

EBS/83/202

CONFIDENTIAL

September 15, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Guyana - Real Effective Exchange Rate - Information Notice

The attached information notice on a change in the real effective exchange rate of the Guyana dollar is circulated for the information of the Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

GUYANA

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with other departments)

Approved by E. Wiesner and W. A. Beveridge

September 15, 1983

The recent evolution of Guyana's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of July 1983 the Guyana dollar had appreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Guyana's exchange rate policy--the 1982 Article IV consultation in November 1982. The appreciation is estimated to have amounted to 21.1 percent.

From October 1975 to the end of May 1981 the Guyana dollar was pegged to the U.S. dollar at a rate of GS2.55 per US\$1. On June 2, 1981 the Guyana dollar was devalued by 15 percent to GS3.00 per US\$1. As the rate vis-a-vis the dollar has been kept unchanged since then, the appreciation of the U.S. dollar had, by July 1983, led to an increase in the nominal effective exchange rate of the Guyana dollar of about 18 percent from the rate in June 1981. With the high rate of inflation that has prevailed in Guyana, the real effective appreciation of the Guyana dollar is estimated to have amounted to 56 percent over the same period.

Since the end of 1982 Guyana has not compiled the consumer price index, because few transactions now take place at the official prices that were used in the index. It has thus been necessary to use staff estimates for the rate of inflation. On the basis of information obtained during a recent staff visit to Guyana, the staff's current estimate of the monthly rate of inflation in 1983 is 2.5 percent, which compares with the monthly rate of 1.6 percent recorded by the official price index in 1982. (The 1982 figure is believed to have understated substantially the rate of inflation, given the declining availability of goods at official prices and the fact that prices in the unofficial market are several times those recorded in the official CPI.)

The staff's report to the Board in connection with the 1982 Article IV consultation (SM/82/201, 9/8/82) described the acuteness of the external imbalance of the Guyana economy. Since that time the situation has continued to deteriorate. In 1982 the external current account registered a deficit equivalent to 29 percent of GDP and the overall balance of payments deficit increased substantially to the equivalent of 27 percent of GDP. During the first half of 1983, this weak performance continued, compounded by a seasonal decline in exports; the resulting current account deficit was equivalent to 41 percent of GDP and the overall deficit to 48 percent of GDP, most of which was accounted for by accumulation of external payments arrears (Table 2). By June 1983, gross official reserves were virtually exhausted (SDR 1.4 million) and total net international reserves (including external payments arrears) amounted to negative SDR 451 million; the arrears amounted to US\$307 million (Table 3).

Reflecting partly Guyana's balance of payments difficulties and the overvalued exchange rate, in recent years an unofficial exchange market, in which the exchange rate fluctuates around G\$9 to G\$10 per US\$1, has also developed in Guyana. Guyana has also tightened its import licensing system and prohibited the importation of certain consumer items.

Staff Appraisal

At the conclusion of the 1982 Article IV consultation in November 1982 the Chairman's summing up noted that "Directors believed that it was extremely urgent for the Guyanese authorities resolutely to adopt and implement the comprehensive policy package that was necessary to bring the economy back on course." The real effective appreciation of the Guyana dollar since then has further exacerbated the external imbalance and underlines the need for effective action. A comprehensive adjustment program is needed, a major feature of which would need to be a substantial devaluation of the Guyana dollar and the corresponding pass-through of its effects into domestic prices.

A staff team recently visited Guyana to hold the 1983 Article IV consultation discussions. The staff report on these discussions, to be issued shortly, includes an assessment of the magnitude of the external disequilibrium and the nature of the policy adjustments required.

Table 1. Guyana: Real Effective Exchange Rate
and Related Series
(Indexes: 1980 = 100)

Quarterly	Real Effective Exchange Rate <u>1/2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (local currency) <u>2/</u>	Exchange Rate (U.S. dollars)	Consumer Price Index (seasonally adjusted)	Consumer Price Index (not season- ally adjusted)
1978						
I	96.9	102.6	92.6	100.0	69.4	69.8
II	100.3	106.1	94.6	100.0	72.4	72.1
III	100.1	103.5	96.7	100.0	75.8	75.6
IV	102.1	102.3	99.8	100.0	80.0	80.3
1979						
I	101.4	102.3	99.1	100.0	81.6	81.9
II	103.5	102.0	101.5	100.0	85.9	85.5
III	100.7	99.7	101.1	100.0	89.4	89.2
IV	103.8	101.3	102.5	100.0	93.7	94.0
1980						
I	102.3	100.6	101.7	100.0	96.8	97.0
II	101.3	100.6	100.7	100.0	99.5	99.0
III	97.9	98.9	99.0	100.0	100.3	100.3
IV	99.0	100.1	99.0	100.0	103.4	103.8
1981						
I	106.1	102.7	103.2	100.0	111.1	111.2
II	109.0	102.9	106.1	95.0	117.5	116.9
III	108.8	97.5	111.6	85.0	127.2	127.2
IV	108.9	96.1	113.3	85.0	132.6	133.0
1982						
I	113.2	98.2	115.3	85.0	137.4	137.5
II	118.9	100.6	118.2	85.0	143.6	142.8
III	127.0	103.3	122.9	85.0	152.4	152.6
IV	132.6	105.7	125.5	85.0	158.0	158.4
1983						
I	143.1	108.1	132.4	85.0	168.4	...
II	153.8	109.5	140.4	85.0	181.4	...
Monthly						
1982						
Nov. <u>3/</u>	133.8	106.4	125.8	85.0	158.4	158.8
Dec.	134.6	105.8	127.0	85.0	160.3	161.0
1983						
Jan.	139.0	106.5	129.6	85.0	164.3	...
Feb.	143.2	108.1	132.5	85.0	168.4	...
March	148.2	109.8	135.0	85.0	172.6	...
April	150.6	109.3	137.8	85.0	176.9	...
May	152.8	108.9	140.2	85.0	181.4	...
June	157.9	110.3	143.2	85.0	185.9	...
July	162.0	111.2	145.7	85.0	190.5	...
Percentage change						
Nov. 1982-						
July 1983	21.1	4.5	15.8	--	20.3	...

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

4/ Data for January-July are staff estimates, assuming a rate of inflation of 2.5 percent per month.

Table 2. Guyana: Summary Balance of Payments

	1979	1980	1981	1982	Jan.-June 1983 1/
(In millions of U.S. dollars)					
<u>Current account (including transfers)</u>	-84.7	-106.1	-187.0	-141.6	-94.5
Merchandise	-26.5	-6.9	-93.1	-38.3	-50.4
Exports, f.o.b.	(291.2)	(389.2)	(346.9)	(242.1)	(80.8)
Imports, c.i.f.	(-317.7)	(-396.1)	(-440.0)	(-280.4)	(-131.2)
Services (net)	-58.5	-93.3	-94.1	-95.1	-45.1
Of which: interest payments	(-25.1)	(-35.8)	(-53.6)	(-47.5)	(-27.7)
Transfers (net)	0.3	-5.9	0.2	-8.2	1.0
<u>Capital account</u>	37.1	42.0	106.2	29.2	-6.6
Public sector capital (net) 2/	31.6	51.0	111.3	30.5	-6.6
Private sector (net)	5.5	-9.0	-5.1	-1.3	--
<u>Errors and omissions (net)</u>	-11.8	-37.2	43.1	-18.3	-9.1
<u>Special transactions 3/</u>	3.5	3.3	4.2	--	--
<u>Overall balance</u>	-55.9	-98.0	-33.5	-130.7	-110.2
Change in net international reserves (increase -) 4/	48.6	81.0	-2.8	5.1	11.2
Change in arrears (increase +) 5/	7.3	17.0	36.3	125.6	99.0
<u>Memorandum items</u>					
(In percent)					
Current account/GDP	16.3	17.9	32.9	29.3	40.9
Overall balance/GDP	10.8	16.6	5.9	27.0	47.7

Sources: Bank of Guyana; Statistical Bureau of Guyana; and Fund staff estimates.

1/ Preliminary estimates.

2/ Includes imputed loans against debt arrears, agreed refinancing and deferment, and short-term trade credits to GUYSUCO and GUYBAU/BIDCO.

3/ Includes exchange profits and losses from exchange rate variations, and proceeds from SDR allocations.

4/ Does not include liabilities on account of arrears.

5/ Includes Bank of Guyana arrears arising from non-repayment of interest on bilateral deposit and CMCf balances in arrears.

Table 3. Guyana: External Payments Arrears

(In millions of U.S. dollars; end of period)

	1979	1980	1981	1982	June 1983
Total arrears	<u>29.4</u>	<u>46.4</u>	<u>82.7</u>	<u>208.3</u>	<u>307.3</u>
1. Arrears with deposits	<u>26.9</u>	<u>27.5</u>	<u>49.1</u>	<u>97.7</u> ^{1/}	<u>125.6</u> ^{1/}
Merchandise	(...)	(...)	(34.3)	(68.1)	(...)
Other current payments	(...)	(...)	(10.2)	(25.0)	(...)
Valuation adjustment	(--)	(--)	(4.6)	(4.6)	(4.6)
2. <u>Bank of Guyana Arrears</u>	<u>2.5</u>	<u>18.9</u>	<u>23.6</u>	<u>72.9</u>	<u>97.7</u>
Interest on bilateral deposits	(2.5)	(3.4)	(7.9)	(12.9)	(18.8)
CARICOM Clearing Facility	(--)	(15.5)	(15.7)	(60.0)	(78.9)
Principal	/--/	/15.5/	/14.8/	/57.1/	/76.6/
Interest	/--/	/--/	/0.9/	/2.9/	/2.3/
3. <u>Central government debt</u>	<u>--</u>	<u>--</u>	<u>1.0</u>	<u>34.5</u>	<u>61.9</u>
Principal	(--)	(--)	(0.8)	(24.0)	(5.7) ^{2/}
Interest	(--)	(--)	(0.2)	(10.5)	(16.2) ^{2/}
4. <u>Public corporations' debt</u>	<u>--</u>	<u>--</u>	<u>9.0</u>	<u>3.2</u>	<u>22.1</u>
Nationalization loans arrears	(--)	(--)	(9.0)	(--)	(--)
Other	(--)	(--)	(--)	(3.2)	(22.1) ^{2/}

Source: Bank of Guyana.

^{1/} Arrears on account of merchandise and other current payments without local currency deposits are estimated at US\$30-35 million. This would raise total arrears to US\$238.3 to 243.3 million at end-1982, and to US\$337.3 to US\$342.3 million at end June 1983.

^{2/} Sum of arrears at end-1982 and arrears on account of debt service payments of medium- and long-term public debt.

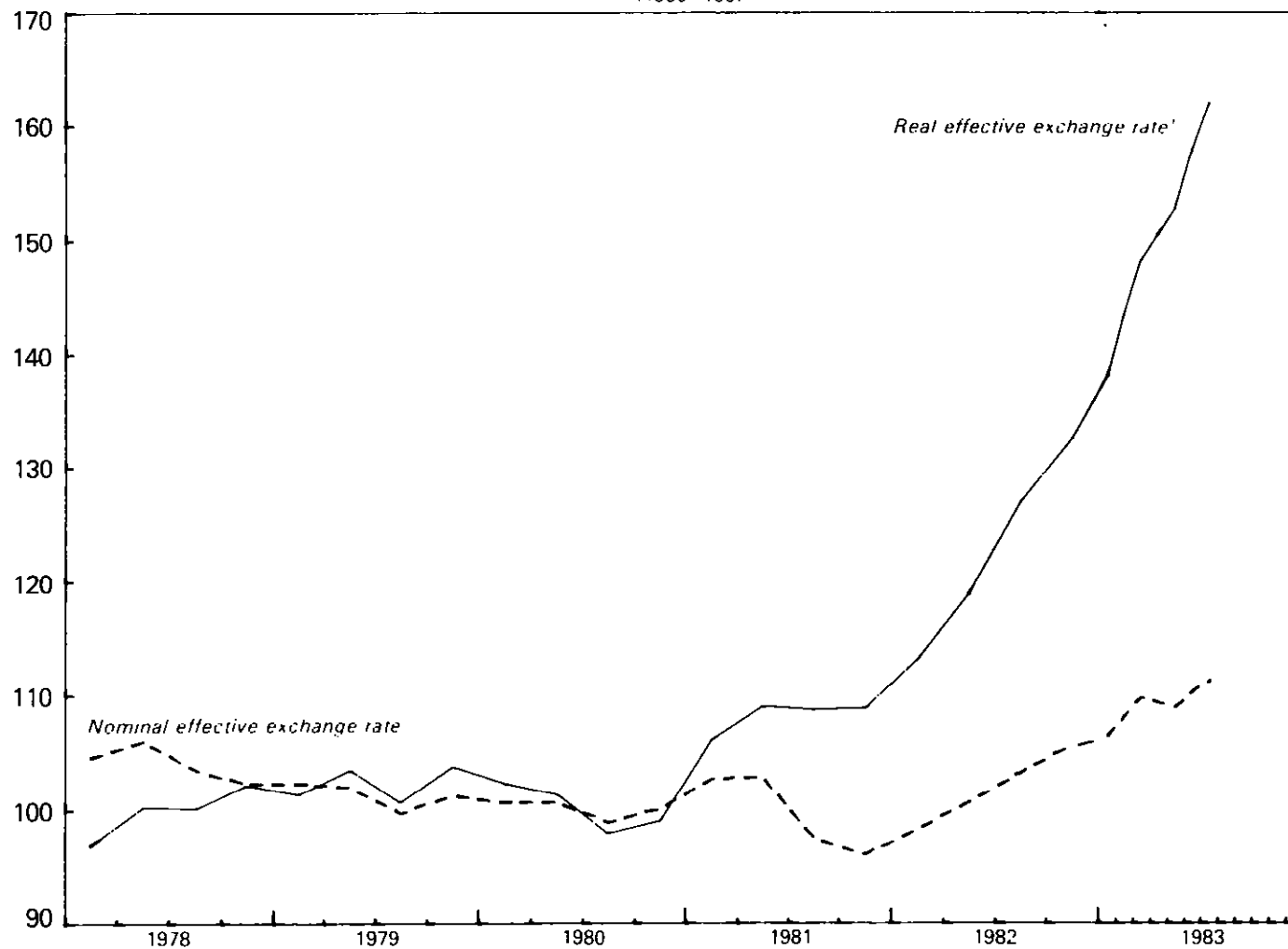
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GUYANA
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE
EXCHANGE RATE

(1980 = 100)



¹ Trade weighted index of nominal exchange rates deflated by seasonally adjusted consumer prices, increases mean appreciation.