

## **2008 Budget Speech**

**By**

**His Excellency, President Umaru Musa Yar'Adua, GCFR**

**At the Joint Session of the National Assembly**

**Abuja, Thursday, November 8, 2007**

### PROTOCOL

The dawn of a new millennium is a once in a lifetime experience. The conventional resolve that accompanies the fleeting of each New Year and the emanation of another one is amplified by the momentous feeling that we are witnessing a spectacle of history in the making. The dawn of a new centenary also reflects on the past.

Undoubtedly, Nigeria has experienced tremendous progress since the turn of the century. This was made possible by our commitment and resolve for progress, sound macroeconomic policies, a plethora of reforms within the context of the National Economic Empowerment and Development Strategic Initiative (NEEDS), the Millennium Development Goals (MDGs), the Seven-Point Agenda and the implementation of the Policy Support Instrument (PSI) framework.

The sustained rise in international oil prices was also a significant contributory factor.

In delivering our Administration's first budget to this august Assembly, I am delighted to report that our economy has been one of the fastest growing, not only in Africa but also in the world. This growth rate is forecast to continue into 2008 and 2009. In particular, the last five years have indicated even brighter prospects for sustained growth. Based on current trends, real GDP growth for 2007 – 2008 is set to average 7.0% per annum, much better than the performance of the previous two decades when GDP growth averaged 3.0% per annum. Significantly, this rate of growth has been much higher than our population growth rate. This has resulted in a sharp increase in GDP per capita after a prolonged period of stagnation, from about

US\$400 at the turn of the century to well over US\$1000 by the end of 2007. However, in order to meet our growth and development targets by the year 2020 it is imperative that our economy grows at an even faster rate.

Our collective challenge today is to translate these macro-economic gains into tangible improvements in the living standards of our people. Despite the rapid growth of the economy, about 50% of our population still live below the poverty line. Oil still accounts for about 40% of GDP, 90% of exports and 80% of government revenue. The challenge therefore is to reverse these ratios.

It is against this backdrop that I consider it a great honour to present to this Joint Session of the National Assembly, the 2008 Budget proposal of the Federal Government of Nigeria.

In our continued efforts at fiscal reforms, this budget has been prepared within the context of a Medium-Term Fiscal Framework, which takes account of the forecast revenue and expenditure for the period 2008 - 2010.

Mr. Senate President,

Mr. Speaker,

Distinguished Members of the National Assembly,

The preparation of this budget has been informed by the need to be disciplined, focussed and strategic. We placed emphasis on containing costs so as to enhance value for money. We followed a well-defined participatory process aimed at ensuring that spending proposals are properly linked to our Seven-Point Agenda. All the major line Ministries were requested to reappraise in detail their initial proposals, keeping in view the need to strengthen public expenditure management and ensure transparency, accountability and value for money, with emphasis on completing on-going projects. This has helped us to make significant spending efficiency gains. It is our intention that this level of attention to detail will continue to underlie all future Budget preparation and implementation.

The 2008 budget builds upon and consolidates past macroeconomic and budgetary reforms. It gives priority to, and makes ample provision for improving physical infrastructure, particularly power and transportation, human capital development, the Niger Delta, and social safety nets. These are all encapsulated in the Seven-Point Agenda of this Administration.

Broadly, the 2008 budget provides:

- N444.6 billion for Security and the Niger Delta, which is 20% of the total Federal Government Budget, up 6.5% from 2007 allocation;
- N210 billion for Education or 13% of the total MDA spending;
- N139.78 billion for the Energy sector, excluding National Integrated Power Projects which will be implemented through alternative funding; and
- N121.1 billion, that is 7% of total budget, for Agriculture and Water Resources.

Consistent with our commitments under the Paris Club Debt settlement, and in pursuit of the attainment of the MDGs, the 2008 budget will devote the entire debt relief gains, amounting to N110 billion, to carefully selected poverty reduction initiatives and programmes in Education, Agriculture, Water Resources, Power and Social Safety Nets.

The Budget is basically about the ordinary Nigerian. It is about accelerating the provision of basic infrastructure to improve the quality of life of our people. It is about creating jobs and the enabling environment for the private sector to thrive.

#### REVIEW OF BUDGET 2007

The 2007 Budget was predicated on a production volume of 2.5 million barrels per day and a benchmark price of US\$40 per barrel. Based on these assumptions and a projected N100 billion from Independent revenue sources, projected total revenue available to fund the federal budget was N1.73 trillion. This represented a 20% growth relative to 2006. The 2007 Appropriation Act authorised aggregate spending of N2.3 trillion, made up of Statutory Transfers of N102 billion, Debt Service of N326 billion and N1.88 trillion for MDAs. The projected deficit was therefore N570 billion or 2.5% of GDP.

The performance of the 2007 Budget in the first half of 2007 has been mixed. While oil prices remained well above the benchmark price of \$US40 per barrel on which the 2007 Budget was predicated, adverse production variances, due principally to disruptions in the Niger Delta, resulted in weak revenue performance.

The projected revenue for 2007 was estimated to be about N796 billion short of budget expectations, of which N 339 billion would be the impact on the Federal Budget. The implementation of the expenditure plans for 2007 was however insulated from the effects of the revenue underperformance through monthly releases, totalling N454 billion which were drawn from the Excess Crude Account in the first half of the year.

To further enhance the implementation of the 2007 Budget, we sought your approval, after a review of the 2007 Appropriation, to redirect available funds to the implementation of a number of key public service reforms, including the implementation of the Consolidated Salary Structure, on-going right-sizing of the MDAs and clearance of local debt arrears. A sum of N170 billion in efficiency savings was identified from within the existing Appropriation to fund these reforms. An additional N86 billion, principally made up of independent revenue already received was also appropriated.

At this juncture, I must put on record my appreciation and that of the nation as a whole for the efficient and timely manner in which the National Assembly approved the 2007 Revised Budget proposals. This has encouraged me to believe that the budget I am presenting to you today will be considered with similar sense patriotism. I would like to seize this opportunity to confirm to you that, in the same spirit, I have signed the 2007 Supplementary Appropriation Bill passed to me after approval by the National Assembly.

## THE 2008 BUDGET

We are inexorably committed to pursuing the goal of making our economy one of the twenty biggest economies in the world by the year 2020. To this end, we will endeavour to fast track the key parameters of our development paradigm as outlined in our Seven-Point Agenda.

Key to our developmental aspirations is the need to maintain macroeconomic stability and fiscal responsibility.

While our overall strategy is to focus on the completion of on-going projects, we have also taken onboard a few new projects targeted at improving infrastructural deficiencies.

## KEY ASSUMPTIONS AND TARGETS

The 2008 Budget is based on a number of assumptions and it is driven by the need to meet certain targets. These are:

- Oil price of \$53.83 per barrel
- Crude oil production of 2.45 million barrels per day
- Joint Venture Cash Calls of US\$4.97billion
- GDP growth rate of 11%
- Inflation rate of 8.5% and
- Exchange rate of N 117 to US\$1

The budget is based on a prudent benchmark price US\$53.83 per barrel to ensure that we fund the budget with predictable revenues, whilst ensuring that the benchmark price remains realistic.

#### REVENUE PROJECTIONS:

##### Federation Account

Based on these assumptions, we expect the sum of N4.539 trillion to accrue to the Federation Account. This represents an increase of 5.5% over 2007. Oil Revenue is estimated at N3.629 trillion after taking account of existing commitments to Joint Venture Cash Calls of N0.581 trillion, while Non-Oil Revenue is estimated at N0.91 trillion. Oil Revenue represents 80% of the total estimated revenue, while Non-Oil Revenue represents 20%.

We will continue to diversify our revenue base by further development of the non-oil sectors of our economy which are estimated to grow by 10% in 2008.

##### Oil Revenue

Of the total N4.210 trillion that we estimate will accrue from Oil Revenue, Crude Oil Sales are expected to contribute N2.345 trillion, as against N1.6 trillion in 2007; Petroleum Profits Tax is estimated at N1.282 trillion compared to N1.78 trillion in 2007; while Royalties and Rents should account for N 0.583 billion as against N0.532 billion in 2007.

##### Non-Oil Revenue

This is made up of Companies' Income Tax, Value Added Tax and Customs & Excise Duties. Of the sum of N0.91 trillion expected to accrue to the Federation Account from Non-Oil Revenue; Companies' Income Tax is

expected to account for N349 billion, as against N299 billion in 2007; Value Added Tax should contribute N310 billion, as against N265 billion in 2007; while Customs & Excise Duties should account for N251 billion, as against N230 billion in 2007.

#### Federal Government Revenue

The revenue accruable to the Federal Government from the Federation Account for 2008 is estimated at N2.026 trillion. Of this sum, the actual amount accruable to the Federal Budget will be N1.866 trillion as against N1.7 trillion in 2007. This is arrived at after deducting amounts that should go to the Derivation and Ecology Fund ( N38billion), Stabilization Fund (N19billion), Development of Natural Resources ( N63billion), and the FCT (N41billion).

#### Independent Revenue

Independent Revenue, made up of revenues that accrue exclusively to the Federal Government from the operating surpluses and dividends of commercial enterprises, is expected to be N120 billion.

Our estimate of total revenue available to fund the 2008 Budget is therefore N1.986 trillion.

#### FEDERAL GOVERNMENT EXPENDITURE

The proposed aggregate expenditure is made up of the following:

- Statutory Transfers: N187.6 billion
- Debt Service: N372.2 billion
- Spending by Ministries, Departments and Agencies (MDAs): N1.89 trillion

Given the estimated total revenue available to fund the federal budget, we plan a deficit of N0.56 trillion or 2.5% of GDP which will be financed from the proceeds of the sale of government properties, Oil Blocks Signature Bonus, privatization proceeds and domestic borrowings.

The details of the expenditure heads are as follows.

#### STATUTORY TRANSFERS

In complying with the law, we will fully provide for the following

statutory transfers:

- National Judicial Council (NJC), N78 billion as against N43 billion in 2007.
- Niger Delta Development Commission (NDDC), N69.9 billion as against N24 billion in 2007.
- Universal Basic Education Commission (UBEC), N39.7 billion as against N35.3 billion in 2007.

## DEBT SERVICE

We propose a Debt Service of N372.3 billion for 2008, representing an increase of 25.3%, relative to 2007. This is made up of domestic, long-term debt service of N306.2 billion and foreign debt service of N66 billion.

## DOMESTIC DEBT

The overall increase in debt service requirement for 2008 relative to 2007 is reflective of the increase in the domestic debt stock in 2006 – 2007.

These include N86 billion of pension arrears and N105 billion of arrears owed to local contractors. In addition, N200 billion of domestic borrowing was required to finance the 2007 Budget. The domestic debt stock is expected to reach N1.9 trillion by the end of this year. This figure represents an increase of N285 billion due principally to the clearance of contractor and pension arrears, amounting to N105 billion and N86 billion, respectively. The cost of servicing domestic public debt is estimated at N306.2 billion in 2008. Based on our strong fiscal position, government intends to remain active in the debt market.

## EXTERNAL DEBTS

Since our successful exit from the Paris Club debts, the structure of our external debts has changed significantly. Our total foreign debt stock now stands at US\$3 billion, down from about US\$32 billion in 2005.

I am glad to add that we have successfully exited the London Club debt stock. Nigeria is now one of the few countries outside the Organisation for Economic Co-operation and Development (OECD) with a debt to GDP ratio below 20%.

This manageable debt level continues to allow us to redirect expenditure away from debt service payments to capital spending.

Our intention is to continue to service multilateral debts as and when due, until maturity. Our analysis indicates that there will be no financial benefit from undertaking any restructuring or otherwise prepaying these debts. We therefore have earmarked the sum of N66 billion for servicing our external debts in 2008.

## SPENDING BY MINISTRIES, DEPARTMENTS AND AGENCIES

We propose a total of N1.89 trillion for spending by Ministries, Departments and Agencies. This represents a 0.1% increase relative to 2007 made up of –

- Payroll of N779.3 billion;
- Overheads of N267.6 billion
- Capital Expenditure of N634.2 billion
- Consolidated Revenue Fund Charges excluding Debt Charges of N212.5 billion

Payroll and Overheads, which together constitute Recurrent Non-Debt Expenditure, account for 55.2% of total spending, while Capital Expenditure accounts for 33%. Within recurrent expenditure, payroll has increased minimally to N779.3 billion, following Government reforms in that area. Overheads have been kept in check with a proposal of N267.6 billion, a reduction from the 2007 level. The relatively low utilization of the 2007 capital budget accounts for the reduction to N634.2 billion in 2008.

I will now give highlights of some key projects.

### Transportation

We propose capital expenditure of N94.36 billion for the Transportation Sector. Specifically, we have set aside the sum of N73.1 billion for Highway Construction and Rehabilitation; N6.02 billion for Survey, Mapping and Geo-Information activities; N6 billion for Water Transportation development, including the dredging of the River Niger from Lokoja to Warri, (including the construction of jetties); and N9 billion for the development of Air Transportation.

To augment government spending on the provision of roads we shall invite private investments into the sector. We have already reached

agreements with interested private sector investors for the construction of the second Niger Bridge at Onitsha/Asaba and a Bridge across River Benue at Bagana on the basis of a public-private partnership.

#### Agriculture and Water Resources

A total of N89.95 billion is proposed for the Agriculture and Water Resources sector.

The sum of N 31.2 billion is proposed for the construction of dams and irrigation projects nationwide. Other key projects and initiatives include:

- N7.2 billion for the Gurara Water Transfer project, to supply water to the FCT and its environs
- N3.4 billion for cooperative and community tractor service in 200 centers nationwide
- Procurement of tractors and implements supplied at subsidized rates
- N0.9 billion for Buyer of Last Resort Programmes
- N4 billion for Agricultural Credits and Subsidies, including the Fertilizer Subsidy Programme
- N 0.3 billion for the Chinese South-South Cooperation Programme

#### Education

We propose an allocation of N210.45 billion for the education sector, up 12% from the N188 billion allocated in 2007. The capital component of the allocation is N47.8billion, targeted at human resource capacity building, upgrading of facilities in our educational institutions and reforms to improve the quality of, and access to education. This excludes our intervention through the Universal Basic Education Commission, through which we are providing additional resources of N39.7 billion to the States and Local Governments to support basic education.

These additional resources are to upgrade infrastructure and teaching facilities in primary schools across the nation.

#### Health

For the Health Sector, we propose an allocation of N138.17 billion for 2008, a 12.57% increase over the 2007 allocation of N120.8 billion. The capital component of this amount is N49.37 billion, out of which funds have been provided for, among others, the following projects:

- Refurbishing and equipping all Federal Tertiary Health Institutions
- National AIDS/STI Control Programme, including the procurement and distribution of ARVs and test kits
- Rollback Malaria Programme, including the procurement of new drugs for malaria case management and insecticide treated nets
- National Programme on Immunisation for routine immunisation
- Capacity building and training for 5,000 health workers on integrated management of childhood illnesses.

## Energy

We have allocated N139.78 billion to the Energy sector. This represents an increase of 15.6% over the 2007 allocation of N118 billion. The capital component of this is 114.4 billion, out of which funds have been provided for the completion of 32 on-going Power Transmission Projects and the rehabilitation of key power stations nationwide.

Alternative funding will be sourced for ongoing work on the National Integrated Power Project in the Niger Delta region with expected output of 2,555MW.

## Security

We intend to enhance the capacity and preparedness of our security services. We have therefore proposed a total allocation of N444.60 billion for the military and the Police. We are providing our security services with all requisite force enablers and multipliers, including arms and ammunition, improved information and telecommunications equipment and facilities, riot control equipment, training and retraining, and sundry logistics support. We are also rehabilitating the residential and office accommodation of the security services.

## MDGs

Included in these allocations, as outlined earlier, are the debt relief savings for 2008 totalling N110 billion. As earlier stated,

these savings will be used exclusively to support and scale up spending on MDG-related initiatives and programmes. In this respect, we shall increase investments in areas that performed well in the 2007 budget. Of the N110 billion debt relief savings, we propose to allocate N59.3 billion to the States and FCT as Conditional Grants, for targeted, result-oriented expenditures. This is a safety net programme targeted at ensuring that the rural poor have access to markets and credit, as MDGs are better attained through the States and Local Governments. The role of the Federal Government is to ensure the judicious application of these grants and to support the efforts of the States and Local Governments that have demonstrated commitment to reform, good governance and the socio-economic development of their people.

The detailed budget contains a list of the priority projects earmarked for completion this fiscal year in each sector.

#### Pensions

We are providing N99.7 billion for pensions under the Pay-As-You-Go System for the 2008 fiscal year, to ensure that our pensioners are paid as and when due.

#### Public Service Reforms

To ensure that our Public Service Reforms continue, we have set aside the sum of N22.5 billion in 2008 to support this programme. Our aim is to continue to improve service delivery in the Public Service.

#### CONCLUSION

Mr. Senate President,

Mr. Speaker,

Distinguished Senators,

Honourable Members of the House of Representatives,

We have a historic opportunity to build a strong and resilient economy which will result in tangible benefits for the generality of our people. We do not under-estimate the challenge.

However, with your continuing support, I am confident that we can, together, lay the solid foundation of a bright and prosperous future for our nation.

We must have the courage to do all that is right, decent and compassionate; all that needs to be done for our nation's restoration. We must do this always with strict adherence to the rule of law and due process, however inconvenient sometimes. We must not shy away from the path of fiscal responsibility and prudence.

Before I end this address, it is apposite that I inform this august Assembly that I have assented to the Fiscal Responsibility Bill after due consultation with the State Governments whose support and concurrence is critical to the successful nationwide implementation of the provisions of the law. It is hoped that this will help to institutionalise and formalise the observance of fiscal discipline.

I must restate our Administration's appreciation of the thorough and expeditious manner in which the National Assembly has consistently considered matters brought before it by the Executive.

I am reassured by this very cooperative relationship, founded on mutual respect and a mutual recognition of our shared responsibility to rebuild our nation and reposition her for democratic good governance, peace, security, sustained growth and development.

Mr. Senate President,

Mr. Speaker,

Distinguished Members of the National Assembly,

It is with utmost regard and respect that I lay before you the 2008 Budget of the Federal Government of Nigeria for your consideration. I pray that God in his infinite grace and mercy will guide all of us to provide selfless and sincere service to our people.

I thank you most sincerely for listening. May God bless the Federal Republic of Nigeria.