2011 BUDGET SPEECH BY

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PROTOCOL

It is with great pleasure and honour that I present the 2011 Federal Budget Proposal to this Joint Session of the National Assembly. Today's ceremony is a singular distinction for me as, not only is this the first Budget Proposal I am presenting as President, but it is also the first Budget to be prepared based on the Nigeria Vision 20:2020's First National Implementation Plan.

THE THEME OF THE 2011 BUDGET

Against the backdrop of the economic environment of the last few years, the unique challenges we face as a nation demand that we make a break with the past and begin to chart a new path going forward. The 2011 Appropriation, therefore, is a budget of fiscal consolidation, inclusive economic growth and employment generation.

The focus of this Administration is to establish and strengthen the sound macroeconomic environment that Nigeria needs to ensure the prosperity of our citizens. Our policies will attract investment, facilitate private sector growth, boost employment generation and ensure wealth creation and other socio-economic developmental goals under the Vision 20:2020 framework.

This Budget Proposal is underpinned by four pillars that are drawn from our Economic Growth Strategy. These are to foster inclusive growth and job creation; optimise capital spending by rationalising recurrent expenditure and maximising Government’s revenues; accelerate the implementation of reforms to enhance the quality and efficiency of public expenditure; and reinstate greater prudence in the management of the nation’s financial resources.

RECENT ECONOMIC & OTHER DEVELOPMENTS

This Budget Proposal is being presented against the backdrop of gradual recovery in the global economy following a period of economic recession. While there are promising signs from emerging economies, like India and China, in terms of economic growth, many developed and developing countries alike are dealing with the vital issues of unemployment, public debt and elevated risk aversion in the financial sectors.

Governments across the world have had to make difficult choices and take unprecedented actions. However, despite interventions through fiscal stimulus packages, financial system rescues and other measures, leading economies across the world are experiencing challenges with weak economic growth, unemployment, reduced aggregate demand and limited job creation. Many countries are seeking to consolidate the gains from fiscal interventions while grappling with the challenges of higher public sector deficits and possible adverse impacts of early withdrawal of such stimulus.

Despite these global challenges, Nigeria's economy has remained resilient as a result of this Administration's efforts to maintain macroeconomic stability and promote socio-economic development. Real GDP growth is robust, increasing from 7.36% in the first quarter of the year to 7.86% in the third quarter. While the non-oil sector remains the key driver of our economic growth, the oil sector has recovered significantly in recent times, with oil production rising due to the favourable investment environment fostered by the Niger Delta Amnesty programme. Overall GDP growth for 2010 is projected at 7.85%. Inflation has fallen from 13.9% in December 2009 to 13.4% in October 2010.

External reserves at US$33.13billion as at the end of November remain comfortable and the foreign exchange markets have been relatively stable in recent times.

EMPLOYMENT GENERATION, REAL SECTOR GROWTH, PUBLIC FINANCIAL MANAGEMENT & BANKING REFORMS

While economic growth has been robust, we are mindful of the need to manage fiscal, monetary and other risks in order to maintain macroeconomic stability. The level of unemployment, especially among our youths, is one of our biggest challenges. Accordingly, this Administration is accelerating the implementation of strategic measures to enhance the investment environment for the real sector in a way that will foster inclusive growth, as well as to reform public financial management and the financial sector.

Firstly, it is Government's intention that ordinary citizens should feel the tangible benefits of our economic growth by ensuring that gainful employment increases commensurately with inclusive economic growth and wealth creation. The time has come to usher in a new era of responsibility in which we act, not only to create jobs, but to also lay a new foundation for Nigeria's economic growth.

Accordingly, this Administration will initiate a new National Job Creation Scheme which we are kick-starting with seed funding of N50billion provided for in the 2011 Budget. The Scheme's interventions are multifaceted, adopting short and medium-term strategies to create thousands of new jobs in our urban and rural communities.

To immediately impact unemployment, a Public Works Programme will commence across the 36 States and the Federal Capital Territory. This Programme will involve the engagement of private sector contractors to implement simple, labour-intensive public works in areas such as the renovation and maintenance of buildings such as schools, hospitals and primary healthcare centres; roads rehabilitation and maintenance works; urban sanitation and solid waste management; erosion control; and community works projects. Some of these public works will be funded by conditional grants and targeted at sectors critical to our achievement of the Millennium Development Goals. As a policy of Government, all memoranda submitted to the Federal Executive Council regarding procurement contracts from the MDAs are now required to indicate the local employment content implication of the project concerned. I have also directed that the private sector be incentivised to train and employ new graduates.

Details of this initiative and other measures will be announced by the Minister of Finance in due course.

While it remains true that the Government, on its own, cannot create every single employment opportunity and while it is the private sector, with its energy and initiative that we depend on to play a major role, this Administration continues to be conscious of the importance of addressing the issue of unemployment holistically. It is the Government that must lead the way in providing the short to medium term measures that will lay the foundation for building an inclusive society and ensuring our future prosperity. Already, the Federal Ministry of Education is taking steps to improve the quality of education to produce graduates that have skills which allow them to start businesses and become employers of labour.

In the medium-term, existing initiatives such as the National Directorate of Employment will be ramped up to retool the skills of our unemployed school-leavers and facilitate their acquisition of technical and vocational skills. The Government is coordinating various initiatives to grow businesses in high-growth and labour-intensive sectors such as construction, light manufacturing and ICT, as well as in agriculture.

To support an efficient labour market and sustainable job creation, measures will be put in place to ensure the certification of successful participants in this Administration's skills acquisition programmes. Increased emphasis will be placed on apprenticeship programmes and the enforcement of local content regulations to enhance job placement, self-employment and the participation of Nigerians in critical areas of the economy. In this regard, I will appoint a Special Adviser on Job Creation to coordinate all these initiatives.

Secondly, the Government is accelerating real sector reforms targeted at enhancing economic growth and addressing the infrastructural and institutional impediments to a more competitive and business-friendly investment environment. In August, I unveiled the Road-map for Power Sector Reform which is designed to attract private sector investment in power generation and distribution. Despite the need to rationalise our spending across the board, power continues to be a priority in terms of budgetary allocation. In addition, our focus is on catalysing the significant private sector capital that is needed to create a robust power sector. Therefore, the Road-map outlines our plan to privatise the generation and distribution of power as well as create the enabling environment for investment. Advisers are being selected by the Bureau for Public Enterprises to drive the privatisation of the relevant PHCN successor companies.

A Bulk Trader company has been incorporated to serve as a credit-worthy counterparty under power purchase agreements to give independent power producers (IPPs) the confidence to invest in generation capacity. Structures are being established by the Ministry of Finance and the Presidential Task Force on Power, with the assistance of the World Bank, to provide partial risk guarantees that provide credit enhancement to the Bulk Trader and foster the confidence that the IPPs require to raise the capital to build power generation capacity. A N500billion intervention fund for the power, manufacturing and aviation sectors has also been established to refinance loan facilities at single digit interest rates.

Beyond the power sector, this Administration continues to address other critical infrastructural needs. The Infrastructure Concession Regulatory Commission has led a National Economic Management Team Infrastructure Technical Working Group, composed of stakeholders in the public and private sectors, to produce a Roadmap for investment in the provision of critical infrastructure.

This Infrastructure Roadmap has identified over 50 priority projects that must be executed in order to boost productivity. Appropriate sources of funding for the projects have also been identified and while some are included in the budget, we will look to the private sector for the majority of the capital requirement. We will continue to focus on improving the business environment, and intervening, where appropriate, to promote and support our domestic firms.

We are working hard to increase the allocation of cheap and long-term credit to the real sector of the economy. I have already mentioned the intervention fund that has been established for the power, manufacturing and aviation sectors to finance single-digit interest rate loans. In addition, a US$500million facility will be available to support small and growing businesses. The rationale for these interventions has been the difficulty that the financial sector has had in lending to the real economy in the wake of the crisis in the financial system. Companies feel that they are being unfairly denied the credit they require to grow and that they are powerless to challenge this. This situation has to change. Given the support that the Government has given to the banking system in the time of crisis, our expectation is that there will be increased lending to the real sector.

The Government has begun to explore options for addressing the complaints of small businesses regarding access to credit. Special real sector funds are being coordinated by the Bank of Industry and other agencies to revitalise the manufacturing, textiles, aviation, power and entertainment sectors. These policies are already yielding results with the repositioning of industries such as textiles, thereby creating new jobs for our youths.

The Central Bank of Nigeria is working with the Ministry of Agriculture to create incentives for commercial lending to the agriculture sector, introduce insurance products and other measures to mitigate associated risks, and provide technical assistance to our farmers and the banks which support them.

Thirdly, the Government is implementing wide-ranging public financial management reforms to improve the quality and efficiency of spending; maximise, protect and diversify government revenues; and instil greater fiscal prudence in the management of the nation's financial resources. While recurrent expenditure has been on the rise, we are determined to address this issue through continued reform, efficiencies and holding down increases in spending overall.

To ensure that this trend does not result in the crowding out of the critical capital investments required to achieve our development goals, a high-powered Expenditure Review Committee was established to suggest practical measures to rationalise recurrent expenditure without compromising the quality of service delivery. This Committee has already submitted a preliminary report. We intend to faithfully implement the recommendations on the receipt of the final report. Meanwhile government has already introduced the Integrated Pay-roll and Personnel Information System in 16 MDAs and our efforts to date have ***saved over 12 billion*** naira in personnel costs. The system will be rolled out to the remaining MDAs before the end of the first quarter of 2011.

On the revenue side, the Government is accelerating the identification and resolution of revenue leakages through various interventions including: the strengthening of pre-shipment inspection for crude oil and gas; conducting audits of all revenue generating agencies including the Nigerian National Petroleum Corporation and agencies required to remit Internally Generated Revenue to the Treasury; and fast-tracking the implementation of key reforms by the Federal Inland Revenue Service and the Nigerian Customs Service.

To further ensure a predictable revenue profile where appropriate, measures will be introduced to improve risk management strategies to hedge against commodity price volatility. Through the establishment of the Nigerian Sovereign Wealth Fund, we intend to entrench greater prudence in the management of our exhaustible oil wealth for this, and future generations, as well as to use the Fund as a catalyst for attracting investment into critical infrastructure.

Finally, with the success of the Central Bank of Nigeria's interventions to protect depositors as well as address liquidity, inter-bank lending and corporate governance issues, stability has been restored to the financial sector. The Board of the Asset Management Corporation of Nigeria (AMCON) has now been inaugurated and the enabling law provides the requisite institutional framework for its operations. It is our expectation that AMCON's interventions, once underway, will accelerate the recapitalisation of the distressed banks through the valuation and purchase of eligible toxic financial assets, paving the way for restored confidence in our financial markets.

Other reforms are ongoing to strengthen corporate governance in the financial sector, and introduce risk-based banking supervision and examination of financial institutions. We see a more resilient and robust financial sector emerging from the recent banking crisis, better positioned to support real sector growth and employment creation. While it is understandable that during the crisis, banks have reduced lending in order to carefully manage their balance sheets, I would like to reiterate that we expect banks to accept their obligation to lend to the real sector in return for these support measures. Complementary measures are being implemented for the Nigerian Stock Exchange to deepen our capital markets and ensure wider participation of Nigerians in the growing prosperity of listed companies in key service sectors.

The 2011 Budget Proposal, which I hereby present, has been prepared against the backdrop of this improving economic environment and deepening reforms. However, it is useful, at this juncture, to review progress made with the implementation of the 2010 Budget.

REVIEW OF IMPLEMENTATION OF THE 2010 BUDGET

You will recall that we revised our 2010 expenditure plans through the Amendment Budget that this esteemed Assembly passed into law in August. Revenue performance improved during the year with oil revenue receipts recovering as a result of relatively higher oil prices and improving production. However, there have been some revenue shortfalls and delays encountered in realising financing items for the deficit, which this Administration is taking steps to address.

Regarding expenditure, recurrent releases are on track for personnel costs, overheads, statutory transfers and debt service charges. A total of N749.75billion had been cash-backed for capital expenditure as at the end of October through the first, second and third quarter capital releases. With the fourth quarter releases shortly to be implemented, a total of N900billion will have been released. This would compare favourably with any level of capital implementation ever achieved in a 12month fiscal year. While capital performance varies across the MDAs, the average capital utilisation is just under 50% as at the end of October.

However, there have been some improvements in capital utilisation over the course of the year, and we are committed to increasing the quality and efficiency of spending by placing greater emphasis on better budget implementation, procurement planning, service delivery and tracking the performance of MDAs in terms of deliverables.

In recent times, the Government has simplified the procurement process, decentralised aspects of procurement procedures to MDAs and introduced higher ministerial approval thresholds for capital projects and services. These measures are being complemented by the introduction of capital project management best practices, performance-based budgeting and other key public financial management reforms. It is expected that as these reforms gain traction, the executive capacity of the spending MDAs to implement the Budget will be considerably enhanced. I must however warn that government will not tolerate any abuse of these reforms on expenditure that does not guarantee value.

THE FIRST NATIONAL IMPLEMENTATION PLAN, THE MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF) & THE 2011 BUDGET

As I noted earlier, the 2011 Budget marks the commencement of the implementation of the First National Implementation Plan (NIP) under the Vision 20:2020 economic transformation blueprint. The First NIP focuses on laying the foundation for achieving the Vision and contains: medium-term strategic policy directions and development priorities; implementation strategies and expected deliverables; and detailed strategies for the Federal, State and Local Governments, as well as the private sector.

Accordingly, the proposed capital budgets of MDAs were harmonised with the Vision's First NIP during the Medium-Term Sector Strategies and subsequent Bilateral Discussions. The submissions of MDAs have been scrutinised to ensure that no projects that are inconsistent with the First NIP have been admitted into the 2011 Budget Proposal.

The estimates of revenue and expenditure contained in this Budget Proposal are also consistent with the 2011-2013 Medium-Term Expenditure Framework earlier approved by the Federal Executive Council and submitted to this Esteemed Assembly, in compliance with the *Fiscal Responsibility Act of 2007*.

THE 2011 APPROPRIATION AS A BUDGET OF FISCAL CONSOLIDATION, INCLUSIVE GROWTH & EMPLOYMENT CREATION

The purpose of the 2011 Appropriation, as a budget of fiscal consolidation, is to strengthen our macroeconomic environment, and to achieve enhanced employment generation and wealth creation. In my earlier remarks, I indicated the short, medium and long-term strategies this Administration is implementing to comprehensively tackle unemployment.

To achieve sustainable and inclusive real sector growth, we need to remain faithful to our development plans under the Vision 20:2020 framework to incrementally and effectively enhance the investment climate within which our industries and businesses can create jobs and wealth.

This Administration recognises the challenges posed by the huge infrastructure deficit. We intend to give greater focus to optimising capital expenditure to bridge the gap. In this Budget Proposal, great emphasis has been placed on the completion of ongoing projects to avoid spreading resources too thinly across multiple initiatives, and so reduce the incidence of abandoned and uncompleted projects.

The Government remains committed to accelerating the implementation of the Public-Private-Partnership policy. In this respect, some provision is being made for a Viability Gap Fund to kick-start the process and to encourage private sector participation. Other reforms, such as the Power Sector Road-map, are specifically designed to facilitate enhanced private sector investment in critical infrastructure, in line with the Vision's principles. Overhead costs have been rationalised.

Cost-saving measures implemented in the 2009 and 2010 fiscal years are being continued in 2011. Revenue leakages identified by the ongoing audits of revenue generating agencies will be sealed with decisive measures; where appropriate, sanctions will be applied to deter non-compliance with extant regulations regarding revenue collection and remittance.

While improving the quantum of our capital outlays is important, enhancing the quality and efficiency of public expenditure is more critical. We are in the process of engaging global project management firms to enhance capital project management and delivery. This will complement the Construction Sector Transparency Initiative governance structure which is being introduced to enhance transparency and accountability in the execution of capital projects.

Through the transition to performance-based budgeting, greater emphasis is being placed on tracking the tangible deliverables achieved by our MDAs in terms of measureable outputs and outcomes. The institutional framework has been enhanced by the deployment of the Government Integrated Financial Management Information System and revised Chart of Accounts.

These reforms will enable more qualitative performance information to be generated through the national Monitoring and Evaluation Framework. By shifting away from budgeting for inputs, to budgeting for outputs and outcomes, performance-based budgeting will allow MDAs greater latitude to manage for results, assume greater responsibility over expenditure, and to be held strictly accountable for outcomes. The better performing agencies are to be rewarded through various measures such as access to enhanced funding under the Viability Gap Fund, funded for the first time by the 2011 Budget.

Finally, as we move towards greater fiscal consolidation, I reiterate the commitment of this Administration to reinstating fiscal prudence in the management of our financial resources.

At the heart of these efforts is our initiative to establish and institutionalise a Sovereign Wealth Fund to reduce our vulnerability to external oil price shocks, ensure intergenerational equity in the management of our finite oil wealth endowments, invest in critical infrastructure, and attract additional local and international investment. This Administration proposes to establish a Nigerian Sovereign Investment Authority (NSIA) to manage a Nigerian Infrastructure Fund, a Future Generations Fund and a Stabilisation Fund, to achieve these objectives.

These proposals are at a very advanced stage after the successful completion of consultations with the Federal Executive Council and the National Economic Council. Now that these consultations are complete, we have submitted a bill to establish the NSIA to this Distinguished and Honourable Assembly for your kind consideration.

MACROECONOMIC ASSUMPTIONS UNDERPINNING THE 2011 BUDGET

The 2011 Budget is predicated on certain assumptions reflecting the outlook for the incoming fiscal year, and our expectations for improvements in domestic oil production, stability in the international oil markets and sustained economic growth. These include:

- Oil production of 2.3million barrels per day
- Benchmark oil price of US$65/barrel
- Exchange rate of NGN150/US$
- Joint Venture cash calls of US$5.4billion
- Projected GDP growth rate of 7%

PROJECTED REVENUE & EXPENDITURE

Following from these assumptions and the operation of the revenue sharing formula, the total revenue for the Federal Government's Budget is forecast at N2,836.43billion. The rise in expenditure in 2010 was a result of the exceptional outlays to meet wage increases granted to civil servants, as well as some other exceptional items such as the INEC voters' registration exercise. The implications of the increased recurrent vote for the deficit, have informed the Government's policy of gradual fiscal consolidation, commencing in the 2011 fiscal year.

Accordingly, there is a deliberate reduction in budgeted expenditure from the N5,159.66billion approved in the 2010 Amendment and Supplementary Budgets. Aggregate expenditure for 2011 is projected at N4,226.19billion, comprising N196.12billion for Statutory Transfers, N542.38billion for Debt Service, N2,481.71billion for Recurrent (Non-Debt) Expenditure and N1,005.99billion for Capital Expenditure. This represents a 18.1% contraction from the N5,159.66billion appropriated by the 2010 Amendment and Supplementary Budgets.

However, the N1,005.99billion voted for capital expenditure compares favourably with the N919.5billion actually utilised in the extended 15 months of the 2009 fiscal year, which is the largest amount of capital resources utilised by our MDAs in any fiscal year to date.

FISCAL BALANCE

Our expenditure plans indicate that the 2011 fiscal balance will be a projected deficit of 3.62% of GDP. New spending obligations such as the recent public service wage increases have contributed to the size of the deficit. However, Government is mindful of the need to respect the deficit threshold recommended by the *Fiscal Responsibility Act*, hence our policy of gradual fiscal consolidation to bring the deficit within the limits prescribed by our fiscal rules. This fiscal contraction also reduces our reliance on domestic debt to finance the deficit. Going forward, we intend to maintain prudence through further fiscal consolidation and expenditure prioritisation.

We are confident that our policies will accelerate economic recovery, fast-track the completion of on-going priority projects, and lay a firm foundation for the enhanced private-sector led growth required to achieve our development objectives.

MONETARY POLICY & BANKING REGULATION

In order to support sustained economic growth with job creation, monetary policy going forward will focus on the provision of adequate credit at moderate interest rates. Greater attention will be placed on ensuring the provision of appropriate incentives for banks to lend to the real sector, in addition to existing interventions to provide long-term funding at affordable rates of interest to critical priority sectors. Emphasis will be placed on the management of liquidity in order to ensure low inflation and sustain the exchange rate stability experienced in recent times. Current efforts at stabilising the banking sector and restoring public confidence in the financial system will be sustained.

Ongoing reforms will be vigorously pursued to usher in a new banking regime that will feature commercial, merchant and specialised banks that will be expected to enhance the funding of productive activities. Finally, as AMCON accelerates its operations, inter-bank funding costs are expected to decline, providing better prospects for our banks to attract longer-term financing from a broader range of sources, both domestic and international.

CONCLUSION: THE NEED FOR DIALOGUE, DETERMINATION & DISCIPLINE

Mr. Senate President, Mr. Speaker, Distinguished Senators, Honourable Members of the House of Representatives: as evidenced by our strong economic growth in recent times, our nation has proven resilient to the international financial meltdown and global economic downturn. However, we face formidable challenges ahead in charting a course towards the achievement of our developmental objectives outlined in the Nigeria Vision 20:2020 economic transformation blueprint. Indeed, some of the fiscal, monetary and other risks that we must mitigate and resolve are already becoming more apparent.

We aspire for the inclusive growth that will create gainful employment for our teeming youths. We seek to restructure our economy by reducing our dependence on exhaustible oil rents and so further accelerate the growth of our non-oil sectors. We desire to emerge as one of the top 20 world economies by the year 2020. The rewards of achieving our developmental goals are priceless: positive and lasting socio-economic transformation for this generation and a firm, indomitable foundation for the enduring prosperity of future generations.

These gains, however, must be earned before they can be enjoyed. We must prepare to manage the risks and overcome any attendant adversity that we may meet on our way as we strive to achieve our national Vision. As a nation and a people, we need to make hard choices and difficult decisions about how best to attain our development goals. Accordingly, as I lay this 2011 Appropriation Proposal before you, which heralds a period of fiscal consolidation and prudence, I appeal to us all to be determined and disciplined: from the Executive, Judicial and Legislative arms of government, from our Civil Service; from our colleagues in the other tiers of Government; from the industrious private sector; from the vibrant media and civil society; and from all our people. We must all be committed in following through with the difficult but balanced choices that we have made in preparing this budget.

I encourage us to dialogue on the challenges that face us as a nation: openly, frankly and in good faith. Let us consider dispassionately the various policy options and alternative paths that may lead towards our desired objectives. Let us collectively decide on the course that will swiftly propel us to the attainment of our shared goals.

Let us resolve to faithfully demonstrate the determination and discipline we need to complete our journey of national transformation. And let us be mindful of the needs, hopes and aspirations of all our people, especially those who are most vulnerable amongst us.

I wish to appreciate the contribution and cooperation of the Legislature in discharging our collective responsibility for budget preparation, monitoring and implementation. As always, the National Assembly remains an invaluable partner in this undertaking, and I note, with thanks, the patriotism, commitment and support that your Distinguished and Honourable Members have consistently demonstrated. I thank you in advance for an expeditious passage, and foresee even more fruitful collaboration as we strive to guarantee positive socio-economic transformation for the benefit of all Nigerians.

As I commend this Budget to this Distinguished and Honourable Assembly, I am indeed grateful for your kind attention.

May God bless the Federal Republic of Nigeria.