

Focus on *GUYANA'S* *Budget 2005*



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ABOUT FOCUS 2005

Focus on Guyana's National Budget is an annual publication of **Ram & McRae**, Chartered Accountants and highlights, reviews and comments on the major issues surrounding and raised in the National Budget. **Focus 2005** is the fifteenth in the series which is circulated among politicians, the business community, the country representatives and international agencies operating in Guyana and member firms of Ernst & Young.

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ABOUT RAM & McRAE

Established in 1985, **Ram & McRae**, formerly Christopher L. Ram & Company has distinguished itself in the field of professional services both in Guyana and abroad. Our client focus, commitment to professionalism and our continuous search for excellence are the sources of our unchallenged reputation among professional firms.

Ram & McRae has secured a premier place in the provision of taxation and advisory services to local and international business operators. It offers the public a unique set of the legislation (and advice thereon) including:

- **Consolidated Tax Laws of Guyana** (comprising Income Tax (in Aid of Industry), Income Tax, Corporation Tax, Property Tax, Capital Gains Tax, Revenue Authority and Hotel Accommodation Tax) Acts. These are also available individually.
- **Companies Act, 1991**
- **NIS Act, Cap 36:01**
- **Mining Act 1989**
- **Petroleum (Exploration & Production) Act 1986**
- **Petroleum (Production) Act, Cap 65:05**
- **Termination of Employment & Severance Pay Act 1997**
- **Trade Union Recognition Act 1997**
- **Dealers in Foreign Currency (Licencing) Act 1989**
- **Foreign Exchange (Miscellaneous Provisions) Act 1996**
- **Securities Industry Act 1998**
- **Insurance Act 1998**

Other publications by the Firm, which are available to the public, are:

- Handbook on the Companies Act, 1991
- The Annual Guyana Business Outlook Survey 1995-2005 (except 1998)
- Guyana Investors Information Package
- Focus on Guyana's National Budget 1991 – 2005
- Business Page (weekly column in the Sunday Stabroek Newspaper by the Managing Partner)

Our affiliation to **Ernst & Young International** gives us access to worldwide resources which ensures that our clients benefit from business ideas, opportunities and solutions that place them in leadership positions in their industry.

PRE-BUDGET COMMENTS

Budget 2005 was due for presentation on January 24, 2005, one week after the scale of the flooding became obvious. The Budget clearly had to be postponed and so it was for four weeks. However, even before the floods the press showed little interest in the Budget and still less after a new date was announced. There were no discussions on the several talk and call-in shows, the newspapers seemed uninterested and other than Business Page which is written by a Partner of Ram & McRae, there was no attempt either to speculate or advocate even by those who had submitted proposals to the Minister.

Here is a summary of the proposals made by some of these bodies:

Among the issues emphasised/recommended by the private sector were:

- Urgent need for country to implement and develop economic strategy and an exit strategy from the current IMF which has guided economic policies for 17 years;
- Critical need for closer collaboration between Government, private sector, labour and rest of civil society. The PSC offered to work towards a "social compact" noting that it was imperative that Government take the initiative and work towards some national consensus;
- The lack of political stability, continuing high levels of crime, weak law enforcement and prolonged delays in judicial process which affect investor confidence;
- All legislation to be implemented under qualified and competent management;
- Serious initiatives required to develop alternative energy sources such as hydro power;
- VAT – proposed reform to tax system through the introduction of VAT needs to be carefully planned and managed. The introduction of VAT needs to be accompanied by timely and parallel reduction of direct personal taxation. Implementation should be accelerated;
- Recent legislation on money laundering yet to be effectively implemented. An increasing number of legitimate businesses are closing because of competition from laundering operations;
- Investors frustrated by long delay and unclear procedures in the consideration of applications for investment incentives;
- An increase personal income tax threshold from \$20,000 to \$30,000 per month;
- Reduction in the tax rates on the manufacturing sector to 25%;
- Reduction in the rate of consumption tax to a maximum of 10% on identified items where at least 20% of national demand is supplied by local manufacturers;
- Implementation and enforcement of a reduced consumption tax on the "bottom house" businesses to capture those not in the tax net.

The **Guyana Trades Union Congress (TUC)** called for among other things:

- a plan to minimise tax evasion;
- modernisation programme for IRD and Customs & Excise Dept;
- The threshold for the payment of income tax to be increased to \$45,000 per month;
- A comprehensive study to be conducted of the National Insurance Scheme involving participants from government, TUC and private sector.
- Serious consideration to the establishment of a national minimum wage

Ram & McRae's comments

There is no indication that the submissions were even considered and there is an increasing loss of confidence in a system that invites and then ignores all recommendations. There is evidence that many of the private sector bodies simply pull the previous year submission, change the date

and re-submit.

It has been two years since the tax threshold was last changed. The effect is that that threshold has been eroded by inflation with the worker having to bear the cost of inflation.

The private sector is hardly likely to be surprised at the rejection of its submission and individual entities with some influence with the Government will likely privately resort to seeking concessions and favours for their own businesses.

INTRODUCTION

Mr. Saisnarine Kowlessar, Minister of Finance, presented his sixth budget “*Confronting Challenges – Sustaining Growth and Development*” to a House, which included members of the main opposition party PNC/R who had boycotted the Budget Presentation and subsequent debate in the past two years. It was the first working sitting of the recently renovated Parliament Building which had opened two days earlier with the visit by President Lula of Brasil.

It was the earliest Budget presentation for several years and would have been even earlier had it not been for the Flood which engulfed over one-third of the country's population mainly on the East Coast of Demerara, large chunks of Georgetown, parts of West Demerara and latterly Mahaica and Mahaicony. Government spokesmen had given earlier notice that the Budget would not be altered to take account of the Floods – that would be done after an international assessment was completed which means that losers would have to carry their losses at least for an extended period. In the circumstances, a preface was inserted in the Speech and the accompanying Budget made no provision for any rehabilitation works that are almost certainly necessary to repair some of the damage. It was an unusually long Speech running to fifty-six pages that could easily have been cut by half without doing any injustice to the contents.

Previous Budgets by the Minister have often been criticised for lack of vision and content but this Minister cannot be accused of being a coward or afraid of criticism. He fearlessly presented a Budget that was remarkable for its lack of ideas. It appears that the architects of the Budget have found a comfort zone and are not prepared to step out. Growth one year with decline the next seems to be no cause for worry - that has become the norm. If he was concerned, he would have taken the extra month to inject some new ideas into the Budget and to consider the representations made by those stakeholders he invited to submit.

Last year's Budget had one single measure that could be called a Budget measure – the 1% increase in the NIS contribution. This year it was fewer. The Minister had taken part in the relief efforts on the East Coast and would have confronted extreme poverty which the Floods so cruelly exposed. In his role as Finance Minister he is also the person who could bring not hamper but policies that would help to generate jobs and ease their constant struggle for a meal.

Despite the endless plans to diversify the economy, very little has changed in the past five years as the following table shows:

Gross Domestic Product at 1988 Prices by Industrial Origin.

Description	2001	%	2003	%	2004	%
Sugar	880	16.08	935	17.00	1,006	18.01
Rice	199	3.64	218	3.96	200	3.58
Livestock	119	2.17	130	2.36	133	2.38
Other Agriculture	281	5.13	291	5.29	297	5.32
Fishing	165	3.01	159	2.89	157	2.81
Forestry	195	3.56	183	3.33	184	3.29
Mining & Quarrying	652	11.91	554	10.07	518	9.27
Manufacturing	309	5.64	309	5.62	309	5.53
Distribution	427	7.80	412	7.49	420	7.52
Transport & Communication	506	9.24	555	10.09	575	10.29
Engineering & Construction	461	8.42	468	8.51	487	8.72
Rent & Dwellings	94	1.72	97	1.76	98	1.75
Financial Services	293	5.35	293	5.33	296	5.30
Other Services	204	3.73	210	3.82	213	3.81
Government	689	12.59	686	12.47	694	12.42
Total	5,474	100.00	5,500	100.00	5,587	100.00

Source: Bureau of Statistics

Almost a mirror image of 2003, an increase was recorded for sugar production while a decrease was recorded for rice. For the year 2004, rice production decreased by 8.3% as compared with the increase in sugar production of 7.6%. The manufacturing sector provided similar results as compared with 2003. Minerals also suffered setbacks and all the sub-sectors with the exception of diamonds recorded decreases.

We cannot but help commenting on the low contribution to the economy by the forestry sector with which Barama is synonymous for its export of logs and famous for some of the most generous tax concessions available anywhere in the world. Would someone care to say what Guyana receives in return? Indeed, how many Guyanese are aware that Barama has had its incentives renewed reportedly on the same terms which the PPP-C found so objectionable when in opposition. *Plus ça change.....*

There was no reference to the National Development Strategy (NDS), the Poverty Reduction Strategy Paper (PRSP) or the PPP/CIVIC Manifesto. The economy has been sub-par and requires some galvanising but there appears no interest by the Minister or the Government in exploring ways to alter the course of the economy. The energy and the enthusiasm do not seem to be there. It is wrong to believe that the PRSP can drive an economy and that notion will keep us mired in poverty.

The efforts by the British, ECLAC and the UN in the post-Floods operations were all recognised by the Minister but he did not name a single local individual or organisation who contributed to the relief efforts. Was it an oversight that he did not refer to the prompt response by the Red Cross which mobilised its international counterparts within days of the tragedy?

As in earlier years, any appearance of consultations was merely perfunctory and it is salutary that the Minister did not acknowledge the submissions he invited from various entities. Was he aware that many of these were recommendations from earlier years which he had similarly ignored? It would be very sad if both sides have lost faith in the process.

The one really questionable virtue is the size of the Budget – bigger but is that better? It is also the

highest in taxes collected and very high in deficit as % of GDP (14.2%).

We cannot have it both ways!

The parliamentary debate on the Budget begins next week. Parliamentarians will have to motivate themselves to generate any real interest in that next stage. With the Government having the majority in Parliament however, that exercise is unlikely to produce more than point scoring with no changes to the budget.

SPEECH HIGHLIGHTS

Size of the Budget: \$86.4Bln, 14% increase

2004 Facts

Real growth in the economy of 1.6% compared to a target of 2.5% and actual contraction of 0.6% in 2003

Overall balance of payments deficit increased from US\$8.9Mn in 2003 to US\$45.4Mn

The 91-day Treasury bill rate increased from 3.4% at December 2003 to 3.79% at December 2004

Inflation rate of 5.5% compared to a target of 4.5% and 2003 rate of 4.9%

Depreciation of the Guyana Dollar by 2.9% to \$200.44 at year end compared to 1.3% in 2003

Increase in Current Revenue collections by 13.8% from G\$45.4Bn in 2003 to G\$51.7Bn

Minimum public sector wage increased by 5% to \$23,204 per month

Increases in sugar production of 7.6% and diamond of 3% and decreases in rice of 8.3%, gold of 7.3% and bauxite by 12.4%

Exports valued at US\$559.8Mn compared to imports of US\$674Mn resulting in a trade imbalance of US\$114.2Mn up from US\$54.6Mn in 2003

Current account deficit of US\$128Mn (2003 US\$84.9Mn) and net inflows on the capital account of US\$89.9Mn (2003 – US\$78Mn)

Financial Targets – 2005

Inflation of 5.6% with growth in Real GDP of 2.2%

Current revenue of \$51.7Bn, an increase of approximately \$60Mn over 2004

Balance of payment surplus of US\$11.5Mn

Current expenditure of \$54Bn, an increase of 7.5% over 2004

Overall deficit of non-financial sector to increased from G\$13.0Bn (4.7% of GDP) to G\$22.2Bn (13.8% of GDP)

Increase in overall deficit after grant to US\$22.8Mn or 14.2% percent of GDP

Estimated total expenditure of \$86.4Bn, 14% more than in 2004

Budget Measures

None

REVIEW 2004

Economic and Financial Targets

Item	2003 Budget	2003 Actual	2004 Budget	2004 Actual	2005 Budget
	%	%	%	%	%
Real GDP growth	1.2	-0.6	2.5	1.6	2.2
Sugar	2.9	-8.7	8.6	7.6	3.9
Rice	3	23.3	1.4	-8.3	12.1
Livestock	5	4	2	2	5.5
- poultry meat	NA	41	NA	NA	NA
- Egg production	NA	NA	NA	76.9	NA
Other agriculture	3	2.2	2	2	5
Forestry	NA	2	0.5	0.5	4
- logs	NA	-22.2	NA	32	NA
- sawn wood	NA	43	NA	3	NA
- round wood	NA	15	NA	42	NA
Fishing	NA	NA	0.5	-1	5.5
Mining and Quarry	-7.1	-8.7	-3	-6.6	-24.9
- Gold	-9.3	-13.7	-5.5	-7.3	-39.5
- Diamonds	0	66.1	1.8	3	2.1
- Bauxite	-1.1	4.7	-10.5	-12.4	51.7
Manufacturing	3	-2	1.5	0	4
Engineering and construction	4.7	5.8	3	4	6.5
Services	NA	2.1	NA	2.3	NA
- transport and communication	3	5	3	3.5	7
- distribution and rent of dwellings	NA	NA	NA	2	NA
- distribution	2.6	-2.5	2	NA	5.9
- rent of dwellings	2	3	1.5	NA	4.8
Financial Services	1.5	1	1	1	5.5
Other Services	1	2.6	1.6	1.6	4.8
Government	NA	NA	1.5	1.1	1.3

NA Not available

2004 Global Facts

The global economy grew by 5% in 2004, the highest for nearly three decades.

World trade growth increased by 7.5% in 2004 and is projected to fall by 4.3% in 2005

2004 Local Facts

	Target 2005	Actual 2004	Target 2004
Real GDP growth	2.2%	1.6%	2.5%
Inflation rate	5.6%	5.5%	4.5%
Current account deficit of the balance of payments	US\$149Mn	US\$128Mn	US\$118.9Mn

The Global Economy

The expansion in the global economy was largely driven by China, India and the G7 industrialised countries. World trade also grew by 7.5% stemming from a voracious demand for imports of fuel and non-fuel commodities again driven by China which is fast becoming an economic powerhouse. This demand has caused the prices of raw materials, intermediate goods and finished products to rise, both a blessing and a shock for smaller economies like Guyana.

The Domestic Economy

The growth of 1.6% in real GDP represents a 2.2% turnaround from the negative growth of 0.6% in 2003. The target growth rate was 2.5%.

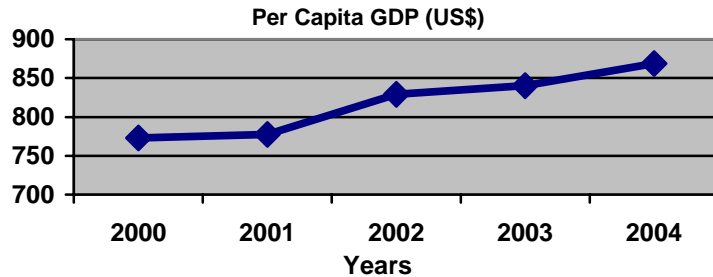
An upturn in the production of sugar, other agricultural sub-sectors such as livestock and the services sector contributed mainly to the expansion of the economy. Sugar, a key contributor to the economy, increased by 7.6% to 325,317 tonnes. After recording a production increase of 23.3% in 2003, rice recorded a decline of 8.3% in 2004 with production of 325,593 tonnes.

With the exception of the fishing sub-sector, which showed a 1% decrease because of the high cost of fuel, all the other agricultural sector contributed to the growth of the economy. All sub-sectors of the services sector performed exceptionally well recording an overall growth rate of 2.3%. Public investment in infrastructural projects such roads, sea defences, bridges etc was the leading cause for the engineering and construction sub-sector to record a growth of 4%.

The manufacturing sector did not contribute at all to the overall growth of the economy since poor increases were recorded in the production of beer and stout, distilled water and aerated drinks with several other major industries recording even lower outputs.

Despite the expansion in the economy, the mining and quarrying sector declined for the third consecutive year. This decline of 6.6% in 2004 is primarily as a result of the reduction of output from Omai. The huge slide of 7.3% in gold production could not be cushioned by increase in diamond production of 3%. The sector was further set back with the decline in bauxite production.

Per capita GDP for 2004 was US\$868.6 compared with US\$840.2 in 2003. (Per Capita GDP is the total output produced inside a country during a given year divided by the total population).



Source of information – Bureau of Statistics and MOF

Debt

As a result of further debt write-off, the stock of external debt has decrease by 1.2% to US\$1.08Bn. Payments in the current year amounted to US\$43.7Mn – a decrease of 12.2% compared to 2003.

Balance of Payments

Stated in US\$Mn

	Actual 2003	Revised 2004	Budgeted 2005
Current Account	(60.60)	(128.00)	(149.00)
Merchandise Trade	(58.90)	(114.20)	(153.00)
Service (net)	(70.50)	(58.80)	(46.00)
Transfers	68.80	45.00	50.00
Capital Account	55.00	89.90	165.10
Capital transfers	43.80	45.90	64.20
Non-Fin. Public Sector	12.40	27.20	60.90
Private Sector Capital	26.10	35.00	50.00
Short-term Capital	(27.30)	(18.20)	(10.00)
Errors and Omissions	(3.30)	(7.30)	(4.60)
Overall Balance	(8.90)	(45.40)	11.50

Source of information - Estimates of the Public Sector

The deficit on the current account on the balance of payment increased from \$8.9Mn to \$45.4Mn – a deterioration of \$36.5Mn or 80%. Key commodities exported are sugar, rice, gold, timber and other exports amounting to US\$141.1Mn.

Public Sector Investment

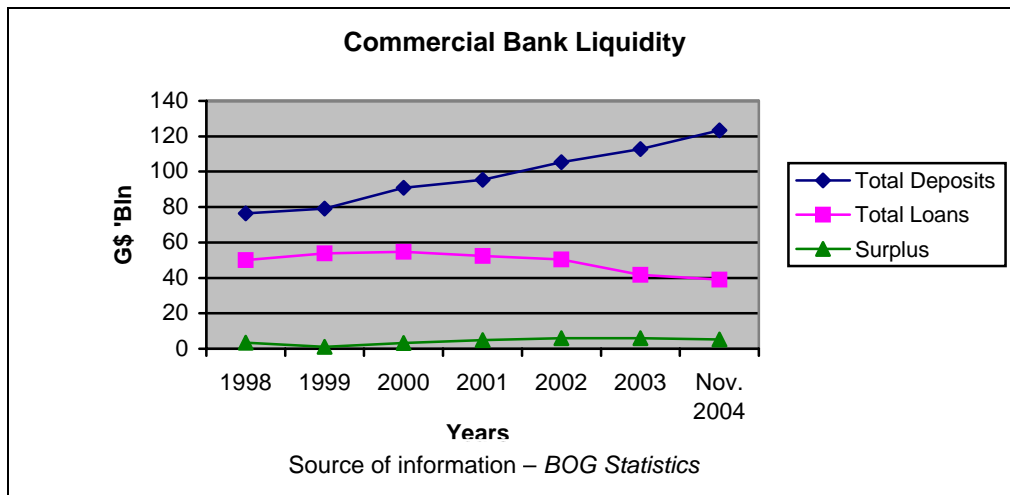
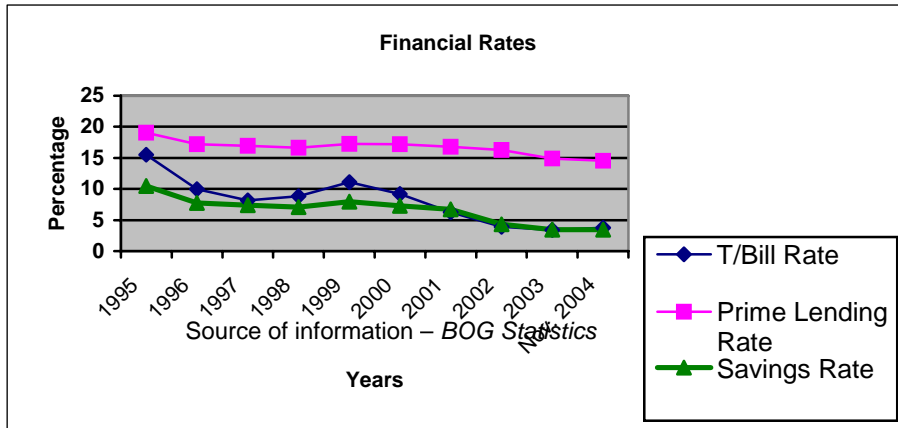
Despite the constant complaint of absorptive capacity and shortage of skills, the Public Sector Investment Programme (PSIP) disbursed approximately 94% of the budgeted amount of G\$23.9Bn. The IMF has been critical of the quality and returns from the investments made by the Government particularly those high value, prestigious projects.

Banking and Interest Rates

91-day treasury bills rates increased to 3.79% from 3.4% whilst saving rate declined slightly to 3.42% from 3.46%. Additional, the weighted average lending rate decreased to 13.45% from 15.58% in 2003. Spread declined from 12.2% in 2003 to 10.3%.

Loans and advances to the private sector declined by \$456Mn. while liquidity increased by 19% to \$47.6Bn.

The following table shows the spread earned by the commercial banks as the financial rates continue to decline.



The Exchange Rate

The exchange rate of the Guyana dollar to the US dollar showed a small depreciation of 2.9% to G\$200.44 per US dollar. In 2003 and 2002, the rate declined by 1.3% and 1.2% respectively.

Public Sector Modernisation

In January 2004, the Integrated Financial Management System was implemented, which should allow key aspects of government accounting to be processed in an efficient manner.

Ram & McRae's Comments

It would be surprising if the 2004 growth figure is not contested while the floods could significantly alter Before Floods Projections.

Bank of Guyana reported half year growth of 0.8%, a full year growth of 1.6% represents a growth in the second half of 2004 of close to 2.4%, higher than the projected growth for 2005.

Current revenue adjusted for inflation is projected to fall as the Consumption Tax on fuel imports stabilises.

In 2004, the total investment by the Central Government was G\$22.4Bn, the public sector G\$2.8Bn

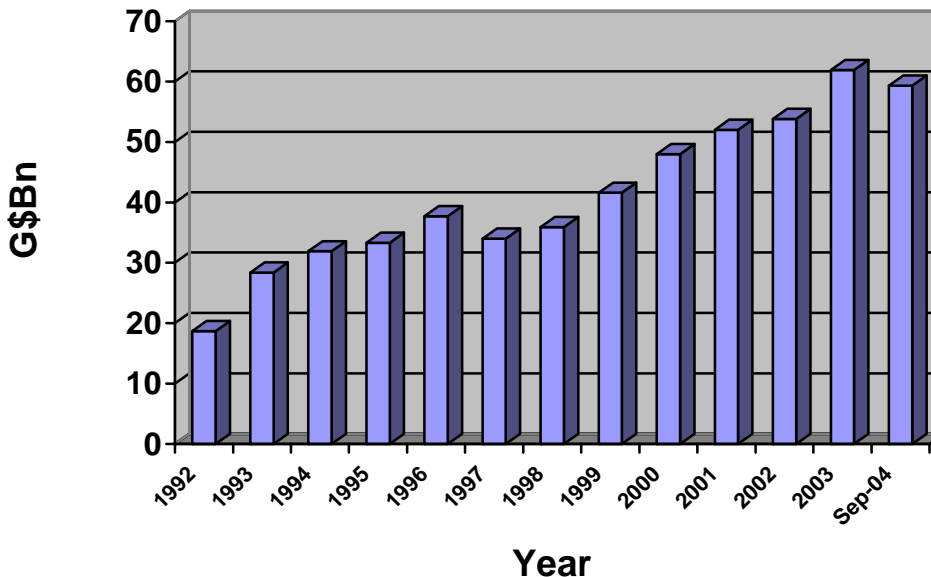
and Go-Invest facilitated investment G\$9.3Bn. Yet, these only contributed to less than 1.6% growth in the economy. The performance of the economy does not therefore reflect the value of public sector investment or the reliability of private sector investment particularly those reported by GO-Invest.

Debt: In discussing the debt stock, the Minister paid virtually no attention to the domestic debt which has grown exponentially over the past 12 years, costing billions of dollars annually. It seems that the Government has no policy or guidelines that set out the principles and conditions under which the government borrows. Government borrowings can easily become intervention which may harm the market and distort the allocation of resources.

One way of minimising this danger is to place caps on the amount the country may borrow either internally or externally as a means of reining in any tendency to over-spend.

The growth in the domestic debt from 1992 to September 2004 is shown in the following graph:

Domestic Public Debt



Source of information – BOG Statistics – All shown at December except 2004.

The Manufacturing Sector: Beer and stout are generally perceived to be standard bearers of the manufacturing sector. Following decrease in production in 2003, the industry remained flat with modest increases in the production of beer and stout, aerated drinks and distilled water whilst several industries recorded lower output.

Economic Performance: Over the past six years the economy has been at a virtual standstill and the Millennium Development Goals (MDGs) are receding further into the world of the unlikely.

2004 LEGISLATION

During the year 2004 the National Assembly passed 22 Acts (see appendix 1), as compared with 20 in 2003. The major pieces of legislation passed and assented to during the year were:

The **Investment Act** passed on March 31, 2004 is intended to render into law principles and practices to improve Guyana's approach to investment by setting up a favourable and secure regime of incentives for investors.

The **Small Business Act 2004** passed on March 31, 2004 seeks to provide incentives and support programmes for small businesses, without requiring them to necessarily be registered as a Small Business. The Act provides for the establishment of the Small Business Council named by the Minister of Trade and for the Council to appoint members of a Small Business Bureau to carry out their directions.

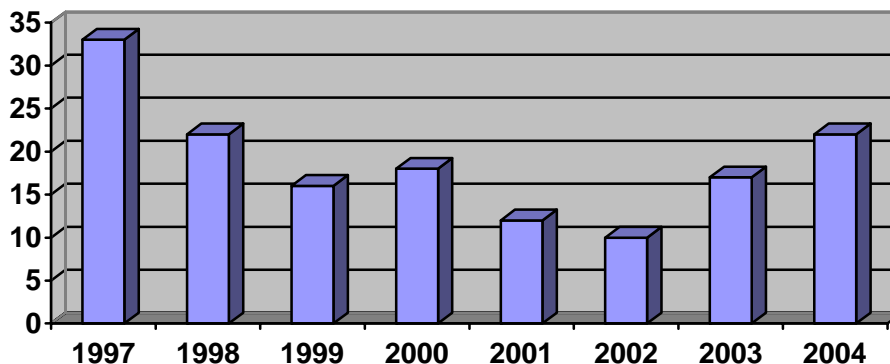
The **Audit Act** was passed on April 28, 2004. The Act was designed to set out the responsibilities and authority of the Auditor general and provide for the establishment and administration of an independent Audit Office.

The **Drainage and Irrigation Act** was passed on 31st May, 2004. The Act provided for the establishment of a Drainage and Irrigation Authority to be responsible for regulating and coordinating the operation, maintenance, control and management of the drainage, irrigation and flood control system through out the country. The Act empowered the Authority to take such actions to erect or construct such works as in their opinion is necessary to avert or reduce the occurrence of a flood if, in their opinion such a flood was imminent.

The **Caribbean Court of Justice Act 2004** - The Act implements the Agreement establishing the Caribbean Court of Justice which was signed by the Government of Guyana on February 14, 2001. Three other associated Acts were passed to supplement and provide for the continuance and preservation of the Caribbean Court of Justice.

The **Bank of Guyana (Amendment) Act** was passed by the National Assembly on November 29, 2004 and assented to on November 30, 2004. This Act amends the Bank of Guyana Act 1998 by the insertion of new sections dealing with the establishing of a committee to deal with the competence of the Board and disclosure of conflict and the amendment of five sections.

Acts Passed In Parliament



NB: 2003 figure does not include Acts not yet assented to.

In addition, there were 34 Orders and 11 Regulations published by various Ministers under several Acts for which they bear Ministerial responsibility.

Ram and McRae's Comments

Some of the legislation was not only welcome but long overdue and had been in the pipeline for several years. Legislation continues to give the responsible Ministers wide powers of direction and authority even over statutory entities raising doubts about the degree to which political control has been abolished.

For example while the President no longer has the authority to remit (waive) taxes, that power now vests in the Minister of Finance over whom the President exercises considerable influence. The overriding control however is contained in the provision that any sum due to the revenue of the country cannot be remitted unless the Minister is empowered by law to grant the remission.

While the first of the two Fiscal Enactment (Amendment) Acts was expected, the second was sudden, in some respects quite draconian, and led to a Court challenge by the lawyers and doctors with respect to whom there is now a stay. While the matter is sub judice, the Minister must consider how this affects the government's plans for ensuring that the self-employed including lawyers pay a fair share of taxes. He must also realise that his failure to consult with stakeholders on matters affecting them will always be resented.

Inordinate delays often characterise not only the passage but also the coming into effect of legislation passed. In our view the following major Acts have not been properly effected for the reasons stated:

Companies Act 1991

This 542-section Act was passed and assented to in record time in 1991 then was held in abeyance until it was rushed into operation on May 25, 1995 on the direction of the International Financial Institutions. In the opinion of many corporate lawyers, this Act requires a number of amendments as well as action to bring certain sections into effect such as the very important S156 which anticipates exemption from audit for small companies. The Act's provisions for authorising and disclosing the remuneration of directors have been hotly debated and certainly require clarification while the omission regarding charitable companies needs to be corrected.

The Office of the Registrar of Companies which is the regulator responsible for overseeing compliance with this Act is ill equipped to carry out its mandate and because of lax monitoring; the high incidence of non-compliance is not addressed.

The Financial Institutions Act (FIA)

This Act requires financial institutions to be licenced with the Bank of Guyana to carry on banking or financial business. In 1996, the Bank of Guyana published several guidelines under the Act.

The Bank of Guyana has generally been effective in the administration of the FIA although it has been criticised for having been too soft on Globe Trust, not strong enough in disapproving of persons who may not be fit and proper for appointment as directors, and being too slow in bringing under its purview, the New Building Society and the financial institution on the West Coast of Demerara posing as a co-operative.

Insurance Act 1998

This Act was passed in the National Assembly on 31st December 1998 but did not come into operation until 18th December 2002. The Insurance Arbitration Board was established in 2003 but the Insurance Board of Review required by the Act has not yet been set up.

Because of its one- size- fits- all approach, many of the affected persons are either unwilling or unable to comply with the Act.

The Securities Act 1998

The Act, passed in the National Assembly on 31st December 1998, came into effect in stages to July 2002. The Guyana Securities Council was established in July 2001 while the Guyana Stock Exchange was launched on June 30, 2003.

The powers of the Council have been severely affected by rulings of the Court.

All members of the Securities Council are appointed by the Minister of Finance.

The Deeds Registry Act 1999

This Act was passed on 23rd, April 1999 to establish the Deeds Registry as a body corporate to carry out the functions assigned to the Registrar under nine separate Acts including the Companies Act, Deeds Registry Act and Land Registry Act. The Act requires the setting up of an advisory board.

Failure by the Government to direct serious attention and resources to address the deficiencies at the Registry, continues to harm the business community and the public which should expect that public records are accessible and timely.

The Minister of Legal Affairs is responsible for the administration of the Deeds Registry Act.

The Money Laundering (Prevention) Act 2000

This Act, passed on 29th March 2000 is designed to prevent money laundering and provide for the establishment of a Supervisory Authority which could be the Governor of the Bank of Guyana or some other fit and proper person.

No Supervisory Authority has yet been set up but we understand a Unit has been established in the Ministry of Finance. This Act addresses money laundering only through Financial Institutions and even at its best could not effectively prevent money laundering through a range of avenues other than financial institutions.

The Act for which the Minister of Finance is responsible is therefore not in operation.

Bureau of Statistics Act 1991

The Bureau of Statistics Act 1991 was assented to by the late President Hoyte in 1991. It established the Bureau as a corporate entity to carry out the functions set out in Section 3 of the Statistics Act among which is the collection and publication of statistics.

The Bureau carried out a Population and Housing Census in September 2002, and the Minister reported that the Census results were submitted to the Government 'earlier in the year', without giving any indication of the date when it would be published. The Census is already long overdue and the delay is inexplicable and unfortunate for those who take statistics and planning seriously.

The First Schedule to the Act requires that the names of members of the Bureau be Gazetted but there is no evidence that this has been done. Incredibly, the Act provides for the Minister to be chairman if he fails to appoint a chairman.

The Procurement Act 2002

After several undertakings by the Government in response to widespread concerns about corruption and efficiencies in the awarding of hundreds of millions of dollars for goods and

services, the Procurement Act was finally passed in the National Assembly on May 29, 2002 and assented to on June 28, 2002.

The order to bring this Act into force has not been made by the Minister of Finance nor has the National Procurement and Tender Administration been established.

The Minister of Finance has wide ranging powers of appointment and direction while the Act retains a role for Cabinet in the award of contracts.

Tourism Authority Act 2002

The Authority is not currently functional, the period of appointment of the last Board having expired on December 31, 2003. The Authority, which has responsibility for the development of the tourism industry, over which the Minister of Tourism exercises wide ranging powers, has been underfunded and for the current year has been allocated a significant increase from \$20Mn to \$31Mn.

Integrity Commission Act 1997

This Act was passed on 24th September 1997 and was designed to address allegations of politicians and public officials. This Act is generally seen to have had no impact while both the evidence and perception of corruption have mounted, most recently at the very senior level in the Ministry of Finance.

It seems that in exchange for financial assistance, the Government of Guyana is quite willing to enact legislation despite the absence of commitment, conviction or capacity. The consequence is that the objectives are seldom met even when the legislation is brought into effect.

UNFINISHED BUSINESS

Every year, focus tracks the implementation of the key issues and policies identified in previous Budget Speeches that after announcement are forgotten. In this section, we consider those issues outstanding from previous years and offer some comments thereon:

- ✓ **Tax Reform Study:** Tax reform has been on the agenda for several years and the legislation passed two years ago provided the framework for addressing the widespread evasion of taxes by the self-employed. The Speech gave no indication of when these provisions would be brought into effect.
- ✓ **Tabling legislation on bankable property rights** – no mention in the 2003, 2004 and 2005 Speeches.
- ✓ **Tabling new Procurement legislation and establishing a new Procurement supervisory body. The Supervisory Body** – the National Procurement and Tender Administration has not been set up and the Act is therefore not in operation.
- ✓ **Bringing a new semi-autonomous Deeds Registry into operation** – This has still not been done.
- ✓ **Improving institutional framework for trade and investment facilitation** – There is little evidence of progress in this area and the Minister made no comment on the investment conference that was scheduled for the second half of 2004.
- ✓ **Diversifying the economic base for the purpose of stimulating investment into new products and services in order to reduce the country's dependence on the traditional production centres.** - The evidence is that the structure of the economy has remained virtually unchanged for the past years.
- ✓ **The Environmental Protection Act 1996** was established less than one year after the Omai spill was created to regulate and manage the environment. The Act provides for the establishment of an Environment Appeals Tribunal, this has still not been done.
- ✓ **Bank of Guyana Reform** - Consultations were conducted in 2003 on the feasibility of the implementation of a deposit insurance scheme and a report was submitted. But no mention was made by the Minister in the Budget speech 2005.

2005 POLICY ISSUES & TARGETS

In introducing the Economic and Financial Targets for 2005, the Minister reminded the National Assembly that the macro economic framework was developed prior to the floods. He announced that these would be reviewed following the wider assessment of the floods being undertaken by the Economic Community for Latin America and the Caribbean (ECLAC), following which he would bring a supplementary budget to the National Assembly.

Inflation rate is targeted at 5.6% slightly higher than the preceding year.

Real GDP Growth - 2.2%

The projected growth rate of 2.2% is considerably higher than the negative 0.3% projected in the Poverty Reduction Strategy Progress Report 2004 and the Report of the IMF Review Team published in July 2004. Strong growth is projected for rice (12.1%); sugar (3.9%); manufacturing and livestock, other agriculture, fishing and forestry (ranging from 4% to 5%) and transportation and communication (7%) among others.

Sugar which is projected to improve by 3.9% remains pivotal to the economic aspirations of the economy and the Chinese company which was supposed to have started work in the second half of 2004 is now reported only to have signed the loan agreement in 2005.

The Minister gave no indication on the progress made in reducing cost of production for US\$17 cents in 2004 to US9 cents in 2007, the target set in 2004, nor did he refer to the planned closure of loss-making factories and estates beginning in 2008. The Minister referred to proposals by the European Union which would lead to much lower prices but vowed to "lobby for re-consideration" - mild language given the threat of a severe blow to Guyana's economy and Guysuco's efforts on which more than G\$25BN is being invested.

The other major agricultural produce, **rice**, is expected to increase by 12.1% but in his Speech, the Minister referred to "dark clouds on the horizon" which would have a negative effect on the recovery and growth of the rice industry.

Bauxite is one of the genuine bright spots with "new life breathed into bauxite operations at Linden through the 70:30 Joint Venture between the Government and Cambior" whose gold operations at Omai are fast coming to a close. While bauxite is projected to grow by 52%, the Mining and Quarrying sector is projected to decline by 25%.

The Minister announced that the Russian Aluminium Company (RUSAL) would be investing US\$20M in a new company to be merged with Aroaima Mining Company (AMC) which itself has taken over the operations of Bermine. He referred to an agreement having been signed to this effect but gave no details.

Revenue and Expenditure

Revenue is expected to grow to \$51.7Bn with collections by the Internal Revenue Department increasing to \$25.6BN, mainly company and income tax, \$2.2BN more than collections by Customs and Trade Administration.

Current expenditure is budgeted at \$54BN of which \$18.9BN will be paid out in personal emoluments representing a 9.1% increase. The Minister reported in paragraph 5.12 of his speech that interest would fall to \$7.4BN but a review of Appendix A, Central Government Financial Operations, shows interest of \$5.2BN. The explanation for this is not immediately apparent.

Reforms measures announced*Improved Statistics*

He announced a Household Budget & Living Conditions Survey which along with the 2003 Population Survey will help improve social impact analyses.

Reform of the Judiciary

Noting that “for the first time in many years, the Judiciary has its full complement of judges”, the Minister referred to past efforts to improve library facilities, the financing of an Alternative Dispute Resolution (ADR) Centre and (once again), the proposal to establish a commercial court.

Tax Reform

The only substantial measure announced is the submission of VAT and Excise Tax Legislation to meet a commitment to the IMF to have VAT in place by April 2006. Others listed are things they have done (amending the Customs Duties in 2004); continuing one that is required by law (publishing tax exemptions to categories of recipients); and an in-house operational GRA issue (a timetable for implementing its human resource plan).

Ram and McRae's Comments

The country is bewildered that the 2003 Population Census has not been released. The last time it was heard of was that it was with Cabinet but its unavailability proved a major impediment to the Flood relief efforts.

It would be hard to persuade the lawyers representing the proprietors of Channel 6 that the Courts can rise to the big occasion. A constitutional case is being delayed raising a host of questions about the efficacy of the Court system. An effective court system requires a respect for the rule of law and confidence in the fairness of the system. It is submitted that these qualities are yet to return to the system.

One prominent Attorney-at-Law has questioned whether the President acted properly when he caused to be passed in the National Assembly an Act which exempted from income tax the emoluments of the two most senior members of the Judiciary and whether this could not be seen as impacting on their independence.

Ever since the introduction of the Economic Recovery Programme it has become fashionable for every Finance Minister to speak of tax reform. The experience in Guyana is that the only serious negotiations on the reform measures take place with the international financial institutions. There is no meaningful participation of those who would be most affected by the measures. Apparently it is not obvious that tax reform means more than just introducing new taxes. It includes, for example, the divvying up of the tax revenues between Central and Local Government, and simplification as well as indexation of allowances among other things.

THE GOVERNMENT OF GUYANA FINANCIAL PLAN 2005

The table on the page 25 presents a summary of the Government's projected financial plan for 2005. The capital expenditure and external financing figures for the revised 2003 figures, which appeared in the 2004 Estimates, have been restated in the 2005 estimates without any explanation.

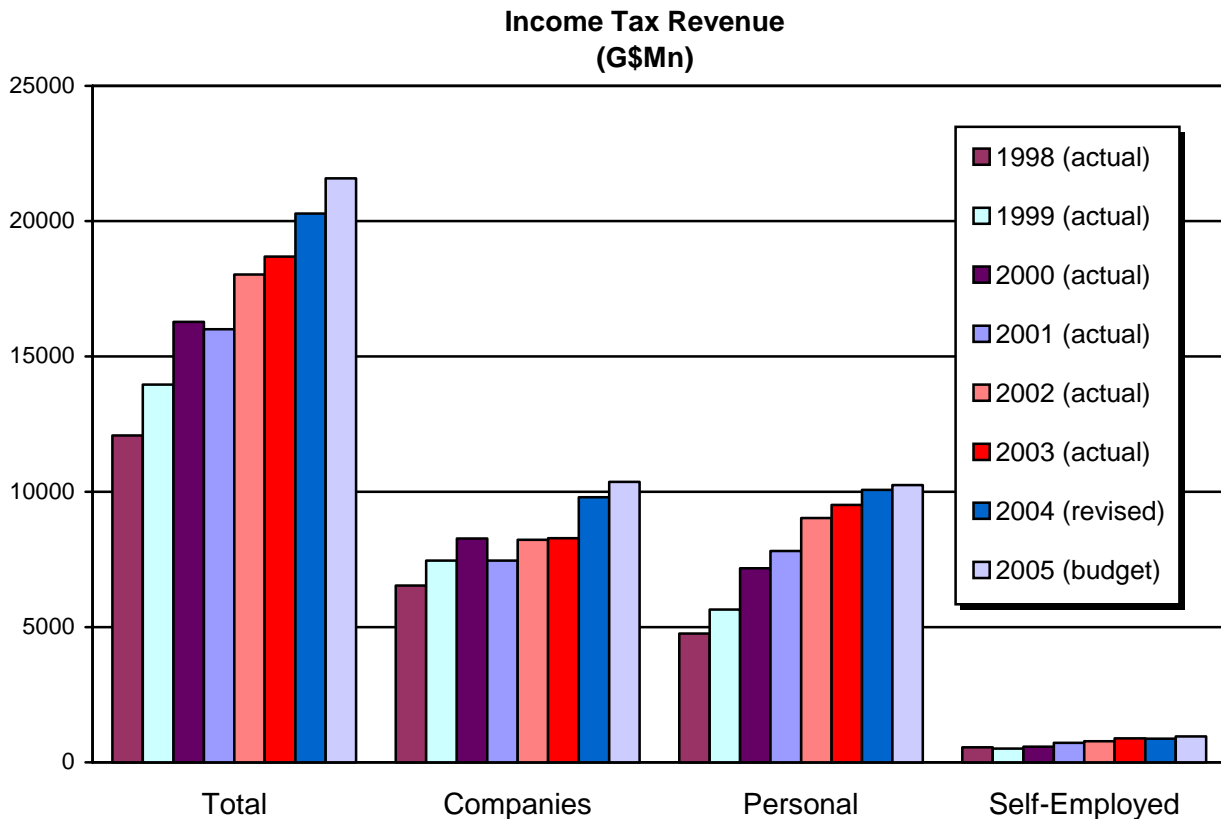
The 2005 Plan projects a negative current balance of G\$15.1Mn compared with a revised 2004 estimate of G\$4.7Bn. This latest estimate for 2004 shows an increase of \$4.9Bn from the deficit of G\$152.5Mn projected in the original budget.

The main elements of the 2004 Plan are:

Current revenues are projected to increase by G\$63Mn to G\$51.73Bn for 2005 from G\$51.66Bn in 2004. An increase of G\$685Mn or 1.4% over 2004 is projected for the Revenue Authority which will account for 94.7% of total Current Revenue.

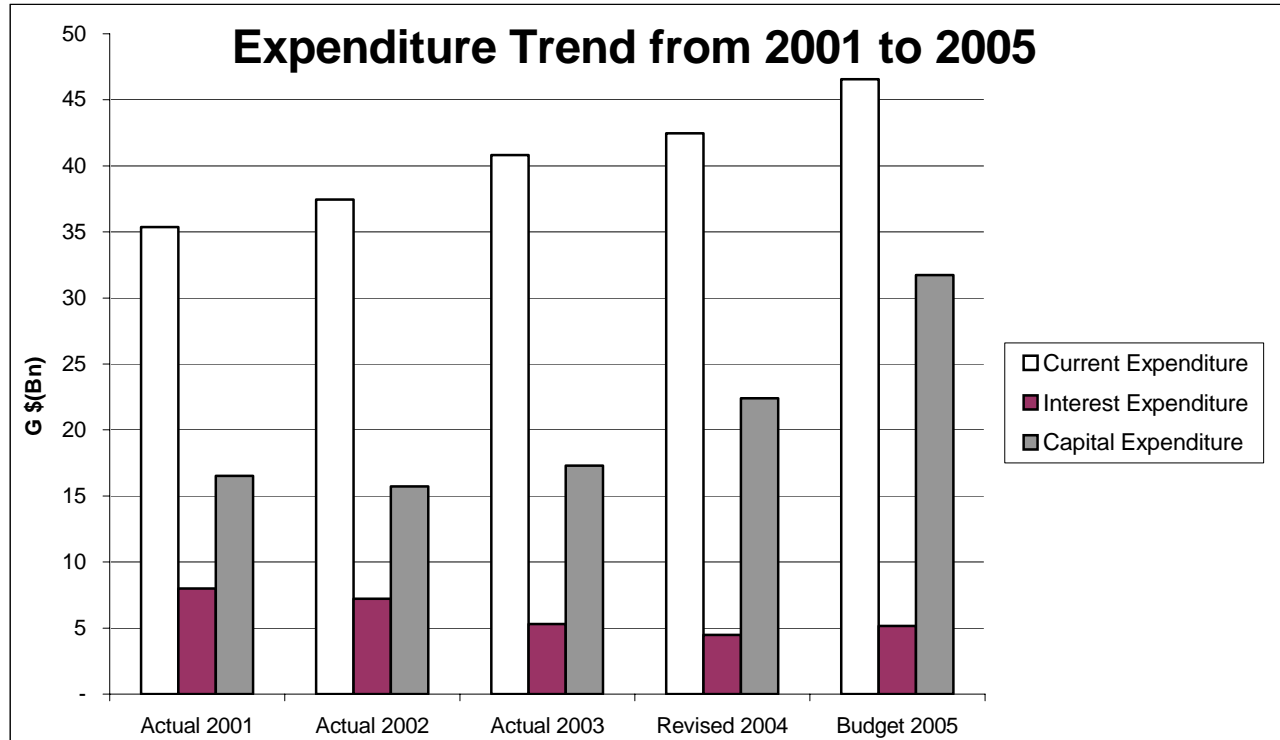
Collections by the Internal Revenue totalled G\$25.6Bn compared with G\$24.7Bn in 2004 showing an increase of 3.8% or G\$855Mn. Collections by the Internal Revenue are expected to maintain a relative 52% share of the Guyana Revenue Authority's total revenue.

Current revenues expected in 2005 from Customs and Trade amounts to G\$23.4Bn, a decrease of G\$170Mn or 0.9% from 2004, and represents 47.7% of total Guyana Revenue Authority's revenue.



Total Current non-interest expenditure is projected to increase by G\$4.1Bn from G\$42.5Bn to G\$46.6Bn for 2005 as compared with revised 2004 figures. Personal emoluments of G\$18.9Bn represents a 9.1% or G\$1.6Bn increase over 2004 actual and 40.6% of projected total non-interest current expenditure.

Total interest expenditure is projected to increase by 15.4% or G\$690Mn from G\$4.5Bn in 2004 to G\$5.2Bn in 2005. Interest on domestic debt is expected to decrease by G\$48Mn or 1.6% when compared with revised 2004 figures, while interest on external debt is projected to increase by G\$738Mn or 48.2%.



Capital revenue is projected at G\$8.7Bn, representing a G\$925Mn or 11.9% increase over the amount of G\$7.8Bn for 2004. The amount reflected in the 2005 Estimates as capital revenue and grants for revised 2004 of G\$11.3Bn should have been G\$7.8Bn since revenue earned from HIPC relief and Project and Programme funds amounted to G\$3.6Bn and G\$4.2Bn respectively and other capital revenue including the sale of assets amounted to G\$19Mn.

The projected revenue consist of HIPC relief of G\$2.6Bn (2004 - G\$3.6Bn) and Project and Programme funds of G\$6.1Bn (2004 - \$4.2Bn). Projects and programmes are analysed as project grants of G\$2.8Bn and Cash and Commodity Assistance Grants of G\$3.3Bn.

Capital expenditure of G\$31.7Bn represents a 42% increase over 2004 as compared to 29.6% increase in 2004 from actual 2003. The revised 2004 estimates decreased by G\$1.4Bn or 6% from the initial budgeted figure. As stated above, there has been an increase in 2003 revised capital expenditure of G\$16.8Mn from G\$17.3Mn as quoted in the 2004 estimates without explanation.

For a further analysis of current and capital expenditures, please refer to page 26 - 'Who Gets What'.

Debt repayment is projected at G\$2.9Bn (2004 - G\$3.6Bn) made up of domestic debt repayments of G\$34.9Mn (2004 - G\$34.2Mn) and external debt repayments of G\$2.9Bn (2004 - G\$3.5Bn), representing an increase of 2% and a decrease of 18.1% respectively over the previous year.

There is an overall deficit of G\$25.9Bn compared with a deficit of G\$13.5Bn (adjusted) for revised 2004. It is projected that the deficit will be financed from domestic and external sources of G\$5.9Bn

and G\$20.Bn respectively. The overall balance of deficit before grants is projected at G\$34.7Bn compared to a deficit of G\$21.2Bn in 2004, an increase of G\$13.4Bn or 63%.

During 2005, Domestic and External Debt Service as a percentage of current revenue is projected at 15.6% compared with the revised budget for 2004 of 15.6% and 17.2% in 2003.

Ram and McRae's Comments

Once again, we note that despite the vast sums expended on what are often referred to as tax reforms, institutional reforms as well as certain but limited specific tax measures, the structure of tax revenues remain with employed persons, a few companies and consumption tax on imports accounting for the bulk of tax revenues in the country.

The GRA is facing a real test of its will and capacity to find ways of extracting tax from self-employed persons and would probably need a survey of its own to widen the tax net. The GRA only has to go along the rivers which connect with neighbouring countries to discover and apprehend the smugglers who hold positions of influence and power. The GRA still spends too much of its time and limited resources on the sardines while ignoring the sharks.

It is worth reminding the Minister of Finance that he is yet to table a Report of the Revenue Authority which has now been in existence for five years. Such disrespect for the laws of the land does not inspire confidence or set an example for others to follow. Someone may just choose to bring an action against the Authority and the Minister for what is clearly an abuse of privilege. How can they expect the citizens to respect the law when they so blatantly flout it?

Personal emoluments represent a large percentage of revenues and this is likely to increase after 2005 wage settlement is reached. In any case, however, the emoluments of those on the public service scales are low particularly when compared with the remuneration paid to contract employees. Some of the contract rates are exorbitant even by private sector standards and these need to be restrained as urgently as the total wage bill. These contract salaries make a complete mockery of the public service.

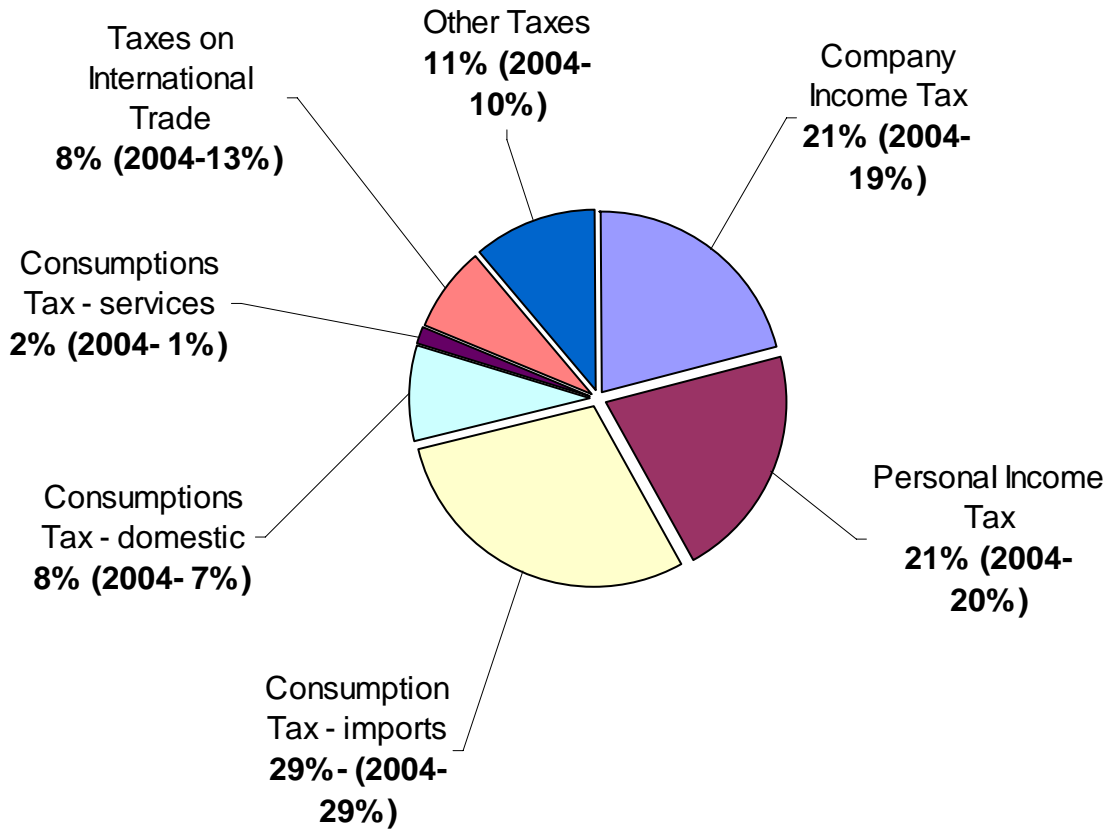
Another abuse of the Contract arrangements is the number of persons who are paid tax-free even though they are paid out of loan funds, and yet another is the tendency for them to be paid for consultancy services, even though by any standard they are no more than employees.

Whether the revenue targets will be met will depend on oil prices stabilising at fairly high levels and only minimal loss of revenue resulting from the Floods. Many businesses suffered substantial losses which might not have been covered by insurance and this could adversely impact on their bottom line. The supplementary budget will be more than revealing.

FINANCIAL OPERATION OF CENTRAL GOVERNMENT (ACCOUNTING CLASSIFICATION)

ITEMS	Budget	Revised	Budget	Revised	Revised	Revised
	2005	2004	2004	2003	2002	2001
CURRENT REVENUE	51,726.9	51,664.4	47,900.2	45,390.4	44,558.2	41,426.20
1.1 Guyana Revenue Authority	48,971.50	48,286.40	44,460.40	41,526.70	40,822.50	37,769.70
1.1.1 Internal Revenue	25,603.40	24,747.60	23,966.30	22,386.50	22,102.10	19,668.30
1.1.2 Customs & Trade	23,368.10	23,538.80	20,494.10	19,140.10	18,720.00	18,101.40
1.2 Sugar Levy	-	-	-	-	-	-
1.3 Other	2,755.4	3,378.0	3,439.80	3,863.70	3,735.70	3,656.50
CURRENT EXPENDITURE	46,571.1	42,462.2	42,794.7	40,822.0	37,444.9	35,374.80
2.1 Personal Emoluments	18,901.6	17,321.9	17,716.40	16,341.10	15,832.00	14,743.30
2.2 Goods and Charges	14,919.1	12,987.2	12,971.60	11,117.40	9,700.60	9,057.40
2.3 Transfer to the Private Sector	12,750.4	12,048.1	12,001.70	10,097.70	9,553.60	9,576.70
2.4 Transfer to the Public Sector	0.0	105.0	105.00	3,265.80	2,358.70	
INTEREST EXPENDITURE	5,170.9	4,481.3	5,258.0	5,310.9	7,225.1	7,993.70
3.1 Domestic	2,901.4	2,949.6	3,109.40	2,966.30	4,312.80	4,782.60
3.2 External (Cash)	2,269.5	1,531.7	2,148.60	2,344.60	2,912.30	3,211.10
CURRENT BALANCE	(15.1)	4,720.9	(152.5)	(742.5)	(111.8)	(1,942.30)
CAPITAL REVENUE & GRANTS	8,713.70	7,788.40	7,571.10	4,994.40	4,572.60	5,716.40
5.1 Grants	8,713.70	7,769.40	7,571.10	4,983.00	4,541.70	5,667.00
5.1.1 HIPC	2,623.5	3,566.6	3,003.60	2,338.70	1,836.30	2,747.10
5.1.2 Project and Programme	6,090.2	4,202.8	4,567.50	2,644.30	2,705.40	2,919.90
5.2 Other (inc. Sale of Assets)	0.0	19.0	-	11.40	30.90	49.40
CAPITAL EXPENDITURE	31,723.3	22,410.7	23,838.60	17,275.70	15,675.30	16,510.50
DEBT REPAYMENT	2,916.30	3,553.40	3,669.60	2,484.70	2,515.00	3,063.80
7.1 Internal	34.9	34.2	33.40	49.80	124.60	101.10
7.2 External (Cash)	2,881.4	3,519.2	3,636.20	2,434.90	2,390.40	2,962.70
OVERALL BALANCE	(25,941.00)	(13,454.80)	(20,089.60)	(15,508.50)	(13,729.50)	(15,800.20)
TOTAL FINANCING	25,941.10	9,907.00	20,089.70	15,508.50	13,729.50	15,800.20
9.1 External	20,001.0	12,804.0	15,317.70	11,584.80	8,643.60	12,826.30
9.2 Domestic	5,940.1	(2,897.0)	4,772.00	1,923.70	5,085.90	2,973.90
9.3 Divestment (net)	0.00	0.0	0.00	2,000.00	0.00	0.00
Total Domestic and External						
Debt Service as a % of Current						
Revenues	15.6	15.6	18.6	17.2	21.9	26.7

Budgeted Tax Revenue for 2005



WHO GETS WHAT IN 2005

Current Non-Interest Expenditure

In this section we consider how the budgeted expenditure is allocated among competing Ministries, Departments, Programmes and Projects.

Central Government's non-interest current expenditure (employment costs and other charges) for the year is budgeted at G\$44.753Bn which is 3.25% more than revised 2004. The Ministries/ Departments with the most significant allocations are:

Ministries/Departments	2005		2004 revised		% Inc.
	\$ (Mn)	%*	\$ (Mn)	%*	
Ministry of Finance	11,275	20.61	12,807	24.05	(11.96)
Ministry of Foreign Affairs	1,736	3.17	1,635	3.07	6.18
Office of President	1,316	2.41	1,153	2.17	14.14
Ministry of Education	4,706	8.60	4,495	8.44	4.69
Ministry of Labour, Human Services & Social Security	1,543	2.82	1,388	2.61	11.17
Ministry of Home Affairs	3,995	7.30	3,735	7.01	6.96
Guyana Defence Force	2,946	5.38	2,791	5.24	5.55
Georgetown Public Hospital Corporation	2,066	3.78	1,944	3.65	6.28
Ministry of Health	2,176	3.98	1,993	3.74	9.18
* Percentage of total current expenditure					

As in the previous year, the Ministry of Finance, Ministry of Education, Ministry of Home Affairs and Guyana Defence Force receive the most significant allocations. Separate allocations are provided for the Ministry of Foreign Trade and International Cooperation and the Ministry of Amerindian Affairs. The regions with the most significant allocations are:

Region	2005		2004 revised		% Inc.
	\$ (Mn)	%*	\$ (Mn)	%*	
No.4 Demerara/Mahaica	1,503	16.30	1,444	16.71	4.09
No.6 East Berbice Corentyne	1,675	18.17	1,533	17.74	9.26
No.5 Mahaica/Berbice	777	8.43	751	8.69	3.46
No.2 Pomeroon/Supenaam	1,013	10.99	958	11.08	5.74
No.10 Upper Demerara/Berbice	977	10.60	912	10.55	7.13
No.3 Essequibo Islands/West Demerara	1,459	15.82	1,375	15.91	6.11
* Percentage of regional allocation					

Significant changes from the previous year's latest estimates occurred in the following Ministries/ Departments:

Ministries/Departments	2005	2004	Difference	% Inc./Dec)
	\$ (Mn)	\$ (Mn)		
Ministry of Housing and Water	355	530	(175)	(33.02)
Ministry of Finance	11,275	12,807	(1,532)	(11.96)
Ministry of Health	2,176	1,993	183	9.18
Ministry of Education	4,706	4,495	211	4.69
Ministry of Home Affairs	3,995	3,735	260	6.96
Georgetown Public Hospital Corporation	2,066	1,944	122	6.28
Ministry of Foreign Affairs	1,736	1,635	101	6.18
Ministry of Public Works and Communications	478	750	(272)	(36.27)

Capital Expenditure

Central Government's capital expenditure for the year is budgeted at G\$31.72Bn which is 41% above revised 2004 and 37% of total 2005 expenditure. The Ministries/ Departments with the most significant capital expenditure allocations are:

Ministries/Departments	2005		2004		% Inc./Dec)
	\$ (Mn)	%*	\$ (Mn)	%*	
Ministry of Finance	10,436	32.90	5,928	24.76	76.05
Ministry of Public Works & Communications	6,835	21.55	7,397	30.89	(7.60)
Ministry of Education	1,501	4.73	1,900	7.94	(21.00)
Ministry of Housing and Water	3,631	11.45	2,585	10.80	40.46
Ministry of Agriculture	2,108	6.65	1,281	5.35	64.56
Ministry of Local Gov't & Regional Devel.	1,192	3.76	871	3.64	36.85
Ministry of Labour, Human Services & Social Sec.	1,518	4.79	963	4.02	57.63
Guyana Defence Force	155	0.49	154	0.64	0.65
* Percentage of total capital expenditure					

Included in the Ministry of Finance allocation is an amount of G\$7,655BN for on-lending to Guysuco for sugar sector modernisation – CDB/CHINA.

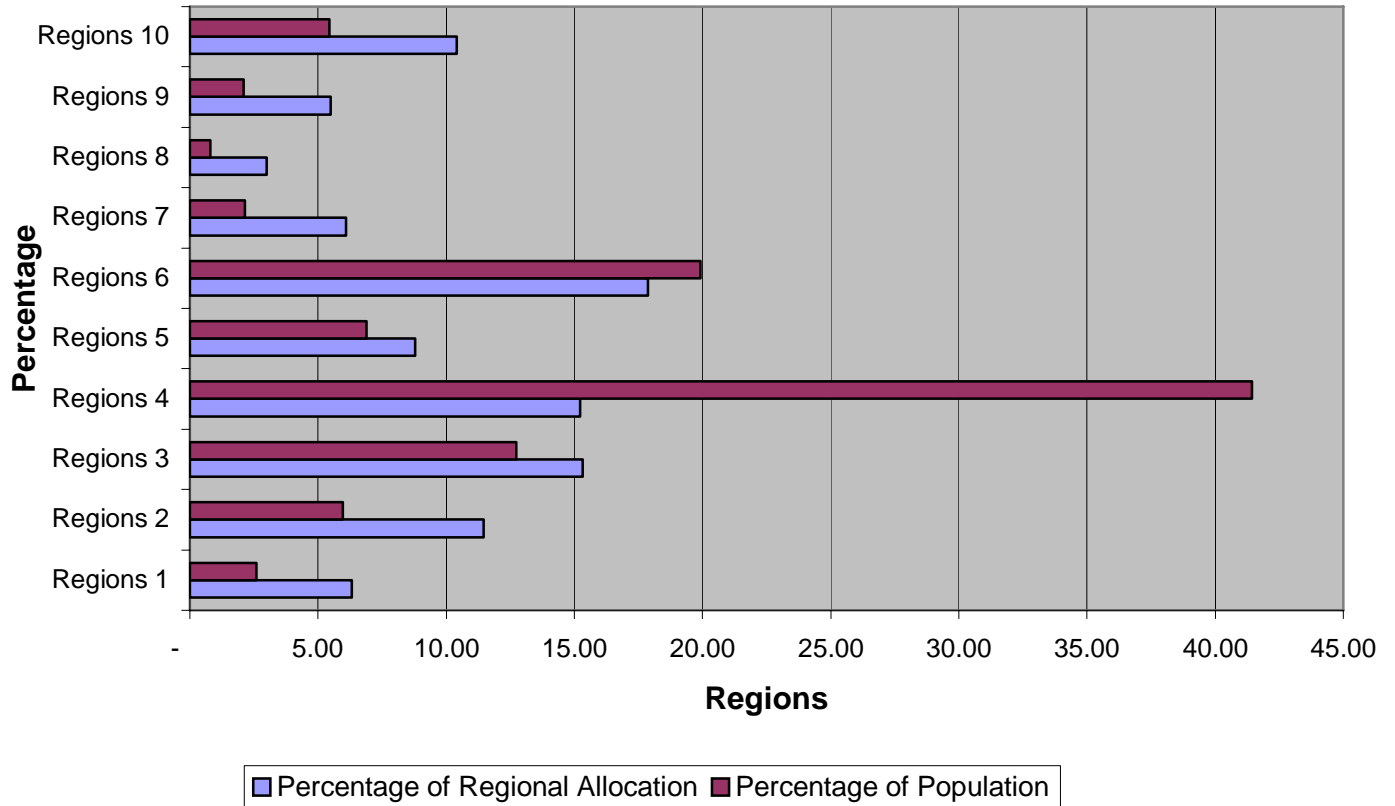
The Basic Needs Trust Fund will contribute G\$605MN for the implementation of the programme in areas such as education, health, community roads, pure water and training – CDB.

Regional Allocations

Region 6 (East Berbice/Corentyne) whose share of the country's population is about 20%, received approximately 17.9% of the total current expenditure amount allocated to the regions. The situation regarding the total expenditure allocation is similar. Region 6 gets 18% while the even smaller Region 3 (Essequibo Islands/West Demerara), with a population share of 12.7% gets 15.34% of the amount of the regional expenditure, which compares to a similar amount in 2004. On the other hand, Region 4, with 42% of the country's population receives only 15.23% of the total expenditure allocated to the regions.

The regional allocation is however of limited use only as Region 4's allocation is distorted by the range of costs such as education and health which are charged to respective ministries while in the other regions such costs are accounted for in the regional budget.

Percentage of Regional Allocations to Population Totals



Ram & McRae's Comments

The total funds voted within the Ministry of Finance amounts to approximately G\$21.7Bn or 25.12% of the total budget. While there may be little discretion on how substantial some of this sum may be spent, it is still huge and explains why President Jagdeo maintains such tight grip on the Ministry.

The Office of the President has wide powers and many of the even mundane matters such as the Official Gazette are run from that Office. The effect of control of funds and executive authority over a wide range of governmental functions concentrates substantial power in one place.

While the overall budget has increased by 14.31%, the current and capital allocation for Region 4 has increased by only 4.79%. With the floods mostly affecting that Region, it might have expected a more generous allocation by the Government.

2005 BUDGET Measures

Fiscal Measures in 2005

No tax or other Budget measure was announced.

Ram & McRae's comments

Last year a number of tax measures were announced sometime in the third quarter of the year while this year there was no tax measure announced in advance of the Budget.

There are several recommendations by the Actuary in relation to the National Insurance Scheme including one for a creeping increase in the rate of contribution. It is therefore difficult to understand why the Government would not be addressing this matter with greater urgency.

One of the fascinations about Budgets of yesteryears was whether there would be a devaluation of the currency. With a floating exchange rate this no longer applies and now that the Bank of Guyana is responsible for monetary management that too is not a budgetary matter any longer. But that still leaves a whole range of policy options which may conveniently be dealt with in the Budget. The Minister has chosen not to consider and pronounce on any of them.

COMMENTARY AND ANALYSIS

Job Creation

Under Job Creation, the Minister in a manner more reminiscent of a card game at a fair than in a serious speech, quoted some staggering numbers that defy reality, logic and understanding. He refers to 75 investment projects facilitated by GO-Invest creating 1,900 direct jobs and another 72 projects worth \$3.6BN expected to create 2,355 jobs. That works out at an average of \$15.5M per job across "ICT, forestry and wood products, mining, light manufacturing and services". And only a few days before the Budget, GO-Invest published its own figures in which it said that it had facilitated investments of \$9.3BN and created the spuriously accurate 1,686 jobs in 2004 i.e. a more modest \$5.5M per job!

Allied to the issue of job creation is that of retention and migration. The drain on our teaching and nursing resources creates dysfunction in these social sectors. The Minister's emphasis on expenditure effectively focuses on imports without any consideration of outputs – perhaps the single most important conceptual flaw in the Budget – evident in both the recurrent and the capital budget.

The National Insurance Scheme

Apparently not fully aware of the state of the NIS's finances, the Minister nonchalantly reports that work is on-going to improve the financial viability and soundness of the Scheme. The reality is that the Scheme is under severe stress and urgent action is required to deal with the Sixth Actuarial review of the National Insurance Fund. This review was done as at December 31, 2001 and submitted to the Government in September 2003.

The review looks at three scenarios: pessimistic, intermediate and optimistic and raises some troubling possibilities such as the ratio of workers to retirees falling from 4.4 in 2001 to 1.9 in 2062. The authors (ILO) note that the ageing of the general population will have a major impact on the exhaustion of reserves by as early as 2019 and make some sweeping recommendations both with respect to contributions, including rates ranging from 18% to 29% and improved benefits to ensure that recipients are not trapped in poverty.

All the Government has done so far is increase contribution from 12% to 13% in 2003, no action in 2004 and none proposed in 2005.

It is difficult to understand the lack of urgency in dealing with such an important matter. The security of the majority of Guyanese retirees is dependent on the viability of the NIS. At the rate at which the Board is proceeding, the next actuarial review date will arrive without the recommendations of the earlier review being addressed.

This must not be allowed to happen.

The Public Debt

No single issue is stated with more conviction and sometimes more inaccuracy than the public debt i.e. those to be serviced out of the Consolidated Fund and which do not include those of the Bank of Guyana and parastatal entities. A publication of the Guyana Information Agency distributed at the opening of the new CARICOM Secretariat building stated:

"In 1992, 94% of every dollar earned went towards servicing of our International Debt. Today that amount has been reduced to 20%".

Here is what the Bank of Guyana Report for that same year said: "Debt servicing (principal and interest) payments amounted to US\$88.0 million in 1992 compared with US\$65.5 million in the

previous year. The Central Government accounted for US\$66.6 million of the total debt service payments while the remainder was applicable to the Bank of Guyana. The debt service ratio, that is, total debt service (TDS) to exports of goods and non-factor services (XGS) increased from 30.5% in 1991 to 32.5% in 1992. The increased debt service ratio in 1992 reflected higher payments in contrast to the improved performance in the trade and service accounts evident in the external accounts.”

And what about the absolute amounts of the debts expressed:

	Domestic Debt	External Debt
1992	G\$18.067BN	US\$2.089BN
2004 (June)	G\$63.707BN	US\$1.021BN
Increase/(Decrease)	G\$45.640BN	(US\$1.068BN)

Despite being corrected on several occasions, the Government persists with this grave inaccuracy that does a dis-service to its credibility. It is time that it corrects itself.

The Diplomatic Development

In paragraph 2.5 of his Speech, the Minister stated that as ‘a small country, Guyana must necessarily rely on diplomacy and its relations with other countries in the international community to maximise development’. Yet this country has the barest of representation with two of the world’s growing economic powers – China and India.

Having announced the intention to re-establish and despite setting up a High Commission in India over one year ago, Guyana is yet to appoint a High Commissioner to that country. With regard to China, it has never replaced Ambassador Ronald Austin who was recalled from that country shortly after the PPP/C won the 1992 General Elections. Minister Kowlessar added that the ‘prospects are well worth an investment of our financial and human resources’. Yet an examination of the Estimates shows the allocation of the Ministry of Foreign Affairs increasing only by 6% from \$8.2M to \$8.7M. Of this the Foreign Relations Component is \$5.8M or less than half a million United States Dollars per month.

Additionally, the Authorised Staffing of the Ministry has been reduced from 377 in 2004 to 232 in 2005 and the number of technical staff reduced from 52 to 44. Of the 24 Senior Technical positions in 2004, only 9 were filled and of the reduced number of 17 in 2005 only 11 are projected to be filled in the year.

Prestige Projects

The IMF has expressed concern about the efficiency of public investment which threatens debt sustainability. It points out on page 16 of its July 7, 2004 Report that “growth has fallen sharply in recent years – from 6.8% between 1994-1997 to 0.3% in 1998-2002 – despite large public investments”. The Report adds that “since 1998, an additional 1% in real GDP has required capital spending to increase by 5% compared to 1.5% between 1994-1997”

Despite this poor return on investment, the IMF notes that the Government of Guyana is now embarking on ‘new large public investment projects that could threaten debt sustainability’. In particular, the IMF draws attention to significant questions regarding the potential of the projects which include the Cricket Stadium, the Berbice Bridge and the sugar expansion projects. It estimates that these projects would take the debt ratio to 280% of revenues well above the 250%

sustainability threshold. While this would warrant caution, the Government of Guyana appears determined to proceed with the projects which have the potential for undermining the prospects for growth and development.

We ought not to risk the entire country on the Cricket Stadium – no matter how popular this might be.

The Auditor General's Report

The most encouraging statement made by the Minister is that the Ministry of Finance will begin tabling of a Treasury Memorandum in Parliament. This is not the first time however but he should be taken at his word. Both Focus and Business Page have been calling for this for years since it is meaningless for the Auditor General to report on issues year after year without corrective steps being taken.

The Auditor General's Report for 2003 signed by Mr. Anand Goolsarran on December 31, 2004 highlighted the following issues some of which are recurring while all are serious enough to warrant action in advance of the Treasury Memorandum. Will the Minister table them and will the PAC now move to enforce that undertaking by the Minister which in any case he is bound to do. The major concerns expressed by Mr. Goolsarran are:

Several Ministries/Departments/Regions continue to be in significant arrears in the reconciliation under the new integrated financial management system, these operational with effect from January 2004. There was no evidence that the balances were transferred to the Consolidated Fund.

Proceeds from the Guyana Lotteries continue to be retained in a special bank account to meet public expenditure without Parliamentary approval. Such proceeds are public revenues, which are required to be paid into the Consolidated Funds.

Significant breaches in the Tender Board Regulations at the Guyana Defence Force continue to exist, including the absence of a system of competitive bidding and numerous instances of contract splitting to avoid adjudication by the Central Tender Board.

Numerous breaches in the Tender Board Regulations at the Ministry of Home Affairs (Police) including evidence of contract splitting resulting in irregularities in excess of \$50M in the purchase of items of uniform.

Amounts totalling \$50M relating to revenue collected during the period 1998 to 2002 by the Wildlife Division at the Office of the President could not be traced as having been banked.

No thank you

At the end of the year, Mr. Anand Goolsarran ended his long and distinguished career with the Government. He was an outstanding and fearless Auditor General who was clearly more than an inconvenience to Administrations that were less than comfortable with the energy, enthusiasm and persistence of Mr. Goolsarran. His departure marks the end of an era. The country will miss him.

The year also saw Ms. Dolly Singh who acted for several years as Governor of the Bank of Guyana being sent on retirement leave. Ms. Singh served the Government with commitment and conviction and the manner of her departure was certainly not courteous. She deserved better.

The country says thank you, Anand and Dolly.

This is the fifteenth consecutive year of Budget Focus. It has been the toughest Budget Speech to

analyse. It gives so little to comment on. A budget must be more than lots of words or a string of figures. It must show a vision, demonstrate conviction, inspire optimism and convey confidence.

There was little evidence of any of these.

In earlier years, the PPP/C Administration regularly commented, criticised and called for public service reform. That is now hardly ever discussed and perhaps for good reasons. Employing, on a contract basis, those with whom one is comfortable has become the norm. That person is not subject to the strictures of the public service, is free to do political work, is paid at any rates which compares favourably with the private sector and finds the job much less demanding.

But there is another and perhaps more powerful reason – any reform would involve a reduction in the number of ministries (Local Govt, Foreign Trade, Parliamentary Affairs, Labour and others) and loss of jobs of the boys.

The public service was destroyed once. We should avoid doing so again.

Ram & McRae honestly does not believe that the effort in this Focus is justified by the contents of this Budget. At this stage and given current trends, we hardly see the benefit of reviewing the 2006 Budget.

LEGISLATION 2004

Appendix 1

Legislation	Name of Act	Objective	Assented Date
Act No. 1 of 2004	Investment Act	To provide for the rendering into law, of principles and practices that seek to inform our present approach to investment. To stimulate the socio-economic development of Guyana, and to attract and facilitate investment	March 31, 2004
Act No. 2 of 2004	Small Business Act 2004	To provide an incentive regime and support programme for small business; the establishment of the Small Business Council, the Small Business Bureau, the Small Business Development Fund and for matters connected therewith and incidental thereto.	March 31, 2004
Act No. 3 of 2004	Guyana Energy Agency (Amendment) Act 2004	To amend the Guyana Energy Agency Act 1997, to increase the powers of the Agency to grant petroleum and petroleum products import, wholesale, retail and other licences; to empower the Agency to mark petroleum and petroleum products and to apply an approved standard or specification thereto; to increase the Agency's regulation making powers and to increase penalties.	May 31, 2004
Act No. 4 of 2004	Customs Duties (Amendment (No. 2) Order 2003] Validation Bill 2004	To validate the Customs Duties (Amendment) (No. 2) Order 2003 (No. 29 of 2003) published in the Gazette on 1 st September 2003.	March 31, 2004
Act No. 5 of 2004	Audit Act 2004	To set out the responsibilities and authority of the Auditor General; to strengthen Parliamentary oversight over the work of the Auditor General; to provide for the establishment and administration of an independent Audit Office; and to regulate such other matters connected with or incidental to the independent auditing of the finance of Guyana.	April 28, 2004
Act No. 6 of 2004	Pensions (President) Act 2004	To make provision for the payment of superannuating benefits in respect of service in the office of President.	May 24, 2004
Act No. 7 of 2004	Income Tax (Amendment) Act 2004	To amend the Income Tax Act section 13 to include the emoluments of the Chancellor and the Chief Justice.	May 24, 2004
Act No. 8 of 2004	Public Procurement Commission Tribunal Act 2004	To provide for the establishment of the Public Procurement Commission Tribunal and for matters connected therewith and incidental thereto.	May 31, 2004
Act No. 9 of 2004	Rights Commissions Tribunal Act 2004	To provide for the establishment of the Rights Commission Tribunal and for matters connected therewith and incidental thereto.	May 31, 2004

Act No. 10 of 2004	Drainage and Irrigation Act 2004.	To provide for the establishment of the National Drainage and Irrigation Authority for ensuring that water resources are located, evaluated, conserved and utilised for the greatest national advantage through appropriate water management strategies and water use planning to provide that the drainage and irrigation system are operated in a sustainable manner	May 31, 2004
Act No. 11 of 2004	Technical Vocational Education and Training Act 2004	To provide for the promotion of technical and vocational education and training and for purposes connected therewith.	July 30, 2004
Act No. 12 of 2004	The National Accreditation Council Act 2004	To provide for the establishment of the National Accreditation Council to vest in that body the power to grant recognition to awards obtained in Guyana and elsewhere, to determine the equivalence of all awards for the purpose of establishing acceptable standards within the Caribbean Community and for purposes connected therewith or related thereto.	July 30, 2004
Act No. 13 of 2004	Appropriation Act 2004	To provide for the issue from the Consolidation Fund of the sums necessary to meet the expenditure (not otherwise lawfully charged on the Consolidated Fund) of Guyana for the fiscal year ending 31 st December 2004. The Act authorises the Accountant General to issue from the Consolidated Fund, a sum not exceeding \$64.930Bn to defray charges and expenses of the Government for the financial year.	April 30, 2004
Act No. 14 of 2004		No Act bearing this number has been published.	
Act No. 15 of 2004		No Act bearing this number has been published.	
Act No. 16 of 2004	Caribbean Court of Justice Act 2004	To implement the Agreement Establishing the Caribbean Court of Justice and to provide for other related matters.	Nov 30, 2004
Act No. 17 of 2004	Protocol to the agreement establishing the Caribbean Court of Justice Act 2004	To enable the implementation by Guyana of the Protocol to the Agreement Establishing in Caribbean Court of Justice.	Nov 30, 2004

Act No. 18 of 2004	Protocol on the Privileges and immunities of the Caribbean Court of Justice and the Regional Judicial and legal Services Commission Bill 2004	To enable the implementation by Guyana the Protocol on the Privileges and Immunities of the Caribbean Court of Justice and the Regional Judicial and legal Services Commission and for related matters.	Nov 30, 2004
Act No. 19 of 2004	Caribbean Court of Justice Trust Fund Agreement Act 2004	To enable the implementation by Guyana of the Agreement for the establishment of the Caribbean Court of Justice Trust Fund and for purposes connected therewith.	Nov 30, 2004
Act No. 20 of 2004	Local Authorities (Elections) (Amendment) Act 2004	To amend the Local Authorities (Elections) Act to provide for the postponement of elections of councillors of local democratic organs.	Nov 30, 2004
Act No. 21 of 2004	Bank of Guyana (Amendment) Act 2004	To amend the Bank of Guyana Act 1998 <i>Amendment.</i> Sections 10, 12, 14, 17 <i>Insert: Section 17A-B</i>	Nov 30, 2004
Act No. 22 of 2004	Financial Institutions (Amendment) Act 2004	To amend the Financial institution Act 1995 <i>Amendment.</i> Sections 14(2),29, 30, <i>Insert: Sections 30A, 33A-F</i>	Nov 30, 2004

Orders 34 (mainly Public Corporations Act, Customs Act)

Regulations 11 (Guyana Shipping Act, Mining Act, Civil Aviation Act, Procurement Act, Pesticides and Toxic Chemicals Control, Fiscal Management & Accountability Act)

SELECTED SOCIO-ECONOMIC INDICATORS

Appendix 2

ITEM	2004	2003	2002	2001	2000
1 Accounts Accounts Aggregates					
1.1 Growth Rate of Real GDP	1.6	-0.6	1.1	2.3	-1.4
1.2 GDP at factor cost (US\$M)	652.7	631	617.8	602.5	596.9
1.3 GNP at factor cost (US\$M)	621.1	588.4		550.9	552.6
1.4 Per Capita GDP (US\$)	868.6	840.2	829.2	777.5	773
1.5 Per Capita GNP (US\$)	826.5	783.5	755.4	710.9	715.6
1.6 Gross National Disposable Income (US\$M)	795.2	754.5	705.2	705.9	718.6
1.7 Private Consumption as % of Gross Deomestic Expenditure	49.2	44.8	45.1	47.5	43
1.8 Public Consumption as % of Gross Deomestic Expenditure	21.8	23.7	21.1	19.6	23.8
2 External Trade and Finance (US\$M)					
2.1 Bat of Payments Current Account Balance	-118.9	-84.1	-106.1	-128.3	-113.4
2.2 Imports of Goods and Non- Factor Services (G&NFS)	-857.1	-777.1	-758.9	-775.4	-788.6
2.3 Exports of Goods and Non- Factor Services (G&NFS)	724.3	702.6	667.2	655.6	674.5
2.4 Resource balance	-132.8	-74.2	-91.1	-119.8	-104.1
2.5 Imports of G&NFS/GDP(%)	131.3	-74.5	122.8	128.7	-132.1
2.7 Exports of G&NFS <i>IGDP</i> (%)	111	123.1	118.6	106.8	113
2.8 Net International Reserves of Bank of Guyana	136.6	176.2	183.4	187.4	178.4
2.9 External Public Debt Outstanding	1078.8	1092	1237	1196.7	1188
3 PRICES, WAGES & OUTPUT					
3.1 Rate of Inflation (% changed in Urban CPI)	5.5	4.9	6.1	1.9	6.2
3.2 Public Sector Monthly Minimum Wage in G\$ (e.o.p)	23204.5	22099	21047.3	20045	19000
3.3 %Growth Rate	5	5	5	5.5	26.66
3.4 Electricity Generation (in M.W.H)	514.9	549.3	512.7	504.8	476.9
4 POPULATION & VITAL STATISTICS					
4.1 Mid- Year Population ('000)	751.4	751	745	743.6	742.2
4.2 Population Growth Rate (e.o.p)	0.1	0.8	0.2	0.02	-4.9
4.3 Net Migration ('000)	NA	NA	NA	-12	-11.1
4.4 Visitor Arrivals ('000)	NA	NA	104.3	99.3	105
5 HEALTH AND EDUCATION					
5.1 Public Expenditure on:					
5.2 Education as % of National Budget	15.5	14.4	18.2	16.5	11.7
5.3 Health as % of National Budget	9.5	8.9	8.8	7	5.7
6 CRIME					
6.1 Reported Serious Crimes	3450	2941	3470	3512	4149
6.2 of which: Homocides	131	206	142	79	95
7 EXCHANGE RATES					
7.1 Exchange Rates US\$	200.44	194.25	191.75	189.5	184.8
8 INTEREST RATES					
8.1 Prime Lending Rate	14.54**	14.88	16.25	16.79	17.21
8.2 Small Savings Deposit	3.42**	3.46	4.29	6.7	7.28
8.3 Three Months Time Deposits	2.59**	2.81	3.7	7.2	7.37
Treasury Bill Rate	3.79	3.4	3.91	6.25	9.2
Pubic Domestic Debt (G\$M)	63707*	61923	53794	52008	48035

NA Not Available

* as at June 2004

** as at November 2004