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Confronting Challenges - Sustaining Growth and Development










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Introduction

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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 2005. 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, we are meeting at a time when the country has faced its worst natural disaster. The unprecedented level of rainfall occurring between December 24th last year and the end of January this year was close to 60 inches, and left many coastal areas inundated with water. In particular, the East Coast of Demerara, sections of North and South Georgetown and low-lying villages on the West Bank and West Coast of Demerara experienced massive flooding, which resulted in the Presidential declaration of disaster areas in Regions 3, 4 and 5.

1.3 Mr. Speaker, it was evident that our drainage system was not designed to cope with such huge volumes of water, and that our disaster preparedness was not capable of a timely response to a deluge of such magnitude. Therefore, armed with the results of an acute assessment of the extent and impact of the flooding, the Government moved with alacrity to establish a structured, national approach to managing the flood disaster. The President convened a meeting at State House at which the Leader of the Opposition and representatives of several non-governmental organisations were present. Five task forces, which were coordinated by Cabinet Ministers, were immediately created in the areas of infrastructure, shelter management, food security, health care and potable water supply. The Leader of the Opposition nominated members to the task forces and received written daily reports that were prepared by the Joint Operating Centre. This Centre was set up to coordinate the various activities and was manned by the Disciplined Forces.

1.4 Within a short period, hot meals, bulk dry rations and potable water were being delivered to the affected communities. This was closely associated with the provision of medical services and health advisories. The persistent rainfall and flooding led to some evacuation in affected communities and the creation of a large number of shelters. Additional pumps were mobilised as a round-the-clock battle began to drain the water off the land as quickly as possible. This rapid implementation of, and hands-on approach to, the management of the disaster provided much needed relief to the residents in the affected communities.

1.5 To meet the cost of the immediate interventions, the Government allocated $220 million for the procurement of goods and services. We waived the duty and consumption tax on food supplies that were imported for the flood victims. Also, we waived duties and taxes on specified food items that were imported for commercial use. Humanitarian contributions in cash and kind were received from neighbouring countries, international organisations, the Guyanese diaspora, local religious, charitable and service organisations, and businesses. At this time, Mr. Speaker, I would like to thank all those who contributed to easing the plight of those who were affected by the floods. I would especially like to pay tribute to the remarkable resilience and spirit of our people who, at a time of great adversity, displayed indomitable fortitude and generous charity under the most difficult conditions. I am proud that we as a people could so easily set aside whatever differences we may have and unite in the common cause of bringing speedy relief to our distressed brothers and sisters.

1.6 Mr. Speaker, with the exception of parts of Region 5, the flood waters have been removed from the land. The phase of acute disaster responses is about to give way to one of impact assessment, recovery, reconstruction and revitalisation. Already, the United Nations (UN), on February 8th , launched a flash appeal for specified interventions for the next 3 months. The Government has mobilised state and non-state actors to collect comprehensive and accurate data about the impact of the flood on Guyana. This information would be provided to the Economic Commission for Latin America and the Caribbean (ECLAC). It is expected that the completed assessments will provide a quantification of the impact on individual sectors and the overall economy. That information would inform the preparation of the necessary plans and programmes that will be implemented subsequently.

1.7 Mr. Speaker, it behoves me to inform this Honourable House that the Budget that is being presented today does not have the benefit of these assessments; neither did it take account of the costs of humanitarian support, and infrastructural and other works that would be immediately necessary. The completion of the assessments is not expected before mid-year, which is well outside the constitutional deadline for presenting the budget. While these assessments are being done, Government business must continue. When completed, the assessments will inform the modification of revenues, expenditures and the macroeconomic projections in the 2005 Budget. They will also be used in the preparation of a supplemental budget, which will be presented to the National Assembly.

1.8 Mr. Speaker, this Budget is being presented under the theme: "*Confronting Challenges - Sustaining Growth and Development*". Unfolding events at the international level, including changes to market conditions, have the potential to harm our economic interest. Most prominent among these is the looming threat to our vital sugar industry. We also have to overcome the economic consequences of the recent flood disaster. All stakeholders must be involved, if we are to continue to roll back the tide of poverty and reach the frontiers of economic prosperity. We do recognise this and it is the reason why we have repeatedly engaged them in frank dialogue and meaningful consultations. We count on their cooperation and active involvement in the implementation of our agenda for 2005, the success of which would go a long way towards further improving the quality of life of our people.

Review of the Global Economy

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2.1 Mr. Speaker, according to the September 2004 edition of the World Economic Outlook (WEO), a publication of the International Monetary Fund, the global economy grew by 5 percent, the highest for nearly three decades. Both the industrial countries and China contributed to this significant improvement. Importantly, the growth was accompanied by a strong upturn in industrial production, global trade flows, and private consumption and investment. World trade grew by about 7.5 percent, with much of the increase being attributable to import demand from developing countries, largely as a result of rising international prices for fuel and non-fuel commodities.

2.2 Global growth is expected to fall to 4.3 percent in 2005. This growth will be led by the United States, China, and emerging market and developing countries. A higher forecast for growth was tempered by the risk of further oil price volatility. The WEO estimates that a US$5 increase in the price of oil tends to reduce global growth by 0.3 percent. This is of particular concern to countries like Guyana, whose open economies make them extremely vulnerable to small fluctuations in world market prices for imports and contractions in world output. With spare capacity in the oil market expected to remain low throughout the remainder of this decade, the Government strategies of attracting new investments in oil exploration and seeking an arbitral settlement of the maritime boundary between Guyana and Suriname, involving an area of potentially large oil-bearing deposits, are noteworthy and relevant.

2.3 Mr. Speaker, other challenges at the international level abound and these will test our resolve during this and the coming years. The forces of globalisation, liberalisation and regional integration are systematically eroding the non-reciprocal trade preferences and the market protection on which we have traditionally depended. Even our historical and privileged relationship with the European Union (EU) is undergoing radical change, so soon after the conclusion of the Cotonou Agreement. The African, Caribbean and Pacific (ACP) countries are already under intense pressure to agree to a new WTO compatible form of Economic Partnership Agreement (EPA), which would have farreaching implications for our economy. The stalled negotiations for a Free Trade Association of Americas (FTAA) and persisting trade tensions continue to inhibit greater trade and output, which are vital to countries like Guyana if they are to overcome the limitations of the domestic market. Also of import to us, Mr. Speaker, are the CARICOM Single Market and Economy and our preparedness to participate in this regional endeavour.

2.4 Mr. Speaker, these challenges will serve to hasten our programme of adjustment, renewal, diversification and expansion of the economy, so as to increase its resilience and reduce its vulnerability to external shocks. At the same time, the business community and the wider population will have to come to terms with the increasingly open and competitive environment - one in which we must seek to maximise the benefits and mitigate the costs.

2.5 Equally, as a small country, Guyana must necessarily rely on diplomacy and its relations with other countries in the international community to maximise development. In the pursuit of common objectives, we will intensify our networking within the many regional and international organisations to which Guyana belongs. Our country is now a part of the South American Community of Nations (SACN) and serves as a member of the Rio Group. In 2006, we will have the honour of hosting the Rio Summit. These developments have certainly broadened the dimensions of our foreign policy and placed us in a position from which we will not only gain enhanced international prestige but also derive increased opportunities for development. The prospects are well worth an investment of our financial and human resources.

Review of the Domestic Economy

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A. Real Economic Growth

3.1 Mr. Speaker, in 2004, the economy grew by **1.6** percent, reversing the negative growth of 0.6 percent of the previous year.

B. Sector Performance

3.2 Mr. Speaker, sugar production increased by 7.6 percent to 325,317 tonnes, the second highest achieved for the decade to date. Factors which contributed to this performance included better agricultural practices and improved field and factory operations. However, unfavourable weather, especially during harvesting of the first crop, was mainly responsible for Guysuco not meeting the target of 328,383 tonnes. With respect to rice, unseasonal rainfall, which affected land preparation and shortened the harvesting period of the first crop, and logistical problems were mainly responsible for the 8.3 percent decline in output to 325,593 tonnes.

3.3 In terms of the other agricultural sub-sectors, livestock increased by 2 percent with egg production expanding by 76.9 percent to 16,401,300 units. Other agriculture grew by 2 percent while forestry increased by 0.5 percent, reflecting increased harvesting of logs (32 percent); sawn wood (3 percent); and round wood (42 percent). The high cost of fuel, which led to the temporary withdrawal of fishing vessels, was among factors responsible for the 1 percent decline in the fishing sub-sector.

3.4 Mr. Speaker, the mining and quarrying sector contracted by 6.6 percent. Overall gold declaration fell by 7.3 percent to 362,798 ounces. Although local declaration increased by 2.2 percent, this was insufficient to offset the 10.8 percent decline in output of Omai Gold Mines Limited. Declaration of diamonds continued to show an upward trend, with production increasing by 3 percent to 425,000 carats. Although output of the very high value Refractory Grade Bauxite (RASC) increased by 50.8 percent, total bauxite production fell from 1,715,705 tonnes in 2003 to 1,503,416 tonnes in 2004, a decline of 12.4 percent.

3.5 The manufacturing sector remained flat. There were modest increases in the production of beer and stout, aerated drinks and distilled water, but several major industries recorded lower output.

3.6 Mr. Speaker, the services sector expanded by 2.3 percent, with all of the sub sectors performing creditably. Engineering and construction increased by 4 percent, reflecting the growth of public investment in infrastructural projects such as roads, bridges and sea defence. The transport and communication sub sector grew by 3.5 percent, which was driven largely by the expansion in landline, cellular and information technology infrastructure. Both the distribution and rent of dwellings sub sectors increased by 2 percent. In the former case, increased imports and recovery in some areas of manufacturing contributed to the expansion, while in the latter case, the robust expansion in private housing construction and the on-going programme to regularise squatting areas were mainly responsible for the growth in that sub sector. Other sub sectors of the services sector grew as follows: Financial Services (1 percent); Other Services (1.6 percent); and Government (1.1 percent).

C. Balance of Payments

3.7 Mr. Speaker, the capital account of the balance of payments performed exceptionally well last year. This was partly the result of higher disbursement of loans to the non-financial public sector.

3.8 Merchandise exports grew by 9.2 percent to US$559.8 million, largely reflecting increased earnings from most of the key commodity exports. Receipts from sugar exports amounted to US$136.8 million, an increase of 5.9 percent. The average export price of sugar of US$472.3 per tonne was 14 percent higher than in 2003. Although production declined, higher export volume and average prices were responsible for the value of rice exports rising by 21.6 percent to US$55.1 million. Gold exports earned US$145.1 million, benefiting from the depreciation of the US dollar that contributed to the 12.1 percent increase in price. Timber also returned a solid performance with export receipts growing by 18.9 percent to US$36.5 million. The category "other exports" earned US$141.1 million, 3.4 percent more than the previous year.

3.9 Merchandise imports were US$674 million, an increase of 17.9 percent. This was due to a 14.8 percent rise (US$21.8 million) in the acquisition cost of fuel and lubricants. Additionally, the cost of imported capital and other goods increased by 19 percent to US$505 million. Net factor and non-factor payments abroad declined by 16.6 percent to US$58.8 million, principally as a result of lower debt service. Private transfers declined by 34.6 percent to US$45 million. These developments resulted in a deficit on the current account of US$128 million.

3.10 The capital account recorded net inflows of US$89.9 million, an improvement of 63.5 percent that was due mainly to higher net disbursement of loans to the public sector and increased private sector capital. However, a large one-off transaction, involving the establishment of an escrow account for Guysuco to facilitate the Skeldon Modernisation Project, worsened the overall deficit of the balance of payments to US$45.4 million, from US$8.9 million in 2003. This deficit was financed from the reserves of the Bank of Guyana and debt relief.

D. Monetary Developments

3.11 Mr. Speaker, monetary policy remained focused on liquidity management so as to foster stable prices, private sector credit growth and a responsive exchange rate. Currency in circulation and private sector deposits rose by 9 percent to $115.8 billion. Private sector deposits, which accounted for 84.7 percent of total deposits, grew by 11.4 percent or $9.9 billion. The public sector continued to be a net depositor of funds with the banking system, even though net deposits decreased by 38.2 percent to $6.7 billion, mainly because of a transaction involving the establishment of an escrow account for Guysuco.

3.12 Total net domestic credit of the banking system was $37.4 billion, an increase of 48.5 percent. Credit to the private sector declined by $456 million, reflecting the problems experienced in several sectors and the overly cautious approach to lending employed by the commercial banks. While credit to manufacturing and other services expanded by 2 percent and 9.6 percent respectively, credit to agriculture, rice milling, mining, distribution and the personal sectors contracted by 5.5 percent, 18.9 percent, 51.4 percent, 6.8 percent and 16.5 percent respectively. Total liquid assets of the commercial banks amounted to $47.6 billion, an increase of 19 percent. The banks' excess liquid assets were 85.2 percent above the required minimum amount, reflecting their preference for short-term assets such as treasury bills.

E. Prices and Income

a. Inflation Rate

3.13 Mr. Speaker, in 2004, we projected an inflation rate of 4.5 percent. However, as in 2003, the steep rise in the international price for oil had a major impact on movements in the consumer price index in 2004, resulting in an inflation rate of **5.5** percent. This was slightly higher than the rate of 4.9 percent that was recorded in 2003. Timely policy interventions, including the lowering of the Consumption Tax on fuel, limited the overshooting of the inflation rate.

b. Interest Rate

3.14 Mr. Speaker, during 2004, the 91-day Treasury bill rate increased to 3.79 percent, from 3.40 percent in the previous year. The small savings rate declined slightly to 3.42 percent in 2004, from 3.46 percent in 2003. At the same time, the weighted average lending rate decreased to 13.45 percent in 2004, from 15.58 percent in the previous year. As a result, the spread declined from 12.12 percent in 2003 to 10.03 percent in 2004. The reduction in the spread is a positive development, as it can act to stimulate private sector investment.

c. Exchange Rate

3.15 Mr Speaker, increased export receipts, higher disbursements of loans to the public sector, increased private transfers and greater private capital flows contributed to the increased activity in the foreign exchange market. They also obviated the need for intervention by the Bank of Guyana. The total value of foreign exchange transactions was US$2.7 billion, surpassing those of 2003 by US$400 million. There was a small depreciation in the value of the Guyana Dollar of 2.9 percent to G$200.44 per US dollar.

d. Wage Rate

3.16 Mr Speaker, public servants and members of the Disciplined Forces benefited from an across-the-board increase of 5 percent on their base wages and salaries at December 31, 2003. Pensioners also enjoyed this increase. The new minimum wage is $23,204.

F. Fiscal Accounts

1. Central Government

3.17 Mr. Speaker, the Government continued to exercise prudence in the conduct of its fiscal affairs. Last year was especially challenging as the high and rising international prices for oil exerted tremendous pressure on domestic prices and this, in turn, heightened the demand for increased expenditure to maintain a minimum level of operations. I am pleased to report that we rose to the challenge and, through a combination of policy measures, were able to limit the deficit of the Central Government to 6.9 percent of GDP. This represents a significant improvement on the target of 10.1 percent of GDP and the previous year's outturn of 9.1 percent of GDP.

3.18 Current revenue increased by 13.8 percent to $51.7 billion. This outstanding performance was due largely to increased taxable imports and the effectiveness of the revenue collecting methods employed by the Guyana Revenue Authority (GRA). Collections by the GRA rose by 16.2 percent to $48.3 billion, while its share in current revenue increased from 91.5 percent in 2003 to 93.5 percent in 2004. Customs and trade taxes grew by 23 percent to $23.5 billion, with consumption taxes accounting for the bulk of the increase. Internal revenue expanded by 10.5 percent to reach $24.7 billion. At 20.6 percent, the growth in company income tax was four times that of personal income tax, thus reversing a trend observed over the past three years. Other current revenue was $3.4 billion, a decline of almost $500 million.

3.19 Largely because of the reduced need for transfers by Linmine, which totaled over $3 billion in 2003, current expenditure increased slightly by 1 percent to $50.2 billion. Non-interest current expenditure (net of reimbursable rice levy 'A') grew by 4 percent to $42.5 billion. Personal emoluments and other goods and services rose by 6 percent and 16.8 percent, respectively, while transfers to the public and private sectors declined by 9.1 percent. The granting of Enhanced HIPC relief and the reduction in the average Treasury bill rate were mainly responsible for the further decrease in the cost of servicing the public debt, which declined by 12.8 percent to $7.7 billion. Capital expenditure increased by 29.6 percent to $22.4 billion, reflecting accelerated implementation of projects in the physical infrastructure sector.

3.20 The Government was able to realise savings of $1.5 billion from its current operations, an impressive performance considering the deficit of $4.3 billion in 2003. When the 20.5 percent increase in grant financing of $10.1 billion is taken into account, the overall deficit improves from $13.2 billion to $10.8 billion. Of that amount, $8.6 billion was financed from net foreign inflows. There was an extraordinary transaction involving the draw down of $8.7 billion from public deposits to finance the establishment of an escrow account for Guysuco. This inflated net domestic borrowing to $10.9 billion.

2. Public Enterprises

3.21 Mr. Speaker, the overall surplus on the consolidated operations of the public enterprises improved by $1.4 billion. Receipts from operations rose by 16.8 percent to $77.7 billion, mainly because of the extremely favourable euro/dollar exchange rate received by Guysuco and the increase in the contribution rate of the National Insurance Scheme (NIS) that was enforced in April 2004. Non-interest current expenditure increased by 15.2 percent to $71.1 billion. Small increases were observed in the categories 'Interest Payments' and 'Capital Expenditure', which rose to $345 million and $2.8 billion, respectively. Taxes and dividends paid to the Government were $868 million, 16.3 percent less than the previous year. The overall surplus of $3.4 billion was equivalent to 2.2 percent of GDP, an improvement of almost 1 percentage point.

3. Non-Financial Public Sector

3.22 The result of the combined operations of the Central Government and the Public Enterprises was a deficit of $7.4 billion or the equivalent of 4.7 percent of GDP. This compares favourably with the deficit of $11.1 billion or 7.7 percent of GDP that was recorded in the previous year.

G. Debt Relief

3.23 Mr. Speaker, on January 14, 2004, the Government of Guyana and its Paris Club creditors reached an agreement on the terms and condition for the reduction of Guyana's external debt, in the context of the Enhanced Heavily Indebted Poor Countries (EHIPC) Initiative. Under the Paris Club framework, eight out of ten creditors committed to forgive 100 per cent of the relevant debt stock, while the Governments of the Russian Federation and Trinidad and Tobago will provide a 90 per cent reduction in Net Present Value (NPV) terms. As a result, by end-December 2004, the stock of external debt had fallen by 1.2 percent to US$1.08 billion. In line with this decline, debt service payments decreased by 12.2 percent to US$43.7 million.

3.24 During 2004, Guyana concluded bilateral debt cancellation agreements with the following eight Paris Club creditors: Denmark (US$1.1 million); United Kingdom (£34.0 million); the Netherlands (US$4.7 million); United States of America (US$35.6 million); Canada (US$1.4 million); France (US$1.4 million); Germany (€12.3 million); and Russian Federation (US$16.3 million). Discussions are on-going with Japan and Trinidad and Tobago with a view of concluding bilateral agreements, in keeping with the Paris Club Agreed Minute. Guyana is currently receiving debt relief from six of its multilateral creditors: International Monetary Fund (IMF), International Development Association (IDA), Inter-American Development Bank (IDB), International Fund for Agricultural Development (IFAD), European Union (EU), and the Caribbean Development Bank (CDB). Discussions are on going with the remaining three multilateral creditors for similar debt relief.

3.25 Mr. Speaker, it would be remiss of me if I did not take the opportunity to recognise the recent initiative of the United Kingdom to lobby the world's richest nations to forgive multilateral debt owed by the world's poorest countries. We applaud this move by the United Kingdom, which was announced on September 26, 2004, and we are thankful for their generosity to pay approximately 10 per cent of Guyana's debt service obligations to the International Development Agency (IDA). Equally, we support the latest proposal of Canada to pay 100 percent of debt servicing for about 15 heavily indebted countries over the next 10 years. We commend both of these timely efforts to other bilateral donors.

H. Public Sector Investment Programme

3.26 Mr. Speaker, approximately 94 percent of the $23.9 billion public sector investment programme (PSIP) was implemented during 2004. I would now like to review individual sector performance.