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By

Chief (Dr.) J. O. Sanusi, (CON)

It is my honour and privilege to welcome you all to this year’s Policy Seminar on the 2004 Federal Government Budget, jointly organized by the Central Bank of Nigeria (CBN), the National Centre for Economic Management and Administration (NCEMA) and the Nigerian Economic Society (NES). This seminar is the ninth in the series of the inter-agency collaborative effort, aimed at providing a forum for major stakeholders in the economy to critically analyse and evaluate the adequacy or otherwise of the current fiscal and monetary policy measures, in achieving the central objectives of the Federal Government.

As a background, the performance of the economy in 2003 is appraised in order to learn from the experience of the past year, which hopefully will guide the implementation of current year policies. It is expected that this year’s seminar will also provide the opportunity for all stakeholders to discuss topical policy issues, such as the implications of the monetisation of public service fringe benefits, for the overall budgetary process and macroeconomic performance.

The overall performance of the economy in 2003 was mixed. Available data from the Federal Office of Statistics (FOS) revealed that the economy showed a strong growth performance during the year. The real gross domestic product (GDP), measured at 1990 constant basic prices, grew by an impressive 10.2 per cent, compared with the 3.5 per cent achieved in 2002. Both the oil and non-oil sectors contributed to the improved performance. Specifically, oil production, including condensates, grew by 23.9 per cent over the level a year earlier, while aggregate non-oil output rose by 4.5 per cent. The agricultural sector contributed substantially to the growth in non-oil GDP. Influenced by improved capacity utilization, and policy environment, the manufacturing sector also recorded a modest recovery.

The domestic inflation remained generally subdued during the first three quarters of 2003. The welcome development was, however, reversed in the last quarter of the year, culminating in the acceleration of the inflation rate to 14.0 per cent by December 2003, as against the single digit rate targeted and the 12.9 per cent recorded in 2002. The resurgence of inflation was attributable, largely to the excessive growth of aggregate demand, reinforced by the unintended impact of the deregulation of the downstream sector of the petroleum industry.

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Clearing of rent arrears.

Upfront lump-sum advance to staff to facilitate rent payment.

Payment of gratuities and pensions to drivers being laid off.

One needs to realize that the proceeds from the sale of properties previously used as quarters, as well as from the disposal of the furniture therein, may not accrue immediately or even during 2004. It is difficult to say precisely the exact increase or decrease in cost arising from the introduction of the monetization policy since the expenditures on most of the affected benefits were hitherto being paid from the overhead vote. For example, the total cost for medical allowance for the core civil service in 2004 is estimated at N2.1billion. Since medical expenses were previously paid out from the overhead vote, it is difficult to say whether or not the provision in the 2004 Budget included a net loss or gain. There are a few other benefits whose costs remained the same as before the 2004 Budget. These include items such as meal subsidy and allowances for domestic staff.

Some items of benefit necessarily involves higher expenditure in the 2004 Budget than in previous years. Take accommodation allowance, for example. The budgetary estimate for the item for the core civil service in 2003 was N8.422billion, while the estimated cost of the item in the 2004 Budget is N12,088 billion, a net impact of N3,666 billion. Prior to 2004, transport allowance at 10% of basic pay, was about N2.1 billion per annum, but that figure excluded the amount spent for the top civil servants whose official vehicles were fueled and maintained by the Government. In the 2004 Budget, at 25% of basic pay, a provision of N5.3 billion is made for the item in respect of the core civil service. The net impact is therefore less than N3.2 billion, since the pre-2004 cost excluded expenditures on top civil servants’ transportation. Government used to furnish the official quarters of civil servants on Grade Levels 07 and above, but with monetization, a provision of 40% of basic salary i.e N5.4 billion is included in the 2004 Budget.

Certain items of cost have disappeared from the 2004 Budget. These include capital provisions for the purchase of cars and renovation of staff quarters which together cost about N7billion in 2003. Monetization has made budgetary provisions for them unnecessary in 2004. On the other hand, the 10% employer's contribution to medical insurance, which is estimated to cost N2.1 billion is provided for in 2004 as a new item that had not featured in previous budgets. All told, it is estimated that the total cost of the monetization policy in the 2004 Budget is about N3.542 billion per month, or about N42.5 billion for the whole year. As I said earlier, since part of the expenditures on a number of the items were hidden under various expenditure heads in previous years, the overall amount stated above represents not a net, but a gross impact on the 2004 Budget.

EFFECT OF MONETIZATION ON BENEFICIARIES

The essence of monetization is to lower the financial cost of governance. While its introduction could increase the associated financial cost in 2004 due to the fact that inflows from the disposal of certain capital items would take some longer time to be realised, it is expected to lead to substantial financial savings in subsequent years, thereby achieving its
levels consistent with the GDP growth and inflation targets. Against the backdrop of the need to curtail the persistent liquidity overhang in the banking system and high demand pressure in the foreign exchange market, the stance of monetary policy in 2004 would be non-accommodating. Moreover, the coordination and harmonization of monetary and fiscal policies will be given top priority.

The conduct of monetary policy will continue to rely on market-based techniques, with OMO as the primary instrument of liquidity management. It would be supported by cash reserve requirements and discount window operations to enhance its effectiveness. Interest rates will also continue to be market-determined, while the CBN’s minimum rediscount rate (MRR) will be adjusted as the need arises to indicate the desired direction and level of interest rate changes.

Let me re-emphasize that the challenge facing the monetary authorities in ensuring macroeconomic stability in 2004 is daunting, given the continued liquidity overhang in the banking system and the risk of excessive injection of liquidity into the system arising from the monetization of crude oil receipts by the three tiers of Government. In this regard, we urge that the excess crude oil receipts over the budget benchmark of $25 per barrel be saved for future use. This important element of the fiscal rule should be observed in the national interest.

I wish to assure you that the CBN will continue to dialogue with key stakeholders in the effort to enhance transparency and accountability in the conduct of monetary policy. Thus, the CBN will keep the public well informed of its monetary policy stance, goals and outcomes through regular press releases of key decisions of the Monetary Policy Committee.

Let me conclude by assuring all participants that due consideration will be given to the views and recommendations that will emerge from this seminar in the implementation of the policies outlined in the budget.
Introduction

I wish to thank the organizers of this seminar which aims at putting the policies enunciated by the Federal Government in the 2004 Budget under informed scrutiny. Such an x-ray of the policy direction of the Budget would assist the ordinary members of the public in appreciating what the Budget holds for them and at the same time draw the attention of policy makers to whatsoever gaps may exist in the Budget with a view to closing them where possible.

I think most people are agreed that, for sometime, the annual Federal Government Budget, which is expected to chart the course of economic direction, has not been able to do so optimally. Two major constraints have come to plague the efficacy of the Budget in this regard. The first is the quantum of available resources which has always fallen short of what is required to meet what could be described as the minimum responsibility of government. The second, which probably bears “a chicken and egg” relationship with the first, is our inability to properly prioritize or sequence the identified responsibility in line with available resources so as to expend the resources in a manner that assures the greatest impact on the targeted areas. Hidden in between the twin constraints mentioned above are avoidable wastes and sometimes duplications which further lengthen the gap between budget objectives and budget achievements.

One of the main objectives of the on-going economic reforms therefore, is to promote greater convergence between the planned objectives of the Budget and the implemented outcomes. The 2004 Budget is being held out as the flagship of the efforts to achieve such a convergence. In the 2004 Budget therefore, government attempts to minimise, if not eliminate, virtually all the known areas of waste and leakages which had worked to undermine the realisation of the objectives of previous Budgets.

One area where such avoidable waste has been identified, is the body of benefits which hitherto were being provided in kind to public officers. The major pitfall of the previous method of providing such benefits in kind has been the great mismatch between the amounts spent and the actual benefits that accrued to the beneficiaries. The result has been that the interest of both the government and that of the beneficiaries were not being significantly served. Government has therefore, starting with the 2004 Budget, decided to monetize the benefits.

The implementation of the

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monetization of the benefits in the 2004 Budget is being made applicable only to the Executive and the Legislative arms of the Government. Even in the executive arm, it is being restricted to the core civil service with the aim of extending it to the rest of the public service in subsequent years. This would enable government to learn the necessary lessons inherent in the change, with a view to avoiding its weaknesses when extending it to the rest of the public service. It will also enable government to take the peculiarities of certain professional groups and services into consideration when making the scheme a public-service-wide phenomenon.

WHAT IS MONETIZATION?
For the purpose of this discussion, “Monetization can be defined as the conversion of benefits previously made available in kind to public officers into cash payment”. These benefits, hitherto made available by government to public officers include the provision of free accommodation and its maintenance, furniture, transportation, and chauffeur driven vehicles for top public office holders. There are other benefits that were already being paid in cash to the entitled officers. These include payments for utilities in the official residence or quarters, meal subsidy, domestic servants allowance, leave grant and medical allowance on a reimbursable basis.

With the monetization policy introduced in the 2004 Budget, some of the benefits have been abolished, some are modified, while monetary value are attached to the remainder and paid out to the officers based on their status. For example, entertainment allowance for senior public officers is abolished. The cost of medical treatment which hitherto was being reimbursed, is now to be paid out at the rate of 10% of an officer's basic salary. In order to cushion the rigours of this particular policy in the case of expensive and serious ailments, the cost of treatment for a diagnosed life threatening illness is still payable by government, although in lieu of the newly introduced medical allowance during the period of such illness.

IMPACT OF MONETIZATION ON THE BUDGET
Let me at this stage draw a balance sheet of the gains and losses accruing to government and, ipso facto, the 2004 Budget, from the new policy, using the pre-2004 position as the platform. It is the net gain or losses that would impact on the implementation of the 2004 Budget.

INFLOW/SAVINGS OF CASH
- Proceeds of sale of properties previously used as official Accommodation.
- Proceeds of sale of furniture in the furnished quarters.
- Stoppage of rent payment on rented properties.
- Limits on payments for utilities and domestic servants.
- Proceeds of sale of vehicles.
- Embargo on purchase of vehicles.
- Replacement of provision for drivers with cash allowances.
- Limits on payments for fueling and maintenance of vehicles.

OUTFLOW OF CASH
- Net increase in the provision for rent allowance.
- One time cost of renovating rented properties being returned to landlords.
The pressure on the external sector of the economy moderated considerably in 2003 as the overall balance of payments deficit narrowed from US$4.7 billion (N565.35 billion) or 10.3 per cent of GDP in 2002 to US$1.3 billion (N162.84 billion) or 2.2 per cent of GDP. The demand pressure in the foreign exchange market, however, intensified during the last quarter of the year, resulting in the depreciation of the naira exchange rate against the US dollar. Thus, the relative exchange rate stability that characterized the first three quarters of the year was reversed.

The problems of liquidity overhang in the banking system and depreciation of the naira posed serious challenges for monetary policy during the year. Notably, there was accelerated growth in monetary aggregates. Specifically, the broad measure of money supply (M₃) increased by 24.1 per cent which substantially exceeded the programmed target of 15.0 per cent for the year. To further enhance the effectiveness of monetary policy, the CBN increased the frequency of the open market operations (OMO) from bi-weekly to daily basis in November, 2003.

The moderation in interest rates movements was sustained in 2003, as banks' deposit rates rose only marginally, while lending rates declined. This followed the downward adjustment in the minimum rediscount rate (MRR) by 150 basis points from 16.5 to 15.0 per cent, as well as the moral suasion by the CBN urging banks to reduce their lending rates to stimulate output growth. However, the structure of the banking system remained largely oligopolistic and continued to explain the wide spread between bank deposit and lending rates.

The 2004 budget represents a good starting point for the implementation of the Government's medium-term economic reform agenda, which aims at reinvigorating the Nigerian economy in order to return it to the path of sustainable growth, development and poverty reduction. The major assumptions underlying these laudable goals include targeting real GDP growth rate of 5 per cent, containment of the inflation rate to between 10 and 11 per cent of N136.00 to the US dollar. The task facing participants at this seminar is to determine the extent to which 2004 budgetary policies could help to achieve the set objectives. The CBN is encouraged that revenue projection is based on $25.00 per barrel, and the fact that the Federal Government deficit level would be considerably reduced to N181 billion or 2.1 per cent of GDP. More importantly, there will be no recourse to Central Bank financing. Our tentative assessment, therefore, is that the fiscal objectives outlined are achievable, if necessary financial discipline could be exercised by all tiers of government.

However, recognizing the good prospect of continued strong oil sector performance and enhanced revenue flow, the risks to revert to the old habit of spending all excess crude oil receipts is high but must be resisted. In this regard, the mechanism for sterilizing excess proceeds from crude oil exports should be put in place and faithfully implemented. This would help the CBN to meet its monetary and credit targets and obviate the need for monetary tightening and a hike in interest rates. Consistent with the objectives of achieving price and exchange rate stability, the CBN will in fiscal 2004, sustain efforts aimed at containing the growth in monetary aggregates at
housing, provision of water, health and educational facilities. It may be more complex in such areas as roads and electricity. It may be recalled that reasonable budget allocations were made to Power and Steel, Works and Housing and Transportation Ministries in 2001 and 2002 which reflects government’s commitment in the rehabilitation of infra-structural facilities. Certainly, the private entrepreneur could be brought in; nonetheless the previous efforts must be sustained at least for now in the rehabilitation of roads and electricity that are crucial to allowing the real sector to attain established objectives.

VI Conclusion
The traumatized economy inherited by the civilian administration at its inception in 1999 calls for economic recovery which constitutes the framework of each of the federal budgets, relying on the private sector-led growth to transform the Nigerian economy structurally, since then. Within this frame of economic recovery, the paper notes that the 2004 budget, tagged “Economic Reform Agenda”, is predicated on the reformation of some development parameters, most of which are crucial to the performance of the real sector of the economy. Certainly, the effectiveness of policies for the development of the real sector hinges on the effective implementation of the policies and programmes contained in the budget.

Against the background of the need to avoid budget policy failures, particularly in the real sector, government must guide against:
(i) institutionalized policy conflicts;
(ii) protracted delays in the release of votes to appropriate agencies in the real sector;
(iii) faulty implementation strategies, particularly mis-management of programmes;
(iv) undue politicization of the budgetary process, particularly as it affects the real sector;
(v) excessive erosion of the naira value to aggravate production cost and subsequently worsen the competitiveness of the products of the real sector in a globalizing world;
(vi) reforms that could worsen capacity utilisation in the real sector.

REFERENCES


1. INTRODUCTION

It is important to begin a discussion of a national budget like this with the definition as understood by some of the important stakeholders. The first in this case is the national budget in the eyes of a typical Nigerian legislator, particularly of the federal hue. To him:

A national budget is an instrument of control of government expenditure by which resources are allocated in accordance with political considerations that emphasize individual benefit, not necessarily self.

This definition has only two major flaws, including:
- Inadequate consideration of the future stream of revenue; and
- Weak emphasis of the 'greatest good of the largest majority'.

A national budget is a tripod, consisting of three main considerations: revenue, expenditure, strategy including objectives, programmes and policy.

At the level of government, periscoping what one sees as the position of the Nigerian government of today, a national budget is the estimating of revenue and deciding on an expenditure plan complete with objectives, projects and policy, with safeguards to prevent political undercurrent.

It is obvious that this definition looks like the obverse of the one that dominates the psyche of the legislator. Two major problems can be identified too:
- Too much emphasis on projects rather than programmes; and
- The mindset to keep politics out of its socio-economic policies, choices and objectives, even though this is critical. A budget is a consensus document of government and the legislator representing the people.

Without any attempt to confuse, we must add yet a third definition, the last but not the least important, the view of a typical third world central bank, in this case the Central Bank of Nigeria (CBN). As you know the CBN is the authority for managing the monetary, credit and exchange rate policies of the country including the external sector. The CBN, in its monetary, credit, foreign trade and exchange policy guidelines for fiscal 2002/2003 states, among other things:

"The primary role of monetary policy in 2002/2003 is the achievement of price and exchange rate stability.....to subdue inflation to a single digit over the two-year period,"

Considering pre 2003 situation of a two-digit inflation rate, this indeed is a laud-
-able objective. Yet one cannot but ask the question whether the CBN could not be more precise by locating its objective, at least within a bound. Even then one would also ask whether such a bound has been generated from the macro-economic interrelationships of the economy. In other words, to what extent does the CBN position synchronize with the government's macro-economic goals and objectives, in real quantitative terms?

Needless to state that the expectation of the people is clear and can be summarized, by and large, as “security and life more abundant”. In that wise, the national budget is one that:

“Reduces poverty considerably and makes the future more secure”

Certainly, this can not be adequately located within the individualistic view of the budget by legislators, the scientific project based view of the national budget of the government and the imprecise monetarist view of the national budget by the CBN.

We review the 2003 budget looking at these considerations and wonder whether there has been a cohesion in government consisting of the legislature, the executive and its monetary institution, leaving out the judiciary for the purpose of this discussion. The following questions will be asked:

- How relevant were the people in the monitoring of budget execution and control and to what extent is consultation the focus of budget formulation?
- Other than sectoral considerations, were there enough programmes on the basis of which performance could be monitored.
- For example, by what percentage did poverty decline, was non-oil performance much better than before?, etc and
- To what extent were the views of the monetary authority respected and how effective was performance of the monetary authority in macroeconomic stability?

II BUDGET IMPLEMENTATION AND MANAGEMENT

The first set of problems in realizing the benefits of a national budget in Nigeria, the 2003 Federal Government Budget in particular, is the delay in formulation and presentation to the National Assembly. Consequently, the first quarter is usually gone before the appropriation bill is out of the National Assembly. In a situation whereby the National Assembly invariably tears the budget virtually apart before it comes out of its domain, unnecessary dislocation is already introduced into that budget regime. This was the case in 2003 as in previous years to the extent that the concept of a federal budget is losing its identity and importance as a major management tool of the economy. A product of the military incursion into governance, the situation makes the budget almost irrelevant and renders both government and legislature accountable to the people.

A number of consequences are already evident:

- Government expenditure loses its objective as government becomes more concerned with recurrent expenditure and less concerned with capital expenditure;
- Government expenditure focuses on no trajectory growth of the economy as everything becomes haphazard and therefore left to chance;
the prices of petroleum products would drastically fall to reinforce the processes of the management of the rate of inflation. One of the underlying assumptions of the 2004 budget is that crude oil production will be at 2.24 mbd at a price of $23 pb. The current experience has shown that production on OPEC quota is about 3mbd at above $35 pb. Nigeria stands a chance of getting a windfall gain from this development, which must not be shared but reserved for either of two possibilities. These are the liquidation of indebtedness and or formation of capital for further national development.

(c) Expansion of Manufacturing through SMEs
Admittedly, the importance of the roles of the SMEs in getting the manufacturing sub-sector expanded to create job opportunities cannot be over dramatized. Nonetheless, adequate provision must be made for the supply and sustenance of credit facilities for the would-be SMEs operators. In this regard the N32 million proposed for the SMEs project for a new micro credit institution may not be adequate. Certainly, the CBN's involvement via the mobilisation of SMEs equity fund from commercial banks is proposed. A target must be set as done in 2001 requesting commercial banks to set aside 10% of their profit before tax for the financing and promotion of the SMEs. Given this, the CBN should prepare to warehouse the scheme for effective administration and monitoring.

(d) Agriculture
As earlier noted the main goal of the allocation to agriculture is to channel the capital budget towards research, extension and innovations in cultivation practices and agro-processing to make for food and material security in the country. It is in this sense that the continuation with the 25% government support on fertilizer is appreciated. Also the continual with governments support for purchases of grains and other commodities for strategic reserves to ensure reasonable prices to farmers as done in 2003 is commendable. However, it is important to reconsider the idea of the importation of agriculture commodities such as rice that is currently taken as being possible under a competitive production basis in the country. Efforts must be geared towards recovering the lost grounds/markets in agricultural commodities, which the country used to export. This is possible with the reliance on the existence of high yielding West African varieties in the country. Additionally, efforts must be made to make provision of credit to farmers for the procurement of key high yielding inputs via the strengthening of the Agricultural Credit Scheme. Besides, there is the need to further empower the NACROB, an institution created for this purpose to perform the role of a development bank in this sub-sector of the real sector. Agriculture in the processes of meeting the challenges of food and input supply security requires the institution of various tax concessions as incentives to boost production in the sub-sector.

(e) Rehabilitation of Infrastructure
The focus on infrastructural rehabilitation via the public-private sector partnership is understandably couched under the argument of the insufficiency of public resources to cope with the financial requirements. It is important to note that this inter-linkage may be easy and attainable in the areas of
The evolution of private sector initiated development as the budget contains the specific provisions in the NEP, 1999-2003. This, therefore, makes for a broad policy consistency need for the development of the real sector. In this regard, the policy in broad terms and the real sector policies in particular seemed designed to attain:

(i) sustained economic growth for poverty reduction;
(ii) the objective of full employment via the expansion of SMEs in the manufacturing, mining and agricultural sub-sectors respectively;
(iii) competitive economy to reinforce economic efficiency in the real sector;
(iv) high standard of living enroute greater creation of job opportunities and increased productivity envisaged from the expansion of capacity utilization in agriculture, manufacturing and solid mineral sub-sectors;
(v) Against the background of this design the real sector policies in 2004 budget seem to have addressed issues connected with:
(vi) the reduction in the levels of inflation, unemployment and capacity under-utilisation in the real sector;
(vii) intensification of agricultural production to achieve food and input security;
(viii) reactivation of infrastructural facilities through the rehabilitation of and the intensification of investment in national infrastructure.

In spite of this endeavour, there are some noticeable variables and parameters, which the real sector policies ought to add to really improve the chances of the success of real sector policies. These are discussed in what follows.

(a) Inflation and Exchange Rates
Theoretically, a country’s exchange rate is expected to be determined even in a market-oriented economy by the dynamics of the economic system. Admittedly, to reinforce the processes of the determination of the exchange rate, Nigeria adopts the floating system, which has culminated in a serious erosion of the naira value. Given the dependence of the real sector on imports, the erosion of the naira value has culminated in uncompetitive production costs and prices of the products of the Nigeria real sector in a globalizing world. With a further erosion of the naira value in 2004, the attainment of the target of 9% rate of inflation is difficult. This development has its adverse implication for the sale of the products of the real sector at the international level. Thus, pending the time that the real sector will not be import dependent, the naira must appreciate to allow for a significant reduction in the cost of production and effective take-off of the proposed SMEs in Nigeria.

(b) Oil and Gas
Government has put on course the deregulation of the downstream activities in the crude oil industry aimed at the creation of a competitive environment to reinforce the processes of economic efficiency. The benefit of deregulation may not be easily derived in a system that relies on the importation of petroleum products under a largely eroded naira value. It is, therefore, imperative to activate the local production of these products by giving approval to firms that have indicated interest without any further delay. It is strongly assumed that with the production of petroleum products domestically, the deregulation policy would pave way for competition in the quality, price and package of the affected products. In this regards, it is envisaged that
Indeed, expenditure is subjected to the whims of any President who can argue that the budget is yet to be approved by the National Assembly; It lays the government open to excessive borrowing from the banking system since the necessary laws for generating revenue remain locked in the budget awaiting approval by the National Assembly, with dire consequences on private sector access to the banking system. The entire economy has to wait especially where government expenditure is the single most important avenue for business open to the private sector; Corruption strengthens its strangulation of the economy in a situation where it is already intractable; and Inability to tap or strengthen new sources of revenue through diversification of the economic base.

An economy experiencing these problems can be very difficult to manage as many important objectives of government slip in the process. Indeed, after the spectacular success in the privatization programme in the telecommunication sub-sector, government seems to have gone to sleep as nothing was hardly heard about privatization in 2003. Look at the list of achievable in 2003, including

“intensive and extensive infrastructural development, particularly in the areas of environment, potable water supply, telecommunications, airports, maritime port, railways, etc.; capitalization of the manufacturing sector, promotion of technology, particularly information and communication technology (ICT), bio-tech and space technology for ICT, and remote sensing etc…”

Although, one can point to a number that were achieved or that substantively took off: telecommunication, ICT, space technology, the ports and maritime law, etc. The point one should note is that this government judging by its sincerity of purpose, is capable of achieving more than this by miles. The major problem remains managing the process for commencing implementation of budgets in good time, with little or no rancor with the National Assembly and developing the capacity for implementation, monitoring evaluation and sanctions.

III STRENGTHENING PROGRAMMING AS A BASIS OF BUDGETING FOR DEVELOPMENT

The ONLY obvious programme in the budget is the poverty reduction programme. Given the problems of the economy at this time when more than 60 per cent of the people suffer an endemic poverty, the government is right on target for articulating a poverty reduction programme. The only problem is that the strategy, given the weight of the problem, might have been misconstrued. Most people will argue justifiably that it deserves the affirmative action in our capital expenditure strategy rather than the current expenditure strategy it seems to adopt.

It is not enough to provide employment or supply a feeding escape that is not likely to last. Yet that continues to be the strategy of the current programme. Even when the problem is solved by way of small and medium enterprises (SME), that only addresses by and large those who have been thrown out of jobs, people with or without skills and suffering from frictional
Administration (NASA) whose budgeting device requires a lot of scope, discipline, focus, grit, wit and enterprise and until we begin to adopt this approach, we risk growing at a single digit rate.

The process where budgets are not approved well into the first quarter encourages project by project approach to implementation and development. That will not take us far, at most 5 per cent growth rate. Government will have to watch its spending to keep it within limits permitted without National Assembly approval. This is not good for the country as this is the cause of the present budget malaise of little or no capital expenditure. Many important ministries or departments of government have not smelt capital expenditure for years.

It must be said that downsizing of government business is in vogue all over the world, even in China. In addition, that country has strived relentlessly to make its environment conducive to controlled foreign investment. Coupled with hard work, this explains the two-digit growth rate of that country. Downsizing should begin in earnest rather than maintaining departments or divisions in government that have no tools to work with or capital votes to generate output. Running empty cells in government is like pouring water into a basket. The budget process should not be so porous that any frivolous budget can go into it. It is also accepted that prioritization be applied on capital expenditure in the event of dwindling resources. The issue is simply that such curtailment should not be due to delay in budget approval by the National Assembly, necessitating whimsical control of capital expenditure in accordance with project by project implementation, preventing focus on programmes and sacrificing a high growth rate for the economy. This is what happened to the implementation of budget 2003.

**Government should therefore re-examine its budgeting process by:**

- Agreeing with the National Assembly on an appropriate timetable for commencing budget implementation;
- Overhauling the budget process to ensure that certain divisions and departments of governments are not left idle due to lack of capital
agricultural initiatives for cassava, rice, maize and other grains, vegetable oil, cotton, oil palm and other tree crops, livestock and aquaculture. Additionally, continued support is designed for the purchases of grains and other commodities for strategic reserves to intervene to ensure, reasonable prices to farmers on the basis of the 2003 budget operations. There is the plan to put a revolving fund on course to support bulk fertilizer procurement in addition to the continuation of the 25% Federal Government support on fertilizer with a view to ensuring that fertilizer is getting to farmers that need it at reasonable price. Incidentally, the 2004 budget recognizes the good performances of the agricultural sub-sector in 2003; nonetheless, some commodities such as rice that can now be competitively produced are still earmarked for importation. The budget also recognizes the need to recover lost grounds in agricultural commodities and therefore proposes the adoption of appropriate policies and support to the farmer for increased production.

In the manufacturing sub-sector, the focus is on the Small and Medium Enterprises (SMEs) through SMEDAN and NIPC in collaboration with international and national organizations in the provision of requisite business training and access to micro-credit for entrepreneurs. There is the proposition of a new $32 million SME project to be supported by the IFC and the World Bank at the implementation point with the development of a new micro credit institution (Action International). The CBN’s involvement is proposed through the mobilisation of SMEs equity fund from commercial banks. All of these policies are aimed at the provision of job opportunities and economic growth via some institutional reforms under the budgets reform agenda.

On the solid minerals sub-sector the policy proposition is to encourage private sector entrepreneurs to invest in it, particularly after the completion of the mapping exercise to expose where the minerals are in exploitable quantities. In fact the policy focus is on Small Scale mining and the development of value added activities linked to solid mineral exploitation. In the area of crude oil and gas, government proposes to continuously attach considerable importance, to investments in the sub-sector. However, such investments would be sourced from the capital market by the NNPC and NGC.

On a final note, the budget recognises the centrality of infrastructures to the effective development of the real sector, government has therefore proposed a doubling in the capital allocations to some of these sub-infrastructure sectors such as roads, water, electricity, health and education.

V. Prospects of the Real Sector under the Nigerian 2004 Budget

Admittedly, the Nigerian economy has made some moderate progress en-route some developments in the real sector in recent times. For example, the output of the agricultural sector improved in 2003 over 2002 to guide against food and materials insecurity. Besides, capacity utilization in the manufacturing sector slightly improved in 2003 over its level in 2002. In spite of these positive developments, the economy via the real sector is still beset by serious macro-economic imbalances. Certainly, the framework of the 2004 budget is perfectly in consonance with the prevailing national economic philosophy of the
resulting in deviations from the established trajectory of operations;

(ii) undue politicization of the budget approved process culminating in unplanned deviations;

(iii) unanticipated and destructive delays in the release of approved budgetary votes to the recipients (ministries, parastatals and other government agencies);

(iv) ineffective-cum-poor spending budget programmes coordination among the tiers of government arising from undue politicization and poor implementation framework;

(v) conflicting fiscal and monetary policies within the same budgetary framework; and

(vi) lack of transparency and accountability due in most cases to budget distortions and corruption arising from the weak budgetary process.

Incidentally, some authors (Ugwu, 2002, Ndanusa, 2001; Ologun, 1994) have successfully traced these lapses in the Nigerian economic system to some structural deficiencies with serious implications for the development of the Nigerian real sector. Such structural deficiencies include:

(i) institutionalized policy inconsistency and policy conflicts, particularly as earlier noted among fiscal and monetary policies;

(ii) inappropriateness of macroeconomic planning framework;

(iii) distortions in public sector spending priorities;

(iv) faulty implementation strategies, especially policy duplications and mismanagement;

(v) undue politicization of the budgetary process e.g. the 2002 Budget;

(vi) destructive and absurd regime of multiple taxes; and

(vii) poor, inadequate and inappropriate fiscal incentives to the operators of the real sector as compared with other sectors e.g. financial sector. Against the backdrop of the need to amend these structural deficiencies, the policy impacts of the 2004 budget may need to deviate from the old path to avoid budget failures. That is, the impacts of 2004 budget on the real sector hinges crucially on the extent to which the budgets specific provisions could meet the expectations of that sector in the process of its Economic Reform Agenda. The critical issue at this point is the extent to which the real sector policies in the 2004 budget has gone to avoid the above obstructive features.

IV. Real Sector Policies in the 2004 Budget: Some Features

The framework of the operations in the 2004 budget is couched under some assumptions, which are expected to directly or indirectly impact on the same parameters that will subsequently affect the economic activities in the real sector. These assumptions are that:

(i) crude oil production is 2.24 mbd (inclusive of 150,000 barrels of condensate);

(ii) the sale of crude oil on the average of $23 pb;

(iii) joint venture cash call of $3.2 billion;

(iv) inflation rate is not more than 9%.

Given these assumptions, about 75% of the budget is to go to support some sub-sectors which include those in the real sector e.g. agriculture. In this regard, the allocation to agriculture focuses towards the support for research, extension and innovation in cultivation practices and agro-processing. Part of the policy here is on the presidential
• Expenditure;
• Early rationalization or re-organisation of government business to ensure that skills are not wasted in idleness;
• Targeting solution to problems in a cross-sectoral programme approach since problems are not solved through stand alone projects;
• An environment of growth and development that attracts multiple funding sources which the programme approach commands; and
• De-emphasizing antagonistic and encouraging collaborative budgeting process with the National Assembly.

IV BUDGET 2003 AND THE PEOPLE

Quite often, we hear about the budget being people centered and the 2003 budget performance calls for such evaluation. Any one will want to examine NAPEP, the poverty reduction programme of government as a cardinal programme of the National Economic Empowerment and Development Strategy (NEEDS). The programme (NAPEP) is hardly accountable to any one except the government that established it as the progress achieved in 2002 was hardly mentioned in the 2003 budget. It is this kind of stance that makes one wonder whether indeed there is any hope for the poor. For example 'NEEDS AT A GLANCE' falls short of being able to meet the needs of the people simply because it contains no discernible programmes to achieve this, despite its laudable intentions. It adopts our usual pattern of drawing up the development plans of the 1960s and 1970s, before the economy finally crashed, starting in the 1980s. Focus is its problem, despite that fact, it is restricted to a few number of sectors: Agriculture, Roads, Education, Health, Water Resources and Power. What happens to other sectors? (see table 1). For example are we going to measure its success by the growth rate of the economy or certain internationally accepted development criteria? This is the issue.

To what extent has unemployment fallen? Will NEEDS impact on our longevity, will access to education and literacy-by-all apply? What about food security rather than just a high growth rate in agriculture? etc. Are we asking for just the usual high growth rates in gross domestic product (GDP), more hospital beds, higher enrolment in schools, high growth rate of the agricultural sector, or indeed dominance of the economy by the private sector? These indicators will not necessarily help to attain the goals of human development, food security, high longevity, universal adult literacy, in short the millennial goals. How government will get there via the NEEDS is what is yet to be addressed concretely.

Agriculture grew by an estimated 10 per cent in 2003 while capacity utilization in manufacturing inched to about 60 per cent on the average. Vital products like cassava and root crops in general, rice, cotton, etc led the growth in agriculture, thus making food cheaper. There was an evident presidential personal touch in this sector. But how far was the farmer's income boosted as a result? Take the case of cassava. Until that product's demand is widened from consumption to industrialization and export, farmers will only become poorer as a result. This was also addressed by the government and success seems to be in sight. However, this should not happen one after the other, but together. Only programme
This progress was however overshadowed by poor development in infrastructure (physical, social and economic). One must here address a view that seems to be gaining acceptance at the federal level of government. A group of politicians are saying that human development of the people really belongs to the state and local governments since these are the tiers of government close to the people. While this cannot be denied, it must be said that the position can hardly absolve the federal government from that responsibility, improvement in the well-being of the people. This is because most of the sectors in reference are concurrent responsibility of the federal, state and the local governments. Besides, the federal government has a unique and legislative prerogative in a number of sectors and sub-sectors. For example, this is the case in security services, mineral exploration and production, etc. Indeed mineral production yield more than 90 per cent of revenue for all government and they are dominated exclusively by the federal government, even in the sharing formula. So what is the Federal Government supposed to use the money for, for self-aggrandizement and non-altruistic purposes? Such ideas must not be allowed to take root in our budget expenditure approach as all Nigerian governments have one, equal and sole responsibility to improve the well-being of the people, directly and indirectly, whichever way it goes.

Inflation is still in two digits, although at a lower level of 10-12 per cent, thanks to the phenomenal growth of the agricultural sector, which was at about 10 per cent. Inflation rate was a great improvement over 16.4 per cent attained in 2002. Yet poverty was still biting given the persistent increase in the price of petrol, causing difficulties in the transport sector. This culminated in the tax on petrol imposed by government but later withdrawn. This ostensibly was for the purpose of fixing bad roads and constructing new ones. Many groaned about the dilapidation of the roads and the absence of tarred roads to many rural areas. Potable water and electricity supply still remain a luxury to many Nigerians but record is very scanty about the progress made and relevant government agencies such as CBN and Federal Office of Statistics (FOS) failed to report on these in their major data bulletins. This remains a problem of evaluating government's effort even when it is laudable in these sub-sectors.

Total expenditure (capital and recurrent) increased, especially in the first half of the year compared to 2002. But given the budgeting problems earlier enumerated, government could have performed better. Here we must draw attention to the stop-go problem of total government expenditure experienced since 1999. This situation no doubt has dealt incalculable harm to the Nigerian economy. In the first half of 2000, total expenditure fell by 33 per cent and rose by 77 per cent in the first half of 2001. This was to fall again in the first half of 2002 by 17 per cent, rising by 51 per cent in the first half of 2003. Although we have been comparing first half expenditures as reported by the CBN, it must be said that a well managed economy should not be run like this. It is an indication of a badly managed revenue accrual of government or budget.
(ii) tariff reform and rationalisation for the promotion of industrial diversification;
(iii) deregulation and greater reliance on market forces, particularly in the downstream activities of the crude oil industry;
(iv) adoption of appropriate pricing policies for all commodities; and
(v) adoption of measures to stimulate production and broaden the supply base of the economy.

In spite of these laudable policies, most of the results from remain socio-economically undesirable, particularly as such results fell below expectation due to:

(i) high operating costs arising from the private investments in infrastructural support services such as electricity and water supplies;
(ii) dearth of loanable funds for long term investment;
(iii) inadequate infrastructure for the movement, processing and preservation of agricultural products;
(iv) persistent dependence of the sector on imported inputs;
(v) the unbearable burden of increasing demands by all tiers of government with respect to taxes and levies, particularly with-holding tax;

(vi) difficulty of getting access to large farm lands and credits; and
(vii) capacity under utilization

A careful examination of Nigeria's annual budgets, especially since 2001 to date (2004) shows that the above challenges informed the philosophy and preparation of the affected budgets. It is therefore expected that the key broad and specific strategies of any budget to overcome the identified bottlenecks; directly and indirectly impact positively on the real sector would need to focus on:

(i) reformation to make the economy more purely market oriented, private sector-led and technology driven;
(ii) employment generation and increased productivity to reduce the high rate of unemployment;
(iii) maintenance of price and exchange rate stability to create a healthy balance of payments;
(iv) improvement in the performance of the hard-core infrastructural services;
(v) the establishment of appropriate lending rates for the attraction of private entrepreneurs;
(vi) creation of consistency in monetary and fiscal policies aimed at persistent reduction of the dependence of the real sector on imported inputs;
(vii) improvement in credit delivery and extension services to small and medium scale enterprises;
(viii) raising the level of operational security of business operations in the real sector and the entire economy at large.

III. Threats to the Features of Budgets
Whatever the degree of the laudability of budget policies particularly on the real sector, their effectiveness are usually threatened by some features which often prevent the attainment of established targets. Experience from previous budgets reveals that such features constitute the basis of the failure of past economic policies, particularly on the real sector of the economy. Some of such features in the Nigerian economic system include:

(i) Budget indiscipline
beyond” is designed, to reinvigorate the economy and put it on the path of sustainable growth, development and poverty reduction. The critical issue for this paper is the extent to which the real sector policies in the 2004 budget are set to attaining the foregoing established objectives. Against this background, this paper is in 6 parts. Following this introduction is part II which examines the Nigerian real sector. Part III looks at the features which constitute some threats to the success of policies on the real sector while part IV makes a review of the real sector policies in the 2004 budget. Parts V and VI focus on the prospects of the real sector in 2004 and conclusion, respectively.

II. The Real Sector of the Nigerian Economy

The real sector of the economy is composed of such sub-sectors as agriculture, manufacturing, mining (solid minerals), crude oil and gas. Given this composition, it is no gainsaying that the real sector of the Nigerian economy constitutes the main driving force of the country, such that no sustainable development can be achieved without a well-developed and viable Real sector. It is generally accepted by policy makers, economic planners, researchers and professionals irrespective of their ideological disposition, that considering the contributions of the sector to the Gross Domestic Product (GDP), national income and employment, its appropriate and adequate development constitutes the most desirable means of improving the quality and the standard of living of the populace. It is, therefore, a veritable channel of attaining the lofty and desirable conceptions and goals of economic management for national transformation and development.

In recognition of the foregoing attributes of the real sector, it is seen in Nigeria as the potential leading sector with latent resources whose effective development could pull up the rest of the economy through backward and forward linkages. In this regard, government has usually made some efforts relying on its annual budgets to facilitate its growth. Arising from the affirmed centrality of the real sector as the pivot of economic growth and development, is that its effective management seems to be the main hope in Nigeria like it is in most developing countries that have large population, particularly for the absorption of excess labour resources.

Incidentally, the negative impacts of the on-going economic crisis on the Nigerian economy have created some challenges which prompted the country to adopt some adjustment and reform devices aimed, among other objectives, are the:

(i) restructuring and diversification of the productive base of the economy rooted in the real sector;
(ii) achievement of fiscal and balance of payments viability;
(iii) lessening of the dominance of unproductive investments, particularly in the real sector; and
(iv) evolution of a private sector-led economic development process.

Towards these ends has been the reversal of Nigeria’s development approach from economic regulation to economic deregulation and liberalization relying on market forces to allocate resources. Within this new paradigm, particularly since the inception of the civilian administration in Nigeria, are such policies as:

(i) trade and payments liberalisation;
expenditure of government. One of the problems of government is the vagary of oil revenue, always following the pattern of crude oil prices in the international market. Government is therefore advised to:

- Save any excess revenue accruing beyond the price of oil used in formulating the budget;
- Use part of this saving to augment revenue when the price of oil falls;
- Employ credible channels to forecast the price of oil;
- Expand rapidly Nigeria’s economic base to move away from monoculturalism and embrace diversification;
- Improve the attractiveness of the Nigerian economy by encouraging programme approach to financing; and
- Make the economy more conducive to foreign direct investment whatever it takes and learn to manage the disadvantages.

Such stop-go government expenditure behaviour makes business planning a real hazard and the ruin of the people's well being. A national budget should be better organized.

There are other policies of government arising from the implementation of NEEDS about which the people are exasperated. This is not because the policies are bad but because the implementation is flawed. Take just few examples such as monetization of public sector workers' earnings, pension reform and housing. These are policies that affect mainly government own workers. What effect is this going to have on government revenue and will these policies lead to savings or are they just another way of reducing government responsibility to its workers? Evidence should show that these policies improve due process and enhance government value for money. People are still looking for this evidence. In the long run the people will want to see this effect in the improvement of general well-being and noticeable decline in corruption.

**V. CO-ORDINATION OF ECONOMIC MANAGEMENT IN 2003**

Where fiscal and monetary policies run in parallel lines and the legislature itself care less, the economy cannot be organized, let alone used to improve the well-being of the people. Very little is now heard about government intention to secure N150 billion from the capital market that made the round in 2003. This was a real scare in 2003, not because government was going to compete with the private sector in the capital market but because one wondered about which projects government was going to put the resources, if not for on-lending to the private sector. We have come to a point where government should restrict itself to the projects inaccessible to the private sector.

The target for deficit spending was pegged at a low rate of 2.5 per cent of gross domestic product (GDP)\(^5\). Even if this was attained, money supply (M2) soared beyond its target growth rate of 15 per cent to 21.2 per cent in the first half of the year and was expected to grow by 42 per cent the whole year. The exchange rate also worsened even though stable, moving from 120+ to 130+ to the dollar. What is not clear to observers is why government expenditure should continue to rise despite progress in:

- Privatisation;
- Redirection of public investment to maintenance of infrastructure;
- Establishment of due process;
- Value for money in government contracts and consequent savings;
VI. SUMMARY AND CONCLUSION

Budget 2003 contained the appropriate measures and policies but as we can see its implementation is the problem. We showed how this problem arose from the misunderstanding of the concept and role of a national budget by the major players—government and the National Assembly and to a lesser extent the CBN.

The implementation problem is exacerbated by the project rather than the programme concept of national budget;

The CBN will need to be more independent, at a higher level of autonomy to ever play the appropriate role of ensuring macro-economic stability and development;

Exchange rate of the naira to the dollar should not be allowed to encourage imports; rather it should encourage export; this approach should decide whether the naira should be depreciated or not;

Special imports such as machines, technology, etc. Should be assisted through fiscal measures, some already in existence;

The Tariff structure should follow a similar pattern while at the same time respecting international ECOWAS and AU agreements and pragmatically obeying the WTO;

However, government must recognize that banning of certain imports will lead to a reduction of customs revenue and be prepared to make up the shortfall elsewhere.

NEEDS is a welcome idea but its goals will prove difficult to achieve because of the flaw in concept, based as it is on projects rather than programmes. For example, if the implementation in the medium term inconveniences the life of an average Nigerian, it becomes counter-productive. But if it factors in an improved well-being of the people in an expanded framework, the goals will be more attainable. For example, in selling government-owned houses as a project and displacing current occupants, a medium term programme of personal house ownership was needed. It will permit the sale of the houses to the highest bidder as one whole unit and will resettle...
**Introduction**

Economic development in any economic system revolves around the issues of the character, structure, pattern and the evolution of desirable inter-personal relations of production, allocation and the utilisation of available resources in the economy. Thus, in Nigeria’s quest to optimally develop and efficiently manage such available resources, equitably allocate and effectively utilize them and subsequently put economic development firmly on course, national budgets are usually prepared as the short-term components of an underlying medium term plan for the management of the economy within the conception of the framework of the prevailing development problems.

Incidentally, the democratically elected civilian government in Nigeria inherited an economy characterised, among several problems by (FRN, 1998):

(i) declining capacity utilisation in the real sector;
(ii) poor performance of major infrastructural facilities worsening the performance of the real sector;
(iii) large budget deficit; and
(iv) rising levels of unemployment and inflation.

Additionally, the Nigerian economy faced grave development problems of import dependence, weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities and low level of social services which all combined to hamper the performance of the real sector in Nigeria.

Determined to move the Nigerian economy and society to a more desired state, the civilian government released the Nigerian Economic Policy (NEP), 1999-2003 in which it feels better placed to articulate ways of using its subsequent annual budgets to realize the development goals stated in that policy document. Thus, the civilian government imbibes annual budgeting as a tool for effectively managing the Nigerian economy under varying themes within the framework of economic recovery since 2000. Within this framework, the thrust of annual budgets in Nigeria has been to lay a solid foundation for a private sector-led economic diversification and growth in which unemployment and poverty will be reduced relying more on the real sector of the economy.

Within the framework of economic recovery enroute the private sector led growth, Budget 2004, termed “Economic Reform Agenda for 2004 and

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Electrical Equipment, Parts Thereof, Sound Recorder, Reproducers, Television Image and Sound Recorder and Reproducers, Parts and Accessories of such Articles

- Tariffs reduced for 14 items, e.g., parts for air conditioner [15 to 5%], Fuses [25 to 5%], parts for Fridges/freezers 25 to 5%.
- Tariffs increased for 2 items R20 batteries [40 to 45%], Finished tapes [10 to 30%].
- Existing tariffs to remain 1 item [Battery cages for poultry industry [2.5%].

REFERENCES


the occupants by assisting them to build or buy houses elsewhere over a medium term period. There is no quick fix in sustainable development.

This failure in conceptual approach, in my view, is responsible, as another example, for increase in the output of cassava that at the same time threatens to impoverish the farmers. The price of garri continues to fall while a lot of cassava remains un-harvested. The need for export and industrial use of the product was not factored into the project of increasing cassava output. A programme of increasing farmers income would have envisaged that. Thus, Budget 2003 was a success no doubt but the impact on the people was limited.

REFERENCES:

Table 1: Monetary Policy Targets (Growth in %)

<table>
<thead>
<tr>
<th>Key Policy Target</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Broad Money (M2)</td>
<td>19.6</td>
<td>15.3</td>
<td>15.0</td>
</tr>
<tr>
<td>2  Narrow Money (M1)</td>
<td>4.2</td>
<td>12.4</td>
<td>13.8</td>
</tr>
<tr>
<td>3  Aggregate Credit to the Economy</td>
<td>409.3</td>
<td>57.9</td>
<td>25.7</td>
</tr>
<tr>
<td>4  Credit to Government</td>
<td>27.6</td>
<td>96.6</td>
<td>150.3</td>
</tr>
<tr>
<td>5  Credit to Private Sector</td>
<td>59.4</td>
<td>34.9</td>
<td>32.3</td>
</tr>
<tr>
<td>6  Inflation Rate</td>
<td>9.0</td>
<td>9.3</td>
<td>9.0</td>
</tr>
<tr>
<td>7  GDP</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Table 2: Proposed Allocation of Federal Government Capital Budget among key priority sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and Rural Development</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Roads (maintenance, rehabilitation and construction)</td>
<td>12</td>
<td>13</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Education</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Health</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>10</td>
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<tr>
<td>Water Resources</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Power</td>
<td>16</td>
<td>15</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Share of the Priority Sectors in Total Allocation</td>
<td>57</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Others</td>
<td>43</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
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