal of a bond issue on the maturity date, another company buys back a portion of the issue annually and usually at a fixed par value or at the current market value of the bonds, whichever is less.

Sinking Funds



## EUROBOND

Eurobond is an international bond issued by a government or company in a market other than its domestic market. Eurobonds may take the form of loans, debentures or convertible debentures, and maybe designated in any currency. The bonds are frequently grouped together by the currency in which they are denominated, such as eurodollar or euroyen bonds. Issuance is usually handled by an international syndicate of financial institutions on behalf of the borrower, one of which may underwrite the bond, thus guaranteeing purchase of the entire issue



## LANDED COST

Landed cost is the total cost of acquiring a good abroad, including all the additional charges that might occur. The term is mostly used in relation to the importation of goods which means the sum total of the cost of the goods concerned, the amount of customs duties levied on those goods, freight, insurance, crating, handling and payment fees and other expenses incurred in unloading them.

# Landed Cost Calculation



## Why is landed cost important?

Exporters and Importers need to consider additional costs incurred to optimize sourcing, take advantage of selling opportunities and maximize profit. Importers, factors influence purchase decisions.

## How do we

**Calculate  
actual  
landed cost?**

What are the additional costs other than purchase cost that need to be factored in to gauge accurate landed cost?



Import/Export



Freight charges



Warehouse charges



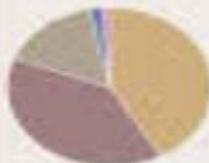
Transportation costs



Insurance



Tax and duties



■ Base purchase cost  
■ Freight charges  
■ Insurance  
■ Warehouse charges  
■ Tax and duties

Costs involved	Amount	
Base purchase cost	80,000	
Freight charges	24,000	
Insurance	14,000	
Warehouse	22,000	
Tax and duties	2,000	
<b>Total</b>	<b>146,000</b>	

## MINERAL ROYALTIES

Refer to regular payments, usually based on the volume or price of minerals extracted, made by mining enterprises to national states or other owners of mineral resources as consideration for the right to exploit particular mineral resources.

In other words, it describes a payment to the owner of mineral rights for the privilege of extracting the mineral from the ground based on a lease agreement. The royalty payment is based on a portion of earnings from production and varies depending on the type of mineral and the market conditions.



## ROYALTIES

Payments of any kind received as consideration for the use of, or the right to use intellectual property, such as a copyright, patent, trade mark, design or model, plan, secret formula or process. Royalties are typically agreed upon as a percentage of gross or net revenues derived from the use of an asset or a fixed price per unit sold of an item of such, but there are also other modes and metrics of compensation.



# Royalties and Payments

to the Author a royalty as a percentage of net revenues accruing as described above in (1a) according to the following schedule:

either as a percentage of retail sales of the Author's Works or as a percentage realized by wholesale on-selling of the Works.

## ZERO COUPON BOND

A zero-coupon bond, also known as an "accrual bond," is a debt security that doesn't pay interest (a coupon) on a regular basis but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value.

# BOND \$\$\$

Unser ganz besonderes Angebot ist unser innovatives Abrechnungssystem. Es ist ein System, das Ihnen die Möglichkeit bietet, Ihre Abrechnung zu optimieren und Ihre Kosten zu senken. Dieses System ist ein innovatives System, das Ihnen die Möglichkeit bietet, Ihre Abrechnung zu optimieren und Ihre Kosten zu senken. Dieses System ist ein innovatives System, das Ihnen die Möglichkeit bietet, Ihre Abrechnung zu optimieren und Ihre Kosten zu senken.

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## *About the Series*

**“At a Glance”** is part of the Central Bank of Nigeria’s literacy series, designed to enlighten users with brief descriptions of basic monetary policy concepts.

The publication presents in a simplified pictorial form, monetary policy concepts in a manner that can be easily understood by users. The pictorial animations make for a more reader friendly presentation. The content will be highly beneficial to all who have a desire to learn the basic concepts of monetary policy, fiscal policy, central banking, financial policy and other related concepts. The book is readily available in libraries across the nation and will be updated as often as required. Enjoy the experience of a well-researched and packaged literacy material.