

STATEMENT ON A REVIEW OF THE 1981 BUDGET

MADE TO THE NATIONAL ASSEMBLY ON MONDAY,

1ST JUNE, 1981, BY CDE, DESMOND HOYTE,

VICE-PRESIDENT, ECONOMIC PLANNING AND FINANCE.

Comrade Speaker,

It is characteristic of Budgets that the projections they contain are based upon a number of assumptions and expectations relating to production volumes, export commodity prices, terms of trade, revenue yields and similar technical considerations. Judgements have to be made even about such problematic factors as weather conditions and the industrial climate. Obviously, the budgetary projections cannot be sustained if factors intervene to invalidate any critical assumption or defeat any major expectation. Our 1981 Budget was framed against the background of the several assumptions and expectations which were detailed in the Budget Speech. But we also assumed - and we were entitled to assume - that in accordance with the norms regulating the relationship between neighbouring states and the principles of international law, we would have been able to proceed with the task of developing our country free from the menace of economic terrorism and the threat of an assault on our territorial integrity.

Of a certainty, we did not expect our large, oil-rich neighbour, Venezuela, to reactivate and prosecute with such virulence her bizarre, irrational and unjust claim to five-eighths of our country. We reject that claim absolutely and in its entirety. The Arbitral Award of 1899 which settled the boundaries between Guyana and Venezuela was, is and forever shall be a "full, perfect and final settlement". But however ridiculous and immoral the claim may be, its revival at this time and in the form it has taken has imposed on our small country a grave and serious financial and economic burden. The present Government of Venezuela, spurning the ideals and insulting the memory of the Great Liberator and champion of self-determination, Simón Bolívar, has not only failed to dissociate itself from the advocates of a military <sup>aggression</sup> ~~invasion~~ into our country, but has itself mounted a frenzied campaign to stop the flow of development finance into our country from institutional and other sources. In the face of this naked aggression against us, we have no option but to deploy substantial financial and other resources for the purpose of mobilising our people and taking all other appropriate initiatives and action for the protection of our country. The outlays we have to make represent unanticipated, unplanned but vitally necessary expenditures for the

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preservation of our territorial integrity. In these times and in these circumstances, the defence of our country is an absolute priority. Everything else has to give way to it.

The 1981 Budget presented to this Honourable House on 20th February had a financing gap. This was conscious and deliberate. In the first place we knew that we were eligible for drawings under the Caricom Facility established by our sister State of Trinidad and Tobago and, secondly, we were confident that the various investments we were making in the major ~~production~~ <sup>production &</sup> ~~projection~~ sectors together with our ongoing programme to motivate and mobilise our workers for a higher quality of performance would have yielded a sufficiently large increment in national output to enable us to close that gap. We have been able to draw on the Caricom Oil Facility in respect of 1980 transactions; but the indefensible pressures from Venezuela have forced us to divert much of our energies and resources away from development and direct production into the effort of mobilisation for defence. As a direct consequence, the budgetary projections have been distorted.

In the light of these developments, logic and prudence have compelled the Government to undertake a review of the Budget for the purpose of re-ordering our priorities and re-allocating our resources. This has to be done if we are going to keep the economy on an even keel and put ourselves in a position to ensure that the development process in our country is not brought to a halt. We must take strong, decisive action now. Delay would be fatal. We must close the financing gap in our Budget by a vigorous internal effort in accordance with our accepted strategy of self-reliance. We cannot look initially to others, unless we want to jeopardise the very independence we are making such great sacrifices to defend. For there are those who are always waiting in the wings for a chance to intervene in our country, dictate to us what should be our development strategy and re-establish the neo-colonial nexus and the old relationships. It is hardly necessary for me to say that such people are as dangerous to our freedom as the present Government of Venezuela.

To meet the developmental and security requirements and demands of this dangerous period of our history, the Government has designed a comprehensive set of measures with the clear and specific objective of enabling us -

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- (1) to maintain and finance a viable investment programme for 1981 and 1982;
- (2) to continue work on our major development projects;
- (3) to preserve the jobs of our working people and avoid the need for widespread retrenchment;
- (4) to protect those important gains we have made over the years in the social sector, such as free education from nursery to University and free medical services;
- (5) to have the necessary flexibility to meet the security requirements for the preservation of our territorial integrity.

The achievement of this five-fold objective will depend crucially upon our having the political will and the ability to take vigorous and urgent action -

- (1) to reduce the relatively high public sector expenditure, including the elimination of unintended or socially unjustifiable subsidies which, in the final analysis, only lead to inefficiencies;
- (2) to increase revenues by a fiscal effort and by more efficient collection; and
- (3) to raise overall levels of production.

It is only by doing these things that we can attain the internal fiscal balance at which we are aiming and which is vitally necessary if we are to ensure that our economy does not disintegrate under the Venezuelan pressure and that we can continue to finance our development programme. The Government therefore proposes to act along these lines.

#### REDUCTION OF PUBLIC SECTOR EXPENDITURE

It is proposed to reduce overall expenditure in the public sector by \$64 mn. The public sector capital programme will be reduced by \$60 mn. from \$598 mn. to \$538 mn. Of this amount, \$43 mn. will come from the Central Government capital programme and \$17 mn. from that of the Corporations. Central Government current expenditure will be curtailed by a minimum of \$4 mn. Attachments I and II to this Statement provide details of the projects to be affected on the capital side and the Ministries or group of Ministries whose current expenditure will be reduced.

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I wish to say a word about these expenditure cutbacks. First of all, they may appear to be very steep; but it should be noted that the public sector expenditure for 1981 was originally projected at \$295 mn. in the 1978-81 capital programme settled in the 1978 Estimates. Thus, the level of \$598 mn. projected in the 1981 Budget represented a determined effort by the Government to accelerate the pace of development by an increased expenditure of over \$300 mn. Part of this increase resulted from price escalations but much of it reflects an expanded capital programme. However, the reduced figure is still higher than the original projection by \$243 mn. Secondly, the cutbacks have been made in such a way that they will not affect any on-going Central Government programme and therefore will not in themselves lead to any retrenchment. No reduction has been made in the allocations for the major development projects such as Tapacuma, MMA, Black Bush, Upper Demerara Forestry Project, the Second Education project and other major projects included in the 1981 capital programme. The revisions have been made by and large in respect of projects which have not yet started, or where because of slippages in the project, the amount allocated is unlikely to be fully utilised. In these cases, expenditure will be rephased appropriately. With respect to the public corporations, capital programmes in the Bauxite, Sugar and Rice Industries have not been affected and no on-going project has been curtailed. Generally in the corporations, reductions have been made where projects have experienced slippages, where expenditure can be delayed or rephased without adverse consequences or where project financing can be shifted to external sources.

#### SUBSIDIES

In keeping with Government's policy to remove subsidies where they are no longer justifiable on social or economic grounds, the subsidy on flour will be eliminated, and those in the rice industry phased out. The original basis for subsidies in the production of rice has disappeared and their continuation is fruitful source of inefficiency and irregularities.

With respect to flour, I already gave notice of Government's intention on this matter in the course of the Budget Speech of 1980 when I said as follows: "Government will ... discriminate unapologetically in favour of Guyanese farmers and local foods and will cease to hold the price of wheaten flour at its present unrealistic level". The subsidy on flour, essentially an imported commodity, cannot be justified in an agricultural country like Guyana where our farmers are responding with such enthusiasm and success to the call for increased production. The commodity will therefore cease to enjoy exemption from consumption tax and will be allowed to attract a more realistic selling price.

The Guyana Rice Board's subsidies to rice farmers on fertilizers, chemicals, machinery services and bags and twine rose from \$5.3 mn. in 1978 to an estimate of \$7.5 in 1980 and to the projection of \$14.2 mn. for 1982. These subsidies have led to deep-rooted inefficiencies in the operation of the GRB, and it is certain that a substantial part of the fertilizers and chemicals do not benefit the rice industry at all. It finds its way into other markets both inside and outside the country. It is proposed, therefore, that the subsidy be reduced this year by 50% and eliminated altogether in 1982. The rice farmer will be compensated by an increase of \$1.50 per bag which represents the full value of the subsidy which he hitherto enjoyed. In consequence, the price of rice would be adjusted appropriately.

As a result of the elimination or reduction of these subsidies, public sector expenditure will be reduced by \$7 mn. in 1981 - and over \$17 mn. in a full year.

#### FISCAL MEASURES

To strengthen the economy to cope with unpredictable exigencies, the mere abridgement of public sector expenditure will not be sufficient. There has to be a substantial increase in public sector savings and, to this end, fiscal measures are therefore proposed. These will take the form of adjustments in (a) consumption taxes on certain selected imports, (b) Highway Tolls and Transport and Harbours Department Fares and (c) Motor vehicle and Miscellaneous Licences, fees etc.

#### CONSUMPTION TAXES

Consumption taxes will be adjusted upwards on certain selected imports under the following broad heads:

- (1) Food Imports
- (2) Paper Imports
- (3) Fabrics
- (4) Certain items of electrical equipment
- (5) Metal Sheets and Metal chairs
- (6) Gasolene and Cooking gas
- (7) Certain miscellaneous items.

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Attachment III to this Statement sets out the details of the import items affected and the rate of tax. Certain food items<sup>such</sup> as flour, garlic and coffee, refined soya bean oil, hydrogenated animal and vegetable oil which never attracted a consumption tax before will now attract such tax. Cooking gas which attracted neither import duty nor consumption tax will now attract the latter impost. Consumption tax on gasoline will be levied at the rate of \$1.80 per gallon (or 39.6 cents per litre) for premium and \$1.65 per gallon (or 36.3 cents per litre) for regular grade. Kerosene will for the first time be subject to consumption tax at the rate of 7 cents per gallon.

The consumption taxes are estimated to yield \$24 mn. in a full year and \$12 mn. in 1981.

#### Price adjustment to apply to imports after shipments

Inevitably, the measures proposed on subsidies and consumption taxes will affect the selling prices of the items to which they apply. These will have to be adjusted appropriately. However, I wish to make it clear that only commodities imported after the date the relevant Orders come into force will be affected by these measures.

#### Fares and Tolls

The Transport and Harbours Department will be increasing its fares on an average of 20% in order to reduce the yawning deficit of \$7.0 mn. per annum in its operations. The adjustments should yield \$1.2 mn. in a full year and \$0.6 mn. in 1981.

Additionally, tolls on the highways will increase on average by 20% and are expected to yield \$1.2 mn. in a year and \$0.6 mn. for 1981.

#### Miscellaneous Licences, Fees etc.

Miscellaneous licences and fees will be increased. These include Motor Vehicle, Trade, Cinematograph and other licences; Travel Voucher Tax, Exit Tax and passport fees; Life and Fire Insurance Companies licences; Banking licences; Hotel and Liquor Restaurant licences; and Firearm licences. Some of the miscellaneous licence fees have not been increased for some 60 years; others for 30 years; and yet others for <sup>15</sup>50 years. In many cases, the fee is so small that it does not ever cover the cost of its collection.

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Attachment IV to this Statement sets out particulars of the miscellaneous licences and fees to be affected. These increases proposed are expected to yield \$6 mn. in a full year <sup>(1981)</sup> ~~or~~ \$1.5 mn. in 1981.

#### More Efficient Revenue Collection

These fiscal measures will be supported by an intensive, systematic drive to collect revenues due, owing and payable to the Government. Many persons owe large arrears of income tax; these taxes will be collected. Many persons owe large amounts of customs duty and consumption taxes; these also will be collected. In addition, ongoing programmes to combat irregularities and evasion in the areas of income tax, import duty, and consumption tax will be relentlessly pursued. From current trends, it is estimated that this programme alone will garner revenues amounting to \$30 mn. in 1981.

The total yield from the ~~measures~~ (including more efficient tax collection) is estimated at \$172.3mn. in a full year and \$123.8mn. in 1981. See Attachment V.

#### Premium Bond Issue

During the course of this month, the Central Bank will be making a special Defence Debenture issue in the usual denominations and with the usual characteristics as to interest rates, maturity and so on. These bonds will be attractive to institutional investors, but the average citizen also will find them an excellent means of saving. However, later this year, the Central Bank will be initiating a Defence Premium Bond Scheme as another means of mobilising and encouraging savings. These bonds will have the characteristics of a lottery in that, from time to time, prizes will be drawn and persons holding the lucky bond will obtain a large cash prize. However, the essential difference between the premium bond and the lottery is that in the former, if the purchaser does not win a prize, the investment is not lost. The bond can be encashed at any time for its face value. Premium Bond Schemes have long been in existence in many developed and developing countries and have proved to be a popular means of mobilising savings. Notices and advertisements will appear in the press later on when the Bank has finalised arrangements for the issue and management of these Bonds.

It is expected that these bonds will yield about \$30 mn. in a year and \$3 mn. in 1981.

WAGE ADJUSTMENT IN THE PUBLIC SECTOR

(1) Emoluments of persons on Fixed Salaries in the traditional Public Service

In the Budget Speech earlier this year I gave an undertaking that the emoluments of our Judicial Officers and our Permanent Secretaries and similar managerial-type personnel within the public service would be revised as a matter of justice and urgency. These officers enjoy fixed salaries which have not been upgraded since 1973. The Public Service Union had urged, and the Government had accepted, that these officers had in consequence been placed in a very disadvantageous position and had been suffering undue hardships. In many instances, too, the salaries and conditions attaching to high judicial and state offices have over the years become woefully inadequate and certainly do not reflect the importance of these offices and the onerous responsibilities attaching to them.

The Government has had this anomalous and undesirable situation under review for some time and I am happy to be able to report to the House that the Government now has clear proposals for correcting it. I wish on behalf of the Government to pay tribute to the senior officials who over the years did not allow the inadequacy of their emoluments to affect the quality of their work, their dedication or their integrity as public officers.

In accordance with the commitment given by the Government that, pending the submission of the Johnson Committee Report, interim action would be taken to improve the salaries of all officers on fixed scales, I wish to indicate that Government has proposed to the Public Service Union that, in general, all such fixed salaries be increased by between 32% and 39% over the salary enjoyed at 31st December, 1980.

As I have noted, these salaries have not been upgraded since 1973. When the facts are considered dispassionately, it would be conceded that these increases are not extraordinary or unfair when compared with the increases which will later on be proposed for junior grades. Indeed, between 1964 and 1980 the basic wage of workers has increased by 300%; and between 1973 and 1980 by 110%. Again, the salaries of junior categories on the fixed establishment have increased by 200% between 1964 and 1980; and by 56.3% between 1973 and 1980. In comparison, the salaries of senior officials (i.e. those on fixed scales) increased by only 56.3% between 1964 and 1980, and by a mere 5% between 1973 and 1980.

Moreover, whereas the ratio of the salary of most junior officers to that of a Permanent Secretary was 1: 8.75 in 1964, by 1980 the ratio had been compressed to 1: 4.56. In all the circumstances, and in the light of experience, the Government conceded the point that the ratio has become unrealistic and needed to be reconsidered.

The depressed salaries of Permanent Secretaries and other senior officers has had an adverse effect on the quality of the public service. It has become difficult to keep within its ranks officers of high calibre and competence. It is even more difficult to attract bright young people who are prepared to make their career in it. They opt sooner or later for the superior emoluments in the public corporations or the private sector. The high rate of mobility has left many Ministry establishments in a state of flux and, with the high vacancy rate which exists in the senior and middle ranks, junior inexperienced and untrained officials are to be found acting in senior, responsible posts. All these things have affected efficiency. The Permanent Secretaries and the other senior officers are managers. If we are to retain officers of ability and experience in the Public Service we have to ensure that their emoluments bear some reasonable relationship to those enjoyed by their peers in the Corporations and the private sector.

I have referred to the anomalous and undesirable situation affecting certain key posts, some of them of high constitutional importance. These posts have been re-appraised and special principles have been applied in assigning reasonable and appropriate salaries to them. They include the offices of the Chancellor of the Judiciary and other members of the Supreme Court of Judicature, the Magistrates,<sup>a</sup> comparable legal officers, Permanent Secretaries, the Auditor General, the Commissioner of Inland Revenue, among others.

With reference to the Permanent Secretaries, the Government has notified the Public Service Union of its proposals that they be classified into three grades. The assignment of a Permanent Secretary to a particular grade will, of course, be the constitutional responsibility of the Comrade President. Having regard to the managerial functions of a Permanent

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Secretary and the need to attract persons of the highest qualifications and ability to this office, it is considered reasonable that the salaries should reflect the onerous and complex nature of the attendant duties and compare favourably with that of his peers both within and outside the public sector. In the Government's view maxima of \$3,750.00, \$3,000.00 and \$2,250.00 per month are considered reasonable.

Attachments VI to this Statement sets out the salary scales and the proposed new interim salaries for public officers on fixed scales.

Associated with the proposals for the grading of Permanent Secretaries and the assigning of appropriate salaries is the recommendation that certain Heads and Deputy Heads of Departments be equated with one or other grade of Permanent Secretary for the purposes of salary. A list of such Heads and Deputy Heads would have to be settled.

Perhaps before leaving the question of the necessity for reasonable salaries for our most senior public officers, I should observe that, while junior officers will be able to enhance their salaries by incentive awards, these top officials will not be eligible for such awards.

By way of explanation and clarification, I would like to make some general remarks on the Government's proposals for the adjustment of salaries in the traditional Civil Service and on some other matters about salary adjustments. Apart from those proposals relating to the Judiciary and the top Government posts, the Government regards the salary adjustments as an interim measure since the whole question still has to be decided within the context of the recommendations of the Johnson Committee and, of course, after due consultation with the Public Service Union. This confirms the Statement made in the 1981 Budget Speech and the understanding reached between the Government and the Public Service Union.

With reference to the teaching profession, the President of the Guyana Teachers Association has made representations to the Government on the question of the proper grading of teachers according to their skills and the appropriate level of remuneration for specific skills. I wish to announce that the Government is sympathetic with these representations and will shortly begin discussions with the GTA on appropriate mechanisms for identifying and remunerating such skills.

Moreover, the Government has been studying the recommendations of the Vice-Chancellor of the University of Guyana for a revision of the emoluments of the teaching and other staff at the University. The Government accepts in principle that such a revision is necessary and will endeavour, in consultation with the appropriate bodies, to finalise this matter in an expeditious and satisfactory way.

And finally, I wish to state that the Government is about to complete consideration of and make the necessary decisions on the question of appropriate adjustments in the emoluments and other remuneration of the members of our Security Forces.

These adjustments will all necessarily be constrained by proportionate increases in overall output of the economy. It is expected that higher salaries to the managerial staff will help to develop the conditions for higher levels of sustained efficiency and greater output and the environment for more effective application of incentive schemes.

(2) A Wage package for the Public Sector for 1981: Government's Proposals

In the 1981 Budget Speech, I set out the principles for a general public sector wage package for 1981. These may be summarised as:

- (1) Income Tax Relief.
- (2) Special consideration for public officers on fixed salaries.
- (3) Increased premiums by way of wider differentials for identified skill categories within the traditional public service.
- (4) Incentive awards.

The Government has designed a wage package for the public sector which contains these four elements.

The Government has already honoured its commitment to give income tax relief by widening the tax bands. This measure together with the tax relief given last year by way of increased personal allowances will greatly enhance the workers' take-home pay. On the question of the whole package for the public sector (including wider differentials for identified skill categories

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within the traditional public service and appropriate across-the-board increases) the Government has been in discussion with the Trades Union Congress and has transmitted its proposals. The TUC has asked for time to consider these proposals. The Government has acceded to this request and expects to be in a position to be able to make an announcement during the course of next week. These discussions with the TUC have been conducted in a spirit of frankness and goodwill which the Government greatly appreciated.

Government has also held cordial and successful discussions with the PSU on those proposals which relate exclusively to PSU members. In the light of these discussions, I have already explained the proposals.

The Government has sought to make it clear to all parties that wage increases cannot be open-ended: they bear a direct relationship to increases in production and, moreover, are constrained by the financial capability of the country. There needs to be a popular acceptance of this fact if we are to be successful in our efforts to keep our working-people employed throughout the public sector and to prevent widespread retrenchment. A central purpose of these measures which I have proposed to the House to-day is to ensure that the jobs of those workers who are fortunate enough to be in employment are in fact guaranteed and that there is scope for creating new employment opportunities.

It should be noted, also, that the Government intends to ensure that workers continue to have access to basic and essential goods and that manufacturers should be able to import necessary raw materials, spare parts and other inputs they require for production. In the circumstances, it is no part of these measures to reduce the levels of imports which have been projected in the Budget. I make this point so that we can be aware of the responsibility which we all bear as citizens and as trade unionists to ensure that we do not jeopardise our ability to maintain employment and sustain reasonable levels of imports.

#### INCENTIVE SCHEMES

The Incentive schemes will continue to be an integral part of the public sector wage package and an important means by which workers can, through sustained and efficient performance, earn tax free awards and greatly enhance their take-home pay.

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The Government has noted with great satisfaction that every single corporation in the public sector now has an incentive scheme in place and that workers who have done well have been able to benefit from them. Less satisfactory has been the position in the traditional public service. Some Ministries, such as the Ministry of Works and Transport and the Ministry of Information, to name two of them, have been able to devise excellent schemes, and employees of these Ministries have earned incentive awards in respect of 1980. Permanent Secretaries and the relevant unions owe a duty to the workers to have their schemes formulated for submission to the Central Incentives Committee for consideration and approval. The Public Service Ministry had given Permanent Secretaries up to 30th June to have their schemes submitted to the Central Incentives Committee. The workers should insist that their Permanent Secretaries and their Unions discharge their duty to them.

In accordance with assurances given in the Budget Statement, the Government proposes that all salary increases take effect from 1st January, 1981.

In due course, after all necessary consultations and consensus, the Secretary to the Treasury will issue detailed instructions to Permanent Secretaries and Corporation Heads for their guidance on all relevant matters relating to salary or wage adjustments. All Permanent Secretaries and Corporation Heads should proceed to act only on the basis of such instructions.

#### INCREASED PRODUCTION - THE KEY TO OUR SECURITY AS A NATION

As I have already observed, the effect of the unwarranted claim of the Venezuelan Government to our territory is to thwart our developmental efforts and undermine our economy. Even at this moment, Venezuelan emissaries are visiting the various Foreign Ministries in Europe and other parts of the world making representations and leaving diplomatic notes ~~in~~ in a frenzied attempt to prevent those Governments from participating in or supporting our developmental programmes. Similar machinations are also evident in the World Bank and in other multilateral financial institutions. Indeed, recently the Venezuelan Executive Director in the World Bank attempted to obstruct the passage of a loan for the development of our power sector and has also had the effrontery to demand that maps of Guyana appearing on World Bank documents should show the so-called "zone under reclamation".

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These are but a few examples which evidence a massive, well-financed, aggressive campaign by the Venezuelan Government to destroy us economically, as part of a wider strategy to seize five-eighths of our patrimony.

The fiscal and other measures which the Government has put forward are intended to put us in a stronger position to counter economic aggression and minimise its effects. We cannot successfully defend our country and preserve our territorial integrity unless we maintain a viable economy. However, these measures are short-term. In the final analysis, the long-term viability of our economy and the security of this nation will depend upon our being able to lift our production and keep it on an upward trend. There is no doubt that the people of this country are making strenuous efforts in all the productive sectors. In normal times, it would be possible for us to take satisfaction in the fact that we have achieved 95% or even 90% of our targets. However, in this dangerous period, such an achievement would not be good enough. Notwithstanding the vicissitudes of the weather and the numerous imponderables which can affect production, somehow or other we have to find the super-human energy to meet and surpass the targets for 1981.

But the meeting of production targets, vital though it is, is not necessarily the most formidable or complex of our immediate problems. Small developing countries like Guyana have to cope perennially with problems which arise from external causes over which they have no control. One such problem arises from the fact that the external value of our money is determined, not by anything we do, but by what happens to the exchange rate of the major currencies, i.e., the U.S. dollar, the Deutsche mark and the Japanese yen. Within recent months, as the United States Government has implemented a policy of high interest rates as one means of combating what it considers to be an unacceptable level of domestic inflation, the US dollar has strengthened appreciably against the pound sterling and other currencies including those in the Joint European Float and the yen. Inasmuch as the Guyana dollar is aligned to the US dollar - and has been so aligned since 1975 the Guyana dollar has automatically strengthened against the pound sterling. Whereas the exchange rate between the pound sterling and the Guyana dollar in January this year was £1 to \$6.30 (Guyana), it is to-day £1 to \$5.25 (Guyana). In other words, the Guyana dollar has appreciated against the pound sterling by 17%.

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The Government has therefore decided to abandon the practice of having the Guyana dollar fixed rigidly to the US dollar or the pound sterling as has been the practice in the past. Instead, the external value of the Guyana dollar will be fixed in relation to a basket of currencies which will include the Trinidad and Tobago dollar, the pound sterling, the Deutsche mark, the US dollar and the Japanese yen. On the basis of a technical consideration of the interrelationships of these currencies, the Bank of Guyana has to-day set new exchange rates for the Guyana dollar as follows:

G\$1	=	TT	\$0.80
		B	\$0.67
		EC	\$0.90
		J	\$0.59
		US	\$0.33

With the adoption of this new mechanism, the automatic movement of the Guyana dollar with the US dollar will cease. The new mechanism will give the Guyana authorities flexibility in fixing the external rate of our currency and that rate would be determined as a matter of conscious and deliberate policy as our internal requirements dictate, and not automatically by external factors. Under the new procedures the rate will be reviewed whenever there is a significant divergence between the existing Guyana dollar exchange rate and its rate as determined by the basket.

The Governor of the Central Bank this morning requested all banks to cease trading in foreign currencies to permit a smooth transition to the new rates. The new rates will take effect from to-morrow.

#### CONCLUSION

Cde. Speaker, these measures I have announced to-day must be understood within the context and against the background of the 1981 Budget. They are admittedly stringent; but they demonstrate the intensity of our response to the perceived threat to our very existence. They represent the barest minimum of what we have to do to preserve our freedom and bequeath to our children, as our foreparents have bequeathed to us, in the words of the Constitution "our inalienable patrimony for all time, this green land of Guyana".

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Such a sharp level of appreciation of the currency of a small developing country like Guyana against that of a highly industrialised country (which is also a major trading partner) is harmful to our economic interests. I would like to illustrate this point by taking an example in a simplified form from our sugar exports. Let us make three assumptions:

- (1) that the price of sugar is £200 (sterling);
- (2) that we fully achieve our second crop target of 220,000 tons;
- and (3) that we export 200,000 tons against contracts for payment in pounds sterling.

Simple arithmetic would show that every pound sterling when converted into Guyana dollars would -

- (1) give us (G)\$1.05 less than before.
- (2) that for every ton of sugar sold, Guysuco would earn \$210 less than before in local currency;
- and (3) that on a sale of 200,000 tons, Guysuco would lose \$42 mn. merely because of the exchange rate.

It may, of course, be argued that the cost of goods imported from sterling areas would be correspondingly cheaper to Guyana. I would merely say this: that while in theory that argument is correct, in actual practice the exporter from the industrialised countries can and does continually increase the price of his manufactured exports to us: he dictates his prices. On the other hand, we do not and cannot dictate the price of sugar on the international market.

In these circumstances, the time has come for us to look at our exchange rate policies. In a situation of stability in the international monetary system, there is value in our currency having a fixed relationship with one of the reserve currencies. The underlying assumption is that that currency would remain relatively stable over a long period and would not show sudden, sharp upward or downward movements. To-day such an assumption can no longer be safely made. If we continue the old practice of having our exchange rate anchored to one or other of the major currencies of the world, then we will never be able to determine, as a matter of deliberate choice, the external value of our currency that fits our internal circumstances.

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Throughout the course of history, independence and liberty have never been gained or maintained at a cheap price, and the development of a country has always been a slow, painful and dangerous process. There is no evidence that can reasonably lead us to believe that history will make an exception in the case of Guyana. But we are a proud people, capable of struggle, sacrifice and achievement. At critical junctures of our history, we have always found that inner strength and ultimate wisdom to unite against the common foe.

We are now at such a critical juncture. And as we close our ranks in this mighty endeavour which has as its purpose nothing less than the survival of our nation, we will do well to remember an incident in the life of Simón Bolívar, the Great Liberator, whose ideals are so fashionably in disrepute these days in the Palace of Miraflores. During the war for the freedom and independence of Peru, Don Joaquin Mosquera, Gran Colombia's Ambassador in Lima, visited Bolívar in Pativilca at a time when Bolívar was prostrate in bed with serious illness, surrounded by treason and in a very disastrous political and military situation. "What do you intend to do", General?" enquired Mosquera. Bolívar replied: "To win".

And surely it must be this indomitable spirit which must inspire us as, with wonted calm and dignity we confront those who menace and organise ourselves to produce, to press on with the development of our country and to win.

ATTACHMENT I

PUBLIC SECTOR CAPITAL EXPENDITURE CHANGES TO  
RELECT RE-ORDERED PRIORITIES

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	Budget 1981	Revised 1981	Change 1981
<u>AGRICULTURE, FORESTRY AND FISHERIES</u>			
Black Bush	11.0	9.0	-2.0
Agricultural Sector Planning	2.4	3.4	+1.0
Miscellaneous Agricultural Projects	1.9	1.5	-0.4
<u>INDUSTRY AND TOURISM</u>			
Bicycle Factory	1.8	0.8	-1.0
Other Projects	3.5	2.5	-1.0
<u>TRANSPORT AND OTHER INFRASTRUCTURE</u>			
Demerara Harbour Bridge	2.9	0.5	-2.4
Feeder Road Project	8.0	7.0	-1.0
Upper Demerara Forestry Road	5.0	3.0	-2.0
Melanie Damishana Workshop	4.3	3.3	-1.0
Rehabilitation of Repair Workshops	1.5	0.5	-1.0
Second Sea Defence Project	1.6	1.0	-0.6
Miscellaneous Sea and River Defence	3.0	2.0	-1.0
Repair of Mechanical Equipment	4.0	2.0	-2.0
Rehabilitation of Stellings and Ships	1.3	0.8	-0.5
Miscellaneous Road Projects	1.5	0.8	-0.7
Development of Hinterland Telecommunication	1.3		-1.3
<u>WATER SUPPLY</u>			
Wells in Rural and Hinterland Areas	2.9	1.8	-1.1
Linden Water Supply	2.1	1.5	-0.6
Force Account Work	3.0	2.0	-1.0
<u>EDUCATION</u>			
Scholarships	11.9	11.0	-0.9
School for Training of Repair Workshop	3.0	2.0	-1.0
P.S.M. Library	1.6	0.1	-1.5
Nursery and Primary Schools	3.0	2.0	-1.0
U.G. Buildings	3.0	1.0	-2.0
Other Education Projects	1.5	1.0	-0.5
<u>HEALTH</u>			
Referral Hospital System	10.7	6.0	-4.7
Rehabilitation of Palms and G/town. Hospital	2.1	1.1	-1.0

ATTACHMENT I - Continued

G\$ million

	Budget 1981	Revised 1981	Change 1981
<u>HOUSING</u>			
Land Development & Housing Construction	3.0	2.0	-1.0
Renovation of Government Rental Apartments	1.0	0.5	-0.5
<u>ADMINISTRATION</u>			
Community Development Projects	1.0	0.5	-0.5
Matarkai Development Projects	2.5	2.3	-0.2
State Planning Commission	2.1	1.9	-0.2
Rehabilitation of Public Buildings	2.5	1.9	-0.6
Miscellaneous Buildings	6.0	5.0	-1.0
<u>CENTRAL GOVERNMENT PROJECTS</u>			
<u>EXECUTED BY CORPORATIONS</u>			
G.M.C. - Food Crop Marketing Project	10.0	5.0	-5.0
G.R.B. - Black Bush Extension	6.3	3.0	-3.3
<u>NON-FINANCIAL PUBLIC ENTERPRISES</u>			
Bidco/Guymine	60.0	57.0	-3.0
G.R.B. - Rice Modernisation Programme	11.6	4.0	-7.6
Guyana Liquor Corporation	16.0	14.0	-2.0
Guysuco	25.0	22.1	-2.9
TOTAL			OVERALL PUBLIC SECTOR CHANGE
			-60.0