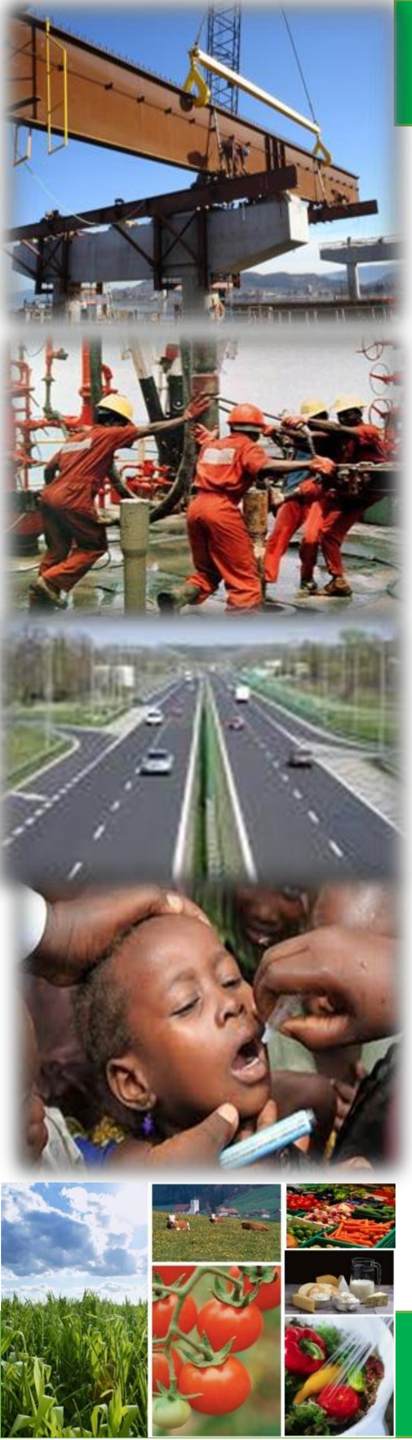

TURNING A CRISIS INTO AN OPPORTUNITY: THE ECONOMY AND THE 2017 BUDGET

Opening Remarks at the Ministerial Retreat on the Economy and the 2017 Budget at the Banquet Hall of State House, Abuja

By

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Hon. Minister, Budget & National Planning

15th September, 2016

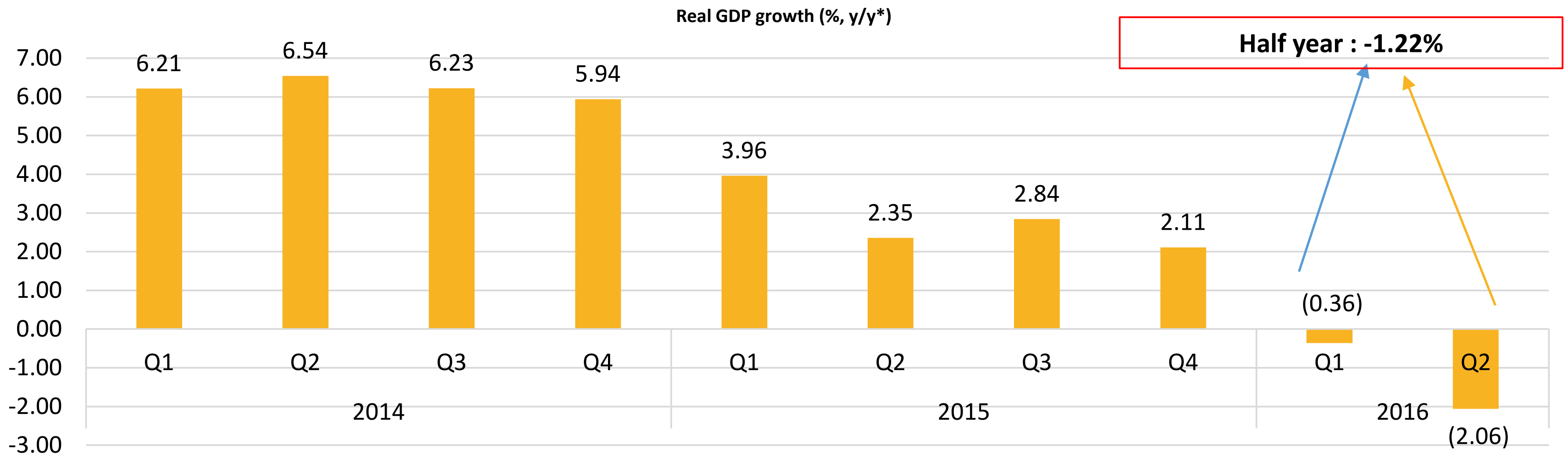
Outline

1.0 Introduction

- We are in a recession. We have to turn this crisis into an opportunity to restructure and reset the economy.
- The first part of this retreat will be a discussion on the state of the economy and how best to fast track the implementation of the Strategic Implementation Plan (SIP) of the 2016 budget of change.
- Economic growth must be sustainable and not dependent on fluctuating oil prices.
- During the second part of this retreat, Honorable Ministers and other participants will break out into syndicate groups to build consensus on the priorities of the 2017 budget, which must be designed to take us back to sustainable growth.

2.0 Current State of the Economy: We are in a Recession

Gross Domestic Product Growth: In Negative Territory for 2 quarters



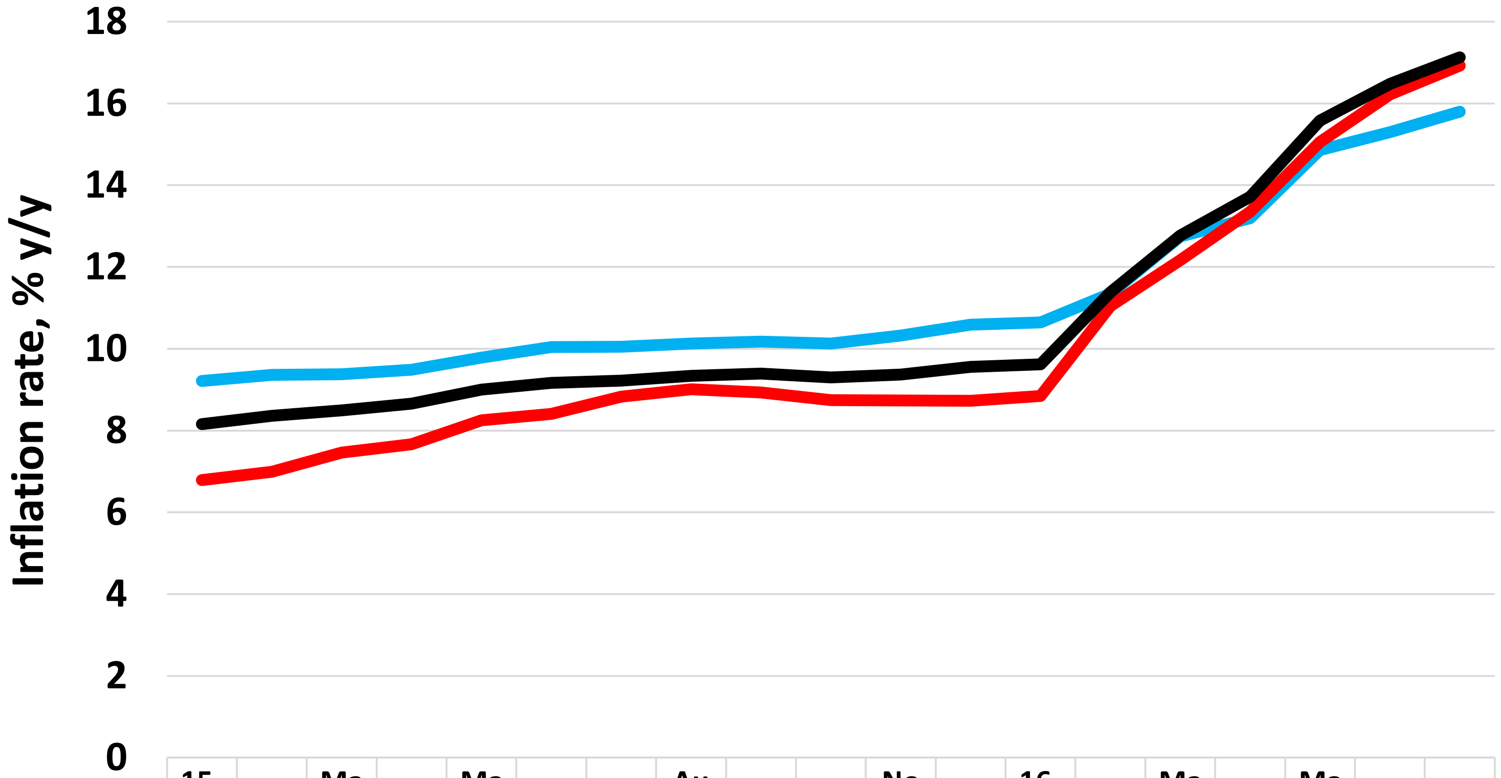
Broad Sectoral Growth and Contribution in Q2, 2016

	2014				2015				2016	
CONTRIBUTION TO GDP (%)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
AGRICULTURE	19.65	20.89	26.63	23.86	19.79	21.12	26.79	24.18	20.48	22.55
INDUSTRIES	27.36	25.96	24.20	22.66	25.65	24.52	23.51	21.52	24.33	22.65
SERVICES	52.99	53.15	49.16	53.48	54.56	54.36	49.70	54.30	55.20	54.80
	2014				**2015**				**2016**	
GROWTH (%)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
AGRICULTURE	**5.53**	**3.68**	**4.47**	**3.64**	**4.70**	**3.49**	**3.46**	**3.48**	**3.09**	4.53
INDUSTRIES	**4.84**	**8.97**	**5.43**	**7.96**	**-2.53**	**-3.31**	**-0.13**	**-3.04**	**- 5.49**	**-9.53**
SERVICES	**7.20**	**6.54**	**7.61**	**6.15**	**7.04**	**4.67**	**3.97**	**3.69**	**0.80**	**-1.25**

Positives:

- STRONG GROWTH IN AGRICULTURE
- POSITIVE IMPROVEMENT IN SOLID MINERALS

2.1 Current State of the Economy: We are in a Recession



	15-Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	16-Jan	Feb	Mar	Apr	May	Jun	Jul
Series1	9.2	9.4	9.4	9.5	9.8	10.0	10.0	10.1	10.2	10.1	10.3	10.6	10.6	11.3	12.7	13.2	14.9	15.3	15.8
All Items less Farm Produce	6.8	7.0	7.5	7.7	8.3	8.4	8.8	9.0	8.9	8.7	8.7	8.7	8.8	11.0	12.2	13.4	15.1	16.2	16.9
All Items	8.2	8.4	8.5	8.7	9.0	9.2	9.2	9.3	9.4	9.3	9.4	9.6	9.6	11.4	12.8	13.7	15.6	16.5	17.1

Headline Inflation stood at 17.1% in July

Slower increase in three divisions; Health, Transport, and Recreation & Culture divisions

Food Inflation climbed to 15.8% in July
Faster increase in the Bread and Cereals, Meats and Fish groups

Core Inflation reached 16.9% in July
Increase in electricity, kerosene, PMS and vehicle spare parts prices

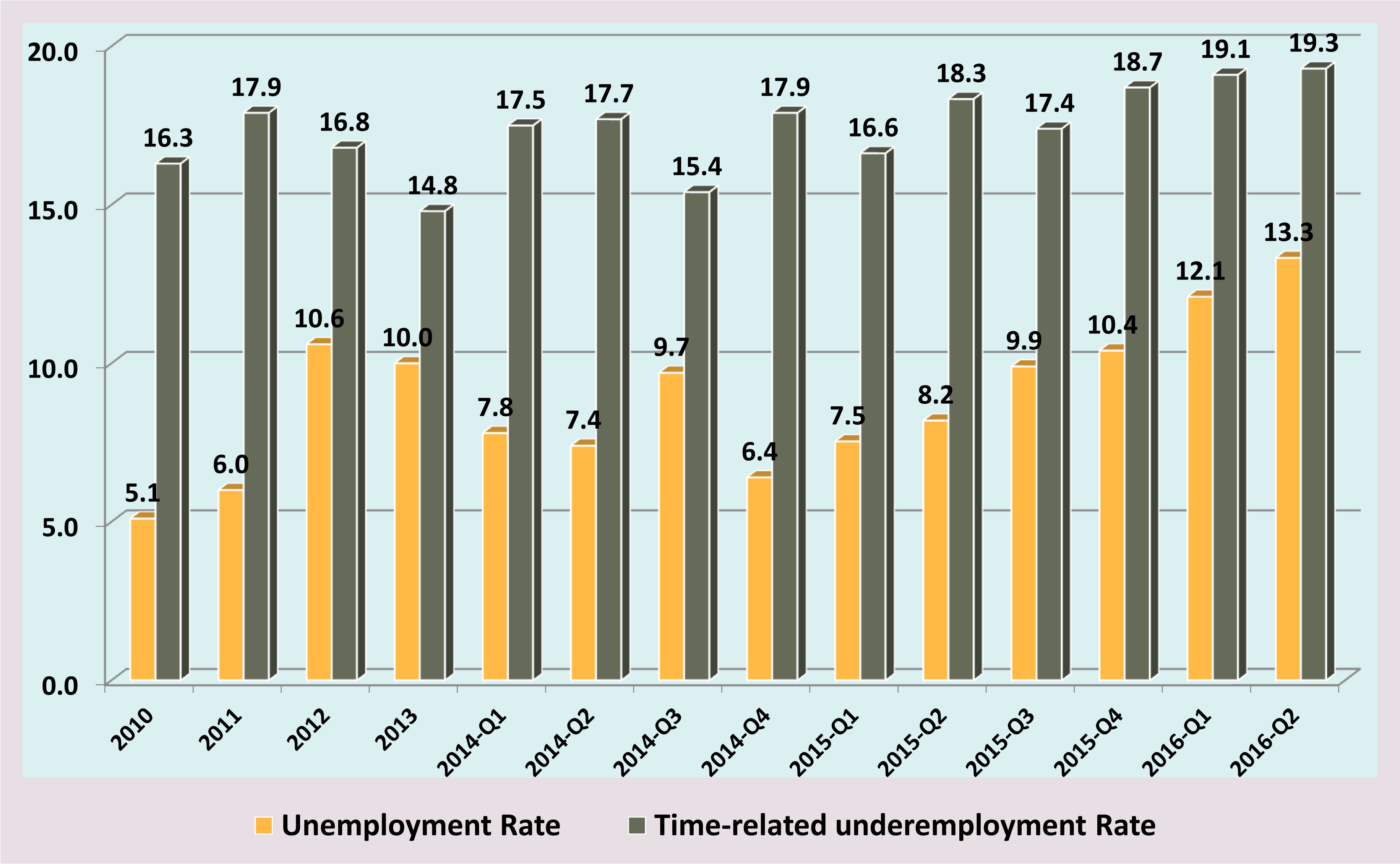
Headline MOM: 1.3% from 1.7%

Food MOM : 1.2% from 1.4%

Core: MOM: 1.2% from 1.8%

2.2 Current State of the Economy: We are in A Recession

Rising UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES



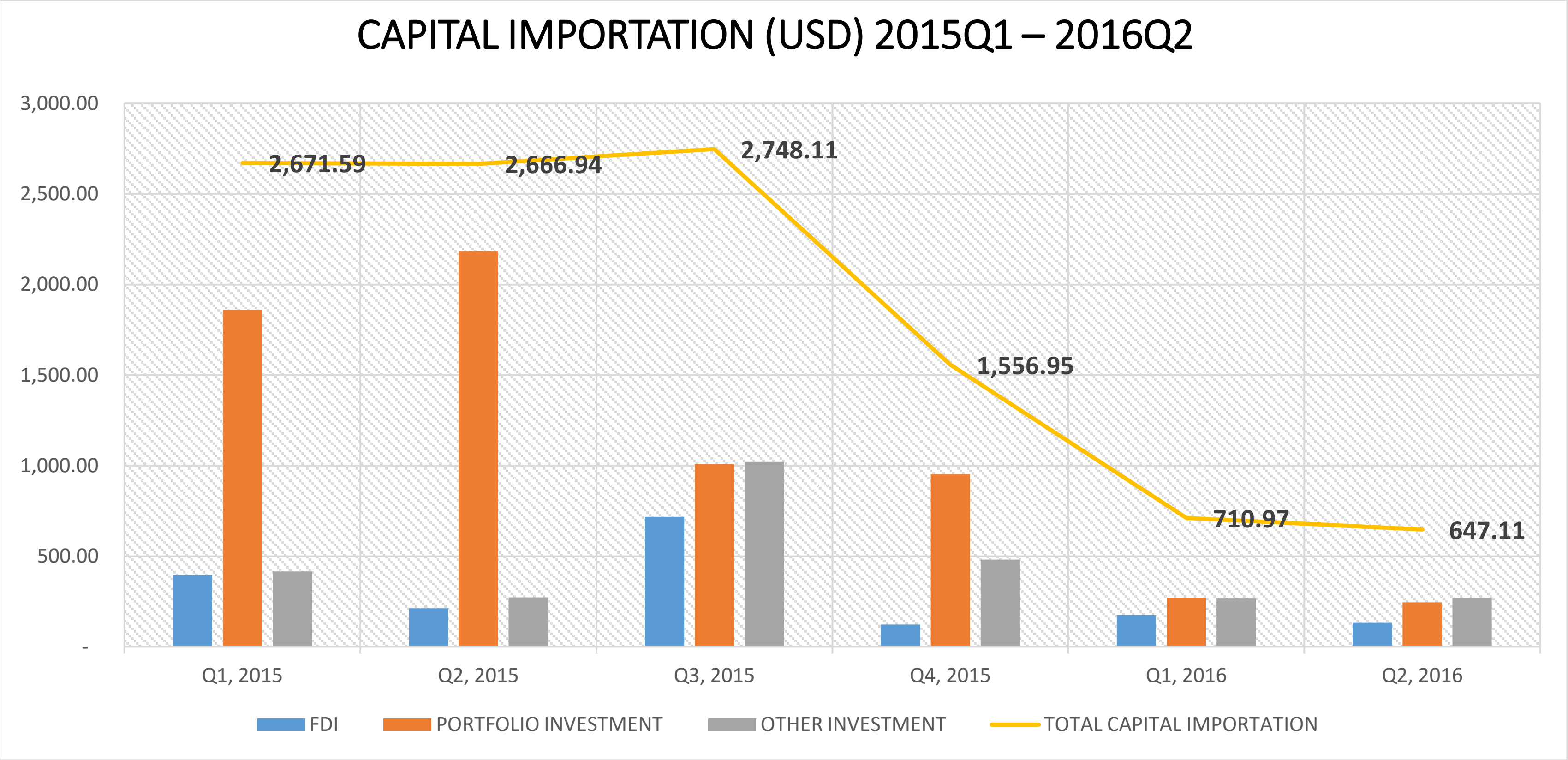
The number of underemployed rose by 400,000 persons, from 15.0million to 15.4million during the second quarter (Underemployment rate: 19.3%)

The number of unemployed persons rose from 9.5million to 10.6million, an increase of 1.1million. (Unemployment rate 13.3%)

3.0 Recession: How we got there

- Unsustainable economic structure characterised by**:**
  - ➢ Dependence on a single commodity, whose price we do not control – Crude Oil
  - ➢ Oil sector less than 9% of GDP but about 80% of government revenue and 95% of Forex
  - ➢ Non-oil sector about 90% of GDP (of which 52% was indirectly dependent on Oil) but less than 20% of government revenue.
  - ➢ Declining capital expenditure with rising recurrent expenditure (2015 about 10% capital)
  - ➢ Import dependent consumption growth model with stagnant growth in Investment to GDP
- Collapse of crude oil prices from over $110 per barrel in 2014 to less than **$30 per barrel in the** Q1 2016 (recently rising but still less than **$50 per** barrel). Market expectations are that it will be lower for longer.
- Declining foreign reserves from $37.3Bn in Q2, 2014 to $25.4Bn by August 2016
- Reduced confidence leading to declining Equity and Foreign Investment Capital Inflows from $9.7Bn by the end of Q2, 2014 to $0.64bn at the end of Q2 2016

Continuous decline in Capital importation/FDI 2016



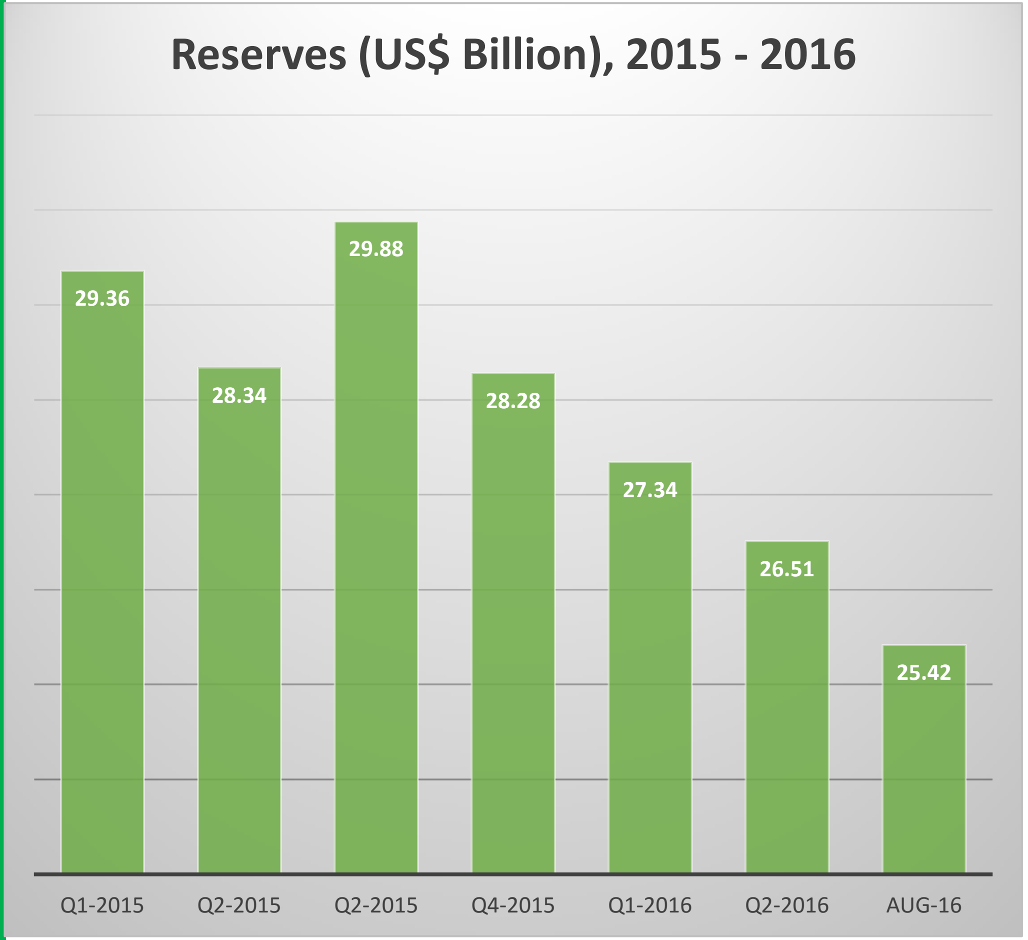
Note: 2016 Q2 is NBS estimate

Capital Importation has assumed a declining trend since mid 2014

In Q2, 2016 the Capital Importation stood at $647million,

- This represents a decline of 8.98 per cent from Q1, 2016 levels of $710.97million
- And a decline of 75.7 per cent from the Q2, 2015 period levels of $2,67.59 million

Foreign Reserves Position and Financial/Monetary Developments



Source: CBN

❑ Foreign Reserves Position

- The country's foreign reserves have witnessed a continuous decline since January 2014
- From 29.36 billion Q1,2015, they declined to 28.34 billion in Q2, 2015 before improving slightly to US$29.36 billion in Q3, 2015
- The reserves have, however, maintained a downward trend from US$28.28 billion at the end of December 2015 to US$26.51 billion at end of Q2, 2016
- As at end of August, the reserves was US$25.42, enough to finance equivalent of 6 months of import
- CBN has been able to reduce the rate of decline by demand management but trade arrears are rising

❑ Financial/Monetary Developments

- Developments in banks' deposit and lending rates were mixed during the second quarter of 2016.
  - The spread between the weighted average term deposit and maximum lending rates widened to 21.43 percentage points at the end of Q2, 2016.
  - Similarly, the margin between the average savings deposit and the maximum lending rates widened to 24.10 percentage points.
  - At the inter-bank funds segment, the weighted average inter-bank call rate rose by 12.55 percentage points to 15.56 per cent in Q2 2016, reflecting the liquidity condition in the banking system.

3.1 Recession: How we got there

- Delay in the commencement of the implementation of the 2016 Budget
    - Presented in December 2015 but only approved in May 2016
- Disruptions in oil and gas production caused by militant activity in the Niger Delta
    - Blowing up of four (4) strategic oil fields, viz: (i) Trans-Forcados Pipeline to Terminal (ii) Qua Iboe Terminal (iii) Tebidaba–Brass Pipeline to Brass (iv) Trans-Niger Pipeline and Nembe Creek Trunkline axis (both export to Bonny Terminal)
    - Decline in output from the 2016 budgetary provision of 2.2mbpd to about 1.1mbpd in August 2016

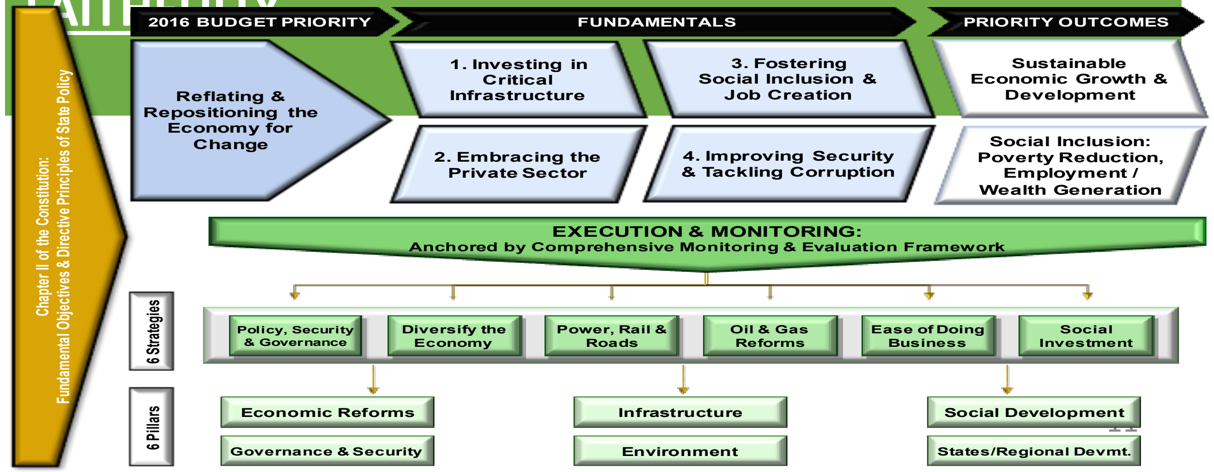
4 Recession: How we can get out

We are at **crossroads**

DO NOTHING

- Hope it's a normal Business Cycle
- Hope oil price rises.
- Hope for an end to militancy
- Hope confidence gets restored and investment flows back

FISCAL STIMULUS + IMPLEMENT THE SIP FAITHFULLY



5.1 FISCAL STIMULUS

- Spending our way out of recession: Large funding injection required:

➢ The 2016 Budget performance is reflective of the low revenue out-turns attributable to the global and domestic developments earlier highlighted.

➢ Oil revenues fell significantly in the second quarter compared to the first quarter as a result of increased oil pipeline vandalism and production shut-ins. Non-oil revenues also declined due to the acute shortage of foreign exchange

➢ Overall, the total revenue inflow was short of the Budget by N1,064.91 billion (or 55.2%) as at June 2016.

➢ Economic Management Team working on a plan to generate an immediate large injection of funds into the economy through Asset Sales, Advance Payment for License renewals, infrastructure concessioning, use of recovered funds etc. to reduce the funding gap.

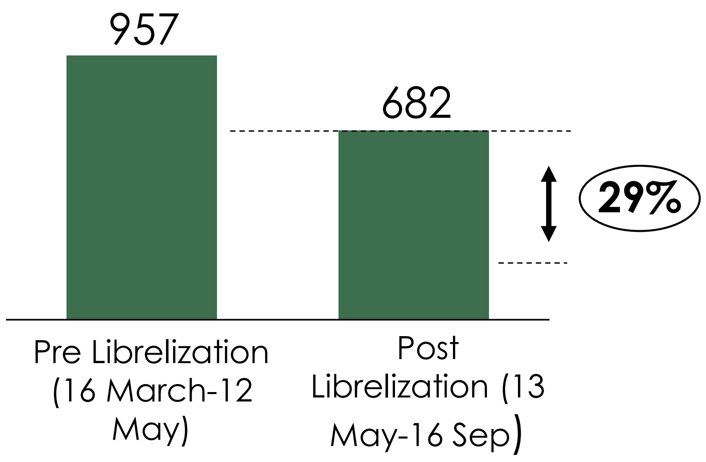
➢ To achieve this speedily we will need to fast-track procedures through Presidential directives and legislation. Bill almost ready for submission to National Assembly

5.2 Implementing the S.I.P.

- Past failure to diversify economy not due to absence of good development plans:
  - NEEDS, VISION 2020,
  - THE SEVEN POINT AGENDA,
  - THE TRANSFORMATION AGENDA etc.
- Failure to diversify due to weak political will and lack of discipline
- SIP has drawn elements from all these plans but this time with strong political will, strong leadership and determination
- Immediate critical steps to assure diversification:
  - Tackling challenges inhibiting private sector participation in the upstream petroleum sector and building on the petroleum products deregulation ($7.9bn or about 30% of forex demand in 2015)
  - Boost agricultural production for food sufficiency (food imports has the third highest demand for forex ($3.4 billion in 2015 or about 8% of total demand)
  - Growing non-oil exports in the light of competitive and comparative advantage created by the depreciation of the Naira following the introduction of a market reflective exchange rate.
  - Attracting foreign and domestic investment by improving ease of doing business.

5.3 Deregulation of the Petroleum Sector

- Deregulation of PMS to stop importation of petroleum products which consume 30% of forex
    - ➢ Current implementation of policy has led so far to savings of $4.5m per day
    - ➢ 50% reduction in daily truck-out from the loading depots; Average daily truck-out reduced from 1005 prior to deregulated period to 542 for the period after deregulation



- PMS Price was liberalized on May 12th 2016 to a price band of 135-145 naira per liter from an initial N86/Ltr
- One of a key observation is the reduction in consumption by almost 30% post Liberalization.
- This reduction from over 45 Million to less than 32 Million daily consumption translate to about US$4.5 Million daily savings in PMS import bills
- Consumption dropped by 40% in some specific months like July '16 to average of 561 trucks per day.

    - ➢ Comparing May/June 2015 to May/June 2016, total volume of PMS imported has dropped by 78.2% from 2.16Bn Litres (or $1.4Bn) in 2015 to 1.21Bn Litres (or $0.62Bn) in 2016

- Deregulation must be supported by incentives for the building of Refineries by the private sector
    - ➢ Must achieve self sufficiency within 2 years

5.4. Market Reflective Exchange Rate Policy

- Policy has already had several benefits
  - Slowly restoring investor confidence in the economy
  - Reduced pressure on external reserves
  - Increase in Naira proceeds in funding the 2016 budget thus helping us pay salaries and keep the state running
  - Exchange rate gains after the introduction of a market reflective exchange rate system on 15 June (Forex gains as a result of the policy for two months (June to July 2016) was N76.7Bn)

- Need to build on the comparative and competitive advantage of the depreciation of the naira following the flexible exchange rate by promoting exports (agriculture and agro-allied products, solid minerals, manufactured goods, services such as Nollywood and Nigerian music etc) to increase fx supply and shore up the rate.

6. The 2017 Budget: Expectations of the Ministers

- The 2017 Budget will focus on reviving the economy
- Emphasis on actions that will return us to sustainable growth.
- Keep a cap on recurrent expenditure and focus on capital expenditure especially infrastructure
- Our ultimate target is the attainment of strong inclusive growth
- To help us to focus, we have invited four top economists and highly respected Nigerians to give us their suggestions to help stimulate discussions
- But the decisions will be taken by the cabinet, working together.
- No better time than now to take bold decisions and turn this crisis to an opportunity to change our country for good – once and for all
- To achieve this, we will break up into groups of Ministers to decide our priorities for the 2017 Budget.
- **THE TIME IS NOW! THE TIME IS HERE!**
- **We must turn this crisis into an opportunity to change Nigeria for good**

THANK YOU