



**1989
BUDGET**

**FACING
THE CHALLENGES
OF
ECONOMIC RECOVERY**

MARCH 31, 1989

**BUDGET SPEECH
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Cde. Carl B. Greenidge, M.P.
Minister of Finance

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ECONOMIC RECOVERY**

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1. INTRODUCTION

Cde. Speaker, I move the motion for the approval of the Estimates of Expenditure for 1989.

The 1989 programme of the government aims at nothing less than the radical adjustment of Guyana's economy and the lifting of its productive capacity. 1989 represents the first year of a three-year joint initiative with the international financial community to effect an improvement in our economic performance. You will no doubt recall Cde. Speaker, that as early as 1985 and more recently in 1987 and 1988 the Government of Guyana, with very little external financial support, and recognising the need for the urgent resuscitation of the economy, embarked upon some extensive economic reforms. The extent of the imbalances faced by the economy however, did not permit the completion of this task within a reasonable period of time without external support. For this reason we moved in 1987 and 1988 to secure international financial support.

OBJECTIVES OF THE ERP

Before I discuss the results of that initiative, permit me to highlight the main objectives of the Economic Recovery Programme.

They are to:

1. reverse the decline in economic growth and to establish a rapid rate of increase in GDP and real per capita incomes;
2. effect an improvement in public sector fiscal performance by improving the efficiency of the public enterprises and by more careful management of central government resources;
3. restore productive capacity particularly in the export sector;
4. diversify the economic base;
5. improve the state of the physical capital stock;
6. provide the basis for a viable Balance of Payments situation in the medium-term.

More specifically, the quantitative targets for the three-year span of the medium-term programme are to:

- a. achieve an average rate of growth of GDP of 4 percent per annum in real terms;
- b. reduce the annual rate of inflation to 10 percent by 1991;
- c. reduce the overall deficit of the non-financial public sector from 40 percent to 20 percent by 1992;

reduce the external current account deficit to 26 percent of exports by 1991;

- e. increase the net international reserves by US\$15m a year;
- f. eliminate the external payments arrears.
- g. reduce the levels of inflation;
- h. reincorporate the parallel market into the official economy;
and
- i. normalise the country's financial relations with external creditors.

2. MEASURES TO ACHIEVE THE STATED OBJECTIVES

Cde. Speaker, ever since 1983 when this Government declined entry into another Fund Programme which it perceived to be internally inconsistent, Guyana has been forced to pursue economic recovery and structural adjustment policies with grossly inadequate resources. Consequently, our problems had to be addressed in a piece-meal and partial fashion. The efficacy of the policies could not be fully realised; and more importantly, having perceived a lack of credibility in our initiatives, some segments of the society seized the opportunity to capitalise on the situation. In essence, therefore, our being denied the opportunity to grapple with our imbalances and other macro-economic dislocations while they were more manageable was unfortunate. Today these imbalances are intractable and must be addressed as a matter of urgency.

INTERNATIONAL ECONOMIC INTERDEPENDENCE

I do not propose, Cde. Speaker, to elaborate here the reasons why Government refused to accept the Fund's 1983 proposals. Those reasons were detailed in my 1985 Budget Speech. What I do wish to emphasise and highlight is that ours is a dynamic and interdependent world, where change is ushered in as nations become increasingly aware that economic stagnation in other countries becomes an embolism in the vital circulation of the entire international system. Global realities, pressures from member countries, and to some extent the Fund's own experience with fashioning adjustment programmes for developing countries have led to a greater degree of sensitivity, accommodation and flexibility on the part of the Fund.

Cde. Speaker I should crave your indulgence to give this House two (2) examples which demonstrate the point I am making. The first is the "Statement on External Debt" adopted by the South Commission at its second meeting in Kuala Lumpur, March, 1988. The statement said in part:

"The debt problem is a global problem: its severity is due very largely to the underlying malfunctioning of the international economic system. Thus a more comprehensive approach is urgently needed. Such an approach would be based on internationally approved guidelines for debt management, to which both debtors and creditors would be committed. Within these guidelines there will still be need for a case-by-case approach, so as to work out an appropriate mix of new financing, debt reorganization, debt relief, and policy reform. A comprehensive strategy must be based on the following guidelines: net transfers, growth, structural reforms, multilateral financing, debt rescheduling, multilateral debt reorganization, trade and contingency."

My second example is drawn from the Fund's September Annual General Meeting in the Federal Republic of Germany at which it was recorded that:

support is growing within the Fund for a plan to assist countries in arrears to the Fund to clear their overdue obligations;

if the arrears are not dealt with urgently the Fund's financial position could be weakened;

domestic efforts will have to be complemented by extraordinary support from the international community;

the plan to tackle the problem will be based on three (3) principles; genuine efforts at economic reforms by countries in arrears, donor governments bilateral aid, and provision of bridge finance by the IMF itself.

Cde. Speaker, our own analyses suggest that we cannot hope to correct our imbalances without external assistance. It is to our advantage that the international community sympathizes with that view.

PRINCIPLES OF THE ECONOMIC RECOVERY PROGRAMME

If there is one issue which has been settled beyond cavil it is that in the final analysis, restraining and eventually incorporating the parallel market into the official one, improving the quality of life, controlling inflation - in a word everything depend on augmented and more efficient production. But to ensure greater and more efficient production, the prerequisite productive and social infrastructure must be either refurbished or installed and subsequently maintained; the correct price and other incentives must be provided; technical and managerial skills must be generated; and confidence must be restored. The initiatives which Government proposes to pursue over the short-to-medium-term are designed to remove

these constraints which have almost become binding during the course of this most turbulent decade.

Our priority, in the first instance, will be to rehabilitate productive capacity and social infrastructure. We need to consolidate our position by putting in a proper state of repair, the infrastructure which we have created over the years. This, in combination with initiatives oriented towards re-assessing our sources of raw material inputs and making funds available for the acquisition of developmental inputs, in general, will facilitate high utilisation of installed capacity, support private sector investment, and promote production and export diversification.

Cde. Speaker, I suppose it is common knowledge that much of the preparatory work in pursuit of these objectives has already been set in train. Allow me, nonetheless, to highlight some of the successes realised to date.

Government has successfully negotiated the renewal of the European Investment Bank (EIB) loan which places at the disposal of private producers/exporters of traditional and non-traditional commodities approximately 4m ECU over a 4 year period. Also, Government has taken a decision to channel to the private rice milling sector, US\$3.2m which were initially earmarked for the public sector rice mills. This is in addition to the US\$7.2m disbursed to private sector millers during the course of 1988.

The Government has secured from the Inter-American Development Bank (IDB) a US\$2m revolving line of credit to be used to facilitate non-traditional exports. Dis-

bursement of this line is due to commence shortly. The Bank of Guyana, the executing agency, has received technical co-operation to assist in the establishment of the disbursement mechanism.

Government has initiated discussions with the IDB with a view to establishing a Pre-Investment Fund which would facilitate private sector investment by generating a shelf of potentially viable projects. The IDB is also being asked to finance a study of the needs of the private sector in such areas as general manufacturing and industrial production.

Both the domestic and foreign private sectors will have a role to play in augmented and efficient production. The foreign private sector is important from the point of view of the financial and technological resources at its disposal, its stock of managerial capacity and its access to markets. Appreciating the indispensability of these resources and recognising the impossibility of generating the above unaided, Government prepared, circulated, and laid in Parliament its position on private investment. This document gives the private sector the guarantees it seeks and specifies the framework within which the sector will be expected to operate. In combination with existing legislation, the present regime of fiscal incentives, our known natural resources, and efforts to rehabilitate infrastructure, a climate conducive to increased private sector participation has been created.

In this regard Government's success in attracting large, reputable foreign corporations to operate in Guyana is well documented. Worthy of mention here, are:

- (a) The imminent conclusion of a joint enterprise agreement between the Government of Guyana and Reynolds Metal Company of Richmond, Virginia to develop and mine bauxite deposits located in the Aroima region and to jointly market the ore extracted. The Memorandum of Understanding between the parties was signed in February, 1989. The initial capital requirements of the venture approximates US\$25m and production is expected to commence during the last quarter of 1989;
- (b) The recently signed contract between GUYMINE and C A DAYCO DE CONSTRUCCIONES to develop and exploit bauxite reserves at 8-Chimeri at Kwakwani. The project is expected to yield 1.35m tonnes of bauxite within a three-year period, commencing in 1989; and
- (c) Agreements with two consortia of four companies to explore for petroleum in Guyana.

Economic ventures such as these are of importance to our recovery and the emphasis placed by Government on these projects is indicative of Government's recognition of this.

It is important, too, to highlight that the Government of Guyana is a signatory to the Multilateral Investment Guarantee Agency (MIGA).

Cde. Speaker may I refer to my 1984 Budget Statement in which I dealt at length with the resource allocation problem. The economy continues to be plagued by the suboptimal al-

location of resources principally because of the functioning of the parallel market. However, Government recognises that the distribution of resources among alternative uses is also adversely affected when inefficient users of these resources are allowed to have a claim on them. Government has, therefore, taken steps to improve the efficiency and financial performance of the public enterprises and rationalize further their operations.

What needs to be emphasised, Cde. Speaker, is the fact that where a suboptimal allocation of resources occurs, benefits neither accrue to the economy nor to those vulnerable segments of the population which the Government may wish to protect. It follows, that in the current situation of serious macro-economic distortions, Government will have to rely more heavily on the use of market mechanisms to effect the desired allocation of resources. While Government will do everything in its power to protect the more vulnerable segments of the population, self-help measures represent the surest way in which the vulnerable could cushion the impact of adjustment. We need to rekindle the spirit of self-help. I will return to this point in the final part of my presentation.

Even more important, to the vulnerable, the wider population, and indeed to the success of the recovery programme, will be the need to preserve a 'stable climate of industrial relations. It would be disastrous to subscribe to trade union adventurism. Not only would industrial unrest jeopardise recovery but it would also destroy the investment climate we have created, and scare off foreign investors.

side. Speaker a discussion of the principles of the Recovery Programme would be patently incomplete without an exposition of what is proposed with regard to the public debt. I have said earlier that the Recovery Programme is premised on domestic effort and the support of the international financial community. In other words, easier external conditions as regards trade and finance are the counterpart of serious domestic adjustment. Informed commentators, academics and practitioners alike, agree that the debt problem is the Gordian knot which must be severed if short-term recovery, and the financing of long-term structural change are to be possible.

The Government of Guyana is attempting to secure exceptional capital inflows in the form of concerted rescheduling, new grants and credits, and exceptional debt relief.

Concessional rescheduling is being sought for external payment arrears due to bilateral creditors, financial institutions, and suppliers. This is assumed in the 1989 Budget. The 1989 Estimates also assume the reduction of interest rates on part of the outstanding stock of debt.

3. THE INTERNATIONAL FINANCIAL INITIATIVE

It has long been evident to us that most of the initiative and burden involved in this process of economic adjustment will have to be borne by the Guyanese people themselves. The international financial community and the transnational financial institutions certainly can and do help in many countries. But, the bulk of the effort in terms of fashioning the programmes of adjustment and, more importantly, in bearing the cost of adjustment, has to be carried by the people of the relevant countries themselves. In recognition of this reality the initial efforts of the Economic Recovery Programme were undertaken by the Government of Guyana without any substantial assistance from the International Financial Community. In 1987, in addition to a steep devaluation of the Guyana dollar and measures such as the restriction of credit, the Government undertook the liberalisation of the trade licensing regime, the elimination of import licences for 'no foreign currency' transactions and the reduction of the list of prohibited imports. We also devoted attention to improving the climate within which economic activities take place so as to encourage individual initiative and enterprise. A free foreign exchange window scheme was instituted and the interest rates of the Guyana Co-operative Mortgage Finance Bank (GCMFB) were reformulated. Other incentives included fiscal and price concessions to the mining industry, duty free importation of mini-buses and related transport vehicles as well as export allowances and the land development allowance.

Such was the extent of the disequilibrium of the economy that these efforts, important though they were, could not by themselves restore the economy to balance. This faltering, mentioned in the 1988 Budget measures which were the antecedents of the Economic Recovery Programme (ERP), was due to lack of external support.

Doubtless colleagues will recall the 1988 Budget theme 'Retooling and Regrouping for Growth'. That Budget signalled a stepping up of the pace of our search for international assistance. I should therefore like to now turn to the outcome of the initiatives.

In June, 1988, after exhaustive discussions, a Policy Framework Paper (PFP) was fashioned and agreed between representatives of the Government of Guyana and representatives of the IMF and IBRD. The PFP outlined in general terms the nature of an economic programme on the basis of which the government could seek financial assistance and other support from the International Financial Community. On that basis, we canvassed support among the International Financial Community for the programme.

Between August and October 1988, we were in a position to approach various countries in a bid to secure assistance. Although many offered assistance especially for capital projects, two stumbling blocks soon emerged. No country was prepared to help outside of a signed IMF programme. Moreover, there were differing views within and among donor countries with respect to how the arrears to the IMF would be cleared. It was evident that Guyana could not liquidate such arrears from its own resources. The offers of help and proposals had not taken account of this reality. At the same time none of the

countries was prepared to have the Fund, IBRD or CDB for that matter, write off any of our arrears.

The first attempt at resolution of this dilemma was by way of the establishment of a Consultative Group on Guyana chaired by the IBRD. Later, as an alternative, the Support Group was established consisting of Canada, Japan, United States of America (USA), United Kingdom (UK), Federal Republic of Germany (FRG), Venezuela, Trinidad and Tobago, France with Italy as an observer and chaired by a representative of Canada. Canada was in effect required to play the role of an 'honest broker' linking Guyana to the Group and speaking on equal terms to the members of the Group. You are all familiar with the additional delays that were experienced. No movement was effected outside of this forum.

The so-called 'enhanced collaborative approach to debt' eventually got underway after the Canadian elections but in the absence of a clear, consistent policy for the treatment of chronic indebtedness, the process was characterised by further delay. This aspect of the Support Group policy continues to be unresolved and is likely to militate against enthusiastic embrace of the concept by debtors. The insistence on priority treatment of Multilateral Financial Institutions (MFIs) debts also needs to be re-examined. The same applies to the absence of use of objective criteria of chronic indebtedness.

In view of the many opinions to which the public is treated, I would like to offer some observations concerning the mood of the International Financial Community and its implications for countries such as Guyana in search of assistance.

A rough estimate of the original and current requirements for the three-year programme period is as follows:

<u>Original Estimates</u> <u>of requirements</u> US\$M	<u>Current Estimates</u> <u>of requirements</u> US\$M
BOP	
Assistance 486	375 (1)
of which-	
Bridge (165)	(179.8)
Project Funds 239	269.5
Rescheduling 1153	1287.5 (2)
1878	1932
=====	=====

Financing Pledged
US\$M

Creditors	1287.5
MFIs	239
Support	
Group(S.G)	95.0
Non-S.G bi-	
laterals &	
MFIs	299.5

Remaining	
gap	11.0
	=====

(1) Includes private inflows amounting to US\$30 million.

(2) Includes US\$165 million consolidation of current debt (Trinidad and Tobago and commercial banks) and US\$60 million interest debt relief from Trinidad and the Caribbean Multilateral Clearing Facility.

The estimates for the first year of the programme is set out below. The difficulty here centres on the Balance of Payments support.

	<u>Requirements</u> US\$M	<u>Pledges</u> US\$M
Project Funds	99.5	99.5
BOP Support	54.7	40*
		15**
	<hr/> 154.2	<hr/> 154.5

* Support Group

** Private Sources

Unfortunately, not all of the this support is in the form of cash and the conversion of commodities into exports with which to honour obligations such as the servicing of IMF debt may well be difficult. Secondly, and perhaps of even greater import is the fact that, although not evident from the numbers for the year as a whole the pledges leave us short of funds during the first quarter but well served during the last. We have worked on these two problems incessantly but the fact is that they remain unresolved. We shall leave no stone unturned in order to resolve this problem.

The general attitude of the International Financial Community today does not suggest an early solution to the plight of heavily indebted countries such as Guyana. More importantly, that Community requires the implementation of remedial measures endorsed by the IMF as a prior condition for any rescheduling of substance. Thus, their willingness to treat with heavily indebted countries is severely conditional. Secondly, they have been taking the position that the costs of adjustment should be borne as far as possible by the developing countries themselves. Assistance offered to such countries is not therefore intended to offer protection from the consequences of negative growth.

In this regard there can be little doubt that our initial efforts at the ERP in 1987 and 1988 played a very crucial role in selling Guyana's case. Donors seem particularly preoccupied with proof of the Government's intentions and its ability to implement hard decisions. The 1989 Budget reflects those realities and it is also influenced by the discussions which have taken place with the donors. In this regard I am thinking especially of the Resource Mobilisation Tours to major donor capitals in August, September and October of 1988. These exercises provided the basis for a 'Monitored Programme' approved by the Management of the International Monetary Fund, a Structural Adjustment Credit to be signed towards year end with the World Bank and external bilateral financial assistance on which the 1989 Budget is based.

Cde. Speaker, the work of a very enthusiastic Support Group Chairman and basically well intentioned members has enabled us to avoid the pitfalls of negotiating that international financial support. The Group has now agreed to a financing package for Guyana's three-

year programme.

The financing programme is still in the process of finalization. In June, Guyana's needs were estimated at around US\$1.7b which included US\$1.2b of rescheduling. The Support Group had been asked to provide around US\$150m of the funds which would be needed. The most recent estimates suggest a total need of US\$1.9b, including US\$1.3b of rescheduling. Balance of Payments assistance and project funds amounting to US\$644.5m would need to be found in addition to a US\$179.8m bridge. To date, the MFIs have agreed to provide US\$239m and the Support Group US\$95m. If all the rescheduling materializes, the remaining gap would be US\$11m. We are still attempting to close this gap because we are satisfied that the US\$1.9b is the minimum quantum of resources needed to support the programme. We are hopeful that the Support Group which has found the programme acceptable will raise the additional funds by mid-April.

4. 1988 PERFORMANCE

OVERALL GDP AND SECTORAL GROWTH

✓ The performance of the economy in 1988, as measured by GDP growth, was very disappointing. Real GDP declined by 3 percent. Sugar, rice, and bauxite which were projected to grow by 4 percent, 9 percent and 40 percent respectively, fell short of both their annual production target and 1987 performance levels. The extremely unseasonal weather conditions, critical shortages of skilled labour and production inputs took their toll. ✓

As if that were not enough the industrial action by some segments of the labour force led to costly work stoppages and unnecessary losses of production and incomes.

The sugar production target was 233,68 tonnes. Realised output for the year was 170,180 tonnes some 24 percent below the level achieved in 1987.

On the export side, sugar revenues of \$74 million were equivalent to 72 percent of the year's target and 21 percent below the 1987 level. This was so even though there has been a reshaping of our marketing strategy to channel production to the larger and more lucrative EEC market. We were of course forced to undertake the importation of 3,55 tonnes of sugar during the year.

In the case of bauxite, despite the buoyancy of the world market in 1988, all the production lines, with the exception of chemical grade bauxite, recorded declines against the 1987 output levels. Calcined declined by 6 percent, metal grade by 17 percent, and abrasive grade bauxite by 31 percent. In 1988 production was hampered by the high silic

content of ore mined at Kwakwani, heavy rains, and shortage of skilled personnel.

The performance of this export sector was disheartening. In spite of the fact that 1988 export prices represented an improvement over the previous year's, total receipts of \$795 million were \$67 million less than those of 1987 and 28 percent below budget.

The available data show that the rice industry's performance was well below expectations. In fact, actual out-turn for 1988, 130,000 tonnes, was the lowest production level since 1976 (103,662 tonnes) and very much below the peak of 1978 (184,876 tonnes). This level of performance is partly explained by the disease and the low national yield realised for the second crop. As a consequence, the value of exports was \$154m which was 10 percent below the target and \$7m below the 1987 achievement.

The declared gold output of 584.8 kilograms was 6 percent below the revised annual target and 81.4 kilograms less than the 1987 achievement. Declarations continue to dwindle as miners perceive the official price to be uncompetitive when compared with the price the metal can attract on the parallel market.

Fish and shrimp production showed mixed results. Fish output in 1988 was 41.2m kilograms. This output level was marginally short of the annual target but 7 percent above that achieved in 1987. Total shrimp production of 3.8m kilograms exceeded the annual target by 9 percent. A disaggregation of this total reveals a continuation in the growth in landings of small shrimp. The volume of prawns landed, however, continues to decline. In 1988 it was 21 percent below

annual target and 24 percent below 1987 level.

These statistics suggest that extensive illegal activities may be continuing. They point to the need to strengthen measures designed to conserve the fishery and preserve the stock from over-exploitation.

Recorded timber production for 1988 was 4.4m cubic feet. This was 80 percent of the year's target and 15 percent below the 1987 level. Exports also fell a sizeable 36 percent below the recorded 1987 level and a mere 38 percent of the annual target was achieved.

PUBLIC SECTOR

The above performance had a marked impact on the financing of the public sector. The projected overall public sector deficit of \$697m was intended to be financed via \$387m from net capital inflows and \$310m from internal borrowing. In the end, the public sector generated a deficit of \$978m and only 36 percent of the foreign inflows was realised.

As a consequence, Government's attempt to pursue its development objectives and, in particular, to implement its capital programme were severely hampered. In addition to the lower than planned foreign inflows, the shortage of building materials, especially cement and stone caused delays in the commencement and completion of several projects.

CENTRAL GOVERNMENT

The current operating deficit of the Central Government of G\$259 million while representing a significant improvement over the 1987 level of G\$913 million, deteriorated sharply when compared with the budgeted level of G\$145 million in 1988. This was despite a promising outturn in revenues which was 4.7 percent better than the budgeted amount of G\$1642 million and 41 percent more than the 1987 figure of G\$1220 million. The main contributor to this performance in revenues was a 59 percent increase in collection of company income taxes as a result of successful implementation of a system by the Commissioner of Inland Revenue whereby companies were requested to pay taxes based on current year operations rather than on the previous year.

The increase in current revenues, however, was more than offset by increases in current expenditures which were 10.7 percent more than the budgeted amount of G\$1787 million. Employment cost and other charges rose by 4.8 percent and 12.5 percent respectively, reflecting the noncompletion of the rationalization exercise announced in last year's budget presentation. Interest payments continue to claim a large share of current expenditures, rising from the budgeted 32.5 percent to 33.5 percent.

When the capital programme of G\$809 million, which was down 25 percent on the budgeted amount, is added to the current deficit, the overall deficit of the Central Government worsened to a level of G\$1006 million, a decline of 8.5 percent on the budgeted amount and 29.5 percent when compared with 1987. The deficit was largely financed once again by borrowing from the banking system. Capi-

inflows only accounted for G\$185 million.

PUBLIC ENTERPRISES

During 1988, the financial performance of the public enterprises was considerably below expectations as a result of declining production levels in many of them. The lower than budgeted level of productive activity was particularly reflected in the level of export revenues generated which while amounting to G\$2038 million was nevertheless about 29 percent below the target for 1988. This shortfall in export revenues was not offset by the 9 percent increase in revenues generated domestically. As a result, the total revenues generated by the public enterprises from their current operations amounted to G\$4600 million, 15 percent below the 1988 target.

The decline in productive activity was also reflected in the level of operating expenditures incurred which amounted to G\$4100 million, 12 percent below the target. However, this level of under expenditure was not proportionate to the decline in productive activity since the average return per dollar of expenditure for the public enterprises as a whole, was about 12 percent compared with a target of 15 percent. This implies that the expenditure per unit of output was higher than budgeted in several enterprises.

As a consequence of their operations during 1988, the public enterprises realized an operating surplus of G\$492 million which was about 31 percent below the 1988 target of G\$708 million. Notwithstanding this overall performance, several corporations achieved operating surpluses which were equivalent to the target set for 1988. Some of these were:

1988 OPERATING SURPLUSES

CORPORATION	BUDGET (GSMn)	ACTUAL (GSMn.)
G.S.L.	35.4	50.3
Guyoil	23.1	29.3
G.N.S.C.	2.5	6.0
G.N.P.L.	6.2	8.5
G.P.C.	7.1	13.0
N.P.C.L.	0.7	2.7
G.N.E.C.	8.9	12.6

There were, however, a few corporations the Guyana Mining Enterprise and the Sugar Corporation which, while operating surpluses were unable to achieve their targets for 1988. The Guyana Rice Milling and Marketing Authority and Guyana Fisheries Limited continued to incur significant losses.

The corporations also expended \$512 million on those capital programmes undertaken during 1988. The major contributors to this level of expenditure were the Guyana Mining Enterprise (\$122 million), the Guyana Sugar Corporation (\$165.6 million), the Guyana Lumber Corporation (\$37.0 million), Guyana Fisheries Limited (\$16.23 million), Guyana Rice Milling and Marketing Authority (\$11.4 million), Demerara Woods Limited (\$18.19 million), Guyana Electricity Corporation (\$41.3 million), and Guyana Pharmaceutical Corporation (\$11.92 million). In most cases, the individual capital programmes were intended to rehabilitate, maintain and expand productive capacity and were all at various stages of completion at the end of 1988.

er bottlenecks related to the shortage of managerial and technical skills as well as physical infrastructure to facilitate production (such as power), served to adversely affect the performance of the en-

budget presentation last year, I indicated that the Bank of Guyana had expressed some concern about the sharp rise in the expansion of credit by the commercial banks during 1987. This expansion mainly for consumption was linked partly to the inflation which followed the devaluation of the Guyana dollar in January 1987, but was also a consequence of the rise in activity in the parallel economy. I said that the Bank of Guyana would seek to restrict access to the banking system to finance consumption.

The Bank of Guyana decided to use moral suasion that is consultation with the commercial banks, to limit the expansion of credit by the banks. Whatever expansion took place was to be directed to the export sector and to agriculture particularly for crop finance.

The commercial banks may have been somewhat reluctant to respond to the directions given by the Bank of Guyana and it took longer than anticipated to achieve the desired results. The exercise however did slow down the expansion.

The Bank of Guyana was also requested in my presentation to consider the use of legal reserve requirements to support its credit policies. The Bank, in its examination of this policy instrument, noted that the requirement of the Banking Act was that

reserve ratios should be uniform for all commercial banks.

In
to be applied to the liquid assets of the commercial banks in relation to their deposit liabilities. This ratio varied for individual banks from in excess of 100 percent to 33 percent. In these circumstances, to apply a uniform ratio which would restrict credit expansion was not possible.

SOCIAL SERVICES

The performance of the Social Sector in 1988 has been encouraging when compared with other sectors. The subsidized CXC/GCE scheme introduced in 1988 benefited some 2,799 pupils to the tune of \$1.73m and 199 students received monetary awards under the provisions for the encouragement of higher academic performance.

A division of Child and Family Welfare Service was established within the Ministry of Education to provide counselling for families and individuals with social problems. The establishment of this division will satisfy a rapidly growing need.

In the area of health, CIDA, PAHO, Rotary International and UNICEF contributed to the extended programme of immunization (EPI). This contribution was captured in a 1988/1991 agreement for the sum of US\$720,000. Malaria, the incidence of which had risen in recent years, was the subject of increased attention in 1988. The Netherlands organisation, Medicines Sans Frontiers (MSF) contributed to this effort by way of materials, resources and technical skills. As a result

of these efforts, there was a significant reduction in the number of malaria cases during the course of 1988. Another area of particular concern on the health front was AIDS. As a result of initiatives taken by the Government of Guyana, funding was received from PAHO/WHO for a short term AIDS Prevention Programme. During 1989, indeed in the near future, an AIDS laboratory will be established with EEC assistance.

In 1987 the Government indicated that it would be selling rental apartments it currently owns. The Condominium Bill was tabled in Parliament in early 1988 to facilitate the selling of 1285 apartments. At the same time work is being carried out on the Wortmanville flats. Complementing these measures in a bid to lift the depressed state of house construction, encouragement by way of incentives is being provided to private housing developers and the government is currently looking at incentives for businesses which undertake house construction for their workers.

Potable water which has been a very problematic area in recent years has benefited from some improvements in 1988 as a result of new wells such as those drilled at La Bonne Intention, Plegt Anker and Kingston.

THE STATE OF PHYSICAL INFRASTRUCTURE

The upkeep of sea defences continued to be a top priority in the infrastructural rehabilitation programme. However, a major setback was the unavailability of boulders. This and other constraints prevented the rehabilitation programme from keeping pace with the rate at which breaches occurred in the system.

Major roads and highways deteriorated in 1988 as maintenance programmes frustrated by the unavailability of building materials such as stone and equipment.

During 1988, the Government intended to significantly attenuate the production bottleneck posed by the continual deterioration of our electricity generating facilities. However, the lengthy lead times associated with utilizing external funds and our inability to secure additional financing resulted in the further deterioration of major plants operated by the Electricity Corporation. As a result, companies resorted to self-generation to maintain planned production levels and others were forced to operate at lower levels of capacity utilization.

1989 POLICIES

EXCHANGE RATE POLICY

Cde. Speaker, the exchange rate mechanism is a powerful tool of economic management. It is the Government's firm belief that the establishment of an appropriate exchange rate is essential for maintaining the profitability of productive enterprises and in achieving export-oriented economic growth. Guided by this belief, we sought in January, 1987, to achieve these twin objectives by establishing a rate of US\$1=G\$10. At the same time, a secondary foreign exchange window was created to act as a buffer between the official exchange rate and the rate prevailing in the parallel market. As a result, some of the main productive public sector agencies were restored to profitability.

For the exchange rate mechanism to be effective, it has to be used in both a flexible and dynamic manner, that is, it must be the subject of constant review to ensure that it is achieving the desired objectives. After careful assessment of the performance of the official and 'window' rates, we believe that it has become necessary to further strengthen the mechanism. Accordingly, beginning April 1, 1989, the official exchange rate system will be unified at a rate that falls within the range of exchange rates prevailing in the secondary foreign exchange window and in the parallel market. In other words, Cde. Speaker, the secondary foreign exchange window will be abolished from April 1, 1989 and only one official exchange rate will apply.

Following the unification of the official exchange rates the Government will implement a flexible exchange rate policy to help retain

its competitiveness and protect the balance of payments. As appropriate, the exchange rate will be adjusted periodically, taking account of developments in nominal wages, prices, international reserves and the parallel market rate. A mechanism for triggering adjustments in the exchange rate has been put in place for this purpose.

Under the current regime, exporters are guaranteed the retention of a minimum portion of their foreign exchange earnings for the importation of capital goods, spares and inputs. With the unification of the official exchange rates and the liberalisation of import and exchange mechanism, the retention schemes, including those pertaining to gold, will no longer be necessary. Accordingly, with a view to enhancing the effectiveness of the exchange rate system in allocating scarce resources, the retention schemes will be abolished by September, 1989. In the interim, retention quotas will be unified at a rate of 10 percent from April 1, 1989. The existing arrangement with Guymine will be reviewed by October, 1989.

You will recall, Cde. Speaker, that in September, 1988, the Government liberalised import licences for "no foreign currency imports". Since that time, the licences have been approved automatically and without restrictions for all bona fide transactions. This policy will be continued in 1989. In addition, the current system of licensing in the official market, which is used to allocate foreign exchange on a priority basis, will be replaced by October 31, 1989 with a non-discriminatory system under which import licences will be granted automatically for all bona fide transactions. Beginning in April 1990, the Government will also liberalise payments for services and trans-

fers with the exception of travel allowances. Meanwhile, foreign exchange will be made available on a priority basis. The priorities will be imports of fuel and lubricants, essential food and drugs, imports for agriculture, forestry, transport, mining and manufacturing.

MONETARY POLICY

Cde. Speaker, two weeks ago I piloted the Minimum Holdings of Liquid Assets by Banks (Temporary Provisions) Bill 1989 through this House. The Bill seeks to sterilize the excess liquidity in the banking system by restricting the lending policies of the commercial banks to new deposits attracted after March 15. As part of the process designed to improve the effectiveness of monetary policy, the excess reserves of the commercial banks will be converted into medium-term debentures and the tendering mechanism for treasury bills will be improved. These measures will be in place by June 30, 1989. As a consequence of these measures, the liabilities of the banking system to the private sector are projected to increase by 38 percent during 1989.

The Government will pursue a policy that would aim for positive real interest rates. In this regard, it intends to rely increasingly on market forces and proposes to establish competitive bidding for government securities by June 30, 1989. For the remainder of 1989, the Bank of Guyana will set the bank rate at a level that is positive in real terms and competitive with interest rates abroad. In doing so, it will take account of domestic inflation and conditions in the foreign exchange and domestic money and credit markets.

Beginning April 1, 1989 and for a limited period thereafter, the bank rate will be established at 35 percent. After this transitional period, the bank rate will be reviewed weekly and, as appropriate, will be adjusted. Subject to the minimum lending rate (prime rate) to be established by Bank of Guyana, lending rates will be determined freely by commercial banks and non-financial intermediaries. Lending rates of the development banks will be based on the cost of funding to the Treasury - either the Treasury Bill rate or the interest charged by external lending agencies, whichever is appropriate.

Generally speaking, deposit rates also will be freely determined by financial institutions. Credit programmes financed with budgetary resources or external loans will continue to be informed by national policies.

FISCAL EFFORT

Domestic Savings:

Central Government

Cde. Speaker, during 1989, the Government will be seeking to reduce the Central Government deficit by employing a range of devices. The proper management of this deficit has taken on added importance in light of developments in the recent past.

Traditionally, the revenues of the Central Government have not by themselves been sufficient to cover total expenditures. To a large extent, the Government relied on the savings of the public enterprises to finance this gap. However, in the period commencing 1978 the terms of trade, i.e., the relationship between import prices, particularly

fuel, and prices of exports turned unfavourable for Guyana and savings generated by the main export oriented corporations became negative. In response, the Government chose to finance the gap by borrowing from the banking system. This policy further aggravated the deficit as the servicing of the internal debt loomed large. In fact, while internal debt service in 1986, accounted for 44 percent and 25 percent of current revenues and GDP respectively, by 1987, the respective percentages were 85 and 36. However, as a result of the debt restructuring exercise which was completed during 1988, the respective shares declined to 43 percent and 21 percent by end-1988.

During 1989, emphasis will be placed on improving the administration and broadening the tax base by restructuring and extending excise and consumption taxes and significantly reducing tax exemptions. The objective is to improve the tax system and its administration so as to enhance revenue, minimize disincentives, improve resource allocation and help incorporate the parallel economy into the official economy.

As an initial step in this direction, the Government in January 1989 converted specific consumption taxes to ad valorem on a range of items. At the same time, the Government also established consumption taxes on a selective range of items that were previously subject to import prohibitions. From April 1, 1989, the Government will:

- (a) eliminate most exemptions from the Consumption tax and the import duties now granted to the public enterprises.
- (b) increase the excise taxes on beer and malts.

In addition, in the context of the Budget, the collection of property taxes and capital gains taxes will be converted from a billing system to a self-assessment system with payment due at the time of filing; the company and the corporate income tax will be paid quarterly on the basis of current year net income rather than the performance of the previous years; payment of dividends by public enterprises will be enforced, and the ceiling on wages and salaries for the National Insurance Scheme will be increased from \$400 per week to \$1,500 per week. These measures are targeted to raise Central Government revenues from 40 to 50 percent of GDP. When special transfers and levies from Corporations are included, the revenues as a percent of GDP can be expected to rise from 48 in 1988 to 79 in 1989.

On the basis of a sector by sector review expenditure the Government will be restructuring the Central Administration in a manner consistent with the objective of limiting the scope of Government activities and reducing overlapping functions between departments and agencies.

Meanwhile, the Government will reduce non-interest current expenditures from 37 percent of GDP in 1988 to 33 percent in 1989. This reduction will be partially offset by a transfer to GEC. This transfer, estimated at 5 percent of GDP or G\$383m, will compensate for the partial feed through of the devaluation.

The Government has started to improve budgetary procedures and decision-making. The Ministry of Finance will strengthen tax management and relevant administrative systems. With technical assistance that is

being sought from UNDP and other sources, the Ministry intends to establish by June 1989, a revenue unit that will advise on overall revenue policy and monitor collections. In addition, the budget process will be strengthened by better and more extensive reporting, monitoring and reviews.

- Public Enterprises:

A new exchange rate together with the implementation of a flexible price regime by the public enterprises should lead to a substantial growth in their revenues. At the same time, the enterprises, particularly GUYMINE and GUYSUCO, would no longer enjoy tax exemptions on a range of inputs and capital goods. Further, both corporations will be expected to pay income taxes and dividends to the Treasury, something they have not done since the early 80's.

To enhance the contribution of the public enterprises to public sector savings in 1989, the government will require the enterprises to make non-refundable special deposits to the Treasury.

Public Enterprise Programme

- The General Programme:

During 1989, the Government intends to continue its efforts to arrest the poor performance of the public corporations. In the 1988 Budget, I had referred to the institutional strengthening of what was formerly known as GUYSTAC, the promotion of effective cash management by the public corporations through the implementation of dividend payment policies and the closure of loss-making

entities. The specific actions to be pursued in 1989 in respect of these measures are outlined below:

Restructuring Programme:

On September 1, 1988, His Excellency the President of the Co-operative Republic of Guyana gave his assent to the Public Corporations Act 1988. This Act established the legal framework for the operations of the group of corporations under the GUYSTAC umbrella. It also provided for the dissolution of GUYSTAC and the establishment of the Public Corporations Secretariat with functions according to its new role.

The UNDP/UNIDO technical assistance programme which has as its major focus, the enhancement of the monitoring capability of the Public Corporations Secretariat will continue in 1989. Included in the 1989 work plan, are the preparation of diagnostic studies on the Guyana National Engineering Corporation and the Guyana Airways Corporation, and the improvement and design of existing and additional management information systems for the effective monitoring of the enterprises.

During 1989 the operations of the public corporations will continue to be reviewed and rationalized and their scope will be limited to existing functions. New public corporations will only be established as a result of changes associated with the rationalization exercise and/or joint ventures with existing corporations.

Disposal of Surpluses:

The implementation of the dividend policies outlined in the 1988 Budget will be in the context of the need to enhance the contribu-

tion of the public corporations to public sector savings. To this end the policy of requiring the corporations to deposit surplus funds in a special fund held at the Bank of Guyana in control by the Accountant General will continue in 1989. It is intended that this policy will garner about \$1.1b by the end of 1989. To facilitate this measure, specific deposit targets will be established for those corporations expected to benefit from the devaluation of the Guyana dollar and associated increases in prices and tariffs.

Divestment Exercise:

In 1988, I reiterated the Government's intention to close public corporations which were heavy loss-makers and could not formulate and implement programmes for financial resurgence. Since then, the Guyana Glassworks Limited has been closed and ten (10) other corporations have been identified for divestment by the Government. It must be noted that the term 'divestment' is understood to mean removal from 100 percent ownership by the Government.

The exact structure of a divested company will be determined by market conditions and standard business practices. The possibilities include closure and simple abandonment, outright sale to the private sector, and appropriate joint venture arrangements, including partial sale and leasing. The entities will not be allowed to be a drain on or marginally contribute to the Treasury.

The companies identified for divestment are as follows:

Guyana Transport Services Limited
Guyana Fisheries Limited

Guyana Nichimo Limited
Demerara Woods Limited
Quality Foods Limited
Guyana Rice Milling and Marketing
Authority
Guyana Stockfeeds Limited
Guyana Soap and Detergents
Company Limited
National Paint Company Limited
Sijan Palace (Restaurant)

The Government intends to move rapidly towards this divestment and expects to conclude these activities in the course of 1989. Towards this end, financial and marketing profiles for most of these companies will be finalised by March 1989 and by July and September 1989 for the remainder.

There are also a few other corporations which, though not inherently weak, need to avail themselves of opportunities, particularly involving foreign private sector participation, to improve their export and profit performance through appropriate business linkages with such investors. These linkages, which could not involve equity arrangements, will be designed to achieve the benefits of technology strengthening, product diversification, improvements in the utilisation of already installed capacity, management efficiencies and market entree. Such corporations include Guyana National Engineering Corporation, Sanata Textiles Limited, Livestock Industry Development Company Limited and Guyana Airways Corporation.

FOR 1989

Real growth in 1989 is targeted at about 5 percent and will require strong performance, particularly in agriculture and mining.

Sugar output is expected to grow by 19 percent over the revised 1988 level to realise a level of 203,000 tonnes while rice is expected to attain a level of 162,000 tonnes, an increase of 32,000 tonnes over the revised 1988 level. Total production of bauxite products is targeted to increase by 23 percent over the revised 1988 aggregate output level to reach 1.61mn tonnes. Gold is targeted to attain an output level of 810Kgs, some 38 percent above the declared production for 1988.

SECTORAL POLICIES

The underlying sectoral strategy is to promote export-oriented growth through augmented production in the traditional lines of agricultural activity and by strengthening the basis for diversification of the production and export bases.

(a) Agriculture

The traditional activities of sugar and rice apart, there is considerable potential extant in the forestry, fishing, and non-traditional sub-sectors. Government intends to fully exploit the potential in these sub-sectors by relying heavily on improved incentives and the price mechanism. More specifically, Government proposes to implement the

following policy measures:

- i) sugar production will be kept at an annual average of about 240,000 tonnes over the 1989-1991 period: a level well below the mid-1970s peak of 350,000 tonnes but consistent with out EEC and US quotas (167,000 tonnes and 7,300 tonnes respectively) and the industry's assessment of the volume which should be sold on the world market. In effecting this policy, GUYSUCO will be required to institute effective productivity and cost-efficient methods, and discontinue such aspects of its diversification programme as are non-profitable.
- ii) Government's principal objectives in the rice sub-sector are to increase production and exports to 240,000 tonnes and 100,000 tonnes respectively by 1991. To facilitate the realisation of these objectives, Government intends to emphasize the rehabilitation of infrastructure; strengthen support services in quality control, research, extension, and water management; and provide appropriate and adequate resources and incentives for all levels of irrigation works as well as sector-wide quality control, milling, transport, and storage facilities.
- iii) Recognising the potential of the "other crops" sub-sector for impacting on food self-sufficiency and increased export earnings, Government proposes to focus on in-

vestment geared to provide essential services, and to create and maintain infrastructure. The exploration of possibilities for joint marketing with fellow CARICOM countries will also be accorded some priority.

- iv) With regard to the forestry sub-sector Government's objectives are to increase production and extra-Regional exports. A need has been recognised for the upgrading of management practices and this will be addressed during the course of the year. Government believes that an adjustment of the official exchange rate coupled with the implementation of an effective marketing strategy will be sufficient to enhance the export of forest products.

(b) Mining

Notwithstanding agriculture's importance to the national economy and without understating the vast potential for agricultural diversification over the long-term, it must be emphasised that Guyana's economic fortunes over the short-to-medium-term are inextricably linked to the fate of the bauxite industry.

In recent years much effort and resources have been devoted to reducing operating costs and strengthening management and marketing practices in GUYMINE. These focuses will persist in 1989. However, the most pressing priorities for GUYMINE are: the rehabilitation of its plants; the development of a new

mine to replace the one which will shortly be depleted, and developing the remnant deposit as an interim source of ore, pending the establishment of the new mine. Disbursements from the SYS-MIN facility in 1989 will ensure some amount of plant rehabilitation but the development of the new mine is well behind schedule.

The multinational corporations in the gold industry are continuing with their investments and a marked increase in gold output is expected by 1990. With regard to the atomistic segment of the industry (alluvial operations) it is expected that the exchange rate adjustment to be announced will result in a marked increase in declarations and sales to the Guyana Gold Board.

(c) Manufacturing

This sector's contribution to the economy continues to lie well below its potential. In recent years the most limiting constraints plaguing the sector have been the overvaluation of the Guyana dollar, the acute shortage of international liquidity, and the inadequate electricity supply. Government's objective is to create an environment conducive to the rapid expansion of manufacturing production based on the utilization of indigenous raw materials, by-products, and waste. Government's articulated policy is to encourage the participation of both the local and foreign private sectors.

As its general policy focus, Government

proposes to:

supplement price incentives with initiatives aimed at removing constraints to production and exports;

increase the effectiveness of existing incentives;

foster competition;

provide credit to assist export-oriented producers; and

routinely review fiscal incentives.

With specific regard to foreign private investment a data base and information system to facilitate informing and advising potential investors will be established within the "One-stop agency" (GUYMIDA) that expedites approval procedures.

BALANCE OF PAYMENTS

The current account deficit of the Balance of Payments is expected to deteriorate further in 1989 from US\$86.7 million to US\$138.7 million. Merchandise exports are projected to rise by 26 percent to attain a level of US\$270.3 million. Major improvements in export performance are expected from sugar, 21.6 percent; rice, 25.7 percent and bauxite, 30.9 percent when compared with 1988. Exports of services are targeted to rise by 10.2 percent above the 1988 figure of US\$49 million. This increase is premised on a slight increase in travel and transportation of the order of 8 percent.

Merchandise imports in 1989 are projected to

rise by 49.2 percent to a level of US\$321.7 million. This reflects an expansion in imports due to the expanded investment programme and the increase in the other categories of merchandise imports as a result of the expected disbursement of balance of payments support funds. A small increase is expected in the imports of services which is budgeted to rise by 5.1 percent above the 1988 level of US\$154.2 million. External interest payments will again be absorbing a large share of services imports.

PUBLIC SECTOR

The rehabilitation of the economy will require a substantial increase in domestic savings. The major aims of the economic recovery programme, in this regard, are to increase public sector savings and to limit the public sector deficit to an amount compatible with the availability of external financing. For 1989, the aim of the programme is to improve the current balance of the public sector from 6.1 percent of GDP in 1988 to 12.1 percent in 1989. Excluding interest payments on domestic and external public debt, the current account surplus of the public sector will increase from 24.5 percent of GDP in 1988 to 54.1 percent in 1989, highlighting the growing importance of debt servicing in the country's accounts.

Notwithstanding the improved current performance of the public sector, the overall deficit is projected to increase from 22.9 percent of GDP in 1988 to 38.6 percent of GDP in 1989. This large increase is attributable to the enlarged investment programme of the Central Government and the Corporations. Beginning in April 1989, external project inflows are expected to cover the bulk of the

Overall deficit thereby reducing the public sector's claims on the banking system. In addition, after taking account of receipts from balance of payments support grants and loans, the domestic financing will decline in absolute terms.

GOVERNMENT

Current revenues of the Central Government are projected to rise to \$4960 million or 288 percent of the 1988 recorded figure of \$1720 Million. This dramatic increase in revenues is associated with the measures outlined earlier and those to be announced later in this presentation. Customs and Excise Department and the Inland Revenue Department together account for 54 percent of the targeted revenues, while transfers from the public enterprises, net of taxes and dividends, will account for another 35 percent.

Current expenditures are targeted at \$5148 million which is 3.4 percent more than the current revenues for 1988 and 81.5 percent of GDP. This equally dramatic increase in current expenditure is attributable to an increase in internal and external interest payments which are scheduled to rise from 33.5 percent of current expenditure in 1988 to 51.5 percent in 1989. That increase reflects payments due but we shall be seeking to have these rescheduled. Total employer cost and other charges are projected to decline to 48.4 percent of current expenditure in 1989, from 66.4 percent in 1988 reflecting the savings to be generated from the rationalization exercise to be undertaken during the year.

The overall deficit of the Central Government in 1989 of \$2228 million is expected to

financed mainly from external sources and the anticipated rescheduling of some external debts (as mentioned above) towards the latter part of the year.

PUBLIC ENTERPRISES

As the country's major exporters, the public corporations performance will determine the fate of the Economic Recovery Programme during 1989. Indeed, the adjustment of the exchange rate will greatly improve the domestic financial surpluses of the main exporters, in particular.

In this respect, export revenues of the Public Corporations are expected to amount to \$8.518b in 1989. The major contributors to this dramatic increase in revenues will be GUYMINE (\$3.662b), GUYSUCO (\$2.813b) and the utilities -mainly Guyana Airways Corporation and Guyana Telecommunications Corporation - (\$607.2m).

On the basis of these considerably improved export revenues, premised of course on an improvement in production over 1988 levels, the public corporations, as a whole, plan to generate an operating surplus of \$3.050b. A breakdown of this operating surplus by specific groups of corporations is as follows:

GUYSUCO	\$1.110b
GUYMINE	\$1.150b
RICE GROUP	\$0.192b
UTILITIES	\$0.104b
OTHER	\$0.494b

The generation of these surpluses also takes into account the execution of a capital programme amounting to \$1.837b during 1989.

Roads

The Ministry of Communication and Works has compiled a list of major roads and highways to be rehabilitated and \$172.6 million have been allocated for this programme. Government has also approached the Italian Government for assistance to improve its capacity for conducting road building works.

Road Transportation

Under an arrangement with the EEC, a grant of ECU100,000 will be utilized for the acquisition of spare parts for the Guyana Transport Services (GTSL) workshop. Ticket machines will also be provided through the grant. The sale of GTSL buses will also help to restore carrying capacity.

The Government also intends to import some bicycles and scooters/mopeds during 1989. About 3,500 bicycles will be imported in the first instance in 1989. This will assist in reducing the hardships which commuters currently experience.

Sea Defences

Government proposes to undertake a comprehensive programme aimed at rehabilitating the country's sea defences. Since the success of this programme will depend heavily on the availability of quarry products, some attention will have to be given to rehabilitating the quarries in the country. This rehabilitation is being partially financed by funds made available by the EEC.

6. SPECIAL TECHNICAL ASSISTANCE AND STITUTION BUILDING

The Government is aware that successful management of the Economic Recovery Programme will place heavy demands on the available limited material and human resources. The scope and comprehensiveness of the programme will require substantial technical assistance for institution building and development.

Four critical areas in which technical assistance is likely to make substantial contribution towards the Economic Recovery Programme have been identified:

- (a) institutional support to agencies involved in the implementation and monitoring of physical infrastructure rehabilitation;
- (b) institutional support to agencies supportive of the direct investment drive;
- (c) institutional support to the agencies directly concerned with the implementation and monitoring of the Economic Recovery Programme; and
- (d) institutional support to agencies concerned with the co-ordination and monitoring of the SIMAP.

The United Nations Development Programme has been requested to assist us in identifying our technical assistance needs in these principal areas and to also assist us with

This programme is critical to the maintenance of productive capacity in many corporations and no effort will be spared to facilitate its timely and efficient execution.

In order to improve the competitiveness and profitability of the Public Corporations, the Government will permit the implementation of appropriate pricing and tariff policies, restrain the growth in their current expenditures, and strengthen their financial controls. The prices and tariffs of the goods and services produced by Public Corporations will be set in such a way as to recover the cost of production or importation and to yield an adequate return on capital employed. At the beginning of this Programme, these prices and tariffs will be adjusted to reflect the full pass-through of the exchange rate adjustment and then reviewed periodically to ensure that this criterion is met. The only exception here will be electricity prices which will be adjusted gradually so that a full pass-through will be achieved by the second quarter of 1990.

I have already mentioned that the Public Corporations will be required to make a major contribution to public sector savings. The corporations will also be required to make normal dividend and tax payments to the Central Government. Taxes and dividends to be paid during 1989 will amount to \$839m and \$168m respectively. The Government will also take steps to eliminate most exemptions from consumption tax and import duties now granted to public corporations. Exemptions granted to public corporations will be limited to those enjoyed by the private sector, which are extended on account of regional agreements, the Government's sectoral policies and to those resulting from contractual obligations with multilateral lending

agencies.

In addition, net credit to the Public Corporations from the domestic financial system will be virtually eliminated. New credit ceilings consistent with this objective have been established for each corporation. Further, transfers to Public Corporations will only be permitted for specific Government-financed projects and where the Government acts as a conduit for the transfer of foreign loans to a corporation.

INITIATIVES FOR DEALING WITH INFRASTRUCTURAL LIMITATIONS

Power Generation

During 1989, the Government will continue its efforts to refurbish and rehabilitate the existing electricity generating facilities as well as install new capacity. The collapse of the Kingston Power Plant earlier this year necessitated the reallocation of funds away from two other projects included in the programme of works being financed by the IDB, to purchase spares to rehabilitate that Plant. The refurbishment should be completed by the first quarter of 1990. In the interim, the Government has entered into a lease-purchase agreement to acquire a 10MW Power Barge for installation during the second quarter of this year. Together with the rehabilitation of the plants at Garden-of-Eden, Canefield, and Onverwagt, there should be significant improvement in the supply of electricity by the end of 1989.

financing. This organisation has already prepared and submitted a preliminary report to the Government for consideration and adoption.

The Inter-American Development Bank has recently fielded a technical cooperation mission to the country. The team expressed the Bank's interest in providing technical assistance for updating hydropower studies, the identification of a suitable site for hydropower development and the establishment of a pre-investment fund. A list of the main programmes is appended to this statement.

7. NIS: PROPOSED CHANGES

The 1987 Budget Statement outlined a number of recommendations emanating from the last actuarial review of the National Insurance Scheme. Many of these were implemented immediately or subsequently. The implementation of the outstanding measures were to have been the subject of the Government of Guyana and TUC discussions. You may well recall Cde. Speaker that at the time I exhorted our colleagues of the TUC to look positively at the proposals.

Whilst it is true that some employees would be required to make higher contributions, others would not. In any case the proposed contribution structure would have made the scheme less regressive.

Since that time the urgency of the proposals has become more acute. Inflation is eroding the value of current benefits. We are seeking therefore to increase the benefits whilst making the contributions system approximate more closely to our ideals of economic and social justice.

Meetings have been held with the TUC but that body - whilst having strong views about sharing the burden of the increases in contributions has yet to take a definitive global position on the issue. We appreciate the TUC's dilemma but we do have a responsibility to have the scheme managed in conformity with acceptable actuarial principles.

We propose to increase the following benefits:

sickness and maternity - maximum benefit increased from \$275 to \$1,050 per month.

industrial injury - maximum benefit increased from \$320 to \$1,050 per month.

disablement grant - maximum benefit increased from \$560 to \$8,800.

death maximum benefit \$1,050 per month.

old age and invalidity pensions - minimum benefit increased from \$240 to \$600 per month.

old age and invalidity grants - maximum increased from \$1,900 to \$21,000

There will also be improved Survivor's Pensions and the removal of the one day incapacity requirement in order to qualify for ophthalmic or prosthetic care.

CONTRIBUTION RATE

Persons will now pay contributions based on their actual earnings up to a ceiling of one thousand, five hundred dollars (\$1,500.00) per month. The rate of contribution will be 11 percent to be shared between the employer and the employee. The employer will pay 6.6 percent and the employee 4.4 percent. Self-employed persons will pay 9.55 percent. The employer will pay 1.45 percent for persons who are sixty years old or over or less than sixteen years and who are in employment.

The maximum contributions payable by the employee will be sixty-six dollars (\$66.00) per month and the corresponding contribution from the employer will be ninety-nine dollars (\$99.00).

In the light of the higher benefits and existing wage rates and salaries these contributions can hardly be considered burdensome. The above changes will take effect from May 1, 1989.

8. BUDGET MEASURES

Cde. Speaker, let me deal with the revenue measures I propose to introduce in 1989. The objectives of the proposed measures are:

- (a) To ease the tax burden on individual taxpayers, especially employees; and
- (b) To simplify the tax system so far as may be reasonably done.

It is my belief that the continuing improvement in the operations of the Inland Revenue and Customs and Excise Departments will go a long way towards increasing revenue collections. The steps already taken in this direction have yielded encouraging results. This process will be accelerated. Other revenue collecting agencies must improve their revenue collection capability during the year.

PERSONAL INCOME TAX

Personal Allowance for the individual taxpayer will be increased from \$2,500 to \$5,000, while the 5 percent 'earned income from employment relief', which was limited to \$500, will be abolished.

With regard to Tax Bands and Rates of Tax, there will be an increase in the amount exempted from \$1,500. to \$5,000. on chargeable income. The tax bands and rates will be amended as follows:

<u>Chargeable Income</u>	<u>Current Rate</u>	<u>Chargeable Income</u>	<u>Proposed Rate</u>
First \$1,500	Nil	First \$5,000	Nil
Next \$1,500	10c	Next \$5,000	10c
" 1,500	15c	" 5,000	20c
" 1,800	20c	" 5,000	30c
" 2,000	30c	" 10,000	40c
" 2,000	40c	Balance	50c
" 3,000	45c		
Balance	55c		

In the area of Individual Tax Exemption, a resident whose total income does not exceed \$10,000 per annum will be exempt from Income Tax. A non-resident whose total income does not exceed \$5,000 per annum will be exempt from Income Tax. An individual who derives income from sources other than employment may be required by the Commissioner of Inland Revenue to file an income tax return irrespective of whether his total income exceeds the exemption limits set above.

As a measure designed to give relief from Income Tax to Painters, Sculptors and Authors, the following will obtain in lieu of taxing income in the year of receipt of income:

- (a) where the period engaged in producing the work is up to two years, the receipt for tax purposes shall be deemed to be taxed one-half in the year of receipt of income, and the other half in the earlier year;
- (b) where the period engaged in producing the work exceeds two years, the receipt is to be apportioned

equally over a three-year period counting from the year of receipt and going backwards.

You will recall that in 1987 we had made a commitment to formulate some proposals in this regard.

With respect to the personal income tax we have also revised the schedule of rental values. Gains or profits from any office or employment which are subject to Income Tax include the estimated value of any quarters or board or residence occupied by the taxpayer.

The estimated value to be applied by the Commissioner of Inland Revenue will be set out in regulations which will be subject to amendments from time to time.

Initially, however, it is proposed to use the following rental values.

AREA OF BLDGS.	UNFURNISHED	FURNISHED
Up to 1,000 sq.ft.	\$0.84c per sq. ft. per month	\$1.16 per sq. ft. per month
Between 1,000 and 2,000 sq. ft.	\$0.98c per sq. ft. per month	\$1.32 per sq. ft. per month
Between 2,000 and 3,000 sq. ft.	\$1.16 per sq. ft. per month	\$1.52 per sq. ft. per month
In excess of 3,000 sq. ft.	\$1.28 per sq. ft. per month	\$1.64 per sq. ft. per month

All the individual income tax measures above will be effective from Year of Assessment 1990, Year of Income 1989.

PROPERTY TAX

Every person required to deliver or submit a property tax return shall in the return estimate the amount of tax payable. The tax estimated shall be paid on or before April 30, which is the prescribed date for filing returns. Late payment will attract interest as in the case of income and corporation taxes.

CAPITAL GAINS TAX

The proposal above in relation to property tax shall also apply to capital gains tax.

COMPANY TAXES

Under the present system, company taxes are payable quarterly on the basis of the preceeding year results or on such other amounts as may be agreed on with the Commissioner. Legislation will be put in place giving the Commissioner power to collect taxes on a current year basis, if circumstances dictate that such a basis will produce the tax which the company ought to pay on its income or profits.

The above measures are intended to correct collection time lag, and to give the Commissioner specific power to collect company taxes on the current year basis if this is necessary. The proposals in relation to

Property Tax and Capital Gains Tax are to be effective from Year of Assessment 1989, and the proposal in relation to company taxes is to be effective from Year of Assessment 1990.

TAXES AND ALLOWANCES RELATED TO TRAVEL

The Travel Voucher Tax which is at present 23%, will be reduced to 10%, while the existing Travel Tax of \$50. will be increased to \$165.

The total value of Guyana dollars which an individual is allowed to take out or bring into the country will be increased to \$200.00. The travel allowance of US\$50 per annum allowed for overseas travel is to be increased to the equivalent of US\$75 per annum.

CUSTOMS DUTIES

Cde. Speaker, I propose to increase the duty paid on beer manufactured in Guyana and taken or sold for consumption in Guyana from eighteen dollars (\$18.) per liquid gallon to twenty-nine dollars and seventy cents (\$29.70) per liquid gallon.

STAMP DUTIES

Stamp duties associated with specified transactions such as the sale and renewal of passports, trade licensing matters, etc, will be revised upwards by an amount at least equivalent to the rate change. Some will be further increased to cover the cost of their

administration.

EXCHANGE RATE

Cde. Speaker, in keeping with recent tradition, I have reserved announcement of the new exchange rate for the last! With immediate effect, the official exchange rate will be G\$33.00 equal to US\$1.00.

INDIRECT BENEFITS AND AMELORATIVE MEASURES

Cde. Speaker, the Government recognises that some of the policies and measures will result in some short term dislocation. In addition to the SIMAP programme, therefore, a number of direct and indirect measures which will serve to cushion some groups will be implemented.

For the first time since the 70s GDP is expected to grow by 5 percent in real terms. This will be accomplished by an expanded investment programme, to be financed largely from foreign inflows. Increased capacity utilization by the productive sectors will have a positive, indirect impact on employment and real incomes. Moreover, as a result of the various adjustment measures, inflation is expected to decline towards the latter part of the year. It is unlikely that this could have been achieved without a programme of the kind I have outlined.

Contrary to rumour, wages will be increased in 1989 and there is to be no retrenchment. The increase will take the form of a 20 percent across-the-board payment with effect from April 1, 1989. Payment will commence in April. Pensioners will also enjoy a similar increase. In addition, the increased income tax allowances and National Insurance Scheme benefits should result in productivity increases.

Other direct benefits which will accrue to the population include the cross subsidization of kerosene and the reduction of the travel voucher tax from 23 percent to 10 percent. Further the balance of payments assistance from bilateral donors will result in increased availability of basic goods, inputs and spares at prices less than those prevalent in the parallel market.

Finally, for those companies which lodged funds in the External Payments Deposit Scheme after January 1, 1987, the Governor of the Central Bank will be announcing within a fortnight, the concessions to be extended. This will be made after consultation with the business community.

SOCIAL IMPACT AMELIORATION PROGRAMME(SIMAP)

Cde. Speaker, the Government has designed a Social Impact Amelioration Programme (SIMAP) aimed at cushioning the negative effects of structural economic adjustment on the most vulnerable groups, that is, those most severely affected by the economic changes. The vulnerable groups are in the main:

- (a) unemployed persons - particularly young adults or youths; persons with low fixed incomes, for example, pensioners and retired persons; and children of school age and under;
- (b) the urban and rural poor;
- (c) small farmers with inadequately drained land;

female heads of households whose lack of skills or peculiar condition inhibit their income-earning capacity; and

- (e) residents of certain remote or depressed rural/hinterland communities.

SIMAP focuses on a selected range of projects which, inter alia, will create employment opportunities, and enhance household incomes for these vulnerable groups and at the same time improve the social and economic infrastructure. These projects which will be short-term by nature with an implementation period not exceeding two (2) years will:

- (a) involve the urban unemployed in road rehabilitation, desilting of drains, weeding parapets, establishing footpaths and flood control mechanisms, completing infrastructure for housing schemes;
- (b) generate rural employment opportunities and enhance agricultural production and productivity through:
 - (i) the rehabilitation of bridges, sluices and drainage and irrigation canals;
 - (ii) the construction of farm to market roads;
 - (iii) rehabilitation of village markets;
- (c) cater for the expansion of the school feeding programme - in order to improve the nutritional status of school-aged children;

- (d) focus on technical and vocational training particularly for the vulnerable groups such as school leavers, unemployed youths and adults and other persons;
- (e) provide pension supplement or food supplement for the senior citizens;
- (f) ameliorate chronic environmental hazards through the provision of sanitation facilities and services;
- (g) provide for the improvement of health and potable water supply in urban and rural areas.

The main programme to be financed with donor country assistance to the tune of US\$8m will come on stream during the latter half of this year.

In recognition of the need for urgent assistance, however, an element of the Programme will be put into effect on an emergency basis. The emergency programme of US\$2m minimum will have a lifespan of three (3) months in the first instance. It will consist of a temporary income supplement for old age pensioners and recipients of public assistance and food supplements for pregnant and lactating women and 0-5 year old children of low income families.

The SIMAP can be expanded beyond these levels to the extent that assistance is secured from Non-Governmental Organisations (NGOs) and countries outside of the Support Group. Needless to say the search for funding is a continuing exercise. The package formulated

to date should be seen as a testimony to the Government's abiding interest in ensuring that the weak and vulnerable are rendered as much support as the society can muster. The cost of economic adjustment will not be unfairly imposed on those least capable of bearing those costs.

10. CONCLUSION

Cde. Speaker, it does not take much wit to recognise that this Budget is more controversial than usual. It contains tough measures and its consequences are likely to be extensive in space and time. As with all new paths it involves risk. We stand to gain considerable financial assistance from sympathetic and friendly external sources. That alone is worth striving for.

Far more important, however, the programme which this Budget helps to define is intended to put the economy back on the rails. It aims, in the words of the economists, to restore the economy to equilibrium. And may I say that a government can only exercise control of its economy if the latter is in a reasonable state of balance. ~~The~~ The Guyana economy cannot by any stretch of ~~the~~ the imagination be characterized as being in balance. What that means is that far from controlling the economy the Government is in danger of imitating Pavlov's dog and its tail. The current situation cannot be sustained economically and is politically untenable even in the medium-term. It would be fanciful and a clear flight from reality to assume that any group of donors would be prepared to finance this flight from reality. ~~One~~ One of my favourite authors H.H. Munro once said that, "all decent people live beyond their incomes nowadays, and those who aren't respectable live beyond other people's. A few gifted individuals manage to do both!" We ought to avoid that type of label however gifted we may be otherwise.

resources available to us without assistance are not sufficient to lead to a speedy turnaround of the economy. Those available to us with external support are not generous but they can facilitate a less slow and less painful adjustment process than would otherwise be the case. Both resources and time are severely constrained. There is therefore no room for waste or procrastination. 1989 for us needs to be a year of sustained effort and disciplined work.

It may well be that there are many risks involved in this path we have chosen to pursue. I would venture a view, however, that we are certain to be the losers if we do not try. There is no easy way to raise production and productivity from the levels to which they have now become associated.

Bold measures are needed and the foregoing proposals represent a set of bold initiatives. If the path is perilous then stopping or turning back surely cannot be safe. In going forward we have only our fear to lose. Let us therefore confront the problem of development with confidence. We must develop our economy. We will do so when we decide to face the challenges of economic recovery with the will to succeed. We have confidence in ourselves. We have a bold programme. We are confident that the Guyanese people have the will and capacity to succeed. The Party has provided the leadership and the Cde Leader the inspiration.

Onward therefore to successful economic recovery.

Cde. Speaker, I thank you.