

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.

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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

440040 FUND UI

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IMF CABLE ROOM  
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 12/85	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	