FEDERAL REPUBLIC OF NIGERIA

OVERVIEW OF THE 2015 BUDGET PROPOSAL

"A Transition Budget"

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PROTOCOL

1. I am pleased to welcome you all to this public presentation of the proposed Federal Government Budget for 2015. As I present the fourth budget of this Administration which is the last before the general elections, I can say with confidence that significant achievements have been recorded by the federal government to deliver on its commitments. Let me first express my profound appreciation to H.E President Goodluck Ebele Jonathan whose leadership and commitment have made economic achievements possible. Let me also thank H.E Vice President Namadi Sambo whose guidance on numerous issues have been most impactful. Most of all my colleagues in the Economic Management Team have worked so hard to make our achievements visible.

2. I would also like to acknowledge the efforts of the Leadership of the National Assembly and its relevant committees for their contributions to the budget process. Over the 2011 – 2014 period, the Federal Government Budgets faced some difficulties before their eventual finalization. Both the Executive and the Legislature have taken the necessary lessons from this, and we have thus far, seen smoother collaboration on the preparation of the 2015 Budget. I thank the leadership and membership of the National Assembly for this cooperation.

3. Let me also thank the Members of the Federal Executive Council and particularly my fellow honourable Ministers for their understanding, especially with the challenge of having to draw up their budgets within limited resources imposed by our fiscal restructuring exigencies. I would also like to acknowledge the efforts of all other stakeholders including the press, the organized private sector, civil society organizations and especially the staff of the Budget Office of the Federation and the Ministry of Finance for their contributions and hard work in preparing the Budget.

4. Finally, I want to thank the Nigerian public. As I move around the country, I have never felt so much sympathy, respect, and support as I have felt from members of the Nigerian Public. Thank you for understanding that

these are challenging times, thank you for understanding that my team and I are doing our best to keep the economy on a steady course. Truly, the Budget is our collective statement – a product of many constructive contributions - which has enabled us to prepare the Budget under the very difficult circumstances the nation is going through.

5. Ladies and Gentlemen, before I go further, I will like to say a few words on the 2014 budget and its implementation.

REVIEW OF THE 2014 BUDGET IMPLEMENTATION

6. We are approaching the end of a particularly difficult fiscal year that brought us quite a few obstacles as we moved ahead on the chosen path of fiscal consolidation and inclusive economic growth.

7. There have been challenges to the realization of the 2014 Budget revenue projections. For a number of reasons chief among which is oil pipeline vandalism and the resulting "shut-ins", we faced a quantity shock in the sense that the quantity of oil produced averaged about 2.2 million bpd in the first 3 quarters of 2014 according to NBS data, falling short of the 2.38 million bpd projected in the Budget. The effects of this quantity shock is further compounded by the more recent price shock, with prices crashing from a peak of about $114 pb earlier in June, to around $58 pb now, which is below the Budget benchmark price of $77.5 pb for this year. As a result, revenues will fall short of the Budget targets of N3.73 trillion. As at the end of October, total revenues were about N2.72 trillion, so we won't know the extent of the shortfall until government closes its books at the end of the year.

8. But in spite of this challenge, we have managed to keep the country running. Recurrent Expenditure is being paid and government is running. We are aware of some MDAs, e.g. Education, where salary payments are delayed due to glitches in IPPIS. This is being rectified and all will be paid this December. Capital expenditure however has suffered. We could not

cashback N100 billion of 3rd quarter capital and have not been able to release 4th quarter capital. Nevertheless, we have managed to keep most of our priority projects going with the support of SURE-P resources. Of the N1.12 trillion in the Budget, the sum of N610 billion has been released (as at the end of October) with N465 billion of this amount only fully cash-backed. About 83.5 percent of the amount cash-backed had been utilized by MDAs as at the end of October.

9. The implementation of the SURE-P Budget improved in 2014. We voted a sum of N268.37 billion for various social safety net programmes and infrastructure projects. So far, N208.3 billion or a very robust 78% of this amount has been spent on various job creation initiatives and infrastructure projects. The SURE-P programme continues to support Social Safety Net programmes like *Save One Million Lives* which has saved over 631,250 lives by giving renewed priority to health interventions including nutrition, prevention of mother to child transmission of HIV, malaria control, and routine immunization.

10. Job creation efforts under SURE-P are doing well with the Graduate Internship Scheme (GIS) hiring and deploying 13,339 graduates so far and the Community Services, Women and Youth Employment (CSWYE) creating nearly 120,000 jobs for youth with a minimum of 3,000 in each state and the FCT. Several infrastructure projects across the country – such as the Lagos-Kano railway, the Abuja-Lokoja road, and the rehabilitation of the Benin-Ore-Shagamu road – were completed or advanced through SURE-P resources. The Ministry of Finance continues to publish the SURE-P savings in the newspapers every month to ensure transparency, and I assure you that our savings from fuel subsidy removal have been put to good use for the benefit of all Nigerians.

11. Ladies and Gentlemen, let me now turn to the 2015 Budget and take a few moments to provide some context.

GLOBAL ECONOMIC DEVELOPMENTS

12. Today, as you all may know, the global economic environment is fraught with uncertainties. We observe weaker-than-expected growth in major economies. Economies like those of the US and the UK are doing slightly better than others with projected GDP growth slightly above 2 percent in 2014 and 2015. Whereas, other economies like Japan, where "Abenomics" is under trial following two straight quarters of economic contraction, and the Eurozone are expected to record less than 2 percent growth rates in 2014 and 2015, according to the IMF.

13. Not immune to trends in the advanced economies, emerging economies like the "BRICS" which sustained global growth in recent years are now experiencing a slowdown. China, which has been growing at better than 9 percent annually is now expected to grow at 7.4 percent in 2014 and 7.1 percent in 2015. Russia and Brazil are facing stagnation with growth expected at only 0.2 percent and 0.3 percent respectively in 2014, and 0.5 and 1.4 percent respectively in 2015, but India's projected growth will average a decent 6 percent over the next two years.

14. Overall, the IMF in October 2014, revised downwards its projection on global growth to 3.3% and 3.8% for 2014 and 2015. So, Ladies and Gentlemen, the message I want to pass across here is that the world economy is not in good shape over the short to medium term. On the back of this weak global growth performance comes the recent steep drop and incredible volatility in the price of oil – a phenomenon that impacts us greatly. This steep price decline, of about 49 percent so far this year, has come as a result of weak demand from our biggest markets and a supply glut that involves the arrival of new oil producers in Africa and increased exploitation of shale oil and gas in the U.S.

15. Our economy, which is quite integrated into the global economic system, is much affected by these lower prices and weak demand. Our markets have shifted. The US no longer imports our oil since it has its own. India and

China are now amongst our biggest markets. In particular, demand for our crude oil which according to the National Bureau of Statistics made up 71.8 percent of total exports in the first 3 quarters of 2014, is expected to slow down on the back of the economic outturns in the BRICS countries (especially Brazil, India and South Africa) and the Eurozone (particularly Spain, the Netherlands, and France). These two blocs of countries account for at least 25.8 percent and 25.3 percent of our crude oil exports respectively, based on the NBS Quarter 3 figures.

16. But the fall in oil prices is not happening for the first time. We experienced it in the 1980s when prices fell to $8 per barrel and the economy fell into recession with GDP contracting by at least 8 percent in 1986 and 1987, and we had to turn to international financial institutions for budget support. We also experienced a price shock in 1998 when oil prices fell below $10 per barrel, and our economy was yet again gripped by stagnation with growth of 0.47 percent in 1999 according to World Bank data. These were very difficult times and we were losing as much as 3 percent growth in GDP as a result of oil price volatility. Many people will also recall that salaries could not be paid for many months on end during these periods.

17. We however learnt a few lessons, which was why in 2003/04 we created the Oil-based Fiscal Rule otherwise known as the benchmark budget price and the Excess Crude Account into which we saved the difference between the market price of oil and the budget benchmark. As a result, we were able to build up the account to around $22 billion by 2008. So when the crisis hit in 2008, we were able to get out of it by drawing on the savings in the ECA. But as soon as we got out of that 2008/09 crisis, our memories faded and we forgot the lessons of the hard times. Arguments that we should have a higher benchmark and spend now because rainy days are here were raised. Constitutional issues against the ECA were also raised, all conspired to stop us from saving as much as we should have.

18. Understandably, people are scared now and a lot of criticism is flying around. We welcome the constructive criticism that some observers and

commentators like Mr. Bismarck Rewane, Dr. Ayo Teriba and Prof. Akin Iwayemi have brought to the table. But we should beware of some armchair critics whose analyses are not only bogus but are not founded on facts. When we proposed reasonable budget benchmarks that will allow savings, many of these same critics criticized government saying it was ridiculous to save for a rainy day when it is raining and there are many needs.

19. As I continue to emphasize, we in the Economic Management Team have been very clear to the country on the implications of oil price and quantity shocks. We were therefore not taken unawares when oil prices came tumbling down for the second time in six years! Let me read to you an excerpt from a Channels Television interview in 2013, where I argued that an "$80 benchmark price will hurt our economy". These were my words:

"… in our view, current global oil prices are not sustainable. There are two reasons for this: (a) possible reduction in global oil demand… (b) Increased global oil supply as new discoveries in Africa and elsewhere come on stream".

20. Now several of these critics are coming to ask why there are no savings in the ECA, why we need to tighten our belts now. They criticized saving now they wonder why we didn't save. They criticized borrowing and now they want us to rush out and borrow. They want us to depend on others for solutions rather than on ourselves. I say Nigeria has outgrown this and, against all odds, we still had $4 billion in the Excess Crude Account as a buffer. It is far from enough since we have already used $1 billion to pay oil marketers but it can help us manage our way for a couple of months, enough for short- to-medium term measures typically used to deal with this kind of situation to kick in. By the way, two papers today, Guardian, Nation & Premium Times, say $1 billion is missing from the ECA. It is a lie. We used it to pay oil marketers and published the same in the papers on December, 2, 2014. So many lies and misinformation are being peddled now to scare people and smear the government. Please beware. Yes, times will be tough but if we work together we will weather the storm. Ladies and Gentlemen, what we need to tell ourselves is that "**Panic is not a**

strategy". What is necessary is a systematic and focused approach and that is what we propose to Nigeria.

21. We should see these challenging times as times of opportunities to further move this economy on the right path. Luckily, this Administration had taken to diversification seriously and began to make inroads prior to this time. The Non-Oil Sector, whose growth has averaged about 8 percent in the last few years is the primary driver of growth in the economy unlike the Oil Sector which is actually contracting.

22. Other evidence of this diversification can be seen in the Agriculture sector, where Food Imports declined from N 1.1 trillion ($6.7 billion) in 2009 to N 684 billion ($4.35 billion) in 2013 and continues to decline, according to the National Bureau of Statistics. NBS data on consumer price index for the month of November 2014 also shows that inflation eased for the third consecutive month from 8.1% to 7.9%, as a result of slower rise in food prices. So the efforts of government to boost food production all across the country are paying off.

23. This year alone, we added 12 million MT of food to our domestic food supply according to Ministry of Agriculture data. These include maize: 6.13 million MT; rice: 3.25 million MT; cassava: 2.12 million MT, amongst others. Despite the naira devaluation, there has been a very marginal increase in food prices due to increased food harvests. Nigerians are not paying more for food despite the devaluation, because agriculture is working. Commodity prices monitored and published by the NOVUS Agro Nigeria Commodity Index buttress this assertion.

24. For example, the wholesale price for beans in Bodija market Ibadan was 18,500 (100kg) on October 10th 2014 and did not change by December 15th. In Dawanu market in Kano, the wholesale price for maize (white) (100kg) was 5,500 in October 10th and this declined to 4,933 by December 15th. In Mile 12 market in Lagos, the wholesale price for gari (white) (60 kg) was 5,500 in October 10th and increased slightly to 5,643 by December 15th. In

Ogbete market in Enugu, the wholesale price for beans, gari (white) and sorghum did not change between October 10th and December 15th, but the wholesale price of gari (white) (100 kg) declined from 6,800 to 3,800. So the prices of foodstuff have remained relatively stable. Even as of this morning, checks in various locations such as the Ugah and Achina markets in Anambra State, and the Central and Station markets in Kaduna showed relative stability in prices.

25. **C**apacity Utilization in the Manufacturing sector is now up to 54 percent, from around 46 percent in the first half of 2013. The sector is one of the fastest growing in the economy, recording about 15 percent real growth in the first three quarters of 2014. The Information and Communications Sector is also doing well. Recent data from the NBS shows that the sector, which has recorded double digit growth rates every quarter of this year with the latest being a 17.66 percent growth in the 3rd quarter, now accounts for nearly 10 percent of the economy.

26. In general, our recent GDP rebasing exercise shows evidence of a more diversified economy as the services sector now accounts for about 51 percent of the GDP against 26 percent before, while Agriculture and Industry (including the Oil and Gas Sector) which accounted for about 33 percent and 41 percent of GDP under the previous base now account for about 26 percent and 24 percent respectively under the new GDP. It must be said also that this government's diversification efforts also generated 1.2 million jobs in 2013 out of the 1.8 million new jobs needed each year. In 2014, we have so far generated about 500,000 jobs in the first half of the year.

THE 2015 BUDGET – ***A Transition Budget & Hope***

27. So while in these uncertain times, Government will continue to take necessary steps to manage our domestic economy prudently, we now have to change gears and move to the next level. What we need is to continue the

push to deepen diversification in 2015, 2016, and 2017. Our economy and society must transit not only in its development focus, but also, its financing sources, spending priorities, as well as in wealth distribution. To this end, this Budget 2015 themed a "Transition Budget & Hope" will introduce a number of measures necessary to guide us through a difficult 2015 year and move us to deepen our efforts at becoming a non-oil economy, as well as tackling income inequality in our society.

The 2015 Budget Parameters

28. Now let me move on to the 2015 budget parameters. It has been a difficult time to put together the 2015 Budget which has come this late as a result of the developments we spoke about earlier in the international oil market. The 2015-2017 MTEF was prepared and transmitted to the National Assembly (NASS) early in September 2014 and we were gearing to have the 2015 Budget presented to the NASS in October. But shortly after transmitting the MTEF, oil prices began to fall precipitously, threatening the benchmark oil price of $78pb proposed. This necessitated further engagements with the NASS and the benchmark was revised to $73pb. But then, oil prices continued to fall leading to further revisions to $65pb. These necessary changes in the MTEF since September are responsible for the late presentation of the 2015 Budget.

29. The scenario of rapidly declining oil prices is playing out. Nigeria cannot control the price of oil, but we can control our response to it. This is what we have done by proposing a benchmark of $65pb. We recognize that prices might still fall further but we do not intend to revise the price further down as price intelligence indicates that prices might average between $65 and $70pb in 2015. This is however not an ironclad guarantee. So if prices fall outside this range, Government would have to introduce further measures.

30. In the light of the foregoing therefore, we have decided to work with the following estimates, which will result in a tighter and more challenging budget with the following parameters:

- Oil production remains at 2.2782 million barrels per day;
- Benchmark oil price of $65/barrel;
- GDP growth rate projected at 5.5%;
- An exchange rate of N165 to the US Dollar;
- Non-oil revenue (including non-Federation account) of N1,684.63 billion;
- Fiscal Deficit of N755 billion (or 0.79 percent of GDP); and
- Domestic Borrowing of N570 billion down from N571.9 billion in 2014

31. Now, the $65pb represents a $13 drop per barrel from the $78pb (i.e., about N142 billion of FGN budget revenue) originally proposed to the National Assembly. To partly make up for this, we have taken steps in this Budget to introduce some short-to-medium term revenue and expenditure measures. Most of these measures are designed to kick-in towards the beginning of second quarter 2015 and will considerably boost the ratio of non-Oil revenues to Oil revenues.

Revenue (*Non-Oil*) Measures

32. ***Independently Generated Revenues***: Over the last three years, Government has been working to increase its independently generated revenues (IGR) and has in fact, sustained an upward trajectory in IGR receipts. Actual receipts have continued to grow from about N182 billion in 2011 to N274 billion in 2013 and then, N328 billion as of October 2014. While this is encouraging, there are still leakages and incidences of non-remittance of requisite funds to Treasury by some agencies. Mr. President recently summoned a meeting with revenue generating agencies to address this

issue, and subsequently issued an unequivocal directive to all revenue agencies to ensure remittance of their obligations to Treasury. With this strong support, we are working with the Banks to ensure strict compliance, and so we have projected IGR receipts of N450 billion for 2015.

33.***Tax Revenues:*** In the short term, we are determined to improve tax revenues not by increasing tax rates as many have advised, but rather as a pro-people Administration, by first, strengthening our tax administration. We aim to plug leakages, increase the tax base and improve tax collection efficiency. In this respect, Messrs. McKinsey & Co. was engaged to work with the Federal Inland Revenue Service (FIRS) about a year ago, before the oil price drop, to enable FIRS improve on tax collection. I am pleased to inform you that so far this effort has already yielded additional non-Oil revenue of about N143 billion for Government in 2014. In 2015, we are ramping up the FIRS/McKinsey initiative to contribute an extra N160 billion in tax receipts and an aggregate of about N460 billion over and above the 2014 levels in the 2015-2017 period.

34.***Tax Waivers and exemptions:*** Analysis shows that about 30 percent of those that received tax waivers from government especially under the pioneer status scheme now abuse the system. As a short-term measure, Government has commenced a review of the implementation of **pioneer status exemptions** to which is expected to unlock up to N36 billion of additional tax revenues in 2015.

35.***Luxury Surcharges***:

- A 10% import surcharge would be imposed on new ***Private Jets*** which is estimated to yield about N3.7 billion in 2015; 39% import surcharge on ***luxury Yachts*** which is estimated to potentially raise N1.6 billion in 2015; and 5% import surcharge on ***luxury cars*** which is estimated to yield about N2.6 billion of additional revenues.

- A surcharge on Business and First Class Tickets on Airlines. No charge on Economy tickets
- Others are: the imposition of 3% luxury surcharge on ***champagnes, wines and spirits*** to generate about N2.3 billion in 2015; and a 1% ***FCT Mansion Tax*** on residential properties with value of N300 million and above which should yield additional N360 million for FCT. These surcharges would yield a total of about N10.56 billion in 2015.

36. In the medium term, it will be important to focus on Tax Policy to see where opportunities lie to streamline and rationalize certain taxes and levies whist looking to boost others. For example, Nigeria has one of the lowest VAT rates in the world and medium term efforts must involve the Legislature to see what opportunities exist with VAT which largely benefits States. Whilst State Governments get 85 percent of VAT, the Federal Government gets just 15 percent. A 5 percent increase in VAT rate for instance would yield N614 billion, most of which would go to the States and Local governments.

37. I believe that the discipline these new measures impose will go a long way to support the economy and provide Nigeria a responsible pathway to overcoming the limitations of falling oil revenues without disproportionately affecting the poor-to-middle class.

38. Based on these parameters, the 2015 Budget envisages a net federally collectible revenue of N6.9 trillion. Of this, a total of N3.6 trillion is envisaged to fund the FGN 2015 Budget, representing about 3.4% drop from N3.7 trillion for 2014 Budget. This is with more emphasis on non-oil revenue sources to partly compensate for the shortfall in actual oil revenue.

Expenditures Measures

39. Government is also contemplating short and medium-term measures in expenditure. These focus on cutting non-essential and non-developmental expenditures from the Budget. Some of these measures include:

40. ***Deploying IT Systems***: In the short term, our strategy to curb recurrent expenditure will increasingly rely on implementing the right technologies such as biometrics and digitizing government payments. It is pleasing to note that we have advanced the deployment of three electronic platforms – namely, the *Treasury Single Account* (TSA), the *Government Integrated Financial Management Information System* (GIFMIS) and the *Integrated Payroll and Personnel Information System* (IPPIS) – which are all geared towards improving efficiency and transparency in our public finances.

41. Just through the implementation of IPPIS alone, we have saved thus far about N185.4 billion and weeded out 60,450 ghost workers from 359 MDAs and we intend to save even more. We intend to ramp up the work on these platforms in 2015 to improve on our transparency, efficiency and efficiency objectives while saving the much needed resources for reinvestment to benefit all Nigerians.

42. In the short-term, we are instituting measures aimed at improving spending. This exercise which will save a total of N82.5 billion covering the following:

- ***Overhead expenditures***: We propose cuts to *International Travels and Training* by 50% for all MDAs saving about N14 billion, while other provisions for *Overhead expenditure* have been dropped completely - saving about N4 billion.
- ***Administrative Expenditures for Buildings, Equipment, Supplies, etc***: MDAs' provisions for the *procurement of administrative supplies and equipment will be* cut, saving about N5 billion; *procurement and upgrade of buildings* were similarly curtailed saving about N44 billion, while another

N76 billion is proposed for reallocation to more impactful programmes of Government in the security, health, and education sectors.

- We have also commenced partial implementation of the Government's *Whitepaper on the rationalization of Agencies* based on the Oronsaye Report. We have built in savings of about N6.5 billion in the 2015 Budget from the rationalization of some agencies, committees, and commissions. Nevertheless, medium term measures require greater efforts to cut the cost of governance across all tiers and branches of government. This requires support from the legislature to amend laws underpinning certain agencies. A list of such laws will be submitted to the National Assembly for consideration by the second quarter of 2015.

43. A fundamental restructuring of budgets is required at Federal and State levels if fiscal sustainability is to be achieved in the nation's economy going forward. The high ratio of recurrent to capital spending must be reversed going forward. We should aim for sustainable budgets with 60:40 recurrent to capital ratios going forward.

The Aggregate Budget

44. Based on the foregoing, the FGN 2015 Budget has an *Aggregate Budget Revenue* of N3.602 trillion made up of: oil revenue of N1.918 trillion and non-oil revenues of N1.684 trillion (implying a ratio of 53% oil revenues to 47% non-oil) to fund an *Aggregate Budget Expenditure* of N4.46 trillion (inclusive of SURE-P) proposed for 2015 Budget, which is about 8% less than in 2014 Appropriation. This expenditure figure is made up of N412 billion for Statutory Transfers, N943 billion for Debt Service, N2,616 billion for Recurrent (Non-Debt) and N634 billion for Capital Expenditure (inclusive of SURE-P).

Subsidy Reinvestment and Empowerment Programme (SURE-P)

45. A sum of N102.5 billion is earmarked as the SURE-P budget in 2015. This sum is made up of the Federal Government's share of N53 billion from the savings from the partial removal of subsidy on petrol, augmented by the estimated unspent balance of about N49.5 billion in 2014. I want to emphasize that the actual money for SURE-P in 2015 will depend on average actual market price in the year.

Expenditure ratios and focus

46. Including debt service and statutory transfers, aggregate recurrent expenditure amounts to N3.971 trillion or 85.8 percent of aggregate budget (inclusive of SURE-P). This leaves capital expenditure at 14.2 percent of the aggregate budget (inclusive of SURE-P). Because of this, Government has decided that certain expenditures must take priority and some MDAs may not get any allocation for capital projects. This is temporary but I must mention here that this capital budget of 14 percent will be augmented with external long-term concessional borrowing for infrastructure projects such as $100 million from the World Bank for Clean Energy Technology project; $800 million for the East-West Road from the African Development Bank and the Islamic Development Bank; and $4.8 billion for the Mambila Hydro Electric Power Project from China Exim Bank. The Chinese have also invited us to negotiate a credit of about $12 billion for the coastal rail project to be given in six tranches over a 6-year period.

47. In the overall capital budget, Government has focused expenditure on critical items that will unlock bottlenecks to growth and development. First and foremost is Infrastructure (including Works, FCTA, Transport, Power, etc.) gets 32.58% of the capital vote. Security gets 11.7%, Education gets 3.8%, and Healthcare gets 6.5%. It is important to recall that most Education and Healthcare expenditure are classified as recurrent. So total Education spending is N521.27 billion or 11.7 percent of the aggregate

Budget (inclusive of SURE-P) and Healthcare is N278.8 billion or 6.3 percent of the aggregate Budget. We are continuing to protect routine immunization for our children because this is *sine qua non* as we work to ensure provision of relevant antiretroviral drugs, eliminate mother to child HIV transmission, and commit resources to eliminating polio.

Fiscal Balance

48. In view of Government's commitment to fiscal prudence, we are following the downward trajectory with a fiscal deficit of N755 billion (or 0.79% of GDP) in 2015 down from N994 billion (or 1.24% of GDP) in the 2014 Budget. This deficit is well under the 3% of GDP encapsulated in the *Fiscal Responsibility Act, 2007*, which is also the international norm. Projected fiscal deficit in 2015 is 0.79% of GDP and it will remain under 1% of GDP in the medium-term. This 2015 deficit of N755 billion, is to be financed by domestic borrowing of N570 billion, and N255 billion from other sources such as the Stabilization Fund, signature bonuses, sale of government properties, and privatization proceeds.

Debt Management

49. Let me take some time to speak on our debt situation. As at the end of September 2014, Nigeria's overall public debt stock stood at $69.6 billion or about 13 percent of GDP. This debt stock is made up of external debt of $9.5 billion and domestic debt of $60.1 billion. The size of the domestic debt stock is a source for concerns but you may recall that this current level of debt is attributable to the explosion in domestic borrowing from N200 billion in 2007 to about N1.36 trillion in 2010 to finance the budget deficit resulting from an increase of about 53.7% in the wage bill in 2010 for all categories of federal employees. Since then, this Administration has been prudent with the issue of debt and borrowing.

50. We have focused on more long-term concessional debt financing to finance infrastructure such as power, rail, roads, and water. For the first time in our nation's history we even managed to retire N75 billion of domestic bonds in 2013. Our efforts have helped to drive down domestic borrowing from N852 billion in 2011 to N642 billion in 2014. Despite the present tough situation, we do not plan to go on a borrowing spree but instead further take down domestic borrowing to N570 billion in the 2015 Budget. We are conscious of the need to watch debt service to revenue ratio which is climbing – from 17% in 2011 to 19% in 2014 and 22% in 2015 budget. But our approach is prudent and will remain so.

Pensions

51. The other challenge we are faced with is that of pensions. Our retired personnel have been vehemently protesting against their unpaid entitlement. Even though we cannot yet accommodate the new statutory provision of 10% as a result of fiscal constraints, the Government in its traditional pro-people posture has stepped up to make provisions for the arrears, to the tune of N21 billion. So these ongoing fiscal adjustments will not weigh too much on our pensioners who have toiled hard for several years and deserve their entitlements.

Subsidy

52. Let me now turn to the issue of subsidies. Many Nigerians have, rightly, asked when the pump price of PMS will be reduced, given the declining price of oil. As you know, the relevant Agency of Government responsible for petroleum product pricing matters is the PPPRA. The information we have is that they are now updating their template based on recent developments and we hope they can address this issue soon. However, preliminary estimates show that the break-even crude oil price at which the

landed cost of PMS will equal our current pump price of N97 per litre so that there will no longer be subsidy is about US$60 pb.

53. It is only when crude oil price (Bonny Light) falls below this level that the pump price of PMS (which includes N15.49 per litre distribution and Petroleum Equalization Fund cost) can begin to come down. The break-even price of crude oil would have been higher were it not for the N15.49 per litre distribution margin. It should be noted that the oil price is extremely volatile, and we need to see the price settle at a particular level for sometime before taking a decision on what to do with the pump price. Otherwise, we would be reducing the price one day, and raising it the next. This issue will be discussed with stakeholders once the price volatility eases off.

54. So Ladies and Gentlemen, as we make adjustments to the Federal Government's Budget, efforts must also focus on policies that stimulate private sector activity in some key sectors of the economy to further unlock sustainable and inclusive growth. It is not only spending that counts but supportive government policies can unleash even more growth than direct spending. Therefore, I will like to dwell on certain sectors where supportive government policies and implementation in the 2015 Budget will promote further diversification, create jobs, and support the average and poor Nigerian.

Financing for the Housing Sector

55. For many years, the dream of home ownership has eluded many Nigerians primarily due to limited access to mortgages. In light of this, the Nigerian Mortgage Refinance Company was launched by Mr President in January this year to serve as a re-financing institution to provide our mortgage lending banks with increased access to liquidity and long-term funds so that many more Nigerians can access affordable mortgages repayable over 15 to 20 years. To kick-start this revolution, we launched the 10,000

Affordable Housing Mortgage Finance Scheme targeted at young working class Nigerians which is to be implemented in 2015 to the medium term. The call for 10,000 applications was 6 times oversubscribed and all 66,000 applications are currently being processed for mortgage loans with plans to support our young participating citizens to get housing in 2015.

56. NMRC is working with 18 state governments, starting with Lagos and the FCT, to review existing titling and property registration processes with a view to fast tracking these and reducing associated costs from an average of 16 percent of the value of purchased property to 3 percent – a large drop in processing costs. In 2015, we aim to expand to more states of the federation. This action in mortgage finance coupled with the Ministry of Housing push to construct thousands of affordable homes will lead to the creation of thousands of jobs.

Insurance Sector:

57. In these challenging times, financial services can boost job creation. Therefore, we are now working to seriously revitalize our insurance industry to ensure that it contributes to job creation especially for our young men and women. Our insurance industry has not achieved its full potential when compared to other emerging economies such as South Africa, Kenya, and Turkey. Today, only 3 million of our citizens are insurance policyholders, and overall insurance penetration is less than 0.5 percent of GDP. We would begin addressing the challenges that hold back this sector in order to attract investments and grow the industry.

58. The goal in the next three years, is to grow the total insurance premiums from N300 billion currently to N1 trillion, to increase the number of insurance policyholders from 3 million today to 10 million and finally, to increase the number of direct jobs created in this sector from 30,000 people today to 100,000. We will achieve these goals by increasing enforcement of compulsory insurance in the country, expanding innovative insurance products such as we have done with housing insurance under the NMRC,

investing in training skilled professionals for the sector, and re-building consumer trust in our insurance industry starting in 2015.

Manufacturing:

59. In 2015, we will continue with the implementation of the National Industrial Revolution Plan (NIRP) which is aimed at industrializing Nigeria and diversifying our economy into sectors such as agro-processing, light manufacturing, and petrochemicals. We will continue to support our private sector, particularly the SME sector, to enable them to perform and create jobs in spite of the economic challenges. To encourage the private sector, we have now recommenced honouring the Negotiable Duty Credit Certificate (NDCC) while we review and restructure the Export Expansion Grant (EEG) Scheme with a view to making it more sustainable.

Oil and Gas

60. In 2015, we will take work with the National Assembly to get the Petroleum Industry Bill passed into law, in order to drive further reforms in the sector Our commitment to powering the economy of Nigeria through gas remains unwavering. Consequently, we fully intend to implement gas industrialization projects which will enable gas-based industries and increase economic activities in the manufacturing sector of the Nigerian economy.

61. The Delta Gas & Petrochemical complex starting in 2015 will spark a revolution in gas in the country and emphasis will be further placed on gas to power initiatives. Through PPP initiatives, we plan to make available cooking gas at cheaper costs for the Nigeria public. Additionally, we will continue with the refinery rehabilitation programme to improve products yields and capacity utilization.

Agriculture

62. In 2015, policies to support agriculture will be major. To sustain Nigeria's ongoing transformation in the agricultural sector, we have planned further investments in the sector. In addition to a N50 billion Farm Mechanization Support Fund set up by the Central Bank to establish 1,200 agricultural equipment hiring enterprises, this Administration yesterday launched a $100 million Government and Donor Fund for Agricultural Financing in Nigeria (FAFIN) to provide long-term tailored financing for agribusinesses. Both funds would be fully operational in 2015 to support our small and medium scale farmers.

63. In addition, self-employment initiatives under the Youth Employment in Agriculture Programme (YEAP), called the "*Nagropreneurs programme*", as well as the Nigerian Schools Agricultural Programme (NSAP) have been launched. These schemes encourage our youth to go into large-scale agriculture as entrepreneurs and Government plans to develop over 750,000 young *Nagropreneurs* by the end of 2015.

64. We will also support the establishment of new agro-industrial clusters to complement the staple crop processing zones being developed across the country and scale up the E-wallet system with support from our donors. Working with the private sector, we will continue to improve market outreach, produce storage, and strengthen agricultural insurance.

Solid Minerals:

65. In 2015, the Solid Minerals sector will take off. A fiscal regime has now been completed for the sector, and a review of the mining landscape for artisanal and small-scale miners is also underway to improve their processes and contributions to the economy. The solid minerals sector is expected to begin substantiated contributions to the Federation Account in the medium term., starting with N14 billion incorporated as non-Oil revenues in the 2015 Budget.

Creative Industries

66. We are all aware of the enormous potential of our creative industry whether in music, film, fine art and craft, IT and software and so on. Today, Nollywood alone accounts for about 1.4% of our GDP and employs 200,000 people directly and nearly 1 million people indirectly. So, the potential is great. But I believe our Nollywood industry is capable of reaching even greater heights on the world stage. To support this sector, Government initiated the *Project Advancing Creativity and Technology* (PACT) Nollywood, which is a N3 billion grant programme for Nollywood. I am happy to report that through this initiative, we are co-financing over 90 film projects with grants, and have contributed to building the capacity of over 200 film industry practitioners and technicians. In 2015, we will accelerate the implementation of the programme with the remaining N2 billion focused on tackling intellectual property and distribution challenges faced in the industry.

Information and Communication Technology

67. In the ICT sector, we are on a clear path to creating an inclusive digital economy with a focus on our youth and women. In 2015, we would deepen the NaijaCloud Project launched in 2013 with the objective of creating digital job opportunities and reducing unemployment. We would train an additional 1000 unemployed youth in every state of the federation, and empower them with skills to use Microwork and e-Lancing platforms to improve their productivity. In addition to this, the Digital Girls Curriculum that was successfully piloted in 12 secondary schools across the nation will be reviewed and made available for girls in all secondary schools across the nation starting Q1 2015, to encourage our young women in ICT. To ensure the continued growth of the Nigerian ICT industry, in 2015 we would enhance on-going work in developing guidelines and policy documents to strengthen the sector.

Infrastructure Development

68.Infrastructure is a critical area of focus in the 2015 Budget.

- *Power:* Supply of power is key but still uneven. We recognize that in some parts of the country, the number of hours of available power is up while in others it is lower, with more interruptions. The key to unlocking more steady power supply is gas availability and pricing. Our current power generation capacity stands at about 7,000 MW, of which about 6,000MW is thermal. But fifty percent of this thermal capacity is currently unutilized as a result of gas supply constraints.
- To mitigate these constraints, a lot of effort was, in 2014, put into addressing the root causes of the problems. Some of these measures include increasing the price of domestic gas from $1.50 to $2.50 per million British Thermal Units (btu) with an additional allowance of up to $0.80 for gas transportation, leading to renewed commitment by gas suppliers to increase supply of gas to power by about 900 million standard cubic feet per day in 2015; and increased focus on gas pipeline security.
- In addition, the objective of diversifying our energy mix is being pursued with vigor in 2015. Construction activities at the 700MW Zungeru power plant are progressing and progress is being made towards the take off the 3050MW Mambilla power plant.
- *Roads:* For the roads sector, the 2015 Budget will enable considerable progress and indeed, completion of some major projects such as the East-West road, the dualization of the Abuja-Abaji-Lokoja road, the rehabilitation of the [Ayingba-Otukpo road], and the dualization of the Kano-Maiduguri road. We will also increase the pace of work on important roads such as the Enugu-Port Harcourt expressway, the Lagos-Ibadan expressway, and the second Niger Bridge. The latter two are being constructed under PPPs led by the Infrastructure Bank and the NSIA. Our plan is to encourage more PPPs in the medium term.

- *Aviation:* In 2015, we will continue to invest in upgrading our air navigational and security systems to maintain safety in our skies. We will also complete work on the remodeling of the remaining airport terminals across the country, and accelerate construction work on the five new airport terminals and 13 perishable cargo terminals across the country.

Support for Job Creation

69. *YouWin:* this successful program has nurtured over 2,400 young entrepreneurs with 22,000 jobs created in the first two rounds. YouWin 3 is starting to disburse to its 1,500 beneficiaries who are expected to create on average 9 jobs each, and we will continue in 2015 with the implementation of YouWin 4, which will again, identify another 1,500 young entrepreneurs to support. The government also launched a $50 million SME Venture Capital Fund that will help take YouWin beneficiaries and other viable SMEs to the next level, and create even more jobs. The government's focus on this program despite a tight budget is part of the pro-people efforts of this budget to support our youth.

70. *G-WIN*: The Growing Girls and Women Initiative in Nigeria which was launched in 2013 to integrate our women and girls into key sectors of the economy through budgetary initiatives has yielded positive results and generated interest across the board. Specify some results achieved include the training of 2285 young women in ICT; treating 2362 VVF patients and so on. In 2015, we would continue to expand this program. In addition to the original five ministries, the Ministry of Environment has also has now signed an MOU to join GWIN effective in 2015 and discussions are ongoing with other Ministries and the private sector for partnership.

Establishment of a Wholesale Development Finance Institution

71. Finally, Ladies and Gentlemen, the government plans to launch in January 2015 the Development Bank of Nigeria (DBN) – a wholesale financial

institution that will support our private sector especially SMEs to access more affordable financing with longer tenure. Several Nigerian entrepreneurs still lack access to affordable financing, with medium- to long-term tenors. At least, over twenty thousand entrepreneurs in critical sectors of the economy are targeted to be financed through the DFI in its first full year of operation. We are working with partners such as the World Bank, the Africa Development Bank, the BNDES Bank in Brazil, and KfW in Germany, and have set aside the sum of N4 billion in addition to the N16 Billion provision in the 2014 Budget to realize this project. Our existing Bank of Agriculture and Bank of Industry will be re-structured as specialized institutions to retail financing from this new wholesale development bank.

72. Due to all these efforts, GDP is expected to still grow by a decent 5.5 percent, driven by non-Oil sector growth. This growth is important as it will enable us keep poverty in check. People often criticize our emphasis on GDP growth, saying "*na GDP we go chop?*" but the truth is that if GDP does not grow, poverty will worsen. GDP growth is therefore necessary but not sufficient for development and we need to bolster our non-oil growth rate.

73. That said, to properly tackle poverty, we have been working for the past 4 months to develop a Social Safety Net with the support of our development partners especially with the World Bank supporting with US$500 million. The Ministry of Planning has already put in place a Social Protection Policy upon which the Safety Net will be based. This program, which will kick off in the latter part of 2015, will aim to reach up to 3 million households (or about 13 million people) within a 10 year period. For the first time in Nigeria, we will have a robust national system for effectively targeting the poorest for social assistance. This program will not only alleviate poverty but will also contribute to socio-economic inclusive through linkages with sectors.

74. Regarding Social Safety Nets and Inclusion, the challenging security situation in the North East with emergency rule in three States, namely: Yobe, Borno and Adamawa makes the region one of the prime areas for targeting under the new Social Safety Net program under construction. In addition, government has developed three strategic programs to alleviate the suffering of the affected population in the North East.

75. The full implementation of the *Safe Schools Initiative* (SSI) will be revved up in 2015 with the transfer of 2400 schoolchildren from high risk areas in the Northeast to other parts of the country, amongst other interventions. The *Presidential Initiative for the North East* (PINE), aimed at rehabilitating infrastructure as well as helping to restore their livelihoods, has received a boost in its budget from N2 billion to N5 billion, to deliver on its mandate. Also, the Presidential *Victims Support Fund* will administer palliatives to the victims of recent terrorist activities in the region.

76. In all of this, Nigerians must know that we will never forget our Chibok girls, and we are praying and working for their return.

CONCLUSION

77. Let me now conclude Ladies and Gentlemen. 2014 has been a difficult Budget year, and fiscal outlook over the mid-term 2015-2017 will also be equally challenging. As the international oil market evolves, crude oil prices may probably never reach $100pb again. So Nigeria really needs to continue the diversification drive and “reset” the mind of every Nigerian to the emerging non-Oil economy we need to build.

78. This transition Budget will move us to take action on important short to medium-term measures that will lead to a deepening and widening of the diversification drive over the next decade Let us believe in the possibility of a Nigeria that no longer trembles because oil prices have moved. Because

we would have built a resilient Nigeria defined by Agriculture, Financial Services, Manufacturing, Petrochemicals, and a world renowned creative sector.

79. Thank you Ladies and Gentlemen.