Address Delivered

By

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at

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Protocols

1. I am delighted to be here with you today at this Breakfast seminar for CFOs. I cannot, of course, speak on the 2017 Budget because it has not yet been submitted to the National Assembly. The good news is that the Budget is almost ready. We are almost through with our consultations with the National Assembly on the Medium Term Expenditure Framework, and the outlines of the 2017 Budget, and will soon be submitting it to the National Assembly for their consideration. Without giving anything away I can assure you that the Budget will be targeted at stimulating private sector investment. This Government believes that it is only by partnering with the private sector that we can propel the economy out of recession and onto the path of sustainable growth.

2. However, I would like to take advantage of this breakfast meeting to listen to any issues you would like reflected in Nigeria's Economic Recovery and Growth Plan (2017-2020), which is currently being finalised. I will speak more about this document, shortly. I will also give you a brief overview of where we are in the implementation of the 2016 Budget. But let me start by commending the management of KPMG for putting on this Seminar and every one of you for developing interest in our national budgets and Plans– to understand it, and make it work. Year-in, year-out the annual budget remains a subject of interest and discussion to citizens, and particularly to all business people. This is as it should be. The Budget is one of the most important instruments of achieving

the economic objectives of the Government. In setting out the spending and other priorities of the Government the annual FGN Budget plays an important signaling role for private economic actors, whose activities ultimately determine the health of the economy.

The State of the Economy

3. As we are all aware the Nigerian economy is in recession, having contracted by -2.06% in the second quarter of this year, following similar negative growth of -0.36% in the first quarter. This situation was further compounded by a rise in inflation to 17.9% by end of September 2016.The latest numbers from the NBS indicate October inflation is 18.33%.

4. It is important to understand the origins of our present predicament, not as part of a political blame game but rather to learn from past missteps and also to identify what needs to be done. Of course, the immediate cause is quite evident, which was mainly the collapse of oil prices from $114 per barrel in mid-2014 to as low as $28 per barrel by February this year. This sharp decline in oil prices was further compounded by the loss of up to 1.1m barrels per day in crude oil production due to sabotage. Such acts of vandalisation also affected gas supplies to power stations and thus electricity supply. In other words, for most of this year we have been grappling with a triple shock of prices, production and power.

5. Quite unlike the situation in 2008 the economy has not been so easily able to shrug-off the triple shock. At that time

Nigeria had significant fiscal and external buffers to withstand the exogenous shocks and internal haemorrhage as our foreign reserves, and savings in the excess crude account, amounted to well over US$ 50 billion. This time around, our over-dependence on oil for foreign exchange and revenue earnings and an import dependent consumption model has been laid bare by the lack of fiscal buffers. The lessons we can draw from the recent past is that it is important to build up fiscal buffers, undertake an aggressive investment driven model and diversify from our reliance on oil and gas for foreign exchange earnings and government revenue.

6. Very broadly, this is what the Federal Government has sought to do in the context of the actions that it has taken this year. We have made our immediate priority to stimulate and revitalise the economy. We are constantly looking at ways to develop and build social safety nets to mitigate the effects of currency weakness and re-pricing of petroleum products. Hence our social investment programmes. We have also taken the decision to avoid laying people off and are focusing instead on increasing non-oil revenues and ensuring greater transparency and efficiency in the use of available resources. The desire to stimulate demand by putting money in peoples' hands motivated our three interventions to assist States and Local Governments to pay staff salaries and wages. In addition to improving inclusion, our social intervention programmes will also help to serve the same purpose.

7. Our social investment programmes have four components, viz. a) National Home Grown School Feeding

Programme (NHGSFP), b) Conditional Cash Transfer, c) Job Creation, and d) General Enterprise and Empowerment Programme (GEEP). The sum of N500 billion was voted in the 2016 Budget for these programmes. However, because we are trying to get things right, we will not be able to achieve full implementation in 2016. We expect to be in a position to fully meet the objectives of the programme in 2017.

The 2016 Budget- Linking Plans and Budgets

8. As I have indicated, the main instrument we have used to achieve all of the above has been the 2016 Budget. Distinguished ladies and gentlemen, in recognition of the need to ensure effective linkage between national development plans and budgets, the Administration merged the erstwhile National Planning Commission with the Budget Office of the Federation to birth the Ministry of Budget & National Planning. The 2016 Budget is the first to be produced since this merger.

9. The 2016 Budget was well conceived, with reasonably conservative benchmarks. For instance, we set a reference benchmark price of US$38 a barrel for crude oil. From all indications the average price for 2016 is likely to be above this level. To ensure its effective implementation, a Strategic Implementation Plan (SIP) was developed. The Administration laid out a clear economic vision and direction, over the short term, in the President's 2016 Budget Speech, as well as in the Strategic Implementation Plan for the 2016 Budget of Change.

The Strategic Implementation Plan

10. As you all know, the Strategic Implementation Plan (the SIP) is anchored on four policy fundamentals: (1) Investing in Critical Infrastructure; (2) Embracing the Private Sector; (3) Fostering Social Inclusion and Job Creation; and (4) Improving Security and Tackling Corruption. The execution and monitoring of these fundamental objectives are prioritized in six thematic areas, namely: (a) Policy, Security and Governance; (b) Diversification of the Economy; (c) Power, Rail and Roads; (d) Oil and Gas Reforms; (e) Ease of Doing Business; and (f) Social Investment.

11. The SIP is a fairly detailed plan and contains a total of 34 key actions selected for immediate implementation. Many of these are already yielding results. For example:

- Reforms in Agriculture have started yielding fruit as there has been noticeable growth in that sector. This welcome growth will help us to achieve the goals we have set for ourselves of self-sufficiency in rice by 2018 and wheat by 2019, and to become a net exporter of a number of other agricultural products over the medium term.

- We committed to adopt a roadmap to stimulate investment into the solid minerals sector, which has been done. Here again we are noticing growth in that sector.

- We said we would take action to improve Nigeria's business environment; and now the President has set up a Presidential Council on Enabling Business Environment. This is designed to achieve the target set by the SIP of moving Nigeria at least twenty places up the World Bank Ease of Doing Business Index within one year so as to attract more domestic and foreign investments.

- We committed to launching a **Made in Nigeria** campaign, and as you know that was the focus of the 2016 Nigeria Economic Summit held in early October.

12. In preparing the 2016 Budget, resource allocation was tied to the Administration's six development Pillars, viz. Economic Reforms, Environment, Governance & Security, Infrastructure, Social Development, and States/Regional development. Another milestone policy decision was the adoption of the Zero-Based Budgeting (ZBB) methodology, which engenders effective deployment of the limited fiscal resources to areas and sectors with highest need, priority and yield. Without doubt, the adoption of these initiatives in the budgeting process has helped to cut costs and increase capital spending.

Implementation Outcome

13. However, as I have already indicated, we have been unable to achieve our 2016 Budget production target of 2.2 million barrels a day. Indeed, at some point in August, 2016, we were barely able to produce 1.1mbd. However, I am happy to report that production has in the last few weeks picked up to over 2.0mbpd.

14. Generally, revenues are down and this has impacted on our ability to fund the 2016 Budget, particularly the capital expenditure component of the Budget. The fall in crude oil

revenues has affected the level of foreign exchange earnings. Since 95% of our foreign exchange earnings come from the petroleum sector this has impacted adversely on the level of non-oil revenues. In short, oil revenues are down and non-oil revenues are also down. The reason for this is that much of our non-oil sector is consumption-driven and relies on foreign exchange earnings from the oil sector and other capital inflows which also depend largely on the fortunes of the oil sector, to finance the imports of raw materials, intermediate/finished goods and imported services to meet domestic demand. Many of the goods and services produced locally are dependent on imported inputs. The collapse of the oil sector has therefore resulted in a contraction in the non-oil sector and, consequently, the revenues that Government expected to receive from these sources. Revenues from taxes are down, customs revenues are down and independent revenues from Government agencies such as NIMASA, NPA, etc. are also down.

15. As indicated in the Fiscal Account from the Office of the Accountant-General of the Federation, revenue receipts as of September 2016 are lagging by about 35%.Distinguished Ladies and Gentlemen, notwithstanding these serious revenue shortfalls, the Federal Government had spent about N3.577 trillion as of September 2016 out of the full year budget of N6.06 trillion for the 2016 fiscal year. This translates to a 79% performance of the prorated budget for the first three quarters. In addition to the total of N2.44 trillion so far released for Capital Expenditure, Non-debt Recurrent and

Service-Wide Vote expenditure, a total of N1.138 trillion had also been paid out in domestic and foreign debt service expenditures. This includes N44 billion transferred to the Sinking Fund to retire maturing obligations.

16. To date, budgeted personnel cost and debt service obligations have been fully met. Additionally, government has done reasonably well in the challenging circumstances with respect to capital expenditure. It is noteworthy that the total amount of N753.6bn already released for capital expenditure in 2016 is the highest in the nation's recent history, even in the era of high oil prices. Indeed, the capital releases to date exceed the aggregate capital expenditure budget for 2015 of about N700bn, inclusive of capital expenditure in statutory transfers. Despite fiscal challenges, Government is committed to meeting its debt obligations while funding critical sectors to enable government to function smoothly, as we continue to work out lasting solutions to the issue of revenue shortfalls.

17. Furthermore, government has adopted a targeted approach with respect to capital expenditure to ensure that budgetary releases are consistently made to those sectors whose activities have the capacity of driving economic growth and fostering job creation. Particular attention was focused on infrastructure, agriculture and other areas with high job creation potentials.

18. This is a Government that is committed to reforms. For instance, tools like the Treasury Single Account, an Integrated Payroll system and an Efficiency Unit have helped to promote

transparency and institute expenditure controls. As you know the Ministry of Finance has already identified and eliminated over 45,000 unjustified entries from the payroll. In the same vein, we have reduced losses to the treasury arising from the fuel subsidy regime. It will be recalled that premium motor spirit (PMS) was liberalized on the 12th of May 2016. Immediately this was announced, consumption dropped by about 30%, resulting in a saving of US$4.5 million a day from the elimination of false subsidy claims. Furthermore, this reform has eliminated fuel queues. We are also, as promised in the SIP, promoting a more flexible, market related, foreign exchange regime.

19. There is no doubt that we need the revenues from oil to get out of oil dependence. We are determined therefore to restore the health of the oil industry. With regard to oil production, we have intensified the use of dialogue to reduce the disruptions to oil production in the Niger Delta. We have also just negotiated a new arrangement with our joint venture partners in which we are exiting cash calls. This will lead to enhanced and improved oil production and the Minister of State, Petroleum Resources, has indicated that with this major reform, which will become operational by January 2017, we should be expecting investments of over US$15 billion in the oil sector.

20. Furthermore, we intend to access some foreign borrowings at concessional terms for budget support, and to invest in infrastructure, return to growth and then drive additional revenues to fund the incremental debt burden.

Reliance solely on domestic borrowing is unwise as excessive domestic borrowing drives up interest rates and crowds out the private sector. The infrastructure investment is expected to catalyse private capital into infrastructure and drive productivity and economic growth.

Nigeria's Economic Recovery and Growth Plan (NERGP), 2017-2020

21. All these reforms and initiatives, and many more, most of which will be reflected in the 2017 Budget, are being brought together in a single document to be called Nigeria's Economic Recovery and Growth Plan (NERGP). This document will present a coherent summary of Nigeria's short- and medium-term economic plans for the period, 2017-2020. In other words, by putting government strategies, directions, policy priorities and intended initiatives in one place, other stakeholders are better able to take their own strategic economic decisions.

22. The NERGP will build on the existing Strategic Implementation Plan (SIP) which was an interim plan developed in April 2016.It will be recalled that in the Foreword to the SIP, President Buhari promised Nigerians that we will prepare a fuller and more comprehensive medium-term plan by end of 2016. However, in the course of 2016, Nigeria also slipped into a recession, creating added urgency to develop a plan which provided short-term initiatives to re-invigorate the economy. The NERGP fulfils this dual goal of identifying short-

term recovery initiatives and also presenting a medium-term growth plan.

Focus areas of the NERGP

23. The NERGP will focus on five broad areas namely: macroeconomic policy, economic diversification & growth drivers, competitiveness, social inclusion & jobs, and governance & other enablers. A brief description of the various sectors is as follows:

- *Macroeconomic policy*: will discuss how we better coordinate our fiscal and monetary policies; and also identify initiatives to improve revenues, to reduce costs, and achieve greater macroeconomic stability.
- *Economic growth & diversification*: will look at short- and medium-term initiatives to drive growth in the non-oil sector, especially in agriculture, manufacturing, solid minerals, and services.
- *Competitiveness*: will identify specific measures to improve Nigeria's business climate, and also drive investment in the power and transport sectors. The NERGP will also suggest ways in which we can leverage private sector capital to invest in our infrastructure.
- *Social inclusion & jobs*: will identify social programmes which can be implemented by the Government to support the poor and the vulnerable.
- *Governance & enablers*: will examine a range of cross-cutting issues – including governance, security, human capital development, coordination with States – which will be needed to ensure success of the NERGP

24. Distinguished ladies and gentlemen, this will not be just another plan. There will be a major emphasis on implementation and monitoring & evaluation of this NERGP. Given the current challenging economic environment, it is

planned to set up a special delivery unit to drive implementation of the NERGP.

25. As part of this process of finalising the Plan, a retreat was held on 10-11 November 2016 to review specific initiatives which could be considered in the report. The retreat had participants from the private sector, academia, civil society groups, from State Governments, and from across the Federal Government. To further enrich the Plan, additional consultations with various stakeholders such as State Governments, development partners, the National Assembly and the private sector are ongoing. I would be interested in hearing from this gathering any suggestions and issues that you would want reflected in the Plan.

26. Distinguished ladies and gentlemen, it is anticipated that a draft document will be available in early December and formally launched by Mr. President before the end of the year.

27. I thank you for your attention and look forward to this breakfast conversation with you.