

**WELCOME ADDRESS AT THE POLICY SEMINAR
ON THE 2004 FEDERAL GOVERNMENT BUDGET
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Honourable Minister of Finance,
Economic Adviser to the President,
Deputy Governors, Central Bank of Nigeria,
Director-General, NCEMA,
President, Nigerian Economic Society,
Chief Executives of Banks and Members of the
Organized Private Sector,
Heads of Parastatals,
Invited Guests,
Distinguished Ladies and Gentlemen.

It is my honour and privilege to welcome you all to this year's Policy Seminar on the 2004 Federal Government Budget, jointly organized by the Central Bank of Nigeria (CBN), the National Centre for Economic Management and Administration (NCEMA) and the Nigerian Economic Society (NES). This seminar is the ninth in the series of the inter-agency collaborative effort, aimed at providing a forum for major stakeholders in the economy to critically analyse and evaluate the adequacy or otherwise of government policies and their effectiveness.

Objectives of the Seminar

2. The purpose of today's seminar, is to review last year's budget, in terms of its stated objectives and accomplishments. In that context, it will also examine the current year's budget in terms of the stated goals and the prospects of their achievements, with a view to coming up with acceptable proposals for effective implementation of the budget in a manner, not only to achieve optimum results, but also inform and guide expectations.

3. To do justice to this task we have assembled relevant experts and I have no doubt in my mind that they will deliver high quality products.

Overview of Developments in 2003

4. The overall performance of the economy in 2003 was mixed. Available data from the Federal Office of Statistics (FOS) revealed that the economy showed a strong growth performance during the year. The real gross domestic product (GDP), measured at 1990 constant prices, grew by an impressive 10.2 per cent, compared with the 3.5 per cent achieved in 2002. Both the oil and non-oil sectors contributed to the improved performance. Specifically, oil production, including condensates, grew by 23.9 per cent over the level a year earlier, while aggregate non-oil output rose by 4.5 per cent. The agricultural sector contributed substantially to the growth in non-oil GDP. Influenced by improved capacity utilization, and policy environment, the manufacturing sector also recorded a modest recovery.

5. The domestic inflation remained generally subdued during the first three quarters of 2003. This welcome development was, however, reversed in the last quarter of the year, culminating in the acceleration of the inflation rate to 14.0 per cent by December 2003, as against the single digit rate targeted and the 12.9 per cent recorded in 2002. The resurgence of inflation was attributable, largely to the excessive growth of aggregate demand, reinforced by the unintended impact of the deregulation of the downstream sector of the petroleum industry.

6. The pressure on the external sector of the economy moderated considerably in 2003 as the overall balance of payments deficit narrowed from US\$4.7 billion (~~N~~565.35 billion) or 10.3 per cent of GDP in 2002 to US\$1.3 billion (~~N~~162.84 billion) or 2.2 per cent of GDP. The demand pressure in the foreign exchange market, however, intensified during the last quarter of the year, resulting in the depreciation of the naira exchange rate against the US dollar. Thus, the relative exchange rate stability that characterized the first three quarters of the year was reversed.

7. The problems of liquidity overhang in the banking system and depreciation of the naira posed serious challenges for monetary policy during the year. Notably, there was accelerated growth in monetary aggregates. Specifically, the broad measure of money supply (M_2) increased by 24.1 per cent which substantially exceeded the programmed target of 15.0 per cent for the year. To further enhance the effectiveness of monetary policy, the CBN increased the frequency of the open market operations (OMO) from bi-weekly to daily basis in November, 2003.

8. The moderation in interest rates movements was sustained in 2003, as banks' deposit rates rose only marginally, while lending rates declined. This followed the downward adjustment in the minimum rediscount rate (MRR) by 150 basis points from 16.5 to 15.0 per cent, as well as the moral suasion by the CBN urging banks to reduce their lending rates to stimulate output growth. However, the structure of the banking system remained largely oligopolistic and continued to explain the wide spread between bank deposit and lending rates.

Budget 2004 – Policy Focus and Strategy

9. Honourable Minister, Distinguished Ladies and Gentlemen, the 2004 budget represents a good starting point for the implementation of our home grown medium-term economic reform agenda, which has been commended and supported by the international community, especially the Breton Woods Institutions. The programme, National Economic Empowerment and Development Strategy (NEEDS) aims at re-invigorating the Nigerian economy in order to return it to the path of sustainable growth, development and poverty reduction. The major assumptions underlying this year's budget include targeting real GDP growth rate of 5 per cent, containment of the inflation rate to between 10 and 11 per cent and exchange rate of ₦136.00 to the US dollar. The task facing participants at this seminar is to determine the extent to which the 2004 budgetary policies could help to achieve the set objectives. The CBN is encouraged that revenue projection is based on U.S. \$25.00 per barrel, and the fact that the Federal Government deficit level would be considerably reduced to ₦181 billion or 2.1 per cent of GDP. More importantly, there will be no recourse to Central Bank financing. Our tentative assessment,

therefore, is that the fiscal objectives outlined are achievable, if necessary financial discipline could be exercised by the three tiers of government.

10. However, recognizing the good prospect of continued strong oil sector performance and enhanced revenue flow, the risks to revert to the old habit of spending all excess crude oil receipts is high but must be resisted. In this regard, the mechanism for sterilizing excess proceeds from crude oil exports should be put in place and faithfully implemented. This would help the CBN to meet its monetary and credit targets and obviate the need for monetary tightening and a hike in interest rates.

11. Consistent with the objectives of achieving price and exchange rate stability, the CBN will in fiscal 2004, sustain efforts aimed at containing the growth in monetary aggregates at levels consistent with the GDP growth and inflation targets. Against the backdrop of the need to curtail the persistent liquidity overhang in the banking system and high demand pressure in the foreign exchange market, the stance of monetary policy in 2004 would be non-accommodating. Moreover, the coordination and harmonization of monetary and fiscal policies will be given top priority.

12. The conduct of monetary policy will continue to rely on market-based techniques, with OMO as the primary instrument of liquidity management. It would be supported by cash reserve requirements and discount window operations to enhance its effectiveness. Interest rates will also continue to be market-determined, while the CBN's minimum rediscount rate (MRR) will be adjusted as the need arises to indicate the desired direction and level of interest rate changes.

13. Let me re-emphasize that the challenge facing the monetary authorities in ensuring macroeconomic stability in 2004 is daunting, given the continued liquidity overhang in the banking system and the risk of excessive injection of liquidity into the system arising from the monetization of crude oil receipts by the three tiers of Government. In this regard, we urge that the excess crude oil receipts over the budget benchmark of \$25 per barrel be saved for future use. This

important element of the fiscal rule should be observed in the national interest.

Challenges Facing This Seminar

14. I will like to emphasize that this years budget provides two major challenges:

(i) Being the first Federal Government Budget prepared in the context of the NEEDS – a credible initiative that has been lauded by the international community, the first challenge is commitment to policy. It is generally believed that Nigeria is not lacking in good ideas and policies, our problem has always been that of 'IMPLEMENTATION'.

(ii) The budget is coming at a time when the price of oil which constitute the predominant proportion of both our foreign exchange earnings and also the Government revenue, is at its highest. There is therefore the temptation to throw the maximum amount of money at the problem in the hope that that will provide the needed solution – by embarking on expansionary budget not just at the initial design stage but through subsequent supplementary budgets for items not initially included in the budget.

15. This seminar should therefore endeavour to examine the implications and come up with appropriate recommendations on how to manage this windfall prudently, in a manner to achieve our high growth objectives in a sustainable manner, without necessarily inflating the economy. In other words, the monetisation of oil proceeds should take into account the absorptive capacity of the economy. You will all admit that the productive base of Nigeria's economy is currently low. In this regard, conscious efforts should be made to ensure the efficient utilization of resources to enhance the productive base of the economy. This would require spending to upgrade and expand basic infrastructure such as electricity, water, roads and security, which unfortunately cannot be realized overnight no matter how much money is available. It takes time to build a power generating plant or a refinery.

16. The 2004 Budget is well designed to achieve growth and macroeconomic stability and is capable of achieving these goals if well implemented, and if we shun the temptation to embark on supplementary budget to cover expenditure not initially included in the budget. Government should, therefore, be committed to its resolve to keep windfalls from excess crude proceeds not just to save for rainy day but also to ensure that government expenditure is maintained at a sustainable level and consistent with the absorptive capacity of the economy. We are all aware of the destabilizing effect of fiscal surprises on domestic prices and exchange rate movement. The inflation rate in Nigeria today is rising to an unacceptable level that will soon lead to interest rates hike. There is a limit to what monetary policy can do in an economy like ours where there is fiscal dominance and Government revenue is derived from expansionary sources, not influenced by the productivity and employment generation base in the economy.

17. One question, which this seminar should therefore attempt to answer are:

(i) whether taking account of the low absorptive capacity of the economy, the substantial increases in the budgetary expenditure level of the Federal Government, including the lower tiers of government is expedient and sustainable or

(ii) whether the expenditure has infact been properly directed to the areas of most critical need of growth in the economy, and

(iii) how can government optimize the positive impact of the windfall oil earnings to meet the high expectations of the citizenry and at the same time meet the objectives of NEEDS to ensure macro-economic stability, characterized by low inflation rate and low interest rate regime to jumpstart and diversify the productive base of the economy?

19. Let me conclude by saying that these are the most challenging times and, as such, a lot is expected from this seminar.

20. I wish you successful deliberations and welcome you to the workshop.

21. I thank you for your kind attention.

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