The Private Sector Commission of Guyana

Review of the Budget 2020

The National Budget for 2020, referred to as an 'emergency' budget encompassed a variety of fiscal measures designed to quickly revamp the economy. First and foremost, the PSC acknowledges the context in which this budget was prepared – that is, after five months of political turmoil with the election's results saga, which was compounded by the economic and financial impact of the COVID-19 pandemic. In these respects, the PSC wishes to commend the Government of Guyana for a preparation of the budget in such a short period of time in the given circumstance.

Second, for our country to have gone without a national budget for over a year, that was quite detrimental to the economy given that in Guyana's context, government spending accounts for about 40% of GDP. The Government usually spends money on capital projects such as major infrastructure works in the building of roads, bridges, public health care and education among others. Government also spends on the procurement of goods and services. Therefore, with the injection of government spending in these areas, this spending will help to sustain local businesses that supply the government with these goods and services as well as the contractors, engineers and the labour force operating within areas where public investments are undertaken.

Turning now to some of the key fiscal measures in budget 2020, hereunder mentioned is an assessment of the potentials impact of these measures, in the various sectors and to the economy at large.

1. **Reversal of VAT on Electricity and Water**

The reversal of VAT on electricity and water will result in more disposable income for households by way of reduction in household utility expenses and reduction in operations costs for commercial enterprises as well.

2. **Mortgage Interest Relief – interest incurred on housing loan up to $30 million to be deductible from income tax.**

This measure will allow mortgage holders to benefit from interest relief of up to $30 million instead of up to $15 million previously. As a result, this measure will effectively reduce the total cost of borrowing on housing loans up to $30 million, which in turn, puts more disposable income in the pockets of home buyers, which will be available for spending in the economy. It will also boost the number of new home purchases as it makes home ownership more affordable and wider spread.

3. **Increase limit for low income loans for corporate tax relief in banking sector from $8 million to $10 million.**

   This measure will allow persons in the low-income bracket, desirous of owning their own homes, the ability to borrow up to $10 million for housing at a subsidized interest rate which is between 4 – 6 percent rather than the average interest rate which is between 12 - 14 percent. This will move a number of persons from the category of renters to the category of homeowners.

Moreover, these measures coupled with numbers (1 and 2) above, when the government re-commences its massive housing development drive, will create a lift in economic activity that will spill over to other sectors and create thousands of jobs, for example - the banking sector will see an increase in loans for home mortgages, construction sector companies, hardware suppliers, whilst contractors and labourers, will all see an increased earnings.

4. **Allocation of $4.5 billion for household relief of $25,000 per household.**

This will bring immediate relief to vulnerable households affected by the COVID-19 pandemic, which suffered layoffs or furloughs. Once administered upon the approval of the budget, it will also help to revive the retail and distribution sector.

5. **Removal of VAT on building and construction materials**

This measure complements the other measures outlined from 1-3 above which is also help to bring down the cost of housing and will help to boost the construction and hardware sector. Indirectly this can also lead to the creation of jobs as a result of increase in demand for these products and services. Additionally, this can stimulate investment into these sectors as well owing to increased demand.

6. **Removal of 25% Corporate Tax on Education; Removal of 25% corporate tax on health and medical supplies**

These measures are intended to reduce the cost of, and to make education more accessible at the private educational institutions; it is the same intention for access to and cost of healthcare, by encouraging cost savings to be passed on from private hospitals to the consumers. These are crucial fiscal measures designed to reduce two areas of the economy that are severely affected by the COVID-19 pandemic. Of course, the implementation of these two measures will also result in more investment into the sector as well.

7. **Removal of VAT on machinery and equipment; all-terrain vehicles for mining, forestry, agriculture and manufacturing.**

These measures are expected to significantly reduce the cost of acquiring these machinery and equipment which should boost investment into these sectors. This in turn, will also contribute to job creation in the mining, forestry and agriculture sectors. The banking sector will also benefit from increased lending in these sectors to finance such investments.

8. **Change of log export policy to allow saw millers to export logs**

This policy change will create the enabling environment for small loggers to grow and access new markets. This is a good policy initiative to allow for the growth and development of small operators within this sector and encourage more investments to expand their operations and in turn contributing to job creation within this sector.

9. **The $15,000 cash grant for school children**

This measure in particular will help to cushion the expenses in low income households thus allowing for those children to afford the necessary educational materials. In addition to the household support, this will also find its way back into the economy through commerce in the purchase of these school items from suppliers / local businesses.

10. **Measures to support senior citizens: increase of old age pension from $20,500 to $25,000, allowing $4.4 billion, injected on an annual basis into disposable incomes of senior citizens.**

This is a good measure for senior citizens who would have found it hard to afford their monthly expenses. $4.4 billion injected in the hands of consumers can also find its way back into the economy supporting commerce and increased spending in the economy. With increased disposable income through this and other measures as outlined above, these in turn, can contribute to increase lending in the banking sector and fuel growth in the retail and distribution sectors on consumption goods and services. Indirectly, these can lead to the creation of employment and lead to more private investments.

11. **Reversal of land lease fees across all sectors and water charges back to 2014 rates, and the reversal of land taxes and drainage and irrigation charges back to 2014 rates; removal of VAT on fertilizers, agrochemicals, pesticides, and key inputs in the poultry industry and zero-rating of poultry industry; tax incentives on investment in Agro-processing facilities, cold storage and packaging.**

With the reversal of these fees back to the 2014 rates coupled with the other measures for the agriculture sector as outlined above, these will encourage more investment and reducing overhead costs for these farmers, who in turn, can create employment. Given the fact that agriculture in general is a risky sector to the extent where farmers incur all sorts of risk of losses whether from pests, bad crops, bad weather conditions, these measures will help to cushion these impacts whenever they occur.

12. **Allocation of $5 billion to help recapitalize Guysuco**

The downsizing of the industry which resulted in the termination of over some 7,000 direct employees and the impact on these village economies, was capriciously done at the time, even though most economic and social impact studies would not have recommended closure. The move, therefore, to revamp some of the closed estates will help to resuscitate these village economies and the supporting industries. Where these households who were directly affected would have loss substantial income and as a result unable to pay their mortgages and properly sustain their homes and even send their children to school, can now recover from these imposed hardships. This will help to drive commerce in the business sectors as well and also contribute to the inflows of foreign exchange which is important to help maintain a stable exchange rate.

13. **The allocation of $800 million to support the Amerindian communities; measures to reduce travel cost to hinterland regions**

This is an important measure to help rebuild these hinterland communities and provide employment within the hinterland communities on sustainable development projects. Also, the reduction of travel cost to hinterland regions will result in reduce cost for consumable goods shipped to these regions from Georgetown as well as putting back more disposable income in the pockets of these persons who frequently travel in and out of these regions, as well as for companies that have operations or investments in these regions.

Taken together, the budget contained adequate fiscal measures designed specifically to put more disposable income in the hands of householders who are also consumers, and, to provide sufficient incentives to promote and encourage private investment in a number of key productive sectors such as agriculture, forestry and mining, construction, housing and development as well as the banking sector. Given the state of the economy with the political and covid-19 impact coupled with the financial state of the government, these measures are welcomed by the private sector. More importantly, it is expected that investors' confidence will be restored, consumer confidence will be restored which will result in more spending in the economy and these in turn, will ultimately help to put the economy on a path of recovery by encouraging more private investments and the creation of more jobs within the economy.