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November 26, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Guyana, which will be brought to the agenda for discussion on a date to be announced.

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

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INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 1986 Article IV Consultation

Prepared by the Western Hemisphere Department

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

Approved by E. Wiesner and Manuel Guitian

November 25, 1986

I. Introduction

The 1986 Article IV consultation discussions with Guyana were conducted in Georgetown during the period September 8-19, 1986. The representatives of Guyana in the discussions included the Deputy Prime Minister of Planning and Development, the Minister of Finance, the Governor of the Bank of Guyana, the Chief Planning Officer of the State Planning Secretariat, and senior officials from the Ministry of Finance, the Bank of Guyana, government agencies and the main public enterprises. The mission consisted of Carlos G. Muñiz (Head), Toma Gudac, Guillermo Le Fort, Bob Traa (all WHD), Toshihiko Sasaki (ETR) and Maha Sahasranam (Secretary-ETR). A World Bank economic mission visited Guyana during the same period as the Fund mission and participated in many of the discussions.

Guyana has been in arrears to the Fund since April 1983, and on May 15, 1985 it was declared ineligible to use the general resources of the Fund (EBM/85/73). As of November 12, 1986, Guyana's arrears amounted to SDR 50.3 million (102.2 percent of quota). Guyana's outstanding use of Fund credit amounts to SDR 71.7 million or 145.8 percent of quota. The 1985 Article IV consultation with Guyana was concluded by the Executive Board on November 10, 1985 (SM/85/287 and SUR/85/126). Since that time, the Executive Board has carried out two reviews on the matter of Guyana's overdue obligations to the Fund (EBM/86/89, May 23, 1986, and EBM/86/118, July 16, 1986). 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

1. Background

Although a modest economic recovery has been taking place since 1984, the economic and financial situation of Guyana continues to be extremely difficult. Recorded output remains below the level reached in the early 1970s, and large domestic and external imbalances continue to beset the economy. Guyana's economic difficulties are the result of both adverse external developments and shortcomings in domestic policies. Since 1977, Guyana's terms of trade have deteriorated sharply with foreign demand for sugar and bauxite--the country's main exports--generally weak. In addition, output has been affected adversely by unstable labor relations (1978-80).

While these exogenous factors have been important, Guyana's economic problems reflect to a large extent the policies that have been followed over the past several years. Instead of adjusting the economy to the changing external environment, the authorities allowed the exchange rate to appreciate substantially, followed lax financial policies, and relied heavily on price controls and quantitative import restrictions. The failure to bring under control the growing fiscal deficits and the domestic credit expansion associated with the financing of such deficits, together with inadequate pricing policies, resulted in the depletion of international reserves and a large accumulation of external arrears, strong inflationary pressures, and serious distortions in the price system and in the allocation of resources. These developments led, in turn, to the emergence of a growing parallel economy which has helped to restore some flexibility in the economy but which cannot be considered a solution to the country's economic problem.

The growing importance of the parallel economy complicates the analysis of Guyana's economic situation because official statistics have come to give an increasingly incomplete picture of the overall economic performance. National accounts data have become less meaningful; the official, but no longer published, consumer price index is not a reliable indicator of inflationary pressures; and the balance of payments accounts tell only a partial story as they fail to reflect illegal transactions. In general, it is believed that the decline in real economic activity has not been as severe as suggested by the official statistics while actual inflation has been substantially higher.

2. Recent economic developments

Guyana's economic difficulties reached crisis proportions in 1982-83. In those years, the terms of trade declined by 10 percent and real GDP by 20 percent (Table 1), while the overall deficit of the nonfinancial public sector averaged about 55 percent of GDP and the external current account deficit about 70 percent of merchandise exports. 1/

Since then, the authorities have taken a number of measures to redress the economic situation. The official exchange rate was devalued

1/ As official figures are thought to understate substantially the value of nominal GDP and exports, these ratios may overstate the sizes of domestic and external imbalances.

by 28 percent in terms of U.S. dollars in 1984. Controlled prices and public sector tariffs have been increased (although not always by the full amount of the devaluation of the currency) and some degree of price liberalization has taken place. At the same time, the authorities have increased excise and consumption taxes and have taken some measures to reduce the operational losses, and to increase the output of the public enterprises. They also have taken steps to incorporate some parallel market activities into the official economy. These measures have contributed to an improvement of economic performance but have been insufficient to deal with the fundamental problems affecting the economy. Since late 1984 the official exchange rate has remained in the range of G$4.15 to G$4.30 per U.S. dollar, while the parallel market rate is reported to have moved to the range of G$15 to G$20 per U.S. dollar. The reported spread between the parallel and the official exchange rates has increased from 130 percent in 1983 to about 310 percent 1/ in mid-1986.

Table 1. Guyana: Selected Macroeconomic Indicators

(Annual percentage change)

	1981	1982	1983	1984	Prel. 1985	Proj. 1986
Real GDP at factor cost	-0.3	-10.4	-9.3	2.1	1.0	2.0
Real GDP per capita	-1.1	-11.1	-10.1	1.3	0.2	1.0
GDP at current market prices	5.9	-9.5	1.5	15.8	15.5	14.5
GDP implicit deflator (at factor cost)	1.4	3.4	5.8	15.1	14.5	10.5
National income at current prices	-4.7	-10.4	-8.7	16.0	12.2	...
Export volume	-4.9	-19.8	-18.0	13.1	0.1	3.7
Import volume	7.2	-33.3	-8.0	-13.1	19.6	-15.0
Terms of trade	-10.0	-4.9	-4.9	2.3	-0.7	6.5
Urban Consumer Price Index						
End of period	29.0	19.3	11.2	28.1	7.7	...
Period average	22.2	20.6	15.2	25.2	15.0	...

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

1/ Based on the reported mid-range of the parallel exchange rate.

Following a 2 percent rise in 1984, recorded real GDP is estimated to have increased by 1 percent in 1985. Bauxite production continued its strong recovery--18.5 percent in 1985--in response to the rehabilitation efforts initiated in 1983. Rice production, however, declined by 14 percent in 1985 because of poor weather and diminished milling capacity, while sugar production remained roughly unchanged. Manufacturing (other than rice milling and sugar refining) continued to decline in 1985 because of shortages of imported inputs and inadequate production incentives. The annual rate of inflation, as measured by the official consumer price index, declined from 25 percent in 1984 to 15 percent in 1985.

After improving moderately in 1984, the public finances deteriorated again in 1985. The overall deficit of the nonfinancial public sector rose from G$850 million or 50 percent of GDP in 1984 to G$1.2 billion or 60 percent of GDP in 1985, as the current account deficit rose from 29.5 percent to 38 percent of GDP (Table 2). Although external financing to the nonfinancial public sector increased sharply in 1985, most of the deficit (70 percent) was financed domestically.

In the Central Government the overall deficit widened from about 44.5 percent of GDP in 1984 to 49 percent of GDP in 1985, as the current account deficit rose from 34 percent of GDP to close to 39 percent of GDP. Current revenues increased by 16.5 percent, or in line with nominal GDP. Current expenditures, however, increased much faster (23 percent), as the wage bill rose by close to 20 percent and expenditures on goods and services by close to 40 percent. According to the authorities the increase in the wage bill, which exceeded the 10 percent wage increase agreed with the labor unions, reflected a revision in the salary scale intended to diminish salary differences among workers of similar skills, while the sharp rise in expenditures on other goods and services was due to nonrecurrent outlays related to defense and to the 1985 elections. Both capital revenues and capital expenditures declined by about 1 percentage point of GDP in 1985.

The overall deficit of the public enterprises rose from about 12 percent of GDP in 1984 to about 18.5 percent of GDP in 1985. Capital expenditures increased by 2 percentage points of GDP, while the current account deficit widened from about 2 percent to 6 percent of GDP. The weakening of the situation of the bauxite company (GUYMINE) was the factor behind this deterioration as the combined operations of the other public enterprises remained about constant in relation to GDP. GUYMINE's current revenues increased by close to 20 percent due to higher export volume and prices, but current expenditures rose at an even faster pace because of large land stripping costs, overtime wage payments and increased outlays on repair and maintenance. The National Insurance Scheme continued to register an overall surplus of 6.5 percent of GDP in 1985.

Table 2. Guyana: Summary Operations of the Consolidated Nonfinancial Public Sector

	1981	1982	1983	1984	Prel. 1985	Rev. Budget 1986
	(In millions of Guyana dollars)					
Central government current revenue	559.9	539.4	548.0	659.5	768.3	881.7
Central government current expenditure	805.7	787.7	1,000.6	1,241.5	1,526.2	1,605.0
Current account balance of the Central Government	-245.8	-248.3	-452.6	-582.0	-757.9	-723.3
Current account balance of the National Insurance Scheme	79.6	88.2	99.8	112.7	127.1	141.4
Current account balance of the public enterprises	-121.9	-149.2	-190.6	-30.6	-121.4	66.5
Current account balance of the nonfinancial public sector	-288.1	-309.3	-543.4	-499.9	-752.2	-515.4
Capital revenues of the Central Government	20.7	3.3	2.0	51.2	34.6	59.4
Capital expenditures	422.7	323.3	274.8	400.8 1/	482.7	462.5
Central Government 2/	306.9	234.2	188.2	224.8 1/	239.7	242.0
Public enterprises	115.8	89.1	86.6	176.0	243.0	220.5
Overall surplus or deficit (-)	-690.1	-629.3	-816.2	-849.5	-1,200.3	-918.5
Central Government	-532.0	-479.2	-638.8	-755.6	-963.0	-905.9
Public enterprises	-237.7	-238.3	-277.2	-206.6	-364.4	-154.0
National Insurance Scheme	79.6	88.2	99.8	112.7	127.1	141.4
Financing	690.1	629.3	816.2	849.5	1,200.3	918.5
External	383.0	258.9	168.0	102.7	370.0	273.5
Of which: arrears	57.1	136.3	166.2	120.7	290.4	308.7
Domestic	307.1	370.4	648.2	746.8 1/	830.3	645.0
Of which: financial system	283.0	633.9	633.8	826.6 1/	971.9	715.0
	(In percent of GDP)					
Central government current revenue	35.1	37.3	37.7	38.8	39.1	39.3
Central government current expenditure	50.5	54.5	68.8	73.0	77.7	71.5
Current account balance of the Central Government	-15.4	-17.2	-31.1	-34.2	-38.6	-32.2
Current account balance of the National Insurance Scheme	5.0	6.1	6.9	6.6	6.5	6.3
Current account balance of the public enterprises	-7.6	-10.3	-13.1	-1.8	-6.2	3.0
Current account balance of the nonfinancial public sector	-18.0	-21.4	-37.3	-29.4	-38.3	-23.0
Capital revenues of the Central Government	1.3	0.2	0.1	3.0	1.8	2.6
Capital expenditures	26.5	22.4	18.9	23.6 1/	24.6	20.6
Central Government 2/	19.2	16.2	12.9	13.2 1/	12.2	10.8
Public enterprises	7.3	6.2	6.0	10.4	12.4	9.8
Overall surplus or deficit (-)	-43.2	-43.6	-56.1	-50.0	-61.1	-40.9
Central Government	-33.3	-33.2	-43.9	-44.4	-49.0	-40.4
Public enterprises	-14.9	-16.5	-19.1	-12.2	-18.6	-6.8
National Insurance Scheme	5.0	6.1	6.9	6.6	6.5	6.3
Financing	43.2	43.6	56.1	50.0	61.1	40.9
External	24.0	17.9	11.5	6.0	18.8	12.2
Of which: arrears	3.6	9.4	11.4	7.1	14.8	13.8
Domestic	19.2	25.7	44.5	43.9 1/	42.3	28.7
Of which: financial system	17.7	43.8	43.6	48.6 1/	49.5	31.8

Sources: Ministry of Finance and Bank of Guyana.

1/ Excludes an equity contribution to the Bank of Guyana amounting to G$375 million to cover capital losses resulting from the devaluation of the Guyana dollar.
2/ Excludes capital transfers to the public enterprises. These are classified as capital expenditures of the enterprises.

The net domestic assets of the Bank of Guyana expanded by 23 percent during 1985 (Table 3). As in past years, the credit expansion of the Bank of Guyana exceeded by a wide margin the growth of currency and private sector deposits on external payment arrears, and its net international reserves declined by US$105 million. Of this amount, US$67 million corresponded to short-term loans from Trinidad and Tobago that were not repaid when due and the remainder to arrears on scheduled interest payments of the Bank of Guyana.

The recorded external current account deficit widened from US$100 million or 45 percent of exports in 1984 to US$153 million or 70 percent of exports in 1985 (Table 4), as the trade balance shifted from a small surplus to a deficit of nearly US$50 million. Both the volume and the value of exports remained virtually unchanged from 1984. Bauxite exports continued to increase (8 percent) but exports of sugar declined (by 6 percent) because of a reduction in foreign prices. Recorded rice exports declined by close to 40 percent due to the reduction in production. The value of recorded imports rose by nearly 19 percent notwithstanding a 5 percent reduction in oil imports. Most of the increase in recorded imports in 1985 was related to higher public sector expenditures. The deficit in the services account reached US$112 million in 1985, some US$4 million larger than in 1984. Most of this deficit (70 percent) corresponded to scheduled interest payments.

Net capital inflows on an accrual basis shifted from a negative US$8 million in 1984 to a positive US$33 million in 1985. Gross medium- and long-term disbursements to the nonfinancial public sector rose from US$27 million in 1984 to US$65 million in 1985 as a result of increased disbursements from bilateral official sources associated with the financing of a commercial airplane and certain defense expenditures. Scheduled amortization on nonfinancial public sector debt increased from US$67 million in 1984 to US$92 million in 1985. About half of this amount corresponded to principal due on commercial bank loans that was rolled over to 1986. The overall balance of payments deficit rose from US$117 million in 1984 to US$178 million in 1985. 1/ As in previous years, this deficit was financed by the further accumulation of external payments arrears.

After rising by US$130 million in 1984, external payment arrears increased by some US$190 million in 1985. As of the end of 1985, they amounted to US$738 million (Table 5). Of this total, US$74 million corresponded to recorded private arrears, US$223 million to arrears of the nonfinancial public sector, and US$442 million to arrears of the Bank of Guyana. The latter included arrears to the Fund equivalent to

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1/ The increase in the overall balance of payments deficit during 1985 reflected the larger current account deficit of the year but also a sharp increase in errors and omissions. The size of this item in 1985 suggests a substantial under-recording of imports in the official market.

Table 3. Guyana: Monetary Indicators

	December					June
	1981	1982	1983	1984	1985	1986 1/
A. Bank of Guyana						
(Change in millions of U.S. dollars)						
Net international reserves 2/	-3.5	-56.1	-86.7	-94.2	-105.4	-84.6
(Percentage change) 3/						
Net domestic assets	26.1	44.3	35.1	55.6	23.1	19.0
Credit to public sector (net)	11.7	57.8	10.4	73.0 4/	15.2	30.8
Deposits on external payment arrears	90.0	110.0	40.0	17.9	10.0	14.5
Currency in circulation	11.4	24.1	16.4	24.9	25.6	26.4
B. Financial System						
(Change in millions of U.S. dollar)						
Net foreign liabilities 2/	12.6	56.0	80.2	93.4	123.0	89.6
(Percentage change) 3/						
Net domestic assets	23.8	29.8	25.7	35.3	21.0	21.8
Credit to public sector (net)	20.7	39.1	28.1	41.6 4/	23.6	19.6
Credit to private sector	25.3	15.9	13.2	15.8	14.9	24.0
Deposits or external payment arrrears	82.7	98.1	45.9	17.3	10.4	13.4
Liabilities to the private sector	18.8	22.2	18.6	17.2	16.4	25.4
Memorandum items						
Inflation rate (Dec.-Dec.)	29.0	19.3	11.2	28.1	7.7	...

Source: Bank of Guyana.

1/ Changes relative to June 1985.
2/ Includes external arrears of the Bank of Guyana.
3/ Changes with respect to the stock outstanding at the end of the previous period.
4/ Includes credit on account of an equity contribution made by the Treasury to the Bank of Guyana to cover exchange losses incurred in 1984. This contribution did not have any impact on the level of the net domestic assets of the Bank of Guyana, but merely led to a reclassification of accounts. It reduced capital losses while increasing credit to the Government.

Table 4. Guyana: Summary Balance of Payments

(In millions of U.S. dollars)

	1981	1982	1983	1984	Prel. 1985	Proj. 1986
	(In millions of U.S. dollars)					
Current account (including transfers)	-182.3	-135.3	-154.6	-99.4	-153.0	-124.4
Merchandise						
Exports, f.o.b.	344.4	242.2	193.2	217.0	215.0	217.5
Bauxite	152.8	104.4	72.9	91.6	99.2	91.4
Sugar	108.9	87.7	71.5	70.9	66.4	76.0
Rice	39.1	20.2	21.6	21.3	13.3	10.0
Other	43.6	29.9	27.2	33.2	36.1	40.1
Imports, c.i.f.	-439.6	-280.4	-248.3	-214.3	-262.2	-228.9
Fuel	148.3	-109.0	-98.1	-108.3	-102.7	-80.0
Other	-291.3	-171.4	-150.2	-106.0	-159.5 1/	-148.9
Services (net)	-87.3	-88.9	-100.5	-108.3	-112.3	-119.5
Of which: interest on public debt (including BOG debt) 2/	-54.3	-49.3	-59.5	-62.6	-76.1	-82.3
Transfers (net)	0.2	-8.2	1.0	6.2	6.5	6.5
Of which: private transfers	4.3	-9.1	-1.3	2.6	3.1	3.2
Capital account	121.0	44.4	-1.7	-7.8	33.5	-10.2
Nonfinancial public sector	115.9	40.8	0.5	-4.6	19.4	-8.2
Disbursements	169.3	76.0	56.2	27.4	64.7	41.0
Amortization 2/	-53.4	-45.4	-78.8	-67.0	-92.3	-105.7
Rescheduling 3/	--	10.2	23.1	35.0	47.0	56.5
Private sector	-5.0	-1.3	--	1.4	3.0	--
Net foreign assets of commercial banks (increase -)	5.9	4.9	-2.2	-4.6	-1.6	-2.0
Special transactions 4/	4.2	--	--	--	--	--
Errors and omissions	30.9	-33.4	-7.9	-10.3	-47.6	--
Overall balance	-30.4	-124.3	-164.2	-117.5	-178.2	-134.6
Public sector arrears 5/	20.3	47.1	55.4	31.5	68.3	71.8
Private arrears	6.6	21.1	22.1	-8.2	4.5	8.6
Net official international reserves 6/ 7/	3.5	56.1	86.7	94.2	105.4	54.2
Of which: Bank of Guyana arrears 7/	47.3	56.5	100.7	105.9	115.3	67.2
	(As percent of merchandise exports)					
Current account balance	52.9	55.9	80.0	45.8	71.2	57.2
Overall balance	8.8	51.3	85.0	54.1	82.9	61.9

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

1/ Includes imports of a commercial aircraft and defense equipment.
2/ Includes interest accrued on public debt in arrears.
3/ Consists of foreign bank loans that were due during the period but were rolled over to next year on an exceptional basis.
4/ Includes exchange profits and losses from exchange rate variations, and SDR allocations.
5/ Includes arrears on interest on public debt in arrears; and short-term arrears on commercial transactions.
6/ Includes valuation changes.
7/ The changes in arrears exceed the declines in net international reserves as in certain instances, for example arrears to the Fund, arrears are incurred on liabilities that were previously classified as short-term reserve liabilities.

Table 5. Guyana: External Payments Arrears

(In millions of U.S. dollars)

	December 31				June
	1982	1983	1984	1985	1986
Private sector arrears 1/	55.3	77.4	69.2	73.7	78.0
Bank of Guyana arrears	119.9	220.6	326.5	441.8	482.8
Bilateral deposits	34.2	47.7	52.1	54.9	67.1
Principal	20.0	30.0	30.0	30.0	40.3
Trinidad and Tobago	20.0	20.0	20.0	20.0	20.0
Bank of Libya	--	10.0	10.0	10.0	10.0
Bank of Kuwait	--	--	--	--	--
Bank of Brazil	--	--	--	--	--
Interest	14.2	17.7	22.1	24.9	26.8
Trinidad and Tobago	10.9	12.7	14.4	16.2	17.4
Bank of Libya	2.2	3.0	4.5	5.4	5.8
Bank of Kuwait	1.1	1.9	2.8	3.3	3.6
Bank of Brazil	--	0.1	0.4	--	--
CARICOM clearing facility	85.7	106.6	109.7	122.2	126.5
Principal	83.5	96.5	96.5	96.5	96.5
Interest	2.2	10.1	13.2	25.7	30.0
Trinidad and Tobago bilateral account	--	54.5	150.2	233.1	242.4
Principal	--	49.4	138.1	205.0	205.0
Interest	--	5.1	12.1	28.1	37.4
IMF	--	11.8	14.5	31.6	46.8
Principal	--	7.6	14.5	27.3	38.6
Interest	--	4.2	--	4.3	8.2
Nonfinancial public sector arrears	67.4	122.8	154.3	222.6	259.8
Medium- and long-term	29.2	68.8	94.8	151.5	186.0
Principal	21.8	53.9	68.2	101.9	123.6
Interest 2/	7.4	14.9	26.6	49.6	62.4
Short-term 1/	38.2	54.0	59.5	71.1	73.8
Total arrears	242.6	420.8	550.0	738.1	820.6

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

1/ Arrears on commercial transactions. The corresponding deposits have been placed at the Central Bank.

2/ Includes interest due on principal in arrears.

US$32 million and to Trinidad and Tobago equivalent to US$270 million (excluding arrears under the CARICOM clearing facility).

As of the end of 1985, Guyana's public debt (including debt of the Bank of Guyana) amounted to US$1.4 billion (Table 6) or about 650 percent of merchandise exports. In 1985 scheduled debt service payments (including repurchases to the Fund and interest on short-term debt) amounted to US$182 million or 85 percent of exports. Actual debt service payments, however, amounted to only US$30 million or 14 percent of exports.

World Bank lending to Guyana has been quite limited in recent years. The only new operations since FY 1982 have been a supplementary credit in the forestry sector for SDR 8.7 million approved in March 1985, and a technical assistance credit for the bauxite industry in an amount of SDR 6.6 million approved in early August 1986. However, World Bank disbursements to Guyana were suspended on August 15, 1986 because of the country's inability to settle arrears; by October 31, 1986 such arrears amounted to SDR 4.7 million.

II. Report on the Discussions

In concluding the 1985 Article IV consultation, and also during the two reviews of Guyana's overdue obligations to the Fund, Executive Directors said that the severity of Guyana's economic imbalances required the prompt implementation of a comprehensive program of structural adjustment. In particular, Directors emphasized the need to re-establish an appropriate set of relative prices to restore production incentives and to integrate the parallel economy into the official economy. Directors also stressed the need to reduce the large public sector deficit; this was considered essential to regain control over monetary policy and to permit a reduction in the external imbalance.

Directors expressed deep disappointment at the continuing failure of Guyana to fulfill its financial obligations to the Fund and to other external creditors. In particular, Directors stated that it was an extremely serious matter not only that Guyana had not discharged its overdue financial obligations to the Fund, but that these arrears had continued to rise. The adoption of a comprehensive economic program would make possible the elimination of external arrears and the resumption of normal financial relations with external donors and creditors.

The mission's discussions with the authorities focussed on the outlook for the economy and on the policies that would be required to redress Guyana's very difficult economic situation. Particular emphasis was placed on the problem of Guyana's overdue financial obligations to the Fund.

Table 6. Guyana: External Public Debt

	1981	1982	1983	1984	1985	Proj. 1986
	(In millions of U.S. dollars)					
Total public debt 1/	818.6	954.2	1,077.9	1,183.1	1,388.0	1,489.7
Of which: arrears	83.7	187.3	343.4	480.0	664.4	803.3
Medium-and long-term public debt 2/	664.1	717.6	742.7	751.3	839.5	884.8
Of which: arrears	39.1	60.1	101.5	129.2	187.7	237.8
Short-term public debt 3/	154.5	236.6	335.2	431.8	548.5	604.9
Of which: arrears	44.6	127.2	241.9	351.6	476.7	565.6
Scheduled debt service payments	118.9	97.1	150.2	137.6	182.3	188.0
Principal (before rescheduling) 4/	64.6	47.8	90.7	75.0	106.2	105.7
Interest 5/	54.3	49.3	59.5	62.6	76.1	82.3
Actual debt service payments	102.7	60.9	59.2	59.4	30.2	27.0 6/
Principal 4/	54.8	25.6	27.9	18.8	12.7	10.9
Interest 5/	47.9	35.3	31.3	40.6	17.5	16.1
	(As percent of merchandise exports)					
Scheduled debt service payments	34.6	40.1	77.7	63.4	84.8	86.4
Actual debt service payments	29.9	25.1	30.6	27.4	14.0	12.4 6/

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

1/ Consists of government and government-guaranteed debt and Bank of Guyana debt.

2/ Includes bilateral deposits of the Bank of Guyana with Trinidad and Tobago for oil imports (medium-term loan, outstanding principal US$20 million).

3/ Includes public sector commercial arrears.

4/ Scheduled payments for medium- and long-term debt and for repurchases to the Fund.

5/ Includes scheduled interest payments on short-term debt. Also includes interest due on principal in arrears.

6/ Staff projections.

1. Economic prospects and the rehabilitation effort

The authorities expect the modest economic expansion that began in 1984 to continue in 1986. On the strength of a recovery of rice and sugar production, real GDP was projected to increase by 2 percent in 1986. Both crops have benefitted from good weather, increased acreage and milling capacity (rice), and improved factory performance (sugar). In contrast with the performance of 1984-85, bauxite production is projected to stagnate or even decline due to depressed market conditions abroad.

The authorities referred to the measures that have been taken over the last four years to increase the output of and rationalize the operations in the main productive sectors. In particular, they pointed to the efforts that have been made to recondition existing plants, improve managerial practices, and reduce employment in the mining and sugar sectors. The authorities intend to intensify these efforts, but said that without external assistance to help finance the necessary investments, further progress would be limited at best.

In the view of the authorities, Guyana's economic prospects are largely linked to the rehabilitation of the bauxite industry. The Government, partly with technical and financial assistance from the World Bank, prepared in 1983 a preliminary five-year rehabilitation plan for the sector. The objectives of this plan, whose costs are estimated at about US$100 million, are to recondition existing plant and equipment; reduce and redeploy the work force; improve management; strengthen cost and quality control; and develop new products and marketing strategies. The authorities explained that while some of the proposals contained in the plan have been carried out with success, the implementation of the program was substantially behind schedule because of the lack of foreign financing.

To carry out this program, the authorities have been seeking the financial support of the EEC and the World Bank. In 1984, the EEC earmarked ECU 35 million in financial assistance for the sector, but so far only ECU 3 million have been disbursed on an emergency basis. According to the authorities, the remaining funds would be disbursed once the industry and the World Bank reach an agreement on the components of a full scale rehabilitation project. In August 1986, the World Bank approved a technical assistance credit amounting to SDR 6.6 million to help the Government assess the long-term economic and financial viability of the industry and, as appropriate, to update the rehabilitation project. The authorities were hopeful that upon completion of this assistance a full scale rehabilitation project could be developed; otherwise, the deterioration of equipment could lead to a decline in output.

Regarding the sugar sector, which at present is Guyana's main net foreign exchange earner, the authorities noted that the access of Guyana to the preferential markets of the EEC and the United States had been reduced sharply since 1984--from 190,000 tons to 162,000 tons in the EEC market and from 90,000 tons to 18,000 tons in the U.S. market--while the world market price of sugar was still substantially below the level of the early 1980s. To offset these adverse conditions and to improve the competitiveness of the sector, the authorities are taking steps to rehabilitate plant and equipment, reduce employment, eliminate marginal lands, and close down two sugar factories. Their target is to reduce the area under cultivation from the present 120,000 acres to 95,000 acres in 1987 and to obtain a production level in the range of 250,000-270,000 tons as compared with an annual average of 246,000 tons in 1984-85 and of 290,000 tons in the early 1980s.

The authorities explained that as a result of the depreciation of the currency in 1984, the elimination of the subsidy to consumers 1/ and other cost reducing measures, the sugar industry's (GUYSUCO) financial performance had improved substantially in spite of the decline in export prices. The authorities were confident that the industry would reach equilibrium in its current operations during 1986-87 and begin to achieve small surpluses thereafter.

Concerning the rice sector, the authorities noted that their objectives were to improve production incentives and to increase the role of the private sector in the domestic and foreign marketing of rice. In 1985 they introduced a new marketing policy that allows for direct exports by the private sector, once official bilateral export contracts have been fulfilled. In addition, with assistance from the Inter-American Development Bank, they had developed a new pricing mechanism that provides incentives to domestic producers, particularly to producers of high-quality rice for exports. Producer prices were increased by 14-19 percent in August 1985 and by 15-20 percent in September 1986. The authorities explained that although production prospects were good, the sector was being affected adversely by the sharp decline in world market prices for rice and by the loss of preferential treatment in the CARICOM markets. This was affecting adversely private exports through the official market, and it was giving rise to losses for the Rice Group since at the current official exchange rate the average price paid to domestic producers was some 40 percent above the world-market price. To improve the outlook for the sector, the authorities were fostering the production of high quality rice and were increasing exports to the preferential EEC market.

Outside of the main productive sectors, the authorities referred to their objective of achieving self-sufficiency in food production. For this purpose, agricultural prices had been liberalized and certain food imports had been prohibited. The response of production in some agricultural subsectors had been encouraging. In other subsectors, however,

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1/ The domestic price of sugar has been increased by close to 300 percent in terms of U.S. dollars and is now expected to cover production costs.

production either had been held back by the lack of foreign exchange or had been channelled to the illegal export market.

The authorities noted their intention to promote private sector investment, particularly in the development of manufacturing, rice, fisheries, timber, and nonbauxite mining. The Guyana Manufacturing and Industrial Development Agency was established in December 1984 to promote small- and medium-scale manufacturing. Regarding foreign investment, the authorities referred to the favorable prospects of the gold sector. The Omai project being developed by Golden Star Resources of Canada is expected to come on stream in late 1987. Annual production under this project is projected at 40,000 ounces as compared with the current recorded production from small miners of about 10,000 ounces and an estimated actual production of 30,000 to 40,000 ounces. Other large-scale gold projects that are under consideration could boost annual production by another 30,000 ounces by 1988-89.

While noting the measures taken by the authorities to rehabilitate the economy and improve the climate for private investment, as well as the positive results obtained in some key sectors, the mission remarked that the prospects for economic growth over the medium term were being constrained by existing pricing policies. The Guyana dollar was still substantially overvalued, severe price distortions remained, and huge spreads between official and parallel markets persisted. As a result, the incentives for private enterprises to produce were inadequate in many instances. The parallel market provided some flexibility, but not all sectors had access to the parallel market. In addition, the parallel market escaped taxation, and resulted in a heavy implicit taxation of those firms (both private and public) that had to obtain inputs at parallel market prices and sell at official prices. The performance of the public enterprises also was affected by inadequacies in pricing policies. While there was a need to reduce production costs further and rehabilitate plant and equipment in the sugar, rice and bauxite sectors, it also was crucial to restore an appropriate structure of relative prices.

2. Pricing policies

a. Exchange rate policy

The authorities agreed that the official exchange rate was substantially overvalued. They noted, however, that in Guyana's circumstances it was difficult to determine the right exchange rate level and expressed some reservations regarding the supply response of the major export sectors to a devaluation. They also stated their concern about the impact of a major exchange rate action on domestic prices and real wages. For these reasons, they had established a multiple exchange rate system designed to provide export incentives to those sectors where supply was expected to respond quickly. Consideration had been given to broadening the scope of this system before unifying the exchange rate at the end of 1987 at a level that in their judgement would provide adequate incentives for the expansion of exports. Their view was that this approach to exchange rate policy would enable them to monitor the response of exports and avoid serious social problems, and eventually would provide the basis for the unification of the rate.

In line with this strategy, on September 7, 1986 the authorities adjusted the implicit exchange rate applicable to local purchases of gold from G$6.03 per U.S. dollar to G$14 per U.S. dollar, and the exchange rate applicable to exports of gold from G$6.55 per U.S. dollar to G$15.21 per U.S. dollar; imports of goods and services financed with the proceeds from these exports also are priced at an exchange rate of G$15.21 per U.S. dollar. The authorities also were considering establishing a special rate for exports of diamonds. In addition, imports of goods financed under countertrade and bilateral trade arrangements are priced at implicit exchange rates that range from G$6.03 to G$21 per U.S. dollar.

The mission observed that the multiple exchange rate system may serve to shift some transactions from the parallel market to the official market but would not solve the fundamental problems resulting from the overvaluation of the official exchange rate; indeed it might even give rise to distortion on its own. The mission recommended, therefore, that, in the context of an economic program, the authorities advance their plan for the unification of the exchange rate and introduce a competitive and credible exchange rate. This unification would need to be followed by the adoption of a flexible exchange rate policy to ensure that the rate would be kept at an appropriate level.

The mission noted that the once-and-for-all impact of a substantial exchange rate adjustment on actual (as opposed to measured) prices and real wages, while significant, would not be as large as might appear at first sight, given the large portion of transactions already taking place at parallel market prices and the mark-ups at the consumer level of scarce goods distributed by the public sector at official prices. The mission emphasized that an exchange rate adjustment would need to be supported by restrained financial and incomes policies to prevent an inflationary spiral. The mission also observed that even though the immediate response of exports to a devaluation may be small, a realistic exchange rate was essential to achieve sustained economic and export growth over the medium term; in this connection, it was noted that a realistic exchange rate would help to restore external capital inflows and to incorporate the parallel economy into the official economy.

The authorities said that they would be assessing the economic and social implications of a comprehensive reform of the exchange rate system. At the same time they stressed that it was necessary to evaluate the scope and timing of the external resources that may be required to support an economic program.

b. Domestic prices

Guyana has three broad categories of prices: controlled prices, suggested prices, and free prices. Controlled prices cover essential goods and services, are set on the basis of domestic production costs or import prices, are legally binding, and can only be modified by the Cabinet. Suggested prices, which generally apply to intermediate goods with a high-import content, are not legally binding; however, increases in such prices have to be justified before the Ministry of Trade.

The authorities said that controlled prices had been raised substantially since 1984, that the scope of price controls had been reduced, and that most both public and private enterprises could adjust prices without undue delay. They acknowledged, however, that price distortions still remained, and that some goods subject to price controls could only be obtained at parallel market prices.

The mission noted that in this situation both production and the public finances were being affected adversely, while consumers were paying the higher parallel market prices. It also observed that to restore production incentives the adjustment of the exchange rate would need to be accompanied by corresponding adjustments in public sector prices and tariffs and by the liberalization of private sector prices. The authorities agreed in principle with these observations but reiterated their concern about the social impact of large price adjustments. Also, they remarked that the liberalization of private sector prices did not seem to be a major issue since in their view the private sector had considerable flexibility in setting prices.

3. Wage policies

The authorities explained that in November 1985 they had reached an agreement with the Trade Union Congress (TUC) covering public sector wages for the period 1985-86. The agreement, retroactive to January 1985, established annual wage increases of 12.5 percent in the sugar and bauxite sectors and of 10 percent in the rest of the public sector. Sixty percent of these increases (about half in the case of the sugar and bauxite sectors) was granted on an across-the-board basis and the remainder was based on an appraisal system that takes account of productivity and other factors such as educational background and work experience.

The mission observed that during 1985 the wage bill of the Central Government had increased by close to 20 percent, far in excess of the wage award. The authorities pointed out that the 1985 increase also reflected a revision in the salary scale and that in 1986 the wage bill would increase by less than 10 percent because of a reduction in overtime payments. They also noted that the 1985-86 wage adjustments were below inflation (in 1985 recorded consumer prices rose by 15 percent) and productivity growth, and reflected the need to contain public sector expenditures.

4. Domestic financial policies

a. Fiscal policy

On the basis of the preliminary results of the first half of the year, the authorities project a significant reduction in the deficit of the nonfinancial public sector in 1986. The current account deficit is projected to decline from G$752 million in 1985 to G$515 million in 1986. With capital expenditures budgeted to decline from G$483 million in 1985 to G$462 million in 1985, the overall deficit would be reduced from G$1.2 billion or 60 percent of recorded GDP in 1985 to about G$920 million or 40 percent of projected GDP in 1986. As in recent years, the deficit would be financed for the most part from domestic sources.

The current account deficit of the Central Government is projected to decline from 39 percent of GDP in 1985 to 32 percent of GDP in 1986. Current revenues are projected to increase by 15 percent, or in line with nominal GDP. Most tax categories and in particular import taxes, which have benefited from a liberalization of the no-funds licencing system (see below), are expected to show relatively strong growth. Current expenditures are budgeted to increase by only 5 percent as some expenditures incurred in 1985 (linked to defense and the election) will not be repeated in 1986. Capital revenues are projected to increase by close to 1 percentage point of GDP, while capital expenditures are anticipated to decline from about 12 percent of GDP in 1985 to about 11 percent of GDP in 1986. Capital revenues are projected to increase by close to 1 percentage point of GDP, while capital expenditures are anticipated to decline from about 12 percent of GDP in 1985 to about 11 percent of GDP in 1986. Consequently, the overall deficit of the Central Government is projected to decline from 49 percent of GDP in 1985 to 40.5 percent of GDP in 1986.

The current account position of the public enterprises is projected to shift from a deficit of 6 percent of GDP in 1985 to a surplus of 3 percent of GDP in 1986--the first operating surplus since 1980. Most of this improvement can be attributed to the operations of GUYSUCO, GUYMINE and the Guyana State Corporation (GUYSTAC). The operational performance of these enterprises is being bolstered by higher prices and increased volume (GUYSUCO and GUYSTAC), equity contributions by the Central Government that are reducing domestic interest payments (GUYSUCO and GUYMINE), declining oil prices (GUYSUCO, GUYSTAC) and restraint in current expenditures, including a reduction of overtime work and the closing of two enterprises in the GUYSTAC Group. With capital expenditures budgeted to decline from about 12.5 percent of GDP in 1985 to somewhat less than 7 percent of GDP in 1986, the overall deficit of the public enterprises would be reduced from about 18.5 percent to about 10 percent of GDP. The National Insurance Scheme is projected to remain in overall surplus (6 percent of GDP) in 1986.

The mission noted that notwithstanding the projected improvement in the public finances in 1986, the public sector deficit remains very large and is still a major factor in Guyana's imbalances. Major actions were required to reduce the deficit to an amount compatible with low inflation and a viable balance of payments. The mission referred to the actions it had recommended in the area of pricing policies, which would improve substantially the financial performance of the public enterprises provided that wage restraint was exercised. At the same time, such actions would help to restore the tax base by reducing and eventually eliminating the scope of the parallel economy. In the absence of bold steps in the pricing of public sector goods and tariffs, the required fiscal adjustment would need to be based on a sharp reduction in current expenditures since public sector revenues could not be expected to increase significantly and capital expenditures were already at low levels.

b. Monetary policy

The capacity of the Bank of Guyana to continue accumulating external payments arrears has diminished substantially since September 1985. Up to that time, Trinidad and Tobago had in effect provided considerable balance of payments support loans to Guyana through a short-term bilateral account with the Bank of Guyana that financed the country's oil import bill. However, this financing, which amounted to US$90 million in 1984 and US$67 million in 1985, was suspended in September 1985 because of the continuous build-up of arrears. In the course of 1986, Venezuela established a short-term deposit facility that has been financing about 45 percent of Guyana's monthly oil import bill. Financing under this facility would amount to US$12.5 million in 1986, but because of the revolving nature of the facility no net financing could be expected in 1987.

Domestic credit has continued to expand at a fast pace. During the twelve months ended June 1986 the net domestic credit of the Bank of Guyana expanded by 19 percent while the net domestic credit of the financial system rose by 22 percent. In the circumstances of reduced external financing, this expansion of credit has resulted in growing scarcities of foreign exchange in the official market, a further tightening of exchange and trade restrictions together with increasing external payment arrears to external creditors other than Trinidad and Tobago, and an acceleration in the rate of growth of the liabilities of the financial system to the private sector. During the twelve months ended June 1986, these liabilities increased by 25 percent, compared with 16.5 percent during 1985.

The authorities shared the mission's concern about the rapid growth of credit and also acknowledged that it was likely to continue to expand at a fast pace during the remainder of 1986. The domestic financing needs of the public sector, although smaller than in 1985, remain substantial. Moreover, credit to the private sector has been increasing at an annual rate of 25 percent since mid-1985, whereas in previous years the demand for private sector credit had been weak. In the view of the authorities, the rapid growth of private sector credit reflects the capitalization of interest on nonperforming loans and higher demand for trade-related credit rather than a recovery of output.

The Bank of Guyana establishes both the minimum interest rates on deposits and the maximum lending rates. These rates, which range from 11.5 percent a year for savings accounts to 21 percent for personal loans, have not been changed since 1982, and for the most part have been lower than the recorded rate of inflation. The authorities explained that even at negative real interest rates, the growth of deposits had been strong in recent years as credit had expanded at a fast pace and exchange and trade restrictions had been tightened. Moreover, the financial system was very liquid and the banks were pressing for a reduction in deposit rates. The authorities did not intend to give in to these pressures, but at the same time they did not see a need to raise interest rates.

The mission observed that in the context of an economic program designed to deal with the country's imbalances it would be necessary to follow a restrained monetary policy. At the same time, the authorities would need to follow a flexible interest rate policy to promote domestic savings and an efficient allocation of credit.

5. Balance of payments prospects and policies

On the basis of the projected reductions in the public sector deficit and external financing, together with the improved terms of trade, the external current account deficit is projected to decline from about US$150 million in 1985 to US$125 million in 1986. The value of recorded exports (in U.S. dollar terms) is projected to remain about the same as in 1985. Sugar exports are expected to increase substantially because of larger export volume and higher prices, but exports of bauxite and rice are forecast to decline sharply. The value of recorded imports is expected to decline by about US$35 million in 1986 to US$230 million; oil imports are likely to fall by more than 20 percent because of the reduction in prices; and other imports are expected to decline by about 7 percent. The deficit in the services account is projected to increase by about US$7 million because of larger interest payments. The capital account (on an accrual basis) is projected to shift into deficit in 1986 (US$8.2 million) as the exceptional loan disbursements of 1985 will not be repeated. The overall balance of payments deficit is projected to decline from US$178 million in 1985 to about US$135 million in 1986.

Scheduled debt service payments on the public debt (including the Bank of Guyana) in 1986 are estimated at about US$190 million or 85 percent of projected merchandise exports. Actual debt service payments, however, are expected to amount to only some US$30 million or 12 percent of exports. External payments arrears are projected to increase by US$148 million during 1986, to US$880 million by the end of the year.

Since 1982 there has been an intensification of restrictive practices in Guyana's exchange and trade system. The list of commodities for which import licenses are made available has been reduced significantly and for the most part now includes only selected capital goods, spare parts, raw materials, and pharmaceuticals. Applications for import licenses are generally not approved for consumer goods nor for commodities for which local substitutes exist. Moreover, the granting of an import license does not guarantee that foreign exchange will be made available by the Central Bank. The granting of licenses not involving use of official foreign exchange (the no-funds licensing system) was liberalized in 1986. Previously, no-funds licensing only covered the import of goods directly related to the production activities of the importer, but now they are granted to registered traders.

In recent years, Guyana has resorted increasingly to countertrade and bilateral trade agreements. Prior to 1985, only Guyanese public corporations engaged in these transactions, but since then some agreements involving private exporters have taken place. The procedures covering these private sector transactions vary from case to case. Generally, however, the private exporter receives in payment both foreign currency and goods. The private exporter must surrender to the Bank of Guyana either the totality or part of the foreign exchange at the official exchange rate, but is authorized to sell the imported goods at free market prices. The value of exports under countertrade and bilateral agreements is estimated at US$56 million or 26 percent of recorded exports in 1985.

The mission noted that, in a situation in which exports as a whole had been sluggish, these trade arrangements were reducing cash exports, thus further impairing the effectiveness of the exchange system and perhaps affecting adversely Guyana's debt servicing capacity. The authorities questioned whether this was the case. In their view, these arrangements were leading to additional exports by developing new markets and by enabling Guyana to export goods with very low demand in world markets such as metal grade bauxite, nontraditional wood, and inferior quality shrimp. They also noted that these arrangements enabled the country to obtain foreign loans that were not available on commercial terms.

Guyana retains comprehensive restrictions on the making of payments and transfers for international transactions. Those relating to current international transactions and subject to approval under Article VIII, are evidenced by increasing payments arrears and discretionary exchange licensing. Guyana also maintains multiple currency practices arising from the introduction of a special rate of exchange for exports of gold and from the maintenance of a parallel exchange market. The exchange restrictions and the multiple currency practices have not been approved by the Executive Board.

6. Overdue obligations to the Fund

Guyana has been in arrears to the Fund since April 1983, and on May 15, 1985 it was declared ineligible to use the general resources of the Fund (EBM/85/73). Since then, Guyana has discharged, albeit with delays, its obligations in the SDR Department and to the Trust Fund 1/ but arrears in the General Resources Account have continued to rise. Since the declaration of ineligibility, Guyana has made payments to the Fund totaling SDR 1.6 million, equivalent to less than 1 percent of 1985 exports. As of November 12, 1986, Guyana's arrears to the Fund amounted to SDR 50.3 million (102.2 percent of quota), up from SDR 18.7 million at the time of ineligibility.

In the consultation discussions the staff reiterated the concern of the Board about the continuing failure of Guyana to fulfill its obligations to the Fund. The authorities emphasized the seriousness with which they regard their obligations to the Fund and their intention of honoring them, and they noted that every effort was being made to keep current in the SDR Department and in the Trust Fund. Guyana gave a high priority to settling its obligations to the Fund, they said, but in the present circumstances larger payments to the Fund would lead to arrears with other multilateral institutions. This would in turn further reduce external capital inflows and affect adversely the capacity to develop exports and to service debt over the medium term.

The staff observed that some of the policies followed had reduced the country's capacity to increase exports and service external debt in an orderly manner. The mission, therefore, urged the authorities to carry out promptly the policies that would enable Guyana to redress its economic situation and would permit the elimination of arrears to the Fund and to other creditors.

IV. Medium-Term Outlook

On the basis of the authorities' current policies, the staff has prepared a balance of payments projection for the period 1987-91 (Table 7). This projection assumes that the authorities would be able to reach their export targets in the sugar sector and that as a result of the recent increase in the special exchange rate for gold, and of the prospects for large-scale gold mining, exports of gold in the official market would increase from 10,000 ounces in 1985 to about 30,000 ounces in 1987 and to 40,000 ounces by 1989. The volume of bauxite exports is projected to increase slightly through 1988, but to remain constant thereafter as it is unlikely that under current policies the authorities would be able to obtain the external financing that is required to

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1/ Since October 1, 1986, however, Guyana has overdue obligations to the Trust Fund amounting to SDR 985,552. Guyana also has not settled net SDR charges of SDR 218,402 due November 1, 1986.

Table 7. Guyana: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Current account (including transfers)	-124.4	-93.6	-91.9	-92.7	-90.4	-87.7
Merchandise						
Exports, f.o.b.	217.4	222.3	232.7	247.6	260.5	272.8
Bauxite	91.4	86.2	87.5	94.1	100.9	105.4
Sugar	75.9	78.7	81.4	84.6	88.0	92.5
Rice	10.0	10.5	11.1	11.7	12.3	12.9
Gold	4.9	9.6	13.1	14.9	14.9	14.9
Other	35.2	37.3	39.6	41.9	44.4	47.1
Imports, c.i.f.	-228.8	-197.1	-196.0	-202.0	-203.3	-207.3
Fuel	-80.0	-83.1	-86.1	-89.0	-92.2	-95.4
Other	-148.8	-114.0	-109.9	-113.0	-111.1	-111.9
Nonfactor services (net)	-37.2	-39.6	-42.3	-44.9	-47.0	-49.3
Factor services (net)	-82.3	-85.9	-93.2	-100.5	-107.9	-111.4
Transfers (net)	6.5	6.7	6.9	7.1	7.3	7.5
Capital account	-10.2	-64.9	-11.2	-13.7	-23.6	-25.4
Public sector capital	-8.2	-62.7	-5.5	-10.4	-24.6	-25.8
Disbursements	41.0	35.0	30.0	25.0	20.0	15.0
Amortization	-105.7	-102.9	-41.2	-38.7	-43.6	-40.2
Rescheduling	56.5	--	--	--	--	--
Other	-2.0	3.0	--	--	--	--
Overall balance	-134.6	-158.5	-103.1	-106.4	-114.0	-113.1
Memorandum items (1986=100)						
Terms of trade	100	95.4	94.2	95.6	96.8	97.5
Non-oil import volume	100	74.4	69.6	69.5	66.3	64.8

Source: Staff projections.

increase bauxite exports beyond the projected level. The volume of other recorded exports (including rice) is projected to increase by only 2.5 percent a year because of the overvaluation of the official exchange rate and the lack of imported inputs in the official market. The terms of trade are projected to decline by about 2.5 percent during the period 1987-91.

With current policies and the high level of external payment arrears, it seems unlikely that Guyana would be able to obtain significant external support in the coming years. Therefore, the projections assume that net capital inflows (on an accrual basis) would be negative throughout the period 1987-91. Disbursements under contracted loans are projected to decline from US$30 million in 1987 to US$10 million in 1991, while new loan disbursements are projected at only US$5 million a year beginning 1987. Scheduled amortizations on medium-term debt (excluding repurchases to the Fund) are projected to reach US$105 million in 1987 and to decline to about US$40 million a year thereafter.

The above projections for the growth of exports and the outlook for the capital account point to a sharp reduction in recorded imports, even if the authorities were to continue to accumulate sizeable external payments arrears by keeping actual debt service payments in the present range of 12-15 percent of exports. Assuming that oil imports remain about constant in real terms, the volume of recorded non-oil imports would decline by 30 percent in the period 1987-88 and by a further 7 percent in 1989-91. Such a cutback in imports would further impair the prospects for the economy, and the projected growth of exports might well be unattainable. Without a change in the fiscal stance, the result would be pressures on prices and on the parallel exchange rate, as well as a further widening of the parallel economy. Alternatives to this scenario would depend on the nature and timing of the policy response of the authorities.

V. Staff Appraisal

Notwithstanding the modest recovery of economic activity that has been taking place since 1984, the economic and financial situation of Guyana continues to be extremely difficult. The measures taken by the authorities in the past few years have not been sufficient to correct the fundamental problems confronting the economy. The price structure remains severely distorted, the parallel economy has continued to expand, and external payments arrears have risen further. The public sector deficit which widened in 1985 is projected to decline in 1986, but not to a level that can be considered sustainable.

In the absence of substantive policy changes, Guyana's economic prospects are not encouraging; in fact, the economic situation could well deteriorate further. The growth of recorded output and exports can be expected to be modest at best; recorded imports may need to be cut even further, and external payments arrears are likely to continue to increase. Given the current fiscal stance, these conditions would lead, in turn, to growing scarcities in the official economy, higher inflation and a further widening of the parallel economy. In these circumstances, the economic adjustment that in any event would need to take place would be inefficient and costly.

The staff, thus, believes that a major reorientation of policies is needed in the context of a comprehensive medium-term economic program. As the prevailing price distortions are having adverse repercussions on economic and export growth, an effective program would need to be based on the restoration of an appropriate structure of relative prices. In particular, it would be necessary to establish a credible and competitive exchange rate to restore production incentives, to help incorporate the parallel economy into the official economy, and to achieve a viable balance of payments.

The authorities are aware of the need to adjust the exchange rate and are considering ways of improving exchange rate flexibility and moving toward the unification of the rate. One approach they have been giving consideration would involve expanding the scope of the existing multiple rate system with a view to laying the basis for unification of the rate by the end of 1987. This approach, to the extent that it results in a more realistic exchange rate pattern in the economy, may serve to shift some transactions from the parallel economy into the official economy. However, it would not eliminate the distortions resulting from the overvaluation of the official exchange rate, and it could even add distortions of its own. More generally, in Guyana's circumstances, further delays in restoring an appropriate set of relative prices would add to the severity of the problems being confronted. This is why the staff believes that an early unification of the exchange rate at a credible and competitive level is the appropriate course of action. This adjustment would need to be followed by the implementation of a flexible exchange rate policy to ensure that the rate would be kept at an appropriate level.

The establishment of a realistic exchange rate is a necessary but not sufficient condition to deal with Guyana's economic imbalances and to set the basis for sustained economic growth. The adjustment of the exchange rate would need to be supported by the liberalization of private sector prices and exchange and trade restrictions, by the corresponding adjustment of public sector prices and tariffs, and by the pursuit of restrained financial and income policies.

In particular, a strong fiscal adjustment would be essential to bring domestic spending to a sustainable path. The adjustment of the exchange rate and of public sector prices and tariffs would have a major positive impact on the finances of the public enterprises, while the incorporation of the parallel market activities into the official economy would help to restore the tax base. Nevertheless, firm control over expenditure would be necessary to limit the public sector deficit to an amount compatible with the availability of external financing. Given the need to increase domestic savings to help finance the rehabilitation of the economy, the required fiscal adjustment would need to be centered on a significant strengthening of public sector savings.

Fiscal restraint also would help the Bank of Guyana to regain control over the expansion of credit. A restrained credit policy would be required to keep inflation low and halt the accumulation of external payments arrears. A restrictive credit policy also would facilitate the liberalization of prices and of exchange and trade restrictions. In this connection, a flexible approach to interest rates would foster domestic savings and help protect the balance of payments.

Implementation of a comprehensive economic program would help to elicit the external assistance necessary to support the rehabilitation and liberalization of the economy and to buttress the adjustment effort. In the circumstances of Guyana such external assistance would need to be concessionary and compatible with the need to reduce, over the medium term, the country's dependence on external savings.

Guyana operates a restrictive import licensing system in which the importation of a wide range of goods and services is banned; multiple currency practices are maintained; and comprehensive restrictions exist on the making of payments and transfers for current international transactions, including restrictions on the provision of foreign exchange for travel and transfers abroad and restrictions evidenced by the existence of external payments arrears. These arrears have increased since the last Article IV consultation. The staff urges the authorities to adopt policies that would permit the prompt settlement of overdue obligations to the Fund and would facilitate the elimination of exchange restrictions as soon as possible. In the meantime, it is not proposed to approve the exchange restrictions and multiple currency practices that are subject to approval by the Fund under Article VIII, Sections 2(a) and 3.

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

Guyana - Fund Relations
(As of October 31, 1986)

I. Membership Status

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

A. Financial Relations

II. General Department (General Resources Account)
(Position as of October 31, 1986)

	Millions of SDRs	Percent of Quota
(a) Quota:	49.20	100.00
(b) Fund holdings of Guyana dollars	120.95	245.82
(c) Fund credit:	71.75	145.82
Of which: CFF	12.68	25.77
Buffer stock	--	--
Credit tranche	--	--
EFF	59.06	120.04
Of which: from borrowed resources (SFF)	29.78	60.53
(d) Reserve tranche position	--	--

III. Extended Arrangements and Special Facilities

(a) Current: none.

(b) Previous stand-by and extended arrangements since 1974:

(i) During the period 1974 to 1978 four one-year stand-by arrangements were approved for amounts ranging from SDR 5 million to SDR 7.25 million (equivalent to 25.00 to 36.25 percent of the quota at the time). The use of Fund resources under those arrangements amounted to SDR 13.50 million.

(ii) An extended arrangement for an amount of SDR 62.75 million (equivalent to 251.00 percent of the quota at the time) was approved in June 1979 and canceled in June 1980. Drawings under this arrangement amounted to SDR 10.00 million.

(iii) In July 1980 an extended arrangement for an amount of SDR 100 million (equivalent to 400 percent of quota) was approved. With the increase in the quota, the amount of the arrangement was increased to SDR 150 million (equivalent to 400 percent of the new quota). The arrangement was canceled on July 22, 1982; at that time purchases under this arrangement amounted to SDR 51.73 million (equivalent to 137.95 percent of the quota).

(c) Special facilities since 1981:

A CFF purchase for SDR 5.93 million (15.81 percent of the quota at the time) was approved in November 1982. This purchase brought Guyana's use of Fund resources under this facility to 50 percent of its quota.

IV. SDR Department

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

V. Administered Accounts: None

VI. Overdue Obligations to the Fund: (November 12, 1986)	SDR 50.35 million
Of which:	
Repurchases	SDR 39.52 million
GRA charges	SDR 9.62 million
Net SDR charges	SDR 0,22 million
Trust Fund	SDR 0.99 million

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Since June 2, 1981 the Guyana dollar has been pegged to a basket of currencies (the originally announced basket included the U.S. dollar, the pound sterling, the deutsche mark, the Japanese yen, and the Trinidad and Tobago dollar) while the U.S. dollar has continued to be the intervention currency. However, the exchange rate was kept at G$3.00 to the U.S. dollar until January 14, 1984 when the basket of currencies was redefined to include the pound sterling, the deutsche mark, the Japanese yen, the French franc, and the Dutch guilder and the exchange rate with respect to the intervention currency was set at G$3.75 per U.S. dollar on the basis of valuing the basket at G$15. The exchange rate was adjusted for the change in the value of the basket against the U.S. dollar on October 6, 1984 when it was set at G$4.15 per U.S. dollar. The value of the basket was raised to G$15.75 on July 1, 1985 and to G$20 on March 3, 1986; the rate presently stands at G$4.30 per U.S. dollar.

VIII. Past Decisions

After considering a report on Guyana's nonobservance of financial obligations to the Fund on April 6, 1984, the Executive Board considered the Managing Director's complaint under rule K-1 on June 6, 1984 and decided (EBS/84/47, Supplement 3) that Guyana shall not make use of the Fund's general resources until it becomes current on repurchases and the payment of charges to the Fund. The Executive Board reviewed this decision and Guyana's overdue obligations to the Fund on August 31, 1984, December 3, 1984, February 15, 1985 and May 15, 1985 when it decided (EBS/85/119, of May 10, 1985) to declare Guyana ineligible to use the Fund's general resources. The Executive Board reviewed Guyana's overdue financial obligations to the Fund following the declaration of ineligibility on May 23 (EBS/86/111, 5/21/86) and on July 16, 1986 (EBS/86/146, 7/9/86); the Board concluded to review the matter again at the time of the discussion for the 1986 Article IV consultation with Guyana.

The last Article IV consultation was concluded by the Executive Board on November 20, 1985 (SUR/85/126, 11/26/85); the existing restrictions on payments and transfers for current international transactions have not been approved by the Fund.

IX. Technical Assistance

A staff member of the Bureau of Statistics visited Georgetown in January 1983 to review the sources and methods used in the compilation of Guyana's balance of payments statistics and to assist the authorities in making improvements where necessary.

In January 1985, a technical assistance mission in the fiscal area surveyed Guyana's public finances and recommended areas where technical improvements and further technical assistance would be warranted. Another technical assistance mission from the Fiscal Affairs Department visited Georgetown in July 1985; it recommended improvements in the areas of budget preparation, monitoring of public finances and fiscal reporting; it also undertook a tax survey and recommended how the tax system may be simplified and its economic impact rationalized.

A staff member of the Bureau of Statistics visited Georgetown in May 1985 to review the methodology underlying the compilation of the existing unreliable CPI and recommend procedures for constructing a new index.

GUYANA

Area and population	
Area	83,000 sq. miles (215,000 sq. kilometers)
Population (mid-1985)	790,800
Annual rate of population increase (1977-84)	0.8 percent
GNP (1985)	SDR 374 million US$379 million G$1,613 million
GNP per capita (1985)	SDR 473

Origin of GDP	1982	1983	1984	1985	Prel. 1986
			(percent)		
Agriculture	24.4	25.9	26.2	25.9	27.3
Mining	9.6	6.3	7.6	8.9	8.5
Manufacturing	13.8	12.7	11.7	11.2	11.0
Construction	7.2	7.6	7.4	7.4	7.0
Government	21.6	23.3	22.8	22.6	22.1
Other services	23.4	24.2	24.4	24.0	23.9
Ratios to GDP					
Exports of goods and nonfactor services	54.9	46.0	55.5	53.1	48.0
Imports of goods and nonfactor services	-71.7	-64.6	-64.1	-74.6	-56.2
Current account of the balance of payments	-28.1	-31.6	-22.3	-33.1	-23.8
Central government revenues	37.5	37.8	41.8	40.9	41.9
Central government expenditures	74.1	85.2	88.4	101.2	90.4
Nonfinancial public sector savings	-21.4	-37.3	-29.4	-38.3	-23.0
Nonfinancial public sector overall surplus or deficit (-)	-43.5	-56.1	-50.0	-61.1	-40.9
External public debt (end of year)	159.3	140.0	164.6	154.8	
Gross national savings	0.9	-10.9	0.9	-7.7	0.1
Gross domestic investment	25.4	21.8	24.8	26.8	22.1
Money and quasi-money (end of year) 1/ 2/	111.6	130.3	131.9	132.9	149.6
Annual changes in selected economic indicators					
Real GDP per capita (at factor cost)	-11.1	-10.1	1.3	0.2	1.0
Real GDP at factor cost	-10.4	-9.3	2.1	1.0	2.0
GDP at current prices (market prices)	-9.5	1.5	15.8	15.5	14.5
Domestic expenditure (at current prices)	-14.4	4.5	6.1	24.0	5.4
Investment	-29.1	-12.8	42.2	16.3	-6.4
Consumption	-9.1	9.4	-7.0	26.5	8.9
GDP deflator	3.4	5.8	15.1	14.5	10.6
Consumer prices (annual averages) 3/	20.6	15.2	25.2	15.0	12.0
Central government revenues	-6.5	1.3	29.2	13.0	17.2
Central government expenditures	-8.1	15.8	21.2	32.4	2.1
Money and quasi-money 1/	22.2	18.6	17.2	16.4	28.6
Money	20.3	17.3	23.6	22.2	39.9
Quasi-money 4/	22.8	19.1	15.3	14.5	24.7
Net domestic bank assets 1/	29.8	25.7	35.3	21.0	19.5
Credit to public sector (net)	39.1	28.1	41.6	23.6	19.7
Credit to private sector	15.9	13.2	15.8	14.9	23.0
Merchandise exports (f.o.b., in U.S. dollars)	-29.7	-20.2	12.3	-0.9	1.1
Merchandise imports (c.i.f., in U.S. dollars)	-36.2	-11.4	-13.7	22.4	-12.7

	1982	1983	1984	1985	Prel. 1986
Central government finances		(millions of Guyana dollars)			
Total revenues	542.7	550.0	710.7	802.9	941.1
Total expenditures	1,070.8	1,239.8	1,502.1	1,988.1	2,030.5
Current account surplus or deficit (-)	-248.3	-452.6	-582.0	-757.9	-723.3
Overall surplus or deficit (-)	-528.1	-689.8	-791.4	-1,185.2	-1,089.4
External financing (net)	141.2	68.2	78.4	174.5	171.1
Internal financing (net)	386.9	621.6	713.0	1,010.7	918.3
Balance of payments		(millions of U.S. dollars)			
Merchandise exports, f.o.b.	242.2	193.2	217.0	215.0	217.4
Merchandise imports, c.i.f.	-280.4	-248.3	-214.3	-262.2	-228.8
Investment income (net)	-54.0	-64.7	-67.3	-82.3	-88.2
Other services and transfers (net)	-43.1	-34.8	-34.8	-23.5	-24.8
Balance on current and transfer accounts	-135.3	-154.6	-99.4	-153.0	-124.4
Public sector capital (net)	40.8	0.5	-4.6	19.4	-8.2
Private capital and errors and omissions 5/ (net)	-34.7	-7.9	-8.9	-43.0	--
Change in arrears (increase +)	124.7	178.2	129.2	188.1	147.6
Change in net reserves of banking system and public sector (increase -)	4.5	-16.2	-16.3	-11.5	-15.0

International reserve position 6/	Dec. 31 1982	1983	1984	1985	1986
			(millions of SDRs)		
Central bank (net) 7/	-220.8	-307.6	-401.6	-507.1	-538.9
Central bank (gross)	8.5	6.4	5.0	6.6	6.5
Rest of banking system (net)	-15.2	-13.0	-8.7	-6.8	-7.0

1/ Monetary system.
2/ Includes other liabilities.
3/ Official CPI.
4/ Defined as Time and Savings Deposits and other liabilities.
5/ Includes exchange profits and losses and profits from sale of gold by IMF.
6/ At exchange rates prevailing at the end of the period.
7/ Includes total liabilities on account of external arrears.

Financial Relations of the World Bank Group with Guyana

IBRD/IDA lending operations as of August 31, 1986	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
	(In millions of U.S. dollars)			
Education	8.30	7.03	--	--
Agriculture and forestry	22.90	5.86		6.98
Transportation	--	4.40	--	--
Program and Structural Adjustment Loans	19.00	12.18	--	--
Sea defense	10.09	--	--	--
Energy	13.75	0.84	0.25	1.07
Other	2.07	--	--	--
Total	76.11	30.31	0.25	8.05

Amortization payments:	US$13.18 milion
Debt outstanding, including undisbursed:	US$101.54 million
Commitments September 1985-August 1986:	US$7.0 million
IFC investments:	US$7.0 million
Disbursements September 1985-August 1986	US$3.50 million
Technical assistance	A Technical Assistance Credit of US$7 million for the bauxite industry was approved by the Board on August 6, 1986 but has not yet been signed because of Guyana's overdue payments obligations to the Bank Group. The IBRD continues to provide technical assistance to Guyana through its project lending operations.
Recent economic and sector mission:	The regular economic mission visited Guyana in September 1986. The report is being prepared.
Aid Consultative Group:	The eighth meeting of the Caribbean Group for Cooperation in Economic Development will be held under the chairmanship of the IBRD in January 1986 in Washington D.C.

GUYANA - Statistical Issues

1. Outstanding Statistical Issues

Prices, production, and trade

A technical assistance mission to review data on prices, production and external trade visited Guyana in May 1985 and the mission's report was sent to the authorities in October 1985. While the Bureau of Statistics received in May 1986 a favorable comment on the report from the Minister of Finance, the mission was informed by the Chief Statistician of Guyana that no action or decision to implement the recommendations contained in the report had been taken.

The mission received more recent data on the consumer price index, i.e., through December 1985. However, the authorities do not consider these data sufficiently reliable to be published in Guyana or reported in the *IFS*.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Guyana in the November 1986 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 an infrequent basis. The coverage and currentness of the data could be improved.

Status of IFS Data

		Latest Data in November 1986 IFS
Real Sector	- National Accounts	1985
	- Prices (CPI)	September 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a
Government Finance	- Deficit/Surplus	1985
	- Financing	1985
	- Debt	1985
Monetary Accounts	- Monetary Authorities	July 1986
	- Deposit Money Banks	June 1986
	- Other Financial Institutions	June 1986
Interest Rates	- Discount Rate	February 1986
	- Bank Lending/ Deposit Rate	February 1986
	- Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values--exports	June 1986
	--imports	March 1984
	Unit Value of Exports	June 1986 1/
	- Balance of Payments	1985
	- International Reserves	Q3 1985
	- Exchange Rates	September 1986

1/ For bauxite and rice only.