DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

EBS/92/191

CONFIDENTIAL

November 25, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Staff Report for the 1992 Article IV Consultation and Request for Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1992 Article IV consultation with Guyana and its request for the third annual arrangement under the enhanced structural adjustment facility. Draft decisions appear on page 39.

This paper, together with the policy framework paper for Guyana (EBD/92/286, 11/25/92), is tentatively scheduled for discussion on Monday, December 21, 1992.

Ms. Jul (ext. 38611) or Mr. Tweedie (ext. 37688) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 1992 Article IV Consultation and Request for Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the Western Hemisphere Department

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, and Treasurer's Departments)

Approved by S. T. Beza and Thomas Leddy

November 24, 1992

Contents | Page

		Page
I.	Introduction	1
II.	Recent Developments and Performance Under the Program	2
III.	The Medium-Term Program	11
	1. Incentive policies	12
	a. Exchange and trade policies	12
	b. Domestic prices	13
	2. The divestment program	13
	3. Fiscal policy	14
	4. Financial sector policies	20
	5. Social policies	23
IV.	External Prospects and Capacity to Repay the Fund	24
	1. Balance of payments prospects in 1992-93	24
	2. Medium-term outlook	29
	3. Capacity to repay the Fund	31
V.	Performance Criteria and Financial and Structural Benchmarks	33
VI.	Staff Appraisal	33

Tables

1.	Projected Fund Position, October 1992-June 1993	2
2.	Performance Under the Fund Arrangement for the Period January-June 1992--Financial Targets	3

Contents | Page

Tables (Concluded)

3.	Implementation of Structural Measures in January-October 1992	4
4.	Selected Economic Indicators	7
5.	Operations of the Nonfinancial Public Sector, 1992	9
6.	Primary Operating Balances of Public Enterprises, 1992	10
7.	Operations of the Public Sector	15
8.	Central Government Operations	16
9.	Primary Operating Balances of Public Enterprises	17
10.	Accounts of the Bank of Guyana	21
11.	Accounts of the Banking System	22
12.	Summary Balance of Payments	25
13.	External Financing Requirements, 1990-94	27
14.	External Public Debt and Debt Service	28
15.	Balance of Payments, 1990-2000	30
16.	Indicators of Financial Obligations to the Fund, 1990-2000	32
17.	Quantitative Limits and Targets for the Period July-December 1992 and January-December 1993 Under the Third ESAF Arrangement	34
18.	Structural Benchmarks Under the Third ESAF Arrangement	35

Appendices

I.	Fund Relations with Guyana	40
II.	Financial Relations of the World Bank Group with Guyana	42
III.	Statistical Issues	43
IV.	Basic Data	45

Attachments

I.	Third Annual Arrangement Under the Enhanced Structural Adjustment Facility	47
II.	Letter of Intent	49
III.	Memorandum on the Economic and Financial Policies of Guyana	50
IV.	Technical Memorandum of Understanding	58

I. Introduction

Discussions for the 1992 Article IV consultation with Guyana, the review of the program supported by the second annual ESAF arrangement, the update of the Policy Framework Paper (PFP) for 1992-94, and an economic program for 1992-93 to be supported by the third annual ESAF arrangement were held in Georgetown during August 6-19, 1992. Subsequently, there was a change in government following national elections on October 5, 1992 and discussions with the new administration on the PFP and an economic program for 1992-93 were held in Georgetown during October 19-23, 1992. 1/ As reflected in the updated PFP and attached Memorandum on the Economic and Financial Policies of Guyana (Memorandum), the new administration endorsed the major elements of the economic program that had been agreed with the previous administration.

A three-year ESAF arrangement in an amount equivalent to SDR 81.5 million (165.7 percent of quota) and the first annual ESAF arrangement thereunder (SDR 46.1 million), and a 12-month stand-by arrangement for an amount equivalent to SDR 49.5 million (100.6 percent of quota) were approved by the Executive Board on July 13, 1990. On June 12, 1992 the Executive Board completed the mid-term review under the second annual ESAF arrangement (EBS/92/84, 5/15/92). 2/ Outstanding Fund credit at end-October 1992 amounted to SDR 113.3 million, or 230.3 percent of quota (Table 1).

In the Memorandum the authorities describe the Government's economic program for 1992-93 in connection with the request for a third annual ESAF arrangement. Upon approval by the Executive Board of Guyana's request, SDR 8.86 million (18 percent of quota) would become available for disbursement.

The 1991 Article IV consultation with Guyana, which is on a standard 12-month cycle, was concluded by the Executive Board on October 30, 1991 (EBS/91/170, 10/1/91 and SUR/91/104). 3/ At that time, Directors commended the authorities on the progress made in the implementation of the economic program and on their determination in maintaining the pace of adjustment. Directors also emphasized that Guyana's adjustment efforts needed to be accompanied by a restructuring of Guyana's debt on highly concessional terms to support the country's return to a viable external position.

1/ The staff team consisted of A. M. Jul (Head), A. Tweedie, J. Gold, E. Lim, and O. Nyawata (all WHD), P. Patrawimolpon and J. Wang (both PDR), and D. Quelch (Assistant-WHD).

2/ Guyana's economic program for 1991-92 was based on an updated PFP for 1991-93 (EBD/91/284, 10/16/91).

3/ Guyana accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement on December 27, 1966. Appendix I provides detailed information on the Fund's relations with Guyana.

Table 1. Guyana: Projected Fund Position, October 1992-June 1993

	1992		1993		Total
	July-Oct.	Oct.-Dec.	Jan.-March	April-June	Jan. 1992-June 1993
	(In millions of SDRs)				
Stand-by transactions (net)	--	--	--	--	--
ESAF transactions (net)	--	8.86	--	8.85	26.56
Disbursements		8.86	--	8.85	26.56
Total Fund credit outstanding (end of period) 1/	113.31	122.17	122.17	131.02	
Under SBA	49.50	49.50	49.50	49.50	
Under ESAF	63.81	72.67	72.67	81.52	
	(As percent of quota)				
Total Fund credit outstanding (end of period) 1/	230.3	248.3	248.3	266.3	
Under SBA	100.6	100.6	100.6	100.6	
Under ESAF	129.7	147.7	147.7	165.7	

Source: IMF Treasurer's Department.

1/ Including credit from administered accounts.

II. Recent Developments and Performance Under the Program

Performance to date in 1992 has been better than was envisaged in the program. 1/ Guyana observed all the quantitative benchmarks for end-June 1992 under the ESAF arrangement, as well as the structural benchmarks relating to the exchange rate, interest rate, pricing policies, the implementation of the divestment program, and measures to improve the management of the electricity company (GEC) (Tables 2 and 3). However, implementation of an IDB-financed project to strengthen tax administration was delayed further pending resolution of issues relating to the hiring of consultants.

Economic activity continued to rebound strongly during the first half of 1992. Real GDP growth for the year as a whole is estimated at 6.5 percent compared with 5 percent in the program (Table 4), mainly because of larger-than-anticipated increases in output of sugar, gold, and timber and notwithstanding lower production of bauxite. Prices increased by an estimated 12 percent during January-September, or broadly in line with the

1/ The program for 1992 referred to in this report is described in EBS/92/84 (5/15/92).

Table 2. Guyana: Performance Under the Fund Arrangement for the Period January-June 1992--Financial Targets

	January-June 1992		
	Program 1/	Adjusted 2/	Prel. Act.
(In millions of Guyana dollars)			
Limit on the net borrowing requirement of the nonfinancial public public sector	4,750	4,771	1,631 3/
Limit on the increase in the stock of domestic public debt	3,950	4,322	1,253 3/
Limit on the increase in the net domestic assets of the Bank of Guyana	4,750	3,917	94
(In millions of U.S. dollars)			
Limit for the loss in the net foreign assets of the Bank of Guyana	35	28	2
Limit for the loss in the gross international reserves of the Bank of Guyana	15	8	-18
Limit on the contracting of public and publicly-guaranteed external debt with a maturity of 12 years or less	5	5	--
Target on the stock of external payments arrears (end of period)	--	--	-- 4/

1/ EBS/92/84 (5/15/92).
2/ Adjusted in accordance with the Technical Memorandum of Understanding (EBS/92/84).
3/ Does not include a residual/float of G$1.5 billion (see Table 5).
4/ For the purpose of measuring compliance with these targets, reschedulable outstanding arrears to nonmultilateral external creditors were deemed to have been rescheduled as of the date of the rescheduling agreement with the Paris Club.

Table 3. Guyana: Implementation of Structural Measures in January-October 1992

		Policy Measures	Implementation Date/Period	Implementation Status
I.	Exchange rate policy			
	(a)	Bank of Guyana to conduct official market transactions on the basis of the cambio rate by averaging quotations of the three largest dealers in the cambio market on the day the transaction takes place.	January-December 1992	Implementation in line with program.
	(b)	Continued avoidance of restrictions in the cambio market.	January-December 1992	Implementation in line with program. Dealers are required to submit only aggregate statistical data on purchases, sales, opening and closing balances, and posted rates.
II.	Pricing policy			
	(a)	Elimination of subsidy on the domestic sale of sugar.	October 1992	Implemented. With the increase in sugar production to a level sufficient to supply both the export and domestic markets as from the second half of 1992, the subsidy effectively was eliminated.
	(b)	Increase electricity tariffs by 10 percent to reduce the operating losses of GEC.	June 1, 1992	Implemented.
	(c)	No new price controls to be introduced.	January-December 1992	Implementation in line with program.
III.	Changes in the tax system			
	(a)	Continue to modify the tax system with the aim of broadening the tax base, improving resource allocation, minimizing disincentives and helping to merge the parallel and official economies.	January-December 1992	Measures introduced in the 1992 Budget included (a) introduction of a single corporate tax rate of 35 percent in place of the previous dual rates of 55 and 45 percent; (b) an increase in the minimum income threshold for payment of personal income tax from G$4,000 to G$6,000 per month; (c) removal of the exemptions of duty and tax payments on vehicles imported by Guyanese who return from abroad and on imports via "barrels"; (d) change of the base year for property tax and capital gains taxes from 1981 to 1991; (e) introduction of a 15 percent withholding tax on dividends and (f) abolition of highway tolls.

Table 3. Guyana: Implementation of Structural Measures in January-September 1992 (Continued)

		Policy Measures	Implementation Date/Period	Implementation Status
	(b)	Simplification and reform of the consumption tax based on the recommendations of a World Bank-funded study that was completed in October 1991.	January-December 1992	Partial implementation. Measures introduced in the 1992 Budget included (a) elimination of the consumption tax on 33 categories of goods deemed to be essential; (b) reduction of the tax rates on cigarettes, tobacco and four categories of petroleum products that previously were taxed at the highest rates; (c) reduction of rates on electronic goods and garments; and (d) rationalization of rates on items considered to be close substitutes, including plywood and lumber.
IV.	Tax administration			
	(a)	Implementation of an IDB-funded project to strengthen tax administration.	June 1992	Not implemented. Initiation of the project has been delayed further by difficulties in hiring consultants.
	(b)	Computerization of the Inland Revenue Department.	June 1992	Behind schedule, reflecting the delay noted above in implementation of the IDB-financed tax administration project.
V.	Public sector reform			
	(a)	Continue program of divesting public enterprises.	January-December 1992	Implementation in line with program. In the first half of 1992 the Government divested the remaining assets of Quality Foods Ltd. and sold the rice mill previously operated by GUYSUCO.
	(b)	Seek agreement with GUYMINE's creditors on a financial restructuring plan that would enable the initial restructuring phase (IRP) for the industry to be initiated.	June 1992	Implemented with some delay. An external management team has been partially in place since May 1992 on the basis of an interim contract. As discussed in paragraph 13 of the Memorandum on Economic and Financial Policies, the Government was unable to reach agreement with GUYMINE's creditors on a financial restructuring plan and subsequently took a series of measures, including assuming GUYMINE's external debt, that would enable the IRP to be initiated.
	(c)	Initiation of IDB action plan to strengthen GEC's managerial, technical and financial capacity.	June 1992	Implemented. The Government has hired 13 consultants to strengthen GEC's managerial capacity and, on this basis, the IDB in July approved the drawdown of the US$15.5 million supplemental loan.

Table 3. Guyana: Implementation of Structural Measures in January-September 1992 (Continued)

		Policy Measures	Implementation Date/Period	Implementation Status
VI.	Financial sector policies			
	(a)	Continued implementation of a flexible interest rate policy based on competitive treasury bill auctions.	January-December 1992	Implementation in line with program. Treasury bill auctions have continued to be held on a monthly basis and the Bank of Guyana has adjusted its administered interest rates in line with the average rate determined in the auctions.
	(b)	Foster greater competition and depth in the domestic financial market.	January-December 1992	Implementation in line with program. The Government has received several applications for commercial bank licences and, prior to processing these applications, has sought technical assistance from the Fund to review the adequacy of existing financial sector legislation and advise on needed amendments. For this purpose, a mission visited Guyana in July 1992.
VII.	External trade system			
	(a)	Continued avoidance of any new exchange and trade restrictions or multiple currency practices.	January-December 1992	Implementation in line with program. Regulations requiring the settlement of hotel bills in foreign exchange by nonresidents were eliminated in April.
VIII.	Statistical issues			
	(a)	Initiate a household expenditure survey with a view to resuming publication of a consumer price index.	June 1992	Implementation in line with program.

Table 4. Guyana: Selected Economic Indicators

	1988	1989	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
	(Annual percentage change)							
Real GDP at factor cost 2/	-2.6	-3.3	-2.5	6.0	5.0	6.5	6.0	5.0
GDP at current prices (market prices)	20.4	80.4	54.9	124.8	32.7	32.7	18.2	12.3
GDP deflator	24.5	86.5	59.0	112.1	26.4	24.6	11.5	6.9
Urban consumer price index								
End of period	51.5	104.7	75.9	81.5	15.0	15.0	10.0	8.0
Period average	39.9	89.7	63.6	105.9	29.0	29.0	12.0	9.0
Terms of trade	-6.2	-3.0	-4.3	-1.1	-5.7	-7.4	-4.8	-1.4
Export volume	-9.6	-6.6	-8.8	17.5	18.0	24.2	11.9	9.7
Import volume 3/	-23.8	-5.9	2.8	-3.4	18.2	11.5	17.5	-1.2
Real effective exchange rate (average)	25.6	-21.0	-29.0	-13.9	...	...	...	...
	(In percent of GDP) 2/							
Gross domestic investment 3/	20.9	22.7	31.7	25.4	29.2	21.6	24.1	17.8
Gross national savings	-5.0	-6.5	-7.1	-4.3	2.9	-2.8	3.4	6.1
Public sector	-26.1	-24.2	-24.1	-15.5	-12.5	-8.1	-4.3	0.2
Private sector 4/	20.3	17.7	17.0	11.2	15.4	5.3	7.7	5.9
Net use of foreign savings	26.7	29.2	38.8	29.6	26.3	24.4	20.7	11.7
Resource balance 3/5/	4.3	5.0	14.3	8.0	7.5	4.3	3.2	-4.2
Net factor payments	22.4	24.2	24.5	21.6	18.8	20.1	17.5	15.8
Gross domestic savings	16.7	17.7	17.4	17.4	21.7	17.3	20.9	22.0
Public sector	-9.8	-6.5	-2.5	1.7	2.3	6.1	8.9	12.3
Private sector 4/	26.5	24.2	19.9	15.7	19.4	11.2	12.0	9.7

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

1/ EBS/92/84 (5/15/92).
2/ At 1988 prices.
3/ Excluding imports and foreign private investment for major gold projects.
4/ Includes public enterprises.
5/ Balance of goods and nonfactor services.

program target of 15 percent for 1992 as a whole. 1/ The value of the Guyana dollar in the cambio market has fluctuated within a range of G$123-126 per U.S. dollar during 1992.

The overall deficit of the nonfinancial public sector was about 70 percent of the programmed level in the first half of the year (Table 5), reflecting mainly higher central government revenues and a better-than-expected financial outcome for the public enterprises (Table 6). The current primary surplus exceeded the program target by about 70 percent and this more than offset higher-than-envisaged public investment outlays.

The stronger revenue performance of the Central Government stemmed from higher corporate income tax receipts, which were more than double the projected level mainly as a result of stronger-than-anticipated growth in corporate income in 1991. 2/ Central Government current expenditures (other than interest) were contained to within 5 percent of the program target. The overperformance of the public enterprises resulted mainly from a better-than-envisaged outcome for the sugar company (GUYSUCO) and Guyana Airways (GAC). Regarding GUYSUCO, revenues were larger than projected because of higher production and exports to the EC market (reflecting mainly a shift to the second quarter of sales that in the program had been envisaged for the fourth quarter), which more than offset the effect of higher-than-anticipated unit costs of production (see below).

Bauxite production dropped to a very low level during the first half of 1992 as the Government sought unsuccessfully to reach an agreement with creditors on a financial restructuring of the bauxite company (GUYMINE). As discussed in paragraph 14 of the Memorandum, the Government issued a legislative order in June 1992 taking over GUYMINE's external debt and splitting the company into two operations (LINMINE and BERMINE). Measures aimed at restoring LINMINE to a viable operation were initiated in October under a management contract with a foreign company (which has been managing the Linden operation on an interim basis since May), with a view to its divestment after an initial restructuring phase (IRP) of 18-24 months. An external financing package for the IRP amounting to about US$17 million was developed with the assistance of the World Bank, with funds expected to be disbursed by early 1993.

1/ There is no published consumer price index. Staff estimates of the inflation rate are based on partial indicators and price data collected by the Statistical Bureau of Guyana. The authorities initiated a one-year household survey in May 1992 and publication of a new consumer price index is expected to begin by the third quarter of 1993. A Fund multi-topic technical assistance mission will visit Guyana in May 1993 in order to identify issues in national income accounts, prices, and external trade for which long-term assistance could be provided.

2/ The corporate income tax rate was reduced to 35 percent from the beginning of 1992, but corporate income for 1991 was still subject to a dual rate tax structure of 45 and 55 percent.

Table 5. Guyana: Operations of the Nonfinancial Public Sector, 1992

(In millions of Guyana dollars)

	January-June 1992		1992	
	Prog. 1/	Prel. Acct.	Prog. 1/	Rev. Prog.
Primary current account	2,590	4,399	10,448	10,501
Central Government 2/	1,180	2,041	2,575	3,322
Revenue	4,815	5,848	10,224	11,872
Expenditure	-3,635	-3,807	-7,650	-8,550
Public enterprises and NIS 3/	1,410	2,357	7,873	7,179
Capital expenditure	-2,591	-3,018	-8,886	-8,325
Overall primary balance	--	1,381	1,562	2,176
Interest obligations	-5,745	-5,472	-12,033	-11,123
Domestic	-1,927	-1,809	-4,032	-3,870
External	-3,818	-3,663	-8,001	-7,253
Overall balance	-5,745	-4,091	-10,471	-8,947
Financing	5,745	4,091	10,471	8,947
External	1,254	543	6,925	3,546
Domestic	3,790	1,251	2,774	3,270
Clearance of central government commercial arrears	-280	-301	-842	-842
Residual/float	--	1,566	--	1,566
Divestment proceeds	982	1,034	1,614	1,407
Memorandum items				
Transfers from rest of the public sector to the Central Government	881	1,299	4,310	4,481
Transfers from Central Government to the public corporations 4/	552	551	1,231	1,391

Sources: Ministry of Finance; State Planning Secretariat; Bank of Guyana; Public Corporations Secretariat; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Excludes transactions with the public enterprises and the NIS.
3/ Excludes transactions with the Central Government.
4/ Reflects transfers to the electricity company (GEC) to cover the current operating deficit and arrears outstanding from 1991 (cash basis).

Table 6. Guyana: Primary Operating Balances of Public Enterprises, 1992 1/

(In millions of Guyana dollars)

	Jan.-June 1992		1992	
	Prog. 2/	Prel. Actual	Prog. 2/	Rev. Prog.
Total operating balance	1,410	2,357	7,873	7,179
Revenue	15,505	16,415	36,072	36,668
Expenditure	14,095	14,058	28,198	29,489
Guyana Sugar Corporation	1,096	1,654	6,437	5,940
Revenue	6,259	7,468	16,661	17,428
Expenditure	5,163	5,814	10,224	11,488
Guyana Mining Enterprise	331	412	991	597 3/
Revenue	4,410	3,507	8,692	7,639 3/
Expenditure	4,079	3,095	7,701	7,042 3/
Guyana Electricity Corporation	-407	-431	-796	-944
Revenue	751	676	1,653	1,473
Expenditure	1,158	1,107	2,449	2,417
Rest of public corporations and National Insurance Scheme	390	722	1,241	1,586
Revenue	4,085	4,764	9,066	10,128
Expenditure	3,695	4,042	7,824	8,542

Sources: Public Corporations Secretariat; Ministry of Finance; and Fund staff estimates.

1/ Including the National Insurance Scheme.
2/ EBS/92/84 (5/15/92).
3/ Reflects combined operations of LINMINE and BERMINE.

The Government has also implemented measures to strengthen the management of GEC through the hiring of 13 external consultants, and on this basis disbursement of a US$15.5 million loan from the IDB to finance restoration of the major power stations commenced in September.

During the first nine months of the year, currency in circulation expanded in line with the program, while private financial savings increased at a much faster pace than envisaged, partly reflecting capital inflows.

Credit to the private sector also expanded at a somewhat faster pace than projected. The average interest rate on three-month treasury bills determined in the monthly auctions declined from 31 percent at end-1991 to 24.5 percent at end-October 1992. 1/

The gross international reserves of the Bank of Guyana increased by US$19 million during the first nine months of 1992 compared with a decline of US$5 million in the program, reflecting mainly higher sugar exports and lower fuel and sugar imports. Agreement was reached with commercial bank creditors on a debt buyback operation (at an average price of 10.4 cents to the dollar) covering both principal and interest in arrears amounting to US$93 million. The operation, which is to be completed in November, is being financed by a grant from the IDA Debt Reduction Facility, and will result in the elimination of all outstanding obligations to commercial banks.

III. The Medium-Term Program

Since the introduction of the Economic Recovery Program (ERP) in mid-1988, Guyana has adopted a far-reaching set of adjustment measures and structural reforms aimed at addressing large domestic imbalances and establishing the basis for renewed economic growth. Guyana has made major progress in terms of reorienting the overall framework of economic policy toward an open, market-based economy, instituting in the process the incentives for production and exports needed to foster an increase in the role of the private sector. Notwithstanding the progress that has been achieved so far, Guyana continues to face major structural problems and internal and external imbalances.

To continue to address these structural problems and imbalances, the Government has prepared--in collaboration with the staffs of the Fund and the World Bank--an updated PFP covering the period 1992-94. 2/ The program is based on real GDP growth of about 5.5 percent a year in 1992-94 and seeks to lower the inflation rate to 8 percent during 1994 and to maintain gross international reserves at the equivalent of about six months of merchandise imports during the program period. The program envisages continued fiscal restraint, further measures to rationalize the operations of the public sector including the continued divestment of public enterprises, an expansion of public investment in infrastructure and measures to address serious skill shortages in the public sector, and the alleviation of poverty.

1/ For a description of the auction system see EBS/91/170 (10/1/91), page 26, and EBS/91/164 (9/25/91), page 8.
2/ EBD/92/286 (11/25/92).

Real GDP is projected to increase by 6.5 percent in 1992 and by 6 percent in 1993. Sugar, gold, timber, other manufacturing (garments), and construction have been leading the recovery in 1992. In turn, and reflecting the effects of investments underway, output in the mining (bauxite, gold, and diamonds) and forestry sectors is expected to increase substantially in 1993 while rice, other manufacturing, and construction are also projected to show continued recovery.

Gross domestic investment is projected to increase from 21.5 percent of GDP in 1992 to 24 percent in 1993 before declining again in 1994, reflecting in part the impact of public investment outlays planned for 1993, including the rehabilitation of LINMINE and GEC, as well as private investments in the timber and telecommunications sectors. 1/ Gross national savings would increase by about 10 percent of GDP during the program period, as a result mainly of the programmed strengthening in the finances of the Central Government and a reduction in net factor payments.

1. Incentive policies

a. Exchange and trade policies 2/

The cambio market continues to expand and the average weekly turnover has risen from about US$6 million in 1991 to about US$9 million in 1992. Spreads between buying and selling rates have generally remained fairly stable at below 2 percent and the market has not been subject to any sustained large movements in the exchange rate over the past year. However, transactions among bank dealers and between the bank and nonbank dealers continue to be quite limited.

The program contemplates the maintenance of the current flexible exchange rate policy (see paragraph 7 of the Memorandum). Primarily in view of the seasonality of sugar export receipts, these and certain other public sector transactions will continue to be channelled through the official market. However, the authorities intend to explore ways to strengthen the links between the official and cambio markets, such as by offering a limited amount of foreign exchange in the cambio market on a regular basis consistent with the foreign reserve targets of the program, with a view ultimately to shifting the remaining transactions in the official market to the cambio market. 3/ Implementation of a flexible exchange rate policy

1/ These ratios are estimated on the basis of data in constant (1988) prices.

2/ For a description of the exchange system see EBS/91/170, pp. 16 and 17.

3/ The Bank of Guyana will continue to quote rates for other CARICOM currencies on the basis of an exchange rate for the Guyana dollar vis-à-vis the U.S. dollar, which will be adjusted every week in line with the rate prevailing in the cambio market.

and avoidance of restrictions on the operations of the cambio market constitute performance criteria under the ESAF.

The program also envisages that the exchange and trade systems will remain free of restrictions following the liberalization measures adopted during the past four years. Import prohibitions have largely been removed and the authorities are exploring the possibility of removing the remaining ones which are limited to nonprocessed meat, poultry, fruit, and processed fruit items. Furthermore, Guyana was party to the recent agreement among the CARICOM member states to implement, commencing January 1, 1993, a phased reduction of the Common External Tariff (CET) rate structure from a band of 0-45 percent at present to 5-20 percent by January 1, 1997. 1/

b. Domestic prices

Market-determined prices, except for sugar and electricity tariffs, will continue to prevail as the main guide to resource allocation. No new price controls will be introduced during the program period. As regards sugar, the subsidy on domestic sales has been eliminated from the third quarter of 1992 as local production is now sufficient to satisfy domestic demand. Electricity tariffs were increased by 10 percent effective June 1, 1992 but substantial transfers to GEC still remain. The authorities are reluctant to consider further increases in electricity tariffs at this time pending the results of current efforts, with the assistance of the IDB, to improve both the reliability of the power supply and GEC's financial and collection procedures. While it is hoped that these measures will contribute to a reduced need for transfers to GEC in 1993, further tariff adjustments probably will be required in order to eliminate these transfers by end-1993 as has been agreed with the authorities.

2. The divestment program

The Guyanese authorities have expressed a commitment to continue the process of privatization of public sector enterprises (paragraph 17 of the Memorandum). However, prior to taking any further action on divestment, the authorities have decided to conduct a major review of the privatization process that will have the objective of defining more clearly the privatization strategy, including the list of enterprises to be privatized, and of making the process more transparent and accountable. A policy document setting out the privatization strategy is to be issued by March 1993. As noted above, the authorities envisage the privatization of LINMINE to take place once the IRP is completed, and also intend to divest BERMINE. As regards GUYSUCO, the authorities intend to review the options for the continued rehabilitation of the sugar industry, including privatization options, and in the meantime will continue with the current management contract for the company (paragraph 17 of the PFP).

1/ See paragraph 27 of the PFP.

3. Fiscal policy

The overall deficit of the public sector (including the Bank of Guyana) for 1992 is projected at 38 percent of GDP compared with 41 percent in the program; the nonfinancial public sector would register an overall deficit of 25.5 percent of GDP compared with 30.5 percent in the program (Table 7). The current primary surplus is expected to be about the same as programmed with a stronger outturn for the Central Government offsetting a weaker performance envisaged for the public enterprises.

The improved outlook for the Central Government reflects significantly higher tax revenues than envisaged previously. Current revenues from the private sector are projected at 34 percent of GDP compared with 29.5 percent in the program (Table 8). In particular, corporate income tax receipts are projected to amount to 9 percent of GDP compared with 5.5 percent in the program, reflecting mainly the overperformance in the first half of the year noted earlier. Noninterest current expenditure would exceed the program projections by about 2 percent of GDP, mainly on account of higher spending on wages and other goods and services. The former reflects larger-than-programmed wage increases provided for certain key groups (notably doctors, lawyers, and university lecturers) during the first half of the year and an additional 12 percent across-the-board increase that was awarded in September and made retroactive to July 1. Based on the across-the-board increases granted in 1992, wages for central government employees are projected to increase on average by about 8 percent in real terms, compared with no change in the program and a decline of 14 percent in 1991.

The current primary surplus of the public enterprises is projected to fall short of the programmed level by about 2.5 percent of GDP (Table 9). This shortfall would result mainly from higher current expenditures by GUYSUCO, which would more than offset increased revenues resulting from higher production. Sugar production for 1992 is now projected at 230,000 tons which would represent a 44 percent increase over 1991, compared with a 33 percent increase anticipated in the program. The higher level of current expenditure by GUYSUCO results from a larger wage increase 1/ and from increased expenditures related to its replanting and refurbishment program, including measures to restore an adequate level of spare parts. Unit production costs would decline from US$420 a ton in 1991 to US$375 a ton in 1992, compared with US$320 a ton in the program. The revised projections for 1992 also incorporate a small deterioration in the surplus of the state-owned bauxite operations, resulting from the delays in initiating the restructuring of GUYMINE noted above, and a lower operating surplus for GEC, but these deviations would be offset by an improved outlook for GAC.

1/ GUYSUCO granted a general wage increase of 22 percent in 1992, only slightly higher than assumed in the program, but there was also a 10 percent reduction in the work week which raised the effective overall increase to about 34 percent.

Table 7. Guyana: Operations of the Public Sector 1/

(In percent of GDP)

	1988	1989	1990	1991	1992 Prog. 2/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
Primary current account	15.5	18.1	16.9	27.9	29.6	29.2	29.0	31.5
Central Government 3/	-4.0	-3.2	2.8	11.1	7.5	9.5	11.3	12.2
Revenue	29.7	25.5	29.0	33.8 4/	29.6	33.9	33.8	34.8
Expenditure	-33.7	-28.8	-26.1	-22.8	-22.2	-24.4	-22.5	-22.6
Public enterprises and NIS 5/	19.3	21.7	14.2 6/	17.6	22.8	20.5	18.4	20.0
Bank of Guyana	0.2	-0.4	-0.2	-0.8	-0.6	-0.9	-0.7	-0.7
Capital expenditure	-18.2	-25.7	-36.8	-23.9	-25.7	-23.8	-29.1	-24.5
Capital transfers	--	--	--	-0.4	--	--	--	--
Overall primary balance	-2.7	-7.6	-19.9	3.6	3.9	5.4	-0.1	7.0
Interest obligations	-31.2	-43.7	-45.5	-48.6	-44.8	-43.7	-36.4	-30.3
Domestic	-11.6	-12.2	-12.0	-9.5	-11.2	-13.0	-11.0	-7.6
External	-19.6	-31.5	-33.5	-39.1	-33.6	-30.7	-25.4	-22.7
Overall balance	-33.9	-51.3	-65.4	-45.0	-40.9	-38.3	-36.5	-23.3
Of which: nonfinancial public sector	-33.9	-51.3	-64.7	-34.7	-30.5	-25.5	-25.1	-12.7
Financing	33.9	51.3	65.4	45.0	40.9	38.3	36.5	23.3
External	19.0	38.6	45.9	11.2	36.1	16.0	28.9 7/	22.8 7/
Domestic 8/	14.9	12.3	12.5	26.4	2.6	20.7	5.9	-0.1
Of which: nonfinancial public sector 8/	10.8	19.8	15.3 9/	-9.4	8.0	13.9	-3.3	-12.8
Net change in arrears	--	--	4.4	-0.8	-2.4	-2.4	--	--
Divestment proceeds	--	0.5	2.5	8.2	4.7	4.0	1.6	0.6
Memorandum items								
Transfers from rest of the public sector to the Central Government	9.4	13.3	11.9	6.3	12.5	12.8	11.2	10.3
Transfers from Central Government to the public corporations	1.4	4.4	3.9	3.1	3.6 10/	4.0 10/	1.8	--
Nominal GDP (in billions of G$)	4.2	7.5	11.7	26.4	34.5	35.0	41.4	46.4

Sources: Ministry of Finance; State Planning Secretariat; Bank of Guyana; Public Corporations Secretariat; and Fund staff estimates.

1/ Includes the nonfinancial public sector and the Bank of Guyana.
2/ EBS/92/84 (5/15/92).
3/ Excludes transactions with the public enterprises and the NIS.
4/ Of which approximately 3.5 percent of GDP stems from a one time tax on exchange rate gains realized by the commercial banks.
5/ Excludes transactions with the Central Government.
6/ Includes surplus of GTC (divested in January 1991) amounting to the equivalent of 4 percent of GDP.
7/ Assumes that the remaining external financing gap (see Tables 12, 13 and 15) is closed through further debt rescheduling and additional donnor support.
8/ Includes unidentified residual and float.
9/ Excludes operations related to the clearance of external payments arrears.
10/ Cash basis, including settlement of GEC arrears amounting to 1.3 percent of GDP.

Table 8. Guyana: Central Government Operations

(In percent of GDP)

	1988	1989	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
Primary current account	-4.0	-3.2	2.8	11.1	7.5	9.5	11.3	12.2
Current revenue 2/	29.7	25.5	29.0	33.8 3/	29.6	33.9	33.8	34.8
Tax revenue	27.2	24.1	27.3	30.5	27.5	32.2	31.1	32.1
Non-tax revenue	2.5	1.4	1.7	3.3	2.1	1.7	2.7	2.7
Non-interest current expenditure 2/	-33.7	-28.8	-26.1	-22.8	-22.2	-24.4	-22.5	-22.6
Personal emoluments	-14.4	-10.0	-10.2	-8.3	-8.3	-9.4	-9.4	-9.4
Other goods and services	-13.4	-13.1	-9.5	-9.3	-8.4	-9.7	-8.2	-8.2
Transfers private sector	-5.8	-5.6	-6.4	-5.2	-5.4	-5.3	-4.9	-5.0
Interest obligations	-31.4	-42.7	-46.0	-38.2	-33.3	-30.9	-26.3	-20.8
Domestic	-24.4	-30.1	-29.1	-13.9	-12.9	-12.8	-10.0	-5.5
External	-7.0	-12.5	-16.8	-24.3	-20.4	-18.1	-16.3	-15.4
Capital expenditure	-10.0	-11.1	-17.4	-8.6	-12.2	-12.3	-14.4	-13.3
Overall balance	-45.3	-56.9	-60.5	-35.7	-38.0	-33.7	-29.4	-22.0
Memorandum items								
Divestments proceeds	--	0.5	2.5	8.2	4.7	4.0	1.6	0.6
Current transfers from public enterprises	9.4	13.3	11.9	6.3	12.5	12.8	11.2	10.3
Current transfers to public enterprises	-1.4	-4.4	-3.9	-3.1	-3.6	-4.0	-1.8	--

Sources: Ministry of Finance; Bank of Guyana; State Planning Secretariat; Public Corporation Secretariat; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Excludes transactions with the public enterprises and the NIS.
3/ Of which approximately 3.5 percent of GDP stems from a one-time tax on exchange rate gains realized by the commercial banks.

Table 9. Guyana: Primary Operating Balances of Public Enterprises

(In percent of GDP)

	1989	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
Total operating balance	21.7	14.2	17.6	22.8	20.5	18.4	20.0
Revenue	114.2	111.8	115.7	104.5	104.8	100.6	100.1
Expenditure	92.4	97.6	98.1	81.6	84.3	82.2	80.1
Guyana Sugar Corporation	11.5	7.7	11.2	18.6	17.0	12.2	10.4
Revenue	31.4	34.5	44.5	48.3	49.8	41.4	38.1
Expenditure	19.9	26.9	33.3	29.6	32.8	29.2	27.7
Guyana Mining Enterprise	8.7	3.3	5.3	2.9	1.7	3.2	4.8
Revenue	31.9	29.9	36.7	25.2	21.8	25.6	26.7
Expenditure	23.1	26.7	31.4	22.3	20.1	22.5	21.9
Guyana Rice Milling and Marketing Authority	-0.3	-0.8	--	--	-0.2	--	--
Revenue	5.2	3.3	1.0	0.9	1.4	--	--
Expenditure	5.5	4.1	1.0	0.9	1.6	--	--
Guyana Electricity Corporation	-4.0	-5.0	-4.0	-2.3	-2.7	-1.8	--
Revenue	2.6	2.9	3.7	4.8	4.2	6.0	7.8
Expenditure	6.6	7.9 2/	7.8 2/	7.1	6.9	7.8	7.8
Guyana Telecommunications Corporation	3.1	3.9	...	...	...	...	...
Revenue	5.3	5.5	...	...	...	...	...
Expenditure	2.2	1.5	...	...	...	...	...
Guyana Airways Corporation	-0.4	0.7	1.8	1.7	2.7	2.7	2.7
Revenue	5.5	8.0	9.3	8.9	8.6	8.6	8.6
Expenditure	5.8	7.3	7.5	7.2	5.9	5.9	5.9
Rest of public corporations	3.1	4.3	3.5	1.5	1.7	1.9	1.9
Revenue	30.8	26.0	19.1	14.1	18.4	17.0	17.0
Expenditure	27.7	21.6	15.5	12.6	16.7	15.1	15.1
National Insurance Scheme	-0.2	0.1	-0.2	0.4	0.1	0.1	0.1
Revenue	1.5	1.7	1.4	2.3	1.9	1.9	1.9
Expenditure	1.6	1.6	1.6	1.9	1.7	1.7	1.7

Sources: Public Corporations Secretariat; Ministry of Finance; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Includes accumulation of domestic arrears on account of oil purchases amounting to 1.5 percent of GDP in 1990 and 1.1 percent of GDP in 1991.

Public investment expenditures are projected to be lower by about 2 percent of GDP reflecting shortfalls in foreign financing of about US$15 million (5.5 percent of GDP). These shortfalls would be partly offset by an increase in the local component of central government investment expenditures and of those related to the rehabilitation program for LINMINE. As a result, only about 40 percent of the public sector investment program (PSIP) in 1992 would be financed with external resources compared with 70 percent in 1991. Continued difficulties have been experienced in the implementation of foreign-funded projects and, in addition, donor funding for new projects was limited during the run-up to the elections. The authorities plan to address the weaknesses in implementation capacity, with the assistance of the World Bank, and also will meet with creditors and donors to request acceleration of disbursements for project loans in the pipeline as well as increased new support in a manner that can be disbursed quickly.

Domestic interest payments of the public sector in 1992 are projected to be higher than programmed by 2 percent of GDP, reflecting larger borrowing requirements by the nonfinancial public sector in view of shortfalls of foreign financing (both project and nonproject) as well as a significantly larger accumulation of gross international reserves by the Bank of Guyana than anticipated previously. By contrast, scheduled external interest obligations are expected to be lower than programmed by about 3 percent of GDP, reflecting the effect of debt-reduction operations mainly with commercial bank creditors and less external borrowing.

The fiscal program for 1993 envisages a reduction to 36.5 percent of GDP in the overall deficit of the public sector and a reduction to 25 percent of GDP in that of the nonfinancial public sector. The strengthening of the public sector finances would result from a decline in domestic and external interest obligations mainly because of lower average domestic interest rates and a reduction in the stock of domestic public debt, and also because of the elimination of the debt with commercial banks as discussed above. The current primary surplus of the public sector is projected at 29 percent of GDP for 1993 (unchanged from 1992), as a further improvement in the financial position of the Central Government would be offset by a reduction in the operating surplus of the public enterprises.

The current primary surplus of the Central Government would increase by about 2 percentage points to 11.5 percent of GDP in 1993 mainly on the basis of expenditure restraint, including the absence of election-related expenditures. In particular, expenditure on other goods and services is projected to decline by about 1.5 percent of GDP in 1993, while nominal wages in the Central Government are assumed to increase in line with the projected inflation rate. The projections do not incorporate the possible effects of two externally funded projects: (a) a Public Administration Project, developed with the assistance of the World Bank, that will seek to improve the capacity of the public sector to perform its core functions by providing, among other things, higher salaries to attract and retain qualified civil servants in key positions; and (b) targeted income supplements to certain vulnerable groups, including low income public servants, to be funded by the IDB under a loan to support reforms and rehabilitation efforts in the agricultural sector. Donor funding is to be sought for the former, which is expected to commence in 1993, while disbursements of the IDB loan could commence in early 1993.

Current revenues of the Central Government have been projected to remain broadly unchanged in 1993 at about 34 percent of GDP. Notwithstanding the improved performance in the first half of 1992, there remains some uncertainty concerning the revenue impact of the tax reform measures implemented in 1992, notably the reduction in the corporate income tax rate. However, there still appears to be considerable scope for a further strengthening of revenue performance based on an improvement in enforcement capacity, which should result from the IDB-funded tax administration project and from a comprehensive public sector review to be undertaken with World Bank assistance, both of which are expected to commence in late 1992. In addition, the authorities will explore the scope for rationalizing the system of fiscal incentives based upon the recommendations of a report prepared by the World Bank and the UNDP.

The operating surplus of the public enterprises is projected to decline from 20.5 percent of GDP in 1992 to 18.5 percent in 1993 because of a reduction in the surplus of GUYSUCO amounting to about 5 percent of GDP. Sugar revenues projected for 1992 are unusually high as, with the recovery in production to a level more than sufficient to meet Guyana's sugar quota with the EC and the United States, GUYSUCO has been able to direct a large share of its total sugar exports to the EC market. 1/ Notwithstanding a further increase in sugar production to 240,000 tons projected for 1993, GUYSUCO's revenues would decline in terms of GDP by about 8.5 percent as sales to the EC and the United States would be limited by their respective sugar quotas and proportionately more of its production would be sold at lower prices on the world or domestic markets. The decline in revenues would more than offset lower current expenditures resulting from a further reduction in unit production costs to US$370 a ton. To date, rehabilitation work has concentrated on improvements in the cane fields and in agricultural machinery, but the state of the factories remains precarious, and it is estimated that a further investment of about US$100 million on plant rehabilitation is required to ensure a sustained production level of about 240,000 tons a year. As noted earlier, the authorities intend to review available options for the financing and ownership of the sugar industry.

The projections for 1993 incorporate a reduction in the operating deficit of GEC resulting from the measures being implemented in connection with the IDB-funded program to strengthen the management of the company and restore the main power plants. As noted above, however, these measures may not be sufficient to eliminate the need for current transfers to GEC by end-1993 as envisaged in the program and a further adjustment of electricity tariffs may be required in 1993. The operating surplus of LINMINE also is expected to improve in 1993 and the additional resources generated would finance part of the refurbishment efforts under the IRP.

1/ Guyana's sugar quota with the EC is 163,000 tons on a June-year basis, whereas exports to that market for calendar year 1992 are projected at about 183,000 tons.

Public investment outlays are projected to increase by about 5 percent of GDP to 29 percent in 1993, reflecting higher spending by the Central Government relating to projects for which external financing already has been secured, as well as increased expenditures in connection with the rehabilitation of LINMINE and GEC. External financing would account for about 60 percent of the investment program in 1993 compared with about 40 percent in 1992.

4. Financial sector policies

The revised monetary program seeks to increase gross international reserves by US$23 million during 1992 to US$146 million (compared with US$119 million in the original program) and by a further US$15 million in 1993. Based on the substantially faster-than-anticipated growth in the first nine months of the year, private sector financial savings are now expected to grow by 45 percent in 1992, or an increase of 26 percent in real terms compared with declines of 14 and 8 percent in 1990 and 1991, respectively, and an increase of 8 percent in the program (Tables 10 and 11). The projected growth in credit to the private sector in 1992 also has been revised upwards in light of developments in the first nine months of the year.

The sharp increase in private financial savings in 1992 appears to reflect a general recovery in confidence based on the program's achievements in 1991-92 in terms of exchange rate stability, reduced inflation, and the pickup in economic activity. An important element in this regard has been the restoration of positive real interest rates under the flexible interest rate policy regime adopted in mid-1991. In addition to encouraging domestic savings, there are indications that the environment of improved macroeconomic stability and positive real interest rates may also have attracted private capital inflows from abroad over this period. Under the monetary program for 1993, private sector savings are assumed to grow broadly in line with inflation, while the projected decline in the domestic debt of the non-financial public sector would allow for a further real increase in bank lending to the private sector in line with the expected expansion in real GDP.

The Bank of Guyana will continue to pursue a flexible interest rate policy during the program period, adjusting its administered rates in line with movements in the average interest rate determined in the monthly treasury bill tenders. The authorities also intend to strengthen the institutional framework and to pursue policies aimed at encouraging greater competition and depth in the financial sector. The legislation governing the financial sector is seriously out-of-date and a Fund technical assistance mission visited Guyana in July 1992 to review the legislation and make recommendations regarding the necessary changes. Based on these recommendations, the authorities intend to introduce amendments to the legislation in early 1993 that would, inter alia, extend its coverage to all deposit-taking institutions, update the minimum capital requirements for commercial banks, centralize the responsibility for financial sector regulation and supervision in the Bank of Guyana, and strengthen its regulatory powers and penalties.

Table 10. Guyana: Accounts of the Bank of Guyana

	End of December					
			1992		Proj.	
	1990	1991	Prog. 1/	Rev. Prog.	1993	1994
	(In millions of Guyana dollars)					
Net foreign assets	-29,791	-77,479 2/	-83,096 2/	-80,096 2/	-81,596 2/	-80,744 2/
Net domestic assets	32,003	81,190	87,411	84,811	86,783	86,435
Credit to the public sector (net)	6,137	1,789	2,304	-488	-3,417	-10,238
Liabilities to commercial banks	-1,764	-6,556	-5,500	-6,341	-6,776	-7,132
Capital, reserves, and other	27,630	85,958 2/	90,607 2/	91,640 2/	96,976 2/	103,805 2/
Currency in circulation	2,211	3,712	4,315	4,715	5,187	5,601
	(Change in millions of U.S. dollars) 3/					
Net foreign assets	26.1	49.0 4/	-44.0	-20.0	-11.0 5/	6.0 5/
	(Percentage change)					
Net domestic assets 6/	-1.4	-10.8	21.8	-12.7	6.1	-1.0
Credit to the public sector (net)	-16.2	-70.8	28.9	-121.2	-600.2	-199.6
Currency in circulation	46.8	67.9	16.2	27.0	10.0	8.0
Memorandum items						
Inflation rate (Dec. to Dec.)	75.9	81.5	15.0	15.0	10.0	8.0
Exchange rate (G$ per U.S. dollar)	45	123	123	123	123	123

Sources: Bank of Guyana; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Includes G$52.6 billion of valuation adjustment.
3/ With respect to end-December of the previous year. A minus sign indicates a decrease in net foreign assets. These numbers differ from those in the BOP, as for purposes of the monetary data, net foreign assets were calculated using accounting rates for the SDR and the Kuwaiti Dinar.
4/ Includes US$9 million of valuation adjustment due to changes in the U.S. dollar/SDR rate and in the cross-rates for non-U.S. dollar denominated international reserves.
5/ Assumes that part of the remaining external financing gap (see Tables 12, 13 and 15) is closed through further debt rescheduling of the Bank of Guyana debt.
6/ Excludes valuation adjustments.

Table 11. Guyana: Accounts of the Banking System

	End of December					
			1992		Proj.	
	1990	1991	Prog. 1/	Rev. Prog.	1993	1994
	(In millions of Guyana dollars)					
Net foreign assets	-28,279	-75,988 2/	-81,605 2/	-78,605 2/	-80,105 2/	-79,253 2/
Net domestic assets	38,072	92,253	101,880	102,175	107,210	109,304
Credit to the public sector (net)	9,412 3/	5,736	10,260	8,394	7,026	1,311
Credit to the private sector	4,160	6,673	8,422	9,335	10,735	12,345
Liabilities to rest of the financial system	-1,435	-2,778	-3,195	-3,104	-3,104	-3,104
Capital, reserves, and other	25,934	82,622 2/	86,393 2/	87,550 2/	92,553 2/	98,752 2/
Liabilities to the private sector	9,793	16,266	20,275	23,570	27,105	30,051
Money	3,810 3/	6,009	6,935	7,570	8,385	9,086
Time and savings deposits	5,983	10,257	13,340	16,000	18,720	20,965
	(Change in millions of U.S. dollars) 4/					
Net foreign assets	37.3	32.1 5/	-44.0	-20.0	-11.0 6/	6.0 6/
	(Percentage change)					
Net domestic assets 7/	3.0	7.4	23.3	24.0	9.8	3.7
Credit to the public sector (net)	-1.4	-39.1	78.9	46.3	-16.3	-81.3
Credit to the private sector	62.1	60.4	26.2	39.9	15.0	15.0
Liabilities to the private sector	52.0	66.1	24.6	44.9	15.0	10.9
Money	44.0	57.7	15.4	26.0	10.8	8.4
Time and savings deposits	57.1	71.4	30.1	56.0	17.0	12.0
Memorandum items						
Inflation rate (Dec. to Dec.)	75.9	81.5	15.0	15.0	10.0	8.0
Exchange rate (G$ per U.S. dollar)	45	123	123	123	123	123

Sources: Bank of Guyana; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Includes G$51.0 billion of valuation adjustment.
3/ Includes G$378 million adjustment for privatization of GTC.
4/ With respect to end-December of the previous year. A minus sign indicates a decrease in net foreign assets. These numbers differ from those in the BOP, as for purposes of the monetary data, net foreign assets were calculated using accounting rates for the SDR and the Kuwaiti Dinar.
5/ Includes US$9 million of valuation adjustment due to changes in the U.S. dollar/SDR rate and in the cross-rates for non-U.S. dollar denominated international reserves.
6/ Assumes that part of the remaining external financing gap (see Tables 12, 13 and 15) is closed through further debt rescheduling of the Bank of Guyana debt.
7/ Excludes valuation adjustments.

Several applications for new bank licenses were received earlier in the year, but the processing of such applications was put on hold pending implementation of the legislative amendments just mentioned. However, measures were taken during 1992 to strengthen the management and financial structure of the state-owned Guyana National Cooperative Bank (GNCB), which is the largest commercial bank operating in Guyana. These included a capital injection in the form of a noninterest-bearing debenture to offset a write-off in the bank's loan portfolio for nonperforming loans in the period prior to 1991.

The authorities also intend during the program period to take further measures to strengthen the capacity of the Bank of Guyana to conduct monetary policy within an overall framework that is based on indirect instruments of monetary control. To this end, the authorities have requested technical assistance from the Fund to explore the scope for developing a secondary market in government securities. Other measures to be considered include a broadening of the range of maturities offered in the treasury bill auctions and the introduction of open market operations. The Bank of Guyana also will keep its rediscount policy under review to ensure that it is consistent with the policy objectives of the program.

5. Social policies

The deterioration in Guyana's economic situation over the past decade resulted in a substantial decline in the standard of living of the population and in the provision of social services. While the ERP has begun to reverse this decline, certain segments of society continue to experience considerable hardship.

The previous Government established the Social Impact Amelioration Program (SIMAP) to address poverty and the adverse effects of adjustment, and the new administration will continue to channel its efforts in the area of poverty alleviation primarily through the SIMAP agency. The authorities plan to strengthen the institutional capacity of SIMAP to use the available resources more effectively by improving its efficiency and accountability, while seeking further donor assistance to widen the scope of SIMAP's activity. In this connection, SIMAP is supporting a comprehensive survey of income and expenditures, including a Living Standards Measurement Survey, which will allow a better targeting of its assistance.

As of March 1992, SIMAP had available project funds amounting to US$5 million, and had committed US$2 million in 128 projects. A major source of funding for SIMAP at present is an IDB grant of US$2.8 million which became available in early 1991. SIMAP also will be the executing agency for a US$11.5 million World Bank loan to support improvements in health, nutrition, water, and sanitation, disbursements of which are expected to begin in the near future and to total about US$2.5 million in 1993. SIMAP also will administer a cash transfer program funded by the IDB for vulnerable groups, including low income public servants as noted above, that could amount to about US$5-7 million. In addition to SIMAP, the

Canadian Hunger Foundation, which started operations in August 1991, funded 90 projects during the year ended March 1992, with disbursements totalling US$0.7 million. Commitments for the year through March 1993 are projected at US$4.5 million, of which about US$1 million would be disbursed. Also, the UNDP is providing food assistance to primary school children at a cost of US$1 million a year.

IV. External Prospects and Capacity to Repay the Fund

1. Balance of payments prospects in 1992-93

The Government's external sector policies are designed to consolidate the basis for export-oriented economic growth and strengthen Guyana's external position over the medium-term. The major elements of this strategy will be the maintenance of a market-determined exchange rate and exchange and trade systems with virtually no restrictions; a reduction in tariff levels imposed on imports from outside the CARICOM region in the context of the recent agreement on modifications to the CET noted above; the continuation of the process of reestablishing Guyana's financial relations with external creditors; and the pursuit of external debt policies consistent with an improvement in Guyana's debt profile and its (limited) capacity to service external debt.

Led by the strong recovery in sugar sales, Guyana's exports in 1992 are projected to increase by about 18 percent in U.S. dollar terms (compared with 13 percent in the program), despite a 6 percent decline (4 percent in the program) in average export prices and a sharp decline in bauxite exports (Table 12). A strong growth also is projected for rice, gold, timber, and nontraditional exports (mainly textiles and alcoholic beverages), with exports of rice and gold increasing in volume terms by about 40 percent and 60 percent, respectively.

Imports are projected to expand by 15 percent compared with 24 percent envisaged in the program, reflecting mainly lower imports of fuel, sugar, inputs for the bauxite industry, and imports related to the public sector investment program. As a result, the trade account is now projected to be in balance for 1992 compared with a deficit of US$34 million in the program. The services account also would be stronger reflecting a reduction in external interest obligations resulting from the debt buyback operation with commercial banks, less new borrowing, a downward revision in the stock of private sector commercial obligations, and lower interest rates. Consequently, the current account deficit would amount to US$103 million compared with US$150 million envisaged in the program. Net capital inflows for 1992 are projected to be slightly less than envisaged in the program, with the shortfalls experienced in project loan disbursements offset partly by larger private sector inflows as well as lower amortization payments. As a result, the overall deficit would amount to US$75 million compared with US$121 million in the program.

Table 12. Guyana: Summary Balance of Payments

	1988	1989	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
	(In millions of U.S. dollars)							
Current account (including transfers)	-94	-113	-148	-119	-150	-103	-129	-98
Merchandise trade (net)	-1	-7	-46	-6	-34	-1	-30	--
Exports, f.o.b.	215	205	204	239	270	283	315	353
Bauxite	80	73	75	79	59	51	68	89
Sugar	75	83	75	82	117	121	112	112
Rice	15	12	14	17	23	24	31	35
Other	45	37	40	60	71	88	103	118
Imports, c.i.f.	-216	-212	-250	-245	-304	-281	-345	-353
Fuel	-74	-70	-87	-78	-80	-72	-79	-86
Other 2/	-142	-142	-163	-167	-224	-209	-266	-267
Services (net) 2/	-112	-127	-130	-134	-134	-122	-118	-118
Of which: investment income	-94	-103	-109	-109	-111	-101	-98	-97
Transfers (net)	19	21	28	22	18	18	19	20
Of which: private transfers	13	14	13	14	14	14	15	16
Capital account	-23	-69	-47	52	30	28	29	23
Nonfinancial public sector								
Medium- and long-term debt	-28	-61	-56	-21	-15	-21	3	-4
Disbursements	29	40	65	22	37	26	49	54
Amortization	-130	-175	-121	-43	-52	-47	-46	-58
Rescheduling	73 3/	73 3/	--	--	--	--	--	--
Short-term debt (net)	--	-3	--	--	--	--	--	--
Official development banks (net)	1	--	--	--	--	--	--	--
Private sector 2/	5	9	16	28	35	39	21	25
Net foreign assets of commercial banks (increase -)	-1	-15	-11	16	--	--	--	--
Sale of assets	--	1	4	29	10	10	5	2
Errors and omissions	11	1	1	1	--	--	--	--
Overall balance	-106	-181	-194	-66	-121	-75	-100	-75
Bank of Guyana net foreign assets 4/	32	29	-18	-41	44	20	3	-25
Nonfinancial public sector arrears	70	-156	-265	--	-6	-108 5/	--	--
Private sector commercial arrears	4	10	-101	--	--	--	--	--
Exceptional financing	--	298	578	107	82	163	77	57
Debt relief	--	271	418	51	56	152	36 6/	16 7/
Balance of payments support 8/	--	27	160	56	27	11	41	41
Remaining gap	--	--	--	--	--	--	20	42
	(As percent of merchandise exports)							
Current account balance	-44	-55	-73	-50	-55	-36	-41	-28
Overall balance	-49	-89	-95	-28	-45	-27	-32	-21
	(In millions of U.S. dollars)							
Memorandum items								
Major gold project and oil exploration-related activities not included above:								
Imports of goods				8	89	89	--	--
Imports of services				37	32	32	--	--
Private direct investment				45	121	121	--	--

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; IBRD External Debt Reporting System; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Excludes imports related to major gold projects and petroleum exploration (see memorandum items).
3/ Consists of principal obligations to foreign commercial banks that were rolled over annually.
4/ Includes valuation changes.
5/ Includes elimination of arrears to commercial banks ($93 million) and reduction of arrears to OPEC ($9 million).
6/ According to the terms of the 1990 Paris Club Agreement through July 1993 and from other rescheduling agreements already in place.
7/ From rescheduling agreements already in place.
8/ Includes the World Bank, CDB, and IDB disbursements, and commodity and cash assistance from bilateral donors and creditors.

Gross reserves of the Bank of Guyana are expected to increase by US$23 million during 1992 compared with a programmed loss of US$4 million, reflecting mainly the significantly stronger trade balance and smaller debt-service payments. Furthermore, this overperformance would occur despite a shortfall of US$13 million in disbursements from the World Bank under the third tranche of the Structural Adjustment Credit (SAC), reflecting the delays in concluding an agreement on an economic program for 1992-94 due to the change of government in Guyana. The third tranche of the SAC is now expected to be disbursed in early 1993, provided agreement is reached on an action plan to introduce long-term marginal cost pricing in GEC, including on a schedule for adjustment of the tariff structure. The net foreign assets of the Bank of Guyana are projected to decrease by US$20 million compared with US$44 million in the program. Additional financing for the overall deficit and for the clearance of outstanding obligations amounting to US$108 million would be provided by debt relief and balance of payments support amounting to US$163 million, of which US$83 million reflects the debt reduction granted by the commercial banks, US$10 million the grant under the IDA Debt Reduction Facility, and US$9 million financing provided by the OPEC Fund (Table 13). Bilateral balance of payments support in 1992 would amount to only US$3 million on a net basis (compared with US$13.5 million in 1991), as donors had delayed new assistance programs until after the elections.

In 1991, Guyana completed all the bilateral agreements corresponding to the Paris Club Agreed Minute of September 1990. As of end-October 1992 debt rescheduling or debt-reduction arrangements had been concluded with Venezuela, Brazil, North Korea, China, and the commercial banks. An agreement was concluded with the OPEC Fund regarding clearance of US$9 million of outstanding obligations, and negotiations are continuing regarding a mechanism to settle the remaining US$12 million. In addition, debt negotiations have been initiated with Trinidad and Tobago. As part of the Government's efforts to restructure the bauxite industry, agreement was reached in September with two creditors on the rescheduling of US$9 million.

Scheduled debt-service obligations are projected to decline from 68 percent of merchandise exports in 1991 to 57 percent in 1992, while actual payments would decline from 40 percent of merchandise exports in 1991 to 37 percent in 1992 (Table 14). Total public sector debt is projected to drop slightly in 1992 in U.S. dollar terms compared with an increase in the program. In terms of merchandise exports, this would result in a decline from the equivalent of 775 percent in 1991 to 640 percent in 1992, of which about a third is owed to multilateral agencies.

In 1993, exports are projected to increase by about 12 percent reflecting continued strong growth in gold, rice, timber, and nontraditional exports, and some recovery of bauxite exports. Imports are assumed to increase by 22 percent in 1993 (18 percent in volume terms), reflecting increases in inputs for the bauxite industry and larger public investment outlays. As a result, the trade deficit is projected to widen to US$30 million while the current account deficit would increase to US$129 million.

Table 13. Guyana: External Financing Requirements, 1990-94

(In millions of U.S. dollars)

	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Projections 1993	Projections 1994
Financing requirements	663	183	226	276	195	177
External current account deficit (net of transfers)	176	140	168	121	148	118
Of which: investment income debit	109	109	111	101	97	97
NFPS amortization	121	43	52	47	47	59
Multilaterals	18	18	...	20	24	...
Others	103	27	...	27	23	...
Arrears reduction (+)	366	--	6	108	--	--
Nonfinancial public sector	265	--	6	108	--	--
Private sector commercial arrears	101	--	--	--	--	--
Available financing	85	76	144	113	97	77
Transfers (net)	28	21	18	18	19	20
NFPS loans	65	22	37	26	49	55
Of which: IDB project	12	11	...	14	22	25
Private sector (net) 2/	6	44	35	39	21	25
Sale of assets	4	29	10	10	5	2
Change in net foreign assets of the Bank of Guyana (increase -) 3/	-18	-40	44	20	3	-25
Of which: IMF financing	104	38	25	25	12	--
Financing gap	578	107	82	163	98	100
Exceptional financing	578	107	82	163	77	58
Debt relief	418	51	56	152	36 4/	16 5/
Balance of payments support	160	56	27	11	41	42
Of which:						
Commodity assistance 6/	27	25	18	15	14	21
Cash assistance 6/	48	-12	-12	-12	--	--
IDB BOP support	--	--	--	--	5	10
World Bank BOP support	53	39	17	4	20	8
CDB BOP support	32	4	4	4	2	3
Remaining gap	--	--	--	--	21	42

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

1/ EBS/92/84 (5/15/92).
2/ Includes net foreign investment, short-term credits, changes in net foreign assets of commercial banks, and errors and omissions of the balance of payments.
3/ Includes valuation changes.
4/ According to the terms of the 1990 Paris Club Agreement through July 1993 and from other rescheduling agreements already in place.
5/ From rescheduling agreements already in place.
6/ Commodity and cash assistance from bilateral donors and creditors. Cash assistance figures for 1991 and 1992 reflect repayment of cash loans to two bilaterals.

Table 14. Guyana: External Public Debt and Debt Service

	1988	1989	1990	1991	1992 Prog. 1/	1992 Rev. Prog.	Proj. 1993	Proj. 1994
(In millions of U.S. dollars; end of period)								
Total public sector debt	1,760	1,852	1,949	1,853	1,940	1,819	1,889	1,927
Government and government guaranteed medium- and long-term debt	1,017	1,099	1,202	1,060	1,104	986	1,036	1,098
Of which: to multilateral agencies	374	396	477	491	512	497	518	563
Bank of Guyana debt	660	704	702	753	793	792	811	785
Of which: IMF	122	128	112	146	171	171	180	158
Nonguaranteed public debt	22	26	45	40	43	41	42	44
Public sector commercial arrears	61	22	...	...	...	...	...	...
Public debt service								
Scheduled debt service payments	236	297	249	162	160	161	142	155
Of which: to multilateral agencies 2/	62	51	56	45	50	47	53	66
Principal	151	203	148	64	63	66	56	71
Interest	85	94	101	98	98	95	86	84
Actual debt service payments	41	44	58	96	106	106	...	...
Of which: to multilateral agencies 2/	12	17	33 3/	45	50	47	53	66
Principal	21	23	32	50 4/	55 5/	57 5/	...	...
Interest	20	21	26	46	52	49	...	...
Memorandum item								
Rescheduled debt	--	754	997	1,087	1,118	998	...	...
(In percent of merchandise exports)								
External public debt	820	903	955	776	719	642	600	545
Scheduled debt service payments	110	146	122	68	59	57	45	48
Actual debt service payments	19	22	28	40	42	37	...	...

Sources: IBRD External Debt Reporting System; Ministry of Finance; Bank of Guyana; and Fund staff estimates.

1/ EBS/92/84 (5/15/92).
2/ Includes IMF.
3/ Excludes clearance of arrears outstanding as of June 20, 1990.
4/ Includes US$12 million of repayment of loans obtained in 1990 for the clearance of arrears.
5/ Includes US$11 million of repayment of loans obtained in 1990 for the clearance of arrears.

Net capital inflows are projected at about US$30 million in 1993, 1/ reflecting higher disbursements of project loans that would more than offset smaller divestment proceeds and private sector foreign direct investment. The overall deficit is expected to amount to US$100 million, of which about US$77 million would be financed through rescheduling agreements already in

1/ Disbursements from the multilateral agencies (other than the Fund) and commodity and cash assistance from bilateral donors are shown as financing below the line under balance of payments support, whereas in previous reports such financing was shown above the line from 1993 onwards (e.g., see EBS/92/84, Table 10).

place and balance of payments support. Gross international reserves are assumed to increase by US$15 million, with the net foreign assets of the Bank of Guyana decreasing by US$3 million. 1/ On this basis, a gap of US$20 million would remain to be filled in 1993 that is expected to be covered by rescheduling of official, Bank of Guyana and private bilateral debt, and by donor support.

The Paris Club agreement of September 1990 provided for the possibility of an extension of the consolidation period from August 1992 through July 1993. With a view to obtaining financing for the entire period of the arrangement, however, the authorities have requested a new Paris Club rescheduling covering pre-cutoff obligations falling due through December 1993 on enhanced concessions.

2. Medium-term outlook

The medium-term outlook of the balance of payments has been revised taking into account developments to date in 1992, including the financial restructuring of the bauxite industry as well as other debt-relief operations (Table 15). As a result of these revisions, Guyana's cumulative financing needs over the period 1993-2000 are lower than those presented in EBS/92/84 by US$160 million, mainly as a result of the elimination of debt to commercial banks in 1992. Guyana's external position, however, would still remain precarious over the medium term. The remaining financing gap projected over the period 1993-2000 amounts to US$520 million, increasing sharply by the end of the decade as amortization payments resulting from the 1989 Paris Club rescheduling fall due.

Export volume is projected to increase at an annual average rate of 6 percent in the period 1994-2000. These projections assume no change in Guyana's sugar quota with the EC and a recovery in bauxite exports beyond the initial period of the IRP. Given their large size in relation to the rest of the economy and the semi-enclave nature of the projects, exports from the foreign-owned Omai gold mine and the joint venture bauxite mine at Aroima have been excluded; the projections only make allowance for their net contribution of foreign exchange stemming from payments of taxes or dividends and purchases of goods and services in the local market. Total imports are assumed to increase at an average annual rate of 3 percent in real terms in the period 1994-2000, which is judged to be consistent with an average annual rate of growth of 4-5 percent. The deficit in the services account is projected to increase from US$118 million in 1994 to US$145 million in the year 2000, reflecting external interest obligations averaging US$107 million a year. On this basis, the current account deficit would narrow from US$98 million in 1994 to US$65 million in 1996, but would widen

---

1/ The medium-term balance of payments projections no longer assume continued rescheduling of the Bank of Guyana debt with major bilateral creditors pending new debt relief agreements as was done previously (see EBS/92/84, page 22, footnote 6).

Table 15. Guyana: Balance of Payments, 1990-2000

(In millions of U.S. dollars)

			1992					Projections				
	1990	1991	Prog. 1/	Rev. Prog.	1993	1994	1995	1996	1997	1998	1999	2000
Current account (including transfers)	-148	-119	-150	-103	-129	-98	-76	-65	-67	-71	-83	-101
Merchandise trade (net)	-46	-6	-34	-1	-30	--	23	36	38	37	29	18
Exports (f.o.b.)	204	239	270	283	315	353	393	430	460	488	513	537
Bauxite	75	79	59	51	68	89	116	136	152	166	176	183
Sugar	75	82	117	121	112	112	111	112	113	114	115	116
Rice	14	17	23	24	31	35	36	41	45	48	51	55
Others	40	60	71	88	103	118	130	140	150	160	171	182
Imports (c.i.f.)	-250	-245	-304	-281	-345	-353	-370	-394	-422	-451	-484	-518
Project related 2/	-83	-49	-76	-64	-73	-75	-72	-73	-76	-79	-82	-85
Nonproject related	-167	-196	-228	-217	-273	-278	-298	-321	-346	-372	-402	-433
Services (net) 2/	-130	-134	-134	-122	-118	-118	-119	-123	-128	-132	-138	-146
Of which: investment income	-109	-109	-111	-101	-98	-97	-98	-101	-106	-111	-117	-125
Transfers (net)	28	22	18	18	19	20	21	22	23	24	25	27
Private	13	14	14	14	15	16	16	17	18	19	20	21
Official	15	9	4	4	4	4	5	5	5	5	5	6
Capital account	-47	52	30	28	29	23	26	26	28	29	23	20
Nonfinancial public sector (net) 3/	-56	-21	-15	-21	3	-4	6	6	7	8	1	-3
Disbursements	65	22	37	26	49	54	57	60	62	64	67	70
Amortizations	-121	-43	-52	-47	-46	-58	-51	-54	-55	-57	-66	-73
Private sector (net) 2/4/	5	44	35	39	21	25	20	20	21	21	22	23
Sale of assets	4	29	10	10	5	2	--	--	--	--	--	--
Errors and omissions	1	1	--	--	--	--	--	--	--	--	--	--
Overall balance	-194	-66	-121	-75	-100	-75	-50	-40	-39	-43	-61	-82
Sources of financing	194	66	121	75	100	75	50	40	39	43	61	82
Bank of Guyana net foreign assets 5/	-18	-41	44	20	3	-25	-37	-37	-39	-39	-86	-88
Of which:												
IMF arrears (reduction -)	-119	--	--	--	--	--	--	--	--	--	--	--
IMF purchases/disbursements	104	38	25	25	12	--	--	--	--	--	--	--
IMF repurchases	-7	2	--	--	-3	-21	-22	-23	-26	-23	-23	-23
Gross reserves (- inc.)	-11	-96	4	-23	-15	--	-10	-10	-10	-13	-13	-13
Change in NFPS arrears	-265	--	-6	-108	--	--	--	--	--	--	--	--
Change in private sector commercial arrears	-101	--	--	--	--	--	--	--	--	--	--	--
Exceptional financing	578	107	82	163	77	57	34	33	28	29	30	31
Debt relief	418	51	56	152	36 6/	16 7/	6 7/	6 7/	--	--	--	--
Balance of payments support 8/	160	56	27	11	41	41	28	27	28	29	30	31
Remaining gap	--	--	--	--	20	42	53	44	50	53	117	139
Memorandum items												
Current account deficit (as percent of merchandise exports)	73	50	55	36	41	28	19	15	15	15	16	19
Scheduled debt service (as percent of merchandise exports) 9/	122	68	59	57	45	48	41	38	36	34	44	44
Of which: interest	49	45	36	34	28	24	21	19	18	17	16	17
Stock of public debt (as percent of merchandise exports) 10/	955	776	719	642	600	545	497	462	437	418	390	363
Gross reserves (end of period)	27	123	119	146	161	161	171	181	191	204	217	230
Gross reserves (in weeks of imports)	6	28	21	26	24	24	24	24	24	24	24	24

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

1/ EBS/92/84 (5/15/92).
2/ Excludes major gold projects and petroleum exploration.
3/ Includes both guaranteed and nonguaranteed debt of the nonfinancial public sector.
4/ Includes net foreign investment and short-term credits, and changes in net foreign assets of commercial banks.
5/ Includes valuation changes.
6/ According to the terms of the 1990 Paris Club Agreement through July 1993 and from other rescheduling agreements already in place.
7/ From rescheduling agreements already in place.
8/ Includes CDB, IDB, and World Bank disbursements, and commodity and cash assistance from bilateral and multilateral donors.
9/ Public debt including Bank of Guyana, accrued.
10/ Public debt including Bank of Guyana.

again to US$101 million by the year 2000. In relation to merchandise exports, however, the current account deficit would remain below 20 percent from 1995 onwards.

Scheduled amortization obligations of the nonfinancial public sector have been revised to take into account the recent debt-rescheduling agreements noted above. Disbursements of project loans are projected to increase to US$55 million in 1994 and to remain constant in real terms thereafter, while the projections assume private capital inflows of about US$22 million a year for the period 1994-2000 compared with US$32 million a year for the period 1992-93 when large investments were taking place in the timber and telecommunications sectors. In all, the overall balance of payments deficit is projected to decrease from US$100 million in 1993 to about US$39 million in 1997, but would increase sharply thereafter to some US$82 million in the year 2000 on account of the repayment of debts rescheduled at the beginning of the decade.

The medium-term projections assume that the Bank of Guyana would maintain a level of gross reserves equivalent to six months of imports. In the absence of further rescheduling agreements with major bilateral creditors and taking into account payment obligations to the Fund, the foreign liabilities of the Bank of Guyana would decline by over US$25 million a year during the period 1994-98 and by over US$70 million a year in the period 1999-2000.

The financing gap that remains after taking into account balance of payments support of about US$30 million a year would be of the order of US$50 million a year in the period 1994-98 and US$125 million a year in 1999-2000. Despite the debt relief obtained to date, Guyana's debt service remains onerous, with the ratio of public debt service to merchandise exports averaging about 40 percent during the rest of the decade. Concessional debt restructuring by the Paris Club under enhanced concessions, together with equivalent action by other bilateral creditors, would go a long way toward eliminating the financing gaps.1/

3. Capacity to repay the Fund

Financial assistance from the Fund under the ESAF arrangement is projected to meet 6-7 percent of Guyana's gross financing needs in 1992-93, and the country's outstanding use of Fund credit would peak at 261 percent of quota in 1993 (Table 16). Repayment obligations to the Fund become significant starting in 1994, averaging US$26 million a year in the years 1994 to 2000; Fund credit would be fully repaid by the year 2003.

1/ For illustrative purposes, preliminary calculations suggest that a rescheduling under enhanced concessions, including a 50 percent stock of debt operation after a period of three years, would reduce Guyana's average scheduled debt-service ratio to around 25 percent of exports in the period through 2000.

Table 16. Guyana: Indicators of Financial
Obligations to the Fund, 1990-2000

	1990	1991	Rev. Proj. 1992	Projections 1993	1994	1995	1996	1997	1998	1999	2000
Debt service to the Fund											
In millions of U.S. dollars	24	10	7	10	28	26	26	28	25	24	24
In percent of quota	36	15	10	10	41	38	38	36	36	35	35
In percent of merchandise exports	12	4	2	3	8	6	6	6	5	5	5
In percent of total debt service due	9	6	4	7	15	16	15	16	14	10	10
In percent of nonreschedulable debt service 1/	29	11	6	11	27	25	25	25	23	16	14
In percent of gross official reserves	90	8	5	7	18	16	15	15	12	11	11
Memorandum items											
Fund credit outstanding											
In millions of U.S. dollars	111	146	171	180	158	137	114	88	65	42	20
In percent of quota	167	212	248	261	230	199	166	128	94	61	28
In percent of merchandise exports	55	61	60	57	45	35	27	19	13	8	4
Gross Fund financing											
In millions of U.S. dollars	104	39	25	12	--	--	--	--	--	--	--
In percent of Guyana's gross financing needs 2/	13	12	6	7	--	--	--	--	--	--	--
Debt service to other multilateral institutions	32	37	41	41	38	37	37	38	37	34	33
US$/SDR exchange rate	1.357	1.399	1.397	1.397	1.397	1.397	1.397	1.397	1.397	1.397	1.397

Sources: Bank of Guyana and Fund staff estimates.

1/ Nonreschedulable debt service includes debt to multilateral organizations and uninsured suppliers, post-cut off-date debt, commercial bank debt (excluding arrears), and refinancing.

2/ Gross financing needs are defined as the sum of the current account deficit before official transfers, amortization of medium- and long-term debt, repayments to the Fund, targeted reduction in payment arrears, and targeted accumulation of reserves.

As indicated in Table 16, debt-service obligations to the Fund are particularly large in the period 1994-97. Repayments would increase to 8 percent of merchandise exports in 1994, reaching a peak level equivalent to 18 percent of gross official reserves. The Fund's share in Guyana's total public debt-service obligations would be about 16 percent in 1994-97. Developments in 1991 and 1992 to date--notably the elimination of the commercial bank debt and the larger-than-anticipated buildup in gross reserves in 1991-92--have served to strengthen Guyana's capacity to repay the Fund in the short term. Nevertheless, given the still heavy debt-service burden, Guyana's external position will remain precarious. Sustained implementation of adjustment policies, the programmed buildup of reserves, additional external assistance on concessional terms, and a major reduction of the stock of debt and debt service will be required if undue risk to the Fund's claims on Guyana is to be avoided.

V. Performance Criteria and Financial and Structural Benchmarks

To help monitor progress in the implementation of the economic program, financial targets and structural benchmarks have been established for the period July-December 1992. In addition, indicative targets and structural benchmarks have been specified for the period through end-December 1993 (Tables 17 and 18). These include: (i) limits for the change in the net foreign assets of the Bank of Guyana, with subtargets for the change in gross international reserves of the Bank of Guyana; (ii) ceilings on the net domestic assets of the Bank of Guyana; (iii) ceilings on the borrowing requirement of the nonfinancial public sector, with subceilings on its domestic borrowing requirement; (iv) no accumulation of external payments arrears by the public sector; (v) ceilings on the contracting of public or publicly guaranteed external debt with a maturity of 12 years or less; and (vi) schedules for the implementation of structural policies relating to the exchange rate policy, the exchange and trade system, pricing policy, tax administration, public sector reform, and financial sector and interest rate policy.

Items (i) through (v) will constitute performance criteria for the period through end-December 1992 and indicative financial targets through end-December 1993. The structural policies referred to in item (vi) will constitute benchmarks under the ESAF. The implementation of the exchange and interest rate policies will constitute performance criteria under the ESAF. A mid-term review of the program under the ESAF is scheduled to be completed by June 30, 1993, which will examine in particular the measures taken to strengthen the financial position of GEC (including the possible need to adjust electricity tariffs), the privatization strategy, and the progress being made in the areas of tax administration and financial sector reform.

VI. Staff Appraisal

Guyana's performance under its economic program has continued to be satisfactory. Real GDP growth in 1992 has been higher than envisaged, the exchange rate has remained stable, and inflation has continued to decline. Public sector savings have strengthened further on the basis of higher tax revenues, continued restraint in central government expenditures, and a strengthening in the finances of the public enterprises. In this respect, important progress also has been made toward improving the viability of the state-owned electricity and bauxite operations. Positive real interest rates have been maintained in the context of the monthly treasury bill auctions and private sector claims on the financial system have continued to show strong growth. The external current account has strengthened further

Table 17. Guyana: Quantitative Limits and Targets for the Period July-December 1992 and January-December 1993 Under the Third ESAF Arrangement

	July-Dec. 1992	Jan.-Dec. 1993
(In millions of Guyana dollars)		
Limit on the net borrowing requirement of the nonfinancial public sector 1/	5,800	9,500
Limit on the increase in the stock of domestic public debt 1/	3,000	-1,000
Limit on the increase in the net domestic assets of the Bank of Guyana 1/	3,800	2,300
(In millions of U.S. dollars)		
Limit for the loss in the net foreign assets of the Bank of Guyana 1/	20	13
Limit for the gain in the gross international reserves of the Bank of Guyana 1/	3	13
Limit on the contracting of public and publicly guaranteed external debt with a maturity of 12 years or less	5	10
Target for the stock of external payments arrears (end of period)	--	--

Sources: Technical Memorandum of Understanding attached to the Letter of Intent of November 20, 1992; and Fund staff estimates.

1/ These limits and targets will be adjusted as established in the Technical Memorandum of Understanding attached to the Letter of Intent of November 20, 1992.

Table 18. Guyana: Structural Benchmarks Under the Third ESAF Arrangement

	Policy Measures	Schedule of Implementation
I.	Exchange rate policy and exchange and trade system	
	a) Pursuit of exchange rate policy as described in paragraph 7 of the Memorandum. 1/	July 1992-June 1993
	b) Continued avoidance of restrictions in the operations of the cambio market, as described in paragraph 7 of the Memorandum. 1/	July 1992-June 1993
	c) Initiation of a phased reduction of the Common External Tariff (CET) as described in paragraph 8 of the Memorandum.	January-June 1993
II.	Pricing Policy	
	a) Implementation of the pricing policies described in paragraph 9 of the Memorandum.	July 1992-June 1993
	b) Maintain market-determined prices for rice in the domestic market as well as for exports, and continue pricing policies for state-owned rice mills that fully reflect the international price of the equivalent grades of rice	July 1992-June 1993
III.	Tax administration	
	Initiation of IDB-financed project to improve tax administration referred to in paragraph 12 of the Memorandum.	December 1992
IV.	Public sector reform	
	a) Implementation of privatization program along the lines described in paragraph 17 of the Memorandum.	July 1992-June 1993
	b) Continued implementation of measures to rehabilitate the major power stations and strengthen the management of GEC as described in paragraph 13 of the Memorandum.	July 1992-June 1993
	c) Implementation of the additional measures, as described in paragraph 13 of the Memorandum, to ensure that the need for transfers to GEC is eliminated by end-1993	January-June 1993
V.	Financial sector policies	
	a) Implementation of measures to strengthen and modernize the regulatory and supervisory framework as described in paragraph 19 of the Memorandum	June 1993
	b) Continued implementation of a flexible interest rate policy based on the system of competitive bidding for treasury bills as described in paragraph 21 of the Memorandum. 1/	July 1992-June 1993
	c) Implementation of measures to increase competition and depth in the financial market as described in paragraphs 20 and 21 of the Memorandum.	July 1992-June 1993
VI.	Statistics	
	Publication of an interim consumer price index	June 1993

1/ Performance criteria at end-December 1992.

on the basis of higher export volumes, and the accumulation of gross international reserves has exceeded the level envisaged in the program. In addition, progress toward reestablishing relations with external creditors and attaining external viability has continued.

Notwithstanding the progress made to date, Guyana's economic situation remains very difficult owing to its very large external debt obligations, the weakened state of its infrastructure, and the effects of migration on its labor force. The program for 1992-93 seeks to consolidate the gains achieved to date by further strengthening financial policies, reducing structural weaknesses, and maintaining appropriate incentives for sustained growth.

The new administration of Guyana has endorsed the major elements of the program for 1992-93 that had been agreed with the previous administration, and has accepted responsibility for its implementation in all areas except divestment, where the authorities have indicated a continued commitment to the privatization process but intend to define their own privatization strategy. In addition, the new administration has indicated its intention to place greater emphasis on social expenditures and poverty alleviation but within the parameters of the fiscal program that already had been agreed.

The Guyanese authorities have expressed their commitment to maintain the unified, market-determined exchange rate system, which has made an important contribution to improving resource allocation and strengthening confidence in the program. The authorities also recognize the need for the Bank of Guyana to strengthen its links with the cambio market and to encourage a further deepening of that market, with a view to facilitating the shift of the remaining foreign exchange transactions in the official market to that market. Guyana also is party to the recent agreement on a phased reduction of the CET to commence in 1993 with the aim of improving resource allocation and competitiveness in the region.

The fiscal deficit now envisaged for 1992 represents an improvement over that contemplated earlier, in particular for the nonfinancial public sector. The current primary surplus would be about the same as programmed, but there has been a substantial strengthening in the outlook for the Central Government which would offset a weakening in the position of the public enterprises. The tax measures introduced to date have simplified the tax structure, reduced tax rates, and closed certain loopholes and thus should help curb tax evasion over time. In this connection, the strong performance of tax revenues in 1992 to date has been particularly encouraging, though tax administration remains weak and there is a need to continue to broaden the tax base. As regards tax administration, the further delays in implementation of the IDB-funded tax administration project are a cause of concern and the authorities are urged to work closely with the relevant agencies to remove any remaining obstacles.

The program calls for firm restraint on noninterest current expenditures of the Central Government, including for wages, and the staff welcomes the commitment made by the new authorities in this area. Nominal wage increases are to be kept in line with the projected rise in prices in 1993, while the program envisages a reduction in current expenditures on other goods and services in relation to GDP. The planned Public Administration Project of the World Bank should go some way to relieving the pressures on the public sector to retain and attract skilled staff in key positions in the short term, and it is hoped that donor funding will be readily forthcoming to enable this project to commence in early 1993. However, a sustained improvement in revenue performance will be needed to relieve the existing constraints on central government expenditures.

Important progress has been made during 1992 in restructuring GUYMINE, and in strengthening the management of GEC. There is substantial scope to strengthen GEC's finances through improved financial controls and collection procedures, but additional measures, including a further adjustment of electricity tariffs, may be necessary to eliminate current transfers by end-1993. The improved output performance of GUYSUCO has continued to exceed expectations, though it will not be possible to sustain revenues at the level achieved in 1992. This highlights the importance of maintaining firm control over current expenditures and for the new administration to act promptly in determining a strategy for the future rehabilitation and ownership arrangements for the sugar industry.

As noted above, the new administration has expressed a commitment to continue the privatization of public enterprises, which is a central element in its strategy of improving efficiency in the public sector and increasing the role of the private sector in the economy. The staff urges the authorities to complete the proposed review of the privatization process within the timetable envisaged in the program to ensure that the momentum in this area is maintained.

Substantial external financing is needed to rehabilitate Guyana's social and physical infrastructure and it is important that disbursements from the loan pipeline be accelerated and that funding of new projects be resumed without delay. In this connection, it also will be important to monitor project implementation closely and to take early measures to correct any problems that may arise in this area.

Achievement of the objective of reducing inflation further will require the continued implementation of a firm monetary policy. The conduct of monetary policy is being assisted by the interest rate flexibility provided by the monthly treasury bill auctions. Real interest rates have started to come down in 1992 and further declines may be expected if fiscal and credit policies are implemented as planned. However, there also remains a need to promote greater competition in the domestic financial system, and it will be important to implement the required modifications to the banking legislation so that the Bank of Guyana can proceed with the consideration of new commercial bank licenses. Actions to strengthen the regulatory function of the Bank of Guyana also are necessary.

As noted earlier, the new administration has indicated that it places a high priority on social expenditures and poverty alleviation. Projects funded by the World Bank and IDB should have a significant effect in these areas in 1993 and the planned measures to strengthen the implementation capacity of SIMAP will be important in this regard.

Guyana will remain subject to very heavy debt-servicing requirements, notwithstanding the debt relief already granted and the strengthening of the balance of payments that is envisaged over the medium term. Some official creditors have canceled debt outright, and other creditors have agreed to debt-reduction operations involving significant discounts. Further actions in this direction will be required including, in the medium term, a major concessional restructuring of the stock of debt to reduce debt and debt-service obligations to more manageable proportions in the context of continued strong adjustment efforts by Guyana.

The staff welcomes the elimination of Guyana's payments arrears to commercial banks. All exchange transactions are being conducted at cambio market-related daily rates. However, given that the cambio market is still developing, it cannot be precluded that spreads for simultaneous spot exchange transactions may at times exceed 2 percent because of the use of average market rates for governmental transactions. To provide time for the further development and deepening of the cambio market, and considering that the authorities intend to explore ways to strengthen the links between the official and cambio market with a view to shifting the remaining transactions in the official market to the cambio market, the staff recommends that approval be given for the multiple currency practice that may arise under the existing exchange arrangements.

It is proposed that the next Article IV consultation be conducted on the standard 12-month cycle.

Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

I. Guyana--1992 Consultation

1. The Fund takes this decision relating to Guyana's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1992 Article IV consultation with Guyana conducted under Decision No. 5392-(77/63) adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The use by Guyana of average market rates for government transactions gives rise to a multiple currency practice subject to approval under Article VIII, Sections 2(a) and 3. The Fund grants approval of this practice, until December 31, 1993 or the completion of the next Article IV consultation with Guyana, whichever is earlier.

II. Guyana--Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

1. The Government of Guyana has requested the third annual arrangement under the enhanced structural adjustment facility.

2. The Fund has appraised the progress of Guyana in implementing economic policies and achieving the objectives under the program supported by the second annual arrangement, and notes the updated policy framework paper (EBD/92/286).

3. The Fund approves the arrangement set forth in EBS/92/191.

Fund Relations with Guyana
(As of October 30, 1992)

I. Membership Status: Joined 9/26/66 Article VIII

II. General Resources Account:

	SDR Million	Percent Quota
Quota	49.20	100.0
Fund holdings of currency	98.70	200.6

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	14.53	100.0
Holdings	0.68	4.7

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Stand-by Arrangements	49.50	100.6
ESAF Arrangements	63.81	129.7

V. Financial Arrangements:

	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF	7/13/90	7/12/93	81.52	63.81
Stand-By	7/13/90	12/31/91	49.50	49.50

VI. Projected Obligations to Fund: (SDR million; based on existing use of resources only)

	Overdue 9/30/92	Forthcoming 1992	1993	1994	1995	1996
Principal			2.4	15.3	15.6	16.4
Charges/interest		0.8	4.6	4.1	3.0	2.2
Total		0.8	7.0	19.4	18.6	18.6

VII. Exchange Rate Arrangement:

The currency of Guyana is the Guyana dollar, the external value of which is determined freely by market forces in the cambio market. The Bank of Guyana conducts certain transactions on the basis of the cambio rate by averaging quotations of the three largest dealers in the cambio market on the date the transaction takes place. In accordance with the bilateral agreements with the central banks of the CARICOM, the Bank of Guyana quotes weekly rates for the CARICOM currencies. As of end-October 1992, the cambio market exchange rate was G$126 per U.S. dollar.

VIII. Previous Decisions:

Effective June 20, 1990 the Executive Board restored Guyana's eligibility to use Fund resources following Guyana's settlement in full of its overdue obligations to the Fund. A one-year stand-by arrangement for SDR 49.5 million, a three-year ESAF arrangement for SDR 81.5 million and the first annual arrangement under the ESAF for SDR 46.1 million were approved by the Executive Board on July 13, 1990. On April 24, 1991, the Executive Board completed the review under the stand-by arrangement and the mid-term review under the first annual arrangement under the ESAF, and agreed to extend the period of the stand-by arrangement through end-December 1991. On October 30, 1991, the Executive Board completed the second review under the stand-by arrangement and approved the second annual arrangement under the ESAF for SDR 17.7 million. On that date, the Executive Board also concluded the 1991 Article IV consultation. On June 12, 1992, the Executive Board completed the review under the second annual arrangement under the ESAF.

IX. Technical Assistance:

a. Missions:

Date	Department	Purpose
May 1991	WHD	Methodology to determine the volume of Treasury bills for offer in competitive tenders.
July 1992	LEG	Review financial legislation.

b. Resident experts:

Date	Title	Purpose
March 1990 to date	Research Advisor, Bank of Guyana	Strengthen the Research Department and advise the Governor.
April 1990 to date	Bank Supervisor Advisor, Bank of Guyana	Strengthen and modernize the financial regulatory and supervisory framework.

X. Resident Representative:

None.

Financial Relations of the World Bank Group with Guyana

IBRD/IDA lending operations as of August 31, 1992	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
	(In millions of U.S. dollars)			
Education	8.30	7.03	--	--
Health	--	--	--	11.05
Agriculture and forestry	22.90	11.35	--	--
Transportation	--	4.40	--	--
Program and Structural Adjustment Loans	19.00	102.62	--	18.22
Sea defense	10.09	--	--	--
Energy	13.86	0.93	--	--
Other	2.07	1.97	--	11.01
Total	76.22	128.30	--	40.28

Amortization payments:	US$44.62 million
Debt outstanding and disbursed:	US$170.50 million 1/
Borrower's obligation:	US$190.02 million 2/
Overdue payments (including interest and charges):	Nil
IFC investments:	Nil
Recent missions:	Since the last Staff Report in May 1992, Bank missions visited Guyana for SAC supervision (third tranche release still pending), the preparation of a Public Sector Administration Reform Project (to be implemented by early 1993), and the preparation of a water supply and sewerage project (to be implemented during 1993). A debt buy-back operation for Guyana's commercial bank debt under the Debt Reduction Facility for IDA-only countries will be presented to the Board shortly. A sugar rehabilitation project is expected to be presented to the Board in FY 1993.
Technical assistance:	A Technical Assistance Credit (TAC) of US$3 million equivalent was approved in June 1990 to help implement the SAC. The TAC is being implemented now. A balance of approximately US$8.36 million remains under a technical assistance credit for the bauxite sector and disbursements are expected to commence in late 1992.
Aid Consultative Group:	A Consultative Group meeting for Guyana was held on July 9, 1991, under the auspices of the Caribbean Group for Cooperation in Economic Development (CGCED). A subgroup meeting for Guyana was held on June 3, 1992 at the Eleventh Meeting of the CGCED in Washington, DC.

1/ Based on historical values.
2/ Based on current values.

Guyana--Statistical Issues

1. Outstanding statistical issues

a. Real sector

The national accounts data are not current and not reliable. They do not capture developments in the parallel economy; there are no production data for some of the service and nontraditional goods-producing sectors, so value added data in these sectors are rough estimates at best; and the weakness of balance of payments data as well as the lack of data on private investment render the GDP by expenditure estimates highly unreliable.

Employment data cover the public sector only; there are no official statistics on the labor force, employment, and wage structures of the economy as a whole. No official consumer price index (CPI) has been compiled or published since July 1989 as the old CPI was based on a consumption basket determined in 1969/70, and needs to be updated for changes in consumption patterns. For this purpose, a household expenditure survey was initiated in 1992 and the authorities plan to recommence publication of an official CPI in the third quarter of 1993.

b. Government finance

Fairly comprehensive and up-to-date above-the-line public finance data are available. However, there are frequent inconsistencies between data supplied by the public enterprises and those provided by the Ministry of Finance and State Planning Secretariat. Also, the National Insurance Scheme is misclassified as a financial enterprise. The authorities do not compile data on the financing of public sector operations.

c. Monetary accounts

Overall, the coverage and quality of the monetary accounts are good. Nevertheless, improvements are needed to the currentness of commercial bank and nonbank reporting to the Bank of Guyana; and commercial bank data contain inconsistencies with Bank of Guyana data.

d. External sector

Except for the traditional exports (bauxite, sugar, and rice) and official capital flows and transfers, balance of payments data are weak or nonexistent. The most serious deficiency is the lack of data on the volume, value, and structure of imports. There are few firm data on nontraditional exports, service transactions, private transfers, and private capital flows. Official external debt data are not current and their coverage is inadequate.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Guyana in the November 1992 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Guyana.

Status of IFS Data

		Latest Data in November 1992 IFS
Real sector	- National accounts	1990
	- Prices: WPI	n.a.
	CPI	June 1989
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1991
	- Financing	1991
	- Debt	1991
Monetary accounts	- Monetary authorities	May 1992
	- Deposit money banks	May 1992
	- Other banking institutions	March 1992
Interest rates	- Discount rate	November 1991
	- Bank deposit rate	November 1991
	- Bank lending rate	November 1991
	- Bond yield	n.a.
External sector	- Merchandise trade:	
	Values	December 1991 1/
	Volumes (exports only)	June 1992
	Prices	n.a.
	- Balance of payments	1985
	- International reserves	August 1992
	- Exchange rates	September 1992

1/ 1990 for imports.

GUYANA--Basic Data

Area and population	
Area	83,000 sq. miles (215,000 sq. km.)
Population (mid-1990)	753,700
Annual rate of population increase (1981-90)	-0.1 percent
GDP (1991)	SDR 174.3 million 1/
	US$238.5 million 1/
	G$26,385 million
GDP per capita (1991)	SDR 231.3 1/
Population characteristics (1989)	
Urban population (percent of total)	34.1
Population density per square mile of agricultural land	113.5
Population age structure (percent)	
0-14 years	35.9
15-64 years	59.2
65 and above	4.9
Crude birth rate (per thousand)	25.6
Crude death rate (per thousand)	7.6
Total fertility rate	2.9
Life expentancy at birth (years)	63.7
Infant mortality rate (per thousand)	53.2
Food, health, and nutrition (1989)	
Index of food production per capita (1979-81 = 100)	69.6
Per capita supply of:	
Calories (percent of requirements)	86.6
Proteins (grams per day)	59.0
Population per physician (thousand)	6.2
Population per nurse (thousand)	0.9
Population per hospital bed (thousand)	0.3
Education (1989)	
Students reaching grade 4 (percent)	94.0
Consumption (1989)	
Energy consumption per capita (kg. of oil equivalent)	585.0
Newspaper circulation (per thousand population)	88.8

GDP by origin 2/	1987	1988	1989	1990	1991
			(percent)		
Agriculture, forestry, and fishing	27.7	26.0	26.5	23.5	24.6
Mining and quarrying	10.0	10.0	9.0	11.0	12.6
Manufacturing	13.0	12.8	12.1	10.9	11.4
Construction	6.6	6.8	6.7	7.0	6.8
Government	17.4	17.6	18.2	18.7	16.9
Other services	25.3	26.8	27.5	28.9	27.9
Ratios to nominal GDP					
Exports of goods and nonfactor services	80.5	62.9	90.8	83.8	122.5
Imports of goods and nonfactor services	-94.1	-67.2	-100.6	-105.0	-136.8
Current account of the balance of payments 3/	-45.5	-43.6	-55.3	-72.5	-50.0
Central government revenues	33.1	41.5	42.1	48.1	49.6
Central government expenditures	86.3	78.2	90.1	93.3	73.9
Nonfinancial public sector current account position	-9.3	-16.8	-24.3	-28.0	-10.5
Nonfinancial public sector overall surplus or deficit (-) 4/	-37.6	-33.9	-31.3	-64.7	-34.7
External public debt (end of year) 3/	713.0	820.2	903.0	955.0	776.4
Gross national savings	-1.5	-5.0	-6.5	-7.1	-4.3
Gross domestic investment	29.7	20.9	22.7	31.7	25.4
Money and quasi-money (end of year)	87.3	98.7	82.0	83.7	62.5

Annual changes in selected economic indicators	1987	1988	1989	1990	1991
			(percent)		
Real GDP at factor cost 2/	0.9	-2.6	-3.3	-2.5	6.0
GDP at current market prices	49.1	20.4	80.4	54.9	124.8
GDP deflator	45.8	24.5	86.5	59.0	112.1
Consumer prices (annual averages)	28.7	39.9	89.7 5/	63.6 5/	105.9 5/
Central government revenues	11.6	45.8	78.8	70.7	151.8
Central government expenditures	32.3	9.9	109.1	59.5	78.6
Money and quasi-money	34.3	37.3	50.3	52.0	66.1
Money	46.2	45.3	43.8	44.0	57.7
Quasi-money 6/	28.0	32.4	54.7	57.1	71.4
Net domestic bank assets 7/	49.3	47.8	58.5	17.8	32.9
Credit to public sector (net)	57.5	44.3	35.9	-2.1	-37.5
Credit to private sector	14.0	20.1	23.7	25.7	25.7
Merchandise exports (f.o.b., in U.S. dollars)	14.5	-10.7	-4.6	-0.3	17.0
Merchandise imports (c.i.f., in U.S. dollars)	0.9	-17.7	-1.5	17.5	-2.0 8/

	1987	1988	1989	1990	1991
Central government finances		(millions of Guyana dollars)			
Total revenues and grants	1,241.0	1,731.9	3,187.1	5,620.9	13,075.1
Total expenditures	2,969.9	3,263.9	6,823.4	10,914.2	19,497.1
Current account surplus or deficit (-)	-1,255.5	-1,129.5	-2,792.2	-4,093.7	-6,549.4
Overall surplus or deficit (-)	-1,728.9	-1,532.0	-3,636.3	5,293.3	-6,422.0
Balance of payments		(millions of U.S. dollars)			
Merchandise exports, f.o.b	240.5	214.6	204.7	203.9	238.6
Merchandise imports, c.i.f.	-261.9	-215.6	-212.4	-249.5	-245.0 8/
Investment income (net)	-89.3	-93.8	-102.7	-108.7	-108.8 8/
Other services and transfers (net)	1.2	1.3	-2.9	6.6	-3.8 8/
Balance on current and transfer accounts	-109.5	-93.6	-113.3	-147.8	-119.0
Nonfinancial public sector capital (net)	-22.6	-27.8	-61.4	-56.1	-20.6
Private capital and errors and omissions (net)	1.3	15.4	10.2	9.8	73.6
Change in arrears of the nonfinancial public sector and the private sector (increase +)	60.3	73.5	-146.4	-366.6	--
Change in central bank net foreign assets (increase -) 9/	74.5	32.2	29.5	-18.1	-40.5

	December 31				
	1987	1988	1989	1990	1991
International reserve position 10/			(millions of SDRs)		
Central bank (net) 11/	-431.7	-470.8	-503.7	-459.5	-431.3
Central bank (gross)	6.3	3.0	11.6	18.7	86.0
Rest of banking system (net)	1.2	1.7	13.2	20.0	8.5

1/ Converted to U.S. dollars using the average official exchange rate for 1991.
2/ At 1988 prices.
3/ As a percentage of merchandise exports.
4/ Excluding project grants and divestment receipts.
5/ Staff estimate based on partial indicators.
6/ Time and savings deposits.
7/ Net of valuation changes; as percent of broad money at beginning of the period.
8/ Excludes major gold project and petroleum exploration-related activities.
9/ Includes divestment receipts.
10/ At exchange rates prevailing at the end of the period.
11/ Includes liabilities on account of external payments arrears.

Guyana--Third Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached hereto is a letter dated November 20, 1992, from the Minister of Finance of Guyana and the Governor of the Bank of Guyana, requesting from the Fund a third annual arrangement under the enhanced structural adjustment facility, and setting forth the objectives and policies of the program to be supported by the third annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. Under the third annual arrangement:

(a) the first loan, in an amount equivalent to SDR 8,856,000 will be available on December 30, 1992 at the request of Guyana; and

(b) the second loan, in an amount equivalent to SDR 8,854,000, will be available on June 30, 1993 at the request of Guyana, subject to paragraph 2 below.

2. Guyana will not request disbursement of the second loan specified in paragraph 1(b) above:

(a) if the Managing Director finds that the data for the end of December 1992 indicate that:

(i) the target for the net foreign assets of the Bank of Guyana, or the target for the gross international reserves of the Bank of Guyana, or

(ii) the ceiling on the net domestic assets of the Bank of Guyana, or

(iii) the ceiling on the net borrowing requirement of the nonfinancial public sector, or the subceiling on its net domestic borrowing requirement, or

(iv) the intention to avoid external payments arrears of the public sector, or

(v) the ceiling on the contracting of public or publicly guaranteed external debt with a maturity of 12 years or less, as described in Sections I, II, III, IV, and V of the Technical Memorandum of Understanding set forth in Attachment IV to EBS/92/191 is not observed; or

b. if Guyana fails to carry out the intentions with regard to exchange rate policy or interest rate policy as specified under Sections I and V, respectively, in Table 5 attached to the letter of November 20, 1992; or

c. if Guyana

   (i) imposes or intensifies restrictions on payments or transfers for current international transactions, or

   (ii) introduces or modifies multiple currency practices, or

   (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

   (iv) imposes or intensifies import restrictions for balance of payments reasons; or

d. until the Fund has determined that the mid-term review of Guyana's program referred to in the fifth paragraph of the letter dated November 20, 1992 has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(b) above may be made available only after consultation has taken place between the Fund and Guyana, and understandings have been reached regarding the circumstances in which Guyana may request that second loan.

3. Guyana will provide the Fund with such information as the Fund requests in connection with monitoring the progress of Guyana in implementing the policies and reaching the objectives supported by these arrangements.

4. In accordance with the fourth paragraph of the letter dated November 20, 1992, during the period of this third annual arrangement, Guyana will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the third annual arrangement and while Guyana has outstanding financial obligations to the Fund arising from loans under that arrangement, Guyana will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Guyana's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Guyana or of representatives of Guyana to the Fund.

November 20, 1992

Mr. Michel Camdessus
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Mr. Camdessus:

Attached is an updated Memorandum on the Economic and Financial Policies of Guyana setting out the objectives and policies the Government intends to pursue in 1992-93 in the context of the third annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) approved by the Executive Board of the Fund on July 13, 1990 and reviewed by the Board on June 12, 1992. The Memorandum is based on an updated Policy Framework Paper (PFP) for 1992-94 which is being transmitted to you separately.

In support of these objectives and policies, Guyana hereby requests the third annual arrangement under the ESAF in an amount equivalent to SDR 17.7 million. The period of the programme under the third annual arrangement starts July 1, 1992, with performance criteria established for end-December 1992.

As explained in the Memorandum, Guyana observed all the financial benchmarks for end-June 1992 under the ESAF. Moreover, projections through end-December 1992 indicate that performance for the second half of 1992 would be within the indicative targets set for end-December 1992. Guyana also met all the structural benchmarks except that on commencing the implementation of measures to improve tax administration in the context of an IDB project by end-June 1992. Such implementation is now expected to commence December 1992.

The Government believes that the policies and measures set forth in the attached Memorandum are adequate to achieve the objectives of its programme but will take further measures that may become appropriate for this purpose. Guyana will consult with the Fund on the adoption of any measures that will be appropriate, in accordance with the Fund's policies on such consultations.

Within the arrangement Guyana will conduct with the Fund a mid-term review of its third annual programme under the ESAF to be completed no later than June 30, 1993. In this review, the Government will reach understandings with the Fund on financial and structural benchmarks for the remaining period of the third annual arrangement after December 31, 1992.

Sincerely yours,

/s/
Archibald L. Meredith
Governor, Bank of Guyana

/s/
Asgar Ally
Minister of Finance

Memorandum on the Economic and Financial Policies of Guyana

1. The Government of Guyana has been implementing since mid-1988 a medium-term Economic Recovery Programme (ERP) that involves a fundamental reorientation of economic policy and a shift toward a market-oriented economy based on a number of far-reaching adjustment measures and structural reforms. These reforms are designed to establish a basis for sustained economic growth in the context of low inflation and a viable balance of payments position over the medium term, while reintegrating the parallel economy into the official sector and normalizing relations with external creditors.

2. Under the ERP supported by stand-by and ESAF arrangements from the Fund, Guyana has made considerable progress in reducing domestic imbalances and setting the basis for sustained growth. Real GDP grew by 6 percent in 1991 after four years of decline and at an annual rate of about 7 percent in the first half of 1992. The inflation rate fell sharply during the second half of 1991 to an annual rate of about 20 percent, and declined further during the first nine months of 1992 to an annual rate of about 15 percent. The value of the Guyana dollar in the cambio market has remained fairly stable in nominal terms over the past 18 months, and yields on 3-month treasury bills have fallen from an average of 31 percent in the second half of 1991 to 24.5 percent in October 1992. The current primary surplus of the public sector increased from 15 percent of GDP in 1988 to 28 percent in 1991 and is projected to be about 29 percent in 1992. The balance of payments position also strengthened with gross official reserves reaching over six months of merchandise imports at end-1991 and projected to remain at the equivalent of about six months of merchandise imports at end-1992. The stock of external debt declined from the equivalent of 900 percent of merchandise exports in 1989 to 775 percent in 1991 and is projected at 640 percent in 1992, while scheduled debt-service obligations dropped from 145 percent of merchandise exports in 1989 to 68 percent in 1991 and are projected to decline to 57 percent in 1992.

3. Performance under the second annual ESAF arrangement has been very satisfactory thus far in 1992. All financial benchmarks for end-June were observed as were all structural benchmarks except that on measures to improve tax administration. During the first nine months of 1992, gross official international reserves increased by US$19 million compared with a targeted loss of US$5 million, while the net foreign assets of the Bank of Guyana declined by US$7 million compared with a programmed loss of US$29 million. The overall deficit of the nonfinancial public sector in the first half of 1992 is estimated to have been about 70 percent of that envisaged in the programme, with the current primary surplus exceeding the programmed level by about 70 percent. Also, the stock of domestic public debt increased by only about 30 percent of the targeted increase, while the net domestic assets of the Bank of Guyana were unchanged, compared with an increase of G$3.9 billion envisaged in the programme. Guyana observed the structural benchmarks dealing with exchange rate, interest rate, and pricing policies as well as those on the implementation of the divestment programme and measures to strengthen the management of the electricity company (GEC).

However, the implementation of measures to improve tax administration suffered a further delay due to problems with the hiring of the consultants and is now expected to commence in December 1992.

4. Despite the progress attained since the inception of the ERP in terms of putting in place policies to promote an open, market-oriented economy by restoring appropriate incentives for production and exports and increase the role of the private sector in the economic development of Guyana, the solution to Guyana's economic difficulties will require a sustained effort over a number of years. To address the remaining structural problems and financial imbalances, the Government will continue to define its adjustment programme within a medium-term context as reflected in an updated PFP for 1992-94, prepared in collaboration with the staffs of the Fund and the World Bank. The broad objectives of the ERP continue to be those described in paragraph 1 above.

5. The programme proposed for 1992-93 is based on real GDP growth of about 6 percent a year, and seeks to lower inflation from about 80 percent during 1991 to 15 percent during 1992 and to 10 percent during 1993 and to increase the gross international reserves of the Bank of Guyana by US$38 million in 1992-93 to US$161 million at end-1993.

6. To achieve these objectives, the Government will continue to implement in the remainder of 1992 and in 1993 a comprehensive set of macroeconomic and structural policies designed to foster economic growth while continuing to reduce the rate of inflation. These policies include: (a) a freely floating exchange rate and market-determined prices, except for sugar and electricity tariffs; (b) a further strengthening of the public finances, including measures to improve the managerial efficiency of the public sector and the buoyancy of the tax system; (c) continued implementation of a public sector investment programme aimed at rehabilitating Guyana's economic and social infrastructure; (d) implementation of a transparent privatization process; (e) implementation of sectoral programmes to exploit the potential of the natural resource base on a sustainable basis; (f) monetary and credit policies commensurate with the inflation and balance of payments targets; and (g) external debt policies consistent with the objective of achieving a viable external position over the medium term.

7. Transactions in the cambio market will continue to be conducted freely. The Government will continue to refrain from intervening in the setting of the exchange rate or from establishing restrictions on the scope and size of transactions in that market. In this regard, regulations for the settlement of hotel bills by nonresidents in foreign exchange were eliminated on April 25, 1992. The Bank of Guyana will continue to conduct foreign exchange transactions relating to sugar exports, fuel imports, and official external debt service at an exchange rate based on the average quotation of the three largest dealers in the cambio market on the date the transaction takes place. The Government intends to encourage a further deepening of the cambio market with a view to shifting the remaining exchange transactions in the official market to that market. In line with this objective, it will explore possible measures to strengthen the links

between the Bank of Guyana and operators in the cambio market, such as offering a limited amount of foreign exchange to the cambio market on a regular basis consistent with the reserves targets of the programme. The Bank of Guyana will continue to set rates for the Caricom currencies every Friday on the basis of the average rates of the commercial banks and the five largest nonbank cambio dealers in the week ending the preceding Wednesday.

8. The Government continues to be fully committed to trade liberalization. Import licenses will continue to be granted automatically for all bona fide transactions except for imports of fuel which require purchases of foreign exchange in the official market. Import prohibitions have largely been removed and the Government is exploring the possibility of removing the remaining ones. Furthermore, the Government will implement over a four-year period, commencing Janury 1, 1993, the phased reduction of the Common External Tariff (CET) rate structure that was agreed on October 29, 1992 by the Caricom member states.

9. In the memorandum attached to our letter to the Managing Director of the Fund of May 13, 1992, the Government indicated that the increase in the price of sugar required to eliminate the existing subsidy on domestic sales of imported sugar would take place in October 1992. However, with the increase in local production to a level sufficient to satisfy domestic demand, the subsidy has effectively disappeared at the existing price and no increase is required. Electricity tariffs were adjusted by 10 percent effective June 1, 1992 as part of an effort to reduce the operating losses of GEC within the context of the rehabilitation programme for the company (see paragraph 13 below). No new price controls will be introduced during the programme period.

10. The Government initiated a one-year household survey in May 1992 with a view to obtaining some preliminary estimates of a consumer price index by early next year. Publication of such an index is expected to be resumed by the third quarter of 1993.

11. Fiscal policy will continue to play a major role in promoting economic growth by raising public sector savings, focusing public investment on the upgrading of Guyana's economic and social infrastructure, and improving the efficiency of the state enterprises. It is the Government's objective to reduce the overall deficit of the public sector (including the Bank of Guyana) from 45 percent of GDP in 1991 to 38 percent in 1992 and 36.5 percent in 1993, notwithstanding an increase in public investment outlays from 24 percent of GDP in 1991 to 29 percent of GDP in 1993. The primary current account surplus of the public sector would increase from 24.5 percent of GDP in 1991 (excluding a one-time tax on exchange rate gains equivalent to 3.5 percent of GDP) to 29 percent of GDP in 1993, while scheduled external interest obligations would decline sharply from 39 percent of GDP in 1991 to 25.5 percent in 1993. Notwithstanding the substantial decrease in the overall deficit, domestic financing of the nonfinancial public sector would amount to about 11 percent of GDP in 1992 (compared with a decline in the stock of domestic public debt of about 9 percent of GDP in 1991) because of

sharp drops in external project loans and grants (see paragraph 16 below) and in commodity assistance, and because of lower divestment proceeds. In 1993, however, the stock of domestic public sector debt is projected to decline by about 3.5 percent of GDP.

12. A major objective of the Government has been to reform the tax system in a manner that would broaden the tax base, improve resource allocation, minimize disincentives, and reduce the informal sector of the economy. To this end, several tax measures were introduced in the context of the 1992 budget, including modifications to the consumption tax, a reduction and unification of corporate income tax rates, an increase in the minimum income threshold for personal income taxes, the introduction of a 15 percent withholding tax on dividends, an update of the base year for property and capital gains taxes, and the elimination of some exemptions on import duties. Reflecting these and other tax measures adopted in previous years, and the strong upsurge in activity in some sectors of the economy, central government current revenue is projected to increase from 30 percent of GDP in 1991 (excluding the one-time tax on exchange profits) to 34 percent of GDP in 1992 and to remain at about that level in 1993. The Government continues to attach great importance to efforts to strengthen tax administration; however, further delays have occurred with respect to the implementation of a project in this area to be financed by the IDB which is now expected to commence in December 1992. A comprehensive review of the public sector, to be undertaken with World Bank assistance and expected to commence in late 1992, will also help to strengthen the enforcement capacity of the Inland Revenue and Customs departments. Also, the Government will monitor closely the system of fiscal incentives now in place in order to minimize their adverse impact on the buoyancy of the tax system.

13. The Government will continue to restrain noninterest current expenditure of the Central Administration. Such expenditure will increase to about 28 percent of GDP in 1992 compared with 26 percent in 1991, but will drop to about 24 percent of GDP in 1993, mainly on account of lower transfers to GEC and the absence of election-related expenditures. Reflecting the Government's efforts to restore an adequate level of real wages in the Central Government, the wage bill will increase by about 1 percent of GDP to 9.5 percent in 1992, and remain at that level in 1993, with real wages for central government employees estimated to increase on average by about 8 percent in 1992 and 5.5 percent in 1993 after several years of decline. However, there remains an urgent need to improve the capacity of the Central Administration to attract and retain skilled personnel. To address this problem the World Bank plans to implement a Public Administration Project beginning in 1993. Transfers to GEC, which were to have been eliminated by end-1992, are projected to decline from 4 percent of GDP in 1992 to 1.8 percent in 1993, and to be eliminated by the end of 1993. Such transfers have been much larger than had been anticipated previously because of delays in the implementation of a management contract for GEC and in the drawdown of an IDB loan to finance the rehabilitation of its major power stations. However, the 13 consultants hired to strengthen GEC's managerial capacity have been in place since end-August 1992, and disbursements of the IDB loan commenced in September 1992. The Government is committed to take whatever

additional measures are required to increase GEC's revenues or cut its expenditures so as to ensure that the above-mentioned objective of eliminating transfers to GEC by end-1993 is achieved.

14. The overall financial position of the public enterprises is expected to strengthen further in 1992, reflecting mainly a large increase in sugar exports to the preferential EC and U.S. markets as well as an improvement in the operating efficiency of the sugar industry. The primary current account surplus of the public enterprises, which increased from 10 percent of GDP in 1990 to 18 percent in 1991, is expected to increase further to 20.5 percent of GDP in 1992. This projection takes account of a worsening in the financial outcome for the bauxite operations at Linden as a result of a substantial weakening in world market conditions and difficulties experienced with its main suppliers and service contractors due to the nonsettlement of arrears. In order to improve the outlook for the bauxite industry, in June 1992 the Government issued a legislative order splitting the bauxite company (GUYMINE) into two separate operations (BERMINE and LINMINE), with the Central Government taking over GUYMINE's external debt, and bonds (with a 12-year and 1-day maturity and a 5 percent interest rate) will be issued to the external creditors. Proceeds from the divestment of LINMINE, which is expected to take place after an initial restructuring period (IRP) of 18 months to 2 years, will be used to redeem these bonds. Agreement was reached in early September with two of GUYMINE's creditors on a debt restructuring package to be implemented outside of the terms of the legislative order. A key element of the IRP is a management contract with an Australian firm that was signed in May and the management team is partially in place. Also, a package to provide working capital and finance the rehabilitation of LINMINE has been agreed with the World Bank, the EC, and the EIB with funds expected to be disbursed by early 1993.

15. The financial position of the public enterprises is expected to weaken in 1993 (with the current primary surplus decreasing to 18.5 percent of GDP), mainly on account of a lower average price for sugar exports resulting from lower exports to the EC market as a share of total production in 1993 and notwithstanding an improvement in the performance of LINMINE and GEC. General wage increases granted by the public corporations in 1993 will continue to depend on their ability to pay after deduction of all tax, dividend and transfer obligations, and will be consistent with the inflation objective.

16. The public sector investment programme (PSIP) as currently formulated amounts to 24 percent of GDP in 1992 and about 29 percent of GDP in 1993, of which only 40 percent in 1992 and 60 percent in 1993 would be externally financed compared with about 70 percent in previous years. This decline in external financing reflects both problems in disbursing some of the funds committed for existing projects as well as the fact that donors have not yet committed additional funds for essential new investment projects. About one third of the PSIP is directed to the rehabilitation of the sugar and bauxite industries, with the rest going to improve the social and economic infrastructure.

17. During 1992 the Government divested Quality Foods Limited and the rice mill previously operated by GUYSUCO. Total divestment proceeds from those entities for which divestment already has been agreed are expected to amount to US$11 million in 1992. The Government is committed to continue the process of privatization of public enterprises but intends to implement a systematic approach that will ensure transparency of the operations. In this connection, the Government will issue by March 1993 a policy document setting out its privatization strategy and a list of the enterprises to be privatized. Among the enterprises that the Government currently is considering for privatization are: Guyana National Engineering Corporation, Guyana Pharmaceutical Corporation, Guyana Stores Limited, Guyana Glassworks Limited, National Edible Oil Company, Guyana Airways, the Guyana National Cooperative Bank (GNCB), and the remaining state-owned rice mills. The Government also plans to divest BERMINE and, after the completion of the IRP, LINMINE.

18. The monetary programme for the Bank of Guyana seeks to increase gross international reserves by US$23 million in 1992 and US$15 million in 1993 to about 14 months of debt service payments and fuel imports. On the basis of the projected increase in real GDP, the maintenance of market-determined interest rates, the sharp deceleration of inflation achieved over the past year and the continued decline expected through end-1993, broad money is projected to expand by about 25 percent in real terms in 1992 (75 percent of which occurred in the first nine months of the year) and by an additional 4.5 percent in 1993. Furthermore, to facilitate an expected increase in private investment associated with the growing confidence in the economy, the monetary programme makes allowances for an increase in bank credit to the private sector in real terms in excess of the rate of GDP growth in 1992 and in line with GDP growth in 1993.

19. The Government considers the development of a competitive and efficient financial sector to be a key element for the long-term success of the ERP. Measures already have been taken to remove restrictions on financial sector activity through the elimination of selective credit controls and the liberalization of interest rates. The Government also is working to strengthen and modernize the regulatory and supervisory framework for commercial banks and other financial institutions in Guyana, within the context of the Government's move toward a market-based financial system. A bank supervision advisor is being provided to the Bank of Guyana by the Fund, under a technical assistance grant from the World Bank. In addition, the financial sector legislation in Guyana is seriously out-of-date and inadequate in a number of respects and the Government plans, with technical assistance from the Fund, to introduce amendments to the central bank and banking sector legislation in early 1993. These amendments would, inter alia, extend coverage of the legislation to all deposit-taking institutions; update the minimum capital requirements for commercial banks; centralize the responsibility for financial sector regulation at the Bank of Guyana; and strengthen existing regulatory powers and penalties.

20. The Government currently is considering several applications from the private sector for licenses to establish commercial banks. Amendments to the banking legislation, as discussed above, will be necessary before any new licenses can be granted, and the applications will need to be reviewed carefully to ensure that they meet the appropriate criteria.

21. A system of competitive bidding for treasury bills was established in June 1991. In line with recent declines in the yields for treasury bills, the Bank of Guyana has adjusted downward the Bank rate and other administered rates by 6.5 percentage points since the beginning of 1992. The Bank of Guyana will continue to adjust administered rates in line with the average treasury bill rate determined in the auctions. In this connection, the Government is exploring the possibility of broadening the range of maturities offered in the auctions. The Government also will examine the possibility of introducing open market operations as an additional instrument of monetary management and with a view to fostering the development of a secondary market in government securities.

22. In 1991 the Government completed all the bilateral agreements corresponding to the Paris Club Agreed Minute of September 1990. Also, bilateral agreements were reached with Venezuela, Brazil, North Korea, and China while discussions have been initiated with Trinidad and Tobago. In addition, an agreement was reached with the OPEC Fund which will extend credit lines to Guyana amounting to US$9 million to settle part of the Government's outstanding arrears. Negotiations will continue regarding a mechanism to settle the remaining arrears of US$12 million. Also, the Government reached agreement with its commercial bank creditors on a comprehensive debt reduction package centered on a debt buyback operation for outstanding bank claims estimated at about US$93 million. The financing of US$10 million required for this operation, which was completed in November 1992, was provided by the World Bank under the IDA Debt Reduction Facility.

23. While the implementation of the policies described above is expected to provide the basis for a sustained recovery of economic activity, the achievement of this objective will require substantial external assistance to supplement Guyana's domestic savings effort and support the rehabilitation of the economy. Guyana's external financing requirements for 1992-93 amount to US$537 million. The financial assistance envisaged in the programme includes US$83 million of project loans and grants, disbursements of US$37 million from the Fund under the ESAF arrangement, US$34 million from IDA, US$7 million from the Caribbean Development Bank, US$5 million in non-project balance of payments assistance from the IDB, and US$29 million in official bilateral commodity assistance. The programme also envisages the rescheduling (from agreements already in place) of US$97 million of official bilateral debt obligations of the nonfinancial public sector and private sector and US$32 million of debt obligations of the Bank of Guyana, and US$83 million in debt reduction by the commercial banks. Another US$109 million is expected to be obtained through divestment proceeds, private transfers, direct investment, and suppliers' credits. In addition, some US$21 million is required in the form of additional debt relief or balance of payments support in 1993. To promote a steady improvement in the

country's debt service profile, the Government will limit the contracting and guaranteeing of nonconcessional loans with a maturity of 12 years or less to no more than US$5 million in 1992 and no more than US$10 million in 1993.

24. The agency responsible for implementing the social impact amelioration programme (SIMAP) now has about 128 projects underway in various regions of the country and had committed about US$2 million as of end-April 1992. A major source of funding for SIMAP is an IDB grant of US$2.8 million which became available in early 1991. SIMAP will also be the executing agency for a US$11.5 million World Bank project in the areas of health, nutrition, water, and sanitation, under which disbursements are expected to commence shortly and would amount to about US$2.5 million in 1993. SIMAP also will administer a cash transfer program funded by the IDB for vulnerable groups, including low income public servants, that could amount to about US$5-7 million. Furthermore, the Canadian Hunger Foundation, which started operations in August 1991, funded 90 projects during the year ended March 1992, with disbursements totalling about US$0.7 million. Commitments for the year through March 1993 are projected at US$4.5 million, of which about US$1 million would be disbursed. Also, the UNDP is providing food assistance to primary school children at a cost of US$1 million a year.

Technical Memorandum of Understanding

This technical memorandum and attached tables define the concepts used in quantifying certain variables of the programme and specify performance criteria and structural benchmarks through December 31, 1992, and indicative targets through December 31, 1993.

I. Net Foreign Assets of the Bank of Guyana

1. For purposes of the programme, the net foreign assets of the Bank of Guyana (BOG) are defined as the gross international reserves of the BOG less current short- and medium-term external liabilities, rescheduled external liabilities, and external payments arrears of the BOG. Table 1 presents the net foreign assets of the BOG as of end-June 1992.

2. During the period July-December 1992, the net foreign assets of the BOG are not to decline by more than US$20 million. During the period January-December 1993, the target for the loss in the net foreign assets of the BOG will be US$13 million.

3. In turn, the gross international reserves of the BOG will increase by no less than US$3 million during July-December 1992, and by no less than US$13 million during January-December 1993.

4. The targets for the net foreign assets and gross international reserves of the BOG for the period July-December 1992 will be adjusted downward by the amount by which the disbursements of nonproject balance of payments assistance from the World Bank (excluding financing under the IDA Debt Reduction Facility) and the Caribbean Development Bank fall short of US$5 million. The targets for the net foreign assets and gross international reserves of the BOG for the period July-December 1992 will be adjusted upwards by the amount by which the combined disbursements of nonproject balance of payments assistance from the World Bank (excluding financing under the IDA Debt Reduction Facility) and the Caribbean Development Bank exceed US$5 million. The targets for the net foreign assets and the gross international reserves of the BOG for the period July-December 1992 will be adjusted upwards for the positive difference between the projected cumulative cash debt-service payments of the Central Government and the BOG as incorporated in the programme, which are detailed in the attached Table 2, and actual cumulative debt-service payments made by the Central Government and the BOG.

5. For purposes of the programme, non-U.S. dollar reserve assets and liabilities are to be converted into U.S. dollars at the cross foreign exchange rates prevailing on December 31, 1991, except for the U.S. dollar/SDR rate which is assumed at US$1.39 = SDR 1 during 1992.

II. Net Domestic Assets of the Bank of Guyana

6. For purposes of the programme, changes in the net domestic assets of the BOG are defined as the difference between changes in currency held outside the banking system and changes in the net foreign assets of the BOG converted into Guyana dollars at the agreed accounting exchange rates.

7. The cumulative increase in the net domestic assets so defined will not be more than G$3.8 billion in the period July-December 1992, and not more than G$2.3 billion in the period January-December 1993. The former limit will be adjusted upward (downward) by the Guyana dollar equivalent (at the accounting exchange rates) of any downward (upward) adjustment made to the net foreign assets target of the BOG in accordance with paragraph 4 above. Table 3 presents the net domestic asset position of the BOG as of June 30, 1992.

III. Net Borrowing Requirements of the Nonfinancial Public Sector

8. The net borrowing requirement of the nonfinancial public sector (NBR) is defined as the net financing obtained by the nonfinancial public sector from the domestic financial system, from the nonfinancial private sector, and from foreign sources. It is calculated as the sum of the change in the stock of the domestic debt of the nonfinancial public sector and net external financing. The nonfinancial public sector includes the Central Government, the National Insurance Scheme, the Sinking Fund, the nonfinancial public enterprises (governmental corporations and companies), and the Guyana National Energy Authority. The domestic financial system includes the BOG, the commercial banks, the government development banks and the nonbank financial intermediaries (building societies, trust funds, insurance companies, and pension schemes).

9. For purposes of the programme, the stock of the domestic public debt of the nonfinancial public sector is defined to consist of net credit extended by the domestic financial system to the nonfinancial public sector (as reported by the BOG) and treasury bills, debentures and defense bonds held by the nonfinancial private sector (as reported by the BOG). Net credit by the domestic financial system is defined as the sum of advances (net of deposits) extended by the BOG; advances and loans (net of deposits including PL480 counterpart funds) extended by commercial banks, development banks, and nonbank financial institutions; and the change in the stock of treasury bills, debentures and defense bonds held by the domestic financial system except for special debentures issued by the Treasury to cover unrealized foreign exchange losses of the BOG and provisions for bad loans made by the Guyana National Cooperative Bank. In accordance with present practices, treasury bills will be recorded at face value, except for those held by the banking system which will be recorded on a purchase price basis. Table 4 presents the estimated stock of domestic public debt as of June 30, 1992.

10. Net external financing is defined as the sum of the monthly net flows in foreign currencies (as reported by the Ministry of Finance) to the nonfinancial public sector converted at the exchange rate prevailing at the time of the transaction. Net flows in foreign currencies to the nonfinancial public sector are defined as the sum of project loan disbursements and nonproject loan and grant disbursements (including suppliers' credits), less scheduled principal payments (including payments on suppliers' credits), plus principal and interest obligations rescheduled in the period in question, plus changes in external payments arrears (including interest). The latter are to be calculated as specified in paragraph 14 below.

11. The NBR will not exceed G$5.8 billion in the period July-December 1992, and G$9.5 billion in the period January-December 1993. In turn, the stock of the domestic public debt (as defined in paragraph 9 above) will increase by no more than G$3.0 billion in the period July-December 1992, and decrease by no less than G$1.0 billion in the period January-December 1993. The limits on the NBR and the stock of domestic public debt for July-December 1992 will be adjusted downwards (upwards) by the amount by which the net clearance of expenditure arrears by the Central Government in the period July-December 1992 falls short of (exceeds) the equivalent of G$540 million.

12. The limit on the increase in the stock of domestic public debt through end-December 1992 will be adjusted upwards by the equivalent in Guyana dollars of the amount by which cumulative disbursements of nonproject balance of payments loans and grants (excluding financing under the IDA Debt Reduction Facility) fall short of US$16 million. This adjustment, however, will not exceed the local currency equivalent of US$5 million at the accounting exchange rates. The limit on the increase in the stock of domestic public debt through end-December 1992 will be decreased by the equivalent in Guyana dollars of the amount by which the combined disbursements of nonproject balance of payments assistance (excluding financing under the IDA Debt Reduction Facility) exceed US$5 million at the corresponding accounting exchange rates. The limit on the increase in the stock of domestic public debt through end-December 1992 will be decreased by the difference between the cumulative debt service payments of the nonfinancial public sector incorporated in the programme, which are detailed in the attached Table 2, and actual debt service payments, and by any financing provided to the nonfinancial public sector by the BOG resulting from rescheduling or debt swap operations of External Payments Deposits (EPDs).

IV. External Payments Arrears of the Public Sector

13. For the calculation of the limit on external payments arrears of the public sector and pending the signing of all bilateral rescheduling agreements, outstanding arrears to nonmultilateral creditors are deemed to have been rescheduled as of the date of the Paris Club agreement. For the purpose of this limit, cash interest payments on rescheduled debt for all

categories of nonmultilateral creditors (except CMCF) have been calculated consistent with the options approach received by Guyana at the 1990 Paris Club consolidation, and the terms of that consolidation.

14. For purposes of the limits on arrears, the public sector is defined to include the nonfinancial public sector (as defined in paragraph 8 above), the BOG, and the Guyana Cooperative Agricultural and Industrial Development Bank. Changes in external payments arrears of the public sector will be defined as the difference between scheduled external debt-service obligations of the public sector that have fallen due and actual debt-service payments as reported by the Ministry of Finance and the Bank of Guyana less amounts programmed to be rescheduled. Scheduled debt-service obligations are defined as projected scheduled principal and interest obligations on outstanding debt including rescheduled debt and debt arrears plus projected principal and interest payments on new debt to be contracted.

15. No new external payments arrears will be incurred during the periods July 1992-December 1993 or any subperiod thereof.

V. Contracting of Public and Publicly Guaranteed External Debt with a Maturity of 12 Years or Less

16. The contracting of public and publicly guaranteed external debt with a maturity of 12 years or less will not exceed US$5 million during July-December 1992 and US$10 million during January-December 1993. The limit excludes the contracting or guaranteeing of loans from official multilateral institutions as well as short-term (up to one year) import-related credits and concessional loans. Public and publicly guaranteed external debt is defined to include debt contracted or guaranteed by the public sector as defined in paragraph 14 above.

VII. Structural Policy Measures

17. Implementation of the structural measures set out in Table 5 will constitute benchmarks under the programme.

Table 1. Guyana: Net Foreign Assets of the Bank of Guyana

(In millions of U.S. dollars)

	June 30, 1992
Net foreign assets	-632.8
Gross international reserves	141.1
Short-term liabilities (current)	-162.3
Venezuela Investment Fund	-4.0
IMF 1/	-158.3
Medium-term liabilities (current)	-12.1
Central Bank of Argentina	-2.7
Venezuela Investment Fund	-2.0
FINEXPO	-1.2
Royal Bank of Canada	--
Barclays Bank	-6.1
Liabilities (in arrears)	-3.7
Short term	--
IMF 1/	--
Medium term	-3.7
FINEXPO	--
Venezuela Investment Fund	--
Central Bank of Argentina	-3.7
Royal Bank of Canada	--
Rescheduled liabilities	-595.9
Short term	-593.4
Trinidad and Tobago	-372.5
Brazil	-1.0
CARICOM clearing facility	-158.0
Venezuela Investment Fund	-17.0
Central Bank of Libya	-20.6
Central Bank of Kuwait	-23.6
Medium term	-2.5
FINEXPO	-2.5

Source: Bank of Guyana.

1/ SDRs converted at the rate of SDR1 = US$1.40.

Table 2. Guyana: External Debt Service Payments

(In millions of U.S. dollars)

	July-December 1992		
	Sched.	Actual	Resch.
Principal	26.7	20.1	6.6
Government and government guaranteed	19.6	15.2	4.4
Multilaterals	12.3	12.3	--
IMF Trust	--	--	--
IBRD/IDA	3.7	3.7	--
CDB	1.4	1.4	--
Others	7.3	7.3	--
Others	7.3	2.9	4.4
Nonguaranteed	3.3	1.3	2.0
Bank of Guyana	3.8	3.6	0.2
Short term	0.3	0.3	--
IMF	--	--	--
Others	0.3	0.3	--
Medium term	2.4	2.4	--
Deferred/rescheduling	1.1	0.8	0.2
Interest	45.7	23.2	22.5
Government and government guaranteed	24.3	14.5	9.8
Multilaterals	9.8	9.8	--
IMF Trust	--	--	--
IBRD/IDA	2.5	2.5	--
CBD	1.1	1.1	--
Others	6.1	6.1	--
Others	1.5	0.7	0.9
Rescheduled debt	12.9	4.0	8.9
New debt	0.1	0.1	--
Nonguaranteed	3.4	0.1	3.3
Bank of Guyana	18.0	8.6	9.4
Short term	3.4	3.4	--
IMF	3.4	3.4	--
Others	--	--	--
Medium term	0.9	0.1	0.8
Rescheduled debt	13.7	5.0	8.6
Government repayment of bilateral cash assistance	3.0	3.0	--
Total debt service	75.4	46.3	29.1

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

Table 3. Guyana: Net Domestic Assets of the Bank of Guyana

(In millions of Guyana dollars)

	June 30, 1992
Net foreign assets 1/	-77,675.8
Gross official reserves	17,324.7
Current short-term liabilities	-19,921.9
External payments arrears	-450.2
Medium-term liabilities	-1,481.7
Rescheduled liabilities	-73,146.8
Net domestic assets	81,240.1
Credit to public sector	37.0
Central Government	1,890.5
Special funds and other	-1,853.5
Counterpart medium-term liabilities	394.8
Official capital and loss account	37,274.2
Official capital and surplus	-4.3
Contingency reserve	-15,171.1
Valuation adjustment, foreign exchange	38,937.8
Provision for interest arrears	5,865.3
Valuation adjustment Fund accounts	7,646.6
Liabilities to commercial banks	-7,695.5
Deposits and currencies	-7,183.8
EPDs	-511.8
Nonmonetary external deposits	-85.8
Other	51,315.4
Currency in circulation	3,564.3

Source: Bank of Guyana.

1/ Net foreign assets of the BOG valued at the end-of-period exchange rate.

Table 4. Guyana: Estimated Stock of Domestic Debt of the Nonfinancial Public Sector

(In millions of Guyana dollars)

		June 30, 1992
Total		10,138.7
1.	Central Government	16,714.2
	Treasury bills	10,115.7
	Banking system	6,046.5
	Other financial institutions	1,653.4
	National Insurance Scheme	10.0
	Sinking fund and special funds	769.6
	Public enterprises	--
	Private sector	1,636.2
	Debentures 1/	6,042.0
	Banking system 1/	4,815.1
	Other financial institutions	224.6
	National Insurance Scheme	865.5
	Sinking fund and special funds	20.0
	Public enterprises	--
	Private sector	116.8
	Defense bonds	19.6
	Advances net of deposits	536.9
	Bank of Guyana advances (net)	1,670.9
	Commercial banks	-1,134.0
	Advances	45.8
	Deposits	-1,179.9
2.	National Insurance Scheme, GNEA, and special funds	-2,961.9
	Banking system	-2,086.4
	Government paper	-875.5
3.	Nonfinancial public enterprises	-2,578.1
	Banking system	-2,578.1
	Government paper	--
4.	Sinking fund	-789.6
	Government paper	-789.6
5.	External payments deposits	-266.8
6.	Gaibank 2/	20.9

Source: Bank of Guyana.

1/ Net of noninterest bearing debentures.
2/ Locally funded loans to public enterprises.

Table 5. Guyana: Structural Benchmarks Under the Third ESAF Arrangement

	Policy Measures	Schedule of Implementation
I.	Exchange rate policy and exchange and trade system	
	a) Pursuit of exchange rate policy as described in paragraph 7 of the Memorandum. 1/	July 1992-June 1993
	b) Continued avoidance of restrictions in the operations of the cambio market, as described in paragraph 7 of the Memorandum. 1/	July 1992-June 1993
	c) Initiation of a phased reduction of the Common External Tariff (CET) as described in paragraph 8 of the Memorandum.	January-June 1993
II.	Pricing Policy	
	a) Implementation of the pricing policies described in paragraph 9 of the Memorandum.	July 1992-June 1993
	b) Maintain market-determined prices for rice in the domestic market as well as for exports, and continue pricing policies for state-owned rice mills that fully reflect the international price of the equivalent grades of rice	July 1992-June 1993
III.	Tax administration	
	Initiation of IDB-financed project to improve tax administration referred to in paragraph 12 of the Memorandum.	December 1992
IV.	Public sector reform	
	a) Implementation of privatization program along the lines described in paragraph 17 of the Memorandum.	July 1992-June 1993
	b) Continued implementation of measures to rehabilitate the major power stations and strengthen the management of GEC as described in paragraph 13 of the Memorandum.	July 1992-June 1993
	c) Implementation of the additional measures, as described in paragraph 13 of the Memorandum, to ensure that the need for transfers to GEC is eliminated by end-1993	January-June 1993
V.	Financial sector policies	
	a) Implementation of measures to strengthen and modernize the regulatory and supervisory framework as described in paragraph 19 of the Memorandum	June 1993
	b) Continued implementation of a flexible interest rate policy based on the system of competitive bidding for treasury bills as described in paragraph 21 of the Memorandum. 1/	July 1992-June 1993
	c) Implementation of measures to increase competition and depth in the financial market as described in paragraphs 20 and 21 of the Memorandum.	July 1992-June 1993
VI.	Statistics	
	Publication of an interim consumer price index	June 1993

1/ Performance criteria at end-December 1992.