AN ADDRESS AT THE ICAN ECONOMIC DISCOURSE SERIES “2017 FGN BUDGET: TOOL FOR ECONOMIC RECOVERY AND GROWTH” HELD ON WEDNESDAY 2ND AUGUST, 2017 BY ETUBOM (DR). ANTHONY A. ANI MON, OFR, FCA (PP) FORMER MINISTER OF FINANCE

1. **PROTOCOLS**

2. **INTRODUCTION**

In October, 1994 when I took over as the Federal Minister of Finance, Nigeria had the same problems as the present Government.

- Consistent negative growth gate of -1.5%, we were in recession
- Exchange rate volatility leading to internal liquidity problems and instability.
- Inflation rate was 87%
- Oil price was between $18 and $ 21 per barrel and it came down to $9 per barrel in 1998.
- Actual realized oil earnings never exceeded $12 billion per year and it came as low as $ 6.8 billion in 1998
- Interest rates were very high above 21% pa. Our external reserve was $750 million, barely sufficient for two weeks imports.

3. During the period Oct 1994 to 1998, we were able to stabilize the economy

- We were out of recession before the end of 1995.
- Maintained a stable exchange rate of N82 to $1 and we achieved internal convertibility of our currency.
- Our external reserve rose to $ 8 billion.
- Inflation was reduced to 6.8%.
- Interest rate stabilized at 16%.
- There were jobs

- We did not borrow internally or externally
- Pump price of petroleum products remained at N11 per litre.
- Our refineries were producing 81 million litres of petroleum products per day. We did not import petroleum products.
- We built the largest and cheapest housing estate in Africa without borrowing and by direct labour
- The economy trickled down to the common man through direct involvement of Petroleum Trust Fund (PTF) and their fiscal measures.
- We won three gold medals at the 1996 Olympic games

These were achieved through a sustained and well focused coordination between the Ministry of Finance, the Ministry of Planning, the Central Bank of Nigeria (CBN), the Nigerian Economic Society (NES). There was a solid interplay to achieve economic cohesion for example all the economic laws of the country were drafted by the Ministry of Finance under the supervision of the Minister.

4. In addition I was personally involved in the preparation of all budgets from collation to their final product. I involved the Minister of Planning and the Governor of CBN in the final stages of budget preparation and budget implementation.

RECESSION

5. I will like to discuss the issue of recession in this paper. Recession is essentially caused by severe breakdown to fiscal or monetary policy. In 1995 it was caused by the breakdown of fiscal policy and in 2017 it was caused by a breakdown of monetary policy and in both cases lack of coordination between fiscal policies (Ministry of Finance and Ministry of Planning) and

monetary polices (CBN) both of which must work in tandem. In respect of the 1995 recession, we discovered that the build – up started during the Babangida's administration. All the budgets from 1986 up to and including 1994 were totally wrong. During these years, we were double counting the Royalties and Petroleum Profits Tax (PPT) in respect of Nigeria's equity crude and this inflated the nation's revenue calculation by 30% in each of the years.

This meant that 30% of all budgeted expenditure was not backed by any income and we kept up spending non- existent money. By the end of 1994 the economy could no longer withstand the pressure.

The inflation arising as a result of spending non – existent revenue galloped to 87%, the ratio of deficit to GDP was in the region of 8.7%, there was virtually low foreign reserve, and of course the result must be volatility and instability of the exchange rate.

6. The miscalculation of royalty and PPT was done by an administrative staff who had been in the seat as Revenue director for years and whose work was unchecked and sacrosanct. I first checked to confirm his figures and found this massive gap (30%). I brought this serious lapse to the notice of IMF and World Bank who had all along certified the nation's wrong revenue profile and of course they were seriously embarrassed.

   Having discovered this discrepancy in our revenue profile, I as the Minister of Finance had to decide whether to borrow to maintain our budget or to balance the budget with the reduced revenue and end the recession. After discussion with the then Head of State Gen Abacha, we agreed not only to balance the budget, but also create a surplus of 3% of GDP in 1995 thereby taking the country out of recession. We agreed that there should be no extra budgetary expenditure or supplementary budget. It was very tight but it was worth it. Nigeria exited recession in 1995.

RECESSION 2017

7. The current recession is caused chiefly by the

Breakdown of our monetary policy, indiscipline and ineffective banking supervision. An attempt to implement monetary policy without correlation with sound fiscal policy led to profligacy in foreign exchange spending. Our policy makers were carried away to trade our naira denominated bonds in international market thus leading to volatility and instability in our exchange rate management. We were forced by J.P Moagan, United State President and IMF to devalue and thereafter IMF insisted a further devaluation by way of flexibility. Thus our currency was over devalued. The IMF flexibility chorus was orchestrated by the "There is no alternative (TINA)" Yesmen in Nigeria.

We foolishly created 3000 Beareux De Changes into which the CBN siphoned $66 billion over a period of 11 years as disclosed by CBN governor himself, we failed to effectively account for the inflows from Nigerians in diaspora amounting to $22 billion per year, about 3.3% of the nation GDP. We lost all senses of production and resorted to importing everything under the sun. We failed to create jobs and imported abject poverty into the nation.

8. The banks contributed to the recession. Bad loans forced the CBN to buy these loans from the banks. CBN had to rush N6trillion to bail out the banks in respect of less than 100 loan defaulters. Had CBN invested N6 trillion in agricultural production, the whole nation would have changed forever. Millions of jobs would have been created and prosperity for all Nigerians would have been assured.

But alas CBN spent N6 trillion to save less than 100 Nigerians.

REVENUE

9. In view of my experience of the revenue budget of the Babangida years, I always like to review all budgets starting with the composition of Revenue. Unfortunately I cannot compute the correctness of oil revenue for 2017 because no information as regards Nigeria's Joint Venture Contribution (JVC) towards our equity oil is available. The key assumptions for the 2017 budget shows an oil production of 2.2 mbpd at a benchmark price of USD 42.5/b with and exchange rate of N305/US$. There was no mention of gas revenue in the assumption even though Nigeria is the world's sixth biggest producer of LNG. In 2013 we produced and exported 25 billion cubic meters of LNG. Other major producers of LNG are Qartar, Trinidad, Malaysia A,ustralia, Russia, Indonesia and Oman. I am sure the Gas revenues are part of the national budgets of these countries. By calculations, if our LNG exports, were converted to oil, our revenue from gas would be about $8 billion (N3 trillion) in terms of PPT and Royalties. I have only seen a paltry N30 billion as LNG revenue in the 2017 budget. At least we should properly account for LNG revenue after the heavy investment we have made in the project.

10. The total revenue for 2017 is N4.94 trillion of which N1.84 trillion (37%) is allocated to debt service, N2.69 trillion (54.5%) to salaries and pensions. Others, (intervention programme) 0.46 trillion (9.3%). This means we are borrowing to finance both capital expenditure and part of recurrent.

BORROWINGS

11. The Total budgeted expenditure is N7.3 trillion and the revenue for 2017 is N4.94 trillion giving a deficit of N2.36 trillion which is to be sourced from borrowings. As at 31st December, 2016 Nigerians external debt stock stood at $13.8 billion or N4.23 trillion, the domestic debt was $ 39.08 billion or N11. 97 trillion. The total foreign and domestic debt outstanding as at 31st March 2017 was $62.87 billion or N19.16 trillion. We have made application to borrow additional $ 30billion or N10 trillion before 2019. By this time our

total debt stock will be in the region of $93 billion or N29.16 trillion. Based on our current Revenue profile of N4.94 trillion, our revenue gearing (ration of debts to yearly revenue) will be 5.9:1. This is most unsustainable and Nigeria will be suffocated to death with debt overhang. An acceptable revenue/dept gearing is 1:1 or at worst 2:1 A situation where we have a ratio of 5.9:1 is unacceptable and must be reviewed. If we go this way, the whole of future revenue will be gulped by debt service. At the moment the debt service/revenue ratio is 37%. We cannot walk out of recession through huge borrowings but must go back to production, production, production.

12. Salaries and pensions amounts to N2.69 trillion or 54.5% of the revenue and this is too high. I believe that we are still dealing with ghost workers.

    I do not see why we should borrow to fund special intervention programme (N500 billion) which really is school feeding, it is unnecessary political luxury.

CONSTITUTIONALITY OF THE BUDGET

13. Having discussed the budget, let us now go to the Nigerian constitution section 80(1), 80(2) and section 81(1), 80(2) to ascertain the basis.

    80 (1) All revenues or other monies raised or received by the Federation (not being revenues or other moneys payable under this Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Funds of the Federation.

    80 (2)No moneys shall be withdrawn from the Consolidated Revenue Fund of the Federation except to meet expenditure that is charged upon the fund by the Constitution or where the issues of those moneys has been

authourised by any Appropriation Act, Supplementary Appropriation Act or any Act passed in pursuance of section 81 of this Constitution.

81 (1) The president shall cause to be prepared and laid before each House of the National Assembly at any time in each financial year estimates of the revenues and expenditure of the Federation for the next following financial year.

81 (2) The heads of expenditure contained in the estimates (other than the expenditure charged upon the Consolidated Revenue Fund of the Federation by this Constitution) shall be included in a bill known as an Appropriation Bill, providing for the issue from the Consolidated Revenue Fund of the sums necessary to meet that expenditure and the appropriation of those sums for the purpose therein.

It is clear to me in section 81(1) and (2) that only the President can cause to be prepared and laid before the National Assembly the estimates of Revenue and Expenditures of the federation. It is also clear to me that the expenditures contained in the estimates shall be included in the Appropriation Bill which provided for the issue from the Consolidated Revenue Fund (CRF) the sums necessary to meet the expenditures and appropriation of those sums for the purpose specified there in. it is also clear to the in section 80(1) that all revenues or moneys raised or moneys received by the federation must be paid into and form one Consolidation Revenue fund of the federation.

14. What is not however clear is whether the expenditure in the Appropriation Bill in section 81(2) can exceed the amount standing on the credit of CRF. In other words does the constitution envisage that at worst the country must produce a balanced budget? If the expenditure in section 81 (2) exceeds the amount in CRF how should the overdrawn amount (deficit) be treated. Can we assume that we must borrow to fill the gap? Or must

the constitution tell us to do so? What would the position be if there is a surplus? We need guidance on this.

ACT OF NATIONAL ASSEMBLY

15. This brings us to the question as to whether the National Assembly can alter the Appropriation Bill prepared in accordance with the provision of section 81(2) of the constitution and laid before the assembly in accordance with section 81(1). It has been observed that the national Assembly is fond of changing the estimates prepared by the President particularly the benchmark for oil prices and reallocating the increased amount available for distribution. Even in time of falling oil prices benchmarks for oil prices is increased and the additional revenue there from is used to increase expenditure rather than in reducing the budget deficit and ultimately the borrowing. This is a case that should be tested in the courts. However on the face of it, only the President can be caused to prepare the estimates to be laid before the Assembly. The assembly itself cannot prepare a completely new estimate and lay same before itself. I believe that the assembly is nowhere in the constitution allowed to change the estimates prepared by the President. The best it can do is to discuss and agree any proposed changes with the President who will now cause a supplementary budget to be prepared and laid before the assembly in accordance with section 81(4) of the constitution.

CAPITAL EXPENDITURE

16. The capital expenditure is N2.06 trillion or 30% of the total expenditure N7.3trillon. Again the whole of the capital expenditures is funded by borrowings. The country should be aiming at 50% - 55% allocation to capital expenditure. The 30% which is an improvement on 16% allocation in 2016 is commendable. We should increase power generation and

distribution and bring back industries that have fled the country because of power shortage Companies such of Mitchelin, Dunlop, Cocacola that had fled to Ghana because of power shortage can have ripple effect on the economy if they can be persuaded to come back.

FISCAL/MONETARY POLICY MINISTERIAL COMMITTEE

17. As I mentioned earlier the present recessions is as a result of the breakdown of our monetary policy and we have seen it coming since 2007 when the Central Bank Act was altered to include fiscal policies. I do not know whether since 2007, the Governor of CBN has sat on the same table to discuss and coordinate fiscal and monetary policies with the Ministers of Finance and Planning. There is need for the formation of a strong fiscal/monetary policy Ministerial Committee that will comprise of

Minister of Finance – Chairman

Minister of Budget and Planning

Minister of Trade and Investment

Governor of CBN

This committee will be responsible for the effective monitoring, coordination and implementation of fiscal and monetary policies for the development of the economy. This committee is needed at this time of recession and should meet regularly.

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