

CONSERVATION FOR GROWTH AND DEVELOPMENT

**BUDGET SPEECH
NATIONAL
ASSEMBLY**

28th February, 1986

**PRICE
\$10.00**

CO-OPERATIVE REPUBLIC OF GUYANA

TABLE OF CONTENTS

PAGE

A. INTRODUCTION

B. DEVELOPMENT STRATEGY

(1) CONSERVATION

- (a) Energy
- (b) Human Resources
- (c) National Assets
- (d) Financial Rectitude

(2) INSTITUTIONAL FRAMEWORK

- (a) General Incentives to the Private Sector
 - (i) Exporters
 - (ii) National Awards
- (b) The Problem of Transport
- (c) Import Licensing Policy
- (d) Science and Technology

(3) MOUNTING OF THE PRODUCTIVE DRIVE

- (a) New Growth Sectors
 - (i) Gold
 - (ii) Petroleum
 - (iii) Tourism
- (b) Dairy Industry

(4) MOBILISATION OF SAVINGS

(5) INCENTIVES AND LABOUR EFFICIENCY

C. REVIEW OF 1985 KEY TASKS AND POLICIES

(1) (a) Restructuring of Public Enterprises

(b) Progress Report on:

(i) (a) Restructuring of Guystac

(b) Restructuring of the Rice Industry

(e) Corporations Capital Projects

(d) Perspectives for 1986

(ii) Bauxite Industry Restructuring

(iii) Sugar Industry Rehabilitation

(2) Regionalisation

(3) Restructuring of Internal Debt

(4) Prices, Subsidies and Income Changes

(5) Banking Sector

(a) Domestic Banking

(b) Offshore Banking

(6) Mid-Year Review

(7) Relations with Multilateral Institutions

D. 1985 PERFORMANCE

E. 1986 PROJECTIONS

F. 1986 BUDGET MEASURES AND PROPOSALS

G. CONCLUSION

INTRODUCTION:

Comrade Speaker, the 1986 Annual Budget is the 22nd Budget laid before this House under the aegis of the People's National Congress. It is a sad irony that our 'coming of age' in this sense coincides with the loss of our most perceptive and devoted leader; a leader who stood as a shining example to all Third World countries. Only time will reveal the lasting foundation laid by Linden Forbes Sampson Burnham; this outstanding son of the Caribbean. Our ability to hold our own in the face of increasingly problematic, and hostile economic and political circumstances will test to its very core the soundness of the foundations. The philosophy he helped us to fashion, Cooperative Socialism, remains our guide throughout these turbulent times. Comrade Speaker, it is fitting that we should take the occasion afforded us by this first post-Burnham Budget

to reflect very briefly on a few of the socio-economic attainments of Guyana over the last 22 years.

There can be no doubt that the greatest and most important virtue instilled in this nation by our Founder Leader is the attainment of self-confidence. A capacity to face our task secure in the knowledge that as a nation we are equal to any task. The act of shifting from dependence to self-reliance which I alluded to last year and which has helped us to develop the confidence to face challenges with aplomb, is the handiwork of the PNC guided by our late President, Comrade L. F. S. Burnham.

Comrade Speaker, when Guyana acceded to independence in May 1966 infant mortality stood at 54.6 per 1000. Today whilst we would be the first to admit that there is room for further improvement, it stands at 40 per 1000. In recent years it has fallen as low as 35 per 1000. Education is a dimension of human resource development in which we can be justly proud of the significant progress that has been made over the years. In 1965 total enrolment in schools stood at 190,324 which represented 65.7 per cent of the population of school age. Today, some 77.2 per cent of school aged youths is enrolled in schools. Similarly, adult literacy has been sustained at over 90 per cent in recent years. Life expectancy at birth, now at 70 years, is as high as may be found in any developing country. Finally, Comrade Speaker, in

1980 the Physical Quality of Life Index published in the Commonwealth Fact Book ranked Guyana very favourably relative to all other developing countries. The level of 85 per cent derived from a composite index of infant mortality, average life expectancy at the age of one year and literacy, indicate that Guyana's population has attained a relatively high level of physical well being. Comrade Speaker, these indicators were not always so favourable. They are not the product of wishful thinking, but the outcome of careful attention to welfare considerations and astute political decision-making. They are a reflection of a conscious policy wherein highest priority was ascribed to human resource development. We, in Guyana, have consistently over the last 22 years devoted resources to the development of these areas. Today, in the Caribbean, only Cuba devotes as high a proportion of Government resources to social and welfare services and facilities.

Comrade Speaker, 1986 also happens to be exactly one decade since the passage of the Cooperative Finance Administration (COFA) Act. The primary function of these financial institutions is to garner and allocate financial resources. This is a particularly crucial role in countries where such resources may be scarce. However, as we all know, finance, particularly banking, is believed to be such an esoteric pursuit that many governments in the Third World are per-

suaded to refrain from active involvement in the operations of this sector. In our case in defiance of all the warnings, we entered where angels feared to tread. Our path was of course charted by our Founder Leader.

The COFA Act provides the framework within which the financial institutions, owned and controlled by the people of Guyana, are to operate. This framework is still relevant and continues to define the arena within which banking and non-banking financial services are extended to the community.

The Cooperative Finance Administration was established to mobilise and to channel financial resources into desired areas of developmental activity. Prior to 1970, all of the major financial institutions operating in the country were foreign-owned. These institutions were geared to perpetuate and serve the interests of the metropole - interests which on many occasions, were found to be inimical and diametrically opposed to the needs of the nation. As a result, many social and economic sectors, critical to the development of the nation, had inadequate access to the mainstream of conventional commercial financing. This, no doubt, contributed significantly to the rather lop-sided and uneven growth experienced by the country during those years.

The Act charged the Cooperative Finance Administration with:

- supervising and controlling those institutions coming under its jurisdiction;
- advising these institutions on matters relating to policies and their various activities;
- coordinating these policies and activities and standardising and rationalising the operations of its member institutions.

Actually six financial institutions fall under the C.O.F.A. umbrella. They are: the Guyana Cooperative Agricultural and Industrial Development Bank (GAIBANK), the Guyana National Cooperative Bank Trust Corporation (GNCB Trust Corporation), the Guyana Cooperative Mortgage Finance Bank (GCMFB), the Guyana National Cooperative Bank (GNCB), the Guyana Cooperative Insurance Service (GCIS), and the National Insurance Scheme (NIS).

GAIBANK, as a development-oriented institution, has played a pivotal role in the nation's agricultural drive. Since its establishment, it has disbursed some G\$281 million in loans to several small- and medium-size farmers and entrepreneurs nationwide, in the agricultural, agro-industrial and industrial fields.

Comrade Speaker, no nation can expect balanced development if it neglects its social sector. The PNC is cognizant of this imperative and has endeavoured to give meaning to it. Housing the nation has been a pillar of PNC policy. The GNCB Trust Corporation and the Guyana Cooperative Mortgage Finance Bank played an important role in our outstanding drive since the 1970's to house our nation. Since their establishment, these two institutions have invested some G\$124 million in housing. The latter institution has been able to lend to individuals and groups at competitive interest rates, while the former institution has been lending to low-income workers at subsidized interest rates. The efforts of these two institutions have contributed, in a large way, in assisting thousands of Guyanese to own their own homes.

The GNCB can justifiably claim to have a close affinity to the birth of the Republic. Sixteen years ago, when Guyana became a Republic, this institution had the distinction of becoming the first indigenous banking institution to be established in this country. It became the beacon of our aspirations to garner and allocate our domestic financial resources. Today, the GNCB has over G\$1.2 billion in assets. Total deposits have grown markedly, attaining a level of G\$630.4 million at the end of 1985. This is a reflection of the faith the people of Guyana has placed in the

institution and it is also indicative of the high quality of service the bank offers the individuals and institutions, both in the public and private sectors.

The GCIS could be considered the baby of the domestic financial institutions. Though small, it has made a significant contribution to insurance business in Guyana, covering areas such as life, fire and motor insurance, both in the public and private sectors. Since its establishment it has been able to attract some G\$38 million in insurance business, for an income of G\$24.5 million. This institution will continue to expand in the future and will serve as the springboard of domestically-owned insurance institutions.

Finally Comrade Speaker, the NIS is well known both to the sick and healthy, the private sector and the public sector. Suffice to say at this moment in time that the NIS has been providing services not available before its establishment. Over the years, thousands of workers have been beneficiaries of the scheme. I will be saying something more on this area later on in my presentation.

In effect, Comrade Speaker, COFA offers services ranging from commercial banking to insurance. In total, the group has assets of about G\$2.35 billion

and employs approximately 1600 persons, almost all of whom are Guyanese. These Guyanese are skilled in various fields and exhibit a high degree of competence and expertise in the execution of their tasks.

The successful establishment of the COFA institutions and Guyana's creditable performance in terms of the socio-economic indicators are testimony to the wisdom and foresight of the PNC led by our Founder Leader. I am sure that you will agree with me when I say: "Fama semper vivat" - 'may his f(1)ame live forever'.

(B) DEVELOPMENT STRATEGY

Comrade Speaker the primary task of the economy in 1986 is to draw on all areas: private and public, local and foreign, physical and institutional in a bid to sustain the level of economic growth and development. In concrete terms we need to:

- (1) display greater efficiency in the utilization of resources;
- (2) foster the upgrading of human skills and initiative;
- (3) lend support to the production process by way of financial or organizational incentives;
- (4) greater application of technology to the process of production.

In 1986 the Development programme will have five focuses:

- (1) Conservation aimed at reducing waste.
- (2) Institutional arrangements aimed at promoting productive activities.
- (3) Mounting of a productive drive.
- (4) Mobilization of national savings.
- (5) Measures to alleviate the plight of the lowest paid.

(1) CONSERVATION

(a) Conservation of Energy

Given the existing cultural and institutional practices, conservation cannot be expected to yield substantial returns in the short term. It is possible however, to effect some savings with a judicious mix of pricing, regulatory and educational measures. Naturally one important consideration to be borne in mind when considering conservation policies is the need to avoid sudden and drastic changes in supply since such changes can have adverse social consequences and also disrupt production.

Of all the major economic sectors, industry is by far the greatest consumer of energy. Over 40 per cent by volume of imported fossil fuels is used by the bauxite industry alone. Therefore, developments in industry would have an important impact on the energy demand. In addition, the control of energy costs is of particular importance to ensuring efficiency of national economic production.

In many respects, energy efficiency is nothing more than a carefully implemented exercise in value engineering. Techniques such as heat recuperation, cogeneration, and chemical alteration to industrial processes are well known to be saving energy in developed countries for years now. Unfortunately, or perhaps fortunately the main challenge to Guyanese industry for industrial energy conservation is not so

much the lack of technology or energy saving investments but minimally dispersed knowledge about the full range of available technical alternatives and an appreciation of the cost and benefits associated with their implementation.

Too often leaders in industry treat conservation as a matter to be dealt with by junior functionaries. This may well be a reflection of the fact that with existing pricing policies the full brunt of the cost of our energy has not been brought home to these users.

In the domestic and commercial arenas the scope for energy saving is perhaps greater, for in these areas ignorance and entrenched habits are the main contributors to energy waste. In the longer term savings may be achieved via changes in the nature and cost of appliances, the design of buildings and materials. There is also a necessity to examine the scope for conservation in the transportation sector. This area probably reflects the greatest flexibility in the short term for energy savings.

The concept of conservation is most commonly perceived in relation to energy. However, conservation is aimed at reducing waste of any resource and we should see the concept as being relevant to all our resources in limited supply.

(b) Conservation of Human Resources

Comrade Speaker notwithstanding the importance of financial resources to Guyana perhaps the most grievous waste of resources pertains to the waste of human resources. In the 1985 Budget speech we devoted some attention to the loss of highly trained manpower resources. These resources are created at considerable sacrifice to the nation. Whilst human losses occurred as a result of migration, perhaps an equal volume is wasted as a result of inappropriate job placement and poor monitoring and organisation of labour. It is our intention in 1986 to devote attention to these aspects of waste in our society.

(c) Conservation of National Assets

The waste of national assets is both a consequence of poor organization and the indiscipline of employees having operational custody of national assets. Many such persons feel that the loss of socially owned assets would not be missed. The extensive destruction of buses operated by GTSL is perhaps the most vivid example of the consequences of the waste of national assets. The cost to the country is often more than the immediate cost of the specific asset. In the case of buses such cost include the loss of many hours and low productivity. It is necessary to say that Guyana cannot afford such luxuries.

(d) Financial Rectitude

Comrade Speaker, in the face of a chronic shortage of savings the need to conserve financial resources is imperative. In the 1984 Budget Speech a great deal of attention was devoted to the question of accountability. Since the problem appears to be even more urgent today, it is necessary for us to put in place measures to ensure that individuals and institutions who are custodians or are charged with the task of managing the state's revenues, account properly and completely for such funds. I should hasten to add that financial rectitude refers not only to the need to ensure that expenditure is properly authorized but also to the need for a framework within which sensible economic and financial policies are exercised.

(2) INSTITUTIONAL FRAMEWORK

(a) General Incentives to the Private Sector

Comrade Speaker, I earlier referred to the drive to capture the energies of all Guyanese for the task of development. If each of the elements of our tri-sectoral economy is to constructively contribute to the process of development, their tasks need to be carefully formulated. The private sector in Guyana has both strengths and weaknesses. In the coming 3-5 years the Government proposes to implement policies that will build on the strengths of this sector and

strengthen those industries in need of specific or general assistance.

Two areas of concern often voiced by the private sector are fiscal incentives and the arrangements for implementation of the legislation. Cde Speaker, it is often forgotten that existing fiscal incentives include a five year tax holiday in the first instance, carry forward of net losses, initial allowances, import duty exemptions and subsidized land. The Government proposes to review the level and structure of these incentives during 1986 with a view to assessing their appropriateness and adequacy.

Partly in recognition of the need to bring these incentives more in line with the requests being made by this sector the consumption tax on imported raw materials was abolished in 1985. This measure was aimed at encouraging local manufacturing industry. Furthermore, in 1985, a convention was signed with the Canadian Government to give effect to a double-taxation agreement.

(i) Exporters

The foreign exchange retention account first implemented in 1983 was extended in 1985 and it is proposed to further extend it in 1986. These retention accounts are intended to provide exporters with some minimum quantum of input for their operations.

In recognition of the fact that this is probably the . single most critical constraint on production, efforts will be made to secure additional means of supplementing inputs.

We continue to pursue countertrade as a means of securing industrial and agricultural inputs. In future we shall endeavour to devote a greater share of the imports associated with these transactions to the private sector.

(ii) National Awards

Comrade Speaker, last year I spoke of the essence of national pride and maturity. We identified the need for the nation to have the capacity to approach its tasks with a combination of individual and collective creativity.

Comrade Speaker, it is necessary to recognize the need to encourage private initiative and innovation in the private sector, particularly those involved in exports. In this context the Government of Guyana has agreed to accede to the recommendations of the President's Advisory Committee on the Private Sector to institute the award of 18 prizes for enterprises contributing in any of the following six ways to the process of development.

Prizes are to be awarded to the three enterprises contributing in any year, the greatest:

- increase in net foreign exchange earnings;
- decrease in imports;
- increase in employees;
- impact on new markets or existing markets;
- dynamism to small business activity;
- contribution to new product development and/or transfer of technology.

The total value of the awards to be made to the 18 winners of this arrangement is G\$300,000.00. The awards are to consist of both cash and trophies and will range in value from \$5-50,000 tax free.

(b) The Problem of Transport

Comrade Speaker, public transport is one of the most problematic issues facing Guyanese today.

With the drastic decline in the size of the Guyana Transport Services Limited's fleet, commuters have had to place increasing reliance on the hire-car fleet which has been unable to cope with the sudden increase in demand. It has been decided to render more assistance to prospective transport operators in order to facilitate the importation of mini-buses and cars for operation along specified routes. This measure would go a long way towards alleviating the

transportation problem. The transport sector Comrade Speaker, has been identified by Government as one of the areas for increased private participation.

(c) Import Licensing Policy

The Government proposes to undertake the following action with regard to its import licensing policy:-

- (i) A re-examination of its licensing procedure with a view to further simplifying these.
- (ii) A modification of the import licensing policy in respect of a number of 'no foreign currency' transactions, for transactions other than gifts especially inputs.
- (iii) A re-assessment of the New Import Policy (N.I.P.) commission.

(d) Science and Technology

The research and development work carried out by the two major institutes, namely the Institute of Applied Science and Technology (IAST) and National Agricultural Research Institute (NARI) should follow the general guidelines dictated by National Policy. Within that framework they are intended to adopt a policy of least cost and highly effective methodology so that the results of research can be readily applied to commercial production. Basically, these institutions are intended to support the productive drive by

addressing the problem of bottlenecks and the utilisation of natural resources for the satisfaction of domestic needs.

The Institute of Applied Science and Technology provides support to industry in a variety of ways:

- (1) transfer of technological software - for example, biogas digestors and dryers of various types;
- (2) sale of equipment and software after development, for example ceramics;
- (3) joint or sole commercial exploitation of technologies developed by the Institute, for example, tableware.

The Institute has recently been mandated to examine the development of indigenous flours.

(3) MOUNTING OF THE PRODUCTIVE DRIVE

(a) New Growth Sectors

Given the difficulties faced in the marketing of many of our products a prime pillar of economic strategy in 1986 must be diversification. It is important to look at this strategy carefully because the question of economies of scale and optimal rates of diversification have to be borne in mind.

In the case of existing industries the prime areas that need to be addressed in this context are sugar and other agricultural products such as fruits. Initiatives have already been made to secure assistance from the IDB and the Centre for Industrial Development in examining the possibility of diversification of the output of both areas mentioned above. In addition work has already commenced locally to diversify the use of sugar lands.

In the medium and longer term the brightest prospects for diversification will be with new industries, especially on a large scale.

Comrade Speaker, the Government is currently seeking to attract local and foreign entrepreneurs with the necessary skills and resources to undertake jointly or alone the development of several very promising areas of economic activity. Among this I would like to single out those that appear to be on the verge of a break through.

(i) Gold

The gold industry is one reason why Guyanese think of Guyana as a Cinderella land. In spite of a doubling of inputs into the industry over the past three

years the total declared output of the industry remains disappointing as have our official tax and foreign exchange receipts. In recent times however, some transnational entities have shown an interest in this sector. Noranda, a Canadian enterprise, is currently engaged jointly with Bidco in exploration activities in the Marudi mountains. The expected production of this mine when operative is 15-20,000 ounces. Other enterprises also operating in the interior are Rudis of Yugoslavia and Cinn Exploration of Canada and Paraparima of Brazil. Perhaps the most well-known of these activities currently in train is that of Golden Star Resources, which has five concessions in Guyana. The Omai operations is expected to start with a yield of 25,000 ounces rising to an enormous 200,000 ounces after three years.

(ii) Petroleum

Substantial evidence exists to support the belief that Guyana possesses hydro-carbon resources. Promising hydro-carbon shows have been encountered offshore, while one of two wells drilled in the Takutu Basin yielded oil at a rate of about 400 barrels per day.

The Government of Guyana, to facilitate activity in this field and to expedite higher future exploration efforts, has put on stream, with IDA financing, the Petroleum Exploration Promotion Project. One of the main aspects of the project is the collection, compilation, organisation and interpretation of existing geological and geophysical data. This data, along with the envisaged legal framework and the options of financial regimes under which companies would be expected to operate were presented to oil companies at two recently concluded seminars held in London (U.K.) and Houston, expected to operate, were presented to oil Houston seminar, bids opened, and companies have until July 15 to submit proposals for examination and analysis by Government. Subsequently, negotiations would take place with the relevant companies with areas eventually being offered for exploration. Three 'majors' have already indicated their interest in this exercise.

Depending, therefore, on the size of discoveries, indigenous petroleum promises to be a significant growth sector in the medium and long-term.

The implications for foreign exchange earnings and/or savings, and perhaps, technological capability are obvious.

Comrade Speaker, the investment associated with projects of this kind is well beyond our capacity. However, the Government is exploring the possibility of establishing joint ventures involving local Guyanese capital and possibly those persons and institutions who hold funds in blocked accounts. Such an arrangement should be especially attractive in the case of shallow wells yielding quantities of oil too small to be of interest to the major Transnational Corporations, although they may be profitably operated.

Comrade Speaker, it would be fair to say that the indications for industrial gold production as well as for petroleum production are indeed propitious in the medium term - the next 3-5 years.

(iii) Tourism

Comrade Speaker, the Tourism Industry in Guyana has not, in the past, been seriously pursued as a progressive developmental activity. As a result appropriate facilities and amenities are narrow in range and are heavily concentrated on the coastland areas.

It is also true Comrade Speaker, that Guyana does not possess the blue waters and white beaches of most tourists resorts. Guyana is, however, endowed with water and land resources, a diversity of cultures, a rich history and exceptional flora and fauna which could attract the most fastidious of tourists if properly advertised. Incentives are already in place to foster this development but these will be further reviewed in 1986. I should also add Comrade Speaker, that the Anna Regina Complex is to be leased to the private sector with a view to having it developed for this purpose.

In the present circumstances Comrade Speaker, Government is committed to promoting and developing hinterland and safari type tourism in Guyana, possibly in conjunction with some Caribbean neighbours.

possibly in conjunction with some Caribbean neighbours.

(b) Dairy Industry

Comrade Speaker, in an attempt to reduce an almost US\$10 million import bill for milk and milk products and supplant these imports with locally produced milk, the Government launched a National Dairy Development Programme (NDDP) in 1984.

During the two years of the NDDP's existence, the Programme has established grass nurseries in all Regions except Regions 1, 7 and 8 (where the cattle population is negligible). Further, small dairy farmers have been assisted with the establishment of their own pastures. Grass has also been planted by the large scale dairy farmers who are under the umbrella of the NDDP. The development of communal pastures, for example, in the 85 acres area between Bel Air and Cummings Lodge, is even now becoming a reality. The necessary concomitant Artificial Insemination Programme will be reintroduced shortly. Technical brochures produced by the NDDP on matters of importance to dairy cattle farmers, ranging from pasture management to calf rearing systems relevant to Guyana are in the hands of our farmers free of cost.

The NDDP, Comrade Speaker, also functions as the chief co-ordinator on dairy matters in conjunction with other local (e.g., Guysuco), regional (e.g. CARDI) and extra-regional (e.g. IICA) organisations whose activities are adjunctive, supportive and complementary to the NDDP's efforts.

With the establishment of the NDDP the Government has made available to cattle farmers an agency to whom they can turn for material and technical help. Even within the relatively short period of its establishment many have benefited - as the visibly increased flow of milk and activity in the dairy sector can attest.

(4) MOBILISATION OF SAVINGS

The need to encourage savings in Guyana's present circumstances is self-evident. With a large public sector deficit, private sector savings and capital inflows provide the only means of financing the investment programme. In a situation of declining capital inflows private savings assume special importance.

In the light of representations made by the President's Advisory Committee on the Private Sector, we have examined the existing structure of interest rates. After careful analysis we have decided not to disturb the

existing level of interest rates which revolve around the bank rate of the Central Bank but to make changes which will place greater emphasis on investment in medium and long-term securities.

Savings are needed to finance the country's investment programme. We therefore need to have an interest rate which provides an incentive to savers. An individual will be unwilling to save unless he/she gets a real rate of return, that is, that the interest rate at least exceeds the rate of inflation. The individual faced by negative interest rates is likely to invest in real goods and not financial assets.

It is also true that lower interest rates do encourage investment. However, in Guyana's circumstances where foreign exchange is a scarce resource the interest rate is a useful aid in the making of investment decision and allocating scarce resources. In any case the inflation gains made by the investor usually covers the increased costs of high interest rates.

(5) INCENTIVES AND LABOUR EFFICIENCY

Comrade Speaker, for the first time since 1977 we have entered a year with an agreed

level of wage increases to be implemented. This, I believe, is an achievement for which we can justifiably commend ourselves. Over the years, the TUC has frequently expressed concern about the late settlement and payment of wage increases. It is a testimony to the serious commitment of the Government and the maturity of the TUC that this agreement has been achieved. If we are to enjoy the benefit of this success and achieve the goals we set ourselves, it will be necessary to ensure that institutional arrangements generate timely and widely accepted decisions.

You are doubtless aware, Comrade Speaker, that the 1985/1986 wage settlement contained two elements, an across-the-board component and an appraisal incentive based on a review by the relevant authority. You will recall Comrade Speaker, that the across-the-board adjustment was associated with the movement of the minimum wage from \$15.10 per day in 1984 to \$16.00 per day in 1985 with a further movement to \$16.80 at the beginning of 1986. However, Comrade Speaker, it has always been the contention of the Government that responsible financial policy especially in the current circumstances requires that part of the wage settlement be tied to an improvement in performance. In 1985, and particularly for

1986, Comrade Speaker, all public sector entities (both Ministries and Coporations) would have to put in place by, at latest, the end of the first quarter 1986 an acceptable appraisal system. No longer will rewards be totally automatic. Our philosophy and the economic realities of today require, more than ever, that rewards flow to each according to his/her work. Needless to say, Comrade Speaker, this arrangement would be additional to the on-going incentive scheme arrangements where they apply.

The Government and the Trades Union Congress, in the spirit of continuing co-operation and meaningful dialogue that also characterised our wage policy and related discussions during 1985, have jointly agreed to try our utmost to realise our objective on this most important issue affecting the welfare of our workers. We would like to publicly commend the forthrightness and meaningful contribution of the Trades Union Congress in this area of workers welfare and we look forward with pleasure to their forthcoming participation and support in the 1987 wage discussions by October/November 1986.

It now becomes obligatory for all public sector managers to ensure the timely formulation and implementation of appraisal systems and

incentive schemes and to put in place the mechanisms for such monitoring in 1986.

(C) REVIEW OF 1985 KEY TASKS AND POLICIES

1 (a) Public Enterprise Restructuring

Comrade Speaker, the 1985 Budget Speech set out clearly our thoughts and conclusions on the import of the efficiency of Public Enterprise operations. These enterprises have recently been attracting our attention because they have, since 1981 become a burden on a Treasury already labouring under the handicap of a large fiscal deficit. It was stated that Public Enterprise without sound plans for elimination of deficits with dispatch would have to be closed. In addition, we have implemented proposals intended to facilitate the efficient operation of the enterprise. In the course of our examination of the 1986 Budget, we found that several enterprises had failed to achieve acceptable returns. I shall return to this issue later.

1 (b) Progress Report on:

i (a) Restructuring of Guystac

One of the ten initiatives outlined in the 1985 Budget Speech was the Restructuring of Guystac. Central to the restructuring was the establishment of four (4) Supervisory Councils each of which would be

the single source of policy guidance to the Corporations within that Grouping.

During 1985, the Guystac Corporations with the exception of the Guyana Broadcasting Corporation and National Newspapers Limited were grouped into the four Supervisory Councils. Seventeen Performance Contracts were signed. Among those Contracts that were not signed were the National Edible Oil Company Limited (NEOCOL) and Quality Foods Limited which were divested from Guyana Pharmaceutical Corporation (GPC) and whose accounts were being finalised at the time of the preparation of the contracts; and the Guyana Glassworks Limited which still relied heavily on the Central Government for funds to finance its essentially developmental operations. In 1986, attention will be focused on having performance contracts for the additional Corporations completed.

During the year some enterprises were broken up because some had become unwieldy. This operation would also allow their viability to be determined and closely monitored.

With respect to Commercial Group II, the Guyana National Engineering Corporation has been contracted to provide Management Assistance to the Guyana Glassworks Limited and Sanata Textiles Limited. The strengthening of the Guystac Secretariat in order to

enable it to perform its newly defined monitoring, auditing and advisory functions has effectively begun. The problem of attracting professionals of a high technical level of competence in the areas of accounting, economics and engineering has still to be solved.

(b) Restructuring of the Rice Industry

The Rice Industry was restructured during 1985 along the lines authorised by the 1984 Rice Bill and three new corporate entities were established with effect from August 1, 1985, viz. - Guyana Rice Milling and Marketing Authority, Guyana Rice Export Board, and the National Padi and Rice Grading Centre. With the establishment of these entities, a great deal of work has been done on improving, revising, restructuring and establishing new systems in some cases, of the accounting, marketing, quality control, market information and domestic distribution systems.

Efforts were made in 1985, and will continue in 1986 to provide some foreign exchange from the earnings of the rice exports to purchase spare parts for the mills and other vital inputs for the industry. In addition, a loan from the IDB is expected to be approved later in 1986 which would facilitate the rehabilitation of the rice industry's field equipment.

An existing loan which has already been approved is to be used in part to rehabilitate factory equipment. A new ten-ton mill acquired from the GDR in 1985 is expected to come into operation during the last quarter of 1986 and should have a significant impact on the quantity and quality of the rice milled by the GRMMA: It would also serve to replace the mill which was burnt down at Anna Regina in February, 1985. A mill has also been rebuilt at Anna Regina from spare and reconditioned parts and is operational, thus assisting in alleviating the bottleneck caused by inadequate milling facilities. These measures are expected to improve the overall performance of the Rice Group and the rice industry as a whole during 1986 with even greater impact in the following years.

(c) Corporation's Capital Projects

A set of decision-making criteria were devised for prioritising and selecting the capital projects which would best serve the national development and welfare priorities. Budgeted capital expenditure for 1985 was G\$263.0mn. later revised to G\$244.41 mn. However, actual capital expenditure in 1985 amounted to G\$111.18 mn. of which Guysuco and Guymine's expenditure represented 43%. Other Corporations with major capital expenditure during 1985 were:

<u>Corporation</u>	<u>Actual 1985</u>	<u>Major Projects</u>
Guyana Fisheries Limited	G\$9.97mn	Japanese Grant Aid _ Phase III
Guyana Stockfeeds Limited	8.55	New Stockfeed mill - countertrade
Guyana Electricity Corporation	7.93	Rehabilitation of plant & equipment
Demerara Woods Limited	6.51	Upper Demerara Forestry Project
Guyana National Engineering Corporation	4.58	Foundry expansion

Most of the capital projects which were implemented had assured foreign financing or were supportive of the major export oriented industries. Some capital equipment was also imported under countertrade arrangements.

Capital expenditure is budgeted at a level of G\$376.75 mn. for the Public Corporations with the major expenditure by Guymine (G\$35.0 mn.), Guysuco (G\$35.0 mn.), GRMMA (G\$37.82 mn.), DWL (G\$42.39 mn.), GEC (G\$55.83 mn.) and GAC (G\$80.04 mn.). Most of the approved projects with the exception of GAC have assured foreign financing. The cost of the new aircraft acquired by GAC in February, 1986 represents 94% of their total capital programme and will be repaid through countertrade arrangements with the USSR.

(d) Perspectives for 1986

In 1986, the Management of the Public Sector Corporations would have to be innovative, and devise new operating strategies, to cope with the economic difficulties currently being experienced. In this respect, Corporations would be required to undertake the following initiatives and measures.

- Explore new and diverse ways of acquiring raw materials and products for sale.

In the cases of productive entities, overseas partners will be encouraged to enter into joint ventures aimed at overcoming capital and foreign exchange bottlenecks and promoting production for export.

- More than ever, there is need to develop and utilise indigenous raw materials for the production of quality products. In this respect the Guyana Pharmaceutical Corporation in conjunction with the Institute of Applied Science and Technology have jointly undertaken approved ventures.

- Increased capacity utilisation

There are Corporations whose productive facilities are grossly under-utilised. In 1986, efforts will be made to expand capacity utilisation.

- Optimum use of assets and sharing of resources

There are several Corporations which have assets for which loans are being repaid although these are not yet operational. An example is that of the Fish Meal Plant of Guyana Fisheries Limited. Corporations would be required to submit proposals to the relevant authority for the disposal of such assets.

- Ensuring that products reach the target consumers

Corporations have been concentrating on commodity turnover rather than on ensuring that the limited commodities are distributed to the target consumers. One case in point, is that of the distribution of cutlasses. In 1986 Corporations have to ensure that with limited resource available, the products reach the intended consumers.

- Eliminating losses and improving surpluses

Among the Corporations worthy of special mention in this context are Guyana Timbers Limited (GTL), Guyana Fisheries Limited (GFL), Guyana Glassworks Limited (GGL), and Guyana Rice Milling and Marketing Authority (GRMMA). All of these enterprises again budgeted to sustain large losses in 1986. In view of the sustained losses and an apparent inability to formulate a

programme of resuscitation the management of Guyana Timbers Limited have been instructed to terminate their operations by 30/6/86. The others have been given a 'declaration of intent' which involves their effecting a reasonable turnaround.

(ii) Bauxite Industry Restructuring

A most important structural reform on which the resuscitation of the economy hinges is the rehabilitation of the bauxite industry. Institutions related to the EEC and the World Bank were expected to be the main financiers of this rehabilitation. However, except for an advance of 3 million ECUs from the European Development Fund for the purchase of urgently required inputs, no other financial inflows were made into the industry during 1985. Further financial inflows from the EEC are however dependent on the conclusion of a satisfactory financing agreement between the industry and the World Bank.

It was also expected that an interim IDA credit of US\$6.0 mn. would have been made available to the industry by the end of 1985. To date, the processing of this credit has not been completed but even as I speak negotiations are being conducted in Washington.

The rehabilitation and resuscitation of the bauxite industry will require the expenditure of more than US\$100 mn. at current prices. Since this level

of resources is neither available within the industry nor the Treasury, the industry must perforce borrow from external agencies. In an effort to improve the credit worthiness of the industry, Central Government in 1984 increased its shareholding within the company to the tune of about G\$186 mn. and plans to make a further contribution in 1986 of G\$350 mn. These funds will be used to liquidate a portion of the industry's spiralling overdraft, reduce interest payments and effect a consequent improvement in its current loss position.

The Central Government is still committed to relieving the industry of some of the financial burden of the social services currently being provided. Hence, provision for sharing (60/40) the expenses incurred in operating the medical facilities will continue in 1986. At the same time Bidco, the Holding Company, has been required to ensure that its non-bauxite loss-making subsidiaries are either closed or turned-around financially.

(iii) Sugar Industry Rehabilitation

In spite of a dwindling market share and unfavourable world prices, sugar continues to be our largest net foreign exchange earner.

Whereas in 1984, Guyana enjoyed a Commonwealth Sugar Agreement quota of 190,000 tons and a US quota of 90,000 tons, the EEC quota now stands at 162,000

tons and the US quota has shrunk to a mere 18,000 tons. This 100,000 tons loss of its sugar quota has completely changed the marketing outlook for Guyana's sugar and has given rise to the need to effect consequential adjustments. At the same time, the declining pool of labour for planting and harvesting cane has not been compensated by efforts at mechanisation.

These two factors have given rise to the industry's inability to service the available acreage of cane lands. There is therefore excess factory capacity. This latter factor has compounded the substantial deficits caused by poor prices in the last few years. It is therefore necessary to rationalize the industry's operations. At the same time the outdated state of the industry's equipment has given rise to the need for rehabilitation.

The Government has approved the following proposals which are intended to address the foregoing problems:

Rationalisation of Sugar Production

In order to rationalise its operations, the Guyana Sugar Corporation will terminate cultivation of sugar cane on marginal and uneconomic lands. This measure is intended to improve yields and reduce the unit cost of production. The existing acreages under cane will be reduced from 120,000 acres to 105,000 acres by the end of 1986 and to 95,000

acres by the end of 1987. By 1987 average annual production should stand at 250,000 tons.

During the course of 1986, the Corporation will upgrade the Uitvlugt factory to accommodate the throughput of the Leonora factory which will be closed by the end of the year. The closure of a second factory within the East Demerara triangle by the end of 1987 is under consideration. The management of Guysuco has been instructed to undertake appropriate discussion with the relevant unions. However, it seems that these proposals when taken together are not expected to adversely impact on the industry's level of employment.

Rehabilitation of Factories

The Corporation hopes to rehabilitate its ageing plant over the next three (3) years. The financing of this exercise is to be obtained from funds already approved by the EEC and the IDB.

It is perhaps fortunate that in the same period when market opportunities in sugar have been shrinking, the opportunities to diversify have been multiplying. The Guyana Sugar Corporation has therefore been charged with the responsibility of accelerating its diversification activities in 1986. The industry is to seek diversification both of its output mix and land use. Such diversification must be technologically feasible, commercially viable,

have a short gestation period and must be held within the limits of the country's scarce financial resources.

In the light of this requirement, the following areas of diversification are under close examination:

1. Generation of energy from surplus bagasse;
2. Increasing dairy operations at Rose Hall and Uitvlugt Estates to economically viable sizes;
3. The feasibility of producing wet ethanol (hydrated) from molasses;
4. The utilisation of ensiled cane and hydrated bagasse in combination with urea and molasses as a feed supplement for cattle;
5. The fermentation of molasses to manufacture protein and yeasts which can be used as a component for animal feeds;
6. The chemical combination of sugar with oils and fats to produce surfactants which could be used as bio-degradable industrial detergents and in food processing;
7. The direct utilisation of sugar as a sweetener in the manufacture of fruit juices, jams and confectionery.

The Danes have already expressed an interest in the dairy operations and a proposal estimated at some DKR50,000 is currently being studied. Other sources

of financing, including the EEC and IDB, are already being sought.

Financial Restructuring of the Guyana Sugar Corporation

In 1984, Central Government granted a loan of G\$144mn to the Guyana Sugar Corporation for the liquidation of a portion of the company's indebtedness to the local banking system. Over time, this indebtedness has become extremely burdensome.

In an effort to place the industry in a position to pursue the proposed rehabilitation and restructuring exercise outlined above, the Central Government has agreed to:

- a. increase its participation in the company by G\$225.0mn; and
- b. convert the loan of G\$114mn to convertible 2 percent debentures, redeemable in fifteen years.

In addition, in subscribing to the view that the home market should bear some of the cost of the additional funds needed to re-equip and diversify the industry, Central Government has authorised an increase of seven (7) cents in the local selling price of sugar.

These measures along with the institution of certain efficiencies in production, are intended to effect a

reduction of the operating deficit of this Corporation to about G\$20mn in 1986 from G\$102mn in 1985.

The Corporation is expected to break-even in 1987.

(2) REGIONALISATION

Comrade Speaker:

In an effort to strengthen the administrative capacity and heighten the efficiency of regional administrations, the Government embarked in 1985 on a reconfiguration of Central Ministries and Institutions, fully recognising that the deployment of skilled personnel to the ten administrative regions where projects are actually implemented was a key task. This measure was informed by the fact that effective monitoring of programme implementation can be most meaningfully undertaken within the region.

During 1986 the regions will be given an increasing role in the management of their own affairs with the regionalisation of Health and Educational facilities. This is in addition to their commitment to the maintenance of assets, particularly rehabilitation of Drainage and Irrigation schemes.

(3) RESTRUCTURING OF INTERNAL DEBT

Comrade Speaker:

During my 1985 Budget Speech, I alluded to the apparent conflict between the nature of the economy's ailment and one aspect of the treatment that was being administered. It was stated that within recent years there has been a growing tendency for the short-medium-and long-term developmental needs of the Government to be met by short-term borrowings. Thus, in an economic environment characterised by what appears to be a perennial disparity between expenditures and revenues, we have been borrowing in a manner which compounds the imbalance in the accounts of the Government.

The need to address this issue as a matter of urgency was adumbrated in 1985, since the burden of meeting interest payments on internal loans was beginning to over-tax the Treasury. It was said then that special provisions would be made, by which holders of Government securities could choose to reinvest their principal and interest payments in two-year securities at attractive rates. Cde. Speaker, it was envisaged that these two-year securities were to be made available to holders of other Government securities and only amounts occurring as principal and interest were to be invested.

While fixed-date debentures, in lieu of interest and principal repayments, were made available to holders of Treasury Bills, the desired impact on the level of internal interest and principal payment has not been realised.

The Government's ability to meet these financial repayments dictates that longer-term securities be procured rather than the current short-term 90-day securities afforded by Treasury Bills. The 10 year debenture seems to hold out little attraction for the Treasury. The need for a medium-term investment opportunity is, therefore, evident.

Comrade Speaker, we propose to deal with the problem of the maturities structure of the internal debt during the first quarter of 1986. In this respect, we intend to introduce an attractive five-year debenture and at the same time impose strict ceilings on short-term securities such as Treasury Bills.

(4) PRICES, SUBSIDIES AND INCOME CHANGES

In 1985, we highlighted the significant relationship between our immediate key task and the question of prices, subsidies and income adjustments. Consequently, we promised to set in train a series of steps aimed at giving effect to the relationship.

We set out in the 1985 Budget Speech, the criteria governing the pricing of essential commodities. The changes we have made during 1985 have been informed by these criteria.

Prices of most controlled commodities were adjusted in 1985 in response to movements in landed costs. Furthermore, during the course of 1985 the overall pricing framework was reviewed to make allowances for changes in the structure of transport and handling differentials across the country and to set distributors' margins at more realistic levels. Subsidies in basic foods remain the object of continual reviews and will be modified from time to time as circumstances warrant.

With respect to income changes, the Standing Committee on Income Distribution has been established. This Committee is collecting information and setting up a framework to facilitate its mandate of continual review of levels of income distribution.

(5) THE BANKING SECTOR

(a) Domestic Banking

Comrade Speaker, the Banking Sector has changed somewhat since the last quarter of 1984. Two branch systems of foreign banks have changed ownership. The former Royal Bank of Canada is now the National Bank of Industry and Commerce. This Bank is now a public

company with government ownership of a minority of shares. In its first annual report covering the period from November 1, 1984 to September 30, 1985, the Bank showed considerable progress, declaring a dividend of 15 per cent on its ordinary shares.

The former Chase Manhattan Bank, N.A., has now been acquired by the Government and is designated the Republic Bank (Guyana) Limited. This Bank continues to operate under the same guidelines and internal procedures of its former management. Within the first six months of this year, it is intended to decide the future role of this Bank in the Banking system and its relations to the other indigenous Banks - the Guyana National Co-operative Bank and the National Bank of Industry and Commerce. Present thinking is inclined to have this Bank provide certain specialist services along with its normal commercial banking services, but this decision awaits further analysis. Consideration will also be given to broadening ownership similar to the structure decided with the National Bank of Industry and Commerce.

Banking legislation is being laid in the Assembly today to give effect to commitment I made in my last Budget address which will provide that the branches of foreign banks make a deposit in foreign currency with the Central Bank to cover the need for assigned capital. This provision is needed because the branch of a

foreign commercial bank has no provision for local capital. This legislation will also provide for increasing the minimum capital requirement of locally incorporated banks to bring this more in line with current international practice.

(b) OFFSHORE BANKING

Comrade Speaker, I am happy to say that legislation is being laid to permit the establishment of Offshore Banks in Guyana. This legislation has been prepared in response to discussions initiated with representatives of foreign banks during the course of 1985. It is hoped that this legislation would lead to the establishment of some entities in the very near future. Judging from the discussions which have been undertaken to date, the country should not only benefit by way of fees, but also finance for development projects.

(6) MID YEAR REVIEW

Comrade Speaker, in the 1985 Budget Speech we had committed ourselves to the presentation of a half year review on the performance of the economy. I would wish to submit that we have faithfully honoured the commitment given to this house.

(7) RELATIONS WITH MULTILATERAL INSTITUTIONS

Comrade Speaker, we have continued to have on-going relations with several of the multilateral financial institutions. These are the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the Inter-American Development Bank (IDB). We also continued to enjoy favourable relationships with two quasi-multilateral institutions, the European Investment Bank (EIB) and the European Development Fund (EDF). The Government has continued to rely on them for inputs into our major rehabilitation programmes, particularly in the areas of bauxite, rice, industry and agricultural diversification, especially in relation to sugar as intimated earlier.

Currently, Comrade Speaker, most of these financial agencies seem to be increasingly preoccupied with the size of our fiscal deficit. They have, on several occasions, asked us to demonstrate our willingness to reduce this deficit to a more manageable level. I may add, Comrade Speaker, that we have never been unwilling to reduce this deficit, but this has to be done as part of the wider programme to restore balance in the economy without dysfunctional disruptions of the social and economic fabric of the society. As I have said before Comrade Speaker, and as I will be outlining to you in a short while, we have, and intend to put in place, a series of measures

which are designed to reduce this deficit. Some of these measures will have an immediate impact on the size of the deficit, while the impact of the other measures will be more long term.

Comrade Speaker, our indebtedness to the Fund still persists. In fact, the arrears have accumulated quite substantially. Our inability to service our debt with the Fund has been due, principally, to a sharp decline in our foreign exchange earnings, which was further aggravated in 1985 by the elimination of assistance previously rendered by Trinidad and Tobago. Nevertheless, we have attempted to keep current with the charges on the SDR account and every effort is being made to return to eligibility with the Fund. The Fund has continued to offer technical assistance to Guyana by way of a review of the fiscal system and a study of the cost of living index. We have tried to implement the appropriate recommendations contained in the fiscal review.

In terms of the World Bank, Comrade Speaker, we have had continuing exchanges with a view to having the institution becoming involved in our rehabilitation programme. At the moment, we are actively pursuing a technical assistance credit for the bauxite industry and it is expected that shortly, agreement will be reached on this matter.

The IDB is currently the major source of external funds for Guyana's economic programme. During 1985, the IDB approved loans in excess of US\$66.0 mn. in the areas of agriculture, industry, power and education. These loans are expected to be disbursed during the first half of 1986. Recently, we had a number of fruitful exchanges with the IDB in respect of a number of projects for future funding. We expect that discussions will continue during the year and that the IDB would react favourably to our proposals.

Comrade Speaker, only last week we signed an agreement with the European Development Fund (EDF), providing for some G\$74 mn. in grants to be used in the economic infrastructural sector of Guyana. We propose to spend approximately 90% of these resources on the rehabilitation of existing economic infrastructure. In the past, EIE loans have been extended to the bauxite industry and the agricultural sector, often through GAIBANK. The recently signed agreement included a commitment by the EIB to continue assistance in these and other areas.

Comrade Speaker, we have said it in the past, and I wish to reiterate it here: "we are honourable men, we intend to honour our obligations". We have been seeking, assiduously, to reduce our debts, indirectly through non-conventional arrangements such as counter-trade and joint-ventures, and directly through earning to be generated from new initiatives in gold and oil. Comrade Speaker, these are the activities we will be vigorously pursuing

(D) 1985 PERFORMANCE

Production continued to show signs of improvement. However, we still failed to achieve 1984 targets. This again may have been attributable to over-optimistic targets. Compared with 1984, however, production of metal grade and abrasive grade bauxite increased by 44% and 63% respectively. Refractory grade calcined and chemical grade bauxite production fell by 6% and 13% respectively compared with 1984.

The overall performance of the export sector gives reason for some optimism. Overall export earnings increased by 18% over the 1984 level of \$398.0 mn. to \$471.0 mn. but fell short of the targeted export earnings by only 13%. In the bauxite sector there appears to be some turn around in demand and prices. Metal grade, Abrasive grade and Aluminous Cement grade bauxite exports increased by 51%, 45% and 86% respectively. Refractory grade Calcined and Chemical grade bauxite exports fell by 5% and 17% respectively. The increases, however, were not due only to increases in the volume of exports. The price for all bauxite products exported from Guyana except Metal grade (our main export in volume) increased in 1985 compared with 1984 in Guyana dollar terms. In the case of Abrasive grade bauxite this increase was fairly significant moving up by some 25%. The increases for Refractory grade Calcined and Chemical grade bauxite were 12% and 13% respectively.

The sugar industry was able to exceed its 1984 performance by a narrow margin of 1,157 tons. However, this was insufficient to achieve the target of 273,817 tons set for 1985. Production fell short of the target by 27,000 tons or 10%. Despite not achieving its export target for 1985, Guysuco was able to exceed its 1984 export performance by 4%.

During 1985 there was a substantial fall in the world market price of sugar. This price (a combination of the London daily price and the price in the US market) was about US\$164 per ton which was 37% below the average world price for 1984. All current forecasts indicate that the world market price will continue its downward trend in 1986. The price obtained in the EEC was some 12% higher in Guyana dollar terms than in 1984 principally because of a more favourable Guyana Dollar/US Dollar exchange rate. As a result, Guysuco was just able to achieve its export target of \$286 mn. and improved on its 1984 performance of \$277.0 mn. by some 3%.

On the local market the price of DC sugar increased by 91% and the volume of sugar sold decreased by some 18% mainly indicative of the reduction in the profitability of illegal trading of the product. Despite this reduction, local sales earnings increased by 46% or some \$12.7 mn over the 1984 level.

For the rice sub-sector, the available data shows that the industry again experienced a disappointing

year. In 1985 production of 156,124 tons was 13% below the 1984 level of achievement and 10% below the target. This performance is partly explained by the poor out-turn in the first crop due mainly to delays in sowing. The value of exports was approximately G\$56.6 mn. which was 31% below the 1984 achievement and 51% below the target.

Declared gold production in 1985 as measured by inflows to the Gold Board was 10,323 ounces which was 7% below the 1984 level.

Recorded shrimp production was maintained at the 1984 level but fell short of the 1985 target by as much as 32%. There was a cyclical decline in the yield of the shrimping grounds and this was compounded by the illegal activities of certain operators in the industry. Fish production, however, continued to show good improvement. In 1984, production increased by 22% compared with 1983. In 1985, however, production rose by 42%, moving from 62 mn. pounds to 88.3 mn. pounds.

Timber production recorded for 1985 was 4.8 million cubic feet. This was 10% above the 1984 level and 11% above the targeted level for 1985. With respect to other forest products, wallaba poles recorded an 11% increase over 1984 and a 20% increase over the 1985 target, whilst charcoal recorded a 24% increase over the 1984

level. Production of shingles, however, dropped by 54% below its 1984 performance.

Overall, forest production was 9.3 mn. cubic feet of solid wood production or 24% above the 1984 level.

Despite increases in production performance the volume of exports decreased by 1.5% compared with 1984. In value terms, however, exports earned \$17.9mn. or 22% more than in 1984. This was due mainly to an upward price movement and the adjustments in Guyana Dollar/US Dollar rate.

(E) 1986 PROJECTIONS

In 1986, the current expenditure of the Central Government should be G\$1,252 mn. Of this total, G\$319 mn. budgeted for wages and salaries representing an increase of 7.8% over the 1985 level of G\$296 mn. Total employment cost is projected to rise to G\$399 mn. from the 1985 level of G\$358 mn. while total other charges will rise by about 3.1% to G\$401 mn. With regards to the public debt, proposed changes in the maturity structure of the country's internal debt are unlikely to significantly affect the overall repayment schedule in 1986. Thus, the expenditure on the public debt will amount to G\$452mn., some 3.7 per cent over the 1985 level of G\$436mn.

The net result will be an increase of 5.7% in the overall Central Government current expenditures, a G\$68 mn. increase over the 1985 level of G\$1,184 mn.

It is envisaged that the Public Corporations, taken as a whole, will convert their 1985 operating deficit of G\$58 mn. into a surplus of G\$123 mn. This improvement is premised primarily on improvements of G\$80 mn. and G\$57 mn. respectively, in the deficits of the Bauxite and Sugar industries; and improvements of G\$43 mn. in deficits/surpluses of NEOCOL (G\$4 mn.), GEC (G\$6 mn.), Telecoms (G\$6 mn.), GNEC (G\$3 mn.), Glassworks Ltd. (G\$7 mn.) and NIS (G\$17 mn.).

It is anticipated that the contribution in taxes and dividends to the Central Government by the Public Corporations will be G\$54mn., G\$9mn less than the G\$63mn. reached in 1985.

In terms of the revenues of the Central Government, we expect a total realisation of G\$783mn. or about 2% more than the 1985 level of G\$768mn. It is important to note that the levels budgeted for 1986 largely reflect significant improvements in the efficiency of collections.

On the balance of payments side, in 1986, we expect exports to attain the level of G\$1,232mn, an increase of 10.6% over the 1985 level of G\$1,114mn. The main contributors to this total are expected to be bauxite - G\$456 mn; sugar - G\$293 mn; and rice G\$105 mn.

Imports of G\$1,540 mn. are expected in 1986 with fuel and lubricants accounting for about 28% of this total. GDP at current factor cost is projected at a level of G\$1,855 mn. or 13.8% over the 1985 level of G\$ 1,630 mn. representing another year of real growth of an order slightly in excess of 4 per cent.

F. 1986 BUDGET MEASURES AND PROPOSALS

Fiscal Measures

Comrade Speaker, a revenue measure aimed at increasing foreign revenues is:

in future, all visitors requiring visas will be required to meet their hotel bills in hard currency.

Comrade Speaker, on the domestic front, the fiscal measures are as follows:

the consumption tax (amendment) order 1986 increases the tax on semi-luxury and luxury items, by 5 percent, to 30 percent and 50 percent respectively. The tax on essential items remains unchanged at 10 percent.

We further propose to lay later on, Comrade Speaker, legislation for the collection of consumption tax on hotels and restaurants and the employment of an impost, payable in the country of origin, on barrels and parcels entering Guyana.

Comrade Speaker, I should also like to announce the de-control of the price of cigarettes.

Comrade Speaker, you would no doubt be interested to know that we propose with immediate effect, that pensions and gratuities be paid free of tax. It should also be recalled that in 1983, overseas pensions were also made tax free.

Comrade Speaker, I also wish to announce the following improvements in existing NIS benefits:

a removal of the ceiling on maternity benefits from 13 to 26 weeks without the need to satisfy any further conditions save those entitling the beneficiary to maternity benefits and the relevant medical certificates attesting to the continued incapacity of maternity benefit beyond 13 weeks will be paid where it is medically certified with the woman remaining incapacitated;

an increase in injury benefit from 60 to 70 percent of insurable earnings: and also an increase in Industrial Death Pensions to dependents;

an increase in Old Age Pension (OAP) and invalidity pensions by 5 to 40 percent. No pensioners will receive less than 40 percent of the minimum wage set by Government. Furthermore, the payment of OAP will no longer preclude the payment of Disablement Pension;

- a doubling of funeral benefit from \$400 to \$800;
- payment of maternity benefit in the form of a lump sum to a husband on the occasion of his wife's confinement, providing she is not entitled in her own right as a contributor to the scheme;

Comrade Speaker, the question of separate assessment for married women has been a burning issue for some years now. This issue has nothing to do with the sex of the individual, rather it is intended to address the specific penalty that is imposed upon marriage by the present tax regime. It is proposed that in 1986 this penalty will be removed.

Comrade Speaker, another issue that has been gaining currency in recent times, is the question of taxation of pensioners. It has been felt that pensioners, by virtue of the contribution that they have made during their working age, have earned them the right to benefit adequately from their employer on retirement. In keeping with this view, Government has agreed that all pensions would be non-taxable from 1986. Contract gratuity, Comrade Speaker, falls under the same regime and it is also proposed to make these non-taxable.

G. CONCLUSION

Comrade Speaker, 1986 has found us so far with both difficult choices and very hopeful signs for the future. Our economic cloud has a silver lining. The difficult circumstances can be overcome with a resolute commitment to conservation and innovative entrepreneurship. In the medium term Comrade Speaker, we know that this discipline will equip us to enjoy the benefits of the rapid development of our national resources to come.

In closing, therefore, I should like to urge you to stand firm, for this is a battle that has to be fought and won.

WE CAN
WE MUST
WE WILL

ERRATUM

Page 58 - Line 14 should read:

It is proposed that in 1987 this penalty will be removed.