1. Introduction

This section should contain two paragraphs.

The DSA analyzes trends and patterns in the State’s public finances during the period 2015-2019, and evaluates the debt sustainability in 2020-2029 (the long-term). The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State’s public finances…”

The State’s Debt Sustainability Analysis reveals a positive long-term outlook (2020-2029) for Lagos State’s public debt.

The following were some of the outturns of the State DSA:
• The DSA resulted from assumptions concerning the State’s revenue (i.e. the performance in terms of mobilizing IGR) and expenditure projections (i.e. Personnel and Overhead Costs and Capital expenditure measures) going forward;
• and the level and terms of the outstanding and new public debt.
• The DSA results also depend on the forecasts made for the Nigerian economy (i.e. GDP growth, oil production and prices, exchange rate) and its implication on the FAAC Allocations.

“…The State exhibits a solid debt position that appears sustainable in the long term. The State’s Debt position results from the State’s strong performance in terms of mobilizing IGR—underpinned by the successful tax administration reforms introduced recently—, the control of recurrent expenditure growth and a sustainable level of public debt). Given the State’s own forecasts for the economy and reasonable assumptions concerning the State’s revenue and expenditure policies going forward, the long-term outlook for the public debt appears sustainable…”

2. The State Fiscal and Debt Framework

Macro-economic indicators suggest that the next 3 years should be better for Lagos State, with economic rebound, improved consumer confidence and improved federal allocations, driven by oil.

Improved economic indicators should enable a stronger budget, with revenues growing by 13.0% CAGR between Y2020 and Y2023 and expenditure able to grow similarly by 13.2%
• Revenue grows from ~₦812B in Y2020 to ₦846B, ₦942B & ₦1,123B in Y2021, Y2022 and Y2023 respectively
• Expenditure able to expand from ~₦920B in Y2020 to ~₦975B, ~₦1,091B, and ~₦1,286B in Y2021, Y2022 and Y2023 respectively
• Deficit remains at average 15% of revenue over the period Y2021 to Y2023
• To maintain growth along the development agenda, while maintaining budgetary sustainability, focus should be intensified on the essential sectors that can contribute a stronger future for Lagos
  • Economic affairs (Agriculture, Commerce and Industry, Ministry of Tourism/Arts and Culture, Ministry of Energy and Mineral Resources, Transportation, Works and Infrastructure) allocation to grow from 22.5% in Y2020 to 27.7% in Y2023. Momentary increase to 29.2% in 2021 to enable post-COVID19 recovery
  • Education allocation to grow from 12.8% in Y2020 to 13.3% share by Y2023
  • Health allocation to grow from 12.4% to 13.5% share by Y2023

33,567,382 confirmed cases with over 1 million deaths worldwide across 185 countries as of September 30th 2020. These account for a 229.57% increase from the accounted figure recorded at the end of Q2.

Lagos State has been the epicentre of the COVID-19 pandemic in Nigeria, with 19,461 cases representing 33% of the total 58,848 cases recorded in Nigeria.
Despite the rising number of confirmed cases, the death rate is on the decline with a total recorded number of 1,112 as of September 30th, 2020.

The declining figures were attributed to LASG’s strong multi-faceted implemented responses to minimize the risks of a catastrophic outcome and promote socio-economic stability during the pandemic.

These responses include: Re-ordering of the LASG 2020 Budget, setting up of incident command system, accelerated investments in critical areas aimed at improving the productivity of Lagosians, changing the operating model of LASG to ease community engagement & increase efficiency, etc.

LASG’s responses successfully mitigated the health and socio-economic impact of the COVID-19 pandemic.

Strong debt position in 2019 with outperformance witnessed across all sustainability ratios

- Lagos State debt position is performing favourably for all of the solvency and liquidity ratios
- Taking up revenue numbers remain a major objective for sustaining development. We clearly need to figure out practical and reasonable ways of materially taking up our revenues.

(a) Revenue and Expenditure

(b) Existing Public Debt Portfolio.
In these subsections, the State should describe the actual revenue and expenditure outturns in 2015-2019, and the outstanding debt stock trend during 2015 - 2019. Particular emphasis should be put on 2019 figures.

The State must describe the selected charts included in sections A and B of Charts sheet of the S-DSA Template for the historical period (rows 3-208 and columns L-U).

3.1 Revenue and Expenditure

This subsection should have six paragraphs. In this subsection the State should describe the performance of the revenues and expenditure between 2015 and 2019 in terms of nominal growth rate, variation of the total as a percentage of State-GDP, and variation of the most important categories as a percentage of the total revenue and expenditure.

Here, the State must COMPULSORY describe the following Charts from the Charts sheet of the S-DSA Template for the historical period (columns L-U):
- Chart 1: Revenue (rows 5-23);
- Chart 2: Expenditure (rows 24-40);
- Chart 11: Fiscal Outturns (row 190-208).

OPTIONALLY, the State can describe the following charts from the Charts sheet of the S-DSA Template for the historical period (columns L-U):
- Chart 4: Principal Payments (60-77);
- Chart 5: Interest Payments (rows 78-95);

---

1 As an example, in the Charts sheet of the S-DSA Template, the nominal growth rate of the Total Revenue between 2019 and 2015 can be calculated by \( \left( \frac{\text{Cell AD6}}{\text{Cell Z6}} - 1 \right) \times 100 \); the variation of the Total Revenue as a percentage of State-GDP by \( \frac{\text{Cell AD125}}{\text{Cell Z125}} \); and variation of the Gross FAAC Allocation as a percentage of the Total Revenue by \( \frac{\text{Cell AD7}}{\text{Cell Z7}} \).
Follow the revenue and expenditure categories used in the Charts sheet (rows 6-9 and 26-29, 30-31) of the S-DSA Template.

i. Aggregate State TOTAL Revenue\(^2\) trend in the last five years and its composition in 2019. The State should describe the determinants of the revenue performance (i.e. the shock to oil price and its effect, federation crude oil receipts and therefore on Gross Statutory Allocation, the State’s revenue policy reforms impact on IGR inflows, grants mobilization). (The trends of these individual components are then elaborated in the subsequent paragraphs) (Chart 1).

   o For example, the main message of this paragraph could be, “Aggregate state revenue decrease in recent years, owing to a sharp decline in federal transfers”.

ii. FAAC Allocations trend in the last five years. The State should comment the FAAC Allocations movements within the analyzed period, explaining if the information is available (OPTIONAL)—the main determinants of its variation (i.e. federal oil receipts) (Chart 1).

   o For example, “…Federal transfers registered sharp declines due to lower crude oil receipts. The State’s federal allocation, including transfers from the excess crude account, fell by 35 percent between 2015-2019, while as a percentage of GSDP, it fell from 2.4 percent in 2015 to 1.2 percent in 2019. The decline is largely attributable to a slide in federal oil receipts due to the lower oil prices and to rebel attacks on oil production facilities…”.

iii. IGR trend in the last five years. It is recommended that the State explains the determinants of the variation of the IGR (i.e. if the State has introduced any tax administration reforms aimed at improving collection rates and broadening the tax revenue base) (Chart 1).

   o For example, “…The State exhibited strong IGR growth during the review period. IGR grew by 13 percent between 2015 and 2019, while as a share of aggregate revenue (excluding grants), it almost doubled from 34 percent in 2013 to 60 percent in 2019. The improvement in IGR is mainly a result of tax administration reforms aimed at improving collection rates and broadening the tax revenue base…”.

iv. Aggregate (total) Expenditure\(^3\) trend in the last five years and its composition in 2019. The State shall present the expenditure items that mainly explain the performance of the aggregate expenditure (i.e. the growth of capital expenditure, personnel / overhead costs between 2019 and 2015). Moreover, it has to describe the composition of the expenditure by economic classification at end-2019 (personnel, overhead, interest, etc.)\(^4\) (Chart 2).

   o For example, “…State expenditure remained stable during the period. Between 2015 - 2019, real aggregate expenditure grew by 24 percent. As a percentage of GSDP, aggregate spending increased from 5.2 percent in 2015 to 5.8 percent in 2019. Capital spending was relatively volatile, but showed positive growth of 15 percent over the analyzed period, while recurrent expenditure

\(^2\) Following DMO definition, the Total Revenue includes grants and excludes other capital receipts (rows 6-9 in the Charts sheet of the S-DSA Template).

\(^3\) Following DMO definition, the Total Expenditure includes interest and amortization payments (rows 26-31 in the Charts sheet of the S-DSA Template).

\(^4\) As an example, in the Charts sheet of the S-DSA Template, the nominal growth rate of the Total Expenditure between 2019 and 2015 can be calculated by \(\frac{\text{Cell AD26}}{\text{Cell Z26}} - 1 \times 100\); the variation of the Total Expenditure as a percentage of State-GDP by \(\frac{\text{Cell AD196} - \text{Cell Z196}}{\text{Cell Z226}}\); and variation of the Personnel Costs as a percentage of the Total Expenditure by \(\frac{\text{Cell AD22} - \text{Cell Z226}}{\text{Cell Z226}}\).
registered a modest growth of 4 percent. During the period, the bulk of expenditure went to recurrent spending - personnel costs, overheads, debt charges - representing 65 percent of total spending on average...”.

v. **Main expenditure variations in the last five years by economic classification.** Here it is suggested that the State details the expenditure line items (personnel, overhead, capital expenditure, etc.) that have shown more variation over the analyzed period. The State should also mention the policies that generate the evolution of those expenditure line items (Chart 2).

vi. **Overall and primary balance trend in the last five years.** The State shall present the general movements of the overall and primary balance, explaining if possible (OPTIONAL) the main reason that explains its performance. Moreover, it shall mention the growth of the gross financing needs in terms of S-GDP\(^5\) (Chart 11).

- For example, “...The Overall balance has been decreasing during the review period, from a deficit of 1.3 percent of SGDP in 2015 to 2.1 percent of SGDP in 2019. Since 2014 the overall balance decrease continuously from 1.3 percent of SGDP in 2015 to 1.3 percent in 2019, owing to the fall in federal transfers (oil receipts). In 2017 and 2018, overall balance partially recovered to a deficit of 0.5 and 0.8 percent of SGDP, respectively, due to the adjustment of personnel expenditure and of pensions and gratuities and the upturn of federal transfers. On the other hand, primary fiscal balance has been declining continuously during the review period, from a surplus of 0.7 of SGDP in 2015 to a deficit of 0.2 percent of SGDP in 2019, as it was mentioned, owing to the decline in federal transfers and the growth of capital expenditures.

### 3.2 Existing Public Debt Portfolio

This subsection should have three paragraphs.

In the first paragraph the State should describe the evolution of the public debt stock between 2015 and 2019, in terms of the total Revenue (which includes grants and excludes capital receipts), the State-GDP, and the growth rate over the historical period (in nominal terms).

The second paragraph shall present the composition of the existing public debt portfolio at end-2019 by stating the share of each i) domestic and ii) external debt category as percentage of the total debt.

In the third paragraph the State should comment the cost and (interest, currency and rollover) risks exposure of the existing public debt portfolio at end-2019.

The State shall include the following definition of public debt. “The public debt includes the explicit financial commitments - like loans and securities - that have paper contracts instrumenting the government promises to repay. The State shall use this standard definition of public debt, which considers non-contingent debt and thus the obligation to repay them is independent of the circumstances, as well as excludes contingent liabilities (i.e. guarantees, state own enterprises non-guaranteed liabilities).”. This definition of the public debt was selected as the State reports this debt in the Data Request sheet of the S-DSA Template (row 19-52). The public debt stock is calculated in row 126 of each calculation sheet (black-tag) of the S-DSA Template.

Here, the State must COMPULSORY describe the following Chart from the Charts sheet of the S-DSA template for the historical period (columns L-U):

- Chart 3: Debt Stock (rows 41-59).

\(^5\) Following DMO definitions, the Overall Balance is calculated as Total Revenues including grants and excluding other capital receipts minus Total Expenditure including interest and principal payments; the Primary Balance as Revenues minus Total Expenditure including amortization payments and excluding interest payments; and the Gross Financing Needs as the Primary Balance plus Debt services and Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances) (rows 193-195 in the Charts sheet of the S-DSA template).
Moreover, the State can **OPTIONALLY** describe the following charts from the **Charts sheet of the S-DSA Template for the historical period** (columns L-U):
- Chart 6: Debt as a share of S-GDP (99-117);
- Chart 7: Debt as a share of Revenue (rows 118-135);
- Chart 8: Debt service as a share of Revenue (rows 136-153);
- Chart 9: Debt service Indicators (rows 172-189);

Follow the outstanding external and domestic debt stock categories used in the **Input Sheet (rows 21-52)** of the State-DSA Template.

i. **Public debt stock amount or its shares on total Revenue at end-2019 and its growth in the last five years.** The State should identify the factors that explain the trend of the public debt stock over the period 2015-2019 (i.e. federal government bailouts and financing support, federal oil-receipts, arrears, external financing, currency depreciation) (**Chart 3**).

   - For example, the main message of this paragraph could be: “...The State public debt amounted to N$ 250 billion as of end-2019 and has been increasing rapidly since the collapse of oil prices...”.

ii. **The existing public debt portfolio composition at end-2019.** The State shall describe the share (percentage) of the domestic and external debt stock in the total debt stock, as well as the main components of each of them (i.e. External: WB, AfDB; Domestic: Commercial bank loans, State bonds, Budget Support Facility) (**Chart 3**).

   - For example, the main message of this paragraph could be: “...The State’s debt portfolio largely consists of internal loans...”.

iii. **Cost and risks exposure of the existing public debt portfolio at end-2019.** It is recommended (**OPTIONAL**) that the State comments the average implicit interest rate\(^6\) and the interest payments as a share of Total Revenue in 2019 (which includes grants and excludes other capital receipts)\(^7\) (row 175 in the **Charts sheet of the State DSA Template**). The debt portfolio exposure to currency risk is be calculated by the share of the foreign currency-denominated liabilities on the total debt stock\(^8\). The interest rate risk is calculated by the share of fixed-rate obligations on the total\(^9\). The rollover risks associated with potential deterioration of domestic financial conditions is measured by the average maturity of the existing debt portfolio.

   - For example, “The State holds a low-cost, low-risk debt portfolio. The debt portfolio carried an average, implicit interest rate of 10 percent in 2018-2019 and the interest payments represented just 7 percent of total expenditure\(^10\). In addition, the debt portfolio is narrowly exposed to currency, interest rate, and rollover risks. Exposure to currency fluctuations is limited because the foreign currency-denominated liabilities are only 20 percent of the total stock. Most internal loans and all external loans are fixed-rate obligations, thus not affected by changes in interest rates. As these loans have maturities running from 10 to 40 years and include financing from the Federal Government and multilateral organizations, rollover risk associated with potential deterioration of domestic financial conditions is negligible.”

\(6\) It is calculated as the share of interest payments paid in 2019 on the public debt stock in 2018.

\(7\) Following DMO definition for Total Revenues.

\(8\) Calculated by \[\frac{\text{Total External Debt Stock at end--2019}}{\text{Total Debt Stock at end--2019}}\]

\(9\) Calculated by \[\frac{\text{Floating rate debt at end--2019}}{\text{Total Debt Stock at end--2019}}\]

\(10\) Following DMO definition of Total expenditure (including interest and amortization payments).
Chart 11: Fiscal Outturns

- Debt Service as % of Gross FAAC Allocation
- Interest as % of Revenue
- External Debt Service as % of Revenue
4. Debt Sustainability Analysis

i. “The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability ultimately refers to the ability of the government to maintain sound fiscal policies over time without having to introduce major budgetary or debt adjustments in the future. Conversely, fiscal policies are deemed unsustainable when they lead to excessive accumulation of public debt, which could eventually cause the government to take action to address the unwanted consequences of a heavy debt burden”.

ii. The following are the debt burden indicators computed in the charts sheet of the DSA Templates, designed to assess debt sustainability, some with thresholds and others without.

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<tr>
<th>Description</th>
<th>2015</th>
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<th>2019</th>
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<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
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<td>Debt as % of Revenue</td>
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<td>Interest as % of Revenue</td>
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<td>External Debt Service as % of Revenue</td>
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<td>0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
4.1 Medium-Term Budget Forecast

1. The Economic and Fiscal Update (EFU)/Fiscal Strategy Paper (FSP) and the Medium Term Budget Framework (MTBF) provide the basis for annual budget planning. They consist of macroeconomic framework that indicates fiscal targets; revenue and expenditure estimates, including government financial obligations in the medium term.

2. The Medium Term Expenditure Framework (MTEF) provides Government with a tool to manage the pressure between competing policy priorities and budget realities. This helps to prioritize expenditure and make informed policy choices that are affordable in the medium term.

3. The documents also set out the underlying assumptions for these projections; provide basis for evaluation & analysis of the previous budgets; present an overview of the debt position; and potential fiscal risks. The EFU/FSP produces a number of important information including the macroeconomic outlook, fiscal balance, and other key indicators.

4. The projected macroeconomic targets are referred to in this document as the Macroeconomic Framework. The document presents the Medium Term Fiscal Framework (MTFF). This is consistent with the Government’s macroeconomic objectives of determining the amount of resources that are expected to be available to the treasury and for the budget over the medium term. The document also provide analysis of the Government’s key policy priorities to which resource allocation would be aligned and then goes on to develop indicative resource envelopes for the nine (9) Functional Groups as described by COFOG.

5. Government aims to improve service delivery through well-informed budget decisions. Better service-delivery information is contained in budget documentation, which also enables the public to understand what government does; what programmes & activities are funded; and what outputs the budget is meant to achieve. The document therefore provides a platform for the State Executive Council (EXCO), to discuss the allocation of resources in the 2020 budget and the outer years (2021 and 2022).
Global Economy

**Trade Tensions and Impact on Global Economy.**

1. The trade war between China and America may trigger another round of global economic recession if not quickly curtailed.
2. Global stock markets continue to dwindle as commodities prices slide and gold spikes.
3. Brexit continues to elicit uncertainties with negative consequences on the British Pounds.
4. Conflicts in the Middle East along sects and economic fault lines continues unabated and may lead to energy crisis that may affect global peace, world trade and immigration.
5. Further damage to global climate is expected in the event that the Amazon Fire remains un-curtailed.
6. The threat of trade protectionism is a real risk. Anything that puts sand in the wheels of global trade is a risk to global growth. The intervention by the World Bank comes amid an increasingly bitter trade dispute between the US and its traditional allies.
7. We expect prices to settle at around US$56.5/b, on the assumption that OPEC will be able to sustain the current production quota among member states.
8. We however expect oil prices to become more volatile over the next three (3) years as non fossil fuel gives way for renewable sources of energy.

**Table 1: Real GDP Growth and Inflation Forecasts (% change)**

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*Source: The Economist Intelligence Unit, April 2019 International Monetary Fund (IMF) - World Economic Outlook APRIL, 2019*

**Table 2: Inflation (% change)**

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*Source: The Economist Intelligence Unit, May 2019 International Monetary Fund (IMF) - World Economic Outlook APRIL, 2019*
### Table 3: Real GDP Growth - Emerging Market and Developing Economies (EMDEs)

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</table>

Source: International Monetary Fund (IMF) - World Economic Outlook APRIL, 2019

### Table 4: Inflation (CPI) - Selected Countries

<table>
<thead>
<tr>
<th></th>
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<td>3.0</td>
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</tr>
</tbody>
</table>

Source: International Monetary Fund (IMF) - World Economic Outlook APRIL, 2018
Nigerian Economy

1. Nigeria’s GDP growth rate is projected by the World Bank to trend at 3.6%, 3.90% and 3.90% for FY2020, 2021 and 2022 respectively.
2. Structural reforms is however required along the fiscal and monetary corridors to support the projected GDP growth rates.
3. Consumer Price Inflation shall continue to decline and may close below double digits towards the end.
4. A higher interest rate environment will lead to an upward reprising of lending rates, with yield on government securities inching higher.
5. Growth in non-oil export does not compensate the challenges posed by the downward pressures on both oil prices and trades.
6. The Oil Benchmark for 2020 budget was revised downward to $56.5 from $60 to reflect a downward trend in the global oil trades.
7. We however expect a headwind on the oil prices and production, which will further put pressure on the exchange rates.
8. Current revenue to debt profile may also add pressure to the exchange rates.
9. The PI&D judgment debt against Nigeria if effected will negatively impact on Nigeria’s foreign reserves and ultimately lead to negative balance of payment and exchange rates.
10. We are the Economic Intelligence Unit of Lagos State are of the view that the projected exchange rates of N305/$1 is not reflective of market realities, as such may pose a challenge to the implementation of the medium term framework.

Table 5: Nigeria Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>GDP Growth Rate (%)</td>
<td>-1.54</td>
<td>1.5</td>
<td>2.1</td>
<td>3.0</td>
<td>3.6</td>
<td>3.9</td>
<td>3.9</td>
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<tr>
<td>GDP (Billion Naira)</td>
<td>101,801</td>
<td>105,364</td>
<td>110,106</td>
<td>116,162</td>
<td>124,874</td>
<td>135,488</td>
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<tr>
<td>Inflation Rate (%)</td>
<td>12.00</td>
<td>17.10</td>
<td>14.17</td>
<td>9.98</td>
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<td>9.58</td>
<td>8.41</td>
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<td>Exchange Rate (NGN : USD FX Rate)</td>
<td>305</td>
<td>313.41</td>
<td>373.82</td>
<td>231.05</td>
<td>243.82</td>
<td>254.00</td>
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<tr>
<td>Oil Price Benchmark ($)</td>
<td>38.00</td>
<td>50.00</td>
<td>51.0</td>
<td>60.0</td>
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<td>56.5</td>
<td>56.5</td>
</tr>
<tr>
<td>Oil Production (mbpd)</td>
<td>1.7</td>
<td>2.2</td>
<td>1.89</td>
<td>2.3</td>
<td>2.4</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>12.7</td>
<td>14.20</td>
<td>13.51</td>
<td>14.65</td>
<td>15.79</td>
<td>16.93</td>
<td>23.1</td>
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<tr>
<td>Balance of Payment (% of GDP)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: NBS, CBN, FMF, MBNP, IMF, Federal MTBF, Lagos Bureau of Statistics
Lagos State Economy

1. Lagos State population is estimated to hit 27.2m with a conservative annual growth of 3.2%.

2. The GDP is expected to grow slightly from 4.3% to 4.5% between 2019 and 2022.

3. Overall, the State’s Economic Projections appear achievable provided there is a push to drive the strategic imperatives with increased focus on:
   a. Ease of Doing Business;
   b. Revenue Enhancement; and
   c. Enforcement of Rule of Law.

4. In 2019, a budget of ₦873.53billion was passed into law and signed by the Lagos State government with the aim to complete all ongoing projects.

5. The FY2019 budget was designed to consolidate FY2018 achievements on infrastructure, education, transportation/traffic management, security and health.

6. Lagos plans to consolidate on the economic gains made so far by initiating people friendly programmes and projects that will attract more economic improvements in FY2020.

7. The State intends to improve the Internally Generated Revenue (IGR) in the face of dwindling accruable revenue allocation from the Federal Government.

8. According to Lagos Bureau of Statistics, Lagos State GDP is estimated to close at ₦30.88trillion (i.e. $101.08billion converted at $/₦305.5) for FY2019 and is expected to rise to ₦34.91trillion by 2022 with projected average annual growth rate of 4.21%.

9. Lagos is strategic to the Nigerian economy; it serves as the nation’s commercial nerve centre and remains the focal point of economic activities. In terms of economic outlook, Lagos has the highest internally generated revenue of ₦376.17billion as at 31 December 2018. This performance was fuelled by public and private investments as well as diverse economic activities.

10. In the medium term, the State intends to focus on Traffic & Transportation Management; Health & Environment; Education & Technology; Making Lagos a 21st Century Economy; Entertainment & Tourism; and Security & Governance under the acronym T.H.E.M.E.S.

11. The following are some of the programmes designed to achieve the THEMES goals:

   A. Traffic & Transportation

      Establish an inter-modal transport system
      - Accelerate the implementation of the multimodal transport system
      - Deploy hand-held devices to aid enforcement
      - Reduce traffic congestion by resolving key gridlock points.
      - Decongest traffic by connecting more communities with new link roads and bridges
      - Provide intelligent transport systems to optimize the transport network
      - Complete strategic on-going transport projects.

   B. Health and Environment

      Improve the quality of preventive and curative Health management systems.
      - Increase health spending from 8.86% to 15% of budget.
      - Expand the Lagos Health Insurance Scheme with a minimum target of 2.5million enrolments.
      - Ensure all 37 non-functional PHCs in the state are refurbished and adequately equipped
      - Ensure Lagos is protected from climate change risks by advocating waste recovery, re-use, repair and re-manufacturing.
      - Partnering with the Rockefeller Foundation to achieve the 100 Cities Resilience initiatives.
C. Education and Technology

*Improve Access to and Quality of Education leveraging on Technology*

- Increase budgetary allocation for education from 12.07% to 18%
- Upgrade teacher training and administration, through the Eko-Equip project using technology
- Partner with the private sector to reform and improve vocational training.

*Smart City Project*

- Implement a 3000km (phase 1) Broadband rollout plan.
- Facilitate the creation of technology hubs, accelerators and co-working spaces

*Improve Access to and Quality of Education leveraging on Technology*

- Increase budgetary allocation for education from 12.07% to 18%
- Upgrade teacher training and administration, through the Eko-Equip project using technology
- Partner with the private sector to reform and improve vocational training.

D. Making Lagos a 21st Century Economy

*Smart City Project*

- Implement a 3000km (phase 1) Broadband rollout plan.
- Facilitate the creation of technology hubs, accelerators and co-working spaces

E. Entertainment and Tourism

*Make Lagos the foremost entertainment and tourism destination in Africa*

- Develop new opportunities for talented youths in Sports, Culture Tourism and Entertainment
- Restore all historic sites in Lagos at the rate of 20 cultural sites per annum
- Collaborate with local and foreign experts and institutions to establish world class training institutions for all relevant skills targeted at the creative arts industry
- Promote events that attract tourist and business interests into Lagos.

F. Security and Governance

*Make Lagos a Safe and Secure Environment*

- Create a two-way mechanism for interaction with Lagosians.
- Improve engagement with Community Development Associations to promote security awareness and preventive measures
Macroeconomic Framework for Lagos State

1. Lagos State Government’s vision is that by 2025 Lagos will be Africa’s smart city and global economic and financial hub that is safe, secure, functional and productive; achieved through poverty eradication and sustainable economic growth through infrastructure renewal and development.

2. Macroeconomic objectives for the medium term, which are intended to support the achievement of the overarching goal, among others includes:
   • Achieve real economic growth of 4.6% by 2020.
   • Sustain policy of deploying debt to finance capital expenditure projects only.
   • Ensure fiscal sustainability by keeping fiscal deficit below 5% of the State Gross Domestic Product (SGDP).
   • Ensure debt service is below 10% of revenue.
   • Maintain recurrent to capital expenditure ratio within the range of (40:50:60:50).
   • Accelerate growth through revenue diversification.
   • Improving efficiency and quality of public spending.
   • Prioritise existing projects over new ones to ensure continuity.
   • Strategically improving on revenue generation for the State through technological innovations;
   • Increasing investment in the Tourism, Culture and Creative Sector of the economy in order to ensure maximum contribution towards productivity and output that will galvanize growth;
   • ensuring continuity of Accountability and Transparency in the discharge of duties by the Public servants; and
   • Maximising the benefit of the new status of the State as one of the 100 resilient cities of the world in order to attract more FDI’s.

State Gross Domestic Product

1. With a high dependence on internally generated revenue, Lagos economic growth is driven mainly by services, finance, telecoms, trade and commerce, hospitality and entertainment sectors.

2. Domestic production is fuelled by its diverse economy with service, construction, transportation and industry making up about 80% of the local economy.

3. Given the State limited reliance on oil related activities, Lagos socio-economic indicators will further improve as local GDP growth outperform national real GDP growth.

4. Investments in key infrastructure as well as a continued focus on promoting macroeconomic stability are expected to facilitate this shift in the economy.

Inflation

1. A single digit inflation rate remains an important target for the achievement of macroeconomic stability.

2. In order to effectively control inflation expectations, there is need to control price stability and provide a suitable environment for business planning and investment activities.
3.1 Macroeconomic Framework

1. The Macroeconomic framework is based on National Real GDP growth and inflation forecasts and mineral benchmarks (oil price, production and NGN/USD exchange rate) from the NBS, FMF and CBN. The State Real GDP growth and inflation rate are based on the estimates from the Lagos Bureau of Statistics.

<table>
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<tr>
<th>Indicators/Years</th>
<th>Estimate</th>
<th>Projections</th>
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<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>State GDP Growth Rate (Non-oil Figure)</td>
<td>4.53%</td>
<td>4.21%</td>
</tr>
<tr>
<td>Estimated GDP (State Figure)</td>
<td>28.343trn</td>
<td>29.627trn</td>
</tr>
<tr>
<td>Inflation</td>
<td>10.83%</td>
<td>10.75%</td>
</tr>
</tbody>
</table>

*Source: Lagos Bureau of Statistics*

Table 6: Lagos State Macroeconomic Indicators

3.2 Fiscal Strategy and Assumptions

**Policy Statement**

1. The State’s fiscal policy for the medium term (2020-2022) is to ensure a considerable increase in revenue generation year on year and to enforce compliance with established spending limits in order to achieve a robust budgeting system, which includes fiscal discipline from all angles as well as efficiency in the allocation of resources.

2. The priorities of the present administration are summarized in the vision statement of “A cleaner, Safer and a more Prosperous Lagos”.

3. In achieving this, the government intends to embark on a tripod of massive infrastructure development, job creation, security of lives and properties.

4. This would impact positively on the business and investment climate in the State over the long term, which would eventually translate into GDP growth for the State.

**Fiscal Assumptions**

In view of present global and national economic realities which lead to continuous downward trend of revenue accruing to the State from Federation Account, the State will continue to maintain fiscal strategies of automation of revenue administration and collection, operation of Treasury Single Account, improvement in fiscal discipline and ensuring sustainable fiscal deficit. Other fiscal assumptions of the State government for the medium term include:

- To strategically improve on revenue generation for the State through technological innovations;
- To engage the Economic Advisory Team with the mandate of improving the business environment and the overall economy of the State using fiscal strategies;
- To ensure efficiency in personnel and overhead expenditure by adopting a Performance Evaluation Review Mechanism that rewards performance in addition to allowing greater resource availability for capital development;

- To ensure priority given to completion of ongoing capital projects before new projects are commenced;
- To increase investment in the Tourism, Culture and Creative Sector of the economy in order to ensure maximum contribution towards productivity and output that will galvanize growth;
• To ensure continuity of Accountability and Transparency in the discharge of duties by the Public servants; and
• To maximise the benefit of the new status of the State as one of the 100 resilient cities of the world in order to attract more FDI’s.

**Fiscal Objectives and Targets**

1. The key targets for the State Government from a fiscal perspective in the medium term 2019 - 2021 are as follows:
   • To grow the Internally Generated Revenue (IGR) to over N50bn monthly in order to be fiscally sustainable;
   • Maintaining a capital recurrent expenditure ratio of between 60:50:40:50 range;
   • To maintain total debt service below 15 percent of total revenue and fiscal deficit below 3 percent of SGDP;
   • To stimulate sources of capital receipts and financing outside of loans (e.g. Grants, PPP, etc.) for developmental projects;
   • Growing the real GDP growth rate at a minimum of 5% by 2020; with a focus to ensure that GDP is growing faster than the Inflation rate;
   • To make fiscal efforts to bring down the annual inflation to single digit by 2020.
Indicative Three Year Fiscal Framework

The indicative three year fiscal framework for the period 2020-2022 is as analysed below:

1. **Internally Generated Revenue (IGR)** - Projected IGR would be driven mainly by reform of the Lagos State Internal Revenue Service (LIRS) and the opportunities provided by Voluntary Assets and Income Declaration Scheme (VAIDS). Review of the Withholding taxes Administration coupled with support from relevant agencies and the private sector industry will further enhance the recovery of WHT withheld but hitherto undeclared. Furthermore, tax administration and collection shall be reconfigured to deepen the tax base and widen the tax net, thereby bringing the required efficiency to the revenue administration in the State.

2. **The Enhanced Revenue Reform (ERR)** - covering Land Use Charge; review of legal and regulatory framework, increased database due to enumeration, emphasis on self-assessment, use of technology, etc. Introduction of systemic monitoring of consumption taxes; expansion of the activities of Ministry of Physical Planning & Urban Development improved implementation of motor vehicle administration laws are taken into consideration for IGR projection. Furthermore LIRS currently returns an average of N27bn monthly, with PAYEE contributing over 70%. This indicates a concentration risk; hence efforts shall be directed at enhancing tax administration and collection reforms in order to spread the risk and increase the revenue accordingly.

3. **Capital Receipts** - is based on the sale of Assets e.g. Housing Unit, Capital Contributions from Land allottees as well as anticipated Grants from Development Partners. The projections are based on the anticipation from the Agencies utilizing loans and grants and number of public assets that are likely to be sold in the medium term. State government to intensify effort to attract Donor Agencies and development partners willing to partner with the State in her quest for massive infrastructure development.

4. **Statutory Allocation** - the estimation for statutory allocation is based on the mineral assumptions and the national macro-economic framework. Currently, the price of crude oils hovers around $66 per barrel even though a conservative estimate of $56.5 per barrel was used for budget purpose. Expectedly, Lagos is to enjoy 13% derivations as one of the oil producing State; however, receipt from 13% derivation is still minimal.

5. **VAT** - forecasting of VAT is based on the Real GDP and Inflation rates in the State. The State GDP growth rate performing higher than the national rate coupled with diverse economic activities in the State is expected to yield high return (revenue) to government in form of VAT.

6. **Personnel** - the State personnel cost is estimated to grow by 10% for the medium term preparatory to the implementation of the new minimum wage.

7. **Overheads** - Forecasts is based on the budget objectives to moderate cost of governance and create efficiency in the recurrent expenditure to allow greater resources for capital development and to achieve a recurrent to capital expenditure ratio of 40-50:60-50 in the medium term.

8. **Capital Expenditure** - is based on the surplus (deficit) on CRF i.e. recurrent surplus plus capital receipts and projected borrowing.

9. **Contingency Reserve and Planning Reserve** - an allocation of 1.5% of Total Budget size is earmarked for Contingency Reserve, which will not be allocated during the budget process but will be used, in accordance with Finance Act, during budget implementation. The same allocation of 1.5% of Total Budget is made for Planning Reserve, which will be allocated during MDA budget negotiations.
Financing

1. It is expected that the State will require funds to finance its infrastructural development programme, which the current IGR and Federal Transfers cannot effectively accommodate. In view of this, it is assumed that the State will continue to adopt a strategy of a mixed portfolio of Commercial and Foreign Loans with long gestation period to finance its projects.

2. Government had secured the approval of the State House of Assembly in 2015 for N500bn Bond Issuance Programme to be drawn down in 5 years. With the current level of IGR and other indicators taken into consideration, the State has a window of opportunity to equally float a new Financing Programme that could be issued in tranches over the medium term.

3. Government will also explore other options to stimulate sources of financing outside of loans (e.g. Grants, PPP, etc.) for developmental projects;

Projected Borrowing

1. As earlier stated, the Debt Management Department (DMD) had facilitated approval of the State House of Assembly for N500billion Financing Programme (Bond Issuance). It should be noted that N85billion was drawn down from the bond as at 2017, leaving a balance of N415billion available for drawdown.

2. Every year provisions were made for internal loan to meet the State obligations in the short run. The medium term framework has a deficit financing of N131.49bn, N145.29bn and N110.96bn in 2020, 2021 and 2022 respectively. The total sum of projected deficit financing for the medium term period amounts to N387.70, which is lower by N27.3billion when compared to the amount (N415billion) available from the bond issuance program. This further emphasise the administration strategy to sustain its enhancement of revenue, while reducing reliance on debt for development purposes.
Lagos State’s medium-term debt sustainability was predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation.

According to the Federal Government and State’s own forecasts, the Nigerian economy is expected to gradually recover in the period 2021-2023, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2022. Such a moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions at its current level.

NOTE that the State should include the Table Assumptions of the State DSA Template in Annex I.

- For example, “...Debt sustainability analysis is also predicated on the continuation of recent efforts to mobilize local revenue sources, and on unchanged policies concerning personnel and other operating expenses. At local level, the tax administration reforms adopted by the State Government to strengthen resources provided by IGR, are expected to continue in the next few years and will benefit from the overall economic recovery. On the other hand, no new policies are anticipated with regard to personnel and overhead costs, which are thus likely to preserve their historical trends...”.

4.2 Borrowing options

The State must inform here in one paragraph the key assumptions on the planned borrowings creating new debts. The total planned borrowings are reported in row 167 of Input sheet of the State DSA Template. Here, the State must describe how it plans to cover the gross financing needs\(^\text{11}\) (row 101 of calculation sheet, black-tag of the State DSA Template) between 2020 and 2029. In other words, the States shall mention the main new domestic and external financing categories that will use in the projected period. Moreover, the State must present the Borrowing Terms of the main categories of the domestic and external new financings (rows 172-176 and rows 178-180, respectively) filled in the Input sheet of the State DSA Template, in terms of interest rates (%), maturity (# of years), and grace period (# of years). It is worth mentioning that the external debt is the only one denominated in foreign currency. Here, the State should also refer to the Table Assumptions of the State DSA Template, included in the Annex.

4.3 DSA Simulation Results

Here the States must describe in two paragraph the main findings and results of the Baseline Scenario in terms of projected revenue, expenditure, primary and overall balance; and Debt and Debt Service Indicators and Thresholds.

The State must describe the selected charts included in sections A and B of Charts sheet of the State DSA Template for the projected period (rows 3-208 and column A-J)

\(^{11}\) Is defined as Gross Borrowing = Primary Deficit + Debt Service + Financing Needs Other than Amortizations - Financing Sources Other than Borrowing