

SM/10/52
Correction 1

August 2, 2010

To: Members of the Executive Board
From: The Secretary
Subject: **Guyana—Staff Report for the 2009 Article IV Consultation**

The attached corrections to SM/10/52 (3/3/10) have been provided by the staff:

Factual Error Not Affecting the Presentation of Staff's Analysis or Views

Page 27, Table 6, row 18, column 2 (2006): for “310.6” read “1,147.2”

Typographical Error

Page 4, paragraph 6: for “GPD” read “GDP”

Questions may be referred to Ms. González (ext. 35968) and Mr. Delgado (ext. 39689) in WHD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

Other Distribution:
Department Heads

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

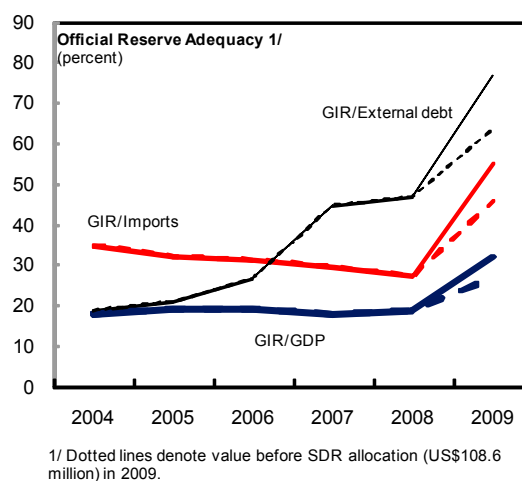
3. **Economic activity strengthened in 2009, and inflation declined.** Real growth was about 3¼ percent in 2009, up from 2 percent in 2008 (Figure 2).¹ Economic activity was affected during the first half of the year by difficulties with the start-up of the new large public sugar plant at Skeldon, and 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



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~~ GDP—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.

Table 6. Guyana: Indicators of External and Financial Vulnerability
(In percent, unless otherwise indicated)

	2006	2007	2008	Prel. 2009	Projections				
					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	...	...	...	...	...
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	1,147.2	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

	2006	2007	2008	Prel. 2009	Projections				
					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	...	...	...	...	...
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.