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November 17, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Guyana, which will be brought to the agenda for discussion on a date to be announced.

Mr. Muñiz (ext. 8611) or Mr. Gudac (ext. 8616) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 1987 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal, Legal, and Treasurer's Departments)

Approved by S. T. Beza and S. Kanesa-Thasan

November 16, 1987

I. Introduction

The 1987 Article IV consultation discussions with Guyana were conducted in Georgetown during September 7-18, 1987. The representatives of Guyana in the discussions included the Minister of Finance, the Governor of the Bank of Guyana, and senior officials from the Ministries of Finance and Trade, the Bank of Guyana, the State Planning Secretariat, other government agencies and the main public enterprises. The mission consisted of Carlos G. Muñiz (Head), Toma Gudac, Jacob Gons (all WHD), Neil Chrimes (RES), Steven Fries (ETR) and Dorothy Quelch (Secretary-WHD). Mr. James Sackey of the World Bank participated in the mission's final meeting with the Minister of Finance.

Guyana has been in arrears to the Fund since April 1983, and in May 1985 was declared ineligible to use the general resources of the Fund (EBM/85/73). As of October 31, 1987, Guyana's arrears amounted to SDR 67.3 million or 136.8 percent of quota. Guyana's outstanding use of Fund credit amounts to SDR 71.8 million or 145.8 percent of quota. The 1986 Article IV consultation with Guyana was concluded by the Executive Board on December 19, 1986 (SM/86/285 and SUR/87/1). The latest review of Guyana's overdue obligations to the Fund was carried out by the Board on June 19, 1987 (EBS/87/131). The next review is scheduled to be held by December 19, 1987. Guyana accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement on December 27, 1966.

II. Background and Developments in 1986

1. Background

Because of adverse external developments and inappropriate policies, Guyana has been experiencing severe economic difficulties since the late 1970s. These difficulties reached crisis proportions in 1982-83 with real GDP declining by about 10 percent in both years. Since then the authorities have taken a number of measures to redress the economic situation. These measures contributed to some improvement in overall economic performance in 1984-85 but were insufficient to correct the fundamental problems affecting the economy. Recorded output rose modestly in 1984-85 as economic activity continued to be hampered by distortions in relative prices, a shortage of foreign exchange and the progressive deterioration of economic infrastructure. At the same time, large financial imbalances continued to beset the economy, the parallel economy expanded and external payments arrears rose further.

2. Developments in 1986 1/

After increasing by an average of 1.5 percent a year in 1984-85, recorded real GDP rose by 0.4 percent in 1986 (Table 1). Agricultural output rose by 4 percent in 1986 as rice production increased sharply. However, bauxite production declined by 14 percent because of production bottlenecks, while manufacturing output (other than rice milling and sugar refining) remained on a downward path. The annual rate of inflation, as measured by the official consumer price index, declined to 8 percent in 1986 from 15 percent in 1985. However, given the scope of price controls and the parallel economy, this index is not a reliable indicator of inflationary trends.

The overall deficit of the nonfinancial public sector declined to 50 percent of GDP in 1986 from 60 percent in 1985 (Table 2). Most of the deficit was financed domestically. Mainly reflecting a reduction in capital expenditures 2/ (in relation to GDP), the overall deficit of the central government declined by the equivalent of 3 percentage points of GDP to about 50 percent of GDP in 1986. Total revenues rose by the equivalent of 1.2 percentage points of GDP as income tax receipts responded positively to intensified collection efforts, while import duties were boosted by the liberalization of the no-funds licensing system. Current expenditures rose by the equivalent of 0.6 percentage points of GDP as an increase in expenditures on personal emoluments and interest payments more than offset a reduction in expenditures on other goods and services resulting from the nonrecurrence of some outlays incurred in 1985 (associated with defense and the elections).

Notwithstanding increased capital expenditures, the overall deficit of the public enterprises declined to about 6 1/2 percent of GDP in 1986 from 14 percent in 1985. The sugar corporation (GUYSUCO), the bauxite company (GUYMINE) and the Guyana State Corporation Group (GUYSTAC) benefited from improved management practices that reduced operating costs, equity contributions from the central government (that lowered

1/ The analysis of recent economic developments is made difficult by the poor quality of statistical data. Ratios to GDP may be overstated since the actual level of nominal GDP probably is considerably higher than recorded nominal GDP.

2/ Excluding capital transfers to public enterprises, which are classified as expenditures of these enterprises.

interest due) and lower oil prices. GUYSUCO also benefited from the elimination of the domestic sugar subsidy and higher sugar export prices. The overall surplus of the National Insurance Scheme remained roughly unchanged at 6 percent of GDP.

Table 1. Guyana: Selected Macroeconomic Indicators

(Annual percentage change)

	1982	1983	1984	1985	Prel. 1986	Est. 1987
Real GDP at factor cost	-10.4	-9.3	2.1	1.0	0.4	1.0
Real GDP per capita	-10.4	-9.2	2.2	1.0	0.4	1.0
GDP at current prices (at factor cost)	-7.4	-4.0	17.5	15.6	11.7	54.5
GDP implicit deflator (at factor cost)	3.4	5.8	15.1	14.5	11.3	53.0
National income at current prices	-12.3	-9.3	12.8	12.9	10.2	...
Export volume	-19.8	-8.1	7.2	5.8	-9.1	4.5
Import volume	-33.3	-10.6	-12.8	21.4	2.8	-3.5
Terms of trade	-4.9	-9.9	6.0	-5.4	13.7	5.8
Urban consumer price index						
End of period	19.3	11.2	28.1	7.7	6.6	50.0
Period average	20.6	15.2	25.1	15.0	7.9	35.0

Sources: Statistical Bureau of Guyana, Ministry of Finance; and Fund staff estimates.

The net domestic assets of the financial system expanded by 20 percent during 1986, or at about the same rate as during 1985 (Table 3). Reflecting the reduction in the public sector deficit, credit to the public sector rose at a slower pace than during 1985 whereas credit to the private sector expanded somewhat faster. As the availability of foreign exchange became increasingly tighter (in part because of the suspension of balance of payments support from Trinidad and Tobago), the rapid expansion of credit was accompanied by a sharp increase in the liabilities of the financial system to the private sector--22 percent during 1986 compared with 16 percent in 1985. It also led to a widening of the spread between the parallel and official exchange rates, reportedly from an average of about 230 percent in 1985 to about 300 percent in 1986.

Table 2. Guyana: Summary Operations of the Consolidated Nonfinancial Public Sector

	1982	1983	1984	1985	Prel. 1986	Est. 1987
			(In millions of Guyana dollars)			
Total revenue	629.0	646.9	820.1	943.0	1,144.4	1,980.9
Central government current revenue	537.5	545.1	656.3	777.8	928.3	1,097.3
Central government capital revenues	3.3	2.0	51.2	35.2	27.9	76.8
Operating surplus of the National Insurance Scheme	88.2	99.8	112.6	130.0	132.0	142.4
Operating surplus of the public enterprises	--	--	--	--	56.2	664.4
Total expenditure	1,224.2	1,389.9	1,639.9	2,130.0	2,261.1	3,274.7
Central government current expenditures	768.3	941.0	1,228.4	1,595.3	1,815.4	2,325.9
Capital expenditures	306.7	258.3	381.5	413.3 1/	445.7	948.8
Central Government 2/	217.6	171.7	205.4	261.1 1/	242.6	461.8
Public enterprises	87.6	85.4	175.6	151.4	201.7	483.3
National Insurance Scheme	1.5	1.2	0.5	0.8	1.4	3.7
Operating deficit of the public enterprises	149.2	190.6	30.0	121.4	--	--
Overall surplus or deficit (-)	-595.2	-743.0	-819.8	-1,187.0	-1,116.7	-1,293.7
Central Government	-445.1	-565.6	-726.3	-1,043.4	-1,101.8	-1,613.5
Public enterprises	-236.8	-276.0	-205.6	-272.8	-145.5	181.1
National Insurance Scheme	86.7	98.6	112.1	129.2	130.6	138.7
Financing	595.2	743.0	819.8	1,187.0	1,116.7	1,293.7
External	149.7	111.9	113.0	292.5	295.7	517.1
Of which: arrears	54.9	105.0	165.9	345.3	291.8	675.1
Domestic	445.5	631.1	706.8	894.4	821.1	776.7
Of which: financial system	630.8	633.2	824.5	960.4	792.4	1,130.0
			(In percent of GDP)			
Total revenue	43.5	44.1	48.2	48.0	51.6	57.8
Central government current revenue	37.2	37.1	38.6	39.6	41.8	32.0
Central government capital revenues	0.2	0.1	3.0	1.8	1.3	2.2
Operating surplus of the National Insurance Scheme	6.1	6.8	6.6	6.6	5.9	4.2
Operating surplus of the public enterprises	--	--	--	--	2.5	19.4
Total expenditure	84.7	94.7	96.5	108.4	101.9	95.6
Central government current expenditures	53.1	64.1	72.3	81.2	81.8	67.9
Capital expenditures	21.2	17.6	22.4	21.0	20.1	27.6
Central Government 2/	15.0	11.7	12.1	13.3	10.9	13.5
Public enterprises	6.1	5.8	10.3	7.7	9.1	14.1
Operating deficit of the public enterprises	10.3	13.0	1.8	6.2	--	--
Overall surplus or deficit (-)	-41.2	-50.6	-48.3	-60.4	-50.3	-37.8
Central Government	-30.8	-38.5	-42.7	-53.1	-49.6	-47.1
Public enterprises	-16.4	-18.8	-12.1	-13.9	-6.6	5.3
National Insurance Scheme	6.0	6.7	6.5	6.6	5.9	4.0
Financing	41.2	50.6	48.2	60.4	50.3	37.8
External	10.4	7.6	6.6	14.9	13.3	15.1
Of which: arrears	3.8	7.2	9.8	17.6	13.2	19.7
Domestic	30.8	43.0	41.6	45.5	37.0	22.7
Of which: financial system	43.6	43.1	48.5	48.9	35.7	33.0
Memorandum item						
Current account balance of the nonfinancial public sector	-20.2	-33.2	-28.8	-41.2	-31.5	-12.3

Sources: Ministry of Finance; and Bank of Guyana.

1/ Excludes an equity contribution to the Bank of Guyana amounting to G$375 million to cover capital losses resulting from the devaluation of the Guyana dollar.
2/ Excludes capital transfers to the public enterprises, which are classified as capital expenditure of the enterprises.

Table 3. Guyana: Monetary Indicators

	December					June
	1982	1983	1984	1985	1986	1987 1/
A. Bank of Guyana						
(Change in millions of U.S. dollars)						
Net international reserves 2/	-59.1	-83.9	-102.6	-108.5	-76.5	-100.6
(Percentage change) 3/						
Net domestic assets 4/	45.5	34.0	33.4 5/	20.8	22.1	26.6 5/
Credit to public sector (net)	57.8	10.6	49.9 6/	15.1	31.6	46.2
Deposits on external payment arrears	110.1	40.5	17.9	10.0	14.1	14.4
Currency in circulation	24.1	16.4	24.9	25.6	20.6	33.0
B. Financial System						
(Change in millions of U.S. dollar)						
Net foreign liabilities 2/	56.5	74.7	107.3	114.7	68.5	94.1
(Percentage change) 3/						
Net domestic assets 4/7/	30.3	25.4	24.7 5/	20.7	19.8	25.2 5/
Credit to public sector (net)	39.1	28.2	28.7 6/	23.6	15.7	18.9
Credit to private sector	16.7	14.0	14.7	15.6	17.9	30.9
Deposits on external payment arrears	98.1	45.9	17.3	10.4	13.7	14.2
Liabilities to the private sector	22.8	19.0	17.1	15.7	21.8	27.0
Memorandum items						
Inflation rate (Dec.-Dec.)	19.3	11.2	28.1	7.7	7.9	24.7 1/

Source: Bank of Guyana.

1/ Changes relative to June 1986.
2/ Includes external arrears of the Bank of Guyana.
3/ Changes with respect to its outstanding stock a year earlier.
4/ Excludes counterpart unrequited foreign exchange.
5/ Excludes valuation adjustments due to the devaluation of the Guyana dollar.
6/ Excludes credit on account of an equity contribution made by the Treasury to the Bank of Guyana to cover exchange losses incurred in 1984.
7/ Includes private capital and surplus.

The official exchange rate remained in the range of G$4.15 to G$4.40 per U.S. dollar during 1986. However, in September the special exchange rate applicable to domestic purchases of gold was changed from G$6 to G$14 per U.S. dollar, and in October the authorities established a special exchange rate for rice exports of G$8 per U.S. dollar. 1/ The recorded external current account deficit remained at about US$158 million or 75 percent of exports in 1986, as both the trade and the services accounts showed little change with respect to 1985 (Table 4). The value of exports in 1986 (US$210 million) was virtually the same as in 1985. The value of rice exports declined by about 20 percent, as a 30 percent increase in volume was more than offset by a 40 percent decline in average prices due to the loss of the preferential Trinidad and Tobago market. Bauxite exports declined by 17 percent. In contrast, sugar exports rose by 25 percent because of an increase in export prices, while recorded gold exports almost doubled, as volume expanded with the increase in the special exchange rate for gold and international gold prices rose. The value of recorded imports declined slightly with respect to 1985 as a reduction in oil imports was largely offset by increased non-oil imports.

On an accrual basis, the capital account registered a net outflow of US$6 million in 1986. The balance on transactions by the public sector (excluding the Bank of Guyana) shifted from an outflow of about US$10 million in 1985 to a small net inflow in 1986, but the private financial sector made net repayments abroad of US$8 million. The overall balance of payments deficit declined to US$156 million in 1986 from US$206 million in 1985. 2/ With the exception of US$10.8 million in disbursements from the Venezuelan oil facility (established in May 1986), the overall balance of payments deficit was financed by a further accumulation of external payments arrears which rose to US$955 million by end-1986 (Table 5).

As of the end of 1986, Guyana's external public debt (including arrears) was estimated at close to US$1.6 billion or 750 percent of recorded merchandise exports (Table 6). In 1986, scheduled debt service payments (including repurchases to the Fund) amounted to US$240 million or about 120 percent of exports; actual debt service payments were estimated at US$40 million or 19 percent of exports.

Guyana is in arrears to the World Bank (US$14.9 million as of June 1987) which suspended disbursements in August 1986. The Bank stands ready to assist Guyana in the formulation of an economic program, and there has been close collaboration (including parallel missions) between the Fund and the Bank.

1/ This rate was eliminated in January 1987.

2/ The decline in the overall balance reflected mainly a sharp (and still unexplained) reversal in errors and omissions--from a negative US$45 million in 1985 to a positive US$3 million in 1986.

Table 4. Guyana: Summary Balance of Payments

	1982	1983	1984	1985	Prel. 1986	Est. 1987
	(In millions of U.S. dollars)					
Current account (including transfers)	-152.4	-163.3	-115.4	-156.0	-158.0	-142.8
Merchandise (net)	-48.6	-55.7	1.2	-42.4	-41.8	-12.8
Exports, f.o.b.	231.8	192.6	215.5	212.8	210.0	247.2
Bauxite	94.2	72.9	91.6	99.1	82.4	89.0
Sugar	87.7	71.5	70.9	66.4	83.4	97.2
Rice	20.2	21.6	21.3	13.3	10.5	20.1
Other	29.7	26.6	31.7	34.0	33.7	41.0
Imports, c.i.f.	-280.4	-248.3	-214.3	-255.2	-251.8	-260.0
Fuel	-109.0	-98.1	-108.3	-102.9	-69.5	-75.4
Other	-171.4	-150.2	-106.0	-152.3 1/	-182.3 2/	-184.6
Services (net)	-95.6	-108.6	-122.8	-131.1	-132.4	-142.0
Of which: interest on public debt (including Bank of Guyana debt) 3/	-52.4	-63.7	-72.7	-87.8	-102.1	-112.3
Transfers (net)	-8.2	1.0	6.2	17.4	16.2	12.0
Of which: private transfers	-9.1	-1.3	2.6	11.4	10.3	6.0
Capital account	32.3	-2.2	-7.6	-4.9	-6.2	-26.9
Nonfinancial public sector	31.6	2.3	-13.8	-12.4	0.9	-20.6
Medium- and long-term debt	31.6	2.3	-13.8	0.9	1.1	-11.0
Disbursements	65.3	48.8	24.4	56.8	53.9	33.7
Amortization	-43.9	-78.1	-81.7	-113.2	-118.6	-117.6
Rescheduling 4/	10.2	31.6	43.5	55.5	65.8	72.9
Short-term debt (net)	--	--	--	-11.5	-0.2	-9.6
Official development banks (net)	0.7	1.0	1.5	1.7	0.6	1.7
Private sector	--	-5.5	4.7	5.8	-7.7	-8.0
Errors and omissions	-5.3	10.3	-20.3	-44.7	8.5	--
Overall balance	-125.4	-155.3	-143.4	-205.6	-155.7	-169.7
Public sector arrears 5/6/	44.9	50.8	48.8	92.8	71.6	73.9
Private arrears 6/	21.1	22.1	-8.2	4.5	9.8	8.9
Net official international reserves 7/8/	59.4	82.4	102.8	108.3	74.3	86.9
Of which: Bank of Guyana arrears 8/	56.5	105.3	134.7	117.9	89.1	80.2
	(As percent of merchandise exports)					
Current account balance	65.8	84.8	53.6	73.3	75.2	57.7
Overall balance	54.1	80.6	66.5	96.6	74.1	68.6

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

1/ Includes imports of helicopters and defense equipment.
2/ Includes importation of a commercial aircraft.
3/ Includes interest accrued on public debt in arrears.
4/ Consists of foreign bank loans that were due during the period but have been rolled each year to the following year.
5/ Includes arrears on interest on public debt in arrears; and short-term arrears on commercial transactions.
6/ Changes in the end-of-period stocks.
7/ Includes valuation changes.
8/ *The changes in arrears exceed the declines in net international reserves because of valuation* changes and, in certain instances, the incurring of arrears on liabilities that were previously classified as short-term reserve liabilities.

Table 5. Guyana: External Payment Arrears

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

	1982	1983	1984	1985	1986	June 1986	June 1987
Government and government guaranteed							
Medium- and long-term debt	28.3	63.3	106.6	187.8	256.1	217.3	286.0
Principal	20.9	45.4	67.3	113.4	149.2	127.7	160.8
Interest 1/	7.4	14.8	28.4	53.3	71.2	60.5	78.6
Late interest charges (est.) 2/	--	3.1	10.9	21.1	35.7	29.1	46.6
Bank of Guyana	94.4	199.7	334.4	452.3	541.4	498.0	588.3
Principal	74.7	163.6	279.1	358.8	400.8	380.4	420.1
Bilateral deposits	20.0	30.0	30.0	30.0	40.2	40.3	41.6
Trinidad & Tobago	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Bank of Libya	--	10.0	10.0	10.0	10.0	10.0	10.0
Bank of Kuwait	--	--	--	--	10.2	10.3	10.6
Bank of Brazil	--	--	--	--	--	--	1.0
CARICOM clearing facility	54.7	76.6	96.5	96.5	96.5	96.5	96.5
Trinidad & Tobago account	--	49.4	138.1	205.0	215.7	205.0	222.7
IMF	--	7.6	14.5	27.3	48.4	38.6	59.3
Interest 3/	19.7	36.1	55.3	93.5	140.6	117.6	168.2
Bilateral deposits	16.9	22.2	28.1	34.0	40.4	37.4	44.5
Trinidad & Tobago	13.5	16.6	19.8	23.4	27.4	25.4	29.6
Bank of Libya	2.2	3.1	4.7	6.0	7.1	6.8	8.2
Bank of Kuwait	1.2	2.4	3.2	4.6	5.9	5.2	6.7
Bank of Brazil	--	0.1	0.4	--	--	--	--
CARICOM clearing facility	2.8	8.1	16.7	26.3	36.7	31.8	42.7
Trinidad & Tobago account	--	1.6	10.5	28.9	51.5	40.2	63.8
IMF	--	4.2	--	4.3	12.0	8.2	17.2
Commercial arrears 4/	93.5	131.4	128.7	144.8	157.9	151.8	165.4
Public sector	38.2	54.0	59.5	71.1	74.4	73.8	76.2
Private sector	55.3	77.4	69.2	73.7	83.5	78.0	89.2
Total arrears	216.2	394.4	569.7	784.9	955.4	867.1	1,039.7

Sources: Bank of Guyana; IBRD debt report system; and Fund staff estimates.

1/ Total due but unpaid interest.
2/ Estimated late interest charges on principal and interest in arrears.
3/ Includes due but unpaid interest and estimated late interest charges on principal and interest in arrears.
4/ Arrears for which corresponding deposits have been made at the Central Bank; no breakdown of arrears into principal and interest is available.

Table 6. Guyana: External Public Debt

	1982	1983	1984	1985	1986	Est. 1987
(In millions of U.S. dollars; end of period)						
Total public debt 1/	956.7	1,078.8	1,202.3	1,424.9	1,586.2	1,741.8
Of which: arrears	160.9	317.0	500.5	711.2	871.9	1,026.0
Medium-and long-term public debt 2/	719.4	748.5	768.3	873.1	958.2	1,026.7
Of which: arrears	61.8	99.9	146.4	231.2	303.5	377.1
Short-term public debt 3/	237.3	330.3	434.0	551.8	628.0	715.1
Of which: arrears	99.1	217.1	354.1	480.0	568.1	648.9
Scheduled debt service payments	98.1	155.4	163.7	214.8	241.8	249.6
Principal (before rescheduling) 4/	45.7	91.7	91.0	127.0	139.7	137.3
Interest 5/	52.4	63.7	72.7	87.8	102.1	112.3
Actual debt service payments	59.5	64.8	40.8	27.0	39.4	34.6 6/
Principal 4/	24.4	28.0	18.7	12.6	17.0	15.7
Interest 5/	35.1	36.8	32.1	14.4	22.4	18.9
(As percent of merchandise exports)						
Scheduled debt service payments	43.0	83.1	77.8	104.1	118.2	103.2
Actual debt service payments	26.1	34.6	19.4	13.1	19.3	14.3 6/

Sources: IBRD; Bank of Guyana; and Fund staff estimates.

1/ Consists of government and government-guaranteed debt and Bank of Guyana debt.

2/ Includes bilateral deposits of Trinidad and Tobago with the Bank of Guyana for oil imports (medium-term loan, outstanding principal US$20 million).

3/ Includes public sector commercial arrears.

4/ Scheduled payments for medium- and long-term debt and for repurchases to the Fund.

5/ Includes scheduled interest payments on short-term debt. Also includes interest due on principal in arrears.

6/ Staff projections.

III. Policy Discussions and Developments During 1987

In concluding the 1986 Article IV consultation with Guyana, Executive Directors emphasized the need for a major reorientation of economic policy in the context of a comprehensive program of structural adjustment. In particular, Directors stressed the need to re-establish an appropriate structure of relative prices, liberalize the economy and reduce the large public sector deficit. Directors also expressed concern about Guyana's failure to fulfill its financial obligations to the Fund and to other external creditors. They stated that it was a serious matter that Guyana's overdue obligations to the Fund had continued to accumulate, reaching a level in excess of Guyana's quota. The adoption of a comprehensive economic program would help to elicit the external assistance necessary to support the rehabilitation and liberalization of the economy and permit the elimination of external arrears.

In the latest discussions, the authorities stressed that since 1983 the Government has been taking measures to redress the economic situation. These efforts had yielded encouraging results but, given the severity of the country's imbalances, additional efforts supported by appropriate external assistance were required to achieve economic recovery and financial viability over the longer term. Thus, policies had been strengthened in 1987. In January 1987, the Guyana dollar had been devalued by 56 percent in terms of the U.S. dollar, and steps were being taken to reduce the public sector deficit. In addition, a medium-term program prepared in 1985 was being updated and strengthened. The intention was to develop this program into a policy framework paper that could, in turn, provide a basis for arrangements under the Structural Adjustment Facility (SAF) once the overdue obligations to the Fund had been settled.

1. Economic prospects and growth strategy

The authorities observed that although the decline in economic activity of the early 1980s had been arrested in recent years, little economic growth had been achieved. This trend was likely to continue in 1987, with real GDP projected to increase by 1 percent. Bauxite production had been recovering, but output in the sugar and rice sectors was expected to decline because of adverse weather conditions. Output in sectors such as gold and timber had responded favorably to the exchange rate actions taken in 1986 and 1987, but the contribution of these sectors to GDP remained relatively small. Manufacturing activity continued to be constrained by the scarcity of imported inputs and spares and the deterioration of economic infrastructure.

To provide for a recovery of investment and growth in the coming years, the authorities plan to increase domestic savings (mainly through higher public sector savings), improve the structure of relative prices and liberalize gradually the economy. The strategy would be to rely on exports as the main source of economic growth. In this regard, the authorities intend to continue rehabilitating the bauxite, sugar and rice sectors, and to diversify the economy into nontraditional agriculture, gold and other minerals, petroleum and agroindustry. They stressed that substantial external assistance would be necessary to carry out and supplement the envisaged policy changes.

2. Price and incomes policies

The authorities noted that the scope of price controls had been reduced in recent years and that controls now were limited to essential commodities. Most controlled prices and public sector tariffs had been adjusted (albeit with some delays) to reflect the devaluation of January 1987. In certain instances (edible oil, petroleum derivatives and electricity tariffs) the adjustments had been partial (in the range of 25 to 50 percent). Partly as a result of the pass-through of the devaluation, the official consumer price index rose by 40 percent from December 1986 to July 1987.

Looking ahead, the authorities said that they intended to review and adjust controlled prices at more frequent intervals than in the past and to continue the liberalization of the price system. They said, however, that such liberalization would need to proceed gradually and in line with developments in domestic production and the availability of foreign exchange.

The authorities explained that to improve the public finances the public sector's wage bill had been reduced by 23 percent in real terms from 1982 to 1986. In 1987, following the January devaluation, public sector employees were granted general wage increases averaging 28 percent of the 1986 wage bill plus merit increases of about 7 percent. The authorities acknowledged the concerns of the staff that such wage adjustments had eroded a part of the gain in external competitiveness achieved by the currency adjustment. However, they noted that these increases were the minimum required to maintain stable labor relations and thus to help ensure the improvement in economic performance intended by the devaluation.

3. Financial policies

a. Fiscal policy

The authorities said that the public finances had continued to improve in the first half of 1987, and that they expected to lower the overall deficit to some 38 percent of GDP in 1987 (from 50 percent in 1986). As in 1986, the reduction would be based mainly on a continued improvement in the performance of the public enterprises. Most of the deficit would be financed domestically.

The overall deficit of the central government is projected to decline in 1987 by the equivalent of 2.5 percentage points of GDP. Because of restraint in nonwage expenditures, total expenditures are projected to decline by 11.5 percentage points of GDP. Revenues, however, are likely to decline by the equivalent of 9 percentage points of GDP. Personal income tax collections would drop in real terms as personal allowances have been increased and marginal tax rates reduced, and collections from corporate income taxes have been eroded by inflation. Consumption taxes also were expected to decline in real terms as excise taxes had not been increased and taxes on a number of products had been removed to cushion the impact of the devaluation on lower income groups.

The overall balance of the public enterprises was expected to shift from a deficit of 6.5 percent of GDP in 1986 to a surplus of 5.5 percent in 1987. Almost all of this improvement would be in the operations of GUYMINE and GUYSUCO. Notwithstanding a sharp increase in GUYMINE's wage bill and projected dividend payments to the sugar workers amounting to 6 percent of GDP, the financial performance of these enterprises would be bolstered by the positive revenue impact of the devaluation, higher prices internationally, a reduction in interest payments due to equity contributions made by the central government in 1986 and restraint in nonwage expenditure. The overall surplus of the National Insurance Scheme is expected to decline to 4 percent of GDP from 6 percent in 1986.

Looking ahead, the authorities noted their intention of reducing the public sector deficit substantially. Their plan is to avoid recourse to domestic financing and to limit the deficit to the amount of external financing that would be compatible with a sustained balance of payments position over the medium term, after allowing for exceptional debt relief. The reduction of the deficit would be achieved mainly through further improvements in the financial performance of the public enterprises. To this effect, they intend to follow appropriate pricing policies, continue to improve management practices and close losing enterprises. With regard to the finances of the central government, the authorities see little room for any significant improvement in the near term. In their view, the scope for increasing tax rates is limited; however, revenues would be bolstered by a resumption of economic growth, the incorporation of the parallel economy into the official economy and a rise in dividends from the public enterprises. The authorities also view the room for reducing further central government expenditures as quite limited, since interest payments account for 45 percent of expenditures and the remaining expenditures already have been compressed.

In discussing the outlook for the public finances, the staff observed that notwithstanding the envisaged reduction of the deficit in 1987, there had been slippages in some aspects of the fiscal performance. These related mostly to the weak performance of tax revenues, delays in the adjustments of controlled prices and tariffs and large wage increases. In addition, the projected dividend payments to the sugar workers would have an adverse impact on the public finances. Thus, existing policies in these areas would need to be reviewed in order to tighten fiscal policy in the short term, and to help achieve the intended reduction in the public sector deficit. In this regard, it was noted that it would be necessary to strengthen the contribution of the central government to the envisaged fiscal adjustment to avoid imposing an undue burden on the public enterprises. Expenditures would need to be reduced in real terms, and tax revenues would need to be raised in relation to GDP.

b. Monetary policy

Domestic credit has continued to expand at a fast pace. During the 12 months ended June 1987 the net domestic assets of the financial system rose by 25 percent, with credit to the public sector increasing by 19 percent and credit to the private sector by 31 percent. The authorities explained that the growth of credit to the private sector seemed to reflect the capitalization of interest due to banks and higher demand for trade-related credit rather than a recovery of private investment. Given the limited availability of foreign exchange, the rapid expansion in net domestic assets led to an increase in the broad money supply of 27 percent during this period.

The authorities shared the mission's concern about the continued rapid expansion of credit and noted that the planned reduction in the public sector deficit would enable the Bank of Guyana to regain control over monetary policy without crowding out the private sector. They also observed that over the years the domestic financing of the public sector deficit, together with the tightening of exchange and trade restrictions, had resulted in a rapid build-up of excess liquidity in the financial system. The private sector's holdings of financial assets represented over 170 percent of recorded GDP in 1986, while the banks' holdings of liquid assets (mainly in the form of deposits at the Central Bank and short-term treasury bills) amounted to 70 percent of their liabilities to the private sector in June 1987, and were more than three times the amounts required.

Thus in the context of their medium-term program, the authorities intended to sterilize this excess liquidity (by, for example, raising reserve requirements) in order to create conditions that would permit the liberalization of the economy without giving rise to increased pressures on prices and the balance of payments. At the same time they would provide for positive real interest rates to create appropriate incentives for private sector savings and to protect the balance of payments.

4. External policies

a. Exchange rate policies and balance of payments prospects

The authorities emphasized that in the course of 1987, they had taken a number of actions to improve external competitiveness and continue incorporating parallel market activities into the official economy. In January 1987, the Guyana dollar was devalued by 56 percent in terms of the U.S. dollar (from G$4.40 to G$10 per U.S. dollar). In

February, a foreign exchange window was established at the commercial banks that was intended to operate at a market-related rate, and in September 1987 the special exchange rate applicable to domestic purchases of gold and diamond exports was eliminated and merged with that prevailing in the banks' window, which in mid-September was G$21 per U.S. dollar.

With the improvement in external competitiveness, higher foreign prices in U.S. dollars for sugar and bauxite, and more active marketing in the rice and bauxite sectors, the authorities thought that the recorded trade deficit would be reduced to US$13 million in 1987 from US$42 million in 1986. The value of exports was projected to increase by 18 percent to US$247 million, while the value of imports was projected to grow by about 3 percent to US$260 million, as a small decline in import volume would be offset by higher prices. The improvement in the trade balance would be offset in part by larger interest payments due, and the external current account deficit (on an accrual basis) was projected to decline by some US$15 million to about US$140 million. Net capital outflows (on an accrual basis) would increase to US$27 million in 1987 as exceptional loan disbursements that took place in 1986 would not be repeated and the public corporations were expected to reduce their short-term external liabilities. In all, the overall balance of payments deficit was likely to widen to US$170 million in 1987.

With the exception of about US$22.5 million in net disbursements from the Venezuelan oil facility, the overall balance of payments would be financed by the further accumulation of external payment arrears, which were expected to reach about US$1.1 billion by end-1987. Scheduled debt service payments on public debt (including estimated late interest charges on arrears) were projected at about US$250 million or 100 percent of exports in 1987; actual service payments were expected to amount to US$35 million or 14 percent of exports.

The authorities reiterated their commitment to unify the exchange rate system at a competitive level and stressed that the exchange rate actions taken in 1987 should be considered as intermediate steps toward unification. In the authorities' view such a move would need to take place in the context of a comprehensive economic program supported by external financing to help ensure an appropriate response of domestic supply and to minimize the impact on domestic prices. The exchange rate regime to be adopted after unification was still under review, but the objective would be to keep export industries competitive.

As of mid-September 1987, the exchange rate in the banks' foreign exchange window was on the order of G$21 per U.S. dollar as compared with a reported parallel exchange rate of about G$25 per U.S. dollar. Transactions in the window are relatively small--the equivalent of about US$0.4 million per month. The regulations governing the operations of the window are restrictive and, in effect, do not allow for a truly market-related rate. On the supply side, exporters are not legally allowed to transact in the window and the main sources of foreign exchange are receipts from tourism and remittances. On the demand side import licenses for purchases in the window are issued in accordance with the availability of foreign exchange.

Pending exchange rate unification, the staff recommended the liberalization of import licensing regulations and the gradual transfer of export transactions from the official exchange market to the banks' window. This would assist the authorities in establishing a realistic exchange rate at the time of unification, help incorporate additional parallel market transactions into the official economy and smooth out the impact of exchange rate adjustments on the price level. The authorities said that consideration would be given to liberalizing import licensing but did not envisage the transfer of export transactions to the banks' window.

b. Exchange and trade arrangements

Guyana operates a restrictive trade system. Importation of a wide range of consumer goods (mainly processed food products) is prohibited. Permissible imports, with the exception of personal effects, gifts and primary agricultural products from CARICOM are subject to individual licensing. The priorities for granting import licensing vary with the source of foreign exchange--the Bank of Guyana, the commercial banks' window and sources outside official channels. In general, however, licenses are only granted for essential food items, pharmaceuticals, equipment, raw materials and spares. Moreover, licenses issued by the Ministry of Trade for purchases at the official (Bank of Guyana) exchange rate do not guarantee that foreign exchange will be made available by the Bank of Guyana. The granting of licenses that do not involve purchases in the official foreign exchange market (the no-funds licensing system) was liberalized in 1986.

The authorities recognized the importance of liberalizing the exchange and trade system to increase efficiency and reinforce the growth strategy. They stressed, however, that in view of the scarcity of foreign exchange and the overhang of excess liquidity, liberalization would need to proceed gradually. While acknowledging the authorities' concerns, the staff emphasized that a substantial and early liberalization of the system was essential to enhance the role of the price system in allocating resources.

Guyana retains comprehensive restrictions on payments and transfers for international transactions. Those relating to current international transactions and subject to approval under Article VIII are evidenced by increasing payments arrears and discretionary exchange licensing. Guyana also maintains multiple currency practices arising from the establishment of a secondary foreign exchange market in the commercial banks and the existence of a parallel exchange market. These exchange restrictions and multiple currency practices have not been approved by the Executive Board.

c. External debt policies and overdue obligations to the Fund

The authorities noted that, notwithstanding the improved export performance of 1987, Guyana continues to experience a critical shortage of foreign exchange. Balance of payments support from Trinidad and Tobago that had financed most of Guyana's oil in 1983-85 had been suspended in September 1985. Since May 1986, Venezuela had provided financial assistance through a short-term deposit facility, but this facility only covered about 25 percent of the 1986-87 oil import bill. Moreover, because of the revolving nature of the facility, no net financing had been provided since June 1987. Thus, the higher export earnings in the official exchange market were being used to finance the oil import bill as well as emergency expenditures necessary to maintain the operations of the electricity company.

The authorities hoped that the implementation of a strong medium-term economic program would enable Guyana to normalize its relations with external creditors and obtain additional external assistance to support their efforts to increase domestic savings, investment and economic activity. In the circumstances of Guyana, the authorities stressed, external assistance would need to be concessionary and also would need to include exceptional debt relief.

Since it was declared ineligible to use the general resources of the Fund in May 1985, Guyana has discharged, albeit with delays, its obligations in the SDR Department but arrears in the General Resources Account have continued to rise. In addition, since April 1987, Guyana has been in arrears to the Trust Fund. As of October 31, 1987, Guyana's arrears to the Fund amounted to SDR 67.3 million (136.8 percent of quota), up from SDR 18.7 million at the time of ineligibility.

The staff conveyed the concern of the Executive Board about the continuing failure of Guyana to fulfill its obligations to the Fund, and drew attention to the emergence of arrears to the Trust Fund. The authorities reiterated the seriousness with which they regard their obligations to the Fund and said that every effort would be made to stay current in the SDR account and to eliminate or at least reduce arrears in the Trust Fund with earnings from the sugar crop in the last quarter of 1987.

IV. Medium-Term Outlook

As noted, the authorities are in the process of formulating a medium-term economic program. On the basis of preliminary discussions with the authorities, the staff prepared a set of balance of payments projections for the period through 1992. These projections have to be regarded as highly tentative, reflecting both deficiencies on the data and the early stage of the discussions with the authorities on medium-term policies.

The projections assume that in early 1988 the authorities will carry out their plans of establishing a competitive exchange rate, cutting back the public sector deficit, reducing price distortions and liberalizing the economy. It also is assumed that this policy stance would be continued and strengthened in the following years, and that the authorities would be successful in eliciting external assistance to help rehabilitate the economy--including the bauxite sector--and in attracting foreign investment to develop the gold sector.

On these assumptions, recorded export volume is projected to increase by an average of about 8 percent a year in the period through 1992. Import volume is projected to increase by 33 percent from 1987 to 1989 to enable Guyana to restore productive capacity and carry out relatively large investments in the bauxite and gold sectors, and to decline subsequently. The terms of trade would weaken by about 5 percent in the period through 1992. On this basis, the trade deficit would widen to some US$75 million in 1989, fall to about US$15 million in 1990 and shift to a surplus of US$30-US$40 million in 1991-92 (Table 7).

Notwithstanding the projected turnaround in the trade balance, the current account deficit would remain large through 1992. With scheduled interest payments projected to average about US$110 million a year, the external current account deficit would widen to some US$200 million in 1989 before declining to some US$75 million in 1992.

The cumulative current account deficit of Guyana during the period 1988-92 is projected at about US$620 million (Table 8). However, with scheduled amortizations (including repurchases to the Fund) of about US$380 million, and with external arrears estimated at about US$1.1 billion at the end of 1987, Guyana's gross financing requirements for the period 1988-92 would amount to about US$2.2 billion. Loan disbursements to the public sector from existing commitments could reach about US$130 million and net private capital inflows (including investment in the gold sector) some US$40 million. Thus, there would remain an unfinanced balance of payments gap in the period 1988-92 of the order of US$2 billion.

The financing of such a gap would require exceptional capital inflows in the form of concerted rescheduling and new credits. The projections assume that Guyana would reschedule in 1988 about US$965 million of external payments arrears due to bilateral creditors and suppliers, and about US$100 million (or 100 percent) of current debt service payments due to bilateral creditors, financial institutions and suppliers. On this basis, and assuming no further rescheduling, new borrowing requirements would amount to US$930 million in the period 1988-92, of which about US$275 million would be needed in 1988 to enable Guyana to settle the projected overdue payments to the Fund (US$90 million) and other multilaterals (US$45 million), and to finance the projected current account deficit. The projections assume that new money would be obtained on terms comparable to those for the SAF.

Table 7. Guyana: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1987	1988	1989	1990	1991	1992
Current account	-142.8	-128.7	-199.8	-133.6	-83.0	-75.5
Merchandise (net)	-12.8	-8.8	-76.7	-13.2	32.5	38.0
Exports, f.o.b.	247.2	269.8	291.3	334.6	377.1	403.1
Bauxite	89.0	97.0	109.0	129.6	141.5	147.7
Sugar	97.2	98.5	101.2	104.6	109.0	110.6
Rice	20.0	22.0	23.6	26.5	30.8	33.0
Gold	9.4	12.8	13.3	24.4	35.8	46.8
Other	31.6	39.5	44.2	49.5	60.0	65.0
Imports, c.i.f.	-260.0	-278.6	-368.0	-347.8	-344.6	-365.1
Fuel	-75.4	-80.1	-84.9	-90.1	-97.5	-102.4
Other	-184.6	-198.5	-283.1	-257.7	-247.1	-262.7
Nonfactor services (net)	-21.0	-22.0	-23.0	-24.0	-25.0	-26.0
Factor services (net)	-121.0	-111.9	-116.1	-114.4	-111.2	-109.5
Transfers (net)	12.0	14.0	16.0	18.0	20.0	22.0
Capital account	-26.9	-77.5	41.2	-41.1	-59.1	-49.7
Nonfinancial public sector (net)	-20.6	-84.6	10.5	-43.1	-58.7	-48.9
Official development banks (net)	1.7	1.1	0.7	--	-0.4	-0.8
Private sector	-8.0	6.0	30.0	2.0	--	--
Change in non-Fund arrears	133.7	-1,028.7	--	--	--	--
Change in Fund arrears	29.3	-89.7	--	--	--	--
Change in gross reserves 1/	0.1	-12.9	-21.1	-10.0	-12.9	-3.3
Other	6.6	-8.6	-5.3	-5.3	-0.6	1.1
Financing gap	--	1,346.1	185.0	190.0	155.6	127.4
Rescheduling	--	1,071.4 2/	--	--	--	--
New financing requirements	--	274.7	185.0	190.0	155.6	127.4
Memorandum items (1987 = 100)						
Terms of trade	100	97.3	95.8	96.1	96.0	94.6
Export volume	100	108.9	116.1	129.2	141.8	149.5
Import volume	100	104.0	133.3	122.4	117.6	121.0
Gross reserves in months of imports	0.4	1.0	1.4	1.8	2.3	2.3

Source: Fund staff projections.

1/ Minus = increase

2/ Rescheduling of arrears (except for multilaterals) and current debt service.

Table 8. Guyana: External Financing Requirements and Resources

(In millions of U.S. dollars)

	1988	1989	1990	1991	1992	1988-92
Requirements	1,391.4	271.6	211.6	168.1	135.2	2,177.9
Current account deficit	128.7	199.8	133.6	83.0	75.5	620.6
Medium- and long-term debt amortization	122.1	44.3	61.8	70.5	56.4	355.1
Increase on official gross reserves	12.9	21.1	10.0	12.9	3.3	60.2
Reduction in non-Fund arrears	1,028.7	--	--	--	--	1,028.7
Reduction in Fund arrears	89.7	--	--	--	--	89.7
IMF repurchases	9.3	6.4	6.2	1.7	--	23.6
Resources	45.3	86.6	21.6	12.5	7.8	173.8
Medium- and long-term debt disbursements	38.6	55.5	18.7	11.4	6.7	130.9
Private capital inflows	6.0	30.0	2.0	--	--	38.0
Other	0.7	1.1	0.9	1.1	1.1	4.9
Financing gap	1,346.1	185.0	190.0	155.6	127.4	2,004.1
Rescheduling 1/	1,071.4	--	--	--	--	1,071.4
New financing requirements	274.7	185.0	190.0	155.6	127.4	932.7
Memorandum items (as percent of exports)						
External public debt	695.8	710.0	660.5	611.5	591.6	...
Debt service payments 2/	87.6	54.2	52.1	46.9	39.8	...

Source: Fund staff projections.

1/ Rescheduling of arrears (except for multilaterals) and current debt service.
2/ Excludes reduction in arrears in 1988.

Guyana's economic prospects are severely constrained by a very high external debt and debt service burden. While a reorientation of economic policy supported by external assistance would lead to an improvement in Guyana's trade balance over the medium term, the outlook for the balance of payments is not encouraging. In fact, the current account deficits through 1992 presented in Table 7 cannot be regarded as sustainable. Thus, some form of exceptional debt relief seems necessary to enable Guyana to reduce the external current account deficit to a sustainable level. An alternative scenario would be for Guyana to aim for larger trade surpluses. This, however, may not be feasible. Given the structure of Guyana's exports (with a high dependency on bauxite and sugar), it may not be realistic to plan on exports rising significantly faster than has been assumed in the baseline scenario. At the same time, a compression of imports in real terms from the present low levels would appear to be incompatible with the objective of restoring export growth and productive capacity.

V. Staff Appraisal

Since 1983 the authorities of Guyana have taken a number of measures to redress the economic situation. These measures helped to bring to a halt the decline in output that occurred in 1982-83 but were insufficient to correct the fundamental problems affecting the economy. Recorded output rose little in 1984-86 as economic growth continued to be hampered by distortions in relative prices, widespread controls and regulations, a shortage of foreign exchange and the progressive deterioration of the country's capital stock. At the same time the public sector deficit remained at an unsustainable level, and the parallel economy and external payments arrears continued to grow.

Aware of the need for a substantial reorientation of economic policy, the authorities implemented certain corrective measures in the exchange rate and fiscal areas in early 1987. They are now engaged in the formulation of a medium-term economic program aimed at creating the basis for sustained economic growth and a viable balance of payments position over the medium term. The intention is to develop this program into a policy framework paper that could, in turn, provide a basis for arrangements under the Structural Adjustment Facility once the overdue obligations to the Fund had been settled.

To improve relative prices, foster exports and help reduce the public sector deficit, in January 1987 the authorities devalued the Guyana dollar by 56 percent in terms of the U.S. dollar and in February they established a secondary foreign exchange window in the commercial banks. The devaluation of the Guyana dollar in the official exchange market has improved external competitiveness and has resulted in some recovery in export volume, but the Guyana dollar remains substantially overvalued. For this reason, the authorities, in the context of their medium-term program, intend to unify the exchange rate system at a competitive rate and to implement thereafter a flexible exchange rate policy. These actions would make a major contribution to economic growth and to the restoration of a viable balance of payments position over the medium term, and their implementation should not be delayed. Pending the unification of the exchange rate system, it is important to liberalize the regulations governing the operations of the commercial banks' window. These regulations are restrictive and have limited the amount of transactions at the window, thereby inhibiting the emergence of a truly market-related exchange rate as was intended when the window was established.

The authorities recognize that the unification of the exchange rate system would need to be supported by the liberalization of the economy in order to increase economic efficiency and reinforce their medium-term growth strategy. Accordingly, they have stated the intention of liberalizing private sector prices and removing exchange and trade restrictions. However, they envisage the process of liberalization as a gradual one because of concern about its potential effects on prices and the balance of payments, particularly given the overhang of liquidity that has accumulated over the years. While acknowledging these risks, the staff would stress that a substantial and early liberalization of the economy is essential to put the economy firmly on course toward the achievement of the authorities' growth and balance of payments objectives. It also would note that such risks can be reduced through a tightening of fiscal and monetary policies.

The authorities recognize that the public sector deficit remains unsustainable high and, in the context of their medium-term program, they intend to cut back the deficit substantially, mainly through the continued strengthening of the finances of the public enterprises. While achievement of this objective will be critical for the success of the authorities' program, there also is a need to tighten fiscal policy in the short term. Tax collection procedures need to be strengthened, controlled prices and public sector tariffs need to be adjusted more frequently and wage increases need to be contained. As for the medium term, it would be necessary to enhance the contribution of the central government to the envisaged fiscal adjustment to avoid imposing an undue burden on the public enterprises. Both a reduction in expenditures in real terms and tax increases would be required.

Although implementation of the authorities' fiscal plans would help the Bank of Guyana to regain control over monetary policy, actions also are required to tighten credit in the short term to curb inflationary pressures and protect the balance of payments. Excess liquidity would need to be sterilized and rates of interest raised to positive levels in real terms.

While the policies described above would enhance the contribution of domestic savings to investment and growth, implementation of a growth-oriented economic program in Guyana would require substantial external assistance to support the rehabilitation and liberalization of the economy, permit the settlement of external payments arrears and buttress the adjustment effort. Given the country's already very high debt service burden, some form of exceptional debt relief would seem to be needed to help reduce the external current account deficit to a sustainable level.

Guyana operates a restrictive import licensing system in which the importation of a wide range of goods and services is banned, multiple currency practices are maintained and comprehensive restrictions exist on the making of payments and transfers for current international transactions, including restrictions evidenced by the existence of external payments arrears. These arrears have increased since the last Article IV consultation. The staff urges the authorities to adopt promptly the policies that would permit the settlement of overdue obligations to the Fund and would facilitate the elimination of exchange restrictions. In the meantime, it is not proposed to approve the exchange restrictions and multiple currency practices that are subject to approval by the Fund under Article VIII, Sections 2 and 3.

It is recommended that the next Article IV consultation with Guyana be held on the standard 12-month cycle.

Guyana - Fund Relations
(As of October 31, 1987)

I. Membership Status

(a) Date of membership: September 1966
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)
(Position as of October 31, 1987)

	Millions of SDRs	Percent of Quota
(a) Quota:	49.20	100.00
(b) Fund holdings of Guyana dollars	120.95	245.83
(c) Fund credit:	71.75	145.82
CFF	12.68	25.77
EFF	59.06	120.04
Of which: from borrowed resources (SFF)	29.78	60.53
(d) Reserve tranche position	--	--

III. SDR Department

(a) Net cumulative allocation: SDR 14.53 million
(b) Holdings: None
(c) Current designation plan: Not in designation plan

IV. Administered Accounts:

(a) Total Trust Fund loans SDR 11.26 million
(b) Amount outstanding SDR 9.99 million

V. Financial Obligations Due to the Fund (in millions of SDRs)

	Overdue Financial Obligations 1/	Principal and Interest Due				
		1987 2/	1988	1989	1990	1991
Total	67.3	3.5	11.5	8.7	8.3	3.4
Principal repurchases	52.8	2.6	9.4	7.3	7.2	2.5
Charges and interest	14.5	0.9	2.1	1.4	1.1	0.9

1/ As of October 31, 1987.
2/ Repurchases and charges due in the period November 1-December 31, 1987.

B. Nonfinancial Relations

VI. Exchange Rate Arrangement

From October 1984 until mid-January 1987, the exchange rate was maintained in the range of G$4.15 to G$4.40 per U.S. dollar. Effective January 19, 1987 the central rate for the Guyana dollar was changed to G$10.0 per U.S. dollar. Starting February 1, 1987, the commercial banks were permitted to open a foreign exchange window that operates at a market-related rate which moved from G$18 per U.S. dollar in February to G$21 per U.S. dollar in June 1987.

VII. Past Decisions

On May 15, 1985 (EBS/85/119, 5/10/85) the Executive Board declared Guyana ineligible to use the Fund's general resources. At the time of the latest review in June 1987 (EBS/87/131), the Executive Board decided to review the matter again at the time of the 1987 Article IV consultation with Guyana.

The last Article IV consultation was concluded by the Executive Board on December 19, 1986 (SUR/87/1, 1/6/87); the existing restrictions on payments and transfers for current international transactions have not been approved by the Fund.

VIII. Technical Assistance

A staff member of the Bureau of Statistics visited Georgetown in January 1983 to assist the authorities in improving the compilation of Guyana's balance of payments.

In January and July 1985, technical assistance missions in the fiscal area surveyed Guyana's public finances and recommended improvements in the areas of budget preparation, monitoring of public finances and fiscal reporting; they also surveyed the tax system and recommended how it may be simplified and rationalized.

In May 1985 a staff member of the Bureau of Statistics reviewed the methodology underlying the compilation of the CPI, and recommended procedures for constructing a new index.

Guyana--Basic Data

Area and population	
Area	83,000 sq. miles (215,000 sq. kilometers)
Population (mid-1987)	775,900
Annual rate of population increase (1981-87)	-0.1 percent
GNP (1986)	SDR 348 million
	US$408 million
	G$1,742 million
GNP per capita (1986)	SDR 449
Population Characteristics (1986)	
Urban population (percent of total)	28.3
Population density per square mile of agricultural land	121.3
Population age structure (percent)	
0-14 years	36.9
15-64 years	59.2
65-and above	3.9
Crude birth rate (per thousand)	24.0
Crude death rate (per thousand)	8.0
Total fertility rate	2.6
Life expectancy at birth (years)	63.0
Infant mortality rate (per thousand)	65.0
Child death rate (per thousand)	6.8
Food, health and nutrition	
Index of food production per capita (1974-76 = 100) (1986)	97.0
Per capita supply of:	
Calories (percent of requirements, 1986)	101.0
Proteins (grams per day)	--
Population per physician (thousand, 1986)	3.2
Population per nurse (thousand, 1986)	0.3
Population per hospital bed (thousand, 1986)	0.2
Access to safe water (percent of population, 1986)	
Total	82.5
Urban	99.0
Rural	76.0
Education	
Students reaching grade 6 (percent, 1986)	81.0
Consumption	
Energy consumption per capita (kg. of oil equivalent, 1986)	604.1
Passenger cars (per thousand population, 1986)	31.4
Newspaper circulation (per thousand population, 1986)	105.4

	1984	1985	Prel. 1986	Proj. 1987
Origin of GDP		(percent)		
Agriculture	26.2	25.9	26.8	...
Mining	7.6	8.9	8.2	...
Manufacturing	11.7	11.2	11.3	...
Construction	7.4	7.4	7.2	...
Government	22.8	22.6	22.5	...
Other services	24.3	24.0	24.1	...
Ratios to GDP				
Exports of goods and nonfactor services	55.2	53.3	48.1	82.6
Imports of goods and nonfactor services	-64.1	-70.2	-59.6	93.1
Current account of the balance of payments	-26.0	-33.8	-29.3	-40.7
Central government revenues	41.6	41.4	43.1	34.3
Central government expenditures	86.4	96.1	101.1	85.4
Nonfinancial public sector savings	-28.8	-41.2	-31.5	-12.3
Nonfinancial public sector overall surplus or deficit (-)	-48.2	-60.4	-50.3	-37.8
External public debt (end of year)	271.0	309.0	305.0	496.0
Gross national savings	-0.7	-7.9	-3.2	...
Gross domestic investment	26.8	29.6	29.2	...
Money and quasi-money (end of year) 1/2/	131.6	131.8	142.1	...

Annual changes in selected economic indicators	1984	1985	Prel. 1986	Proj. 1987
	(millions of Guyana dollars)			
Real GDP per capita (at factor cost)	2.0	1.0	0.4	--
Real GDP at factor cost	2.2	1.0	0.4	1.0
GDP at current prices (market prices)	15.8	15.5	13.0	54.5
Domestic expenditure (at current prices)	6.1	23.9	6.4	...
Investment	44.6	27.8	11.5	...
Consumption	-2.4	22.6	4.6	...
GDP deflator	15.1	14.5	11.3	53.0
Consumer prices (annual averages) 3/	25.1	15.0	7.9	35.0
Central government revenues	29.3	14.9	17.6	22.8
Central government expenditures	25.9	28.4	18.9	30.4
Money and quasi-money 1/	17.1	15.7	21.8	...
Money	23.5	22.2	16.6	...
Quasi-money 4/	15.2	13.6	23.6	...
Net domestic bank assets 1/	38.8	20.7	19.8	...
Credit to public sector (net)	41.7	23.6	15.7	...
Credit to private sector	14.7	15.6	17.9	...
Merchandise exports (f.o.b., in U.S. dollars)	11.9	-1.3	-1.3	17.8
Merchandise imports (c.i.f., in U.S. dollars)	-13.7	19.1	-3.6	4.5
Central government finances				
Total revenues	707.5	813.0	956.2	1,174.1
Total expenditures	1,469.6	1,887.2	2,244.5	2,926.1
Current account surplus or deficit (-)	-572.1	-817.5	887.1	-1,228.6
Overall surplus or deficit (-)	-762.1	-1,074.2	1,288.3	-1,752.0
External financing (net)	125.1	360.6	153.0	423.4
Balance of payments	(In millions of U.S. dollars)			
Merchandise exports, f.o.b.	215.5	212.8	210.1	247.2
Merchandise imports, c.i.f.	-214.3	-255.2	-246.1	-260.0
Investment income (net)	-81.8	-95.8	-111.7	-112.1
Other services and transfers (net)	-34.8	-17.8	-4.6	-18.0
Balance on current and transfer accounts	-115.4	-156.0	-152.3	-142.8
Public sector capital (net)	-13.8	-12.4	0.9	-20.6
Private capital and errors and omissions 5/ (net)	-46.1	-46.8	-19.1	-0.4
Change in arrears (increase +)	175.3	215.2	170.5	163.0
Change in net reserves of banking system and public sector (increase -)	98.2	106.7	78.1	76.1

International reserve position 6/	December 31 1984	1985	1986	1987
	(millions of SDRs)			
Central bank (net) 7/	-417.3	-471.3	-484.0	-518.1
Central bank (gross)	5.1	5.9	7.4	7.8
Rest of banking system (net)	-8.9	-6.2	-8.7	1.0

1/ Financial system.
2/ Includes other liabilities.
3/ Official CPI.
4/ Defined as Time and Savings Deposits and other liabilities.
5/ Includes exchange profits and losses and profits from sale of gold by IMF.
6/ At exchange rates prevailing at the end of the period.
7/ Includes total liabilities on account of external arrears.

Financial Relations of the World Bank Group with Guyana

IBRD/IDA lending operations as of July 31, 1987	Disbursed IBRD	Disbursed IDA	Undisbursed IBRD	Undisbursed IDA
	(In millions of U.S. dollars)			
Education	8.30	7.03	--	--
Agriculture and forestry	22.90	9.37		3.68
Transportation	--	4.40	--	--
Program and Structural Adjustment Loans	19.00	12.18	--	--
Sea defense	10.09	--	--	--
Energy	13.86	0.93	0.14	1.03
Other	2.07	--	--	8.36
Total	76.22	33.91	0.14	13.07

Amortization payments:	US$13.31 milion
Debt outstanding, including undisbursed:	US$110.03 million
Commitments July 1, 1986-June 30, 1987:	US$7.0 million
IFC investments:	US$7.0 million
Disbursements July 1, 1986-June 30, 1987	US$4.4 million
Technical assistance	A Technical Assistance Credit of US$7 million for the bauxite industry was approved by the Board on August 6, 1986 but has not yet been signed because of Guyana's overdue payments obligations to the Bank Group.
Recent economic and sector mission:	The regular economic mission visited Guyana in September 1986 and a report entitled "Guyana, a proposal for Economic Recovery" was published on December 24, 1986.
Aid Consultative Group:	The ninth meeting of the Caribbean Group for Cooperation in Economic Development will be held under the chairmanship of the IBRD in June 1988 in Washington, D.C.

Guyana - Statistical Issues

1. Outstanding statistical issues

a. Real sector data

National accounts statistics are believed to underestimate the level of real GDP and to understate the increase in the GDP deflator in recent years since they do not capture developments in the parallel economy, which has been growing in importance. Nominal GDP, therefore, would also seem to be underestimated. Also, as private consumption is estimated as a residual, available indicators of real consumption probably exaggerate the rate of decline that seems to have occurred in recent years.

The official consumer price index (CPI) is based on a consumption basket determined in 1969/70, and needs to be updated for changes in consumption patterns. In addition, although the Statistical Office seeks to register prices quoted to buyers in retail outlets, the index may understate actual price increases as retailers may be reluctant to disclose actual prices of items subject to price controls. The authorities do not consider the index to be sufficiently reliable to be published in the IFS. Official employment data cover the public sector. There are no statistics on wages and unemployment.

b. Government finance

In the area of public finance statistics, numerous inconsistencies in recording result in large discrepancies between information on revenues and expenditures and the financing flows. In the consolidated central government accounts, expenditures approved by supplementary authorizations appear to be incompletely recorded and data on accrued interest payments cannot be derived from the accounts since, from 1984 on, there has been no recording of a considerable amount of domestic interest capitalized and of external interest in arrears. The accounts of the public enterprises are generally compiled on an accrual basis and the lack of information on the discrepancies between cash and accrued amounts for certain items present additional difficulties in consolidating the accounts of the nonfinancial public sector and reconciling them with the financial flows.

No government finance statistics are reported separately for publication in IFS and problems with data submitted for the GFS Yearbook have prevented publication of aggregate data in IFS.

c. Monetary accounts

Despite their relatively comprehensive coverage, the statistics on money and banking present some problems. Interest arrears and late interest due are excluded from the Bank of Guyana's accounts, and no allowance is made for the contingent foreign liabilities arising from exchange rate guarantees given on external payment deposits. Also officially recorded data on overdue foreign payments are poor. Moreover, not all foreign liabilities on the Bank of Guyana's books were correctly revalued following the January 1987 devaluation.

d. Balance of payments

Because of the growing importance of the parallel economy and the poor quality of external debt statistics, the balance of payments accounts present significant problems. Export data understate the actual level of exports. Imports of goods and services financed through the parallel market tend to be recorded in official data, but the counterpart credit entries are not always made. The estimates of scheduled interest payments are subject to a wide margin of errors as official data on external debt is quite deficient. In many instances, external debt statistics do not include arrears, nor late interest charges. These are estimated by the staff. Also, external credits granted to the public enterprises, but not guaranteed by the Government, are not always recorded in the debt statistics.

2. Coverage, currentness and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Guyana in the November 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Guyana, which during the past year have been provided on a timely basis, although the currentness of the data could be improved.

Status of IFS Data

		Latest Data in November 1987 IFS
Real Sector	- National Accounts	1986
	- Prices: Consumer	Annual 1986; Q3 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1983
	- Financing:	
	Foreign	1984
	Domestic	1983
	- Debt	1980
Monetary Accounts	- Monetary Authorities	June 1987
	- Deposit Money Banks	June 1987
	- Other Financial Institutions	Q2 1987
Interest Rates	- Discount Rate	August 1987
	- Bank Lending/Deposit Rates	August 1987
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values: Exports	June 1987
	Imports	Annual 1985; Q1 1984
	Unit Value (Exports) Prices	1983 1/
	- Balance of Payments	1985
	- International Reserves	March 1987
	- Exchange Rates	September 1987

1/ Unit values of commodity exports are mostly available through June 1987.