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EBS/87/215

CONFIDENTIAL

October 14, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Guyana - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Guyana dollar.

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

Att: (1)

INTERNATIONAL MONETARY FUND

GUYANA

Real Effective Exchange Rate - Information Notice

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

(In consultation with the Legal,
Research, and Treasurer's Departments)

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

October 13, 1987

The recent evolution of Guyana's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of July 1987 the Guyana dollar is estimated to have appreciated by 21 percent in real effective terms since February 1987--the last occasion on which developments in Guyana's exchange rate were brought to the attention of the Executive Board. 1/

During 1985-86 the central rate of the Guyana dollar 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 from G\$4.40 to G\$10.0 per U.S. dollar; this rate was to be applicable to all foreign exchange transactions, except those related to exports of gold and diamonds for which an implicit rate of G\$14 per U.S. dollar continued to apply. Starting February 1, 1987, commercial banks have been permitted to operate a foreign exchange window for certain transactions at a market-related rate. The rate in the foreign exchange window moved from G\$18 per U.S. dollar in February 1987 to G\$21 per U.S. dollar in the period June-September 1987. However, access to the window is restricted. A parallel market continues to exist where the Guyana dollar is reported to have depreciated from a range of G\$15-G\$20 per U.S. dollar around the turn of the year to G\$25-G\$27 per U.S. dollar in mid-September 1987. On September 14, 1987, the authorities eliminated the special exchange rate for gold and diamonds exports and merged this rate with the rate prevailing in the banks' foreign exchange window.

The depreciation of the currencies of some of Guyana's trading partners and competitors relative to the U.S. dollar resulted in a nominal effective appreciation of the Guyana dollar of 3.4 percent from February 1987 through July 1987. However, the main factor underlying

1/ Guyana - Exchange Arrangements and Exchange System (EBS/87/29, 2/12/87).

the appreciation of the Guyana dollar in real effective terms during this period was the sharp increase in domestic prices that followed the adjustment of the central rate, with recorded consumer prices rising by about 24 percent from February 1986 to July 1987. The appreciation of the Guyana dollar in real effective terms since February 1987 has reversed about one fifth of the real depreciation achieved through the adjustment of the central rate in January 1987 (see chart).

The increase in domestic prices since February 1987 has reflected the pass-through of the devaluation to domestic prices, corrective price adjustments and the wage increases that have been granted. By July 1987 the authorities had adjusted most controlled prices and utility rates for the impact of the devaluation, although in certain instances (such as petroleum derivatives and electricity tariffs) the adjustments were partial. The public sector deficit is now projected to decline from about 45 percent of GDP in 1986 to about 35 percent of GDP in 1987. The revenues of the public corporations improved markedly following the devaluation, and nonwage public sector expenditures have been restrained. At the same time, tax revenues have declined in real terms, reflecting in part some tax exemptions given to cushion the effects of the devaluation, and the authorities have granted wage increases averaging 35 percent for the year as a whole; this may be compared with the adjustment in the central rate of about 130 percent in terms of Guyana dollars per U.S. dollar in January 1987. The financing of the deficit continues to exert pressure on credit policy, and the broad money supply expanded at an annual rate of about 40 percent during the first half of 1987.

Reflecting higher export prices for bauxite and sugar and the response of export and import volumes to the devaluation, Guyana's external trade performance improved significantly in the first half of 1987. The recorded trade balance is projected to move from a deficit of US\$20 million in 1986 to approximate balance in 1987 while the current account deficit would decline from about US\$130 million to about US\$115 million. Guyana's overdue payments to the Fund have continued to increase in the course of 1987; as of October 2, 1987, they amounted to SDR 67.3 million.

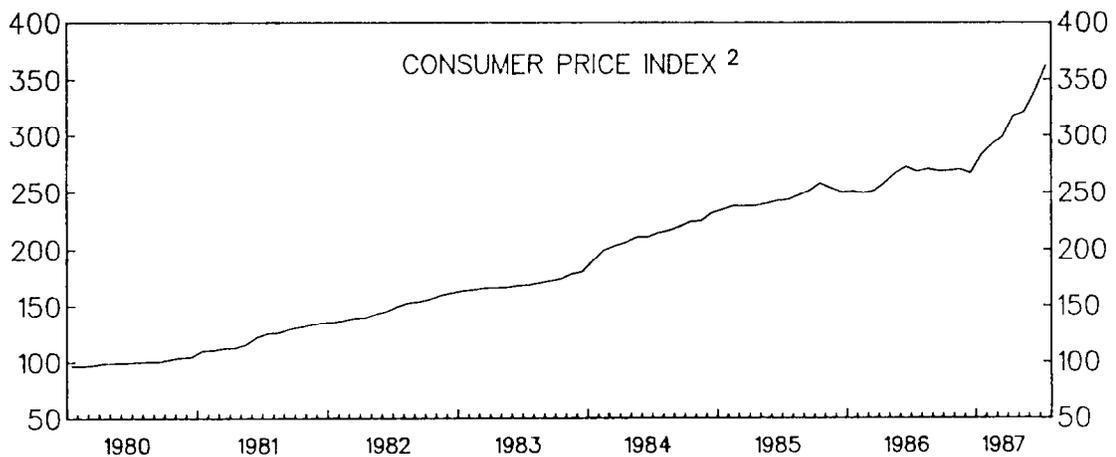
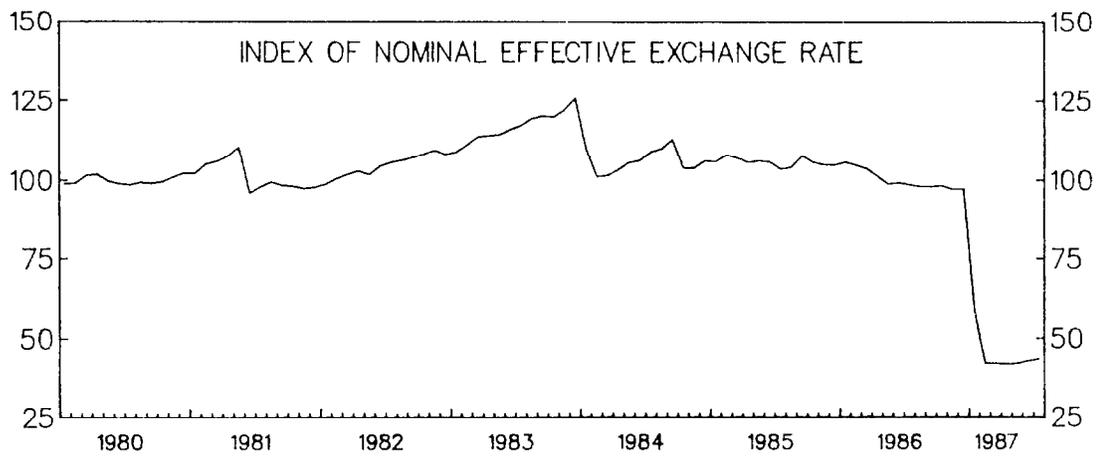
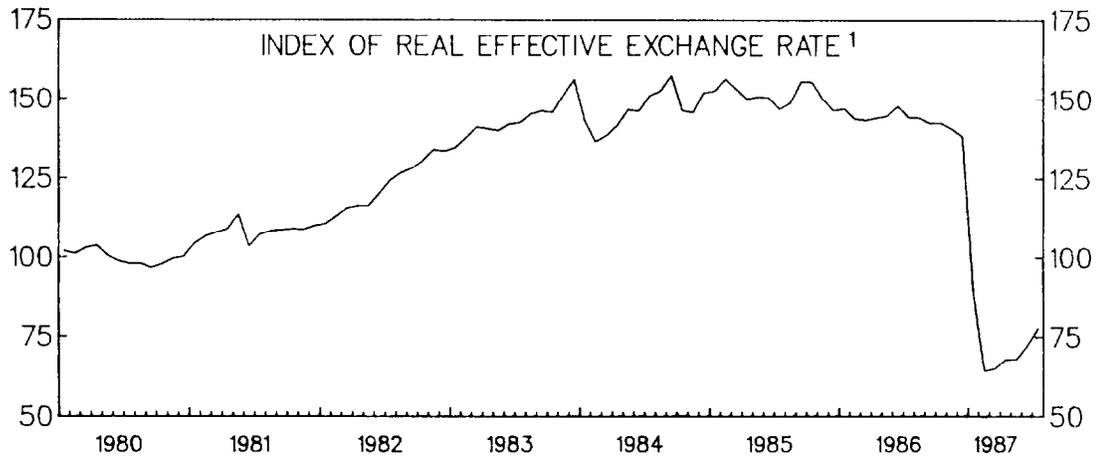
Staff Appraisal

Following the devaluation of January 1987, there was a sharp rise in prices reflecting the pass-through of the devaluation and corrective price adjustments aimed at strengthening the public finances. In addition, nominal wages were adjusted by 35 percent. The increase in prices, in combination with the fixing of the nominal exchange rate after the January devaluation, resulted in a real effective appreciation of the Guyana dollar of 21 percent in the period February-July 1987. Nevertheless, external competitiveness has improved substantially since the beginning of the year and progress has been made toward reducing the public sector deficit.

Still, in view of the magnitude of Guyana's imbalances and remaining price distortions, additional actions in the exchange rate area would be required to provide a basis for sustained economic growth and external viability. The authorities are aware of this need and have indicated their intention of unifying the exchange rate system at a competitive rate in the context of an adequately financed medium-term adjustment program. Exchange rate policy and related policy issues will be examined in detail in the Staff Report for the 1987 Article IV Consultation which will be issued next month.



CHART 1
GUYANA
INFORMATION NOTICE SYSTEM INDEX OF
EFFECTIVE EXCHANGE RATE
(1980=100)



Source: Information Notice System.

¹ Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

² Seasonally adjusted.



Table 1. Guyana: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	113.1	100.4	112.6	85.0	137.4	137.5
III	117.7	103.0	114.2	85.0	142.7	142.8
III	126.5	106.3	119.0	85.0	152.2	152.6
IV	132.8	108.6	122.3	85.0	159.3	158.4
1983						
I	137.9	111.1	124.1	85.0	164.7	164.7
II	141.0	114.8	122.8	85.0	167.0	167.5
III	144.8	118.9	121.7	85.0	170.5	171.3
IV	151.2	122.5	123.4	85.0	177.6	176.0
1984						
I	139.4	104.2	133.8	69.8	197.7	197.4
II	144.9	105.1	138.0	68.0	209.2	210.4
III	153.9	110.5	139.2	68.0	216.9	218.3
IV	148.2	104.6	141.7	61.4	227.0	224.4
1985						
I	154.2	106.9	144.3	59.1	236.9	236.1
II	150.6	105.8	142.3	59.3	240.2	242.5
III	150.6	105.1	143.3	60.3	247.4	249.4
IV	150.8	105.0	143.6	61.4	254.1	250.6
1986						
I	144.8	104.6	138.4	61.4	250.7	249.3
II	145.7	99.8	146.0	59.6	266.2	269.3
III	143.7	98.3	146.2	59.3	269.5	271.8
IV	140.6	97.6	144.0	58.5	269.1	265.0
1987						
I	72.6	47.7	152.6	29.0	291.4	289.5
II	69.4	42.1	164.8	25.5	326.4	330.5
Monthly						
1987						
Feb. <u>3/</u>	64.2	41.9	153.1	25.5	292.3	291.8
March	65.0	41.9	155.0	25.5	298.9	297.3
April	68.0	41.7	163.1	25.5	318.0	320.5
May	68.0	41.9	162.3	25.5	321.4	325.0
June	72.3	42.7	169.0	25.5	339.7	345.8
July	77.5	43.3	178.9	25.5	362.1	367.6
Percentage change						
Feb.-July 1987	20.8	3.4	16.9	0.0	23.9	26.0

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.