REPUBLIC OF KENYA

Sessional Paper No. 4 of 1975

ON ECONOMIC PROSPECTS AND POLICIES

Five Shillings—1975

Sessional Paper No. 4 of 1975

ECONOMIC PROSPECTS AND POLICIES

1. Kenya's impressive record of economic growth—6.8 per cent per annum during the first decade of independence—is currently in danger of erosion. The causes are (1) a price squeeze—import prices are rising much more rapidly than export prices, (2) a commodity squeeze—we must decrease our imports and increase our exports, leaving fewer goods for domestic use, and (3) a credit squeeze—the need and difficulty of borrowing more from abroad to finance residual deficits in our balance of payments.

2. It is difficult to explain the impact of these largely external events on the lives and standard of living of our people. Kenya has enjoyed relatively stable prices and growing levels of economic activity ever since Independence and people are unaccustomed to the kinds of adjustments now before us. Their concerns are immediate and pressing—how to buy food in the face of higher prices; where to find work; where to get fertilizer and seed, and how to pay for them; how to get produce to market.

3. External prices and the balance of payments seem very remote from these practical concerns, but they are not. This paper attempts to explain how these external events affect our own development, what policies Government must pursue to cope with them, and why the understanding and co-operation of all groups in our society is critical to the success of those policies.

The Outlook for Foreign Prices

4. Preliminary data for 1974 indicate that import prices rose by 43 per cent (30 per cent excluding oil) in 1974. As we have very little control over the import prices we must pay, these higher costs must be reflected in higher prices for the goods we produce. It is in this way that inflation abroad is "imported" into Kenya.

5. Rising domestic prices lead naturally to demands for higher wages, rents and profits, increases in which result in further increases in domestic prices. The spiral which begins so easily in

this way may be exceedingly difficult to stop. Everyone seeks only justice—to keep even with rising prices—but in these circumstances justice in that sense simply cannot be served.

6. In producing our total output sold at home and abroad in 1973, 25 per cent of the inputs came from abroad, the balance of 75 per cent representing domestic inputs of land, labour and capital. If our foreign inputs go up in price by 43 per cent as they have in 1974, output prices must clearly rise by 11 per cent (one quarter of the rise in import prices) just to cover higher import costs. That increase of 11 per cent in domestic prices provides *nothing* for increases in wages, rents or profits. If those are now permitted to rise by 11 per cent in an effort to keep abreast of the cost of living, domestic prices must rise by another 8.0 per cent (three-quarters of the rise in domestic input prices) in order to cover the higher domestic costs of production. Only if output prices, both domestic and export, rise as rapidly as import prices can domestic wages, rents and profits apparently keep pace with the cost of living.

7. In 1974, export prices rose dramatically in comparison with past experience—by 27 per cent including oil exports, by 21 per cent excluding oil. Nevertheless, they rose much more slowly than import prices. The loss in the purchasing power of our exports must take the form of a reduction in our real domestic income. If the difference between import and export price changes were small, increases in productivity might offset the loss in purchasing power, but when that loss is large, as it was in 1974 and is likely to be in 1975 and 1976, we can only share the burden; it will not disappear.

8. In effect, the average of our output prices, domestic and export, must equal the average cost of producing that output including both import and domestic costs. If import prices rise more rapidly than export prices, domestic prices must rise more rapidly than domestic costs. It is not possible for wages and other factor costs to rise as rapidly as the cost of living. That is the essence of the price squeeze.

9. The situation is further complicated, however, because higher import prices affect the domestic economy very unevenly. In the

first place, the dispersion of specific import price increases around the average increase is itself very large. Consider the following price changes by way of example.

Commodity	*Unit*	*Price* December 1973 £	December 1974 £	*Percentage Increase*
Crude Oil	ton	13	29	123
Sugar	ton	115	480	317
Wheat	ton	96	113	18
Maize	ton	62	76	23
Fertilizers ..	ton	95	157	65
Vegetable oils ..	ton	302	488	62
Tin	ton	3,190	3,150	–1

10. In the second place import price increases are unevenly diminished in effect as they pass through the domestic economy. Some, such as price increases on final consumer goods, are scarcely diluted at all because they enter directly into domestic markets without processing. Other imports, such as fertilizers and steel, are combined in greater degree with domestic inputs and the effect of higher import prices may be considerably diminished in their effects on retail domestic prices.

11. For both reasons the variation among necessary changes in domestic prices at both processing and retail levels will be large and the economy must be very flexible and adaptable indeed to absorb the uneven impact of changing import prices. In these circumstances, general price controls are especially difficult to administer effectively and they may act to prevent necessary adjustments in the domestic economy from taking place. Thus the burden of constraint on domestic prices must fall most heavily on fiscal and monetary policies.

The Commodity Squeeze

12. If we continued to import and export the same *quantities* of goods and services despite the growing gap between import and export prices, we would quickly run out of foreign exchange reserves. The cost of imports would quickly overwhelm receipts from exports.

13. We must in these circumstances curtail the quantity of our imports in order to save foreign exchange and expand the volume of our exports in order to increase foreign exchange earnings. If we are successful on both fronts, as we must be, the quantity of goods available for domestic use cannot increase as rapidly as usual. Much of the increases in our production over the next few years must be used to replace imports or to expand exports. We must grow more sugar, wheat and maize, not to increase our consumption, but mainly to reduce our imports of those commodities. Similarly, we must produce more coffee, tea, sisal, pyrethrum and livestock, not so much to increase our standard of living as to increase our exports and our earnings of foreign exchange. Tha is the essence of the commodity squeeze.

14. Through the policies outlined in this paper, the Government plans to hold the quantity of imports to an average annual rate of growth of less than 2 per cent over the next four years. This compares with the average growth rate of 7.3 per cent between 1964 and 1972. At the same time, Government expects the quantities we export to rise at an average rate of nearly 8 per cent, as compared with the actual rate of 4.5 per cent between 1964 and 1972. Obviously, more of our production must be sold abroad and we will not be able to supplement the production we can retain domestically to a very great extent with imports from abroad.

Residual Deficits in the Balance of Payments

15. Despite our efforts to adjust the quantities we import and export, it is likely that the unfavourable effects of external price changes can only partially be offset and we will be left with residual deficits in our balance of payments for which special external financing must be sought.

16. The deficits for 1974, 1975 and 1976 amounting approximately to K£35, K£50 and K£60 million respectively, are of immediate concern. We have drawn down foreign exchange reserves by approximately K£15 million in 1974, but cannot rely on that source of financing to any great extent in future years because remaining reserves provide cover for only 2 months of overseas imports.

17. For 1974, an oil facility credit of K£15.3 million has been agreed with the IMF, and other credits and grants amounting to K£4 million have been made available by the EEC, the UN and ADB (Special Arab Fund). Roughly similar financing is being arranged for 1975 and in addition a programme loan for K£12.5 million is being negotiated with the IBRD. For later years we hope to obtain new funds from these sources and others will be investigated, including the possibility of expanding regular programme aid.

18. The Government will aim to increase the total of loans and grants obtained from multilateral and bilateral aid sources above the targets set out in the Development Plan. The real value of aid has declined sharply as the cost of development projects has risen and it is necessary that the volume of aid in money terms should be increased to finance, if not the same volume of real development, at least some greater volume than possible with the original targets. Excluding the special IBRD programme loans, the revised aid targets will be:—

		K£ million	
	1975/76	*1976/77*	*1977/78*
Original Targets	43·0	45·0	45·0
Revised Targets	45·0	50·0	55·0
Increases	2·0	5·0	10·0

19. The point is that all of these increases in borrowing represent *extra* funds we must obtain from abroad to meet the rising cost of importing even fewer goods than we had hoped to obtain when the Development Plan was written. Those loans must be repaid out of future production, and the payments required will represent a further cost to us arising from the current instability in international affairs.

20. The forecasts contained in these paragraphs are subject to great uncertainty. Indeed, if inflation in the countries with which we trade is not brought under control, or if in the process of doing so they slip into serious and prolonged recessions, our costs may rise more rapidly than we now expect and the markets for our exports may shrink rather than expand. The certain elements are the inevitability of adverse effects on the rate and pattern of our planned development and the need for a programme of austerity more severe than we have yet experienced.

The Effects on Development in Kenya

21. It is already clear that some of the targets set forth in the Development Plan are in jeopardy. Indeed, the year 1974 was in many respects our worst since Independence. The combined effect of dry weather and rising import prices has dampened our rate of growth of real GDP to about 4.6 per cent and of real monetary GDP to 4.9 per cent. Moreover, the extra costs of our imports over receipts from exports reduced the purchasing power of what we produced so that growth in our real income barely exceeded 1.0 per cent. Adjusted for population growth, we confront the fact that per capita real income in 1974 *fell* by at least 2.3 per cent. At the same time we have had our highest rate of domestic inflation since Independence—the price indices so far available show an increase in the lower income cost of living of 16.1 per cent between December, 1973 and December, 1974. In addition, it was necessary in January, 1975 to raise the prices of some commodities important in this index—in particular sugar, beef, bread and maize meal—in order to cover the higher cost of imported materials used in their production and to maintain farmer incentives.

22. We expect substantial recovery in 1975 with real GDP growth at 7.5 per cent and further growth at about 6.0 per cent in 1976, about $1\frac{1}{2}$ percentage points less than called for in the Development Plan. Nevertheless, as we expect the purchasing power we derive from exports to continue falling—by 10.0 per cent in 1975 and by 7.0 per cent in 1976—we forecast only a small increase in real per capita income in 1975 and scarcely any change in 1976.

23. Some of our current estimates about future economic performance—really working hypotheses—are summarized in Table 1 in comparison with selected targets from the Development Plan. It bears emphasis that these forecasts are based on the assumption that the policies outlined in this paper are vigorously implemented and that all families, farmers, business firms and governmental units co-operate fully in the fight to increase production despite the rising cost of imports.

24. Perhaps the effects of rising import costs on our economy, as so briefly summarized here, may also serve to emphasize the crucial role which imports (and exports) play in Kenya's develop-

ment. Essential imports permit us to combine with our own domestic resources, materials and equipment which we do not have or which we cannot produce domestically at reasonable cost. Iron and steel, crude oil, farm machinery, and chemicals are important examples. Having access to imports of these kinds enables us to produce more and to do so more efficiently than would otherwise be the case. Moreover, we can concentrate our production on goods we are most efficient at producing and sell surpluses abroad as a means of gaining the foreign exchange required to pay for imports.

25. Naturally, as imports rise in price, domestic substitutes become competitive with some of them and we seek as well to reduce our imports of non-essential commodities. Nevertheless, residual deficits in our balance of payments will remain as noted above and they will require extra foreign borrowing to finance them. The alternative would be to cut imports even more drastically than now proposed. These further cuts would reduce our ability to produce for both domestic and export markets so that another round of import reduction might be required. Moreover, as domestic production was curtailed, there is strong likelihood that the nation would slip into serious recession, as has happened in so many countries abroad. The policies of Government outlined below are intended to hold such adverse effects to a minimum.

The Economic Strategy Required

26. The situation we face requires a comprehensive action programme but its essential purposes should always be kept before us. These are:

26.1 To keep domestic price increases to no more than half of the increase in import prices.

26.2 To hold wage increases and increases in other non-import costs of production to less than domestic price increases.

26.3 To restrain imports.

26.4 To promote exports.

26.5 To stimulate domestic production both in substitution for imports and to support exports.

26.6 To choose policies for our crisis years which in so far as possible reinforce our longer term objectives of promoting growth, employment and an improved distribution of income.

The Control of Domestic Demand and Prices

27. Inflation, as we all know, is a disruptive force because it distorts economic incentives, confuses the pattern of development, encourages speculative as opposed to productive activity, and distributes its burden capriciously and unevenly among the people. We would seek to contain it for those reasons alone.

28. But because our export prices will not rise as rapidly as our import prices, it is mandatory that we hold domestic inflation below world rates as the essential means at our disposal for redressing our balance of payments problems—to promote exports and limit imports.

29. The pressures on our domestic resources are great and they may grow in magnitude. Rising import prices will divert some demand toward domestic goods, and growing exports will bring in more income to augment that demand. Yet, at the same time that demand for domestic goods grows, our ability to supply the domestic market will be weakened. We will not be able to draw so extensively on the world market for means of production and a larger share of our production must be sold in export markets. Our domestic resources will be strained to capacity in the period ahead. It is, therefore, a matter of urgency that we use our resources as fully and as efficiently as we can. We must increase output as rapidly as possible.

30. Despite these pressures on domestic resources we must also succeed in controlling domestic prices. The principal means for doing so are fiscal and monetary policies. The growth of Government expenditure—its demand for goods and services—must be reduced from the rates given in the Development Plan to give the private sector more freedom to adjust its supply capability to changing economic circumstances; Government revenues will also be less than indicated in the Plan but must be high enough to finance essential development and to provide some check on growing private demand; monetary restraint, including improved guidelines for credit allocation by administrative means and higher interest rates, must reinforce fiscal policy. These are delicate policies which, if employed too gingerly, will fail to control inflation and, if employed too vigorously, could tip us into severe recession.

Clearly if recession threatens, monetary and fiscal policies must be quickly modified to stimulate and supplement private demand.

1. *Fiscal Policy*: *Expenditure*

31. There will be of necessity heavy pressure on the private sector—agriculture, trade, manufacturing and consumer—over the next several years. This will stem in part from the "price squeeze" as we try to keep domestic inflation below world inflation, and in part from the "commodity squeeze" as we try to limit the physical volume of imports and expand the volume of exports leaving less available for the satisfaction of domestic demands. In these circumstances the increase in Government expenditure must be restrained in order not to impose either severe contraction or excessive inflation on the private sector. The development and recurrent ceilings established for ministries for the 1975/76 fiscal year represent such an effort. So, too, does the revised forward budget, which is discussed in some detail later in this paper.

2. *Fiscal Policy*: *Taxes*

32. The Government must also maintain its revenues at reasonable levels (1) to finance essential expenditure, (2) to reduce the need for budgetary support from banks leaving more credit for private sector use, and (3) to temper private demand for goods and services toward levels which can reasonably be expected to be satisfied through domestic production and imports.

33. Significant steps have been taken to increase non-tariff revenues in the last two national budgets. The income tax has been made more progressive for those affected by it (*a*) by reducing the tax threshold (the exemption limits are now K£720 instead of K£990 for a family with four children or more), (*b*) by restating personal allowances as a deduction from tax due instead of from gross income, (*c*) by revising the rate structure, and (*d*) by abolishing the graduated personal tax. Moreover, the withholding of tax on dividends has been raised to 15.0 per cent and tax is now withheld on income payments to non-Kenyan nationals; the corporation tax has been raised to 45.0 per cent (from 40.0 per cent); and the sales tax has been raised on beer, cigarettes and tobacco, petrol, and a number of non-essential commodities.

34. Our general guidelines with respect to tariffs and sales taxes can be summarized as follows:

34.1 to raise sales taxes on goods we wish to discourage in both domestic production and imports.

34.2 to modify the tariff structure toward uniformity, reducing protective duties on some consumer goods and raising duties on capital goods, allowing only selected exceptions for infant industries—and these for a maximum of five years.

34.3 to continue export subsidies at the present level (10 per cent on manufactures) until experience with them reveals necessary modifications in the interest of promoting development.

35. The Government has already initiated discussions with Tanzania and Uganda to seek tariff reform along some of the lines indicated here. Indeed, duties on meat, fish and milk products have been reduced from 50 to 25 per cent and all duties on raw materials items have been reduced to a 40 per cent maximum.

36. There are several other tax matters which will engage Government attention during the crisis years ahead. These include:

36.1 *The tax threshold.*—As domestic inflation proceeds, more and more families will automatically be brought into the tax net simply because incomes will rise and personal allowances are fixed in money terms. Thus, while exemptions now amount to K£720 for a family of six or more while the average income in Kenya for such a family is only K£300, the latter figure will rise with inflation while the former will not.

36.2 *Tax effectiveness.*—Whereas average taxes on wage incomes rose from 12 per cent to 20 per cent from 1966/67 to 1970/71, the average tax assessment on the self-employed fell from 16.6 per cent to 16.0 per cent. The poor record seems mostly to reflect a combination of tax evasion and inadequate tax administration. The staff of Income Tax Department has been expanded and the organization extended to district level in an effort to cope with past administrative deficiencies. In addition, expert advice is being obtained on means for increasing the efficiency of tax collection. As a result the record of tax collection is already improving and further progress is virtually assured.

36.3 *Fees and specific taxes.*—The prospects for inflation are such that most Government collections must be adjusted so that the real revenues collected do not automatically fall with inflation. Income and sales taxes, being ad valorem in nature already have this feature built into them. Charges such as game park fees and vehicle taxes will also be periodically adjusted so that the real taxes collected are not eroded through inflation.

36.4 *The investment allowance.*—The possibility of modifying this allowance is under discussion with Tanzania and Uganda. It represents a subsidy to capital and therefore encourages the construction of excess and sophisticated capacity at the expense of employment. At a time when imports must be held to absolutely essential levels and a reduction in domestic growth threatens employment opportunities, a determined search for alternative incentives which promote employment is required.

3. *Monetary Policies*

37. Obviously we need in the period ahead to seek efficiency not only in our use of real resources but in our use of money and credit as well. Indeed, the two are closely related. If we succeed, for example, in securing the same production with lower levels of stocks, we not only use stocks more efficiently, but we also need less money and credit to finance a given level of GDP. On the other hand, if money and credit runs increasingly to speculative uses, less of it will be available for productive purposes and a given supply of money and credit will finance only a lower level of production.

38. Between 1966 and 1971, the money supply grew at 1.4 times the rate of growth in monetary GDP at current prices. That relationship cannot be permitted to carry forward into the years immediately ahead because (*a*) we would simply be accommodating inflation and (*b*) the decline in our foreign exchange reserves will tend naturally to constrain the money supply.

39. The prospects are that credit simply will not be as readily available as it was prior to 1974, even though the Central Bank has adopted policies intended to provide an annual rate of growth of 12 per cent in credit to the private sector; and this despite its

diminished foreign exchange reserves. In these circumstances, it is essential to ensure that the credit which can be made available *is used wisely and well despite the natural tendency in times of inflation for credit to be used for speculative purposes.* An inefficient allocation of credit will enable some firms to accumulate unnecessary stocks on speculation while other firms are unable to obtain supplies essential to production. The consequence would be an *unnecessary* reduction in real growth. That is what we must avoid at all costs. Thus the means we use to distribute scarce credit becomes crucial in current circumstances.

40. Normally interest rates perform the function of allocating credit and they will continue to be the main instrument for doing so. These will be reinforced, however, through supplementary administrative mechanisms for allocating credit intended (*a*) to distribute credit within Kenya to its most productive uses, and (*b*) to encourage the flow of funds to Kenya.

41. The policies of the Central Bank with respect to its administration of credit include principally:

41.1 Commercial banks should attempt to increase credit to the private sector by 12 per cent per annum.

41.2 The sectors to which commercial banks should give priority in granting credit are Government, export business, manufacturing, agriculture and tourism.

41.3 In granting credit to the private sector, commercial banks should give preference to the needs of small businesses.

41.4 For foreign-controlled firms operating mainly in the priority sectors listed above, commercial banks may lend up to 60 per cent of the amount of foreign investment depending upon the degree of domestic participation in ownership; for other foreign-controlled firms, nil. These limits can be exceeded only with the specific approval of the Central Bank.

42. Interest rates and direct forms of credit allocation are mutually reinforcing. The aim of both is to use the available money supply determined by the level of foreign exchange reserves to support as high a level of real growth as possible.

Non-Wage Incomes Policy

43. One important means for restraining pressure on domestic prices is to limit the rate of growth in domestic incomes. Changes in tax structure have already been noted which will have some constraining effect on corporate and personal incomes after tax and the rate of domestic inflation itself will diminish the real value of tax allowances. Moreover, many farmers will find that their real incomes are directly squeezed between higher import prices for fertilizers, pesticides and farm machinery and export prices which show little change. In addition, Government is strengthening tax administration, as noted earlier, in order to ensure that the self-employed, particularly traders, pay their fair taxes. The Government is also reviewing sales taxes on non-essential goods and will adjust them as appropriate.

44. During periods of inflation, there is a natural tendency for speculators to seek income through capital gains, which are not now taxed in Kenya, in preference to income through production, which is taxed. Yet it is precisely during such times that increases in production are essential. In order to discourage speculative uses of capital, Government will introduce a capital gains tax, the details to be announced in the near future.

45. In addition, municipalities will soon be authorized to establish or increase levies on urban property as a means of ensuring that those who are fortunate enough to own property contribute to the urgent needs for urban services for the lower income groups.

46. Government also intends to tighten loopholes in present inheritance taxes so that those who inherit have a stronger incentive to earn incomes by participating in production.

Wages Policy

47. It is equally important that those fortunate enough to have employment share in the burdens of austerity. The Government has therefore revised the guidelines given to the Industrial Court. In doing so, full consideration has been given to (*a*) the price squeeze discussed earlier in this paper which requires that wages, other domestic costs of production and profits rise more slowly than

domestic prices, and (*b*) the extent to which prospective increases in productivity may reduce the impact of the price squeeze.

48. The modified guidelines to the Court will apply until our balance of payments difficulties are brought under firmer control. During that period the Court will approve average awards amounting to somewhat less than the increase in the cost of living (net of sales taxes), a guideline which already takes into account prospective increases in productivity.

49. In addition, the guidelines, as modified, suggest that in the interest of equity, most of any average award should go to the lowest paid workers. Therefore, compensation for cost-of-living increases will be allowed in full only for the lowest paid groups. This distribution ensures that the lowest paid workers suffer no loss in real income (except as new sales taxes may affect them), the burden of our needed austerity falling progressively on those in higher wage categories. It is expected that both employers and employees will co-operate fully in the administration of these guidelines.

50. As further protection for the lowest paid workers, Government has decided to increase minimum wages to Sh. 130 per month in rural areas, to Sh. 290 per month in Nairobi and Mombasa, and to Sh. 240 per month in other towns. Moreover, minimum wage differentials by sex have been abolished. Thus since September, 1973, the rural minimum has been more than doubled and the urban minimum has been increased by 65 per cent.

Limiting Oil Imports

51. While we expect oil price increases to be more moderate in the future, it is the commodity which has recently risen most rapidly in price. Our oil imports in 1974 have cost us approximately K£82.5 million as compared with K£23.8 million in 1973. Deducting oil exports has left us in 1974 with a deficit in our oil trade alone of K£30.5 million, almost equal to our overall deficit in the balance of payments for that year.

52. The first and most important means for discouraging the domestic use of oil is price itself. The full cost of imports must be passed on to domestic users. Moreover, for less essential uses

of oil, prices must be raised even higher as we have have done in the case of petrol by raising the tax by 20 cents per litre. This approach ensures a higher, more discouraging price, and that the price increase goes to Government instead of increasing the profits of suppliers. We shall keep this tax under review and adjust it as circumstances may require.

53. There are also non-price measures which must be pursued. The most important of these over the long term is the search for oil substitutes as sources of energy. Geothermal exploration proceeds in promising fashion and we expect some relief eventually there. We shall also develop our sources of water power and will explore the possibility of procuring more power from our partner states. All of these efforts will reduce our present dependence on oil as a means of generating power.

54. Non-price measures of more immediate effect are also available to us. Of these the most important would be a reduction in the speed limit on major highways from 115 to 100 km per hour. This change would not only save substantially on our use of petrol but should also reduce injuries and loss of life on our highways. It will require a substantial enforcement and educational effort, and the full co-operation of all drivers. Appropriate legislation is now being drafted.

Limiting Non-Oil Imports

55. The rising cost of imports will automatically induce domestic users to search for cheaper, domestically produced substitutes, but that effect alone will not be sufficient to stem the inflow of imports. Six additional steps will be taken as a matter of urgency.

56. The first measure is to limit our imports of non-essential items so that the foreign exchange we are able to obtain can be used primarily for the import of essential commodities. The best measure available to us is to apply high sales taxes on non-essentials so that *both* imports and domestic production are discouraged, the prices of luxuries are raised, and the Government profits from the few that are sold. However, in view of current balance of payments difficulties, it may be necessary to employ quantitative restrictions to ensure full use of our domestic capacity to ~~purchase~~ Produce goods comparable in quality to imports.

57. The second necessary measure is to explore systematically which presently imported essential goods can now be produced profitably in Kenya following the sharp increase in import prices. Priority should then be given to promoting the domestic production of those items which can be produced in existing establishments. Special protection should not be required.

58. The third essential step is to guard with care our skills and facilities for repair and maintenance so that the replacement of capital equipment and durable goods can be postponed as long as possible. Such enterprises will be given high priority both for commercial loans and foreign exchange allocations.

59. The fourth urgent matter is to ensure that existing productive capacity is fully utilized before further expansion is authorized. In particular the possibility of double and triple shifts will be explored before foreign exchange is granted for new capacity, and depreciation allowances will be re-examined to see if their modification would stimulate more intensive use of existing capacity.

60. The fifth step is to continue pursuing a more uniform tariff with our partner states, and in particular to raise duties on capital goods to discourage premature replacement and the building of excess capacity, to encourage a domestic capital goods industry where profitable, and to stimulate the use of more labour-intensive methods of production.

61. The sixth essential measure is to discourage hoarding and the speculative accumulation of stocks which represent non-essential uses of foreign exchange. Moreover, strong measures will be taken to prevent the illegal import and export of goods and to ensure that those involved in such flagrant violations of the law are brought to justice.

62. Special reference should be made to goods now produced domestically under protective duties of long standing. *Rising import prices automatically increase the degree of protection so that protective duties can be reduced as import prices rise.* Hence, the Industrial Protection Committee is reviewing existing forms and levels of protection and will make recommendations for the orderly reduction of special protective measures and for future policies with respect to "infant" industries.

Promoting Exports

63. A system of export subsidies (10 per cent) on manufactured goods became effective on 1st November, 1974. Our experience with it will be carefully monitored and modifications will be made if it is in the interest of development to do so.

64. Growth in our agricultural exports depends primarily on our pricing and production policies in agriculture and water. These are discussed separately and more fully later in this paper. Tourism, a major source of our foreign exchange, also merits separate discussion.

65. It has been necessary, in order to reserve our production of some essential commodities for our own needs and to limit the need for supplementary imports, to ban certain items, such as wheat, rice, livestock feed, live animals, and sugar, from export. The existing differentials between internal and external prices clearly encourage the smuggling of easily transported commodities across poorly patrolled borders. Recent adjustments in the prices of live animals, maize, wheat and sugar should help us to retain a larger share of our production of these commodities, and indeed to increase our production. When we have an excess of production for export, these bans will be removed.

Stimulating Domestic Supply

66. If our policies with respect to imports and exports are vigorously implemented, we expect to hold imports to a modest increase in real terms over the remainder of the Plan period and to achieve more rapid growth in our volume of exports. These expectations are revised very considerably from the Development Plan. The volume of imports is now expected to grow between 1974 and 1978 at an average rate of about 2 per cent as compared with the planned rate of 6.7 per cent. Export volume on the other hand, is now expected to grow at 8.0 per cent per annum from 1974 as compared with the planned rate of 7 per cent.

67. This expected change in the pattern of trade must obviously have far-reaching effects on our strategy for and pattern of economic development. While reducing development expenditure we must shift its weight toward agriculture and rural development, toward early maturing and quickly productive projects, and toward

projects with low import requirements and high employment potential. The forward budget contained in Tables 2, 3, 4 and 5 reflects such changes in composition. Even in broad outline this forward budget differs from that in the Development Plan. Beyond 1975/76 we now project real rates of growth of development expenditure of 7.8 per cent and of recurrent expenditure of 6.3 per cent. These compare with planned figures of 12.3 and 11.2 per cent respectively.

68. The principal changes in the composition of the forward budget from that contained in the Development Plan (pp. 174 and 176) are:

68.1 development expenditures for the Ministry of Works will be held to the present level (£20.7m.) and shifted toward rural requirements;

68.2 development expenditures for water, agriculture and rural development will continue to grow at faster rates than originally planned, placing an added burden on the machinery for implementation in the Ministries concerned;

68.3 the rate of growth of recurrent expenditure in the Ministry of Education after 1975/76 will be no greater than for recurrent expenditures as a whole so that recurrent expenditures on education will by 1980 take no more than 29 per cent of the total recurrent budget. (The need for this policy change is explained more fully later in the paper.)

The anticipated effect of these shifts in expenditure and of related policies on important sectors of the economy are discussed briefly in the following paragraphs.

1. *Agriculture and Water Policy*

69. By allocating more development funds to agriculture and water, Government hopes to increase agricultural production more rapidly, largely through the small scale farmer, (*a*) to reduce our need for food imports (wheat and sugar particularly) and (*b*) to increase exports. The diversion of development funds to agricultural projects and credit programmes should show a quicker return than in some other uses and should require fewer imports for their fulfilment.

70. While development funds may make increased production possible, they do not automaticaly provide the incentives necessary to realize production potentials in practice. For that purpose Government will carefully monitor its pricing policies to assure producers a net return sufficient to stimulate supply and to set consumer prices at levels consistent with farm prices but without the intervention of excessive profits in distribution. The recently announced pricing changes for wheat and bread, maize and maize meal, sugarcane and sugar, and live animals and beef have been necessary for these reasons.

71. Our discretion over farm prices is squeezed between two forces—export prices on the one hand and import prices of pesticides, fertilizers, fuel and machinery on the other, neither of which we can control. We must keep our costs of production competitive so we can export and yet we must ensure that farm prices are adequate as incentives and reflect the rising cost of imports. As import costs are rising faster than export prices we have a very delicate balance to maintain.

72. Domestic prices to farmers for wheat and maize are currently less than world prices even after the recent price changes. Before that, the marketing boards for these crops were suffering annual losses of about £2 and £1 million respectively which were in effect subsidies to consumers. These losses should now be eliminated and farmers should be receiving enough for their crops to cover increased costs of fertilizers and to stimulate increased production.

73. Our net oil deficit cost us about £30.5 million in foreign exchange in 1974. Over approximately the same period (1974/75) wheat imports will amount to £4.9 million and the value at world prices of the excess of our consumption over production of sugar in 1974 exceeded £20.0 million. Clearly our sugar deficit deserves nearly as much attention as the oil deficit. Therefore, the price of sugar has been raised not only to stimulate production but also to discourage demand.

2. *Revised Road and Buildings Policy*

74. The accelerated expansion of agriculture now envisaged has also affected development plans for the Ministry of Works. First, only essential building needs can be met because they are costly, require foreign exchange and add only indirectly to production.

75. Second, in order to support the expanded agriculture programme, emphasis in road building must be shifted from expensive major roads to access and feeder roads in rural areas. This modification, together with restraints on building, will (*a*) free substantial development monies for use in agriculture and water, (*b*) conserve foreign exchange, (*c*) assure the small farm sector of access to markets, and (*d*) create more employment opportunities.

76. The major effects of this change in policy are:

76.1 to postpone the planned starting date of all major road developments not already underway, agreed with donors, or under discussion with donors (except for the Mukowe Ferry) until 1978/79, and

76.2 to reschedule with later starting dates and more moderately paced production schedules, five programmes or projects currently under discussion with donors.

77. The revised road construction programme (in 1975/76 prices) will be as follows:—

	1975/76	*1976/77*	*1977/78*
International Trunk Roads	3,385	3,835	3,425
National Trunk Roads	2,650	2,650	2,320
Primary Roads	4,255	3,552	2,109
Secondary Roads	5,065	4,188	5,406
Minor Roads	1,544	2,154	4,049
	16,899	16,379	17,309

3. *Manufacturing*

78. The manufacturing sector faces the most severe adjustment problems, its reliance on imported materials being threatened by rapid and often unpredictable increases in prices, the squeeze on bank credit, and the increasing shortage of foreign exchange. It must in many cases find domestic substitutes for imports and at the same time maintain the quality of its products, particularly in export markets.

79. Government assistance with these adjustment problems must largely take the following forms:

79.1 identifying domestic sources of parts and materials which can substitute for higher cost imports;

79.2 ensuring that credit guidelines and the allocation of foreign exchange promote the productive use of credit and prevent speculative uses;

79.3 encouraging exports, an important means for doing so being the 10 per cent export subsidy for manufactures which went into effect on 1st November, 1974;

79.4 modifying special protection measures taking into account the natural protection following from higher import prices.

4. *Tourism*

80. Rising transport costs and prolonged recessions abroad have already affected the growth of tourism. Tourist expenditure actually fell by 11 per cent in 1973. While modest recovery is expected for 1974 and 1975, it is not expected that the sector will grow at the rate of 16 per cent projected in the Plan.

81. With occupancy rates falling and with prospects not as promising as indicated in the Plan, the need to re-examine and reschedule planned development for tourism, including park facilities, beach hotels and tourist roads, is clear. At the same time, tourist promotion will be vigorously pursued so that existing facilities are utilized as fully as possible.

5. *Employment*

82. We must expect that rising import prices and the credit squeeze will endanger the competitive position of some firms in both the domestic and export markets. There may well be redundancies, in which event, firms will be encouraged to share the work available among those employed before reducing the size of the work force.

83. The loss of employment opportunities in some sectors should be more than offset by increases elsewhere. In particular, the efforts noted earlier to utilize existing capacity more fully should naturally increase the demand for labour; the acceleration of agricultural and rural development should create significant numbers of new jobs; the shift of roads development toward rural access roads should also increase employment; and the new wages policy in conjunction with the rising cost of importing capital should encourage the substitution of labour for capital in a wide range of

industries. Nevertheless, Government is prepared to strengthen employment incentives should the need arise.

Education

84. Education has been given the highest priority for development since Independence. It was essential following Independence to train Kenyans for high and middle level manpower positions as rapidly as possible in order to facilitate both economic growth and Kenyanization. Hence educational expenditures had increased to K£41 million in 1972/73 from K£13 million (including County Council expenditures) ten years earlier, and came to absorb nearly 20 per cent of the Government recurrent budget.

85. As the need for continuing the rapid growth of higher levels of education subsided, increasing attention could be given to the expansion of primary education. School fees were abolished in Standards 1 to 4 beginning in January, 1974. The reduction in fees combined with increased enrolments has led the Government to budget £62 million for recurrent expenditure on education in 1975/76, or about 34 per cent of the Government's recurrent budget.

86. This rate of increase in educational expenditure of over 17 per cent per annum cannot be sustained during the years ahead when total Government recurrent expenditures are expected to grow by only 7 per cent per annum; in 12 years the entire recurrent budget would be required for education alone. It has therefore been decided that the growth in educational expenditure after 1975/76 must not exceed the growth of the recurrent budget as a whole.

87. Fortunately, the urgency of the need for high and middle level manpower has diminished considerably since Independence and the rate of expansion of secondary and tertiary levels of education can be reduced toward the requirements for normal growth. There should be no serious problem encountered in reducing the growth in expenditure at these levels of education. Indeed, the difficulties which apparently exist can be traced primarily to pressures to exceed Development Plan targets.

88. The principal problem arises in providing the large number of primary school teachers needed for the rapidly growing enrolments. In order to do so as quickly as possible and within the

prescribed budget limitation, it has been decided to take seven essential steps as follows:

88.1 to establish a staffing pattern in full primary schools of one teacher per class including headmasters;

88.2 to raise entry qualifications for P.3, P.2 and P.1 teachers and to establish quotas in each grade. Hereafter promotion will depend on merit and the existence of a vacancy in the next grade;

88.3 to adjust the in-service training programme to current needs; to train P.3, P.2 and P.1 teachers in separate colleges; and to synchronize entry to both training programmes to the quotas which will be established;

88.4 to apply the wage guidelines discussed above to teachers' salaries;

88.5 to authorize District Education Boards to collect from parents Sh. 10 per year per child enrolled in Stds. 1 to 7 to help defray the cost of school equipment needed to maintain quality of instruction; the charge in no case will exceed Sh. 10.

88.6 to maintain the student-teacher ratio at 40:1; and

88.7 to retain school fees in Stds. 5 to 7 for the time being, and to review their appropriate level periodically.

89. In order to maintain the quality of secondary level education despite inflation and budgetary constraints, it will be necessary to adjust school fees. Concurrent with this adjustment, a bursary system will be introduced to ensure that some of the better qualified but needy students can attend. Bursaries will be administered by the Boards of Governors of individual schools.

90. With respect to Harambee efforts, which will continue to be encouraged, District Education Boards will be more selective in approving sites for new primary and secondary schools. They will also direct a larger share of Harambee efforts to the expansion of existing schools.

Protecting the Consumer

91. The consumer cannot be fully shielded from the external events affecting the course of our development. We must concentrate our efforts in this regard on carefully selected price controls

directed mainly at the welfare of those in low income groups, but ensuring, even in those cases, that supply incentives and import constraints are given full consideration. It is equally important to ensure that essential commodities are available in sufficient quantities. The critical role of our farmers is again apparent.

92. So long as fiscal and monetary policies are well defined, properly managed and carefully monitored, the role of general price controls is limited. The economic situation we now confront requires considerable flexibility in the process of adjustment, a flexibility which is basically inconsistent with general price controls.

The Need for Co-operation

93. The policies outlined in this paper are severe. The Government is convinced, however, (*a*) that they are the minimum required to cope successfully with the unfavourable external events impinging on us and (*b*) that their cost in terms of well-being and development has been kept as small as possible. Extreme measures, such as a price or wage freeze or devaluation, have been avoided.

94. Government is also aware of the uncertainty which characterizes the current situation and of the consequent need for flexibility in establishing and implementing economic policies. External events and domestic developments are both being carefully monitored and policies will be modified quickly if it is in the interest of Kenya's development to do so.

95. The success of the policies adopted by Government will depend on the understanding and full co-operation of every Kenya citizen and resident. With that co-operation, the difficulties before us should be overcome and we should regain the developmental vigour which has characterized Kenya since Independence.

Date: 7th February, 1975.

Table 1

ANNUAL RATES OF CHANGE

	Development Plan	Current Estimates						
	1972/78	1972/78	1973	1974	1975	1976	1977	1978
Non-Monetary Product	3·8	3·4	3·0	3·3	3·5	3·5	3·6	3·6
Real Monetary Gross Domestic Product (at factor prices)	8·4	6·7	6·5	4·9	8·5	6·8	6·8	6·8
Real Gross Domestic Product (at factor prices)	7·4	6·0	5·7	4·6	7·5	6·1	6·2	6·2
Real Output per capita	4·1	2·7	2·4	1·1	4·2	2·8	2·9	2·9
Real Income per capita (after terms of trade losses)	3·7	1·3	3·2	−2·3	1·2	0·7	2·2	2·9
Import prices	—	16·5	13·7	42·7	19·0	14·0	8·0	5·0
Export prices	—	11·0	16·8	27·6	7·0	6·0	5·5	5·0
Domestic prices	—	9·7	15·0	16·0	10·0	7·0	5·0	5·0
Imports (volume)	6·7	1·4	0·0	0·0	1·0	0·5	2·7	4·3
Exports (volume)	7·0	7·9	16·0	−3·0	11·0	8·0	8·0	8·0

TABLE 2

CENTRAL GOVERNMENT FORWARD BUDGET

TOTAL EXPENDITURE, 1974/75–1977/78

K£'000

Vote	1974/75*	1975/76*	1976/77	1977/78	Total	% Distribution of total	Rate of Annual increase 1975/76–1977/78
1. Office of the President	9,078	9,832	10,399	10,866	40,175	3·0	5·1
2. The State House	237	330	291	328	1,186	0·1	—
3. Directorate of Personnel Management	1,696	1,765	1,808	1,986	7,255	0·5	6·0
4. Ministry of Foreign Affairs	2,022	2,228	2,300	2,402	8,952	0·7	4·0
5. Office of the Vice-President and Ministry of Home Affairs	15,711	16,646	17,292	18,038	67,687	5·1	4·0
7. Ministry of Finance and Planning	8,604	9,153	9,699	10,040	37,496	2·8	4·7
8. Ministry of Defence	15,991	16,045	16,911	17,617	66,564	5·0	4·8
9. Ministry of Agriculture	24,319	39,262	40,600	45,437	149,618	11·2	7·7
10. Ministry of Water Development	10,453	19,844	20,980	21,622	72,899	5·4	4·4
11. Ministry of Health	18,013	20,900	23,262	26,102	88,277	6·6	11·8
12. Ministry of Local Government	6,878	7,571	8,650	9,885	32,984	2·5	14·2
13. Ministry of Works	35,931	38,743	40,212	41,461	156,347	11·7	3·4
14. Ministry of Power and Communications	8,977	11,488	10,464	3,457	34,386	2·6	−82·3
15. Ministry of Labour	2,202	2,462	2,472	2,503	9,639	0·7	0·9
16. Ministry of Tourism and Wildlife	4,331	4,484	4,074	4,919	17,808	1·3	4·7
17. Ministry of Lands and Settlement	6,015	6,708	6,405	6,802	25,930	1·9	0·9
18. Ministry of Housing and Social Services	7,986	8,681	8,830	9,278	34,775	2·5	3·5
19. Ministry of Information and Broadcasting	2,617	2,938	2,958	3,133	11,646	0·9	3·3
20. Ministry of Natural Resources	3,490	4,976	5,097	5,388	18,951	1·4	4·0
22. Ministry of Co-operative Development	801	1,805	1,958	2,407	6,971	0·5	15·5
23. Ministry of Commerce and Industry	3,812	4,503	5,033	5,953	19,301	1·4	15·0
24. Ministry of Education	53,721	65,320	71,071	74,943	265,055	19·8	7·1
25. Office of the Attorney-General	608	512	573	616	2,309	0·2	9·8
26. Judicial Department	1,056	1,186	1,320	1,330	4,892	0·4	6·0
27. Public Service Commission	73	85	112	117	387	0·0	17·8
28. Exchequer and Audit Department	256	295	325	357	1,233	0·1	9·6
29. National Assembly	560	599	611	636	2,406	0·2	3·0
Allowance for unidentified projects	—	—	—	12,113	12,113	0·9	—
SUB-TOTAL (MINISTRIES)	245,438	298,361	313,707	339,736	1,199,242	89·3	8·3
CONSOLIDATED FUND SERVICES	24,025	29,000	35,000	55,000	143,025	10·7	31·9
GRAND TOTAL EXPENDITURES	269,463	327,361	348,707	394,736	1,340,267	100·0	9·8

*1974/75 and 1975/76 are in current prices while 1976/77 and 1977/78 are in 1975/76 constant prices.

13th January, 1975.

TABLE 3

CENTRAL GOVERNMENT FORWARD BUDGET

DEVELOPMENT EXPENDITURES, 1974/75–1977/78

K£'000

Vote	1974/75*	1975/76*	1976/77	1977/78	Total	% Distribution of total	Rate of Annual increase 1975/76–1977/78
1. Office of the President	1,165	1,200	1,441	1,550	5,356	1·2	13·7
2. The State House	75	150	105	135	465	0·1	−5·0
3. Directorate of Personnel Management	330	204	200	330	1,064	0·2	27·8
4. Ministry of Foreign Affairs	183	200	200	217	800	0·2	4·5
5. Office of the Vice-President and Ministry of Home Affairs	1,556	1,500	1,540	1,655	6,251	1·4	5·2
7. Ministry of Finance and Planning	4,479	4,643	5,054	5,210	19,386	4·3	5·9
8. Ministry of Defence	1,445	1,000	1,339	1,500	5,284	1·2	22·3
9. Ministry of Agriculture	14,062	25,886	27,007	31,481	98,436	21·6	10·3
10. Ministry of Water Development	7,786	16,911	17,753	18,072	60,522	13·3	3·4
11. Ministry of Health	5,037	5,000	6,372	7,472	23,881	5·2	22·4
12. Ministry of Local Government	1,672	2,000	2,215	2,498	8,385	1·8	11·7
13. Ministry of Works	20,724	20,647	20,668	20,744	82,783	18·2	—
14. Ministry of Power and Communications	7,612	10,000	8,887	1,785	28,284	6·2	−47·5
15. Ministry of Labour	173	250	172	111	706	0·2	−33·4
16. Ministry of Tourism and Wildlife	2,800	2,800	2,124	2,869	10,593	2·3	1·3
17. Ministry of Lands and Settlement	3,685	4,248	3,847	4,142	15,922	3·5	−2·7
18. Ministry of Housing and Social Services	6,634	7,175	7,283	7,175	28,267	6·2	—
19. Ministry of Information and Broadcasting	673	800	728	813	3,014	0·7	0·8
20. Ministry of Natural Resources	1,046	2,085	2,031	2,260	7,422	1·6	4·2
22. Ministry of Co-operative Development	85	1,020	1,111	1,096	3,312	0·7	3·4
23. Ministry of Commerce and Industry	3,118	3,500	3,833	4,503	14,954	3·3	13·5
24. Ministry of Education	3,867	3,500	5,146	5,517	18,030	4·0	25·6
25. Office of the Attorney-General	—	—	—	—	—	—	—
26. Judicial Department	115	180	220	189	704	0·2	3·0
27. Public Service Commission	—	—	—	—	—	—	—
28. Exchequer and Audit Department	—	—	—	—	—	—	—
29. National Assembly	—	—	—	—	—	—	—
Allowance for unidentified projects	—	—	—	12,113	12,113	2·7	—
TOTAL DEVELOPMENT EXPENDITURES	88,322	114,899	119,276	133,437	455,934	100·0	7·8

*1974/75 and 1975/76 are in current prices while 1976/77 and 1977/78 are in 1975/76 constant prices.

13th January, 1975.

TABLE 4

CENTRAL GOVERNMENT FORWARD BUDGET
RECURRENT EXPENDITURES, 1974/75—1977/78

K£'000

Vote	1974/75*	1975/76*	1976/77	1977/78	Total	% Distribution of Total	Rate of Annual Increase 1975/76—1977/78
1. Office of the President	7,913	8,632	8,958	9,316	34,819	3·9	3·9
2. The State House	162	180	186	193	721	0·1	3·8
3. Directorate of Personnel Management	1,366	1,561	1,608	1,656	6,191	0·7	3·1
4. Ministry of Foreign Affairs	1,839	2,028	2,100	2,185	8,152	0·9	3·8
5. Office of the Vice-President and Ministry of Home Affairs	14,155	15,146	15,752	16,383	61,436	7·0	4·0
7. Ministry of Finance and Planning	4,125	4,510	4,645	4,830	18,110	2·1	3·5
8. Ministry of Defence	14,546	15,045	15,572	16,117	61,280	7·0	3·5
9. Ministry of Agriculture	10,257	13,376	13,593	13,956	51,182	5·8	2·2
10. Ministry of Water Development	2,667	2,933	3,227	3,550	12,377	1·4	10·0
11. Ministry of Health	12,976	15,900	16,890	18,630	64,396	7·3	8·2
12. Ministry of Local Government	5,206	5,571	6,435	7,387	24,599	2·8	15·0
13. Ministry of Works	15,207	18,096	19,544	20,717	73,564	8·3	7·1
14. Ministry of Power and Communications	1,365	1,488	1,577	1,672	6,102	0·7	6·0
15. Ministry of Labour	2,029	2,212	2,300	2,392	8,933	1·0	4·0
16. Ministry of Tourism and Wildlife	1,531	1,684	1,950	2,050	7,215	0·8	10·5
17. Ministry of Lands and Settlement	2,330	2,460	2,558	2,660	10,008	1·1	4·1
18. Ministry of Housing and Social Services	1,352	1,506	1,547	2,103	6,508	0·7	18·3
19. Ministry of Information and Broadcasting	1,944	2,138	2,230	2,320	8,632	1·0	4·3
20. Ministry of Natural Resources	2,444	2,891	3,066	3,128	11,529	1·3	4·0
22. Ministry of Co-operative Development	716	785	847	1,311	3,659	0·4	29·3
23. Ministry of Commerce and Industry	694	1,003	1,200	1,450	4,347	0·5	20·3
24. Ministry of Education	49,854	61,820	65,925	69,426	247,025	28·0	6·0
25. Office of the Attorney-General	608	512	573	616	2,309	0·3	9·8
26. Judicial Department	941	1,006	1,100	1,141	4,188	0·5	6·5
27. Public Service Commission	73	85	112	117	387	0·0	17·4
28. Exchequer and Audit Department	256	295	325	357	1,233	0·1	10·0
29. National Assembly	560	599	611	636	2,406	0·3	3·1
Sub-Total (Ministries)	157,116	183,462	194,431	206,299	741,308	83·8	6·0
Consolidated Fund Services	24,025	29,000	35,000	55,000	143,025	16·2	31·8
Total Recurrent Expenditures	181,141	212,462	229,431	261,299	884,333	100·0	10·9

*1974/75 and 1975/76 are in current prices while 1976/77 and 1977/78 are in 1975/76 constant prices.

13th January, 1975.

TABLE 5 — PROJECTIONS OF GOVERNMENT REVENUE, EXPENDITURES AND FINANCING

K£'million

	1974/75	1975/76	1976/77	1977/78	Total	% of Revenue
Income tax on companies	41·21	43·37	45·70	48·21	178·49	17·5
Income and other taxes on households	16·27	17·19	18·18	19·24	70·88	6·9
Estate Tax	0·51	0·54	0·57	0·61	2·23	0·0
Sales Tax	44·88	51·99	60·53	70·84	228·24	22·3
Import Duties	39·42	48·87	60·61	75·18	224·08	21·9
Excise Duties	19·39	20·60	21·88	23·25	85·12	8·3
Other Direct Taxes	21·62	22·96	24·39	25·92	94·89	9·3
Appropriations in Aid	20·03	21·27	22·60	24·01	87·91	8·6
Other Government Fees	15·89	16·88	17·94	19·06	69·77	6·8
Interest and redemptions	4·72	5·01	5·33	5·66	20·72	2·0
Less: E.A.C. retentions	8·04	9·24	10·69	12·43	40·40	3·9
TOTAL RECURRENT REVENUES	215·90	239·45	267·05	299·54	1,021·94	100·0
Less: Recurrent expenditures	181·14	212·46	229·43	261·30	884·33	86·5
Government surplus	34·76	26·99	37·62	38·24	137·61	13·5
Less: Government Expenditures	88·32	114·90	119·28	133·44	455·94	44·6
OVERALL DEFICIT	53·56	87·91	81·66	95·20	318·33	31·1
Financing of the deficit:—						
External Finance	35·00	57·50*	50·00	50·00	192·50	18·8
Long-term borrowing	13·00	18·00	22·00	30·00	80·00	7·8
Short-term borrowing	5·56	12·41	9·66	15·20	42·83	4·2

*Including the I.B.R.D. programme loan.

13th January, 1975.

GPK 335—25,600—2/75