

Private Sector Commission

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*Highlights of
The Guyana National Budget 2007*

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The National Budget 2007 was presented under the theme, *Building a Modern and Prosperous Guyana*. The budget, in setting out the financial appropriations to the various sectors of the economy, provides a policy map of governmental priorities that are selected to obtain the development objectives of the government.

In 2007 the economy is once again expected to achieve a positive growth rate with real GDP growth estimated at 4.9%. Inflation is projected at 5.2% but may be expected to exceed this level due to the impact of both a value-added tax and the demand pressures of an influx of visitors for Cricket World Cup.

Central Government Operations

With projected expenditure of G\$99.54 billion, the 2007 budget is 1.79% below the 2006 budget of G\$101.36 billion with its smaller size due primarily to a contraction of capital expenditure from a budgeted G\$42.01bn in 2006 to G\$36.70bn for 2007.

Current Revenue

Central government revenue which exceeded the budgeted projection of G\$58.5bn by 6.54% in 2006 is expected to climb another 4.1% in 2007 to G\$64.91bn.

Income taxes are projected to yield just over 6% more revenue than taxes on consumption despite the introduction of a Value-Added Tax which is intended to increase revenue by broadening the tax base. Revenue from taxes on consumption, including the VAT, is projected at G\$25.50bn or 41.93% of all tax revenue while direct taxes on income are expected to yield G\$27.19bn or 44.7%. Trade taxes are expected to yield \$5.67bn or 9.3%.

Current Expenditure

Current expenditure for 2007, budgeted at G\$62.84bn, is projected only marginally higher than the 2006 revised expenditure total of \$62.18bn but almost 6% higher than the sum of \$59.3bn which had been budgeted for 2006.

Budgeted expenditure for personal emoluments is 7.6% higher at G\$21.99bn while expenditure on other goods and services, projected at G\$18.19bn is 6.4% higher than the budgeted total for 2006. This is however 6.6% less than the revised estimate of expenditure on other goods and services in 2006.

Capital Revenue and Expenditure

Capital expenditure of \$36.7bn has been projected for 2007, 12.7% below the budgeted 2006 sum. No capital revenue is expected.

Overall Balance

The most significant difference between budgeted central government operations for 2007 and the preceding year is the 19.1% projected improvement in the overall balance to -G\$34.63bn from -\$42.83bn in 2006. This improvement is expected to result primarily through an improvement in revenue collection and a contraction of capital expenditure.

This reduction of the deficit occasions a 22.4% decline in required financing through external and domestic borrowing. Domestic borrowing is expected to decline to G\$855 million from a budgeted 2006 total of G\$2.7bn which was revised to G\$3.3bn while net external borrowing at \$18.64bn will be 16.74% lower than the budgeted sum for 2006.

Grant financing is projected to decline by 14.5% to G\$15.14bn.

Major Programmes and Projects

Sugar

Guysuco is to spend 11.7bn on its capital programme in 2007. Most of the expenditure will go towards the new factory at Skeldon which is expected to be completed by November.

Roads and Bridges

\$1bn has been allocated for work on the New Amsterdam to Moleson Creek highway, the total cost of which is estimated at \$8.2bn. The sum of \$3.4bn has been budgeted for remedial work on other roads and structures while \$340m will be spent on completing the four-lane highway on the East Bank of Demerara.

The sum of \$500m will be spent on construction of the approach road to the Berbice River Bridge and an estimated \$2.3bn will be spent on various urban, regional and community roads across the country.

\$250m has been allocated for the commencement of Phase II of the Bridges' Rehabilitation Programme and for continuation of the Road Maintenance Management System. \$177.6m is budgeted for construction and rehabilitation of other bridges and structures.

River Transport

The sum of \$400m has been budgeted for rehabilitation of ferries and dredging of main waterways.

Sea Defence

\$2.3bn has been allocated for sea and river defence works in several communities.

Drainage and Irrigation

\$800m has been budgeted for rehabilitation of the Dawa Pump and for the construction of two additional sluices while \$550m is to be spent on radar towers to enhance forecasting. Additionally, a large portion of the funds allocated for agriculture will be spent on other drainage and irrigation systems.

Electricity

\$500m has been allocated for the Unserved Areas Electrification Programme while solar, hydro and diesel generation demonstration projects are planned for several hinterland communities.

Education

\$850m will be spent on the Basic Education Access and Management Support Programme while \$500m has been allocated for the Education For All – Fast Track Initiative. The latter includes the upgrading of 10 schools, the construction of teachers' housing and textbook and school feeding projects.

\$87m has also been allocated for completion of the Wisburg Secondary School while \$30m is to be spent on a distance learning programme for Mathematics and English. \$645m has also been budgeted for construction and repair of other schools and teachers' quarters, and for equipment and furnishings.

Health

\$590m is to be spent this year on the Basic Nutrition Programme in which micro-nutrient powder is distributed to children and pregnant women.

\$1.1bn has been budgeted for improvement of governance and institutional capacity in the Ministry of Health while \$335m is to be spent on the HIV/AIDS epidemic.

Housing

\$1.7bn has been allocated to the housing sector and 1,500 low income house lots are expected to be developed and 500 squatter settlements regularized.

Sanitation and Water

The sum of \$915m is to be spent under the Georgetown Remedial and Sewerage Project Phase II for improving water supply and sewerage services in Georgetown while \$300m has been budgeted for works including water treatment plants and wells in several rural communities. \$300m will also be spent on the Corriverton Water Supply Improvement Project.

Sport and Cultural Development

\$270m has been budgeted for completion of the Guyana national Stadium while \$50m is to be spent on construction of an Olympic-sized swimming pool.

\$231m has been allocated for cultural development.

Townships

The sum of \$685m has been allocated for infrastructural and institutional development under the Community Services Enhancement Project which is intended to convert Charity, Supenaam, Parika and Bartica into secondary towns. The total cost of the project is expected to be \$3.6bn.

Agency allocations

The Ministry of Finance again received the largest appropriation of funds amounting to 22.4% of the total budget, though at G\$22.3bn the total was down 28.7% last year's budgeted allocation.

The Ministry of Public Works and Communication received the next highest allocation of funds at G\$7.92bn amounting to almost 8% of the total budget. The bulk of this allocation is for capital expenditure, primarily for road works.

Budgeted allocation for the Ministry of Education declined slightly to G\$6.7bn while planned expenditure for the Ministry of Health increased by 32.2% to G\$5.22bn. The Georgetown Public Hospital Corporation has also been allocated G\$2.46bn, up 16.7% from 2006.

Allocations for security and defence exceed G\$9.3bn or almost 10% of the national budget. Of this sum, G\$5.6bn is targeted for the Ministry of Home Affairs, up 14.5% from 2006 and reflecting an increased emphasis on targeting crime. New measures planned include the establishment of a Citizens Security programme and a SWAT team.

The Ministry of Agriculture received a 14.4% increase to G\$5.18bn, the bulk of which sum is intended for drainage and irrigation works, development of water users associations and research aimed at increasing rice production and agricultural diversification.

The allocation for the Ministry of Housing and Water is up by 13.5% to G\$4.58bn. The latter includes G\$1.7bn for the housing sector.

The allocation to the Ministry of Home Affairs which amounted to 4.7% of a larger budget in 2006 has moved to nearly 6% of the total 2007 budget. The fact that this outstrips proportions going to productive sectors such as agriculture and tourism or essential services such as human services, housing and water is a measure of the increasing opportunity cost of crime in the country.

While budgetary allocation for the Ministry of Tourism increased by 48.1%, the total at G\$582 million remains a relatively small amount for an agency which is charged with responsibility for overseeing the implementation of the National Competitiveness Strategy and for developing the fledgling tourism industry. A total of G\$164 million has been earmarked for commencement of implementation of the National Competitiveness Strategy.

The allocation of G\$65.6million to the Guyana Tourism Authority for promotion and market expansion is unlikely to generate the level of market awareness required to make the sector a significant contributor to export earnings. The Guyana dollar has depreciated significantly against most global currencies, having declined with the US dollar, and investment in marketing the country's image abroad could therefore be expected to yield positive benefits to the sector and the economy.

Balance of payments

The overall balance of payments position is expected to reach US\$41 million in 2007. The budgeted 2006 position of –US\$6.7m was exceeded by more than US\$51m at the end of the year.

Merchandise exports are expected to rise 3.9% above the revised 2006 total to reach US\$625m while merchandise imports are projected to increase by 5.1% to US\$930m. The growth is projected to stem from traditional sectors of the economy with the highest increase in bauxite at 8.5%. Non-traditional exports are expected to grow by less than 1% to US\$152m.

Despite the widening of the merchandise balance, the current account deficit is expected to narrow to US\$175m due to a significant decline in imports of services and a marginal increase in private transfers to US\$220m.

Debt relief is expected to again contribute significantly to the achievement of a favourable overall balance by boosting the capital account balance to a projected US\$235m.

Tax measures and tax relief

The introduction of a value-added tax, VAT, predated the presentation of the 2007 budget. While there has been a significant global emphasis on indirect taxation such as the VAT over the last two decades, this has been accompanied by a movement away from direct taxes on income which are believed to be a disincentive to productive effort. The 2007 budget introduced no tax reform measures to complement the VAT.

A lifting of the income tax threshold from G\$300,000 per annum to G\$336,000 was introduced. This amounts to a gross transfer of approximately G\$1,000 per month to wage earners, an amount likely to be outstripped by the increased proportion of income paid in taxes on consumption.

Governments usually make conservative estimates of revenues from a VAT in its initial implementation phase since actual receipts are dependent upon collection efficiency. They are therefore reluctant to make commitments based upon expected receipts.

However, given the fact that direct taxes on income are projected to be 15.2% above the budgeted 2006 total, and given the potential social and economic consequences of a contraction of purchasing power, a higher income tax threshold would have been expected in lieu of further tax reform.

Selected Financial Allocations - Budget 2007

| <i>G\$million</i> | | | % change |
|--|----------------|----------------|----------------|
| | Budget 2007 | Budget 2006 | Budget '06~'07 |
| Ministry of Finance | 22,312.7 | 28,675.4 | -28.5% |
| Ministry of Public Works & Commun. | 7,918.6 | 7,835.9 | 1.0% |
| Ministry of Education | 6,745.4 | 6,802.8 | -0.9% |
| <i>Ministry of Home Affairs</i> | <i>5,604.0</i> | <i>4,794.2</i> | <i>14.5%</i> |
| <i>Ministry of Health</i> | <i>5,215.9</i> | <i>3,538.5</i> | <i>32.2%</i> |
| <i>Ministry of Agriculture</i> | <i>5,178.0</i> | <i>4,433.8</i> | <i>14.4%</i> |
| <i>Ministry of Housing & Water</i> | <i>4,581.5</i> | <i>3,965.1</i> | <i>13.5%</i> |
| Guyana Defence Force | 3,684.0 | 3,439.0 | 6.7% |
| Ministry of Labour, Human & Social Svc | 3,471.0 | 3,620.5 | -4.3% |
| Georgetown Public Hosp. Corp. | 2,462.1 | 2,282.0 | 7.3% |
| <i>Office of the President</i> | <i>2,217.7</i> | <i>1,848.2</i> | <i>16.7%</i> |
| Ministry of Foreign Affairs | 2,180.2 | 1,981.1 | 9.1% |
| Ministry of Local Gov. & Regional Dev. | 2,092.1 | 2,340.0 | -11.8% |
| Elections Commission | 1,412.7 | 1,748.3 | -23.8% |
| Ministry of Culture, Youth & Sport | 1,183.2 | 2,039.6 | -72.4% |
| <i>Parliament Office</i> | <i>709.0</i> | <i>557.9</i> | <i>21.3%</i> |
| Office of the Prime Minister | 601.4 | 917.2 | -52.5% |
| <i>Ministry of Tourism, Industry & Comm.</i> | <i>582.2</i> | <i>302.4</i> | <i>48.1%</i> |
| <i>Ministry of Amerindian Affairs</i> | <i>334.8</i> | <i>219.5</i> | <i>34.4%</i> |
| <i>Ministry of Legal Affairs</i> | <i>304.6</i> | <i>225.4</i> | <i>26.0%</i> |
| <i>Public Service Ministry</i> | <i>225.5</i> | <i>157.1</i> | <i>30.3%</i> |
| Teaching Service Commission | 52.1 | 47.8 | 8.3% |
| Public and Police Service Commission | 44.4 | 43.0 | 3.2% |
| Office of the Auditor General | 12.8 | 76.1 | -494.5% |
| Ministry of Foreign Trade & Int'l Co-op. | 1.0 | 3.5 | -253.5% |

Source: Ministry of Finance

Note: Agencies for which allocations have significantly increased are italicized.

Central Government Financial Operations

| G\$million | Budget 2007 | Revised 2006 | Budget 2006 | Budget '06-'07 | % change |
|--------------------------------------|-------------------|-------------------|-------------------|----------------|---------------|
| Total Revenue | 64,907.60 | 62,356.70 | 58,531.10 | | 10.9% |
| Revenue | 64,907.60 | 62,356.70 | 58,531.10 | | 10.9% |
| Tax | 60,819.70 | 58,446.80 | 54,796.70 | | 11.0% |
| Income Taxes | 27,187.50 | 26,698.10 | 23,599.30 | | 15.2% |
| Consumption Taxes | 25,504.20 | 24,203.70 | 23,313.30 | | 9.4% |
| Trade Taxes | 5,668.40 | 5,204.40 | 5,133.30 | | 10.4% |
| Other | 2,459.60 | 2,340.60 | 2,750.80 | | -10.6% |
| Non-tax | 4,087.90 | 3,909.90 | 3,734.40 | | 9.5% |
| Private Sector | 3,353.30 | 3,409.10 | 3,252.70 | | 3.1% |
| Public Enterprise & BOG | 734.60 | 500.80 | 481.70 | | 52.5% |
| Total Expenditure | 99,539.00 | 103,990.30 | 101,356.30 | | -1.8% |
| Current Expenditure | 62,841.50 | 62,183.90 | 59,341.90 | | 5.9% |
| Non-interest Expenditure | 55,698.10 | 55,108.00 | 52,082.30 | | 6.9% |
| Personal Emoluments | 21,986.40 | 20,085.20 | 20,439.10 | | 7.6% |
| Other Goods and Services | 18,194.60 | 19,483.60 | 17,106.20 | | 6.4% |
| Transfers to the private sector | 15,517.10 | 15,539.20 | 14,537.00 | | 6.7% |
| Transfers to the public sector | 0.00 | 0.00 | 0.00 | | |
| Interest | 7,143.40 | 7,075.90 | 7,259.60 | | -1.6% |
| External | 3,527.90 | 4,457.50 | 4,430.20 | | -20.4% |
| Domestic | 3,615.50 | 2,618.40 | 2,829.40 | | 27.8% |
| Primary Balance | 9,209.50 | 7,248.70 | 6,448.80 | | 42.8% |
| Current Balance | 2,066.10 | 172.80 | -810.80 | | 354.8% |
| Capital Revenue | 0.00 | 0.00 | 0.00 | | |
| Capital Expenditure | 36,697.50 | 41,806.40 | 42,014.40 | | -12.7% |
| Overall Balance Before Grants | -34,631.40 | -41,633.60 | -42,825.20 | | 19.1% |
| Grants | 15,141.00 | 17,524.60 | 17,711.10 | | -14.5% |
| HIPC Relief | 5,937.60 | 6,204.10 | 6,963.70 | | -14.7% |
| Original | 0.00 | 0.00 | 525.00 | | -100.0% |
| Enhanced | 3,114.80 | 2,383.20 | 4,178.90 | | -25.5% |
| CMCF | 513.90 | 513.90 | 513.90 | | 0.0% |
| MDRI | 2,308.90 | 3,307.00 | 1,745.90 | | 32.2% |
| Other | 9,203.40 | 11,320.50 | 10,747.40 | | -14.4% |
| Projects | 6,409.70 | 6,475.80 | 6,082.60 | | 5.4% |
| Non-projects | 2,793.70 | 4,844.70 | 4,664.80 | | -40.1% |
| Overall Balance After Grants | -19,490.40 | -24,109.00 | -25,114.10 | | 22.4% |
| Financing | 19,490.50 | 24,109.00 | 25,114.40 | | -22.4% |
| Net External Borrowing | 18,636.00 | 20,810.70 | 22,383.40 | | -16.7% |
| Disbursement of Loans | 18,156.40 | 17,007.90 | 18,289.60 | | -0.7% |
| Debt Repayments | 3,216.70 | 4,348.70 | 4,984.10 | | -35.5% |
| Rescheduling | 1,529.30 | 1,599.50 | 1,767.90 | | -13.5% |
| Guysuco - Escrow A/C | 2,167.00 | 6,552.00 | 7,310.00 | | -70.4% |
| Net Domestic Borrowing | 854.50 | 3,298.30 | 2,731.00 | | -68.7% |
| Net Divestment proceeds | 0.00 | 0.00 | 0.00 | | |
| Overall Deficit as a % of GDP | -10.0 | -13.4 | -14.7 | | |

Source: Ministry of Finance

Note: Totals may differ slightly from published data due to rounding