

**PROTECTING
THE FOUNDATIONS
FOR FUTURE GROWTH:**

**freedom, stability
and development
in the 1990's**

FEBRUARY 20, 1991

**BUDGET SPEECH
NATIONAL ASSEMBLY
CO-OPERATIVE REPUBLIC OF GUYANA**

GUYANA

SESSIONAL PAPER NO. 1 OF 1991

FIFTH PARLIAMENT OF GUYANA
UNDER THE
CONSTITUTION OF GUYANA

Second Session 1990-1991

BUDGET SPEECH

Cde Carl B. Greenidge, M.P.,
Minister of Finance

20th February, 1991

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CHAPTER I

THE EVOLVING ERP

A. INTRODUCTION

Comrade Speaker, in accordance with paragraph 2 of Article 171 of the Constitution, I signify that Cabinet has recommended that the National Assembly proceed upon the Motion for the approval of the Estimates of Expenditure for the financial year 1991. It is my privilege to now present this my 8th Annual Budget.

In keeping with the practice of the preceding Budget Statements, I wish to focus on the economic policies which the nation needs to pursue if it is to achieve in an ordered and orderly manner the social and economic progress which it has set itself.

The salient characteristics of the economic programme remain as set out in the Budget Statements of 1989 and 1990. They are also to be found in the 1988 and 1990 Policy Framework Papers which have been laid before Parliament. In the words of our Executive Director to the International Monetary Fund (IMF), the ERP "is radical in its objectives, comprehensive in its scope and courageous in its implementation". In short, it aims to unleash the full productive and innovative potential of the nation. The primary production objectives are to restore the productive capacity of the traditional sectors and to widen the economic base through the encouragement of investment in new and buoyant areas of economic activity.

The 1991 programme seeks, principally, to address the weaknesses that were manifested in the 1989 and 1990 programmes while consolidating and building on the firm foundations provided by the previous programmes.

We have learnt over the years, sometimes through bitter experience, that for achievement of these goals, it is not sufficient to rely on our own resources. The active support of the international financial community is required. That support has been actively pursued and secured. It remains an important, though relatively fragile, pillar.

In the last analysis, however, the success of our ERP depends upon domestic effort. Economic growth is never completely predictable and the outcome of economic measures is sometimes even more difficult to anticipate. International assistance can complement domestic effort in so far as it bridges the resource gaps that are likely to be experienced during the life of the programme. In the extremely volatile

international economic environment in which we participate, such assistance can hardly be relied upon to insulate us from all the vagaries. It is only through our own efforts, resolutely pursued, that we can guarantee that policies are implemented in a manner consistent with our goals. It is as well to bear in mind the old adage, 'he who pays the piper, calls the tune'.

In retrospect, as we examined the performance of the economy in 1988 and 1989, two fundamental problems faced us: severe fiscal imbalance and severe external disequilibrium. There was also uneven economic growth and a decline in GDP.

A review of 1990 suggests that whilst some of these problems have been considerably reduced, if not solved, new difficulties have emerged and alternative tools need to be fashioned with which to cope with these difficulties. It is not sufficient to focus upon measures aimed at the direct promotion of economic activities. It is also imperative to ensure that the monetary and financial framework which influences, shapes and reflects economic activity, is appropriate.

B. DIALOGUE

We have sought to fashion these tools and policies with the assistance of the relevant national institutions. As a prelude to this Budget therefore, representation was received from the National Economic and Social Council, Guyana Manufacturers Association, the President's Advisory Committee on the Private Sector, Georgetown Chamber of Commerce and Industry, and the Trades Union Congress. FITUG and the Consumers'

Association have also essayed advice.

The contribution by each of these agencies obviously benefited, not only from their previous experiences, but also from their awareness that the pivotal role of the private sector was becoming a reality. More importantly, however, it arose from their recognition that to sit back idly in the hope that some agency or government would conjure up an alternative, painless package of policies, represented a flight from reality. We are very appreciative of these contributions and although we are not in a position to acknowledge the authorship of each element of the Budget Statement, I wish to formally acknowledge the contributions of each of these institutions to the formulation of the policies that follow.

Since the policies set out in the 1990 Budget were, in a sense, part of a process, I propose to review the outcome of the implementation of those policies. In doing so, Comrade Speaker, I should like to take the opportunity, first of all, to say a few words on the continuing import of the main elements of the most prominent, on-going policies.

C. KEY PROBLEM AREAS

The fiscal imbalance which has been of major concern and the preoccupation of economic policy, has now been narrowed. In pursuit of a manageable and sustainable public sector deficit, the Government has tackled the question of public expenditure, both by reducing substantially, those expenditures in real terms, and by the reform and revitalization of the Public Service - a process which is already under way and to

which I shall return. We need therefore to address the remaining causes of the fiscal problem. In this regard, it is necessary to: improve Central Government revenues; reduce current transfers to the public corporations; and bring to tolerable levels, the payment of domestic and external debt. Although the majority of public enterprises now return surpluses, current transfers to some enterprises still constitute a heavy burden on the Central Government. Hopefully, the massive transfers to GUYSUCO that characterized the pre-1988 period, are a thing of the past. The same applies to the Guyana Rice Milling and Marketing Authority (GRMMA) and the now defunct Guyana Rice Board (GRB). However, since 1988, the Central Government has had to transfer to GEC some \$836m by way of current transfers. In 1991, the budgeted subsidy of \$696m exceeds the projected total collection of personal income taxes by some \$277m. In the case of GUYMINE, the Central Government has been providing subsidies by way of the industry's non-payment of company, corporate and consumption taxes, import duties and harbour fees. For example, in 1990, GUYMINE's indebtedness to the Customs and Excise Department amounted to \$218m. In 1991, considerable transfers will have to be made on behalf of this corporation, in order to facilitate divestment.

Needless to say, both Corporations have been the recipients of transfers for the purpose of investment in plant and machinery. To the extent that these and other enterprises are in a position to be self financing, resources secured by the Central Government could have been devoted to rebuilding roads, sea defences and the potable water delivery system, among others.

The story of our indebtedness has

featured often in these Budget Statements. Suffice it to say that debt servicing absorbs a substantial proportion of available domestic resources. As you are aware, two major reschedulings of some of the external debt took place in 1989 and 1990 and some rescheduling of the internal debt took place in 1987 and 1988. The problem has, however, not been solved. As an example, in 1990, the interest payment on the domestic debt (net of arrears payment to the Multilateral Financial Institutions (MFIs) was about \$4.2 billion, equivalent to 38.5 percent of Central Government expenditures.

A certain urgency attaches to reducing the debt burden. Inadequate external inflows make imperative, increased and buoyant public sector and national savings, which in turn, require at the very least, a positive non-interest current balance. Without this there can be no increase in the level and quality of public sector investment.

The human resource problem (which was cited in 1989 as a test of the management of the ERP) has been compounded by higher and unanticipated rates of inflation. This problem will continue to bedevil us until the rate of inflation can be reduced to tolerable levels and the economic agents, which are beneficiaries of the economic changes which have been the product of the ERP, can be made to shoulder a reasonable share of the tax burden.

Inequity is arising in the fiscal system because too many people and companies evade the payment of taxes, although they seek to benefit from the government expenditures that these tax revenues permit. As the parallel economy grew, even some of the established companies perfected the art of undervaluing (or not declaring) transactions, particularly

in relation to exports; so a greater tax burden has had to be borne by those who have remained in the official economy. This asymmetry in the incidence of taxation and the receipt of the benefits from Government expenditure gives rise to a gross distortion of incentives in the economy that must, in the long-term, militate against production, and so, economic growth. Economic reform will not be socially acceptable if the beneficiaries of trade and foreign exchange liberalization seek to evade, and indeed succeed in evading their fair share of taxes.

The regime of foreign exchange liberalization has clearly brought benefits to many economic actors. On the other hand, it has also facilitated capital flight, thereby simultaneously reducing our capacity to finance development and increasing our dependence on external sources of financing.

Finally, the issue of the inadequacy of the short run supply response which had merely reared its head in 1989, now constitutes a challenge to the programme's success. It is necessary to find ways and means of lifting output of sugar and bauxite, in particular. I do not make this point, Comrade Speaker, merely to restate the obvious but to accentuate the fact that endogenous factors, which give rise to continued disruptions in the supply of our major exports, now threaten to inhibit our access to protected markets, and, ultimately, our capacity to maintain employment and incomes.

Successful prosecution of these issues will enable us to attain positive growth in the 1990's and improve the availability of domestically generated savings with which to finance the Public Sector Investment Programme (PSIP). It will also increase our

capacity to undertake new projects, while expanding and improving the range and effectiveness of services.

CHAPTER 2

1990 PERFORMANCE

A. 1990 TARGETS AND PERFORMANCE

1. Production and GDP

Comrade Speaker, we had set ourselves certain specific goals and targets in 1990. Real GDP was expected to grow by some 3.1 percent, as a result of increased agricultural and mining production. In this regard, bauxite and gold mining were singled out for special consideration. In reality, bauxite production was very disappointing. The industry produced 15 percent less than its target and generated 22 percent less revenue than forecast. All products, except metal grade bauxite, experienced output levels below those of 1989. Indeed, only in the case of chemical grade bauxite did actual levels in 1990 and the Budget targets vaguely approach each other.

There was a 12 percent increase in mining output which was attributable to gold and metal grade bauxite. The latter product increase took place in spite of the considerable delay in the commencement of commercial production at Aroaima. The performance of the rest of the mining sector, although generally below the target, represented a substantial improvement over 1989. Declared gold production in 1990 was 129 percent of the target.

Sugar output fell to 130,000 tons, a mere 76 percent of the original target. This represented an all time low. However, favourable movements in the currency markets masked the full enormity of this outcome. As a consequence, export receipts from sugar compare favourably with the target. Nevertheless, Guyana had, for a second consecutive year, to request the EEC to treat our quota shortfall as an aberration. The history of the Community's reaction to such requests leads us to believe that we should not treat their concurrence as a precedent in any way.

Changes in the foreign exchange markets and the considerable depreciation of the Guyana dollar, helped this industry more than is realised. Those who seek to manipulate segments of the labour force for political ends would do well to read the writing on the wall.

Rice production, the lowest in 14 years, also fell some 40 percent below the target and 34 percent below the output achieved in 1989. Yields were, however, considerably higher than those achieved in 1989, as was also the volume of exports. The 50,943 tonnes exported, although 10 percent below the budget, earned enough, as a result of the currency movements, to leave the industry only 3 percent below its export target.

There was a 30 percent decline in the output of livestock, reflecting decreased production of poultry and eggs.

Such real output increases as were recorded elsewhere, occurred in sub-sectors whose collective contribution to real growth is relatively small and could not therefore compensate for poor performance in the

pivotal sectors.

The sharp declines in output recorded in 1990 are explained, principally, by the degree of deterioration in the capital stock in the productive sectors and, indeed, the economy as a whole; and the inadequacy of working capital in bauxite, in particular. However, let us not ignore the fact that, in 1990, self-inflicted wounds aggravated this extremely difficult situation. For example, in the sugar industry alone a total of 224,417 man-hours were lost as a result of work stoppages.

It needs to be said also that in many instances, the funds, equipment and spares, which were programmed to facilitate a quick supply response from the productive sectors, became available too late to make an impact on 1990 output levels. The surge in petroleum and petroleum product prices in the second half of the year, not only reduced the economy's ability to purchase planned volumes but also triggered a contraction in the volumes which could be financed with the balance of payments support disbursed.

To all this must be added the unseasonal rains, skill losses consequent upon the size of the wage packet, and inadequate management and management practices.

As a result of all these factors, GDP, instead of rising, actually fell by some 3.5 percent. This is the second successive decline in this indicator and it is inevitably reflected in pressure on real incomes and domestic savings.

2. Balance of Payments

The process of achieving a viable balance of payments gathered momentum in 1990, despite the decline in exports. This is all the more remarkable when one takes account of the significant declines in value-added in the key sectors.

On a national income accounts basis, it is estimated that value added in the sugar industry decreased by some 20.0 percent. The reduction in the rice sub-sector was 14.0 percent; while production of bauxite decreased marginally. The weaker than expected performance of merchandise exports, was, however, moderated by a lower import bill. Moreover, the larger net payments on capital account were made possible, primarily as a result of the sizeable balance of payments support received from both bilateral donors and the MFIs. In the event, the overall deficit on the balance of payments was lower than originally anticipated; and the inflows of external assistance made it possible for the Bank of Guyana to reduce its net foreign liabilities by a larger amount than expected. Similarly, the external debt arrears of the non-financial public sector were reduced.

Comrade Speaker, permit me to outline briefly, some of the essential components in the balance of payments for the year under review.

a. Current Account

The increased pace of implementing the development programme in 1990, compared to 1989, implied a widening of the current account deficit from US\$109.2m, in 1989, to a

revised projection of US\$190.0m, in 1990. A major explanation for the projected larger deficit was the increase in project related imports which were anticipated to more than double in 1990, to US\$93.0m, compared with US\$45.5m, in 1989. Moreover, in support of private sector revitalization, it was also expected that other imports would rise by 31.2 percent in 1990. Exports of merchandise were projected to expand by only 12.8 percent to reach US\$231.0m. The overall effect was a substantial deterioration in the merchandise account deficit, from US\$7.6m in 1989 to US\$81.0m in 1990. It was also anticipated that external support would permit a sizeable increase in interest payments on debt arrears.

In the event, some of the expectation did not materialise. Both receipts and payments were lower than envisaged. As a result, the current account deficit, which totalled US\$148.0m in 1990, was US\$42.0m, or 22.1 percent, less than programmed. It was, however, US\$38.8m larger than the 1989 amount.

Virtually the entire increase in the current account deficit stemmed from the rise in the merchandise trade gap (US\$38.4m) as export proceeds stagnated at US\$204.0m in both 1989 and 1990 while imports expanded by 17.7 percent. The export outturn suggests an improvement in world prices rather than an expansion in volumes. It should be noted in this regard, that the import increase was largely in respect of project-related merchandise which rose from US\$45.5m in the preceding year to US\$83.0m in 1990.

The services account was affected primarily by interest payments on official external debt. Net interest payments rose further in 1990 (US\$109.0m) compared with the

previous year (US\$98.9m).

b. Capital Account

The net outflows of capital moved in the right direction during the year. Debt relief, through the Paris Club, and some bilateral arrangements, resulted in a reduction in net outflows from US\$67.2m in 1989, to US\$45.0m in 1990. The outflows would have been as low as US\$28.0m had the planned proceeds from the sale of assets materialised. The 1990 outflow included net payments of debt to multilateral institutions (US\$75.0m); and net receipts (US\$20.0m) in respect of short-term and non-guaranteed debt.

c. Overall Balance and its Financing

The overall balance was a deficit of US\$192.0m in 1990, an outturn which was better than the US\$218.0m anticipated earlier. Even so, the overall balance of payments gap exceeded the 1989 total by US\$9.2m or 5.0 percent.

As indicated earlier, the Government attracted sizeable inflows from the lending institutions and the bilateral donors which facilitated the financing of the balance of payments deficit. The inflows included US\$160.0m received in balance of payments support and US\$419.0m in debt relief. The balance of payments support included cash assistance (US\$48.0m) and drawings from the MFIs (US\$85.0m). These inflows facilitated a reduction in the net foreign liabilities of the Bank of Guyana by some US\$20.0m; a decrease in the external debt arrears of the

non-financial public sector by US\$244.0m; and a decline in commercial arrears by \$122.0m.

3. Fiscal Performance

a. Public Sector

On the fiscal front, the overall performance of the economy has been quite credible. Non-interest current expenditures were kept within the agreed ceiling, despite the greater-than-anticipated depreciation of the free exchange rate. This depreciation, however, also caused the value of tax collected on imports, other than oil and sugar, to rise. Similarly, inflation would have accounted for the nominal increase in receipts from some other taxes, as were the Customs authorities' efforts to clamp-down on those domestic manufacturers evading consumption tax and import duties.

Overall, nominal current revenues rose from \$3,209m, in 1989 to \$5,358m, in 1990. Although this 67 percent increase was probably not enough to maintain the real value of receipts, it was greater than the 34 percent nominal increase in non-interest current expenditures, from \$2,555m to \$3,414m, and so secured an increase in the primary current account surplus.

The Central Government kept actual capital expenditure (net of transfers) close to the target. Considerable progress was made on projects such as Human Resource Development and the Infrastructure Rehabilitation Programme, which consists of sea defences, quarries and water. I might also add the completion of the Integrated Investment Plan for the power sector, which

is an important element in securing financing for the expansion of the power sector.

During the entire 1980s, only in 1989 has the primary balance been in surplus. The 1990 projection of \$540m (excluding the rice levy) proved conservative, for the latest estimate of the primary surplus is \$1,814m. Indeed, this surplus was also \$281m more than projected by the IMF.

But it was not only the primary balance that was in surplus, in 1990. The overall non-interest balance, for the second consecutive year, was also in the black to the value of \$688m, some 96 percent above the 1989 figure.

In the case of public corporations, the current account balance, before interest and transfers, showed an improvement over 1989, although it fell somewhat below the targeted amount agreed with the IMF. Total revenues amounted to \$13,170m, only 2 percent short of the budgeted amount of G\$13,436m.

Consolidated operating expenditures were \$12,168m, 7 percent above the budgeted amount. This over-expenditure reflects a deterioration in operating efficiency and cost-effectiveness. Expenditure items such as 'materials and supplies' and 'repairs and maintenance', both critical to the maintenance of a high level of capacity utilisation, absorbed less than their budgeted allocations. Not surprisingly, therefore, both real output and operating efficiency were compromised.

The enterprises generated a gross operating surplus of \$1002m, 52 percent below the budgeted amount. If the losses on devaluation (an amount in the vicinity of

\$272m) and other provisions are excluded the gross operating surplus would be \$2043m, almost 18 percent more than the 1989 outturn. Enterprises which generated surpluses which were better than budgeted include GPC, GNEC, GSL, GUYOIL, GTC and SAPIL. Among the enterprises returning losses were DWL, GEC and GFL.

GUYSUCO, GEC, DWL and GTSL showed the greatest absolute deviations from the agreed targets.

Nevertheless, the enterprises' collective savings contribution to national savings of \$518m, exceeded the revised projection by 24 percent. Corporate taxes and dividends amounted to \$394m and \$67m, respectively. When account is taken of the enterprises' capital expenditures and special transfers to the Treasury (which, incidentally, fell short of the projection) the consolidated cash deficit generated amounts to \$756m.

Over the year as a whole, the corporations were able to reduce their commercial bank overdrafts and increase their net deposits, both of which bode well for the future. Capital expenditure of the corporations, in 1990, amounted to some \$2240m relative to the targeted amount of \$2318m. Progress was most noticeable amongst GUYSUCO, GUYMINE, GEC and GTC.

b. Rescheduling of External Debt

Comrade Speaker, I had indicated in my 1990 Statement the need for further rescheduling of our external debts. Doubtless, you are aware that during the course of 1990, the Government of Guyana

undertook that additional rescheduling. In essence, we were able to secure Toronto terms, which currently represent the most favourable terms conceded to any group of debtor countries. These terms include the rescheduling of debt service obligations arising out of the 1989 consolidation. As a result of this rescheduling and that obtained in 1989, the interest burden of our indebtedness has been substantially reduced over the last 2 years. Basically, we are now required to pay the equivalent of about a 2 percent rate of interest on the stock of debt.

Dialogue has also begun with the Commercial Banks on the rescheduling of our relatively small debts to them. In October, 1990, one prominent bank cancelled liabilities of US\$13m. As far as 1990 is concerned, actual debt service payments, for the first time in over 10 years, approximated fairly closely to the debt service due.

As a result of the inter-action of these factors, the overall balance, that is the difference between our revenues and expenditures, including debt service, and making allowances for capital expenditure, was some \$2771m. Once more, in contrast to the situation in recent years, a significant proportion of this deficit was financed from foreign inflows. As a consequence, the inflationary impact of such activities, whilst not exactly neutral, was relatively tolerable.

c. Investment Initiatives

During 1990, the Government continued its efforts to attract private investment within the economy - both foreign and local.

The identification of GUYMIDA as the 'One Stop Agency' was intended to facilitate the speedy resolution of enquiries and requests by prospective investors and thus reduce the gestation period associated with making an investment in Guyana. The processing time taken for the granting of fiscal incentives was significantly reduced to an average of three and one half weeks by the end of the year.

In sectors other than primary agriculture and mining and quarrying (namely secondary agriculture, forestry, light manufacturing and services) twenty-two applications were received for fiscal incentives during 1990. By the end of the year, sixteen (16) of these applicants had been awarded fiscal incentives, of which four (4) constituted newly established operations. Over 400 jobs have been created in the process. The total value of the incentives is estimated to be US\$37.4m.

In the mining sector, the search for oil continued during 1990. By the end of 1990, there were three oil companies operating within the sub-sector - TOTAL (Guyana), LASMO-BHP and Hunt Oil Company Limited with committed expenditures amounting to US\$20.82m. In December, 1990, TOTAL (Guyana) commenced drilling of their first well, ARAPAIMA I. This well was not successful and has been recently capped. However, indications that the exploration area contains deposits of oil are favourable. During 1990, there were seven companies, as opposed to individuals, operating in the gold and diamond sub-sectors - four of which are foreign-owned. Golden Star Resources - CAMBIOR joint venture, one of the foreign-owned companies, approved the feasibility study conducted on the gold deposits at OMAI. Implementation of this project according to

the feasibility study will require expenditures of US\$152.5m over a construction period of eighteen months. The annual production of this mine (which has an estimated life of nine years) over the first three years is expected to be 255,000 ounces with an operating cost of US\$185 per ounce. To date, the joint venture has invested US\$1.5m in the production of the feasibility study. A further US\$3.0m has been approved for the completion of the final engineering work associated with the implementation of the project.

4. Monetary and Credit Aggregates

a. Introduction

In recent years, because of the tremendous disequilibrium and distortions that had developed in the financial sector, we refrained from providing any observations on these developments in the Budget.

Today, I am pleased to be able to say that both monetary and credit indicators are in the realm of the meaningful. Money and credit flows subsided considerably during 1990, and for the first time in many years, a decrease in money and quasi-money actually occurred during part of the year under review.

At the same time, Government's policy objective of revitalising the private sector was also on course; lending to the private sector accelerated during the past three years. Simultaneously, the growth in money and quasi-money has decelerated to more sustainable levels, which reinforced the task of moderating the rate of inflation and the volatility in the exchange rate of the Guyana

dollar.

b. Domestic Credit

A key component of the ERP is the stabilization of the credit flows. As is well known, excessive credit expansion fuels inflationary pressures and adds to the appetite to consume and import without necessarily supporting a rapid rate of export production to earn the needed foreign exchange. Indeed, I might add, rapid credit expansion has deleterious effects on the movement of the free exchange rate.

I am therefore pleased to inform the House that the outcome for 1990 was very satisfactory, indeed.

After increasing by one-quarter in 1989, total net domestic credit from the banking system (Bank of Guyana and commercial banks) expanded by only 9.3 percent in 1990. The highly successful contraction of credit expansion was entirely a result of improved performance of the public sector as a whole vis-a-vis the banking system. On the other hand, in line with Governments' policy of revitalising the private sector, credit to that sector accelerated in 1990, compared to 1989.

Comrade Speaker, I think it fitting to share with the House, some of the positive developments in relation to credit management.

c. Credit to Central Government (net)

As already pointed out, Government made strenuous efforts to contain the deficit through stepping up the revenue collection drive, on the one hand, and expenditure cutbacks, on the other. These efforts were strengthened by external assistance mentioned earlier. In the event, net credit to Central Government virtually stagnated during 1990 compared to 1989 - the increase was an insignificant 1.7 percent year to year or \$172.9m.

Comrade Speaker, the programme of the Central Government in this regard, should be viewed against large annual increases in net borrowing from the banking system of 19.4 percent from 1987 to 1988; and 26.6 percent in 1989 compared to 1988.

d. Credit to Public Enterprises

The Government has committed itself to improving the performance of public corporations. This has been done through re-organisation and streamlining of operations; decontrolling prices; management agreements; and, in some cases, partial divestment. Where it became necessary, Government has divested its shares in some of these entities completely.

Again, I am happy to report to this House, that the strenuous and painful effort made in this very important area has borne fruit - indeed beyond our most optimistic expectations. For example, at the end of 1988, the net deposits (after allowing for borrowing) of the public corporations amounted to \$49.7m. One year later net

deposits had reached \$500.8m; by end 1990, it rose further to \$683.6m. In other words, despite difficulties in lifting production, the financial management of the public corporations has improved beyond recognition. The corporations are making a significant contribution to financial savings through the banking system, instead of being a drain on scarce financial resources.

What has been said about public corporations holds true for other public entities and special funds. Their net deposits with the banking system have risen from a modest \$46.6m at the end of 1988, to \$185.2m at the end of 1989. By end-1990, the total had risen sharply to \$302.6m.

e. Credit to the Private Sector

Government is keenly aware that if the private sector is to assume an increasingly important role in the revitalisation of the economy, then it must be given access to adequate credit. In this regard, the resources freed by the public sector were, as desired, channelled to the private sector. Credit to the private sector stood at \$4,159.6m at the end of 1990, an increase of 62.1 percent over the twelve month period and a slight gain on the equally rapid expansion of 61.3 percent recorded in 1989. There can be no longer any talk of the private sector being crowded out.

f. Monetary Expansion

Comrade Speaker, one of the cornerstones of the ERP is the containment of the rate of inflation, by stabilising the rate of monetary expansion. As Honourable members are aware, a very fast rate of monetary growth fuels inflation as the means of payment outpaces available goods, and the need to satisfy consumption generates an enormous appetite for imports. To restrain monetary expansion, the Government adopted a strategy aimed at encouraging savings, through an increase in deposit rates, thereby slowing down holdings of non-interest bearing balances and currency for transactionary and speculative purposes. This strategy produced the desired results, though with a time-lag.

g. Money and Quasi-money

In response to the measures just outlined, broadly defined money balances (which include currency in circulation, private sector demand savings and time deposits), were held to the same rate of growth (over 50.0 percent) in 1990, as occurred in 1989. It is true that the rate of expansion was high, but it would have been much higher were it not for the credit restraint and deposit rate measures taken in 1989. It should also be mentioned that after the introduction of Exchange Houses on 15th March, 1990, holdings of broad money were affected by the need to purchase foreign exchange and the attendant upward movement in prices.

These factors, Comrade Speaker, explain the rapid year to year increase (44.0 percent) in money narrowly defined (currency in circulation and private sector demand

deposits). In fact, within this category of money, currency in circulation rose at a faster rate (46.8 percent) during the year than was the case with demand deposits (39.2 percent). Of particular significance is the fact that interest-earning deposits responded to the deposit rate stimulus. For instance, private sector time and savings deposits at the end of December, 1990, amounted to \$5982.9m, 57.1 percent above the 1989 level. Incidentally, the rate of increase in 1989 was a highly satisfactory 54.7 percent. Government is therefore convinced that its efforts to encourage financial savings through attractive deposit rates were successful in both 1989 and 1990.

5. Foreign Exchange Market

Comrade Speaker, on June 15, 1990, I announced the devaluation of the Guyana dollar from G\$33 to US\$1 to G\$45 to US\$1. This action was necessitated by the need to correct the wide and growing disparity between the parallel market rate (G\$55-60 to US\$1) and the official exchange rate (G\$33 to US\$1).

On March 13, 1990, the Government introduced a floating secondary foreign exchange (cambio) market. This decision was informed by the expectation that: the excess demand which was evident for foreign exchange could be partly met by private inflows; the market could be expected to mop up some of the excess liquidity in the system; and it could be a means of progressively miniaturising the thriving parallel market.

Foreign exchange dealers were licensed to operate in this market, and the only requirements for the issuance of the licence were the payment of the \$100,000 fee; a commitment to provide the Central Bank with timely and accurate data on aggregate foreign exchange transactions; and evidence of no criminal record.

I wish to report that at the end of 1990 there were 30 licensed operators with a total of 35 licences. The reported year-to-date volume of convertible currencies purchased amounted to US\$71.6m, 4.1m pounds sterling, and C\$2.5m; the closing balances were US\$3.5m, 0.31m pounds sterling, and C\$0.13m, respectively.

The introduction of the cambios or Exchange Houses has brought with it challenges as well as opportunities.

Comrade Speaker, we have heard a great deal about the adverse consequences of the depreciation of the Guyana dollar in this market. Little has been said of the positive influences. As a result of this facility many companies were able to re-tool and refurbish their equipment during 1990. They have also been able to acquire raw materials and commercial goods in general. As a consequence some sections of the private sector have begun to revive. The cash flow of exporters in both the public and private sectors have benefited from the depreciation of the exchange rate and as a result, the efforts to expand production have been strengthened. Above all, the market serves as a barometer of excess demand for foreign currency and in that way signals the need for, and the appropriate timing of, remedial action by Government. The current state of the market suggests that the actions taken in 1990 have served to contain the level of non-

project imports.

There are signs that traders are now beginning to take a more considered approach to their foreign exchange dealings. Initially, there was evidence that the cambio rate bore little relation to the real supply and demand conditions. However, as the market develops, the irrationality and speculative demand will become fully apparent and, hopefully, less important. Besides an end to the volatility of the cambio rate, it is expected that the equilibrium rate will be further dampened as the pent-up demand for imported goods becomes exhausted.

It is now necessary to ensure that the cambios operate more efficiently for the benefit of both buyers and sellers. Cambio licence holders need to adhere to their legal obligations. Trading should take place at posted prices. In addition, licencees should submit accurate and non-fictitious data on their foreign exchange transactions. These are essential prerequisites for improved economic forecasting and more reliable budgeting. We shall insist on these minimum standards while the market is kept free of Central Bank intervention.

Comrade Speaker, it may be useful for me to take some time to elaborate on issues associated with the operations of these Exchange Houses, the exchange rate, and capital flight.

Guyana is undertaking a "difficult" Programme because, among other things, we are pursuing trade liberalisation without first removing the factors which condition the high inflation we are experiencing. Among those factors is the inadequate supply of foreign exchange. In such a situation, a continuous

nominal depreciation of the domestic currency must compensate for the persistently high rates of inflation. If we do not control inflation, the value of the Guyana dollar will fall. And this is exactly what has happened in the secondary foreign exchange market. Between the institution of the cambios in March 1990 and the end of that year, the Guyana dollar depreciated at a monthly average rate of 5 percent.

It is true that other factors also contributed to the downward pressure on the value of the Guyana dollar. The partial liberalization of the capital account simultaneously with the liberalisation of the current account is one such factor. This has legitimized some portion of capital flight and reinforced the depreciation of the Guyana dollar. But let me hasten to add that the problem of capital flight is never an easy problem to combat. Given the size of our country and our administrative resources, the likelihood of success in this battle is greatest if we implement policies which are coherent, comprehensive, and equitable; strengthen investors' feelings of security and confidence in the economy; and demonstrate the credibility of our policy stance and our commitment to implement it.

Capital flight takes a variety of forms - smuggling, non-declaration of exports, claiming illegal allowances, over-valuation and under-valuation of transactions - all guaranteed to bring about greater than necessary nominal depreciation; aggravate the already acute foreign exchange shortage; and undermine revenue generating capability. All this makes adjustment more costly in both social and economic terms as price increases become steeper, and Government's ability to execute its investment programme and deliver public services become severely inhibited.

Comrade Speaker, as far back as 1984 I devoted a substantial part of the Budget Statement to a discussion of the exchange rate, and the need for us to view this instrument in a new light in future. An overvalued exchange rate is a distortion which contributes to inflation and related balance of payments problems. The correction of these distortions demands significant nominal depreciation of the domestic currency.

To protect the balance of payments and to keep external payment problems at a minimum, Government intends to unify the exchange rate and to implement a flexible exchange rate policy thereafter. We took the first step in this direction in March, 1990, when a range of export transactions and certain imports and services were shifted from the "official" to the cambio market.

As has become my custom, I will leave for the end of my Statement, the new exchange rate parity to be established between the US and Guyana dollars. However, let me say the following: (a) the spread between the official and secondary market rates is unsustainably large, if only because of the inordinately high implicit tax it imposes on the pivotal sectors whose export receipts pass through the Central Bank; and (b) there can be no programme of liberalisation without exchange rate adjustment.

6. Foreign Exchange Reserves

The position in which the Central Bank now finds itself is unique in our recent experience. On no occasion since December, 1977, has the Central Bank had the privilege

of carrying over into the new year, gross foreign exchange reserves of this magnitude - US\$26.6m. Its current reserves are equivalent to the value of 2-3 months of imports and constitute a first step in accumulating sufficient reserves to meet our obligations in terms of fuel and debt and, ultimately, to defend a realistic exchange rate.

7. Agreements and Targets under the Aegis of the Support Group

Comrade Speaker, after careful and exhaustive negotiations, the Executive Board of the IMF, on July 13, 1990, approved Guyana's request for a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) for SDR 81.5m; and a twelve-month Stand-by Arrangement (SBA) for SDR 49.5m. This approval was preceded by the clearance of arrears to the IMF on June 20, 1990. The clearance of the arrears to the IMF and other MFIs - World Bank and the Caribbean Development Bank (CDB) - was accomplished with the assistance of the Support Group for Guyana and other monetary institutions which provided the short-term Bridging Finance. Following the clearance of the arrears, the World Bank on June 28, 1990, approved a Structural Adjustment Credit of SDR 59.8, which was on IDA terms; and the CDB was ready to disburse the US\$42.0m approved earlier.

The financial assistance package for the 1990-1992 period from all sources, envisages the following: Project grants and loans (US\$250m); IMF (US\$173m); IDA (US\$79m); CDB (US\$42m); IDB (US\$32m); Support Group, non-project balance of payments support (US\$106m).

The programme also includes rescheduling, on concessional terms, of debt due during 1990 - 1992 to non-multilateral creditors, and a moratorium on interest falling due in the period through September, 1990.

I am mentioning these facts, Comrade Speaker, to highlight the immediate benefits derived following our agreement with the IMF on a programme.

As stated earlier, there are two programmes in one with the IMF - the ESAF component and the SBA.

With the clearance of all outstanding debts with the IMF, the World Bank, and the Caribbean Development Bank and conclusion of formal agreements with these institutions we were able to receive funds to ease the balance of payments position of the country.

As part of this agreement, a number of targets were set, in consultation with the IMF. These targets were based on technical and economic forecasts and adjusted after discussion.

The benchmarks included both quantitative targets and structural policies. We are all aware of the structural changes which included market oriented exchange rate and pricing policies, changes in the tax structure, administration, expenditure control, public sector reform, monetary and interest rate policy and the external trade system. Quantitative ceilings were established for:

- (i) net foreign assets of the Bank of Guyana, with sub-targets for gross international reserves;
- (ii) net borrowing requirements of the non-financial public sector;
- (iii) net domestic assets of the Bank of Guyana; and
- (iv) change in the stock of domestic public debt.

I would like to report to the House that as at the end of December, 1990, only two of the five quantitative targets were achieved, namely, change in net domestic assets of the Bank of Guyana, and the change in net foreign assets of the Bank of Guyana.

Between July and December, the net stock of foreign assets improved to the extent of US\$94m, almost US\$18m more than was envisaged. In the same period, the net domestic assets of the Bank of Guyana, which essentially reflect the state of net indebtedness of the Government of Guyana to the Central Bank were \$3500m. This was over \$250m more than was required.

The third and fourth targets, namely the gain in and stock of, gross international reserves of the Bank of Guyana, were not met.

Two additional target variables - the change in the stock of domestic public debt and the net borrowing requirement of the public sector, were also met. Neither was met in the period July to December. The former exceeded the target by \$911m, while the latter exceeded the target by \$691m.

A major cause of the failure to meet the targets was that the payment by ATN for the divested assets of GTC did not materialise until 1991. If these funds (US\$16.5m) were received on time, they would have added to the gross foreign exchange reserves of the Bank of Guyana and reduced the stock of domestic public debt and the net borrowing requirements of the non-financial public sector.

In view of this, it is all the more praiseworthy that the net foreign assets target was met. It does, however, draw attention to the fact that the country's balance of payments continues to be vulnerable to unforeseen shortfalls in export revenues and promised financial support. In this respect, the Government of Guyana is seeking to improve the timeliness with which receipts from commodity and other forms of assistance are actually credited to its accounts at the Bank of Guyana.

Fortunately, the programme is designed in such a way that deviations in the current period can be rectified in the next monitoring period. We need to redouble our efforts to meet the targets in the months ahead.

In light of these special circumstances Comrade Speaker, I am pleased to indicate that the staff of the Fund is to recommend to its management and the IMF Board a waiver of the obligations to meet all of the targets as per the Agreements. This would mean that Guyana could proceed with the Stand-by programme which was due to end on 31st March, 1991. It is now proposed that it be extended to 30th June, 1991. As a consequence, Guyana will be in a position to receive by the end of March the second tranche disbursements

which were originally due in December, 1990. The amount in question totals some US\$60m.

B. OUTSTANDING PROBLEMS

It needs to be said, however, that whilst there have been these notable achievements, the programme remains problematic in some of its dimensions.

The levels of production of sugar and bauxite and of the declaration of gold, shrimp and diamonds, constitute a considerable drag on our efforts at achieving economic growth. It has been evident for some time that radical efforts need to be undertaken in order to overcome constraints on production. Indeed, we have made such efforts. But such attempts at institutional reorganisation and change in ownership and management as have been effected, have doubtless been largely negated by the dramatic compression in real incomes which were forced on us by the non-materialisation of external resources, even at the levels recommended by the IMF; the movement in fuel prices; and the state of infrastructure.

The second area of concern pertains to the non-availability of resources for the support of the Social Impact Amelioration Programme (SIMAP). The untimely and insignificant disbursement of external resources for the programme has for some time now caused the Government considerable worry. Having recognised very early on that a programme of this type was likely to impact severely on some categories of workers, we fashioned a programme aimed at attenuating the worst consequences of that adjustment. In fact, the severity of these measures has been mitigated only by the Government-funded

emergency programme. Under this programme about \$60m, were disbursed to 127,686 beneficiaries. This remains the situation two years after the commencement of the ERP.

In the meantime, a great deal of the energy of our technicians has been diverted to addressing issues of an institutional nature. Many of these have been prompted by unsubstantiated concerns about the lack of transparency in transfer mechanisms. This, alongside the attempt by some external agencies to spend monies which we had all agreed needed to be sterilized, leaves us with the classic case of "the horse starving whilst the grass is growing". We look forward to the acceleration of the disbursements of new funds for the programme in 1991.

An important pillar of the 1991 Policy Framework Paper (PFP), not unrelated to the foregoing point, pertains to the rehabilitation of infrastructure and in particular, the rehabilitation of the country's roads. No external assistance has either been secured, or provided, for this exercise, although we all recognise its importance. It does appear that, somehow, the practice of some local officials and Diplomatic Missions to entertain visitors, including staff of the MFI's, by taking them along the most comfortable of roads, leaves the impression in visitors' minds that the roads are in very sound condition and that in any case there are several roads to service the various population and production centers. This is far from the reality.

In face of such disappointments, considerable efforts have been devoted to improving the lot of the poor by way of social sector services. These include:

expansion of the school-feeding

programme;

- the provision of 2.6m exercise books to students;
- the intensification of efforts and collaboration with our neighbours to stem the spread of malaria;
- the drilling of a number of wells at locations including Best Village, Canal No.1 Polder and Sparendaam, Farm, Leguan and Unity.
- the arrival of 80 percent of the materials, equipment and spares for the EEC-financed water supply project;
- the identification of four sites on which private developers are to begin infrastructural work as a prelude to house construction; and
- the on-going rehabilitation of road, bridge and ferry facilities, including the New Amsterdam Ferry Stelling and Black Bush Polder road.

In the area of divestment, the exercise, although successful in some ways, has been problematic. Some of the assets of the GNTC, Quality Foods Limited and GTSL, were divested in 1990. The assets of Guyana Nichimo Limited and the remaining stocks held by Sijan Palace have also been sold. The major onshore operations of Guyana Fisheries Limited were leased in the second half of 1990 and half of its trawlers sold.

In addition, GRMMA's assets at the following locations were advertised and sold to the private sector, including two Caribbean companies:

Somerset & Berks
Anna Regina
Ruimzeigt
Wakenaam

It should be noted that public bids were invited and the prices received were consistent with the valuation placed on the asset by an international expert retained by the Government to advise on current market values. I may add that in keeping with the spirit of dialogue and contrary to the assertions of some uninformed observers, prior to divestment, discussions were held with farmers at each of the relevant locations. They were urged to take the initiative with respect to participation in the divested entities. For most of them, the problem of raising the volume of cash required is insurmountable. The new owners have been persuaded and have undertaken, to offer shares to interested farmers who on their own were unable to secure financing.

We were unable to complete the divestment of the Guyana Telecommunications Corporation(GTC) and the Guyana Electricity Corporation(GEC) in 1990. As a result, the proceeds from the sale of assets were considerably less than budgeted.

Where divestment has been effected, in at least two instances employees and agencies related to the divested enterprises have already realised benefits. Ruimzeigt Rice Industries Limited was able to undertake the importation of some US\$0.6m worth of

machinery and spares. Purchasing operations have been partially computerized and a padi buying center has been established at Wakenaam. Farmers are now paid cash when they deliver their padi to the mills. In addition, employees' salaries have been increased by 200-300 percent.

In the case of Marine Food Products Limited, which has acquired some of the Guyana Fisheries Limited trawlers and rented infrastructure, a considerable amount of work has been undertaken on the rehabilitation. Furthermore, new equipment and vehicles have been acquired, the productive mix has been widened, and staff have had a 70 percent salary increase. In addition, the number of employees has more than doubled in less than eight months.

In concluding this aspect of my presentation I wish to recapitulate the main achievements of 1990. These are:

1. the accumulation of significant foreign exchange reserves, approaching the levels necessary to fully finance the obligations of the Central Bank and to move towards the defence of the exchange rate in the long term;
2. the turn-around in the financial and monetary indicators which characterised Guyana over the last 12 years;
3. the restitution of the public sector accounts, especially those of Central Government; and

4. the further rescheduling of our Paris Club debts on Toronto terms.

CHAPTER 3

KEY TASKS AND POLICIES: 1991

a. Introduction

Comrade Speaker, of the myriad things which need to be addressed in 1991, it is Government's considered view that there is a sub-set which needs to be focused on and allocated most of our energies. I will now elaborate on this sub-set of key tasks and policies.

b. Human Resource Challenge

(i) Retaining and Motivating Workers

Across the Public Sector (with the exception of Guymine and Guysuco) wages and salaries as at December 31, 1989, were increased by 7 percent for the period January 1, 1990, to June 14, 1990. This policy was implemented in August, 1990, and the increase was exempted from taxation.

As of June 15, 1990 all Public Service wages and salaries as at May 31, 1990, were increased by a further 12 percent. In the Guystac Group, enterprises were allowed to increase May 31, 1989, wages and salaries by as much as 12 percent if they could demonstrate the ability to absorb such an

increase. As it turned out, some enterprises could not do so.

In the cases of Guymine and Guysuco, workers enjoyed a 10 percent increase on their December 31, 1989 wages and salaries, for the period January 1 to June 14, 1990. This increase was also exempted from taxation. In addition, both enterprises effected a 15 percent increase on wages and salaries as at May 31, 1990. The private sector of course effected its own adjustments.

Comrade Speaker, the Government is not unmindful of the fact that, notwithstanding these wages and salary increases, 1990 proved to be an extremely difficult year for workers. Wage policy was less accommodating than the Trades Union Congress, for instance, would have wished, and real wages were more adversely affected than Government had anticipated, as domestic inflation turned out to be higher than projected.

In previous Budget Statements, I have warned of the extent to which an over-reliance on real wage cuts can aggravate the human resource problem: a problem which plagued us throughout 1990, as it has for some time before that. The level of wages in the Public Service is low both as a result of low productivity and the very limited capacity of the Public purse.

To create the fiscal ability to meet such payments, Government agreed to restructure and reorganise the Public Service. This activity is now in its second phase. By July, there will be eleven (or twelve if account is taken of the present thinking which is to maintain the State Planning Commission as a separate entity under its own Minister), rather than

eighteen, ministries, and adequate funds have been earmarked for training and re-training of personnel.

Public servants' gross wages and salaries are lower than those of workers undertaking comparable jobs in the private sector. In addition, they are taxed on this income in strict accordance with the law, unlike workers in the informal sector, or those in the 'official' private sector many of whom are in receipt of unauthorised 'tax-free' allowances and benefits. This Budget seeks to address this problem somewhat. We propose increased wages and salaries in order to reduce differentials between the public and private sectors. The exact details of the policy will be dealt with later. These changes are but the initial steps of a process designed to bring the emoluments of the Public Service into approximation with that of the Private Sector.

I have said before that the human resource problem is not solely a function of the size of the wage basket. Observe that the private sector, although it offers remuneration packages which are generally more attractive than those offered by the public sector, has its share of problems attracting and retaining skilled (and in some instances unskilled) manpower. The problem is pandemic and conditions low levels of efficiency.

But improved wages and salaries are not enough. As I said in my 1990 Budget Statement, we need to take a hard look at management practices with a view to pursuing "a more people-centered approach to management, which increases workers' job satisfaction in face of financial stringencies".

Our success with the package of policies we are implementing will have a part to play in alleviating the human resource problem. In other words, to the extent that these policies create a disincentive for rent-seeking, gouging of consumers, and smuggling and reduce the premia associated with operating outside the law, they will serve to make manpower more readily available to both the public and private sectors.

I would like to indicate that in addition to restructuring the Public Service along the lines recommended by the consultants engaged by the Government of Guyana, the Government proposes to radically reorganise the Ministry of Foreign Affairs. The intent of this reorganisation will be to significantly reduce the level of expenditure in the medium-term, by contracting the number of embassies to a level consistent with our current financial capacity domestic (including national security) regional and international interests. In light of this, Comrade Speaker, we shall be seeing the strengthening of some of the key Missions in the course of 1991.

c. Inequity in the Fiscal System

The Government is also aiming to reduce the asymmetry in the tax system to which reference was made earlier. A revision of the PAYE system - to be formalised in this Budget - was heralded in December. These changes will reduce the burden on those paying the correct tax, and bring into the tax net what are at present illegal 'tax-free' allowances. The Inland Revenue Department will be assisted in this task when its computer comes

on-line in the next few months.

The need to retain top civil servants has also been recognised and a system of 'market supplements' is to be introduced. We return to this concept later.

The conversion of Estate Duty from a revenue source to a purely regulatory device, announced in the 1990 Budget, came into effect on the first of January, 1991. This will eliminate an unduly heavy burden on beneficiaries many of whom find it difficult to raise the cash.

Action has also been taken on the major indirect taxes. For some months now, the Customs & Excise Department has been involved in a campaign directed at bringing unregistered manufacturers within the consumption tax net, while at the same time clamping down on smuggling. The acquisition of vehicles and a boat by the Department, with assistance from the IDB, and the recruitment of additional persons to staff points of entry and exit, will enable the Customs authorities to intensify their efforts in 1991. Not only are the existing taxes to be better enforced but, with the assistance of the World Bank, there is to be a major review of the consumption tax, and other indirect taxes in 1991. Mention should also be made of the Beauregard enquiry in this context.

The recent introduction of the Common External Tariff (CET) should bring Guyana's duties payable on goods traded with non-Caricom countries in line with those of other members of the Common Market. Hopefully, this will reduce distortions on trade within the region.

d. Engineering Positive Supply
 Response

(i) Inputs

In the absence of an adequate short-run supply response, we cannot sustain the adjustment we are undertaking. What is also true, and accepted by all concerned, is that such a response needs to be forthcoming, especially from the pivotal bauxite, sugar and rice sub-sectors.

In many instances it is the unavailability of relatively inexpensive but crucial spares and components, and the inadequacy of funds to undertake strategic activities, that lead to high capacity underutilisation. Government has already moved to address these problems. Both the MFIs and the Support Group have been apprised of our concerns. In fact, a World Bank team has recently met with representatives of the public and private sectors to ascertain their needs. The Bank has undertaken to mobilise the required resources during the second half of 1991. The principal beneficiaries are to be the bauxite, sugar, rice, gold and artisanal fishery sub-sectors, and the manufacturing sector.

With the inputs and equipment which have already been secured for the rice sub-sector, rice output can increase significantly if funds can be garnered to fix the drainage and irrigation systems in the rice growing areas. The provision of pumps for the sugar belts (coupled of course with active replanting, for which the industry has budgeted) can make a positive impact on sugar output. The artisanal fishery sub-sector can augment

capacity utilisation if engines, spares, twine and other accessories become readily available. And one can go on and on. Suffice it to say, Comrade Speaker, that Government is according the highest priority to triggering an adequate, positive, short-run supply response. The success of the adjustment programme depends on it.

(ii) Divestment

During 1991, the Government intends to complete the divestment of the National Paint Company, Guyana Airways, Guyana Stockfeeds Limited, Guyana Soap and Detergents Limited and GTSL. It also intends to finance some aspects of the capital expansion programme of Seals and Packaging Industries Limited (SAPIL) by issuing shares to the general public. Divestment proceeds in 1991 are projected to amount to \$1.7 billion, but this amount could increase significantly, depending on the outcome of the negotiations regarding the larger enterprises.

In the short term, Guyana's economic prospects are linked to the rehabilitation of the bauxite and sugar industries, which continue to face severe technical, managerial and financial shortcomings. To help overcome these difficulties, on October 1, 1990, the Government signed a one-year management contract agreement with Booker Tate for GUYSUICO. Moreover, a medium-term plan is being prepared by Booker Tate for the divestment of GUYSUICO, with a proposal expected in the second-half of 1991. Discussions are ongoing with ALCAN regarding a management contract for GUYMINE, which could lead also to the divestment of the company. Agreement on the management contract hinges on the possibility of

arranging a financing package that amounts to about US\$20m.

The Government concluded on 18th February, an Agreement of Sale with Demerara Timbers Limited for Demerara Woods Limited. A down payment of US\$0.1m was made and the balance of US\$16.4m is to be paid over four years. The Demerara Timbers Limited (DTL) is a foreign owned locally registered company.

(iii) Infrastructure

Notwithstanding the increase in the investment outlays in real terms that occurred in 1990, the Government is concerned about the the shortfall in finance for the investment programme Revenues disbursed continue to fall short of what is required to rehabilitate and maintain existing infrastructural facilities.

The most serious infrastructural deficiency affecting the economy is inadequate electricity supply. A restoration of generating capacity and power distribution capability is indispensable to the success of the Economic Recovery Programme. The Government, with assistance from the Inter American Development Bank, Brazil and Japan, is implementing a programme that aims at increasing generating capacity in the Demerara-Berbice Interconnected System (DBIS) from 12.5MW, at the end of 1989, to 36.5MW, by end-1991, about equal to estimated demand. The rehabilitation loan notwithstanding, generating capacity will remain limited, given the age of the equipment being rehabilitated. Moreover, the rehabilitation programme represents a "holding operation".

To help formulate a long-term solution to the power supply problem, a ten-year investment plan is being prepared by the Canadian International Power Services, with financial assistance from the IDB. The plan was to have been completed by September 1990, but has had to be modified to take into account work on the feasibility of hydro-power and a Guri dam link.

Comrade Speaker, I would like to take this opportunity to mention two projects which we hope to add to the 1991 programme. When arrangements for internal fiscal adjustments have been completed we shall be bringing to Parliament a proposal to spend an additional \$185m on the Amazon Rain Forest Project and to effect a transfer to the Institute for Small Enterprise Development (ISED). Both of these projects are associated with PL 480 counterpart funds.

(iv) Export Free Zone
Development

As part of its continuing efforts to give fillip to and encourage industrial development in Guyana, the Government with the assistance of the Inter-American Development Bank (IDB), will put in place during 1991, framework legislation to facilitate the establishment of an Export Free Zone. The establishment of the Zone is expected not only to generate additional foreign exchange earnings and create jobs, but will utilize the country's natural resources and materials and could lead to the transfer of technology and management expertise to Guyana.

In 1991, the Government intends to further streamline the procedures for the granting of fiscal incentives by reducing the processing time to three weeks.

In response to the efforts to create and maintain a favourable investment climate, it is expected that there will be substantial private investment within the various sectors of the economy. The proposed investments include US\$2.5 million for the rehabilitation and expansion of capacity in the manufacturing sector, US\$2 million for improving primary, secondary and tertiary processing of forest produce, US\$0.7 million for the continued rehabilitation of rice mills, and US\$1.2 million for the procurement of a vessel to transport agricultural exports. In the Services Sector, the Guyana Telephone and Telegraph Company intends to spend about US\$35 million to commence the rehabilitation of the telecommunication system within the country.

A three year agreement with Mobil Oil Corporation for the conduct of oil exploration within 5 million acres in the Guyana Basin Offshore has been concluded. The company is currently in the process of costing the first phase of its work programme which requires the review of existing technical information and the reprocessing of existing seismic data. TOTAL (Guyana) which is also operating in the Guyana Basin Offshore is expected to commence drilling a second well during the third quarter of 1991.

In the gold sub-sector, CAMBIOR has undertaken the task of raising the financing required to execute the project at OMAI. The

final engineering work for which US\$0.3 million has already been approved is expected to be completed by the end of the third quarter of 1991.

(vi) Social Sector Projects

In recognition of the very problematic state of the potable water system and its importance to health, some \$37m has been allocated for the provision of urban and rural water supply, and \$17m for sanitation.

Perhaps almost as crucial as electricity and water is the problem of road maintenance. In recognition of the fact that a single road link is often the only feasible mode of transport open to producers and hinterland settlers, \$42.9m has been allocated to the rehabilitation of roads, bridges, and drainage facilities. Georgetown roads, the Linden/Soesdyke Highway curves, the stretch of road between La Penitence and Houston, the Parika/Vriesland road, Black Bush road Phase 1, and the stretch of road in Craig are all earmarked for upgrading.

The Lacytown/Bourda area, South Ruimveldt, and the Sussex Street canals are earmarked for drainage rehabilitation and desiltation.

Funds (\$5m) have been allocated for the acquisition of 104 lots in LBI Estate (area No 6) and the provision of infrastructure (water, roads and drainage).

e. Co-financing of Capital Projects
and the Problem of Counterpart
Funds

The success in keeping capital expenditure within the IMF ceiling in 1990, has already been mentioned. This success was not, however, solely the result of prudent financial management. The depreciation of the Guyana dollar has meant that the Government has had to find significantly more Guyana dollars in order to meet its obligations on jointly-funded projects. Where a 30 percent Government of Guyana contribution required US\$1m, for example, depreciation of the rate from G\$62:US\$1:00 to a G\$100:US\$1 now necessitates \$100m. Since our revenues have not kept pace with that movement, we have had to reduce the rate of implementation of some projects. The consequences of such actions are doubly pernicious for the problems of the poor make the need for the provision of public or collective goods imperative whilst the delay makes provision more expensive.

At the same time, slowing down the projects increases their cost. With increased foreign-financed projects the problem will worsen. In face of this, it is necessary for the Government to secure full financing of each project. In the jargon of the MFIs, we are seeking assistance with co-financing.

Comrade Speaker, I would now like to touch on a rather delicate problem which pertains to counterpart funds emanating from the sale of commodities. As all Guyanese know a significant proportion of balance of payments assistance from members of the Support Group has taken the form of commodities - flour, fertilizer, rice,

spares, etc. It had been understood when such assistance was requested by the IBRD and IMF on Guyana's behalf, that the proceeds from the sales of such commodities would be sterilized, meaning that they would not be used to buy additional goods and services in Guyana. The reason for this was that as a consequence of debt service, the revenue needs of the Government are so great that the accounts could not balance otherwise.

Secondly, any dollar spent in Guyana involves some element of imports. We are of course trying to curb imports because of balance of payments difficulties. Today, we find ourselves in a situation where some of these donors insist that a large portion of the counterpart funds be used for projects other than those identified in the programme. We are therefore seeking to spend the same dollar twice and to spend it in a manner likely to cause further depreciation of the exchange rate.

I have taken the trouble to explain this matter, Comrade Speaker, because it is surrounded by a great deal of misunderstanding. It is well known that where a Government has a fiscal and inflationary problem such as ours, the above requirements compound the inflation rates. We need to resolve this matter in 1991.

e. Money and Banking

Comrade Speaker, the House will recall that in order to facilitate the implementation of the credit targets agreed with the IMF and to restrain overall credit expansion, the Bank of Guyana on March 15th, 1989, by an Act passed by this House, required commercial banks not to allow their

liquid assets to fall below the level at March 15th, 1989, for the period ending September 30th, 1989. The freeze was subsequently extended on five occasions, to June 30th, 1991. We are proposing to reinforce this measure by converting between 75 and 80 percent of the excess reserves into medium-term debentures. In a bid to facilitate a more market-oriented approach to monetary control I had indicated in my 1990 Statement that the Government intended to institute the auctioning of Treasury Bills and the development of a secondary market in these bills as well as securities during the course of 1991.

Interest rates have for fairly self-evident reasons, been a rather contentious issue. Perhaps second in importance only to the exchange rate and possibly tax policies. The interest rate policy is intended to facilitate savings at the expense of holding foreign currency. At the same time, it is intended to encourage and facilitate a sustainable level of investment. When interest rates were changed in June 1990, I had undertaken to review them periodically, with a view to reducing them as soon as possible. Reviews were conducted. They revealed that a higher rate of inflation and a significantly larger depreciation of the Guyana dollar had taken place than had been anticipated. This depreciation was attributable in large measure, to continuing excess liquidity in the system and a switch from deposits to the holding of foreign currency balances. A further reduction in the interest rate, therefore, would not have been appropriate. Currently, in order to forestall the usual flight of funds into foreign currency, which follows depreciation of the Guyana dollar, and encourage savings, the Bank rate and the Treasury Bill rate are to be increased. It is hoped that these

temporary movements will be sufficient to achieve these objectives. In future, interest rates will be reviewed monthly and will be adjusted in light of developments in the cambio market.

Comrade Speaker, in 1989, the Government effected the merger of the Republic Bank and the Guyana Bank of Trade and Industry (GBTI). That merger was a prelude to the divestment of the combined entity. I am pleased to announce that the product of that merger will be divested along similar lines as the National Bank for Industry and Commerce (NBIC), on 25th of May, 1991.

The Guyana National Cooperative Bank (GNCB) is receiving the attention of a Commonwealth Fund for Technical Cooperation (CFTC) consultant and a new Board of Directors. A considerable amount of attention has been devoted to bringing its management practices and structures in line with modern, acceptable corporate practice. The Board has been asked to pay particular attention to improving loan appraisal techniques and procedures and the problem of a poor quality portfolio has been addressed in a constructive fashion. Significant changes in senior management have been effected.

All in all, the decision to look closely at the Bank's operation with a view to radical change has proven to be both sound and timely.

Time will prove to be a good judge in this regard.

f. Youth and Sport

Financial stringencies notwithstanding, this Government has never lost sight of the need to actively promote sports. Sports brings us together as a people and a nation. But more importantly, the pursuit of excellence in sports by our youths serves to raise their aspirations and nurture leadership qualities and team spirit.

This year promises to be an exciting one for Youth and Sport. Three important events which come readily to mind are the celebration of Youth Week; the National School Athletics Championship; and our preparation for, and participation in, the Pan American Games.

An allocation of \$16m has been made for expenditures associated with Youth and Sport. In excess of \$7.5m are to be spent on the acquisition of sport gear and the construction of 5 boxing rings. The Venezuelan financed Gymnasium, which will house a variety of sports facilities, is to be completed. Also the facilities at Camp Madewini are to be refurbished.

The Regional Budgets make provision for the construction of a Community Centre at Buxton and Hopetown; the refurbishment of the sports facilities at Rosehall; and the upgrading of sports grounds throughout the country.

CHAPTER 4

1991 PROJECTIONS AND MEASURES

A. GROSS DOMESTIC PRODUCT (GDP)

Growth in GDP in 1991 has been projected at 3.9 percent. The increase is premised on significant expansions on most fronts, namely, rice, bauxite, gold and manufacturing.

B. BALANCE OF PAYMENTS OUTLOOK

The ERP, as indicated already, Comrade Speaker, envisages an improvement in the balance of payments to sustainable levels in the medium term. The importance of this objective cannot be over emphasised. The country's ability to earn foreign exchange to meet its external obligations must guide the design and implementation of the various aspects of the ERP. We will also be guided by the achievements made and the areas where additional effort is required.

What emerges from the 1989 and 1990 experiences is that the stimuli applied to stabilise the financial (fiscal and monetary) flows, are working, and the stage is now set for promoting a resumption of growth. It is also, evident Comrade Speaker, that our efforts are receiving the necessary international support, even though it has been less than adequate. Therefore, we face 1991 armed with two important lessons: first, that it is within our power, collectively, to turn the economy around to sustained growth; and second, that we can count on the international community to support and supplement our efforts.

It is against this background that we project an improvement in the overall balance of payments deficit, in 1991, to US\$155.0m or a reduction of US\$37.0m on the 1990 level. It should be noted, in particular, that a net inflow of US\$32.0 million is expected on the capital account, a development which will reverse the net outflows seen during the recent years. The projected turn around in the capital account will reflect the further gains in the normalisation of our relations with the lending community. It is also anticipated that private investment inflows will double the US\$7.0m recorded in 1990, to reach US\$14.0m.

Although the merchandise trade deficit is projected to deteriorate from US\$46.0m, in 1990, to US\$71.0m in 1991, the outturn is expected to result mostly from a revitalised private sector, which would need higher imports, including machinery, spare parts and other essential inputs. The higher import bill is also consistent with the projected real growth of the economy. Some gains are expected in export proceeds: Bauxite - 8.0 percent; sugar - 14.6 percent; rice - 14.3 percent; and other exports - 30.0 percent.

Exceptional financing of the balance of payments is expected, in 1991, in the form of debt relief (US\$41.0m); and commodity assistance.

The final outcome of the projected balance of payments is, needless to say, predicated on the implementation of a number of measures on all fronts - fiscal, monetary, exchange rate and other areas.

C. FISCAL PROJECTIONS

Although there was a large increase in the primary balance in 1990, it is doubtful whether this could be sustained solely on the basis of last year's policies. That the surplus was greater than expected was almost entirely a consequence of restricting current expenditure to a nominal target, while current revenues increased with the rise in the price level, which was attributable in part, to the sharp depreciation of the cambio rate. 1990 was the second consecutive year that inflation had been used to effect real expenditure cuts. By the end of 1990, the real purchasing power of some parts of the administration was below the minimum needed for them to fulfill their functions. Clearly, such a situation is untenable. Even the current restructuring of the Public Service is unlikely to generate savings in the short-run.

Further increases in the primary balance will thus have to come from higher revenues.

In essence, this is the basis on which the 1991 Budget has been designed. Non-interest current expenditures are budgeted to more than double to \$7,123m. At the same time, current revenues are being projected to increase by 110 percent to \$11,270m. Although this means that there will be a real decline in the primary current account, it should remain at a sustainable level, and will, in any case, rise in nominal terms to equal \$4,148m.

When expenditure on interest of \$11,340m is included, the current deficit will equal \$7,192m. This represents a 220 percent increase on that of 1990, and highlights the need for further efforts in the management of

the domestic debt.

The projected increase in nominal revenues should flow from the measures I shall be announcing shortly.

The combined effects of these changes is expected to result in a nominal increase in the receipts of the Department of Customs and Excise by 108 percent, to \$4,287m and the Inland Revenue Department by 71 percent, to \$3,389m. Assuming that these projections are realised, the Customs and Excise Department will be the major collector of revenues for the second consecutive year. This highlights the shift from direct to indirect taxation. Although this will make the tax structure itself more regressive, given the extent to which direct taxes are evaded, this move to indirect taxes will, hopefully, spread the incidence of taxation more widely, thereby making the system more equitable.

The major taxes will continue to be Income and Corporation taxes, and the Consumption Tax. Revenues from the latter are, however, being projected to exceed the combined company income taxes, rising by \$1,604m, to \$2,919m. Import duty receipts are also expected to more than double to generate \$1,095m.

The 82 percent increase expected in the collection of company taxes takes into account the adjustments mentioned in the withholding tax. The latter tax is being projected to raise \$212m, a 242 percent increase on collections in 1990. The effect on revenues of the increase in the threshold allowance for personal income and the lower rates of tax are expected to be more than offset by the proposed nominal wage increase; receipts of this tax are being projected to increase from \$301m, in 1990, to \$421m, in

1991.

The nominal fall projected for the total current receipts from the non-tax sources, can be explained by lower transfers from the state enterprises. At \$68.5m, total dividends from all sources will be \$6.9m less than in 1990. The main decline is in the special transfers that corporations with excessive liquidity are required to make. Only \$7.5m is expected to be transferred, in 1991, compared with \$115m, in 1990. This decrease partly reflects the success of the divestment programme, because GTC had been the major contributor of special transfers.

Turning to current expenditures, the main point to note is that the 1991 total for employment costs is 100 percent higher than that of 1990. This is partly attributable to annualizing of 1990 payments. It does not reflect a proposed doubling of wages. The market supplement budgeted for senior staff will cost about \$28m in 1991. As alluded to earlier, the restructuring of the Public Service is not expected to generate any immediate savings in employment costs.

The amounts budgeted for most of the other categories of current expenditure have also been increased. Those with the largest proportionate increases are 'Other Goods and Services' and 'Transfers'. A study of changes from 1990 (or even 1989) in the sectoral distribution of these non-interest current expenditures would make interesting reading.

The final category of current expenditures, that on interest, continues to absorb a large proportion of domestic resources, rising to 11,340m, in 1991. This is despite the successes with the rescheduling exercise in 1989 and 1990. More prudent management will be exercised with

regards the internal debt.

The corporate public sector enterprises are expected to generate export revenues of \$23,142m and total current revenues of \$31,006m. With total operating expenditures projected at \$28,873m, we anticipate a positive primary balance (net of interest payments) of some \$2,133.2m. When account is taken of an estimated \$17.4m in project-related grants, and allowance made for capital expenditures of \$5,949m, the overall balance of the consolidated public enterprises is expected to be in deficit to the tune of some \$4,123m.

As has been the case in both 1989 and 1990, the foreign component of the capital programme will be financed primarily by loans from the IDB, the EEC and Suppliers Credit. Guymine, Guysuco and GEC will account once more for most of the capital expenditures in 1991.

D. MONETARY AND CREDIT AGGREGATES

1. Introduction

It is Government's intention, Comrade Speaker, to continue to restrain the rate of increase in credit and the growth in narrow money balances (currency in circulation and non-interest bearing deposits), while encouraging holdings of interest bearing deposits.

In pursuit of this objective, it is projected that monetary and credit flows will evolve in the following manner:

a. Domestic Credit (net)

Overall, net lending by the banking system is projected to rise to \$18,098.0m by the end of 1991, an increase of 37.2 percent. This apparent surge in credit expansion compared with the 1990 experience represents a significant compression, after allowing for the anticipated rate of inflation. It should also be seen against the background of the need to allow for legitimate, non-inflationary increases in working capital of the private sector.

For its part, the public sector as a whole, is expected to limit its net borrowing from the banking system to 16.2 percent. Although not quantified, the public corporations' performance is expected to improve further, vis-a-vis, the banking system.

b. Money and Quasi-money

The expansion in money (currency and private sector non-interest bearing deposits) is projected to increase by some 30.0 percent, in 1991, a rate of increase which is considered non-inflationary. Simultaneously, quasi-money (private sector time and savings deposits) are expected to expand by a further 45.4 percent, after recording a 57.1 percent rise in 1990.

c. Interest Rate and Credit Policy

The achievement of these quantitative goals will, Comrade Speaker, require that Government carry out a number of policy

actions. If financial savings are to continue to rise, then the level of remuneration on deposits should increase. This is one side of the coin. The other side is that the cost of borrowing to the productive sectors must serve as a catalyst to growth. The commercial banks will need to carry out their lending operations prudently bearing in mind the effect that indiscriminate lending can have on domestic inflation and the balance of payments.

It is against this background that, with effect from February 28th, 1991, all interest rates will be determined periodically to reflect the underlying movement in the inflation rate. This move will have the effect of ensuring real positive returns to financial savings, discourage immediate consumption and contribute to the stabilisation of the free market exchange rates. The exact levels of the rates will be announced by the Bank of Guyana.

In addition, excess liquidity of the commercial banks needs to be sterilised. With effect from February 21st, 1991 the level of liquid assets of commercial banks will be frozen at their end-July 1990 balances, instead of the end-September, 1989 balances. To encourage the commercial banks to invest their surplus liquid assets in securities with medium-term maturities, legislation has been enacted to permit the issuing to banks of special variable interest rate medium-term debentures which can be included in the banks' liquid assets. Other measures intended to activate the money and capital market will be announced later. Suffice to say at the moment that it is Government's policy to encourage the financial intermediaries to play a more active role mobilising resources and ensuring their efficient allocation.

E. BUDGET MEASURES

a. Travel Tax

An increase in the Airport Departure Tax from \$165 to \$1,000 per person, the equivalent of about US\$10.00, is proposed. This will bring Guyana's tax more in line with its main Caricom partners. On an annualised basis, this measure should generate an additional \$60.7m a year.

b. Withholding Tax

I propose that withholding tax should be levied and paid at the rate of 15 percent of the gross amount of interest earned on savings accounts with commercial banks and other financial institutions. This would be a once for all impost, and would be levied on a person whether an individual or a company. In short, such interest would not form part of the total income for income tax or corporation tax purposes. The commercial banks and other financial institutions would be required to deduct the tax and remit same to the Commissioner of Inland Revenue. Tax-exempt persons, or organisations may uplift a Notification from the Commissioner of Inland Revenue which will authorise the commercial banks or relevant financial institutions not to make any deductions from interest earned on their savings accounts.

As a consequence of the above proposal, the exemption limit of \$2,000.00 on interest income applicable to resident individuals will be removed.

I also propose the reduction in the rate of withholding tax levied on interest

accruing to non-residents from 25 percent to 15 percent.

c. Allowances

Effective from the year of income commencing on January 1, 1991, the Inland Revenue Department would be taxing all allowances and perquisites, whether paid in money or otherwise, where these are not expressly excluded from tax by the Income Tax Act, Chapter 81:01.

d. Consumption Tax - Remigrants

The authorities have been concerned for some time of abuses of the duty and consumption tax exemption available to remigrants. In an effort to curb these abuses, while at the same time not wishing to dissuade overseas Guyanese from returning home, their personal and household effects will now attract a duty of 5 percent. It is thought that this will raise \$44.4m, in 1991.

e. Rice Export Levy

As a signatory to the Lome Convention, Guyana enjoys preferential access to EEC markets. Furthermore, exports of sugar and rice attract a price above that available on the world market. Essentially, this is a form of aid to the Guyanese nation - a fact recognised by the EEC requirement that the Government collect a levy on all rice exports to that region equal to half the difference between the EEC and the world market prices. Although the Government has been reimbursing the millers in full, it now feels that a part of this aid should be used to finance national needs. To this end, a non-reimbursable levy of 15 percent is being introduced on rice exports.

This is expected to raise \$107.7m.

f. Selective Cost Recovery

Since 1976, the State has provided free education. Unfortunately, the increasing cost of this service and the narrowness of the tax base means that user charges are having to be introduced for some educational services. From September 1991, an attempt will be made to recover some of the costs of the services utilized by students at secondary, technical and vocational schools, and the University of Guyana. In addition, a nominal charge will be made for exercise books.

g. Delinquent Accounts

Taxpayers who have outstanding Returns for submission to the Commissioner of Inland Revenue in respect of the Years of Assessment 1984 to 1990 will be given a full waiver of penalties and interest if such Returns are submitted to the C.I.R. on or before April 30, 1991, and any outstanding taxes on those Returns are paid in full on or before that date.

The Inland Revenue Department will embark on a vigorous exercise to clear delinquent accounts in 1991. Once these accounts are settled by the taxpayer on a date fixed by the Commissioner of Inland Revenue, or, on or before December 31, 1991 where no date is fixed by him, all interest which have accrued will be waived.

h. Cambios

Comrade Speaker, I propose to raise the licence fees for cambios from \$100,000.00 to \$250,000.00, with effect from the 1/1/91. The relevant Order has been published in keeping with this proposal.

Against these revenue-raising measures must be offset the following concessions:

i. Personal Income Taxes

The PAYE will be simplified and the number of rates reduced. The new income tax threshold is to be \$48,000.00 instead of the \$10,000.00 plus allowances set in 1988. All personal allowances and deductions are to be withdrawn effective from the year of income commencing 1/1/91. Individuals earning \$4,000 per month or \$48,000 per annum will not be required to pay income tax. Additionally, for other individuals, chargeable income will be determined after the deduction of \$48,000 per annum or one-third of their income from all sources, whichever is greater. In other words those earning over \$48,000.00 will pay the stipulated rates of tax on the excess over \$48,000.00.

Furthermore, in place of the six tax bands and rates, I propose the following:

<u>Income band</u>	<u>Rate</u>
1st \$50,000	20 percent
next \$50,000	30 percent
balance	40 percent

You will note that in addition to a widening of the bands, the highest marginal rate has been reduced from 50 to 40 percent. This means, Comrade Speaker, that workers particularly in the lower income brackets will pay considerably less personal income tax than they did in 1990.

j. Consumption Taxes

(i) The most common of the higher bands of consumption tax is to be reduced from 50 percent to 40 percent. Unless manufacturers and/or retailers use this as an opportunity to increase their profit margins, then this should act to reduce the price of such items as refrigerators, plywood and ready-made clothing, to name but a few items.

(ii) Consumption tax charged on cars of 1600 cc is to be reduced from 50 percent to 30 percent.

k. Export Levy

The 1 percent export duty reintroduced on a range of items last June, is to be abolished.

l. Sugar Export Levy

The sugar levy formula is to be revised in 1991 in order to make revenues from this industry less discretionary and more predictable. This revision should make more funds available to Guysuco for the rehabilitation of the sugar industry and for

paying increased profit share to the workers.

m. Wages and Salaries

In 1991, Public Service wages will be increased by 50 percent across-the-board. This payment is determined by the Central Government's financial situation. In recognition of the need to retain special skills within the Public Service and, in accordance with the recommendations of the Public Service Ministry consultants, special categories within the Public Service will receive increases within the framework of the incomes policies of the Government. These increases we have termed "market supplements".

Pensioners paid by the Public Treasury, Old Age Pensioners and Recipients of Social Assistance will also enjoy a fifty percent (50%) across-the-board increase, in 1991.

Increases in pensions payable to Public Corporations' Pensioners whose payments are met by way of a Pension Fund/Scheme will of course be determined by the ability of the relevant funds, administered by those corporations, to meet such increases.

With regard to NIS and Dependants' Pension Fund Pension, increases for 1991 will be determined by actuarial assessment and recommendation.

GUYSUCO management has already indicated to its employees its proposals for wage increases in 1991. In the remainder of the Public Sector, namely the Public Corporations and COFA entities wages will be increased by varying percentages depending upon the profitability of the enterprise in question.

Loss makers will not be in a position to pay higher wages. Profitable corporations may pay increases. However, all payments are to be kept within a ceiling of 75 percent in the first instance. As was the case last year, the ability to pay means that the corporation has to be able to carry the bill without resorting to banking system borrowing, increasing its credit or eating into capital.

n. Interest Rates

The Bank Rate, that is the rate of interest charged by the Bank of Guyana to commercial banks for granting loans or advances, will be increased from 30 to 32.5 percent per annum.

The Prime Rate will be increased from 31 to 33.5 percent per annum and the rate for Treasury Bills at future tenders is to be 31.25 percent per annum. These increases will be effective from February 28th, 1991.

o. Exchange Rate

The official exchange rate is to be unified with those of the cambios. With effect from tomorrow, the new average rate will be G\$101.75 equal US\$1. This rate is to be adjusted on a weekly basis, in line with movements of the cambio market. Naturally, the relevant rate employed by the Comptroller of Customs and Excise will also move in sympathy. In future, only payments in respect of fuel, sugar imports, official external debt service and receipts from exports of sugar and bauxite will be effected at the official rate. All other transactions which were hitherto conducted at the official rate will now take place at the 'cambio' rate. The special Caricom rates are henceforth abolished.

p. Miscellaneous

In addition to the above measures, efforts to improve the efficiency of the revenue collecting agencies, will continue. Both of the agencies, Customs and Excise and Inland Revenue are to benefit from an IDB grant which will provide vehicles, computers and other much needed equipment. Custom's campaign aimed at making smugglers pay their due taxes, and at registering informal sector manufacturers, will also continue. Efforts to curtail irregularities in the Customs & Excise Department have already been put in place.

CHAPTER 5

CONCLUSION

Comrade Speaker, I am sometimes asked why we devote so much of our Budget Statements to explaining economic policies and plans for the future. The truth is Comrade Speaker, as you know, a Budget is not simply an outline of expenditures and revenues, of borrowing and of balancing. It is at once a financial status report and a guide for the future. The importance of this latter aspect rises in direct relation to the difficulty of the programme. That difficulty is a function of many factors, "the structure of the economy and its capacity to respond, on the effectiveness of policy, and on the international context in which adjustment is effected. These factors, together with the exceptional size of the initial imbalance, contribute to the severity and duration of the adjustment process", Bianchi, A of ECLAC.

Guyanese have been persuaded to undertake a programme of dramatic and radical economic adjustment over the last five to ten years because they recognise these simple facts. Their fortitude is attributable to their strength, their unfailing faith in themselves and the hope that underlies all inevitable programmes of reform.

It has been said Comrade Speaker that, "an optimist is someone who thinks that the future is uncertain". I am also cognizant of Ambrose Bierce's observation that, "the future is, that period of time in which our affairs prosper, our friends are true and our happiness is assured". I have weighed both these observations carefully and would venture the following nonetheless: providing that we continue to practice prudent economic management there is a reasonable likelihood that this will be the last of the severe adjustment Budgets.

So far we have weathered the storm of economic adjustment in the face of formidable odds. The costs have been high but inescapable in time.

That adjustment process, whilst far from complete, can now turn on improving efficiency, increasing the investment in new economic activities and raising incomes. In the absence of severe external shocks and industrial relations crises, our domestic task, is to promote greater efficiency in established industries and investment in new economic activities whilst managing the tax and financial system so that a socially tolerable distribution of the gains materializes. The latter is far more difficult a task than it appears as was well recognised by that most perceptive of men, Edmund Burke who concluded that, "to tax and to please, no more than to love and be loved

is not given to man'.

The external task is well-known.

May I close then, Comrade Speaker, and Colleagues by emphasizing the fact that the ERP continues to be the only blueprint for our economic recovery and reconstruction. Our policies have begun to correct the serious distortions and imbalances that have characterized the economy for over a decade; our international economic relations have been put on a defensible footing; and the widening of the economic base is already under way. It is to the latter activity that we must turn for signs of the future. To the extent that these investments, be they in gold, or forestry, oil or textiles, begin to bear fruit, we shall also begin to enjoy the permanent dividends of the ERP. With this our youth can look forward to a challenging future of widening industrial activities, greater economic and social opportunities, and rising incomes.

For those reasons we need to protect these foundations which have been so carefully laid for growth and reconstruction in the 1990s. On these foundations we shall build a vibrant and prosperous society.

Comrade Speaker, Honourable Members, I beg to move the motion for the approval of the estimates of Revenue and Expenditure for the year 1991.

The debate will be resumed on Monday 25th instant.

I thank you!

TABLE 1
SELECTED SOCIO-ECONOMIC INDICATORS
OF GUYANA

AREA AND POPULATION

Area	83,000 sq. miles (215,000 sq. kilometres)					
Population (1990)	754,768					
Annual Rate of Population Increase	-0.01					

POPULATION CHARACTERISTICS

	1985	1986	1987	1988	1989	1990
Urban population (percent of total)	30.9	28.3	30.4	32.5	32.0	34
Population density per square mile of agricultural land	119.8	121.3	123.2	121.2	121.0	120
Population Age Structure (percent)						
0 - 14 years	37.1	36.9	37.5	36.9	37.1	37
15 - 64 years	58.2	59.3	58.7	59.3	59.1	59.0
65 - and above	4.7	3.9	3.8	3.8	3.8	4
Crude Birth Rate(per thousand)	25.5	24.0	24.0	26.1	26.5	26
Crude Death Rate(per thousand)	6.6	8.0	8.0	8.0	7.9	8
Total Fertility Rate	3.0	2.6	2.6	2.8	2.6	3
Life Expectancy at Birth (yrs)	70.0	63.0	63.0	63.0	65.2	65
Infant Mortality Rate (per thousand)	43.9	45.3	49.0	47.0	45.0	45.0

FOOD, HEALTH AND NUTRITION

Index of Food Production per capita (1974 - 76 = 100)	90.3	97.0	95.4	93.8	89.7	89
Per capita supply of:						
Calories (percent of requirements)	101.1	96.0	88.5	87.0	77.0	70.0
Proteins (grams per day)	65.0	59.2	61.9	58.0	50.1	49
Population per Physician (thousand)	6.2	3.2	5.0	5.5	0.4	0
Population per Nurse (thousand)	0.3	0.3	0.3	0.3	1.8	1.8
Population per Hospital Bed (thousand)	3.7	4.0	4.0	4.5	4.5	5
Access to safe water (percent of population)						
Total	83.4	82.5	81.5	83.0	83.0	85
Urban	100.0	99.0	98.0	99.0	99.0	100
Rural	76.0	76.0	74.9	76.1	76.0	77.0

EMPLOYMENT AND LABOUR

Total Public Sector	75,947	74,048	74,578	70,394	66,928	65,167
(i) Central Government	28,686	28,650	27,411	24,493	22,034	19,280
(ii) Rest of Public Sector	47,261	45,398	47,167	45,901	44,894	45,887

TABLE 1 (con't)

SELECTED SOCIO-ECONOMIC INDICATORS
OF GUYANA

		1985	1986	1987	1988	1989	1990
WORK STOPPAGES							
(a)	Total Strikes	717	453	497	349	138	188
(i)	Sugar Industry	712	447	489	345	134	188
(ii)	Bauxite Industry	3	1	2	1	2	NA
(iii)	Others	2	5	6	3	2	NA
(b)	Total Man-days Lost	209,083	138,364	131,449	232,595	686,356	224,417
(i)	Sugar Industry	208,443	135,109	128,986	231,089	594,339	224,417
(ii)	Bauxite Industry	75	212	88	36	90,001	NA
(iii)	Others	565	3,043	2,375	1,470	2,016	NA
(c)	Total Man-days Lost Per strike	506	1,123	704	1,196	50,444	1,194
(i)	Sugar Industry	293	302	264	670	4,435	1,194
(ii)	Bauxite Industry	25	212	44	36	45,001	NA
(iii)	Others	188	609	396	490	1,008	NA
(d)	Amount of Wages/ Salaries Lost (\$'000)	4,364	2,944	3,824	8,104	44,009	1,135
(i)	Sugar Industry	4,354	2,886	3,753	8,066	37,369	1,135
(ii)	Bauxite Industry	3	10	5	1	6,568	NA
(iii)	Others	7	48	66	37	72	NA
EDUCATION AND TRAINING							
Students reaching Grade 6 or Standard IV (percent)		81.0	81.0	84.1	80.2	80.0	82.0
CXC Examination Results (%)							
English Language (General Prof)		20.0	20.0	20.0	11.0	12.0	13.0
English Language (Basic Prof)		26.0	28.0	28.0	36.0	24.0	22.0
Mathematics (General Prof)		23.0	16.0	18.0	16.0	13.0	17.0
Mathematics (Basic Prof)		17.0	12.0	13.0	7.0	10.0	9.0
Social Studies (General Prof)		25.0	18.0	23.0	11.0	10.0	12.0
Social Studies (Basic Prof)		19.0	27.0	42.0	22.0	7.0	15.0
Integrated Science (Gen. Prof)		34.0	27.0	27.0	24.0	22.0	24.0
Integrated Science (Basic Prof)		-	39.0	48.0	32.0	22.0	34.0
Physics (General Prof)		-	21.0	26.0	29.0	31.0	33.0
Chemistry (General Prof)		-	38.0	34.0	40.0	47.0	37.0
Biology (General Prof)		-	27.5	32.4	24.0	21.0	27.0
Agri. Science (Gen. Prof)		-	19.7	14.1	15.0	13.0	13.0
Geography (General Prof)		-	23.0	22.0	26.0	19.0	23.0
Geography (Basic Prof)		-	24.0	8.0	11.0	4.0	12.0
Principles of Accounts (General Prof)		-	51.0	33.0	23.0	33.0	29.0
Principles of Business (General Prof)		-	22.0	16.0	20.0	15.0	38.0
Principles of Business (Basic Prof)		-	36.0	38.0	37.0	18.0	9.0
Food and Nutrition (General Prof)		-	34.0	45.0	47.0	44.0	39.0
Food and Nutrition (Basic Prof)		-	95.0	50.0	69.0	38.0	11.0

TABLE 2

SUMMARY ACCOUNTS OF THE NON-FINANCIAL
PUBLIC SECTOR 1989 - 1991 1/

G\$ Mn

	REVISED		BUDGET 1990	ACTUAL 1989
	BUDGET 1991	ESTIMATE 1990		
Primary Current Balance	6,280.7	4,226.8	929.0	2,203.4
Central Government	1,216.4	1,838.8	(181.0)	324.4
Public Enterprises	5,064.3	2,388.0	1,110.0	1,879.0
Domestic Interest	3,738.9	3,966.8	1,224.0	1,049.4
Central Government	4,051.3	3,690.8	1,116.0	949.4
Public Enterprises	(312.4)	276.0	108.0	100.0
External Interest	8,015.7	982.7	2,543.0	585.9
Central Government	7,288.6	500.7	2,069.0	205.9
Public Enterprises	727.1	482.0	474.0	380.0
Current Balance	(5,473.9)	(722.7)	(2,838.0)	568.0
Capital Revenue	4,658.6	2,193.1	2,421.0	1,031.3
Capital Expenditure	11,380.2	4,241.2	4,632.0	1,972.7
Central Government	5,430.9	2,001.2	2,314.0	994.7
Public Enterprises	5,949.3	2,240.0	2,318.0	978.0
Overall Financial Surplus/Deficit	(12,195.6)	(2,770.8)	(5,049.0)	(373.4)
Financing	12,195.6	2,770.8	5,049.0	373.4
Net External Borrowing	11,099.8	2,633.5	3,775.0	446.1
Net Domestic Borrowing	689.8	342.2	802.0	2,079.1
Disbursement from Counterpart Fund	406.0	n.a.	n.a.	n.a.
Changes in Below the Line	0.0	(204.9)	472.0	(2,151.8)

Notes: NIS is included in Public Corporations' figures for 1989 and 1991.

Source: Ministry of Finance.

TABLE 3
 COOPERATIVE FINANCE ADMINISTRATION
 CONSOLIDATED INCOME STATEMENT
 1989 - 1991

	ACTUAL 1989	LATEST FORECAST 1990	BUDGET 1991
1.0 Current Revenue	1299.8	1988.0	2988.2
1.1 Premium income, Commission and Fees†	59.8	101.1	179.8
1.2 Interest on loans, advanced and mortgages	742.7	1381.5	1685.0
1.3 Contributions**	110.5	196.9	318.1
1.4 Income from Investment	379.5	375.4	791.1
1.5 Other Income	7.3	5.1	6.2
2.0 Current Expenditure	1141.4	1765.8	2365.2
2.1 Payment of claims, commissions and benefits	102.6	129.1	224.3
2.2 Interest expenses	617.6	1004.4	1246.4
2.3 Salaries and other staff expenses	81.1	112.4	228.6
2.4 Provision for loan and mortgage losses	252.2	398.9	534.1
2.5 Other operating expenses	87.9	121.0	131.0
3.0 Surplus	158.4	214.2	615.0

Notes

- † Includes application, inspection, trustee, mortgage fees, as well as management expenses
- ** National Insurance receipts from employed and self-employed persons.

SOURCE: Cooperative Finance Administration

TABLE 4

COOPERATIVE FINANCE ADMINISTRATION
CONSOLIDATED INCOME STATEMENT

64Ma

	GNCB	GAIBANK	GCMFB	GNCB TRUST	GCIS	NIS	TOTAL	Z
1989 (ACTUAL)								
Total Revenue	694.2	113.8	66.2	47.7	8.5	278.2	1288.6	-
Total Expenditure	780.7	136.7	53.0	25.6	6.2	133.1	1055.3	87.3
Net Surplus/ Deficit on								
Ordinary Act.	(6.5)	(22.9)	13.2	22.1	2.3	145.1	153.3	12.7
Foreign Exchange Gain/(Loss)	87.0	(309.1)	-	1.6	-	-	(220.5)	
Income Before Taxation	80.5	(332.0)	13.2	23.7	2.3	145.1	(67.2)	
1990 (LATEST ESTIMATE)								
Total Revenue	1257.0	230.9	113.4	64.0	10.9	386.0	1982.2	-
Total Expenditure	1269.7	181.8	97.8	35.7	7.0	177.1	1769.1	89.2
Net Surplus/ (Deficit) on								
Ordinary Act.	(12.7)	49.1	15.6	28.3	3.9	128.9	213.1	10.8
Foreign Exchange Gain/(Loss)	109.0	(445.0)	-	-	-	-	(336.0)	
Income Before Taxation	96.3	(395.9)	15.6	28.3	3.9	128.9	(122.9)	

TABLE 4 (Cont'd)

COOPERATIVE FINANCE ADMINISTRATION
CONSOLIDATED INCOME STATEMENT

	GNCB	GAIBANK	GCMFB	GNCB TRUST	GCIS	NIS	TOTAL	%
1991 (BUDGET)								
Total Revenue	1885.0	394.4	149.3	91.6	12.2	450.3	2982.8	-
Total Expenditure	1675.3	218.6	128.8	50.7	8.2	289.9	2371.5	79.5
Net Surplus (Deficit) on								
Ordinary Act.	209.7	175.8	20.5	40.9	4.0	160.4	611.3	20.5
Foreign Exchange Gain/(Loss)	197.7	(580.9)	-	-	-	-	(383.2)	
Income Before Taxation	407.4	(405.1)	20.5	40.9	4.0	160.4	228.1	

NOTES

- Where Applicable: 1. Revenue - Includes Interest/Investment/Contribution/Commissions and Other Income
2. Expenditure - Includes Employment Cost/Operational Expenses/Interest Expenses/Benefit Payments/Claims Payment/Reinsurance Payments and other expenses

SOURCE: CO-OPERATIVE FINANCIAL ADMINISTRATION

TABLE 5

ENTITIES DIVESTED AND REVENUES EARNED, 1990-91

CORPORATIONS	G\$'000	
	1990	PROJECTED 1991
Guyana Telecommunications Corp.	0	745,750
Guyana Fisheries Ltd.	47,763	171,458
Leased Assets		22,753
Sale of Trawlers		116,400
Sale of Land		32,305
Guyana Nichino Ltd	21,095	0
Demerara Woods Ltd	0	4,500
Quality Foods Ltd	266	19,799
Guyana Transport Services Ltd	3,883	67,723
Guyana National Trading Corporation	33,375	466,865
Sijan Palace	628	10
Guyana Timbers Ltd	70,356	0
GRMA Mills (1)	117,000	305,949
TOTAL	294,366	1,782,054

NOTE

(1) 1991 Figures excludes possible revenues from the divestment of additional rice mills.

SOURCE: DIVESTMENT UNIT, PUBLIC CORPORATIONS
SECRETARIAT

TABLE 6

PUBLIC SECTOR INVESTMENT PROGRAMME:
SELECTED PROJECTS, 1980-1990

No	Description of Project	Duration	Executing Agency	Cost G\$Mn	Purpose of Project
1	Mahaica/Mahaicony-Abary Irrigation Project	1978-	Ministry of Agriculture		For water control of 46,000 acres of fertile lands.
2	Black Bush Polder	1984-1992	Ministry of Agriculture	200.0	Rehabilitation of Drainage and Irrigation. Tokani canals, Mibicuri pump station. Main branch canals, etc.
3	Tapakuma Irrigation Project		Ministry of Agriculture	115.0	For water control of 75,000 acres of fertile lands.
	Drainage and Irrigation Rehabilitation Project	1986-1992	Ministry of Agriculture	180.0	Rehabilitation of Drainage and Irrigation systems at Buxton, Friendship, Craig, Vreed-en-Hoop, etc.
5	Agriculture Rehabilitation Programme	1990-1992	Ministry of Agriculture	1345.0	Rehabilitation of infrastructure to aid Agriculture. Construction of Secondary, and Tertiary drains, research facilities, etc.
	Infrastructure Rehabilitation Programme	1988-1992	Ministry of Agriculture	600.0	On-going rehabilitation of sea and river defense structures.
	Industrial Reactivation Programme	1985-1991	Ministry of Agriculture	700.0	Rehabilitation of productive facilities in sugar and rice industries.
	A.F.I.P. - Coastal and Equipment	1990-1993	Ministry of Agriculture	200.0	Construction of wharves, boats, ramps, fish storage and ice-making facilities, providing equipment and requisites.

TABLE 6

PUBLIC SECTOR INVESTMENT PROGRAMME:
SELECTED PROJECTS, 1980-1990

No	Description of Project	Duration	Executing Agency	Cost G\$Mn	Purpose of Project
	I.R.P. Quarries	1990 -	Ministry of Agriculture	110.0	Rehabilitation of Toolsie Persaud, Baracara, and GNS Quarries.
	Demerara Harbour Bridge	1988-1992	Ministry of Comm. & Wks.	205.0	Rehabilitation and replacement of flotation Units and other components.
	Mabarura/Lethem Road	1989-1992	Ministry of Comm. & Wks.	520.0	Road construction-Kurupukari to Lethem.
	Timehri Airport	1987-1991	Ministry of Comm. & Wks.	150.0	Improvement of terminal building, etc.
	Georgetown Sewerage and Water Commission II	1984-1991	Guyana Water Authority	110.0	Rehabilitation of sewer mains, installation of valves, pump stations, leak detection and road repair.
	Rural Water Supply	1989-1992	Guyana Water Authority	170.0	Rehabilitation of water systems around the country.
	Primary Education Improvement Programme	1989-	Ministry of Education	225.0	Construction of 27 new schools and rehabilitation of 3 primary schools.
	Health Care II	1985-1993	Ministry of Health	600.0	Work on ambulatory care, surgical and diagnostic units, support services, building and stand-by water facilities.

SOURCE: STATE PLANNING SECRETARIAT

TABLE 7

PLEDGES vs ACTUAL INFLOWS, 1990.

	Pledge (US\$ Mn)	Actual
1. Commodity Assistance	24.3	24.3
CIDA	8.3	4.6
United Kingdom	4.5	7.7
USA (PL-480)	6.5	6.0
Italy	1.0	0.4
France	1.0	1.4
Germany	3.0	3.3
EEC	-	0.9
2. Cash Assistance	47.8	58.6
Japan	9.0	9.0
France	1.5	1.5
Canada	16.0	26.1
Italy	2.0	2.0
United Kingdom	10.5	10.5
USA	1.0	1.0
Germany	7.8	8.5
3. IFIs Total	222.0	189.0
I.M.F. 1/	117.5	103.7
World Bank	66.0	53.1
C.D.B.	33.5	32.2
I.D.B.	5.0	0.0
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T o t a l	294.1	271.9

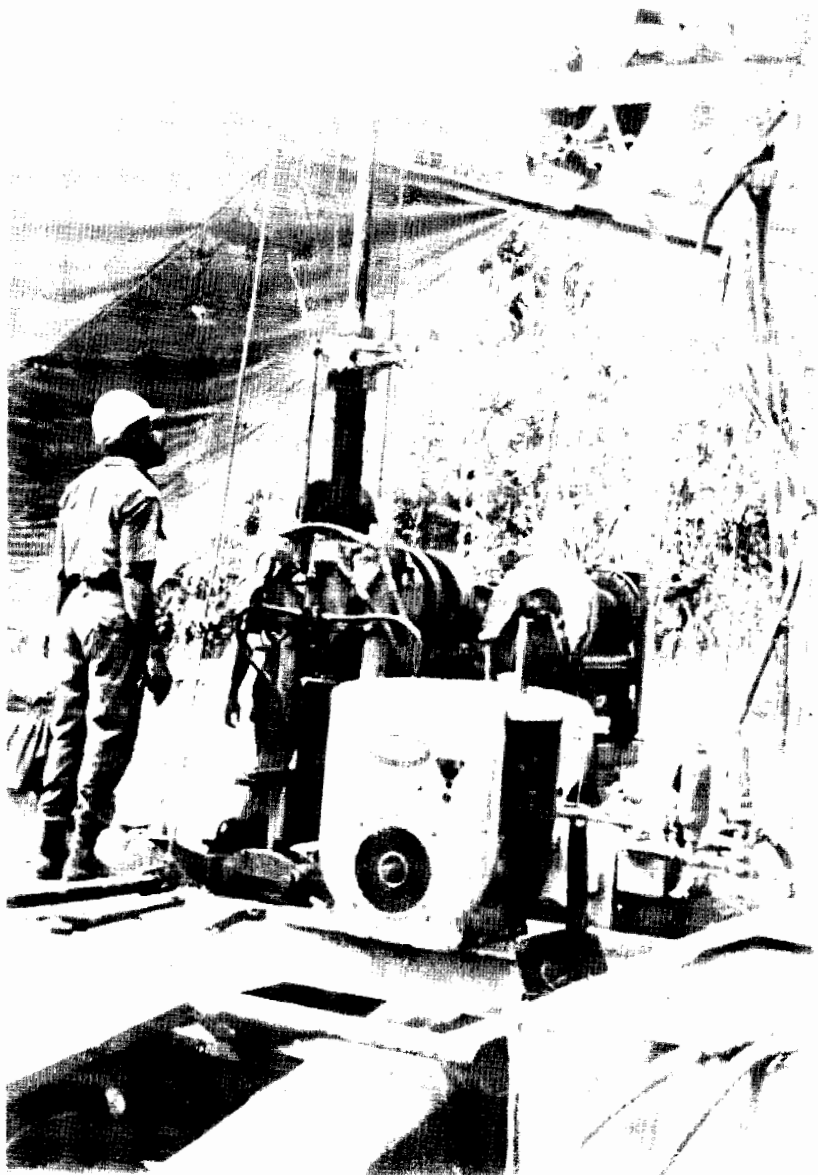
Notes: 1/ BOG debt.

Source: Ministry of Finance.

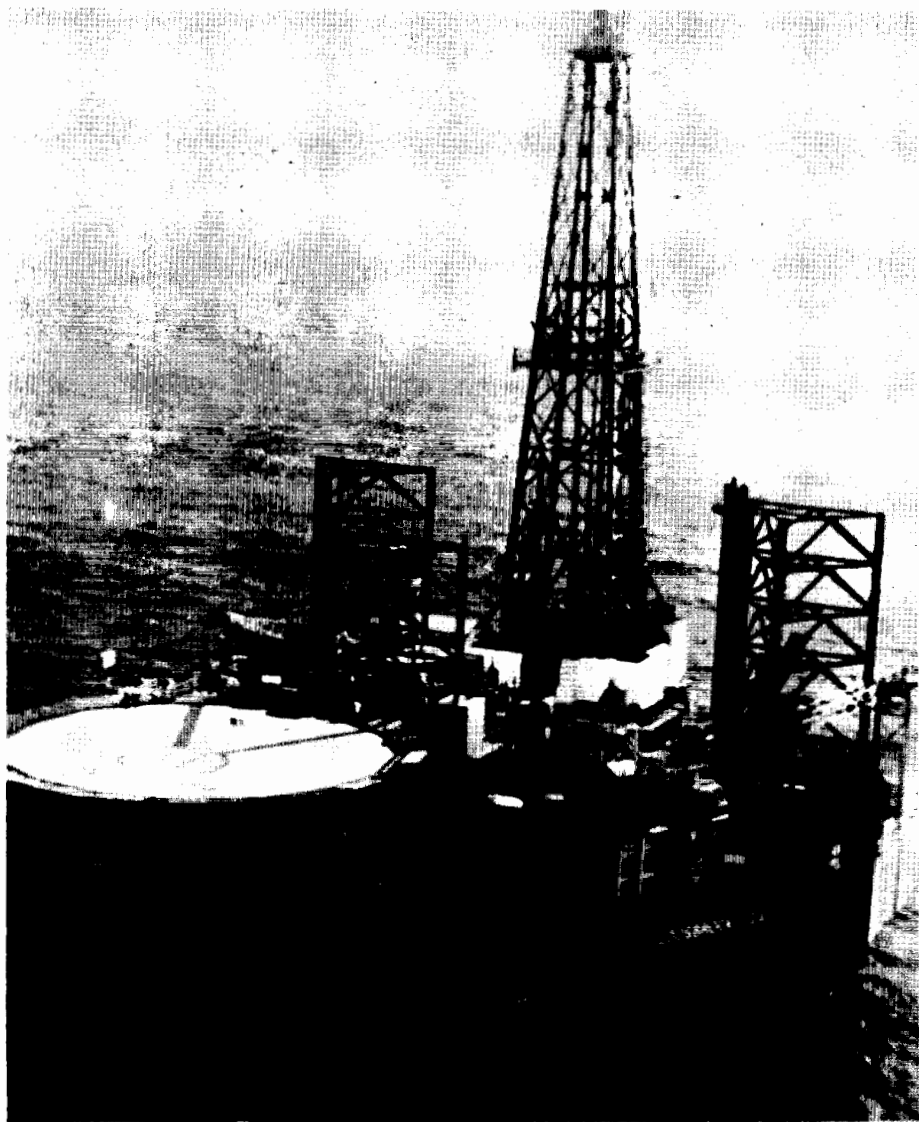




G.E.C. 5.8 MEGAWATT GENERATOR AT GARDEN OF EDEN



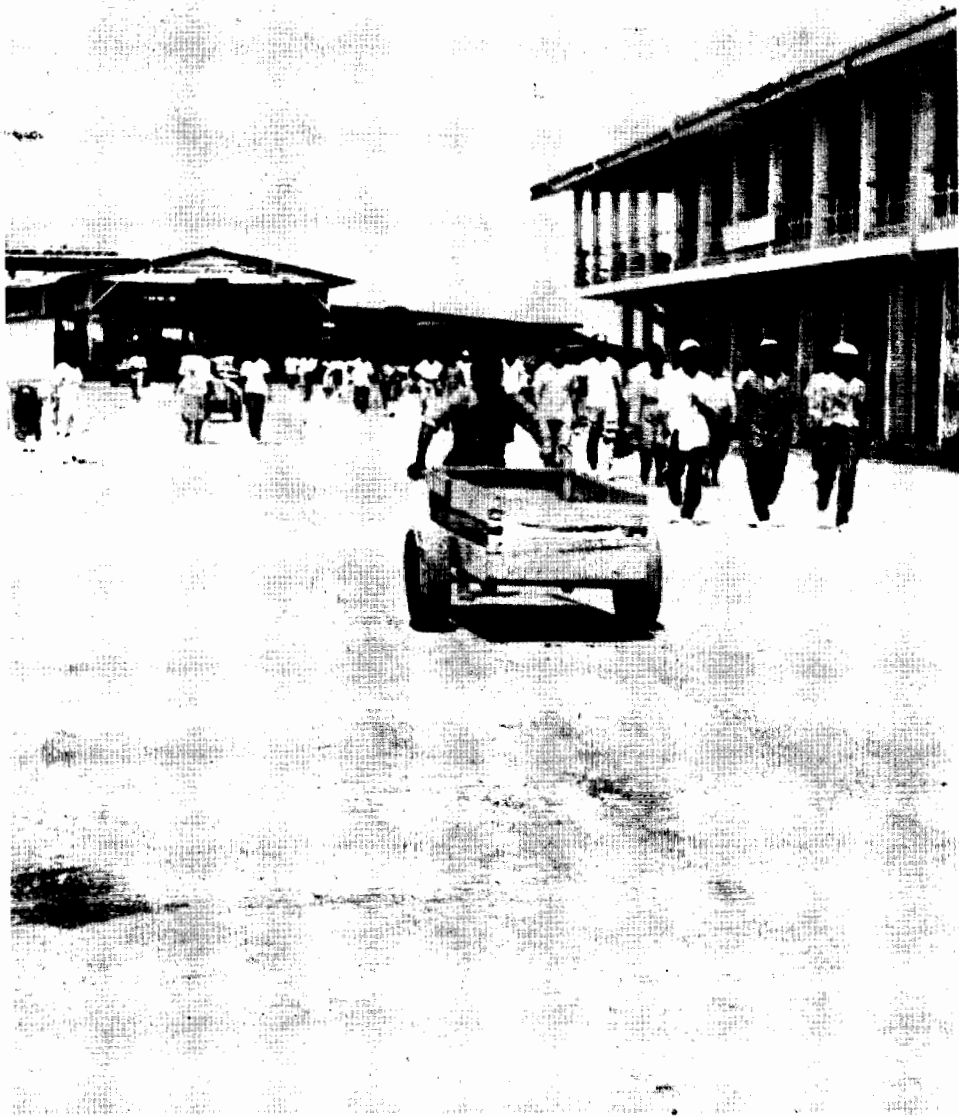
EXPLORING FOR GOLD QMAI OPERATIONS



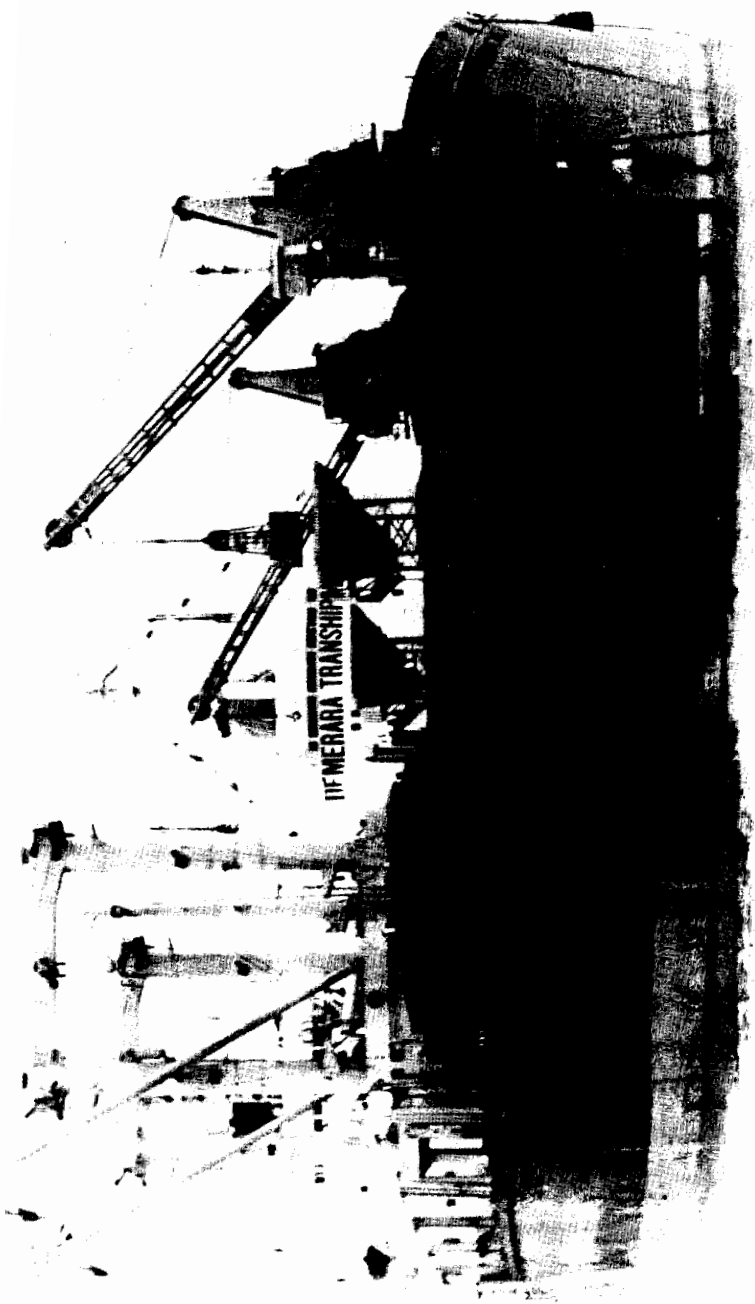
TOTAL OIL RIG 70 MILES OFF GUYANA COAST



\$7M P-A-W-H.O. PROJECT PURE WATER SUPPLY SPARRENDAM



MATTHEW ALLEYNE ROAD NEW AMSTERDAM



DEMERARA TRANSHIPMENT STATION



BACK TO SCHOOL STARTERS SOUTH ROAD NURSERY

