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# **CHALLENGES AND FOCUS OF THE 2010 BUDGET**

**Presentation to the Budget Consultative Forum**

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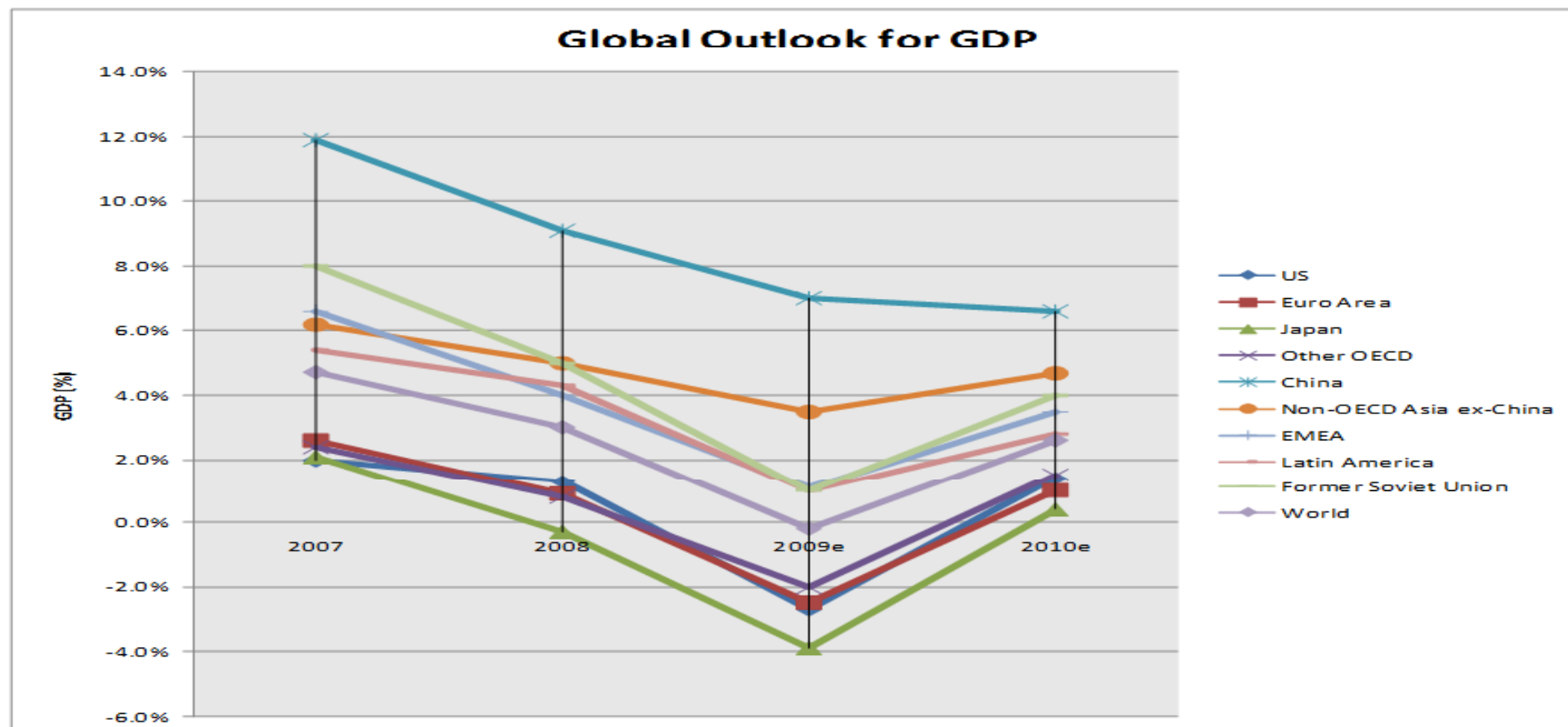
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# GLOBAL ECONOMIC ENVIRONMENT (1)

- ❑ Multiyear downward trend in the US housing markets (and the attendant sub-prime mortgage problems) became a full blown crisis in 2008 with the implosion of some high profile financial institutions
- ❑ This led to a near – freeze in global credit markets, resulting in large scale capital flights from emerging markets to investor countries
- ❑ The credit crunch led to sharp declines in most capital market indices
- ❑ Global recession led to a crash in oil prices from a high of \$147 in July 2008 to just under \$40 January 2009 before recent recovery (currently around \$60/barrel)

## THE GLOBAL ECONOMIC ENVIRONMENT (2)

- ❑ USA, Japan & several Eurozone countries officially in recession
- ❑ Slowing growth in OECD, China & India is reducing demand for oil



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## EFFECT OF GLOBAL ECONOMIC CRISIS ON NIGERIA

- ❑ The low crude oil prices in the 1st quarter of 2009 put pressure on Government's finances
- ❑ Nigeria was able to weather the effects of the global meltdown due to historically high external reserves (about \$62 billion in Sept. '08) and relatively strong banks due to banking sector reform and consolidation
- ❑ Capital flight by Institutional investors however exacerbated the downward trend of prices in the Nigerian capital market
- ❑ The Naira however came under pressure as external reserves declined towards the end of 2008

## CHALLENGES IN IMPLEMENTING THE 2009 BUDGET

- ❑ For the first half of 2009, revenue from both oil and non-oil sources were below projections resulting in shortfalls
  - ❑ *Government augmented revenues by drawing from 2008 unspent capital vote carried into 2009; and from the excess crude account*
- ❑ Huge Petroleum subsidy burden putting pressure on funds available to implement budget
- ❑ Significant portion of capital vote (93%) to priority sectors, but implementation challenges remain

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## CONCERNS FOR THE 2010 BUDGET

- ❑ Non-oil revenue in 2010 is forecast to decline from its 2009 budgeted amount, as we seek to set more realistic targets
- ❑ Ongoing challenges to oil supply could put pressure on expected revenue
- ❑ Volatility of oil Prices could affect the financing of the budget (e.g. there has been a \$10 drop in barrel price in the 1st week of July 2009)
- ❑ Economic growth projected to decline in 2010
- ❑ Government still desirous to tackle infrastructure challenges, even with reality of dwindling resources

# GOVERNMENT PRIORITIES FOR THE 2010 BUDGET

- ❑ Shift in the focus of implementation from resource commitment to monitoring of actual deliverables expected from MDAs
- ❑ Will continue to link key projects in the budget with deliverables associated with this Administration's Seven-Point Agenda
- ❑ Ensure Macroeconomic stability and fiscal discipline, resulting in a manageable deficit, reduced inflation and interest rates
- ❑ Improve efficiency in government expenditure
  - ❑ *Focus on completing essential ongoing projects*
  - ❑ *Suspension of Investment in non-priority capital outlays*
  - ❑ *Reduction of non-essential expenditure*

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## FOCUS OF THE MEDIUM TERM (2010-2012) FISCAL STRATEGY OF THE FEDERAL GOVERNMENT

- ❑ Promote balanced national economic development.
- ❑ Ensure that the scarce resources of the Federal Government are harnessed and used in a manner to best serve the common good.
- ❑ Promote competition and free trade particularly in the domestic markets, industrial production and other areas of commerce.
- ❑ Improve the living standards of Nigerians especially with shelter, food, employment and healthcare.

# BROAD UNDERLYING ASSUMPTIONS

- Oil production
    - Host community issues
    - OPEC quota
  - Oil benchmark oil price
    - Market fundamentals
    - Volatility
    - Geopolitical considerations
    - Moving average
  - Non-oil revenue expectation
    - NCS and reduced international trade
    - FIRS (performance of the non-oil economy; consumption)
    - Operating surplus; IGRs
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# ENHANCING BUDGET PERFORMANCE AND IMPLEMENTATION (1)

- ❑ Medium Term Strategy Session gives MDAs an opportunity to develop and prioritize spending strategies
- ❑ Budget Office working with MDAs to improve budget implementation
- ❑ Over 90% of capital budget allocated to priority sectors, with an emphasis on ongoing projects
- ❑ Reduce budgetary pressure from subsidy by deregulating the downstream petroleum sector

# ENHANCING BUDGET PERFORMANCE AND IMPLEMENTATION (2)

- ❑ MDAs to determine deliverables and set targets that they can be held accountable for
- ❑ Better phasing of projects over a 3-year horizon to minimise the risk of abandoned projects
- ❑ Emphasis on value for money by matching resources provided to MDAs with results/deliverables expected from them
- ❑ Clear departure from past preoccupation with quantum of resources allocated to MDAs and focus on tangible results/deliverables that MDAs commit to achieving

# RESULTS-BASED MONITORING & EVALUATION OF BUDGET IMPLEMENTATION (1)

- ❑ Regular reporting to generate continuous flow of data on budget implementation
- ❑ Analysis of Data, complemented by field visits to assess impact on the ground
- ❑ The Legislative oversight role of the National Assembly will become even more critical in the Programme Budgeting system
- ❑ A set of templates has been designed, which allows the BOF track budget implementation

## RESULTS-BASED MONITORING & EVALUATION OF BUDGET IMPLEMENTATION (2)

- ❑ Reinforce move towards results-oriented, performance based budget monitoring & implementation (**Programme Budgeting**) :
  - Address specified objectives (e.g. health, education)
  - Expenditure classification by objective (i.e., as programs)
  - All relevant expenditure on a programme grouped with total cost to achieving an objective
  - Performance driven budget process
  - Programme-based appropriations driven by performance targets

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## MEASURES BEING EXAMINED TO IMPROVE EFFICIENCY AND PRIORITIZE EXPENDITURE

- ❑ Continue to strengthen public procurement system
- ❑ Rationalisation of Expenses related to Vehicles, New Office building Construction and Furniture
- ❑ Maintain the policy of reduced levels of International Travel and Transportation
- ❑ Reduce provision for workshops
- ❑ Rationalise Outlays on Meals & Refreshment
- ❑ Focus on priority sectors

# END NOTES

- ❑ Challenges of the 2010 budget
  - Oil output and price developments
  - Non-oil Revenue
  - Macro-stability
- ❑ Emphasis shall continue to be on critical sectors
  - Power generation, transmission & distribution
  - Road Works & other aspects of enhancing Critical Infrastructure
  - Human Capital Development through qualitative Education & Healthcare
  - Food Security & National Security
  - Niger Delta development
- ❑ The emphasis will be on effective implementation & service delivery
- ❑ MDAs will focus on:
  - Priority projects & sectors
  - Diligent Implementation & Regular Reporting