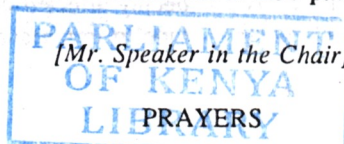


BUDGET SPEECH
1991/92

The House met at 2.50 p.m.



ARRIVAL OF HIS EXCELLENCY THE PRESIDENT

[Mr. Speaker announced the arrival of His Excellency the President, the hon. Daniel Toroitich arap Moi, M.P.]

[Hon. Members rose in their places while His Excellency the President took his seat in the Chair of State]

PAPERS LAID

The following Paper was laid on the Table:-
1991/1992 Vote on Account

[By the Vice-President and Minister for Finance (Prof. Saitoti)]

COMMITTEE OF WAYS AND MEANS

MOTION

THAT, MR. SPEAKER DO NOW LEAVE THE CHAIR

The Vice-President and Minister for Finance (Prof. Saitoti): Mr. Speaker, Sir, I beg to move:-

THAT, Mr. Speaker do not leave the Chair.

Mr. Speaker, Sir, this is the sixth budget since the adoption of our own structural adjustment under Sessional Paper No. 1 of 1986 on "Economic Management on Renewed Growth". As hon. Members are aware, this is not a programme which was conceived in haste only to be recanted later. The programme is well thought out and the policies enunciated in it have already been in place for a number of years. The success of these policies is reflected in the very admirable annual economic growth rate of more than 5 per cent achieved over the last six years. Such a level of economic growth and, therefore, of employment, is very much dependent on the peaceful atmosphere and on the pace of this restructuring.

Mr. Speaker, world economic history is replete with examples of nations, the economic

disintegration of which has followed political turmoil. Kenya's record of political stability has been unsurpassed in Africa. The need to maintain this stability cannot be overemphasised. The philosophy of peace, love and unity that our beloved President has tirelessly cultivated has led to economic development. I am sure I speak for all hon. Members when I say that we should continue to uphold and strongly support His Excellency's efforts towards these noble goals.

In general, economic reforms are not expected to produce their full results immediately, especially following long periods of structural maladjustment. On average we have done better than others who have undertaken such programmes as can be shown by our enviable economic performance. Under these reforms we have managed our resources prudently and have, in consequence, experienced positive real economic growth and an improvement in the living standard of our people each year.

As I stated in my last Budget, we are seeing the results of this structural transformation. Notwithstanding this we are now confronted with an inhospitable international environment. It is, therefore, important that we continue with this strategy for efficient management of our resources. It is within this context that I have formulated the theme for the 1991/92 Budget to be "**Sustaining Economic Growth Under Adverse Conditions Through the Efficient Mobilisation of Resources.**"

As has been traditional, I will begin by reviewing the international scene; the African position and our own performance in 1990, and then outline the prospects for this year and beyond. Thereafter, I shall highlight the budget out-turn for 1990/91 and the forecast for 1991/92 fiscal years. Finally, I will introduce specific taxation measures and other changes.

Mr. Speaker, Sir, the world economy in 1990



REPUBLIC OF KENYA

NATIONAL ASSEMBLY DEBATES

4TH SESSION 6TH PARLIAMENT VOLUME 84 NUMBER 4

**OFFICIAL REPORT
(HANSARD)**

Thursday, June 13, 1991

Price: KShs. 25

The House met at 2.50 p.m.

[Mr. Speaker in the Chair]

PRAYERS

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Mr. Speaker, Sir, the world economy in 1990

[The Vice-President and Minister for Finance] suffered a crisis, unprecedented in recent times. The dominant event which caused the crisis was, of course, the Gulf War. Its consequences for the world at large were serious. First, the price of oil climbed briefly to an unprecedented \$40 a barrel before settling at around \$30 and finally dropping to \$20 per barrel. These prices cost importers dearly and diverted resources from investment and other uses. The loss to Kenya is estimated to be about K£117 million over the five months from August to December, 1990, a loss equivalent to over 10 per cent of our export earnings for the entire year. Second, travel and tourism were specially hard hit due to fears of terrorism. As hon. Members are aware, Kenya depends heavily on tourism, and hence suffered severely. Tourist arrivals were reduced by about 50 per cent during the peak season of January to March, 1991, compared to last year. This resulted in a further loss of over K£70 million. Unfortunately this depression in tourism may not yet be over, as vacation plans made during the Gulf War could well affect tourist arrivals for a few months yet. Related to this, airline traffic was reduced, and so less cargo space was available for Kenya's exports, particularly horticulture. The second major event was the world-wide recession. The global rate of growth of income shrank from over 3 per cent in 1989 to just over 2 per cent in 1990, and the forecast is a further decline to 1 per cent this year. The recession is severe in the US and UK, with little growth predicted for the former and a decline in Gross National Product predicted for the latter over the year. Although growth has slowed down in Germany and Japan, these nations are still expected to register increases of 3.0 and 3.7 per cent respectively in 1991.

The expected decline in income will dampen world trade, which is expected to slow down from 7 per cent in 1989 to about 5 per cent in 1991. The recession has allowed interest rates to fall. This year, six month London Inter-Bank Offer Rate (LIBOR)-- which acts as a sort of international benchmark -- has fallen from 13.56 per cent in January to 11.19 per cent in June, a 17.5 per cent decline over five months. However, inflation in the industrial economies has remained high despite the recession, and this has prevented central banks in these countries from lowering interest rates further. The world recession has also contributed to a decline in commodity prices. Two of these are of a particular interest to us. Coffee prices were 18 per cent lower in dollar terms in 1990 compared with 1989, while tea prices improved slightly.

Mr. Speaker, the Gulf War and the world

recession can be seen as transitory events which deeply affected the world last year, but they will soon fade in importance. The world also witnessed major changes in the structure of political and economic power that will profoundly affect the international environment for years to come. The most profound set of events has been the continuing saga of German reunification; the political and economic reforms in Eastern Europe; and the challenges to unity in the Soviet Union. The developing countries will be affected adversely by this dramatic transformation. Capital, including foreign aid and private investment, especially equity investment, is likely to be diverted to Eastern Europe, while the additional demands for finance are likely to keep world interest rates higher than they would otherwise have been, thus affecting all commercial borrowers.

The failure of the Uruguay round on GATT (General Agreement on Tariffs and trade) to conclude an agreement on global trade was a further disappointing event in 1990. It is regrettable to note that while many developing countries, including Kenya, are striving to end trade restrictions and to lower import duties, industrial countries have failed to reciprocate by opening their markets wider to both our manufactured and agricultural exports. A renewal of the GATT negotiations should, therefore, be high on the international economic agenda for the coming year.

Mr. Speaker, while the GATT struggles to keep the world trading system open, Europe marches towards its economic integration at the end of 1992, with uncertain consequences for the rest of the trading world. North America, in response to this and to the continuing challenge from Japan, seeks its own trading bloc. The US and Canada have already signed a free trade agreement and Mexico has broken out its protective shell to propose a similar treaty with the US. Developing countries in particular, and others in the world, will continue to benefit most from an open trading system. If, however, the world is dividing into blocs, this intensifies the challenge to countries like Kenya, which must become competitive enough to export around and through any trade barriers thrown up by regional groupings. Furthermore, it is most urgent that the countries of Africa strengthen the implementation of their own regional trading arrangements, such as the Preferential Trade Agreement (PTA).

Mr. Speaker, Sir, turning to Sub-Saharan Africa, the pace of economic activity slowed in 1990, reflecting the effects of the rise in oil prices and a drop in prices of non-fuel primary commodities, particularly coffee, tea and cocoa, which fell to their

[The Vice-President and Minister for Finance]

lowest levels since 1980. The GDP growth is projected to recover from 3 per cent in 1990 to 4.75 per cent in 1992. However, little progress is expected to be made in alleviating poverty and, regrettably, real per capital GDP should remain near the level of 20 years ago. The modest growth outlook for Africa also reflects the expected declines in the terms of trade and the slowdown in the growth of world trade in 1991. The continent's sluggish growth has been accompanied by an average inflation of between 15 to 20 per cent. In 1991 inflation is projected to increase to 22 per cent, from 16 per cent in 1990. The scenario in the East African region is mixed. His Excellency the President recently focussed international attention on the human toll of misery resulting from the tragedies of war, drought and poverty in Somalia, Ethiopia and Sudan. These events have, of course, depressed potential for growth in the region. Beyond that, the strife in Somalia and Ethiopia has already had direct costs to us in Kenya, in terms of the inflow of refugees. The drought is of particular concern because it comes at a time when political turmoil make it especially difficult for some of the stricken countries to cope. But the drought is not confined to our northern neighbours alone; it has affected Mozambique and Malawi as well, while rain in East Africa has not been generous.

Mr. Speaker, another event of world-wide importance has been taking place in Africa. This is the gratifying progress being made in South Africa to end apartheid and bring the African population into the political life in the country. South Africa, once it becomes an open society, should play a major role in trade within the continent, and we can expect countries in Southern Africa to turn even more towards it as a customer for their exports and as a source of their imports.

These various challenges from the world trading system-- the GATT negotiations, the European Community and North American trading blocs-- all serve to re-emphasize the importance of structural adjustment and export competitiveness to Kenya.

Mr. Speaker, Sir, the final issue from the world economy is the old problem of debt. The debt of the developing countries remains high, and several of them are facing difficult repayment problems. Many innovative ideas are being examined, and there is now a prospect that the official aid donors, to whom most African debt is owed may provide some widespread debt relief. The two major debt relief components of official bilateral creditors' support are debt cancellation and debt rescheduling. Cancellations

of Overseas Development Agency (ODA) loans are expected to reduce the stock of debt by 7 per cent, while official bilateral debt rescheduling could be carried out with longer maturities and grace periods. In addition, there are other forms of indirect assistance through the World Bank's Special Programme of Assistance (SPA). At present 21 African countries are undergoing adjustment, and thereby qualify for SPA support. Donors plan to provide about US\$8 billion through 1993 in co-financing or co-ordinated financing with IDA credits. And it is hoped that such relief will come in response to the efforts of the nations of Africa to restructure their economies so as to deal with debt and to establish export competitiveness.

Mr. Speaker, Sir, the many adverse events in the world at large that I have just described have lessened the funds available in the developed world to support developing countries. Although donors have continued to be generous, we received less in 1990 than we had planned for. Moreover, collection of domestic revenue from major indirect taxes like Customs and Excise and the Value Added Tax on local manufacturers fell considerably short of the original budget estimates, reflecting, in part, depressing levels of activity in some important sectors, relative slowdown in the growth of imports and financial difficulties faced by many parastatals. Since we were unable to anticipate these shortfalls expenditure was not curtailed to the same extent. Furthermore, hon. Members will recall that we recently passed in this House a supplementary budget as a consequence of urgent increases in expenditure which have been found necessary in view of the problems in neighbouring countries.

This decrease in revenue and aid coupled with the increase in expenditure has caused our deficit to rise, and has also meant that we have had to increase our domestic borrowing, thus depleting the investible funds available to the private sector and causing the interest rate to rise. Mr. Speaker, the recently issued Economic Survey shows how these adverse movements have given rise to a reduction in private investment, a decline in domestic savings and an increased pressure on prices. The need for fiscal discipline to restore the stability of the economy will be the theme of most of this Budget.

Mr. Speaker, the economy grew by 4.5 per cent in 1990 compared with 5 per cent in 1989, and there are signs in the various sectors that 1991 will not be an easy year. Agriculture grew at 3.4 per cent compared with 3.9 per cent last year. The manufacturing sector continued to grow satisfactorily, but not as well as in 1989. Growth rates of 5.2 per cent and 5.9 per cent in 1990 and 1989 respectively

