

November 10, 1998

To: Members of the Executive Board
From: The Secretary
Subject: **Final Minutes of Executive Board Meeting 97/126**

The following correction has been made in the final minutes of EBM/97/126 (12/22/97):

Page 23, fifth full para., line 3: for "honorable" read "favorable"

A corrected page is attached.

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exceptional and limited in size, I could agree on a shortening by one year—that is, a completion point in December 1999.

Mr. Iradian made the following statement:

The papers before us today make a convincing case regarding Guyana's eligibility under the HIPC Initiative. The country's performance under successive ESAF arrangements has been impressive. Economic growth remained strong, the 12-month inflation rate declined to about 4 percent this year, the overall public sector deficit narrowed from about 14 percent of GDP in 1993 to an estimated 4.4 percent in 1997, and a wide range of structural reforms have been implemented. Most quantitative and structural performance criteria and benchmarks under the 1997 program were observed.

Notwithstanding these, and the relief from past debt operations, Guyana continues to face an unsustainable external debt burden of over 100 percent of GDP and a debt service of 40 percent of government revenues. In these circumstances, we agree that Guyana should reach the decision point this month. We also support a completion point within one year.

An early completion point could enhance confidence in the economic prospects of Guyana, encourage investment by the private sector, and release needed fiscal resources to key social programs, and to the rehabilitation and expansion of the physical infrastructure and utility systems.

Finally, we agree fully with the staff's policy recommendation for the period ahead. In particular, we encourage the authorities to strengthen the remaining public enterprises and redefine the role of the public sector as agreed under the HIPC Initiative.

Mr. Fujii made the following statement:

I commend the Guyana authorities for implementing appropriate macroeconomic policies and making progress in structural reforms as well as for demonstrating a continued favorable economic performance. The nonobservance of the performance criterion on the sale of the National Bank for Industry and Commerce is a matter of concern. However, it was caused by a factor beyond the government's control, namely a private sector court injunction, and the sale was already completed in October. Taking this background into account, as well as the authorities' past commitment to the adjustment program, I have no problem supporting the request for a waiver, as well as completion of the medium-term review under the third annual ESAF arrangement.

The authorities expect to request a new three-year ESAF arrangement after the completion of the present three-year ESAF arrangement in April 1998. The medium-term macroeconomic outlook assumes that the authorities will fully implement the adjustment program mentioned in the staff paper. However, it projects that the current account deficit will be only modestly reduced to -7 percent of GDP in 2001, at which time the new ESAF

arrangement is expected to be completed. Also, as the staff pointed out in the paper, gross international reserves, which have been maintained at a level of five months of imports, will be reduced to about two months in 2005, partly because of the need for amortization of a sizable amount of external debt. I am concerned about these medium-term prospects, which are for little progress, or even a deterioration, in Guyana's external position. I wonder whether a new ESAF arrangement will contribute to improving external viability. The staff's comments on this issue will be appreciated. Guyana has already benefited from ESAF arrangements for seven consecutive years. I would also appreciate the staff's view as to how many more years of ESAF arrangements will be needed to achieve external viability.

I support the thrust of the staff's policy recommendations. In order to sustain high economic growth and consolidate the adjustments achieved so far, the authorities should concentrate their efforts on stimulating private sector activities and solving the unemployment and poverty issues. Greater allocation of public spending to the social sector and to infrastructure will be necessary, and social sector policies should be emphasized more. Also, structural reforms need to be deepened in the financial sector, and in the restructuring and privatization of public enterprises and the civil service, as many other previous speakers mentioned. In this regard, the authorities' accelerated implementation of essential elements of the structural reforms, as indicated in Table 4 of the final HIPC document, is a step in the right direction. However, as Ms. Lissakers and other speakers pointed out, further structural and social reforms, including the final privatization of GUYSUCO, are needed.

Finally, regarding the issue of application of the HIPC Initiative to Guyana, as I mentioned in the preliminary Board meeting in September, I have no difficulty in supporting Guyana's eligibility for the HIPC Initiative and the proposed timing of the decision point. I also have no objection to the proposed debt sustainability target. On the timing of the completion point, we need to take into account the fact that the HIPC Initiative is applied only to countries with an extremely strong and a sufficiently long track record of adjustment. As many Directors emphasized in the preliminary discussion and today, we also have to pay attention to the need to give sufficient time to complete various structural and social reforms necessary to achieve sustainable growth and external viability. In this context, I am prepared to accept a shortening of the second stage to December 1999.

Ms. Srejber made the following statement:

Let me start with a few general comments and then turn to the HIPC document and conclude with two remarks on the staff papers.

I can broadly agree with staff and the authorities that much progress has been made in macroeconomic adjustments and structural reform since Guyana began implementing programs aimed at reducing inflation and creating conditions for sustainable economic growth, and poverty alleviation, although I am somewhat less upbeat on the track record than the staff. I would only add that the program has been achieved with extensive financial and technical