

**IMMEDIATE
ATTENTION**

SM/11/2

January 6, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Guyana—Staff Report for the 2010 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2010 Article IV consultation with Guyana, which meets the criteria for consideration on a lapse of time basis.

In the absence of a request by an Executive Director by **noon on Wednesday, January 19, 2011**, that this matter be brought to the agenda of the Executive Board, the consultation will be deemed approved on Friday, January 21, 2011, by the Executive Board and the following decision will be recorded in the minutes of the next meeting thereafter:

The Executive Board endorses the thrust of the staff appraisal in the report for the 2010 Article IV Consultation with Guyana (SM/11/2, 1/6/11).

It is expected that the next Article IV consultation with Guyana will take place on the standard 12-month cycle.

If an Executive Director requests that the matter be taken up at a Board meeting, the item will be tentatively scheduled for discussion on Wednesday, February 2, 2011.

The Secretary's Department has been notified by the authorities of Guyana that their explicit consent is required prior to the publication of Board documents on Guyana. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

If there is no request for a Board discussion, the Executive Board Assessment section of the Public Information Notice will be based on the staff appraisal.

Questions may be referred to Ms. Turner-Jones (ext. 37918) and Mr. Nicholls (ext. 38514) 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 Friday, January 14, 2011; 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.

Att: (1)

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INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Guyana
(In consultation with other departments)

Approved by Gilbert Terrier and Dhaneshwar Ghura

January 5, 2011

- **Context.** President Jagdeo is in his final term in office, and general elections are due in 2011. Guyana has become a magnet for environmental issues, given its large forestry reserves. In this context, its prospects hinge in part on a Low Carbon Development Strategy (LCDS) for structural transformation. The macroeconomic outlook is generally positive. On the downside, risks include global uncertainty, weak public enterprises especially the sugar company, delays in grant disbursements, and a widening external current account deficit. The authorities will need to pay careful attention to balancing infrastructural needs with fiscal and debt sustainability.
- **Focus of the consultation.** Discussions focused on a strategy for maintaining fiscal and debt sustainability over the medium term. Staff encouraged the authorities to lock in the gains from recent debt relief and fiscal consolidation, and recommended maintaining a strong fiscal stance and addressing public enterprise weaknesses. Staff welcomed the LCDS as an overall framework for transformation and cautioned against the contingent fiscal liabilities associated with the large Amaila Falls project. While welcoming ongoing regulatory reforms, staff urged sustained vigilance in monitoring financial sector risks, given the ongoing housing boom. Discussions also covered policies to enhance economic flexibility and resilience to shocks, while reducing poverty. The authorities broadly agreed with these recommendations.
- **Exchange rate system.** Guyana's *de jure* exchange rate regime is floating 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, comprising Therese Turner-Jones (Head), Garth P. Nicholls, Daniel Rodríguez-Delgado (all WHD), and Carlos Janada (FIN), visited Guyana during November 8–18, 2010. Leslie-Ann Des Vignes, (OED, Senior Advisor) and Calvin Djiofack (World Bank) also participated in the discussions. The team met with President Jagdeo, Prime Minister Hinds, 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.

Contents

Page

I.	Recent Developments	3
II.	Medium-term Outlook and Risks.....	6
III.	Policy Discussions	7
	A. Policy Framework to Contain Fiscal Risks and Protect Debt Sustainability	8
	B. A Framework to Anchor Prices and Protect Financial Stability	11
	C. Agenda for Supporting Sustainable Growth and Poverty Reduction	12
	D. Measures to Improve Official Data.....	15
IV.	Staff Appraisal	15

Boxes

1.	The Impact of Higher Oil Prices in Guyana	4
2.	Key Policy Recommendations of the 2009 Article IV Consultation	6
3.	Exchange Rate Assessment.....	13

Figures

1.	Comparative Regional Developments	18
2.	Real Sector Indicators	19
3.	External Sector Developments.....	20
4.	Fiscal Sector Developments.....	21
5.	Monetary Developments	22

Tables

1.	Selected Social and Economic Indicators	23
2.	Balance of Payments	24
3.	Nonfinancial Public Sector Operations.....	25
4.	Summary Account of the Bank of Guyana and Monetary Survey	26
5.	External Financing Requirements and Sources	27
6.	Indicators of External and Financial Vulnerability.....	28
7.	Medium-Term Macroeconomic Framework.....	29
8.	Medium-Term Balance of Payments	30

Attachments

I.	The Low Carbon Development Strategy (LCDS)	31
II.	The Amaila Falls Hydro Power Plant (AFHP)	35
III.	Sustainability of the National Insurance Scheme	39
IV.	Financial Sector Stability and Reforms—Progress Since the FSAP	42

Appendix

I.	Draft Public Information Notice	45
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I. RECENT DEVELOPMENTS

1. **Despite external and domestic shocks, in 2010 the Guyanese economy demonstrated resilience and registered a fifth consecutive year of robust growth.**

- **Real output is estimated to have grown by around 3½ percent in 2010.** This performance, which is below that envisaged in the 2010 budget (4½ percent) and higher than the outturn in 2009, reflected strength in the gold and services sectors. The sugar sector continued to be hampered by labor shortages and factory problems. Inflation is estimated to have picked up to 4.4 percent at year-end, from 3.7 percent in 2009, due to hikes in food prices.
- **Albeit fully financed, the external current account deficit has widened.** Despite higher exports (bauxite, gold) and rising remittances, the current account deficit is estimated to have widened from 8.8 percent of GDP in 2009 to 11.4 percent in 2010, driven by lower sugar prices and higher fuel costs (Box 1).¹ In the capital account, private inflows moderated, but steady public external financing helped keep gross reserves at the equivalent of about five months of imports at end-2010.
- **In 2010, the public finances weakened somewhat.** The nonfinancial public sector (NFPS) deficit is estimated to have reached 4.3 percent of GDP—exceeding the budget deficit target of 3.2 percent of GDP, and up from 3.4 percent in 2009. Notwithstanding strong tax revenues, the performance of public enterprises (particularly GUYSUOCO) has been weak and the disbursement of grants has slowed. In addition, there is a risk that, if some grant disbursements (0.9 percent of GDP) do not materialize by year-end, the deficit could reach 5.2 percent of GDP. The authorities are exploring financing options, including the use of existing PetroCaribe savings.²

Nonfinancial Public Sector Operations (In percent of GDP)		
	2010	
	Budget	Outturn
Revenue and grants	29.2	26.7
Tax revenue	21.3	22.4
Non-tax revenue	2.0	1.1
Public enterprises	2.2	0.6
Grants	3.7	2.6
Expenditure	32.5	31.0
Wages and salaries	6.3	6.3
Other goods and services	6.2	6.2
Transfers	5.2	5.1
Interest	1.7	1.7
Capital expenditure	13.1	11.7
Overall balance after grants	-3.2	-4.3

Sources: Ministry of Finance; and Fund staff estimates.

¹ Although Guyana no longer benefits from preferential prices in the European market, transitional arrangements are in place until September 2015.

² This is a contingency plan, in the event that the grants are not be disbursed by end-December 2010, as envisaged by the authorities. At end-September 2010, the accumulated PetroCaribe savings amounted to about 5 percent of GDP. These funds (US\$108 million) are held abroad as part of the gross reserves of the central bank.

Box 1. The Impact of Higher Oil Prices in Guyana

The Guyanese economy is particularly exposed to oil price movements, as it relies exclusively on imports for its oil consumption. In 2010, oil-related imports represented some 16 percent of GDP and were a main driver in the widening of the external current account deficit. Part of these imports (4 percent of GDP) is required for electricity generation by the public electricity company Guyana Power & Light (GPL), which uses antiquated, energy intensive processes.

Changes in oil prices have a significant impact on the fiscal accounts. First, as GPL relies on fuel imports to generate electricity, a 10 percent increase in oil prices is associated with deterioration in its operational balance of about 0.4 percentage points of GDP (assuming that electricity prices are left unchanged). Second, tax revenue is affected through the ad-valorem excise tax on fuel sales. In recent years, the government has lowered the tax to counteract the effect of oil price increases.¹ Under the assumption that changes in the excise tax absorb half of any given increase, a 10 percent rise in world oil prices boosts tax revenue by 0.6 percentage points of GDP.

The external current account balance is vulnerable to oil price shocks. Oil price shocks are mostly reflected in the fuel import bill, with a minor effect also on non factor services. A 10 percent increase in oil prices widens the current account deficit by 1¼ percentage points of GDP. This deterioration is almost fully transmitted to the overall balance, notwithstanding the access to PetroCaribe financing, as the authorities have been saving most of these resources abroad.

¹ This measure is temporary. A central role of the Low Carbon Development Strategy is to enable a structural transformation, thus lowering exposure to oil prices. Further, as oil prices are projected to stabilize over the medium term and Guyana's dependence on oil would lessen as it switches to hydroelectricity, this type of price mechanism would play a lesser role. Staff will review this mechanism with the authorities in future discussions.

• Monetary policy was moderately expansionary.

Twelve-month broad money growth—the anchor of monetary policy—and credit to the private sector were robust, at 10 percent and 11.6 percent respectively in September 2010. Treasury-bill rates have fallen below

Financial Soundness Indicators, 2005-10
(In percent)

	2005	2006	2007	2008	2009	2010Q3
Capital to risk-adjusted assets	14.4	15.5	15.0	14.9	18.3	18.8
NPLs to total loans	13.9	11.6	10.7	9.5	8.3	6.0
Provision for loan loss to NPLs	44.4	41.0	54.2	49.3	53.8	75.0
Return on assets	1.9	2.3	2.4	2.3	2.7	3.0
Return on equity	23.1	27.7	27.6	25.2	26.6	28.9
Liquid assets to total assets	32.5	33.0	26.5	29.8	30.9	26.4
Related party loans to total loans	5.0	3.8	3.7	4.5	4.5	3.8
Top 20 borrowers to total loans	44.5	44.4	39.2	33.2	35.5	29.8

Sources: Guyanese authorities.

inflation, which has been relatively subdued. The currency has remained broadly stable against the U.S. dollar, in the context of a steady increase in reserves. Most financial system indicators improved markedly through end-September 2010, including the NPL ratio which has declined to 6 percent of total loans.

2. **During 2010, reform efforts continued in the fiscal and financial sectors.**

- ***Fiscal Sector.*** Reforms at the Guyana Revenue Authority (GRA) have continued, including streamlining the new functional organization, further improvements in the integrated tax information system (TRIPS), profiling of tax payers and implementation of on-site inspections in the country's ports of entry, and more intensive training to personnel.
- ***Financial Sector.*** To support development of the credit market and improve lending conditions, the authorities passed the Credit Bureau Act, and guidelines for its operations are being prepared. In addition, legislation was passed in parliament bringing the mortgage institution New Building Society (NBS) under the supervision of the Bank of Guyana.

3. **Other reforms in 2010 were in support of long term growth.**

- ***Low Carbon Development Strategy (LCDS).*** The authorities shepherded the signing of a LCDS trusteeship agreement between Norway and the World Bank on the administration of a US\$250 million payment pledged to Guyana by Norway, paving the way for the annual disbursements to commence. A Multi-Stakeholder Steering Committee has been formed to oversee the selection of investment projects (Attachment I).
- ***Sugar Sector.*** Modernization plans continue with the reorientation of cane fields to better accommodate mechanization. Meanwhile, work also continued on the sugar packing plant, which is part of the overall strategy to improve revenue, and is expected to come on stream in early 2011.
- ***Infrastructure.*** During 2010 the authorities started a project to improve the distribution and transmission of electricity throughout Guyana. The Guyana Power and Light Company (GPL) is also installing additional generation capacity to replace worn out equipment and correct for longstanding underinvestment in generation capacity. In the area of information technology, a fiber-optic cable project linking Guyana and Brazil is being installed, which would facilitate the introduction of e-government. In the housing sector, additional external resources have been secured for the expansion of low income housing. Finally, work has commenced on the access road to the AFHP site, while enhancement work is soon to start on the road from Georgetown and the international airport.
- ***Poverty reduction.*** The authorities are currently preparing an outline of the Poverty Reduction Strategy Paper (PRSP) for discussion with the Cabinet Committee on Finance by July 2011. They are assessing the costs of achieving the MDGs with technical donor support.

Box 2. Key Policy Recommendations of the 2009 Article IV Consultation

Staff's advice centered on the need to:

- Preserve the prudent policy framework to further entrench fiscal and debt sustainability;
- Maintain a cautious monetary policy stance to contain inflation;
- Carefully monitor asset quality and enhance prudential measures;
- Continue with the ongoing structural reforms to modernize the sugar sector and diversify Guyana's productive base, which are critical to sustaining long-term growth and alleviating poverty;
- Enhance data quality and dissemination and subscribe to the GDDS.

Authorities' views. While there was broad agreement on the need to preserve a prudent policy framework to further entrench fiscal and debt sustainability, the fiscal consolidation achieved in 2009 allowed for a somewhat more gradual pace for fiscal tightening in 2010–11. In their view, this would help accommodate priority infrastructure spending, and support growth.

II. MEDIUM-TERM OUTLOOK AND RISKS

4. **The baseline macroeconomic outlook remains positive for 2011, an election year, and the medium term.** Guyana is on the cusp of major changes, led by the government's Low Carbon Development Strategy (LCDS) and private sector investments in gold, oil, and gas sectors as well as the large PPP associated with the construction of hydroelectric plant AFHP (Attachment II). These investments should sustain growth levels above the long-run trend of 3 percent, to around 5 percent over the medium term. While fully financed, the external current account deficit would narrow somewhat in 2011—largely on account of receipts from the GRIF³—before widening in subsequent years as the AFHP is being constructed.

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

				Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP (in percent)	7.0	2.0	3.3	3.4	4.8	6.0	6.1	5.0	2.7
o/w sugar sector	2.7	-15.1	3.3	-1.6	31.7	7.3	4.8	6.0	4.5
o/w non-sugar sector	7.2	3.4	3.0	3.8	3.2	5.7	6.1	4.8	2.5
Inflation (end of period)	14.0	6.4	3.7	4.4	4.4	5.4	5.4	5.4	5.4
Overall fiscal balance	-4.9	-4.7	-3.4	-4.3	-3.5	-3.2	-3.1	-3.0	-3.0
External current account balance	-11.1	-13.2	-8.8	-11.4	-8.8	-18.6	-18.5	-16.5	-9.2
NPV of public debt-to-GDP ratio (in percent)	42	41	48	48	48	47	47	48	48
NPV of public debt-to-revenue ratio (in percent) 1/	152	159	170	180	158	161	168	174	174
Gross official reserves (in US\$ millions)	312.6	355.9	627.5	664.3	776.7	869.5	889.3	855.5	901.4
In months of imports	2.9	2.7	5.1	4.8	5.1	4.9	4.8	4.4	4.9

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

1/ Revenue including grants.

³ Guyana's Reducing Emissions and Deforestation Investment Fund (GRIF) supported by Norway.

5. **Risks remain, but are more balanced over the longer term.** On the upside, Guyana stands to gain from the global carbon credit market on account of its large rainforests, and the implementation of the LCDS. While gold and sugar prices are at historical highs, Guyana will also benefit over time from lower electricity prices. Downside risks include those linked to a potential overheating in the economy, volatile commodity prices, fiscal pressures from weak public enterprises (GUYSUCO, GPL, and the National Insurance Scheme), and some aid volatility. Implicit government guarantees associated with the AHFP project could also turn costly, if they were to materialize. Finally, the sustained large current account deficit may also become a source of risk.

III. POLICY DISCUSSIONS

6. **Discussions took place against the backdrop of favorable economic performance and prospects, while the authorities confront complex decisions requiring careful preparation.** Thus, the focus was on establishing:

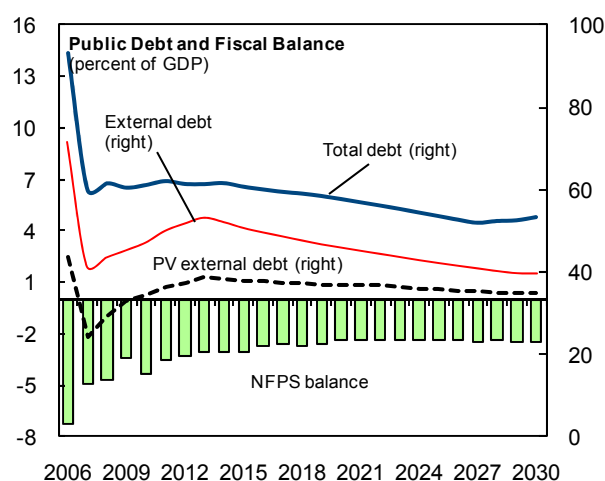
- ***A Policy Framework to Contain Fiscal Risks and Protect Debt Sustainability.*** While the LCDS is viewed as a platform for transforming the economy, it is a long term process. Immediate needs include minimizing the fiscal impact from underperforming public enterprises, volatile aid commitments, and rising oil prices. Focusing on a strategy for maintaining fiscal and debt sustainability over the medium term is critical, as well as considering how Guyana can best cope with the impact of its incipient oil and gas exploitation.⁴
- ***A Framework to Anchor Prices and Protect Financial Stability.*** Keeping inflation relatively low and maintaining vigilance over the financial system remain important features of macroeconomic policy to guarantee stability.
- ***An Agenda for Supporting Sustainable Growth and Poverty Reduction.*** Enhancing the performance of public enterprises, minimizing exposure to risks in the context of upcoming PPPs, measures to lock in gains from natural resource development and expanding economic opportunities from the LCDS are all key to sustaining long-term growth and reducing poverty. The impact of the Amaila Falls project will need to be carefully monitored, during the construction (end-2011–14) as well as at the operational stages (2015 onward) to ensure that the economic benefits materialize as expected, especially on energy costs and GPL's balance sheet.

⁴ Several companies, including CGX and Repsol, are moving ahead with exploration. Some private estimates place potential oil reserves at 15.2 billion barrels, consistent with production of 50 million barrels a year.

A. Policy Framework to Contain Fiscal Risks and Protect Debt Sustainability

Fiscal Policies

7. **The authorities view fiscal consolidation as a priority in 2011 and over the medium term to protect debt sustainability.** Despite some easing in 2010, the 2011 budget and medium term plans envisage a tightening of the fiscal stance. The path would lower the NFPS deficit to around 3.5 percent of GDP in 2011–12, and gradually converge to a deficit of 2.5 percent of GDP by 2030. This stance would ensure consistency with a reduction in the debt-to-GDP ratio, while leaving room for some flexibility as needed.



8. **Staff agreed that maintaining a strong fiscal stance was critical, given lingering underperformance in public enterprises and unstable grant inflows.** Acknowledging slippage from the budget target in 2010, the authorities were committed to protecting debt sustainability and resuming consolidation along the lines agreed at the time of the last Article IV consultation, although at a slightly slower pace. They pointed to continued improvements in public financial management—especially revenue administration—as well as efforts to bolster the financial position of the National Insurance System (NIS) as key to attaining their fiscal targets (Attachment III). They also agreed that achieving these objectives may require restraining the pace of spending growth. The authorities noted that the timing of grant disbursements had complicated budget planning, adding a degree of uncertainty to budget execution. Meanwhile, they viewed their accumulated PetroCaribe savings as a buffer to smooth out grant shortfalls.⁵ In view of Guyana’s risk of moderate debt distress, staff cautioned that contingency plans be in place in the event that weaknesses in public enterprises, or shortfalls in aid commitments jeopardize attainment of the 2011 deficit target of 3.5 percent of GDP.⁶

9. **Staff cautioned that a mismatch between pension benefits and contributions threaten the sustainability of the Social Security Scheme (NIS).** Projections show that, after 2011, NIS will shift from small surpluses to growing deficits, largely as a result of rising benefit payments. The finances of NIS remain plagued by contribution arrears and evasion by both workers and employers. An additional challenge is the large investment of

⁵ See footnote 2.

⁶ This assessment, which is unchanged from that in the 2009 Article IV Consultation, is linked to the stress tests on debt service (see *Guyana—Joint IMF-World Bank Debt Sustainability Analysis*).

18.6 percent of total assets, or 1.3 percent of GDP that the NIS has in the CLICO conglomerate,⁷ for which the government has extended a guarantee. The authorities have established a reform committee to provide guidelines on the way forward. Although, many of these recommendations have not been implemented, the NIS has begun to intensify monitoring in a few areas, to ensure that beneficiaries meet qualifying conditions, and by establishing compliance certificates for businesses. More actions would, however, be required to restore its medium term financial viability.

10. The operating surplus of public enterprises is projected to rise from 0.6 percent of GDP in 2010 to 1.9 percent in 2011, supported by an expected surge in sugar production.

- **GUYSUCO.** The authorities estimate that GUYSUCO's sugar production will rise by about one third in 2011, to 300,000 tons. Staff noted that, despite the major capital injection in this company, this outturn would require significant improvements in labor productivity and the resolution of existing technical problems at the Skeldon plant.⁸ The authorities expressed confidence that existing issues would be resolved in the near future, as they were actively engaged with all parties in boosting output, to get the full benefits of significantly higher world sugar prices.
- **GPL.** Prospects are expected to improve significantly over the medium term, once the AFHP becomes operational (in the near term, it could have a moderate negative impact on GPL's accounts). Under this project, AHFP will have the capacity to generate electricity output far in excess of present demand, which should enable a significant reduction in the electrical tariff rates charged by GPL (Attachment II). In turn, its electricity sales would rise sharply, as self-generators would be attracted to the lower rates charged by GPL. Staff cautioned that, while a strong increase in the customer base might be feasible, weak administrative capacity, still-limited solvent demand, and limited delivery infrastructure could prevent GPL from reaching the full benefits of the project.⁹ As a result, its profitability could be lower than expected, adversely affecting the overall fiscal balance.

⁷ CLICO (Guyana) is under judicial management and the government expects to realize proceeds from the sale of fixed assets which will be used to compensate NIS and other investors.

⁸ Additional lands under cultivation, mechanization, boiler replacement and shift in harvesting cane from 2010 to 2011 should boost production.

⁹ Additional risks include GPL's inability to generate sufficient revenue to cover the guaranteed payments and the new plant's electricity output falling short of expectations. GPL's projections provide some assurances against the former. In the latter case, if the private partner was unable to deliver enough energy (for reasons other than hydrological factors) GPL will need to resort to its oil-dependent energy plants to cover the gap; in this case, the contractor will reimburse GPL for these operational costs.

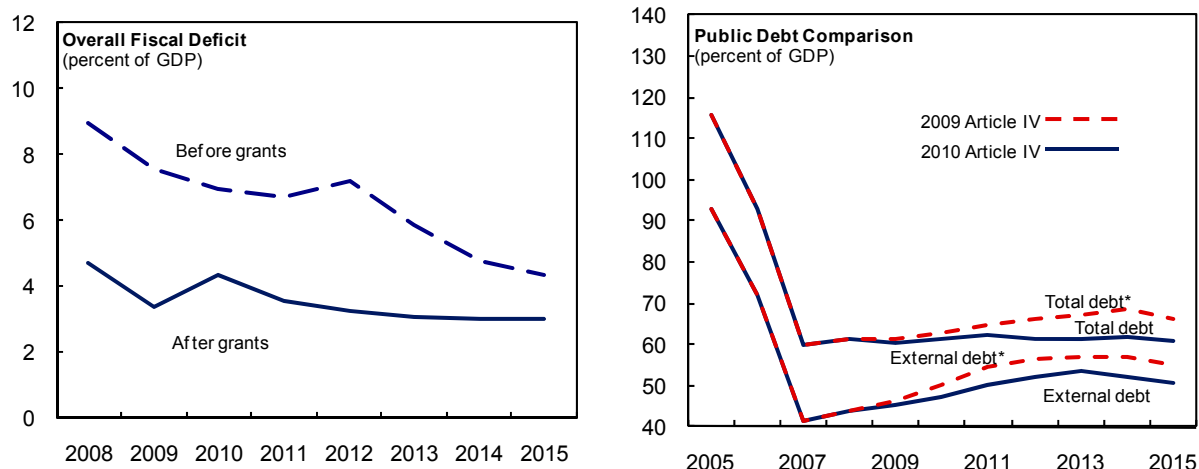
- ***Government's guarantee to NIS.*** The NIS is unlikely to be fully covered by the CLICO payout strategy, mostly financed by the Caribbean Petroleum Fund of US\$15 million, with the remainder expected from judicial action and asset recovery. Without full recovery of these investments and near term reforms to restore financial viability at the NIS, government's guarantee would be called as the CLICO investments mature,¹⁰ potentially increasing public debt by up to 1.3 percent of GDP.

11. **While Guyana's level of debt distress remains moderate, staff emphasized the need to keep the debt trajectory on a downward path.** The authorities considered that their current strategy of using medium term debt sustainability as a fiscal anchor continues to be appropriate. Public debt ratios are projected to decrease moderately to around 60 percent of GDP over the medium term, and further to around 53 percent by 2030.¹¹ The external debt sustainability analysis (DSA) indicates that risks to external stability remain moderate. The PV of external public debt is expected to remain just under the DSA benchmark of 40 percent of GDP, while all other sustainability indicators are well below their respective thresholds. Over the medium term, FDI would cover some 80 percent of the current account deficit and projected PSIP inflows, protecting the foreign reserve coverage at about 5 months of imports. External debt service would remain comfortable at the equivalent of 4–5 percent of exports and 6–9 percent of government revenue, respectively. Downside risks include lower-than-envisaged grants and FDI inflows in the aftermath of the global crisis.¹² Staff also emphasized the need for Guyana to keep seeking access to high concessional terms to protect debt sustainability.

¹⁰ The CLICO investment is due to mature in a few years.

¹¹ 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.

¹² The authorities adjust expenditures to match available grants. This is done in two stages, initially during budget preparation, an assessment is made of potential grants during the year. Then during the year, expenditure plans are adjusted based on the realization of grants.



B. A Framework to Anchor Prices and Protect Financial Stability

Monetary and Exchange Rate Policies

12. **The monetary stance remains supportive of macroeconomic stability.** Staff noted that while inflation is currently low, the authorities should stand ready to prevent any build up of inflationary pressures. The authorities planned to continue conducting monetary policy through open market operations (OMO) and stressed their willingness to tighten monetary policy, should price pressures develop. Staff cautioned that success in this strategy would, however, also be dependent on the degree of exchange rate flexibility, as this would determine the ability of the BOG to use foreign exchange sales to reduce liquidity in support of OMO, and further noted that the managed float also removed the exchange rate appreciation channel for containing inflationary pressures.

13. **Staff stressed that while financial sector risks appear contained, the need for continued financial sector vigilance remains.** Data through end-September 2010 suggest that most financial system indicators, including NPL and provisioning ratios, have improved considerably since last year. These improvements mostly reflect improved economic conditions as well as enhanced risk management on the part of banks. Further, the authorities have successfully implemented most of the 2006 FSAP recommendations (Attachment IV). In recent years, however, a construction boom has developed, facilitated in part by the authorities' adoption, since 2009, of the second phase of their mortgage program, based on tax and reserve requirement exemptions.¹³ Staff cautioned that there was a need to monitor

¹³ The Government's low income housing initiative was originally launched in 1992 as part of a land divestiture process funded by the IDB. The second phase of the program, also funded by the IDB began in 2009. Under this phase, in addition to tax and reserve requirement exemptions on mortgages to low-income earners, each bank's limit was raised from G\$3 million to G\$8 million and the program was extended to all banks, not only the New Building Society. This program is part of the government's poverty reduction strategy.

such credit growth closely, to avoid developing excessive exposures in households' balance sheets. However, the authorities were of the view that, given high liquidity in the system, the housing deficit, and the unmet demand for housing in the society, the demand for private sector credit needed to be accommodated.

14. Staff welcomed legislative improvements in the regulation of the non-bank financial sector. The recent passage of legislation to bring the mortgage institution NBS under direct central bank supervision is notable, and staff was encouraged by the authorities' efforts to do the same for credit unions. In addition, work on developing a credit bureau is in advanced stages which would go a long way in reducing intermediation costs for borrowers. Staff welcomed the dissemination of financial sector indicators, which now appear on the Bank's website.

15. Staff reiterated its view that greater exchange rate flexibility would provide a useful buffer against external shocks when warranted. While in the recent period exchange rate stability has been supported by adequate inflows of foreign exchange, large swings in commodity prices, especially oil, can pose external risks. In this regard, greater exchange rate flexibility could, by limiting Bank of Guyana interventions in the foreign exchange market to smoothing episodes of excessive volatility, provide a useful policy tool to help preserve macroeconomic stability. The authorities, however, maintained that their exchange rate arrangement has served them well in the past and noted their preference for exchange rate stability. They also noted that they have resisted systematic interventions in the foreign exchange market to influence the exchange rate path. In real effective terms, Guyana's currency is assessed to be somewhat overvalued, while broadly consistent with external stability (Box 3).

C. Agenda for Supporting Sustainable Growth and Poverty Reduction

16. Staff emphasized that, while the process of modernization of the sugar sector remains critical to growth, it has been protracted in recent years.¹⁴ Sugar production continues to play a key role in Guyana, as a major contributor to both foreign exchange earnings and employment. Despite large investments at GUYSUCO's Skeldon plant and

¹⁴ The sugar sector difficulties are longstanding. Following a period of nationalization from 1971 to 1990, GUYSUCO was placed under a management contract with a multinational sugar company, Booker Tate. However, costs have remained high relative to other international producers, and the industry suffered falling output and significant financial losses from 2005–09. In March 2009, the Booker Tate management contract was discontinued and the government appointed a board to restructure the industry and increase its competitiveness. A key component of the plan involved increasing cane production, including through outsourcing to private farmers. Meanwhile, the factory at Skeldon has remained only partly functional. The industry is characterized by: (a) an influential, unionized labor force employed in field operations; and (b) a legacy of social responsibilities, as it provides key social services (health and education) and jobs to many communities. In light of these factors, restructuring the industry involves changes in the way of life for a sizeable proportion of rural Guyana and, as a result, the process has been slow and difficult.

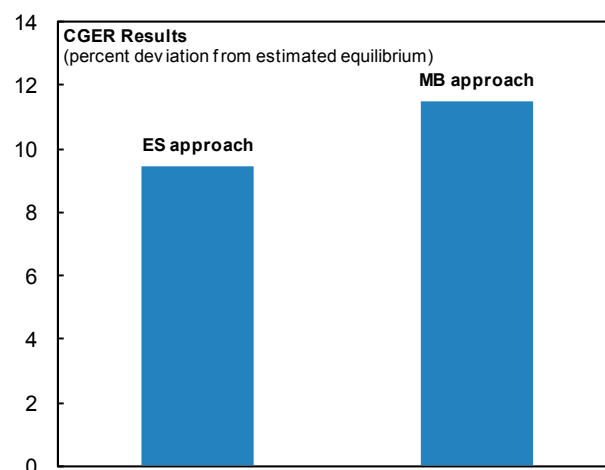
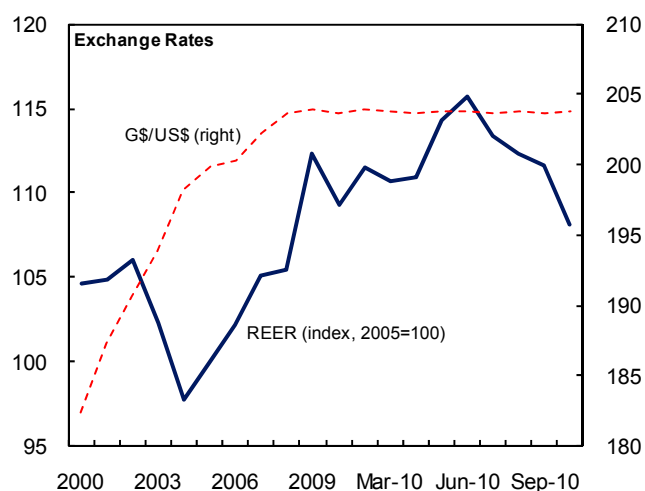
Box 3. Guyana: Exchange Rate Assessment

During 2010 Guyana's currency depreciated in real terms, interrupting an appreciation trend. After having registered an appreciation of around 15 percent during 2004–09, the real effective exchange rate (REER) fell by 3.7 percent during the first ten months of 2010. These movements largely reflected developments in the value of the U.S. dollar (which the Guyanese dollar follows closely) against the Euro and other major currencies.¹

CGER-type of analysis suggests that the Guyanese currency is moderately overvalued. Staff used the external sustainability (ES) and macroeconomic balance (MB) approaches to assess external stability in Guyana.² The ES approach suggests that a depreciation of 9.5 percent would stabilize the net foreign asset (NFA) position at its 2010 level, while the MB approach points to a similar depreciation of 11.5 percent to bring the projected external current account balance (9 percent of GDP) down to its norm level (5.3 percent of GDP) over the medium-term.

This assessment reflects somewhat higher deviations from equilibrium than in the 2009 Article IV consultation. The

differences are mostly driven by a wider current account deficit over the medium-term, in line with imports of capital goods associated with large infrastructure projects. Beyond the medium term, both the fuel import savings due to the AFHP and some export strengthening would allow a gradual narrowing of the deficit.



¹ Guyana's exchange rate regime is a stabilized arrangement, according to the most recent Fund classification.

² The equilibrium real exchange rate could not be estimated due to the lack of data on productivity indicators.

attempts at further mechanizing production and expanding acreage, sugar output has continued to disappoint. Multiple factors explain this performance, ranging from malfunctioning equipment, adverse weather conditions, labor shortages, and management problems. Although the authorities are seeking to rectify these problems promptly, labor shortages, mainly from competing opportunities in construction and other agriculture are

hampering production.¹⁵ In that context, staff suggested ramping up mechanization plans while continuing to engage workers toward resolving the ongoing issues.

17. **Staff and the authorities agreed that pro-environmental policies could support growth and reduce vulnerabilities.** Pressing ahead with the LCDS, aimed at transforming the economy while preserving the environment, is now well entrenched in public policy. The LCDS seeks to ensure a steady carbon-credit flow over the long-term in exchange for forest preservation. Under the strategy, the authorities aim to channel resources obtained from global partners—initially Norway—to target specific economic areas. Successful implementation of the LCDS will re-position the Guyanese economy to better compete on a global scale and unleash opportunities for reducing poverty. The agreement with Norway will provide up to US\$250 million in payments for forest services over five years, with the IDB as the main implementing partner, paving the way for disbursements to begin early 2011.¹⁶ As such, these resources would be governed by the relatively strong PFM framework¹⁷ currently operational in Guyana. Given that Guyana is the first country in the world to develop such a partnership on the environment, it stands to benefit from global attention but also will be subject to international scrutiny as the strategy is being implemented.

18. **Staff urged the authorities to put appropriate measures in place to safeguard against fiscal risks as individual projects move ahead, in particular Amaila Falls.**

- **Private sector** interest in Guyana's gold, other mining, oil, and gas sectors is encouraging, with some projects likely to come on stream over the near to medium term. In the interim, Guyana will prepare a plan on how best to manage its natural resources, with a view to coping with potential Dutch disease and other overheating pressures. Staff suggested that this plan include standard protocols for taxation as well as consideration of the creation of a stabilization fund.¹⁸
- With respect to the *Amaila Falls* project, expected to start in late 2011, staff welcomed the high level of transparency and public disclosure of the project to date, including reflecting any firm or contingent liabilities from PPPs in debt statistics, as they relate to best practices of transparency in fiscal accounting of PPPs. Staff cautioned that

¹⁵ The industry reports that worker turnout is only around 52 percent of the workforce.

¹⁶ The World Bank is Trustee for the funds, the GRIF.

¹⁷ Guyana's CPIA cluster averaged 3.1 or in the middle range for PFM for last four years. However their existing PEFA action identified over half of needed actions already completed. Notable among which for this purpose is action on government's procurement systems (use of manuals and guidelines) which are being enhanced with the use of management IT systems and being developed in conjunction with a development partner.

¹⁸ Trinidad and Tobago's Heritage Fund was highlighted as an example as well as Norway's.

while energy costs could be significantly reduced once the project becomes operational in 2015, details of the PPP should be carefully assessed to safeguard against sovereign risks in such a large project (30 percent of GDP). Staff reiterated earlier advice on the use of international best practices in projects of this nature to which the authorities fully agreed (see Attachment II). Staff noted that the proposed risk sharing arrangement where the government absorbs the political risk and the private partner the construction and operational risks, fits the overall best practice of assigning each risk to the party best equipped to manage it.¹⁹

19. **Staff welcomed the authorities' plans to press ahead with the preparation of the revised PRSP.** This will include an MDG costing exercise prepared with technical assistance from donors. Staff also noted the authorities' plan to put in place adequate monitoring and evaluation mechanisms to support its implementation, along with defining a tentative calendar for its release. Staff encouraged the authorities to continue its dialogue with all stakeholders (labor, civil society, and political parties) as this exercise is crucial for building national consensus on Guyana's economic agenda.

D. Measures to Improve Official Data

20. **The quality of statistics is improving, but data provision needs further strengthening.** In early 2010, the authorities released rebased GDP and revised CPI data, prepared with CARTAC assistance. Coverage of other key macroeconomic variables needs improvement in terms of quality, periodicity, and timeliness of release. Acknowledging recent improvements, staff urged the authorities to increase the frequency and timeliness of data provision. Staff welcomed the authorities' consent to subscribe to the IMF's *General Data Dissemination System* (GDDS), reinforcing Guyana's commitment to improved transparency and data dissemination.

IV. STAFF APPRAISAL

21. **Guyana's future looks brighter, despite the many challenges.** With a fifth consecutive year of economic growth, Guyana is beginning to lock in gains from recent years of fiscal consolidation. Prudent and sustained macroeconomic policies have developed resilience in the face of external and domestic shocks. There are growing indications that the private sector is building up major plans for the exploitation of Guyana's sizeable natural resources, while the public sector is proceeding with large investments in infrastructure, including in the electrical sector. Over the medium term, the LCDS should help Guyana compete better on the global stage and unleash opportunities for lowering poverty.

22. **The authorities' commitment to fiscal consolidation and debt sustainability is welcome, given the risks to the outlook.** Staff is encouraged by the authorities' determination in maintaining a prudent fiscal stance to protect debt sustainability over the

¹⁹ See SM/07/138

medium term. Given the uncertainties associated with grants, the authorities would be well advised to consider building flexible budget plans including contingency measures to respond to any shortfall in disbursements. Staff reaffirmed the need for Guyana to keep seeking access to high concessional terms to protect debt sustainability.

23. Improved fiscal performance will require greater efficiency in the public enterprise sector. The public company GUYSUCO continues to underperform on output targets and its financial position remains weak. So far, the major capital injections in this company and efforts to revamp the sugar industry have not materialized. Given the significantly improved world market conditions for sugar, there is a need to promptly resolve outstanding technical issues at the production site and to improve labor relations in a sustainable manner.

24. With the development of the large Amaila Falls project, fiscal risks associated with the public-private-partnership need to be monitored carefully. Construction of the new hydropower plant is due to begin next year, with the financial arrangements close to final stage of preparation. Given the importance and size of this project, staff urged the authorities to monitor carefully the associated fiscal risks. Staff welcomed the level of transparency and public disclosure of the project to date, including reflecting any firm or contingent liabilities from PPPs in debt statistics, and encouraged the authorities to continue in this vein. Guyana's PPPs will require close attention to international best practices, particularly to limit risks linked to sovereign guarantees. Moreover, should the projected surge in solvent demand fail to materialize, there is a risk that GPL's finances could be adversely affected.

25. Monetary policy should remain supportive of macroeconomic stability, especially in light of higher commodity prices expected in the near term. Staff commends the authorities' ability to keep inflation relatively low, and welcome their readiness to address any inflationary pressures. Guyana's exchange rate arrangement has served the country well, though staff noted that moving toward more flexibility would provide a buffer against shocks.

26. Vigilance remains important for effective supervision of the financial system. Staff also welcomes improvement in financial sector indicators, including the decline in NPL ratios, higher provisioning, and lower ratios of borrower concentration and related-party credit operations. The forthcoming law establishing a credit bureau, along with revised legislation bringing the mortgage bank under the supervision of the central bank should also help enhance efficiency in the financial sector. At the same time, the program that extends tax exemptions and reserve requirements on mortgage loans at all banks should be monitored closely, to avoid developing excessive exposures in households' balance sheets. Staff welcomes the authorities' efforts at implementing the 2006 FSAP recommendations.

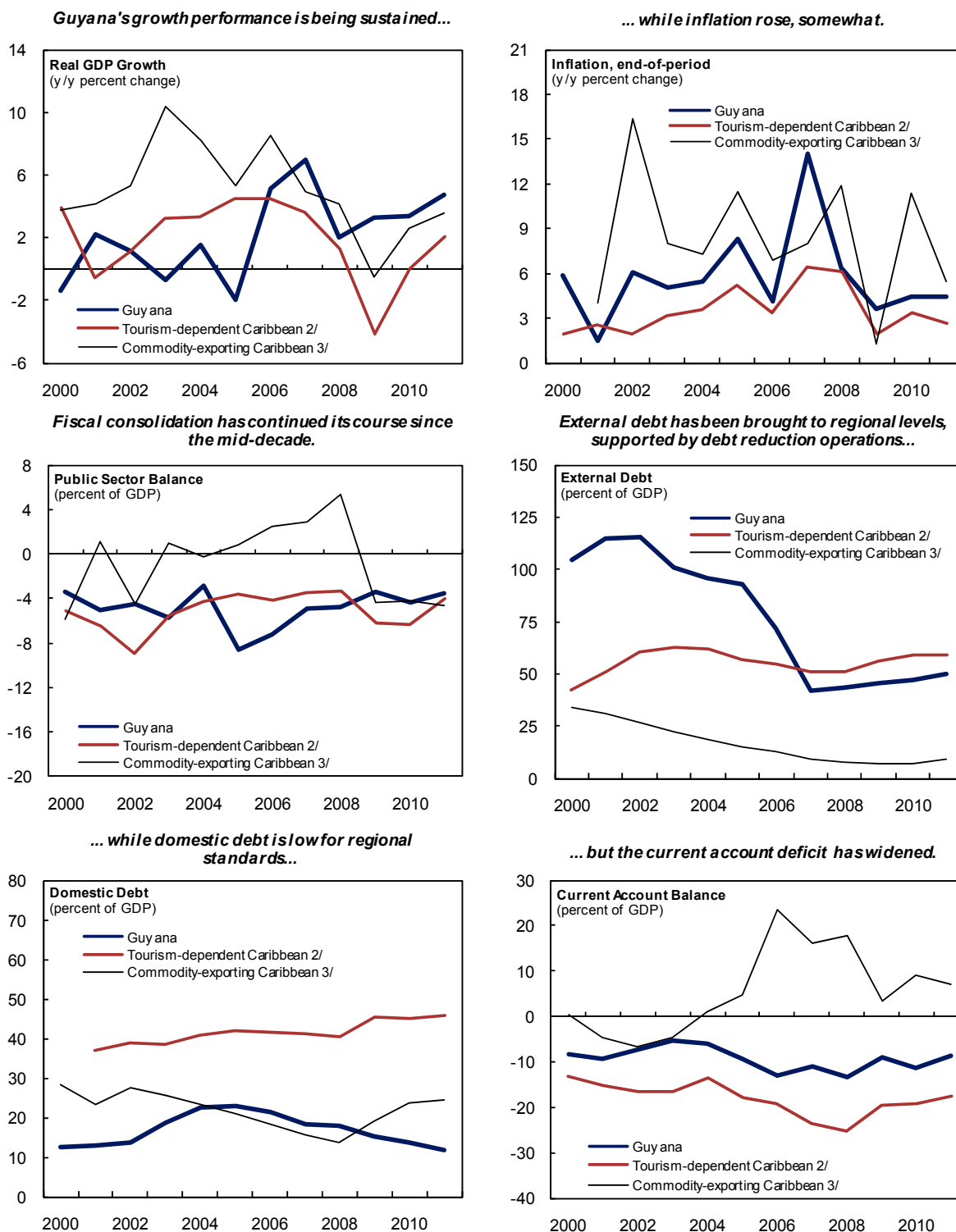
27. The authorities' intention to finalize the PRSP is welcome. Staff encouraged a continued dialogue with all stakeholders to ensure broad participation and engagement at a

national level to achieve consensus on Guyana's economic agenda. Staff welcomes ongoing work with donor support to cost the achievement of the MDGs, acknowledging the complexity of this exercise.

28. **Improvements in data quality achieved in 2010 should be accompanied by a further strengthening in data availability.** Staff commends the authorities for the very significant progress entailed in the finalization of the rebased GDP and CPI series. Staff also welcomes the authorities' decision to subscribe to the *General Data Dissemination System* (GDDS) which extends Guyana's commitment to transparency and data dissemination.

29. 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/



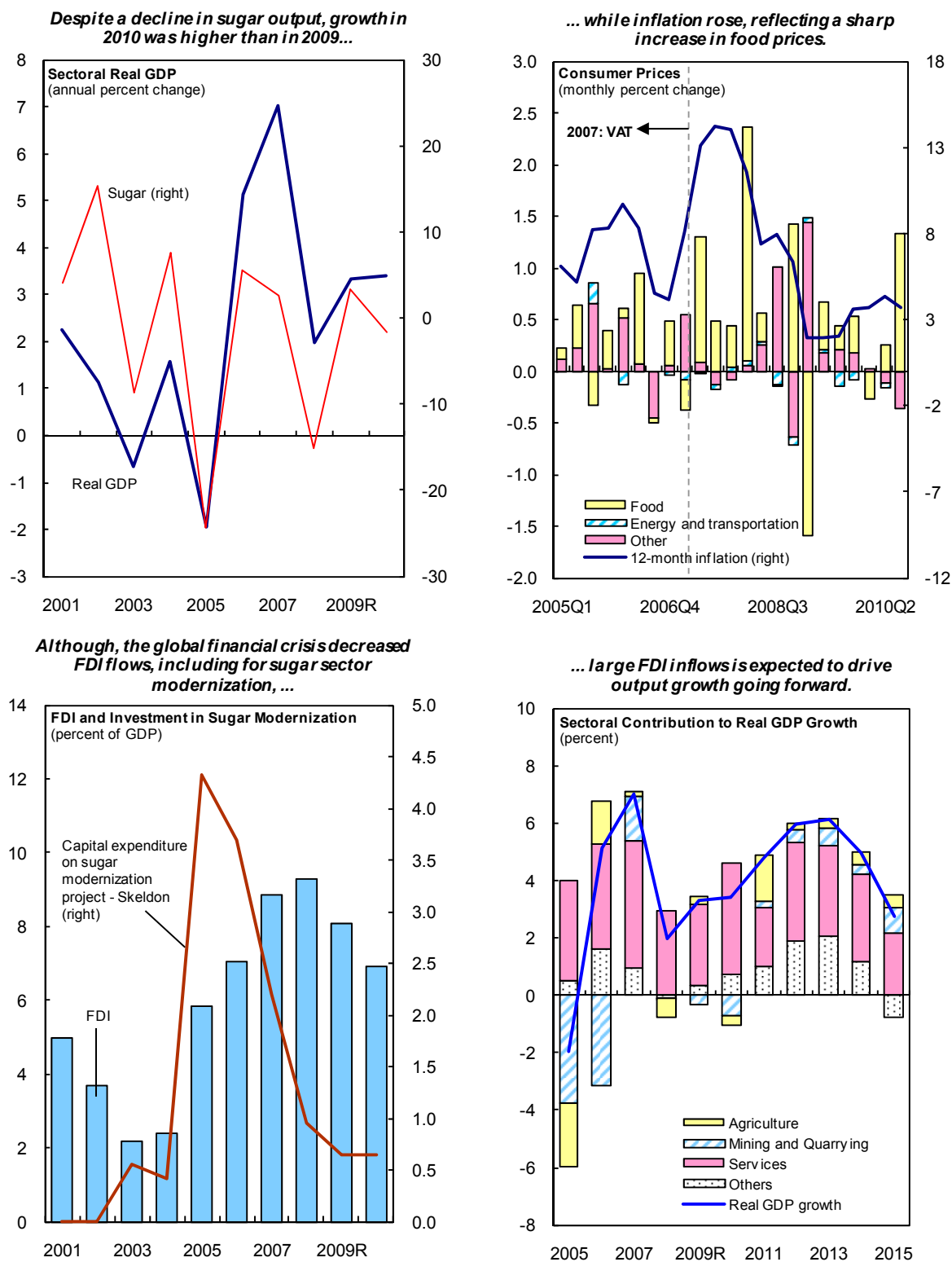
Sources: Country authorities; and Fund staff calculations.

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.

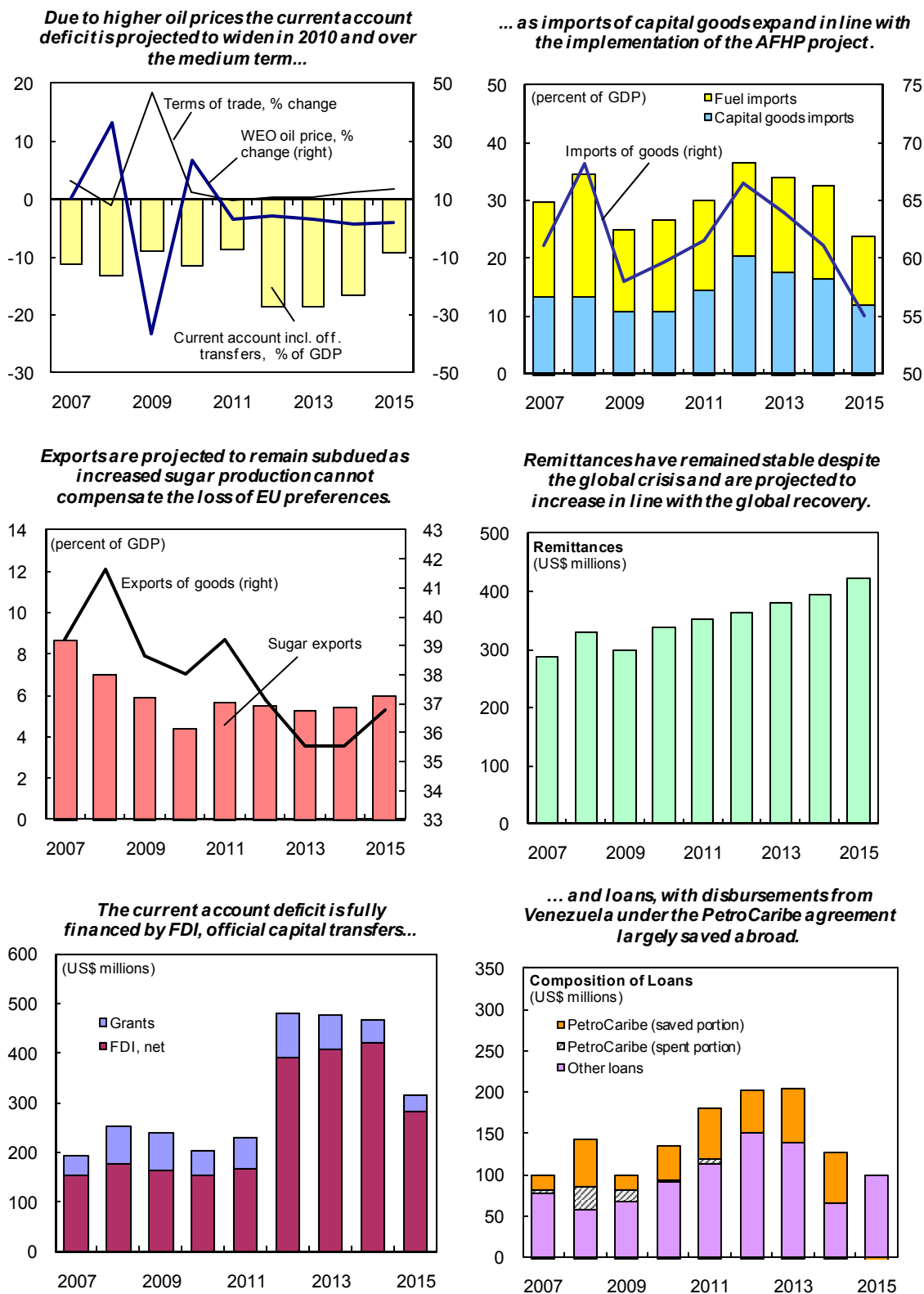
3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

Figure 2. Guyana: Real Sector Indicators



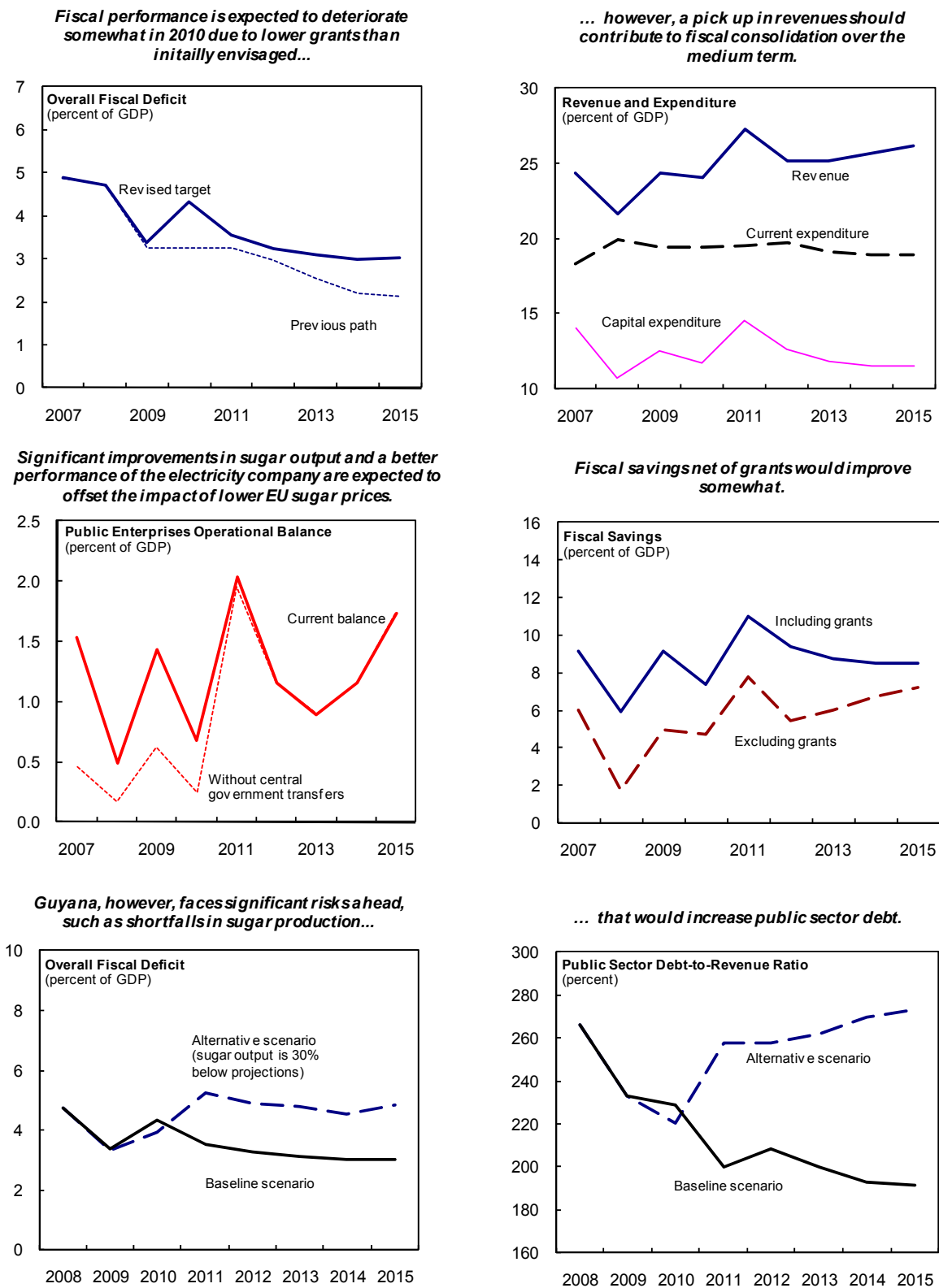
Sources: Bank of Guyana; Ministry of Finance; and Fund staff estimates.

Figure 3. Guyana: External Sector Developments



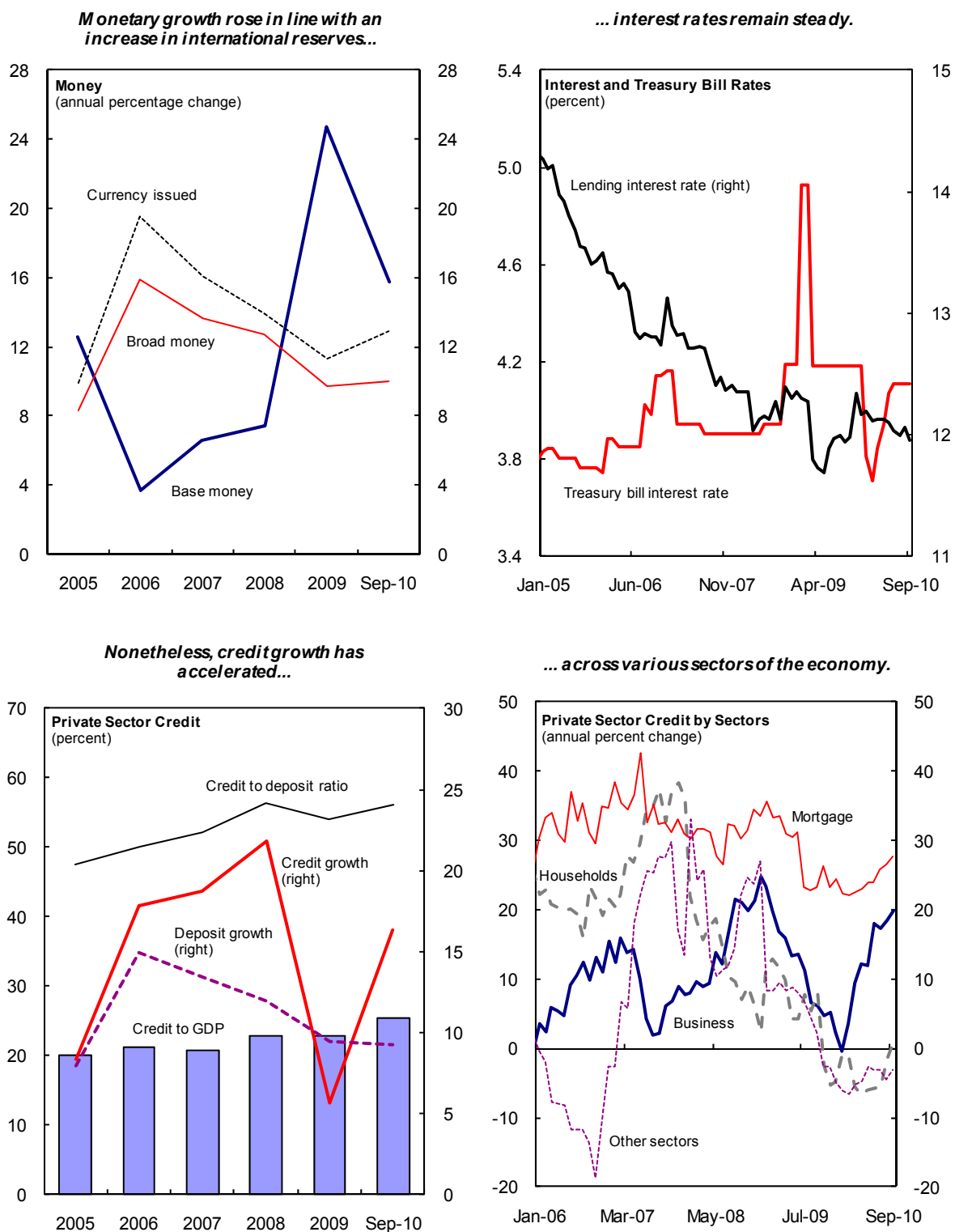
Sources: Bank of Guyana; and Fund staff estimates and projections.

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, 2009 (thousands)	769.8			Population not using an improved		
Life expectancy at birth (years), 2007	66.5			water source (%), 2006	7.0	
Healthy life expectancy at birth (years), 2007	55			Gini index, 1992-2007	44.6	
Population living below the poverty line (%), 2000-06	35			HDI rank, 2009	114	
II. Economic Indicators						
	2007	2008	2009	Projections		
				2010	2011	2012
(Annual percent change)						
Production and prices						
Real GDP	7.0	2.0	3.3	3.4	4.8	6.0
Real GDP per capita	6.7	1.5	3.0	3.1	4.5	5.6
Consumer prices (average)	12.2	8.1	3.0	3.7	4.7	4.9
Consumer prices (end of period)	14.0	6.4	3.7	4.4	4.4	5.4
Terms of trade	3.2	-1.1	18.4	1.3	-0.1	0.4
(In percent of GDP)						
National accounts						
Investment	20.7	19.0	16.5	17.5	20.7	30.2
Private sector	6.6	8.4	4.0	5.8	6.1	17.5
Public sector	14.1	10.7	12.5	11.7	14.5	12.6
National saving	9.6	5.8	7.7	6.1	11.9	11.5
Private sector	2.4	1.3	0.5	0.0	1.9	4.1
Public sector	7.2	4.5	7.2	6.1	10.0	7.4
External savings	11.1	13.2	8.8	11.4	8.8	18.6
Nonfinancial public sector						
Revenue and grants	27.5	25.9	28.6	26.7	30.5	29.1
Expenditure	32.4	30.6	32.0	31.0	34.1	32.3
Current	18.4	19.9	19.5	19.4	19.5	19.7
Capital	14.1	10.7	12.5	11.7	14.5	12.6
Overall balance (after grants) 1/	-4.9	-4.7	-3.4	-4.3	-3.5	-3.2
Total public sector gross debt (end of period)	60.0	61.6	60.5	61.2	62.1	61.4
External	41.6	43.7	45.4	47.3	50.2	51.9
Domestic	18.3	17.9	15.1	13.9	12.0	9.5
(Annual percentage change, end of period)						
Money and credit						
Broad money	13.6	12.7	9.8	10.3	9.7	11.2
Domestic credit of the banking system	5.6	30.4	5.6	21.3	11.2	5.7
Public sector (net)	-83.6	2.7	-9.8	8.8	-10.6	-17.6
Private sector	18.7	21.8	6.5	10.7	11.0	9.1
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
External sector						
Current account balance 1/	-193.0	-253.6	-178.9	-253.1	-210.5	-491.4
Gross official reserves 2/	312.6	355.9	627.5	664.3	776.7	869.5
Months of imports of goods and services	2.9	2.7	5.1	4.8	5.1	4.9
Memorandum items:						
Nominal GDP (G\$ billion)	352.2	391.5	413.1	452.5	489.6	543.8
Per capita GDP, US\$	2,277	2,497	2,637	2,875	3,095	3,394
Guyana dollar/U.S. dollar (period average)	202.5	204.3	203.5	...	...	...
PetroCaribe loans savings (stock, in % of GDP)	1.1	3.6	4.6	6.0	8.2	9.3

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

1/ Including official transfers.

2/ Includes SDR allocation.

Table 2. Guyana: Balance of Payments

	2007	2008	2009	Projections		
				2010	2011	2012
(In millions of U.S. dollars)						
Current account (incl. official transfers)	-193.0	-253.6	-178.9	-253.1	-210.5	-491.4
Current account (excl. official transfers)	-204.6	-305.1	-220.3	-276.0	-258.4	-538.7
Merchandise trade (net)	-380.9	-507.8	-392.7	-481.6	-536.9	-776.5
Exports (f.o.b.)	681.6	798.4	784.3	844.0	940.0	978.6
Bauxite	101.5	131.1	77.6	117.4	125.5	136.5
Sugar	150.1	133.4	119.8	96.8	134.8	145.5
Gold	153.1	203.7	282.0	328.1	360.0	378.5
Timber	55.4	53.8	41.9	49.2	57.6	60.0
Other	221.5	276.4	263.0	252.5	262.0	258.2
Imports (c.i.f.)	1062.5	1306.2	1177.0	1325.6	1476.9	1755.1
Capital goods	233.6	254.8	219.0	237.9	343.1	538.0
GUYSUCO project	44.0	23.8	6.8	0.0	0.0	0.0
Fuel and lubricants	284.6	406.8	286.5	352.0	379.5	422.4
Other	544.3	644.6	671.4	735.7	754.2	794.8
Services (net)	-110.7	-126.1	-127.2	-133.7	-72.8	-126.8
Net private transfers	287.1	328.8	299.6	339.3	351.2	364.6
Capital and financial accounts	236.3	333.1	379.8	314.3	378.2	643.3
Capital account 1/	363.0	12.5	0.0	0.0	0.0	0.0
Financial account	-126.7	320.6	379.8	314.3	378.2	643.3
Nonfinancial public sector (net)	-245.1	137.0	147.9	125.7	167.0	219.3
Net official transfers	38.0	74.4	73.4	47.9	63.2	90.7
Net official borrowing	-279.4	120.0	91.9	119.2	159.8	178.7
Other public sector (net) 2/	-3.6	-57.3	-17.4	-41.3	-56.1	-50.1
Private sector (net)	118.4	183.5	232.0	188.6	211.3	424.0
Foreign direct investment (net)	153.8	178.0	164.0	154.0	166.3	389.5
Portfolio investment (net)	-38.7	1.1	44.0	42.0	21.0	10.5
Other (net) 3/	3.3	4.4	24.0	-7.4	24.0	24.0
Errors and omissions, and short-term flows	-1.2	16.9	3.5	0.0	0.0	0.0
Overall balance	30.5	44.8	163.0	38.3	119.8	104.5
Financing	-30.5	-44.8	-163.0	-38.3	-119.8	-104.5
Bank of Guyana net foreign assets	-37.3	-44.8	-163.0	-38.3	-119.8	-104.5
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	6.8	0.0	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)	-11.1	-13.2	-8.8	-11.4	-8.8	-18.6
net of Skeldon (in percent of GDP)	-8.3	-11.6	-8.5	-11.4	-8.8	-18.6
Gross international reserves	312.6	355.9	627.5	664.3	776.7	869.5
(in months of imports of goods and services)	2.9	2.7	5.1	4.8	5.1	4.9
Oil price assumption (US\$/b)	72.5	97.0	61.8	76.2	78.8	82.3
HIPC and MDRI debt service relief	72.5	56.5	58.3	56.5	55.9	54.7
GDP (US\$ million)	1739.0	1916.3	2030.1	2220.7	2397.6	2637.0
(Annual percent change)						
Exports of goods	16.5	17.1	-1.8	7.6	11.4	4.1
Imports of goods	20.1	22.9	-9.9	12.6	11.4	18.8
Terms of trade	3.2	-1.1	18.4	1.3	-0.1	0.4

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

	2007	2008	2009	Projections		
				2010	2011	2012
(In percent of GDP)						
Revenue	24.4	21.7	24.4	24.1	27.3	25.2
Central government	22.8	21.2	23.0	23.4	25.4	24.0
Tax revenue	22.0	20.2	21.6	22.4	21.3	21.4
Non-tax revenue	0.9	0.9	1.4	1.0	1.0	1.1
GRIF	0.0	0.0	0.0	0.0	2.9	1.5
Capital revenue	0.0	0.1	0.0	0.0	0.0	0.0
Public enterprises	1.5	0.5	1.4	0.6	1.9	1.2
Expenditure (excluding Skeldon)	30.2	29.7	31.3	30.4	33.9	32.3
Current expenditure	18.4	19.9	19.5	19.4	19.5	19.7
Wages and salaries	6.2	6.1	6.3	6.3	6.4	6.3
Other goods and services 1/	5.8	6.2	6.3	6.2	6.4	6.4
Transfers	4.6	6.0	5.3	5.1	5.1	5.5
Interest 2/	1.8	1.7	1.6	1.7	1.6	1.6
Domestic	0.9	0.8	0.8	0.9	0.8	0.7
External	0.9	0.9	0.8	0.9	0.8	0.9
Capital expenditure (excluding Skeldon)	11.8	9.7	11.9	11.0	14.4	12.6
External PSIP	6.8	5.4	4.1	3.9	4.5	7.2
GRIF Projects	...	...	...	...	2.9	1.5
Local PSIP	5.4	3.9	6.3	5.3	4.2	2.7
Public enterprises	-0.3	0.4	0.7	1.5	2.2	1.3
PetroCaribe projects	...	...	0.8	0.4	0.6	0.0
Overall balance before grants (excluding Skeldon)	-5.8	-8.0	-6.9	-6.3	-6.6	-7.2
Grants 3/	3.2	4.2	4.2	2.6	3.2	3.9
Overall balance after grants (excluding Skeldon)	-2.7	-3.8	-2.7	-3.7	-3.4	-3.2
Capital expenditure on Skeldon	2.2	1.0	0.6	0.6	0.2	0.0
Overall balance after grants	-4.9	-4.7	-3.4	-4.3	-3.5	-3.2
Financing	4.9	4.7	3.4	4.3	3.5	3.2
Net foreign financing 2/	5.5	6.8	4.9	5.9	7.0	6.4
Net domestic financing 4/	0.5	0.5	-0.7	0.3	-0.9	-1.3
PetroCaribe savings	-1.1	-2.6	-0.9	-1.9	-2.6	-1.9
Memorandum items:						
NPFS wage bill	12.2	11.5	11.1	10.9	11.0	10.5
Total capital expenditure	14.1	10.7	12.5	11.7	14.5	12.6
Current balance before grants	6.0	1.7	4.9	4.7	7.8	5.4
Primary balance (excluding Skeldon)	-0.9	-2.1	-1.2	-1.9	-1.8	-1.7
Nominal GDP at market prices (G\$ billion)	352.2	391.5	413.1	452.5	489.6	543.8

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

	2007	2008	2009	Projections		
				2010	2011	2012
(In billions of Guyanese dollars, end of period)						
I. Bank of Guyana						
Net foreign assets	44.7	54.2	86.8	94.9	119.5	142.2
Foreign assets	63.6	73.0	127.7	135.4	158.6	178.9
Foreign liabilities 1/	-19.0	-18.8	-40.9	-40.6	-39.1	-36.6
Net domestic assets	-14.9	-19.7	-48.4	-52.7	-73.9	-91.6
Of which:						
Credit to public sector (net) 1/	-38.6	-18.5	-36.4	-65.8	-65.8	-65.8
Liabilities to commercial banks	-24.7	-23.6	-34.7	-37.3	-40.7	-45.7
Other items (net)	51.9	39.5	41.3	79.4	61.7	48.9
Currency in circulation	29.8	34.6	38.4	42.1	45.6	50.6
Base money	51.1	54.9	68.4	78.8	86.9	97.0
Of which: Excess reserves	1.3	1.1	1.6	4.9	4.3	3.6
II. Monetary Survey						
Net foreign assets	83.1	94.1	116.1	129.3	149.6	167.7
Bank of Guyana 1/	44.7	54.2	86.8	94.9	119.5	142.2
Commercial banks	38.5	39.9	29.2	34.4	30.1	25.4
Net domestic assets	80.3	90.0	86.1	93.6	94.9	104.2
Credit to public sector (net) 1/ 2/	-19.1	-18.5	-20.4	-30.3	-33.6	-39.5
Private sector credit	73.3	89.3	95.1	104.4	116.0	126.5
Other items (net)	26.0	19.2	11.3	19.5	12.5	17.1
Broad money	163.4	184.2	202.2	222.9	244.5	271.9
(Percentage change, 12-month basis)						
Net foreign assets	49.9	13.3	23.3	-9.0	15.7	12.1
Net domestic assets	-9.1	12.1	-4.4	55.8	1.4	9.8
Domestic credit	5.6	30.4	5.6	21.3	11.2	5.7
Of which:						
Private sector credit	18.7	21.8	6.5	10.7	11.0	9.1
Business sector	7.7	24.9	2.3	...	...	...
Household sector	35.9	2.4	-4.7	...	...	...
Mortgage sector	31.0	33.6	24.4	...	...	...
Other sectors	13.4	27.0	-5.0	...	...	...
Public sector net	-83.6	2.7	-9.8	8.8	-10.6	-17.6
Broad money	13.6	12.7	9.8	10.3	9.7	11.2
(Contribution to changes in base money, 12-month basis)						
Base money	6.6	7.5	24.7	15.1	10.3	11.6
Net foreign assets	16.8	18.7	59.4	11.7	31.3	26.2
Other including net credit to public sector	-10.2	-11.3	-34.7	3.4	-21.0	-14.6
(In million of U.S. dollars, unless otherwise indicated)						
Memorandum items:						
Bank of Guyana's net foreign assets 1/	219.5	264.2	427.3	465.5	585.3	689.9
Commercial banks' net foreign assets	188.9	194.5	143.9	171.3	147.3	123.3
Money multiplier	3.2	3.4	3.0	2.8	2.8	2.8
Income velocity of broad money	2.2	2.1	2.0	2.0	2.0	2.0
Excess reserves (ratio to required reserves)	0.1	0.0	0.1	0.2	0.1	0.1
Average lending rates, in percent	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)

	2007	2008	2009	Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Financing requirement	620	372	391	330	398	666	637	556	428
External current account deficit (excludes official transfers)	205	305	220	276	258	539	578	546	334
Debt amortization	379	24	-101	17	28	35	39	44	48
NFPS amortization 1/	379	22	8	15	20	23	28	32	38
Bank of Guyana amortization 2/	0	2	-109	1	7	12	12	12	10
<i>Of which:</i>									
IMF net credit	0	0	0	1	7	12	12	12	10
Gross international reserves (increase = +)	37	43	272	37	112	93	20	-34	46
Available financing	620	372	391	330	398	666	637	556	428
Capital transfers (MDRI)	363	13	0	0	0	0	0	0	0
Official transfers	38	74	73	48	63	91	69	46	35
NFPS loans	99	142	100	135	180	202	205	127	74
Other public sector net 3/	-4	-57	-17	-41	-56	-50	-65	-60	24
Private sector (net) 4/	117	200	235	189	211	424	429	444	295
Exceptional financing	7	0	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 SDR allocation of US\$108.6 million

3/ Includes the unspent portion of PetroCaribe financing

4/ 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)

	2007	2008	2009	Projections					
	2010	2011	2012	2013	2014	2015			
Financial indicators									
Public sector debt-to-GDP 1/	60.0	61.6	60.5	61.2	62.1	61.4	61.4	61.6	60.8
NPV of public sector debt-to-GDP 1/	41.6	41.1	48.0	48.2	48.3	47.0	46.8	47.6	47.7
NPV of public sector debt-to revenue 1/	152.3	158.9	170.4	180.3	158.2	161.5	167.8	173.6	173.8
Share of nonperforming loans in total loans	10.7	9.5	8.3	...	...	...	...	...	...
Share of nonperforming loans to total assets	3.7	3.6	3.0	...	...	...	...	...	...
Loan loss provisions to nonperforming loans	54.2	49.3	53.8	...	...	...	...	...	...
Risk-based capital-asset ratio (end of period)	15.0	14.9	18.3	...	...	...	...	...	...
Return on assets	2.4	2.3	2.7	...	...	...	...	...	...
Three-month T-bill rate (end of period)	3.9	4.2	4.2	...	...	...	...	...	...
CPI-inflation (end of period)	14.0	6.4	3.7	4.4	4.4	5.4	5.4	5.4	5.4
External indicators									
Exchange rate (per US\$, end of period)	204.0	205.0	203.3	...	...	...	...	...	...
REER appreciation (12-month basis, -=appreciation)	-2.9	-0.3	-6.5	...	...	...	...	...	...
Current account balance-to-GDP	-11.1	-13.2	-8.8	-11.4	-8.8	-18.6	-18.5	-16.5	-9.2
Gross official reserves (in millions of U.S. dollars)	312.6	355.9	627.5	664.3	776.7	869.5	889.3	855.5	901.4
Gross official reserves in months of imports 2/	2.9	2.7	5.1	4.8	5.1	4.9	4.8	4.4	4.9
Gross official reserves to short-term external public sector debt	2,228.0	2,950.6	5,021.5	3,449.0	2,513.3	2,273.0	2,072.0	1,777.4	1,739.0
External public sector debt to GDP 1/	41.6	43.7	45.4	47.3	50.2	51.9	53.4	52.3	50.9
NPV of external public debt (in millions of U.S. dollars) 1/ 3/	422.8	556.1	667.1	761.9	870.9	989.1	1,116.1	1,183.4	1,224.9
NPV of external public sector debt to exports 1/ 3/	49.2	57.4	69.1	72.4	70.6	78.6	84.0	82.9	80.1
NPV of external public debt-to-central government revenue 1/ 3/	107.0	134.0	136.8	142.5	133.0	149.0	154.4	149.4	144.9
NPV of external public debt-to-GDP 1/ 3/	24.3	29.0	32.9	34.3	36.3	37.5	38.8	38.3	37.9
Memorandum item:									
Public sector debt-to-GDP excluding unspent PetroCaribe 1/ 4/	58.9	57.7	56.0	55.1	54.6	52.4	50.3	49.5	50.1

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 threshold.

4/ Excluding the unspent portion of PetroCaribe in 2007-15.

Table 7. Guyana: Medium-Term Macroeconomic Framework

	2007	2008	2009	Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Annual percent change)								
Production and prices									
Real GDP	7.0	2.0	3.3	3.4	4.8	6.0	6.1	5.0	2.7
Consumer prices (average)	12.2	8.1	3.0	3.7	4.7	4.9	5.4	5.4	5.4
Consumer prices (end of period)	14.0	6.4	3.7	4.4	4.4	5.4	5.4	5.4	5.4
Terms of trade	3.2	-1.1	18.4	1.3	-0.1	0.4	0.4	1.1	1.8
	(In percent of GDP)								
National accounts									
Investment	20.7	19.0	16.5	17.5	20.7	30.2	30.4	26.5	21.8
Private sector	6.6	8.4	4.0	5.8	6.1	17.5	17.7	13.6	8.8
Public sector	14.1	10.7	12.5	11.7	14.5	12.6	12.7	12.9	12.9
National saving	9.6	5.8	7.7	6.1	11.9	11.5	11.9	10.0	12.5
Private sector	2.4	1.3	0.5	0.0	1.9	4.1	4.2	2.1	4.2
Public sector	7.2	4.5	7.2	6.1	10.0	7.4	7.7	7.9	8.3
External savings	11.1	13.2	8.8	11.4	8.8	18.6	18.5	16.5	9.2
Nonfinancial public sector									
Central government revenue and grants	27.5	25.9	28.6	26.7	30.5	29.1	27.9	27.4	27.5
Tax revenue	22.0	20.2	21.6	22.4	21.3	21.4	21.8	21.8	21.8
Non-tax revenue	0.9	0.9	1.4	1.0	1.0	1.1	1.1	1.1	1.1
GRIF	0.0	0.0	0.0	0.0	2.9	1.5	1.4	1.6	1.5
Capital revenue	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Grants 1/	3.2	4.2	4.2	2.6	3.2	3.9	2.8	1.8	1.3
Public enterprises operational balance	1.5	0.5	1.4	0.6	1.9	1.2	0.9	1.2	1.7
Expenditure	32.4	30.6	32.0	31.0	34.1	32.3	31.0	30.4	30.5
Current 2/	18.4	19.9	19.5	19.4	19.5	19.7	19.2	18.9	18.9
Capital	14.1	10.7	12.5	11.7	14.5	12.6	11.9	11.5	11.6
Overall balance (before grants)	-8.1	-9.0	-7.6	-7.0	-6.7	-7.2	-5.9	-4.8	-4.3
Overall balance (after grants)	-4.9	-4.7	-3.4	-4.3	-3.5	-3.2	-3.1	-3.0	-3.0
Financing	4.9	4.7	3.4	4.3	3.5	3.2	3.1	3.0	3.0
Net external financing 2/	5.5	6.8	4.9	5.9	7.0	6.4	5.9	2.9	1.0
Net domestic financing	0.5	0.5	-0.7	0.3	-0.9	-1.3	-0.5	2.0	1.3
PetroCaribe savings	-1.1	-2.6	-0.9	-1.9	-2.6	-1.9	-2.3	-2.0	0.8
Total public sector gross debt (end of period)	60.0	61.6	60.5	61.2	62.1	61.4	61.4	61.6	60.8
External	41.6	43.7	45.4	47.3	50.2	51.9	53.4	52.3	50.9
Domestic	18.3	17.9	15.1	13.9	12.0	9.5	8.0	9.3	9.9
	(In millions of U.S. dollars, unless otherwise indicated; end of period)								
External sector									
Current account balance	-193.0	-253.6	-178.9	-253.1	-210.5	-491.4	-530.9	-511.6	-298.4
Gross official reserves	312.6	355.9	627.5	664.3	776.7	869.5	889.3	855.5	901.4
Months of imports of goods and services	2.9	2.7	5.1	4.8	5.1	4.9	4.8	4.4	4.9
Memorandum items:									
Nominal GDP (G\$ billion)	352.2	391.5	413.1	452.5	489.6	543.8	605.0	666.7	721.7
Per capita GDP, US\$	2,277	2,497	2,637	2,875	3,095	3,394	3,691	3,956	4,125
Guyana dollar/U.S. dollar (period average)	202.5	204.3	203.5	...	...	...	...	...	...
PetroCaribe loans savings (stock, in % of GDP)	1.1	3.6	4.6	6.0	8.2	9.3	10.8	12.0	10.7

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.

Table 8. Guyana: Medium-Term Balance of Payments

	2007	2008	2009	Projections					
	2010	2011	2012	2013	2014	2015			
(In millions of U.S. dollars unless otherwise indicated)									
Current account (incl. official transfers)	-193.0	-253.6	-178.9	-253.1	-210.5	-491.4	-530.9	-511.6	-298.4
Current account (excl. official transfers)	-204.6	-305.1	-220.3	-276.0	-258.4	-538.7	-578.0	-546.1	-334.3
Merchandise trade (net)	-380.9	-507.8	-392.7	-481.6	-536.9	-776.5	-818.5	-789.3	-591.0
Exports (f.o.b.)	681.6	798.4	784.3	844.0	940.0	978.6	1021.9	1098.7	1189.4
Bauxite	101.5	131.1	77.6	117.4	125.5	136.5	153.9	170.9	188.2
Sugar	150.1	133.4	119.8	96.8	134.8	145.5	151.7	167.8	192.6
Gold	153.1	203.7	282.0	328.1	360.0	378.5	401.2	429.1	451.0
Timber	55.4	53.8	41.9	49.2	57.6	60.0	61.2	63.4	65.7
Other	221.5	276.4	263.0	252.5	262.0	258.2	253.7	267.4	291.9
Imports (c.i.f.)	1062.5	1306.2	1177.0	1325.6	1476.9	1755.1	1840.3	1888.0	1780.5
Capital goods	233.6	254.8	219.0	237.9	343.1	538.0	509.1	510.6	385.6
GUYSUCO project	44.0	23.8	6.8	0.0	0.0	0.0	0.0	0.0	0.0
Fuel and lubricants	284.6	406.8	286.5	352.0	379.5	422.4	465.5	500.0	388.3
Other	544.3	644.6	671.4	735.7	754.2	794.8	865.8	877.3	1006.5
Services (net)	-110.7	-126.1	-127.2	-133.7	-72.8	-126.8	-138.7	-151.6	-164.6
Net private transfers	287.1	328.8	299.6	339.3	351.2	364.6	379.2	394.8	421.3
Capital and financial accounts	236.3	333.1	379.8	314.3	378.2	643.3	609.6	524.0	390.5
Capital account 1/	363.0	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-126.7	320.6	379.8	314.3	378.2	643.3	609.6	524.0	390.5
Nonfinancial public sector (net)	-245.1	137.0	147.9	125.7	167.0	219.3	180.3	79.6	95.9
Net official transfers	38.0	74.4	73.4	47.9	63.2	90.7	68.6	45.8	34.9
Net official borrowing	-279.4	120.0	91.9	119.2	159.8	178.7	177.1	94.2	36.8
Other public sector (net) 2/	-3.6	-57.3	-17.4	-41.3	-56.1	-50.1	-65.5	-60.4	24.3
Private sector (net)	118.4	183.5	232.0	188.6	211.3	424.0	429.4	444.3	294.5
Foreign direct investment (net)	153.8	178.0	164.0	154.0	166.3	389.5	406.1	421.1	280.3
Portfolio investment (net)	-38.7	1.1	44.0	42.0	21.0	10.5	5.3	5.3	5.3
Other (net) 3/	3.3	4.4	24.0	-7.4	24.0	24.0	18.0	18.0	9.0
Errors and omissions, and short-term flows	-1.2	16.9	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	30.5	44.8	163.0	38.3	119.8	104.5	31.7	-22.1	56.2
Financing	-30.5	-44.8	-163.0	-38.3	-119.8	-104.5	-31.7	22.1	-56.2
Bank of Guyana net foreign assets	-37.3	-44.8	-163.0	-38.3	-119.8	-104.5	-31.7	22.1	-56.2
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/	6.8	0.0	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)	-11.1	-13.2	-8.8	-11.4	-8.8	-18.6	-18.5	-16.5	-9.2
net of Skeldon (in percent of GDP)	-8.3	-11.6	-8.5	-11.4	-8.8	-18.6	-18.5	-16.5	-9.2
Gross international reserves	312.6	355.9	627.5	664.3	776.7	869.5	889.3	855.5	901.4
(in months of imports of goods and services)	2.9	2.7	5.1	4.8	5.1	4.9	4.8	4.4	4.9
Oil price assumption (US\$/b)	72.5	97.0	61.8	76.2	78.8	82.3	84.8	86.0	87.5
HIPC and MDRI debt service relief	72.5	56.5	58.3	56.5	55.9	54.7	53.3	51.1	48.5
GDP (US\$ million)	1,739	1,916	2,030	2,221	2,398	2,637	2,876	3,092	3,234
(Annual percent change)									
Exports of goods	16.5	17.1	-1.8	7.6	11.4	4.1	4.4	7.5	8.3
Imports of goods	20.1	22.9	-9.9	12.6	11.4	18.8	4.9	2.6	-5.7
Terms of trade	3.2	-1.1	18.4	1.3	-0.1	0.4	0.4	1.1	1.8

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. GUYANA: THE LOW CARBON DEVELOPMENT STRATEGY (LCDS)

The Guyanese economy is on the cusp of major changes, led in part by the government's LCDS. In exchange for performance-based annual payments for forest services, Guyana will lower carbon emissions and enhance forest preservation in four phases between 2009 and 2020. The LCDS is projected to help raise the GDP growth, government revenue, employment, and foreign exchange earnings of Guyana.

1. **After a period of successful stabilization, Guyana is now focused on achieving rapid economic transformation.** Traditionally, economic activity has been driven by agriculture and mining, with a heavy dependence on imported fuels to generate energy, thereby exposing the economy to oil price volatility. Further sustained economic transformation is being constrained by insufficient investments in infrastructure, limited human capital and inadequate social services, which are barriers to private sector investment. Under the current development model, Guyana can secure the requisite development resources by fully exploiting its vast forest reserves and associated mineral deposits, but at a high environmental cost.¹ This model is, however, no longer viewed as a sustainable or a preferred transformation option in the context of the global dialogue on climate change and Reduced Emissions from Deforestation and Degradation (REDD) mechanism.
2. **The LCDS provides a sustainable mechanism for Guyana to leverage its vast forest reserves to fund economic transformation.** Under the LCDS, Guyana will receive annual performance based payments for reducing carbon emissions by preserving its forest. The current proposal envisages implementing the LCDS over four phases from 2009 to 2020 (Table 1). Over that period of time, payments, mainly funded initially by the international public sector, would be made annually up to the phase when these payments would be market based and be matching or exceeding the Estimated Value to the Nation (EVN) (US\$580 million annually) of the forest reserve.
3. **Consistent with the LCDS, the Governments of Norway and Guyana have pioneered a model of trading in environmental services at the global level.** Under the terms of a memorandum of understanding (MOU between Guyana and Norway, 2009), Norway has pledged up to US\$250 million, over five years, as payments for forest services. To facilitate payments, a trust fund—Guyana REDD-Plus Investment Fund (GRIF)—administered by the World Bank has been established and will receive and disburse these and other funds to projects identified under the LCDS through the IDB. The annual expected disbursement from the GRIF, starting in 2010, is US\$50 million. Annual payments will be made after Guyana's forest preservation performance is independently assessed and verified against agreed benchmarks.

¹ The Economic Value to the Nation (EVN) of the forest estate is estimated to be the equivalent of an annual annuity payment of US\$580 million, (LCDS).

4. **A verification mechanism has been agreed between Norway and Guyana for the use of funds.** The mechanism has several aspects, but all guided by a Multi-Stake Holder Steering Committee (MSHSC) comprising representatives of Guyana and Norway, which will choose projects for funding and monitor disbursements. Under this mechanism the World Bank would act as trustee for the funds, and will disburse funds for approved projects once directed by the MSHSC. The disbursements and project implementation will be managed by the IDB. The approval and disbursement of funds would be in line with Guyana's national legal framework, and fiduciary and operational policies of the World Bank. The trustee would also be responsible for ensuring certain safeguards—including fiduciary, social, economic and environment are in place, while the Ministry of Finance of Guyana will be responsible for the execution of the GRIF's operations. As such, these resources would be governed by the relatively strong PFM framework currently operational in Guyana. In addition to these, the Guyana/Norway agreement provides for the creation of a monitoring, reporting and evaluating system (MRVS),² which will assess Guyana's performance relative to the environmental benchmarks. These arrangements are governed by the applicable domestic laws and procedures in Guyana.

5. **The LCDS has five economic pillars:** (i) low carbon economic infrastructure—renewable energy—hydro power, solar, biogas—access to non-forested land and underutilized land, improved bandwidth; (ii) developing high potential low-carbon sector—fruits and vegetables, aquaculture, and ecotourism; (iii) reforming the existing forest dependent sectors to ensure forest sustainability; (iv) enhancing human capital; and (v) improving the environment for doing business. Of these, the low carbon infrastructure projects—hydropower, fiber optic cable/technology park, drainage, irrigation, and road construction—are pivotal to the overall success of the LCDS. Low carbon infrastructure projects are estimated to cost approximately US\$1 billion.

6. **In line with the pillars of the LCDS, the initial payments from Norway will be used to fund the following seven activities:** (i) government equity in the Amaila Falls Hydro Electricity Company; (ii) Amerindian Development Fund; (iii) accelerating Amerindian land titling, demarcation and extension processes; (iv) expansion of fiber optic digital infrastructure; (v) micro-finance for small and medium enterprises and vulnerable groups' low carbon development; (vi) initial work to establish an international centre for biodiversity research and low carbon development; (vii) development of a monitoring, reporting and verification system for the LCDS.

² Apart from the MRVS and the GRIF, Guyana is developing three additional (new or enhanced) institutions to manage various aspects of the LCDS. First, an office of climate change, which will coordinate engagement with multilateral processes and negotiations, including the UNFCCC. Second, a low carbon strategy project management office to steer key projects as part of the LCDS. And third, a strengthened environmental protection agency to ensure that local social and environmental safeguards meet international standards.

7. **The impact of the LCDS on growth and economic activity would be twofold.**

First the direct impact of the payments for forest services from Norway, if fully invested in transforming the economy, should add approximately 0.4 percent additional GDP growth a year. The more significant and long lasting impact would be the dynamic effects of these investments, aimed at transforming the economy.

The Direct Growth Impact of the Norway Payments under the LCDS					
	2011	2012	2013	2014	2015
Annual Payments from Norway (USDm)	70.0	40.0	40.0	50.0	50.0
Investment to GDP	3.1	1.8	1.8	2.2	2.5
ICOR	5.4	5.4	5.4	5.4	5.4
Growth Impact (in percent)	0.6	0.3	0.3	0.4	0.5

8. **Guyana anticipates that higher employment, government revenues and foreign exchange earnings will result from the LCDS.** Over a period of three years, the activities identified by the LCDS—tropical fruits and vegetables, aquaculture, lumber value chain—with a projected initial investment of US\$215 million, are expected to boost exports by approximately US\$950 million; increase government revenue by US\$190 million; create an additional 32,000 jobs and raise GDP by approximately US\$40 million.

Table 1. Indicative Remuneration for LCDS

Phase	REDD+ Payments Available to Guyana	Description
Phase 1 (2009)		Interim payments to launch the LCDS Includes funding for an MRV system in Guyana
Phase 2 (2010-2015)	<ul style="list-style-type: none"> ▪ Starts at: ~\$60 million ▪ Ramps up to \$230-\$350 million (40%-60% of EVN) 	<ul style="list-style-type: none"> ▪ Transitional funding that will be used for: <ul style="list-style-type: none"> – Capacity building – Investment required to build a low carbon economy – Human capital development
Phase 3 (2013-2020)	<ul style="list-style-type: none"> ▪ Starts at: ~\$230-\$350 million (40%-60% of EVN) ▪ Ramps up to \$580 million (EVN) 	<ul style="list-style-type: none"> ▪ Continued payments to avoid deforestation ▪ Payments will be used for further: <ul style="list-style-type: none"> – Investments in low carbon economy – Capacity building – Climate change adaptation
Phase 4 (2020 onwards)	<ul style="list-style-type: none"> ▪ At or above EVN (>\$580 million) 	<ul style="list-style-type: none"> ▪ “At-scale” REDD mechanism should: <ul style="list-style-type: none"> – Provide incentives at or above EVN – Account for increasing value of the forests

Source: LCDS, Exhibit 2.

ATTACHMENT II. GUYANA: THE AMAILA FALLS HYDRO POWER PLANT (AFHP)

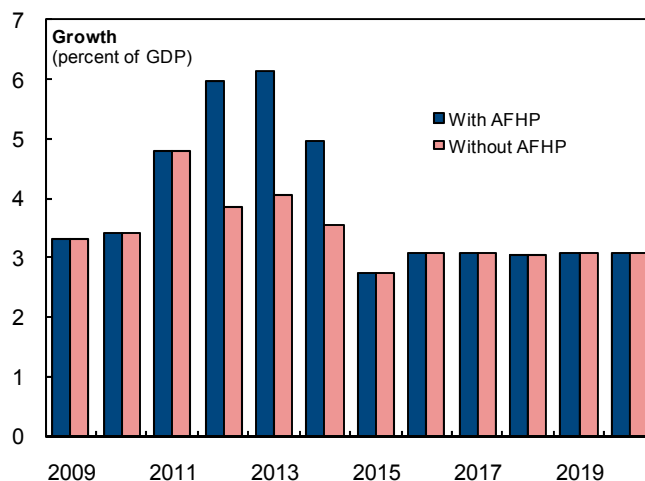
The authorities are pressing ahead with the construction of the AFHP which would lower energy costs and improve energy reliability as it replaces outdated fuel-based technology with modern hydro-based technology as the main source of electricity generation.

1. **Electricity generation in Guyana has been based on outdated technology, using imported high cost fuels.** As a result, electricity supply has been unreliable and at a high cost (32 U.S. cents per Kilowatt hour), causing several private sector entities to install their own generation capacity. The dependence of electricity generation on imported fuels, of approximately US\$90 million a year, has also exposed the economy to the vagaries of international price movements. Guyana Power and Light (GPL) also suffers from an aging distribution network, and weak revenue administration.
2. **The AFHP is a key component of the government's Low Carbon Development Strategy (LCDS).** Energy generation would switch from being based on fossil-fuels to nearly 100 percent clean, renewable sources. Development gains would include eliminating a key barrier to FDI and lower electricity costs. A reduction of 20–40 percent per Kilowatt hour is expected for the tariffs of residential, commercial, and industrial consumers as GPL switches out of oil based to hydro-power based electricity generation. The Government of Guyana would earmark US\$40–60 million of the LCDS-related payments to increase its equity in the project. The AFHP is estimated to cost approximately US\$650 million, equivalent to 30 percent of GDP. Construction is scheduled to commence in the third quarter of 2011 and be completed in 40 months. Upon completion in 2014, the AFHP would cover all the electricity needs of Guyana—approximately 154 megawatts.
3. **The AFHP would be constructed as a Private Sector-Public Sector Partnership (PPP).** A local company—the Amaila Falls Hydro Inc. (AFHI) company—has been established, with shareholdings by Sithe Global (the Sponsor) and GPL. This company would build, and then operate the AFHP for 20 years, after which it would revert to the government. Based on information currently available (the financial arrangement is still under negotiation), the AFHI would contract debt of approximately US\$450 million (70 percent of total project cost) from the Chinese Development Bank and US\$50 million from the IDB. The remainder would come from equity injections by the sponsor and the government, who would contribute by way of the access road to the project site. The project sponsor has been guaranteed a 20 percent rate of return which, according to the IDB, is comparable to similar projects in other low income countries. Under the PPP, the government will absorb the hydrology and political risk, while the sponsor will absorb the risks associated with the construction and operation of the plant.
4. **The central component of the PPP is a Power Purchasing Agreement (PPA) between GPL and the sponsor.** The project is structured as a 20-year “take or pay” PPA through which GPL will purchase 100 percent of the generation capacity for an annual

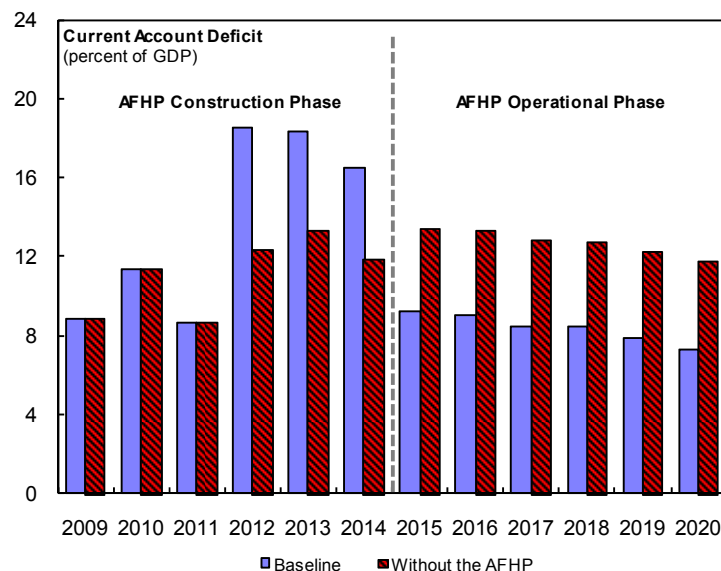
payment of approximately US\$100 million that will help achieve the guaranteed 20 percent return on the sponsor's equity. This arrangement will be collateralized by GPL's receivables. Further, the design of the PPP would allow the government to increase its equity share and, by extension, reduce its obligation to the sponsor.

5. **The AFHP is expected to have a transformational impact on the Guyanese economy, but also poses large fiscal risks, should it fail to deliver the promised benefits.** Among the likely benefits and potential costs would be the following:

- **Growth:** During construction (2012–14), the project is likely to add cumulatively 6 percentage points of real GDP growth. Further economic gains, once the project is completed, would depend on the adopted tariff structure, and the impact of this on total factor productivity and capital accumulation and its quality. Based on current information, it is expected that the AFHP would eventually result in a 20–40 percent reduction in the cost of generation as the switch from oil to hydro takes hold; the precise extent of the pass-through of these savings to the end-user would depend on the PPA and its impact on GPL's operational balance (see below).



- **Balance of Payments:** Imports are expected to increase between 2012 and 2014 as the FDI flows are used to purchase materials and equipment, widening the external current account deficit to some 16–18 percent of GDP. Once completed, the project is likely to result in a 20 to 25 reduction in fuel imports, as the GPL switches to sourcing its power needs from the AFHP. This would shield the GPL from volatile international oil prices. A key issue, however, is the extent of the displacement that AFHP can provide, as GPL would need to maintain backup generation capacity, which increases with the size of its market, as private self generators purchase cheaper electricity from GPL and stop self generating.



- ***Fiscal Accounts:*** The impact on public finances during the construction stage of the AFHP should be minimal since the government will not participate in the construction process or offer any sovereign guarantee. Moreover, the private contractor will assume any cost overruns. In the event, however, that the government assumes the full obligations of the project, public debt to GDP ratio would rise by 30 percentage points.¹
 - In the baseline scenario, where electricity tariffs are unchanged; GPL's overall balance is projected to show a surplus of about 0.5 percent of GDP in 2015, the year AFHP would start operating.
 - In the alternative scenario, with a tariff reduction of 20 percent offset by an increase in electricity consumption, GPL's overall balance (surplus) falls marginally, to 0.4 percent of GDP. Revenues would remain unchanged (unitary elasticity), and GPL's first payment to the private operator would be a bit higher than the cost of materials and supplies (largely oil imports) in the baseline scenario.² The following table shows the impact on GPL's overall balance assuming different elasticities. In sum, in the alternative scenario, GPL's overall balance is likely to be between 0.0 and 0.4 percent of GDP.³

¹ In this case, the private contractor forsakes its obligations and its debt with CDB and IDB is assumed by the government; a fraction of the \$100 million annual payment made previously to the private contractor will now be used to service the debt.

² GPL's annual payment to the private contractor (initially over \$100 million but declining overtime) is financed with the collections GPL makes on domestic consumers (about \$150 million). Since the amount of electricity provided by the private contractor will exceed demand, it will allow GPL to increase its revenue stream over time despite lower tariffs.

³ Note that a 10 percent increase in oil prices in the baseline scenario could reduce GPL overall balance to 0.2 percent of GDP and bringing about a hike of electricity tariffs for domestic consumers and a negative impact on the current account.

Impact of AFHP on GPL Finances
(In millions of U.S. dollars, unless otherwise indicated)

	Baseline	2015		
		Alternative (AFHP): 20% tariff reduction		
		e = -1.0	e = -0.8	e = -0.6
Total receipts	156.6	156.6	149.5	143.0
Payments	129.7	134.1	134.1	134.1
<i>Of which:</i>				
Materials and supplies	100.6			
GPL payment to AFHP Inc.		105.0	105.0	105.0
Current primary balance	26.9	22.6	15.4	9.0
Interest	0.7	0.7	0.7	0.7
Current balance	26.2	21.9	14.8	8.3
Capital expenditure	9.7	9.7	9.7	9.7
Overall balance	16.6	12.2	5.1	-1.4
(in percent of GDP)	0.5	0.4	0.2	0.0
		2015-30		
Overall balance (in percent of GDP)	0.5	1.0		

Source: Fund staff estimates.

e: elasticity

- Over the long term, as GPL payments to the private contractor decline, demand for electricity rises, the impact on the fiscal accounts is positive; GPL overall balance in 2015–30 is about 1 percent of GDP in the alternative scenario compared with 0.5 percent in the baseline scenario.
- An additional benefit of the project is the potential for additional revenues to the government from the sale of carbon credits from the AFHP of approximately US\$10 million annually.

ATTACHMENT III. GUYANA: SUSTAINABILITY OF THE NATIONAL INSURANCE SCHEME

The mismatch between pension benefits and contributions, and weak reserve management threatens the sustainability of the National Insurance Scheme (NIS). A recent actuarial report has recommended a set of urgent parametric reforms to restore financial viability and reduce fiscal contingencies.

1. **The NIS is a defined-benefit pension arrangement.** It was established in 1960, with membership open to private and public sector workers, and levies contributions that are low relative to benefits (Table 1). The NIS pension system covers only 31½ percent of the employed population. Apart from the NIS, there is a non-contributory, defined benefit, pension scheme for permanent public servants, paid from the government's budget.

2. **The finances of the NIS are unsustainable under current parameters (Table 2).¹** Projections show that after 2011 the NIS will shift from small surpluses to growing deficits, under the following trends and developments:

- The ageing of the participating population, as the number of contributors per pensioner would fall from 8 in 2006 to 2 by the year 2056;
- A relatively high minimum pension, given the low wage environment (the minimum pension is equivalent to approximately 50 percent of the minimum wage in the public sector, or 34 percent of average insurable earnings);
- Large and growing contribution arrears—GUY\$300 million in 2010. Delays in the court system have also denied resources to the NIS (there are currently 90 outstanding court cases worth GUY\$189 million and approximately 189 writs worth GUY\$66.4 million);
- Growing NIS contribution evasion by workers, employers, and the self employed;
- A shortfall of 7.1 percent in the contribution rate required to fund benefits up to 2056. The actual contribution rate, 13 percent, is too low relative to the required contribution rate (20 percent) that would be required to meet the cost of the benefits package up to 2056;
- The size and growth of informal sector activities;
- A relatively low retirement age (60 years);
- Generous growth of annual pensions benefits, driven by the minimum pension adjustment factor, which is not linked to contributions;

¹ The Seventh Actuarial Review of NIS, done for 2006 and issued in 2008, estimates an actuarial deficit of 130 percent of GDP.

- High administrative costs (equivalent to about 15 percent of contribution income, or 0.4 percent of GDP).

3. **A new development, not covered by the actuarial report, is the impact of the CLICO debacle.** The NIS has an investment of the approximately 18.6 percent of its total assets, or 1.3 percent of GDP, in the CLICO conglomerate (currently under judicial management), for which it has been given a guarantee by the government.

4. **In 2008, the 7th Actuarial Review made a number of reform recommendations to restore financial balance and relevance to the NIS.**

- Maintaining the defined benefit structure, but adjusting key parameters—such as gradually raising the retirement age to 65 years, bringing it in line with current life expectancy (66 ½ years); and raising the contribution rate;
- Adopting a specific funding objective over the long-term, such as a reserve that is one or two times annual expenditures, and adjusting contribution rates to achieve it;
- Balancing any increases in old-age pensions benefits with adjustments in other aspects of the provisions that will create savings;
- Removing all gender differences from survivors benefit provisions and allowing children of deceased insured to easily qualify for pensions;
- Improving administrative efficiency and effectiveness;
- Investing assets of the NIS according to the prudential investment framework and the selected funding objectives;
- Publishing the report of the 7th actuarial review and the reform committee and the annual financial statements.

5. **The authorities have taken some actions.** First, in 2006, an NIS Reform Committee was established to provide guidelines on the way forward. Although its recommendations have not been implemented, the NIS has introduced some changes, including: (a) gender equality in the payment of benefits; (b) improved monitoring to ensure that beneficiaries meet the qualifying conditions; and (c) computerization of NIS' records and processes. To fully restore financial balance to the NIS, other important actions, such as raising the retirement age, otherwise restraining the growth of benefits expenditure and increasing the contribution rates over time would have to be taken.

Appendix Table 1. Guyana: Key features of the National Insurance Scheme

Contribution rate	Total of 13 percent 5.2 percent of earning paid by employee 7.8 percent paid by the employer
Minimum contribution period	15 years
Retirement age	60 years of age
Replacement rate	Up to 60 percent of average earnings in the last three years

Sources: Seventh Actuarial Review of the National Insurance Scheme

Appendix Table 2. Guyana: Summary Operations of the National Insurance Scheme

	2010	2011	2012	2013	2014	2015	2020	2025	2030
(In Billions of Guyana Dollars)									
Income	11.3	11.3	11.4	12.0	12.5	13.1	16.2	19.6	22.7
Contributions	9.7	9.8	10.2	10.8	11.4	12.0	15.6	20.3	26.4
Investment income	1.6	1.5	1.1	1.1	1.1	1.1	0.6	-0.8	-3.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Expenditures	10.6	10.7	11.4	12.2	13.1	14.0	19.8	28.0	39.6
Payment of benefits	9.3	9.3	9.9	10.7	11.5	12.3	17.6	25.2	35.9
Other current expenditures	1.3	1.4	1.4	1.5	1.6	1.7	2.2	2.8	3.7
Current surplus or deficit (-)	0.7	0.7	0.0	-0.2	-0.5	-0.9	-3.6	-8.4	-16.9
Capital expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
Overall surplus or deficit (-)	0.6	0.5	-0.1	-0.4	-0.7	-1.0	-3.7	-8.7	-17.2
(Annual percent change)									
Income	11.6	-0.1	0.8	4.8	4.7	4.6	4.2	3.5	2.7
Contributions	8.9	0.6	4.9	5.4	5.4	5.4	5.4	5.4	5.4
Investment income	32.0	-3.7	-25.7	-0.4	-1.5	-3.0	-20.3	93.1	25.7
Other	2.2	-24.9	4.9	5.4	5.4	5.4	5.4	5.4	5.4
Expenditures	12.7	0.6	6.7	7.1	7.1	7.2	7.2	7.2	7.2
Payment of benefits	13.7	0.0	6.9	7.4	7.4	7.4	7.4	7.4	7.4
Other current expenditures	6.1	4.4	4.9	5.4	5.4	5.4	5.4	5.4	5.4
Current surplus or deficit (-)	-1.9	-9.7	-94.9	-779.6	133.1	65.9	23.5	16.7	13.9
Capital expenditure	71.4	-9.7	4.9	5.4	5.4	5.4	5.4	5.4	5.4
Overall surplus or deficit (-)	-9.7	-9.7	-114.9	329.4	88.8	54.2	22.5	16.4	13.8
(In percent of GDP)									
Income	2.5	2.3	2.1	2.0	1.9	1.8	1.6	1.3	1.1
Contributions	2.1	2.0	1.9	1.8	1.7	1.7	1.5	1.3	1.3
Investment income	0.4	0.3	0.2	0.2	0.2	0.2	0.1	-0.1	-0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	2.3	2.2	2.1	2.0	2.0	1.9	1.9	1.9	1.9
Payment of benefits	2.0	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Other current expenditures	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Current surplus or deficit (-)	0.2	0.1	0.0	0.0	-0.1	-0.1	-0.3	-0.6	-0.8
Capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall surplus or deficit (-)	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.4	-0.6	-0.8

Sources: NIS, and IMF staff estimates

ATTACHMENT IV. GUYANA: FINANCIAL SECTOR STABILITY AND REFORMS—PROGRESS SINCE THE FSAP

The authorities are pressing ahead with financial sector reforms, broadening the perimeter of financial regulation and the supervisory authority of the central bank. Prudential sector indicators have improved, but there is a need for continued vigilance.

1. **The authorities' financial reform strategy has focused on two key elements:** (i) strengthening the regulatory framework in line with the 2006 FSAP recommendations; and (ii) expanding the supervisory perimeter of the central bank to cover non-bank financial institutions. These reforms, along with robust economic activity, have led to an improvement in financial stability indicators.¹
2. **Progress on implementing the recommendations of the 2006 FSAP report has been commendable.** Of the 26 recommendations, 12 have already been fully implemented—5 of 13 under the short-term recommendations, 7 of 13 under the long-term recommendations. Of the remaining 8 recommendations, substantial progress has been made on most of the requirements (Table 1).
3. **Specific attention has been given to strengthening the banking sector and widening the regulatory perimeter.** The authorities have issued new guidelines on risk management (including on related-party credit), which are being supplemented with strengthened banking supervision and a tightening in regulations on related-party credit and large exposures, in line with the 2006 FSAP recommendations. In 2010, legislation was passed to bring the supervision of the mortgage bank (NBS) under the central bank. The authorities have also signaled their intentions to strengthen the regulatory framework for the insurance and credit union sectors and to place them under the jurisdiction of the Bank of Guyana.
4. **Efforts are also being made to improve credit market conditions.** As part of Caricom wide program to support the development of the credit market and improve lending conditions, the authorities passed the credit bureau act. Guidelines for their operations are being worked out.
5. **As a result of the ongoing reforms and vigilance, financial sector risks appear contained.** In the banking sector, the nonperforming loan ratio fell to 6.0 percent in September 2010, from 8.3 percent at end-2009. Banks remain liquid and provisioning levels

¹ The financial sector in Guyana comprises six commercial banks and a host of non-bank financial institutions. Three commercial banks are foreign owned, but all non-banks are locally owned. The non-bank financial institutions (NBFI) include depository and non-depository licensed and unlicensed financial institutions. The following institutions comprise the NBFI: The New Building Society, Trust Companies, Finance Companies, Asset management Companies, Pension Schemes, and Domestic Insurance companies.

have improved, albeit from a relatively low base. Although loan concentration and related-party lending to total loans remain a concern, these have declined marginally in 2010, to about 29.8 percent and 3.8 percent, respectively from 35.5 percent and 4.5 percent respectively at end-2009.² Meanwhile, payouts to policy holders of CLICO-Guyana are underway, in line with the authorities' plans to minimize the fiscal costs.

6. The authorities should quickly conclude the implementation of the outstanding FSAP recommendations. Notwithstanding the improvement in banking sector ratios, a sudden downward shift in the business outlook is possible, if commodity prices were to fall suddenly, under performance in the sugar sector were to become entrenched, or fiscal risks associated with the AFHP emerge. Against this background, continued actions to fully and speedily implement all of the FSAP's recommendations, should help Guyana put the financial system in a stronger position to support sustainable growth.

² Bank of Guyana has recently changed the methodology for measuring loan concentration, from "top 20 borrowers to total loans" to "top 20 borrowers to total exposure". Using this measure, loan concentration declined to 23.4 percent in September 2010 from 26 percent in December 2009.

Table 1. Guyana: FSAP Recommendations: Status of Implementation

	THE MAIN FSAP RECOMMENDATIONS	STATUS
	SHORT-TERM OPERATIONAL MEASURES	
Supervision	• Tighten the large exposures limit and definition of connected lending— Amend the Financial Institutions Act (FIA) to tighten large exposures limit, and definition of related party lending, as well as to introduce a time limit for the resolution of bank reorganizations.	No plans at this time to amend the Single Borrower limits. The other matters are under consideration.
	• Improve bank reporting forms, analyze the financial performance of individual banks, and place more emphasis on trend analysis	Done.
	• Change the human resources approach of staff development and rotation in Bank of Guyana (BOG) to account for short staff tenure	Staff complement increased in Bank Supervision Department (BSD). Current staffing is 25 with 2 being recruited in 2010.
	• Publicly disclose the financial reports of all Licensed Financial Institutions (LFIs) and insurers	Done for LFI's. Arrangement being made for publication by insurers.
	• Increase the capacity of insurance supervision and fully monitor all insurer activities.	Insurance Supplementary provisions Act passed in 2009, and the supervision of the insurance sector is now under the purview of the Bank of Guyana.
Monetary and Exchange rate framework	• Greater public dissemination by the BOG of more timely information including through the production of mid-yearly policy statement and greater use of internet	Done.
	• Separate the treasury accounts at BOG that are used for liquidity and for government cash purposes	Discussions ongoing on the appropriate framework to achieve this objective.
	• Start regular consultations between BOG and the Ministry of Finance (MOF) on liquidity and debt management	Initial consultations already started between MOF and BOG. Agreed to have more regular meetings (at least quarterly) led by the Office of the Budget, Ministry of Finance
	• Formulate a crisis-management framework.	Done.
	• Set up a loss-sharing arrangement for the large-value transfer system	In progress. Currently implementing the recommendations of consultancy on the matter
Anti-Money launderi	• Consent to finalization of the CFATF mutual evaluation report prepared by Caribbean Financial Action Task Force (CFATF).	Done.
	• Amend the Money laundering Prevention Act.	Done.
	• Increase the capacity of the Financial Intelligence Unit (FIU).	Ongoing within the context of the Inter-American Development Bank (IDB) Financial Sector Reform Program III.
	LONG-TERM STRUCTURAL REFORM	
Credit Infrastructure	• Establish a Credit Bureau.	Credit Bureau Act has been passed in parliament. Regulations for its implementation are being prepared.
	• Enhance the capacity of the company registrar to enforce company disclosure rules.	Business registration has been computerized and incorporated the records into the Deeds Registry in 2009.
	• Complete the Land Title Program and establish a Single Lands Registry.	Done.
	• Amend the Companies Act to strengthen creditor rights.	Commercial Court established
	• Examine potential for further developing financial instruments that transfer the ownership of the pledged assets such as leasing and collateral trusts.	Done.
	• Encourage developmental partnerships between commercial banks and Micro Financial Institutions (MFIs).	Done.
	• Support automation of payment and transfer mechanisms of pensions and public assistance through the post office corporation.	Phased approach to automation adopted. Significant progress made in automating payment of salaries and pension of the public service through the banking system.
	• Require small scale institutions to register with the BOG for purposes of monitoring (long term).	Done.
Supervision	• Introduce non-zero risk weights and/or provisions on banks foreign security investments in line with their respective sovereign risk ratings.	Under consideration pending the proposed harmonized position of the Caribbean group of Banking Supervisors.
	• Develop and issue minimum and consistent risk management supervisory standards, including risk governance and borrower appraisal techniques.	Done.
	• Bring the New Building Society (NBS) under the formal supervision of the BOG.	Done.
	• Enhance coordination and sharing of information across supervisory agencies by eliminating legal obstacles and explicitly allowing for it in the law.	Significant progress made with the consolidation of supervision under the Bank of Guyana (banks, insurance, money transfer agencies and cambios). Addressing the sharing of information with the Securities Council and the regulator of credit Unions is being undertaken.
	• Improve communication by holding regular (at least quarterly) meetings between the BOG and the Guyana Association of Banks (GAB).	Done.

Sources: Bank of Guyana; and Fund staff estimates.



INTERNATIONAL MONETARY FUND

*Public Information Notice*EXTERNAL
RELATIONS
DEPARTMENT**Appendix I. Draft Public Information Notice**

Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
[February XX, 2011]

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

IMF Executive Board Concludes 2010 Article IV Consultation with Guyana

On [February X, 2011] the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guyana.¹

Background

Despite external and domestic shocks, the Guyanese economy demonstrated resilience and registered a fifth consecutive year of robust growth in 2010. Real GDP expanded by just under 3½ percent, slightly more than in 2009, supported by expansion in the gold and services sectors, which helped offset lower output in the sugar sector. End-year inflation rose to 4.4 percent, from 3.7 percent in 2009, reflecting higher food prices. Although the external current account deficit is estimated to have widened to 11½ percent of GDP, a steady inflow of public external financing was sufficient to finance the deficit and strengthen foreign reserves to the equivalent of 5 months of imports.

In 2010, the overall fiscal balance is estimated to have weakened by close to 1 percentage point of GDP, to 4.3 percent of GDP, due to weak performance in public enterprises, not fully offset by a decline in investment and despite strong central government revenues. Public debt was broadly unchanged, at 61 percent of GDP. Meanwhile, bank prudential indicators have remained stable, with banks generally liquid and well capitalized. In October 2010, the authorities started making payouts to CLICO policy holders, in line with their plans to minimize fiscal costs.

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.

During 2010, structural reforms focused on improving the policy framework and supporting long term growth. In the area of fiscal policy, efforts to improve the Guyana Revenue Authority (GRA) continued. Its new functional organization was consolidated, improving further the integrated tax information system (TRIPS), the profiling of taxpayers, and on-site inspections at the country's ports of entry. In support of long-term growth, the authorities continued their modernization plans in the sugar industry with the reorientation of cane fields to accommodate mechanization. In the financial sector, the authorities passed the Credit Bureau Act, and widened the regulatory perimeter by bringing the New Building Society under the jurisdiction of the Bank of Guyana. On the infrastructure front, major refurbishment and upgrading of the electricity transmission and distribution network, along with the access road to the Amaila Falls hydro power plant project site, have commenced. In the area of statistics, the authorities have signed on to the IMF's GDDS.

Guyana's outlook remains positive for 2011, an election year, and through the medium term. Road projects, construction of a large hydropower plant at Amaila Falls (AFHP), and implementation of the Low Carbon Development Strategy (LCDS) should sustain growth levels above the long-run trend of 3 percent, to around 5 percent over the medium term before tapering off in 2015 as one-off projects are completed. Downside risks include those linked to fiscal pressures arising from lagging productivity in GUYSUCO, the need to strengthen the finances of the National Insurance Scheme (NIS), and a possible fall off in aid commitments.

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

	2007	2008	2009	Projections		
				2010	2011	2012
(Annual percent change)						
Production and prices						
Real GDP	7.0	2.0	3.3	3.4	4.8	6.0
Real GDP per capita	6.7	1.5	3.0	3.1	4.5	5.6
Consumer prices (average)	12.2	8.1	3.0	3.7	4.7	4.9
Consumer prices (end of period)	14.0	6.4	3.7	4.4	4.4	5.4
Terms of trade	3.2	-1.1	18.4	1.3	-0.1	0.4
(In percent of GDP)						
National accounts						
Investment	20.7	19.0	16.5	17.5	20.7	30.2
Private sector	6.6	8.4	4.0	5.8	6.1	17.5
Public sector	14.1	10.7	12.5	11.7	14.5	12.6
National saving	9.6	5.8	7.7	6.1	11.9	11.5
Private sector	2.4	1.3	0.5	0.0	1.9	4.1
Public sector	7.2	4.5	7.2	6.1	10.0	7.4
External savings	11.1	13.2	8.8	11.4	8.8	18.6
Nonfinancial public sector						
Revenue and grants	27.5	25.9	28.6	26.7	30.5	29.1
Expenditure	32.4	30.6	32.0	31.0	34.1	32.3
Current	18.4	19.9	19.5	19.4	19.5	19.7
Capital	14.1	10.7	12.5	11.7	14.5	12.6
Overall balance (after grants) 1/	-4.9	-4.7	-3.4	-4.3	-3.5	-3.2
Total public sector gross debt (end of period)	60.0	61.6	60.5	61.2	62.1	61.4
External	41.6	43.7	45.4	47.3	50.2	51.9
Domestic	18.3	17.9	15.1	13.9	12.0	9.5
(Annual percentage change, end of period)						
Money and credit						
Broad money	13.6	12.7	9.8	10.3	9.7	11.2
Domestic credit of the banking system	5.6	30.4	5.6	21.3	11.2	5.7
Public sector (net)	-83.6	2.7	-9.8	8.8	-10.6	-17.6
Private sector	18.7	21.8	6.5	10.7	11.0	9.1
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
External sector						
Current account balance 1/	-193.0	-253.6	-178.9	-253.1	-210.5	-491.4
Gross official reserves 2/	312.6	355.9	627.5	664.3	776.7	869.5
Months of imports of goods and services	2.9	2.7	5.1	4.8	5.1	4.9
Memorandum items:						
Nominal GDP (G\$ billion)	352.2	391.5	413.1	452.5	489.6	543.8
Per capita GDP, US\$	2,277	2,497	2,637	2,875	3,095	3,394
Guyana dollar/U.S. dollar (period average)	202.5	204.3	203.5	...	...	...
PetroCaribe loans savings (stock, in % of GDP)	1.1	3.6	4.6	6.0	8.2	9.3

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

1/ Including official transfers.

2/ Includes SDR allocation.