

Statement by Mr. Kafka on Guyana
Executive Board Meeting 92/154
December 21, 1992

My Guyanese authorities would like to thank the staff for their very valuable contribution to the discussions and negotiations that have framed the economic policies of both the past and present administration.

Since the introduction of the Economic Recovery Program in mid-1988, Guyana has radically adjusted its economy through far-reaching measures that sought to address its macroeconomic imbalances and to put the economy on a path to sustainable growth. To date the achievements have been remarkable considering the relatively hostile global environment during the period of implementation. Only recently, Guyana completed a transfer of power from one regime, that had been in power for over 28 years, to the present administration. My new authorities have wasted no time in addressing themselves to the challenges of the adjustment process, a fact reflected in their Memorandum on Economic and Financial Policies and in the updated PFP.

The 1991-1992 program

After rebounding to 6.0 percent in 1991, real GDP growth is projected to be 6.5 percent in 1992 and during the period January-June 1992, Guyana overperformed on all its financial performance criteria and observed all but one of its structural benchmarks.

In the fiscal sector, central government revenue grew substantially reflecting higher corporate incomes recorded in 1991. In the rest of the public sector there was also a strengthening in the revenue outturn. Revised forecasts now expect the overall public sector deficit to be 85 percent of its original targeted level by end-1992.

In the monetary sector, private sector savings increased substantially while credit expansion to the non-financial public sector was less than anticipated resulting in a better than programmed net foreign assets position of the banking system. The increase in private sector savings reflected the impact of positive real interest rates, greater confidence in the economic policy framework, particularly as regards inflation and the continued relative stability of the exchange rate. There was also a substantial overperformance with respect to gross international reserves of the Bank of Guyana which are now expected to increase by US\$23 million during 1992.

Structural reforms which have been critical to maintaining the momentum of Guyana's adjustment program continued in 1992. My authorities ensured

that there were no restrictions in the cambio market and continued to conduct official market transactions based on the rates existing in that market. Prices continued to be freely determined, with the exception of sugar and electricity prices. The absence of the former need for large discretionary price adjustments, together with sound monetary policy, resulted in a further slowdown in the rate of inflation during the year. Furthermore, my authorities initiated a household survey in May 1992 with a view to restoring the publication of a consumer price index by the third quarter of 1993.

The exercise to simplify and reform the tax regime continued in 1992. One area of slippage, however, was with respect to the strengthening of tax administration and the computerization of the Inland Revenue Department. My authorities regret the slow pace of implementation of this IDB-financed project which partly reflected difficulties between the IDB and the UNDP which is the executing agency for the project. They believe that in 1993 the difficulties encountered in the previous year will be overcome.

In the public sector, adjustments were made to electricity prices and external consultants were hired to strengthen the managerial capacity of the G.E.C. In addition, after protracted discussions with the creditors of Guymine, my authorities initiated their own financial restructuring plan for the company and this included a management contract with a foreign corporation. During the year, they also concluded a debt-buyback arrangement which has eliminated all outstanding obligations to commercial banks.

The divestment program also continued in 1992 with the divestment of two additional entities. My new authorities have expressed their commitment to continuing with the divestment process but wish to bring to bear their own priorities in this exercise. To this end, they intend to produce a document on the future strategy for privatization by March 1993.

1993 and beyond

In the medium term, and as spelled out in the updated PFP 1992-1994, my authorities intend to consolidate and build upon the gains made over the last few years.

Fiscal consolidation will continue. In 1993, the overall deficit of the nonfinancial public sector is expected to decline despite a substantial but necessary increase in capital outlays. This will be achieved partially by continued efforts to strengthen tax enforcement and strong control over current expenditure--including wages--of the central government. Lower interest payments, partly due to the commercial bank debt reduction exercise of 1992, are also expected to contribute to this outcome. In 1994, the combined effects of strengthened revenue and expenditure efforts of the central government and the rest of the nonfinancial public sector are

expected to lead to an even greater reduction in the overall balance of the non-financial public sector.

In the monetary sector, the Bank of Guyana will continue to pursue a flexible interest rate policy, keeping its administered rates in line with the average interest rate determined in the monthly tendering of treasury bills. My authorities, in consultation with the Fund, are giving consideration to broadening the range of monetary instruments to improve the ability of the Central Bank to conduct monetary policy. My authorities view the recent applications for new bank licenses as a positive development and a sign of confidence in the financial sector and intend to implement necessary amendments to the existing financial legislation before processing such applications.

The agenda for structural reforms continues to be substantial. In addition to preparing a new strategy on divestment, my authorities will prepare new legislation in 1993 which will increase the supervisory powers of the Central Bank and widen its financial responsibilities and strengthen its regulatory powers. They will also seek ways to strengthen the links between the cambio and official markets with the aim ultimately of shifting all transactions to the cambio market. My authorities will continue the process of trade liberalization and, in keeping with the other CARICOM member states, will reduce the Common External Tariff on a phased basis from its present level of 0-45 percent to 5-20 percent by January 1, 1997.

The process of addressing the macroeconomic imbalances of the country has had an adverse impact on a large segment of the population particularly the unemployed and the low income earners. My authorities will seek to improve upon the presently established Social Impact Amelioration Program (SIMAP) in order to redress the more devastating effects of the adjustment process. The current resources under SIMAP will be strengthened in 1993 by a World Bank loan to support improvements in social infrastructure. Assistance from the UNDP, the IDB, and the Canadian Hunger Foundation have also been particularly helpful.

Notwithstanding the achievements described, the medium term outlook remains fragile. While the current account deficit is expected to narrow between 1994 and 1998 and gross international reserves to remain at six months of imports, financing gaps in excess of US\$ 40 million per annum will exist. Moreover, as previously rescheduled debt repayments fall due in the latter half of the decade, debt-service repayments, already substantial, are expected to climb to 44 percent of merchandise exports by 1999.

In this context my authorities' attempt to restructure their debt to the Paris Club under enhanced concessions is of critical importance. In addition, having reached agreement with commercial bank creditors in 1992, they are also holding discussions with their largest bilateral creditor, Trinidad and Tobago, in an effort to restructure those debt obligations in the medium term. My authorities have proved in the past their willingness to undergo rigorous adjustment policies in the interest of normalizing their

relationship with their creditors and to set the stage for their own economic recovery. My new authorities have equally committed themselves to continuing the task of the adjustment process. It is, therefore, only fitting that the international community grant Guyana enhanced concessions under the Paris Club.

Mr. Chairman, the commitment to adjustment by my authorities is beyond question but there is little doubt that the success of their efforts is dependent upon the willingness of the international community to provide the required financial support. While many countries have supported the efforts of my authorities in the past, support for which my authorities are grateful, there is much more to be done. My authorities hope that they will be able to count on the catalytic role of this institution and, more importantly, on timely and appropriate financial support from its major members in the immediate future.