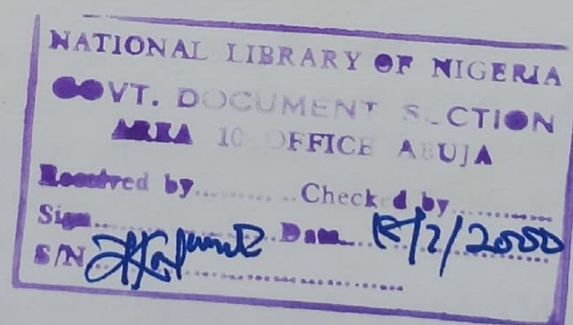


STATEMENT ON THE BUDGET REVIEW
BY HIS EXCELLENCY, PRESIDENT OLUSEGUN OBASANJO
TO THE NATIONAL ASSEMBLY, ABUJA
TUESDAY, 17th MAY 1999

THE BUDGET REVIEW
TO THE NATIONAL ASSEMBLY



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**STATEMENT ON THE BUDGET REVIEW
BY HIS EXCELLENCY, PRESIDENT OLUSEGUN OBASANJO
TO THE NATIONAL ASSEMBLY, ABUJA
TUESDAY, 27TH JULY, 1999**

ECONOMIC PRIORITIES

Your Excellency, the Vice-President
Honourable President of the Senate
Honourable Speaker of the House of Representatives
Distinguished Senators
Honourable Members of the House of Representatives
Distinguished Ladies and Gentlemen.

Let us thank God for this opportunity to address the National Assembly for the second time during the brief but very eventful period of democratic governance of our nation. The need to revise our national budget, the subject before us today, is contained in the challenges of the change necessary to advance towards our common vision of reviving the fortunes of the country.

In my first address to this Assembly, I tried to give you a clear picture of the grim realities of the economy as inherited by this Administration. It was obvious to us then that the 1999 Budget did not harmonise with the economic vision of our Administration. In several aspects, the budget failed to adequately consider the overall economic consequences of the recently concluded transition, both in figures as well as in the spirit of new dispensation. Also, as I pointed out at the time, the spending pattern would have led us to catastrophic results by the end of the financial year, and was therefore unsustainable.

Soon after assumption of office on May 29, 1999, I directed a review of the 1999 Budget for the remaining seven months, with a view to aligning revenue and expenditure profile with the current realities of the economy. I also directed that, the increase in world crude oil price notwithstanding, government would maintain a tight fiscal stance.

This position was informed by the fact that at the end of May, 1999, a deficit of 256 billion naira or eight per cent of GDP had been sustained. The foreign reserves (net of commitments) at the end of May, 1999 was over 3.1 billion US dollars, down from 7.1 billion US dollars in January 1999. Economic growth had remained low and continued to be impeded by structural bottlenecks in the area

of infrastructural facilities and unevenness in economic policy implementation. All together, our national economy is still very much in dire straits:

It has been necessary to take stock, review the fiscal measures that had been put in place so as to address the structural problems and imbalances in the economy. This process would ensure a solid foundation for effective structural reforms and sustainable long term growth of the economy.

I am pleased to inform you that the Budget Review has now been completed and can now be presented to you for approval. In this revised Budget, we have a total of 208.2 billion Naira accruing to Federal Government. Capital Expenditure is 40.1 billion naira, while total recurrent expenditure is 192.8 billion naira. This gives us a deficit of 24.7 billion naira or 1.35 per cent of GDP.

Immediate Economic Problems

The immediate economic challenges facing this Administration are numerous and formidable, although surmountable :

- (i) The large external debt stock and high debit service burden are excruciating. This makes it difficult for resources to be released for productive investment.
- (ii) Physical and social infrastructures are in a deleterious state.
- (iii) The manufacturing sector continues to produce considerably below installed capacity.
- (iv) Mass poverty is prevalent among the majority of our people.
- (v) The economy continues to rely on a single sector (Petroleum) for government revenue.
- (vi) We are still very much an import-dependent nation and a large portion of our foreign exchange earnings is consumed by imports.

Monetary Policy

Consistent with Government's objective of ensuring domestic price stability, the Central Bank of Nigeria has implemented policies aimed at containing the growth in monetary aggregates. Since May 29, 1999, the CBN has applied its statutory instruments to rein in the excess liquidity situation that my Administration inherited. Some of the measures include :

- (i) increase in cash requirement of commercial banks and its remuneration at nominal rate of interest ;
- (ii) raising interest rate on treasury bills to near market—determined ;

- (iii) issue of treasury certificates with six and twelve months maturity ; and
- (iv) increase of the liquidity ratio of banks from 30 to 40 per cent.

The CBN will continue to apply these and other measures, fine-tuning them as necessary to ensure that domestic price stability is achieved within the shortest possible time.

Since the announcement of the 1999 Budget, operators in the private sector have complained about some aspects of the fiscal measures in the Budget which they considered damaging to their market positions.

After detailed discussions with the organized private sector, a Presidential Consultative Committee on the Revitalisation of the Economy (PCCRE), under the Chairmanship of the Vice-President, was set up.

This Committee has since agreed on the need to take necessary action to improve the competitiveness of locally manufactured items, *vis-a-vis* the imported equivalents. It was also agreed that some of the measures needed to remedy the issues would require detailed examination before being put in place.

On the request for the restoration of 25 per cent rebate on raw material imports and making the duties on items recently removed from import prohibition to be more protective of locally manufactured substitutes, it would be necessary for the Inter-Ministerial Tariff Technical Committee to study and synchronize their proposals with other aspects of our tariff structure. The Technical Committee will meet in September, 1999 to carry out the assignment. The committee's recommendations would then form part of the fiscal measures in the Budget for the year 2000.

Socio-Economic Orientation

The details of this Budget Review are designed to strengthen the pillars of the socio-economic policies of this Administration, as I will now outline :

Food and Agriculture

Our priority is to attain within the shortest possible time food security for all citizens. Our aim is that within the lifetime of this Administration all Nigerians should have access to enough food at affordable prices, for a healthy life.

To this end the Administration will encourage and facilitate large investments in agricultural production, storage, transportation and marketing :

- (i) There will be incentives, for borrower's and lenders alike, to encourage investments in the chain of agricultural production, in order to reduce the financial risks inherent in the sector.

(ii) Special schemes will be devised to enhance positive and adequate return on investments by farmers.

(iii) More efforts will be put into researching and developing high yielding and pest-resistant varieties of crops as well as processing and storage.

To assist small and medium scale farmers, Government will make various agricultural inputs and implements available at affordable prices. Cottage agro-processing industries will be encouraged.

It must be stressed that the farmers are partners with government, at all levels, Local, State and Federal, in the venture to provide food security for our nation.

No effort will be spared at ensuring that waste is reduced to the barest minimum. In addition, existing agricultural insurance schemes will be fine-tuned to ensure adequate indemnity against losses.

Privatization

By the Grace of God, Thursday this week will see the inauguration of the National Council on Privatization, under the Chairmanship of the Vice-President, as required by the Constitution. This Administration thus affirms its commitment to the process of privatization.

That is not to say that we are ignoring the debate which privatization all over the world has tended to generate. The opposition stance is that national assets should remain the property of the people through government ownership.

Once upon a time I personally saw the merit of public ownership of some companies that operate with significant role for the national economy. But times and ideas have changed.

The facts, borne out by abundant statistics, are that whereas the Government has over these years pumped huge resources into acquiring and nurturing these assets, the returns have remained either embarrassingly low or persistently negative.

The parastatals' incessant demands for additional funding, constitute a bottomless pit that has for too long drained our national resources. On top of which the performance records, particularly of the utilities, have ranged from very poor to outright national disgrace. Hence the current situation in which Government investment is lost, services are not provided and the living standards of the citizenry continue to be blighted by poor and scandalous performance.

With compelling demands for efficient social services at affordable prices, and with dwindling resources on the part of Government, one solution to further

deterioration in service delivery and reduction in losses, is privatisation. This Administration sees no other way.

Thereafter, government will concentrate on providing the enabling environment for the private sector to flourish optimally. In privatising government holdings in the entities, the ultimate aim is to ensure the effective and efficient management of the erstwhile public enterprises so that the nation can derive maximum benefits from their operations.

However, before the assets are sold or alienated into private ownership, there will be proper planning, correct evaluation of the assets and liabilities, as well as the establishment of a regulatory framework that will guarantee consumer satisfaction and the protection of the interest of the poor. The programme will be equitably conducted, and all Nigerians who can afford it will be given fair opportunity to acquire shares. We will ensure that in every instance, the ownership will not be concentrated in the hands of a few private owners such that there will be the impression of transferring public companies into private monopoly. If Government has to retain some holdings in any of the entities, it will be in sectors where the strategic importance makes it absolutely necessary to do so.

The privatization programme will be conducted in a transparent, accountable and comprehensive manner, as it holds the key for reviving our public utilities and engendering foreign investors' confidence in the direction we want to move the economy. The business and international community are making privatization the acid test of our seriousness at taking bold policy reform measures. We must act quickly and decisively.

As a first step, the government equities quoted on the Lagos Stock Exchange, namely, the cement and bank companies which are relatively easy to evaluate and dispose of will be so done before the end of this year. In doing so, the absorptive capacity of the market will be closely watched and efforts would be made to encourage core investors to take preferential allocation.

For the utility companies, such as NITEL and NEPA, considerable work would have to be carried out to prepare them for sale. We have already summoned the help of World Bank to do management and valuation audit for these parastatals. The same measure will apply to the assembly plants, sugar companies, hotels and petroleum refineries.

Oil and Gas

This Administration aims to increase our proven reserves of oil from 25 billion barrels to 30 billion barrels within the next four years. At the same time we

plan to increase our production from two million barrels per day to three million barrels per day. We will not hold back on the necessary investments in this regard.

Our Administration will encourage maximum investment in the gas industry so that this country can fully attain the status of being primarily the gas producing nation, that we really are. Arrangements have been concluded for a West African Gas Pipeline project to supply our gas to our neighbours in the sub-region for industrial purposes. Similarly, a Trans-Nigeria Pipeline will supply our domestic, industrial and household demands. Both projects will be fully supported by private capital.

Fines for flaring gas will be doubled, as part of the process to put an end to this criminal waste of our resources as soon as possible.

Our target is that within four years, revenue from gas should not only be substantial but nearly equal to that from crude oil.

Solid Minerals

Every encouragement will be given to investment in this heavily under-exploited sector of natural resources. An entire Ministry is dedicated to attaining the Administration's aims and objectives in this sector. We are confident that substantial results will be achieved within the life of this Administration. Incentives are being worked out to encourage professional large-scale investors.

Education

After thorough study, our Administration plans to re-launch Universal Primary Education, in conjunction with State and Local Governments. It will be compulsory and will underpin our efforts to overhaul our educational system. The support of the international community and multilateral agencies is being sought for our objective to ensure that our youths will be educated at all levels to the standard of the impending 21st Century.

Science and Technology, particularly as pertaining to agricultural research, will receive unstinting attention. We intend to establish a biotechnology centre. We will foster intense and productive co-operation and collaboration between our national research establishments and international research institutions and agencies. We don't intend to re-invent the wheel but we must go for adaptability, relevance and appropriateness.

Transport

Our Administration recognises the crucial importance of transport for the national economy. To this end we intend to develop a comprehensive programme

that, among other things, will aim to achieve the following :

- (i) increase our road network as well as a new policy on road maintenance ;
- (ii) overhaul our Railway system to better serve our economic needs ;
- (iii) ensure safe and affordable air travel with serviceable airports and fully modernised navigational aids ;
- (iv) ensure customer satisfaction with private investment in airlines, including resuscitation of our ailing national carrier ;
- (v) optimal utilisation of our network of rivers for water transport inland ;
- (vi) develop effective mass transit systems in deserving urban areas.

Poverty Alleviation

International poverty indices show Nigeria to be among the 25 poorest countries. Our Administration is sensitive to the statistics that indicate increase in the number of victims of extreme human deprivation which manifests itself in malnutrition, illiteracy and lack of access to safe drinking water and adequate health facilities. International poverty indices, now rank Nigeria among the 25 poorest countries in the world.

All our economic policies will contain elements aimed at poverty alleviation within our society. This Administration will be guided by the traditional African value of caring and sharing in our social policy. Besides, it is self-evident truth that the fruits of any socio-economic policy will taste bitter if its consumption is restricted to a limited few.

Infrastructure

NEPA, originally meant to be the source of energy for our social and industrial life, has become a colossal burden on the society forcing many of us to dependency on stand-by generators. And this is not for want of resources, which we have in abundance.

We have already started efforts to ensure regular and steady supply electricity. We hope that very soon the shameful epileptic nature that we have grown accustomed to will be a thing of the past.

Similarly, our telecommunication system will be improved to become lifeline of our economy. Private investment will be encouraged to enhance customer satisfaction qualitatively and quantitatively. NITEL monopoly as the only service provider between Nigeria and the rest of the world will be broken.

Health

Our goal is to provide health delivery service that will rid our society of all diseases that can be eradicated. We are currently targeting the following diseases : tuberculosis, river blindness, malaria and infant ailments that can be combated with immunisation, such as polio.

We are very much concerned about the epidemic of HIV disease. AIDS is striking more and more people, causing much misery to hundreds of individuals and their families, severely reducing the nation's population of productive labour force and leaving orphans and the aged in its wake. We will work together in collaboration with other nations where research and development into cure and control of AIDS have advanced.

Malaria has continued to be the scourge of our people's lives, causing many deaths annually and the loss of millions of working days. Yet there is sufficient scientific evidence that, with suitable planning and strategy, malaria can be tamed and even eradicated. As part of our immediate plans we will soon be hosting a world summit on malaria, in conjunction with the World Health Organisation. This will be the beginning of our efforts to take the initiative to fight this disease that is essentially ours because of its tropical nature.

Rural Development

Our Administration remains fully committed to such cardinal aspects of rural development as in :

- (i) providing water supply, that is clean and in sufficient quantity for most of our people ;
- (ii) providing regular supply of electricity for the broadest spectrum of the Nigerian population, stimulate and sustain economic activities, and to improve the quality of life generally ;
- (iii) providing adequate healthcare that is affordable, readily available, and sufficiently prevents unnecessary deaths from treatable diseases.

Distinguished Senators and Honourable Members of the House of Representatives, I cannot emphasise enough what I now call co-operative federalism by which each of the various arms of government, while performing its constitutional role, understands and appreciates the needs of each other. We have embarked on the process of democracy and this can only advance meaningfully if buttressed by sustainable development.

I hope that the measures I have put before you today will firmly set us up for January 2000 when we draw up fully the annual budget that will incorporate more of our economic vision. It is true that the situation regarding our national economy is pathetic. But it is not hopeless. We have begun to put down crucial building blocks, and we have started to plug the holes of waste. With your help and co-operation we will lay a firm foundation for a greater and more prosperous Nigeria.

I thank you all. God bless.

MEMORANDUM OF THE NATIONAL COUNCIL
ON PRIVATIZATION

