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April 14, 1989

To: Members of the Executive Board

From: The Acting Secretary

Subject: Guyana - Staff Report for the 1988 Article IV Consultation and Fund-Monitored Program for 1989

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Guyana and its request for an arrangement for a Fund-monitored economic and financial program for 1989. Draft decisions appear on pages 34-38.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Muñiz (ext. 8624) or Mr. Gudac (ext. 8616) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 1988 Article IV Consultation and Fund-Monitored Program for 1989

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal, Legal, and Treasurer's Departments)

Approved by S. T. Beza and S. Kanesa-Thasan

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I. Introduction

The 1988 Article IV consultation discussions with Guyana were initiated in Georgetown during November 16-December 12, 1988, together with discussions on a Fund-monitored economic program for 1989 in the framework of the intensified collaborative approach to overdue financial obligations to the Fund. The discussions were continued in Georgetown during January 12-February 2, 1989, and were concluded in Washington during February 7-22, 1989. The Guyanese representatives included the Minister of Finance, the Governor of the Bank of Guyana and senior officials from the Ministry of Finance, the State Planning Secretariat, the Bank of Guyana, other government agencies and the main public enterprises. The staff mission consisted of Messrs. Muñiz (Head), Gudac, Gons (all WHD), Hewitt (FAD), Nishimura (ETR) and Ms. Quelch (Secretary-WHD). Messrs. Kafka and Hospedales, Executive Director and Alternate Executive Director for Guyana, participated in the discussions held in Washington.

The economic program for 1989, which is described in the authorities' Memorandum on the Economic Policies of Guyana, was transmitted to the Managing Director in a letter from the Minister of Finance of Guyana and the Governor of the Bank of Guyana dated March 31, 1989 (Attachment I). The 1989 program is based on the program outlined in Guyana's Policy Framework Paper (PFP) which was discussed and noted by the Executive Board on July 25, 1988 (EBD/88/170 and EBS/88/135).

Guyana has been in arrears to the Fund since April 1983, and was declared ineligible to use the general resources of the Fund in May 1985 (EBM/85/73). As of March 31, 1989, Guyana's arrears to the Fund amounted to SDR 92.1 million or 187.2 percent of quota. As of that date, the Fund's exposure to Guyana amounted to SDR 106.1 million or 215.7 percent of quota. The 1987 Article IV consultation with Guyana was concluded by the Executive Board on December 18, 1987 (SM/87/270 and SUR/87/122). At that time, Directors urged the authorities to implement without delay a strong set of policies aimed at creating the basis for sustained economic growth and a viable balance of payments position. On June 20, 1988 and on October 26, 1988, the Executive Board discussed Guyana's overdue obligations to the Fund. Guyana accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement on December 27, 1966.

II. Background and Recent Economic Developments

Because of adverse external developments and inappropriate policies, Guyana has been experiencing severe economic difficulties since the late 1970s. In recent years, the authorities took a number of steps to increase output and reduce Guyana's imbalances. Economic controls were reduced, the environment for private activity was improved and actions were taken to improve the performance of the public enterprises. However, these efforts were insufficient to deal with the severe economic situation and Guyana continued to face major economic difficulties. The Guyana dollar remained substantially overvalued, the domestic and external public debt became exceptionally large, economic activity and exports remained stagnant and the parallel economy continued to grow. Moreover, the country's capital stock is in a state of disrepair, and the continued decline in the standard of living contributed to an exodus of qualified personnel and to a shortage of skilled labor and experienced managers.

After increasing at an average rate of less than 1 percent a year during 1984-87, recorded real GDP 1/ declined by an estimated 3 percent in 1988 (Table 1). Unfavorable weather, compounded in the case of sugar cane by labor problems, caused agricultural output to decline by 9 percent, with production of sugar and rice paddy falling to their lowest levels since 1976. In turn, the associated reduction in sugar refining and rice milling contributed to a 5 percent decline in manufacturing output. Also, flooding of the bauxite mines and equipment problems resulted in a decline of 6 percent in bauxite production. The annual rate of inflation, as measured by the official consumer price index, rose to an estimated 51.5 percent during 1988 from 34.5 percent during 1987. The acceleration of inflation reflected in part the incorporation in the CPI of transactions in the parallel economy that were previously unrecorded, and the removal of price controls on several items in July-August 1988. Controls are now limited to a few essential foodstuffs, petroleum products and bus and taxi fares.

The overall deficit of the nonfinancial public sector, which was reduced to about 35.5 percent of recorded GDP in 1987 from some 50 percent in 1986, declined slightly to an estimated 34 percent of GDP in

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1/ The analysis of economic developments in Guyana is made difficult by the poor quality of statistical information and the existence of a large parallel economy which is not captured in the national accounts. The actual level of GDP is believed to be higher than recorded GDP.

1988. 1/ The reduction in the deficit in 1988 was due to a cutback in capital expenditure (by 10.5 percentage points of GDP) as the current account deficit widened to 17 percent of GDP from 9.5 percent in 1987. As in previous years, the deficit was largely financed from domestic sources.

Table 1. Guyana: Selected Economic Indicators

(Annual percentage change)

	1984	1985	1986	1987	Prel. 1988	Proj. 1989
Real GDP at factor cost	2.1	1.0	0.2	0.6	-3.0	5.0
Real GDP per capita	2.1	1.0	0.4	0.6	-3.0	5.0
GDP at current prices						
(market prices)	16.9	16.9	12.4	52.3	22.0	75.5
GDP deflator	14.4	15.7	12.1	51.3	25.8	67.1
Export volume	7.2	5.8	-9.1	-3.5	-9.0	26.1
Import volume	-12.8	21.4	6.0	-11.1	-21.2	40.0
Terms of trade	6.0	-5.4	13.7	3.6	-4.8	-3.6
Urban Consumer Price Index						
End of period	28.1	7.7	6.6	34.6	51.5	53.5
Period average	25.2	15.0	7.9	28.5	40.1	50.6

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

The widening of the current account deficit of the nonfinancial public sector in 1988 was due to a substantial reduction in export earnings of the sugar company (GUYSUCO) and to a lesser extent of the bauxite company (GUYMINE). There was, however, some improvement in the finances of the Central Government. As a result of higher income tax revenues (due to improved administration) and, in particular, receipts from the sugar levy 2/, current revenue rose by the equivalent of 6.5 percentage points of GDP in 1988. Current expenditure declined by

1/ Because of the statistical problems referred to earlier, the public sector deficit in terms of GDP may be overstated.

2/ The sugar levy was re-established in 1987 to capture windfall profits to the sugar industry accruing from the devaluation of the Guyana dollar. The levy was paid in 1988.

about 1 percentage point of GDP as a reduction in the wage bill and interest expenditure (relative to GDP) more than offset an increase in current transfers.

The net domestic assets of the banking system expanded by 24 percent during 1988 compared with 31 percent during 1987. Credit to the public sector rose at a slower pace than during 1987, but credit to the private sector rose faster--61 percent compared to 46 percent. The increase in private sector credit reflected negative real interest rates, the further liberalization of transactions in the parallel economy and, probably, speculative borrowing in anticipation of a devaluation of the currency in the official exchange market. The liabilities of the banking system to the private sector rose by 37.5 percent during 1988 compared with 34.5 percent during 1987.

With the availability of foreign exchange in the official market becoming increasingly tight in 1988, owing to a decline in both export earnings and balance of payments support loans, the pressures in the credit market contributed to a further depreciation of the Guyana dollar in the parallel exchange market--from about G$31 per U.S. dollar in December 1987 to G$42 per U.S. dollar in December 1988. Meanwhile, the official exchange rate remained at G$10 per U.S. dollar, and the commercial banks' window rate at G$21 per U.S. dollar. As established in the PFP, the authorities in August 1988 abolished import prohibitions on certain manufactured goods and on alcoholic and nonalcoholic beverages, and prohibitions are now limited to 16 categories of food products. Also, since September 1988, import licenses for "no-foreign currency imports" (those not involving purchases of foreign exchange in the official market) have been issued without any restrictions.

The recorded external current account deficit is estimated to have declined to about US$90 million in 1988 from close to US$110 million in 1987 1/ (Table 2), as the trade account moved to approximate balance from a deficit of over US$20 million. With the decline in output of bauxite, sugar and rice, the value of exports was US$26 million (11 percent) lower than in 1987, but this was more than offset by a cutback in imports of US$46 million (18 percent). The services and transfers accounts showed little change with respect to 1987.

The capital account registered a net outflow (on an accrual basis) of US$18.5 million in 1988. The balance of public sector capital (excluding the Bank of Guyana) registered an outflow of about US$23 million, but the balance of private sector transactions (including the commercial banks) shifted from an outflow of US$7 million in 1987 to a small inflow. The overall balance of payments deficit amounted to

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1/ Balance of payments data presented in this report relating to interest payments and the capital account differ from data included in previous reports because of revisions made by the staff of the Fund and the World Bank to the external debt statistics.

Table 2. Guyana: Summary Balance of Payments

	1983	1984	1985	1986	1987	Prel. 1988
	(In million of U.S. dollars)					
Current account (including transfers)	-161.3	-102.0	-130.5	-141.1	-109.5	-90.6
Merchandise trade (net)	-55.7	1.2	-42.4	-49.5	-21.4	-1.0
Exports, f.o.b.	192.6	215.5	212.8	210.0	240.5	214.6
Bauxite	72.9	91.6	99.1	82.4	86.2	79.5
Sugar	71.5	70.9	66.4	83.4	90.4	74.8
Rice	21.6	21.3	13.3	10.5	16.1	15.4
Other	26.6	31.7	34.0	33.7	47.8	44.9
Imports, c.i.f.	-248.3	-214.3	-255.2	-259.5	-261.9	-215.6
Fuel	-98.1	-108.3	-102.9	-73.5	-76.9	-73.8
Other	-150.2	-106.0	-152.3	-186.0	-185.0	-141.8
Services (net)	-106.7	-109.4	-105.5	-107.8	-108.8	-109.1
Of which: interest on public debt (including Bank of Guyana debt) 1/	-61.7	-59.2	-62.2	-76.9	-80.8	-82.0
Transfers (net)	1.0	6.2	17.4	16.2	20.7	19.5
Of which: private transfers	-1.3	2.6	11.4	10.3	10.6	12.5
Capital account	-1.8	-7.6	5.6	0.8	-23.7	-18.4
Nonfinancial public sector						
Medium- and long-term debt	-0.7	-14.8	9.1	7.5	-22.6	-23.4
Disbursements	49.8	25.0	50.4	67.9	39.3	28.7
Amortization	-82.1	-83.3	-96.8	-126.2	-133.9	-125.3
Rescheduling 2/	31.6	43.5	55.5	65.8	72.0	73.1
Short-term debt (net)	—	—	-11.5	-0.2	—	--
Official development banks (net)	4.4	2.5	2.2	1.7	5.8	0.9
Private sector	-3.3	9.0	7.7	-12.0	5.4	4.7
Net foreign assets of commercial banks (increase -)	-2.2	-4.3	-1.9	3.8	-12.3	-0.6
Errors and omissions	4.9	-19.1	-33.4	0.4	-24.1	3.4
Overall balance	-158.3	-128.7	-158.2	-139.9	-157.3	-105.6
Bank of Guyana net foreign assets 3/4/	82.1	91.0	90.9	62.4	77.0	32.1
Of which: Bank of Guyana arrears 4/	105.0	123.1	100.3	76.7	73.4	39.3
Public sector arrears 5/	54.1	45.9	62.9	67.7	76.4	70.0
Private sector commercial arrears	22.1	-8.2	4.5	9.8	3.9	3.5
	(As percent of GDP)					
Current account balance	-33.4	-23.0	-28.0	-27.1	-31.5	-21.9
Overall balance	-32.7	-29.1	-33.9	-26.8	-45.3	-25.5

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

1/ On an accrual basis, including interest on principal in arrears.
2/ Consists of principal obligations to foreign commercial banks that have been deferred from year to year.
3/ Includes valuation changes.
4/ The changes in arrears exceed the decline in net international reserves because of valuation changes and, in certain instances, the incurring of arrears on liabilities that were previously classified as external liabilities.
5/ Excludes arrears of the Bank of Guyana.

US$106 million and, as in previous years, was financed largely by an accumulation of external payments arrears which rose to an estimated US$1,141 million by end-1988 (Table 3).

As of end-1988, Guyana's external public debt (including arrears) was estimated at close to US$1.8 billion or 830 percent of 1988 merchandise exports (Table 4). In 1988, scheduled debt service obligations (including repurchases to the Fund) amounted to US$217 million or about 100 percent of exports, with actual payments estimated at US$32 million or 15 percent of exports. Of this amount, US$9 million are estimated to have been paid to the Inter-American Development Bank, US$6.5 million to private commercial banks, US$10 million to suppliers (on loans contracted recently), US$3 million to bilateral creditors, and US$1 million to the Fund.

Guyana is in arrears to the World Bank (US$32.8 million as of end-1988) which suspended disbursements in August 1986. A Bank mission is scheduled to visit Guyana in April 1989 to hold discussions on a Structural Adjustment Credit (SAC) from IDA and on new project lending by the IBRD once arrears to the Bank are settled. The Bank is assisting the authorities in the formulation and implementation of a technical assistance package.

III. The Medium-Term Economic Program

As a major step toward redressing the economic situation, the Government in 1988 prepared a medium-term economic program in collaboration with the staff of the Fund and the World Bank. The objectives of the program, as discussed in the PFP, are to: (a) set the basis for sustained economic growth in the context of low inflation and a viable balance of payments over the medium term; (b) incorporate the parallel economy into the official economy; and (c) normalize Guyana's financial relations with external creditors.

To achieve these objectives, the program seeks a major reorientation of economic policy including measures designed to increase aggregate supply and reduce economic imbalances. Supply-oriented policies focus on the establishment of appropriate incentives, the liberalization of the economy, the strengthening of competition and domestic savings, the rehabilitation of the productive capacity and of the economic and social infrastructure, and the restructuring of the operations of the public sector with a view to increasing economic efficiency and widening the scope for private activity. These policies are to be reinforced by restrained financial and incomes policies.

While the resumption of economic growth in Guyana would depend primarily on the sustained implementation of appropriate domestic policies, achievement of the program objectives also would require substantial external financial assistance. In mid-1988, the authorities, together with Fund and Bank staff, visited several capitals to seek

Table 3. Guyana: External Payment Arrears

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	Prel. 1988
Total arrears	391.7	552.5	720.1	874.3	1,028.0	1,140.8
On government and government-guaranteed medium- and long-term debt	66.6	107.0	158.3	222.7	295.7	362.5
Principal	50.1	75.5	105.2	149.5	200.6	240.8
Interest 1/	15.8	29.2	48.3	65.0	82.3	103.1
Late interest charges 2/	0.7	2.3	4.8	8.2	12.8	18.6
On Bank of Guyana debt	193.7	316.8	417.0	493.7	567.2	606.5
Principal	163.6	279.1	358.8	400.8	435.9	439.6
BOP support from Trinidad and Tobago	20.0	20.0	20.0	20.0	20.0	20.0
Deposits of Central Bank of Libya	10.0	10.0	10.0	10.0	10.0	10.0
Deposits of Central Bank of Kuwait	—	—	—	10.2	11.1	11.1
CARICOM clearing facility	76.6	96.5	96.5	96.5	96.5	96.5
Trinidad and Tobago bilateral account	49.4	138.1	205.0	215.7	222.7	221.3
Venezuela Investment Fund deposits	—	—	—	—	—	2.1
IMF	7.6	14.5	27.3	48.4	75.6	78.6
Interest 3/	30.1	37.6	58.3	92.9	131.2	166.9
BOP support from Trinidad and Tobago	10.4	12.3	14.3	16.4	18.3	20.4
Deposits of Central Bank of Libya	3.9	4.9	5.7	6.4	7.2	8.1
Deposits of Central Bank of Kuwait	1.8	2.7	3.8	4.7	6.5	7.3
CARICOM clearing facility	9.8	17.8	25.7	33.7	41.7	49.7
Trinidad and Tobago bilateral account	—	—	3.6	17.9	33.0	48.6
Argentine Line of Credit	—	—	—	—	—	0.7
Royal Bank of Canada	—	—	0.9	1.8	2.8	3.8
IMF	4.2	—	4.3	12.0	21.7	28.3
Commercial arrears 4/	131.4	128.7	144.8	157.9	165.2	171.9
Public sector	54.0	59.5	71.1	74.4	77.8	81.0
Private sector	77.4	69.2	73.7	83.5	87.4	90.9

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

1/ Overdue interest.
2/ Estimated late interest charges on principal in arrears; does not allow for interest on interest in arrears.
3/ Includes overdue interest, estimated late interest charges on principal in arrears and in certain cases interest on interest in arrears.
4/ Arrears for which corresponding deposits have been made at the Central Bank; no division of arrears into principal and interest is available.

Table 4. Guyana: External Public Debt

	1983	1984	1985	1986	1987	Prel. 1988
(In millions of U.S. dollars; end of period)						
Total public debt 1/	1,078.6	1,178.8	1,373.5	1,542.3	1,734.1	1,777.9
Of which: arrears	314.3	483.3	646.4	790.8	940.7	1,049.9
Medium-and long-term public debt 2/	717.7	729.6	821.2	923.2	1,037.7	1,063.8
Of which: arrears	66.6	107.0	159.2	224.5	298.5	366.9
Short-term public debt 3/	360.9	449.2	552.3	619.1	696.4	714.1
Of which: arrears	247.7	376.3	487.3	566.3	642.1	683.0
Scheduled debt service payments	154.1	152.6	171.3	220.3	232.7	217.1
Principal (before rescheduling) 4/	92.4	93.4	109.1	143.4	151.9	135.1
Interest 5/	61.7	59.2	62.2	76.9	80.8	82.0
Actual debt service payments	59.5	51.8	32.7	38.2	31.7	31.9
Principal	23.0	15.2	12.6	16.1	11.1	12.2
Interest	36.5	36.6	20.1	22.1	20.6	19.7
(As percent of merchandise exports)						
Scheduled debt service payments	80.0	70.8	80.5	104.9	96.8	101.2
Actual debt service payments	30.9	24.1	15.4	18.2	13.2	14.9

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

1/ Consists of government and government-guaranteed debt and Bank of Guyana debt.
2/ Includes medium-term liabilities of Bank of Guyana.
3/ Includes public sector commercial arrears.
4/ Includes repurchase obligations to the Fund.
5/ Includes interest on short-term debt and interest due on principal in arrears.

financing for the medium-term economic program. Subsequently, and in the context of the intensified collaborative approach to the problem of arrears, a support group for Guyana was established on November 8, 1988 under the chairmanship of Canada (see Section IV, subsection 8).

IV. Policy Discussions and the 1989 Economic Program

A substantial part of the economic policies incorporated in the authorities medium-term economic program will be implemented in 1989. Priority will be given to the improvement in incentives and relative prices, the strengthening of public sector savings, the recovery of public investment, the implementation of a number of public sector reforms, and the normalization of financial relations with external creditors.

1. Economic prospects and growth strategy

Real GDP is projected to increase by 5 percent in 1989. Output in the bauxite, sugar, and rice sectors is expected to recover from the very low levels of 1988 and the program's policies are expected to begin having a favorable impact on output in nontraditional sectors. The authorities are very concerned, however, that these favorable growth prospects could be affected adversely (particularly with regard to rice and nontraditional activities) by a recent sharp deterioration in the electricity supply situation, and have requested assistance from a number of governments and from the Inter-American Development Bank to put in place an emergency rehabilitation program in the sector.

The authorities are confident that the program policies would lead to a recovery of investment and economic growth on a sustained basis, with real GDP increasing by 4 percent a year during 1990-91. Their growth strategy is based on the recovery of the traditional export sectors and the development of new export activities, particularly nontraditional agriculture, gold and other minerals, and agro-industry.

The growth strategy envisages a greater role for the private sector, both domestic and foreign, in Guyana's economic development. To this end, a new investment policy document that streamlines procedures and allows for private participation in all areas of economic activity was issued in 1988. Several measures incorporated in the program (such as the liberalization of price controls and of the trade and payments system, the elimination of current transfers to public enterprises, and the limitation on the scope of the operations of the public enterprises) also are intended to foster private investment. Moreover, the authorities are actively seeking joint ventures between private investors and certain public enterprises.

2. Exchange rate policy

Establishment of an appropriate exchange rate is essential to improve the structure of relative prices, achieve export-oriented economic growth and incorporate the parallel economy into the official economy. Accordingly, effective April 3, 1989, the official exchange rate system--the official and bank window markets--was unified at a rate of G$33 per U.S. dollar, involving a weighted depreciation of the Guyana dollar of about 70 percent. In setting the new exchange rate, the authorities took into account the rate suggested by purchasing power parity calculations (which pointed to a rate of G$27 per U.S. dollar, to return to the real effective rate prevailing in 1975) and the parallel exchange rate (this rate, which was around G$44 per U.S. dollar in late February, moved to around G$58 per U.S. dollar in late March, but returned to a range of G$42-45 per U.S. dollar after the introduction of the program.)

Henceforth, the authorities will follow a flexible exchange rate policy. After a transitional period of two months, intended to allow the parallel rate to settle at a level that incorporates the effect of the program, the exchange rate will be reviewed weekly and appropriately adjusted taking into account developments in the parallel exchange market and in the net international reserves of the Bank of Guyana. In addition, the exchange rate would be adjusted automatically and proportionately for any wage increase in the nonfinancial public sector in excess of the 20 percent general increase granted on March 31, 1989.

To guarantee exporters a minimum of foreign exchange to cover essential imports, the Bank of Guyana had allowed selected exporters to retain a percentage of export proceeds ranging from 15 percent for sugar to 50 percent for some private exports. For gold, 20 percent of export earnings was retained by the miners and the remainder was used by the Ministry of Finance to meet foreign currency expenditures of the Government. The retention schemes--including the one pertaining to gold exports--were unified at a rate of 10 percent on March 31, 1989 and will be abolished by October 1989. An existing arrangement with GUYMINE, whereby the company is only required to sell excess daily balances to the Bank of Guyana, will be maintained but will be reviewed by October 1989.

Implementation of a flexible exchange rate policy and the removal of the retention quotas constitute benchmarks under the program.

3. Pricing policies

As noted, the scope of price controls has been reduced substantially in recent years. A list of suggested prices for items which have a combined weight of 3 percent in the CPI remains, but suggested prices are not legally binding. No new price controls will be introduced during the program period.

During the program, controlled prices as well as public sector prices and tariffs will be set in such a way as to cover the cost of production and importation to the enterprises and to yield an adequate return to capital. Following the devaluation, these prices and tariffs were increased to reflect the full pass-through of the exchange rate adjustment, and price increases in the range of 100-225 percent took place in such key commodities and services as sugar, rice, petroleum products, bus fares, and domestic air fares. In the case of electricity, however, the tariff adjustment will be delayed; the first adjustment (75 percent) will not occur until July, and a full pass-through will not take place until April 1990. The authorities noted that under present conditions of generalized power shortages a faster schedule of adjustments could result in unrest and in an increase in unpaid bills. The delayed adjustment of electricity tariffs will entail a subsidy to users (incorporated in the budget) equivalent to 4 percent of GDP in 1989.

Following their initial adjustment, public sector prices and tariffs as well as controlled prices will be reviewed periodically and, as appropriate, will be adjusted to meet the criteria stated above. Implementation of appropriate pricing policies constitutes a benchmark under the program.

The adjustment in the exchange rate and associated price and tariff increases are expected to result in a 25-30 percent increase in the price level in the period immediately following the devaluation. Thereafter, the rate of inflation is expected to decrease sharply to an annual rate of about 15 percent by the end of 1989. During 1989 as a whole inflation is projected to be somewhat in excess of 50 percent.

4. Incomes policies

To help avoid an inflationary spiral in the wake of the devaluation and strengthen the public finances, the authorities intend to keep wage increases in the public sector below the projected rate of inflation. As established in the 1988 wage agreement, in early 1989 employees of the nonfinancial public sector were granted merit wage increases based on 1988 performance on the order of 6-6.5 percent of the 1987 wage bill (for sugar workers 9 percent of the 1988 wage bill). On March 31, 1989 wages in the nonfinancial public sector were raised by 20 percent. Following this increase the authorities intend to keep average nominal wages in the nonfinancial public sector unchanged and, as noted, any deviation in this regard would lead to a proportional adjustment of the exchange rate. However, the authorities have indicated that if the Guyana dollar is further devalued in response to developments in the parallel exchange rate or in international reserves, they might need to raise wages but this would be done in a manner consistent with the overall objectives of the program.

5. Fiscal policy and public sector reform

The strengthening of the public finances is central to the authorities' objective of improving the economy's savings performance and reducing the country's imbalances. The 1989 program aims at a substantial increase in savings of the nonfinancial public sector while limiting its overall deficit to an amount consistent with the available external financing. Specifically, the current account of the nonfinancial public sector is targeted to shift to a surplus of 9.8 percent of GDP (the equivalent of US$23 million) in 1989 1/ from a deficit of 17 percent (US$70 million) in 1988 (Table 5). Excluding interest obligations, the current account would move from a surplus of 15.4 percent of GDP in 1988 to a surplus of 53.5 percent in 1989.

In the light of the need to rehabilitate the capital stock, public investment outlays are planned to increase to the equivalent of US$112 million in 1989 (47.7 percent of GDP) from US$75 million in 1988 (18 percent of GDP). 2/ About 75 percent of the investment would be channelled to agriculture, the rehabilitation of the bauxite sector, electricity generation and transportation. Project related external grants and loans are projected to reach US$80 million. The 1989 investment program was developed by the authorities in collaboration with the staff of the World Bank.

On this basis, the overall deficit would increase to 37 percent of GDP in 1989 from 34 percent in 1988, although in U.S. dollar terms it would decline by 38.5 percent (to US$86 million from US$140 million). In contrast to previous years, net external financing (including grants) is expected to exceed the public sector deficit and the stock of the domestic public debt would decline by about G$850 million (11.5 percent of GDP) in 1989.

a. Public enterprises

The envisaged improvement in public sector savings would be due largely to a substantial strengthening in the finances of the public enterprises, which are Guyana's main exporters. Altogether, the devaluation of the Guyana dollar, corrective price and tariff increases, and restraint in current expenditure, are projected to increase their combined operational surplus (before taxes and dividends) by about 30 percentage points of GDP in 1989.

1/ Because of the statistical problems relating to the measurement of GDP, data in U.S. dollars are provided to give another indication of the envisaged fiscal adjustment.

2/ In real terms (1988 Guyana dollars) capital expenditures are expected to increase to 30 percent of GDP in 1989. The sharp increase in the investment ratio in nominal terms also reflects the fact that the investment deflator (which would be affected heavily by the adjustment of the exchange rate) would rise more than the GDP deflator.

Table 5. Guyana: Summary Operations of the Public Sector

(As percent of GDP)

	1984	1985	1986	1987	1988	Program 1989
Total current revenue	44.4	43.0	52.6	60.9	50.1	76.6
Central Government	39.3	39.4	45.8	33.6	40.1	50.7
NIS 1/ operating surplus	6.6	6.6	5.5	3.5	3.4	2.9
Public enterprises	-1.5	-3.0	1.3	23.8	6.6	23.0
Operating surplus	1.1	--	4.5	26.0	15.3	46.5
Taxes and dividends	-2.6	-3.0	-3.2	-2.2	-8.7	-23.5 2/
Total current expenditures	70.4	78.2	80.7	70.4	67.1	66.8
Central Government	70.9	75.4	85.1	70.6	69.4	72.1
Public enterprise operating deficit	—	2.9	—	—	—	—
Central Government transfers to the public enterprises	-0.4	—	-4.4	-0.2	-2.2	-5.3 3/
Current account balance	-26.0	-35.3	-28.1	-9.5	-17.0	9.8
Central Government	-31.6	-36.0	-39.3	-37.0	-29.2	-21.4
NIS	6.6	6.6	5.5	3.5	3.4	2.9
Public enterprises	-1.0	-5.8	5.7	24.0	8.8	28.3
Capital revenue of the Central Government	3.0	1.7	1.2	3.0	1.7	1.7
Capital expenditures	22.5	25.2	24.2	28.8	18.4	48.3
Of which: capital formation	22.2	25.1	24.0	27.9	18.0	47.7
Overall surplus of deficit	-45.5	-58.8	-51.1	-35.3	-33.7	-36.8
Adjustment for difference between noninterest accrual and cash transactions	—	—	—	—	-1.9	1.7
Financing	45.5	58.8	51.1	35.3	35.6	35.1
External	5.8	10.5	13.8	14.5	11.0	46.8 4/
Domestic	39.7	48.3	37.3	20.8	24.6	-11.7

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

1/ National Insurance Scheme.
2/ Excludes deposits to be placed by the enterprises in a special account held by the Accountant General.
3/ Transfers to the electricity company of which 4 percent of GDP corresponds to the electricity subsidy.
4/ Includes balance of payments support grants and loans.

To help ensure the contribution of the enterprises to public sector savings and to strengthen the finances of the Central Government, the authorities have decided to eliminate a number of exemptions from the consumption tax and import duties now granted to the corporations, to increase the current sugar levy to capture part of the windfall profits to the sugar company resulting from the devaluation, and to enforce the payment of dividends and income taxes by the enterprises. These measures are projected to raise the revenues of the Central Government by about 14.5 percentage points of GDP. In addition, the enterprises are being required to deposit part of their remaining surplus funds (after approved capital expenditures) in a special account held by the Accountant General in the Bank of Guyana and to reduce their indebtedness with the banking system and/or increase their bank deposits. The deposits placed with the Accountant General can only be used by the enterprises for the payment of taxes, dividends and levies in excess of the amounts envisaged in the program.

b. Central Government

The authorities' medium-term program also seeks to improve the current account position of the Central Government. In the near term, however, the room for improvement in central government savings is limited because of the already high level of taxation, the narrow tax base (due particularly to the parallel economy), the large share of interest obligations in current expenditures (close to 60 percent) 1/ and weak administration. For 1989, the program seeks to reduce the current account deficit of the Central Administration by close to 8 percentage points of GDP, notwithstanding an increase in interest obligations of about 7 percentage points of GDP.

Current revenue of the Central Government is projected to increase by 10.5 percentage points of GDP on the strength of a number of tax measures taken to broaden the tax base and increase the buoyancy of the tax system. In January 1989, consumption taxes on alcoholic and non-alcoholic beverages, tobacco, cement and certain petroleum products were converted from specific to ad-valorem; in a number of instances effective tax rates were increased by about 30 percent. This measure, together with the elimination of tax exemptions to the public enterprises, is projected to raise revenue from consumption taxes by over 6 percentage points of GDP notwithstanding an expected decline in private consumption. Corporate income tax receipts are expected to increase by close to 3.5 percentage points of GDP with larger collection from the public enterprises partially offset by the impact of the devaluation on the accounting profits of private firms. Collections from the export tax on sugar are projected to increase by 4 percentage points of GDP while import duties would increase by about 1.5 percentage points of GDP. The above revenue increases would be partially offset by a decline in personal income tax collections and other wage-related tax receipts.

1/ The fiscal projections include interest due instead of actually paid.

Noninterest current expenditure would be reduced by 4.2 percentage points of GDP. With wages increasing by less than inflation and a reduction in employment of 3 percent, the wage bill of the Central Government would decline by close to 4 percentage points of GDP. Expenditures on goods and services would be reduced by 1.6 percentage points of GDP, but, notwithstanding the elimination of current transfers to public enterprises engaged in agriculture, manufacturing and commerce, such transfers would increase by about 3 percentage points of GDP because of the transfer to the electricity company. The reduction in noninterest current expenditure would be offset by larger interest obligations and total current expenditure would increase by close to 3 percentage points of GDP.

c. Public sector reform

The authorities intend to strengthen the public administration and reform the operations of the public sector. A number of the reforms envisaged in the PFP would require study and technical assistance and would be developed and implemented in the course of the medium-term economic program and in particular in the context of a SAC from the World Bank. Others have been incorporated in the 1989 economic program.

With regard to the Central Government, the objectives of the authorities are to strengthen tax administration and the budget process, to reduce overall employment costs in real terms, and to restructure and reduce the Government's size by streamlining government activities. The authorities expect that the cost reductions associated with the restructuring exercise would permit selective salary increases to retain and attract qualified personnel. Steps to be taken in 1989 include a reduction in non-interest current expenditure in real terms, the establishment of a revenue unit that will advise on overall revenue policy and monitor revenue collections, and the strengthening of the budget process.

The authorities also intend to continue rationalizing the operations of the public enterprises. The activities of the public enterprises will be limited to existing functions unless an expansion is justified on efficiency grounds. No new public enterprises will be established, except for those resulting from changes associated with the rationalization exercise and joint ventures with the private sector. The steps already taken to improve management practices and to reduce operating costs in GUYSUCO, GUYMINE and GUYSTAC 1/ will be strengthened. Moreover, the authorities have either closed or are in the process of closing a number of nonviable enterprises and are seeking to reduce the direct involvement of the public sector in nonsugar agriculture, manufacturing and trade.

1/ GUYSTAC comprises about 30 companies in the areas of utilities, agriculture and other resource-based activities, manufacturing and trading.

In line with these objectives, the Government in 1988 scaled down the operations of the Guyana Transport Services, closed Guyana Glassworks and is in the process of concluding the sale of Guyana Timbers. The Government also has decided to divest other public enterprises, some of which are considered nonviable under present conditions. 1/ The characteristics of divestment will be determined by market conditions; the options include closure, sale to the private sector, and joint venture arrangements, including partial sale and leasing. The Government intends to divest these companies in the course of 1989. For this purpose, financial and marketing profiles for most of these companies are being finalized; for others, they will be finalized between July and September 1989. Meanwhile, the Government will seek to avoid losses in these enterprises and will limit additional investments to Guyana Fisheries and Demerara Woods. Any net proceeds from the divestment of the nonviable enterprises will be used in part to reduce domestic public debt and in part to increase public sector investment. The Government also has identified a number of enterprises to be strengthened by association with private investors and, in particular, foreign investors.

Implementation of the envisaged public sector reform measures constitutes a benchmark under the program.

6. Monetary policy

Monetary policy in recent years has tended to accommodate the domestic financing needs of the nonfinancial public sector. The reduction in the stock of public domestic debt in 1989 is intended to enable the Bank of Guyana to regain control over monetary policy and to implement a credit policy consistent with the objective of reducing inflation (after the initial corrective price increases) and strengthening the net foreign asset position of the Bank of Guyana. The credit program seeks to increase the Bank's net foreign assets by US$4 million during April-December 1989 (after an estimated decline of US$15 million in the first quarter of the year) and its gross international reserves by US$20 million to the equivalent of four weeks of merchandise imports. The programmed increase in the net domestic assets of the Bank of Guyana during 1989 (7.3 percent) assumes that the demand for currency in circulation would increase by some 29 percent in nominal terms (Table 6), implying a reduction in currency holdings in real terms of 16 percent. The projection of the demand for currency has taken into account the existing excess currency holdings, the planned increase in nominal interest rates, and the expected shift of transactions from the parallel to the official economy. 2/

1/ The enterprises that are to be divested are Guyana Fisheries, Guyana Nichimo, Demerara Woods, Quality Foods, Guyana Rice Milling and Marketing Authority, Guyana Stockfeeds, the Soap and Detergent Company, and the National Paint Company.

2/ The transactions demand for currency in the parallel economy is believed to be higher than in the official economy.

Table 6. Guyana: Summary Accounts of the Bank of Guyana

	End-December			1989 (Prog.)	
	1986	1987	1988	End-Mar.	End-Dec.
	(In millions of Guyana dollars)				
Net foreign assets	-2,397.3	-6,217.0	-6,539.0	-22,067.1	-21,938.4
Net domestic assets	2,906.0	6,943.2	7,596.7	23,137.1	23,298.4
Credit to the public sector (net)	3,927.0	6,288.4	7,308.0	7,592.9	6,932.9
Credit to commercial banks	-761.7	-2,342.4	-2,609.7	-2,739.8	-2,023.3
Capital and reserves 1/	512.9	4,258.6	4,234.7	19,620.4	19,725.2
Other	-772.1	-1,261.3	-1,336.4	-1,336.4	-1,336.4
Currency in circulation	508.7	726.3	1,057.7	1,070.0	1,360.0
	(Change in millions of U.S. dollars) 2/				
Net foreign assets	-62.4	-77.0	-32.1	-14.8	-10.9
	(Percentage changes) 3/				
Net domestic assets 4/	14.9	35.4	17.3	15.2	7.3
Credit to the public sector	42.0	60.1	16.2	16.5	-5.1
Currency in circulation	20.7	42.8	45.6	48.1 5/	28.6
Memoranda items:					
Inflation rate	6.6	34.6	51.5	--	53.5
Exchange rate (G$ per U.S. dollar)	4.4	10.0	10.0	33.0	33.0

Sources: Bank of Guyana; and Fund staff estimates.

1/ Includes valuation adjustments due to the devaluations of the Guyana dollar in 1987 and 1989.
2/ With respect to end-December of the previous year.
3/ With respect to the stock outstanding one year earlier except for March 1989, which are with respect to December 1988 at annual rate.
4/ Excludes valuation adjustments.
5/ Seasonally adjusted.

At the end of 1988, the commercial banks' holdings of liquid assets (held mainly in the form of central bank deposits and treasury bills) amounted to 56 percent of their deposit liabilities or three and a half times the amount required by the Bank of Guyana. To facilitate implementation of the Bank's credit program and to restrain overall credit expansion, the authorities introduced legislation on March 15, 1989 that freezed excess bank reserves for a period of six months at the level outstanding on that date. Starting in June 1989, and as part of a process designed to improve the effectiveness of monetary policy, most of these reserves would be converted into medium-term government debentures.

In recent years, interest rates in Guyana have been negative in real terms. The Bank rate (the rate that the Bank Guyana charges in its operations with the Treasury and the commercial banks) was kept at 14 percent a year since 1982 notwithstanding the acceleration of inflation. Banks are in principle free to set interest rates but lending rates have remained in the range of 15-21 percent a year.

Under the program the authorities intend to follow policies that would allow for positive interest rates in real terms. Subject to a minimum lending rate set by the Bank of Guyana, lending rates will be determined freely by commercial banks and nonbank financial intermediaries. Also, subject to minimum rates for savings and time deposits, deposit rates will be determined by these institutions. Lending rates of the development banks will continue to be regulated by the Ministry of Finance but they will be set in such a way as to reflect the cost of funds to the Treasury. Moreover, the Bank rate will be set at a level that is positive in real terms and competitive with domestic and foreign rates. On March 31, 1989 the Bank rate was raised to 35 percent a year, above the estimate of the underlying inflation rate (after the initial corrective price increases). The rate would be kept at this level for a period of two months. Thereafter, it will be reviewed weekly and adjusted as appropriate.

The authorities also intend to establish by end-June 1989 a system of competitive bidding for treasury bills along the lines recommended by a recent technical assistance mission from the Fund's Central Banking Department. Such a system, together with the conversion of excess reserves into medium-term debentures (which would facilitate the development of an inter-bank market), would assist the Bank of Guyana in setting the Bank rate at an appropriate level, and would enhance the prospects for the establishment of positive and competitive interest rates in Guyana. Implementation of the above-mentioned interest rate policies and the establishment of competitive bidding for government securities constitute benchmarks under the program.

Notwithstanding the introduction of positive interest rates, the demand for financial assets by the private sector is assumed to decline in real terms during 1989 since private sector's holdings of financial assets at the beginning of the program period are believed to be in excess of desired holdings. Thus, the banking system's liabilities to the private sector are projected to increase by about 40 percent in nominal terms implying a decline of 8 percent in real terms. On this basis and in line with the balance of payments objectives of the program, the net domestic assets of the banking system are projected to increase by 23 percent in nominal terms (Table 7). With the programmed reduction in credit to the nonfinancial public sector, credit to the private sector would increase by about 125 percent in nominal terms or 5-10 percent in real terms. 1/

7. External debt and arrears

Guyana's external payments arrears are estimated to have reached US$1,141 million at the end of 1988. A major objective of the Government is to normalize Guyana's relations with external creditors and to eliminate arrears at the earliest possible date. The authorities intend to meet financial obligations falling due to the Fund, the World Bank and the Caribbean Development Bank (CDB) so as to keep arrears to these institutions from rising above the level outstanding on March 31, 1989. In addition, the program includes provisions that limit the accumulation of arrears to other creditors pending the conclusion of rescheduling agreements.

The Government has approached Trinidad and Tobago, Guyana's largest single creditor, and the member countries of the Caribbean Trade Facility (CTF), with a request to reschedule on exceptional terms outstanding arrears and, in the case of Trinidad and Tobago, debt service obligations (including interest) falling due in 1989-91. Trinidad and Tobago has agreed to reschedule Guyana's debt arrears and the outstanding current debt at an average interest rate of 4.3 percent and a maturity of 20 years, with ten years of grace for the payment of principal and 1 1/2 years of grace for the payment of interest. Barbados 2/ and the other member countries of the CTF have agreed to reschedule external arrears at an interest rate of 5 percent and a maturity of 20 years, with 10 years of grace for the payment of principal and a six-month grace for the payment of interest. Trinidad and Tobago and the CTF members also have agreed to forego interest on interest in arrears. The interest relief to Guyana during 1989-91 resulting from these agreements amounts to US$53 million in the case of Trinidad and Tobago, and to US$8 million in the case of the CTF members.

The authorities also intend to approach other bilateral creditors (including creditors under barter arrangements), commercial banks and suppliers with a request to reschedule on exceptional terms outstanding arrears as well as debt service obligations (including interest) falling

1/ The projected deflator of credit to the private sector is substantially higher than the projected inflation rate as some credit transactions are related to foreign trade activities.

2/ The bulk of arrears due to the CTF is owed to Barbados.

Table 7. Guyana: Summary Accounts of the Banking System

	End-December			
	1986	1987	1988	Prog. 1989
(In millions of Guyana dollars)				
Net foreign assets	-2,443.9	-6,200.1	-6,516.2	-21,863.0
Net domestic assets	4,677.8	9,200.8	10,635.8	27,665.0
Credit to the public sector (net)	5,066.8	6,350.7	7,742.0	7,246.0
Credit to the private sector	673.5	986.7	1,590.9	3,592.0
Credit to the rest of the financial system	-122.8	-350.3	-670.9	-671.0
Capital and reserves 1/	380.7	4,183.7	4,118.8	19,643.0
Other	-1,320.4	-1,970.0	-2,145.0	-2,145.0
Liabilities to the private sector	2,233.9	3,000.6	4,119.7	5,802.0
Money	780.3	1,140.7	1,657.1	2,200.0
Time and savings deposits	1,453.6	1,859.9	2,462.6	3,602.0
(Change in millions of U.S. dollars) 2/				
Net foreign assets	-66.2	-64.7	-31.5	-10.9
(Percentage change) 3/				
Net domestic assets 4/	16.4	31.0	24.0	23.0
Credit to the public sector	18.5	25.3	21.9	-6.4
Credit to the private sector	29.5	46.5	61.2	125.8
Liabilities to the private sector	18.5	34.3	37.3	40.8
Money	16.5	46.2	45.3	33.0
Time and savings deposits	19.6	28.0	32.4	46.3
Memoranda items				
Inflation rate	6.6	34.6	51.5	53.5
Exchange rate (G$ per U.S. dollar)	4.4	10.0	10.0	33.0

Sources: Bank of Guyana; and Fund staff estimates.

1/ Includes valuation adjustment due to the devaluation of the Guyana dollar in 1987 and 1989.
2/ With respect to end-December of the previous year.
3/ With respect to the stock outstanding one year earlier.
4/ Excludes valuation adjustments.

due in 1989-91. Pending the conclusion of these discussions and the finalization of the agreements reached with Trinidad and Tobago and the CTF, arrears to these creditors would continue to increase.

To improve Guyana's debt service profile, the Government will keep nonconcessional borrowing to a minimum in 1989 and will limit the contracting and guaranteeing of external loans with a maturity of 12 years or less.

8. The balance of payments and external financing for 1989-91, and role of the Support Group

The trade balance is projected to shift from near balance in 1988 to a deficit of US$48 million in 1989 (Table 8). The value of exports in U.S. dollar terms would increase by 23 percent (export volume by 26 percent), while imports would rise by 45 percent (40 percent increase in volume) from the very depressed level of 1988. The increase in export volume would result from the expected recovery of bauxite, rice and sugar exports, the coming on stream of a gold mine project, and the impact of the program's policies on nontraditional exports. The increase in imports would reflect the planned recovery of public investment, private investment in the gold sector and the restoration of a more adequate supply of inputs to the productive sector. The deficit in the services and transfer accounts would widen by about US$5 million and the current account deficit would rise to a little over US$140 million in 1989 from about US$90 million in 1988.

The trade balance is projected to move to virtual equilibrium in 1990 and to register a small surplus in 1991. With the rehabilitation of productive capacity in the traditional export sectors, increased gold production, and the impact of the new policy stance on nontraditional exports, exports are projected to increase by an average of 14.5 percent a year (in volume as well as in U.S. dollar value) in 1990-91. The volume of imports is projected to remain virtually unchanged over 1990-91 with respect to 1989, while the value of imports would increase by an average of about 4 percent a year. The performance of imports would reflect a reduction in public investment from the projected high levels of 1989 1/ and the completion in 1989 of a private gold mine project. The deficit in the services and transfer accounts is projected to increase to an average of about US$112 million in 1990-91 from US$95 million in 1989 as interest payments on rescheduled debt 2/ and dividends on the gold project become due. On this basis, the external current account deficit would decline to an average of US$109 million a year in 1990-91.

1/ Pending a review by the World Bank of the 1990-91 public sector investment program (PSIP), the staff's projections are based on a normative PSIP for those years.

2/ The projections assume that interest payments on debt rescheduled in 1989 would not become due until March 1990 (March 1991 in the case of Trinidad and Tobago).

Table 8. Guyana: Balance of Payments Projections (1989-91)

(In millions of U.S. dollars)

	Prel. 1988	1989	1990	1991
Current account	-90.6	-142.9	-105.2	-113.0
Trade balance (net)	-1.0	-48.4	-0.5	7.8
Exports, f.o.b.	214.6	264.4	311.5	345.8
Bauxite	79.5	101.0	121.4	138.6
Sugar	74.8	92.0	89.5	94.3
Rice	15.4	17.2	21.9	24.8
Gold	8.0	13.9	32.0	35.1
Other	36.9	40.3	46.7	52.9
Imports, c.i.f.	-215.6	-312.8	-312.0	-338.0
Fuel	-73.8	-76.4	-83.5	-90.6
Other	-141.8	-236.4	-228.5	-247.4
Nonfactor services (net)	-18.3	-22.0	-21.5	-20.5
Factor services (net)	-90.8	-93.7	-106.2	-125.3
Transfers (net)	19.5	21.2	23.1	25.1
Capital account	-12.4	-84.3	31.7	44.6
Public sector (net) 1/	-16.5	-99.3	26.7	34.6
Private sector (net)	4.1	15.0	5.0	10.0
Change in non-Fund arrears	100.6	-1,028.3	--	--
Change in Fund arrears	12.2	-112.6	--	--
Change in gross reserves (inc.-)	4.7	-20.0	-12.0	--
IMF repurchases	-9.3	-6.5	-6.4	-1.7
Others	-5.3	-10.1	-4.0	-4.0
Financing gap	--	1,404.7	95.8	74.1
Rescheduling 2/	--	1,185.2	22.1	20.6
New financing requirements	--	219.5	73.7	53.5
Memoranda items (1987=100)				
Terms of trade	94.7	91.8	88.8	85.8
Export volume	91.0	114.7	135.3	149.7
Import volume	78.8	110.3	105.8	110.2
Gross reserves in weeks of imports	1.0	4.0	6.0	5.6

Source: Fund staff estimates.

1/ Includes Bank of Guyana medium-term liabilities.
2/ Includes the rescheduling of the stock of debt already agreed upon with Trinidad and Tobago and CTF members, and possible reschedulings of arrears and debt service by other bilateral and private creditors.

Reflecting the elimination of external payments arrears envisaged in the program, substantial debt service payments falling due, the performance of the trade balance and the need to rebuild gross international reserves, Guyana's gross borrowing requirements in 1989-91 would amount to US$1,874 million (Table 9). External project financing and private inflows would cover some US$300 million. The remaining gap of US$1,574 million is expected to be covered by: (a) the rescheduling of about US$1,035 million of external payments arrears and US$48 million of current debt service obligations (including interest) due to non-multilateral creditors; (b) the rescheduling of current debt owed to Trinidad and Tobago and commercial banks amounting to US$145 million; and (c) balance of payments support assistance of US$347 million, of which US$180 million are required to settle overdue obligations to the Fund (US$120 million), the World Bank (US$36 million), and the CDB (US$24 million).

Initial efforts made in the second half of 1988 to raise the required balance of payments support were only partially successful and it was considered that further efforts would be most effective through a support group as contemplated under the intensified collaborative approach to the problem of arrears. The Support Group for Guyana was thus established in November 1988 under the chairmanship of Canada. 1/

A main task of the Support Group was to obtain the financing needed to cover the requirements of the three-year program and in particular those for the first year (US$219.5 million). The latter presented substantial difficulties and required considerable flexibility from all parties concerned. Although the financing plan is still in the process of being completed, it is expected that bilateral creditors (including nonparticipants in the Group) would provide US$79.5 million of balance of payments assistance in 1989 and an additional US$22.3 million during 1990-91. In addition, the Support Group has been working to arrange a bridge loan of about US$140 million to help clear the overdue obligations to the Fund, the World Bank, and the CDB. The bridge loan would be repaid with the up-front disbursements of the Fund, the World Bank, and the CDB (see below). Most of the financing (including the bridge loan) would be made available only after a satisfactory review by the Fund of Guyana's performance under the first six months of the program scheduled for not later than December 15, 1989.

The Support Group considered indications of financial support from the World Bank, the CDB, and the Fund, to become available once overdue obligations to these institutions are settled, as critical in securing contributions from bilateral creditors, which in some cases were contingent on the contribution of others. The World Bank has indicated that once the arrears to the IBRD are settled it would grant Guyana a

1/ The Group is composed of Canada, France, Germany, Japan, Italy, the United Kingdom, the United States, Trinidad and Tobago, and Venezuela. Belgium, the Netherlands and Sweden, as well as staff from the Fund and the World Bank, have attended as observers.

Table 9. Guyana: Financing Requirements Gap, 1989-91

(In millions of U.S. dollars)

	1989							
	I Q	II Q	III Q	IV Q	Total	1990	1991	1989-91
Trade balance	-5.7	-25.0	-13.3	-4.4	-48.4	-0.5	7.8	-41.1
Export	61.5	61.0	66.8	75.1	264.4	311.5	345.8	921.7
Import	-67.2	-86.0	-80.1	-79.5	-312.8	-312.0	-338.0	-962.8
Net services and transfers (excluding interest)	-1.6	0.5	0.4	-0.4	-1.1	-7.9	-5.5	-14.5
Increase in gross international reserves	—	-5.0	-5.0	-10.0	-20.0	-12.0	—	-32.0
Subtotal	-7.3	-29.5	-17.9	-14.8	-69.4	-20.4	2.3	-87.6
Debt-service payments 1/ 2/	-44.4	-39.7	-47.2	-23.3	-154.6	-161.5	-167.4	-483.5
Consolidation of current debt 3/	—	—	—	-145.5	-145.5	—	—	-145.5
Arrears	32.6	20.6	20.1	-1,214.2	-1,140.8	—	—	-1,140.8
IMF	7.3	—	—	-119.8	-112.5	—	—	-112.5
World Bank	3.3	—	—	-36.1	-32.8	—	—	-32.8
CDB	1.7	—	—	-23.9	-22.2	—	—	-22.2
Other	20.3	20.6	20.1	-1,034.3	-973.3	—	—	-973.3
Other	-5.8	-1.0	-2.0	—	-8.8	-4.0	-4.0	-16.8
Gross borrowing requirement	24.8	49.6	47.0	1,397.8	1,519.2	185.9	169.1	1,874.2
Private and project inflows	24.9	31.4	30.3	28.0	114.5	90.0	95.0	299.5
Private	1.3	6.3	6.3	1.3	15.0	5.0	10.0	30.0
Project	23.6	25.1	24.1	26.7	99.5	85.0	85.0	269.5
Rescheduling 4/	—	—	—	1,185.2	1,185.2	22.1	20.6	1,227.9
International financial institutions	—	—	—	140.0	140.0	54.0	51.0	245.0
IMF 5/	—	—	—	80.0	80.0	34.0	36.0	150.0
World Bank	—	—	—	35.0	35.0	15.0	15.0	65.0
CDB	—	—	—	25.0	25.0	5.0	—	30.0
Bilateral balance of payments support 2/	—	18.2	16.7	44.6	79.5	19.8	2.5	101.8

Sources: Bank of Guyana; and Fund staff estimates.

1/ See Appendix V.
2/ After interest relief from Trinidad and Tobago and the CTF members.
3/ Includes consolidation of current debt owed to Trinidad and Tobago (US$56 million) and commercial banks (US$89 million).
4/ Includes the rescheduling of the stock of debt already agreed upon with Trinidad and Tobago and other Caribbean Trade Facility members and possible reschedulings of outstanding arrears and debt service obligations by other bilateral and private creditors.
5/ Two hundred and thirty-five percent of quota over 1989-91.

Structural Adjustment Credit from IDA of US$65 million during 1989-91 with an initial disbursement of US$35 million. The CDB has indicated that following the settlement of arrears to the institution, it would provide to Guyana US$30 million in balance of payments assistance during 1989-91 with an initial disbursement of US$25 million.

As regards the Fund, the Managing Director intends to recommend to the Executive Board access by Guyana to Fund resources in an amount equivalent to SDR 115.6 million or 235 percent of quota over a three-year period, subject to the clearance by Guyana of its overdue financial obligations to the Fund, satisfactory performance under the Fund-monitored program, and agreement on the policies Guyana would pursue in the subsequent period. It is contemplated that this access would comprise an ESAF arrangement of 150 percent of quota and a stand-by arrangement of 85 percent of quota. Furthermore, to facilitate the early clearance of overdues to the Fund, it is envisaged by management that the purchases available on approval of these subsequent arrangements would amount to SDR 61.5 million (125 percent of quota), including 60 percent of quota under the ESAF arrangement and 65 percent of quota under the stand-by arrangement.

In addition to indicating access and frontloading, the support group has felt that it would be important for the Fund to provide assistance in two other ways. First, to facilitate the transfer of some balance of payments assistance, Guyana and the Support Group requested the establishment by the Fund of an Administrative Account for Guyana. This account established on April 5, 1989, also would serve as a depository for the coordinated clearance of overdue obligations to the Fund. Second, to facilitate an early rescheduling by the Paris Club on the basis of a Fund-monitored program, a formal endorsement by the Executive Board of Guyana's program would be needed, indicating that the program meets the upper credit tranche conditionality standards of the Fund.

9. Exchange restrictions and trade policies

The current system of import licensing in the official market, which is used to allocate foreign exchange on a priority but ad hoc basis, will be replaced by end-October 1989 with a nondiscriminatory general system under which licenses will be granted automatically for all bona fide transactions. Until then, foreign exchange will be sold in accordance with established priorities, preference being given to imports of fuel and lubricants, essential foods and drugs, and inputs for production. The Government also intends to liberalize, beginning in April 1990, payments on services and transfers, except for travel allowances. The further liberalization of the import licensing system constitutes a benchmark under the program.

After the removal of certain import prohibitions in August 1988, such prohibitions now apply only to 16 categories of food products and are considered necessary by the Government to achieve food security in Guyana. No new import prohibitions will be introduced in 1989 and the remaining prohibitions will be reviewed by December 1989 with a view to reducing further their number.

Following recent actions taken by the authorities, there remain the following exchange measures subject to Fund approval under Article VIII: (a) a dual exchange rate system, consisting of a unified official exchange rate and a parallel market rate for no-funds imports, (b) a discretionary combined import and exchange licensing system for trade transactions, including the issuance of import licenses that do not permit the making of payments and transfers for current international transactions through the official exchange market, (c) a discretionary method of foreign exchange licensing for other current transactions, (d) a restriction evidenced by external payments arrears, and (e) a restriction that remains pending debt restructuring agreements with each creditor.

10. Social policies

The deterioration of the Guyanese economy over the past decade has resulted in substantial reductions in the standard of living and in the provision of social services. The adjustment program should in time reverse this decline by promoting employment and sustained economic growth and by helping to restore the quality and availability of social services. Nevertheless, the process of adjustment may impose in the short term additional hardships on some sections of society, although such costs will in all likelihood be smaller than those that would continue to be incurred in the absence of an orderly adjustment process.

To provide some protection to the most vulnerable groups, the Government has been developing a social impact amelioration program (SIMAP), which has been reviewed by the World Bank and is to be submitted to donors for financing. Some components of this program--namely, a temporary income supplement for pensioners and a nutritional supplement for low-income children under the age of five and for pregnant and lactating mothers--are being undertaken with the initial adjustment measures, and it is expected that the full program will be in place by end-June 1989.

11. Quantitative targets and structural benchmarks

The Memorandum on the Economic and Financial Policies of Guyana and the Technical Memorandum of Understanding attached to the letter dated March 31, 1989 from the Minister of Finance of Guyana and the Governor of the Bank of Guyana describe the quantitative targets and structural benchmarks that the authorities have established to assess performance under the Fund-monitored program. These targets and benchmarks, which have been established for the period April-December 1989, are the following (Table 10):

Table 10. Guyana: Cumulative Quantitative Limits and Targets for the Period April-December 1989 Under the Proposed Fund-Monitored Arrangement

	1989		
	April-June	April-September	April-December
	(In millions of Guyana dollars)		
Limit on the net borrowing requirement of the non-financial public sector	780	1,580	1,890
Target for the reduction in the stock of domestic public debt 1/	360	720	1,290
Limit on the changes in the net domestic assets of the Bank of Guyana 1/	165	352	145
	(In millions of U.S. dollars)		
Limit on the maximum loss and target for the minimum gain in the net foreign assets of the Bank of Guyana 1/	-4	-7	4
Target for the minimum gain in the gross international reserves of the Bank of Guyana 1/	5	10	20
Limit on the contracting of public and publicly-guaranteed external debt with a maturity of 12 years or less	20.5	20.5	20.5
Limit on the change in external payment arrears 1/2/	17	33	--

Sources: Memorandum on the Economic and Financial Policies of Guyana and Technical Memorandum of Understanding.

1/ These limits and targets would be adjusted as established in the Technical Memorandum of Understanding.
2/ In addition, external payments arrears to the Fund, the World Bank and the Caribbean Development Bank will not increase beyond the amounts outstanding as of March 31, 1989.

a. Quarterly targets for the net foreign assets of the Bank of Guyana, with subtargets for the minimum quarterly gains in the gross international reserves of the Bank (Section I of the Technical Memorandum).

b. Quarterly limits on the net domestic assets of the Bank of Guyana (Section II of the Technical Memorandum).

c. Quarterly limits on the net borrowing requirement of the nonfinancial public sector, with quarterly subtargets for the reduction in the stock of domestic public debt (Section III of the Technical Memorandum).

d. Quarterly limits on external payments arrears, with a sublimit on the outstanding stock of arrears due to the multilateral financial institutions (Section IV of the Technical Memorandum).

e. Quarterly limits on the contracting of public and publicly guaranteed external debt with a maturity of 12 years or less (Section V of the Technical Memorandum).

f. Structural benchmarks relating to the policy implementation in a number of key areas as described in Section VI of the Technical Memorandum.

V. The Medium-Term Outlook

The staff has made an attempt to formulate a tentative balance of payments scenario through the year 2000, based on the sustained implementation of appropriate policies beyond the period of the medium-term program. It is assumed that policies will be designed to be consistent with export-oriented economic growth of 3.5 percent a year and a continuing strengthening of the external position. The projections must be regarded with caution, and will need to be reviewed from time to time; in particular, they would be updated late this year in the context of the review of the program that will assess the progress achieved in 1989, and in consultation with the authorities and with the staff of the World Bank.

On the basis of a continuation of a flexible exchange rate policy and of policies designed to foster domestic savings and private investment, the volume of exports is assumed to increase at the same rate than real GDP while imports would increase at a somewhat lower rate. On this basis, and assuming that the terms of trade would remain constant, the trade balance would increase from a small surplus in 1991 to a surplus on the order of US$70 million by the end of the next decade (Table 11). In turn, the current account deficit could decline from about US$115 million in 1991 to around US$60 million in the year 2000.

Table 11. Guyana: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current account	-142.9	-105.2	-113.0	-110.3	-106.6	-102.1	-96.3	-92.6	-86.8	-80.3	-71.2	-58.7
Trade balance (net)	-48.4	-0.5	7.8	13.0	17.9	23.5	30.7	36.8	44.7	53.6	62.3	73.2
Exports, f.o.b.	264.4	311.5	345.8	372.2	400.7	431.3	464.2	499.7	537.9	579.0	623.2	670.8
Imports, c.i.f.	-312.8	-312.0	-338.0	-359.2	-382.8	-407.8	-433.5	-462.9	-493.2	-525.4	-560.9	-597.6
Nonfactor services (net)	-22.0	-21.5	-20.5	-18.7	-19.5	-20.3	-21.0	-21.9	-22.7	-23.6	-24.5	-25.4
Factor services (net)	-93.7	-106.2	-125.3	-130.7	-132.0	-133.5	-135.3	-138.0	-140.4	-143.2	-143.2	-142.2
Transfers (net)	21.2	23.1	25.1	26.1	27.1	28.2	29.3	30.5	31.7	33.0	34.3	35.7
Capital account	-84.3	31.7	44.6	49.0	63.4	74.6	79.5	85.7	88.9	89.1	-25.4	-30.2
Public sector (net) 1/	-99.3	26.7	34.6	41.0	55.4	66.6	71.5	77.7	80.9	81.1	-33.4	-38.2
Private sector (net)	15.0	5.0	10.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Non-Fund arrears	-1,028.3	—	—	—	—	—	—	—	—	—	—	--
Fund arrears	-112.6	—	—	—	—	—	—	—	--	—	—	—
Gross reserves (inc. -)	-20.0	-12.0	—	-5.0	-10.4	-7.3	-7.9	-4.5	-4.7	-5.0	-5.5	-5.6
IMF repurchases	-6.5	-6.4	-1.7	-5.2	-24.8	-21.9	-11.0	-13.8	-19.2	-19.2	-19.2	-10.4
Others	-10.1	-4.0	-4.0	—	—	—	—	—	—	—	—	--
Financing gap	1,404.7	95.8	74.1	71.5	78.3	56.7	35.5	25.3	21.7	15.3	121.3	104.9
Rescheduling 2/	1,185.2	22.1	20.6	—	—	—	—	—	—	—	—	--
New financing requirements	219.5	73.7	53.5	71.5	78.3	56.7	35.5	25.3	21.7	15.3	121.3	104.9
Memorandum items (1987=100)												
Terms of trade	91.8	88.8	85.8	85.8	85.8	85.8	85.8	85.8	85.8	85.8	85.8	85.8
Export volume	114.7	135.3	149.7	154.9	160.4	166.0	171.8	177.8	184.0	190.4	197.1	204.0
Import volume	110.3	105.8	110.2	112.6	115.4	118.2	120.9	124.1	127.1	130.2	133.7	136.9
Gross reserves in weeks of imports	4.0	6.0	5.6	6.0	7.0	7.5	8.0	8.0	8.0	8.0	8.0	8.0
External public debt ratio 3/	789.8	706.8	666.0	646.3	626.9	605.7	583.2	559.6	535.1	510.3	484.6	458.2
Debt service ratio 3/	55.2	51.3	47.9	45.8	44.9	39.5	34.4	32.5	31.7	30.5	47.3	43.8

Source: Fund staff estimates.

1/ Includes Bank of Guyana medium-term liabilities.
2/ Includes the rescheduling of the stock of debt already agreed upon with Trinidad and Tobago and CTF members, and possible reschedulings of arrears and debt services by other bilateral and private creditors.
3/ Debt or debt service in percent of exports.

While the implementation of appropriate policies would help sustain economic growth and improve the external current account position, the medium-term outlook of the balance of payments would continue to be dominated by large debt service obligations. Even after taking into account the concessional terms of the rescheduling agreements with Trinidad and Tobago and the CTF, and after assuming debt rescheduling during 1989-91 by other creditors on similar extended grace and maturity terms (but at contractual interest rates), the ratio of debt service to merchandise exports would only decline gradually through 1998; thereafter, it would increase as principal obligations on rescheduled debt become due. This suggests that Guyana would continue to require exceptional balance of payments assistance beyond 1991, and possibly may need to make further use of Fund resources.

In these circumstances, Guyana's external debt situation will need to be kept under review with a view to facilitating the attainment of external viability and helping to provide a reasonable assurance of repayment of Fund resources. Also, since a further improvement in the trade balance cannot be reasonably envisaged at this stage, additional debt relief, involving debt reduction and concessional interest rates, could be needed. The scale of this additional debt relief would need to be determined as Guyana makes progress in dealing with its economic problems.

VI. Staff Appraisal

Starting around the late 1970s the Guyanese economy was severely affected by inappropriate policies which exacerbated difficulties arising from external shocks. As the Government expanded its direct control over the economy through an increase in both public ownership and regulation of private activity, the public finances deteriorated and the economy's ability to cope with worsening terms of trade was substantially reduced. As a result, output declined, strong inflationary pressures emerged, and the external position weakened markedly. In an attempt to arrest these trends, the authorities relied heavily on price controls and trade and payments restrictions, which gave rise to a growing underground economy and to a build-up of external payments arrears, including arrears to the Fund.

In recent years, the Government has been considering ways to reverse the economic slide and lay the basis for sustained growth. There was a sizable devaluation in early 1987, but this measure was not adequately supported by other policies and Guyana continued to face serious difficulties. A comprehensive program of stabilization measures and structural reforms, involving a major reorientation of economic policy, was designed by the authorities in the first half of 1988 in collaboration with the staff of the World Bank and the Fund and incorporated into a Policy Framework Paper (PFP) which was discussed by the Committee of the Whole of the World Bank and the Executive Board of the Fund. While there was a beginning of implementation last year, the program only has been given operational content through the measures and objectives for 1989 defined in the Memorandum on Economic and Financial Policies transmitted by the authorities to the Fund on March 31, 1989.

The economic program for 1989 includes the main elements needed to begin redressing Guyana's economic situation on a lasting basis. In the view of the staff, its sustained implementation would pave the way for the resumption of growth of output and employment with reasonable price stability and progress toward external viability.

A key component of the program is a major devaluation of the Guyana dollar aimed at re-establishing a price-cost relationship in the economy conducive to export-led growth. While the exchange rate adjustment has been very large, it must be recognized that, particularly in Guyana's circumstances, there are many imponderables in setting an adequate exchange rate. Therefore, the program envisages further adjustments of the exchange rate if indicated by developments in the parallel exchange market, relative costs and prices, or the balance of payments. The staff attaches a great deal of importance to the weekly reviews of the exchange rate that are to take place after a two-month transition period.

Because the public enterprises are Guyana's main exporters, the devaluation makes room for a substantial improvement in the public finances, and the program in turn provides for a fiscal policy consistent with safeguarding the competitive position achieved with the devaluation. Indeed, the program limits the public sector deficit to a level that can be financed by available foreign savings, with the net domestic indebtedness of the public sector expected to be reduced. On that basis, an overall credit policy has been designed that is consistent with low inflation (after the initial corrective price increases), while allowing for an increase in credit to the private sector in real terms in line with the change in the structure of investment and production being sought.

Achievement of the program's fiscal objectives requires actions on many fronts, including sizable adjustments in public sector prices, a restrained current expenditure policy, tax adjustments, and improvements in tax administration and budgetary procedures. For the success of the program, it will be essential that the authorities monitor fiscal developments carefully to make it possible to take any corrective action that may be needed on a timely basis. The staff, in particular, attaches importance to the monitoring of the planned sterilization of excess funds of the public enterprises to ensure that their potential surpluses do materialize in practice.

Overall credit policy in the last three quarters of 1989 is to be consistent with making a start in the much needed reconstitution of the Bank of Guyana's international reserves. The credit program is based on conservative assumptions as regards the demand for money. To help ensure credit restraint, the commercial banks' excess reserves were frozen at their level of mid-March 1989. Moreover, the authorities will pursue policies aimed at facilitating the emergence of interest rates that are positive in real terms and competitive with interest rates abroad. Initially, the Bank rate has been raised to 35 percent per annum, but after a period of two months it will be subject to weekly reviews in conjunction with the reviews of the exchange rate. The prospect for market-determined rates would be enhanced by a system of competitive bidding for government securities, which is to be established by end-June 1989.

The program includes measures in the areas of incomes policies and structural reform to support the stabilization effort, to raise capital formation, and to increase efficiency in the use of resources. Wage restraint in the public sector is important not only to facilitate the desired strengthening in the fiscal position but also to convey a proper signal to the private sector, in which wage determination remains free from direct government intervention. Also important are the steps to liberalize the trade system and payments on current international transactions, including the elimination of external payments arrears. In addition, the Government intends to limit the scope of the operations of the public sector, to divest a number of public enterprises, and to allow the private sector to enter into all areas of economic activity. Guyana's structural policies will be supported by a Structural Adjustment Credit from the World Bank.

While the program aims at a substantial increase in domestic savings, substantial use of foreign savings also will be needed. The program envisages sizable project lending from abroad to finance a major increase in public investment, which is necessary to rehabilitate Guyana's economic and social infrastructure and the directly productive apparatus. There also is substantial reliance on balance of payments support, inter alia, to facilitate the clearance of arrears to the multilateral institutions in 1989. The Support Group chaired by Canada is in the process of completing the financing plan for the program. A substantial part of the balance of payments support is in the form of commodity assistance, and it will be important to coordinate this assistance in such a way as to ensure that it serves to cover the balance of payments gap.

The restoration of a viable balance of payments position over the medium to longer run requires dealing with Guyana's heavy external debt burden. Agreements already have been reached that reduce substantially debt service obligations to Trinidad and Tobago, Guyana's main creditor, and to the Caribbean Trade Facility. Arrangements will also have to be worked out with other creditors, and the expectation is that the Fund-monitored program for 1989 will serve as a basis for a rescheduling by the Paris Club. The external debt situation will need to be kept under review in the coming years with a view to facilitating the attainment of external viability and helping to provide a reasonable assurance of repayment of Fund resources. Debt relief beyond the terms envisaged in the program may well be needed.

Implementation of the economic program is likely to tax Guyana's limited administrative capacity. Therefore, technical assistance from abroad will be essential, particularly in the public sector area. Such assistance is being arranged mostly with the World Bank and the UNDP, and it is important that it be provided on a timely basis and that Guyana uses it effectively.

Satisfactory implementation of Guyana's program, together with the external financial and technical assistance that is envisaged, would result in a resumption of output and employment growth over the medium term, and thus would strengthen the country's capacity to satisfy the basic needs of the population. However, given the prolonged period of economic decline and thus the size of the required adjustments, some groups may be affected adversely in the short run. To limit such effects, the Government has been developing a social impact amelioration program, with some components of this program being implemented on an emergency basis. Moreover, in the short run economic performance may be disrupted by the recent breakdown of the electricity supply system, which has led the Government to delay the needed price adjustments in this sector. The effective and timely implementation by the Government of the social program and rehabilitation of the electricity sector will be important for the success of the adjustment program. External support for these efforts, which is now being marshalled, needs to be speeded up as much as possible.

Guyana's program, including the external financing plan that has been put in place, provides for the clearance of arrears to the Fund and to other multilateral institutions before the end of 1989. Consistent with the intensified collaborative approach to overdue financial obligations to the Fund, the staff is of the view that it would be important for the Executive Board to endorse management's intentions regarding the Fund's prospective financing role, subject to satisfactory performance under the 1989 Fund-monitored program, agreement on policies for the subsequent period, and full settlement of the arrears to the Fund. Fund resources would be made available under a combination of stand-by and enhanced structural adjustment arrangements, and would include substantial frontloading. Such a large initial purchase would go beyond the Fund's normal practices, but would be justified by the strength of the proposed adjustment effort, by the track record expected to be established during the Fund-monitored program, by the balance of payments need, and by the need to provide an appropriate balance with financing from other creditors and donors.

Guyana maintains multiple currency practices and restrictions on current payments subject to Fund approval under Article VIII. The program provides for substantial progress in reducing their scope, and on that basis the staff recommends that they be approved through the end of 1989.

It is recommended that the next Article IV consultation with Guyana be held on the standard 12-month cycle.

VII. Proposed Decisions

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

First Decision

Guyana - Arrangement to Monitor Economic and Financial Program

I. Request by Guyana

Attached to EBS/89/73 is a letter dated March 31, 1989, from the Minister of Finance and the Governor of the Bank of Guyana ("the letter"), with an annexed memorandum on the Economic and Financial Policies of Guyana (the "policy memorandum") and an annexed Technical Memorandum of Understanding (the "technical memorandum"), setting forth the objectives, policies, and measures that the authorities of Guyana intend to pursue during the period through December 31, 1989 (the "Program"), and requesting that the Fund (i) review the Program and find that it meets the Fund's standards for programs supported by upper credit tranche arrangements from the Fund; (ii) monitor progress made by Guyana in the implementation of the Program; and (iii) endorse the intention of the Managing Director to recommend subsequently, subject to certain conditions that are stated in Section IV below, approval of the use by Guyana of the Fund's resources.

II. Assessment of Program

The Fund has reviewed the Program of Guyana and finds that it meets the Fund's standards for programs supported by upper credit tranche arrangements from the Fund.

III. Monitoring of Program Implementation

1. The Fund will monitor, pursuant to the understandings of Guyana with the Fund, the progress made by Guyana in the implementation of its Program on the basis of the following:

(a) The observance by Guyana of:

(i) Quarterly targets for the net foreign assets of the Bank of Guyana, including targets for the minimum quarterly gains in the gross international reserves of the Bank of Guyana, as described in paragraph 34(i) of the policy memorandum and in paragraphs 1, 2, and 4 of the technical memorandum;

(ii) Quarterly limits on the net domestic assets of the Bank of Guyana, as described in paragraph 34(ii) of the policy memorandum and in paragraph 7 of the technical memorandum;

(iii) Quarterly limits on the net borrowing requirements of the nonfinancial public sector, including quarterly targets for the reduction in the stock of domestic public debt, as described in paragraph 34(iii) of the policy memorandum and in paragraphs 11 and 12 of the technical memorandum;

(iv) Quarterly limits on the external payments arrears of the public sector, including a limit on the outstanding stock of arrears due to the multilateral financial institutions, as described in paragraph 34(iv) of the policy memorandum and in paragraph 14 of the technical memorandum;

(v) Quarterly limits on the contracting of public or publicly-guaranteed nonconcessional external debt with a maturity of up to 12 years, as described in paragraph 34(v) of the policy memorandum and in paragraph 15 of the technical memorandum; and

(vi) Policy intentions that are described in paragraph 16 of the policy memorandum;

(b) The avoidance by Guyana of: any imposition of new or intensification of existing restrictions on payments and transfers for current international transactions; any introduction of new or modification of existing multiple currency practices (except as provided for in paragraph 29 of the policy memorandum); the conclusion of any bilateral payments agreement which is inconsistent with Article VIII; and any imposition of new or intensification of existing import restrictions for balance of payments reasons; and

(c) The conduct of a review of the Program with the Fund, in accordance with paragraph 5 of the attached letter, for completion by the Fund not later than December 15, 1989.

2. Guyana will remain in close consultation with the Fund during the period of the Program and, in accordance with paragraph 5 of the attached letter, will consult the Fund on the adoption of any measures that may be appropriate at the initiative of Guyana, or whenever the Managing Director requests consultation because the understandings specified under paragraph 1 above have not been observed or because he considers this consultation on the Program is desirable. For the purposes of these consultations, Guyana will provide to the Fund, through reports at intervals or dates requested by the Fund, such information as the Fund requests in connection with Guyana's objectives, policies, and measures.

IV. Endorsement of the Intention of the Managing Director Relating to Use of Fund Resources

The Fund endorses the intention of the Managing Director of the Fund to recommend to the Executive Board that it:

(i) terminate the declaration of Guyana's ineligibility to use the general resources of the Fund;

(ii) approve, at the request of Guyana, upper credit tranche stand-by and enhanced structural adjustment arrangements, in a total amount equivalent to SDR 115.6 million; and

(iii) specify that the equivalent of SDR 61.5 million of that amount would be made available to Guyana upon such approval,

provided that such recommendation by the Managing Director would be made only in the event that Guyana has no overdue financial obligations to the Fund, has performed satisfactorily under the Program monitored by the Fund under Section III above, and has adopted a subsequent program on the basis of which Guyana would qualify for access to the Fund's resources under upper credit tranche stand-by and enhanced structural adjustment arrangements.

Second Decision

Exchange System

1. The Fund takes this decision relating to Guyana's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1989 Article XIV consultation with Guyana, in light of the 1988

Article IV consultation with Guyana conducted under Decision No. 5392 - (77/63) adopted August 29, 1977, as amended ("Surveillance Over Exchange Rate Policies").

2. Guyana's exchange measures subject to approval under Article VIII, Sections 2(a) and 3, as described in EBS/89/73, include (a) a dual exchange rate system, consisting of a unified official exchange rate and a parallel market rate for no-funds imports, (b) a discretionary combined import and exchange licensing system for trade transactions, including the issuance of import licenses that do not permit the making of payments and transfers for current international transactions through the official exchange market, (c) a discretionary method of foreign exchange licensing for other current transactions, (d) a restriction evidenced by external payments arrears, and (e) a restriction that remains pending debt restructuring agreements with each creditor. The Fund welcomes the recent unification of official exchange rates, and takes note of Guyana's intentions to complete the reform of its exchange licensing system by end-October 1989 and to eliminate the exchange restriction evidenced by external payments arrears. In the meantime, the Fund grants approval of the retention by Guyana of the multiple currency practice and exchange restrictions as referred to above until December 31, 1989.

Guyana - Fund Relations
(As of March 31, 1989)

I. Membership Status

(a) Date of membership: September 1966
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

		Millions of SDRs	Percent of Quota
(a)	*Quota:*	49.20	--
(b)	Fund holdings of Guyana dollars	120.95	245.82
(c)	Fund credit:	71.75	145.82
	CFF	12.68	25.77
	EFF	59.06	120.04
	Of which: from borrowed resources (SFF)	29.78	60.53
(d)	Reserve tranche position	--	--

III. SDR Department

(a) Net cumulative allocation: SDR 14.53 million
(b) Holdings: None
(c) Current designation plan: Not in designation plan

IV. Administered Accounts:

(a) Total Trust Fund loans SDR 11.26 million
(b) Amount outstanding SDR 9.99 million

V. Financial Obligations Due to the Fund (in millions of SDRs)

	Overdue Financial Obligations (As of March 31, 1989)	Principal and Interest Due 1/			
		1989 2/	1990	1991	1992
Total	92.1	6.9	8.5	3.5	1.0
Repurchases	67.7	3.3	7.2	2.5	--
Charges and interest	24.4	3.6	1.3	1.0	1.0

1/ Excludes special charges.
2/ Repurchases and charges due during the period April 1-December 31, 1989.

B. Nonfinancial Relations

VI. Exchange Rate Arrangements

From October 1984 until mid-January 1987, the exchange rate was maintained in the range of G$4.15 to G$4.40 per U.S. dollar. Effective January 19, 1987 the central rate for the Guyana dollar was changed to G$10.0 per U.S. dollar. Starting February 1, 1987, the commercial banks were permitted to open a foreign exchange window that operate at G$21 per U.S. dollar as of March 31, 1989. Effective April 3, 1989, the official and bank window rates were unified at a new central rate of G$33 per U.S. dollar. As of early 1989, the exchange rate in the parallel market was reported to be about G$43 per U.S. dollar.

VII. Past Decisions

On May 15, 1985 (EBM/85/73) the Executive Board declared Guyana ineligible to use the Fund's general resources. The last Article IV consultation was concluded by the Executive Board on December 18, 1987 (EBM/87/176); the existing restrictions on payments and transfers for current international transactions have not been approved by the Fund. A Policy Framework Paper for Guyana (EBM/88/170) was discussed by the Executive Board on July 25, 1988 (EBM/88/114). The last review of Guyana's overdue obligations to the Fund was conducted by the Executive Board on October 25, 1988 (EBM/88/160).

VIII. Technical Assistance

In February 1989, a technical assistance mission from the Central Banking Department examined the issue of excess liquidity, reviewed the instruments of monetary policy and recommended ways to sterilize the excess liquidity and improve the Treasury bills tendering mechanism.

In February-March 1989, a technical assistance mission from the Fiscal Affairs Department examined the accounting procedures regarding devaluation losses and recommended changes that could help the authorities to realistically tax profits and capture for the budget windfall gains following a devaluation.

Basic Data

Area and population	
Area	83,000 sq. miles (215,000 sq. kilometers)
Population (mid-1987)	755,900
Annual rate of population increase (1981-87)	-0.1 percent
GNP (1988)	SDR 240.3 million
	US$323.0 million
	G$3,230 million
GNP per capita (1988)	SDR 318.3
Population Characteristics (1987)	
Urban population (percent of total)	30.4
Population density per square mile of agricultural land	123.2
Population age structure (percent)	
0-14 years	37.5
15-64 years	58.7
65-and above	3.8
Crude birth rate (per thousand)	24.0
Crude death rate (per thousand)	8.0
Total fertility rate	2.6
Life expectancy at birth (years)	63.0
Infant mortality rate (per thousand)	49.0
Child death rate (per thousand)	6.8
Food, health and nutrition (1987)	
Index of food production per capita (1974-76 = 100) (1986)	95.4
Per capita supply of:	
Calories (percent of requirements)	88.5
Proteins (grams per day)	61.9
Population per physician (thousand)	5.0
Population per nurse (thousand)	0.3
Population per hospital bed (thousand)	0.2
Access to safe water (percent of population)	
Total	81.5
Urban	98.0
Rural	74.9
Education (1987)	
Students reaching grade 6 (percent)	84.1
Consumption (1987)	
Energy consumption per capita (kg. of oil equivalent)	349.7
Passenger cars (per thousand population)	35.6
Newspaper circulation (per thousand population)	35.9

	1984	1985	1986	1987	Prel. 1988
Origin of GDP			(percent)		
Agriculture	26.2	25.9	26.8	25.4	23.8
Mining	7.6	8.9	8.2	9.1	8.5
Manufacturing	11.7	11.2	11.2	10.7	10.5
Construction	7.4	7.4	7.2	7.5	7.8
Government	22.8	22.6	22.5	22.4	22.6
Other services	24.3	24.0	24.1	24.9	26.8
Ratios to GDP					
Exports of goods and nonfactor services	55.3	52.9	47.3	81.2	63.6
Imports of goods and nonfactor services	-64.3	-69.5	-61.2	-93.0	-68.3
Current account of the balance of payments	-23.0	-28.0	-27.1	-31.5	-21.9
Central government revenues and grants	42.3	41.1	47.0	36.6	41.9
Central government expenditures	85.1	94.7	100.8	87.6	78.9
Nonfinancial public sector current account position	-26.0	-35.3	-28.1	-9.5	-17.0
Nonfinancial public sector overall surplus or deficit (-)	-45.5	-58.8	-51.1	-35.3	-33.7
External public debt (end of year)	266.3	294.7	295.9	499.4	429.7
Gross national savings	2.4	-3.9	-3.5	-5.6	-5.5
Gross domestic investment	26.9	27.9	26.7	31.9	21.1
Money and quasi-money (end of year) 1/	90.4	95.1	100.3	88.5	99.6

	1984	1985	1986	1987	Prel. 1988
Annual changes in selected economic indicators					
Real GDP per capita (at factor cost)	2.1	1.0	0.4	0.6	-3.0
Real GDP at factor cost	2.1	1.0	0.2	0.6	-3.0
GDP at current prices (market prices)	16.9	16.9	12.4	52.3	22.0
Domestic expenditure (at current prices)	7.2	25.1	9.6	49.5	14.3
Capital formation	45.1	21.2	7.8	81.7	-19.1
Consumption	-1.3	26.3	10.2	39.6	27.6
GDP deflator	14.4	15.7	12.1	51.3	25.8
Consumer prices (annual averages) 2/	25.2	15.0	7.9	28.5	40.1
Central government revenues	18.7	17.6	30.2	11.6	45.8
Central government expenditures	27.0	30.0	19.7	32.3	9.9
Money and quasi-money 1/	16.4	23.0	18.5	34.3	37.3
Money	25.6	20.2	16.6	46.2	45.3
Quasi-money 3/	11.7	24.7	19.6	28.0	32.4
Net domestic assets 1/4/	37.4	47.1	34.0	63.2	47.8
Credit to public sector (net)	57.8	52.9	41.9	57.5	46.4
Credit to private sector	6.6	3.7	8.1	14.0	20.1
Merchandise exports (f.o.b., in U.S. dollars)	11.9	-1.3	-1.3	14.5	-10.8
Merchandise imports (c.i.f., in U.S. dollars)	-13.7	19.1	1.7	0.9	-17.7
Central Government finances		(In millions of Guyana dollars)			
Total revenues	717.2	814.1	1,046.2	1,241.0	1,731.9
Total expenditures	1,696.0	1,982.0	2,227.0	3,391.0	4,138.0
Current account surplus or deficit (-)	-535.8	-714.2	-875.9	-1,255.5	-1,129.5
Overall surplus or deficit (-)	-725.8	-1,062.3	-1,199.1	-1,728.9	-1,532.0
External financing (net)					
Balance of payments		(In millions of U.S. dollars)			
Merchandise exports, f.o.b.	215.5	212.8	210.0	240.5	214.6
Merchandise imports, c.i.f.	-214.3	-255.2	-259.5	-261.9	-215.6
Investment income (net)	-68.3	-70.2	-85.0	-89.3	-90.8
Other services and transfers (net)	-34.9	-17.9	-6.6	1.2	1.2
Balance on current and transfer accounts	-102.0	-130.5	-141.1	-109.5	-90.5
Public sector capital (net)	-5.5	-0.2	9.0	-14.3	-16.5
Private capital and errors and omissions (net)	-14.4	-27.6	-7.8	-31.0	12.6
Change in arrears of the non-financial public sector and the private sector (increase +)	37.7	67.4	77.5	80.3	73.5
Change in net official reserves (increase -)	84.2	90.9	62.4	74.5	21.0

	December 31				
	1984	1985	1986	1987	1988
International reserve position 5/		(millions of SDRs)			
Central bank (net) 6/	-392.5	-432.9	-439.8	-431.7	-470.8
Central bank (gross)	5.1	5.9	7.0	6.3	3.1
Rest of banking system (net)	-8.9	-6.2	-8.7	1.2	1.7

IMF data (as of March 31, 1989)	
Article VIII status	
Intervention currency and rate	U.S. dollar at 33.0 per US$
Quota	SDR 49.2 million
Fund holdings of local currency	SDR 120.95 million
From Fund resources	
Credit tranche purchases (including SBA)	None
EFF purchases	SDR 59.06 million
CFF purchases	SDR 12.68 million
Buffer stock financing purchases	None
Oil facility purchases	None
From Supplmentary and Enlarged Access resources	None
Total Fund holdings	245.82 percent of quota
Arrears with the Fund (as of March 31, 1989)	SDR 92.1 million
Of which:	
Repurchases	SDR 67.7 million
Charges and interest	SDR 24.4 million
Special Drawing Rights Department	
Cumulative SDR allocation	SDR 14.53 million
Net acquisition or utilization (-) of SDRs	SDR -14.53 million
Holdings of SDRs	None
Share of profits from gold sales	US$3.16
EFF arrangement (July 1, 1980-June 30, 1983)	SDR 150 million
Purchases thereunder	SDR 51.725 million
Arrangement cancelled July 22, 1982	

1/ Banking system.
2/ Official CPI.
3/ Time and savings deposits.
4/ Net of valuation changes; as percent of broad money at the beginning of the period.
5/ At exchange rates prevailing at the end of the period.
6/ Includes liabilities on account of external payments arrears.

Financial Relations of the World Bank Group with Guyana

IBRD/IDA lending operations as of December 31, 1988	Disbursed IBRD	Disbursed IDA	Undisbursed IBRD	Undisbursed IDA
	(In millions of U.S. dollars)			
Education	8.30	7.03	--	--
Agriculture and forestry	22.90	9.37		3.91
Transportation	--	4.40	--	--
Program and Structural Adjustment Loans	19.00	12.18	--	--
Sea defense	10.09	--	--	--
Energy	13.86	0.93	0.14	1.10
Other	2.07	--	--	8.88
Total	76.22	33.91	0.14	13.89

Amortization payments:	US$13.50 milion
Debt outstanding, including undisbursed (excl. arrears)	US$124.16 million
Overdue payments	US$36.09 million
Commitments Jul. 1, 1987-September 30, 1988:	Nil
IFC investments:	US$1.4 million
Disbursements Jul. 1, 1987-September 30, 1988	nil
Technical assistance	A Technical Assistance Credit of US$7 million for the bauxite industry which was approved by the Board on August 6, 1986 has not yet been signed because of Guyana's continued overdue payments obligations to the Bank Group.
Recent economic and sector mission:	Economic missions were conducted in September and November 1987 to gather data for the preparation of a draft Policy Framework Paper that was discussed with the Government in April-May 1988. Bank missions also visited Guyana in October 1988 to gather import and export data needed to firm up commodity financing and in November 1988 to examine supply side issues affecting output growth and exports and to update the public sector investment program.
Aid Consultative Group:	The Ninth Meeting of the Caribbean Group for Cooperation in Economic Development was held under the chairmanship of the IBRD in June 1988, during which a Subgroup Meeting on Guyana took place.

Guyana - Statistical Issues

1. Outstanding statistical issues

a. National accounts, prices, wages, and employment

National accounts statistics would seem to underestimate the level of real GDP and understate the increase in the GDP deflator in recent years since they do not capture developments in the parallel economy, which is believed to have been growing in importance. Nominal GDP, therefore, also would be underestimated. As private consumption is estimated as a residual, available indicators of real consumption would seem to exaggerate the decline that has occurred in recent years.

The official consumer price index (CPI) is based on a consumption basket determined in 1969/70, and needs to be updated for changes in consumption patterns. Since 1986 the Statistical Office has sought to register prices of goods supplied by the parallel economy. Yet, the authorities do not consider the index to be sufficiently reliable to be published in the IFS.

Official employment data cover only the public sector. There are no statistics on wages and unemployment.

b. Government finance

In the area of public finance statistics, there are large discrepancies between information on revenues and expenditures and the financing flows. In the consolidated central government accounts, expenditures approved by supplementary authorizations appear to be incompletely recorded and data on accrued interest payments cannot be derived from the accounts since, from 1984 on, there has been no recording of a considerable amount of domestic interest capitalized and of external interest in arrears. The accounts of the public enterprises are generally compiled on an accrual basis and the lack of information on the discrepancies between cash and accrued amounts for certain items presents additional difficulties in consolidating the accounts of the nonfinancial public sector and reconciling them with the financial flows.

No government finance statistics are reported separately for publication in IFS and problems with data submitted for the GFS Yearbook have prevented publication of aggregate data in IFS.

c. Monetary accounts

Despite their relatively comprehensive coverage, the statistics on money and banking present some problems. Interest arrears and late interest due are excluded from the Bank of Guyana's accounts. There are extended delays in providing the Bureau of Statistics with revisions made to the Bank of Guyana balance sheet following the initial IFS reporting.

d. Balance of payments

The apparent growth of the parallel economy and serious staffing problems in the Statistical Bureau have reduced the authorities' capacity to compile reliable and timely statistics on the balance of payments. The latest official statistics on the balance of payments available in December 1988 were those for 1986. Export data understate the actual level of exports because of unrecorded transactions. Imports of goods financed through the parallel market are recorded, but their value tends to be understated because of deficiencies in the valuation procedure. Also, the counterpart credit entries of some of these imports are not made due to the lack of information. Most nonfactor service items are rough estimates only, because there are no arrangements to collect reliable data in this area.

Official data on external debt are quite different from the data in the IBRD External Debt Reporting System because of differences in the treatment of debt in arrears and the incomplete coverage of data reported by the authorities. Interest on outstanding arrears is in general excluded from official data. Some debts recently contracted by public enterprises without government guarantees have not been recorded and records on some old debts contracted by public enterprises are incomplete. Reliable data on commercial arrears are also unavailable. In recent years, the Ministry of Finance has been working on a program to computerize external debt data, but a shortage of staff and a lack of adequate training have been hampering its progress.

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 March 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Guyana, which during the past year have been provided on a timely basis, although the currentness of the data could be improved.

Status of IFS Data

		Latest Data in March 1989 IFS
Real Sector	- National Accounts	1987
	- Prices: Consumer	Annual 1987; Q1 1988
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing:	
	Foreign	n.a.
	Domestic	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	August 1988
	- Deposit Money Banks	June 1988
	- Other Financial Institutions	Q2 1988
Interest Rates	- Discount Rate	June 1988
	- Bank Lending/Deposit Rates	June 1988
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values: Exports	June 1988
	Imports	Annual 1986; Q4 1986
	Unit Value (Exports)	June 1988
	- Balance of Payments	1985
	- International Reserves	June 1988
	- Exchange Rates	January 1988

Guyana: Projected Debt Service Obligations

(In millions of U.S. dollars)

	1989 I Q	1989 II Q	1989 III Q	1989 IV Q	1989 Total	1990	1991	1989-91
Cash payments	11.8	19.1	27.1	17.9	75.9	139.4	146.8	362.1
IMF	0.4	3.0	7.6	2.0	13.0	15.5	8.7	37.2
World Bank	0.1	3.6	3.3	3.6	10.6	13.8	11.9	36.4
CDB	—	0.2	2.2	0.2	2.6	5.4	5.2	13.2
Others	11.4	12.2	14.0	12.1	49.7	104.7	121.0	275.3
Into arrears	32.6	20.6	20.1	—	73.3	—	—	73.3
Subject to rescheduling	—	—	—	5.4	5.4	22.1	20.6	48.1
Total	44.4	39.7	47.2	23.3	154.6	161.5	167.4	483.5

Sources: Bank of Guyana; and Fund staff estimates.

March 31, 1989

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. The annexed Memorandum on the Economic and Financial Policies of Guyana, together with the annexed Technical Memorandum, sets out the policies and objectives that the Government intends to pursue during the period of its programme for 1989. These policies are based on the programme outlined in the Policy Framework Paper prepared in collaboration with the staffs of the Fund and the World Bank and transmitted to you on June 15, 1988.

2. The Government expects the policies of its programme to elicit, in the context of the enhanced collaborative approach to the problem of arrears, the external assistance that would facilitate the resumption of economic growth in Guyana and the normalization of Guyana's financial relations with external creditors. In this regard, we expect to be able to settle Guyana's overdue obligations to the Fund toward the end of 1989 and to request, at that time, access to the use of Fund resources under upper credit tranche stand-by and enhanced structural adjustment arrangements from the Fund.

3. In order to facilitate the external financial assistance needed to make Guyana's programme succeed, we request that the Executive Board of the Fund:

(i) review the programme of Guyana and find that it meets the Fund standards for programmes supported by upper credit tranche arrangements from the Fund;

(ii) monitor progress made by Guyana in the implementation of the programme for 1989; and

(iii) endorse the intention of the Managing Director of the Fund to recommend subsequently to the Executive Board that it:

(a) terminate the declaration of Guyana's ineligibility to use the general resources of the Fund;

(b) approve, at the request of Guyana, upper credit tranche stand-by and enhanced structural adjustment arrangements, in a total amount equivalent to SDR 115.6 million; and

(c) specify that, upon such approval, the equivalent of SDR 61.5 million of that amount would be made available to Guyana.

We understand that the recommendation above by the Managing Director would be made only in the event that Guyana has no overdue financial obligations to the Fund, has performed satisfactorily under the monitored programme, and has adopted a subsequent programme under which Guyana would qualify for access to the Fund's resources under upper credit tranche stand-by and enhanced structural adjustment arrangements.

4. In connection with the policies and objectives of this programme, the Government does not intend to impose new or intensify existing restrictions on payments and transfers for current international transactions, introduce or modify any multiple currency practices (except as provided for in paragraph 29 of the annexed policy memorandum), conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, or impose new or intensify existing import restrictions for balance of payments reasons. Moreover, we request that, to the extent necessary for the carrying out of the programme, the Fund grant approval of the retention by Guyana of multiple currency practices and exchange restrictions, including those that are evidenced by external payments arrears, until December 31, 1989.

5. The Government believes that the policies and measures for 1989 set forth in this letter and the annexed memoranda are adequate to achieve the objectives of its programme, but will take any further measures that may become appropriate for this purpose. Guyana will remain in close consultation with the Fund during the period of the programme, and will consult the Fund on the adoption of any measures that may be appropriate, at the initiative of Guyana or whenever the Managing Director requests such consultation because the financial targets, limits, or benchmarks are not observed or the policy intentions stated in this letter or in the annexed memoranda are not carried out, or because he considers that consultation on the programme is desirable. In addition, Guyana will conduct with the Fund a review of the programme, to be completed by the Fund not later than December 15, 1989. For the purposes of monitoring its programme, Guyana will provide the Fund, through reports at intervals or dates requested by the Fund, such

information as the Fund requests in connection with the progress of Guyana in achieving the objectives and policies set forth in this letter and in the annexed memoranda.

Sincerely yours,

Patrick Matthews Governor, Bank of Guyana and Alternate Governor of the Fund for Guyana	Carl B. Greenidge Minister of Finance and Governor of the Fund for Guyana

Attachments

Memorandum on the Economic and Financial Policies of Guyana

1. Since the mid-1970s Guyana has been experiencing severe economic difficulties, caused by both adverse exogenous developments and domestic policies. The steady growth of public expenditures and the loss of revenue from bauxite and sugar led to increasingly large fiscal deficits and to a rapid buildup of external debt. As external financing was reduced in the early 1980s, the domestic financing of the public deficit resulted in strong balance of payments and inflationary pressures; international reserves were depleted and external payments arrears accumulated. In these circumstances, the Government relied increasingly on controls, including price controls and exchange and trade restrictions, while allowing the currency to appreciate substantially in real terms. Output and exports declined and a growing parallel economy emerged.

2. Faced with a deteriorating economic situation, the Government during 1983-87 strove to increase output and exports and reduce Guyana's large economic imbalances. The Guyana dollar was devalued by 70 percent in relation to the U.S. dollar during this period, price controls were reduced substantially and the import licensing system was liberalized. Controlled prices and public sector tariffs were increased to reflect the currency adjustments but in some cases the increase was partial and was delayed to protect lower income groups. To arrest the deteriorating performance of the public enterprises, a number of actions were taken to increase output, reduce costs, and rationalize their operations. Efforts also were made in the Central Government to increase revenue, rationalize the tax system and restrain the growth of noninterest expenditures.

3. Although in the appropriate direction, the policies noted above were insufficient to deal with the severe economic situation and Guyana continues to face major structural weaknesses, economic imbalances and financial constraints. After increasing at an average annual rate of less than 1 percent during 1984-87, recorded real GDP declined by an estimated 3 percent in 1988 because of unfavorable weather conditions (which affected sugar and rice output) and production bottlenecks in the bauxite sector. In turn, recorded inflation (as measured by the consumer price index) accelerated from an annual average of 19 percent in 1984-87 to 28 percent in 1987 and to 40 percent in 1988. Export volume remains below the levels of the mid-1970s and imports continue to be compressed. Moreover, the country's capital stock has deteriorated; the state of disrepair of physical infrastructure has resulted in serious bottlenecks; and the decline in the standard of living has led to an exodus of qualified personnel and to a shortage of skilled labor and experienced managers.

4. On the financial side, the domestic and external public debt have become exceptionally large with respect to recorded GDP and exports and national savings are negative. The difficulties in servicing such a

high level of debt have given rise to severe inflationary pressures and to the accumulation of external payments arrears, which by the end of 1988 had reached an estimated US$1.1 billion, or about 530 percent of exports.

5. Guyana's economic imbalances are so severe that they can only be solved fully over the medium to longer term. As a major step toward redressing the economic situation, the Government decided to reorient economic policy in the context of a medium-term economic programme prepared in collaboration with the staffs of the Fund and the World Bank in 1988. The objectives of this programme, which have been incorporated in a Policy Framework Paper discussed by the Executive Board of the Fund and the Committee of the Whole of the World Bank, are to: (a) provide a basis for the sustained growth of real incomes and a viable balance of payments position over the medium term; (b) reduce inflation; (c) incorporate the parallel economy into the official economy; and (d) normalize Guyana's financial relations with external creditors.

6. In the context of the Policy Framework Paper, the remainder of this Memorandum sets out the economic policies and objectives that the Government of Guyana intends to pursue during the three-year period starting March 1989, focusing on the economic policies and objectives for 1989.

7. Establishment of an appropriate exchange rate is essential to achieve export-oriented growth and to incorporate the parallel economy into the official economy. Accordingly, at the start of the programme the official exchange rate system will be unified at a rate that would fall within the range of exchange rates prevailing at that time in the secondary foreign exchange window and in the parallel market.

8. Following the unification of the official exchange rate system, the Government will pursue a flexible exchange rate policy. The official exchange rate will be adjusted in line with developments in average nominal wages in the nonfinancial public sector. Wage increases in excess of the guidelines established in paragraph 23 below will lead to an automatic and proportional adjustment of the official exchange rate. In addition, the exchange rate will be reviewed weekly and appropriately adjusted taking into account developments in the parallel exchange market and in the net international reserves of the Bank of Guyana.

9. To guarantee exporters a minimum of foreign exchange for the importation of capital goods, spares and inputs, the Bank of Guyana allows selected exporters to retain a percentage of export proceeds ranging from 15 percent for sugar to 50 percent for some private sector exports with a high import content. For gold, 20 percent of export earnings is retained by the miners, the remainder being used by the Ministry of Finance to meet foreign currency expenditures included in the budget of the Government. At the same time the Guyana Mining Enterprise (GUYMINE) has a foreign currency account at a local commercial bank and is only required to sell excess daily balances to the Bank of Guyana. With the

establishment of a competitive rate and the liberalization of import and exchange restrictions (see paragraphs 29 and 30) the retention schemes --including those pertaining to exports of gold--will no longer be necessary. Thus, with a view to enhancing the effectiveness of the exchange rate system in allocating resources, the retention schemes will be abolished by October 1989. As an intermediate step, retention quotas will be unified at a rate of 10 percent at the start of the programme. The existing arrangement with GUYMINE will be reviewed by October 1989.

10. The objective of the Government is to rely increasingly on the price system as a means of improving resource allocation and economic efficiency. Since the removal of price controls on several items in July-August 1988, controls have been limited to margarine, petroleum products, powdered milk, rice, salt, sugar and bus and taxi fares. During the programme period, these items will be priced in accordance with their costs and, where appropriate, international prices. The need for these remaining price controls will be reviewed during the programme period with a view to reducing further their scope. In any event, no new price controls will be introduced, and suggested prices will continue to be nonbinding.

11. The rehabilitation of the economy will require a substantial increase in domestic savings. Major aims of the economic programme are to increase public sector savings and to limit the public sector deficit to an amount consistent with the availability of external financing, so as to avoid crowding out the private sector. For 1989, the aim of the programme is to shift the current account balance of the nonfinancial public sector to a positive 9.8 percent of GDP from a negative 17 percent in 1988. Excluding interest payments on the domestic and external public debt, the current account surplus of the nonfinancial public sector is targeted to improve from 15.4 percent of GDP in 1988 to 53.3 percent in 1989. However, because of the projected recovery of public sector investment, the overall deficit would increase from 33 percent of GDP in 1988 to 37 percent in 1989. Beginning in April 1989, external grants and loans are expected to exceed the public sector deficit and the stock of domestic public debt is projected to decline by some 11.5 percent of GDP during the year.

12. Since the public enterprises are Guyana's main exporters, the adjustment of the exchange rate will facilitate in a major way the improvement in the public finances. The Government will also implement appropriate public enterprise pricing and tariff policies, restrain current expenditure growth and strengthen financial controls. These prices and tariffs will be set in such a way as to cover the cost of production and importation to the enterprises and to yield an adequate return to capital. At the start of the programme public sector prices and tariffs, as well as controlled prices, will be increased so as to reflect the full pass through of the exchange rate adjustment. The only exception will be electricity rates which will be adjusted gradually in such a way that a full pass through will be achieved by April 1990. Following their initial adjustment, public sector prices and tariffs, as

well as controlled prices, will be reviewed periodically and, as appropriate, will be adjusted to meet the criteria stated above. In 1989 this price and tariff adjustment will at least cover changes in costs resulting from movements in the official exchange rate. Altogether, the adjustment of the exchange rate, associated price increases and expenditure restraint are targeted to raise the current account surplus of the public enterprises (net of taxes and dividends) from 15 percent of GDP in 1988 to 47 percent in 1989. After taxes and dividends, the current account surplus of the enterprises is targeted to increase from 6.5 percent of GDP in 1988 to 23.5 percent in 1989.

13. The operations of the public enterprises will continue to be reviewed and rationalized; their scope will be limited to existing functions and their production activities will not be expanded except on efficiency grounds. No new public enterprises will be established during 1989-91, except for those resulting from changes associated with the rationalization exercise and/or joint ventures with existing corporations. The further rationalization of the GUYSTAC Group will involve the development and implementation of a reform programme consistent with the Government's objectives of improving the financial performance of the public enterprises and promoting efficiency, competition and private investment. In accordance with these objectives, the Government in 1988 scaled down the operations of the Guyana Transport Services, closed Guyana Glassworks and is in the process of concluding the sale of Guyana Timbers. The Government also has decided to divest a number of public enterprises some of which are considered nonviable under present conditions. These enterprises include Guyana Fisheries, Guyana Nichimo, Demerara Woods, Quality Foods, Guyana Rice Milling and Marketing Authority, Guyana Stockfeeds, the Soap and Detergent Company, and the National Paint Company. The characteristics of divestment will be determined by market conditions; the options include closure, sale to the private sector, and joint venture arrangements, including partial sale and leasing. The Government intends to move rapidly toward divestment and expects to conclude these operations in the course of 1989. For this purpose, financial and marketing profiles for most of these companies will be finalized by March 1989; for others, they will be finalized between July and September 1989. Pending divestment, the Government will manage these enterprises in such a way as to avoid losses and will limit additional investments to Guyana Fisheries and Demerara Woods. Any net proceeds from the divestment of the nonviable enterprises will be used to reduce domestic public debt; for the remaining enterprises, 60 percent of the proceeds will be used to increase public sector investment and 40 percent to reduce domestic public debt. The Government also has identified a number of enterprises to be strengthened by association with private investors and, in particular, foreign investors. These enterprises include Guyana National Engineering Corporation, Sanata Textiles, Livestock Development Company, and Guyana Airways Corporation.

14. To enhance the contribution of the public enterprises to public sector savings, the Government in 1988 required the enterprises to deposit their surplus funds in a special fund held at the Bank of Guyana by the Accountant General. This policy will be continued and strengthened in 1989. The amount deposited in 1988 was G$28 million and the objective in 1989 is to capture at least G$180 million in the second quarter; an additional G$410 million in the third quarter; and an additional G$540 million in the fourth quarter. For this purpose, specific deposit targets are being established for those enterprises that are expected to benefit from the devaluation of the Guyana dollar and associated increases in prices and tariffs. At the same time, net credit to the public enterprises from the domestic financial system will be reduced and new credit ceilings will be established for each enterprise.

15. While the public enterprises will be the main contributors to the envisaged improvement in public savings and the overall fiscal position, the finances of the Central Government will also be strengthened. The target for 1989 is to reduce the current deficit of the Central Government from 29 percent of GDP in 1988 to 22 percent in 1989 both by increasing revenues and by reducing noninterest current expenditures in real terms. A larger reduction in the current account deficit is not considered feasible because of the large share of interest (over 50 percent) in current expenditure. In fact, if interest payments are excluded, the current account surplus, which stood at 3 percent of GDP in 1988, is targeted to increase to 17 percent in 1989.

16. The Government in 1988 limited tax deductions arising from contributions to some savings schemes and removed some exemptions under the consumption tax regime previously applying to small manufacturing activities. The Ministry of Finance also enforced the payment of dividends by the public enterprises. During the programme period, the Government intends to implement a number of revenue raising and tax rationalization measures. Emphasis will be placed on improving tax administration and broadening the tax base by restructuring and extending excise and consumption taxes and reducing tax exemptions. The objective is to enhance revenue, minimize disincentives, improve resource allocation and help incorporate the parallel economy into the official economy.

17. As an initial step in this direction, the Government in January 1989 converted specific consumption taxes on alcoholic and nonalcoholic beverages, tobacco, cement and certain petroleum products to ad valorem taxes; in a number of instances, the conversion was accompanied by an increase in the effective tax rates. At that time, the Government also established consumption taxes on a selected range of items that were previously subject to import prohibition. Also, at the start of the programme, the Government (a) will eliminate most exemptions from the consumption tax and import duties now granted to the public enterprises; (b) will increase excise taxes; and (c) will establish a temporary tax on certain exports to capture part of the windfall profits accruing to exporters as a result of the devaluation of the Guyana dollar. With

respect to (a), exemptions to the public enterprises will be limited to those granted to the private sector, on account of regional agreements or the Government's sectoral policies, and to those resulting from contractual obligations with multilateral lending agencies. In addition, in the context of the 1989 Budget, the collection of property taxes and capital gains taxes will be converted from a billing system to a self-assessment system with payment due at the time of filing; the company tax and the corporate income tax will be paid quarterly on the basis of current-year net income rather than the performance of the previous year; payment of dividends by public enterprises will be enforced, and the ceiling on wages and salaries subject to contribution to the National Insurance Scheme will be increased from G$400 per week to G$1,500. Altogether, these measures are targeted to raise Central Government revenue from 40 to 50 percent of GDP.

18. In the expenditure area, the Government will implement a programme that seeks to reduce total employment costs in real terms and the size of the central administration. The central administration will be restructured in a manner consistent with the objective of streamlining government activities, reducing overlapping functions among departments and agencies to a minimum and re-orienting its activities in directions that will improve economic management and support development. With regard to the cost minimization and restructuring objectives, the Government will conduct a detailed sector-by-sector assessment of recurrent funding requirements for materials and supplies.

19. In 1989, the Government will complete the review of the public service and undertake a programme to restructure the service in order to achieve the objectives set out in paragraph 18. Meanwhile, the Government undertakes to reduce noninterest current expenditures from 37 percent of GDP in 1988 to 33 percent in 1989. This is to be achieved by restraining employment costs to 10.5 percent of GDP, expenditures on goods and services to 12 percent of GDP, and current transfers to 10.5 percent of GDP. Current transfers in 1989 include a transfer to the electricity company estimated at 5 percent of GDP. This transfer will be eliminated by April 1990, as the envisaged improvement in the electricity supply situation would allow for the full pass through of the devaluation into electricity rates.

20. The Government has started to improve budgeting procedures and mechanisms with a view to ensuring greater consistency of the budget with other economic policies. The Ministry of Finance will strengthen tax management and relevant administrative systems. By end-March 1989, it will complete a review of its organizational structure with a view to strengthening its revenue collecting and budget monitoring capabilities. With technical assistance that is being sought from UNDP and other sources, the Ministry intends to upgrade its equipment and establish by June 1989 a revenue unit that will advise on overall revenue policy, monitor revenue collections and undertake fiscal reviews. In addition, starting April 1989, the budget process will be strengthened by (a) expanding the monthly reports of the Ministry of Finance to include

capital expenditures, capital revenue and financing items; and (b) undertaking quarterly fiscal reviews which will facilitate corrective action.

21. The improvement in public sector savings, the institutional strengthening that is envisaged in the medium term programme, and the higher external project loan disbursements are expected to make possible an increase in the level of public investment consistent with the need to rehabilitate the economic and social infrastructure and with the growth objectives of the programme. In collaboration with the World Bank, the Government has prepared a public sector investment programme (PSIP) for 1989 amounting to the equivalent of US$112 million, of which about US$80 million would be mobilized from project-related external grants and loans. The local component of the PSIP in 1989 will not exceed the amount incorporated in the budget, unless public sector savings exceed the amount envisaged in the programme. The PSIP for 1990-91 will also be prepared in collaboration with the World Bank.

22. The adjustment in the exchange rate and associated price and tariff increases are expected to lead to a sizable increase in the price level in the period immediately following the devaluation. To avoid a consequential inflationary spiral the Government intends to pursue restrictive incomes and credit policies. It is expected that the rate of price increase will decrease sharply after mid-1989 and will approximate international levels by mid-1990.

23. Merit awards for performance in 1988 were paid in the first quarter of 1989 to employees of the nonfinancial public sector. These awards amounted to some 6-6.5 percent of the 1987 wage bill. Following the adjustment of the exchange rate, the Government intends to grant a 20 percent nonretroactive general wage increase to nonfinancial public sector employees. Thereafter average nominal wages in the nonfinancial public sector will remain unchanged unless the Guyana dollar is further devalued in response to developments in the parallel market rate or in net international reserves.

24. Over the last few years, the public sector has experienced a shortage of qualified personnel, which reflect, inter-alia, the relatively low level of public service wages. The streamlining and restructuring of the operations of the public service to which reference is made in paragraph 20 will be associated with opportunities for increasing some salaries to attract and retain qualified personnel. These selected salary increases will be pursued in the context of the overall financial constraints of the Government and within a framework of incomes policies during 1990-91 that will keep the public sector wage bill from rising beyond recorded increases in productivity and the targeted rate of inflation. With the exception of some nonunionized workers whose wage rates are set by statute, wages in the private sector will continue to be determined freely.

25. The reduction in the stock of public sector debt in 1989 is intended to enable the Bank of Guyana to regain control over monetary policy and to implement a credit policy consistent with the inflation targets of the programme and a US$20 million increase in gross international reserves during 1989. This increase will bring gross international reserves to the equivalent of four weeks of merchandise imports. The credit programme of the Bank of Guyana for 1989, which has been designed on the basis of a 29 percent growth of currency in circulation during the year, only envisages an increase in net credit to the public sector to cover temporary needs. To facilitate implementation of the credit programme and to restrain credit creation, at the start of the programme the authorities will sterilize excess liquidity in the banking system. For this purpose, commercial banks will be required to keep excess reserves (now held in the form of government debentures, treasury bills and central bank deposits) at the level outstanding as of March 15, 1989. Subsequently, and as part of a process designed to improve the effectiveness of monetary policy, these excess reserves will be converted into medium-term debentures and the tendering mechanism for treasury bills will be improved. These measures will be in place by end June 1989. The liabilities of the banking system to the private sector are projected to increase by 40 percent during 1989, while the reduction in bank credit to the public sector would permit an increase in credit to the private sector in real terms.

26. The Government will pursue policies that allow for positive real interest rates. In this regard, it intends to rely increasingly on market forces and proposes to establish competitive bidding for government securities by end-June 1989. During the programme period, the Bank of Guyana will set the bank rate (the rate the Bank charges in its operations with the Treasury and the commercial banks), which is now negative in real terms, at a level that is positive in real terms and competitive with interest rates abroad by taking into account domestic inflation and conditions in the foreign exchange and domestic credit markets. During the first two months after the devaluation a transitional Bank rate of 35 percent per annum will be established. Thereafter, the Bank rate will be reviewed weekly and, as appropriate, will be adjusted in line with the objectives and criteria stated above. Subject to a minimum lending rate (prime rate) set by the Bank of Guyana, lending rates will be determined freely by commercial banks and nonbank financial intermediaries. Lending rates of the development banks which are regulated by the Ministry of Finance, will be based on the cost of funding to the Treasury--either the treasury bill rate or the interest rate charged by external lending agencies whichever is appropriate. Deposit rates will be freely determined by financial institutions. Except for credit programmes financed with budgetary resources or external loans, the policy of the Government is to abstain from establishing selective credit policies. However, it may be necessary to issue temporary guidelines to the financial institutions to help ensure that credit is allocated to the productive sectors.

27. While the sustained implementation of the foregoing policies should create conditions for economic recovery, achievement of the latter will also require substantial external assistance to supplement the domestic savings effort, support the rehabilitation and liberalization of the economy and facilitate the settlement of external arrears. In the circumstances of Guyana, such external assistance would need to include an appropriate combination of grants, highly concessional loans and debt rescheduling on exceptional terms to help achieve a sustainable external position over the medium term. Such exceptional terms could take the form of concessional interest rates, debt write offs, the conversion of debt to grants and extended grace and maturity periods. To promote a steady improvement in the country's debt service profile, the Government will keep nonconcessional borrowing to a strict minimum during the programme period and will limit the contracting and guarantees of non-concessional loans with a maturity of 12 years or less. In addition to the rescheduling of certain debt obligations (see below), the external assistance envisaged for 1989 includes US$99.5 of project grants and loans and US$219.5 million of balance of payments support grants and loans, including disbursements from multilateral financial institutions.

28. A major objective of the Government is to eliminate external payments arrears at the earliest feasible date. To facilitate the elimination of arrears to multilateral institutions the Government has already requested external assistance from bilateral creditors, and it is anticipated that these arrears would be eliminated by the end of 1989. In any event, arrears to multilateral institutions will not increase beyond the level outstanding as of March 31, 1989. The Government intends to approach bilateral creditors (including creditors under barter arrangements), commercial banks and suppliers with a request to reschedule on exceptional terms outstanding arrears as well as debt service obligations (including interest) falling due in 1989-91. Pending the conclusion of these discussions, arrears to nonmultilateral institutions may continue to increase.

29. The Government in September 1988 liberalized import licenses for "no foreign exchange imports" (those not involving purchases in the official exchange market). Since that time, these licenses have been issued automatically and without any restriction for all bona fide transactions. This policy will be continued in 1989. In addition, the current system of import licensing in the official market, which is used to allocate foreign exchange on a priority basis, will be replaced by end-October 1989 with a nondiscriminatory general system under which licenses will be granted automatically for all bona-fide transactions. Until then, foreign exchange will be made available in accordance with established priorities. Preference will be given to imports of fuel and lubricants, essential food and drugs, and to inputs for agriculture, forestry, transport, mining and manufacturing. Beginning in April 1990, the Government will also liberalize payments on services and transfers with the exception of travel allowances which will be subject to limits.

30. Since August 1988, import prohibitions have been limited to 16 categories of food products whose prohibition the Government considers necessary to achieve the national objective of food security. In the context of the above objective, the remaining prohibitions will be reviewed by December 1989 with a view to reducing further their number. In any event, no new import prohibitions will be introduced during the programme period. The Government does not intend to introduce any new trade or payments restrictions or multiple currency practices during this period.

31. The Government is confident that its policies, supported by appropriate external assistance, will lead to a recovery of investment and economic activity. Real GDP is expected to increase by 5 percent in 1989 and by an average of 4 percent per annum over the years 1990 and 1991. The strategy of the Government is to promote export-oriented economic growth by increasing output in the traditional sector (bauxite and rice) and by establishing the basis for the development of new activities. For these purposes the programme also includes a number of sectoral policies (as set out in the Policy Framework Paper) that are being discussed with the World Bank.

32. The Government has prepared a social impact amelioration programme (SIMAP) that is being discussed with the IBRD. In keeping with the objectives set out in the PFP, SIMAP seeks to alleviate the adverse short-term impact of the structural adjustment programme on groups considered especially vulnerable. The IBRD has agreed to review the programme prior to submitting it by March 31, 1989 to donors, including the Support Group, for financing. Although the bulk of the programme will commence after the initiation of the adjustment measures, the portion aimed at the rehabilitation of major roads and a food programme for pensioners will be undertaken contemporaneously with the initial measures, and the full programme will be in place by June 30, 1989, at which time arrangements for the contracting of consultants to study the impact of the measures will have been undertaken. The portion aimed at providing vocational training for the unskilled school-leavers will also be initiated in March at the start of the programme.

33. The economic programme also seeks to promote competition and to enhance the contribution of the private sector to the economic development of Guyana. This is to be achieved, inter alia, by liberalizing the trade and payments system, eliminating transfers to public enterprises engaged in agriculture, manufacturing and domestic and foreign trade, limiting the scope of the operations of the public enterprises, and allowing the private sector to enter into all areas of economic activity.

34. To monitor progress in the implementation of the economic programme, the Government has established the following financial targets and structural benchmarks as set out in the attached Technical Memorandum of Understanding.

(i) Quarterly targets for the net foreign assets of the Bank of Guyana, with sub-targets for the gross international reserves of the Bank of Guyana.

(ii) Quarterly ceilings on the net domestic assets of the Bank of Guyana.

(iii) Quarterly ceilings on the net borrowing requirements of the nonfinancial public sector with subceilings on its net domestic borrowing requirements.

(iv) Quarterly ceilings on the changes in the external payments arrears of the public sector.

(v) Quarterly ceilings on the contracting of public or publicly guaranteed nonconcessional external debt with a maturity of 12 years or less.

(vi) Schedules for the implementation of structural policies relating to the exchange and trade regimes and public sector reform.

In addition, progress in implementing the programme will be reviewed on a quarterly basis.

Attachment

TECHNICAL MEMORANDUM OF UNDERSTANDING

As established in the Memorandum on the Economic and Financial Policies of Guyana (MOE), this Technical Memorandum and attached tables define the concepts used in quantifying certain variables of the programme and specify financial targets and structural benchmarks for the period from April 1, 1989 through December 31, 1989.

I. Net Foreign Assets of the Bank of Guyana

1. The overall balance of payments target for the period from April 1, 1989 through December 31, 1989, as measured by the change in the net foreign assets of the Bank of Guyana, is a surplus of US$4 million after the envisaged disbursements of balance of payments (non-project) loans and grants from official sources including multilateral financial institutions. Consistent with the balance of payments target, the cumulative loss in the net foreign assets of the Bank of Guyana will not exceed US$4 million during the period April 1, 1989-June 30, 1989, US$7 million during the period April 1, 1989-September 30, 1989, and the cumulative increase in the net foreign assets of the Bank of Guyana will be no less than US4 million during the period April 1, 1989-December 31, 1989.

2. In turn, the cumulative gain in the gross international reserves of the Bank of Guyana will not be less than US$5 million during the period April 1, 1989-June 30, 1989, US$10 million during the period April 1, 1989-September 30, 1989, and US$20 million during the period April 1, 1989-December 31, 1989.

3. For purposes of the programme, the net foreign assets of the Bank of Guyana are defined as the gross international reserves of the Bank of Guyana less current short-term and medium-term external liabilities and external payments arrears of the Bank of Guyana. Table 1 presents the net foreign assets of the Bank of Guyana as of December 31, 1988.

4. The targets for the net foreign assets and gross international reserves through end-June 1989 and end-September 1989 will be adjusted upward (downward) by the amount by which cumulative disbursements of balance of payments loans and grants (as reported by the Ministry of Finance) exceed (fall short) of US$18.2 million, and US$35 million, respectively, and the targets through end-December 1989 will be adjusted downward by the amount by which cumulative disbursements of balance of payments loans and grants, net of the amounts used to settle external payments arrears to multilateral financial institutions, fall short of US$40 million. In addition, the net foreign asset target through end-December 1989 will be adjusted upward by the amount by which balance of payments support loans to the Bank of Guyana fall short of US$113 million (which is the amount assumed under the programme).

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 as of December 31, 1988, except for the U.S. dollar SDR rate which is assumed at US$1.3 = SDR1; and disbursements of balance of payments loans and grants are defined to include nonproject cash and commodity assistance including food aid.

II. Net domestic assets of the Bank of Guyana

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

7. Cumulative changes in the net domestic assets so defined will not exceed G$165 from March 31, 1989 through June 30, 1989, G$352 from March 31, 1989 through September 30, 1989, and G$145 from March 31, 1989 through December 31, 1989. Table 2 presents an estimate of the net domestic assets of the Bank of Guyana as of December 31, 1988. These limits will be adjusted upward (downward) by the Guyana dollar equivalent (at the agreed accounting exchange rates) of any downward (upward) adjustment made to the net foreign assets of the Bank of Guyana in accordance with paragraph 4 above.

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 public domestic debt 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 Bank of Guyana, the commercial banks, the Government development banks and the non-bank financial intermediaries (building societies, trust funds, insurance companies and pension schemes).

9. For purposes of the programme, the stock of the public domestic debt is defined to consist of net credit extended by the domestic financial system to the nonfinancial public sector (as reported by the Bank of Guyana) and treasury bills, debentures and defense bonds held by the nonfinancial private sector (as reported by the Bank of Guyana). Net credit by the domestic financial system is defined as the sum of advances (net of deposits) extended by the Bank of Guyana, plus credit (net of deposits) extended by the commercial banks and non-bank financial institutions, plus 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 Bank of Guyana. In accordance with present practices, Treasury bills held by the banking system will be recorded on a purchase price basis, and Treasury bills held by nonbank institutions (including public entities) and the nonfinancial private sector will be recorded at face value. Table 3 presents the estimated stock of public domestic debt as of December 31, 1988.

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 inflows in foreign currencies to the nonfinancial public sector are defined as the sum of project and nonproject loan and grant disbursements (including suppliers' credits), less scheduled principal payments (including payments on suppliers credits), plus changes in external payments arrears (including interest). Changes in external payments arrears are to be calculated as detailed in Section 13 below.

11. The NBR so defined will not exceed G$780 million from March 31, 1989 through June 30, 1989, G$1,580 million from March 31, 1989 through September 30, 1989 and G$1,890 million from March 31, 1989 through December 31, 1989. In turn, the stock of the public domestic debt (as defined above) will be reduced by no less than G$360 million from March 31, 1989 through June 30, 1989, no less than G$720 million from March 31, 1989 through September 30, 1989, and no less than G$1,290 million from March 31, 1989 through December 31, 1989.

12. The targets for the reduction in the stock of the public debt through end-June, end-September 1989 and end-December 1989, will be increased (lowered) by the equivalent in Guyana dollars of the amount by which cumulative disbursements of balance of payments loans and grants (net of the amounts used to settle external payments arrears to multilateral financial institutions) exceed (fall short) of US$18.2 million, US$35 million and US$40 million, respectively.

IV. External Payments Arrears of the Public Sector

13. Changes in external payments arrears of the public sector will be defined as the difference between projected scheduled external debt service payments of the public sector from March 31, 1989 through December 31, 1989 and actual debt service payments as reported by the Ministry of Finance. Scheduled debt service payments are defined as the sum of projected scheduled principal and interest payments on current outstanding debt plus projected interest payments on overdue principal. Table 4 and Appendix 1 present information on projected scheduled debt service payments in the above period. Except where specific information is available, interest payments on overdue principal are projected on the basis of the interest rate of the original loan.

14. Changes in total external payments arrears (as defined above) of the public sector will not exceed US$17 million from March 31, 1989 through June 30, 1989, US$33 million from March 31, 1989 through September 30, 1989. External payments arrears to multilateral financial institutions will not increase beyond the level outstanding as of March 31, 1989. For purposes of these limits, it is assumed that external payments arrears to non-multilateral creditors will be rescheduled in the fourth quarter of 1989. In the event that, as requested by the authorities, such rescheduling takes place at an earlier date, the limits will be adjusted correspondingly. For purposes of these limits and sub-limits, multilateral financial institutions are defined to include the Caribbean Development Bank, the World Bank and the International Monetary Fund. The public sector is defined to consist of the nonfinancial public sector (as defined in paragraph 8 above), the Bank of Guyana and the Cooperative Agricultural and Industrial Development Bank.

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

15. The contracting of public and publicly-guaranteed external debt with a maturity of 12 years or less during 1989 will not exceed US$20.5 million. This limit will exclude the contracting or guaranteeing of loans from multilateral institutions as well as short-term (up to one year) trade credits. Public and publicly-guaranteed external debt is defined to include debt contracted or guaranteed by the public sector as defined in paragraph 14 above.

VI. Structural and Administrative Policy Measures

16. In accordance with the Memorandum on the Economic and Financial Policies of Guyana, implementation of the structural and administrative policy 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)

	Actual 1988 Dec. 31
Net foreign assets	-653.9
Gross international reserves	4.2
Short-term liabilities (current)	-31.2
Central Bank of Brazil	-2.5
Venezuela Investmet Fund	-14.0
IMF 1/	-14.7
Medium-term liabilities	-20.4
Central Bank of Argentina	-4.8
Venezuela Investment Fund	-4.3
Royal Bank of Canada	-7.5
Barclays Bank	-3.8
Liabilities (in arrears)	-606.5
Central Bank of Libya	-18.1
Central Bank of Kuwait	-18.4
CARICOM clearing facility	-146.2
Central Bank of Trinidad and Tobago	-310.3
Venezuela Investment Fund	-2.1
Central Bank of Argentina	-0.7
Royal Bank of Canada	-3.8
IMF 1/	-106.9

1/ SDRs converted at the rate SDR 1 = US$1.3.

Table 2. Guyana: Net Domestic Assets of the Bank of Guyana

	Dec. 31, 1988
Net foreign assets	-6,539.5
Gross official reserves	41.5
Current short-term liabilities	-312.0
External payments arrears	-6,065.0
Medium-term liabilities	-204.0
Net domestic assets	7,397.2
Credit to public sector	7,308.0
Central Government	7,205.6
Special funds and other	102.4
Counterpart medium-term liabilities	204.0
Official capital and loss account	4,234.8
Official capital and surplus	-50.3
Contingency reserve	-1,310.1
Valuation adjustment, foreign exchange	3,221.6
Provision for interest arrears	1,669.0
Valuation adjustment Fund accounts	704.6
Liabilities to commercial banks	-2,609.8
Special deposits	-1,827.6
E P Ds	-782.2
Non-monetary external deposits	-6.1
Other	-1,533.7
Currency in circulation	1,057.7

Table 3. Guyana: Estimated Stock of Public Domestic Debt

(In millions of Guyana dollars)

		Dec. 31 1988
	Total	8,649.0
1.	Central government	10,104.5
	Treasury bills	4,767.1
	Banking system	4,054.2
	Other financial institutions	161.3
	National Insurance Scheme	18.5
	Sinking fund and special funds	294.2
	Public enterprises	59.0
	Private sector	179.9
	Debentures 1/	2,549.7
	Banking system 1/	991.9
	Other financial institutions	290.9
	National Insurance Scheme	991.0
	Sinking fund and special funds	19.2
	Public enterprises	5.0
	Private sector	251.7
	Defense bonds	21.0
	Advances net of deposits	2,766.7
	Bank of Guyana advances	2,866.1
	Commercial banks	
	Advances	24.2
	Deposits	-123.6
2.	National Insurance Scheme, GNEA, and special funds	-1,031.4
	Banking system	-21.9
	Government paper	-1,009.5
3.	Nonfinancial public enterprises	-110.7
	Banking system	-49.7
	Government paper	-61.0
4.	Sinking fund	-313.4
	Government paper	-313.4

1/ Net of noninterest bearing debentures of G$3,275 million.

Table 4. Guyana: Debt Service Payments in 1989

(In millions of U.S. dollars)

	April-June	July-Sept.	Oct.-Dec.
Scheduled debt service	35.8	43.3	23.3
Actual debt service	19.1	27.1	17.9
Rescheduled debt service	--	--	5.4
Arrears	16.7	16.2	--

Table 5. Guyana: Benchmarks for the Implementation of Structural and Administrative Policy Measures

	Policy Measures	Time Frame
I.	Implementation of flexible exchange rate policy as described in paragraph 8 of the MOE	March-December 1989
II.	Implementation of flexible pricing and tariff policies as described in paragraph 12 of the MOE	March-December 1989
III.	Removal of foreign exchange retention scheme as described in paragraph 9 of the MOE	October 1989
IV.	Liberalization of import licensing system as described in paragraph 29 of the MOE	October 1989
V.	Avoidance of new exchange and trade restrictions as described in paragraph 30 of the MOE	March-December 1989
VI.	Implementation of flexible interest rate policy as described in paragraph 26 of the MOE	March-December 1989
VII.	Implementation of divestment program for the public enterprises as described in paragraph 13 of the MOE	March-December 1989
VIII.	Implementation of rationalization program in the Central Administration:	March-December 1989
IX.	Administrative policy reforms:	
	(a) Establishment of tax unit	June 1989
	(b) Strengthening of budget procedures	April 1989

Appendix I. Guyana: Scheduled Debt Service Payments in 1989

	April-June			July-Sept.			Oct.-Dec.		
	Scheduled	Cash	Arrears	Scheduled	Cash	Arrears	Scheduled	Cash	Rescheduled
Principal	14.3	8.9	5.4	19.4	13.6	4.8	14.1	10.1	4.0
Government and government-guaranteed	8.8	4.0	4.8	11.0	6.5	4.5	8.6	4.6	4.0
Multilateral	2.2	2.2	—	4.3	4.3	—	2.3	2.3	--
(IMF Trust) 1/	--	—	—	-1.5	-1.5	—	—	—	—
(IBRD, IDA)	-2.1	-2.1	—	-1.6	-1.6	—	-2.2	-2.2	--
(CDB)	-0.1	-0.1	—	-1.2	-1.2	—	-0.1	-0.1	—
Others	6.6	1.8	4.8	6.7	2.2	4.5	6.3	2.3	4.0
Nonguaranteed	3.1	3.1	—	3.8	3.8	—	3.4	3.4	—
Bank of Guyana	2.4	1.8	0.6	3.6	3.3	0.3	2.1	2.1	--
Short term	1.8	1.8	—	3.0	3.0	—	1.6	1.6	—
(IMF) 1/	-1.1	-1.1	--	-2.3	-2.3	--	-0.9	-0.9	--
(Others) 2/	-0.7	-0.7	—	-0.7	-0.7	—	-0.7	-0.7	—
Medium term	0.6	—	0.6	0.6	0.3	0.3	0.5	0.5	--
Interest	21.5	10.2	11.3	24.9	13.5	11.4	9.2	7.8	1.4
Government and government-guaranteed	10.7	6.7	4.0	12.0	8.1	3.9	5.6	4.2	1.4
Multilateral	1.6	1.6	—	2.7	2.7	—	1.5	1.5	--
(IMF Trust) 1/	--	—	—	—	—	—	—	—	—
(IBRD, IDA)	-1.5	-1.5	—	-1.7	-1.7	—	-1.4	-1.4	--
(CDB)	-0.1	-0.1	—	-1.0	-1.0	—	-0.1	-0.1	—
Others	9.1	5.1	4.0	9.3	5.4	3.9	4.1	2.7	1.4
Nonguaranteed	0.7	0.7	—	0.6	0.6	—	0.9	0.9	—
Bank of Guyana	9.9	2.6	7.3	11.9	4.3	7.6	1.9	1.9	--
Short term	9.4	2.3	7.1	11.5	4.2	7.3	1.4	1.4	—
(IMF) 1/	-2.0	-2.0	—	-3.9	-3.9	—	-1.1	-1.1	--
(Others)	-7.4	-0.3	-7.1	-7.6	-0.3	-7.3	-0.3	-0.3	—
Medium term 3/	0.5	0.3	0.2	0.4	0.1	0.3	0.5	0.5	--
New debt	0.2	0.2	—	0.4	0.5	-0.1	0.8	0.8	—
Total	35.8	19.1	16.7	43.3	27.1	16.2	23.3	17.9	5.4
Government and government-guaranteed	19.5	10.7	8.8	23.0	14.6	8.4	14.2	8.8	5.4
Multilateral	3.8	3.8	--	7.0	7.0	—	3.8	3.8	--
(IMF Trust) 1/	--	—	—	-1.5	-1.5	—	—	—	—
(IBRD, IDA)	-3.6	-3.6	—	-3.3	-3.3	—	-3.6	-3.6	--
(CDB)	-0.2	-0.2	—	-2.2	-2.2	—	-0.2	-0.2	—
Others	15.7	6.9	8.8	16.0	7.6	8.4	10.4	5.0	5.4
Nonguaranteed	3.8	3.8	—	4.4	4.4	—	4.3	4.3	—
Bank of Guyana	12.3	4.4	7.9	15.5	7.6	7.9	4.0	4.0	--
Short term	11.2	4.1	7.1	14.5	7.2	7.3	3.0	3.0	—
(IMF) 1/	-3.1	-3.1	—	-6.2	-6.2	—	-2.0	-2.0	--
(Others)	-8.1	-1.0	-7.1	-8.3	-1.0	-7.3	-1.0	-1.0	—
Medium term 3/	1.1	0.3	0.8	1.0	0.4	0.6	1.0	1.0	--
New debt	0.2	0.2	—	0.4	0.5	-0.1	0.8	0.8	—

1/ SDRs converted at the rate SDR 1.3 = US$1.3.
2/ Excludes elimination of principal arrears to Venezuela Investment Fund.
3/ Excludes interest accrued on Barclays Bank deposits.