BUDGET '74

CO-OPERATIVE REPUBLIC
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BUDGET SPEECH
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BUDGET SPEECH

the Hon. F. E. Hope, M.P.

Minister of Finance

10th December, 1973

INTRODUCTION

Mr. Speaker, it is time once again, to present to this National Assembly, and the People of Guyana the expenditure and fiscal proposals of the Government, for the next fiscal year (1974). In the course of the presentation an attempt would be made to review the public finances of the country over the past year, and the economic and monetary trende both national and international - which impinged on those financial flows.

Mr. Speaker, the Government is deeply conscious of the great responsibility which has naturally devolved upon it, as a consequence of its over-whelming success at the polls in July 16th of this year, to give positive direction to the development of the economy of Guyana. In this Budget therefore a high level of capital investment is proposed, essentially to increase and diversify production as quickly as possible, and create job opportunities for the unemployed. The Government would borrow to finance its capital programmes, but it proposes also to take firm steps to increase the contribution of the Guyanese people to the financing of our development efforts.

Since the last Budget was presented to this House in December, 1972 the Government has issued a draft development programme for the period 1972-1976. That programme identifies full employment by 1976 as one of the major objectives of the Government's development efforts; and sets as a target that by the end of the plan period Guyanese must be able to feed, clothe and house themselves.

Essentially Sir, the programme of development pre-supposes a tremendous level of self-reliance and discipline leading eventually to a significant measure of eelf-sufficiency in the domestic economy.

The fiscal proposals that form part of this Budget presentation rest largely on the assumption that the people of this country are serious about development and are prepared to endure a period of austerity in terms of consumption and even social services, in order that the development programme may be implemented and the foundations for self-sustained economic growth established. Substantially, too, the proposals presume that trade unions in both Public and Private Sectors endorse the proposition that unionised workers have a duty to accept a certain measure of sacrifice and are prepared to exercise some self-restraint in terms of pay demands, in order to enable jobs to be created for the unemployed.

SIGNIFICANT WORLD ECONOMIC TRENDS:

But Mr. Speaker, before pursuing this line of thought further, I should perhaps describe very briefly the more important world economic trends with which we have had to live over the past year. These trends have exerted, and will continue to exert, substantial influence on our domestic economic experience, and inevitably on the economic and financial policies we pursue.

One of the most disturbing economic problems that has affected most of the economies of the world has been persistent and accelerating inflation. The developed countries of Europe, and North Americn have with few exceptions experienced inflationary price rises that, in some of these countries, have averaged over twelve per cent per annum. Most of the inflation has been the result of the pursuit of full employment policies, the sharp rise in disposal incomes, and a rapidly growing demand for consumption goods, - a demand Mr. Speaker, that in many cases has outstripped immediately available productive capacity.

The developing countries of the World - and Guyana is one of these - have been unable so far to isolate themselves from the effects of this inflation in the developed countries, which their own internal prosperity and economic policies generated. This is so because like Guyana, the economies of most of the developing nations are open. There is a high propensity to import. We have seen the inflationary trend in Guyana over the past twelve months in the form of higher food prices, and the increased landed cost of raw materials, textiles, spare parts and machinery to name only a few.

These inflationary trends have been accompanied by and in many instances, they have been the cause of, continued monetary instability. The major currencies of the world are still subject to disturbing fluctuations in their exchange rates as the International Monetary Fund continues to grapple with the task of devising a reformed system that would both work and last.

In the framework of these trends - inflation and International Monetary instability - and largely in response to them, interest rates in the money markets of the world have shot-up to record levels. Lending rates for short and medium term money have soared to heights in excess of 13% per annum, while the long term money market, at least for the Governments of small developing countries, has practically vanished, as the countries with available capital try to combat inflation by pushing upwards the cost of money. In the context of exchange rate the uncertain risk of capital loss is too great to make long term lending a viable proposition for the time being, at even the prevailing high rates of interest. Borrower countries must therefore content themselves with borrowing on terms which include maturities that range from five to nine or ten years.

The significance of these developments for countries like Guyana that must borrow abroad, and purchase their capital goods from external sources, is not difficult to nppreciate. External borrowing has become an expensive business; the exchange risk of borrowing in the present period of monetary uncertainty is sobering. But Mr. Speaker, it is a well known fact that the flow of bilateral financial assistance from developed countries is limited and is not necessarily responsive to the growing nsed for developmental capital. The emphasis is now tending towards multilateral flows through International Agencies like the World Bank, the International Development Association (IDA), and Regional Development Banks. It is only through the IDA - the soft window of the World Baak that borrowing on soft terms is really possible. Guyana however, which has a per capita income of near US$300 is hovering just above the limit established by IDA for identifying countries that may benefit from its low interest credits. In fact most of the resources of IDA now go to the twenty five least developed of the developing countries, defined in terms of a per capita income of US$100 or less. Guyana is therefore not one of these. Since the funds of the IDA are not replenished by the Aid providing countries rapidly enough, Guyana like a number of developing countriss, is unable to secure enough of the soft funds available through that international financial institution. Certainly in the coming year although there is good reason to anticipate increased financial support for Guyana from the World Bank, very little if any of this is expected to take the form of credits from the IDA.

We must, to an increasing extent, rely on harder money to finance our development programme. There ie, however, one very significant advantage in this kind of borrowing when compared with bilateral borrowing. Commercial borrowing is entirely untied, and therefore can be so spent as to maximise the purchasing power of each dollar.

While as I have pointed out, Mr. Speaker, the pricss of imports by dsveloping open eoonomy countries, like Guyana, have been increasing sharply, the market has been rather strong for a number of primary commodities exported from the developing countries. In so far as Guyana is concerned World market prices for sugar reached the level of £110 or G$573: per ton during November, representing an increase of some £34 during the year. The negotiated prices were pegged at G$318; per ton compared with G$243 two years ago. The price of internationally traded gold was seldom lower than US$100 per ounce. At the same time metal grade Bauxite prices were showing some recovery, albeit slow, after the depressing price levels of 1971 and 1972. The prioe of Rice on the World Market was also high, and this country was able to secure fairly significant price increases from the Markets in the Caribbean.

Against these increases in primary commodity prices this country had to cope with phenomenal price rises for wheat, corn, machine parts anf fuel, dairy products, and in fact practically all items of manufactured and semi-manufactured goods.

On balance for most developing countries, as for Guyana, import prices in general rose so sharply aad so steadily as to out-strip export prices; the result was the falling terms of trade which Guyana experienced in 1973 in common with other developing countries.

Added to price inflation, no doubt giving rise to it in certain instances, were the serious shortages in certain staple food items which feced ths developing world. Shortages in the supply of grain such as wheat, corn and rice have been particularly significant. The world now facee a real possibility of starvation unless the supply of these commodities could be drastically improved. For Guyana, Mr. Speaker, there is a golden opportunity. There is an assured market at remunerative prices, for all the rice, sugar, corn and meat that we can produce. All the indications seem to suggest that demand for these commodities would remain strong over the next two years at least, as the world grapples with a growing demand for food, and the need to build-up stocks that were seriously depleted over the past two years.

These trends Mr. Speaker, hold important guidelines for us in Guyana and must dictate or at least influence the economic strategy we adopt. It is clear that food shortages in the international markets must make our policy objective of self-sufficiency in food by the end of the plan period most critical and far-sighted; it is not difficult to conclude that increasing the production of grains like rice and corn to create surpluses for exports would earn the country substantial foreign sxchange, while offering employment to many persons. It is not difficult to conclude that in view of the high cost of foreign borrowing it is of utmost importance that Guyanese should rely more on domestic savings for the financing of development works. It must also be self-evident that if we are to protect ourselves from the inflation of the industrialised countries, we must put a substantial brake on our desire to consume goods that must be imported. In summary if we are really to develop our economy, production must be expanded and diversified, not only to meet domestic requirements, but also to take full advantage of the export opportunities that are clearly present.

Indeed our projected capital outlays for 1974 have been given this thrust. Most of the planned capital expenditures are designed to be directly productive. They have been made in sectors that present the best opportunity for expanded output, because the market - domestic and foreign - for the commodities to be produced, are strong at present and will continue to be strong for some time yet.

Further Mr. Speaker, I think it should be known that success in our development efforts is linked to monetary stability. Because of the deep uncertainties and fundamental instability which characterise the Foreign Exchanges, the cost of money and credit is so prohibitively high as to make many projects unfensible and put a brake on economic growth; substantial barriers have been erected in many countries against the free flow of funds; for instance, Sterling funds can no longer flow freely into Guyana because of United Kingdom Exchange Control against Sterling Area Countries. The value of foreign exchange earnings for our exports could vary from day to day; in fact, the Bauxite Industry experienced certain losses in terms of Guyana currency when the US$ strengthened earlier in this year; and the capital cost of a project could rise significantly because of these same unpredictable movements in foreign exchange.

But monetary instability is none of our making. As a small country we feel the full effect, but can do very little to change the situation, except make our views heard in the International Monetary Fund. In fact, while the instability persists, we do not have the best environment in which we could adopt, or even determine, the exchange rate policy that would best fit our development circumstances.

What is the prospect for a return to monetary stahility?

WORLD MONETARY REFORM:

Last year when I presented the budget to this Honourable House, the International Monetary situatioa was extremely unsettled. The pound sterling was floating, and other major countries taking steps, including high interest rates in the case of weaker currencies, and even negative interest rates, in the case of the stronger currencies, to protect their reserves and the stability of their currency.

By early 1973 the system had collapsed again after the measure of stability introduced at the time of the Smithsonian re-alignment. There was then a further devaluation of the US dollar and a further re-alignment of exchange rates in February.

And even this did not help the dollar. Less than two weeks later the twice-devalued US dollar was yet again under severe pressure from speculative attacks. By mid-March, 1973, it was clear that the Bretton Woods system of stable exchange rates, anchored to gold, had become too vulnerable to such speculative attacks. It was then virtually abandoned (pending reconstruction); and all the major reserve currencies resorted to a float taking with them in their snake-like movements the other currencies that were tied to them.

What was wrong with the old Bretton Woods system? Times had changed. Moreover, recent events in my view establish clearly that one of its major faults was that it rested too heavily on one currency - the US dollar. In recent years this currency has provided international liquidity on an uncontrolled and indisciplined basis related to the deficits on the US balance of payments, and not to the world need for such liquidity. The world economy has been flooded with liquidity and pushed into an inflationary spiral.

As I said at Nairobi, when I spoke on behalf of all the independent Caribbean countries at the 1973 Annual Meeting of the International Monetary Fund, the progress we have since made towards reform of the system is very heartening. In particular the consensus that the system must no longer rest so heavily on any particular national currency, but should be internationalised on the basis of the SDR - a world reserve currency, the issue of which could be related to global needs, so as to avoid the extremes of world inflation and deflation - was a long step forward.

I also urged then, that the allocation of SDRs should be linked with the transfer of real resources from the developed to the developing countries - a desirable reversal of the present flow of real resources from the developing to the developed countries, which the holding of reserve currencies entails. The few who oppose the linking of SDR allocations with the transfer of real resources from the developed to the developing countries presumably do so because of their fears about the possibility of inflationary over-issues. But, as I said at the Annual Meeting in Nairobi, there is no more reason for objecting to this link than there is for objecting to the channelling of real resources, through the use of a national banking system, into economic development. If the fear of abuse of a process that is useful to humanity were allowed to prevail in respect of this use of national money, we should still be in the barter age, eschewing the issue of money for the good of the community for fear of over-doing it.

We must hasten the implementation of the proposals for re-establishing a system of stable but adjustable rates of exchange between countries. We cannot expect them to provide rates as rigidly stable as the old system did. This rigidity was part of the reason for its collapse. The new system must include adequate arrangements for the prompt adjustment of the par values of the currencies of both deficit and surplus countries, as may be necessary from time to time, and place an obligation on all participants in the new monetary order to effect settlement of deficits with reserve assets - in cash, so to speak, and not in I.O.U's.

Now how have we fared in this world of floating rates? We have maintained our fixed relationships with the £ Sterling and with sterling-related currencies (e.g. of the Commonwealth Caribbean other than Jamaica)... Thus, about two-fifths of our external trade (more on the import and less on the export side) has been enabled, even in a world of floating rates, to enjoy stability. However, since sterling has been generally depreciating with respect to both the other European currencies (in which our external trade is relatively small) and the US dollar (in which a large part of our external trade is conducted), there have been quite large movements of the Guyana dollar in relation to these currencies.

Since the end of 1971 the Guyana dollar has depreciated in terms of the US dollar by about 10% and in terms of European currencies (other than sterling) on average by about 20%, (largely through revaluation), but has retained her stable parity with sterling.

RELATIONS WITH THE EEC:

Now, Sir, I would like to turn very briefly to another area of uncertainty in our international trading relations. As is generally known the European Economic Community is now an association of nine European Nations, rather than six, since the entry of Britain, Denmark and Eire in January 1973 into that Community. As I pointed out last year Great Britain's entry into the expanded European Community necessitated a clear definition of the relationship that would subsist between the Commonwealth Caribbean countries including Guyana, and the EEC. Negotintions are now in train. But vital to the Caribbean Community are such issues as the maintenance of a guaranteed market for such of our commodities as Sugar, Bananas, Citrue and Rum, on terms (including quantity and price) no less favourable than the West Indies enjoyed in the British market prior to Britain's entry into the EEC; favoured entry of Caribbean Common Market exports including semi-manufactured and manufactured goods, into Europe without reverse preferences in favour of the European Community; and participation in the European Development Fund, particularly for the less developed countries in the Caribbean Region.

It is expected that in the negotiations which are scheduled to take place during the coming year the Caribbean, working together and in collaboration with our colleagues from the independent States of Africa, would be able to forge n link with Europe that is favourable to the continued and accelerated growth of our several economies; but that in no way compromises our individual national sovereignty.

THE PERFORMANCE OF THE ECONOMY:

Mr. Speaker, I now turn to the domestic scene and would attempt to review the performance of the Guyana economy during the past year, particularly against the background of the economic trends which affected the World in general.

In 1973 for a second consecutive year, the economy failed to record the projected rate of growth as domestic output lagged behind reasonnble expectations. The Gross

Domestic Product is preliminarily estimated to have increased by between 8% and 9% at current factor cost over 1972. Since domestic prices and the average price of exports have on the average risen by almost as much, it is not expected that growth in real terms was significant; in fact the real per caput income may even have fallen slightly.

Inflationary pressures were more intense particularly in the latter half of the year, being reflected in steeply rising prices, particularly for food items and imported manufactured goods. Shortages developed partly as a result of inclement weather and floods in the previous year, but also because of a failure of agricultural output which plagued many other producing countries.

Key exports fell in volume terms at a time when prices for most of our primary commodity exports were quite high; at the same time imports rose in quantity, but even more in terms of prices. Domestic demand for goods and services was strong and served to aggravate the inflationary pressures which had already developed because of sharply rising import prices. Despite the improvement in wages and salaries in many sectors of the economy including the Public Service, the savings rate appeared to have declined - to about 16% of Gross National Product, compared with 22% three years earlier. This was due in the main to the substantial overrun of public expenditure over revenues. It is clear Mr. Speaker, that the saving rate would need to rise sharply again if we are to sustain an expanded programme of capital outlays.

The failure of output in the main productive sectors of the economy was central to the disappointing growth performance.

It was also the main contributory factor that gave rise to ths strains which developed in the Central Government finances and on our balance of payments.

Sugar production - at 270,000 tons was 14% less than in 1972; rice output fell below expectations but at 110,000 tons was much bettsr than in the previous year; while bauxite output - particularly dried bauxite and alumina - declined below last year's levels. These three sectors - Sugar, Rice and Bauxite - are really even now, the growth points in the economy. One of the more unfortunate aspects of this position is that as I observed earlier, for both sugar and rice, the external demand was strong, and prices were extremely encouraging.

Further as a result of strong encouragement by the Government, acreage under sugar-cane and rice had been expanded. This was particularly true of rice where the increase in acreage under cultivation was very substantial.

Harvest time saw vast acreages of sugar-cane, and what to all appearances was a record crop of padi. The unseasonal rains however persisted, and created serious obstacles to the normal reaping of the padi crop. In the result the yield of padi was reduced to a level that was much below expectations. The weather - droughts during the spring crop, and continual rainfall during the Autumn crop - was also devastating for the sugar crop, causing the industry to suffer a reduction in its output performance from an expected 390,000 to about 270,000 tons.

Fortunately Sir, there was noticeable increase in the output of the forestry sector, where value added expanded by about 20%, and in the fishing sector where value added increased by about 10%, and exports, particularly of shrimp, was quite bouyant achieving an estimated 15 Mn. pounds compared with 13Mn. pounde in 1972.

Mr. Speaker, while we recognise the failure of the two major agricultural crops to produce to capacity during this year, it is aecessary to appreciate that the Guyanese economy remains basically sound. There is in the agricultural sector a substantial growth potential, and capacity to produce to take advantage of the high prevailing prices.

A great deal of infrastructual work to increase productivity in agriculture has been done. The lnrge acreage put under rice attest to this fact. Credit is now available on reasonable terms to agriculture through the Guyana Co-operative Agricultural Development Bank; and agricultural machinery, fertilizers and other inputs can be acquired free of duty.

A significant development has been our ability to produce white potatoes in the elevated regions of the country. Already some proportion of the domestic consumption of thie vegetable has been met from local production. As more acreage is brought into production, we can look with some degree of confidence to the time not far off when the $3.0 Mn. this country normally spends abroad for the importation of white potatoes would remain in Guyana for the benefit of farmers.

With regard to the Bauxite industry, Mr. Speaker, it is well known that of all the major metals in industrial use, alumimium has experienced the weakeet market conditions over the past two or three years. Though this may not have been the sole reason, efforts of the industrialised countries to control inflation by putting a barke on induatrial output, have in reoeat years been rsflected in a weak world demand for aluminium.

It is significant however, that even in this situation, by dint of imaginative marketing policies, the nationalized Bauxite Company - Guybau - has been able to maintain reasonably high and diversified output. The fact that dried bauxite output and exports declined was due in large measure to a drastic cut back in production, by the Reynolds Company - which is still owned and controlled by a multi-national Corporation.

In summary, Mr. Speaker, the economy did suffer a set-back as a result of adverse weather conditions. Added to this was the difficulty being experienced by the industrialised countries themselves to produce farm and other heavy equipment in sufficient quantities for exportation to all the countries that now need them.

The cement shortage that is a world wide phenomenon caused the construction sector to experience frustrating delays and to operate at much below capacity. None of these temporary factors has however, removed the basic strength and resilence that the economy possesses.

PRICES:

Mr. Speaker, I have already remarked on the serious inflation which was evident in many countries - developed and developing alike. In Guyana prices increased during the year largely because of imported inflation, even though there were other influences at work. Average import prices have by themselves risen at least by 15% over the past twelve months and would no doubt show little falling off in the coming months. Monetary instability, high interest rates and demand pressures in developed countries which are our trading partners, together with supply problems affecting a number of commodities like petroleum have all been contributory factors to the sharp increase in the landed cost of our imports.

In addition there has been shortages of other types of consumer goods some of them domestic origin. Unfortunately, supply problems are linked in many cases to the pricing problem. The supply of eggs, poultry, meat and pork was reduced because of the falling quality and reduced availability of stock feed; this in turn was related to the maintenance of controlled prices for stock feed in the context of the steeply rising prices for imported grain and other ingredients.

In recent weeks therefore, it was necessary to permit price rises for a number of products including stock feed, matches, flour, margarine, pork and petroleum products in order to ensure that supply was maintained and indeed improved. Despite price controls and a rigid system of price supervision, price movements were sharp enough to cause the consumer price index to rise by at least 9%.

Private Consumption Expenditure in money terms were trending upwards and are estimated to have expanded by about 15%. Most of the increase would be due to price movements but it is also true that Guyanese appeared to have consumed more in real terms. While consumption expenditure - public and private - increased, gross domestic investment declined somewhat, and was lower than might have been expected at the beginning of the year.

Private capital formation was still sluggish. The sugar industry for instance maintained a level of capital outlay that was about the same level as in previous years; in addition private building and construction were retarded by the unavailability of cement in adequate quantities.

The Public Sector Capital outlays however, though lower than was originally projected were much higher - by nbout $41 Mn. - than in 1972 and compensated in some measure for the low performance in the Private Sector. The intervention of the general elections, coupled with delaye in delivery of essential machinery and equipment from overseas, reduced the rate of implementation of a number of projects included in the capital programme for 1973.

REVENUE AND EXPENDITURE 1973:

I now turn to expenditure and revenue performance during 1973. As was to be expected production shortfalls in the economy depressed income and therefore adversely nffected the generation of revenues from taxation; as a consequence the financinl resources available to the Government for financing the current budget were significantly reduced. Current revenue nmounted to $162.3 Mn. nearly $12 Mn. less than was originally estimated though it was still $11.3 Mn. or 8% higher than nctual receipts in 1972. Of the total revenue receipts, $30.4 Mn. was derived from import duties. This yield was $3.6 Mn. less than was originally forecast and was due mainly to the introduction from 1st August, of the Common External Tariff under the Caribbean Community and Common Market arrangements. The rates of duties provided under the Common External Tnriff (CET) were, with few exceptions, much lower than the rates of duties applicnble in this country prior to the introduction of CET. Thus as a result of the adoption of the CET an immediate reduction in the yield from import duties was inevitable. It is however possible to recoup most of the revenue lost by the change in the tariff, through the introduction of compensatory consumption taxes on most of the imported goods on which the duty had been reduced. Consequently, it now appears that the shortfall on account of customs duties was substantially off-set by a marked increase in consumption taxes now estimated at $3.9 Mn. more than the $12.6 Mn. originally projected.

The other major revenue earner was income tax. Although year-end figures are not available it aow appears reasonably certain that income tax would yield only about $59 Ma. or about $5 Mn. less than the budgeted estimate. The problem here appears to lie essentially in the failure of the sugar crop due to adverse weather conditions and low profit returns by a number of companies in other sectors of the economy. In fact it is not expected that the Sugar Companies would pay a significant amount of income tax on the basis of their 1973 performance. The profits and therefore the tax yield for the Bauxite Industry are also lower than was projected, largely as a result of the production shortfalls in the industry, low prices for dried bauxite and adverse exchange rate fluctuations - that is, a weakening of the US dollar - during part of the year.

While current revenue remained depressed, current expenditure moved ahead of the amount originally estimated. Expenditure on Current Account are now estimated nt $224 Mn. (revised). At this level they are approximately $50 Mn. more than was originally approved. Most of the increases arise from improved salaries paid to employees in the Public Service and to Teachers for which the provisions that were made turned out to be inadequate.

Honourable Members, would recall that the revision of salaries to public servants was long overdue and while the total cost was high, public servants had gone through a period of twelve years without any major review of their pay scales. It should also be observed that for the first time teachers in primary schools were given pay scales that reflected the relative importance of their work. Teachers in aided-secondary schools also received comparable pay to their counterparts in the primary schools and the additional cost was met by the Government. Further, Government increased its contribution to the Aided Secondary schools in order to ensure that these schools could maintain, and indeed improve, their educational facilities without additional cost to parents, through increased school fees. In effect, Sir, commencing this year the Government has been assuming greater responsibility for secondary education in this country.

Public Debt payments also increased though in this case the increase was more apparent than real. The increase arose from the payment to Alcan on account of the nationalisation of Demba which, though payable on 31st December, 1972, was nevertheless put through our accounting records in enrly January, 1973.

Capitnl Expenditures were also running quite high despite the bottlenecks that occurred in the economy. At $97.8 Mn. capital expenditures were at their highest levels. The main item of capital expenditure for 1973 were as follows:-

	$Mn.
North West District Land Development Project	3.0
Hinterland Roads	5.0
Georgetown, East Demerara, West Demerara, Essequibo and Berbice Roads	9.5
Education Project (Multilateral Schools)	7.5

	$Mn.
Water Supply	8.5
Sea and River Defence	11.7
Mortgage Finance and Agricultural Development Banks	4.0
Rice Rehabilitation Programme	2.4
Loan to Guyana Electricity Corporation for Equipment	4.5

Capital receipts for 1973 were also the highest level ever, totalling $98.3 Mn. Of this amount External Loans and Credits amounted to $53 Mn., External Grants $3.2 Mn. and local borrowings $41.2 Mn. This high level of local loan funds includes a substantial amount of money repatriated from overseas by Pension Funds, and invested in Central Government securities. Investments by insurance companies in conformity with the provisions of the Insurance Act 1970 have also made a significant contribution.

Mr. Speaker, the trends I have pointed to in my foregoing remarks all underlie our external payments position.

Following low production in the key export sectors and despite higher export prices for Rice and Calcined Bauxite, exports of domestic produce are now projected at about $299 Mn. and are therefore likely to be marginally below the 1972 value of $300 Mn. Imports on the other hand are estimated at $340 Mn. When the deficit arising from our net imports of services is taken into account, the balance of payments on current account shows clear indications that it would be in deficit by aa amount in the region of $85 Mn.

Net inflows of capital would amount to about $70 Mn. Although this would represent the highest level of capital inflows achieved by this country in any one year, the capital account is expected to be out of balance in the amount of about $15 Mn. This overall deficit represents the loss the economy is likely to suffer in terms of external reserves.

THE PROGRAMME FOR 1974:

Mr. Speaker bearing in mind our experiences in 1973 the priorities in terms of financial and economic policy for 1974 must now be clearly identified. First of all our maximum effort must be directed to the achievement of a significant expansion in production during 1974. The sugar industry estimates that given favourable weather conditions and the maintenance of good industrial relations the industry is capable of producing 390,000 tons of sugar. In fact during the coming year both companies operating in the industry would be expanding acerage under sugar-cane. It is also a matter of some encouragement that there is every indication that the market for sugar would remain strongly in favour of producer countries at least during the next year or two.

Again, given reasonable weather conditions output of Rice should exceed the amount produced in 1973. The market for rice is also expected to remain firm in view of the general shortage of and strong demand for, food grains throughout the world.

Bauxite production at Guybau is expected to show gains in terms of quantity, assuming there are no serious disruptions due to the energy crisis. In this area the real question mark lies behind the intentions of the Reynolds Metal Company in terms of that company's level of output in 1974. In fact,while this section of the industry countinues in foreign hands it would remain a matter of some difficilty to ensure that the Bauxite Industry as a whole maximises its production and its contribution to the economy of Guyana, given the present conditions of the aluminium market.

Further Sir, Government's capital expenditure in 1974 would also be heavily weighted in favour of the productive sectors. Agriculture, Forestry, and Fishing will receive substantial injections of public sector financing. There will be large capital outlays in Agriculture in order to enable increases in the supply of food both for import replacement and export generation. Output capacity in the forestry sector would be increased to meet the needs of both the domestic and the overseas market. At the same time substantial investment would be made in the fishing industry for the acquisition of more fishing and shrimping boats and the establishment of related shore facilities.

In short the aim would be to increase our gross Domestic Product in real terms by at least 1.0% in the next year.

The second objective of financial policy would be to grapple with the problem of inflation with a view to reducing its growth and dampening its effects. It would not be realistic to believe, Mr. Speaker, that we can eliminate inflation in the domestic economy during the next twelve months. Once we continue to import - and we must since we do not produce capital goods and many of the raw materials for our industry, the inflation in the developed countries would continue to be imported into Guyana. It is the Government's intention however, to continue and even expand price controls in order to maintain a check on price escalation. Increased agricultural output should by sheer plenty, operate to pull down the price of locally produced goods, while increasing the gross income to farmers. Improvements in the distribution facilities which the Government intends to make at the Guyana marketing Corporation, should serve to ensure that less food is spoilt, and more food reached households at cheaper prices. Improvement in the management structure of the External Trade Bureau are expected to lead to more efficient ordering operations of that Corporation, and eventually to improvement in the supply of important items of imports.

Trade with the Eastern Bloc countries including China already increasing as a direct result of Government's external trading policy would be further expanded. In fact as a result of the recent Trade Mission to China the flow of goods of Chinese orgin should be rapidly increased during the year. In addition the External Trade Bureau would take further positive steps to promote importation from Eastern Bloc countries, including the Soviet Union with whom this country already has a Trade Agreement signed during the middle of this year. But Mr. Speaker, all this inevitably implies that the External Trade Bureau would need to take firmer and wider control of our import trade in order to ensure that the direction and content of that trade are responsive to the national interest.

It would also be Government's policy to ensure that interest rates remain stable. Mortgage interest charged by the Guyana Co-operative Mortgage Finance Bank range from $6\frac{1}{2}\%$ - $8\frac{1}{2}\%$ per annum. The Government would begin to monitor the interest rates charged by Insurance Companies operating in Guyana to ensure that they are kept as low as consistent with reasonable profitability.

Obviously, Mr. Speaker, while the Government moves to reduce inflationary pressures, it would frown on demands for wage increments that are tied in any automatic way to movements of consumer prices. The fundamental reason for this stand is not difficult to appreciate. Automatic wage adjustments in a situation where prices are already trending upwards, is in practice highly inflationary. Wages would chase prices, and prices would in turn chase wages with the inevitable result of a vicious inflationary spiral. Instead the Government would continue to favour a system of wages adjustment based on periodic review of wages and salary rates.

It would be another objective of financial policy in 1974 to ensure that our foreign exchange earnings are carefully utilised and the Reserves restored to a reasonable level. Fundamentally this will be a function of increased output or our export commodities. Increased exports in 1974 would not be enough, however, if the expanded Capital programme for 1974 is to be implemented without undue stresses on our balance of payments. Substantial inflows of external financial resources would be necessary in order to pay for the imports of capital goods. In addition, Mr. Speaker, Government would need to give serious consideration to further .restrictions non-essential imports in order to accommodate imports of capital and other production goods.

Consumption would therefore need to be voluntarily restrained during 1974, so that domestic savings may be increased, and foreign exchange conserved. In this connection the Government would use fiscal measures to ensure that non-essential consumption carry the main burden of taxation. It must be self-evident, Mr. Speaker, that the money to finance our development programme cannot, and should not at all, be secured from external sources. Guyanese must bear a somewhat heavier burden than in years past to finance the development programme. This means that savings - by individual persons, by businsss enterprises, both private and public, and by the Central Government must be increased.

The Government on its part would aleo seek to contain its own consumption of goods and services at least to a level that matches its revenues.

Public Corporations are expected to increase their efficiency and profitability so that with but one possible exception the need for eubsidy would be removed, and adequate returns on capital invested would be earned. Private businesses would need to institute voluntary curbs on distributions in the same way that private individuals would need to exercise restraint in consumption, so that private savings may be iacreased for re-investment.

It would be observed Mr. Speaker, that the financing of the Government's Capital budget for 1974 will require at least $32 Mn. of local savings. This of course is quite apart from the savings which will need to be channelled into private investment such as house-building, agriculture, forestry, and manufacturing.

The Government recognises that private industry must make reasonable profits in order to expand and create employment. In pursuing its pricing policies the Government would pay due regard to this fact. Indeed every encouragement, fiscal, administrative and financial, would be given investors to establish industries in Guyana. Of particular significance in this regard is the new fiscal incentive scheme now applicable to all CARICOM countries including Guyana. The scheme provides for more generous incentives than had hitherto been available to industries in this country.

It would be aecessary for entrepreneurs to beeome more familiar with the provisions of this echeme so that adequate advantage may be taken of them.

It is recognised that the development anticipated would hardly be achieved unless credit is made available on attractive terms. Accordingly further budgetary allocations have been made to increase the lending resources available to the Guyana Co-operative Agricultural Development Bank and the Guyana Co-operative Mortgage Finance Bank, both institutions having been established about the middle of this year as projected in my last budget speech. Further in order to provide loans to facilitate the establishment of small businesses a Small Industry Development Corporation will shortly be established within the Guystac Group of Corporations. Its functions would essentially be to provide capital to small business enterprises, and assist them further in terms of management and feasibility studies.

Mr. Speaker, if serious bottlenecks do not recur, if the threatened fuel shortage does not prove too acute, and assuming the weather holds good, 1974 ought to see an impressive resurgence in economic growth in Guyana. This growth together with the expansion of economic activity which it suggests, particularly in construction, agriculture, fishing and forestry, would lead to the creation of a large number of job opportunities.

REVENUE AND EXPENDITURE 1974:

I now turn to the Revenue and Expenditure programme for 1974.

The Government Mr. Speaker proposes to spend approximately $222 Mn. on current services during the fiscal year 1974. Capital expenditures are projected at $173 Mn. making a total budgetary outlay of $395 Mn. during the year under review. This expenditure represents an increase of approximately $73 Mn. above the Revised Estimates of Current and Capital Expenditures for 1973.

The Estimates of Expenditure on Current Services in 1974 anticipate a reduction of $2.4 Mn. compared with the Revised Estimates for 1973. There were certain expenditures occurring in 1973 which would not recur in 1974. Chief among these would be the lumpsum payments to public servants in lieu of retroactive pay and the expenses associated with the recently concluded general elections. In addition the Expenditure Estimates assume that every attempt will be made to prevent the establishment from expanding more rapidly than is absolutely necessary; this would be achieved by the re-allocation of staff first to Ministries needing them before new staff is employed. Further, certain services have been reduced. This therefore explains why the provisions for 1974 on current account are slightly lower than the revised expenditures for 1973.

Of the total expenditure expected for 1974, a total of $94 Mn. is on account of Personal Emoluments, compared with $93 Mn. in 1973 (Revised); $50 Mn. is with respect to Debt Service compared with a revised expenditure of $47 Mn. in 1973; and $78 Mn. for Other Charges compared with $83 Mn. (Revised) for 1973.

The services reflecting the most significant increases are Defence $1.2 Mn., Foreign Affairs $1.9 Mn., Internal Security $7.8 Mn., Education $11.9 Mn., Health $4.9 Mn., Co-operatives $1.3 Mn.

CAPITAL EXPENDITURES:

As I said earlier, Mr. Speaker, an amount of $173 Mn. is projected for Government's capital outlays for 1974. This high level of expenditure is consistent with the level of capital expenditures projected for the Public Sector in the 1972-76 Dsvelopment Programme. Apart from the continuation of on-going projects the programme for 1974 is heavily weighted in favour of projects which are expected to yield high economic and financial returns within a short period of tims.

Constrained as we must be by the availibility of sufficiently large amounts of soft money a deliberate decieion was made to give the highest priority to the high yielding projects and a lower priority for this year to the expenditures on some social services, important as these are to the process of economic development. In fact, it would be observed that the sectors identified for capital injections in 1974 are the productive sectors of agriculture, fisheries, forestry, mineral development, manufacturing, and the infra structural facilities that are necessary to support growth and davelopment in the sectors enumerated. The programme therefore propoaes to distribute expenditure among these sectors in the following manner:

Agriculture, including Water Control	53.3 Mn.
Fisheries	8.5 Mn.
Mineral Development	3.6 Mn.
Manufacturing	8.6 Mn.

A sum of $0.4 Mn. will be spent on the Kibilibiri agricultural project on the Berbice Rivsr, $1.0 Mn. is provided for the expansion of the Moblissa Dairy Project, and the settlement of displaced farmers; $0.4 Mn. for purchase of rams and bucks, and for the swine development unit. In addition $1.6 Mn. will be expended on the World Bank assisted beef expansion project; $0.2 Mn. on other cattle development, and $0.8 Mn. on a veterinary diagnostic laboratory which is essential for the success of the programme for livestock development. Government also proposes to increase substantially the annual catch of shrimp and to this end $5.2 Mn. has been allocated to meet the cost of 28 shrimp trawlers in 1974; this is in addition to $3.0 Mn. for the establishment of better on-shore freezing facilities.

Provisions have also been made for the improvement of water control to complement the programme of expanded agricultural production. A total provision of $9.8 Mn. has been made for this purpose. Of this total $1.1 Mn. has been allocated to the Mahaica/Mahaicony/Abary area; $0.3 Mn. to the Black Bush Polder/Block III Area; and $0.8 Mn. to the West Demerara area. Further, $4.3 Mn. has been allocated for the purchase and installation of drainage pumps in other areas.

The improvement of Sea Defences along the coast to protect coastal lands will continue and a provision of $5.9 Mn. has been made available to cover cost of works on the Georgetown Sea Wall and the continuation of works in othsr areas.

Government will embark on the establishment of a hydro-power facility in the Upper Mazaruni river and expects to complete construction of this plant by 1978. In 1974 provision of $0.9 Mn. has been made towards the preliminary investigational work connected with the project.

Complementary to this programme for hydro-power development is a programme for the construction of a fair weather road in the Upper Mazaruni from Wineperu to Kamarang. Construction has been planned to permit the transportation of heavy equipment along this road to the hydro project site by 1976 to facilitate construction of the hydro-power plant.

Provision of $3.0 Mn. has been made to commence the 1974 phase in the construction of this road to the Upper Mazaruni. When completed the road will, in addition to providing access to the hydro-power site, open up vast areas of rich agricultural lands and thereby provide the stimulus for new settlement in that part of our hinterlands.

In 1974 $1.5 Mn. will be sepnt on the initial phase in the establishment of a cement factory; $1.0 Mn. on a glass factory; $2.0 Mn. on a textile mill; $.3 Mn. on a leather tannery and $.5 Mn. on a Clay brick factory. These outlays are in addition to the provisions of $3.0 Mn. which will be made available to Small Industry Development Corporation for on-lending to small scale industries.

There are further allocations for the continuation of projects already started and the maintennnce of capital investment in some socinl and other basic services, in keeping with the objectives outlined in the 1972-1976 Development Plan. These will include allocations for providing improved Educational facilities ($10.1 Mn.) and improved Henlth services, ($1.5 Mn.).

FINANCING THE PROGRAMME:

I now come Mr. Speaker to the financing of the capital programme envisaged for 1974. It will be recalled that the capital expenditure proposals amouat to $173 Mn. In the financing of the amount, substantinl reliance will be placed in the coming year on borrowing on the International Financial markets, mainly in Europe. Approximately $75 Mn. are expected from this source and the Government has genred the composition of its capital budget for 1974 in accordance with the higher costs and shorter maturities nssociated with this borrowing. In addition some $28 Mn. are expected from bilateral sources mainly the United States, Cnnada, the United Kingdom, and China, with respect to particular projects. These are in the main sea defence, roads, electricity expansion, pure water supply, textile factory, and a clay brick factory.

Further sums ($32 Mn.) are expected from multilateral and regional sources - that is, the Caribbean Development Bank. In the main these would include World Bank and IDA finances for roads, sea defeace, multilateral schools and livestock development, and loans to the Mortgage Finance Bank and the Agricultural Development Bank from the Caribbean Development Bank. There are also grants amounting to $5 Mn. from United Nations Development Programme and other sources. In total therefore the Government expects to derive approximately $140 Mn. from external sources, for its oapital programme. The foregoing sum also includes foreign credits for equipment under the Export Credit Guarantee arrangements in the United Kingdom, and the Export Import Bank of the United States for water control pumps. In both cases agreements have already been signed and equipment placed on order for expected delivery during 1974.

In order to finance the rest of the programme it is anticipated that long term borrowing from domestic sources would yield $25 Mn.

There is left a small deficit of $7 Mn.

REVENUE COLLECTION:

Mr. Speaker, as the Honourable Members are aware there are a large number of persons who have studiously evaded the payment of their proper taxes, aad so far they have been successful in their evasion; there are others whom the income tax has never reached. There are also those who have managed to amass substantial arrears of rsnts and similar payments, due to the Government. It is proposed that in the new fiscal year all revenue departments, particularly the Income Tax, the Customs, the Licence Revenue Office, and the Ministry of National

Development and Agriculture would redouble their efforts, stream-line their procedures, utilise the not inconsiderable powers granted to them by law, and if necessary employ additional persons, to ensure that revenues due to the Government nre paid, and persons liable to tax are brought to book. In effect, Sir, the paoe of revenue collection in 1974 would be accelerated.

FINANCIAL MANAGEMENT:

Another matter of serious concern is the question of financial management. Since Independence the Public Service has expanded rapidly to provide both for the services attendant on our Independent Status, and also in an endeavour to accelerate the rate of economic development. Starting at Independence in 1966, with a Capital expenditure of $108.2 Mn. ($24.1 Mn. on Capital and $84.1 Mn. on current services) the financial resources of the Public Service has been called upon to manage, has more than trebled in eight years, to $395 Mn. in 1974 - ($173 Mn. on oapital and $223 Mn. on Current Services). It is obvious that a far higher degree of skill on financial management is required at present and also that these skills would have to be spread wider than in 1966 to achieve and maintain maximum efficiency.

Promotion in this field has also besn rapid, because of the accelerated expansion of Central Government services and responsibilities. The result has been that the level of skill previously available at the various levels has been effectively lowered. Training courses, both local and overseas among various cadres have assisted somewhat in allevieting the difficulty but much more has to be done if we are to function efficiently in this field.

A study is at present in progress to determine the long term needs in this area, and Government would wish to support any practical solution to this problem.

However, in the short run the solution must lie in organised training. I therefore propose, in the coming year in collaboration with the Public Service Ministry, to arrange that suitable courses of training are mounted for public officers involved in financial administration within Ministries and Departments.

Mr. Speaker, before I come to the question of financing the gap on the Current budget, I should perhaps first explain a peculiarity of our preeentation of the Government expenditure programme for Current services and Capital.

The Government is in fact deeply involved in economic development in this country and in promotion of of that development, the expenditures incurred are substantially reflected in the Capital Estimates. However, a significant portion of the cost of development is reflected in the Current Estimates of Expenditure largely to meet the cost of the professional and administrative personnel on whom the Government must depend to carry on the development programme. For instance the pay of the economiste who have written the plan and who must in a sense monitor its implementation is a charge on the current budget; the cost of the Engineers, Quantity Surveyors, Architects and Overseers, who plan and supervise the implementation of capital projects such as roads, sea defences, drainage and irrigation schemes, are also charged to the current budget; the same applies to the public service professionals who carry out mineral surveys, those who conduct the preliminary studies coanected with hydro-power development, and those who must implement the development programme in Agriculture, to identify only three activities. It is, therefore, Mr. Speaker, important for us to understand that the current budget is not purely consumptive in its content, but in fact contains a substantial amount of expenditure which are in effect developmental in purpose.

Having said this much Mr. Speaker, I would now turn to the fiscal proposals which the Government intends to impose for 1974. I have already indicated that the current estimates as presented forecast an expenditure of $222 Mn. and for revenue anticipates a total receipt of $203 Mn. This leaves a gap of $19 Mn. which must now be financed. The Government therefore proposes to impose additional taxation to yield something in the region of $19 Mn. so as to ensure that as far as practicable the current budget is brought into balance.

The burden of the extra taxation will fall on consumption because the time has come when non-essential consumption should be restricted in the interest of saving for development.

Although the tax burden would fall essentially on consumption, the taxed items are really those which are non-essentials. In other cases a specific tax has been placed on certain items of exports, because it is felt that these export commodities could bear the burden of a limited amount of extra taxation in view of bouyant export prices. The following therefore are my tax proposals:-

Beer - the excise tax on beer would be increased by $1.26 per liquid gallon. This should mean that if all the tax is passed on to the consumer the price for a bottle of beer consumed anywhere in Guyana should increase by no more than 8 cents. The expected yield would be $2.6 Mn.

Electrical Appliances, other than Refrigerators:-

(Washing Machines, Records, Air Conditioners, Radios, Radiograms, Gramophones, Gramophone Records, Vacuum Cleaners, Dishwashers etc.)	A consumption tax of 15% is proposed. The yield is expected to be $0.4 Mn.

Aerated Watere:-

A Consumption Tax of 2 cents per bottle is proposed. The expected yield is $2.5 Mn.

Molassee:-

The production of this commodity is almost wholly geared for the export market. For a number of years an export tax was levied at 45 cents per 100 gallons. Since then the reported export price for molaeses has gone up steeply and it is therefore proposed to increase the export tax by 4 cents per gallon, that is, to $4.45 cents per hundred gallons. The expected yield is $0.5 Mn.

Motor Cars:-

Motor cars registered for private use would now pay an additional purchase of 15% on their show room prices. The tax would however apply only to motor cars over 1600 cc and would not apply to hire cars. The expected yield is $0.6 Mn.

Cigarettes:-

The consumption tax on cigarettes is to be increased from $3.03 per pound to $6.23 per pound. If the total tax is passed on to the consumer, the price of cigarettes should increase by no more than 8 cents per pack of ten, and 16 cents per pack of twenty cigarettes. The expected yield is $3.5 Mn.

Gasolene:-

The consumption tax on Gasolene will be increased from 37 cents per gallon to 49½ cents per gallon. The expected yield is $1.6 Mn.

Shrimp:-

The export tax on this commodity is now at the level of 12 cents per lb exported. It is now proposed to increase the export tax to 19½ cents per pound. The expected yield is $1.3 Mn.

Licences for Liquor Restaurants and Hotels:-

Liquor restaurants at the moment pay $600 per year in Georgetown and New Amsterdam and $480 elsewhere. It is proposed to increase this tax by $200 in Georgetown and New Amsterdam and by $150 elsewhere. In the case of hotels it is proposed to increase the tax on first class hotels in Georgetown and New Amsterdam by $200 and by $150 on second class hotels in Georgetown and New Amsterdam.

Betting Shops:-

It is proposed that each person who carries on a betting service on any premise would be required to make a deposit, interest free, of $50,000 with the Government as a prior condition for the issue of a licence to operate the service.

The yield from these measures applicable to betting shops, liquor restaurants and hotels is estimated at $0.5 Mn.

National Development Surtax:-

It is proposed to levy a surtax of 5% on the chargeable income of all individuals, including Unincorporated enterprises. It should be explained that the tax is applicable only to income which is subject to normal income tax after all allowances, personal and otherwise, have been deducted. Thus an individual who earns $2,400 per annum and has a wife, two children, and an insurance policy on which he pays a premium of $60 per year, would have a total deduction of $800 for himself, $600 for his wife, $600 for the two children, $60 for his insurance premiums and $120 as an earned income allowance. His total allowance would add up to $2,180; and, therefore, his chargeable income would be $220. Consequently this National Development Surtax would be 5% of 220 i.e. $11.00 per year - less than $1.00 per month. The tax would be collected and administered in a way similar to PAYE. The expected yield is $5 Mn.

Property Tax:-

The limitation of debts to 20% and 50% on assets in the case of companies and individuals, respectively, for the purpose of determining net property subject to property tax, will be removed. Companies will however pay property tax on the following scale -

Up to $500,000 ...
Over $500,000 ...

The expected yield is $0.2 Mn.

The total yield arising from the tax measures would therefore be $18.7 Mn., and this should be about adequate to cover the gap in the Current Estimates.

Mr. Speaker we must recognise that we are a society still prone to consumption; a society whose taste is still foreign oriented, we are a people who have not yet reoognised that the road to development is full of rigours; that development is expensive and must be paid for.

We have presented what is in many ways a hard budget. Iadeed we had to take hard decision. But is this not all the price we have to pay if we are to see real development in this country? Certainly Sir, we cannot look constantly to others for help. If we must look for such help, and perhaps we have no choice, let us at least be able to show that we tightened our belts first. Let us also demonstrate that we are serious about development and that we are prepared to strive after increased production, and improved productivity on the job; and let us use only our increased productivity as the basis for improvement in our standard of living. Any other way brings illusory and transitory gains.

In conclusion Mr. Speaker, I merely wish to say that the Budget of 1974 is now before this National Assembly. We have demonstrated I think Sir, our real concern for the development of this country. We have noted its weaknesses and its strength. We have put forward our ideas as to what should be dons to improve it and consequently the lot of the people of this country. I would only hope Sir, that we all recogniee that we can pull this country forward to development only by hard work, self restraint, and co-operative effort.

Let us look for help Mr. Speaker, from those who will help, but let us assist ourselves at the same time. That is the epirit and the message of this Budget.