A Mixed Grill Budget

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Mixed reactions greet President Goodluck Jonathan’s 2012 federal budget presented to the National Assembly on December 13

President Goodluck Jonathan on December 13, presented the 2012 budget to a joint session of the National Assembly. He dubbed it “A Stepping Stone to the Transformation of Our Economy and Country.” This was Jonathan’s second appearance at the National Assembly for budget presentation but his first since he was sworn in as president in May this year. The estimate of the proposed budget for the year is N4.749 trillion Naira, representing six percent increase over the N4.48 trillion in 2011. The 2012 fiscal year budget breakdown showed that capital expenditure has N1.32 trillion while recurrent (non debt) expenditure stood at N2.472 trillion. He gave a segmented breakdown of the 2012 budget with N3.98 trillion earmarked for statutory transfer and N560 billion for debt services. Allocations to some critical sectors of the economy showed that security got N921.91 billion; power, including Bulk Trader, Nelmco, and Multi-Year Tariff Order, MYTO -N161.42 billion; works - N180.8 billion; education, excluding Universal Basic Education Commission, Petroleum Technology Development Trust Fund, PTDF, and Education Trust Fund - N400.15 billion; health - N282.77 billion; and agriculture & rural development - N78.98 billion and Petroleum Resources N59.66 billion. Other allocations are aviation- N49.23 billion; water resources - N39 billion; transport - N54.83 billion; lands & housing - N26.49 billion; science & technology - N30.84 billion; Niger Delta - N59.72 billion; Federal Capital Territory Administration, FCTA- N45.57 billion and communications technology - N18.31 billion. According to Jonathan, the budget is based on a set of assumptions reflecting government’s determination to maintain prudence in the face of continued uncertainties in the external environment. The budget proposal is based on an exchange rate of N155 to the US dollar an average inflation of 9.5 percent and gross domestic product, GDP, growth of 7.2 percent. However, inflation is currently running in double digits and the naira is trading at above 160 against the US dollar. Jonathan said the proposal came after a “long consultative process with key stakeholders and it translates into concrete actions the developmental plans of government unveiled in the transformation agenda.” He said the budget was based on fiscal consolidation, inclusive growth which would also focus on job creation and provision of food security for the nation. “We are living witnesses to the extent of volatility that can afflict the international oil market with prices plummeting from US$147 per barrel in July 2008, to about US$38 per barrel four months later. Although the oil price is currently more than US$100 per barrel, there is no guarantee what it would be in the future,” President Jonathan insisted that despite the rise in spending in 2011, Nigeria can no longer afford to continue in the same way. He said although the Nigerian economy weathered the storm, efforts needed to be reinforced to ensure economic stability and sustained growth. “We cannot subject the well-being of Nigerians to such large fluctuations and, must therefore, protect ourselves by managing our finances prudently including adopting a conservative benchmark oil price for our budgets.” Explaining the failed implementation of the budget for the 2011, which he described as a “peculiar fiscal year” for the nation, Jonathan listed the factors that obstructed the nation to include the 2011 elections, the subsequent inauguration of a new administration last May and the passage of the 2011 amendment budget in May 2011. The president said the economy recorded an impressive growth of 7.85 percent in 2010 and 7.72 percent as of the second quarter of 2011 compared to 5.2 percent forecast for sub-Sahara Africa. “Medium-term prospects are also bright, with real GDP growth projected to remain strong over the period. Furthermore, we intend to pursue a programme of greater fiscal discipline complemented with appropriate monetary policy to help stabilise our declining foreign reserve,” he said. Analysis of the budget showed that security got the highest chunk of N921.91 billion. Last year, the budget for defence was N348 billion, education was N304.3 billion as against N40015 billion for 2012. Similarly, agriculture got N38.5 billion in 2011 and N78.98 billion in the 2012 budget. Health got N203.34 in 2011 but was upgraded to N282.77 billion in 2012. Power got N99 billion in 2011 and N161.42 billion in 2012. The Senate and House of Representatives had in April passed a budget of N4.4 trillion for 2011, down from the initial N4.9 trillion they passed in March. Jonathan’s original proposal to the National Assembly was about N4.2 trillion before it was jacked to N4.9 trillion and slashed again to N4.4 trillion. Only 1.14 trillion was budgeted for capital projects. The budget, however, had a huge deficit of more than N1trillion; placing much emphasis on domestic borrowing to fund the deficit. David Mark, senate president, criticised the poor implementation of the 2011 budget, but hoped that the 2012 budget would be implemented. “Let this budget be the one that will say, let there be light and there will be light. Nigeria has what it takes to be a world power, but we have never really tasked ourselves in this regard,” Mark said. But Economics experts are of the view that Nigerians are in for a rough time as there is the likelihood of astronomical inflation. For instance, the petroleum subsidy allocation was excluded in the budget proposal – an indication that it has been stopped. With this, the pump price of petrol is expected to rise to N130 per litre from the current N65 per litre. This will equally affect other petroleum products with its attendant effects on other products and services. In fact, the promise that the 2012 budget would take the welfare of Nigerians as top priority may not be real after all. Nigerians are sure to live in an environment of global uncertainties and domestic challenges. Newswatch gathered that the rise in the prices of petroleum products might not start in January as Nigerians expected, rather it would likely take off in March. This is because the National Assembly had extended the lifespan of the 2011 budget from December 31, to expire on March 31, 2012. In order to diffuse the anger of the public, the government may have accommodated the fuel subsidy removal in the virement to cover fuel importation. There is a co-ordinated effort by various government agencies to make sure that the policy is a reality. Consequently, the budget is based on oil production of 2.48 million barrels per day, mbpd, up from 2.3 mbpd for 2011; benchmark oil price of US$70 per barrel, a cautious revision from the US$75 per barrel approved in the 2011 amended

budget; at the exchange rate of N155 per US$; projected GDP growth rate of 7.2 percent; and projected inflation rate of 9.5 percent. Jonathan also addressed the matter of the nation’s fiscal deficit which, he, said was expected to be about 2.77 percent of GDP in the 2012 Budget compared to 2.96 percent in 2011. There are also arguments that the 28 percent of the budget being allocated to capital expenditure and job creation was not feasible. For instance, the 26 percent allocated to capital expenditure in 2011 could not create any job. Other areas that needed clarification are waivers, rice, flour and banning of importation and increasing duties which takes effect in June 2012. Razia Khan, a London-based economic expert, said while markets may initially react positively to the announcement that the fiscal deficit is likely to narrow further to 2.77 percent of GDP as against 2.96 percent of GDP in 2011, as well as the slight, 2.4 percentage points, ppt, reduction in the proportion of recurrent expenditure, there are still significant concerns. Khan said given the global downside risks, the six percent increase in the 2012 budget and more than 50 percent greater than the total budgeted amount of spending seen as recently as 2009 might leave Nigeria vulnerable to any unanticipated shocks. “While the oil price assumption of USD 70/bbl was largely expected, and remains well below our average oil price forecast for 2012, the output assumption of 2.48 million barrels per day, bpd is higher still than the 2.45 million previously anticipated, and higher than the more modest assumptions of 2.35 million bpd that had already posed problems for the FAAC allocation in the recent past. Either output assumption might have been excessive, leaving little wriggle room for the budget in response to any downside uncertainty that may impact on domestic output,” Khar said. According to him, real GDP growth of 7.2 percent and inflation of 9.5 percent may not differ much from the consensus. “But the point is that Nigeria is still hugely dependent on oil revenue – and not domestically generated revenue – for the financing of its budget. Until these changes, forecasts of domestic growth are almost redundant – with little impact on eventual budget outcomes,” he said. Mike Obadan, professor of Economics, University of Benin, said the government should have laid a proper foundation for the deregulation of petroleum product prices. “For an oil producing and exporting country, ranked fifth in the world, deregulation based on importation of petroleum products is wrong.” He said deregulation should be predicated on domestic refining of crude oil and fairly stable exchange rate regime rather than flexible exchange rates. Deregulation under such circumstances will result in much lower prices of petroleum products than the import-parity prices. Obadan said there would be adverse macro-economic effects on the citizen’s welfare. “There are the cost-push inflationary effects and the associated weakened effective demand, low domestic production, increased unemployment and low real incomes,” Obadan said. Dennis Odife, economic analyst, said the removal of subsidy would trigger other problems for the people for whom the benefits were intended. “This has been the experience in the past. The truth is that if the economic of the economy does not improve significantly, inflation will keep attacking what is left to the people and the so called subsidy will keep rising. Unless we begin to manage the economy better, this will not be the last time we will remove subsidy on fuel or petroleum products in Nigeria,” he said. David MacRae, European Union ambassador to Nigeria, has urged the government to engage in wider consultation and public enlightenment before the removal of fuel subsidy. He said the negative reaction from well meaning Nigerians was an indication that Nigerians were yet to come to terms with the benefits that the government claimed was inherent in the policy. “After many years of mistrust, when a new administration comes with such an idea like this, there has to be a clarification. People need to know better what amount of budget will be needed. In a general context, subsidy on petroleum products is not a thing that countries generally want to do. If you want to help poor people, you have to look at the social sectors, water, health, education and access to jobs,” he said. MacRae said most countries provide basic services like water, health, education and mass employment rather than subsidise petroleum products. Reported by Dike Onwuamaeze