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Moderation Budget

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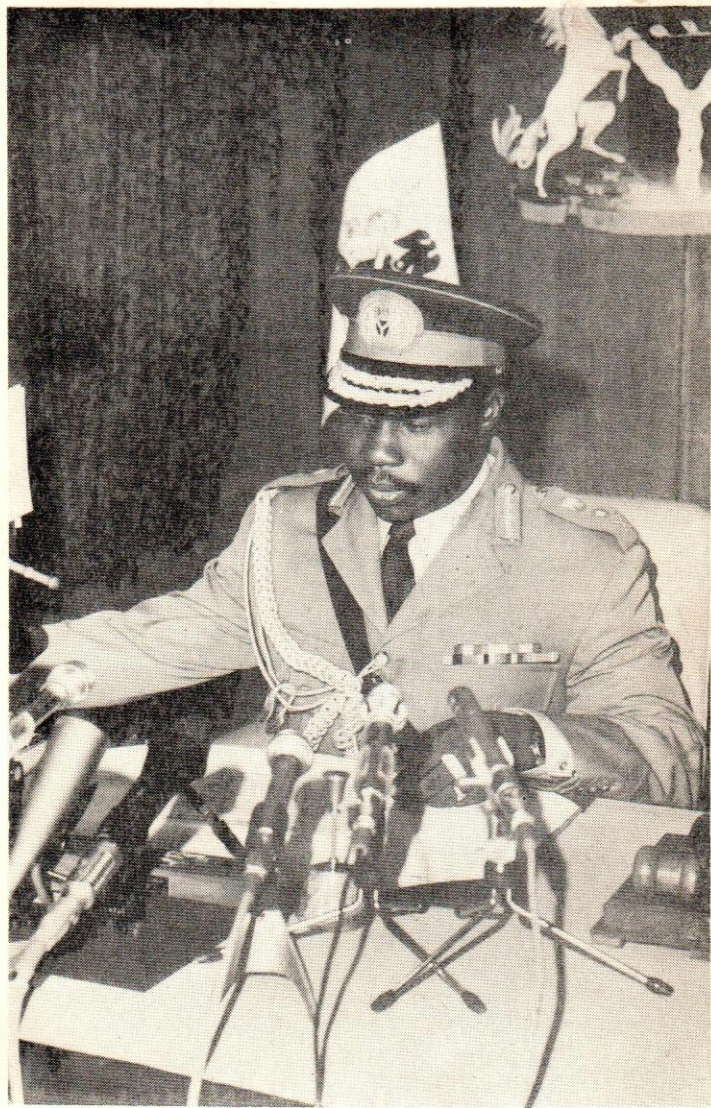
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His Excellency, Lt-General Olusegun Obasanjo, Head of State and Commander-In-Chief of the Armed Forces of the Federal Republic of Nigeria.



Introduction

The Head of the Federal Military Government and Commander-In-Chief of the Armed Forces, Lt-General Olusegun Obasanjo, on Thursday, 31st March, 1977, announced the budgetary measures for the 1977/78 Fiscal Year.

Total Federal Government Expenditure for the year is ₦8,597 million, while the Recurrent Expenditure and Capital Expenditure have been limited to ₦3,097 million and ₦5,500 million respectively.

Highlights of the budget include the provision of measures to further modernise agriculture, accelerate the pace of industrial growth and facilitate the utilization of housing loans.

**1977/78 Budget Broadcast
by His Excellency,
Lt-General Olusegun Obasanjo,
Head of the Federal Military
Government, Commander-In-Chief
of the Armed Forces
on Thursday, 31st March, 1977**

Good Evening,

It is time once again to take stock of the result of our management of the country's economy during the 1976/77 Financial Year which has come to an end, and to announce the 1977/78 budgetary measures as approved by the Supreme Military Council, National Council of States and Federal Executive Council.

I will concern myself, in the main, with the general state of the economy, the highlights of the Budget proposals as well as other major changes in Policy directions and objectives.

The 1976/77 Budget was launched against the background of rapidly accelerating price inflation, economically crippling congestion of our ports, wide-spread shortages of essential commodities, a deficit in Federal Government's finances and some deterioration in our balance of payments position. The 1976/77 Budget therefore, aimed at stimulating sustainable economic growth whilst drastically reducing the rate of inflation. This was to be achieved through a re-ordering of Government spending priorities and the elimination of identified bottlenecks in the economy. Although much work still has to be done, I am pleased to report that developments in the economy in 1976/77 indicate that impressive progress was made in our national fight against the high rate of inflation which declined from 35 per cent in 1975/76 to about 20 per cent in 1976/77. An encouraging aspect of the prices development is that virtually all the major

components of the consumer price index recorded slower rates of growth in the outgoing financial year.

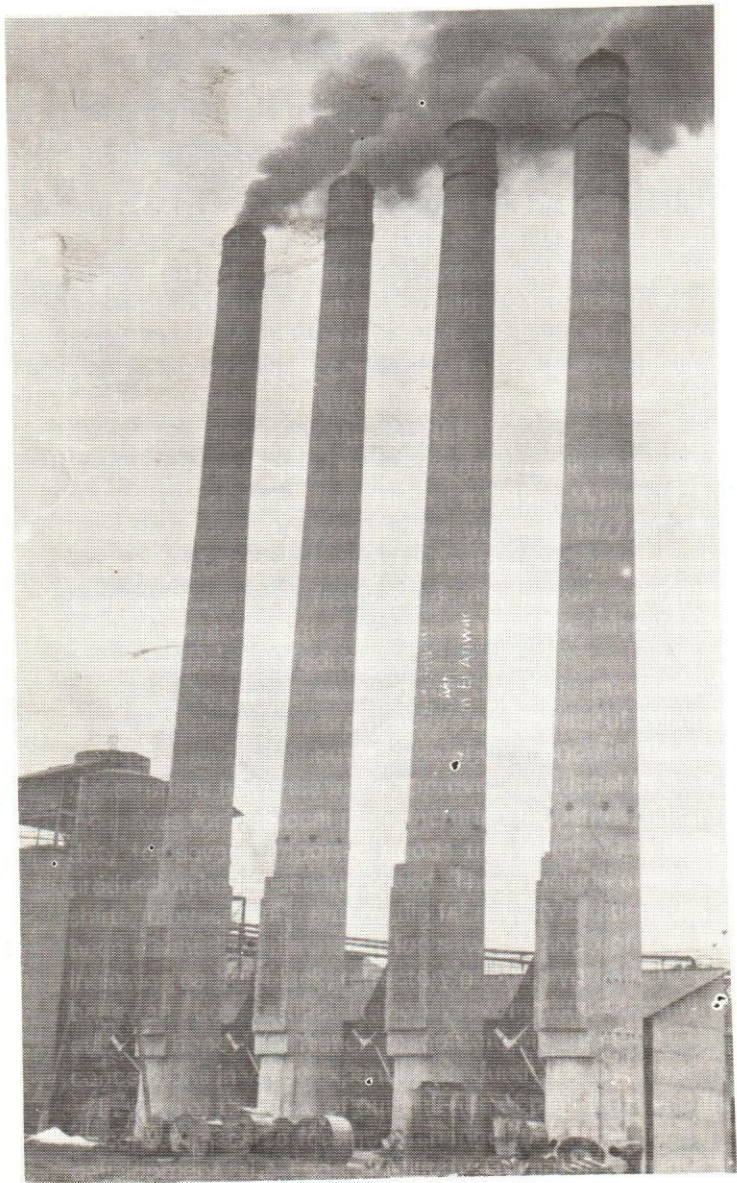
GROWTH RATE

In real terms, the national economy grew by 10 per cent in 1976/77 compared with a growth rate of only 2.8 per cent in 1975. As in the past five years, this impressive growth rate was determined, to a great extent, by the performance of the oil sector which increased by about 14.8 per cent as against the decline of 20.7 per cent recorded for the preceding year. Major incentives to encourage the exploration and development of new oil fields are being worked out and will be announced shortly.

One great source of satisfaction is that Agriculture contributed significantly to growth in 1976/77. Compared with an increase of only 1 per cent in 1975/76 our farmers increased their production by some three per cent in the past year. No greater tribute can be paid to the 'Operation Feed the Nation' effort. The programme will be pursued with even more vigour in the coming year.

In the past year, investment in machinery and transport equipment continued to grow relatively faster than investments in buildings and construction, and land improvements. Machinery and Transport Equipment jointly grew by about 50 per cent while Building and Construction and land Improvements together increased by about 32.3 per cent. This pattern of our fixed capital formation is consistent with reasoned expectation that during periods of rapid industrialisation, the growth of machinery and transport equipment should exceed that of other types of capital formation. In short, the nation is entering a period of rapid industrialisation.

The increase in money supply continued but at a slower rate in 1976/77 than in 1975/76. This very limited success was due largely to the restrictive monetary and credit policies implemented by Government in 1976. The moderation in the growth of our money supply helped reduce the rate of growth of prices in 1976/77.



The Nigerian Cement Factory, Nkalagu.

TRADE FIGURES

With respect to our balance of trade and payment situation, in 1976/77 we recorded a merchandise trade surplus of ₦1,600 million. In spite of this, our balance of payments position continued to be adverse. Total exports increased from ₦4,900 million in 1975 to ₦6,700 million in 1976 — an increase of 35 per cent. Total imports, on the other hand, rose by 38 per cent, from ₦3,700 million in 1975 to ₦5,100 million in 1976. The balance of goods and services for 1976 showed a deficit of ₦130.5 million, in contrast to a surplus of ₦249.4 million in 1975. When account is taken of unrequited transfers of ₦89.4 million, the deficit on our total current account for 1976 rises to ₦219.9 million. This adverse balance regrettably reverses the favourable trend that was recorded for each of the preceding three years. Overall, the nation's balance of payments showed a deficit of ₦242.6 million. As a result of this deficit, our external assets declined marginally from ₦3,696.43 million in 1975 to ₦3,453 million in 1976.

PROJECTS

In spite of various constraints in the areas of manpower, land acquisition and other supply bottlenecks, progress in the implementation of the projects in the Third National Development Plan was satisfactory in 1976. Although a greater part of the year was spent on the choice of technical partners and project sites as well as studies, designs and the placement of orders for machinery and equipment, a number of concrete achievements were also recorded. We are satisfied that a sound basis has now been established for the quick take-off of the projects in the coming years.

Many major projects like the Warri refinery have reached advanced stages of construction. The contract for the design and construction of the Kaduna refinery has been awarded to Chiyoda Engineering and Construction Company. Its completion time will be 36 months. And in addition to the Ajaokuta blast furnace steel mill contracts for the construction of the two integrated direct reduction steel plants each with a capacity of one million tonnes have also been awarded. These iron and steel



A housing estate in Surulere, Lagos . An important aspect of the 1977/ 78 budget is the provision for housing development and the facilitating of housing loans to individuals.

projects which are basic to our industrial take-off will come on stream in 1980. Major strides have been made in the area of ports, transportation and communications and later in the financial year, the nation will begin to reap the fruits of investments now being made.

In terms of overall performance, the national economy fared better in 1976/77 than in 1975/76, thus reflecting the success of Government's policies to solve the major economic problems with which we were confronted in 1975. But much still remains to be done. Therefore, most of the remedial measures introduced last year will have to continue in force and where necessary new measures are being introduced. It is against this background that the fiscal and monetary measures in the Budget have been formulated.

PUBLIC POLICY

In the sphere of public policy the Government will in the coming year, take necessary steps to ensure industrial peace and stability, more rapid economic growth, and continue its effort to ensure a more equitable distribution of incomes and wealth. The battle against inflation will continue to be waged vigorously, with a view to achieving and maintaining a more acceptable rate of inflation that will be consistent with the demands of a dynamic and fast growing economy.

HOUSING

It is now obvious that the most serious constraint to the rapid expansion of housing is the difficulty of acquiring land. In order to facilitate the utilisation of housing loans for the purpose for which they are intended, State Governments will acquire large tracks of land, lay them out and make these available to individuals and institutions, including Governments for allocation to their staff for building owner-occupied houses. Since housing loans are being made more liberal than ever before, the public should utilise the expanded borrowing opportunities now available more intensively.

In addition, as a way of removing one of the bottlenecks hindering development, the Supreme Military Council has decided to set up a Land Use Panel to undertake an indepth study of the existing land tenure systems, use and conservation practices in the country and make appropriate recommendations. The Panel is to be headed by Mr. Justice Chike Idigbe of the Supreme Court.

A Revenue Allocation Review Committee of experts will be established as recommended by the Constitution Drafting Committee to examine and determine the adequacy of the current revenue allocation formula and make recommendations, as necessary, for revenue allocation between the Federal, States and Local Governments and among the States and Local Governments. The proposals of the Revenue Allocation Review Committee will be available for placing before the Constituent Assembly for consideration and subsequent enactment.

INCOMES POLICY

In the field of Incomes Policy, the Federal Military Government has decided that there is no justification for a general increase in salaries and wages in the new year. The existing guidelines on wages and salaries will therefore continue in a slightly modified form. The Government recognises the need for providing some relief to those workers earning not more than ₦3,000 per annum. This proposed relief is based primarily on the general level of productivity in the economy. Accordingly, a maximum increase of 7 per cent will be granted in both the public and private sectors in respect of wages and salaries below ₦3,000 per annum. In the public sector, only those in salary GL 07 and below will benefit from this award graduated in such a way that those in the lowest rank of the salary ladder will get the highest increase while those in salary GL 07 will receive an increase of about 1½ per cent. This marginal increase in salaries and wages below ₦3,000 per annum should not be used as an excuse for a general upward increase in prices. The increases will take effect not before the 1st of June, 1977. All agreements reached between Workers' Unions and private

employers must be subject to the 7 per cent limitation and will only take effect after approval by the Commissioner for Labour who will announce details of the Guidelines of how this will operate in the private sector. The existing dividend rate of 30 per cent gross will remain through the 1977/78 Financial Year. For the purpose of calculating this rate, scrip issues or bonus shares issued from 1st October, 1976 shall be excluded. Furthermore, no scrips based on a revaluation of assets may henceforth be issued. It is my hope, indeed my expectation, that all Companies will use part of their retained earnings to promote the welfare of their workers. A good example in provision of housing for all level of their workers at controlled rent has been embarked upon by some financial institutions and manufacturing industries.

ANTI-INFLATIONARY MEASURES

In the coming year, the Government will continue to give prime attention to the fight against inflation. Whilst 1976/77 can be considered as the year of infrastructure, 1977/78 will be the year of agriculture and industry. To this end, measures are being taken aimed at the faster modernisation of Agriculture and further incentives aimed at accelerating the pace of industrial growth would be introduced.

As substantial increases in our domestic production would exert effective downward pressure on the rate of inflation in the long-run, and contribute to overall economic development, Government has once more approved additional protection and incentives for our local manufacturing industries. Thus rates of duty for several imported goods that compete with domestic production have been increased. These include outer garments, shirts, blouses, suits and textile fabrics. In addition, duties have been slashed or eliminated for a wide range of raw materials including carbon black, refractory goods, synthetic rubber latex, barley and hops, artificial raisins, raw materials for animal feeds etc. I hope domestic manufacturers will reflect these concessions in vastly expanded production and in lower prices.

In view of the state of our balance of payments and the need to conserve scarce foreign exchange for capital formation and development, the Federal Military Government has banned a

number of items including: beer bottles, galvanised buckets, spa water, carbon papers, lace and all cars over 2,500 cc engine capacity. Cars over 2,000 but less than 2,500 cc will attract an increased duty of 150 per cent and are placed under licence along with cars under 2,000 cc engine capacity. Canned beer, soft drinks, furniture, carpets, common salt, matches, typewriter ribbons have been placed under licence. Brandy, whisky, schnapps, gin and wines have their duty increased by 50 per cent. Heavy penalties await smugglers.

It is my sincere hope that our domestic manufacturing community will take the opportunity to demonstrate their social responsibility and show that they deserve the protection and indirect subsidies which have been provided them, by ensuring that the growth of their output in terms of quality and quantity, at least, matches the growth of domestic requirements. Their performance will be very closely watched.

TAX POLICY

With respect to tax policy, the existing rates of capital allowance are adequate for now in respect of the purpose they are supposed to achieve. However, it has been observed that most firms in the building and construction industry, which is currently enjoying a boom, pay little or no taxes. To correct the situation, Government will, as an alternative to profit tax, impose a turn-over tax of 2½ per cent in the construction and building industry. Personal allowance now fixed at ₦600 is extended to one-tenth of earned incomes as an option and whilst dependent relative allowance shall remain at the maximum of ₦400, it would now be granted to any person who has an income in his or her own right. In view of these concessions, and in pursuance of Government's social objectives, the present rate of tax on chargeable incomes over ₦10,000 has been increased.

In view of the abundant evidence of widespread tax evasion among wealthy businessmen and women and self-employed professionals, all the Governments of the Federation would institute stringent corrective and penal measures in the new year, to reduce the incidence of tax evasion.

ALLOCATIONS TO LOCAL GOVERNMENTS

Following on the Local Governments reforms and the success of the recent elections, the Supreme Military Council has been favourably impressed by the enthusiasm of the average Nigerian for the success of the new Local Government system. In order to ensure that this level of Government has the resources to provide the services expected of it, the Federal Military Government has decided that 5 per cent of all federally retained revenues and 10 per cent of total state revenue be made available to Local Governments in the 1977/78 Financial Year. Federal allocation to Local Government in the new Financial Year will thus be in the region ₦250 million. These resources will be maintained by the States in a special account and be disbursed to the Local Governments on criteria which have already been worked out.

MONETARY POLICY

Last year, the goals of monetary policy included the reduction of excess liquidity and inflationary pressures in the economy. The policy measures introduced then have been effective only to a limited extent and would therefore be continued in full force in the new year.

With the advent of the second phase of our indigenisation programme, Commercial and Merchant Banks are being allowed to exceed the 40 per cent ceiling on the rate of increase in loans and advances made in furtherance of our indigenisation objectives. In addition, Commercial and Merchant Banks would be required to provide at least 5 per cent of their total loans and advances to the residential Building Construction sub-sector and up to 6 per cent to agriculture which in 1976/77 received only 2.6 per cent. Shortfalls between loans and advances made by the Banks to agriculture, housing and small scale industry and the levels prescribed by the Central Bank will henceforth be deposited with the Central Bank. In the case of State financing, a new important departure is that State Governments now have the choice to use the capital market to float their own loan

stocks. This is one of the major recommendations in the report of the Financial System Review Committee, the Government White Paper on which will be published shortly.

BUDGET ESTIMATES

Now for the Budget Estimates, the total gross revenue of the Federal Government for the 1977/78 fiscal year is estimated at ₦7,650 million, that is 25.3 per cent over the revised figure for 1976/77. Out of this, a sum of ₦1,795 million is to be allocated to the States as statutory revenue leaving a balance of ₦5,855 million as Federal Government retained revenue. Since Government spending has been contributing substantially to domestic inflation, Government's total expenditure in 1977/78 on both recurrent and capital accounts is being held down to about ₦8,600 million. This has meant drastic and often painful cuts.

RE-ORDERING OUR PRIORITIES

In fact, our present tight financial situation dictates stricter re-ordering of our priorities. After taking care of the estimated Recurrent Expenditure of ₦3,097 million in 1977/78 only about ₦2,700 million is available for transfer to the Development Fund account. If we are to be able to finance the estimated Capital budget of ₦5,700 million, we will have to depend largely on internal and external loans. This therefore has to be a strict Budget both in terms of Government having to cut down its programmes and also in terms of the sacrifices which are being demanded from all Nigerians.

PLEDGE

Fellow countrymen and women, when this Administration came into existence in July 1975, it pledged itself to the creation of a just, disciplined and fair society with equal opportunity for all and a free and democratic society. I want to take this opportunity to inform the nation that the Supreme Military Council has re-dedicated itself to the achievement of these objectives and to ensuring that the average Nigerian citizen has access to his basic needs. It needs no gainsaying the fact that in this effort, we need the support of every well-meaning Nigerian.

In our circumstances, these objectives and freedom which we cherish can only be guaranteed within the context of a disciplined society and this Administration intends to ensure that discipline which is the hallmark of maturity and order, is instilled at all levels and in all aspects of the life of this nation. The rampant indiscipline and tardiness cannot be allowed to continue in our society.

PREVALENT SOCIAL ILLS

I have noted, with some sadness, that we have tended to live and display consumption patterns which are grossly out of tune with our level of development and national aspirations. Our public and individual life-styles give a sense of false values to our youths and is contributing, in no small measure, to the social ills which are again becoming prevalent in the society today. In an effort, therefore, to restore a more rational sense of values into our body politic, the Federal Military Government will beginning with this Budget and in the course of the new Financial Year, take all necessary measures to ensure that the weak is protected from oppression and exploitation by the strong.

I wish to conclude this Budget statement by extending the warm appreciation of the Federal Military Government to all the people of this great nation who, in the course of the past year, have toiled and made sacrifices, and have generally supported the Administration in the challenging task of building a prosperous, happy and progressive society. We have a lot to be proud of in our achievements so far, but a great deal more remains to be done. I therefore urge you all to join the Administration in the rededication to the great task of nation-building in a spirit of total commitment, discipline and service.

Thank you and Good Night.



Major-General J. J. Oluleye, Federal Commissioner for Finance

Statement on the 1977-1978 Budget

By

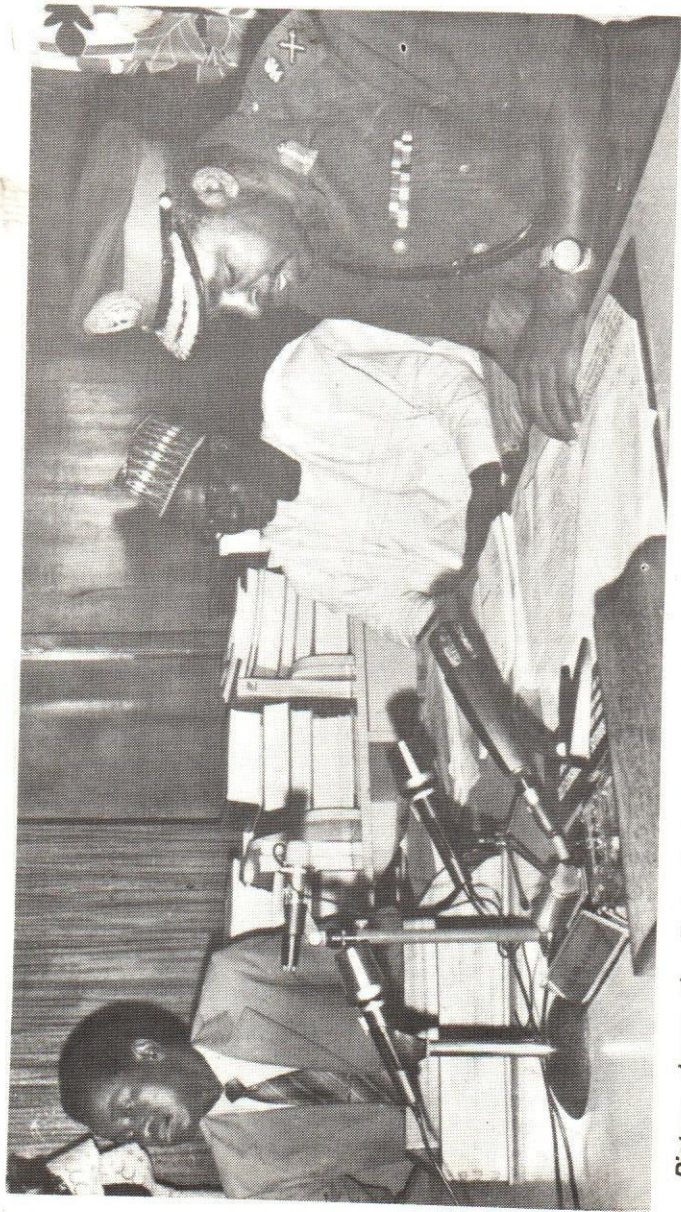
Major-General J. J. Oluleye,
Federal Commissioner for Finance

Ladies and Gentlemen,

I welcome you all to this briefing session on the Federal Government Budget for the 1977/78 financial year.

The economic background to the Budget as well as the general outline of the fiscal, monetary and other measures taken by Government for the fiscal year 1977/78 were given by His Excellency, the Head of the Federal Military Government, Commander-in-Chief of the Armed Forces in his Budget Broadcast last night. The purpose of my meeting with you this morning is to brief you on the details of the Budget and to answer any questions you may wish to ask on His Excellency's broadcast as well as any that may arise from my statement.

In his analysis of the economic background to the Budget, the Head of State emphasized that although the underlying tone of the economy is sound and great progress was made in such areas as stimulating sustainable economic growth and moderating the rate of inflation, the achievement of other major goals of our economic policy, such as the balancing of our internal and external accounts have so far remained illusive. Even in the area of price development where the rate of inflation has decelerated, the current double-digit growth rate of 22 per cent is still too high for Government to relax its efforts in the fight against inflation. In other words, the present state of our economy does not permit of a full scale relaxation of the restrictive and corrective measures introduced in the 1976/77 Budget. Therefore, the 1977/78 Budget has attempted to broaden the scope of some of those measures and introduce new ones where necessary.



Picture shows the Federal Commissioner for Finance, Major-General J. J. Oluleye reading the 1977-78 budget statement.

FISCAL MEASURES

I understand copies of the Extra-ordinary Gazette dated 1st April, 1977 giving the details of Customs and Excise Tariff changes as well as the Import Prohibition Amendment Order 1977 have been distributed to you. The fiscal measures contained in the two documents have been formulated to achieve the following objectives:

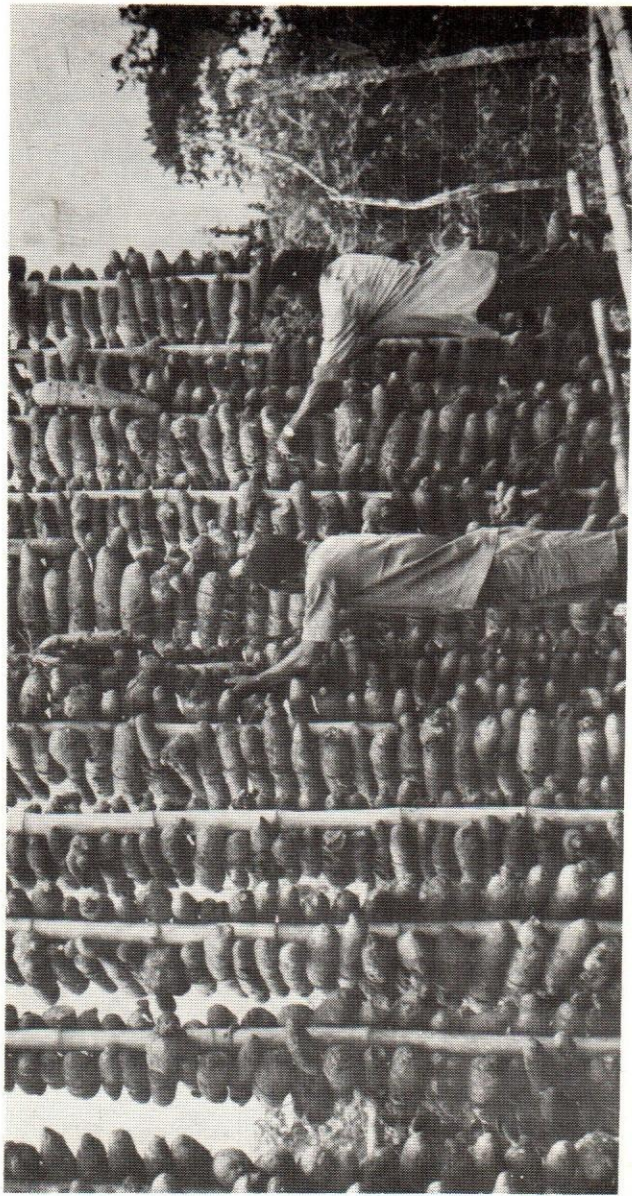
- (i) industrial peace and stability;
- (ii) economic growth especially in the productive sector; and
- (iii) to bring further down the rate of inflation.

Based on these broad objectives the fiscal measures cover the following areas —

AGRICULTURE

For an agricultural economy like ours the objective should not only be to satisfy local demand for food and agricultural materials but also to be able to export surpluses. The Federal Military Government realises that to achieve this goal, large scale commercial agriculture must be encouraged in addition to continuing the efforts to remove the bottlenecks to modernising the traditional agricultural sector. It has therefore taken the following decisions to further assist agriculture and agro-allied industries:

- (i) State Governments have agreed to earmark definite areas for large-scale plantations to be allocated to interested parties, whether foreign or indigenous within the framework of the Indigenisation Decree;
- (ii) The Federal Government will provide tax relief via the Pioneer Certificate for a period of at least five years for any agricultural or agro-allied project whose raw materials are produced locally;
- (iii) With effect from today's date, all raw materials for the manufacture of livestock feed will come in duty free through the Approved User Scheme, subject to certification by the Department of Customs and Excise;



An Agricultural Farm in Bori in the Rivers State. Agriculture contributed significantly to growth in 1976/77. In order to further assist agriculture and agro-allied industries, the Agricultural Credit Guarantee Scheme Fund Decree 1977, was promulgated establishing a Fund with a capital of N100 million for providing guarantees in respect of loans granted by banks for agricultural purposes.

- (iv) Imported food items now banned will continue to be on the prohibited list, except chocolate and chocolate preparations including chocolate confectionery. As a cocoa producing and exporting country, Nigeria cannot justifiably ban the importation of cocoa product;
- (v) Agricultural machinery will continue to be imported duty free. In addition all machinery, including chicken incubators, used for food and agricultural processing will now come in duty free;
- (vi) The Federal Military Government has also promulgated the Agricultural Credit Guarantee Scheme Fund Decree 1977. This Decree which came into force on the 8th of March 1977 establishes a Fund with a capital of ₦100 million for the purpose of providing guarantees in respect of loans granted for agricultural purposes by any bank in accordance with the provisions of the Decree.

HOUSING

To supplement Federal and State Governments Housing Programmes, the following measures have been decided:—

- (a) The recently established Federal Mortgage bank will provide credit facilities to all Mortgage institutions in the country.
- (b) Commercial and Merchants Bank will set aside 5 per cent of their loanable funds for lending to the residential building construction sub-sector.
- (c) Commercial loans for Residential buildings will attract interest at the minimum rate of 6 per cent and will be repayable over a minimum period of 10 years.
- (d) Assurance companies can now use up to 25 per cent of their Life Funds (Instead of 10 per cent) for investment in real estate.

It is appreciated that one of the serious constraints to fast expansion of housing is the difficulty of acquiring building land. Therefore, in addition to the infrastructural support and



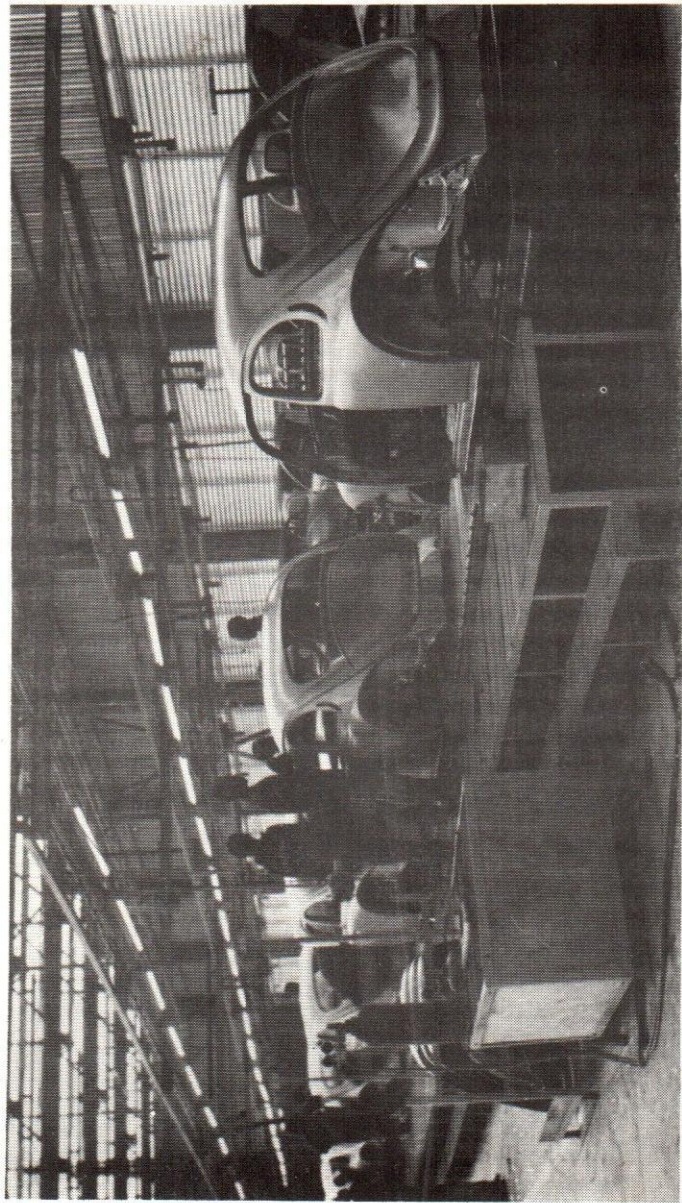
Workers at the Bauchi Meat Products Factory.

enhanced capital allowance for estates announced last year, all Governments will now acquire land, lay it out and then lease to individuals and institutions for building private houses.

MANUFACTURING INDUSTRY

In his Budget Broadcast last night, the Head of State emphasized the need to increase our industrial base and self-sufficiency with regard to manufactured goods. It will be recalled that the 1976/77 Budget made wide ranging reductions in respect of duties payable on imported raw materials. In the current budget, Government has approved the following additional protection and incentives for local industries:—

- (a) *Clothing and Garment manufacture* — Duty on men's and ladies' outer garments such as trousers, blouses, skirts, shirts and jackets has been increased from ₦1.50 or 50 per cent to ₦3.00 or 100 per cent each, whichever is the higher.
- (b) *Tyre Industry* — Synthetic rubber latex and sheets of unvulcanised synthetic rubber will now be imported at a concessionary rate of 10 per cent and $33\frac{1}{3}$ per cent respectively under the Approved User Scheme. Duty on Carbon black and Steel tyre cord (multi-strand) used in tyre manufacture will be reduced from 10 per cent to 5 per cent. On the other hand, duty on imported tyres of a sectional width exceeding 102mm but less than 305mm will go up from 35k the kilogramme to 55k the kilogramme.
- (c) *Primary Batteries and Electric Filament Lamps Industries* — In order to protect local manufacture of primary batteries and electric filament lamps from the dumping strategies of foreign suppliers, duty on imported ordinary primary flash batteries will increase from 40 per cent to 75 per cent. Duty on electric filament lamps will also increase from 50 per cent to $66\frac{2}{3}$ per cent or 15k each whichever is higher. Furthermore parts used in manufacturing these two items locally will have their duty reduced from 20 per



The Volkswagen Motor Assembly Plant on the Lagos - Badagry Road. In order to maintain protection for locally made cars, importation of cars above 2,500cc engine capacity is prohibited while cars under 2,000cc are under licence.

cent and $33\frac{1}{3}$ per cent respective to a uniform rate of 10 per cent.

- (d) *Welding Electrodes* — In order to strengthen the capacity of local industries to cope with increasing tempo of activity in metal fabrication in the automotive and construction industries, duty on sodium and potassium silicates and nickels wire used in manufacturing welding electrodes have been reduced from 10 per cent to 5 per cent. On the other hand, the existing approved user concession whereby industrial users of welding electrodes could import the item at 5 per cent has been abolished since local production is good enough to meet the various specifications. Duty on imported electrodes has also been increased from $33\frac{1}{3}$ per cent to 50 per cent ad valorem.
- (e) *Footwear Industry* — The concessionary duty of 20 per cent on patent leather, imitation patent leather and metallised leather introduced during the 1976/77 Budget is now to be limited to importation by approved manufacturers only. Duty on adults shoes will increase from the present rate of ₦3.00 or 50 per cent a pair to ₦4.00 or 100 per cent. As a people, we should be self-sufficient in shoes having regard to the long history of our leather tanning and shoe-making industries.
- (f) *Brewing Industry* — In an effort to help the brewing industry to expand their production, import duty on barley and hops previously at 40 per cent and $33\frac{1}{3}$ per cent respectively have been reduced to a uniform level of 20 per cent.
- (g) *Passenger cars* — In order to maintain the protection for locally made cars importation of cars under 2,000cc will continue to be under licence and at the following rates:
- (1) Not exceeding 1,800cc... .. 25 per cent



The United Textile Mills in Kaduna. The Federal Military Government has prohibited the importation of a number of items including lace, tulle, net fabrics and real madras.

(2) Exceeding 1,800cc but not exceeding 2,000cc 40 per cent

- (h) *Textile Industry* — In order to consolidate our textile industry and ensure that spinning capacity is developed substantially to cope with increases in cotton and polyester staple production, and approved user duty concession of 7k per kg. (net. thread weight) or imported man-made fibre has been introduced. Non-concessionaries will now pay 30k a kilogramme or 50 per cent.
- (i) Slightly duty increases have also been imposed on imported razor blade, torch batteries, socks, kerosene cookers, welding electrodes, electric filament bulbs, zip fasteners, type-writer ribbons, blankets and gramophone records. This is done in an effort to further boost local production.

Overall the tariff measures aimed at bringing down the duty on imported essential raw materials to 10 per cent ad valorem and in a few cases down to 5 per cent. It is estimated that these fiscal concessions will amount to an additional subsidy of ₦28.5 million to the manufacturing sector.

IMPORT PROHIBITION

In view of the present position of the country's balance of payments, and as part of the efforts to continue to assist local industries, all the items on the Prohibition List published as L.N. 73 of 1976, with the exception of chocolate and chocolate preparations and badges used by international organizations, such as Boys Scouts, will remain absolutely prohibited. The following additions have also been made to the list of the prohibited items:

- (a) lace, tulle (except tulle grass) and net fabrics
- (b) galvanised buckets
- (c) carbon papers
- (d) beer bottles

- (e) Evian waters
- (f) real madras (popularly known as George)
- (g) all cars above 2,500cc engine capacity.

Importers who have already placed orders for commodities just banned are expected, within 14 days of the promulgation of the import Prohibition Amendment Order 1977 to deposit with the Central Bank of Nigeria or any of its branch offices in the States, documents showing proof of financial commitments entered into with overseas suppliers or manufacturers in respect of the commodities.

IMPORT LICENSING

In order to regulate their importation with a view to increasing domestic production, the following items have been placed on import licence: —

- (a) Common salt;
- (b) Carpets;
- (c) Typewriters ribbons;
- (d) Furniture;
- (e) Matches;
- (f) Passenger cars exceeding 2000cc but not exceeding 2500cc. Cars within this range will now attract 150 per cent duty;
- (g) Canned beer and soft drinks.

OTHER FISCAL MEASURES

- (i) *Wages and Dividends* - Government decision on this was clearly stated by the Head of State in his broadcast last night.
- (ii) *Scrip issue and revaluation of assets* - Some companies have tried to circumvent the current restriction on dividends by increasing their paid-up share capital through bonus issues. In some cases they have achieved this purpose through the revaluation of assets. Government has now decided that any increase arising from revaluation of assets shall be placed in a special "Asset

Revaluation Account." While this account will reflect the true worth of the investment, it must not be used for creating scrip shares. Also while the current dividend restraint continues, all scrip issues made since 1st October, 1976 shall not account for the purpose of dividend.

(iii) *Turn-over Tax by Building and Construction Industry* —

Most of the building and construction firms at present pay little or no tax at all, even though it is obvious they are enjoying a boom period. To correct this situation, Government has decided to apply the existing Turn-over Tax Decree of 1969 whereby all companies in the construction and building industry will pay either a turn-over tax of 2½ per cent (which will not be subject to deduction for capital allowance) or the normal Companies income tax, whichever is the higher.

(iv) *Personal Income Tax* - The following decisions have been taken in respect of personal income tax: —

- (a) *Personal Allowance*: In order to reduce the tax burden of those under the Pay-As-You-Earn system, a taxpayer is now entitled to either ₦600 or one-tenth of his annual earned income as allowance, whichever is higher.
- (b) *Dependent relatives allowance*: Dependent relatives allowance is now to be granted to any person who has income in his or her own right.
- (c) *Children's allowance*: A widow who remarries is now eligible to claim for the children of the deceased husband up to a maximum of four children
- (d) *Rate of tax*: The present rates of personal income tax after the first ₦10,000 of chargeable income have been revised as follows: —

For every naira of the next	₦5,000 - 40k	(40 per cent)
" " " " " "	₦5,000 - 45k	(45 per cent)
" " " " " "	₦10,000 - 55k	(55 per cent)
" " " over " "	₦30,000 - 70k	(70 per cent)

Community tax rate has been increased from ₦4 to ₦5.00 to provide more funds for Local Government Authorities. Income rate has been abolished in respect of those who come under Pay-As-You-Earn system or Community tax.

(e) *Taxation of Fringe benefits:*

- (i) *Rental Expenses* - Limits have been imposed on allowable rental expenses incurred on staff accommodation as follows:—
 - (a) *Lagos.* A maximum of ₦14,000 per annum for a flat and a maximum of ₦28,000 per annum for a building.
 - (b) *Other places.* A maximum of ₦5,000 per annum for a flat and a maximum of ₦20,000 per annum for a building.
- (ii) *Car basic allowance* - Legislation will be introduced in the year to make recipients of car basic allowance in excess of ₦600 per annum liable to payment of tax on the allowance.

MONETARY AND BANKING POLICY

The objectives of monetary policy in the 1976/77 budget were to mop up excessive liquidity and curb inflationary pressures in the economy. The policy measures adopted included Credit Ceiling, Credit Allocations, Liquidity Squeeze, Interest Rates Structure, Ratio of Capital Funds to Loans and Advances, Merchant Banks Credit Guidelines and Assets structure, Cash Reserve Requirements, Exclusion of Import Pre-payment from eligible Liquid Asset and Stabilization Securities. In the light of our experience during the year, these policy measures were generally complied with and found to be effective. Government has therefore decided that these policy measures will continue in the new financial year 1977/78, subject to the following modifications:

- (i) *Credit Ceiling* - The 40 per cent ceiling on the rate of increase in banks' loans and advances will be maintained for both commercial and merchant banks, but con-

- cessions will be granted to banks that give loans for financing the second phase of the indigenisation exercise.
- (ii) *Loans to Indigenous Borrowers* - The Commercial Banks have been exceeding the 40 per cent minimum loan prescribed to indigenous borrowers. With more enterprises becoming indigenised, it has been decided to prescribe a minimum of 50 per cent for their loans to indigenous borrowers.
- (iii) *Credit Allocation* - Under the current guidelines, it is stipulated that a minimum of 10 per cent of commercial bank loans and 16 per cent of merchant bank loans should be made available to real estate and construction. While these percentages are usually complied with, it has been observed that the share that goes to residential building and construction averaged 3.3 and 4.3 per cent respectively. In view of the great need for residential accommodation in the country, it has been decided that from April 1977 Commercial and Merchant Banks will provide not less than 5 per cent of their total loans and advances to the residential building construction sub-sector and that loans to residential buildings and to companies for the purpose of building houses for their junior staff will be at the minimum lending rate with minimum repayment period of 10 years.
- (iv) *Interest Rate Structure* - Interest rates have been raised generally. The minimum and maximum lending rates by Commercial banks will however continue to be within the 6 to 10 per cent ceiling. The major changes in the interest structure are as follows: Minimum Rediscount Rate will go up from $3\frac{1}{2}$ - 4 per cent Treasury Bills Rate will go up from $2\frac{1}{2}$ to 3 per cent Treasury Certificates of 1 year from 3 per cent to $3\frac{1}{2}$ per cent Treasury Certificates of 2-year from $3\frac{1}{8}$ per cent to $3\frac{5}{8}$ per cent Produce Bills Rate will go up from $4\frac{1}{2}$ to 5 per cent. Deposit Rate is to remain unchanged except time deposits which will

attract 4 per cent. Stabilization Securities will now be 4½ per cent.

- (v) *Stabilization Securities* — The issue of stabilization securities to commercial banks will continue in 1977/78 as in the preceding year, but in order to encourage banks to mobilize savings, the rate of interest as I have already mentioned has been increased from 4 per cent to 4½ per cent.

THE FINANCIAL SYSTEM REVIEW COMMITTEE

In the outgoing financial year, the Federal Government set up a committee to review the financial system of the country. The Report of the Committee has been considered and a White Paper will be issued shortly. Some of the decisions arising from the recommendations of the Committee are:-

(a) *Capital Market*

- (i) Securities and Exchange Commission will be established to replace the present Capital Issues Commission with much wider responsibilities.
- (ii) In place of the Lagos Stock Exchange, there should now be a Nigerian Stock Exchange with branches in Lagos, Kaduna and Port Harcourt. The Federal Government will provide necessary assistance to facilitate the establishment of the new Stock Exchange and its branches.
- (iii) Government and their agencies will become more involved with the Capital market so as to increase the depth and size of the Nigerian market. Specifically, State Governments, Local Government Authorities and Statutory Corporations, and State owned companies will now be free to float their bonds on the Capital market subject to their meeting the requirements of the market.

(b) *Flow of Statistical and Financial Returns to the Central Bank*

Although the Central Bank does not supervise the non-bank financial institutions, it is increasingly

evident that the operations of these Institutions contribute to the general liquidity of the economy which is a vital element of inflation. Therefore, as part of the effort to improve on our Monetary Management, all financial institutions will henceforth make returns of financial statistics to the Central Bank in a form and manner required by the Bank.

(c) *The Extension of Banking Services*

The Commercial Banks have so far concentrated their branches and activities to the big cities thereby ignoring large areas of the country. In order to extend banking services and habits to the vast majority of our people who live in the rural areas a master plan is being drawn up by the Central Bank of Nigeria, for banks to set up branches in areas where they are inadequately represented. To the same end Government will in the new financial year provide the Federal Savings Bank with financial and technical support to enable the Bank establish a wider network of branches and improve on the quality of its services. In order to provide additional support for the promotion of banking habits and the responsible use of credit, a Bankruptcy law will be promulgated making the issue of dud cheques a criminal offence throughout the country.

(d) *Merchant Banks*

Further efforts to develop merchant banking will include a review of the Industrial Inspectorate Decree of 1971 and the existing capital allowances provision of the Income Tax Management Act and tax incentives for equipment leasing. In addition to existing facilities which include authorised dealership in Foreign Exchange, merchant banks can now offer checking accounts for their corporate clients.

(e) *Training and Manpower Development in the Banking Industry.*

It is recognised that the proposed extension of

Banking services in the country calls for trained and dedicated staff and manpower development in the Banking Industry as a whole. Accordingly the Central Bank will, in the new financial year, prepare a comprehensive programme for providing necessary assistance to the banking system with regard to manpower development.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

The overall performance of the external trade sector showed a noticeable improvement in 1976 in comparison with the preceding year. The improvement is noticeable not only in terms of the increase in the volume of trade, but more so in terms of the significant rise in our earnings from oil exports. It should be added, however, that despite the improved performance recorded in 1976, the level is yet to match what was attained in 1974.

Earnings from our exports reached a peak of ₦6,105.7 million in 1974 before going down to ₦5,246.1 million in 1975 from where it rose to ₦5,899.3 million in 1976. The improvement achieved in 1976 is attributable to increase in the output and export of oil as production reached a daily average of 2 million barrels and higher prices for our non-oil exports in the world market. The oil sector earnings went up from ₦4,896.3 million in 1975 to ₦5,501.1 million in 1976, while the non-oil sector increased its earnings from ₦349.8 million in 1975 to ₦389.2 million in 1976 despite a decline in the quantity exported.

Unlike exports, the value of our imports increased from the 1975 level of ₦3,511 million to ₦4,627.8 million in 1976. The highest increases were recorded for food items. The increase in the value of imports of capital goods, was significant. Government imports of both consumer and capital goods also increased substantially. However the expectation is that the Operation Feed the Nation will start to make its impact felt in 1977. The importation of food items will then begin to

decrease. Moreover as the various programmes of import substitution mature, the necessity to import consumer goods will be considerably reduced.

Payments for non-merchandise imports have also continued their up-ward swing, even though at a slower rate. From ₦1,367.7 million in 1975, the payments rose to ₦1,402 million in 1976. With the rapid rate at which many of the Plan Projects are being executed, it is expected the payments will be larger in the coming years.

A major development in our external transactions in 1976 is the estimated deficit of ₦241.6 million in the country's balance of payments against the surplus of ₦158 million in 1975. The deteriorating balance of payments position was due largely to a rapid increase in the volume of merchandise imports by the non-oil sector which rose by almost ₦1,000 million to ₦4,627.8 million.

FOREIGN EXCHANGE BUDGET

In order to continue to keep the balance of payments under control, the 1976/77 approach to foreign exchange budgeting has been adopted for Fiscal 1977/78. This means that instead of projecting how much each sector activity will spend in foreign exchange, the amount which can be spent during the year is fixed. The Federal Government on this basis has approved for fiscal 1977/78 a foreign exchange budget involving an inflow of ₦7,381.3 million and an outflow of the same amount. This means there will be no surplus to add to the country's external reserves.

The allocations of outflows approved for each sector are as follows:—

(i) Visible Imports:			
(a) Private Sector ..	₦3,376,300,000		
(b) Public Sector ..	₦2,184,600,000		
) ₦5,560,900,000
(ii) Invisible Imports			1,648,400,000
(iii) Capital Transfers			172,000,000

EXCHANGE CONTROL POLICY MEASURES

In order to be able to achieve the overall objectives in the 1977/78 foreign exchange budget, the following policy measures have been approved by the Government:—

- (i) **Consultancy and Technical Fees** - At present when foreign-owned companies undertake consultancy jobs in Nigeria, they are allowed to remit in foreign exchange up to a maximum of 60 per cent of the contract fee. The rationale for such a high percentage is that most of the jobs would have to be performed outside the country since the facilities for carrying out such jobs are quite inadequate within Nigeria. Experience has, however, shown that the percentage could be lower. Accordingly it has been decided that the foreign exchange component will now be limited to a maximum of 50 per cent but existing contracts will continue to be honoured.
- (ii) **Management Fees** - At present the foreign exchange regulation allows for a fixed fee in the first 5 years of the establishment of a Nigerian firm. Thereafter a maximum of 5 per cent of gross profit might be allowed for deserving cases. It has now been decided that the maximum allowed by the foreign exchange regulation will be reduced to 3 per cent of gross profit. As in the case of consultancy and management fees, existing contracts will continue to be honoured.
- (iii) **Education - Student Fees, Maintenance, etc** - All Nigerians studying abroad are expected to go through the Students Advisory Committee of the Ministry of Education. However, many go abroad without doing so, and later their relatives would start finding ways of remitting money to them. Unfortunately, it is not always possible to determine the authenticity of such claims or requests to remit funds for tuition fees and maintenance fees to students abroad. In fact lots of

abuses are being perpetrated through this avenue. Therefore, in order to plug this loophole, the Central Bank and the Authorized Dealers will no longer entertain applications on behalf of students who cannot produce the Students Advisory Committee authorization or a certificate from the relevant Nigerian Embassy. However, those who have gone abroad before the announcement of the Budget will still continue to enjoy the facility.

FOREIGN EXCHANGE ABUSE

The incidence of abuse of foreign exchange facilities has become widespread to the extent that there are several illegal black markets dealing in foreign exchange all over the country. In order to check this abuse Government has decided to set up a Task Force to look into the problem.

STATE GOVERNMENTS' FINANCES

The estimated Statutory appropriation of revenue to State Governments is ₦1,796 million as against ₦1,362 million for 1976/77, resulting in an increase of ₦434 million. On the other hand, total non-statutory appropriation is estimated at ₦684,200,000, whereas in 1976/77, the non-statutory appropriation was only ₦65,100,000. The increase is largely due to the transfer of the vote on the U.P.E. recurrent expenditure so as to facilitate payments in advance as part of the monthly cash remittances to State Governments.

The total outflow of funds to State Governments both on the recurrent and capital budget for the 1977/78 financial year is ₦3,538,937,368 compared with ₦3,047,462,066 in 1976/77, an overall increase of ₦491.4 million.

State Governments have, over the years, accumulated large debts made up of External Loans, Development Loans Stocks and Treasury Loans, all amounting to ₦1,126,294,094.63. These debts have remained on the books and created unnecessary paper work. In the face of the ostensible inability of State Governments to repay the bulk of the loans and because new States have been created, in consequence of which it

would be impossible to apportion some of the liabilities, the Federal Government has decided to write-off the sum of ₦804,466,914.28 in respect of the Development Loans Stocks, leaving a balance of ₦321.8 million in respect of the other loans to be settled by the States.

FINANCIAL DETAILS OF THE BUDGET

The estimated gross revenue for the year is of the order of ₦7,650 million compared with the 1976/77 Approved Estimates of ₦5,914 million, an increase of ₦1,736 million. Out of this, a total of ₦1,795 million will be transferred to the States by way of statutory allocation of revenue, leaving a balance of ₦5,855 million as net revenue available to the Federal Government. The approved recurrent expenditure of the Government for 1977/78 has been limited to ₦3,097 million. It is, therefore, expected that about ₦2,757 million will be transferred to the Development Fund to help to finance the 1977/78 capital expenditure.

The highlights of the Recurrent Expenditure are as follows:—

	₦
Cabinet Office	24,182,266
Police	165,171,714
Police Force Service Commission	280,391
Ministry of Agriculture and Rural Development	20,487,770
Audit	2,251,138
Ministry of Civil Aviation	27,690,921
Ministry of Co-operatives and Supply	2,315,180
Ministry of Communications	995,833
Ministry of Defence	817,763,310
Ministry of Economic Development	29,958,155
Ministry of Education	239,134,893
Ministry of Establishments	28,499,692
Ministry of External Affairs	42,018,952
Ministry of Finance	73,014,192
Ministry of Health	109,476,797
Ministry of Housing, Urban Development and Environment	17,819,260

Ministry of Industries	5,828,673
Ministry of Information	69,205,212
Ministry of Internal Affairs	49,685,530
Judicial	3,617,590
Ministry of Justice	3,629,697
Ministry of Labour	7,291,062
Ministry of Mines and Power	8,098,099
National Science and Technology Develop- ment Agency	40,015,320
Nigerian National Petroleum Corporation	3,520,800
Public Complaints Commission	5,395,215
Public Service Commission	3,794,209
Ministry of Social Development, Youths and Sports	36,333,207
Ministry of Trade	11,310,831
Ministry of Transport	14,094,054
Ministry of Water Resources	3,034,053
Ministry of Works	99,895,905

The Capital Expenditure budget for 1977/78 has been limited to ₦5,500 million. The total Federal Government expenditure (recurrent and capital) for the 1977/78 Fiscal year is therefore ₦8,597 million.

SMUGGLING

Before I conclude my briefing, I would like to draw attention to the incidence of smuggling which is now on the increase. Apart from being illegal, smuggling is a most unpatriotic act which in fact tantamounts to a sabotage of the economy. The Government cannot be expected to be indifferent to this. Therefore a more intensified action is being taken in this financial year to combat smuggling activities.

Ladies and Gentlemen, I think I have spoken enough. I thank you for your patient attention. I am now ready to answer any question you may wish to ask on this statement and also on the Head of State's Budget Speech.



