SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 14TH JUNE, 1984 BY THE HON. PROF. G. SAITOTI, MINISTER FOR FINANCE AND PLANNING, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR THE FISCAL YEAR 1984/85 (1ST JULY, 1984 TO 30TH JUNE, 1985)

Mr. Speaker Sir,

I beg to move that Mr. Speaker do now leave the Chair.

INTRODUCTION

Since attainment of political independence in 1963, the major objectives of Government have continued to be maintenance of individual liberty, social justice and progress towards economic independence. Experience over the last twenty years of independence has taught us that these objectives can only be achieved in a politically stable and peaceful society with a strong and growing economy.

Mr. Speaker, Sir, this is the First Budget in the Second Nyayo Parliament which was elected in an orderly and peaceful manner; a fact that demonstrated once again our firm commitment to democratic principles and practices. It is in this context, therefore, that I call upon the Honourable Members to join me in expressing gratitude to His Excellency the President for the wise leadership that he has continued to give to this country in keeping with his commitment to the continued maintenance of peace, stability and democracy. It is, indeed a tribute to his courage and foresight that, after the economic difficulties of the recent times, we can now embark on a course to resume our development in an atmosphere of optimism. As Honourable Members are aware, our institutions have been able to withstand various adverse tests under His Excellency's exemplary leadership and we are therefore confident that enjoined by His Nyayo philosophy of Peace, Love and Unity we can weather any storm that may confront us in the days ahead.

It is also fitting, Mr. Speaker, that I should at this early stage in this statement take the opportunity to pay tribute to the contributions made in guiding the Kenyan Economy; and especially the last four difficult years, by my last two distinguished predecessors, the Hon. Mwai Kibaki, Vice-President and Minister for Home Affairs and the Hon. Arthur Magugu, Minister for Works and Housing.

Let me assure the Honourable Members, Mr. Speaker, that I shall do nothing to-day that will compromise their achievements. But there is much that I can do to consolidate and build upon the firm foundation bequeathed to me.

The current Fifth Development Plan which was launched by His Excellency the President on the 20th Anniversary of Independence last December has as its theme "Mobilization of Domestic Resources For Equitable Development". It is within that Framework that I am presenting this year's Budget. My theme to-day is, therefore, optimum utilisation of domestic resources through increased efficiency in both the public and private sectors. It is my expectation that as a result of the measures I will announce today, both the public and the private sectors will firstly improve their performance with their existing resources, and secondly incorpora new resources into their more efficient programmes. In this connection, I shall outline later several measures which Treasury intends to implement to ensure that our scarce funds are properly spent and accounted for. In this strategy, I envisage a situation to develop that will enable us to keep inflation under control, maintain Government deficit at sustainable level as projected in the Plan, reduce Government borrowing from the commercial banks and subsequently increase that of the private sector. I feel confident that within these parameters private sector will be able to generate new jobs by raising its level of capital utilization and later on in the Budget I shall give a host of incentives to encourage competitiveness in both domestic and foreign markets.

1. INTERNATIONAL ECONOMY

Mr. Speaker, as Honourable members are aware Kenya is an active participant in the World economy and therefore, adverse international events are quickly reflected in domestic economic activity. The volume of exports suffers and the terms on which they are traded deteriorates. High interest rates inevitably raise domestic rates and retard economic growth. It is in this context that I would like to draw the attention of the House to the developments in the international economy during the past year.

As the Hon. Members are aware, many of these developments have been more favourable during 1983 than for sometim After a three-year recession following the second oil price rise of 1979/80, there was a slight recovery in the major industrial economies. It is now estimated that the average rate of growth of all industrial market economies was 2.3 per cent in 1983 compared to a decline of 0.1 per cent in 1982. There was considerable success in bringing the rate of inflation down to about 5 per cent in these countries - the lowest in recent years. Keeping inflation rates down is expected to be the continuing concern of public policy in industrial economies. The recovery so far has been brought about mainly by increased consumer spending. A revival of fixed investment during 1984 should raise the GDP growth rate of industrial market economies to the region of 3.5. per cent.

The weighted average growth rate of GDP in non-oil developing countries fell from 4.8 per cent in 1980, to 2.8 per cen in 1981 to 1.5 per cent in 1982. This fall was a consequence of a number of adverse factors including oil-price rise of 1979/80, the steady decline in the developing countries' external terms of trade, high and increasing protectionism pursued by industrial countries, the rising interest rates and shortening debt-maturities Fortunately, most of these factors have turned favourable in the course of the past year. The price of oil came down in early 1983 and has attained a fair degree of stability in dollar terms although the steady appreciation of the dollar has meant somewhat dearer oil to us and other oil-importing Countries. Commodity prices have improved in relation to industrial countries' exports. Interest rates have come down in nominal terms. Some major borrowers among the developing nations sought and obtained debt rescheduling during 1983, thereby reducing the debt service obligation of non-oil developing countries by a total of US $ 19 billion during 1983. The only adverse factor that has continued, and indeed has become worse in the course of 1983, is protectionism which hurts developing economies more than the industrial trading nations.

During 1982, the non-oil developing countries restricted imports in order to bring down balance of payments deficits. This has led to a fifty per cent reduction in their current account deficit from U.S. $109 billion in 1981 to U.S. $56 billion in 1983. The consequence, however, was a reduction in their economic growth from 4.8 per cent in 1980 to 1.6 per cent in 1983. The international economic environment has, however turned more favourable, and there are expectations of recovery in non-oil developing countries, with their GDP expected to increase by 4 to 5 per cent by 1985.

II. THE DOMESTIC ECONOMY

(a) Structural Adjustment

Mr. Speaker, Kenya belongs to the group of the non-oil developing countries. As such, economic developments in Kenya over the past few years have, by and large, followed the pattern I have just described. However, as Hon. Members are aware, our performance has been considerably above the average performance for the group. This can be attributed to the structural adjustment of the economy we have pursued in recent years. The purpose has been, and remains, to reform our economy in order to reckon with the new and harsh realties of the current international economy.

Since 1979 efforts have been underway to cope with the increases in the price of petroleum, the adverse terms of trade between the industrial and ourselves, the increasing protectionism on the part of the developed and developing nations, and, since 1980, the most severe world recession in 40 years. Throughout this period, a foundation has been gradually laid which will allow Kenya to sustain economic growth and prosperity in the future. Efficiency has been the Keystone to this strategy. Without efficient, cost effective production, administration and management, Kenya cannot look forward to an expanding economy capable of generating additional employment, attracting new investment, and greater foreign exchange earning receipts. In this connection, Hon. Members may wish to note that there has been improved efficiency in recent years in policy formulation, necessary to respond to changing economic circumstances; in resource allocation in both the public and private sectors; in economic management of the various institutions, and in general administration.

Mr. Speaker, a transition has been underway to shift the economy towards outward-looking production which will be increasin[g]ly competitive in export markets. Import substitution has been an important element in Kenya's growth strategy and selective additional production, primarily for domestic use, will continue. However, the criteria by which additional import substitution can occur are more stringent than in the past; these include potential for increasing use of labour, local raw materials and domestically produced intermediate inputs over time so as to gradually increase the domestic additions to the value of the product; strict limitations to the type, magnitude, and duration of support which Government will provide during the initial stages of production; and the prospect for eventual evolution into a competitive industrial sector capable of making profits in competition with imported alternative products.

(b) Economic Performance

I hope that Honourable Members will familiarize themselves with the recently issued 1984 Economic Survey. In view of the detailed manner in which the performance of the economy during 1983 has been treated in this publication, I shall therefore here highlight only the main features. Gross Domestic Product in constant 1976 prices increased by 3.9 per cent in 1983, compared to 3.4 per cent in 1982. For three consecutive years, the leading growth sector was agriculture, growing by 4.1 per cent. The satisfactory performance in this vital sector indicates the success of Government policy of providing producer price increases during 1982 and 1983. Another element of satisfaction has been resumption of growth in the manufacturing sector, which recorded 4.5 per cent growth during 1983, compared to 2.2 per cent in 1982. Government policies of lowering import duties, improving imp[ort] management, export compensation, normalisation of relations with neighbouring countries, and maintaining a flexible exchange rate has, in this context yielded the expected results.

(i) Income and Employment

On first sight the growth of GDP by 3.9 per cent implies virtually no change in per capita income in the country. However, for the first time since the end of the coffee boom, our external terms of trade have improved by about 7 per cent in 1983. The part of our domestic product that is exported has now greater purchasing power on goods imported from abroad. When the domestic product is adjusted for this change in the terms of trade, our per capita income actually grew by 1.8 per cent during 1983.

In addition to improvements in income, wage employment in the modern sector grew by 4.5 per cent in 1983, compared to 2.1 per cent in 1982. The bulk of our working population is, however, in the rural sector- in small scale agriculture and in rural non-farm activities. Generation of adequate employment opportunities in this sector has been a continuing concern of the Government. Considerable analysis has been made in that direction in the process of drawing up of the District Development Plans. The Government is currently preparing a comprehensive sessional Paper on employment which will take into account the major recommendations of the Wanjigi Commission on Unemployment. Honourable Members will no doubt have an opportunity to deliberate on this paper when it is tabled in Parliament; and I hope at an early date.

(ii) Savings and Investment

There has also been recovery in fixed capital formation during 1983, with a growth of 12 per cent over the 1982 level, compared to an 8 per cent decline in 1982. The improvement is even more marked when considered in real terms, for fixed investment at constant prices increased by about 3 per cent in 1983, while it had shrunk by as much as 20 per cent in 1982. Along with investment, domestic savings have also recovered; as a ratio of Gross National Product at market prices, domestic savings were 17 per cent in 1983, compared to 15 per cent in 1982. As a result of this growth, a higher fraction of investments has been financed by domestic savings in 1983, than in 1982. This rose from 64 per cent in 1982 to 78 per cent in 1983. The fraction of gross investment financed by grants and borrowing from abroad has correspondingly fallen from 36 per cent in 1982 to 22 per cent in 1983.

(iii) Money, Prices and Wages

The total money supply in the economy which grew at a modest rate of 5 per cent during 1983, helped to keep down the rate of domestic inflation. The consumer price index grew by about 14.6 per cent, compared to 22.3 per cent in 1982. I am sure the Hon. Members will agree that the realization of low rates of inflation, despite substantial exchange rate adjustments during 1981-83, is an indication of the prudence of the domestic monetary management policies pursued by the Government in recent years.

Total wage earnings in the modern sector increased by a little over 11 per cent in 1983, compared to 9 per cent in 1982. Thus, there was a further decline in real wage earnings, although to a much lower extent than during 1982. There has also been a substantial improvement in income distribution. Between 1972 and 1982, low wage group has enjoyed an increase in real wages. All other categories suffered an erosion of their purchasing power.

(iv) Balance of Payments

The year 1983 marked considerable progress in the direction of containment of the balance of payments deficit. For the first time in many years, there was an overall surplus in balance of payments of K£64 million. The deficit in the balance of merchandise trade fell to K£276 million from a level of K£379 million in 1982. Most of this improvement came from a rise in export earnings, which increased by 14 per cent in value terms. The value of merchandise imports increased marginally by less than 1 per cent. The improvement in the trade balance, coupled with disbursement of loan instalments from both multilateral and bilateral sources, led to a significant growth in foreign exchange reserves of the country which stood at K£254 million at the end of 1983, compared to K£135 million at the beginning of that year.

(v) Outlook

Mr. Speaker, I have so far laid stress on the achievements of the recent past. But I would be seriously misguiding the House if I were to insinuate that there are no obvious or unresolved problems. I turn now to these since they must be seen in their proper perspective in order to understand the policy framework within which the budget is formulated. There are four factors which give me cause for concern:

Firstly, although the balance of payments shows an improvement on current account, this provides no grounds for complacency. The high prices of tea and coffee are a temporary phenomenon. Neither do the rising interest rates in the United States and the consequent appreciating dollar give us much room for comfort. Thus, although our reserves are healthy, their maintenance at this level is uncertain. The additional risk is the disruption in the oil market since Kenya, and indeed the world economy remain vulnerable to any major disturbances in this market. This therefore, poses an uncertain future which could easily lead to our foreign exchange reserves dwindling to an unacceptable level requiring us to engage in expensive foreign borrowing.

Secondly, although we have succeeded in limiting level of budget deficit to manageable proportions, the deficit still large, and it requires significant amounts of foreign and l borrowing to finance it. Our tax revenue base is not growing ast as the rate of domestic inflation and, although we can ce development expenditure, there is very little we can do t the level of recurrent expenditure, as completion of on going ects mean additional recurrent expenditure.

Thirdly, and most important, is the problem of ployment. This is a consequence of a combination of the general ession and the large numbers of new job seekers entering the market. Unemployment is one of the biggest problems facing the economy at the moment. It is my earnest hope that, as a result of the measures I shall shortly announce in my speech, the private sector will generate more employment opportunities.

Lastly, there is the weather factor to consider. The long rains have been inadequate uneven, and unseasonal this year. Although there are the short rains to look forward to, it is now clear that the growth of agriculture which has been steady over the last three years will face a serious setback this year. This will have adverse spillover effects on other sectors of the economy, including the balance of payments.

III. POLICY FRAMEWORK

I turn now to the policy framework in which I wish to place this budget. And in this connection let me draw the attention of Honourable Members to a series of policy statements that the Government has made over the last two years, especially the speeches by His Excellency the President, in September, 1982, at his Installation in October 1983 and at the Opening of Parliament in March this year. These statements have all laid emphasis on a constant theme: we must enhance our efforts in domest resource mobilization for development and become more efficient i the manner in which use our scarce resources.

It is in the light of this and the need to streamline access to essential imported inputs while restraining demand for the import of items produced locally and of lesser national importance, that import administration procedures have been totally revised. Efforts have been made to stimulate exports as well. The Export Compensation Scheme has been revised with the objective of providing an incentive for producers to improve their performance over previous years. The composition of the Import Schedules has been set in such a way that the export producers' requirements are on the Schedules most free of constraints and most automatic and timely in responding to producers' needs. Plans for manufacture under bond and a "green channel" for processing paperwork associated with export orders are well along towards implementation. The normalisation of relations between former East African Community members and the coming into force of the Treaty for the establishment of the Preferential Trade Area for Eastern and Southern African states should equally assist our exports.

In furtherance of the current import administration, I intend to shift more items from schedule 2 to schedule 1 in order to both raise additional revenue and introduce an additional degree of competition in domestic production. I have carefully reviewed the shifted items and I am convinced that this move will not unduly threaten any existing producers with collapse or financial ruin, but will act as a spur to improved efficiency aimed at maintaining market shares and profit margins.

In all our development strategies, and in this Budget exercise, we have paid special attention to agriculture. As with exports, production in the agricultural sector must assume the highest priority since the resource base in Kenya is predominantly agricultural.

The strategy involves the creation of appropriate incentives and the establishment of effective programmes for ensuring that farmers have their necessary inputs and an outlet for their products. Only then can the agriculture sector continue to provide employment, food, and foreign exchange earnings in appropriate amounts to support future development. Corrections in the pricing of inputs and outputs resulted last year in moving the terms of trade in favour of agriculture vis a vis industry. This trend is expected to continue. Improved access to markets, transport, improvement in the efficiency of co-operative movement and agricultural credit are all part of the continuing effort to stimulate agriculture. Adjustments in the exchange rate, and the high priority given to agricultural inputs in shaping the Import Schedules are all companion efforts to boost output in agriculture.

Turning now to the District Focus for Rural Development, let me Mr. Speaker, rapidly review progress that has so far been made.

On 1st July, 1983, the Government established a new policy of District Focus for Rural Development. The objectives of the policy is to encourage local initiatives that will complement the ministries' role, thus improving the efficiency of development effort and increasing effectiveness in problem identification, resource mobilization, and project management. A nation-wide campaign was mounted to inform all the relevant officers of their new responsibilities, and, more recently, a follow-up series of meetings was held in each province to assess the current District Focus situation. In the year that has elapsed since the policy was established, substantial progress has been made in its implementation. The Office of the President has been on the forefront in spear heading this exercise. For its part, my Ministry has worked closely with the districts in preparing guidelines for the district plans, training the appropriate officers in planning, budgeting techniques, and in decentralising accounting and tendering procedues.

The District Development Committee (DDCs) are the basic foundation for the District Focus policy. They are responsible for reviewing all project proposals arising in their districts, establishing priorities among the proposals, and approving the proposals to be passed on to the appropriate ministries for funding. The DDCs have become increasingly active in this role, and are taking more and more responsibility for coordinating and managing rural development within their districts. I would like to urge Hon. Members to participate fully in the deliberations of their respective DDCs. My Ministry is in the process of working out the necessary arrangements to strengthen both accounting and auditing in District Treasuries so as to reduce the need for disbursements being made from the headquarters and ensure that funds are properly accounted for.

Hon. Members will recall that, for a number of years now the Controller and Auditor-General's Report and the Report of the Public Accounts Committee of this House have drawn attention to the unsatisfactory state of the parastatal sector's indebtedness to Government. Appropriation Accounts valued loan balances outstanding as of 30th June, 1982 at K£417 million; during 1981/82 the Exchequer received only K£14.1 million in redemption and interest payments in respect of that debt. Of this amount K£9.5 million was accounted for by interest, representing a return of some 2.3 per cent on Government's domestic lending - a pathetic situation when one considers that Government is now required to pay between 12½ and 15 per cent for funds borrowed on the local market. Many parastatal borrowers have withheld loan service payments on the excuse that terms on portions of their Government loan portfolio have not been finalised. It is true that the Appropriation Accounts describe loan terms on some loans as still pending determination, and the Controller and Auditor-General and Public Accounts Committee have repeatedly commented on the inordinate delays encountered in this process. On the other hand the books of certain parastatals show as grants, transfers of capital that this House explicitly voted, through the Development Estimates, as interest bearing loans.

I am confident Hon. members will join me in my concern both over the loss of revenue in the present situation, and over the laxity in financial management of many enterprises to which Government's failure to enforce parastatal debt obligations has unavoidably contributed. In an effort to rectify the position I intend to take measures along four fronts in the new Budget Year.

Firstly, I shall restructure the debt of certain parastatals which, for one reason or another, has attained a magnitude where the cash flow one can realistically expect from these enterprises in the next few years cannot possibly support regular loan service payments at any respectable rate of interest. Lest some parastatal managements rush to anticipate wholesale write-offs of their indebtedness to Government, I hasten to add that these situations will be examined on a case-by-case basis, and I will put more emphasis on disciplining parastatals to curb waste and increase their cash flow so that they can service their obligations with Government, than on foregiveness of debt. Indeed, Government will seek to devise better protection from quick-decision "bailout" petitions put forward by parastatals in crisis situations.

Secondly, I have already taken steps to implement, within Treasury, a computerised internal debt monitoring system that will keep trace of debt movements and recompute outstanding balances on Government loans by capitalising interest arrears from the outset. The responsibility for collecting service payments will remain with the Accounting Officers of the parent Ministries, but the Treasury system will perform a vital service function on their behalf by producing regularly semi-annual standardised invoices backed up by complete profiles of past disbursements, service payments, and arrears.

Thirdly, there is not the slightest doubt in my mind that many parastatals default on loan service obligations to Government because it is a far cheaper way of financing their working capital requirements than borrowing from the banking system. Even where a parastatal acknowledges running up interest arrears that will be capitalized and on which it will ultimately have to make good, it will normally end up ahead of the game because of the heavily subsidised interest rate of which most loans are provided to the parastatal sector. For those parastatals in a cash surplus position, it is obviously far more lucrative to deposit at high interest rates currently offered by non-bank financial institutions, than to service a Government loan and thereby avoid interest arrears at 3 or 6 per cent.

I have concluded that this situation will not be corrected until parastatals are given a financial incentive to meet their obligations vis-a-vis the Government. Accordingly, I have decided that arrears in servicing Government loans, both redemption and interest, that are newly incurred as from 1st. July of this year, will be assessed penalty interest equal to the current maximum rate on commercial bank loans, irrespective of the interest rate applied to currently outstanding loan balances. This penalty interest will continue to be assessed until the arrears are paid off, or until the Treasury explicity consents to their removal from arrears status - a consent that, I might add, will be given very grudingly.

Finally, early in the Parliamentary Sessions of the coming fiscal year I hope to introduce the State Corporation Bill which will contain clauses aimed at improving the performance of these organizations.

Mr. Speaker, Sir, we have reached a position in Kenya where parastatals, by reneging on their financial obligation to Government, are in effect appropriating public funds whose allocation should rightfully be voted by this House. I believe the time has come when we should put a stop to this practice, and all I am asking the Honourable Members is support to ratify the demand put forward so insistently by your colleagues in the Public Accounts Committee.

Turning now to the question of aid management, I would like to outline the policies that we are currently persuing and which we intend to implement. As my precedessors have said on many occasions, and I agree with them, it is the wish of the Government to avoid as much as possible commercial borrowing; furthermore we wish, where grants are unavailable, to obtain concessionary loans which preferably should be untied.

An additional criterion is that projects must conform to our Development Plan in their broad thrust; they must appear in the forward Budget and finally they must be included in the printed annual estimates. It is only by going through these steps that we can ensure that planning is not a haphazard exercise but rather one that weighs priorities, establishes the compatibility of projects and determines the availability of funding. The last step without its predecessors leads to waste and frustration.

In this regard, two institutional steps have been taken. We have established a Negotiating Team which will handle all negotiations for external assistance thereby avoiding fait accomplis and short cuts which short circuit the planning process. This team consists of the Office of the President, the Attorney-General's Chambers, Treasury together with whichever operating Ministry or Parastatal is involved in the project. The second step has been the strengthening of the External Aid Department within the Ministry of Finance and Planning. The strengthening of the Department will ensure that committed funds are disbursed expeditiously that donors are keep in constant contact with the realities of the Kenyan situation, and facilitate information flows which hitherto have hampered the efficient use of donor aid. The detailed and clear nature in which the Development Estimates for 1984/85 have been presented is an indication of improved efficiency in that Department.

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IV. FINANCIAL OUT-TURN 1983/84

(i) Recurrent Revenue

This year's ordinary recurrent revenue was estimated at K£885 million plus Appropriations-in-Aid of K£75 million making a total of K£960 million. This recurrent revenue was to comprise of K£267 million from Customs and Excise; K£304 million from Sales Tax; K£194 million from Income Tax and the balance of K£120 million from other minor taxes, charges and fees. Mr. Speaker, I am glad to inform the House that the total figure of K£885 million will be attained. There will however, substantial shortfalls in import duty and sales tax, but they will be more than compensated by the overcollection of income tax and other minor taxes. This shortfall is mainly due to the reduction in imports of luxury items which are taxed at a higher rate. I now expect to receive only K£251.5 million from the Customs and Excise, K£260 million from the Sales Tax, but I expect the Income Tax receipts to increase to K£242.5 million with an over collection of K£48.5 million, while the other minor taxes are expected to raise K£131 million, with an overcollection of K£11 million.

(ii) Recurrent Expenditure

Turning now to expenditure, Hon. Members will note that this year's Printed Estimates of Recurrent Expenditure were estimated at K£572.5 million excluding the Appropriations-in-Aid. The consolidated Fund Services were to take another K£343.9 million, making the total Recurrent Expenditure of K£916.4 million. No doubt the Hon. Members vividly remember that in 1983 we had two important functions which necessitated increases in expenditure, namely, the General Elections and the 20th Anniversary Celebrations of our Independence. To cater for these two functions together with other unavoidable expenditures mainly in Ministries of Agriculture and Education, it became necessary for the House to approve Supplementary Recurrent Estimates amounting to K£40 million. I had also to finance Excess Votes for financial year 1979/80 amounting to K£31.4 million. Fortunately, we were able to make some savings in the Consolidated Fund Services amounting to K£37.6 million reflecting reduced Government borrowing. I therefore, expect the net Recurrent Expenditure to be K£950.2 million compared to the total revenue of K£885 million. I will, therefore, have no surplus in the Recurrent Exchequer Account to transfer to the Development Exchequer.

(iii) Development Expenditure

The 1983/84 Printed Development Estimates projected the expenditure of K£268.5 million on development, including Appropriations-in-Aid of K£74.6 million. Recently, the House approved Development Supplementary Estimates amounting to K£10.1 million. I also expect additional appropriation-in-aid amounting to K£24.3 million from various sources as detailed in the Development Supplementary Estimates, making the total gross development expenditure of K£302.9 million.

I therefore expect to be able to contain the overall deficit to K£183.5 million which is only 4.0% of the G.D.P. This has been done despite great pressures from the spending ministries. Inspite of this achievement I would like to see the deficit reduced even further in future.

V. FORECAST OUT-TURN 1984/85

(i) Expenditure 1984/85

I now turn to the more immediate matter of Government expenditure in 1984/85. As Hon. Members will have seen from their copies of Printed Estimates already tabled, gross Recurrent Expenditure of Ministries is estimated at K£1112.8 milli comprising of net expenditure of K£1062.6 million and Appropriations-in-Aid of K£50.1 million. Thus, the estimated issues from the Recurrent Exchequer will be K£1062.7 million. This projected recurrent expenditure represents an increase of 12 per cent over the revised estimated issues for this financial year. This trend is consistent with our policy to reduce public expenditure to more manageable levels. I would like to express my satisfaction with the manner in which operating Ministries have managed to contain their expenditures within voted provisions this year and hope that this trend will be continued in the coming year.

Mr. Speaker, while still on recurrent expenditure, I would like to draw the attention of the House to the sharp increase in provision for Consolidated Fund Services. This is projected to rise from K£306.3 million this year to K£372.7 million in 1984/85 - an increase of 22 per cent. This increase, though not unusual in recent years, reflects the maturing of debts taken in the past and their associated rising servicing costs due to increasing interest charges and appreciation of foreign currencies versus the Kenya shilling.

Development expenditures for 1984/85 call for an expenditure of K£353.9 million including Appropriation-in-Aid of K£163.9 million. This is an increase of 17 per cent over this year's revised expenditure.

Mr. Speaker, I need not analyse further the details of either recurrent or development expenditure for now. Hon. Members will discuss this when they debate the Appropriations Bill. Suffice it to say that I intend to finance a total expenditure of K£1466.7 million. The rest of my Speech will outline how I intend to do this.

(ii) External Revenue

As Hon. Members are aware, Kenya has enjoyed cordial relations with various foreign governments and multilateral development financial institutions who have consistently come to our aid at times of difficulties. I think the Hon. Members will join me in expressing my gratitude to those friendly governments and institutions who have continued to come to our aid at the hour of need. We are also grateful to His Excellency the President who has tirelessly exercised His diplomatic and political skills in an effort to keep these friendly donors fully briefed about our economic problems and prosperty. Mr. Speaker, it our policy to give priority in external borrowing to sound on-going projects and those new projects whose economic and financial viability has been demonstrated. Taking this into account I expect to draw some K£259.6 million from external sources during the next financial year. Of this, 34% will be in the form of grants, and 66% in the form of concessionary and programme loans. Thus, I expect to finance 18 per cent of my total expenditure from external sources. The main burden of financing Government expenditure will therefore fall on Kenyans and I now turn to how I propose to raise the balance of K£1207.1 million locally.

(iii) Domestic Borrowing

As I have already indicated, it has been our policy to contain Government deficit financing to sustainable levels due to its inflationary effects. It is therefore necessary that next year's deficit be kept at the minimum. In addition, it is essential that the deficit be financed from less inflationary domestic sources. With this in view, I propose to borrow some K£48 million by way of long term Government Stocks from parastatals and insurance companies and an additional K£109 million in Treasury Bills from banks and non-bank financial institutions. An additional K£2 million will be raised through sales of Tax Reserve Certificates. Thus, I propose to raise K£159 million by borrowing from the domestic market.

(iv) Internal Revenue

I estimate that ordinary revenue, at current rates of taxation will provide some K£985.8 million. Appropriations-in-Aid will provide another K£50.1 million, making a total of K£1034.9 million. I have already indicated that I shall draw some K£259.6 million from external sources and an additional K£159 million from domestic borrowing. I therefore have a gap of K£12.2 million to finance from additional taxation. The rest of my Speech will outline how I intend to do this.

VI. TAXATION PROPOSALS

Mr. Speaker, Sir, I have already appraised the House of the international economic situation as I see it; its likely effects on the domestic economy and the measures we are taking to counteract any adverse effects generated externally. I have also indicated the problems currently facing Kenya and our policy response to these problems. One problem which is not amenable to Government action is the adverse weather conditions currently facing us. Nevertheless, in spite of the adverse effect of the drought on Government revenues, and on exports, the Government will ensure that there will be adequate supply of food and its efficient distribution. I have accordingly left my options open in projecting Government expenditures for 1984/85. I have also indicated that I have a financing gap of K£12.2 million. I now come to my taxation proposals and in accordance with the usual practice, I would ask Mr. Speaker, Sir, that the rest of my Speech be regarded as a Notice of a Motion to be moved before the Committee of Ways and Means.

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(i) Customs Tariff

The House will be aware that over the last few years, and particularly last year, the Government has carried out a reform of the Customs tariff to make it an important instrument of furthering our long term development objectives. In order to consolidate what has been achieved, I propose to continue the restructuring programme initiated last year. There are however a few anomalies which I propose to correct and these are contained in the Finance Bill published today.

Firstly, section 46 of the Act provides that goods can only be rewarehoused only once with the authority of the Commissioner. The Minister can however extend this period provided he issues permission for rewarehousing during the first twelve months of warehousing. After this period, neither the Minister nor the Commissioner has powers to extend the rewarehousing period. On expiry of the rewarehousing period, duty must be paid on the goods otherwise the goods will be auctioned.

While this legal arrangement makes it easier for revenue to be collected, it has created some practical problems. One such problem has arisen with respect to imported wines. As the Hon. Members may be aware, Government has for some years encouraged Kenya Wine Agencies Limited to import immature wine for the wine to mature here in Kenya. The main rationale for this encouragement is to save us precious foreign exchange as immature wine is cheaper than mature wine. The immature wine has got to stay in bonded warehouses for a couple of years before it matures. Hence the need to extend the warehousing period beyond two years.

Another problem is with regard to Public projects. Due to administrative delays - usually associated with this type of projects, there are late payments to contractors. In order to avoid penalising contractors in these cases as a result of delays arising from circumstances beyond their control, I propose to amend the law so that the Minister can extend the rewarehousing period where necessary.

Secondly, Item 8(3) of Part B of the Third Schedule to the Act provides exemption from duty on wearing apparel, personal and household effects and one motor vehicle for a person changing residence to Kenya provided the person has resided outside Kenya for at least two years. The exemption granted under this Item as amended by the Finance Act of 1980 contains anomalies and is capable of being interpreted in various ways to suit individual cases. For example, the period of stay outside Kenya has not been clearly defined. In order to close this loophole, I propose to amend the law to statutorily limit the period of stay outside Kenya to be at least two years before an individual can be elegible for this exemption.

Thirdly, in order to protect local manufacturers from dumping, I propose to amend the law to provide that anti-dumping duty can be imposed in the event of imported goods being sold in the domestic market at a price lower than the cost of importing.

Mr. Speaker, I would now like to turn to those amendments which have revenue implications. As I have already indicated, there is need to restructure the economy away from the highly protected and ineficient pattern of industrialisation based on import substitution towards production for exports. The need to substantially improve the efficiency and competitiveness of local manufacturing cannot be over-emphasised. While the progress in this area is encouraging, current and foreseeable economic circumstances and prospects dictate that we should consolidate the gains achieved to-date. In pursuit of this policy, and this being an export year, I propose to lower most duties above 25 per cent by an average of 14 per cent of the existing rate. The main effect of this measures will be to grant duty relief to manufacturers who export their output. It will also reduce the cost of imported capital machinery for those who are planning to embark on new manufacturing plants. In making these duty reductions, I have carefully considered the requirements of agriculture which is the backbone of this economy. I have therefore decided to remove duty on live seedlings mainly imported by horticultural farmers and irrigation equipment and piping. I hope that farmers will take advantage of this measure and increase horticultural produce which is one of the high potential foreign exchange earners.

The measures, which take effect from midnight, tonight will cost the Exchequer some K£16.9 million in lost revenue.

(ii) Excise Tariff

Mr. Speaker, I would now like to deal with two amendments I have made in the excise tariff. Firstly, cigarettes and tobacco. As Hon. Members are aware, the last increase in the price of cigarettes was effected on 3rd. December, 1982. Smokers have therefore had steady prices over the last 18 months while the prices of most other commodities have gone up. It is only fair that the prices of cigarettes should be increased to keep pace with the rate of domestic inflation. As I had indicated earlier, the rate of inflation last year was about 14 per cent. I do not therefore intend to penalise smokers by more than this. In order to attain this I propose to make two small amendments to the excise tariff on cigarettes and tobacco. First, the levels at which the current rates of excise apply will be raised by an overall weighted average of 14 per cent. Second, the rate of excise duty on the high brands of cigarettes will be increased from 155 per cent to 165 per cent of the ex-factory selling price. These minor measures, will have the effect of raising the price of some popular brands of cigarettes such as Nyota by 50 cents per packet, Sportsman and Embassy by Sh. 1/= per packet, and the high class brands of Rex and State Express by Sh.1.50 per packet. Out of the increased receipts arising from these measures, the tobacco manufacturer and traders will receive 38 per cent while the balance of 62 per cent will go the Exchequer as revenue.

Secondly, Mr. Speaker, I propose to reintroduce excise duty on matches. Since the replacement of excise duty with sales tax on matches, Government has lost substantial revenue due on this commodity mainly because of the method by which tax is accounted for by the manufacturers. As the Hon. Members are aware, sales tax is levied at the rate of 50% of the value of matches sold.

Matches manufacturers have taken advantage of the varying prices of matches to underpay tax by not only under declaring the quantities sold but also the price charged. In order to close this loophole, I propose to reintroduce excise duty which will be levied on the quantities produced and not on the price. However, in order not to affect the current price of this commodity, I simultaneously propose to abolish sales tax on it.

Taken together, these measures on the excise tariff which come into force from midnight, will provide the Exchequer with an additional K£8 million in revenue.

(iii) Sales Tax

I would now like to turn to sales tax. As is the practice, I would like to deal first with those amendments which have no direct revenue implications. Currently, Mr. Speaker, the distress levied in the event of registered manufacturer failing to pay tax does not include buildings, land or plot owned by such manufacturer. The distress can only be levied on goods and machinery. In some cases, the movable machinery may be so old that substantial tax owed may not be realised from the auction of such machinery. I therefore propose to widen the coverage of such distress to include land and buildings. This will ensure that manufacturers pay tax when due and payable.

Secondly, the Act unlike the Customs and Excise Act, does not give the Minister powers to vary rates of tax by way of gazettement as a result of arrangements made between Kenya Government and any other Governments. As I indicated earlier, the P.T.A. Treaty requires Kenya to progressively reduce rates of duties and sales tax levied on imports of the Common List of Selected Commodities from P.T.A. countries by various percentages over a period. The first such reduction is supposed to be effected by 1st. July, this year. In order to enable the Government to comply with the provisions of the Treaty, it is proposed to provide the Minister with powers to vary the rates of sales tax by way of Legal Notice as is currently the case with import duty.

Thirdly, I would like to close a loophole which certain manufacturers who manufacture different goods have used to underpay tax. Section 12(1) requires a manufacturer to show particulars of the total taxable value of any taxable goods sold by him during the month. This requirement is general and does not require the manufacturer to show the rates of tax. A manufacturer can therefore fulfill the requirements of the law by simply showing the total taxable value of the goods sold. If separate goods attract different rates of tax the information provided cannot enable the Commissioner to check the accurancy of tax paid. I therefore propose to amend the law to provide that manufacturers will henceforth be required to show separately in their returns the taxable value for different goods and the rates of tax applied on such type of goods.

I would now like to turn to those amendments which have direct revenue implications. As I have already indicated, the Government is committed to making Kenyan manufacturers more competitive in the export market while reducing the excessive protection accorded to domestic manufacturing. It is partly for this reason that we have reduced import duties. The Hon. Members will be aware that manufactured goods which are exported are not subject to sales tax. To ensure that duty relief on imported raw materials does not mainly benefit those manufacturing for the domestic market, it is proposed that for every item on which duty has been reduced, there will be corresponding increase in sales tax. This measure will ensure that only those who export will gain substantially from the reduction in duties.

Mr. Speaker, the public will be aware that there are too many rates of sales tax applicable to various goods. This makes the administration of tax cumbersome. In order to make it easier to administer, I propose to reduce the number of rates of tax currently applicable to about five different rates. In working out the various changes to rates of tax, I have taken care to ensure that the prices of essential commodities will not be adversely affected. Further, and in order to give consumers some respite, I propose to reduce sales tax on some basic items. Accordingly, it is proposed to remove sales tax on dry cell batteries. Tax on squashes and juices will be reduced from 40 per cent to 35 per cent while that of toothpaste and ajax or vim will be reduced by 8 per cent and 13 per cent respectively. Finally, on sales tax reductions, and in order to assist farmers and parents in completing primary school classrooms for the 8.4.4. system of education to be introduced next year, I propose to remove sales tax on nails. Since all these products are currently price controlled, I have directed the Price Controller to issue new reduced prices to effect these reductions.

Mr. Speaker, manufacturers have for some time complained about the long delays involved in getting refunds on tax paid on their raw materials from the Sales Tax Department. They have therefore urged for the introduction of Tax Credits in lieu of refund. I have considered this request seriously and, although I am concerned about tax evasion, I propose to give it a trial. Initially, tax credits will be confined to imported raw materials only. Manufacturers who use imported raw materials will not get refunds in the form of a cheque. They will however, continue to apply to the Commissioner in the normal manner. After evaluating their application, the Commissioner will authorise the manufacturer to deduct equivalent tax in the following month's return. No tax due and payable may be deducted without prior written authority of the Commissioner.

Considering that I have already reduced tax on some basic consumer items, it is only fair that the Exchequer should be compensated by increasing tax on luxurious items like beer. Accordingly, I propose to raise the rate of sales tax on beer by 30 cents per litre. In addition, Kenya Breweries has requested a price increase by 15 cents per half-litre bottle due to increased manufacturing costs. Government has carefully considered the request and accepted it and the price of beer will, therefore, go up by 30 cents per half litre bottle with effect from midnight, tonight.

Finally, on sales tax Mr. Speaker, I propose to streamline tax on passenger cars. As the House is aware, passenger motor cars are subjected to varying rates of tax depending both on their engine capacity and whether they are diesel or petrol propelled. Diesel propelled vehicles are taxed at a lower rate. This distinction was important in the earlier years when there was excess output of diesel from the Kenya Petroleum Refineries. As a result of this favourable treatment of diesel propelled vehicles, the number of diesel propelled cars has increased so considerably that the Government has been forced to allow imports of refined diesel to meet domestic demand. To reverse this trend, I propose to increase uniformly the rate of sales tax on both diesel and petrol propelled passenger cars such that the total tax payable, duty and sales tax, will be the same for a car of particular engine rating. Depending on the engine capacity of each car, this increase in sales tax rate will range from 50 per cent for the small cars to 75 per cent for the big cars.

Taken together, the measures I have announced on sales tax will provide the Exchequer with an additional K£26.2 million in revenue.

(iv) Income Tax

Mr. Speaker, I shall now turn to income tax where I have only a few amendments to make.

Firstly, it has been Government policy for many years now to encourage people to own their own houses. Consequently, Government policy has been to provide as much incentives as possible to the building of houses at a cost which people can afford.

One such incentive has been the Owner Occupier Interest deduction. The Income Tax Act allows a deduction of interest payable by a home owner on loan not exceeding Shs. 200,000/= which has been used by him to purchase or improve his home. Unfortunately the Shs. 200,000/= limit set in 1973 is now outdated as cost of house construction has increased greatly over the years. It is my wish to encourage more and more people to build or purchase their own homes. The encouragement to do this must not be allowed to slide and it is in this regard that I have decided to double the amount of loan limit set ten years ago. Therefore with immediate effect, the maximum loan set at shs.200,000/= will be increased to shs.400,000/= thus increasing substantially the amount of interest that may be deducted from chargeable income. The only proviso here is that for the purpose of this exercise the rate of lending rates charged by Commercial Banks will apply in order to curb the use of expensive money. Hon. Members will agree with me that this amount is just adequate for a moderate house in the urban centres. However, this is the only amount the Government can afford for now.

Secondly, the Government introduced in 1981 the concept of Housing Development Bonds as a way of responding to people's ever increasing demand for better and cheaper housing. The Housing Finance Company of Kenya and Savings and Loan Kenya Ltd., were authorised to accept savings from individuals and institutions up to a maximum of shillings half a million and, as an encouragement to save in such Bonds, interest arising thereof was to be tax exempt. The Housing Finance institutions were in turn expected to invest such deposits in Housing Construction. After a slow start this idea has now finally caught on and it is encouraging to note the increase in this form of savings in recent months. It is my intention to give housing development an even bigger boost and in this regard, I have decided to add to the list of institutions that may be allowed to accept funds for housing development and therefore allow increased competition amongst them. The new authorised financial institutions will be East African Building Society Limited, Pioneer Building Society Limited, Kenya Savings and Mortgages Limited, and Home Savings and Mortgages Limited. The limit of half a million shillings is to be retained but the Savings Account holders will have a wider choice of where to put their money. It is my hope that this measure will lead to construction of more houses in the coming years.

Thirdly, Mr. Speaker, I now come to the most difficult decision I have to take in the income tax field by tackling tax relief which constitutes an anomaly. I am referring here to the Professional Housing Deduction under Section 15(2)(q) of the Act. Certain named proprietory professionals have been able to deduct as much as K£700 p.a. from their chargeable income being a special housing deduction allowed to them some ten years back; and this in many cases being in addition to the owner occupier interest I have just referred to. I have received complaints from many individuals whose professions are not recognised. They have appealed for this special privilege to be extended to cover them.

I carefully considered how to rationalise the apparent discrimination and it has become increasingly difficult to support this tax relief measure; even though I accept that it must have had its meaning and purpose ten years back. I regret that I have to take away something that our valued professionals in private practice have got used to, but I am comforted in my belief that many of the professionals affected will be taking advantage of increased loans permitted under the owner occupier interest provision. I therefore propose to withdraw this deduction with immediate effect. Professionals who have been claiming this deduction will therefore only be allowed to claim half of the amount currently allowable for their incoem tax returns for this calendar year.

Fourthly, Mr. Speaker, while the Kenyan Income Tax does not seek to take foreign income, the law does nonetheless deem certain payments made from Kenya to non-residents to be income derived from Kenya and therefore taxable on such non-residents receipients. Most of these payments consist of dividend and interest but there are also payments of management and professional fees, royalties, rents, pensions and even entertainment and sporting fees. We tax these payments before repatriation at gross rates, that is to say, without any allowance for expenses incurred.

Kenya is anxious to encourage foreign investors and foreign credit in order to boost its economy and in this respect we are determined to keep our withholding tax rates on such foreign payments at levels comparable with other developing countries with whom we have to compete for foreign investments.

It is my considered view that these rates are at present pitched a little too high and that they may be discouraging foreign investment at a time when we want to see more of it.

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I have therefore decided that these rates will be reduced to the pre 1982 levels as a way of telling our foreign friends that we welcome and value their trade, their technology, their credit and their investment. I am satisfied that the loss in revenue will pay us dividends in the long run and that the reduction of withholding tax rates is necessary to put us in a trul favourable position to compete for scarce foreign funds. Accordingly, I propose to reduce the rates of withholding tax on royalty and management fees from 30 per cent to 20 per cent; that on rent from 40 per cent to 30 per cent; dividends from 20 per cent to 15 per cent and interest from 20 per cent to 12.5 per cent.

My last measure concerns the taxation of Co-operative Societies. For a long time now it has been felt that the law relating to the taxation of Co-operative Societies is inadequate. In fact other than a small tax exemption clause in Schedule one to the Income Tax Act, the law contained no provisions to take into account the special characteristics of the Co-operative Movement. To compensate for this deficiency in the Statute, extra statutory basis of taxation was worked out in the 1960s and further refined in 1973 taking the form of a circular worked ut between the Department of Co-operative Development and the come Tax Department. Ten years of experience with the circular ve clearly revealed a serious weakness. There is now some nfusion in the taxation of Co-operatives and I think it is time bring back order and harmony in the tax treatment of this portant sector of the economy.

I propose therefore to introduce a special law for the ation of Co-operatives which will take into account two main tures of any Co-operative Society, namely, that it is a body porate having its own existence and, secondly that it generates ch of its income from transactions with its own members. It follows from this that a Co-operative Society will be taxed on its income just like any other body corporate but as an extra refinement, payments, dividends and bonuses paid to members will be allowed as a deduction in computing the taxable income of the Co-operative Society. Thus there will be no tax impendiment to the flow of income down from the Co-operative Society to the individual farmers and producers who are members.

This change will not affect certain large Co-operative Societies whose manner of operation is akin to that of trading companies like Kenya Farmers Association, the Kenya Co-operative Creameries and the Co-operative Bank of Kenya. These will continue to be taxed as in the past.

The position of Credit and Savings Co-operative Societies is different from other Co-operatives and therefore special basis of taxation has been designed for them. These societies will be liable to tax only in respect of income derived from non members Usually, such income consists of investment income which is usually interest and dividends.

The new law will come into force from 1st. January, 1985, superceding the old law and practice. I am confident that the law will establish a simple and clear code of taxation for Co-operatives and will enable the Co-operatives to comply more readily with the requirements of the Tax Department.

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(v) Export Compensation

Mr. Speaker, currently the Local Manufacturers (Export Compensation) Act allows exporters of eligible goods to claim 10 per cent of the value of exports from the Customs and Excise Department. New exporters and additional exports are compensated at the rate of 15 per cent. The importance of promoting exports needs no emphasis. This year has been declared an Export Year with objective of creating national export awareness and to increase export earnings by increasing production for exports; creating a favourable image of Kenyan products by quality improvement and price competitiveness; developing export oriented manufacturing industries; increasing export promotion activities and increasing our share in the world market through diversification of markets and product mix. Mr. Speaker, while these are very noble objectives which have been repeated frequently, I propose to support the export year on two fronts:-

Firstly, export compensation. Manufacturers will no doubt recall that those who had exported more in the fiscal year 1982/83 than in 1981/82 became eligible for additional export compensation at the increased rate of 15 per cent of the additional exports. So were new exporters who began exporting eligible goods with effect from 1st. July, 1982. However, due to administrative reasons, this additional export compensation has not been paid. I would like to assure the affected exporters that considerable progress has been made in processing of the relevant data and payments will be effected as soon as possible.

While arrangements to pay the additional compensation are being finalised, I propose to raise the general rate of export compensation from 10 per cent to 15 per cent effective from 1st. July, 1984. In order not to excessively affect revenue, I also propose to reduce the rate for additional exports and that for new exporters from 15 per cent to 10 per cent. Since most exporters enjoy the general rate, this measure will cost the Exchequer some K£6 million in lost revenue.

Secondly, manufacture in bond. During the last two years, Government has undertaken to consider introduction of manufacturing in bond. Considerable work has now been carried out in this area and I propose to licence manufacturing in bond subject to certain conditions which will soon be announced. I must hasten to add that, since this will be the first time that we shall be implementing manufacturing in bond, the number of factories will be limited initially. In order to implement this undertaking, I have directed the Commissioner of Customs and Excise to work out the relevant admission and export procedures for raw materials and finished products respectively.

(vi) Air Passenger Tax

As Hon. Members are aware, air passenger tax is charged at the rate of Ksh.100/= per passenger departing for destination outside Kenya. Early this year, and as a way of ensuring that Kenya retains a small portion of the foreign exchange brought by foreigners, the Government decided that non-residents should pay this tax in convertible foreign currency. This decision was effected administratively and we have therefore two systems of paying this tax - one where Kenyans pay in shillings and the other where non-residents pay in foreign currency. This dual system has proved difficult to adminsiter as it has been abused and I have therefore decided to close the loophole by unifying the payment system. I have also decided to increase the rate of this tax by approximately 40 per cent. Therefore, with effect from tomorrow, all passengers departing for destinations outside Kenya, whether residents or non-residents, will be required to pay air passenger tax in convertible foreign currency equivalent to U.S. $10 per passenger. For those Kenyans who will be travelling outside, we are merely asking them to leave back only $ 10 dollars out of the foreign exchange allowances granted to them by the Central Bank. I am sure that this is not an onerous requirement. Besides the slight increase in foreign exchange, this measure will provide an additional K£900,000 in revenue.

(vii) Building Societies Act

As Hon. Members are aware, the Building Societies are bodies incorporated under the Building Societies Act. They are established for the purposes of raising funds from members through subscriptions and deposits. Members are normally issued with pass-books which are operated in the same way as savings accounts with banks. The funds so raised are advanced to members upon security of mortgage of land or buildings. These societies have a considerable influence on deposits and should therefore be included under the broader monetary controls. In other words, a society licensed to collect deposits from the public must be regularly subjected to inspection in order to ensure propriety and security in managing investment of public deposits. I have also received complaints from members of the public about overcharging by some building societies. In order to protect public interest in these societies, I shall be amending the Building Societies Act to provide for the following:-

Firstly, that the Minister shall prescribe the various ratios in which their assets shall be held as is the case with banks and financial institutions. Initially, 10 per cent shall be held in the form of notes and coins; 10 per cent in short term money market or in Government securities, and the balance in other mortgage investments. All registered building societies will be given six months to comply with these liquidity ratios.

Secondly, that the Minister shall be given powers to determine the rate of interest and other charges which any building society can levy on its members.

Finally, that the Minister may, notwithstanding the powers conferred on the Registrar of Building Societies by section 59 of the Act, direct the Central Bank to inspect any building society if necessary. This need not worry building societies as the information obtained through such an inspection shall be confidential. A bill to provide for these amendments will soon be tabled in this House.

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(viii) Hire Purchase Act

Mr. Speaker, the main business of hire-purchase companies is hire-purchase and lease-hire. Many other forms of financing have recently emerged. These include bills, loans and goods advances. Although most hire purchase companies are licensed under the Banking Act, there are a few other private companies which are registered under the Hire Purchase Act. Thus, banking provisions relating to liquidity and charges do not apply to these forms. As in the case of building societies, I have received complaints from the public about some unreasonably high charges levied on lesees and hirers by some unscrupulous hire purchase companies. In order to regulate these companies, I propose to amend the Hire Purchase Act to give the Minsiter powers to not only determine the maximum charges that a borrower, lesee or hirer may be charged but also control the volume, terms and conditions of credit advanced by hire purchase companies. An amendment bill providing for this is under preparation.

(ix) Money Lenders Act

Four years ago, His Excellency the Vice-President and the Minister for Home Affairs, then the Minister for Finance, drew the attention of this House to the unsatisfactory manner in which the Money Lenders licensed under the Money Lenders Act were operating. He undertook to have this law examined in order to determine whether it is still relevant to present day Kenya. A lot of work has since been undertaken and I regret to inform money lenders that the Government has arrived at the conclusion that their operations are not in the public interest.

Mr. Speaker, this Act was enacted some 41 years ago when Kenya had hardly any banks or financial institutions. Today we have adequate financial intermediaries to serve the public particularly in the urban centres where these money lenders operate. In addition, some money lending institutions have recently operated just like banks including dealing in foreign exchange in contravention of both the Banking Act and the Exchange Control Act. Furthermore, I need not point out that these institutions encourage consumption rather than savings which are essential for investment and therefore development. In view of these reasons, and for proper financial control, it is important that the operation of these institutions be terminated. Consequently, the Money Lenders Act shall be repealed. A bill to provide for this repeal will be published

(x) Interest Rates

One of the main objectives of the Government's economic programme in the last few years has been to correct the imbalance in the country's external account. In this regard, there has been substantial progress: the current account deficit has been reduced from shs. 5334 million in 1982 to shs. 1897 million in 1983. Inflation which reached an all time peak of 22.3 per cent in 1982 came down to 14.6 per cent last year.

These achievements reflect in part the effectiveness of the fiscal and monetary polcies persued recently and which in turn have led to a slack growth in bank credit and money supply.

With the reasonable degree of stabilisation now achieved, it is desirable to stimulate private sector demand for bank credit. In this regard, I would like to announce the following measures which will be effective from tomorrow:-

(a) The maximum interest rates chargeable on loans and advances by Commercial Banks will be reduced from 15 per cent to 14 per cent per annum; the computation of interest being based on reducing balance method.

(b) The maximum interest rates chargeable by financial institutions will be reduced from 20 per cent to 19 per cent per annum; the computation of interest being based on reducing balance method.

(c) The minimum deposit rate on savings will be reduced from 12½ per cent to 11 per cent per annum.

(d) The Treasury bill rate will be determined by Government from time to time depending on Governments financial requirements.

CONCLUSION

Mr. Speaker, the primary aim of this year's budget is to consolidate the gains we have made in restructuring our economy during the recent past, and thereby lay down a firm foundation for the future of our economy. I have described the economic recovery, and how the Government plans to sustain it. I have also reaffirmed the Government's commitment to reduce inflation further by controlling budget deficit. Finally, I have outlined measures the Government intends to take to restructure our industria sector.

Out of these restructuring efforts, the biggest challenge will be on the industrial front. This year's budget proposals provide for a substantial restructuring of the costs and prices facing the industrial sector of the economy as well as the relative prices of goods facing consumers - both urban and rural. For a long time, beginning in the late 1960s, we imposed a succession of tariff increases and import controls which had the effect of raising domestic prices to consumers, giving generous protection to producers for the domestic market, and also raising the costs of industries producing for both the domestic and external markets. Despite the export compensation scheme, the cost increases arising from tariffs and sales taxes have made it uneconomic for most manufacturers to produce for exports.

As Hon. Members are aware, this year's budget is the second thrust towards a fundamental re-alignment of the incentives facing Kenyan industry and Kenyan consumers. As a result, the depressed conditions in manufacturing should be substantially eased by this action. At the same time the tariff reform, continued import liberalisation, and increased export compensation will provide incentives to manufacturers to compete the export marke

The average consumer in rural and urban areas should have the benefit of less rapid increases in prices and, in some selected cases which I have already mentioned, prices will actually drop as a result of this budget. The improved resource structure and the increased incentives to exporters should result in increased output and employment in the industrial sector.

Mr. Speaker, I must point out that some industries which have received exceptionally high protection for many years will now have to pull up their socks and compete. But it must be remembered that tariff levels still remain high, and protection to local industries very generous, not to mention the fact that we have strengthened anti-dumping legislation.

Mr. Speaker, the business community has made several appeals to the Government to reduce the cost of industrial raw materials and capital goods. We are doing precisely that now in a systematic manner while simultaneously reducing the levels of protection and improving export incentives. It is important to remember that, as the economy becomes more complex, one industry's output is another one's raw material. This is one of the fundamental reasons for moving towards more uniformity of the import tariff rates. The other fundamental reason is that industrialists should make their profits by actually adding value to inputs. We now have too many industries in which the effective price they pay for foreign exchange for imported inputs, including tariffs, is much lower than the effective price of foreign exchange at which they sell their output. Thus, they are really gaining from exchange rate arbitrage rather than by adding value, or creating genuine income.

Mr. Speaker, if a business assembling components to make a final product were to pay 50% above the C.I.F. price, then the assembler here can have costs 50% more than those outside Kenya and still compete. So the effect of reducing the wide range of tariff rates will not be the elimination of protection - rather, it will rationalise protection and reduce the oportunities for industries that add very little value but impose a burden on consumers.

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Let me emphasise that we/expect efficiency to pervade throughout the entire economy. In my statement, I have indicated the measures we intend to take to improve the efficiency in the public sector. I have especially laid emphasis on the role of district focus and parastatals in ensuring better and efficient utilisation of resources available to the public sector. In particular, public servants will be expected to execute their duties with diligence and speed. The nation can no longer afford to carry non-paying passengers in its train. Those who do not produce will be made to make way to those who are ready and willing to work. I have also indicated that we shall continue to do everything possible to promote agricultural development as the mainstay of the economy. It is only through efficient utilisation of our limited resources that we can confidently be able to tackle such problems as unemployment. It is my hope that everyone shall take this challenge.

Taken as a whole, the new taxation measures introduced today will bring an addition on K£12.2 million in revenue, thus closing the gap. I would have liked to reduce the level of budgetary deficit by reducing expenditure further. But considering the pressing needs for Government services, this is clearly not possible. I am therefore reluctantly forced to accept the projected overall deficit of 4.0 per cent of GDP in 1984/85.

Mr. Speaker, my proposals are aimed at responding to challenges facing the country at the medium term. They are also intended to lay a firm foundation for the implementation of the Fifth Development Plan just passed by this House. These problems cannot be alleviated, neither can the Plan be effectively implemented without efficiency. It is for this reason that I have, throughout my Speech this afternoon, emphasised efficient utilisation of resources by all sectors of the economy.

Mr. Speaker, as we are all aware, although Kenya has a limited resource base, we do have productive land, other natural resources, an indutrial base, and most important of all, a people whose skills and confidence in how to employ them effectively have grown rapidly during the last twenty one years. In spite of drought, we are well placed to resume a more rapid rate of economic growth. Most important of all, His Excellency the President has laid a sound foundation which has enabled us to withstand the economic difficulties which have plagued us over the last four years. With this foundation, we will surely surmount whatever obstacles will be on our way to economic recovery. Let us remember that we can only do this if we all work together within the philosophy of NYAYO.

Mr. Speaker, I beg to move.