

REVIEW OF GUYANA BUDGET 2017

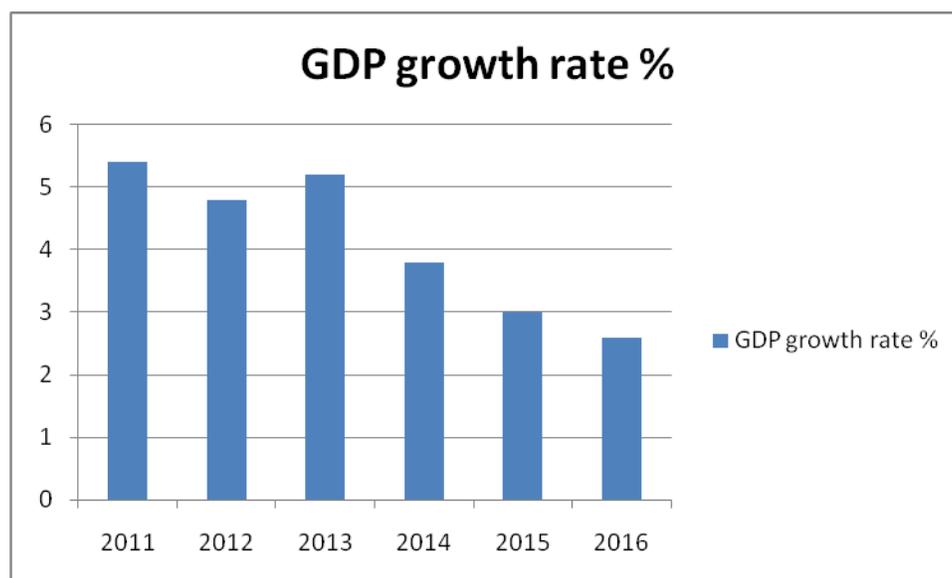
Overview

The Minister of Finance, Honourable Winston Jordan, presented the third budget of the APNU+AFC administration on 28 November 2016 under the theme “*Building A Diversified, Green Economy: Delivering On The Good Life To All Guyanese*”. The 2017 budget was presented ten months after the 2016 budget and is the first in forty years to be presented before the start of the fiscal year.

Budget 2017 projects total expenditure of G\$250.1 billion (US\$1.208 billion) while total revenue is estimated at G\$217.4 billion (US\$1.050 billion). The budget deficit for 2017 is estimated at G\$32.7 billion (US\$158 million).

National Economy

Budget 2016 had projected that the economy would have grown by 4.4 percent. However, actual growth for 2016 was 2.6 percent. Gross domestic product at current prices amounted to US\$2.96 billion in 2016 compared to US\$2.76 billion in 2015. Per capita GDP in 2016 was US\$4,001 compared to US\$3,741 in 2015.



Source: Bureau of Statistics

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The contributions to gross domestic product of the major sectors, as measured at current prices, are reflected in the table below.

Sectors		% of 2016 GDP	% of 2015 GDP	% of 2014 GDP
Agriculture, Fishing and Forestry		15	20	19
Mining and Quarrying		23	15	15
Manufacturing		6	7	6
Services:				
	Wholesale and Retail Trade	12	13	15
	Construction	9	9	10
	Public Administration	9	10	10
	Transportation and Storage	7	7	7
	Financial and Insurance Activities	4	5	5
	Information and Communication	4	5	5
	Other	11	9	8

Source: Bureau of Statistics

The growth rates in the highlighted sectors, as measured using 2006 prices, are summarized in the table below.

Sectors	Growth Rate 2016	Growth Rate 2015	Growth Rate 2014
Agriculture, Fishing and Forestry	-10.4	1.1	5.6
Mining and Quarrying	45.5	9.0	-11.5
Manufacturing	-9.5	5.3	10.7
Services	5.5	2.3	5.5

Source: Bureau of Statistics

The agriculture sector declined due to the impact of the El Nino weather conditions experienced during 2016, as well as the loss of the Venezuelan rice market. Additionally, the forestry sector was impacted by the cessation of Barama's production of logs and the United Kingdom's decision to restrict greenheart logs originating from Guyana.

The mining and quarrying sectors returned an improved performance in 2016 with the gold industry benefitting from Guyana Goldfields and Troy Resources reaching full capacity, as well as rising

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global gold prices. Total gold declared in the year was 705,820 ounces compared to 451,490 ounces in the previous year. The bauxite industry also improved in the year.

The manufacturing sector contracted due to the performance of the sugar and rice industries. The services industries grew by 5.5 percent overall compared to 2.3 percent in 2015. The water and electricity and construction industries also grew by 9.5 percent and 6.3 percent, respectively.

Balance of Payments and Public Debt

The balance of payments ended in a deficit of US\$29.2 million for 2016, compared to a deficit of US\$107.7 million for 2015. The main contributors are highlighted below.

Account	2016 US\$mIn	2015 US\$mIn
Current Account		
Merchandise		
Gold	778.2	501.1
Rice	182.9	220.8
Bauxite	100.2	104.3
Sugar	67.0	78.4
Timber	40.3	43.7
Other Exports	203.4	203.0
Fuel	(337.9)	(367.4)
Other Imports	(1,219.6)	(1,124.2)
Current – Services (Net)	(189.8)	(257.6)
Current – Private Transfers	274.4	416.5
Total Current Account Deficit	(100.8)	(181.5)
Total Capital Account Surplus	71.6	71.4
Errors and Omissions	0.0	2.3
Overall Balance	(29.2)	(107.7)

Source: Bank of Guyana

Gold and rice continued to represent the major export-earning industries for Guyana in 2016. The contributions from rice, bauxite, sugar and timber declined in the year, reflective of prevailing market conditions and production challenges in the year. The capital account surplus increased marginally from 2015. The overall deficit was funded by debt relief and forgiveness.

Net international reserves at the Bank of Guyana amounted to US\$624.6 million at the end of 2016 compared to US\$596 million at the prior year end.

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Total public debt amounted to US\$1.6 billion at the end of 2016. External debt accounted for US\$1.2 billion of the total amount outstanding.

Other Key Indicators

The exchange rate at the end of 2016 remained stable with the Bank of Guyana weighted average US Dollar exchange rate ending at G\$206.50, the same as the previous year end.

Inflation of 1.3 percent was recorded in the year compared to deflation of 1.8 percent in 2015, while the weighted average lending rate at commercial banks decreased to 10.40 percent in September 2016 from 10.56 percent in December 2015. The non-performing loan ratio was 11.3 percent at September 2016 compared to 10.0 percent at December 2015.

Revenue Projections for 2017

Of the total projected revenue for 2017 of G\$217 billion (US\$1.050 billion), G\$186 billion (US\$899 million) is from current sources while G\$31 billion (US\$152 million) is from capital sources.

The major sources of current revenue are summarized in the table below.

Form of Current Revenue	2017 Budget G\$bln	2016 Budget G\$bln	2015 Actual G\$bln
Value-added tax	45.2	38.9	35.4
Corporation tax	33.6	32.6	30.3
Excise tax	34.4	33.6	33.3
Personal income tax	19.4	20.1	19.9
Import duty	14.4	13.1	12.4
Other tax revenue	15.6	12.1	11.6
Transfers from statutory and non-statutory bodies	10.1	8.7	7.9
Rent, royalties and land development schemes	5.3	4.9	0.0
Bank of Guyana profits	3.5	3.3	3.5
Other current revenue	4.5	6.0	7.4
	186.0	173.3	161.7

Source: Budget 2017

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Significant fiscal measures announced in Budget 2017 are as follows:

Measures towards a Green Economy

- Tax exemptions on importation of items related to investments in wind and solar energy, water treatment and water recycling facilities, and waste disposal facilities. A one-off two-year corporation tax holiday for companies involved in these activities was also introduced.
- Exemptions of customs duties and taxes on machinery and equipment related to charging stations for electric vehicles, greenhouses and component parts for use in the agricultural sector. There was also a lowering of excise tax on hybrid and electrical vehicles.
- Zero-rate of excise tax on specially-designed refuse trucks and bio-fuel.
- Restriction on importation of used tyres, along with a reduction in the duty applicable to new tyres.
- Imposition of an environmental levy of \$10 per unit on imported and locally manufactured products using non-returnable metal, plastic or glass containers for beverages.

Measures to reduce inequality and increase disposable income

- Increase in the tax threshold of \$660,000 per annum to the greater of \$720,000 per annum or one-third of the employee's salary.
- Reduction in the personal income tax rate from 30 percent to 28 percent for persons earning less than G\$2,160,000 per annum. Introduction of 40 percent rate on taxable earnings over \$2,160,000 per annum.
- Imposition of a 2 percent withholding tax on gross payments made to contractors.
- Restriction of mortgage relief to loans up to G\$15 million.
- Increase in tributor's tax from 10 percent to 20 percent.
- Repeal of certain provisions in the Income Tax Act, intended to bring gold and diamond producers more within the purview of the tax legislation.

Measures to spur economic growth

- Reduction in the corporation tax rate from 30 percent to 27.5 percent for manufacturing and non-commercial companies.
- Introduction of a dual tax rate for companies carrying on both commercial and non-commercial activities.
- Recovery of minimum tax paid in excess of corporation tax based on chargeable income, once proven to the satisfaction of the Commissioner-General.
- Issuances of temporary, standard and 'trusted trader' income tax and NIS compliance certificates.

Value-added tax

- Reduction in the VAT rate from 16 percent to 14 percent.
- Increase in the VAT registration threshold from G\$10 million to G\$15 million.

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- Introduction of VAT on electricity consumption in excess of G\$10,000 per month.
- Introduction of VAT on water consumption in excess of G\$1,500 per month.
- Reduction in the number of zero-rated items, limiting the zero-rated category to items pertaining to exports and manufacturing inputs.

Other tax measures

A number of other tax measures were introduced to improve tax administration and increase revenue. Some of the other tax measures are:

- A flat fee of G\$50,000 to be applied on tax returns filed late which show a loss position. The late filing penalties are to be increased to 10 percent.
- The tax authority will be empowered to garnish funds from bank accounts of taxpayers who have outstanding tax arrears.
- Non-resident companies failing to keep proper accounting records in Guyana will be subject to a fine of G\$1,000,000.
- Increase in the travel tax from G\$2,500 to G\$3,500.

Capital revenue is projected to be received principally through external loans of G\$18.2 billion (US\$88 million) and external grants of G\$11.7 billion (US\$56 million). Significant funds are expected from external loan arrangements with the Government of the People's Republic of China of G\$9.35 billion (US\$45 million), the Inter-American Development Bank of G\$3.8 billion (US\$18 million) and the Caribbean Development Bank of G\$2.7 billion (US\$13 million). External grants totaling G\$7.5 billion (US\$37 million) are expected from the European Union.

Expenditure Projections for 2017

Budget 2017 projects total expenditure of G\$250 billion (US\$1.208 billion) compared to G\$230 billion (US\$1.111 billion). The allocations to capital and current expenditure are shown in the table below.

Expenditure	2017 Budget G\$bln	2016 Budget G\$bln	2015 Budget G\$bln
Current	193	178	182
Capital	57	52	39
	250	230	221

Source: Budget 2017

The table below analyses the allocation of total expenditure across responsible agencies, with comparative allocations from Budgets 2016 and 2015.

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Responsible Authority	2017 Budget G\$bln	2016 Budget G\$bln	2015 Budget G\$bln
Ministry of Finance	25	27	25
Ministry of Public Infrastructure	35	31	18
Ministry of Education	21	20	16
Ministry of Agriculture	18	18	21
Ministry of Social Protection	17	14	10
Ministry of Public Security	17	15	12
Ministry of Public Health	21	19	17
Guyana Defence Force	12	10	9
Regional Authorities	35	33	27
Other Authorities	33	29	31
Public Debt	16	14	35
	250	230	221

Source: Budget 2017

Some significant expenditure items announced by the Minister are highlighted below.

- G\$37.2 billion (US\$180 million) towards infrastructural works, including projects such as:
 - Continued development and maintenance of roads and bridges
 - Commencement of the first phase of the Linden to Lethem road
 - Commencement of a permanent bridge across the Essequibo River at Kurupukari
 - Resurfacing and rehabilitation, where necessary, of the Linden-Soesdyke Highway
 - Construction of pedestrian overpasses at Liliendaal, Houston, Eccles and Peter's Hall
 - Rehabilitation of stelling and sea transport vessels
 - Construction, rehabilitation and maintenance of sea defence infrastructure
 - Rehabilitation of airstrips in the hinterland
 - Continued works on the CJIA Expansion Project

- G\$20.6 billion (US\$99 million) towards agricultural diversification and enhanced competitiveness, including measures such as:
 - Improved drainage and irrigation systems
 - Increased cultivation and productivity in traditional agriculture
 - Promotion of large-scale agriculture in the Intermediate and Rupununi Savannahs
 - Strengthened livestock and fisheries sub-sectors

- G\$9 billion (US\$43 million) towards GuySuco's operations.

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- G\$29.1 billion (US\$140 million) towards the national security sector, including measures such as:
 - Increased recruitment of police officers by approximately 20 percent
 - Equipping the police with additional vehicles
 - Upgrading twelve police stations across the country to handle domestic violence interviews, interviewing and case management
 - Expansion of the Mazaruni Prisons
 - Addition of a Port Georgetown fireboat
 - New fire stations at Mahdia, Mabaruma and Melanie Damishana

- G\$43.1 billion (US\$208 million) towards the education sector, including measures such as:
 - Implementation of the Programme for Emergency Education Reform (PEER)
 - School feeding programme and purchase of text books
 - Construction and rehabilitation of schools, teachers' quarters and other buildings
 - Addition of six hundred teachers
 - Technical Vocational Education and Training (TVET) programmes
 - Operational support for the University of Guyana and construction of a teaching and learning complex for mathematics and science

- G\$31.2 billion (US\$151 million) towards the health sector, including measures such as:
 - Equipping and upgrading district hospitals, including deployment of additional specialists to the regions
 - Construction of a new laboratory for the Foods and Drugs Department
 - Training of three hundred health workers in mental health issues, along with the commencement of construction of a Mental Health Institute

- Improvements to the social protection benefits through the following measures:
 - Old age pension to increase from G\$18,200 to G\$19,000
 - Public assistance to increase from G\$7,300 to G\$7,500

Projected Performance of Guyana Economy in 2017

It is projected that the Guyana economy will grow at 3.8 percent in 2017 driven by growth in the following key sectors: mining and quarrying – 7.9 percent; construction – 5 percent; sugar – 10.6 percent. Gold and bauxite are expected to do well in 2017 while the construction sector is expected to benefit from rising infrastructure spending. Improved sugar output is expected based on the non-recurrence of the El Nino weather conditions that occurred in 2016. No growth is anticipated for the rice industry.

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The balance of payments deficit is expected to improve to a surplus position of US\$20 million in 2017 from the deficit position of US\$29.2 million in 2016. The improvement is expected largely from an improved merchandise trade balance based on better production and prices of key exports.

The inflation target is set at 2.5 percent.

Author's Note

Budget 2017 was prepared in Guyana Dollars. For purposes of this article, United States Dollar equivalent amounts have been stated by applying an exchange rate of G\$207 to US\$1, and have been rounded to the nearest million in most cases. Figures in tables may not sum to the total due to rounding.