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1969-06-19

Speech by the Hon. of the Ministry of Finance introducing the estimates of revenue and expenditure for the year 1969-70

The United Republic of Tanzania

Ministry of Finance

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THE UNITED REPUBLIC OF TANZANIA

**Speech by the
Honourable the Minister for Finance
Introducing the
Estimates of Revenue and Expenditure 1969/70
to the National Assembly, on 19th June, 1969**

1969

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SPEECH BY THE MINISTER FOR FINANCE INTRODUCING THE ESTIMATES OF REVENUE AND EXPENDITURE FOR 1969/70 TO THE NATIONAL ASSEMBLY ON 19TH JUNE, 1969

Mr. Speaker, Sir,

I beg to move that this House constitutes itself into a Committee for the purpose of considering Government's Budget proposals, vote by vote, for the year 1st July, 1969 to 30th June, 1970.

2. Sir, both party and parliament have extensively considered and finally approved Government's second five-year plan, which will become operative from the 1st of July, 1969. Not only is the country committed to social, political and economic objectives embodied in the Arusha Declaration for the construction of a socialist and self-reliant Tanzania, but also to a measured and charted movement along the cherished road as formulated in the 1969-1974 development plan.

3. I see it as my duty and my task to put before Hon. Members the labours and obligations which the country must accept and the prospects for mobilization of resources in respect of the next twelve months, as seen from the point of view of the Ministry of Finance. The next twelve months are also the first year of the new five-year plan, and our success in getting off to a good start during the first year will make a most significant contribution, I hope, towards the gathering of momentum forward and thus ensure the full success of the plan itself.

4. It would, of course, have been impossible to stand before Hon. Members today and speak about all this without the most unflinching and dedicated co-operation I have received from the Principal Secretary to the Treasury and his team of Treasury officials involved in preparing a comprehensive position. Nor indeed, would the Treasury officials have been able to do much without the fullest co-operation which they have received from all Government Ministries and departments. And once again, the Government Printer has maintained the excellence of his service in producing all the papers in time for distribution. To all these dedicated public servants I want to thank most sincerely for their co-operation and contribution.

5. Looking at the past twelve months, what has continued to loom large on the horizon has been the continuous state of crisis in the monetary field which has afflicted a number of industrialized countries which, in their turn, have been making ominous noises on both internal and external policies which could only lead to decline in the transfer of resources to the developing countries and hence, hamper expansion in world trade. I said this time last year that because of the small size of our economy we simply cannot influence international monetary events. For the same reason, unfortunately, the contrary is not true; international monetary events inevitably affect Tanzania. While we are struggling to be a self-reliant society, this is very different from being able to become a self-sufficient society.

6. Vast and economically prosperous societies such as the U.S.A. and the U.S.S.R. or a vast, densely populated country like the People's Republic of China imbued with revolutionary purpose, could become self-sufficient should the crunch come.

7. For the other countries of the world, this is simply not possible and the smaller the size of the economy the more dependent a country is on external trade, both for the purpose of survival and for development.

8. The uncertainties prevailing in the international monetary system cannot be a source of satisfaction to us. As long as the world retains the present payments system, the "reserve" currencies have to be used for the purposes of international trade and for settling international capital accounts. If all the industrialized countries aim at achieving balance of payments surpluses they are bound to pursue restrictive policies of one kind or another. Indeed there is evidence that this is already happening and, as a result, the growth of world trade in 1969 will probably be below the 1968 increase by as much as 20 per cent. Developing countries, whatever their phase of development, are certainly going to be the worst sufferers. There is still an almost total absence of realization on the part of the advanced industrialized countries that when they sneeze, most of us are likely to catch a severe chill! So there we are, and our task in the period which lies immediately ahead of us is to remain as vigilant as possible to safeguard our interests.

9. To this end, last year's agreement with the United Kingdom of a qualified guarantee against loss on our sterling holdings in the event of a further devaluation of sterling must be reckoned as a step in the right direction. At the same time we must not spare any effort to seek a long-term solution. It is with this object in view that we have supported the institution of the Special Drawing Rights Scheme in respect of which the House passed an amendment to the Bretton Woods Agreement Act in January this year. I must, however, regretfully inform the House that the Scheme foreshadowed under the Act has yet to receive the requisite number of ratifications by member countries and, consequently, it is likely that its activation will be further delayed. Moreover, it is feared that the level at which the SDRs will be activated will fall short of what most countries would consider to be adequate. It has been clear to most of the developing countries that the value of this scheme would be considerably enhanced if it was partly linked with a multilateral system of resource transfer to developing countries. Nevertheless, despite its limitations and imperfections, the SDR Scheme does represent a first step toward international monetary reform and it is hard to see any lasting resolution of the current world monetary crises until it is activated.

10. On the home front our foreign exchange reserves have, once again shown a marked increase over the past year and on May 31st this year stood at Shs. 715 million of which about Shs. 550 million represents the external assets of the Bank of Tanzania. These reserves do not, as it may at first glance appear, represent an unnecessary tying-up of resources which might otherwise be available for development. Rather, they are the surest guarantee of our independence of action and, in fact, of our ability to pursue a self-reliant economic policy insulated from short-term fluctuations in our export earnings or temporary set-backs in our efforts to secure external finance on the most advantageous terms possible. It is quite obvious, and there is abundant evidence to show, that a country bereft of reserves and heavily in debt on short-term account is a country delivered into the hands of its creditors.

11. Our foreign exchange reserves would of course have been even healthier than they are today, if we had not had an adverse trade balance in the year 1968. We imported more, largely because of our development needs, than we actually exported. The reason why we still managed to add to our foreign exchange reserves is that we were able to mobilize a substantial inflow of capital as part of external resource mobilization for our development programme. This should not make us complacent, because we have accepted obligations for the future which must be discharged through increased productivity and increased production, particularly for export.

12. As for internal credit, our banking system worked with remarkable smoothness. It remained fully liquid, with deposits of all kinds registering Shs. 1,312 million at the end of 1968 and advances totalling Shs. 860 million in addition to holdings of medium and long-term government securities amounting to Shs. 40 million in value. But even more significant an analysis of bank lending by economic sector shows a clear shift from the preponderance of commerce in favour of manufacturing, transport and construction; as well as towards the public sector. Thus, quite apart from contributing to capital formation, it will be seen that our credit institutions are responding dynamically to the changing structure of our economy.

13. I do not want to go into details, because both the Bank of Tanzania and the National Bank of Commerce have been publishing periodic reports of real value for all those who are interested in being fully informed.

14. As Hon. Members are aware the two major outstanding compensation negotiations, with the two British Banks, Barclays Bank D.C.O. and the Standard Bank were brought to a satisfactory conclusion only a few days ago. After all sorts of guess-work figures had been put out the two banks submitted written claims amounting to 106 million shillings. After long-drawn out and searching negotiations, agreement was reached for settling in the sum of 53 million shillings with the Banks accepting responsibility for pensions obligations toward their former staff taken over by the National Bank of Commerce in respect of service prior to nationalization.

15. Initial payment to the banks has been agreed at just under 16 million shillings, and the balance to be paid out in ten equal annual instalments, with a rate of up to 6 per cent interest applicable to outstanding balances. An important condition of the settlement was that the two banks should immediately release the blocked balances of the National Bank of Commerce amounting to 30 million shillings held by them in London, and also pay a 6 per cent rate of interest from 6th February, 1967.

16. I have no doubt Hon. Members will welcome this settlement, not as victory or defeat for one side or another, but as a triumph for common sense and amity, and what matters now is that we should look forward to the future for a close collaboration between the National Bank of Commerce and other well-established foreign banks, including the three British Banks whose business in Tanzania we took over in 1967.

17. This now leaves settlement to be concluded with the Bank of India and the Bank of Baroda.

18. With regard to the former, what really remains is largely a formality. There is nothing of substance in the matter otherwise. But with regard to the Bank of Baroda the position is less satisfactory. It is clear that on any view no sum can be due to them as compensation since the Banking business which we took over from them on the vesting day was in a net deficit position to the extent of

some Shs. 5 million after allowing for a normal revaluation of assets. However that is not the end of the matter. The deficiency in assets over liabilities arises very largely as a result of a single transaction which I am advised must be regarded as irregular if judged by the standards normally applied in commercial banking business. We have sought explanations from the Bank of Baroda, both in East Africa and in Bombay. I regret to have to inform Hon. Members that the explanations we have received are not satisfactory and the proposals we have made to safeguard the interests of National Bank of Commerce have not been accepted. I sincerely hope that the Bank of Baroda will now reconsider its position. They must realize that their reputation as Bankers is at stake.

19. Compensation agreements have also been concluded in respect of various businesses taken over by the State Trading Corporation. As in all other cases, these agreements have been reached after thorough scrutiny by our Auditor, and in full consultation with and concurrence of the management of the State Trading Corporation.

20. Mr. Speaker, we have made it normal practice to announce each settlement at the time it is reached, and I am sure Hon. Members would not wish me to bore them with a detailed list covering each firm and the amount of the compensation agreed. I would, however, like to take this opportunity to report to the House that as of today, 98 per cent of the compensation in respect of the February 1967 acquisitions has been settled. I am also pleased to state that contrary to the then prevailing speculations which put our potential compensation bill as high as Shs. 1,000 million, the total agreed compensation so far amounts to just over Shs. 200 million; and this covers all the interests brought under public control through the policies and measures enunciated in February 1967 including the National Development Corporation's share acquisitions as well as the exercise of Government's option to take up 50 per cent of the equity in the oil refinery.

21. The outstanding claims are all relatively small having an estimated total net value of about Shs. 4 million.

22. As regards compensation in respect of sisal business, I am afraid we are still in the process of scrutiny and enquiry. There is a small number of rather well-maintained sisal enterprises whose accounts appear to be in reasonable order. These, we hope to deal with in the next few months. As for the rest, I only hope we shall be able to get a clear picture at the end of it all.

23. When the National Bank of Commerce was struggling to get established, Hon. Members will recall that it was my firmly held view that it should be granted a necessary period of consolidation. I believe that this phase of consolidation is now ending, and a new phase of planned expansion as well as of re-orientation is now upon us.

24. Apart from having opened branches in two important areas, Sumbawanga and Nyalikungu, the bank's mobile units have been reaching distant areas of settlement. In total new branches, sub-branches, and mobile units have made banking facilities available for the first time to 43 centres during the past year. This trend will be continued in the next phase, corresponding with a parallel training programme.

25. The process of re-orientation is a complex one. There are areas where the National Bank of Commerce can take initiative, as it has done in connection with the Hire Purchase business by setting up a wholly owned subsidiary for this purpose. In the beginning new experience will be gained related to the very nature of this type of business but, I am confident that over the years, it will be an effective instrument for economic development. The primary objective of the hire