FOR AGENDA

SM/10/52

March 3, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Guyana—Staff Report for the 2009 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2009 Article IV consultation with Guyana, which is tentatively scheduled for discussion on **Wednesday, March 17, 2010**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Guyana indicating that they do not consent to the Fund's publication of this paper.

Questions may be referred to Ms. González (ext. 35968) and Ms. Macario (ext. 39978) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, March 11, 2010; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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GUYANA

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation with Guyana
(In consultation with other departments)

Approved by Gilbert Terrier and Dhaneshwar Ghura

March 2, 2010

EXECUTIVE SUMMARY

- ***Background.*** Guyana has sustained a solid economic performance in recent years, supported by a strengthened policy framework. New GDP series recently released reveal that the debt overhang is lower than previously estimated, while the fiscal and current account deficits are also smaller. In 2009, output growth was robust despite the global crisis, and the outlook for 2010 remains positive. However, with public debt still at high levels, and continued real, fiscal, and financial vulnerabilities, there is a case for staying the course of prudent policies, given the downside risks to the outlook.

- ***Key policy recommendations and authorities' views.*** While there was broad agreement on the need to preserve a prudent policy framework to further entrench fiscal and debt sustainability, the stronger-than-envisaged fiscal consolidation achieved in 2009 allows for a somewhat more gradual pace for fiscal tightening in 2010–11. This will help accommodate priority infrastructure spending, and support growth. In the short term, inflation risks are expected to remain contained by the presence of a negative (albeit narrowing) output gap and a cautious monetary policy stance. Recent efforts to strengthen banking supervision should be accompanied by a careful monitoring of asset quality, and enhanced prudential measures. Ongoing structural reforms to modernize the sugar sector and diversify Guyana's productive base are critical to sustaining long-term growth and alleviating poverty. Data quality and dissemination efforts could be enhanced further, including through subscribing to GDDS.

- ***Exchange rate system.*** Guyana's *de jure* exchange rate regime is a managed float and the Fund has classified the *de facto* regime as a stabilized arrangement. There have been no changes in the exchange system and the related legal framework since the last Article IV Consultation.

- ***Mission.*** The team that visited Georgetown during January 6–16, 2010 comprised María González (Head), Magda Kandil, Carla Macario (all WHD), and Felix Eschenbach (SPR). Leslie-Ann DesVignes, (OED, Senior Advisor) and Maurizio Bussolo (World Bank) also participated in the discussions. The team met with Minister of Finance Ashni Singh, Central Bank Governor Lawrence Williams, representatives of the private sector, labor, and the donor community, and members of the political opposition.

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I. CONTEXT

1. **In recent years, Guyana has sustained a solid macroeconomic performance, supported by a strengthened policy framework**. Newly released GDP series (based on 2006 prices) suggest that Guyana's economic growth exceeded 4 percent a year on average during 2007-09—compared with 3½ percent in the previous GDP series (based on 1988 prices), while nominal GDP at market value is some 65 percent higher than before. This reflects, in part, the incorporation of new economic sectors, and of the previously large informal activity that moved into the formal sector since Guyana changed course in the late 1980s (Box 1). Inflation has declined steadily since the imported price shock of 2008, to around 3½ percent at end-2009. This performance owes much to the implementation of prudent policies, which have helped reign in public debt, while supporting growth and external stability.

2. **While Guyana has been adversely affected by the global crisis, it has weathered it significantly better than its Caribbean peers—and policy indicators have strengthened relative to regional standards.** Guyana's real GDP growth was generally below the regional average in the first half of the decade, but the pace of economic activity has picked up since 2006, and showed much higher resilience to the 2009 global crisis than the rest of the region (Figure 1). Inflation has been contained at lower levels than in other Caribbean commodity exporters, and the fiscal deficit has narrowed steadily in recent years. Concurrently, debt ratios have improved—also supported by debt relief—bringing external debt within the regional range, while domestic debt is low relative to the Caribbean average.

Selected Caribbean Countries: Economic, Social, and Political Indicators

	Guyana	Suriname	Trinidad & Tobago
Economic Indicators			
Real GDP growth (2007-09) 1/	4.1	4.6	1.3
GDP per capita (US$, 2008) 2/	1,509	5,928	19,870
Inflation, end-of-period (2007-09) 1/	8.0	7.8	8.5
Unemployment rate (percent, 2007)	11.0	11.0	5.6
Social Indicators			
Human development index (UNDP, rank) 3/	114	97	64
Health and primary education index (WEF, rank) 3/	67	54	62
Life expectancy at birth, total (years, 2007)	66.9	68.9	69.7
Mortality rate, infant (per 1,000 live births, 2007)	45.0	27.4	31.1
Business Climate			
Inward FDI performance index (UNCTAD, rank) 3/	11	141	54
Global competitiveness index (WEF, rank) 3/	104	102	86
Business sophistication index (WEF, rank) 3/	94	115	75
Regulatory quality (WB, percentile rank) 4/	31.8	25.6	70.5
Political Indicators			
Corruption perception index (TI, rank) 3/	126	75	79
Political stability (WB, percentile rank) 4/	26.3	51.1	47.8
Rule of law (WB, percentile rank) 4/	27.7	44.4	48.8

Sources: World Bank; United Nations Development Programme; United Nations Conference on Trade and Development; World Economic Forum; and Transparency International.

1/ Simple average.
2/ Guyana's GDP per capita is based on 1988 constant prices.
3/ The lower, the better.
4/ The higher, the better.

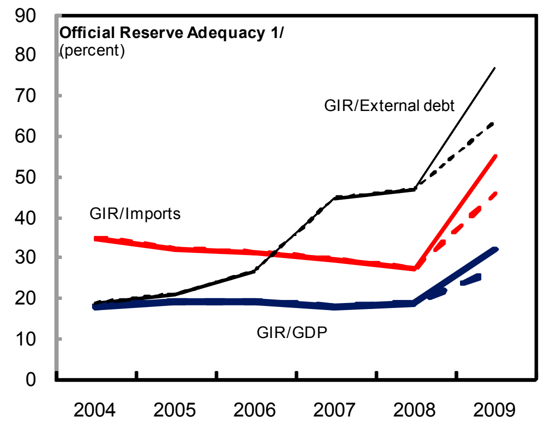
II. RECENT DEVELOPMENTS

3. **Economic activity strengthened in 2009, and inflation declined.** Real growth was about 3¼ percent in 2009, up from 2 percent in 2008 (Figure 2).[1] Economic activity was affected during the first half of the year by difficulties with the start-up of the new large public sugar plant at Skeldon, and the impact of the global and weather shocks on the sugar and bauxite industries. In the second half, economic growth benefited from robust activity in

[1] Estimates using the old GDP series suggest that real growth was 3.1 percent in 2008, and 2.3 percent in 2009.

the non-tradable sectors and a recovery in agriculture and gold production (see Attachment I: "The Impact of the Global Crisis through the Real Channel"). End-year inflation fell to 3½ percent from 6½ percent in 2008, reflecting the decline in world commodity prices.

4. **In 2009, the external current account deficit narrowed, while the international reserve position strengthened significantly.** The current account deficit fell by some 5 percent of GDP, to 8½ percent, driven by a reduction in imports—particularly fuel imports—and notwithstanding the adverse effect of global conditions on exports and remittances (Figure 3) and the phasing out of sugar price preferences by the EU in October (see Attachment II: "Guyana: Elimination of the EU Sugar Preferences"). In the capital account, steady short-term inflows, including by commercial banks that brought back assets held abroad to benefit from higher domestic interest rates, helped offset a decline in FDI. These developments, together with the SDR allocation, led to a large increase in gross reserves, to US$623 million at year-end.[2]



1/ Dotted lines denote value before SDR allocation (US$108.6 million) in 2009.

5. **Monetary policy tightened, supporting the decline in inflation.** Growth of broad money—the monetary policy anchor—fell to 9.7 percent in December (y/y), compared to 12.7 percent a year earlier. T-Bill rates rose in real terms—turning from being negative in 2008 to positive in 2009 as inflation declined, leading commercial banks to increase their holdings of government securities, in the context of a slow demand for credit. The nominal currency has remained broadly stable against the U.S. dollar.

6. **The pace of fiscal consolidation strengthened in 2009, helping contain public debt.** The NFPS deficit (after grants) is estimated to have declined to 3.3 percent of GDP in 2009 from 4.7 percent in 2008, on the back of strong fuel excise collections that offset a modest under-performance by public enterprises and a shortfall in official grants. This outturn was equivalent to a deficit of 5.3 percent of (old) GPD—below the budget target of 6½ percent of (old) GDP. Owing to this retrenchment, public debt (net of savings of PetroCaribe-related disbursements) declined by about 1 percent of GDP to 56¾ percent of (new) GDP.

Nonfinancial Public Sector Operations
(In percent of GDP)

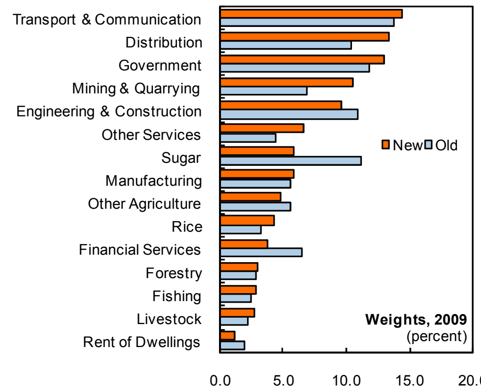
	2009	
	Budget	Outturn
Revenue and grants	**28.2**	**28.8**
Tax revenue	20.9	21.6
Non-tax revenue	0.9	1.4
Public enterprises	1.8	1.6
Grants	4.6	4.2
Expenditure	**32.3**	**32.0**
Wages and salaries	6.4	6.3
Other goods and services	6.5	6.3
Transfers	5.1	5.3
Interest	1.6	1.6
Capital expenditure	12.6	12.6
Overall balance after grants	**-4.0**	**-3.3**

Sources: Ministry of Finance; and Fund staff estimates.

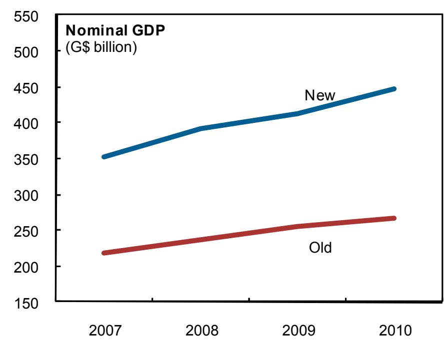
[2] The authorities sold SDR 70 million out of the total allocation of SDR 87.1 million last September; the proceeds have been invested in US Treasuries, in the context of their international reserves management.

Box 1. The Rebased GDP Figures

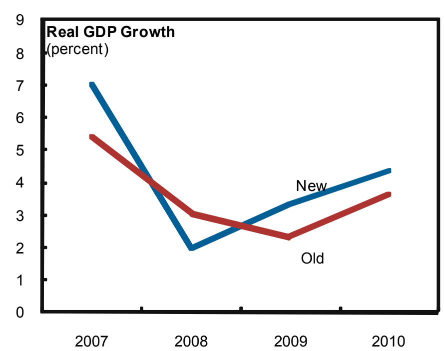
GDP data have been rebased from 1988 to 2006. As a result of these changes, 2009 GDP at market prices is higher than previously estimated by 64 percent. Preliminary estimates suggest that the new GDP per capita reached US$2,630 as of end-2008, up from US$1,504 in the old series. The rebasing project benefited from technical assistance from the U.S. Census Bureau (under an IDB project) and CARTAC. The establishment of the new base year aimed at capturing changes in relative industrial costs and price structures, the large informal sector that has gradually formalized itself since the late 1980s, and the emergence of new economic activities. The project has improved the national accounts compilation system.[1]



The change in sectoral composition reflects better accounting of activity in key sectors. The rebased GDP includes higher weights for several sectors. For example, the government services sector now captures statutory bodies. Health and education services—formerly classified under the government sector—are now separated and expanded to include private sector activities. The distribution sector has an expanded coverage of commodity flows (using data on imports and domestic production), and an improved estimation of trade margins. The mining and quarrying sector now reflects a larger share of gold and diamond production, and a lower share of bauxite. The new benchmark for manufacturing reflects the use of an expanded index of 47 products; and the "other services" sector captures new categories, including hotels and restaurants, and professional services.



The transportation and communications sector saw several important coverage enhancements—for instance, the scope of communications was broadened to include cell phone activities, and internet service providers and TV broadcasting. The operations of mini buses, taxis, lorries, domestic air services and coastal speedboats, and the services provided by air/sea ports and bridges are now in the transportation sector.

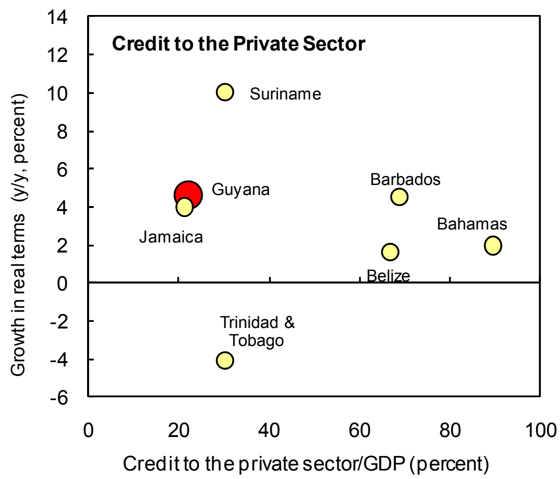


The importance of the sugar sector in total output declined. As an industry, sugar's calculations are robust, since they draw on data from the public company. However, the old series used an arbitrary split in the value added between agriculture and manufacturing, while the new series draw on actual employment costs, while sugar manufacturing was reclassified into manufacturing.

There were no major changes in the coverage of financial services, as commercial banks' activities are generally well measured. However, the new series introduce enhanced estimation techniques. Going forward, there is scope for improving measurements of the insurance sector.

[1] The project was developed in the context of a CARICOM agreement for harmonizing the base of the GDP series across member countries to inform policy decisions and advance regional integration.

7. **The impact of the global crisis on the financial sector has been limited so far, but private sector credit has slowed.** In early 2009, banks tightened their lending standards and private sector credit growth slowed to about 6 percent by December (y/y), down from nearly 22 percent in 2008. Banks remain liquid and well capitalized. Although NPLs for the banking sector have declined significantly over the last decade, they remain relatively high (at 8¼ percent), while provisions are low (at 54 percent). Loan concentration is high for the banking sector (at about 35½ percent loan portfolio); while the more contained related-party lending remained broadly unchanged (y/y) at around 4.5 percent as of end-December. The resolution process for CLICO is underway, with a potential fiscal cost to the government of 2-3 percent of GDP, largely arising from investments by the National Insurance System. To date, banking sector asset losses from CLICO's collapse have been very modest, and limited to one bank.[3]



1/ Based on latest available monthly data for 2009 for each country.

Financial Soundness Indicators, 2004-09
(In percent)

	2004	2005	2006	2007	2008	2009
Capital to risk-adjusted assets	14.3	14.4	15.5	15.0	14.9	18.3
NPLs to total loans	17.8	13.9	11.6	10.7	9.5	8.3
Provision for loan loss to NPLs	39.7	44.4	41.0	54.2	49.3	53.8
Return on assets	1.4	1.9	2.3	2.4	2.3	2.7
Return on equity	16.4	23.1	27.7	27.6	25.2	26.6
Liquid assets to total assets	33.3	32.5	33.0	26.5	29.8	30.9
Related party loans to total loans	6.0	5.0	3.8	3.7	4.5	4.5
Top 20 borrowers to total loans	45.4	44.5	44.4	39.2	33.2	35.5

Sources: Guyanese authorities.

8. **The authorities have undertaken reforms to address fiscal and financial risks*:***

- ***Fiscal Sector.*** To enhance the accounting and transparency of public investment, a modern chart of accounts for capital expenditure has been introduced into the integrated financial management system (IFMAS); in addition, the authorities are piloting an exercise with IDB support to integrate donor projects into the IFMAS. Efforts to improve the Guyana Revenue Authority (GRA) also continue, including by consolidating the new functional organization, completing the rolling out the integrated tax information system (TRIPS), and the improvements in filing, refund, arrears collection and audit functions. The zero-rated VAT list has not been expanded, and the authorities are adhering to the existing system of rules-based tax exemptions, which has remained broadly unchanged in the last year.

[3] The commercial bank absorbed these losses directly.

- ***Financial Sector.*** To deepen financial sector surveillance, the authorities have legally consolidated insurance and bank supervision at the central bank, incorporated risk-based supervision, and issued new guidelines on risk management. The authorities are also publishing regularly key financial soundness indicators for licensed deposit-taking institutions. In addition, the AML/CFT Act and the Money Transfer Agencies Act were enacted in 2009, while the bill for authorizing the operation of Credit Bureaus was tabled in Parliament.

9. **The agenda has also focused on achieving sustainable long-term growth and alleviating poverty:**

- ***Sugar sector.*** Reforms continued to focus on modernizing the sugar sector through ensuring that the new plant at Skeldon becomes fully operational, and by raising overall efficiency.

- ***Low Carbon Development Strategy (LCDS).*** Recent progress includes a model agreement signed with Norway, which would provide US$250 million in 2010–15 in exchange for the preservation of Guyana's rainforests. These resources would support, *inter alia,* the development of non-traditional economic sectors and the reconversion of Guyana's fuel-dependent energy sectors.

- ***Infrastructure.*** The government is spearheading key projects as Public-Private Partnerships (PPPs) to help close the infrastructure gap. These include the construction of a hydropower plant at Amalia Falls (with private sector financing for some 23 percent of GDP from China and the IDB), and a 450 km. road, connecting Guyana's interior to Brazil (11–16 percent of GDP). Public investment plans include an access road to Amalia Falls, and improving electricity generation and distribution**.**

- ***Business climate*** The authorities computerized business registration and incorporated the records into the Deeds Registry in 2009. In addition, the authorities provided support to small enterprises through the creation of facilitation programs providing advisory services (including with IDB support) and the improvement of community market infrastructure.

- ***Poverty reduction***. The authorities are finalizing the 2008–12 Poverty Reduction Strategy Paper (PRSP). This proposes seven strategic pillars: (i) economic growth led by broad-based job creation; (ii) environmental protection; (iii) stronger institutions and better governance; (iv) investment in human capital and emphasis on basic education and primary health; (v) investment in physical infrastructure; (vi) improved safety

Guyana: Selected Social and Poverty Indicators

	2005	2006	2007	2008	2009
Vital Statistics					
Infant Mortality Rate (per 1,000 persons)	22.0	19.2	20.3	17.5	14.9
Under 5 mortality rate (per 1,000 live births)	26.5	20.3	23.9	20.2	19.8
Health and Education					
Public Expenditure on:					
Education as a share of Budget	13.7	13.0	17.1	15.5	15.7
Health as a share of Budget	7.5	9.0	10.6	9.3	9.9
Number of physicians (per 10,000 population)	4.9	4.9	5.1	6.6	6.6
Under 5 severely malnourished (in percent of total attendees in clinics)	0.6	0.4	0.5	0.3	0.2
1 year olds immunized against polio (percent)	93.0	92.0	94.0	94.0	96.0

Source: Guyana, 2010 Budget.

nets, and (vii) special intervention programs to address persistent pockets of poverty. The development of a monitoring and evaluation system (with support of the UNDP and the IDB) will enhance the effectiveness of public spending.

Box 2. Key Policy Recommendations of the 2008 Article IV Consultation

Staff's advice centered on the need to:

- ***Continue implementing a sound policy framework.*** A more gradual deficit reduction than previously envisaged was appropriate, given the global slowdown. A faster convergence than planned to the previous fiscal framework was recommended over the medium term. While the exchange rate was broadly in line with fundamentals, some additional flexibility was desirable.
- ***Enhancing financial system surveillance.*** While there were no signs of financial distress, staff recommended intensified monitoring of the sector, the development of a crisis response plan, and enhancing the reporting of standard prudential indicators.
- ***Implementing structural reform.*** Given the importance of the sugar modernization plan, it was imperative to address business and labor relations, and prepare contingency measures. Continuing to address the high cost and unreliability of energy generation was also considered important. In addition, it was recommended to avoid a further expansion of the zero-rated VAT list, adhering to a system of rules-based exemptions and continue improving the revenue administration.
- ***Pressing ahead with the poverty reduction agenda,*** through ensuring consistency between the medium-term framework and the PRSP, while establishing an effective system for its monitoring and evaluation.

Authorities' views. The authorities broadly shared the staff's assessment and welcomed the policy advice. They expressed their readiness to implement measures to contain the deficit and achieve the inflation target as needed. They planned to enhance financial sector supervision and implement the structural reform agenda. They noted that they would continue to favor exchange rate stability, since greater flexibility could lead to excessive volatility, which could be disruptive in their view.

III. MEDIUM-TERM OUTLOOK AND RISKS

10. **The baseline macroeconomic outlook remains positive for 2010 and the medium term.** Guyana would benefit from the global recovery, the coming on stream of the Skeldon sugar plant, and the start-up of public investment projects, which would spur average growth to 4-5 percent in the medium term. Growth is projected to gradually converge to its potential rate of 3¼ percent over the long term.[4] While fully financed, the external current account

[4] As agreed with the authorities, long-term potential output growth is now estimated to be somewhat higher than in the 2008 Article IV Consultation (at 3¼ percent of GDP in the baseline scenario, compared to 3 percent a year ago). This accounts for the improved performance of the Guyanese economy in recent years, the impact of planned public investment in 2010–14, and the effect of the revised GDP accounting, vis-à-vis the remaining risks and vulnerabilities. The large PPP projects have not been included into the baseline projections of this report, since they are still under evaluation.

deficit would widen somewhat in 2010—led by rising world oil prices, the elimination of sugar price preferences by the EU, and the up tick in domestic demand—before narrowing in subsequent years.

Medium-Term Macroeconomic Framework
(In percent of GDP, unless specified otherwise)

				Prel.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP (in percent)	5.1	7.0	2.0	3.3	4.4	4.9	4.2	3.9	3.6
o/w sugar sector	5.5	2.7	-15.1	3.3	19.8	10.0	9.1	9.7	6.0
o/w non-sugar sector	3.3	7.2	3.4	3.0	3.4	1.8	3.8	3.5	3.4
Inflation (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
Overall fiscal balance	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2	-2.9	-2.5	-2.2
External current account balance	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
NPV of public debt-to-GDP ratio (in percent)	65	42	41	49	49	50	50	51	53
Excluding unspent portion of PetroCaribe loans	65	42	39	49	47	45	44	44	44
NPV of public debt-to-revenue ratio (in percent) 1/	222	152	159	169	168	170	169	174	184
Excluding unspent portion of PetroCaribe loans	222	152	151	159	155	149	149	154	156
Gross official reserves (in US$ millions)	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
In months of imports	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Revenue including grants.

11. **Risks appear tilted to the downside in the near term, but are balanced over the longer term.** Key downside risks include those linked to a weaker or delayed global recovery, higher-than-envisaged oil prices, and further delays in completing the modernization of the public sugar company—which is critical to the baseline growth projection. The recent elimination of preferential sugar prices by the EU, which will increasingly expose Guyana to the volatility of world market prices for its sugar exports, could also complicate the outlook, notwithstanding the recent firming of sugar prices in the world market. Upside potential hinges on the sound completion of key large investment projects through PPPs, the eventual exploitation of Guyana's oil reserves (expected to begin in 2014), and on the potential benefits from the global carbon credit markets on account of the country's rainforests in the context of the LCDS.

IV. Policy Discussions

12. **Discussions took place against the backdrop of strengthened economic prospects, despite remaining vulnerabilities and risks to the outlook.** Thus, the focus was on establishing:

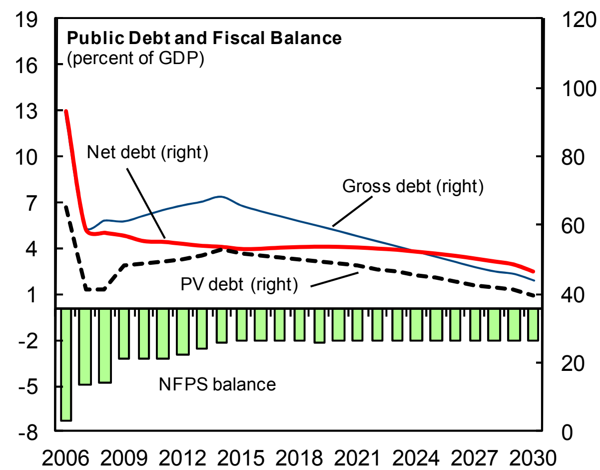
- ***A Macroeconomic Policy Framework to Support Growth and Protect Sustainability.*** *The newly rebased GDP series, coupled with a stronger-than-envisaged fiscal consolidation in 2009, have revealed a larger space for fiscal policies to accommodate key investment spending and remain supportive of growth. It will be important to strike a balance between allowing for a more gradual fiscal consolidation while staying the* *course of prudent policies to consolidate fiscal and debt sustainability. In this context, monetary policy should remain cautious to ensure price stability.*

- ***An Agenda to Further Reduce Vulnerabilities, Entrench Growth, and Alleviate Poverty**. Reducing vulnerabilities would require measures to restrain fiscal risks linked to public investment and PPPs, and further strengthening the financial sector. Reforms to modernize the sugar industry, diversify the productive base, and enhance the business climate are critical to sustaining long-term growth and speeding up poverty reduction.*

A. A Macroeconomic Policy Framework to Support Growth and Protect Sustainability

Fiscal Policies

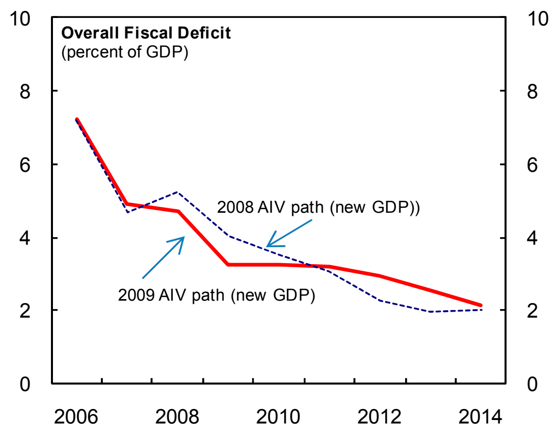
13. **The authorities plan to maintain prudent fiscal policies in the near and medium term to protect sustainability.** Following an important upfront consolidation effort in 2009, the 2010 budget and medium term plans envisage a somewhat slower fiscal tightening. The path would maintain the NFPS deficit at around 3.2 percent of GDP in 2010–11, and gradually converge to a deficit of 2.2 percent of GDP by 2014. While this stance entails a positive fiscal impulse in 2010–12, the presence of a negative (albeit narrowing) output gap would help contain inflation risks (See Attachment II: Assessing Guyana's Fiscal Structural Policies). The authorities noted that this strategy would allow for a reduction in the net debt-to-GDP ratio, while providing some space to support growth through public investment.

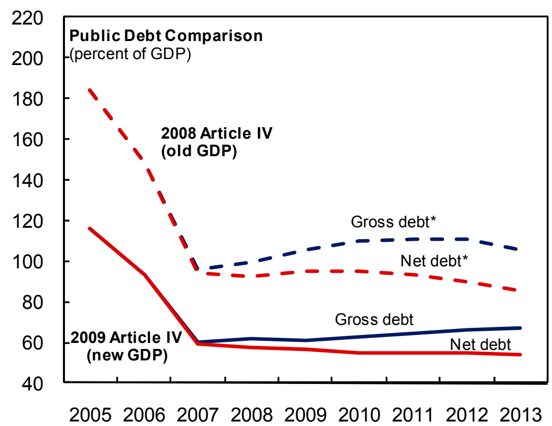


14. **Staff agreed that the fiscal stance was appropriate, but noted that risks call for heightened caution.** While the rebased GDP data has revealed a lower debt overhang than considered earlier, Guyana still faces a risk of moderate debt distress.[5] Moreover, the revised consolidation path could entail a somewhat pro-cyclical fiscal stance in the medium term. These and other downside risks (including those related to the sugar sector and world fuel prices) require exercising fiscal prudence, including through contingency planning. The authorities stressed that the fiscal effort of 2009 had aligned the outturn with the consolidation path agreed at the time of the 2008 Article IV consultation earlier than envisaged. In addition, the fiscal impulse would shield growth against downside risks, while upside risks to potential output from productive infrastructure spending also lessened the urgency for faster consolidation. They expressed their readiness to implement expenditure measures, if needed, to meet the fiscal targets and protect debt sustainability. They also

[5] This assessment, which is unchanged from that in the 2008 Article IV Consultation, is linked to the stress tests on debt service (see *Guyana—Joint IMF-World Bank Debt Sustainability Analysis*).

concurred with staff that a balanced package of structural measures to further strengthen the revenue administration and to secure the long-term viability of the National Insurance System—including through parametric reform—along with a phased reduction of non-priority spending would be critical to maintain a low fiscal deficit. This, along with the continued savings of a large share of the PetroCaribe disbursements would help gradually bring the PV of public debt closer to the DSA benchmark of 40 percent of GDP.[6]





Monetary and Exchange Rate Policies

15. **The monetary stance appears appropriate to maintain macroeconomic stability.** Staff noted that while inflation is currently low, it will be important to prevent the rekindling of inflationary pressures through an early monetary policy easing. The authorities noted that they would continue conducting monetary policy through open market operations,[7] and agreed that the high liquidity available in the system should provide a buffer to satisfy a pick up in the demand for private sector credit, as global conditions recover further. The authorities stressed their readiness to tighten monetary policy—should inflationary pressures develop—to ensure compliance with their inflation objective of 4 percent.

16. **Staff observed that a move toward greater exchange rate flexibility would provide a useful buffer against external shocks, but noted that there was space to implement this gradually.** The still high volatility in prices for Guyana's commodity exports provides some rationale for following a gradual approach to prevent disruptive exchange rate fluctuations from temporary shocks given the still volatile global conditions—particularly as international reserves remain comfortable. At the same time, greater flexibility would contain fiscal costs linked to sterilization and enhance the effectiveness of monetary

[6] Net public debt excludes PetroCaribe disbursements that are saved in an escrow account. In the baseline scenario, these deposits are assumed to rise hand-in-hand with larger PetroCaribe disbursements, as world fuel prices increase over the medium term—following past practice by the Guyanese authorities.

[7] Guyana introduced a competitive bidding process for 91-day treasury bills in mid-1991; the central bank holds weekly auctions (see Ganga, G., 2009, "Building Resilience in the Guyanese Banking System", mimeo).

policy. As in the past, the authorities expressed a preference for exchange rate stability—noting that, in their view, volatility could be disruptive, including because of the still relatively thin market and Guyana's exposure to commodity price shocks. Guyana's real effective exchange rate is assessed to be broadly in equilibrium (Box 3).

B. An Agenda to Lower Fiscal Risks, Entrench Growth, and Alleviate Poverty

17. **There was agreement that implementing a sound investment framework would be critical to minimizing fiscal risks and protecting sustainability.**

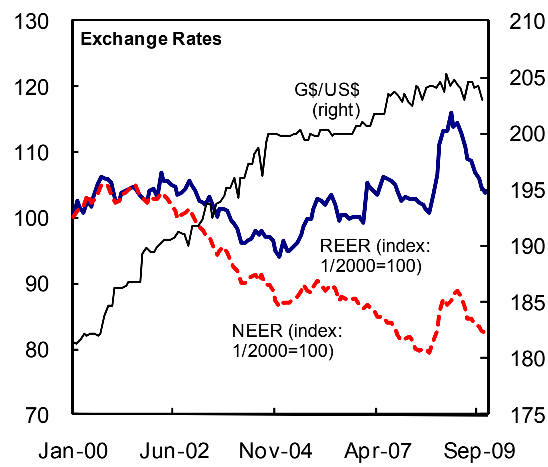
- ***Public investment should be of high quality***. Projects should ensure a high value-for-money, and help enhance Guyana's growth and debt-repayment capacity. In the sugar sector, there was agreement on the urgency of ensuring the full operation of the Skeldon plant, increasing mechanization and planning against weather shocks, and establishing a stable framework to address labor conflicts. The authorities are enhancing the fiscal accounting and transparency of investment projects with the IDB, and undertaking detailed cost-benefit analysis of all of the large donor projects, to ensure their feasibility. Staff recommended gradually expanding these initiatives to all public investment. There was agreement that continued access to high concessional terms remains critical to protect sustainability. There was also agreement that the LCDS may play a pivotal role in catalyzing green funds for the development of new sectors.

- ***Minimizing fiscal risks from PPPs will require close attention to international best practice.*** While PPPs can facilitate private participation, they can also pose sustainability risks, particularly in the presence of sovereign guarantees. Staff urged the authorities to ensure that PPP contracts provide a fair balance of risks between the private and public sectors, limit fiscal contingencies, and prevent renegotiation risks, observing that these features could eventually be entrenched into a comprehensive legal framework for PPPs. The authorities agreed to reflect any firm or contingent liabilities from upcoming PPP contracts in the public debt statistics. They also noted that the hydropower plant at Amalia Falls should go a long way in limiting exposure to world oil prices and improving reliability, while clarifying that the IDB is still assessing the economic and environmental viability for the project under the new global conditions. Likewise, the Brazilian authorities continue to evaluate the Brazil-Guyana road project, also with IDB technical support. Prospects for starting oil extraction in 2014 remain positive.

- ***Other contingent liabilities should be limited.*** In this context, the fiscal costs related to the resolution of CLICO should be minimized.

Box 3: Surveillance Decision: External Sustainability Assessment

Guyana's real effective exchange rate has been depreciating since its peak in January 2008. The real depreciation of 10 percent between end-January 2009 and November 2009 has reversed the sharp real effective appreciation of the Guyanese dollar of 11 percent that took place in the second half of 2008, and largely reflects the volatility of the U.S. dollar (which the Guyanese dollar follows closely) vis-à-vis the Euro and other major currencies.[1]



CGER-type of analysis suggests that the Guyanese dollar is broadly in equilibrium. The assessment relies on the external sustainability (ES) and macroeconomic balance (MB) approaches.[2] In a baseline scenario, the results indicate that the real effective exchange rate is broadly in line with fundamentals. Under both methodologies, results show an estimated misalignment in both directions of less than 5 percent in each case.

Sensitivity Analysis of REER Gap to Assumptions

Scenario	REER GAP under ES	Δ to baseline	REER GAP under MB	Δ to baseline
Baseline	**3.6**		**-0.3**	
MT current account balance				
-1 p.p.	9.5	5.9	5.6	5.9
+1 p.p.	-2.3	-5.9	-6.2	-5.9
Current account norm				
-1 p.p.	-2.3	-5.9	-6.2	-5.9
+1 p.p.	10.5	6.9	5.6	5.9
Elasticity (CA to REER)				
+0.1	11.2	7.6	-0.7	-0.4
-0.1	1.9	-1.7	-0.2	0.1
Change in REER through 2014				
+3%	6.6	3.0	2.7	3.0
-3%	0.6	-3.0	-3.3	-3.0

Sensitivity analysis confirms these results. Given the well-known uncertainties linked to the CGER-analysis, a number of sensitivity tests were conducted, based on changes to key parameters, for both the ES and MB approaches. The results indicate, in all cases, that the deviation of the REER from equilibrium is moderate (of less than 10 percent) in both directions in the stress tests.

An assessment based on the financial account suggests that sustainability risks are balanced. Staff projects a gradual decline in external financing needs after a temporary widening of the current account deficit in 2010. Private and official capital inflows are expected to be sufficient, as FDI and remittances have not been drastically affected by the global crisis, while large IFI and bilateral disbursements are being secured to finance key infrastructure projects in the next few years. Sustainability has been buffed up through the SDR allocation. Higher oil prices, while raising current account pressures, would be mirrored by financial inflows from PetroCaribe; Guyana could become a net oil exporter in 2014.

[1] The Fund classifies Guyana's exchange rate regime as a stabilized arrangement.
[2] The approach of the equilibrium real exchange rate could not be applied given the lack of reliable data on productivity indicators.

18. **The authorities plan on a prompt publication of the PRSP.** With the soon-to-be-published PRSP based on 2006 data, they are working towards including an updated macroeconomic framework and an MDG costing exercise in subsequent PRSPs.

C. An Agenda to Address Financial Sector Vulnerabilities

19. **Staff stressed the need to continue monitoring commercial banks closely.** Updated FSAP stress tests suggest that the banking system as a whole would withstand a series of shocks before becoming vulnerable, although resilience varies across individual banks (see Attachment III: Guyana—The Financial Sector). While the authorities stressed their ongoing efforts to enhance financial supervision, staff urged them to require banks to increase provisions, and tighten the legislation on the exposure to large borrowers and related-party lending, as recommended by the 2006 FSAP. It would also be important to ensure that all banks prepare crisis management plans of sufficient quality. The authorities noted that existing legislation embeds a reliable framework to provide liquidity support and deal with troubled licensed financial institutions; staff noted the importance of ensuring that these provisions—including, for instance, the eligibility requirements for liquidity support—remained consistent with the evolving structure of the financial system. A program that extends tax and reserve requirement exemptions on small mortgages also requires monitoring, to avoid excessive exposures from developing in households' balance sheets.

20. **While welcoming efforts to deepen the financial system, staff noted that strict regulatory standards are critical for non-bank financial institutions.** As most licensed non-bank financial institutions are now under central bank supervision, staff encouraged the authorities to bring credit unions and cooperatives within the same regulatory perimeter. Staff also recommended that draft legislation to bring the mortgage institution NBS under direct central bank supervision be tabled in Parliament. There was agreement that ongoing efforts to reduce the large interest rate spreads, including though the development of new financial instruments (with IDB technical support) would help deepen financial sector intermediation.

D. Data Provision

21. **The authorities have made important efforts to improve data quality in the past year, but the timely availability of data is still an issue.** Staff noted the very significant progress entailed in the finalization of the rebased GDP. New CPI series, also prepared with CARTAC assistance, are being compiled in line with a new basket. Staff urged the authorities to complement these efforts by expanding and accelerating data provision, and to subscribe to the *General Data Dissemination System* (GDDS). The authorities agreed to review the GDDS requirements, and are considering an eventual subscription to the system.

V. Staff Appraisal

22. **With a fresh perspective on its economic stance at hand, Guyana is at a cross-road.** New GDP series suggest that economic performance in recent years has been stronger than previously considered, while inflation has declined to low levels since the 2008 food price shock. Guyana has weathered the global crisis well, in part owing to the

implementation of prudent policies. Going forward, it will be important to strike an appropriate balance between using the fiscal space to entrench the economic recovery, and protecting sustainability, given persistent vulnerabilities and risks to the outlook.

23. **Modernizing the sugar sector and diversifying Guyana's productive base are critical to sustaining growth.** Staff welcomes the innovative plans under the Low Carbon Development Strategy, and those to finalize the modernization of the sugar sector. Given its key role in the Guyanese economy, it will be critical for the public sugar company to implement its recovery measures, and ensure the rapid operation of the plant.

24. **In the period ahead, the authorities' commitment to prudent policies should be underpinned by a heightened fiscal caution, given the risks to the outlook.** Staff welcomes the consolidation effort exerted in 2009, which provides a buffer to debt sustainability, while opening space for medium-term fiscal policies to remain supportive to growth, including by accommodating key infrastructure spending. While the authorities' overall fiscal stance in the near and medium term is broadly appropriate, it will be critical to prevent debt and inflation risks that could emerge from pro-cyclical fiscal policies. In this context, staff commends the authorities' readiness to take expenditures measures, if needed, to meet their fiscal targets, support price stability, and protect debt sustainability. Pressing ahead with the implementation of ongoing or planned structural reforms in the revenue administration and the National Insurance System should serve this objective well.

25. **Minimizing fiscal risks from public investment and public-private-partnerships will be critical to ensuring debt sustainability.** Public projects should ensure a high value-for-money, and help enhance Guyana's growth and debt-repayment capacity. Staff welcomes efforts to enhance the economic assessment, fiscal accounting, and transparency of investment projects from donors, which could gradually be expanded to all public investment. Staff commends the authorities' commitment to seeking access to high concessional terms to protect debt sustainability. Minimizing fiscal risks from PPPs will require close attention to international best practices, particularly to limit risks linked to sovereign guarantees. It will also be critical to reflect any firm or contingent liabilities from PPPs in the public debt statistics. The authorities' decision to minimize the fiscal cost from the resolution of CLICO is welcome.

26. **It will be important to prevent an emergence of inflationary pressures as the recovery ensues.** In this context, the authorities' decision to maintain a tight monetary policy stance is adequate, especially since the high liquidity level in the system provides a buffer to satisfy a pick up in the demand for private sector credit. While moving toward greater exchange rate flexibility would provide a buffer against shocks, a gradual approach would help prevent disruptive exchange rate fluctuations stemming from temporary terms of trade shocks and Guyana's still thin foreign exchange market—particularly as international reserves remain comfortable.

27. **The balance of risks calls for a careful monitoring of the domestic financial system.** So far, the banking system has remained broadly resilient to the global crisis. However, the level of NPLs, provisioning, borrower concentration and related-party credit raise concerns. In this context, staff welcomes the forthcoming reporting and monitoring

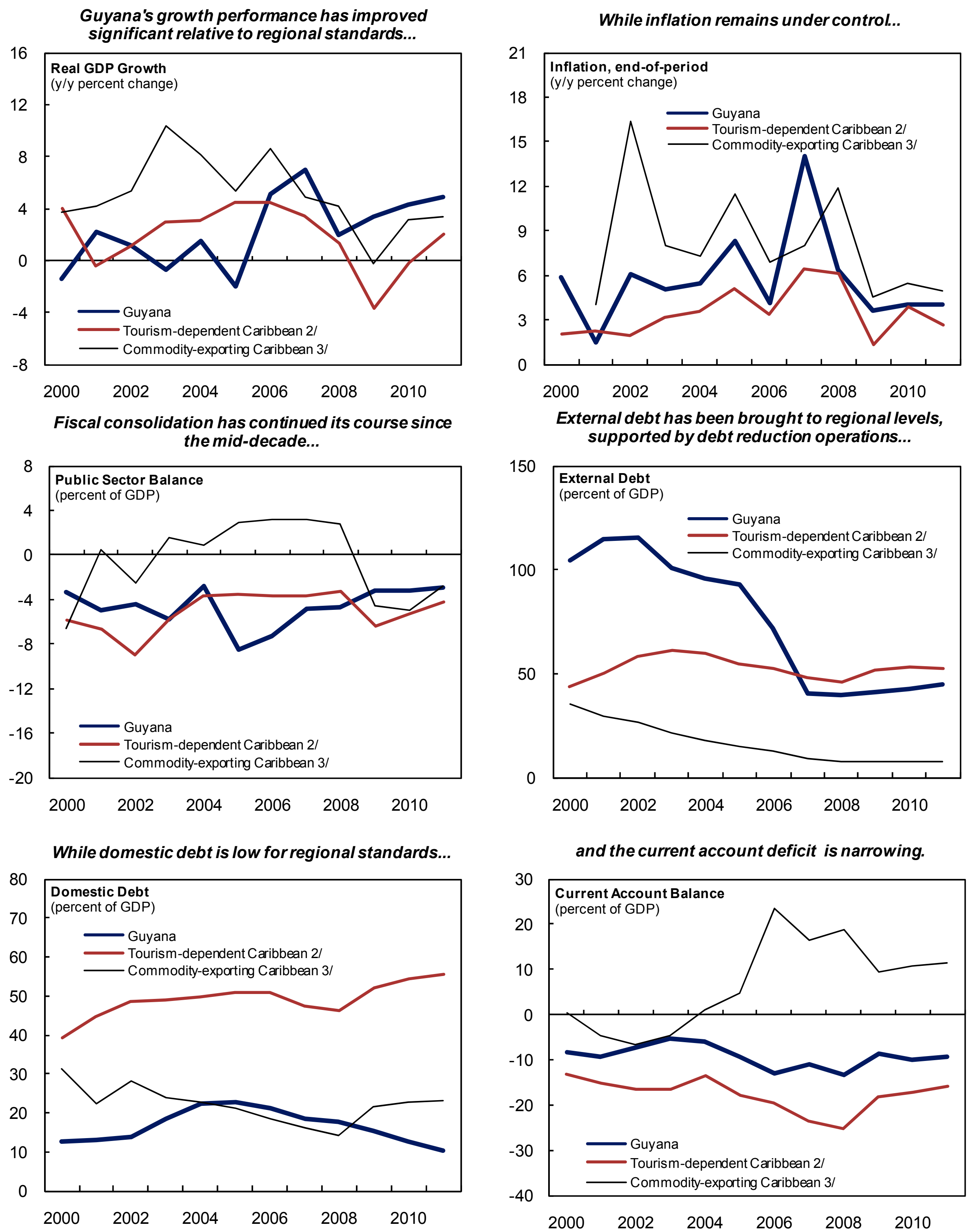
guidelines for financial institutions, and urges the authorities to require banks to step up their provisioning levels, and to tighten the legislation on the exposure to large borrowers and related-party lending—in line with the 2006 FSAP recommendations. While the recent initiatives to deepen financial intermediation (such as the forthcoming law on Credit Bureaus) are commendable, the program that extends tax exemptions and reserve requirements on mortgage loans should be monitored closely, to avoid developing exposures in households' balance sheets. Staff welcomes the recent amendment to bring insurance supervision under the purview of the central bank; and recommends to gradually bring credit unions and cooperatives under the same regulatory perimeter of other nonbank financial institutions, and to bring the mortgage institution NBS under direct central bank supervision.

28. **The authorities' long-standing commitment to poverty reduction calls for a prompt publication of the PRSP.** Given the importance of including an updated macroeconomic framework and an MDG costing exercise in subsequent PRSPs, staff welcomes ongoing work with donor support to cost the achievement of the MDGs.

29. **The important improvements in data quality achieved in the recent year should be accompanied by a further strengthening in data availability.** Staff commends the very significant progress entailed in the finalization of the rebased GDP and CPI series. Staff also welcomes the authorities' decision to review the requirements of the *General Data Dissemination System* (GDDS) with a view of considering a future subscription.

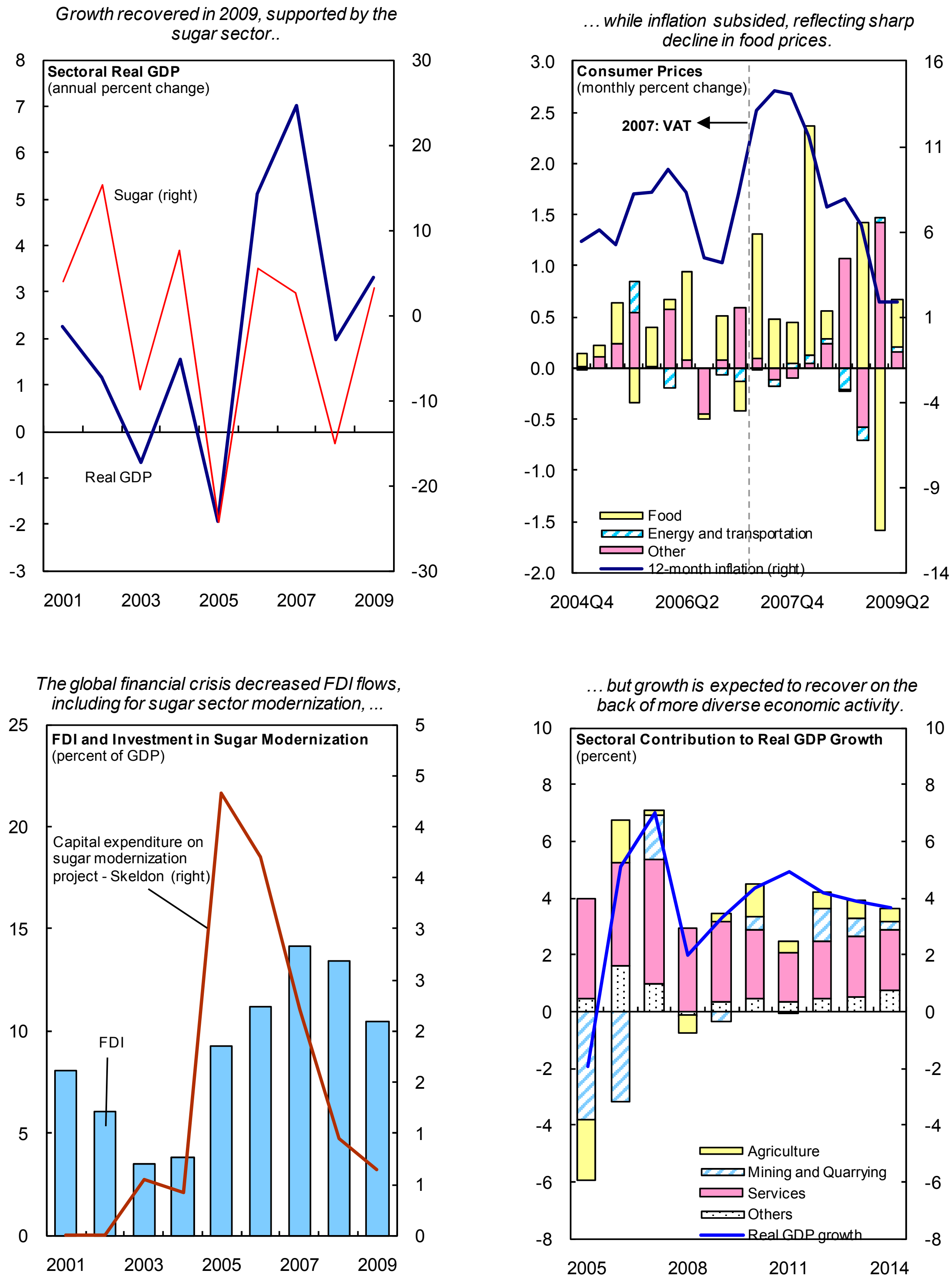
30. Staff recommends that the next Article IV consultation with Guyana be held on the standard 12-month cycle.

Figure 1. Guyana: Comparative Regional Developments 1/



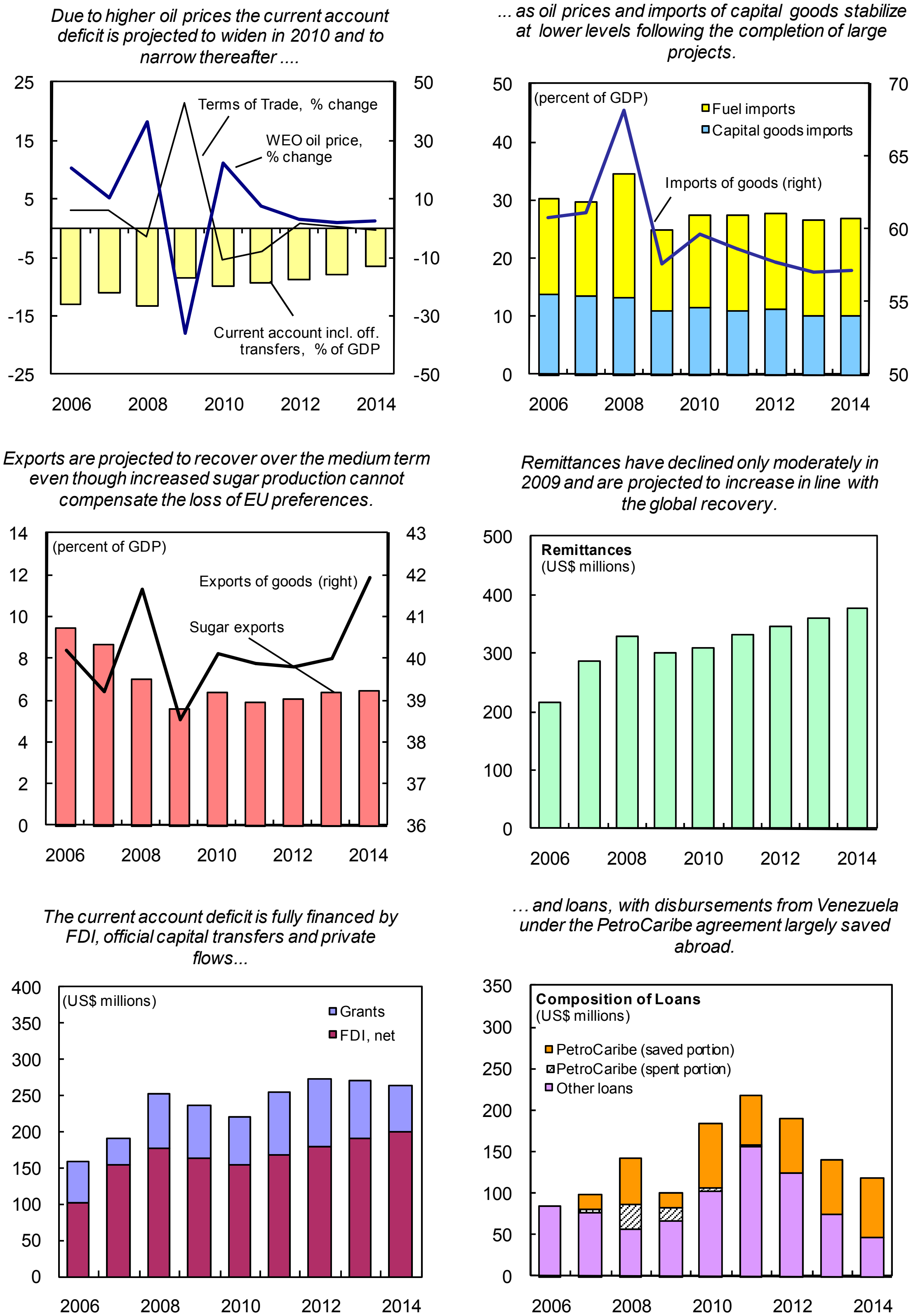
Sources: Country authorities; and Fund staff calculations.
1/ Caribbean region measured as simple averages of corresponding variables.
2/ Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

Figure 2. Guyana: Real Sector Indicators



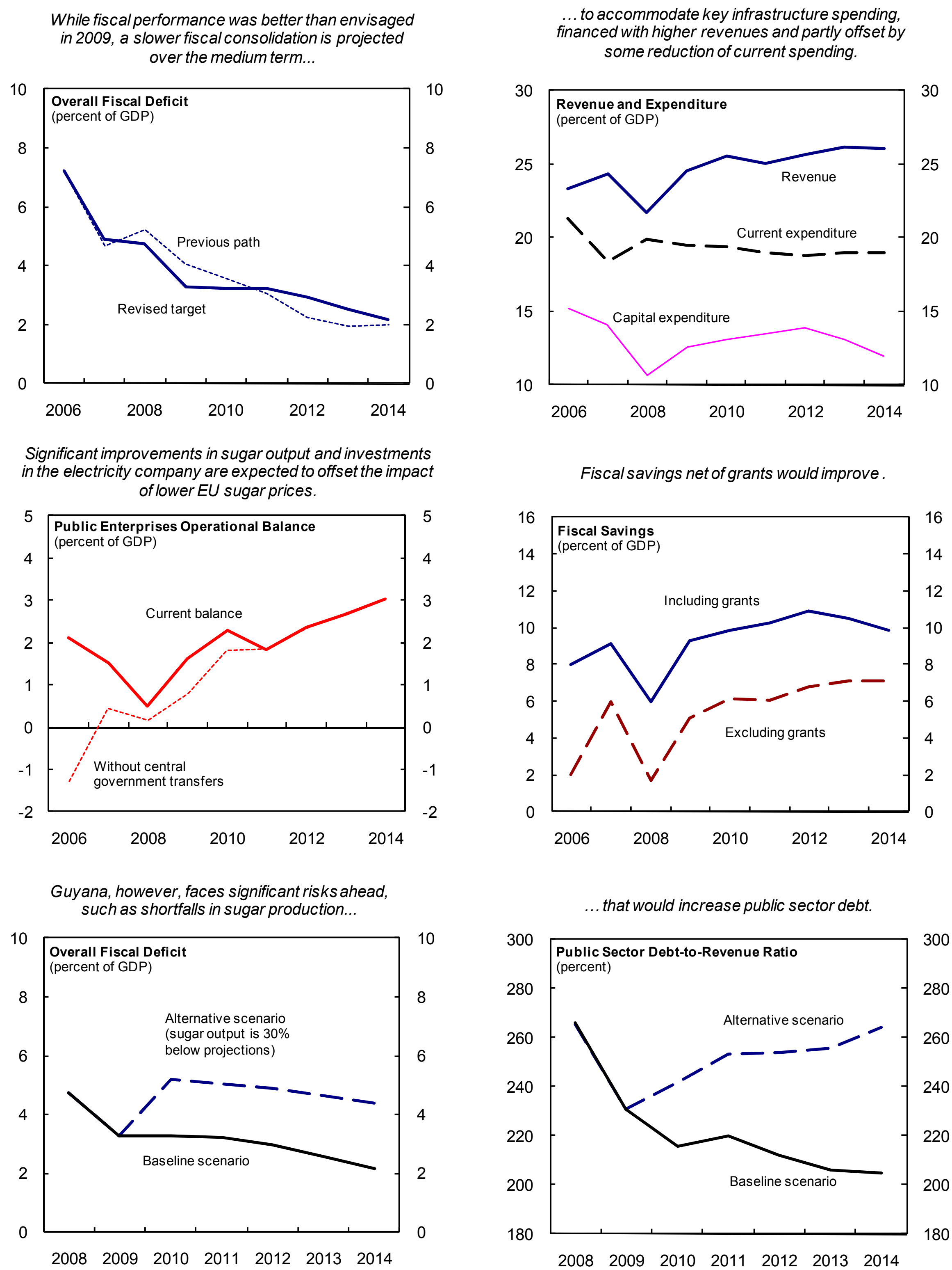
Sources: Bank of Guyana; Ministry of Finance; and Fund staff estimates.

Figure 3. Guyana: External Sector Developments



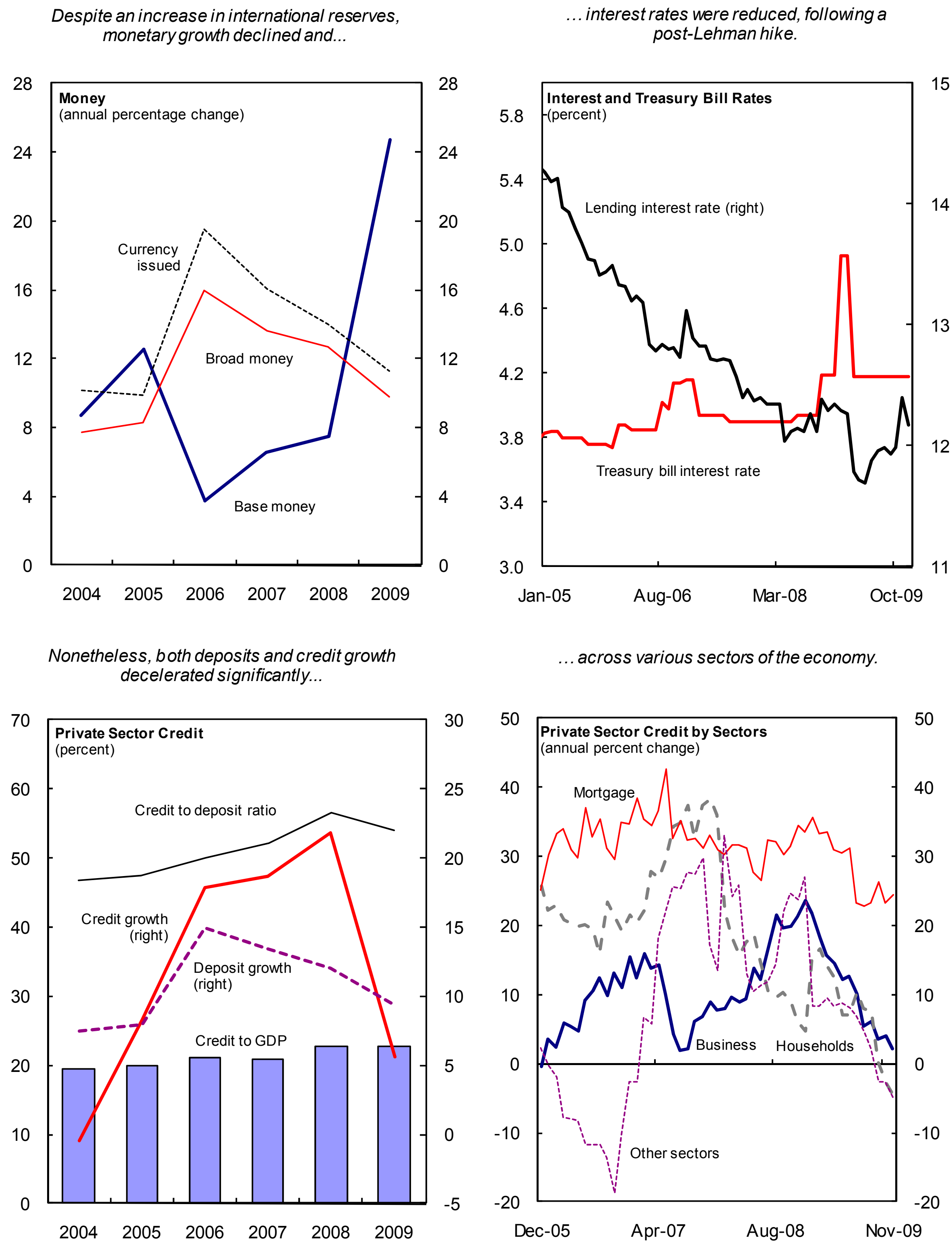
Sources: Bank of Guyana; and Fund staff estimates and projections.

Figure 4. Guyana: Fiscal Sector Developments



Sources: Ministry of Finance; and Fund staff estimates and projections.

Figure 5. Guyana: Monetary Developments



Source: Bank of Guyana Financial Statistics.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2008 (thousands)	767.4	Population not using an improved water source (%), 2006	7.0
Life expectancy at birth (years), 2007	66.5	Gini index, 1992-2007	44.6
Healthy life expectancy at birth (years), 2007	55	HDI rank, 2009	114.0
Population living below the poverty line (%), 2000-06	35		

II. Economic Indicators

				Prel.	Projections	
	2006	2007	2008	2009	2010	2011
	(Annual percent change)					
Production and prices						
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9
Real GDP per capita	4.8	6.7	1.5	3.0	4.0	4.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0
	(In percent of GDP)					
National accounts						
Investment	21.0	20.7	19.0	16.5	18.2	19.0
Private sector	5.8	6.6	8.4	4.0	5.1	5.5
Public sector	15.2	14.1	10.7	12.6	13.1	13.5
National saving	7.9	9.6	5.8	8.0	8.2	9.6
Private sector	2.3	2.4	1.3	0.6	0.0	1.9
Public sector	5.6	7.2	4.5	7.4	8.3	7.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4
Nonfinancial public sector						
Revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4
Current	21.3	18.4	19.9	19.5	19.4	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5
Overall balance (after grants) 1/	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2
Total public sector debt (end of period) 2/	93.1	58.9	57.7	56.8	55.2	55.0
External 2/	71.8	40.6	39.7	41.6	42.6	44.8
Domestic	21.3	18.3	17.9	15.2	12.6	10.2
	(Annual percentage change, end of period)					
Money and credit						
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
Domestic credit of the banking system	4.3	5.6	30.4	-13.2	9.7	18.5
Public sector (net)	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Private sector	17.9	18.7	21.8	5.7	10.7	17.3
	(In millions of U.S. dollars, unless otherwise indicated; end of period)					
External sector						
Current account balance 1/	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2
Gross official reserves 3/	277.3	312.6	355.9	623.0	658.6	738.5
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2
Memorandum items:						
Nominal GDP (G$ billion)	292.0	352.2	391.5	413.1	448.1	490.4
Per capita GDP, US$	1,907	2,277	2,497	2,629	2,831	3,059
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	204.9	207.0
PetroCaribe loans savings (stock, in % of GDP)	…	1.1	3.6	4.3	7.5	9.4

Sources: Guyanese authorities; UNDP Human Devt. Report 2009; and Fund staff estimates and projections.

1/ Including official transfers.

2/ After delivery of HIPC assistance and MDRI and excluding Petrocaribe savings in 2007-11.

3/ Includes SDR allocation.

Table 2. Guyana: Balance of Payments

	2006	2007	2008	Prel. 2009	Projections 2010	2011
(In millions of U.S. dollars)						
Current account (incl. official transfers)	**-190.8**	**-193.0**	**-253.6**	**-172.5**	**-218.6**	**-222.2**
Current account (excl. official transfers)	-226.1	-204.6	-305.2	-213.8	-256.5	-255.6
Merchandise trade (net)	**-300.0**	**-380.9**	**-507.8**	**-387.7**	**-427.9**	**-443.6**
Exports (f.o.b.)	585.1	681.6	798.4	779.6	877.5	945.3
Bauxite	65.5	101.5	131.1	77.6	96.8	110.4
Sugar	137.0	150.1	133.4	112.5	139.0	139.3
Gold	114.4	153.1	203.7	282.0	308.0	318.1
Timber	55.0	55.4	53.8	41.9	63.4	63.2
Other	213.1	221.5	276.4	265.6	270.3	314.2
Imports (c.i.f.)	885.0	1062.5	1306.2	1167.3	1305.4	1388.9
Capital goods	201.2	233.6	254.8	219.0	251.5	260.6
GUYSUCO project	51.1	44.0	23.8	6.8	0.0	0.0
Fuel and lubricants	238.5	284.6	406.8	281.5	347.4	386.9
Other	445.4	544.3	644.6	666.8	706.5	741.3
Services (net)	**-142.4**	**-110.7**	**-126.1**	**-125.8**	**-138.6**	**-144.4**
Net private transfers	**216.3**	**287.1**	**328.8**	**299.6**	**310.0**	**332.4**
Capital and financial accounts	**279.5**	**236.3**	**333.1**	**477.4**	**293.6**	**342.9**
Capital account 1/	**237.0**	**363.0**	**12.5**	**0.0**	**0.0**	**0.0**
Financial account	**42.5**	**-126.7**	**320.6**	**477.4**	**293.6**	**342.9**
Nonfinancial public sector (net)	-39.8	-245.1	137.0	256.5	159.1	225.1
Net official transfers	59.7	38.0	74.4	73.4	67.3	87.0
Net official borrowing	-119.7	-279.4	120.0	200.5	168.5	196.7
Other public sector (net) 2/	20.3	-3.6	-57.3	-17.4	-76.7	-58.6
Private sector (net)	82.2	118.4	183.5	221.0	134.5	117.8
Foreign direct investment (net)	102.6	153.8	178.0	164.0	154.0	166.9
Portfolio investment (net)	-5.8	-38.7	1.1	33.0	14.4	-19.0
Other (net) 3/	-14.6	3.3	4.4	24.0	-33.9	-30.1
Errors and omissions, and short-term flows	-10.0	-1.2	16.9	3.5	0.0	0.0
Overall balance	**43.4**	**30.5**	**44.8**	**267.1**	**37.1**	**87.3**
Financing	**-43.4**	**-30.5**	**-44.8**	**-267.1**	**-37.1**	**-87.3**
Bank of Guyana net foreign assets	-61.0	-37.3	-44.8	-267.1	-37.1	-87.3
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	17.5	6.8	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:						
Current account, incl. off. transfers (in percent of GDP)	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4
net of Skeldon (in percent of GDP)	-8.2	-8.3	-11.6	-8.2	-10.0	-9.4
Gross international reserves	277.3	312.6	355.9	623.0	658.6	738.5
(in months of imports of goods and services)	3.1	2.9	2.7	5.1	4.9	5.2
Oil price assumption (US$/b)	64.3	72.5	97.0	62.0	76.0	82.0
HIPC and MDRI debt service relief	54.4	72.5	56.5	58.3	56.5	55.9
GDP (US$ million)	1455.3	1739.0	1916.3	2024.1	2186.6	2369.6
(Annual percent change)						
Exports of goods	6.2	16.5	17.1	-2.4	12.6	7.7
Imports of goods	12.9	20.1	22.9	-10.6	11.8	6.4
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0

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

1/ Includes the IDB's stock of debt operation in 2007
2/ Includes capital flows of PetroCaribe financing.
3/ Includes capital flows to finance the Berbice bridge and short-term capital flows
4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

Table 3. Guyana: Nonfinancial Public Sector Operations

	2006	2007	2008	Prel. 2009	Projections 2010	2011
	(In percent of GDP)					
Revenue	**23.3**	**24.4**	**21.7**	**24.6**	**25.6**	**25.0**
Central government	21.2	22.8	21.2	23.0	23.3	23.2
Tax revenue	19.8	22.0	20.2	21.6	21.0	21.0
Non-tax revenue	1.3	0.9	0.9	1.4	0.9	0.9
GRIF	0.0	0.0	0.0	0.0	1.4	1.3
Capital revenue	0.0	0.0	0.1	0.0	0.0	0.0
Public enterprises	2.1	1.5	0.5	1.6	2.2	1.8
Expenditure (excluding Skeldon)	**32.8**	**30.2**	**29.7**	**31.4**	**31.6**	**32.4**
Current expenditure	21.3	18.4	19.9	19.5	19.4	19.0
Wages and salaries	6.9	6.2	6.1	6.3	6.3	6.1
Other goods and services 1/	6.7	5.8	6.2	6.3	6.2	6.2
Transfers	5.3	4.6	6.0	5.3	5.2	5.2
Interest 2/	2.4	1.8	1.7	1.6	1.7	1.5
Domestic	0.9	0.9	0.8	0.8	0.8	0.6
External	1.5	0.9	0.9	0.8	0.9	0.9
Capital expenditure (excluding Skeldon)	11.5	11.8	9.7	11.9	12.2	13.5
External PSIP	6.5	6.8	5.4	4.2	4.9	8.2
Local PSIP	4.4	5.4	3.9	6.3	5.3	3.4
Public enterprises	0.6	-0.3	0.4	0.7	1.7	1.7
PetroCaribe projects	…	…	…	0.8	0.2	0.1
Overall balance before grants (excluding Skeldon)	**-9.5**	**-5.8**	**-8.0**	**-6.8**	**-6.0**	**-7.4**
Grants 3/	6.0	3.2	4.2	4.2	3.7	4.2
Overall balance after grants (excluding Skeldon)	**-3.5**	**-2.7**	**-3.8**	**-2.6**	**-2.3**	**-3.2**
Capital expenditure on Skeldon	3.7	2.2	1.0	0.6	0.9	0.0
Overall balance after grants	**-7.2**	**-4.9**	**-4.7**	**-3.3**	**-3.2**	**-3.2**
Financing	**7.2**	**4.9**	**4.7**	**3.3**	**3.2**	**3.2**
Net foreign financing 2/	6.3	5.5	6.8	4.9	8.0	7.0
Net domestic financing 4/	0.9	0.5	0.5	-0.8	-1.3	-1.4
PetroCaribe savings	…	-1.1	-2.6	-0.9	-3.5	-2.5
Memorandum items:						
NPFS wage bill	13.6	12.2	11.5	11.0	10.9	10.5
Total capital expenditure	15.2	14.1	10.7	12.6	13.1	13.5
Current balance before grants	2.0	6.0	1.7	5.1	6.2	6.1
Primary balance (excluding Skeldon)	-1.1	-0.9	-2.1	-1.0	-0.6	-1.8
Nominal GDP at market prices (G$ billion)	292.0	352.2	391.5	413.1	448.1	490.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.
2/ Reflects interest and amortization after debt stock operations.
3/ Includes debt service savings under the MDRI.
4/ Includes statistical discrepancies.

Table 4. Guyana: Summary Account of the Bank of Guyana and Monetary Survey

	2006	2007	2008	2009	Projections 2010	2011
(In billions of Guyanese dollars, end of period)						
I. Bank of Guyana						
Net foreign assets	36.6	44.7	54.2	108.7	117.2	136.4
Foreign assets	55.7	63.6	73.0	127.5	136.2	155.4
Foreign liabilities 1/	-19.1	-19.0	-18.8	-18.8	-19.0	-19.0
Net domestic assets	-10.6	-14.9	-19.7	-70.3	-75.5	-90.8
Of which:						
Credit to public sector (net) 1/	-36.0	-38.6	-18.5	-65.4	-65.4	-65.4
Liabilities to commercial banks	-24.6	-24.7	-23.6	-33.7	-36.9	-40.8
Other items (net)	50.0	51.9	39.5	49.0	56.0	44.5
Currency in circulation	26.0	29.8	34.6	38.4	41.7	45.6
Base money	47.9	51.1	54.9	68.4	73.4	80.7
Of which: Excess reserves	4.1	1.3	1.1	4.8	4.8	4.3
II. Monetary Survey						
Net foreign assets	55.5	83.1	94.1	142.0	151.6	171.3
Bank of Guyana 1/	36.6	44.7	54.2	108.7	117.2	136.4
Commercial banks	18.9	38.5	39.9	33.3	34.4	34.9
Net domestic assets	88.3	80.3	90.0	60.1	77.4	88.9
Credit to public sector (net) 1/ 2/	-10.4	-19.1	-18.5	-32.9	-37.1	-42.7
Private sector credit	61.8	73.3	89.3	94.4	104.5	122.6
Other items (net)	36.9	26.0	19.2	-1.4	10.0	9.0
Broad money	143.8	163.4	184.2	202.1	229.0	260.2
(Percentage change, 12–month basis)						
Net foreign assets	31.3	49.9	13.3	50.8	6.7	13.0
Net domestic assets	8.0	-9.1	12.1	-33.2	28.8	14.8
Domestic credit	4.3	5.6	30.4	-13.2	9.7	18.5
Of which:						
Private sector credit	17.9	18.7	21.8	5.7	10.7	17.3
Business sector	15.5	7.7	23.6	2.3	...	...
Household sector	21.5	35.9	4.8	-4.4	...	...
Mortgage sector	34.6	31.0	33.6	24.4	...	...
Other sectors	-2.7	13.4	27.0	-5.0	...	...
Public sector net	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
(Contribution to changes in base money, 12–month basis)						
Base money	3.7	6.6	7.5	24.7	7.3	10.0
Net foreign assets	26.7	16.8	18.7	99.2	12.4	26.2
Other including net credit to public sector	-23.0	-10.2	-11.3	-74.5	-5.1	-16.2
(In million of U.S. dollars, unless otherwise indicated)						
Memorandum items:						
Bank of Guyana's net foreign assets 1/	182.1	219.5	264.2	534.8	571.9	659.2
Commercial banks' net foreign assets	93.9	188.9	194.5	163.9	149.5	168.5
Money multiplier	3.0	3.2	3.4	3.0	3.1	3.2
Income velocity of broad money	2.0	2.2	2.1	2.0	2.0	1.9
Excess reserves (ratio to required reserves)	0.2	0.1	0.0	0.2	0.2	0.1
Average lending rates, in percent	13.1	12.4	12.3	12.2	…	…

Sources: Bank of Guyana, and Fund staff estimates and projections.

1/ Includes Fund debt relief.

2/ Includes G$1.8 billion, a share of GUYMINE debt transferred from foreign assets to government credit in March 2006.

Table 5. Guyana: External Financing Requirements and Sources
(In millions of U.S. dollars)

	2006	2007	2008	Prel. 2009	Projections 2010	2011	2012	2013	2014
Financing requirement	**492**	**620**	**372**	**380**	**309**	**363**	**372**	**347**	**306**
External current account deficit									
(excludes official transfers)	226	205	305	214	256	256	266	259	224
Debt amortization	240	379	24	-101	17	28	35	41	46
NFPS amortization 1/	205	379	22	-101	15	20	23	29	34
Bank of Guyana amortization	35	0	2	0	1	7	12	12	12
Of which									
IMF net credit	38	0	0	0	1	7	12	12	12
Gross international reserves (increase = +)	26	37	43	267	36	80	72	47	36
Available financing	**492**	**620**	**372**	**380**	**309**	**363**	**372**	**347**	**306**
Capital transfers (MDRI)	237	363	13	0	0	0	0	0	0
Official transfers	60	38	74	73	67	87	93	81	66
NFPS loans	85	99	142	100	184	217	191	140	118
Other public sector net 2/	20	-4	-57	-17	-77	-59	-67	-66	-72
Private sector (net) 3/	72	117	200	224	134	118	156	192	194
Exceptional financing	18	7	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: Fund staff estimates and projections.

1/ Scheduled amortization of NFPS before HIPC relief through 2003.
2/ Includes the unspent portion of PetroCaribe financing
3/ Including change of commercial banks NFA, short-term flows and trade credits, net foreign direct investment, and errors and omissions of balance of payments.

Table 6. Guyana: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

				Prel.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Financial indicators									
Public sector debt-to-GDP 1/	93.1	60.0	61.6	61.4	63.0	64.6	66.0	67.1	68.5
NPV of public sector debt-to-GDP 1/	65.0	41.6	41.1	48.6	49.1	49.6	50.3	51.4	53.1
NPV of public sector debt-to revenue 1/	222.0	152.3	158.9	169.0	167.9	169.7	169.0	174.1	184.4
Share of nonperforming loans in total loans	11.6	10.7	9.5	8.3	...	...	...	...	...
Share of nonperforming loans to total assets	3.8	3.7	3.6	3.0	...	...	...	...	...
Loan loss provisions to nonperforming loans	41.0	54.2	49.3	53.8	...	...	...	...	...
Risk-based capital-asset ratio (end of period)	15.5	15.0	14.9	18.3	...	...	...	...	...
Return on assets	2.3	2.4	2.3	2.7	...	...	...	...	...
Three-month T-bill rate (end of period)	4.2	3.9	4.2	4.2	...	...	...	...	...
CPI-inflation (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
External indicators									
Exchange rate (per US$, end of period)	201.0	204.0	205.0	204.3	205.1	207.2	210.3	214.5	220.9
REER appreciation (12-month basis, -=appreciation)	3.8	-4.3	-10.1	...	...	...	...	...	...
Current account balance-to-GDP	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
Gross official reserves (in millions of U.S. dollars)	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
Gross official reserves in months of imports 2/	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Gross official reserves to short-term external public sector debt	310.6	2,228.0	2,625.0	4,344.1	2,605.6	1,801.2	1,468.2	1,344.6	1,226.0
External public sector debt to GDP 1/	71.8	41.6	43.7	46.1	50.4	54.5	56.7	57.1	57.2
NPV of external public debt (in millions of U.S. dollars) 1/ 3/	636.9	422.8	556.1	675.6	797.7	933.9	1,045.6	1,120.6	1,180.4
NPV of external public sector debt to exports 1/ 3/	85.1	49.2	57.4	69.5	74.0	80.7	84.2	84.2	81.7
NPV of external public debt-to-central government revenue 1/ 3/	204.6	107.0	134.0	135.8	142.7	157.6	160.0	158.5	159.8
NPV of external public debt-to-GDP 1/ 3/	43.8	24.3	29.0	33.4	36.5	39.4	41.0	41.4	41.7
Memorandum items:									
Public sector debt-to-GDP excluding unspent PetroCaribe 1/ 4/	93.1	58.9	57.7	56.8	55.2	55.0	54.4	53.9	53.6
NPV of public sector debt-to-GDP excluding unspent PetroCaribe 1/ 4/	65.0	41.6	39.2	48.6	46.6	45.4	44.4	44.0	44.2
NPV of public sector debt-to revenue excluding unspent PetroCaribe 1/ 4/	222.0	152.3	151.4	159.2	155.3	149.1	149.1	153.7	156.5

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

1/ Reflects debt relief under O-HIPC, E-HIPC and MDRI as of 2007.
2/ Imports of the current year excluding those related to the GUYSUCO investment project.
3/ Excludes the letter of credit used for financing the sugar restructuring project for comparability with the debt definition for the NPV of external debt ceiling.
4/ Excluding the unspent portion of PetroCaribe in 2007-14.

Table 7. Guyana: Medium-Term Macroeconomic Framework

				Prel.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014
(Annual percent change)									
Production and prices									
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9	4.2	3.9	3.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0	4.0	4.0	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0	0.7	0.3	-0.3
(In percent of GDP)									
National accounts									
Investment	21.0	20.7	19.0	16.5	18.2	19.0	19.3	18.2	17.4
Private sector	5.8	6.6	8.4	4.0	5.1	5.5	5.4	5.1	5.4
Public sector	15.2	14.1	10.7	12.6	13.1	13.5	13.9	13.0	12.0
National saving	7.9	9.6	5.8	8.0	8.2	9.6	10.6	10.1	10.9
Private sector	2.3	2.4	1.3	0.6	0.0	1.9	1.9	1.4	2.2
Public sector	5.6	7.2	4.5	7.4	8.3	7.7	8.7	8.7	8.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4	8.7	8.0	6.5
Nonfinancial public sector									
Central government revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2	29.8	29.5	28.8
Tax revenue	19.8	22.0	20.2	21.6	21.0	21.0	21.0	21.0	21.0
Non-tax revenue	1.3	0.9	0.9	1.4	0.9	0.9	0.9	0.9	0.9
GRIF	0.0	0.0	0.0	0.0	1.4	1.3	1.6	1.8	1.8
Capital revenue	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants 1/	6.0	3.2	4.2	4.2	3.7	4.2	4.1	3.4	2.7
Public enterprises operational balance	2.1	1.5	0.5	1.6	2.2	1.8	2.2	2.4	2.4
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4	32.7	32.1	30.9
Current 2/	21.3	18.4	19.9	19.5	19.4	19.0	18.8	19.0	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5	13.9	13.0	12.0
Overall balance (before grants)	-13.2	-8.1	-9.0	-7.4	-6.9	-7.4	-7.1	-5.9	-4.8
Overall balance (after grants)	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2	-2.9	-2.5	-2.2
Financing	7.2	4.9	4.7	3.3	3.2	3.2	2.9	2.5	2.2
Net external financing 2/	6.3	5.5	6.8	4.9	8.0	7.0	5.6	3.6	2.6
Net domestic financing	0.9	0.5	0.5	-0.8	-1.3	-1.4	0.0	1.4	2.1
PetroCaribe savings	…	-1.1	-2.6	-0.9	-3.5	-2.5	-2.6	-2.4	-2.5
Total public sector debt (end of period) 3/	93.1	58.9	57.7	56.8	55.2	55.0	54.4	53.9	53.6
External 3/	71.8	40.6	39.7	41.6	42.6	44.8	45.1	43.9	42.2
Domestic	21.3	18.3	17.9	15.2	12.6	10.2	9.3	10.0	11.3
(In millions of U.S. dollars, unless otherwise indicated; end of period)									
External sector									
Current account balance	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2	-222.0	-217.6	-182.9
Gross official reserves	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Memorandum items:									
Nominal GDP (G$ billion)	292.0	352.2	391.5	413.1	448.1	490.4	535.7	579.9	624.4
Per capita GDP, US$	1,907	2,277	2,497	2,629	2,831	3,059	3,282	3,473	3,619
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	204.9	207.0	210.1	214.3	220.7
PetroCaribe loans savings (stock, in % of GDP)	...	1.1	3.6	4.3	7.5	9.4	11.3	13.1	15.1

Sources: Guyanese authorities; and Fund staff estimates and projections.

1/ Includes debt service savings under HIPC and MDRI.
2/ Reflects interest and amortizations after debt stock operations.
3/ After delivery of HIPC and MDRI and excluding the unspent portion of PetroCaribe loans in 2007-14.

Table 8. Guyana: Medium-Term Balance of Payments

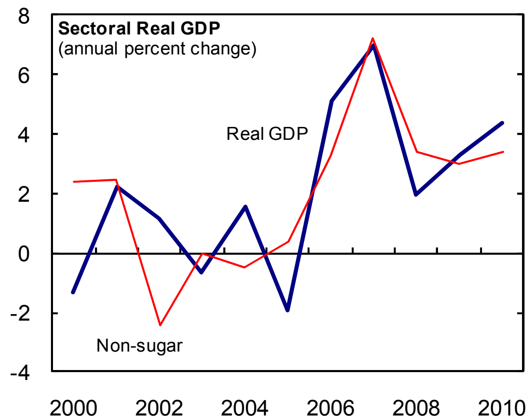
	2006	2007	2008	Prel. 2009	Projections 2010	2011	2012	2013	2014
(In millions of U.S. dollars un less otherwise indicated)									
Current account (incl. official transfers)	**-190.8**	**-193.0**	**-253.6**	**-172.5**	**-218.6**	**-222.2**	**-222.0**	**-217.6**	**-182.9**
Current account (excl. official transfers)	-226.1	-204.6	-305.2	-213.8	-256.5	-255.6	-265.7	-258.6	-224.3
Merchandise trade (net)	**-300.0**	**-380.9**	**-507.8**	**-387.7**	**-427.9**	**-443.6**	**-458.1**	**-461.0**	**-432.2**
Exports (f.o.b.)	585.1	681.6	798.4	779.6	877.5	945.3	1014.6	1082.6	1186.1
Bauxite	65.5	101.5	131.1	77.6	96.8	110.4	124.3	131.4	138.6
Sugar	137.0	150.1	133.4	112.5	139.0	139.3	155.0	171.7	182.8
Gold	114.4	153.1	203.7	282.0	308.0	318.1	333.1	348.5	391.9
Timber	55.0	55.4	53.8	41.9	63.4	63.2	65.1	65.8	67.5
Other	213.1	221.5	276.4	265.6	270.3	314.2	337.0	365.3	405.3
Imports (c.i.f.)	885.0	1062.5	1306.2	1167.3	1305.4	1388.9	1472.7	1543.6	1618.3
Capital goods	201.2	233.6	254.8	219.0	251.5	260.6	284.8	274.5	283.6
GUYSUCO project	51.1	44.0	23.8	6.8	0.0	0.0	0.0	0.0	0.0
Fuel and lubricants	238.5	284.6	406.8	281.5	347.4	386.9	418.1	445.5	473.3
Other	445.4	544.3	644.6	666.8	706.5	741.3	769.8	823.6	861.4
Services (net)	**-142.4**	**-110.7**	**-126.1**	**-125.8**	**-138.6**	**-144.4**	**-154.3**	**-158.9**	**-168.0**
Net private transfers	**216.3**	**287.1**	**328.8**	**299.6**	**310.0**	**332.4**	**346.7**	**361.3**	**375.9**
Capital and financial accounts	**279.5**	**236.3**	**333.1**	**477.4**	**293.6**	**342.9**	**349.2**	**317.4**	**271.7**
Capital account 1/	**237.0**	**363.0**	**12.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**42.5**	**-126.7**	**320.6**	**477.4**	**293.6**	**342.9**	**349.2**	**317.4**	**271.7**
Nonfinancial public sector (net)	-39.8	-245.1	137.0	256.5	159.1	225.1	193.2	125.1	77.9
Net official transfers	59.7	38.0	74.4	73.4	67.3	87.0	92.8	80.7	65.9
Net official borrowing	-119.7	-279.4	120.0	200.5	168.5	196.7	167.5	110.6	83.7
Other public sector (net) 2/	20.3	-3.6	-57.3	-17.4	-76.7	-58.6	-67.1	-66.3	-71.7
Private sector (net)	82.2	118.4	183.5	221.0	134.5	117.8	156.0	192.3	193.9
Foreign direct investment (net)	102.6	153.8	178.0	164.0	154.0	166.9	179.6	190.6	199.2
Portfolio investment (net)	-5.8	-38.7	1.1	33.0	14.4	-19.0	-17.3	-13.3	-12.0
Other (net) 3/	-14.6	3.3	4.4	24.0	-33.9	-30.1	-6.3	15.0	6.6
Errors and omissions, and short-term flows	-10.0	-1.2	16.9	3.5	0.0	0.0	0.0	0.0	0.0
Overall balance	**43.4**	**30.5**	**44.8**	**267.1**	**37.1**	**87.3**	**83.5**	**58.8**	**47.5**
Financing	**-43.4**	**-30.5**	**-44.8**	**-267.1**	**-37.1**	**-87.3**	**-83.5**	**-58.8**	**-47.5**
Bank of Guyana net foreign assets	-61.0	-37.3	-44.8	-267.1	-37.1	-87.3	-83.5	-58.8	-47.5
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	17.5	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Current account, incl. off. transfers (in percent of GDP)	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
net of Skeldon (in percent of GDP)	-8.2	-8.3	-11.6	-8.2	-10.0	-9.4	-8.7	-8.0	-6.5
Gross international reserves	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
(in months of imports of goods and services)	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Oil price assumption (US$/b)	64.3	72.5	97.0	62.0	76.0	82.0	84.8	86.5	88.5
HIPC and MDRI debt service relief	54.4	72.5	56.5	58.3	56.5	55.9	54.7	53.3	51.1
GDP (US$ million)	1,455	1,739	1,916	2,024	2,187	2,370	2,550	2,706	2,829
(Annual percent change)									
Exports of goods	6.2	16.5	17.1	-2.4	12.6	7.7	7.3	6.7	9.6
Imports of goods	12.9	20.1	22.9	-10.6	11.8	6.4	6.0	4.8	4.8
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0	0.7	0.3	-0.3

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

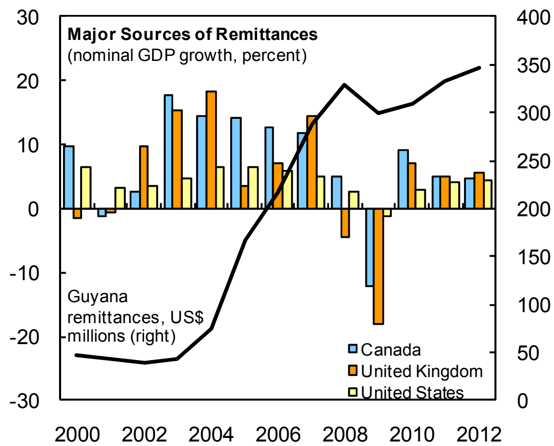
1/ Includes the IDB's stock of debt operation in 2007
2/ Includes capital flows of PetroCaribe financing.
3/ Includes capital flows to finance the Berbice bridge and short-term capital flows
4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

ATTACHMENT I. THE IMPACT OF THE GLOBAL CRISIS THROUGH THE REAL CHANNEL[8]

31. **Guyana has been affected by the global crisis mainly through the real sector channel.** Initially shielded by its limited exposure to the direct financial shock, it has suffered mostly as its main sources of foreign income—including remittances and FDI inflows—declined, led by the contraction of growth and employment in developed economies. In addition, the reduction in prices and global demand also hit the country's commodity exports.



32. **The steep decline in global economic activity has reduced demand for Guyanese exports**. Lower export prices had adverse effects on exports and growth. The largest declines were recorded in the prices of bauxite and rice. While rice output grew by 9 percent, bauxite output declined by 31 percent in 2009. In contrast, an increase in gold production of 21 percent followed the firming up in the gold price (12½ percent).



33. **Lower remittances also weakened foreign exchange inflows**. Remittances grew at an average rate of nearly 55 percent a year in 2004–08—to about 17 percent of (new) GDP, the largest level in the region. However, these flows declined by 9 percent in 2009.

34. **A recent private sector study[9] suggests that the global crisis has affected not only the export sectors, but also their related services.** Based on information collected through focus groups and surveys, the study suggests that the decline in production ranged from 5–30 percent across different sectors. For instance, manufacturing production and sales declined by approximately 15 percent overall in the first half of 2009, relative to the same period in 2008, reflecting lower consumer demand. The services sector also posted a decline, with distribution activity falling by some 15 percent, and tourism by around 20 percent. Participants noted that firms resorted to hoarding employment, while pursuing other cost cutting strategies to weather the shock.

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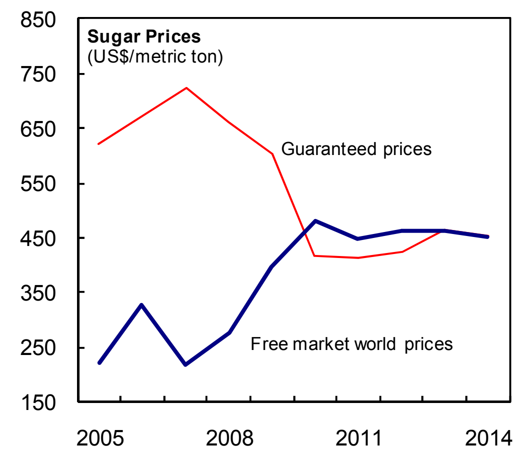
[8] See the companion Selected Issues Paper *"Guyana: The Impact of the Global Crisis and Policy Response"*.

[9] See Persaud, Chinnatambi and Roopehand-Edwards (2010), *"The Impact of the Global Economic Crisis on the Business Sector of Guyana,"* Guyana's Private Sector Commission

ATTACHMENT II. GUYANA: ELIMINATION OF THE EU SUGAR PREFERENCES[10]

35. **Guyana's sugar sector has strongly benefited from preferential agreements with the EU since the 1970s.** Preferential access was gained mainly under the terms of the Sugar Protocol, which guaranteed sugar purchases by the EU from Guyana for some 160,000 metric tons a year at a fixed price. In 2008, the average guaranteed price was set at US$715 per ton (€485 per ton). In contrast, the price offered in the US market was US$470 per ton, while the average world market price was US$275 per ton in the same year.

36. **Although the EU eliminated most of these advantages in October 2009, transitional arrangements are in place.** Since October, Guyana benefits from a minimum guaranteed price of €301.5 a ton until September 2012. Guyana may sell at world market prices, if these prices are higher—which has been the case since late 2009. In addition, the CARIFORUM-EU Economic Partnership Agreement (EPA) concluded in October 2008 ensures that sugar is duty and quota free since October 2009. However, a transitional safeguard mechanism would apply for the next 6 years, limiting exports in the event of a risk of serious damage to the EU sugar industry.



Agreements with other trading partners entail more modest benefits:

- ***United States.*** The U.S. Department of Agriculture (USDA) issues sugar quotas under the Tariff Rate Quota (TRQ) system on a country-by-country basis. Under this system, sugar enters the U.S. duty free. The quota allocated to Guyana in the fiscal year 2009 amounts to 12,636 metric tons of raw sugar. Recent U.S. import data suggest that the quota is unlikely to be filled, in part because of the lower prices prevailing in the U.S. market.

- ***CARICOM.*** The CARICOM Common Market establishes a Common External Tariff (CET) to protect certain regional products. A 40 percent duty applies to brown (raw) cane sugar from outside the region. This agreement has allowed Guyana to import sugar from CARICOM for domestic consumption in order to benefit from EU prices when production capacity was low.

37. **The removal of EU preferences will have an important adverse impact on Guyana.** The EU is the main export destination for Guyanese sugar—accounting for at least

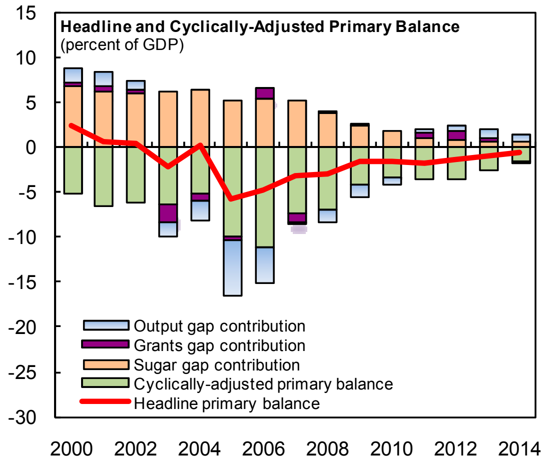
[10] See the companion Selected Issues Paper *"Guyana: The Impact of the Elimination of Preferential Sugar Prices"*.

90 percent of total. Further, the EU preferential agreements have allowed Guyana to generate windfall revenue exceeding the market sugar price amounting to nearly 55 percent of total sugar revenue in recent years.

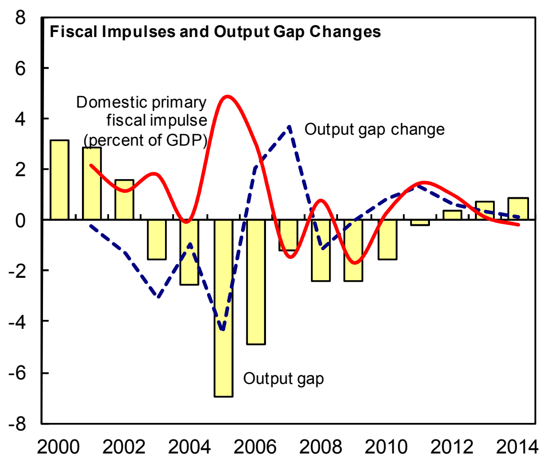
38. **Guyana has been modernizing its sugar sector to mitigate this effect but the modernization program is subject to severe challenges.** Supported by a transitory financial package from the EU, a sugar modernization plan was launched in 2000 to raise output and reduce production costs, including by the construction of a large sugar factory at Skeldon, recently completed. Technical problems with the operations of the new factory, labor disputes, and managerial weaknesses all have surfaced in 2009, further complicated by weather shocks. Resolving these issues will require a significant strengthening of the management and improving labor and business practices.

ATTACHMENT III. ASSESSING GUYANA'S FISCAL STRUCTURAL POLICIES[11]

39. **Guyana's fiscal balance is highly exposed to exogenous shocks.** In particular, it has large exposures to sugar revenues and grants,[12] and is vulnerable to external shocks transmitted through commodity exports and fuel imports, remittances, and other channels of regional contagion. As a result, the overall fiscal balance does not represent the best measure of the discretionary fiscal effort exerted by the authorities, although it is a key determinant to the debt dynamics



40. **The fiscal impulse is the most appropriate measure to assess the stance of discretionary policies in Guyana.** This is measured by the change in the "cyclically adjusted" domestic primary balance, which excludes external revenues from sugar and grants, as well as the impact of the domestic business cycle on tax revenues.[13] It allows for a better assessment of the magnitude and impact of discretionary fiscal policy measures. It also constitutes a useful indicator for guiding the medium-term fiscal framework, to gradually allow for the implementation of neutral or countercyclical policies, made consistent with a continued reduction in the public debt-to-GDP ratio to sustainable levels.[14]



41. **Staff estimates suggest that Guyana's fiscal impulse was broadly countercyclical for most of the past decade.** In 2005, the steep decline in real GDP following severe floods was partly offset by a strong expansionary fiscal impulse. Conversely, in 2007, a fiscal policy tightening accompanied the closing output gap. In 2008, fiscal measures to contain

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[11] See the companion Selected Issues Paper *"Guyana: Assessing the Fiscal Structural Stance"*

[12] Guyana also receives funds from Norway under the Low-Carbon Development Strategy (about 1.6 percent of GDP on average for 2010-15).

[13] See "*Fiscal Policy Response to the Crisis: How Much Room for Countercyclical Policy*?", in World Economic and Financial Surveys, Regional Economic Outlook-Western Hemisphere, Crisis Averted—What's Next, International Monetary Fund, October 2009.

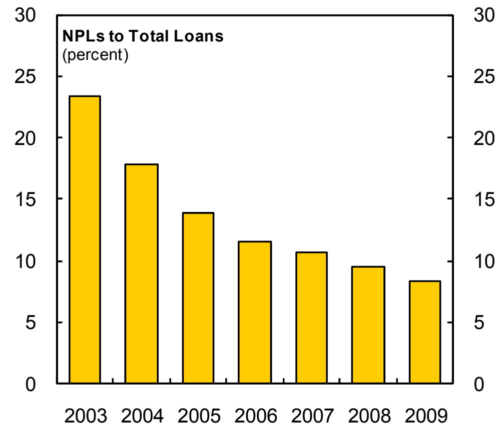
[14] The structural fiscal balance plays a key role in the medium-term fiscal framework of several commodity-exporting countries that have significantly improved their fiscal position and reduced their debt (including Chile and Norway).

the pass-through of commodity prices into the economy countered the widening of the negative output gap driven by the surge of commodity prices and output shortfalls in the sugar sector. Nonetheless, a fiscal retrenchment in 2009 supported the debt sustainability goal.

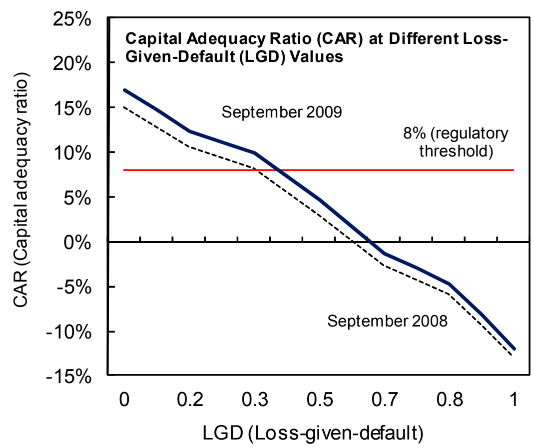
42. **Policies in 2010 would remain supportive to growth, given the presence of a negative (albeit closing) output gap.** The authorities' efforts to reduce the infrastructure gap in 2011–12 would also entail a positive fiscal impulse. While this would appear somewhat pro-cyclical in light of the narrowing output gap, uncertainties on its size and pace of change nuance the risks of this stance. In particular, infrastructure spending could lead to a higher-than-envisaged potential output, widening the gap. Moreover, downside risks to the outlook could also slow output growth, preventing the gap to close as fast as projected.

ATTACHMENT IV. GUYANA: THE FINANCIAL SECTOR

43. **Guyana's banking system has so far been resilient to the direct impact of the global crisis.**[15] As of end-September 2009, all banks had CARs well above the regulatory minimum of 8 percent, and liquidity was comfortable. The banking system's risk-weighted CAR rose from 14.9 percent in December 2008 to 18.3 percent in December 2009, as banks raised the share of risk-free T-Bills in total assets. However, banks' NPLs are relatively high at about 8.3 percent of total loans, while provisions are low (54 percent of NPLs),[16] while loan concentration to the top 20 borrowers stood at about 35½ percent of the loan portfolio as of end-December—some 7 percent higher than by end-2008.[17] Loans to related parties remained broadly unchanged (y/y) at 4½ percent as of end-December—also a remaining vulnerability noted during the 2006 FSAP.



44. **An update of the 2006 FSAP stress tests (based on September 2009 data) suggests that banks remain resilient, with vulnerabilities emerging only after severe shocks across the economy or a combination of shocks.** Despite somewhat high NPLs, most banks have only a relatively small loan portfolio in comparison to their total assets, and their liquidity is high



- ***Banking system.*** The banking system's overall CARs would fall below the prudential threshold of 8 percent after a loss of more than 20 percent of all loans. This represents a slight improvement since the 2008 Article IV Consultation.

- ***Individual banks.*** While all individual banks have CARs above the minimum threshold, two of the six banks would fall below this threshold if they had to increase

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[15] The authorities informed staff that, so far, the CLICO crisis has not had a significant impact on banks.

[16] In nonbanks, NPLs remain high, at slightly below 25 percent in September 2009.

[17] The exposure to the top 20 borrowers relative to the capital base decreased from 166.8 percent in December 2008 to 160.5 by end-2009.

the ratio of provisioning for NPLs to 70 percent. With regard to investment risk, only one bank is highly exposed to foreign securities.[18]

45. **While the nonbank financial sector contracted following the CLICO crisis, the remaining institutions in the sector appear to be stable.** The collapse of CLICO, the largest insurance company, resulted in a fall of domestic life insurance policies of about 70 percent, which reduced the nonbank sector by about 8 percent. The New Building Society, the main nonbank financial institution—with some 80 percent of nonbank deposits—has remained as an important mortgage lender, although with slowing credit growth to the private sector and relatively large exposures to key borrowers.

[18] With regard to currency risk, the stress tests indicate that five out of the six banks would benefit from a depreciation of the Guyanese dollar owing to a positive net foreign exchange position.

APPENDIX I. SUMMARY OF APPENDICES

Fund Relations

The 2008 Article IV consultation with Guyana concluded on February 27, 2009 (SM/09/41). On December 18, 2003, the Executive Board determined that Guyana had reached the completion point under the enhanced HIPC Initiative. MDRI was granted in January 2006. A FSAP was carried out in November 2005 and the FSSA was discussed in August 2006 (SM/06/292). FAD, STA, LEG, and CARTAC have provided technical assistance since 2005. On December 31, 2009, Guyana's outstanding purchases and loans amounted to SDR 37.06 million.

Exchange Arrangements

Guyana has accepted the obligations of Article VIII—Section 2, 3, and 4—and maintains an exchange system that is free of restrictions on the making of payments and transfers for international transactions, with the only exception of certain exchange restrictions for the preservation of national and international security. Guyana's *de jure* exchange rate regime is a managed float. The Fund classifies Guyana's *de facto* exchange rate regime as a stabilized arrangement.

Statistical Issues

Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage of the data hamper assessment of the economic situation on a continuing basis. Most data are only available during missions and by telephone/email contacts by the staff, except for monetary statistics, exchange rates, interest rates, and financial prudential indicators, which are available with a lag from the website of the Bank of Guyana (BOG). Considerable work has been completed to strengthen the national accounts, as the GDP has been rebased with 2006 prices, reflecting more than a sixty percent increase compared to the old GDP, based on 1988 prices; the authorities are also compiling a rebased CPI basket to be released through 2010. The authorities are considering subscribing to the General Data Dissemination System (GDDS).

Relations with the World Bank Group

As of December 31, 2009, IDA's portfolio consisted of two projects totaling US$21.3 million; HIV/AIDS (US$10 million) and Water Sector Consolidation (US$11.3 million), in addition to a Trust Fund portfolio of US$18.9 million. A new CAS (2009–2012), discussed by the Board of Executive directors on May 26, 2008, included two new lending projects: (i) the Forestry, Climate Change, and Community Project (US$3 million); and (ii) the Education Quality Project (US$3 million). It also included three analytical activities: On-demand economic monitoring and just-in-time analysis; Agriculture Risk Insurance, and Safety Nets.

Relations with the Inter-American Development Bank

As of December 31, 2009, Guyana's outstanding debt to the IDB was US$259.4 million (excluding undisbursed HIPC debt relief, but after MDRI) while the undisbursed portfolio totals US$195.1 million. The IDB cancelled US$356.5 million (principal) of Guyana's outstanding debt effective January 2007. A further US$35 million was cancelled from some loans in execution, which were undisbursed. A new formula for the allocation of resources to FSO-eligible countries was adopted as part of the MDRI program. Lending to Guyana has continued to be concessional (but with a lower grant element than before), consisting of a 50–50 blend of resources from the IDB's Fund for Special Operations and Ordinary Capital.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Appendix II. Draft Public Information Notice

Public Information Notice (PIN) No. 10/xx
FOR IMMEDIATE RELEASE
March [---], 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Guyana

On [March 17, 2010], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guyana.[1]

Background

Guyana has weathered the impact of the global crisis well by regional and global standards. Newly released GDP series (re-based to 2006 prices)[2] suggest that economic activity expanded by 3.3 percent in 2009, compared to 2 percent in 2008, largely on the back of a recovery in agriculture and gold production and robust activity for the non-tradable sector in the second half of the year. This mitigated the adverse impact of global and weather shocks on output in early 2009. End-year inflation fell to 3.6 percent from 6.4 percent as of end-2008, reflecting the softening in world commodity prices.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

[2] Previous series were based on 1988 prices. The new series better measures traditional economic activity, and incorporated new sectors—including the large informal activity of the 1980s that has gradually been absorbed into the formal sector. All figures related to GDP in this Notice are calculated based on the new, rebased series.

In 2009, the external current account deficit narrowed, and the international reserve position strengthened significantly. The current account deficit declined by 5 percent of GDP (to 8.5 percent of GDP), largely led by a reduction imports, particularly of fuel. This, together with strong official inflows (including concessional loans and grants, and the Fund's SDR allocation) and steady short-term capital inflows by commercial banks—attracted to higher domestic interest rates—helped offset a decline in FDI and raised Guyana's gross international reserves to US$623 million by end-year (over 5 months of imports). The nominal exchange rate remained stable, and the real effective exchange rate is assessed to be broadly in equilibrium. The impact of the crisis on the financial sector has been limited so far, although private sector credit has slowed to about 6 percent in 2009 (down from nearly 22 percent in 2008), reflecting both a deceleration in private sector credit demand, as well as tighter lending standards by the banking sector.

Macroeconomic policies have remained prudent. Monetary policy tightened somewhat in 2009, supporting the decline in inflation and external stability. The fiscal deficit for the non-financial public sector declined to 3.3 percent of GDP (equivalent to 5.3 percent of old GDP) from 4.7 percent of GDP in 2008, on the back of higher-than expected revenues that supported the full execution of priority spending, including on infrastructure. Guyana's public debt has fallen from 93.1 percent of GDP as of end-2006 to 56.8 percent of GDP in 2009, assisted by debt relief operations and fiscal consolidation efforts.

Structural reform has continued to focus on further reducing vulnerabilities and entrench long-term growth. On the financial sector, the authorities have consolidated insurance and bank supervision at the central bank, incorporated risk-based supervision, issued new guidelines on risk management and enacted the AML/CFT legislation and the Money Transfer Agencies Act. In the fiscal area, a modern chart of accounts for capital expenditure has been introduced into the integrated financial management system, enhancing the accounting and transparency of public investment. Efforts to improve the Guyana Revenue Authority also continue, including by consolidating the new functional organization, completing the rolling out the integrated tax information system, and the improvements in filing, refund, arrears collection and audit functions. Reforms to support growth center on modernizing the sugar sector, and on implementing the Low Carbon Development Strategy (LCDS), which could help Guyana benefit from external resources in exchange for the preservation of its rainforests in the world's carbon credit markets—including through a model agreement signed with Norway, which resources will allow, inter alia, the development of non-traditional economic sectors and the reconversion of Guyana's energy sector.

Guyana's outlook remains positive in the near and medium term, although some important challenges remain. Growth is expected to benefit from the global recovery, the modernization of the sugar sector and the start up of investment projects, which could spur average growth to 4-5 percent in the medium term. The current account would widen somewhat in 2010 with the uptick in domestic demand and the increase in fuel prices, but would narrow gradually over time. Nonetheless, challenges remain, particularly if the upturn in world economic activity were slower than envisaged; or if oil prices were to rise more sharply than projected. Slower progress than expected with the modernization of the sugar sector could also complicate this outlook, particularly in light of the recent phasing out of the preferential sugar prices by the EU, which will increasingly expose Guyana to world-price volatility. Upside potential is related to the full implementation of the LCDS, the eventual exploitation of Guyana's oil reserves and the sound completion of key large public-private investment projects over the next few years.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guyana: Selected Economic Indicators

				Prel.	Projections	
	2006	2007	2008	2009	2010	2011
(Annual percent change)						
Production and prices						
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9
Real GDP per capita	4.8	6.7	1.5	3.0	4.0	4.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0
(In percent of GDP)						
National accounts						
Investment	21.0	20.7	19.0	16.5	18.2	19.0
Private sector	5.8	6.6	8.4	4.0	5.1	5.5
Public sector	15.2	14.1	10.7	12.6	13.1	13.5
National saving	7.9	9.6	5.8	8.0	8.2	9.6
Private sector	2.3	2.4	1.3	0.6	0.0	1.9
Public sector	5.6	7.2	4.5	7.4	8.3	7.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4
Nonfinancial public sector						
Revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4
Current	21.3	18.4	19.9	19.5	19.4	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5
Overall balance (after grants) 1/	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2
Total public sector debt (end of period) 2/	93.1	58.9	57.7	56.8	55.2	55.0
External 2/	71.8	40.6	39.7	41.6	42.6	44.8
Domestic	21.3	18.3	17.9	15.2	12.6	10.2
(Annual percentage change, end of period)						
Money and credit						
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
Domestic credit of the banking system	4.3	5.6	30.4	-13.2	9.7	18.5
Public sector (net)	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Private sector	17.9	18.7	21.8	5.7	10.7	17.3
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
External sector						
Current account balance 1/	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2
Gross official reserves 3/	277.3	312.6	355.9	623.0	658.6	738.5
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2
Memorandum items:						
Nominal GDP (G$ billion)	292.0	352.2	391.5	413.1	448.1	490.4
Per capita GDP, US$	1,907	2,277	2,497	2,629	2,831	3,059
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	204.9	207.0
PetroCaribe loans savings (stock, in % of GDP)	…	1.1	3.6	4.3	7.5	9.4

Sources: Guyanese authorities; UNDP Human Devt. Report 2009; and Fund staff estimates and projections.

1/ Including official transfers.

2/ After delivery of HIPC assistance and MDRI and excluding Petrocaribe savings in 2007-11.

3/ Includes SDR allocation.