

TOWARDS ECONOMIC BALANCE AND RECONSTRUCTION

**BUDGET SPEECH
NATIONAL
ASSEMBLY**

TOWARDS ECONOMIC BALANCE AND RECONSTRUCTION

TABLE OF CONTENTS

A. 1. INTRODUCTION - THEME

Fashioning affordable social
and non-productive sector
programmes

Concession and special
schemes for the disadvantaged

- Preparation of medium term
plan
- Encouragement of Local Capital
accumulation

2. REVIEW OF 1986 KEY TASKS

- Conservation
- Institutional Framework
- Mounting of the Productive
Drive

3. REVIEW OF 1986 PERFORMANCE

- Production Sectors

4. SPECIAL THRUSTS TO BE PURSUED IN 1987

- Tighter Monetary Policy and more careful management of Public Sector Finances

B. 1987 MEASURES

1. MEASURES TO CONSTRAIN PUBLIC EXPENDITURE

2. COMPLETION OF DEBT RESCHEDULING EXERCISE

3. MEASURES TO STIMULATE ECONOMIC ACTIVITY

4. MEASURES TO STIMULATE GREATER PRODUCTION ON THE PART OF LABOUR AND TO CUSHION THE IMPACT OF INFLATION ON THE DISADVANTAGED AND POORER SECTIONS OF THE COMMUNITY (INCLUDING HOUSING)

5. MEASURES TO GARNER AVAILABLE
FOREIGN EXCHANGE AND TO CONSTRAIN
THE RANGE OF ACTIVITIES ON THE
PARALLEL MARKET
6. EMPLOYMENT
7. REVENUE MEASURES
8. 1987 PROJECTIONS
9. FORMAT OF ESTIMATES
10. CONCLUSION

1987 BUDGET SPEECH

January 16, 1987

A. THEME: TOWARDS ECONOMIC BALANCE AND RECONSTRUCTION

Comrade Speaker, I rise to present the 1987 Annual Budget. In many ways this Budget is likely to be one of the most important Budgets to have been laid before this Assembly for over a decade. It is important in terms of its scope and impact as well as its intent.

In his New Year statement, the Comrade President announced that 1987 is to be regarded as the year of 'Purposeful Economic Adjustment'. I should like to start by saying a few words on how this Budget fits into that charge.

The thrust of economic adjustment in 1987 is two-fold: significant reduction of imbalances, and as rapid as possible establishment of the other domestic conditions necessary for economic growth. Over the

years we have worked assiduously in the face of economic adversity at home and abroad to ensure economic survival. We have reacted with dexterity and imagination to the difficulties facing the Guyana economy. In order to preserve the gains we have made, and moreso to improve the firmness of the foundations on which we can build a society with those characteristics that all of us deem desirable, we need to make a special kind of effort over the next three years. We must aim consciously and purposefully, to fashion economic policies, to employ tools, and to take initiatives which will help us to help ourselves. The most pressing need at the moment, and therefore the primary intention of the Budget, is to place ourselves on a path of self-sustainable growth.

In a developing economy as small and as open as Guyana's the question of dynamic stability, and consequently of balance, must always look large. Various types of balance must always be kept in the forefront of considerations informing economic policy. There is need for instance to balance the structural basis of the economy; a need to ensure that our productive capacity is utilised to achieve a balance between satisfaction of domestic needs and foreign commitments, a balance

between agricultural and industrial production, a balance between innovation and tradition, a balance between resources and expenditures

It is necessary to look at balance in a dynamic fashion. Thus we need to ensure balanced employment of resources, balanced initiatives and utilization of policy instruments, so that in the process of continued economic and social reconstruction, appropriate policy instruments are employed to maximum effect. These instruments should be modified, extended, or withdrawn with dispatch as the objective circumstances demand. It is easy of course, but wholly inappropriate and foolhardy, to fashion economic policy within the confines of conventional wisdoms, or in accord with the naive confines of ideological shibboleths.

We, in the PNC, Comrade Speaker, have no fear of innovation or of utilising appropriate policies based on our own keen analyses of objective circumstances. As I pointed out in 1986, one of the legacies left this nation in general and the PNC in particular by its Founder Leader has been that of national self-confidence.

We do not apologise for fashioning and proposing an innovative programme in 1987, despite the possibility of generating a good deal of verbiage. Our Stygian oath is to work resolutely for the development of Guyana.

Comrade Speaker, the Government therefore proposes to address additional areas of policy in 1987 and to employ as necessary hitherto underutilized policy instruments. Tighter monetary and financial policy aimed in particular at supporting our overall efforts on the fiscal and regulative fronts will be proposed - efforts, I might add, aimed at reconstruction. Guyana has over the last eight years relied in a minimal fashion on strictly financial policy. Fiscal and regulative instruments have been the main devices for moderating economic behaviour and as a consequence the scope offered by proper financial leverage has been largely neglected. By itself this does not automatically pose a problem. However, in our circumstances it has contributed to deteriorating financial and monetary balances.

In this sense therefore, we have in effect allowed an unacceptable degree of imbalance to accompany the execution of our economic policies.

Comrade Speaker, another dimension of the need for balance may be glimpsed from our experience over the last 20 years with respect to social infrastructural facilities. Relative to almost all other countries in the region, Guyana motivated by the immediacy of the concern for social well being, has consistently devoted a very large share of its investment programme to facilities focused on health, education, roads, stelling, sea defences and similar areas. Many of these facilities are now at a stage where major repair or refurbishment is required - a requirement which outstrips our current capacity to undertake such maintenance whilst still maintaining high levels of investments in new facilities.

Similarly, in recent years, the reactions of some of our neighbours to territorial controversies had demanded that Guyana devote a significant proportion of its resources to defence. Now the cumulative burden of these allocations bears heavily on the public purse.

In the interest of balance our further expenditures on social infrastructure and defence will need to be governed by the quantum of resources available. Defence

policy, defence cost, social policy, social cost, need to be geared to what is affordable.

This concept of 'affordability' must be recognised for the conundrum which it implies. We need to do that which we could afford to do, in the sense of capability of financing it. We also need to not fail to do those things which we cannot afford to not do. In this latter category fall matters of social services and defence. In the context of this conundrum priority has to be given to the productive sectors and to the management of our productive resources. The generation of enough additional resources to maintain socially defined standards and to support a reasonable improvement in those standards has to be a guiding principle.

We therefore recognise, Comrade Speaker, that one of the most pressing needs of the economy is the encouragement of capital accumulation in the economy by nationals resident at home and abroad. To the extent that we are able to provide such encouragement and to the extent that such capital accumulation is maintained in Guyana, we can lessen our dependence on institutional resources from abroad, with all the variations

in 'quid pro quo' which we know such assistance implies.

But in all these efforts we shall not forget the needs of the poorer section of the community. Special attention will continue to be devoted to the extension of concessions to, and the implementation of special schemes for, the disadvantaged and poorer sections of the community during 1987.

Comrade Speaker, during the 1960's and the late 1970's it had become fashionable for developing nations, including those in the Caribbean who were emerging from the shackles of colonialism to write development plans which were supposed to reflect aspirations of the people and to give direction to the course of development. In this regard, Guyana was no exception. In pursuit of our desire to allocate and manage resources efficiently we generated the 1966-72 and the 1972-76 development plans which were rolled over into 1977 and 1978 and were intended to chart for Guyana a path of social and economic development in the years that followed. While it could be claimed that the formulation of these plans captured the essence of the intentions and aspirations of the Guyanese masses,

the implementation of these plans left much to be desired. It was not surprising that a number of weaknesses in the planning process, including particularly the absence of an appropriate information system, a monitoring mechanism, and a review mechanism militated against success. These partly explained the divergence between the results of a plan formulation and those of the plan implementation process.

In the post-1970's, we have tended to concentrate on less ambitious objectives, and the programmes devised have focused attention mainly on the capital programme for development. The volatility of the international economy and the unpredictable nature of a number of major local economic factors outside of our control, had reduced our planning time-horizon to no more than one year. The persistence of the international economic crisis and the intervention of adverse local events such as the weather, have convinced us that we must gear plans and programmes to the medium-term, if we are to tackle our development problems systematically and constructively. The regional, sectoral and project dimensions of such plans must be fully recognised and we must insist that the process ensures popular participation.

There are, however, a number of necessary but not sufficient conditions which have to be satisfied if we are to generate any realistic plan. Among these conditions are the need to organise and strengthen the information systems for planning in today's uncertain milieu; the need to standardise and streamline the methodology for planning at Regional, Sectoral, and National levels; the need to institutionalise an appropriate monitoring mechanism; and the need to generate a large enough number of cadres to understand and manage the process.

In 1985 and 1986 we have placed great emphasis on the production of an agriculture plan which is to be laid in Parliament shortly. While we intend to continue to build up this capability for planning at the sectoral level, we intend, during 1987, to substantially complete the ground work for the preparation of a medium-term plan which will be the basis for guiding the economy over the next 5 years.

REVIEW OF 1986 KEY TASKS

It would, I think, be appropriate to report briefly on the state of progress of the 1986 initiatives. This review is a useful device for monitoring progress as well as a constant indication of the degree of continuity associated with the Annual Budgets.

FINANCIAL RECTITUDE

In my 1986 Budget presentation I spoke at length about the need for financial rectitude. I am pleased to report that significant progress was made in improving an important aspect of the financial rectitude of the public sector institutions in Guyana.

If I might start with the COFA institutions, the Annual Accounts and Reports of all but one of these institutions up to 1984 has been laid. We expect to have all the reports to 1985, and most of the reports to 1986, laid before Parliament by June 1987. At the same time, the Boards of Directors which have been considerably strengthened in recent years have been enjoined to pay special attention to the dynamic formulation of policies and the monitoring of financial performance and practices.

Similarly, there has been significant improvement in updating audited accounts of the Public Corporations. Within the Guystac Group, GEC and GTL succeeded in completing their 1985 Accounts while the Rice Group, Neocol and Quality Foods are in the process of completing the audits for the same year.

The two major exceptions are GPOC and GTC whose accounts for 1984 are yet to be finalised.

The persistent shortage of qualified and experienced accounting staff continues to inhibit efforts to establish and operate adequate financial control systems. Much work has however been done by the Guystac Secretariat to arrest the decline in the rigid application of systems. It is planned that the newly restructured Inspectorate and Enterprise Monitoring divisions along with the Performance Contracts will establish and maintain a greater degree of financial scrutiny within the group.

At the national level you are no doubt aware Comrade Speaker, that as a result of major difficulties in institutional arrangements it had become very difficult to complete Public Accounts on time. During the course of 1986, accounts pertaining to the years 1978 to 1981 were laid before Parliament and it is expected that the accounts for 1983 will be ready by March whilst those for 1984, 1985

and 1986 will be prepared by the end of 1987.

Comrade Speaker, whilst these may not initially appear to be dramatic achievements, their import should not be overlooked. The preparation of these national accounts is not simple. We fell so many years in arrears because in the past the efforts to bring the accounts up-to-date had the undesirable side-effect of severely restricting work on current accounts. We have now begun to succeed in accomplishing the double task of arrears updating and getting current work done.

You may note also that the Annual Reports for the MMA have been recently laid in Parliament together with the Agreements and Contracts signed by the Government with the IDB and IFAD.

In a general sense, we have been insistent on the establishment and upgrading of arrangements for on-going scrutiny of the financial operations of all entities in the Public Sector. This effort is already being facilitated by the utilisation of computer facilities, a trend which will itself be reinforced during 1987.

CONSERVATION

Work on conservation of energy and fuel in particular continued in 1986. It would appear however that the necessary institutional arrangements to ensure the systematic prosecution of this goal is not yet fully in place and functioning. Consequently, that quantum of savings in fuel use which was experienced was largely involuntary. Compared with 1985 when total imports of fuel amounted to G\$413.5m, 1986 imports stood at G\$248.4m. The two main factors responsible for this reduction were disruptions in supply (early 1986) associated with inability to make timely payments to Trinidad and Tobago. The second reason was the fall in prices of fuel. In keeping with some upsurge in economic activity the mix of fuels imported changed in favour of diesel and fuel oil which rose by 14 and 3 per cent, respectively, while imports of gasolene fell by 3 per cent.

In keeping with the drive to conserve energy and reduce our dependence on imported energy, efforts continued in 1986 on the refinement of alternative energy technologies. Worthy of mention in this context is the development of biogas stoves and lamps by the Institute of Applied Science and Technology (IAST). The prototypes of these stoves and

also of solar wood-drying kilns have been successfully developed and tested and work is proceeding apace to clear the obstacles necessary for their introduction to industry.

On the human resources front there appears to be some association between the opening up of economic opportunities for trading in particular and the remigration of Guyanese from metropolitan countries. Increasing efforts, it would appear, need to be directed towards fashioning devices for Guyanese resident abroad to repatriate their capital.

INSTITUTIONAL FRAMEWORK

INCENTIVES TO THE PRIVATE SECTOR

Work on general incentives to the private sector has yielded some fruit as may be seen later in my presentation, Comrade Speaker. We have, as a result of work undertaken on this front, tried to fashion a programme aimed at building on the strengths of the private sector and lending support where necessary to those aspects of their operations that appear to be working.

Among the specific areas pursued in 1986 has been the work on Investment Agreements. These agreements, it is hoped, would

provide a framework within which public and private investments from these two bilateral sources may be channelled to Guyana. We hope to satisfactorily conclude agreements with the Federal Republic of Germany, Canada, and Switzerland within a short time.

One of the factors which currently seems to bedevil Guyana and add to difficulties of attracting private foreign investment in particular is the state of legislation on foreign investment. Whilst the existing legislation does lend adequate protection to such investments, it is, like the normal investment incentives so scattered over the library of statutes that for those unfamiliar with this dimension of Guyana's institutional arrangements it is very difficult to navigate their way successfully around the maze. It is proposed therefore in 1987 to formulate and enact a statute covering private investment.

A related facilitating institutional arrangement relates to processing and approval. The Government proposes to simplify the disparate arrangement which currently exists via the identification of a 'one-stop' agency responsible for processing and advising on such matters. That agency is to be the State Planning Secretariat. Investors

operating out of North America can treat with the Secretariat initially through an officer based at the Guyana Embassy. Locally, GUYM will act as the Secretariat's agent with re to small businesses.

The Government has also, in its technical assistance programme signed with the IDB under the Industrial Rehabilitation Loan, been promoting seminars on project preparation intended to enhance the capability of the private sector to prepare projects for submission to financing agencies. This is a process that will enhance the project preparation skills of the private sect and that should also improve the quality of services provided in the private sector.

A well-known inhibitory factor to capacity utilisation in both public and private corporations has been the overall shortage of foreign exchange and the curtailment of credit from suppliers of imported inputs as a result of the accumulation of commercial arrears. During 1986, we sought to minimise this problem through a number of devices. Perhaps the most interesting device has been one which relies on the community of interest that exists in both sectors, i.e. public and private, on this matter. We have

facilitated and encouraged the reduction in commercial arrears through the dedication of additional export earnings to arrears reduction in cases where the creditor makes inputs available to any producer whose product is exported.

TRANSPORT

The question of 'measures' is to be addressed later in this Speech but I am happy to report that the problem of transport has been considerably ameliorated or attenuated since last I spoke on this subject. The fiscal concession provided by the State to individuals seeking to import transport equipment has greatly facilitated the importation of vehicles, particularly mini buses. During the latter part of 1986 the rate of importation of mini buses for example, increased more than three-fold. To date the number of these vehicles in Guyana increased from around 276 in January 1986, to nearly 600 by the end of 1986. In 1986 it had been indicated that the concession to importers of motor vehicles would be reviewed at the end of 1986. Comrade Speaker, the operation of the concession will be extended to June of 1987 since there is still insufficient capacity to handle all commuters.

The Government has implemented its decision to import 100 buses for the public transport fleet. GTSL is expected to utilize these vehicles after acceptable arrangements have been put in place to service and to properly utilize these vehicles on the roads.

IMPORT LICENCES

On the subject of the review of import licencing policy I am happy to report that the review has been completed and the Government proposes to implement the findings by the beginning of the second quarter of this year. In essence, import licences will continue to be required from the Ministry of Trade for gifts and other items acquired under 'no foreign exchange' arrangements. In all other cases the importers will only have to satisfy the Central Bank that their intended imports accord with the priorities for the use of existing foreign exchange resources. Thus, there will be the simplification of dealing with only one agency to obtain requisite permission. I also wish to inform members that in keeping with my promise last year the New Import Policy (Commission) has been reviewed and was abolished.

SCIENCE AND TECHNOLOGY

May I say first of all on this subject Comrade Speaker, that the Government proposes to lay before Parliament during the second quarter of 1937 a Policy paper on science and technology. In the meantime, however, there have been some very significant specific achievements in this area. The IAST, which is the main organ for the implementation of government's science and technology policy, has completed work on the technical development of sanitary ware, and ceramic wall and floor tiles. Also work on the formulation of a domestic clay body for ceramics has been completed. It is hoped that successful factory trials would lead to increased production of high quality ware by Vanceram. Other work by the Institute has been a major input to the concluding of arrangements for the export of silica sand early in 1987. Other areas of successful development include glue from fish bladder and the manufacture of several products utilising balata. NARI has recently indicated that it has successfully developed a genetically pure variety of rice and a variety suitable for the manufacture of flour. The Sanata Textiles Limited work has, after successful development of the product, commenced on the production of towelling and knitted material.

This brief listing should serve to highlight the tenacity and creativity with which we have embarked on a policy of applying appropriate technologies to indigenous resources, as a basis for stimulating vibrant manufacturing activities in both the private and the public sectors.

MOUNTING OF THE PRODUCTIVE DRIVE

The strategy for development in 1986 hinged to a great extent on structural diversification into new economic activities.

In the case of petroleum, initiatives reported to this House last year have left room for optimism especially when viewed against the background of increasing prices. The data packages on Guyana have been acquired by seven oil companies. One company submitted proposals for participating in the development of Guyana's potential petroleum resources. However, four others subsequently expressed an interest also. Some discussions have taken place with interested parties and only last week the first round of negotiations commenced in relation to an agreement to explore and develop an off-shore tract. An agreement has, in addition, been signed with a second company which is seeking to organise a consortium of oil companies

to explore and develop another offshore tract. A third company has also undertaken discussions with the Guyana Natural Resources Agency (GNRA) in connection with a proposal on onshore development.

At the institutional level Comrades may recall that the Cde President assented to the Petroleum (Exploration and Production) Act and in August, 1986 the GNRA was established. One of the main responsibilities of the agency is the promotion of the development of petroleum resources.

In relation to gold the MNC's operating in the country are proceeding with exploration and the garnering of funds for development.

TOURISM

In pursuit of the commitment to initiate action to promote tourism several positive steps have been made towards:

1. The contracting of GHL Consultants through the Caribbean Tourism Research Centre (CTRC) to develop an Indicative Tourism Development Plan for Guyana;

2. the employment of a Tourism Technical Adviser;
3. the establishment of an inter agency committee, Chairmanship under the Minister of Trade and Tourism, to examine the constraints identified and to make recommendations for their removal.

SELECTED INITIATIVES UNDERTAKEN DURING 1986

i) Rice: Marketing initiatives were undertaken during the course of 1986 in an effort to:

1. increase GREB's share of the Jamaica market;
2. increase exports to the EEC;
3. explore the possibility of exporting rice to Canada under the aegis of Caribcan,

During the course of the year GREB also completed the eligibility criteria to govern the licencing of private rice exporters.

ii) Coconut Rehabilitation: During the course of the year a programme was designed and implemented for the improvement of the genetic quality of coconut palms and the treatment of pests and diseases in an effort to increase edible oil production.

iii) Honey: Special attention was devoted to the honey industry with the assistance of CIDA and the FAO in a bid to revive interest and productivity among operators.

- iv) Forestry: Timber Sales Agreements were concluded with all the major producers in the forestry sub-sector. These arrangements require loggers/saw-millers to draft and implement forestry management plans. The plans are intended to map the exploitation and harvesting of resources other than greenheart within their concessions.

- v) Gold: The single most important initiative undertaken in the area of mining was a more than doubling of the price of gold offered to miners by the Guyana Gold Board.

- vi) Health: A national immunization programme was launched during March 1986 and it covered extensive areas of the country. In addition, the drive to regionalization was continued and the Ministry is currently almost completely regionalized.

1986 OUTTURN

Comrade Speaker, the performance of the economy in 1986 was not dissimilar from that of 1985. In fact, real G.D.P. growth was not significantly different from zero, recording a level of 0.3%. This was far below the budgeted level of real growth of 4.7%.

- i) Sugar: In 1986 the sugar output exceeded the 1985 level by 1 percent although it was 6 per cent short of the 1986 target. Exports however, fell 12 percent short of the target and 13 percent less than the level achieved in the previous year. The first crop at a level of about 124,000 metric tons was 9 percent higher than the level achieved in the similar period in the previous year. However the second crop was disappointing with production being lower than the level achieved in the similar period in 1985.
- ii) Bauxite: Compared with 1985, production of calcined (RASC), abrasive grade (AAC) and chemical grade (CGB) bauxite fell by 8 percent, 50 percent and 24 percent respectively. Only metal grade (MAZ) bauxite recorded an increase of 6 percent over the previous year's output level. Each of these production lines fell short of the 1986 respective target: RASC 16 percent; AAC 32 percent; CGB 44 percent and MAZ 8 percent. The total bauxite production of 1.5 million metric tonnes was 18 percent below the output target and 7.9 percent below the 1985 level.

iii) Rice: Whereas in 1985 rice production amounted to 156,124 MT, in 1986, 183,000 MT was produced. This represents an increase of 17 percent, but a 6 percent target shortfall. As there was no significant improvement in the overall average yield, this performance was essentially a function of the increase in the acreages sown. The value of exports was approximately G\$57.2mn which was 1.1 percent above the 1985 achievement but 35 percent below the targeted figure. It should be borne in mind that this export performance was realised at lower average prices but with a more vigorous sales effort particularly to the European Community market.

iv) Gold: Declared total production in 1986 as measured by inflow to the Guyana Gold Board was 14,040 ounces: 36 percent above declaration for 1985 and 39 percent below the target. The better performance in 1986 was related to an increase in the price offered to miners at the Gold Board. The applicable rate was changed from US\$1=G\$6.03 to US\$1=G\$14.00 resulting in a 133% increase in the price paid to miners.

v) Fish and Shrimp: Recorded shrimp production of 3,454 metric tonnes marginally exceeded the production level of 1985. A disappointing performance was observed in the production of small shrimp (white-belly and seabob) which fell 42 percent short of the target and 28.7 percent below the 1985 production level. Production fluctuations in this line of activity is not surprising since the exploitation of small shrimp is still in its infancy. This poor performance was however more than counter balanced by output of prawns production which was 34.9 percent above the target and 21.1 percent above the 1985 production level. The incentives being offered throughout the industry to captains and crew members who bring in large catches, were primarily responsible for the improved performance.

Total fish production fell 6.7 per cent short of the level recorded in 1985 and 10 percent short of the 1986 target. This fall can be explained by the fuel shortages during the first quarter of the year; an inadequate supply of engines, spares and materials; and

trawlers failing to land their quotas of by-catch.

- vi) Forestry (Timber): Timber production recorded for 1986 was 4.7 million cubic feet, distributed as follows: 2.2 and 2.5 million cubic feet of greenheart and other species respectively. This production level represented a 5.9 percent decrease over production for 1985 and a 15 percent target short-fall. Overall, forest production amounted to 8.1 million cubic feet of solid wood production: 13 percent less than the corresponding period for last year and 19 percent below the target. Of all the forestry products, greenheart (1%); sawn timber (29%); posts (16%); and wattle (25%) were the only ones to surpass the 1985 production levels. Square beams (64%); wallaba poles (37%); shingles (55%) and firewood (19%) all fell vis-a-vis the output levels of 1985.

The inability of the forestry sector to achieve its target is a function of such limiting factors as, inter alia:-

- inadequate logging, extraction and transportation equipment;
- inadequate spares to effect timely repairs and permit rehabilitation of assets;
- inadequate inputs;
- downtime in logging and sawmilling operations consequent upon fuel shortages during the first quarter of the year.

In both volume and value terms timber exports did less well than in 1985. Timber exports of 548,827 cubic feet earned a total of G\$16.34mn. 19 percent less than the volume and 9 percent less than the value realised for the previous year. The export performance was disappointing particularly because of the efforts taken to direct investment to the industry during the previous five years.

Despite marginal increases in real output performance, the value of exports declined in 1986 from a budgeted level of G\$1232mn. to G\$1092mn. At the same time the value of imports increased from the budgeted level of G\$1540 to G\$1618, or an increase of 5 percent

The net result of all these performances is a further deterioration in the current account balance of the balance of payments in the order of 67 percent when compared with the 1986 budgeted level and 17 percent of the 1985 recorded level.

The public enterprises as a whole performed much better in 1986 than had been the case in 1985. The overall operating surplus moved from - G\$31m to G\$125m. This financial improvement was largely attributable to improved performance by Guysuco, GTC, Guymine, DWL, Neocol and Lidco. There remains a hard core of problematic corporations, the physical and financial performance of which gives continuing cause for concern.

These are: Guyana Rice Marketing and Milling Authority (GRMMA).
Guyana Transport Services Limited (GTSL).
Guyana Airways Corporation (GAC)
Guyana Fisheries Limited (GFL)

The two utilities GTC and GEC, although showing profits, have been unable to maintain the quality of service demanded by the public.

Following unacceptable difficulties with the operation of other enterprises their operations were closed. These are the

- Savannah Industries Limited
- Coverden Clay Brick Factory
- Guyana Timbers Limited
- Leonora Sugar Factory

CORPORATION CAPITAL PROJECTS

The priorities for 1987 are on the on-going projects and those new ones with assured financing which will generate early returns to repay the investment.

During 1986 the following projects were not completed, due mainly to tardiness in effecting draw downs and inadequate proposed management support systems.

<u>CORPORATION</u>	<u>PROJECT</u>	<u>STATUS</u>
GFL	Japanese Grant Aid	This will now be completed in January 1987 with the arrival of four (4) fishing trawlers.
Guyana Stockfeeds Limited	New Stockfeeds Mill	The mill will be commissioned during the first quarter of 1987 since construction and installation work have been completed.

CORPORATIONPROJECTSTATUS

GEC

Rehabili-
tation of
Plant

Continuing delays in complying with the pre-conditions for the draw down of the IDB loan were the major reasons for the delay in the commencement of this project. These conditions have in large part been met and consequently draw down is expected during the second quarter of 1987. Selected consultants will be arriving during the first quarter to commence feasibility studies and prepare the required work programme.

DWL

Forestry
Project

Continuing problems with the power generating facility have delayed the greater utilisation of the installed capacity of the saw mill. Additional equipment have arrived and these will facilitate a significant increase in production during 1987.

<u>CORPORATION</u>	<u>PROJECT</u>	<u>STATUS</u>
GNEC	Foundry Expansion Project	The foundry was commissioned in 1986 and is currently operational. However, due to frequent power interruptions and the consequential high cost of short run production, the facility has been maintained on a periodical basis.

The Capital programme for 1986 was projected at G\$377m of which \$316 was achieved. The latter figure includes the cost of acquisition of the TU154M aircraft and the 100 buses from Yugoslavia.

GUYSTAC

The restructuring of Guystac referred to in the 1985 Budget continued throughout 1986. Having installed the Supervisory Councils and Performance Contracts during 1985, action was taken during 1986 to complete the internal reorganisation of the Guystac Secretariat during 1986.

This internal reorganisation is in line with the earlier restructuring of the Group and in keeping with the draft Bill which will replace the present Public Corporations Bill

and establish a new Secretariat to replace the present Guyana State Corporation.

The legal measures for the establishment of the reorganised Guystac will be presented early in 1987. In the interim, arrangements are being made to implement the changes.

During 1987 therefore, improvement in the monitoring of Corporations, more effective financial control and a greater degree of management autonomy are the major expectations to be derived from the internal restructuring of the Secretariat.

SPECIAL THRUST AND PRIORITIES TO BE PURSUED IN 1987

Comrade Speaker, you may well ask why, given the clear statements of economic strategy in previous years, we bother to revisit the question of overall economic policy and priorities at this point in time. It is necessary I would argue because we live in a dynamic world and an economy like the living organism needs to respond to stimuli in a timely fashion. The direction mapped out in previous years continues to inform our on-going policy. However, external and domestic changes necessitate constant modification or revamping of policies and even the overall strategy structure.

This year we plan to modify our use of economic policy instruments and to bring into the arsenal of instruments some of those not extensively used before. The extent of our internal adjustment to economic changes suggests that stronger efforts need to be made to refashion or reconstruct the financial performance of the economy. The very large overall deficit of the public sector to which we have referred in previous years has fostered an undesirable expansion in the money supply. The net domestic credit of the banking system moved from G\$1.4b in 1980 to G\$5.5b by June 1986. In other words in a matter of 6 years net domestic credit has expanded almost four-fold.

Expansion in money supply or credit creation needs to be kept within the bounds of economic growth. Prudent economic management dictates that the expansion in money supply is constrained at a level determined by the needs of expanded trade and economic growth. In the case of Guyana, economic growth since 1980, and particularly since 1982, has been very sluggish. In fact, since the turn of the decade apart from the last three years, the economy has experienced negative economic growth. But, with the exception of 1984 that growth has been relatively small. Consequently, the

expansion of money supply has not been undertaken to accommodate increased real growth.

Furthermore, inflows of funds which have normally in the past, helped to finance some of the deficit, have in recent years been relatively small.

In the light of these factors it is imperative that we look more carefully at the instruments of economic policy. The most obvious instrument is the constraint of public expenditure to levels consistent with available revenues. Whilst it is true that arithmetic balance of the Central Government's Current Account is not feasible within the next three or four years (if then) it is quite evident that it is possible to arrest the deterioration if care is taken to restrain Central Government expenditure and at the same time to stimulate larger savings on the part of the public enterprises.

1987 THRUST

Comrade Speaker, our commitment to Purposeful Economic Adjustment carries with it a concomitant commitment to physical excellence. Outstanding success in the

national and international arena of sport can be a tremendous inspiration to a nation. Such success can point to what is possible. It can also help to develop active participation by the populace in sports. That is the reason why games which are social or collective may be of special value for they can help to develop the nation's most important resource in a relatively sociable and inexpensive manner. Finally, success at sport by itself or with careful promotion help to highlight the virtues of discipline in achieving outstanding success.

In this regard there is a symbiosis between sport and education. Sport can provide education with its heroes, targets and standards. Schools or the educational arena can, in turn, be the nurseries that foster the values necessary for the development of athletes and sportsmen.

Comrade Speaker, consonant with our commitment to the promotion of sport in Guyana the Government proposes to increase the resources available for the development of sport in Guyana. It is intended to support sport in the workplace, in the schools and in the formal sports facilities. In this context I should specifically like to draw the House's attention to the provision

of G\$1m for the development of a national sports complex in Thomas Lands.

The need for investment in health is obvious. The further proof of the Government's desire to improve facilities rapidly in this area is evident from the composition of the Cabinet itself. I should like to indicate at this point that the Government proposes to devote special attention to the delivery of health care in 1987.

B: SPECIAL MEASURES TO BE IMPLEMENTED IN 1987:

Comrade Speaker, if I might summarise the essence of the economic problem elaborated so far, I would do it in the following manner:

The Government's long-standing inability to garner enough revenues to finance its important activities has resulted over the years in the rapid expansion of credit. Concomitant with those developments has been almost uncontrollable increases in the State's domestic borrowing. The burden of the interest payments currently weighs very heavily on the state's revenues and one of the consequences of the rapid credit creation has been an equally precipitous decline in our foreign exchange reserves.

In the light of this somewhat simplistic statement of an admittedly complex problem we plan to utilise the following measures in 1987 to redress the economic difficulties facing the economy:

MEASURES TO CONSTRAIN PUBLIC EXPENDITURE

There is clearly a need to review the operations, staffing and cost of many of the public service agencies. The intricacies of this exercise have been explored frequently on previous occasions. Let it suffice to say on this occasion therefore, that the following priorities should prevail:

1. address the problem of agencies with organs which overlap in a duplicative manner with the work of others;
2. channel resources to agencies providing direct or near direct support to productive entities;
3. provide greater emphasis to the maintenance of existing resources;
4. devote greater care to the design of appropriate and dynamic systems and the training of staff,
5. priority to on-going projects;
6. requests for supplementary provision must conform to specific guidelines laid down by Cabinet's Finance sub-Committee;
7. certain accounts kept at the Central Bank will be transferred to commercial banks who would be instructed by the Ministry of Finance not to entertain any overdraft;
8. minimum use of off-shore funds to be provided by the Central Government.

As far as the public enterprises are concerned transfers from the Central Government are to be reduced relative to previous years. Both overdraft and transfers from the Central Government are to be identified and closely monitored. This is likely to prove a very severe test of cash management in the various public enterprises, particularly the very large ones including the utilities. The hazard associated with these particular sets of measures is recognised. Unless careful safeguards are put in place some entities may leave themselves in a position where they are unable to meet commitments. The Supervisory Councils therefore will be asked to pay special attention to this area. In addition the measure will need to be supplemented by appropriate institutional props such as the cash flow projections and their timely vetting.

For many years corporations have undertaken investments without reference to the Central Government even when it has been evident that their own resources would not be adequate to meet such commitments. Some have not made the best use of the operating surpluses available to them in keeping with the very stringent criteria employed for the vetting of public enterprise. One area that will be more closely monitored in future is counter-trade activities. A stricter regime for vetting and approving these transactions will be implemented.

In addition to these measures there is clearly the need for some degree of credit control. For example, the Central Bank has been taking a fairly realistic approach to the question of allocation of credit to customers in the banking system. In 1987 the Central Bank will be asked to take a more active role on this front in a bid to ensure that limited available resources are directed in the productive areas especially those involving import substitution.

Finally, during the course of the year the government will be looking more closely at the use of interest rate policy to more effectively manage credit creation.

i) COMPLETION OF THE DEBT RESCHEDULING
EXERCISE:

Doubtless colleagues will recall that as long ago as 1983 the Government announced its intention to complete the restructuring of the Government's internal debt. Basically, we have been seeking to convert short-term debt or liabilities (namely

Treasury Bills) into medium and long-term debt and liabilities. This would enable the Government to transfer the burden of interest payments to sometime in the future. In the meantime, the economy can be given the breathing space to correct fundamental imbalances both to generate the necessary funds and to do so in a manner that would help us to attract foreign inflows. In 1984 and 1986 arrangements were put in place to roll over albeit on a voluntary basis, Treasury Bills into medium term securities. Additionally in 1986 special two-year debentures were issued and both of these measures impacted favourably on the quantum of payments the Government needed to make in the respective years.

However, these measures have clearly not been enough, for, without further action, the Central Government would be required to find an additional amount of \$266m in 1987 to meet its interest obligations. I might add that this 81 per cent increase in interest contrasts with increases in Central Government revenues of a mere 15 per cent.

In 1987 therefore, the Government proposes to put in place a more complete spectrum of securities ranging in the following manner:

		RATES	
		CURRENT	1987
Treasury Bills:	91 days	12.75%	12.75%
	1 year	—	13.5%
Debentures:	2 year	14.5%	—
	5 year	15%	18%
	10 year	16%	20%

You will see from this Comrade Speaker, that the interest rates being offered are biased in favour of longer maturing securities. In addition, however, and out of abundant caution, the Government intends to offer the 5-year debentures with a moratorium on interest payments during the first 3 years. Payment of principal and accumulated interest will be made over the remaining period on an equated annuity basis. Similarly, in relation to the 10-year debentures there will be a moratorium on interest payments during the first 5 years with principal and accumulated interest being paid over the remaining period on an equated annuity basis. In this way the burden of the interest payments in 1987 and subsequent years would be reduced by more than \$390m.

These two devices will also be employed to defer the interest payments on debentures associated with the two-year special issue debentures of G\$250m. held by the Bank of Guyana and issued on the 2nd November, 1984. This instrument is expected to save the

Government \$130m. in interest during 1987. Similarly, the NIS is to be issued with a special 10-year debenture which will defer the payment of \$111m. in interest currently due.

Complementary with these measures, the Government intends to clear its net overdrafts at the Bank of Guyana by an issue of Treasury Bills and in future, it is intended to manage more carefully and systematically the overdrafts of the Central Government. We shall be returning to this matter later.

Since the Government intends to keep tighter control of these expenditures it will be feasible to reduce the Treasury Bill borrowings from agencies other than the NIS and the Bank of Guyana by some G\$800m. thereby avoiding interest payments of some G\$102m. that may have otherwise been incurred. A cap on the issue of 91 day and 360 day Treasury Bills is to be implemented shortly.

ii) MEASURES TO STIMULATE ECONOMIC ACTIVITY

The lynch-pin of the programme for economic resuscitation in the coming years is the expansion of our productive capacity. In 1987, the Government proposes to adopt specific measures to stimulate the production of export and non-traditional commodities. Three measures are to be employed to this end.

(1) Export Allowances: There can be little doubt that in the stimulation of exports the lure of higher profits looms large. Much of our productive capacity lies in the hands of the private sector. It goes without saying therefore that a powerful economic tool for stimulating increased activity would include measures which increase the profitability of productive activities. In this regard the Government proposes to put in place an export allowance. The Government now proposes to introduce legislation for the benefit of exporters of manufactured or processed products. This incentive can be of tremendous import in encouraging export on manufactured products. Simply put, the export allowance will enable income tax allowances or relief to rise progressively as export sales increase in proportion to total sales revenues. In other words, where a relatively high proportion of a company's sales revenues emanate from exports, it will enjoy relatively high deductions against its income tax liabilities. A maximum of 50 per cent of export profits will be eligible to be deducted as export allowances. In pursuing this particular route I should say that the agreement on the harmonisation of fiscal incentives as proposed by the Caricom Countries contains this particular incentive.

(2) Land Development Allowances - Furthermore, it is proposed to allow expenditure on land improvement or land development to be written off over a period of 10 years. Again this tax incentive will have

the effect of increasing the post tax earnings of agricultural producers and will extend to the producer a concession not currently enjoyed. It is hoped that this facility would be specially used by those interested in the production of export crops in general and orchard crops and improved grasslands.

(3) Reactivation Allowances - Another area that has been exercising the minds of those involved in the preparation of the Budget has been the need to reactivate the significant number of factories and facilities in Guyana that are currently closed. Having examined this particular matter and undertaken extensive discussions with various agencies, we have decided to treat with this issue in the context of the Caricom incentive agreement which is due to be reviewed by the Caricom Council of Ministers in the near future.

iii) MEASURES TO STIMULATE GREATER PRODUCTIVITY
ON THE PART OF LABOUR AND TO CUSHION THE
IMPACT OF INFLATION ON THE DISADVANTAGED
AND POORER SECTIONS OF THE COMMUNITY

In recognition of the fact that a considerable period and a significant amount of inflation has been experienced since the last review of allowances, we are therefore proposing to effect substantial increases in personal allowances.

In view of the fact that the National Development Surtax constitutes something of an anomaly in the tax system, this measure has been abolished.

Cognisant of the need to remove disincentives to additional levels of input by labour, the marginal rates of income tax have been reduced. The same is true of the current arrangements for the taxation of household incomes. Separate assessment and filing will be implemented in a manner that will lower the marginal rate paid by couples. There are of course additional considerations of confidentiality, equality of treatment and independence of the sexes.

On the basis of the third statutory review of the NIS by the Actuary, the Government proposes to implement the Actuary's recommendations as they pertain to the operation of this scheme. As mentioned earlier in the Speech, the Government ascribes special importance to those less fortunate members of the community who for various reasons of health or ill-fortune find themselves in poorly paid jobs or disadvantaged in some manner in the community. Special attention therefore has been devoted to formulating measures to assist these groups and insulate them from the more problematic circumstances. Among those we would deem appropriate to include in this category are pensioners, those living on small savings, employees in unprotected industries which currently provide employment in traditionally low paid

occupations at hotels, restaurants, petrol stations etc.

In the 1986 Budget I announced the Government's intention to review the personal income tax structure. I am now in a position to announce that following this review the Government has decided to implement the personal income tax system. The reforms expected to cost some \$15m. to \$20m. are as follows:

Personal Income Tax Allowances

- (a) (i) Self from \$1,250 to \$2,500
(ii) Wife from \$1,250 to \$2,500
(iii) Child from \$500 to \$1,000
(iv) Dependent Relative from \$375 to \$1,000
- (b) The income qualification limits for child allowance and dependent relative allowance would be increased from \$500 to \$1,000 in each case.
- (c) National Development Surtax is to be abolished. There will no longer be two taxes on the same income. In this regard, the National Development Surtax Act, Chapter 80:10 will be repealed.
- (d) The Government proposes to reduce the steep marginal tax rates. There will be no 70 per cent and 60 per cent rates. Rates will move progressively from 10 per cent to 55 per cent as set out below:

First \$1,500 at 10 per cent
Next \$1,500 at 15 per cent
Next \$1,800 at 20 per cent
Next \$2,000 at 30 per cent
Next \$2,000 at 40 per cent
Next \$3,000 at 45 per cent
Remainder at 55 per cent

- (e) Each individual tax payer shall benefit from tax exemption on the first \$1,500 of chargeable income.
- (f) Individual tax payers whose total income does not exceed \$4,000 per annum will no longer be required to file income tax returns.
- (g) The first \$500 of the total interest income derived by any individual from savings accounts held in Guyana will be exempt from income and withholding tax.
- (h) There will be separate assessment and separate filing of income tax returns by married couples. Separate assessment will be the general rule, but husbands and wives may jointly elect that all income be deemed to be income of the husband. In such cases the income will be assessed and charged to tax in the husband's name.

(i) Separate assessment and separate filing will be extended to property tax and capital gains tax as well. In this sense, suitable amendments shall be made to the following Acts:

(i) Property Tax Act, Chapter 81:21

(ii) Capital Gains Tax Act, Chapter 81:20

(j) Withholding Tax on payments will be levied and paid whether or not the payments are remitted outside Guyana.

This decision was taken against a background of the fact that the 1986 Budget, in anticipation of a more comprehensive implementation of the Actuarial report, implemented nine of the seventeen recommendations. All nine of those recommendations, I might add, pertain to increased benefits.

The remaining recommendations concern both benefits and contributions. It is worthy Comrade Speaker, to say a few words on contributions. As the benefit arrangements currently stand, within each wage and salary band each contributor makes a flat contribution payment to the scheme. In effect, those at the bottom of each wage band make a higher percentage contribution to the scheme than those at the top. When it is recognised that the benefits within each band are the same, colleagues will understand that there is some element of regressiveness

in the current regime. The proposal emanating from the Actuary is for a uniform percentage contribution by all contributors irrespective of their actual salary. As a consequence some members of the scheme will be required to make increased contributions whilst others will have their contributions reduced. It needs to be stressed Comrade Speaker, that the proposal to modify the system of benefits of NIS is aimed at the attainment of greater economic and social justice. On the benefits front, the essence of the proposals concerns increased benefits, some of which are commensurate with increased contributions and easier access.

If I may summarise those benefits briefly, Comrade Speaker, they are as follows:

- medical care sickness benefits particularly with respect to spectacles and dentures;
- disablement lump sum payments are to be automatically adjusted upwards when wages are increased;
- pensions payable to invalids are now to be no less than invalidity benefits which they would have received up to age 60;
- invalidity pensions: rates granted to young persons to be increased;

survivors benefit will be received by relatives of persons receiving Old Age or Invalidity Benefits, once the deceased had made the appropriate number of contributions.

Comrade Speaker, the Government recognises the concerns of the TUC on this question of NIS contributions and in recognition of these concerns we have undertaken to implement this aspect of the actuary's report subject to agreement with the representatives of the TUC. Doubtless, they have been having some genuine difficulties and it is also true that the time available for their perusal of the proposals has been very limited.

I think that we can call on the TUC not to be cautious on this particular matter since the benefits associated with its implementation are fairly clear and large. In 1986, \$26.3m worth of benefits were paid out as a result of the bold step taken by the Government to implement part of the package as a sign of good faith. In 1987, we expect that some \$46.3m worth of additional benefits will be paid out as a result of the proposed measures. It is of course easy to find areas where some categories of contributors pay now and benefit later and therefore I suppose not soon enough. But the important consideration that has to be borne in mind is this: The measures proposed were not formulated with

increased fiscal effort in mind and therefore, the increased contributions are to be directly paid out to the contributors. The proposals, Comrade Speaker, provide a golden opportunity to help, in a concrete way, add an element of progressiveness to this compulsory savings structure.

Doubtless, members of this assembly would be aware of the fact that the Government and the TUC representatives have been discussing intensely the formulation of a package for the 1987/88 wage adjustments. The comments which I now make represent the main areas of agreement so far reached.

The Government has in the course of its negotiations with the TUC on wage packages always stressed the high priority to be assigned to incentive payments or payments for performance. In the 1987/88 wages and related package it has been agreed that between 5 1/2 and 7 per cent of the total public sector wages bill will be utilised for the payment of appraisal incentives. The across-the-board element to which the TUC has traditionally been bound—and which in the current circumstances constitutes an act of faith which has over the years not always proven to be sound,—will be 5.5 per cent in 1987. In 1988, however, we have agreed that this element will be a minimum of 3 per cent and in the event that the economy experiences real growth in excess of 1 per cent, workers will enjoy additional

benefits. This benefit will be a percentage point for each whole percentage growth in real income over 1 per cent that the economy experiences. In other words, if the economy experiences 0 growth in 1988 the across-the-board payment will be 3 per cent. If the economy experiences 4% real growth in 1988, the across-the-board payment to workers will be as much as 6 per cent. Other elements of the package include consequential adjustments in Government pensions. At this point I should remind you that special attention is to be given to the payments received by pensioners who retired before the Government wages and salaries revisions in late 1977. In keeping with Government's special concern for the plight of the lowest paid it has been agreed to increase the minimum wage of workers employed in hotels, restaurants, spirit shops etc. These increases amount to 134.4 per cent in 1986/87 and 26 per cent in 1987/88.

Comrade Speaker, the Government has been cognisant of the need to address the problem of the restoration of differentials for special categories within the public sector such as Guysuco, Guymine and certain COFA institutions identified by the TUC team. In this regard the salary structures of Guymine and Guysuco will be revised with effect from 1st January, 1987. In the case of Guystac, there will be a rationalisation of the scales.

Comrade Speaker, the Housing Drive of the 1970s and early 1980s has contributed in no small measure to the high quality of housing stock enjoyed by the Guyanese populace. In recent years this programme has not been as extensive as we would have liked but it has nonetheless been impressive.

It is very often assumed that the Government's input into housing development is limited to the direct financing of housing schemes. The fact is that the Government promotes the development of housing in a large variety of ways. It is true that the largest of the programmes up to the turn of the decade were directly financed by the State. Given the fiscal difficulties however, it has been necessary to readjust the emphasis given to the different initiatives. Whilst the State has been suffering from a problem of illiquidity the banking and non-banking financial sectors have been in surfeit. We have had in recent times therefore, the increasing involvement of insurance companies and mortgage banks in the financing of housing development including schemes. The Guyana National Co-operative Bank Trust Company (GNCB-(T)), an agency of the Co-operative Financial Administration (COFA) within the public sector, has been one of those agencies which experienced increased involvement in this area.

Since it has been our intention to have the Guyana Co-operative Mortgage Finance Bank (GCMFB)

maintain its leading role in the financing of middle and low income housing, we have revisited the problems which in recent times have limited their contribution. This re-examination has led to a proposal which attempts to marry the objectives of the Bank with the special characteristics currently evident in the financial sector. As a result of this examination the GCMFB is to open a second window for mortgages. The existing subsidised window which has a ceiling of G\$50,000 is to be supplemented by this new window which will have a ceiling of G\$35,000. Borrowers therefore will be eligible to have not only a second mortgage from the bank but a mortgage that exceeds the existing limit without reducing the resources available to other low and middle income borrowers.

In order to facilitate this move the bank will be empowered to offer more attractive interest rates to investors willing to hold its housing debentures. Currently, the bank's interest rate on such debentures stands at 6 1/2 per cent. This was fixed during the early '70s.

It is anticipated that the funds available under the commercial window will be made available at a rate of interest of 13 1/2 per cent. I should add that although I have used the term 'commercial' this interest rate is still substantially less than those prevailing among the other institutions

involved in financing mortgages.

It is fitting Comrade Speaker, that such an imaginative approach which marries the liquidity of the financial system, with the capability of an institution serving such a great need but constrained by the State's financial difficulties, should have been fashioned in this the International Year of Shelter. Since 1983 the Guyana Co-operative Mortgage Finance Bank (GCMFB) has undertaken the financing of repurchases of existing property and such activity now accounts for 40 per cent of the total disbursements of the bank. We are proposing to continue this innovation which is widely appreciated. In addition low start housing market repayment schemes will be restarted and should be of special benefit to young married couples including higher income professionals.

It is hoped that these initiatives will together enable the bank to achieve and maintain a mortgage of at least G\$42m., a level which it is estimated would enable the bank to be self-financing. It needs to be borne in mind that the Government will continue its active involvement in other aspects of housing development.

The usual forms of monetary assistance will be employed to encourage private sector agencies to improve on the contribution to the process of increasing the housing stock, which, as we saw

during the 1970s, had a beneficial impact not only on numbers employed, but also on employment and managerial skills, the quality of housing stock, and therefore, the quality of life in Guyana.

In addition to the direct financial support of public sector agencies such as the Guyana Co-operative Mortgage Finance Bank (GCMFB), Guyana National Co-operative Bank (Trust) (GNCB-(T)), Guyana National Co-operative Bank (GNCB) which finance housing development, the Government of Guyana provides funds to the Ministry of Housing for the development of housing schemes financed via the Housing Development Fund. The Ministry of Housing has in the past received funds to develop the infrastructure necessary for the establishment of new housing. Finally, many low-income earners benefitted from the Assisted Self-Help programmes which were also financed from the Treasury. By way of indirect assistance to the sector, Government sets interest rates for funds to be used for domestic buildings. The ceiling on interest to be charged for such mortgages is currently 14 per cent. Mortgages for other buildings enjoy no such ceilings. There are of course also allowances extended by the Commissioner of Inland Revenue for the cost of mortgages on newly constructed residences.

It might be added that the Government, cognisant of the need to render some support to the Trade Union

Movement, and to enhance its capacity to bring workers' education up to a satisfactory level, and to maintain the necessary standards, has agreed to assist the movement to the extent of roughly nine hundred thousand dollars. Specifically, financing is to be provided for capital works on the Critchlow Labour College and for the research activities of the Labour Movement.

The Parties have agreed to continue discussions on other matters such as cost-of-living allowances, meal allowances and levy on wages to finance the current activities of the Trade Union Movement. The important point I would like to make Comrade Speaker, in relation to these measures is this. We recognise the burden that the measures proposed for 1987 and 1988 will impose on the lower paid groups in particular and wage earners in general. In recognition of this fact a bundle of measures intended to boost the take-home pay of workers as well as to provide an incentive to increase work effort has been fashioned and approved by representatives of the Executive Council of the TUC. The income tax package alone is worth about G\$20m., the NIS package for 1987 is worth an additional G\$46m and the across-the-board and the incentive awards are worth an additional G\$70m. odd. These increases are to be financed out of economies in the Central Government's expenditures and public corporations, and it is important that these savings which would have been effected at great cost to the

relevant sectors are utilised in a fruitful fashion.

During the course of my 1986 presentation a great deal of attention was paid to the consequences of the transport problem on the workers' ability to give of their best. In #987 Comrade Speaker, we propose to supplement the measures to increase public and private transport capacity by allowing pedal cycles, motor vehicles and mopeds with a capacity of 175 cc to enter the country free of customs duty. In a bid to also help those who work in the hinterland it is proposed to similarly remove consumption tax and customs duty on outboard motors of less than 25h.p.

B.5. MEASURES INTENDED TO GARNER EXISTING FOREIGN EXCHANGE AND TO CONSTRAIN THE RANGE OF ACTIVITIES ON THE PARALLEL MARKET

Comrade Speaker, I have extemporised in the past at great length on the adverse impact of the operation of the parallel market on the Guyana economy. I do not propose to regale you again with that epistle. I am glad to say that we have since worked on various devices that may be employed to bring the parallel market activities within the demesne of the official channel. On the basis of that work it has been decided to establish a scheme for a free foreign exchange window at the commercial banks. The window is to work as follows: Individuals or companies

not currently captured by the operations of the Central Bank are free to sell their foreign exchange to any commercial bank at competitive rates. Exporters will be allowed to use the window to sell currency obtained from exports if the inputs for export production were obtained from the free window. Sales of currency from the window, whilst not being regulated in the same manner as the Central Bank, will be governed by guidelines intended to ensure that the foreign exchange is allocated for high priority purposes. Such purposes may include the acquisition of imported inputs and spares for manufacturing industry or for agriculture other than sugar, for mining other than bauxite and for use by timber enterprises not currently enjoying the retention accounts of the Central Bank. Individuals may also purchase currency from the window to provide funds for maintenance of students, business travel, the payment of reinsurance premiums, freight, airline tickets sales, etc.

This device of a free foreign exchange window through which foreign exchange can be bought and sold at competitive rates is expected to reduce the cost at which currency transactions take place. It should achieve this goal by removing the risk associated with such transactions and by eliminating the middlemen normally involved in such arrangements. Arrangements have been put in place for this new regime to be implemented and operational within a fortnight.

This measure together with others on the currency front, to be announced, should also serve to restrict the scope of parallel market activities in a manner which is expected to bring back within the official fold many transactions. I have in mind those transactions which would have been conducted outside of the official channels primarily because they could not have been profitably operated.

The specifics or modalities of this operation will be elaborated in the guidelines to be issued by the Central Bank shortly.

I turn now Comrade Speaker, to the matter of the exchange rate. I have said before that the appropriateness of an exchange rate depends upon the relationship between the relative prices of the country's exports and those of its trading partners. Over and over again, with remarkable monotony in our discussions with exporters or would-be exporters, such as the representatives of the President's Advisory Committee on the Private Sector, we have been faced with calls for special exchange rates for those exporters seeking to enter overseas markets. We did make a promise in 1985 that the rate would be kept and managed in a manner that would ensure a reasonable return to the sugar industry. It is clear however, from the results of the 1984 rate movement and subsequent exchange rate adjustments, that we have taken too cautious an approach to this issue. The

sugar industry, on the basis of the prevailing rates has not so far made a profit. In fact, the accumulated losses over the period 1984/6 amounted to G\$225m. Whilst sugar remains unprofitable, many enterprises within the private sector are unable to benefit from incentives that the Government may have provided, and have therefore either refrained from exporting or sought to export their commodities in transactions that allow them to remit their foreign exchange earnings for sale on the parallel market. They also utilise this foreign exchange earned to purchase commodities which are then imported into Guyana and sold at a multiple of the official rate. However, whilst some people have been able to make handsome profits on the basis of such transactions the real cost of such arrangements have been borne by consumers. If they were only consumers of luxury items or non-essentials such a state of affairs could be easily overlooked. We have therefore been operating a regime which has progressively provided a disincentive to official exporters. This point was brought home very constructively during our consultations prior to Budget finalisation. There was a suggestion of an across-the-board rate increase for all exporters who sold currency to the Central Bank but at the same time these exporters would be allowed to buy foreign currency at the official rate. A subsidy of enormous proportions would have been required to effect this suggestion. In the light of all these factors we reviewed the

existing rate of G\$4.40 and settled for a new rate informed by the following criterion: It is a rate which would enable reasonably efficient producers to export their commodities at competitive prices under which they will be assured of normal profits.

Comrade Speaker, it may be useful for me to make the following observations in relation to this policy measure. The change in the rate has been necessitated by the loss of our competitive edge or advantage in the Caribbean and international markets. Whilst many critics will seek to pounce on this instrument in order to secure capital for their ailing political fortunes, I should like to observe that no economic instrument has a monopoly of negative virtues or indeed of positive ones for that matter. The exchange rate movement proposed will have an impact on the price for imported commodities in particular and in so far as imported commodities are substitutable for domestic products, should act as a disincentive to import. As we have already observed many of those imported commodities are currently sold in a domestic market at inflated prices. Consequently, these commodities which already change hands at high prices ought not to have adverse price consequences.

In recognition of the impact of the rate change on some prices however, we have given an undertaking to the TUC to review the across-the-board element of the 1987 wages package. I should like to assure

you that discussions will begin as soon as possible in order to treat with this matter. Further, the impact of this particular measure on lower income groups will be considerably alleviated by the very generous package of tax measures outlined during the early part of my speech. Additionally, in view of the sensitiveness of consumers to the quality and price of some goods and services, arrangements have been made to cushion the likely consequential price increases. Two areas are worthy of mention in this connection. First of all, the electricity tariffs and secondly the cost of fuel to consumers and that of transport.

For this reason therefore, I should like to inform you of the following policy measures, which though specially related to the preceding passage on the low paid and vulnerable, will ameliorate the impact of the new exchange rate on Guyanese consumers in general. I should like to announce the removal of the consumption tax on cooking gas and kerosene. In addition, the Government has made arrangements to ensure that the price of wheaten flour on the local market is not unduly affected as a result of these measures. In order to cushion the impact on transport costs the consumption tax on fuel used by Guyana Transport Services Limited (GTSL) is to be remitted to the corporation.

Government has organised a supplementary feeding programme at the Nursery level in which all of our

children in the Nursery schools are given a daily supplement of milk and biscuits. This programme is assisted by U.N./F.A.O. World Food Programme with whom we signed an agreement in 1983, and reaches over 26,000 children in 323 Nursery schools. This feeding project includes a nutrition education programme for students and parents and is supported by personnel from the Ministry of Health.

In addition, a pilot project has been established in selected Primary schools in several regions of the country to provide nutritious meals for the students. This programme utilises inputs and support from the P.T.A's, Church Organisations and the Girl Guides Association. The programme in four (4) of the schools is supported by financial assistance from UNESCO and in another four (4) schools by assistance from the Girl Guides Association of Canada.

Whilst it is easy to pick upon the obvious and unpopular consequences of a rate change it is also important to understand that on the positive side this change should enable us to move quickly towards a balance in the public sector accounts. We anticipate for example, that in connection with this particular measure the overall deficit of the Public Sector will be turned into a surplus. I should add Comrade Speaker, that this will have been the first time in this decade that such an eventuality has materialised.

As is usual when rate changes of this magnitude are implemented consideration has to be given to the adverse consequences likely to be experienced by debtors, particularly those with funds in the External Payments Deposits Scheme. In this regard the Central Bank will cushion the exchange losses of certain categories of companies whose circumstances or situation is such as to inhibit or prohibit them absorbing these losses in their on-going operations. It should be further noted that the Central Bank will, in this regard facilitate to some extent those enterprises making constructive efforts to address the problem ~~(treat with this difficulty)~~ by way of expanding export earnings, using a mechanism of providing inputs to selected exporters.

B. 6. EMPLOYMENT

Over the years, as the economy has struggled to surmount the difficult economic recession, there has been increasing concern about unemployment. In the course of the TUC/Government negotiations the Government was asked for assurances that there would be substantial wage increases on the one hand and no devaluation or retrenchment on the other. We recognise of course that these kinds of preconditions are not consistent with one another. The measures offered in the Budget seek to increase the profitability of traditional and non-traditional economic activities

so that increased profitability might encourage increased production, and increased production would in turn provide outlets for greater employment.

I should like to make special mention in this context of the proposals for income tax incentives which are intended to stimulate agricultural production and the exporting of manufactured and processed goods.

I should like to mention also that the proposals to provide a free window in foreign exchange as well as a stimulus to the housing sector will enhance employment. It may be said that this Budget, whilst being very tightly constructed in one sense was fashioned with an eye on the special employment needs of the economy.

B. 7. REVENUE MEASURES

Comrade Speaker, on the revenue side I am glad to announce that only one tax measure is proposed for 1987. The levy on betting shops which was set at half a million dollars in 1986 is now to be increased to \$1m.

1987 PROJECTIONS

Comrade Speaker we anticipate that real growth in 1987 will amount to about 3 per cent. The main contributors to this rate of growth are expected to be rice and other manufactured products which now should grow by 20 and 5 per cent, respectively.

On the external front, increased Guyana dollar receipts from sugar, bauxite and rice exports will not suffice to avert an initial deterioration in the overall Balance of Payments position, i.e., including net transfers amounting to \$244m. On the one hand imports are expected to rise from \$1618 to G3843 while exports on the other will increase by 168 per cent from \$1092 to \$2923.0m. Fuel and lubricants will continue to loom large in the imports of 1987, representing over 26 per cent of our total import bill.

Public Debt is estimated to rise from \$628m. to G1516m. an increase of almost 141 per cent while overall current expenditure will rise to some \$2491m. This large increase in the current expenditure of the Central Government, will not be fully covered by increased revenues. In fact, the latter is

only expected to increase by 37 per cent. However, the rate adjustment which would have contributed to this deterioration in the Central Government's accounts will be more than compensated by improvements in the surpluses of the public enterprises. Specifically, the main beneficiaries of the exchange rate move will have been reflected primarily in the operating surpluses of the main export enterprises Guymine, Guysuco, Guyana Fisheries Limited (GFL), Guyana Liquor Corporation (GLC) and Guyana Telecommunications Corporation Limited (GTC). Actually, taken as a whole it will convert the 1986 operating surplus of G\$125m into a hefty \$949m.

B. 9. FORMAT OF ESTIMATES

During the course of the Committee on Supplement proceedings I intimated to members of the House that the Government had been looking at devices for improving the format of the Estimates. You are no doubt aware that the Capital Estimates have in recent years been supplemented considerably by the addition of an appendix which includes all projects submitted to the State Planning Secretariat for consideration for inclusion in the Annual Estimates. This year, we have

addressed all the main inadequacies of the current Estimates as in previous years.

In the first place the legend and notes have been considerably expanded to facilitate both monitoring by the Ministry of Finance and the Public Service Ministry and to lend assistance to members of the House in keeping track of the components of expenditure contained within the various sub heads. You will note also that this year an appendix has also been prepared to the Current Estimates and this appendix spells out in great detail the categories of employees within the pensionable and approved establishments of each of the agencies covered by the Estimates.

Finally, another novelty of the current Estimates is the separation for purposes of identification and control of the expenditures designed for Health, Agriculture and Education within the regions. Doubtless you will recall that some members of the Minority' parties jumped to the conclusion in previous years that the sum total of expenditure on these heads had been reduced when in fact the services had been regionalised. They arrived at this conclusion because they simply looked at the amount allocated to the

central ministries alone. I hope that the new format will facilitate more informed discussion of this year's current Estimates. You will note, however, that it has added considerably to the number of tables in the estimates.

It may also be noted that the category Expenditure specific to the Agency has been used more selectively than in the past thereby enabling a more distinguished form of expenditure to be classified under the usual and more normal headings. I am aware that all the members of the House have been waiting patiently to hear exactly what rate has been chosen. Comrade Speaker, I' can now indicate that we have settled for a rate of G\$10.00 to US\$1.00. This rate is to prevail with immediate effect.

CONCLUSION:

Comrade Speaker, I have deliberately moulded this presentation so as to highlight the main characteristics of our economic condition. It has been crafted without specific references to the debilitating effects of the world economic situation with which we have to deal. I have taken this route in order to focus on the self-reliant nature of the adjustment policies we are recommending, without diverting attention to those exogenous circumstances which will make our task difficult. I wish to deprive our psyche of the chance to seize on excuses however justifiable for non-achievement.

The task of economic adjustment is as much our responsibility as is the reality that this economy is ours. No assistance, however generous, however well-intentioned, however niggardly, however devious, can vary the reality of that burden of responsibility. The noble goal of building a society characterised by high production and productivity, by equitable treatment of its citizenry, by the humane and humanitarian virtues to which we refer as socialist, will not remain within our competence if we eschew that responsibility.