



# **BUDGET** **1997**

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**STRENGTHENING**  
**PARTNERSHIPS FOR THE FUTURE**



GUYANA

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**BUDGET SPEECH**

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Minister of Finance

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## INTRODUCTION

1.

1.1 Mr. Speaker, I rise to move the motion for the approval of the Estimates of the Public Sector and the Budget for the financial year 1997. In so doing, I wish to indicate that in concurrence with Article 171, paragraph 2 of the Constitution, the Cabinet has recommended that the National Assembly proceed upon this motion.

1.2 Mr. Speaker, 1996 was a very good year for our country. The economy continued to expand rapidly, generating a growth rate that was one of the highest in the region. Inflation was the lowest since 1972. The stock of external debt was reduced by more than US\$617 million. Inflows from external sources of US\$120 million has probably been the highest ever. The public sector investment programme (PSIP) was almost fully implemented, another first for our country. In addition to these accomplishments, the Government launched the National Development Strategy, a unique and invaluable blueprint for the development of our country for the 21st Century. These achievements were made possible by the tremendous efforts, hard work and dedication of the Guyanese people.

1.3 Mr. Speaker, every Guyanese has a vision of the future. I am sure that in that vision, each of them aspires to secure a better future for themselves and their children: a future where there is an improved quality of and access to education; where there is better and affordable health care and housing; where there is safety in our streets and security in our homes; where income levels are high and the cost of living is low; where our pensioners can retire in comfort; and where there is compassion and care for the aged, the homeless, the sick and the indigent. Our Government firmly believes in that vision and will continue to be guided by it in the formulation of policies and programmes.

1.4 These ideals, however, cannot be accomplished by the Government alone. It would require strengthening existing partnerships, and forging new ones where necessary. However well designed are our policies and programmes, and however adept we are at mobilising external and domestic

resources, our considerable potential will not be realised unless we are united as a people working for a common purpose. I call upon all political parties and social groups to work with us in making our people's dreams a reality. It is for this reason that we have chosen **“Strengthening Partnerships for the Future”** as the theme for this year's budget.

1.5 Mr. Speaker, as we stand on the threshold of the 21st Century, we need to make some hard choices. If, as I believe, it is our desire to leave our children a better and more secure Guyana -- where the private sector is rewarded for risk taking, where labor is adequately compensated, where the rule of law prevails, where there is compassion for the less fortunate, and where marginalised groups are brought into the mainstream of the society -- then we would have to embrace aggressively new growth opportunities; invest in more productive activities; expand our infrastructural base; accelerate human resources development; and vigorously fight the menace of crime, drugs and other social ills. The expanding and much acclaimed economies of South East Asia made some of these difficult choices in the past and are now enjoying the benefits of those decisions. While our circumstances may be different to theirs, the choices and decisions we make now will determine whether we enjoy prosperity and comfort tomorrow, or remain a nation of unrealised dreams and potential.

1.6 The National Development Strategy, which was unveiled about two weeks ago, would help to guide us in making these choices because it embodies many recommendations that, once implemented, will help us to achieve the kind of society we are aspiring to create.

1.7 In the drive to change our economic and social landscape, we are not unmindful of the challenges ahead. Some of these are: the uncertain future of some of our export markets; the diminishing of external financing on concessional terms; the re-engineering of our public sector; and the high debt burden. We have already begun to address these challenges and we will continue to work harder to ensure that they do not have an adverse impact on our economy and the pace of our development.



1.8 Mr. Speaker, as in previous years, we continued to solicit the views of individuals, organisations and the general public in the preparation of this year's budget. More than 50 representations were made to the Ministry of Finance while a number of individuals and organisations submitted memoranda. The consultation process was also expanded through visits to several communities and business places to learn, first hand, their concerns and expectations. Some of these concerns and expectations have been addressed in this year's budget. I would strongly urge the public to continue to participate in this consultative process to nation building.

## 2. REVIEW OF THE INTERNATIONAL ECONOMY AND OUTLOOK FOR 1997

2.1 Mr Speaker, the latest economic indicators suggest that the world economy will continue to expand in 1997. Last year, world output grew by 3.8 percent with the industrialised countries accounting for more than 60 percent of this expansion. The most recently published 'World Economic Outlook' by the International Monetary Fund suggests that, in 1997, this trend will be further strengthened, with growth in industrialised countries projected at 2.5 percent and developing countries at 6.2 percent. This will give an overall growth rate for the world economy of about 4.1 percent. The United States, Japan and the United Kingdom are expected to lead the way with a strong performance. Moderate growth is expected in France, Canada, and Germany. For the European Union, growth is expected to jump from 1.6 percent in 1996 to 2.5 percent in 1997.

2.2 This favourable review masks many internal problems in industrialised societies. The high rates of unemployment, reduction in social services, and growing income disparities are some of the factors which have led to heightened social tensions, sometimes with adverse consequences for immigrants.

2.3 Among the developing countries, above average performance was recorded not only by the Newly Industrialised Countries and the emerging South-East Asian economies but also from some adjusting countries. The forecast for 1997 is a GDP growth rate of about 4.0 percent for Central and South America. The evidence also shows continuing improvement in the performance of countries in transition. In spite of this, Mr. Speaker, these countries are being challenged by the surge of globalisation and free trade. Many cannot easily adjust their economies in response to these changes. This has often resulted in higher unemployment and growing poverty.

2.4 Global inflation, another important performance criterion, has continued to remain fairly stable for industrialised countries at around 2.3 percent; for Central and South America at 20 percent, for Asia at 7.9 percent, and for Africa at around 26 percent. This trend of lower inflation will continue in 1997.



2.5 Projected growth in the volume of world trade is expected to increase from 6.7 percent in 1996 to 7.2 percent in 1997. This is predicated on continued expansion of economic activity for industrialised countries, as well as high import demand from developing countries. However, for the economies in transition, import demand is expected to weaken slightly.

2.6 Preliminary information shows that the regional economies enjoyed a year of modest to robust growth in output. The Jamaican economy registered a modest growth of 2 percent, the first since 1990; in Barbados higher tourist arrivals last year, in part, accounted for its 4 percent growth; while the expansion in the manufacturing and natural gas industries contributed to the 3 percent growth in Trinidad and Tobago. In the OECS, economic performance reflected their efforts to restructure their economies away from dependence on banana. With the exception of Montserrat, all of the countries showed an improvement in economic growth. Growth prospects appear to be good for the region in 1997.

2.7 Mr. Speaker, in spite of the positive outlook for the region and the world economy in 1997, the changing world environment in the areas of trade and investment will present several challenges for Guyana and the Caribbean. Apart from intra-regional trade, the major sources of private capital and markets for Caricom products have been North America and the European Union. The formation of NAFTA and the phasing out of the existing EU-ACP preferential trade arrangement are increasingly diminishing market prospects in these regions. We are already feeling the impact of these changes. In Jamaica and St. Kitts and Nevis, the poor performance of the garment industry is being blamed on NAFTA. In the OECS sub-region, threats to the banana market in the European Union is causing social and financial difficulties, while the possible closure of the OCT route for rice exports could pose a major challenge for the rice industry in Guyana and Suriname.

2.8 Mr. Speaker, all of these point us in one direction: There must be increased regional collaboration and serious efforts to take advantage of our strengths, rather than engaging ourselves in endless discussion of what will take us to the 21st Century. We need to act quickly to create the environment that would make the Region become a haven for investment, efficient in its productive

activities, and a re-direction towards increased intra-regional trading. We must endeavour to improve the consistency in the standard of our products, reduce transportation costs, and improve reliability of supplies. But, Mr. Speaker, adjustment takes time and has a cost. This is why our President's call for the establishment of a Regional Integration Fund is timely, for it would assist us to cushion the impact of the adjustment and reduce its social and economic costs.

### **3.0 Review of the Domestic Economy**

#### **Overview**

3.1 Mr. Speaker, in 1996, the economy continued to expand. Gross domestic output, in real terms, grew by 7.9 percent compared with 5.1 percent in 1995. Underlying this impressive growth were the substantial contributions of the key sub-sectors namely, rice, sugar, and gold. This performance is even more heartening when one takes into account the extensive flooding that was experienced throughout the country last year which damaged both crops and livestock. Continuation of prudent fiscal and monetary policies resulted in the improvement of the fiscal deficit and price stability, with inflation continuing its downward trend. The balance of payments registered tangible improvements as the deficit on the current account narrowed. Higher capital inflows led to increased accumulation of gross international reserves.

#### **A. The Real Sector and Sectoral Performance**

3.2 Mr. Speaker, the agricultural sector was a major source of growth last year. Buoyed by the impressive performance of rice and sugar, the sector grew by 7.7 percent. Increased acreage under cultivation, more investment in drainage and irrigation, and higher credit to farmers, in part, accounted for the 6.1 percent and 10.3 percent growth in rice and sugar output, respectively. Rice output of 334,515 tonnes exceeded its target by 4.2 percent while in the case of sugar, the target was revised downwards by about 2.5 percent earlier in the year; even so, sugar output, at 275,650 tonnes, was the highest in 14 years. The livestock sub-sector also experienced phenomenal growth on account of significant improvement in poultry output. Production of eggs increased from 30.2 million to 39.3 million while chicken output jumped from 15.8 million pounds to 23.5 million pounds, a nearly 50 percent increase. The forestry sub-sector experienced modest growth.



3.3 The mining sector continued to make significant progress, in 1996, with an overall output growth of 15.3 percent, compared with a decline of 11.4 percent, in 1995. Declared gold production amounted to 372,000 ounces, 3.3 percent above the target and 29 percent more than in 1995. The volume of bauxite production increased by 16.7 percent to 2,367,670 tonnes, led by increases in the output of metallurgic and chemical grade bauxite.

3.4 The manufacturing sector grew steadily at 3.0 percent. Selected growth areas were rum, pharmaceuticals, stockfeeds, aerated drinks, alcoholic beverages, margarine and soap. However, the production of refrigerators, freezers, garments and edible oil fell.

3.5 The services sector registered a 6.1 percent increase in output compared to 5.3 percent in 1995. This was on account of the improved performance in the transportation, communication and financial services sub-sectors. Accelerated expansion in public works and the increased activities in the housing sector, contributed to the construction sector's output growth of 14 percent.

## **B. Balance of Payments**

3.6 Mr. Speaker, in 1996, the balance of payments showed significant improvement over the previous year. The current account deficit improved by US\$25.2 million to US\$69.7 million, on account of higher volumes of exports, a modest increase in imports, and an improvement in net services and net transfers. Exports grew by 13.9 percent to US\$565 million, led by sugar, gold and forestry products, while imports grew by 9.7 percent to US\$589 million. This resulted in an improvement in the trade deficit of US\$17 million over the previous year. Scheduled interest payments declined by approximately US\$7 million to US\$79 million. Overall, the net services account improved by US\$6 million, while net transfers of US\$41 million was US\$2 million more than in 1995.

3.7 The capital account overshoot its target by US\$85 million, as a result of increased net capital flows. Disbursements to the non-financial public sector amounted to US\$81 million while principal repayment of US\$56.5 million was about US\$26 million less than budgeted. This lower amortisation was on account of the debt relief extended to Guyana under the May 1996 Paris Club Agreement. Direct foreign investment increased by about 10 percent to US\$59 million, while there was a net outflow of short term capital to the tune of US\$2.7 million.

## **C. Monetary Developments**

3.8 Mr. Speaker, monetary policy continued to focus on price stability, a competitive exchange rate and a sustainable balance of payments position. Monetary growth was moderate compared to the previous year while there was an improvement in the international reserves position of the banking system. Credit to the private sector showed strong growth while the public sector strengthened its position as a net depositor of funds to the banking system.

### **1. Inflation**

3.9 Mr. Speaker, the rate of inflation continued to decline. This is shown by the change in the consumer price index of 4.5 percent compared with a target of 8 percent in 1996, and 8.1 percent in 1995. Among the contributory factors for this achievement were: declining inflation rates in partner countries; a fairly stable exchange rate; increased competition; and prudent fiscal and monetary policies.

### **2. Interest Rates**

3.10 Treasury bill rates continued their downward trend, reflecting easy liquidity conditions in the financial system and enhanced competitive bidding practices for treasury bills. While the 91-day treasury bill rate declined from 15.5 percent in 1995 to 9.94 percent in 1996, lending rates of the commercial banks remained fairly rigid. The weighted average lending rate declined from 20.39

percent to 19.34 percent while the savings rate fell from 10.47 percent in 1995 to 8.81 percent in 1996. Mr. Speaker, while the treasury bill rate fell by 5.56 percentage points between 1995 and 1996, the intermediation spread, that is the difference between the weighted average lending rate of the commercial banks and the savings rate, increased from 9.92 percent in 1995 to 10.53 percent in 1996. This is a very worrying development and we will continue to engage the banks in dialogue on this matter.

### **3. Money Supply and Credit**

3.11 Total monetary liabilities of the banking system grew by 18 percent, a slower rate of increase than the 26.1 percent recorded in 1995 but slightly higher than the 15 percent targeted for 1996. Narrow money grew by 12.2 percent, on account of higher demand deposits. Time and savings deposits increased, on average, by 20.3 percent. Net domestic credit grew by 60 percent. Net credit to the private sector amounted to \$33.4 billion compared with \$21.1 billion in the previous year. This reflects, in part, the growing confidence in the economy. Net credit to the agriculture sector increased from \$3.3 billion to \$8.1 billion; manufacturing and processing, from \$3.2 billion to \$6.4 billion; and personal loans from \$5.3 billion to \$7.1 billion. The net public sector deposits to the banking system amounted to \$15.8 billion in 1996, an increase of 43 percent over the previous year, reflecting the improved performance of the non-financial public sector.

### **4. Exchange Rate**

3.12 The nominal exchange rate remained fairly stable in 1996. Increased inflows of foreign currency and more efficient intermediation by authorised dealers contributed to this relative stability. There was an appreciable rise in foreign exchange transactions in the cambio market, with turnover increasing by 11 percent to US\$972 million compared with US\$873 million in 1995. The large turnover is, in part, attributable to the elimination of surrender requirements for sugar and gold and increased earnings in rice.



## **D. Institutional and Regulatory Reforms in the Financial Sector**

3.13 Mr. Speaker, the Financial Institutions Amendment Act came into force in May 1996. Under this Act, a person who owns or acquires control of a licensed financial institution which accepts deposits is not allowed to control another such institution in excess of 20 percent of the total paid up capital, except for capital expansion of the institution in which that person has control. The implementation regulations of the FIA were issued to the financial institutions, with a number of circulars and supervision guidelines that included, among other things: single borrower limit; non-resident borrowing; inspection fees and costs; and capital adequacy ratio.

3.14 Also, in 1996, the Bank of Guyana Amendment Act was introduced to reform Guyana's currency structure. The 1 cent, 5 cent and 25 cent coins were pulled out of circulation, while the \$1, \$5, and \$10 notes were replaced by coins. In late December, the \$1000 note was put into circulation. The Exchange Control Act was repealed and replaced by the Foreign Exchange (Miscellaneous Provisions) Act. Foreign exchange surrender requirements for sugar and gold were also removed and resulted in a fuller integration of the cambio and official exchange rates. This led to a further liberalisation of the exchange system.

3.15 Mr. Speaker, today, Guyana operates one of the freest and most liberalised foreign exchange and trade regimes in this Hemisphere.

## **E. Non-Financial Public Sector**

### **1. Central Government Finances**

3.16 Mr. Speaker, the overall operations of the Central Government improved significantly during 1996. This performance was largely due to the continued buoyancy of current revenue, tight expenditure management, and lower-than-programmed debt repayment.

3.17 Current revenues were \$34.2 billion, or about 3.7 percent better than budgeted. Both Customs and Inland Revenue Departments, which, together accounted for 87.8 percent of all collections, surpassed their targets by comfortable margins. Revenue collection from the Customs Department was \$705 million more than budgeted, while, in the case of the Inland Revenue Department, the intake was more than \$258 million above projections. Other current revenues of \$4.2 billion were slightly higher than targeted.

3.18 Non-interest current expenditure amounted to \$16.1 billion, roughly the same amount as was projected at the beginning of the year. Employment costs were \$65 million higher than programmed while other charges of \$9.2 billion were within the limit set. Interest payments totaled \$8.7 billion or 96 percent of the budgeted amount. As a result of these developments, the current balance of the Central Government improved substantially to \$9.4 billion, 21.1 percent more than budgeted.

3.19 Capital revenue of \$458 million fell short of the target of \$1.5 billion. This shortfall reflects the incompleteness of the privatisation of some public enterprises. The rate of execution of the capital programme continued to show significant improvement. The \$15.5 billion expended on this programme during 1996 was 2.8 percent more than budgeted. Principal repayment was \$463 million less than the projected amount of \$6.2 billion. This saving was largely attributable to the success Guyana achieved at the Paris Club rescheduling in May 1996.

3.20 Mr Speaker, these favourable developments had a positive impact on the budgeted overall deficit, which improved by 5.6 percent to \$11.3 billion. An almost 100 percent achievement in external financing, which was programmed at \$14.7 billion, enabled the Government to repay \$3.3 billion to the domestic banking system.

## **2. Public Enterprises**

3.21 The current primary surplus of the public enterprises was \$8.1 billion. Although this reflects a significant improvement over the outturn of \$6.5 billion in 1995, it was 10.8 percent less than the target of \$9.1 billion. Nevertheless, factors which had a positive impact on the 1996 performance included good harvests of, and stable prices for, sugar and rice, and higher activity levels in some of the enterprises. Current receipts were \$49.3 billion or 97.2 percent of the target, while current payments of \$41.2 billion were slightly below budget. In spite of the lower-than-programmed performance, the public enterprises continued to be an important source of financing of the Central Government operations, contributing over \$712 million in taxes and \$2.2 billion in dividends and other transfers.

## **3. Public Sector Investment Programme**

3.22 Mr. Speaker, the year 1996 was an excellent one for the implementation of public sector projects. Of the \$18.9 billion budgeted for this programme, \$18.7 billion was expended, resulting in an implementation ratio of 99 percent. Foreign inflows exceeded the amount budgeted by \$400 million while about 94 percent of the local currency component was expended. The PSIP continued to focus on the rehabilitation and expansion of the road network; improvement of drainage and irrigation systems; rehabilitation of sea defences; modernisation of Timehri International Airport; upgrading of ferry services; provision of potable water; development of housing and industrial infrastructure; and the rehabilitation and construction of schools, health facilities and markets.

3.23 Among the major highlights of the 1996 programme were:

- commencement of the 3-year, US\$20 million road rehabilitation programme for Georgetown, including Main Street, Campbell Avenue and Drury Lane in Campbellville, and Alexander Street in Kitty;



- commencement of the East Coast Railway embankment road. The completion of this road will pave the way for the rehabilitation of the East Coast Highway from Georgetown to Mahaica;
- completion of several miles of roads in rural areas;
- modernisation of Timehri International Airport, including the construction of a new check-in and customs area, installation of a new baggage conveyor system and procurement of fire tenders;
- completion of 6,134 meters of permanent sea defence works in Regions 2 and 3 and remedial works at Strathsprey, Lusignan, Buxton, and Nos.78 and79 Villages;
- installation of a second irrigation pump at the Manaribisi Canal and the acquisition of 21 drain digging equipment;
- reconstruction of the Torani Canal, and the Letter Kenny and Garden of Eden Sluices;
- construction of a new ferry vessel --MV Baramani;
- Replacement of 103 pontoons on the Demerara Harbour Bridge and the upgrading of the electrical system;
- installation of 44 new potable water pumps country-wide;
- the laying of 160 miles of water supply pipeline throughout the country;

- Substantial completion of 17 new primary schools and commencement of preliminary works on 1 secondary school, Cyril Potter College of Education (CPCE) and National Centre for Education Resource Development (NCERD). The rehabilitation of several primary and secondary schools in areas such as Friendship, Mashabo, Abary, Amelia's Ward, Wales, Bath, and Anna Regina, was completed;
- commencement of a condition survey to identify a further 72 schools for rehabilitation and reconstruction;
- completion and commissioning of the modern Diagnostic and Ambulatory Care component of the Public Hospital Georgetown. Rehabilitation work on the Georgetown Hospital Complex also commenced, including the maternity ward, mortuary and the sewerage and drainage system.

3.24 Mr. Speaker, in spite of the excellent progress made, implementation of the PSIP was not without its problems. The shortage of construction materials, especially quarry products, the absence of sufficient local construction firms with the capacity to undertake large road and sea defence works, sub-standard work by some contractors and consultants, and excessive flooding in many areas were some of the constraints we faced in 1996. As far as possible, we would address these problems in 1997 to ensure that the rate of implementation of the investment programme is maintained.

#### 4. Review of Policy and Institutional Reforms

3.25 Mr. Speaker, you may recall that, in the 1996 Budget, a number of policy measures were identified to be implemented, in order to improve the efficiency and effectiveness of Central Government operations. I would now like to report on the progress made.

- In the area of programme budgeting, the pilot programmes for the Ministries of Education and Health were completed. In fact, this year's budget estimates for the two ministries have been presented in both programme and line item formats. Mr Speaker, the switch to programme budgeting has been necessitated by our desire to promote more effective allocation and management of national financial resources.
- With respect to tendering and procurement, the Secretariat for the Central Tender Board was established in April 1996. It was staffed and equipped with computers. These measures assisted in clearing the backlog of tenders in the system, which in turn, contributed to the higher implementation ratio achieved in the PSIP. Further, a workshop on improving the tendering process was conducted in March 1996, and a report on reforming the tendering and procurement system was commissioned and recommendations presented to Cabinet in the fourth quarter of last year. We expect to implement some of these recommendations in early 1997.
- Work on the establishment of the Revenue Authority continued in 1996. The Revenue Authority Act was passed in the National Assembly in July 1996. A diagnostic review was conducted by the Inter-American Centre of Tax Administrators (CIAT), with the objective of establishing an efficient and effective organisational structure for the Revenue Authority. Based on the review, CIAT prepared and submitted a draft proposal of technical cooperation which is now engaging the attention of the Cabinet. In addition, a number of preparatory tasks are being carried out with a view of bringing the Revenue Authority into operation in the first quarter of 1997. The completion of the computerisation of the operations of



Customs and Inland Revenue Departments will be a major boost in establishing the nucleus of the Revenue Authority.

- Steps were taken to rationalise some of the semi-autonomous agencies. Among the agencies that were reviewed were: Guyana Natural resources agency (GNRA), Institute of Applied Science and Technology (IAST), Guyana Management Institute (GMI), GO-INVEST, Guyana Export Promotion Council (GEPC), New Guyana Marketing Corporation (NGMC) and the Lands and Survey Department. Based on recommendations of a careful study, the Government has decided to merge the operations of GO-INVEST and Export Promotion Council to provide more coordinated support to the private sector. Also a contract was awarded for institutional strengthening of the Lands and Survey Department. The other agencies will undergo major restructuring in 1997.

#### **F. Privatisation Programme**

3.26 Mr. Speaker, seven entities, comprising Guyana Stores Limited (GSL), Guyana Stockfeeds Limited (GSFL), National Edible Oil Company Limited (NEOCOL), Guyana National Printers Limited (GNPL), Guyana Electricity Corporation (GEC), National Bank of Industry and Commerce (NBIC) and Guyana Cooperative Insurance Scheme (GCIS), were brought to the point of sale in 1996. Additionally, over a dozen properties were advertised for tender, including the head office of Guyana Pharmaceutical Corporation (GPC) and those that were considered redundant by GSL. The Government also sold its shares in the Guyana Pegasus Hotel to the National Insurance Scheme, and a decision was made to sell the land at the Ruimveldt Industrial Estate to its occupants. This land has already been valued and surveys are expected to start soon to allow its division into individual transports. Manufacturers occupying these plots can expect to obtain freehold title which can be used as collateral for future borrowing.

3.27 Mr. Speaker, although the Government's programme on privatisation accelerated in 1996, many of the agreements were not concluded because of a number of problems associated with the absence of title to the land and properties; lack of competitive bids -- in some instances, no bids; and legal problems.

#### **G. Debt Reduction Initiatives**

3.28 Mr. Speaker, when I came to this Honourable House last year, our external debt stood at US\$2.1 billion. Today, as a result of the Paris Club agreement that we concluded last year, the debt stock has been reduced to US\$1.5 billion. In May 1996, our Paris Club creditors and Trinidad and Tobago granted Guyana, under the "Naples Terms", a 67 percent cancellation in net present value terms of our eligible bilateral debt. The total debt relief arising out of the May 1996 agreement is estimated at US\$520 million. Under the Agreement, the remaining one-third of the debt was rescheduled for twenty-three years, with a grace period of six years. Moreover, Guyana has committed itself to seeking from non-Paris Club creditors, terms no less favourable than those granted in the Paris Club Agreed Minute. On that basis, Guyana expects further debt forgiveness of at least US\$97 million. At this juncture, Mr. Speaker, I am pleased to announce that the Government of Sweden wrote-off all of the debt owed by Guyana. This is a signal gesture, especially when it is considered that the debt outstanding to that country did not qualify for reduction under the agreement.

3.29 We have concluded a bilateral debt agreement with Germany, and are examining a number of similar ones from other countries. In terms of other initiatives, Mr. Speaker, I had indicated in the last Budget that the World Bank would have been assisting us to reduce our commercial debt through a debt buy-back operation. The implementation of this arrangement would have resulted in the clearance of about US\$57 million of arrears which have accumulated under the External

Payments Deposit Scheme at the Bank of Guyana. This operation, however, did not materialise in 1996. Meanwhile, the Government of Canada has approved financing, through the Caribbean Trust Fund of the World Bank, to contract the services of legal and accounting advisers in support of this operation.

## **H. Linden and Surrounding Areas**

3.30 Mr. Speaker, the Government's policy of transforming the Linden-Ituni-Kwakwani corridor into a viable industrial area was put into effect last year. I am pleased to announce that there was a positive response to the incentives package for Linden and its surrounding areas. Three projects benefited from the regime and they are expected to generate over 1,000 jobs. In addition, the Government approached the European Union for assistance to carry out a study to determine Guyana's eligibility for Sysmin's assistance and to identify projects that will significantly help to diversify the economic base of Linden away from bauxite to other economic activities. The study was completed and the report is being examined.

3.31 This concludes the review of 1996.



**A. Consultation and Implementation of the NDS**

4.1 Mr. Speaker, I am pleased to report to the House that the National Development Strategy has been launched and copies have been circulated to the major Opposition parties, the donor community, and various interest groups. The consultation process has already begun and revision of the document is expected to be completed by June 1997. Guyana will take full advantage of the Internet system to disseminate the document to a wider audience, especially overseas based Guyanese.

4.2 Mr. Speaker, the National Development Strategy should be seen as a powerful tool for instituting the necessary changes for advancing the development process. This is because it weaves together macroeconomic and sectoral analyses, and articulates strategies and proposals for addressing many of the concerns and fears foremost in the minds of our people. The implementation of these proposals will greatly facilitate the translation of their ideals and visions into reality. Also, it will: improve the standards of education, health, housing and other basic amenities; close the income gap between the rich and the poor; result in more women joining the work force; and catalyse the integration of Amerindians into the wider society. In short, it should be seen as the bridge linking the present to the future. As such, the National Development Strategy cannot be seen as a PPP/Civic document, but as a national one which sets out in a detailed manner, the way forward. I, therefore, urge all Guyanese to ensure that they participate fully in the finalisation of this document.

**B. Private Sector Development and the Incentives Framework**

4.3 Mr. Speaker, a major focus of the Government has been the creation of the conditions for the private sector to expand and flourish, given that there is a need to create more and better paying jobs in the economy. The Government expects the private sector to take advantage of the enabling

environment which we have been creating. Over the last four years, the Government has, *inter alia*, (i) removed surrender requirements for foreign exchange and repealed the Exchange Control Act, in keeping with the current liberalised exchange regime; (ii) completed the implementation of the first two phases of the new Common External Tariff (CET); (iii) promulgated a new Companies Act; (iv) substantially repealed the Capital Issues Act; (v) zero rated the consumption tax and remitted import duties on key machinery, equipment and raw material for use in the productive and construction sectors; and (vi) provided a special incentives package for tourism and the depressed areas of Linden, Kwakwani and Ituni. We have also removed the income tax on dividends.

4.4 In recognition of the importance of a sound financial system to the economy and the confidence which it would give to the private sector, we took steps to reform the financial sector. These reforms have paid off. The weighted average lending rates of commercial banks have fallen from over 30 percent in 1992 to 19.34 percent in 1996 and competition in the banking sector has increased over the last several years. The Government recognises that in the face of our stepped-up privatisation programme, GDP growth will increasingly be generated by the private sector. In fact, in the face of a rapidly changing international environment, export-oriented growth and diversification and increased competitiveness of our products will be key to the maintenance of external balance. The Government will continue to play a facilitating role to ensure that the private sector responds positively to its new role and responsibility. For our part, we would continue to provide incentives to attract more foreign and local investment.

4.5 Mr. Speaker, the Government is convinced that the manufacturing sector can and should be encouraged to play a greater role in the expansion of the economy. Agro-industry and wood processing hold a special place in creating: employment opportunities for the youth; revenue for the Government; and foreign exchange for the country. It is for these reasons that we will continue to work closely with the local and international banks to provide *long term pre- and post-shipment financing, venture capital, and other related financial and business services* that would be crucial

in the development of this sector. We would also continue to support the tourism sector through the rehabilitation of hinterland airstrips, sound management of our environment, and increased collaboration with other regional governments to promote eco-tourism.

4.6 Mr. Speaker, we will keep the taxation system under review to ensure that it sends the correct signals to the private sector, where effort, initiative and compliance are rewarded and evaders penalised. The tax system will have to evolve in response to the changing domestic and international economic environment. As part of this review, we will examine the feasibility of introducing the value-added tax (VAT).

4.7 In addition to reforming the tax system, the Government will launch an investment guide in the coming months. Shortly thereafter, an investment code will be promulgated. In addition to giving basic guarantees to investors, they will consolidate the various incentives regimes currently in operation in Guyana. As mentioned earlier, GO-Invest will be merged with the Guyana Export Promotion Council to better assist the private sector. The new entity, among other things, will provide more efficient and effective investor services and will be better equipped to promote Guyana as an attractive location for investment.

4.8 Mr. Speaker, our private sector has expressed concerns about the reliability of the power supply, the high cost of financing, and the shortage of specialised skills. I want to assure them that we are working assiduously to address these concerns. In a matter of weeks, we will be receiving bids for the Guyana Electricity Corporation and we expect to conclude the privatisation of this entity by the middle of this year. A licence has been issued for the establishment of a Merchant Bank. It is expected to become operational in May 1997. This bank will make US\$ denominated loans. Some of the services that will be provided are: private and public sector advisory services, trade and equity financing, leasing, and mergers and acquisitions. It is expected that the lending rate on the US dollar funds will be substantially lower than interest rates currently in the system.



4.9 We will also be collaborating more closely with the private sector to train and upgrade the workforce to meet the challenges ahead. We will promote the use of private sector institutions in the delivery of technical and vocational training; reform the curricula so that they are tailored to meet the needs of industry; and increase the private sector's representation on relevant boards. We propose to promote, further, employer-based training and skills upgrading programmes in areas of grave skills shortage. Determination of these areas will be based on market survey and analysis that would be conducted by the Statistics Bureau, the Ministry of Labour and the Private Sector Commission.

### **C. Developing the Capabilities of our People**

4.10 Mr. Speaker, our Government has always considered our people the nation's greatest asset and have therefore placed them at the centre of our development strategy. Investment in people is important, not only because they are contributors to economic growth but because we are also interested in their all-round development so that they can lead rewarding and fulfilling lives.

4.11 As we embark on building the kind of society which I have consistently alluded to in this presentation, the development of our human resources will continue to feature prominently. Mr. Speaker, we recognise the importance of education in people's development. Important as well in this process are culture and sport. The Government has focused much attention on improving the education system over the last four years. Visible and tangible improvements have been made in teacher training, curriculum reforms, teachers' salaries, and the construction and rehabilitation of all grades of schools. However, in order to make a quantum leap in human resource development, we have to make a concerted assault on the problems affecting that development. Mr Speaker, Government, by itself, cannot accomplish this task; this has to be done in partnership with NGOs, the private sector, trade unions, religious bodies, and other groups.

4.12 Some of the joint initiatives we intend to promote actively this year are: (i) the establishment of a National Volunteer Corp to supplement teacher shortages in certain skills areas; (ii) a special

project to ensure that, by 2005, every Secondary school child will leave school computer literate; (iii) the establishment of a library in every village and town, and in every ward in the city; (iv) education by the distance mode of delivery in order to broaden access to tertiary education, especially in the Essequibo, Berbice and Linden areas; and (v) the provision of resources for the development of sports and culture.

4.13 Our continued progress in sustaining the present level of economic growth will depend on the graduates that are produced by our educational system, and on the type of training and upgrading of skills that are offered to the labour force. During this year, we will continue to review the curricula of our secondary, technical/vocational and University of Guyana programmes, in order to determine their relevance to our national development needs.

#### **D. A Case for Additional Debt Relief**

4.14 Mr. Speaker, in compliance with the Paris Club agreement, the Government will conclude discussions with the United States and Trinidad and Tobago on rescheduling of our bilateral debts. Draft agreements with the United Kingdom, Canada, The Netherlands and France will be finalised, while efforts will be redoubled to conclude discussions with bilateral creditors who have not yet presented their drafts. Arrears of payments which accumulated under the External Payments Deposit Scheme of the Bank of Guyana will also be cleared through the World Bank supported debt-buy back operation.

4.15 As I mentioned earlier, in spite of the debt write-off our debt burden remains onerous. Yet, our ability to continue servicing this debt rests on our pursuing sustainable economic development. This will include addressing the key issues of higher wages to attract and retain skilled and technical personnel, increasing allocations for operations and maintenance, expanding the capital stock,

allocating additional resources to improve human resource development and poverty reduction, and improving other social services. Our projections show that debt service will continue to utilise more than 33 percent of revenues over the medium term. This would prevent Guyana from expeditiously addressing some of its major social and economic constraints.

4.16 It is within this context, that we are appealing to the international donor community to review and expand the criteria under which a country qualifies for the Highly Indebted Poor Countries (HIPC) Initiative. This is more so, especially at a time when donors, in the framework of the Copenhagen Accord, are calling for increased expenditures in the social sector as a way to combat poverty. Conscious of this, the Government during the last annual meeting of the IMF/World Bank raised the issue of Guyana's eligibility for additional debt relief under the HIPC Initiative. This Initiative is a commitment by the international donor community to assist poor countries with good economic performance to help them reach sustainable levels of debt repayment. We will continue to press our case for debt relief under this Initiative.

#### **E. Financial Policies**

4.17 As part of improving domestic debt management, the Bank of Guyana will be introducing longer term maturities, beginning this year. This will broaden the mix of government securities and de-emphasise reliance on three month treasury bills as the principal instrument for open market operations. In fact, the technical institutional capacity of the Central Bank to carry out open market operations has been significantly boosted following the development of a Reserve Money Programme last year. This will contribute to the effective management of liquidity in the economy. With the elimination of foreign exchange retention requirement and the unification of foreign exchange markets, the Bank of Guyana will also play a proactive role in the foreign exchange market through the management of forward contracts and interbank trading.



## **F. Privatisation Programme**

4.18 The pace of the privatisation programme will be accelerated further, in 1997, as a result of the groundwork laid in 1996. The following entities will be brought to the point of sale: Sanata Textiles, GPC, Bermine, Linmine and the Guyana Electricity Corporation (GEC). The privatisation process of GEC and Linmine are already in an advanced stage. GPC's La Penitence property will be re-advertised as the absence of bids prevented the completion of this transaction last year.

4.19 The Financial Institutions Act which was passed in 1996, paves the way to convert any COFA institution into a Public Company. This Act will allow the privatisation of GCIS, and GCMFB which is already in the process of liquidation. NBIC which has been brought to the point of sale will be privatised in 1997.

## **G. Expanding Programme Budgeting**

4.20 Mr. Speaker, earlier I laid before this House the Estimates for the Ministries of Health and Education under the Pilot Programme Budgeting format. I look forward to the discussions and comments from Honourable Members. Both ministries will be maintaining parallel accounting and reporting systems for 1997. Programme budgeting will be extended to cover the remaining ministries, regions and constitutional bodies in time for the presentation of the 1998 budget. Attention will also be paid to institutional strengthening, especially as it relates to the re-engineering of the Accounting Branches of Government agencies in order to streamline operations and automate functions where necessary. In addition, where appropriate, Resource Planning and Allocation Units will be established in agencies in an effort to strengthen their capacity for programme budgeting and multi-year operational planning.

## H. Consolidating our Infrastructural Base

4.21 Mr. Speaker, the Government has budgeted \$19.6 billion this year to continue with the rehabilitation and consolidation of the country's physical and social infrastructure. This is about 4.7 percent higher than investment expenditure last year. Of the budgeted amount, about \$8 billion or about 41 percent will be externally funded, while \$3 billion or 15.3 percent of domestic resources is budgeted for the public enterprises. Indeed, the programme for 1997 is large, but I am confident that, like in the previous year, this Government will continue to work hard to ensure that the road network is improved; that Timehri International Airport is comparable to other regional international airports in terms of comfort and safety; that our sea defence system is secure; that our drainage and irrigation system is properly maintained; that the quality of water, education, and health facilities are to acceptable standards; and that poverty is reduced.

4.22 Mr. Speaker, allow me to provide some highlights of the investment programme that the Government would be implementing this year. In the area of transportation, the Timehri-Georgetown road is expected to be completed by the middle of this year. A contract has been signed for the recommencement of the Essequibo Coast Road and work is expected to begin by February. Similarly, the rehabilitation of the Soesdyke-Linden Highway will commence this year. There will also be the intensification of works on the Railway Embankment Road and commencement of the rehabilitation of the Georgetown-Mahaica Highway. The Berbice River will have a new ferry and the existing fleet of ferries will be rehabilitated.

4.23 Mr. Speaker, the Government's steadfastness in the rehabilitation of drainage and irrigation system has paid off in terms of higher rice, sugar, and ground provisions output. We will continue to pursue this investment policy this year. In line with this, over \$900 million have been earmarked for rehabilitation and maintenance of the drainage and irrigation system. The excavation of the Torani Canal will be completed this year; the pumping station at Cozier will be rehabilitated and a new pump procured; and several concrete sluices throughout the country will also be reinforced.

4.24 Mr. Speaker, our commitment to improve water supplies remains unshakable. Work on the interconnected water system for LBI and Pouderoyen will commence in the third quarter, while designs for the Eccles and Rose Hall water systems will be completed before the end of the year. Under the Rural Water Programme, over 200 miles of pipelines will be laid, 76 rural water systems will be completed this year, and 4 new wells at Mahaica, Leonora, No. 74 Village and Affiance will be constructed.

4.25 In education, the Secondary Reform Programme will begin this year with rehabilitation of several schools. Curriculum reform, also part of this programme, will be launched in 12 pilot schools. Also, at the primary school level, 70 schools will be rehabilitated under the IDB Primary Education Improvement Project and the CDB-funded Basic Needs Trust Fund (BNTF). In addition, 20 new nursery schools in areas such as Plaisance, Lodge, Leeds, Triumph, Parika, Nabacalis, Belladrum, Uitvulgt, Bartica and Corriverton, will be constructed.

4.26 Mr. Speaker, the upgrading of the country's health facilities will continue in 1997. A new dental school will be constructed in Georgetown, and a health care pilot project will be instituted at Beterverwagting. This is in addition to the upgrading of facilities of several regional and district health centres.

4.27 In housing, budgetary resources have been allocated to develop sites and services in several regions. The construction of Eccles Industrial Complex will also be completed this year at a cost of \$275 million.

4.28 Law enforcement will get a significant boost this year. More than \$185 million have been budgeted to procure vehicles, equipment and communication systems for the Police Force. The fight to reduce crime and improve public safety will be enhanced through improvements to the legal and judicial system. In the course of 1997, the Government will complete the rehabilitation of Providence, Suddie, Sisters, Fort Wellington, Leguan and Georgetown Magistrates Courts, and will complete works on the roof and court rooms of Georgetown Supreme Court.



4.29 Mr. Speaker, as I have mentioned earlier, export-oriented growth, diversification of the production base, and access to increased technology and skills will be crucial for our future development. It is, therefore, opportune for us to address our minds to a set of new infrastructural projects that would be necessary for the country's medium term development. In line with this thinking, the Government will conduct feasibility studies in respect of: bridging the Berbice River, developing a deep water harbour, developing a container port in the Soesdyke area, establishing a port service in the Corentyne, upgrading New Amsterdam into an entrepot, and expanding and/or constructing a new international airport.

#### **I. Poverty Reduction**

4.30 Mr. Speaker, in 1996, the Government expended \$543 million on the poverty programme. This year, we will be spending another \$440 million, representing the balance of the \$1.2 billion, three-year programme announced in 1995. Like last year, we will continue to:

- provide supplements to pregnant and lactating women;
- improve sanitary conditions of our schools;
- provide school uniforms, textbooks, and health care to needy children;
- expand the school feeding programmes;
- provide vitamin and iron tablets to over 100,000 school children;
- provide access to potable water in rural communities and depressed areas;
- upgrade and equip sporting facilities; and
- provide skill training for young school leavers, women, and unemployed persons.

## **J. Improving the Welfare of Amerindians**

4.31 Mr. Speaker, apart from the programmes of the Central Government, the regions and the poverty programmes from which Amerindians benefitted, a special development fund of \$30 million was utilised to: (i) rehabilitate the Amerindian Residence in Georgetown; (ii) purchase outboard motors; (iii) procure power saws; (iv) acquire tractor/trailers; and (v) purchase a diesel double cab four wheel drive vehicle.

4.32 In 1997, about \$110 million have been set aside to support programmes in Amerindian communities. Of this amount, \$50 million will be used to conduct land surveys and to provide land titles to Amerindians, while the remainder will be utilised to support:

- training of Amerindians to serve as teachers, foresters, surveyors, and community health workers;
- workshops to improve quality standards of Amerindian arts and crafts;
- the development of market networks in the Caribbean for Amerindian arts and crafts; and
- acquisition of transportation to promote further linkages to Amerindian villages.

## **K. Georgetown**

4.33 Mr. Speaker, the Government is committed to returning Georgetown to its former pristine glory. Under the three-year Georgetown Rehabilitation Programme, the Government has earmarked US\$20 million to: rehabilitate the road network; clear outfall channels; and clean the drainage system in the city. Contracts for Phase I, which includes the rehabilitation of Alexander Street in

Kitty; and roads in Newtown, Prashad Nagar, Campbellville and Lamaha Gardens, have been awarded. Designs for roads in Phase II, covering the areas of Kitty, Cummingsburg, Albertown, Queenstown, Lacytown, Bourda, Stabroek, Werk-en-Rust, Lodge, Robbstown, Newburg, Wortmanville, Subryanville, and Bel Air Park, will be completed next month, and construction work will commence during the year. Under Phase III, design works for roads in the areas of Charlestown, Albouystown, La Penitence, Alexander Village, South Ruimveldt, Roxanne Burnham Gardens, Festival City, Tucville, and Meadow Brook, will be completed in 1997.

4.34 In addition, efforts will be made this year to improve the water supply system in the city. Three wells will be constructed, two at Central Ruimveldt and one at Sophia, and the Georgetown integrated water system will be linked to Sophia and the Ruimveldt networks. Two storage tanks will also be constructed at South Sophia and at the Exhibition Site to improve water reserves and minimise water shortages, especially in areas such as the Eastern Highway, Prashad Nagar, Lamaha Gardens, Bel Air, Roxanne Burnham Gardens, and East, West and parts of South Ruimveldt. Further, an additional sum of \$60 million has been allocated in the 1997 Budget to clean the outfall channels and drains in the city.



## 5.0

## TARGETS FOR THE ECONOMY IN 1997

### A. Economic and Financial Policies and Targets

5.1 Mr. Speaker, in 1997, we expect the economy to continue on its expansion path, in response to the policies and programmes contained in this Budget. We have, therefore, established the following targets for the economy.

### B. Real GDP Growth

5.2 Real GDP is projected at 7.0 percent.

#### 1. Agriculture

5.3 The agriculture sector is projected to grow by 5.0 percent. Sugar production will increase by 2.7 percent to reach 287,500 tonnes, on account of: improved use of herbicides and fertilisers; better management of soil drainage; effective control of cane diseases; increased on-farm mechanisation; and upgrading of farm equipment. Rice production is targeted to grow by 4.6 percent to reach 350,000 tonnes, largely as a result of the utilisation of higher yielding rice seed varieties, and higher improved drainage and irrigation systems. Forestry products, specifically logs and sawn timber, are projected to rise from 541,130 cubic metres to 622,300 cubic metres, an increase of 15 percent.

#### 2. Industry

5.4 The industrial sector, comprising mining, manufacturing and construction, is projected to grow by 15 percent, of which the mining sector will contribute 43.4 percent of total output of the sector. The **mining sector** is targeted to grow by 18.6 percent. Sub-sector growth rates are as follows:

Bauxite is targeted at 2,285,000 tonnes, or about 3 percent.

Gold is projected at 450,000 ounces, an increase of 21 percent.

Quarry output is budgeted to increase by 25 percent.

5.5 The **manufacturing sector** will grow by 4 percent.

5.6 **Construction**, based on the PSIP and current trends in the housing sector, will grow by 20 percent.

### 3. Services

5.7 The services sector, led by trading, financial and business services, and tourism, is targeted to grow by 3.3 percent.

#### C. Inflation

5.8 The targeted rate of inflation is 4 percent.

#### D. Balance of Payments

5.9 Mr. Speaker, the deficit on the current account is targeted to improve to US\$35.5 million. Underlying this projected performance will be an improvement in the trade balance, on account of higher volumes of exports. Merchandise exports are targeted at US\$605 million, an improvement of 8 percent, while merchandise imports are projected to grow by 6.1 percent to US\$625 million. The merchandise trade deficit is targeted to improve by US\$25 million, while transfers will improve to US\$44.5 million, or by 8.5 percent.

5.10 Disbursements to the non-financial public sector, in 1997, are projected at US\$40 million. Amortisation will amount to US\$68.5. Net private capital flow is expected to increase to US\$65 million. As a result of these developments, the overall balance will be a deficit of US\$12.5 million. This deficit will be financed by a change in reserves and balance of payments support.

## **E. Money and Credit**

5.11 Consistent with GDP growth, money supply is targeted to increase by 13 percent.

## **F. Fiscal Targets**

### **1. Central Government**

5.12 Mr Speaker, total expenditure is budgeted at **\$49.9 billion**, or 8.2 percent more than the revised expenditure for 1996. Of this amount, \$14.5 billion has been set aside to meet statutory expenditure.

5.13 Current revenue is budgeted to increase to \$38.3 billion, or by about 11.9 percent. Inland Revenue Department is budgeted to increase its collection by 14.4 percent in contributing \$17 billion to the target. Similarly, the Customs Department is budgeted to collect \$16.9 billion, an increase of 11.7 percent. Other current revenues are projected to increase to \$4.4 billion, from \$4.2 billion in 1996.

5.14 Non-interest current expenditure is projected to grow by 9.4 percent to reach \$19.2 billion. Employment cost is budgeted to increase by 33 percent to \$9.1 billion, largely as a result of the across-the-board increase in incomes and pensions. On the other hand, other charges are only projected to grow marginally to \$10.1 billion.



5.15 Arising from the Paris Club rescheduling, some of the debts presently reflected in the accounts of the Bank of Guyana will be transferred to the Central Government which will assume responsibility for their payment. As a result, external interest payments are budgeted to rise to \$5.7 billion. Low interest rates is mainly responsible for the projection of \$3.8 billion in domestic interest payments, a decline of 20 percent. The net effect of these developments is a small increase in the current balance of the Central Government, from \$9.4 billion in 1996 to \$9.5 billion in 1997.

5.16 Income from privatisation is projected to grow substantially in 1997 to \$3.0 billion, while capital expenditure is budgeted to increase by 6.6 percent to \$16.5 billion. Principal repayment is budgeted to decline by 20 percent to \$4.6 billion. The overall deficit of the Central Government operations is projected to improve by 25 percent, or from \$11.3 billion in 1996 to \$8.6 billion in 1997.

## **2. Public Enterprises**

5.17 Total revenues are targeted at \$50.1 billion, an increase of 2.8 percent over the previous year, while total expenditure is projected to increase by 4.6 percent to \$44.03 billion. This projected performance will realise a profit of \$6.1 billion. The reduced profit of the enterprises is responsible for the slight decline in the budgeted payments of taxes and other transfer from \$2.9 billion in 1996 to \$2.8 billion in 1997.

## **3. Non-Financial Public Sector**

5.18 Mr. Speaker, the current balance of the non-financial public sector, comprising the operations of the Central Government and the Public Enterprises, is projected to deteriorate to \$13.0 billion in 1997, from \$14.4 billion in 1996. Although capital revenues are projected to grow by two-thirds to \$5.0 billion, the capital programme is budgeted to increase by \$1.2 billion to \$19.4 billion. As a result, the overall deficit is projected to widen to \$1.4 billion in 1997, from \$798 million in 1996.

## 6.0 BUDGET MEASURES AND POLICIES

### 6.1 Measures to Stimulate Exports

#### A. Waiver of Export Tax in the Fish and Shrimp Industry

- In recognition of the challenges facing the fish and shrimp industry, and in an effort to maintain and expand their production, the export tax on fish and shrimp will be waived with immediate effect.

#### B. Increasing the Export Allowance for Non-traditional Exports

- A maximum of 50% of export profit is currently eligible for deduction as an export allowance for non-traditional products. As a further incentive to non-traditional exporters, they will now be entitled to deduct up to a maximum of 75% of their export profit against their profits. It is also proposed to introduce additional bands ranging from 25% to 75%.

The proposed rates of export allowance are set out below.

#### Where the percentage of export sales

#### in relation to total sales

- A. Is under 10%
- B. Is 10% or more but does not exceed 21%
- C. Exceeds 21% but does not exceed 31%
- D. Exceeds 31% but does not exceed 41%
- E. Exceeds 41% but does not exceed 51%
- F. Exceeds 51% but does not exceed 61%
- G. Exceeds 61%

#### % of export profit deductible

#### as export allowance shall be

- Nil
- 25%
- 35%
- 45%
- 55%
- 65%
- 75%

## 6.2 Measures to Accelerate the Housing Drive

- Mr. Speaker, the Government recognises the grave difficulties that low income earners face in their quest to obtain their own homes. In order to provide some relief to this category of aspiring home owners, we are proposing tax concessions on loans of up to \$1.5 million for the purpose of constructing new homes, where the maximum value of the cost of construction will not exceed \$2 million. We expect that these measures to result in significant reduction in mortgage interest rates. This will improve the availability of affordable credit in the sector. The Ministry of Finance has already had favourable discussions with the commercial banks which have agreed, in principle, to support the measure.
- In addition to the above, the consumption tax on lumber, clay bricks and concrete blocks will be removed. We expect that this tax benefit would be passed on to the consumers.

## 6.3 Bringing further Relief to Various Sectors and Social Groups

- The agriculture, forestry, mining and manufacturing sectors, and sports will benefit from the addition of selected plant, machinery and equipment to the list of zero rated items.
- The consumption tax on aviation fuel, specifically on Av Gas and Av Jet is reduced from 50 and 30 percent, respectively, to 10 percent. The Aircraft Owners Association has given a commitment to pass on the consumption tax savings to consumers. The mining, forestry and tourism sectors will benefit from a reduction in fares to interior destinations.



- Our entertainment industry will benefit from the waiver of the 25% entertainment tax on Caribbean and non-resident Guyanese artistes.
- The Amerindians will benefit from the Amerindian Development Fund of \$110 million, of which \$50 million will be used for land titling activities.

#### 6.4 **Bringing further Relief to our People**

##### A. Increase in Pensions of Public Servants Earning less than half of the Minimum Wage

6.5 Mr. Speaker, our public servants who retired before the period of high rates of inflation, have seen their income substantially reduced in real terms. This concerns the Government greatly. In order to partially redress this situation, and bring some relief to a number of elderly citizens who have served their country faithfully, we have decided that no Government pensioner should enjoy a pension that is less than 50 % of the minimum wage in force. With effect from 1st January, 1997, all public servants who are in receipt of a pension which is less than 50% of the minimum wage, will have their pension increased to \$4,402 (which is 50% of the minimum wage in 1997). This increase is expected to benefit approximately 4,200 pensioners, including public officers, teachers, soldiers, parliamentarians, and Transport and Harbours Department pensioners.

##### B. Increasing the Income Tax Threshold

6.6 Mr. Speaker, since our Government came to office, the personal income tax threshold was increased from \$72,000 per annum in 1992, to \$180,000 per annum in 1996, an increase of 150 percent over the 4-year period. In 1997, the threshold will be increased further, from \$15,000 per month to \$18,000 per month or \$216,000 per annum. This measure takes effect from 1st January, 1997. The new threshold will mean that an additional 11,000 taxpayers will no longer be required to pay income tax.

C. Re-introduction of a Progressive Personal Income Tax System

6.7 Mr. Speaker, we are re-introducing a progressive system for assessing the chargeable income of individuals for income tax. Income tax at the rate of 20% will be charged on income earned which does not exceed \$350,000, and at 33 1/3% for income in excess of \$350,000. This means, for example, that an individual who is earning \$480,000 per annum or \$40,000 per month, would have a saving of about \$30,000 per annum.

D. Increase in Wages and Salaries. Pensions and Public Assistance

6.8 Mr. Speaker, I have, in this budget, discoursed at length about the importance of people to my Government, perhaps, none more so than our public servants. Real wages over the period 1989-91 fell by about 50 percent in US dollar terms. Who among us could fail to remember inflation rates of 103 percent, 89 percent, and 70 percent during that period. Yes, Mr. Speaker, these numbers tell the story. People were devastated and hopelessness characterised our workers. It has been a long and uphill road to climb to return public servants to respectability. This is the task we have set ourselves and have been resolutely pursuing its accomplishment.

6.9 We have made solid progress on the wages front. Between 1992 and 1997, employment cost in the public service increased from G\$3.3 billion to G\$9.1 billion, or, in US dollar terms, from US\$26.2 million to US\$64.4 million. This has been taking place against the background of a combined inflation rate over the same period of about 40 percent. We granted salary increases ranging from 130 percent at the bottom of the range to 350 percent at the top. Simultaneously, the income tax threshold increased from \$6,000 to \$18,000 per month. Over the same period, the Government increased allowances, such as meals, ration, station and traveling allowances.

6.10 In 1997, the Government will increase the emoluments bill by 32 percent to \$9.1 billion, from \$6.9 billion in 1996. In line with this commitment, the Government will pay an increase in

wages and salaries of **20 percent** across the board. This increase is also applicable to pensioners and recipients of social assistance. In addition, selected categories of skills which have been identified as being key and critical, will benefit further, through the payment of a market supplement. The Government proposes to introduce a new appraisal system in 1997; this will be the basis for the payment of merit increment in the future.

6.11 As of 1st January, 1997, the vacation allowance for public servants will be paid free of tax and at source. In addition to the 20 percent increase, the Joint Services will benefit from increases in laundry, rent and education allowances.

6.12 Mr. Speaker, where necessary, legislation will be brought to the House to give effect to these measures.



## 7.0

## CONCLUSION

7.1 Mr. Speaker, ideas, ideals and dreams build nations. This budget contains ideas for expanding the economy and releasing the latent talents of our peoples, ideals to strive for, and dreams of making Guyana the pride of every Guyanese.

7.2 I am convinced that the policy initiatives that I have announced this afternoon will alleviate some of the concerns of the young working people, especially those who still live with their parents and are not sure whether they will be able to own a home; the government pensioners who visited the Ministry of Finance not so long ago to press their case for an increased pension; the private sector with which we have had numerous discussions; our public servants; the elderly; and our Amerindian brothers and sisters. Mr. Speaker, more progress in improving our lives will be made if we keep the economy growing, invest in our people, and take care of the less fortunate in our society.

7.3 While our resources are limited, we have tried to allocate them in a manner that will have a positive impact on all our people. In this regard, we have paid attention to the key issues of human resources development; training and upgrading of skills; improvement of water services, roads, and housing; enhancement of the environment; and public safety.

7.4 Mr. Speaker, as I mentioned before, realising our ideals and dreams can only be achieved if we are united as a people. It is our duty to set our Guyana more firmly on the road to a bright future.

7.5 Mr. Speaker, Honourable Members, fellow Guyanese, let us all work together to strengthen partnerships for the future.

I thank you.

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# Appendices

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**APPENDIX I**

**SELECTED SOCIO-ECONOMIC INDICATORS**

Item	1996	1995	1994	1993	1992
<b>1.0 National Accounts Aggregates</b>					
1.1 Growth Rate of Real GDP	7.9	5.1	8.5	8.3	7.7
1.2 GDP at Factor Cost (US\$m)	590.1	517.0	456.8	390.0	323.1
1.3 GNP at Factor Cost (US\$m)	510.9	431.0	373.8	296.2	212.7
1.4 GDP Per Capita (US\$)	766.0	680.0	612.0	531.0	454.0
1.5 GNP Per Capita (US\$)	663.0	567.0	501.0	403.0	299.0
1.6 Gross National Disposable Income (US\$m)	651.7	563.4	488.6	400.7	293.5
1.7 Public Consumption as a % of Gross Domestic Expenditure	42.1	43.2	43.9	42.6	42.7
1.8 Private Consumption as a % of Gross Domestic Expenditure	16.5	14.8	14.4	12.5	11.6
<b>2.0 External Trade and Finance (US\$m)</b>					
2.1 BoP Current Account Balance	-69.7	-94.9	-100.8	-137.9	-146.7
2.2 Imports of Goods and Non-Factor Services (G&NFS)	-	626.9	576.2	567.6	513.7
2.3 Exports of Goods and Non-Factor Services (G&NFS)	-	579.0	526.4	494.5	447.4
2.4 Resource Balance	-31.5	-47.9	-49.8	-73.1	-66.3
2.5 Imports of G&NFS as a % of GDP	-	121.3	126.2	145.5	159.0
2.6 Exports of G&NFS as a % of GDP	-	112.0	115.3	126.8	138.5
2.7 Net International Reserves of the Bank of Guyana	154.1	89.4	78.8	56.5	15.2
2.8 External Public Debt Outstanding	1,498.7	2,058.0	2,004.0	2,062.0	2,054.0
<b>3.0 Prices, Wages and Output</b>					
3.1 Rate of Inflation (% change in Urban CPI)	4.5	8.1	16.1	7.7	14.2
3.2 Public Sector Monthly Minimum Wage (G\$) (e.o.p.)	7,337.0	6,380.0	5,500.0	4,314.0	3,137.0
3.3 Growth Rate of Wages (%)	15.0	16.0	27.5	37.5	23.2
3.4 Electricity Generation (in million MWHs)	347.3	335.0	290.6	252.2	237.5
<b>4.0 Population and Vital Statistics</b>					
4.1 Mid-Year Population ('000s)	770.1	760.4	746.0	734.8	712.4
4.2 Population Growth Rate (e.o.p.)	1.1	1.1	1.6	1.1	2.8
4.3 Net Migration ('000s)	-8.0	-7.5	0.3	-7.0	6.4
4.4 Visitor Arrivals ('000s)	97.1	107.6	112.8	107.3	94.9
4.5 Life Expectancy at Birth	-	-	64.0	64.0	64.9
4.6 Crude Birth Rate (per 1,000 persons)	29.2	29.8	29.2	27.3	25.6
4.7 Crude Death Rate (per 1,000 persons)	7.3	7.1	7.1	6.9	6.6
4.8 Infant Mortality Rate (per 1,000 live births)	-	27.8	28.8	34.9	42.9
<b>5.0 Health and Education</b>					
5.1 Public Expenditure					
5.1.1 Education as a % of National Budget	7.3	6.7	7.3	6.2	4.8
5.1.2 Health as a % of National Budget	6.3	8.3	7.4	6.9	5.3
5.2 Number of Physicians (per 10,000 persons)	3.8	3.0	3.1	2.1	2.0
5.3 Number of Nurses (per 10,000 persons)	8.0	8.0	6.3	5.0	5.9
5.4 Number of Hospital Beds (per 10,000 persons)	35.9	35.9	35.9	27.7	28.0
<b>6.0 Crime</b>					
6.1 Reported Serious Crimes	-	-	5,188.0	6,768.0	5,842.0
6.2 Of Which, Homicides	-	-	108.0	117.0	105.0



**APPENDIX II**

**REAL OUTPUT INDEX**

<b>SECTOR</b>	<b>Budget 1997</b>	<b>Revised 1996</b>	<b>Budget 1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
<b>TOTAL</b>	<b>150.1</b>	<b>140.2</b>	<b>138.4</b>	<b>129.9</b>	<b>123.7</b>	<b>114.0</b>
Sugar	169.4	165.0	161.1	149.6	150.8	144.8
Rice	265.5	253.8	243.5	239.2	177.1	159.5
Livestock	120.0	112.0	93.7	89.7	73.0	63.5
Other Agriculture	135.3	130.1	131.4	125.1	115.8	109.2
Fishing	116.1	112.2	109.5	109.5	99.4	92.7
Forestry	329.2	286.4	300.6	284.9	246.0	146.2
Mining & Quarrying	180.0	151.8	153.7	131.6	148.5	139.5
Manufacturing	118.7	113.0	115.2	109.7	97.3	92.1
Distribution	141.8	136.3	135.0	129.8	123.6	116.6
Transport & Communication	146.2	139.2	136.6	125.4	115.0	106.0
Engineering & Construction	194.4	162.0	156.2	142.0	129.1	107.6
Rent & Dwellings	132.4	126.1	126.1	119.0	110.2	102.0
Financial Services	156.2	147.4	138.3	134.6	124.6	115.9
Other Services	144.9	137.9	137.3	128.3	121.0	111.5
Government	99.9	99.9	99.9	97.9	96.0	94.1

APPENDIX IV

URBAN CONSUMER PRICE INDEX  
(GEORGETOWN)

GROUP	1995	1996											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ALL ITEMS	100.0	99.8	100.6	101.6	102.1	103.1	103.2	103.4	105.2	105.9	106.0	104.4	104.5
FOOD (incl. Alcoholic Beverages)	100.0	98.6	100.0	101.0	101.5	103.7	104.2	104.5	108.4	109.3	109.0	105.2	105.3
HOUSING (incl. Furniture)	100.0	100.5	100.5	101.5	101.9	101.8	101.5	101.8	102.2	103.1	103.7	103.9	103.9
TRANSPORT & COMMUNICATION	100.0	100.4	103.0	103.6	104.5	104.9	104.4	103.8	102.6	102.6	102.9	103.7	103.7
MEDICAL CARE	100.0	104.0	104.0	104.6	106.5	104.5	104.6	104.6	104.9	104.9	104.9	105.3	105.6
OTHER GOODS AND SERVICES	100.0	101.6	101.2	102.2	102.2	102.5	102.7	102.6	102.5	102.6	103.0	103.3	103.5

Base Year: Dec 1995 = 100  
Source: Bureau of Statistics

Budget Speech  
Appendices

## APPENDIX V

BALANCE OF PAYMENTS  
ANALYTIC SUMMARY

ITEM	Budget 1997	Revised 1996	Budget 1996	Actual 1995	Actual 1994
<b>A Current Account</b>	<b>-35.5</b>	<b>-69.7</b>	<b>-73.4</b>	<b>-94.9</b>	<b>-100.8</b>
<b>1.0 Merchandise (Net)</b>	<b>-18.5</b>	<b>-24.0</b>	<b>-19.5</b>	<b>-40.8</b>	<b>-40.6</b>
1.1 Exports (f.o.b.)	606.5	565.0	560.5	495.7	463.4
1.1.1 Bauxite	80.0	81.6	98.6	82.9	76.4
1.1.2 Sugar	145.2	163.5	152.2	135.0	116.4
1.1.3 Rice	87.7	93.7	88.5	77.4	55.5
1.1.4 Gold	159.2	105.9	124.0	108.4	128.0
1.1.5 Other	117.9	104.3	83.2	75.2	71.1
1.1.6 Re-exports	16.5	16.0	14.0	16.8	16.0
1.2 Imports (c.i.f.)	-625.0	-589.0	-580.0	-536.5	-504.0
1.2.1 Fuel & Lubricants	-110.0	-101.5	-105.0	-96.5	-87.6
1.2.2 Other	-515.0	-487.5	-475.0	-440.0	-416.4
<b>2.0 Services (Net)</b>	<b>-61.5</b>	<b>-86.7</b>	<b>-94.1</b>	<b>-93.1</b>	<b>-92.2</b>
2.1 Factor	-55.0	-79.2	-86.0	-86.0	-83.0
2.2 Non Factor (Net)	-6.5	-7.5	-8.1	-7.1	-9.2
<b>3.0 Transfers</b>	<b>44.5</b>	<b>41.0</b>	<b>40.2</b>	<b>39.0</b>	<b>32.0</b>
3.1 Official	17.5	16.7	12.7	12.0	6.0
3.2 Private	27.0	24.3	27.5	27.0	26.0
<b>B Capital Account</b>	<b>23.0</b>	<b>80.4</b>	<b>-4.7</b>	<b>20.9</b>	<b>22.9</b>
<b>1.0 Capital Transfers</b>	<b>57.0</b>	<b>618.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2.0 Medium and Long Term Capital (Net)</b>	<b>-20.5</b>	<b>-534.9</b>	<b>2.8</b>	<b>19.1</b>	<b>26.7</b>
2.1 Non - Financial Public Sector Capital (Net)	-85.5	-593.9	-34.2	-34.3	-20.1
2.1.1 Disbursements	40.0	80.6	48.1	32.3	28.0
2.1.2 Amortization	-68.5	-56.5	-82.3	-72.1	-58.3
2.1.3 Other	-57.0	-618.0	0.0	5.5	10.2
2.2 Private Sector (Net)	65.0	59.0	37.0	53.4	46.8
<b>3.0 Short Term Capital</b>	<b>-13.5</b>	<b>-2.7</b>	<b>-7.5</b>	<b>1.8</b>	<b>-3.8</b>
<b>C Errors and Omissions</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>-15.3</b>	<b>14.0</b>
<b>D OVERALL BALANCE</b>	<b>-12.5</b>	<b>11.0</b>	<b>-78.1</b>	<b>-89.3</b>	<b>-63.9</b>
<b>E Financing</b>	<b>12.5</b>	<b>-11.0</b>	<b>78.1</b>	<b>89.3</b>	<b>63.9</b>
<b>1.0 Bank of Guyana net foreign assets</b>	<b>-33.0</b>	<b>-58.0</b>	<b>28.9</b>	<b>24.3</b>	<b>-27.8</b>
1.1 Assets (increase-)	0.0	0.0	27.0	14.3	-20.0
1.2 Liabilities	0.0	0.0	1.9	10.0	-7.8
<b>2.0 Exceptional Financing</b>	<b>45.5</b>	<b>47.0</b>	<b>49.2</b>	<b>65.0</b>	<b>91.7</b>
2.1 Debt Relief	0.0	0.0	37.7	56.0	66.1
2.2 Balance of Payments Support	45.5	47.0	11.5	9.0	25.6

Figures: US\$m

Source: Ministry of Finance,

Bureau of Statistics and Bank of Guyana