

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/87/29

CONFIDENTIAL

February 12, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Guyana - Exchange Arrangements and Exchange System

There is attached for the information of the Executive Directors a paper on recent changes in Guyana's exchange arrangements and exchange system.

Mr. Muñiz (ext. 8611) or Mr. Gudac (ext. 8616) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Guyana - Exchange Arrangements and Exchange System

Prepared by the Western Hemisphere and the Exchange and Trade
Relations Departments

(In consultation with the Legal Department)

Approved by E. Wiesner and W. A. Beveridge

February 11, 1987

In a communication dated January 16, 1987 (Attachment 1), the Guyanese authorities advised the Fund that effective January 19, 1987 the central rate for the Guyana dollar would be changed from G\$4.40 per U.S. dollar to G\$10.0 per U.S. dollar. This measure was accompanied by the authorization, effective February 1, 1987, of transactions at market-related exchange rates from a foreign exchange window at the commercial banks.

I. Background

After being pegged to the U.S. dollar at a rate of G\$2.55 per U.S. dollar since October 1975, the Guyana dollar was devalued to G\$3 per U.S. dollar in June 1981. At that time the authorities announced that the Guyana dollar would be pegged to a basket of currencies; however, the exchange rate was not altered until January 1984 when it was fixed at G\$3.75 per U.S. dollar. In October 1984 the exchange rate was adjusted to G\$4.15 per U.S. dollar on the basis of the movement of the value of the basket since January 1984. During 1985-86 the rate was maintained in the range of G\$4.15 to G\$4.40 per U.S. dollar.

Based on the standard index of real effective exchange rates estimated in connection with the information notice system, the real appreciation of the Guyana dollar amounted to 37 percent from the third quarter of 1981 to the fourth quarter of 1986 (Attachment 2). ^{1/} However, owing to the comprehensive price controls and exchange and trade restrictions that have prevailed in Guyana since the late 1970s, and to inadequate price statistics, this index substantially underestimates the actual appreciation of the Guyana dollar that has taken place in recent years. Prior to the latest devaluation of the central rate to G\$10 per U.S. dollar, the exchange rate in the parallel market was reported to be in the range of G\$15 to G\$20 per U.S. dollar.

^{1/} Calculation based on staff estimate of real effective exchange rate for fourth quarter of 1986.

In recent years, Guyana has introduced a number of multiple currency practices. In September 1983 the Guyana Gold Board set a gold purchase price using an implicit exchange rate of G\$4.90 per U.S. dollar; this implicit rate was subsequently adjusted to G\$6.03 per U.S. dollar in February 1984 and to G\$14 per U.S. dollar in September 1986. Imports of goods financed through countertrade arrangements were priced in 1986 at implicit exchange rates that ranged from G\$6 to G\$21 per U.S. dollar. The exchange rate applicable to rice exports was set at G\$8 per U.S. dollar in October 1986.

II. Modification of the Exchange System

The new exchange rate of G\$10 per U.S. dollar adopted on January 19, 1987 is now applicable to all recorded foreign exchange transactions with the exception of the purchase of gold, which will continue to be effected at an implicit rate of G\$14 per U.S. dollar.

Starting February 1, 1987 the commercial banks have been permitted to purchase and sell foreign exchange for certain transactions at a market-related rate. The introduction of this foreign exchange window, which constitutes a multiple currency practice subject to approval under Article VIII of the Fund's Agreement, is intended to bring into the organized market foreign currency transactions that thus far have taken place in the parallel market. Foreign exchange proceeds from recorded exports of goods and services will continue to be surrendered to the Bank of Guyana at the official rate, while the foreign exchange offered to the commercial banks would originate from foreign exchange transactions that previously took place in the parallel market. The Bank of Guyana intends to monitor the amounts of foreign exchange purchased by the banks and to regulate the demand in this market by controlling the issue of licenses for purchases of foreign exchange through this channel. Thus, commercial banks will be permitted to sell foreign exchange at the market-related rate only to clients who have been issued a license.

III. Other Economic Measures

In a meeting with the staff held on January 28, 1987, and in a subsequent statement at the Eighth Meeting of the Caribbean Group for Cooperation in Economic Development on January 29, 1987, the Minister of Finance of Guyana indicated that with few exceptions the devaluation would be fully passed on to prices and utility rates. The impact would be partly cushioned only in certain areas. For example, the increases in prices of drugs, kerosene and cooking gas will be moderated by eliminating the consumption tax on these commodities; low income earners will be partly compensated by the elimination or reduction of income taxes on such incomes and by increased welfare payments through the National Insurance Scheme. The price of gasoline and public transportation rates will not be raised proportionately with the devaluation

because the specific import taxes on gasoline are to be maintained at their previous levels. The authorities also intend to moderate the impact of devaluation on electricity rates, the adjustment of which will be made according to a formula contained in a loan agreement with the Inter-American Development Bank.

Prior to the recent exchange rate action, wage increases in the public sector in 1987 were to be limited to 5.5 percent across-the-board plus up to 7 percent on a merit basis. The across-the-board increase is now being renegotiated but the authorities intend to exercise wage restraint. As exports account for a large share of the revenues of the public enterprises, the devaluation is likely to result in a major improvement in their financial performance. The authorities expect that the public enterprises will achieve substantial operational surpluses in 1987 which should contribute to a significant reduction in the overall deficit of the nonfinancial public sector and should make possible a slowdown in the expansion of domestic credit. The authorities also have indicated their intention to take, if necessary, additional corrective actions once the full impact of the recent measures is ascertained.

IV. Staff Appraisal

At the conclusion of the 1986 Article IV consultation with Guyana in December 1986, Directors urged the authorities to establish promptly a realistic and competitive exchange rate to restore incentives for production and exports, to help merge the parallel economy into the official economy, and to strengthen the balance of payments position. The recent devaluation of the Guyana dollar in the official market, and the establishment of a market-related foreign exchange window at the commercial banks, represent an important step in that direction.

Measures to accompany and support exchange rate policy remain to be specified or implemented, including measures in the areas of prices, wages, government expenditures, and credit and interest rates. The authorities have announced their intention to permit, with certain exceptions, full adjustment of domestic prices, and to exert the necessary restraint in financial and incomes policies. Providing that these complementary actions are implemented in a timely and effective manner, the staff is of the view that the recent devaluation of the Guyana dollar should have a positive impact on official exports, and should help facilitate the reduction of the public sector deficit. At the same time, the establishment of a market-related exchange rate at the commercial banks should assist in normalizing the foreign exchange flows in Guyana and in providing a better indication of an appropriate basis for unifying the exchange rate system, although the outcome will depend on the extent to which market forces are permitted to operate.

The staff welcomes the recent steps taken by Guyana towards a more realistic exchange rate and structure of prices and urges the authorities to support them with early actions to implement appropriate

financial and incomes policies. It notes that, as a result, Guyana's system of multiple currency practices has become somewhat less complex, and encourages the Guyana authorities to take further steps to unify it at a competitive rate as soon as possible. The staff would also emphasize the importance of the indication given by the authorities that they stand ready to take, as appropriate, the additional measures that may be required to redress Guyana's difficult economic situation. In the meantime, it is not proposed to approve the multiple currency practices that are subject to approval by the Fund under Article VIII.

Attachments

JANUARY 16, 1987

THE TREASURER INTERNATIONAL MONETARY FUND

EFFECTIVE JANUARY 19, 1987 AND UNTIL FURTHER NOTICE THE GOVERNMENT OF GUYANA HAS ANNOUNCED A NEW CENTRAL RATE OF EXCHANGE FOR THE GUYANA DOLLAR OF GUYANA DOLLARS 10.00 EQUAL U.S. DOLLAR 1.00. THE INTERVENTION CURRENCY FOR THE GUYANA DOLLAR WILL CONTINUE TO BE THE U.S. DOLLAR.

CENTRALBANK GEORGETOWN GUYANA

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JANUARY 16, 1987 - 2:41 PM

GROUP OF PRODUCERS OF PRIMARY COMMODITIES

REAL EFFECTIVE EXCHANGE RATES, NOMINAL EFFECTIVE EXCHANGE RATES,
RELATIVE PRICES IN LOCAL CURRENCY, EXCHANGE RATES AND
CONSUMER PRICES

INDEX : 1980 = 100

GUYANA

(336)

| | REAL EFF | NOM EFF | REL PRICE, | EX RATE | CPI(SA) | CPI |
|------------|----------|---------|------------|---------|---------|---------|
| 1982 Q1 | 113.083 | 100.418 | 112.605 | 84.990 | 137.253 | 137.475 |
| 1982 Q2 | 117.826 | 103.042 | 114.342 | 84.990 | 142.867 | 142.841 |
| 1982 Q3 | 126.692 | 106.342 | 119.131 | 84.990 | 152.334 | 152.626 |
| 1982 Q4 | 132.777 | 108.565 | 122.300 | 84.990 | 159.189 | 158.434 |
| 1983 Q1 | 137.579 | 111.142 | 123.784 | 84.990 | 164.352 | 164.735 |
| 1983 Q2 | 141.193 | 114.774 | 123.019 | 84.990 | 167.299 | 167.500 |
| 1983 Q3 | 145.126 | 118.945 | 122.010 | 84.990 | 170.868 | 171.250 |
| 1983 Q4 | 151.030 | 122.525 | 123.244 | 84.990 | 177.317 | 176.035 |
| 1984 Q1 | 138.822 | 104.250 | 133.265 | 69.796 | 196.777 | 197.399 |
| 1984 Q2 | 145.379 | 105.051 | 138.379 | 67.993 | 209.854 | 210.442 |
| 1984 Q3 | 154.559 | 110.549 | 139.806 | 67.993 | 217.761 | 218.346 |
| 1984 Q4 | 147.852 | 104.557 | 141.393 | 61.441 | 226.395 | 224.443 |
| 1985 Q1 | 153.181 | 106.888 | 143.307 | 59.123 | 235.465 | 236.083 |
| 1985 Q2 | 151.261 | 105.771 | 143.006 | 59.296 | 241.523 | 242.467 |
| 1985 Q3 | 151.515 | 105.098 | 144.153 | 60.290 | 248.820 | 249.410 |
| 1985 Q4 | 150.281 | 105.039 | 143.059 | 61.438 | 252.906 | 250.563 |
| 1986 Q1 | 146.109 | 104.632 | 139.643 | 61.438 | 253.005 | 253.687 |
| 1986 Q2 | 143.270 | 99.679 | 143.738 | 59.589 | 262.262 | 263.440 |
| 1986 Q3 | 145.870 | 98.174 | 148.585 | 59.296 | 273.530 | 274.023 |
| | | | | | | |
| 1985 JAN | 151.850 | 105.756 | 143.584 | 59.699 | 233.655 | 232.870 |
| 1985 FEB | 155.670 | 107.963 | 144.187 | 59.296 | 236.650 | 237.810 |
| 1985 MAR | 152.023 | 106.945 | 142.150 | 58.373 | 236.091 | 237.570 |
| 1985 APR | 150.453 | 105.542 | 142.551 | 59.296 | 238.821 | 239.490 |
| 1985 MAY | 151.424 | 106.085 | 142.737 | 59.296 | 241.101 | 242.440 |
| 1985 JUN | 151.905 | 105.685 | 143.732 | 59.296 | 244.648 | 245.470 |
| 1985 JUL | 148.220 | 103.424 | 143.312 | 59.296 | 245.385 | 246.500 |
| 1985 AUG | 150.073 | 104.097 | 144.165 | 60.135 | 249.001 | 250.100 |
| 1985 SEP | 156.253 | 107.774 | 144.981 | 61.438 | 252.075 | 251.630 |
| 1985 OCT | 155.491 | 105.601 | 147.242 | 61.438 | 257.638 | 255.660 |
| 1985 NOV | 149.279 | 104.807 | 142.432 | 61.438 | 251.783 | 249.210 |
| 1985 DEC | 146.073 | 104.710 | 139.502 | 61.438 | 249.296 | 246.820 |
| 1986 JAN | 147.123 | 105.647 | 139.258 | 61.438 | 251.319 | 250.400 |
| 1986 FEB | 145.651 | 104.637 | 139.195 | 61.438 | 252.396 | 253.780 |
| 1986 MAR | 145.552 | 103.613 | 140.475 | 61.438 | 255.300 | 256.880 |
| 1986 APR | 144.237 | 101.162 | 142.578 | 60.173 | 259.180 | 260.090 |
| 1986 MAY | 141.648 | 98.706 | 143.504 | 59.296 | 261.859 | 263.470 |
| 1986 JUN | 143.925 | 99.168 | 145.131 | 59.296 | 265.747 | 266.760 |
| 1986 JUL | 144.676 | 98.550 | 146.804 | 59.296 | 269.258 | 270.290 |
| 1986 AUG | 145.340 | 98.005 | 148.298 | 59.296 | 272.958 | 273.930 |
| 1986 SEP | 147.593 | 97.969 | 150.652 | 59.296 | 278.374 | 277.850 |
| 1986 OCT | 150.601 | 98.211 | 153.344 | 59.296 | 284.074 | 281.880 |
| 1986 NOV | 153.248 | 98.791 | 155.122 | 59.296 | 289.184 | 285.970 |
| | | | | | | |
| % CH 12/86 | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. |
| % CH 11/85 | 2.7 | -5.7 | 8.9 | -3.5 | 14.9 | |