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SPEECH DELIVERED TO THE NATIONAL ASSEMBLY ON 13TH JUNE, 1985 BY THE HON. PROF. G. SAITOTI, MINISTER FOR FINANCE AND PLANNING, REPUBLIC OF KENYA, WHEN PRESENTING THE BUDGET FOR THE FISCAL YEAR 1985/86 (1st. July, 1985 to 30th June, 1986)

Mr. Speaker Sir,

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

I. INTRODUCTION

Over the last twenty-two years since our nation attained Independence, the people of Kenya have demonstrated their capacity to handle successfully, numerous challenges which have faced them. The most recent, and indeed the most severe, was the drought of 1984. Mr. Speaker, I am sure I speak for all Honourable Members, and indeed the Nation, in paying tribute to those who prevented the drought from turning into a major national disaster: our Government led by H.E. the President which moved swiftly and effectively to purchase and distribute grain; friendly donors whose generous contributions consisted of grains and funds for food supply; our farmers who responded to the long rains with their usual energy and enthusiasm, and all the people of Kenya who bore their trials and tribulations with patience and calm. We should above all thank God Almighty for giving us adequate rains this year.

Mr. Speaker, as we disengage our attention from this recent challenge, there is need to look forward to some long term challenges which must be overcome if Kenya is to resume its development into a more self-reliant and prosperous nation. Our basic economic objectives remain as they have always been since Independence -- to improve the welfare of all Kenyans. To achieve this, we need a resumption of rapid economic growth, the benefits of which must be widely and equitably distributed.

Two fundamental needs underlie all economic policy in Kenya today. First, the need to get the economy growing again. Second, the need to sustain this growth over a long period to enable the economy to accommodate a much larger population at the end of this century at a reasonable standard of living. A long period of vigorous growth -- considerably faster than the growth in population -- is essential if our economy is to generate sufficient resources to increase the incomes of all our people in Kenya; provide education, better health, water supplies and other basic needs; and begin to reduce heavy dependency on foreign assistance.

As I stated in my budget speech last June, the economy was at last pulling out of the recession which had started during the 1979 oil crisis. We then were looking forward to renewed growth, but as I also warned in that speech, the failure of the long rains was going to put a strain on the economy. We successfully surmounted the adverse effects of the drought. Indeed, we are greatly encouraged by the fact that our capacity to bear this burden was greatly strengthened by the constant support and guidance of H. E. the President. I am sure Hon. Members will join me in paying tribute to H. E. the President for steering the Nation through the crisis and for his continued enlightened guidance of this Nation.

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In spite of these setbacks, I believe the economy is in a good position to recover from the drought, put other problems behind us, and launch a period of economic progress as laid down in the Development Plan, 1984-1988. In that connection, we hope to achieve the growth targets set for the last three years of the Plan, that is, 5.3% per year. To achieve that target, it will be necessary to mobilize domestic resources more effectively for investment, to direct those investments in more productive undertakings; to increase utilization of the already installed capacity; and to resume economic growth in an environment of stable prices. Hence, the theme of my Budget message today is "Mobilization of domestic resources for renewed growth". It is my hope that as a result of the measures I shall announce later today, Kenyans will seize the opportunity to save and utilize our scarce resources for economic recovery.

II. THE INTERNATIONAL ECONOMY

Mr. Speaker, during 1984, the industrialized countries experienced an extension and intensification of economic recovery, especially the United States, where Gross National Product grew by almost 7%. However, the effects of American growth were not widely shared. Although Japan enjoyed growth of almost 6%, Europe's recovery lagged, with just over 2% growth, and the OECD countries together expanded by just under 5% in 1984. With a significant slowdown already underway in the United States, we expect less expansion in 1985, perhaps with an overall rate of growth of 3% for the OECD economies as a whole. Thus the industrial countries will probably not provide the conditions for a developing country export boom this year.

An encouraging aspect of the recovery has been the continuing control of inflation. Consumer prices increased by only 3.3% in the United States during 1984, despite the strong economic expansion, and by 5% for the OECD countries as a group. Price increases are expected to remain moderate for this year and next, reducing the impact of imported inflation to the developing countries.

Commodity prices, helped by the economic recovery, rose by 2.6% during 1984, but remain 14% below the 1980 level. Coffee and tea were among the strongest commodities last year: coffee prices rose 10% on average and were 6% above their 1980 level, while tea prices surged ahead by 50% in 1984, and were 54% above the 1980 average.

Exchange rate movements, especially of the U.S. dollar, have been headline news for several months. The dollar gained 8% in weighted average terms against American's trading partners during 1984, and has enjoyed a remarkable 44% gain since 1980. Despite the recent weakness in the dollar, it has maintained its strength to date. The dollar's strength, together with the U.S. economic recovery, have provided an export boom for those countries able to sell in the American market. These include several newly industrializing developing countries, but has been of less advantage to primary exporting countries like Kenya.

The dollar's surge carries two dangers for developing countries. First, it has raised the spectre of protectionism in the U.S. and Europe, as American industries face increasing import competition. Second, in world currency markets, what goes

I now come to my taxation proposals and in accordance with our normal practice, I would ask Mr. Speaker that this Speech be taken as Notice of Motion to be put before the Committee of Ways and Means which is to deal with the measures I am about to announce.

I have already explained that I do not think that this is the time when I should significantly increase the present burden of taxation. I have, however, a long list of proposals for comparatively minor changes in import duties. There are two main reasons, the first is that the devaluation of sterling has led to some reduction in the prices of a number of imports. In order, therefore, to avoid an actual loss of revenue and in order to maintain the former effective rate of protection for Kenya manufacturers, it is necessary to adjust the rate of duty by about 10%. By an increase of 10%, I do not mean an increase from 30% to 40% but from 30% to about 33⅓%.

The second main reason is that the time has come when we must take serious account of possible balance of payments problems in the future. Our foreign exchange reserves are adequate at the moment but must be used to pay for the capital and consumer goods which we really need. They must not be frittered away on non-essentials. Included in my proposals is, therefore, some increase in duty of about 10% or more on commodities for which there are suitable local substitutes.

There are also one or two proposals for increases in import and excise duties purely for revenue reasons. Although I am prepared to take some risks in maintaining the momentum of development expenditure, if necessary, even by resort to short-term borrowing, I must find some money from revenue for development, and must also bear in mind that if we have another big maize crop there will be losses on exports part of which will fall on the tax-payer and have to be met by supplementary estimate.

Honourable Members will recollect that last year I increased to 50% the duty on a number of processed food-stuffs for which there were local substitutes. I do not propose any increases where the duty is now 50%, but do propose to make this rate the general rate for all processed foods. In one or two cases, where the present rate is nil, I am proposing a duty of only 37½% to avoid too large an impact in one year. I do not propose to go through the list of changes in detail but should perhaps mention the increase from nil to 37½% in the duty on dried fish and beans. No one can say that there is not plenty of both commodities available in Kenya from local sources. Some of the food items on which the duty is being increased may constitute the raw materials in a local industry and I have in mind in particular the manufacture of confectionery and I will be prepared to consider refunds of duty to local manufacturers who can establish the need for this.

I next come to a number of groups of items on which I am proposing to increase the duty in order to maintain the pre-devaluation level of protection and also to safeguard the

revenue. Where the duty was 30% it will go up to 33⅓% where it was 37½% it will go up to 40%, and where it was 40% it will go up to 45%. This should not by itself cause any significant increase in wholesale or retail prices as compared with prices in November 1967 before devaluation. The list of goods on which the duty is being increased mainly for protective reasons includes Soap, Polishes, Envelopes, Footwear, Bricks, Tiles, Bottles, Nails and Screws and Brushes.

The list of goods on which an increase in duty is being made purely to maintain the level of revenue includes tyres and tubes, motor vehicles and spare parts for motor vehicles. The duty on tyres will go up from Shs.1/25 per lb. to Shs.1/50 per lb. There will be no change in the duty on transport vehicles but the rate on passenger cars will be adjusted. The present rate of duty graded in accordance with engine capacity is 30%, 40%, 50% and 70%. These rates will become 33⅓%, 45%, 55% and 80%. Cars which come from countries which have devalued should not with the new rates cost more than they did before devaluation.

I must admit that purely from a revenue point of view the larger the car that is bought, the happier I am, as the Treasury will get more revenue in import duty and petrol tax but from the balance of payments point of view I would not be sorry if some of those who planned to buy large cars now decide to buy smaller ones.

There is another group where the proposed increase is mainly for protective reasons, although it is also necessary to avoid a loss of revenue. This is the group consisting of textiles and all kinds of garments. Where the duty is now 40%, it will go up to 45% and where there are specific duties these will go up from Shs.1/- to Shs.1/10, from Shs.1/25 to Shs.1/35, from Shs.1/50 to Shs.1/60 and from Shs.2/75 to Shs.3/-. Inspite of this increase, I do not expect to get increased revenue from imported textiles and garments in 1968/69 because of the expected increase in local production. I do not, however, feel that the time has yet come for me to propose any increases in the very low excise duty of 25 cts. on local cloth. Those who want to avoid paying more for imported cloth should buy local.

I now come to a proposal which is made for purely revenue reasons. In last year's Budget, a duty was imposed on cameras and the only reason why cameras had previously been duty-free was because it was thought that this was in the interest of the tourist trade. However, the Customs Department has made suitable arrangements under which tourists can bring in and take out their cameras. The same considerations in my view apply to binoculars and telescopes on which I propose a duty of 30%.

I now turn to excise and here is my one fairly major revenue measure in relation to indirect taxation. The duty on cigarettes has now remained at its present level for three years and I think that a modest increase which will bring in about K£400,000 can now be made without any serious effect on consumption. I propose that the rate of duty should go up

on cigarettes, tobacco and cigars. The retail price per packet of twenty medium priced cigarettes such as SPORTSMAN will go up by 10 cents, rather less for the cheaper varieties and rather more for the expensive varieties.

In order to keep the level of the import duty in line with the excise duty, there will be a similar adjustment to the rates of tax on imported cigars, cigarettes, manufactured tobacco and snuff.

I now turn to direct taxation and will deal first with Corporation Tax. This as Honourable Members are aware, has been increased to 40% and when I announced this increase, I said that I would do my best to avoid a further increase in the immediate future. I do not think that it is now the right time for me to make any increases in Corporation Tax.

I next turn to personal income tax, and Honourable Members will recollect the considerable debate which took place last year on my proposal to reduce personal allowances. We will, no doubt, have to consider further action on these lines in due course but I do not propose to make any change in the present rate of tax or allowances in this Budget.

I estimate that my revenue proposals will bring in additional revenue of approximately K£700,000 all of which will be required for development expenditure.

My taxation proposals have been discussed with the Finance Ministers of Uganda and Tanzania who will be announcing this afternoon similar changes in Import duty and somewhat different rates in Excise duty. Both Governments, particularly Uganda, will also be announcing further taxation changes. It is not for me to refer to these changes here, but the Kenya tax-payer will be getting off comparatively lightly. The reason for this I have already explained. I do not feel, at a time when the economy as a whole is not as buoyant as I should like, that I should impose any significant additional taxation.

The effect of my measures on the cost of living will be very small. I am advised that the Wager Earners' Index will go up by less than one-third of one point and that the Middle-Income Earners' Index will rise by about one point only.

To sum up, expenditure both recurrent and development of K£88½ million in 1968/69 will be financed to the extent of K£65 million from revenue and K£23½ million from borrowing. A little more than half of the borrowing will be from overseas sources, mostly on very favourable terms. The recurrent expenditure of K£61.3 million will be fully covered by revenue and it will be my aim to transfer K£3 million from the recurrent to the development exchequer before the end of the financial year. I may not achieve this aim if I again have to come to the House with a large supplementary estimate for maize export losses.

Anyone listening to, or reading His Excellency the President's Speech on Madaraka Day could not fail to appreciate

the great progress which has been made since Independence. For example, the National Income has risen by K£100 million since 1963 and I see no reason why it should not rise by at least as much over the next four years.

One of my colleagues in the Government is reported to have said that only a blind man going round the country could fail to observe the great changes which have been and are taking place.

However, I must admit that only a deaf man with a very special type of hearing aid would, when going round the country, hear nothing but praise and approval of what the Government has done, is doing, and plans to do. This, however, is a healthy sign in a Democratic State and I will look forward with interest to the criticisms which Honourable Members will make of my Budget during the next few days. I am, however, confident that when my time comes to reply, I will have no difficulty in defending what I believe to be the least controversial of the six Budgets which I have presented to the House.

Mr. Speaker, Sir, I beg to move.