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October 30, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Guyana, which will be brought to the agenda for discussion on a date to be announced.

Ms. Jul (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 1985 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 M. Caiola and W. A. Beveridge

October 29, 1985

I. Introduction

The 1985 Article IV consultation discussions 1/ with Guyana were conducted in Georgetown during the period August 27 - September 6, 1985. Representatives of Guyana in the discussions included the Minister of Finance and other officials of the Ministry of Finance, the Governor and other officials of the Bank of Guyana, the Chairman and other officials of the State Planning Board, and officials of the Ministry of Trade. The mission also met officials of the Guyana Mining Enterprise (GUYMINE), the Guyana Sugar Corporation (GUYSUCO), the Guyana Rice Administration, the National Energy Commission, the Guyana Electricity Corporation, and the Guyana State Corporation (GUYSTAC) group. The mission consisted of Ana María Jul (Head), Toma Gudac, Doris Ross, Karnit Flug, Kazuo Yokokawa (all WHD), and Teri Burlingame (Secretary-BCS).

The previous consultation discussions with Guyana were held in May 1984. The relevant documents, SM/84/158 (7/3/84) and SM/84/169 (7/20/84), were considered by the Executive Board on August 31, 1984 (EBM/84/131). At that time, Directors urged the authorities to implement without delay the policies needed to redress Guyana's economic situation and to eliminate external arrears. In particular, they mentioned the need to correct large domestic and external imbalances and to adopt a realistic exchange rate. Directors also reiterated their support for the provision of technical assistance by the Fund. 2/

Guyana has been in arrears to the Fund since April 1983; on September 30, 1985 the overdue obligations amounted to SDR 25.1 million. On May 15, 1985, and after concluding the fourth review of its

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1/ Guyana accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement on December 27, 1966.

2/ The Chairman's summing up at the conclusion of the 1984 Article IV consultation is presented in Appendix II.

decision to limit Guyana's right to use the general resources of the Fund because of overdue obligations to the Fund, the Executive Board declared Guyana ineligible to use the Fund's general resources (EBM/85/73).

II. Background to the Discussions

Since the mid-1970s Guyana has been experiencing sharp declines in output and severe domestic and external imbalances. After stagnating in the 1975-81 period, real GDP dropped by about one fifth in 1982-83 (Table 1). There was, however, a rebound in activity in 1984, with real GDP growing by an estimated 5 1/2 percent. The overall deficit of the nonfinancial public sector increased from 13 percent of GDP in 1974-75 to 52 percent in 1984. The balance of payments deficit on current account rose from 3 percent of GDP in 1974-75 to an average of 31 percent in 1982-83. In 1984, the external current account deficit fell to about 22 percent of GDP, largely as a consequence of Guyana's reduced ability to increase payments arrears, which at the end of 1984 stood at the equivalent of almost three times 1984 exports. By end-1984, total external debt (including arrears) amounted to US$1.3 billion 1/ or about three times 1984 GDP.

A number of factors contributed to the deterioration of the economy. Weak foreign demand and a decline in international prices had adverse effects on the sugar and bauxite sectors. The increase in oil prices had particularly negative consequences on Guyana because of the heavy dependence of the bauxite industry on imported energy. Adverse weather conditions curtailed agricultural output, mainly of major export crops such as rice and sugar. Unstable labor relations, especially in the period 1978-80, led to frequent and sometimes protracted work stoppages, particularly in the sugar and bauxite industries.

While these factors were important, Guyana's poor economic performance is attributable in large measure to inappropriate domestic policies. Efforts to adjust the public finances were either short lived or insufficient to reduce excess demand pressures. As domestic and external imbalances worsened, increased reliance was placed on quantitative restrictions and price controls. The resulting distortions in prices discriminated against private farmers and entrepreneurs and impeded a rational management of the public sector enterprises. Also, resources available for investment were spread too thinly among too many projects with long delays occurring in their implementation, and with few projects being brought to completion. Moreover, as the availability of foreign exchange declined, breakdowns of equipment and production problems related to the lack of imported spare parts and inputs became more frequent.

1/ Excludes private debt unless this debt is in arrears and the corresponding deposits have been made at the Central Bank.

Table 1. Guyana: Selected Macroeconomic Indicators

	1980	1981	1982	1983	Prel. 1984	Proj. 1985
	(Annual percentage change)					
Real GDP at factor cost	1.6	-0.3	-10.4	-9.6	5.5	3.4
Real GDP per capita, factor cost	0.8	-1.1	-11.1	-10.4	4.7	2.6
Real GDP at market prices	1.8	4.4	-12.4	-5.3	4.9	2.0
GDP at current market prices	13.7	5.9	-9.5	0.6	16.8	12.2
GDP implicit deflator (at factor cost)	11.5	1.4	3.4	6.2	11.4	10.0
National income at current prices	13.4	-4.5	-10.1	-6.9	22.7	1.0
Terms of trade	3.1	-10.1	-4.8	-5.0	3.0	-0.4
Urban consumer price index						
End of period	8.5	29.0	19.3	11.1	30.0 1/	15.0
Period average	14.1	22.2	20.6	15.2	25.0 1/	18.0
	(As percent of GDP)					
Nonfinancial public sector savings	-3.2	-24.2	-28.3	-41.0	-38.1	-38.7
Nonfinancial public sector overall deficit (-)	-26.6	-50.0	-52.4	-60.4	-51.9	-57.9
Public sector overall deficit (-)2/	-25.7	-48.0	-49.9	-54.7	-44.0	...
Current account of the balance of payments	-17.9	-33.3	-29.3	-32.1	-22.5	-24.5

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

1/ Estimated on the basis of information available up to September 1984.

2/ Includes undistributed profits of Bank of Guyana.

The failure to bring growing fiscal deficits under control and the domestic credit expansion associated with the financing of such deficits, together with the pricing and exchange rate policies followed, led to the depletion of international reserves, overvaluation of the exchange rate, inflationary pressures and, very importantly, to the emergence of a parallel economy. Initially, the expansion of illegal activities centered around foreign exchange transactions and internationally traded goods. Eventually, however, the existence of domestic price controls also led to the extension of the parallel economy to nontraded commodities, particularly agricultural foodstuffs. There are no reliable estimates of the actual value of illegal exports, which reportedly involve gold, diamonds, rice, shrimp, and some light industrial products, or of the volume of domestic economic activity that is channeled outside of official markets. There is general agreement, however, that the scope of the parallel economy has widened steadily.

The growing importance of the parallel economy complicates the analysis of Guyana's economic situation because official statistics have come to give an increasingly distorted picture of the overall economic performance. National accounts data have become increasingly less meaningful, price statistics have ceased to be published (although they are still being computed), and the balance of payments accounts tell only a partial story as they fail to reflect the illegal foreign trade activity. At present, the exchange rate in the parallel market is reported to be between G$12 and G$15 per U.S. dollar, compared with the official rate of G$4.15 per U.S. dollar.

The sharp drop in real GDP during 1982 and 1983 referred to above, resulted from a 50 percent contraction in bauxite production and a 30 percent decline in manufacturing output. Real GDP expanded by 5 1/2 percent in 1984, however, reflecting to a large extent a substantial recovery in the bauxite sector as well as in the production of rice. Production in the bauxite sector expanded by about 50 percent in 1984 but remained one third below the 1980 level, while rice production increased by one fourth, to 8 percent above the 1980 level. Prices, as measured by the official (but no longer published) Consumer Price Index, are estimated to have increased by 30 percent in 1984 compared to only 11 percent in 1983. Part of this increase stems from the readjustment of many administered and controlled prices that occurred in 1984.

After deteriorating sharply in the period 1980-83, the public finances experienced some improvement relative to GDP in 1984. The overall deficit of the nonfinancial public sector declined from the equivalent of 60 percent of GDP in 1983 to 52 percent of GDP in 1984, although it still remained slightly above the average deficit for 1981-82 (Table 2). An increasing share of this deficit resulted from domestic interest payments by the Central Government, part of which was retained by the Bank of Guyana in the form of undistributed profits. If

Table 2. Guyana: Public Sector Operations 1/

	1980	1981	1982	1983	Prel. 1984	Proj. 1985
	(In millions of Guyana dollars)					
Central Government						
Revenue 2/	464.3	581.2	543.1	551.7	640.5	719.0
Expenditures	874.1	1,166.3	1,069.5	1,195.1	1,403.2	1,678.0
Current 3/	(613.9)	(806.2)	(786.4)	(958.7)	(1,217.8)	(1,348.0)4/
Capital 5/	(260.2)	(360.1)	(283.1)	(236.4)	(185.4)	(330.0)
Overall deficit (-)	-409.8	-585.1	-526.4	-643.4	-762.7	-959.0
Public corporations 6/						
Current balance	105.1	-141.2	-163.0	-188.1	-19.5	-56.0
Capital revenue	21.0	44.1	20.0	38.8	5.1	33.0
Capital expenditures	117.6	115.8	87.6	86.2	105.4	123.0
Overall deficit (-)	8.5	-212.9	-230.6	-235.5	-119.8	-146.0
Nonfinancial public sector						
Overall deficit (-)	-401.3	-798.0	-757.0	-878.9	-882.5	-1,105.0
External financing (net) 7/	(130.0)	(340.8)	(165.4)	(173.1)	(70.1)	(76.0)
Domestic financial system	(345.9)	(281.0)	(636.4)	(634.6)	(825.5)	(930.2)
Other financing	(-74.6)	(176.2)	(-44.8)	(71.2)	(-13.1)	(98.8)
Bank of Guyana						
Undistributed profits	14.2	31.8	34.8	82.5	135.2	...
Public sector						
Overall deficit (-)	-387.1	-766.2	-722.2	-796.4	-747.3	...
	(As percent of GDP)					
Nonfinancial public sector savings	-3.2	-24.2	-28.3	-41.0	-38.1	-38.7
Central Government	(-10.2)	(-15.4)	(-17.1)	(-28.1)	(-37.0)	(-35.8)
Public corporations 6/	(7.0)	(-8.8)	(-11.2)	(-12.9)	(-1.1)	(-2.9)
Nonfinancial public sector overall deficit (-)	-26.6	-50.0	-52.4	-60.4	-51.9	-57.9
Central Government	(-27.2)	(-36.6)	(-36.4)	(-44.2)	(-44.9)	(-50.2)
Public corporations 6/	(0.6)	(-13.4)	(-16.0)	(-16.2)	(-7.0)	(-7.7)
Public sector overall deficit (-)	-25.7	-48.0	-49.9	-54.7	-44.0	...

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

1/ Expenditures on an accrual basis.
2/ Remitted Bank of Guyana profits on an accrual basis.
3/ Includes interest charges in arrears on external debt.
4/ Includes interest charges that the authorities intend to capitalize.
5/ Excludes equity contributions and net lending by the Central Government to public corporations.
6/ Including the National Insurance Scheme (NIS).
7/ Includes arrears.

account is taken of these profits, the deficit of the public sector amounted to 44 percent of GDP in 1984, compared to 55 percent in 1983 and an average of 49 percent in 1981-82. 1/

The improvement in the public finances in 1984 occurred despite a slight widening in the overall deficit of the Central Government. central government revenues increased by 16 percent in 1984 as a consequence mainly of an increase in official external grants that more than offset the negative effects of the parallel economy on current revenues. Total central government expenditures rose by 17 percent, reflecting a 27 percent increase in current expenditures whereas capital expenditures were cut by one fifth. The increase in current expenditures was attributable in part to increased interest payments resulting from the effects of the devaluation of the Guyana dollar on external obligations, and from the increase in the central government debt with the domestic financial system. Purchases of other goods and services by the Central Government expanded by 30 percent in 1984 mainly owing to increasing costs stemming from the devaluation and from the acceleration of inflation.

By contrast, the public corporations 2/ experienced a substantial improvement in their current account position in 1984 and their overall deficit declined by the equivalent of 9 percent of GDP 3/. Operating revenues of the public corporations grew by 17 percent in 1984 mainly as a result of a 65 percent increase in GUYMINE's (bauxite) operating receipts and a 32 percent increase in GUYSUCO's (sugar) receipts. Since the expansion of operating expenditures was contained at 7 percent, the current deficit of the corporations was reduced in 1984 by the equivalent of almost 12 percent of GDP, to only 1 percent of GDP. In turn, reduced growth of the operating expenditures largely reflected the growth of the wage bill by only 5 percent. The corporations granted a 10 percent wage increase on average; however, reductions in employment in 1983 and 1984, particularly in GUYMINE and GUYSUCO, contributed to reduce the growth of the wage bill in 1984. Capital expenditures of the public corporations increased by 22 percent in 1984 as GUYMINE and GUYSUCO more than doubled their investment outlays, while those of the GUYSTAC group dropped by about a fourth.

1/ As the undistributed profits of the Bank of Guyana reduce the expansion of net domestic credit by the corresponding amounts, the overall deficit of the public sector measures more adequately the stance of fiscal policy than that of the nonfinancial public sector.

2/ Including the National Insurance Scheme (NIS).

3/ The assumption of part of the public corporations' debt by the Central Government in 1980 (G$40 million), 1982 (G$475 million), and 1984 (G$378 million) reduced interest payments of the corporations, contributing to their improved performance.

As foreign financing (including accumulation of arrears) dropped sharply in 1984, increased reliance was placed on domestic bank financing. Domestic credit 1/ of the consolidated financial system expanded by 26 percent during 1984, reflecting a 29 percent increase in net credit to the public sector. The growth of credit exceeded the growth of resources accruing to the financial system in the form of currency and deposits, which in 1984 grew by 15 percent. As a result, net international reserves of the financial system dropped by about 80 percent, to a negative US$400 million. 2/

The recorded current account deficit of the balance of payments in 1984 amounted to US$100 million (47 percent of merchandise exports) compared with a deficit of US$156 million (81 percent of exports) in 1983 (Table 3). This improvement resulted from a 9 percent increase in exports, a further cut in imports, and a reduction in interest charges. 3/ The partial recovery of exports in 1984 was the first such growth since 1980, but their value still amounted to only 54 percent of that recorded four years earlier. The decline of imports that occurred in 1984 was the continuation of a trend that began in 1981, and reflected mainly the inability to obtain foreign financing or increase arrears. At US$222 million, 1984 imports were some 44 percent lower than in 1980. After taking into account net capital outflows, the overall balance of payments deficit in 1984 amounted to US$126 million (compared to US$190 million in 1983), and was financed entirely by an increase in external arrears. 4/

As of December 31, 1984 recorded external payments arrears amounted to US$607 million (Table 4). Of this total, commercial arrears amounted to US$129 million, arrears on the servicing of the public external debt to US$140 million, and arrears on the Bank of Guyana's foreign liabilities to US$338 million. This last amount included overdue payment obligations to the Fund of US$14.5 million, unsettled obligations under the Caribbean Multilateral Clearing Facility (CMCF) amounting to US$110 million, and US$150 million owed to Trinidad and Tobago for oil imports. At the end of 1984, gross official reserves were US$5 million, and net international reserves (adding to the net liabilities of the financial system the arrears on commercial and public debt) were a negative US$675 million.

1/ To public and private sectors.
2/ Excluding commercial arrears and arrears on public debt.
3/ Partly due to a reduction in the average interest rate. However, it also reflects data problems, as interest charges do not include interest due on public debt in arrears. Moreover, the quality of the data on interest due on private debt is questionable.
4/ In view of arrears incurred by the Bank of Guyana on its short-term liabilities, total arrears increased by US$158 million in 1984 (US$207 million in 1983).

Table 3. Guyana: Balance of Payments

	1980	1981	1982	1983	Prel. 1984	Proj. 1985
	(In millions of U.S. dollars)					
Current account	-106.1	-189.2	-141.5	-155.8	-99.9	-112.5
Merchandise	-6.9	-95.3	-38.2	-55.0	-10.3	-21.1
Exports, f.o.b.	(389.2)	(344.7)	(242.2)	(193.3)	(211.5)	(215.9)
Imports, c.i.f.	(-396.1)	(-440.0)	(-280.4)	(-248.3)	(-221.8)	(-237.0)
Services and transfers 1/	-99.2	-93.9	-103.3	-100.8	-89.6	-91.4
Capital account 2/	42.0	106.2	34.6	-9.6	-24.1	-16.4
Errors and omissions	-37.2	42.5	-23.6	-25.0	-1.6	--
Special transactions 3/	3.3	4.2	--	--	--	--
Overall balance	-98.0	-36.3	-130.5	-190.4	-125.6	-128.9
Change in net international reserves (increase -) 4/	81.0	-37.9	5.7	-16.3	-32.4	-11.0
Of which: Bank of Guyana	(70.2)	(-42.5)	(-0.4)	(-14.1)	(-27.8)	(-11.0)
Assets 5/	/4.6/	/4.3/	/0.1/	/2.0/	/1.6/	/--/
Liabilities 6/	/-65.6/	/46.8/	/0.5/	/16.1/	/29.4/	/11.0/
Change in arrears (increase +) 7/	17.0	74.2	124.8	206.7	158.0	139.9
	(As percent of GDP)					
Current account balance	-17.9	-33.3	-29.3	-32.1	-22.5	-24.5
Overall balance	-16.6	-6.4	-27.1	-39.3	-28.3	-28.0

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

1/ Excludes interest accrued on public debt in arrears.
2/ Includes scheduled amortizations.
3/ SDR allocations and valuation changes.
4/ Excluding arrears.
5/ No sign means a decrease in assets.
6/ Liabilities that become due and are not paid are computed as arrears. No sign means a decrease in liabilities.
7/ Excludes interest accrued, and not paid, on public debt in arrears.

Table 4. Guyana: External Payments Arrears

(In millions of U.S. dollars)

	December 31					June 30
	1980	1981	1982	1983	1984	1985
Total arrears	43.7	117.9	242.6	449.3	607.3	687.3
Commercial and other current payments 1/	27.6	44.5	93.5	131.4	128.7	131.1
Bank of Guyana arrears	16.1	63.4	119.9	221.4	338.3	394.0
Bilateral deposits	3.4	29.6	34.2	48.5	63.9	63.5
Principal	(--)	(20.0)	(20.0)	(30.0)	(42.4)	(42.4)
Interest	(3.4)	(9.6)	(14.2)	(18.5)	(21.5)	(21.1)
CARICOM clearing facility	12.7	33.8	85.7	106.6	109.7	118.9
Principal	(12.7)	(33.8)	(83.5)	(96.5)	(96.5)	(96.5)
Interest	(--)	(--)	(2.2)	(10.1)	(13.2)	(22.4)
Trinidad and Tobago bilateral account	--	--	--	54.5	150.2	191.7
Principal	(--)	(--)	(--)	(49.4)	(138.1)	(179.6)
Interest	(--)	(--)	(--)	(5.1)	(12.1)	(12.1)
IMF	--	--	--	11.8	14.5	19.9
Outstanding scheduled repurchases	(--)	(--)	(--)	(7.6)	(14.5)	(19.1)
Outstanding scheduled charges	(--)	(--)	(--)	(4.2)	(--)	(0.8)
Public sector debt	--	10.0	29.2	96.5	140.3	162.2
Principal	--	9.8	21.8	74.9	110.0	128.6
Interest 2/	--	0.2	7.4	21.6	30.3	33.6

Sources: Bank of Guyana; and Fund staff estimates.

1/ Excludes arrears on account of merchandise and other current payments without a local currency deposit counterpart, which are estimated at about US$30 million in 1982, US$40 million in 1983 and US$45 million in 1984.

2/ Does not include arrears on interest on public debt in arrears.

Guyana's medium- and long-term external public debt grew rapidly until 1982, when the deterioration of the country's external position brought net external capital inflows to a standstill. Since then, the further growth in the outstanding debt position has reflected mainly the accumulation of arrears. At the end of 1984, the outstanding external debt (including arrears and obligations to the Fund) was US$1.3 billion. 1/ Guyana has virtually limited foreign debt service payments to those arising from the nationalization of foreign companies and from those corresponding to multilateral loans. On commercial bank loans, deferment schedules have been agreed upon on a semiannual basis, but no formal rescheduling has taken place. 2/ In 1984, the ratio of actual debt service payments to exports of goods and services was only 17 percent while on an accrued basis that ratio amounted to 37 percent. 3/

III. Economic Prospects and Policies

The discussions with the authorities concentrated on the outlook for 1985 and on the policy options open to Guyana to redress the present difficult economic situation. In this regard, emphasis was given to the problems affecting supply conditions, in particular in the export sector, and to the means to eliminate the financial imbalances that are affecting the economy. The discussions also focused on the problem of Guyana's overdue obligations to the Fund (see Section IV below).

1. Supply policies

The authorities drew attention to a number of measures already in place aimed at correcting certain structural deficiencies in the main productive sectors. They mentioned, in particular, measures taken in the bauxite and rice sectors and the restructuring of the corporations in the GUYSTAC group to improve managerial practices and increase efficiency. The continuing efforts to correct deficiencies in electricity generation and to streamline public sector operations through further reductions in personnel at the central government level and in some public corporations were also pointed out. In the authorities' view, these efforts were already showing some results as reflected in the increased production of bauxite and rice in 1984. They noted, however, that as long as the acute shortages of foreign exchange were not alleviated by foreign capital inflows, all these efforts would have a limited impact. The reduction in the availability of foreign exchange had compounded production problems by inhibiting the flows of critically needed imported inputs and spare parts. Furthermore, the progressive reduction of investment had led to the deterioration and obsolescence of a significant part of the existing capital stock. Thus, in their view,

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1/ Excluding private debt not in arrears.
2/ Under the circumstances, amortizations due to commercial banks are computed as arrears.
3/ Excludes interest accrued on public debt in arrears.

to restore production it was necessary to obtain foreign resources in amounts sufficient to permit the rehabilitation of the installed capacity and the restocking of inputs and spare parts.

The mission noted the positive results obtained from the measures taken in several important sectors of the economy. The mission recognized the urgency of rehabilitating productive capacity, but pointed out that recourse to foreign capital was justified mainly in the context of overall stabilization efforts. Furthermore, while the adoption of comprehensive adjustment measures could reopen access to external credits, the precarious external debt situation prevented recourse to foreign financing on the scale envisaged by the authorities. There was a need, therefore, to reformulate economic policies in terms of a strategy that would emphasize the generation of domestic savings.

The mission noted that in addition to the factors described by the authorities, output also had been adversely affected by the rigidity of official pricing policies and the insufficient flexibility of the exchange rate arrangements that had been followed. These policies had resulted in prices in the parallel market exceeding official prices by about two to six times, and a sharp appreciation of the Guyana dollar in real effective terms. 1/ In this context, the mission recognized the efforts made by the authorities to liberalize prices and to correct distortions, in particular in 1984 and 1985. Some prices had been freed, administered and controlled prices had been readjusted more often and by significant amounts, almost all subsidies had been eliminated, and the Guyana dollar was devalued, with the effect of the devaluation passed on to domestic prices. However, despite these efforts large discrepancies between official and parallel market prices still prevailed.

In regard to the bauxite sector, the labor force had been reduced by some 30 percent in 1983, leading to a decline in the wage bill of 12 percent in 1984. These savings in operating expenditures had enabled the industry to devote more resources to maintenance work and basic investments. The Government has authorized GUYMINE to retain the foreign exchange it generates; this foreign exchange, however, is still insufficient to cover the company's needs. The Guyanese representatives pointed out that if GUYMINE's production facilities could be rehabilitated as currently planned, it could become a net provider of foreign exchange to the rest of the economy by 1988.

The Government recently concluded an agreement with foreign consultants to provide GUYMINE with on-site technical assistance in the areas of management and marketing. In addition, the World Bank is considering providing an IDA credit of US$6 million, to finance a technical assistance project to study, inter alia, market prospects for new bauxite

1/ The absence of adequate price statistics, and the distortions in the domestic price structure make it difficult to estimate the extent of the overvaluation of the exchange rate.

products. The project will provide a basis for assessing the medium- to long-term prospects for GUYMINE to compete successfully with other suppliers, which have reduced Guyana's share of the market for calcined bauxite from 85 percent in 1979 to less than 50 percent in 1984. If the market studies for these products show a positive response, and the Government undertakes appropriate adjustment policies, the World Bank would be prepared to recommend a major rehabilitation project for the industry, the cost of which could amount to as much as US$100 million. Potential sources of financing might be the European Community, the European Investment Bank, as well as the World Bank.

On the strength of the improvements implemented so far, GUYMINE's operating deficit was cut by more than half in 1984. However, the cyclical downturn in the steel industry, the introduction of synthetic substitutes for aluminum, and generally strong competition in world markets have dimmed prospects for the bauxite sector in 1985. Nonetheless, exports of bauxite are still projected to rise by another 20 percent in 1985 reflecting a 23 percent increase in volume. The increased export earnings notwithstanding, GUYMINE's operating deficit is expected to widen in 1985 because of the expenditures associated with the rehabilitation efforts that are being undertaken.

In the context of a loan agreement with the Inter-American Development Bank, the authorities have adopted a marketing policy that opens direct exports of rice to private producers and millers, except in the case of government-to-government contracts, and a pricing mechanism that takes into consideration export prices in addition to production costs. So far only one private producer has exported rice (in payment for arrears) because exportable production has fallen short of the amounts required to honor government-to-government contracts. This shortfall is attributed to a decline in production, an increase in domestic consumption and, reportedly, smuggling. A committee has been established to set, monitor, and revise the prices of paddy and rice according to the production-cost formula developed together with the IDB. In June 1984 rice prices were increased by 25 percent and effective August 1985 they were raised by 15 percent. Also, while in past years all millers were obliged to deliver their output to the GRB, a system of voluntary sales contracts is in effect at present. Despite the recent price increases, the opportunity cost of rice remains low and the mission noted that further action in rice pricing appeared to be needed in order to curb smuggling and reduce domestic consumption.

In the sugar industry, which is at present Guyana's largest net earner of foreign exchange, there was a major streamlining of personnel in 1983 and the subsidy on domestic consumption was eliminated in 1984. These measures together with the effects of the devaluation of the Guyana dollar reduced the operating deficit of GUYSUCO in 1984, permitting a doubling of capital expenditures. The Guyanese representatives noted that tight managerial control, the implementation of an incentive system which improved workers' efficiency, and higher export receipts resulting from an improved market mix had also contributed to this improvement. In the authorities' view a proper rehabilitation of the sector would require large additional investment outlays.

The domestic price of sugar was increased from G$0.13 to G$0.33 per pound in early 1984, and again to G$0.66 per pound in December 1984, eliminating the subsidy on domestic consumption. Despite a large increase in the unit cost of production caused by the decline in the volume of output that occurred from 1982 to 1984, the Guyanese representatives noted that with the new price structure production costs would be covered, but there would be no margin for the capital outlays that were deemed necessary. Industry officials also indicated that for GUYSUCO to operate in peak form it would need to retain one fourth of its export receipts to purchase equipment and spare parts; the Government, however, had authorized in 1984 a retention of 15 percent only, up from 10 percent in 1983.

The authorities referred also to the gains obtained in other public corporations through rationalization and import substitution efforts. The restructuring of the GUYSTAC group that was effected in 1985 is expected to improve the operating result of these corporations. The mission remarked that for the restructuring to be effective it was necessary that management and supervisory capacities be improved, and that managers should be freed in their day-to-day decisions from interference by supervisory councils or the GUYSTAC Secretariat. The Guyanese representatives said that under the new scheme the corporations will have greater autonomy, including the hiring and firing of employees.

2. Price and income policies

The Guyanese authorities noted that the scope of price controls has been reduced, that controls now applied mainly to basic imported products, and that administered prices were being adjusted frequently to reflect cost increases. There were a few subsidies left to cover losses of inefficient public corporations, but that issue was also being addressed.

The mission pointed out that the slowness in adjusting official prices and the lack of attention to supply and demand elements in pricing decisions had given rise to severe distortions in the domestic price system and had promoted the expansion of the parallel economy. Moreover, under present pricing policies there was still a wide differential between official prices and those in the parallel economy. The authorities noted that pricing and import restrictions were used for rationing in a way that was perceived as fair. They were sensitive to the economic consequences of the distortions created, but considered them a relatively small price for avoiding social disorders, which could occur if the rationing was effected through the liberalization of prices. In their view, price controls were the necessary counterpart of restrictions on imports. The mission stressed that this approach in itself would aggravate distortions and diminish the opportunity of restoring a viable economy in the medium term.

The authorities indicated that wages in the public corporations were frozen in the 1981-83 period. In December 1984 a wage adjustment of 10 percent, retroactive to January 1, 1984, was granted to public corporations employees although no agreement was reached with the Trade Union Congress (TUC). Also at that time, wages in the Central Government were increased (for the first time in several years) by 20 to 27 percent, with the pay scales reduced from 40 to 16. The TUC had demanded an increase in the minimum wage to G$25 per day to restore in full, lost purchasing power since the early 1980s, while the Government granted an increase to only G$15.10 per day in December 1984, without prejudice of the final outcome of the negotiation. The increase was the maximum considered feasible given the state of the public sector finances.

The authorities noted also that public sector employment had declined by about 20 percent in the past few years. Activity in the private sector had suffered as a result of the lack of imported inputs permitting in some cases only part-time production (e.g. textiles). They argued, however, that there was no evidence of a substantial increase in open unemployment; they attributed this fact to a decline in the labor force participation rate and to absorption of labor by the parallel economy.

3. Domestic financial policies

The authorities emphasized the domestic adjustment measures taken in the fiscal area in recent years. In addition to the fiscal impact of the measures implemented in the price, wage, and exchange rate areas, they pointed to the restrictions on expenditures that resulted in reductions in the number of public sector employees, in stricter expenditure controls for government activities, and in cuts in investment outlays. In their view, the deterioration in the public finances was by and large attributable to exogenous developments affecting the main export sectors, and the ensuing shortage of foreign exchange that was affecting adversely the performance of public and private corporations. Nevertheless, the authorities shared the mission's concern with regard to the fiscal situation, and agreed that measures to reduce the overall deficit of the public sector were urgently required.

For 1985 the overall deficit of the nonfinancial public sector was expected to widen to the equivalent of about 58 percent of GDP, reflecting a large planned increase in capital expenditures (see Table 2). This deterioration would be by and large the consequence of a further weakening of the finances of the Central Government, with the overall deficit of the public corporations increasing only marginally.

Revenues of the Central Government were expected to grow at a somewhat slower pace than in 1984 (12 percent compared with 16 percent) as a result of the stagnation of official external grants. Current expenditures, however, also would expand at a slower pace (11 percent) than in recent years, as the growth in the wage bill would taper off, and as external interest charges would decline somewhat. Total central government expenditures were projected to increase by 20 percent, reflecting a 78 percent increase in capital expenditures directed to the financing of investment projects in agriculture, forestry, and power supply distribution lines.

The projected improvement in the current account of the Central Government was expected to be offset in part by a deterioration of about 2 percent of GDP in the current account of the rest of the nonfinancial public sector. The increase in the current account deficit of the corporations would occur despite a projected increase of 15 percent in operating receipts, because current expenditures were expected to expand by 17 percent, mainly on account of a projected sharp increase in interest charges. Capital expenditures of public corporations were projected to grow by about 17 percent.

The mission argued that despite the adjustment measures taken, large imbalances remained because, thus far, most of the measures implemented had not been sufficiently strong or applied in a steady manner. Also, as these measures were not part of a comprehensive adjustment package, their positive impact had been diluted over time. The mission therefore urged the authorities to take strong measures to bring the operations of the public sector under control. The mission pointed out that there was not much room to increase central government revenues as long as there was no significant increase in recorded domestic activity. Thus, pending changes in pricing policies that could reduce incentives for illegal activities, a sharp reduction in public expenditures would be needed to bring the deficit down to levels consistent with sustainable amounts of financing from the domestic banking system. The mission noted that cuts in current expenditures should be favored over cuts in investment expenditures, in particular capital expenditures of the public corporations, in view of their effects on capacity rehabilitation and production, and because some of these expenditures were tied to flows of foreign financing. The mission emphasized that even in the event that the Government did not adopt a comprehensive stabilization program, expenditure restraint was needed just to prevent a further worsening of the imbalances.

The mission also noted that because the major public enterprises produced mainly for the export market, a devaluation would improve the fiscal outcome, assuming that its effects would not be offset by wage increases. Furthermore, a realistic level for the exchange rate together with the elimination of import restrictions and a restructuring of the domestic price system would lead to the eventual disappearance of the parallel economy and this would contribute to the restoration of balance to the public finances.

The bulk of the overall nonfinancial public sector deficit will need to be financed by credit from the domestic banking system. Accordingly, net domestic assets of the financial system were projected to show another large increase in 1985. Given projections of net international reserves and of growth of the nonmonetary liabilities to the private sector, the overall credit expansion was projected to result in an increase of M-1 by about 30 percent, compared with 24 percent in 1984 and 17 percent in 1983. The distortions existing in Guyana's price structure and the uncertainty that prevails about the size of the parallel economy make it difficult to interpret the evolution of monetary aggregates. Measured in relation to the official estimates for GDP, total liabilities of the financial system to the private sector appear to have almost doubled from 1980 to 1984; however, in the circumstances of Guyana, this is likely to reflect more the growing inadequacy of measured GDP than an apparent sharp decline in the velocity of circulation of money and quasi-money.

Although interest rates were raised in recent years, they are (at 11.5 to 14.5 percent for liabilities and at 14 to 15 percent for assets) still substantially below domestic inflation. Despite these negative real interest rates, credit extended to the private sector by the banking system fell sharply in real terms in the 1981-84 period, an average of 4 percent decline a year when the official price index is used. It appears that the lack of profitable investment opportunities in the official economy has depressed the private sector's demand for credit. At the same time, even though banks show excess liquidity, they are reluctant to lend for activities in the parallel economy and are not willing to expand credit to the public sector further. Banks have therefore come to the point where they are taking measures to slow down the accumulation of private sector deposits.

4. Balance of payments prospects and policies

Total exports were projected to grow for the second year in a row in 1985, but by only 2 percent. Sharp declines were projected for rice and sugar exports that would offset the increase by 20 percent projected for bauxite exports (see Table 3). Adverse weather conditions would result in lower production and exports of rice, while realized sugar export prices were expected to decline because of a different market mix. Total imports were projected to grow by 7 percent; this projection allowed for larger outlays for petroleum and an increase in other imports to keep essential activity going. 1/ The authorities noted that ultimately the actual level of imports would be determined by the availability of foreign exchange and the role played by countertrade

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1/ It is to be noted that the value of registered imports is somewhat underestimated as "barrel goods" imports (goods shipped by Guyanese residing abroad) are computed at a nominal value.

agreements. The current account deficit of the balance of payments was projected to deteriorate to US$112.5 million (or the equivalent of 24.5 percent of GDP) in 1985.

Net capital inflows were expected to continue to be negative, despite an increase in disbursements of almost US$16 million (mainly on account of IDB financing), and the overall balance of payments deficit was projected to widen slightly to US$129 million (remaining at the equivalent of 28 percent of GDP). As no financing sources for this deficit had been identified, by end-1985 total arrears would amount to US$747 million or three-and-a-half times the value of exports projected for 1985.

The exchange rate was adjusted from G$3 to G$3.75 per U.S. dollar in January 1984 and to G$4.15 per U.S. dollar in October 1984. Since that time the exchange rate has been revised on a weekly basis, supposedly to reflect the movement of the Guyana dollar in terms of a basket of currencies, but by and large the rate has been kept at around G$4.30 per U.S. dollar. Moreover, on August 19, 1985 the rate was appreciated back to G$4.15 per U.S. dollar.

The mission pointed out that although efforts had been made to correct certain weaknesses in the export sector, progress as regard fiscal and exchange rate policies had been slow and was clearly insufficient to redress the deteriorating external situation. In particular, the mission drew attention to the sizable real appreciation of the Guyana dollar that occurred over the past few years, with the 30 percent devaluation implemented in 1984 doing little to change the situation. The mission expressed concern about the recent nominal appreciation of the exchange rate vis-a-vis the U.S. dollar considering it a step backwards, not only on account of its direct impact on the economy, but because it sent the wrong signals.

The mission emphasized that the establishment of a realistic exchange rate was essential for the restoration of appropriate incentives and the elimination of the parallel economy, and had to be seen as a fundamental element of any adjustment and reactivation plan. The mission explored with the authorities ways to approximate a sustainable exchange rate over a reasonably short period of time, and examined a stepwise approach as an alternative to establishing a freely floating rate. It was stressed that for such an exchange rate policy to work it required concurrent application of restrained fiscal and monetary policies to achieve a change in the price structure without lasting inflationary consequences.

The authorities stressed the political difficulties of implementing a major devaluation unless foreign financing, which would permit an increase in capacity utilization, became available as a result. They reiterated their concern as to the negative effects of a devaluation on real wages and on the financial position of public enterprises, especially those that were net foreign exchange users. In their view, the recapturing of the economic activity that takes place at present in the

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parallel economy would be of limited significance since the bulk of foreign exchange generating activities, such as bauxite, sugar and rice, were already under government control. Furthermore, Guyana could produce little without considerable recourse to imported inputs, and output in sectors such as rice and sugar depended much more on weather and availability of fertilizers and spares than on prices and the exchange rate. The authorities dismissed the importance of the latest movement in the exchange rate pointing out that the important effect of pegging to a basket of currencies had been to free the exchange rate policy from the political myth of fixed exchange rates and to give them more flexibility.

The mission noted that even after taking into account the particular circumstances of the Guyanese economy, an adjustment of the exchange rate would help strengthen the balance of payments, restore economic efficiency, and improve the fiscal position. While the improvement in the trade account could take time, the capital account would be likely to react sooner as the attitude of creditors and donors toward Guyana could well improve if a more decisive adjustment effort was undertaken. More stable financial conditions would contribute to the generation of domestic savings, to capital formation, and to a more efficient allocation of resources, resulting in higher rates of growth. Moreover, credible exchange rate and other policies would assist in stemming capital flight, and in curbing smuggling.

Since 1981 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 was reduced significantly and now includes mainly selected capital goods, spare parts, raw materials, and pharmaceuticals. Currently, applications for import licenses are generally not approved for consumer goods nor for commodities for which local substitutes exist. 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, Section 2(a), are evidenced by increasing payments arrears and discretionary exchange licensing. Moreover, Guyana maintains a multiple currency practice arising from the introduction of a special rate of exchange to official purchases of gold from producers, which is subject to the Fund's approval under Article VIII, Section 3. The exchange restrictions and the multiple currency practice have not been approved by the Executive Board.

In response to the severe shortage of foreign exchange, Guyana has also resorted increasingly to countertrade agreements. The assessment of the significance and nature of these agreements was not possible in view of the lack of information available to the mission, both with respect to the values and prices incorporated in them. The mission noted that these arrangements are likely to affect negatively Guyana's capacity to meet its outstanding financial obligations by pre-empting future export earnings. The authorities disagreed with the mission and argued that countertrade practices were used to sell Guyanese products that would not find a buyer otherwise.

IV. Overdue Payments to the Fund

Guyana's current difficulties in meeting its financial obligations to the Fund began in April 1983. Since then, Guyana has made a number of payments which settled an obligation to repurchase due on April 29, 1983, restored a current position in the SDR Department, and effected partial settlement of semiannual charges. Other than those payments, Guyana has not discharged any obligation to the Fund that became due after April 29, 1983.

As of September 30, 1985 the overdue obligations in the General Department were as follows:

Type of Obligations	Due Date	SDR Amount
CF repurchase	May 31, 1983	187,500
EFF repurchase	June 27, 1983	1,078,125
CF repurchase	July 15, 1983	781,250
CF repurchase	July 29, 1983	1,093,750
CF repurchase	October 14, 1983	781,250
EFF repurchase	December 27, 1983	1,078,125
CF repurchase	January 16, 1984	781,250
EFF repurchase	February 3, 1984	710,938
CF repurchase	April 16, 1984	781,250
EFF repurchase	May 11, 1984	1,062,500
EFF repurchase	June 27, 1984	1,078,125
CF repurchase	July 16, 1984	781,250
EFF repurchase	August 3, 1984	710,938
CF repurchase	October 16, 1984	781,250
EFF repurchase	November 9, 1984	1,062,500
EFF repurchase	December 27, 1984	1,078,125
EFF repurchase	January 14, 1985	1,006,250
CF repurchase	January 16, 1985	781,250
EFF repurchase	February 5, 1985	710,938
Quarterly charges	February 6, 1985	762,727
EFF repurchase	May 10, 1985	553,270
EFF repurchase	May 10, 1985	1,062,500
EFF repurchase	June 27 1985	114,583
EFF repurchase	June 27, 1985	1,078,125
EFF repurchase	July 12, 1985	1,006,250
Semiannual charges	July 12, 1985	1,645,668
EFF repurchase	August 2, 1985	1,078,125
EFF repurchase	August 2, 1985	710,938
Quarterly charges	August 6, 1985	740,349
Total		25,079,099

As of September 30, 1985, Guyana's outstanding use of Fund credit--including overdue repurchases of SDR 21.9 million--amounted to SDR 71.7 million, of which SDR 29.3 million corresponds to purchases under the extended Fund facility, SDR 29.8 million under the supplementary financing facility, and the remaining SDR 12.7 million under the decision on compensatory financing. Charges and repurchase obligations coming due in the last quarter of 1985 amount to about SDR 4.3 million, while those coming due in January-August 1986 amount to about SDR 17.8 million (projected at present rates of interest and periodic charges).

At the Executive Board meeting on April 5, 1984, Executive Directors noted the Managing Director's complaint under Rule K-1 of the Fund's Rules and Regulations, and decided to consider the matter of the complaint on June 6, 1984. Executive Directors also agreed that the Managing Director should communicate in writing the Board's concerns to the President of Guyana. The Managing Director's letter and the reply from the President of Guyana were circulated for the information of Executive Directors (EBS/84/127, June 4, 1984). At the meeting on June 6, 1984 the Executive Board decided, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Guyana shall not make use of the general resources of the Fund until such time as Guyana is current on its obligations relating to repurchases and the payment of charges in the General Department. This decision was reviewed by the Executive Board in connection with the 1984 Article IV consultation with Guyana (EBS/84/47 Supplement 4, 8/29/84). Further reviews of this decision took place November 30, 1984 and February 15, 1985. For the Executive Board meeting on November 30, 1984 Directors had received a copy of a cable sent by the Guyanese authorities in which the authorities estimated that US$6.3 million would be paid in November-December 1984, and an additional US$25 million during 1985. A fourth and final review of the June 6, 1984 decision was conducted by the Executive Board on May 15, 1985. On that occasion, the Executive Board declared Guyana ineligible to use the general resources of the Fund (EBS/85/119 Supplement 1, 5/13/85) pursuant to Article XXVI, Section 2(a).

The mission discussed with the authorities the problem of Guyana's overdue financial obligations to the Fund. The mission stated that from the Fund's point of view it was an extremely serious matter that the authorities had neither discharged their overdue financial obligations to the Fund nor were implementing policies that would facilitate a prompt repayment of such obligations. The mission regretted that prospects for such a repayment had dimmed in view of the authorities' decision to reduce planned payments to the Fund in 1985 to US$7.7 million from the US$25 million that had been planned in November 1984. 1/ Although recognizing the measures that have been taken in several important sectors of the economy, the mission stressed the need for the timely adoption by Guyana of a strong economic and financial adjustment program that would restore Guyana's capacity to make payments to the

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1/ Actual payments through September 1985 amounted to US$4 million.

Fund. In accordance with the findings of the mission, the adjustment program would require a reformulation of Guyana's economic and financial policies in terms of a strategy that should put far more reliance on domestic savings; a strong fiscal policy, aimed primarily at reducing expenditure to generate these savings; and a more realistic exchange rate and price structure to ensure greater efficiency, economic revival, and a strengthening of the external position.

The authorities emphasized the seriousness with which they regard their arrears to the Fund and reiterated their intention to honor these obligations. They stated, however, that the present and prospective availability of foreign exchange did not permit them to effect payment of the overdue amounts. In particular, they stressed that under present circumstances, further payments would reduce Guyana's future capacity to pay and would be therefore self-defeating. The Guyanese representatives emphasized that it was their intention to continue to implement adjustment measures and that they were willing to explore further measures to address the concerns raised by the mission. However, the mission was unable to conclude that policy initiatives of the necessary strength were in prospect.

V. Medium-Term Outlook

In the present circumstances of Guyana it is very difficult to develop a quantitative medium-term scenario. In the staff's view, the present extraordinarily difficult economic position of Guyana is already unsustainable. In the external area, the existing situation is precariously maintained by the accumulation of payments arrears and Guyana faces the threat of a further major drop of imports in the event that the possibility to continue accumulating these arrears vanishes. Such a cutback of imports would further impair the supply capability of the economy and would lead to social problems. In the domestic area, the size of the parallel economy could well widen to proportions that critically reduce the scope for official economic actions.

Alternatives to this scenario would depend on the timing and nature of the policy response of the authorities. The likely course of action of the authorities is still unclear as the development of policy alternatives will be determined not only by the size of the present difficulties but also by the existing political limitations to the authorities' actions. A quantification of such alternatives is further complicated by the uncertainties surrounding both the scope of the parallel economy and the speed at which transactions at present in this economy could revert to official channels.

VI. Staff Appraisal

Since the mid-1970s, Guyana's economic and financial situation has deteriorated sharply, in part as a consequence of exogenous factors but also owing to the inadequacy of government policies. Aggregate demand has exceeded output by margins that have been shown to be unsustainable, and the price structure has been severely distorted. This has resulted in a major balance of payments crisis with widespread shortages of industrial inputs and essential foodstuffs, in the accumulation of large external arrears, and in the emergence of a rapidly growing underground economy.

While some substantive measures have been implemented on the supply side, efforts to tighten demand have met with little success. The overall deficit of the nonfinancial public sector amounted to 52 percent of GDP in 1984, and it is expected to increase to 58 percent of GDP in 1985. The large fiscal deficits have been largely accommodated through an expansionary credit policy that, in turn, has resulted in the depletion of the country's international reserves and the accumulation of large external payments arrears. In recent years, the deficit of the current account of the balance of payments amounted to an average of 29 percent of GDP, which the country has been unable to finance with normal capital flows. The external accounts are projected to deteriorate again in 1985, with arrears continuing to accumulate. At the same time, output has declined in all sectors of the economy, but particularly in the main export sectors--bauxite, rice, and sugar. According to official estimates, real GDP declined by some 20 percent from 1976 to 1984, notwithstanding a 5 1/2 percent growth in 1984.

It is the view of the staff that the authorities need to introduce fundamental changes in their current economic and financial policies as well as in their medium-term growth strategy. The reorganizational measures and changes in pricing and exchange rate policies that have been implemented were steps in the right direction, however, these measures have not constituted a comprehensive package and, in many instances, have fallen short of what was required.

In present circumstances, Guyana should adopt without further delay a comprehensive adjustment program aimed at restoring internal and external equilibrium, thus setting the stage for the resumption of growth on a sustainable basis. In particular, in view of the high level of external arrears and the very limited access that Guyana would have to foreign borrowing, policies should be aimed at strengthening domestic savings. Even if in the short run the response of the trade flows to a major exchange rate action may be small given present distortions, the adoption of a comprehensive adjustment program can be expected to enable Guyana to re-establish some access to external credits.

In view of the central position that the state occupies at present in the Guyanese economy, the public sector will need to play a major role in the adjustment process. To this end a sharp reduction in public expenditures is needed, because there is not much scope to increase taxes as long as there is no significant increase in recorded economic activity. Implementation of a restrained fiscal policy would reduce the deficit to levels that would help the Bank of Guyana achieve adequate control over the expansion of monetary aggregates, and would permit a progressive liberalization of import restrictions as well as of prices. A flexible approach to interest rates would assist in the achievement of these objectives.

The staff believes, however, that no measure of fiscal and monetary restraint could redress the present situation as long as the distortions that gave rise to the parallel economy remain in existence. Recent efforts to introduce greater flexibility to the domestic price system are in the right direction but should be accelerated. A key source of distortion is the highly overvalued exchange rate, and while the adjustment of the rate that took place in 1984 is welcome, further substantial adjustment is required. The establishment and maintenance of a realistic level for the exchange rate is essential to restore an adequate structure of relative prices and crucial to encourage private sector initiatives. Adjustment of the exchange rate would also result in a significant improvement of the fiscal outcome, provided that its price effects are allowed to be reflected throughout the economy and that appropriately restrained incomes and demand policies are pursued.

The staff believes that without the necessary policy changes even the current reduced level of imports may drop sharply as still available foreign financing dries up completely, and that the scope for effective policy action by the authorities will continue to be reduced as the parallel economy continues to expand. The adoption of a comprehensive stabilization program involving far-reaching structural changes and strong adjustment measures could help bring about a viable balance of payments position, and would set the stage for the resumption of growth on a sustainable basis. The staff urges the authorities to adopt without delay such a comprehensive stabilization effort, which would also make possible the repayment of Guyana's overdue obligations to the Fund.

Guyana operates a restrictive import licensing system in which importation of a wide range of goods and services is banned; engages in a multiple currency practice; and retains comprehensive restrictions 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 facilitate the elimination of exchange restrictions and practices that are subject to approval by the Fund under the provisions of Article VIII, Sections 2(a) and 3 as soon as possible. In the meantime, the staff does not recommend that the Executive Board approve the retention by Guyana of exchange restrictions and the multiple currency practice.

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

Guyana - Fund Relations
(As of September 30, 1985)

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 September 30, 1985)

	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:	71.74	145.81
Of which: CFF	12.68	25.77
Buffer stock	--	--
Credit tranche	--	--
EFF	59.06	120.04
Of which: from borrowed resources (SFF)	29.78	60.54
(d) Reserve tranche position	--	--
(e) Current operational budget	--	--
(f) Lending to the Fund	--	--

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: (October 16, 1985)	SDR 25.08 million
Of which:	
CFF repurchases	SDR 6.75 million
EFF repurchases	SDR 15.18 million
Semiannual charges	SDR 1.65 million
Quarterly charges	SDR 1.50 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 of 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. Since then the rate is revised weekly. On July 1, 1985 the value of the basket was raised to G$15.75 and the rate presently stands at G$4.15 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 last Article IV consultation was concluded by the Executive Board on August 31, 1984 (SUR/84/9, 9/6/84); the existing restrictions on payments and transfers for current international transactions were not approved by the Executive Board.

IX. Technical Assistance

A staff member of the Bureau of Statistics visited Georgetown from January 10 to 21, 1983 to document 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.

From January 21-31, 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 during July 8-25, 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 that the tax system be simplified and its economic impact rationalized.

A staff member of the Bureau of Statistics visited Georgetown during May 14-25, 1985 to review the methodology underlying the compilation of the existing unreliable CPI and recommend procedures for constructing a new index.

Policy Developments in the Light of the Recommendations
Contained in the Summing up at the Conclusion
of the 1984 Article IV Consultation with Guyana,
EBM/84/131, August 31, 1984

In the Executive Board's discussion at the conclusion of the 1984 Article IV consultation with Guyana, Directors:

- Urged the authorities to adopt without delay the measures needed to redress the situation and to implement policies that would permit the elimination of external payments arrears. Directors mentioned in particular the extremely large public sector deficit and the attendant expansionary stance of monetary policies, and the severe overvaluation of the currency and other distortions in the price system;

- stressed the need to adopt a realistic exchange rate, to liberalize prices and to implement far-reaching modifications of relative prices to restore adequate incentives to economic agents and to bring underground economic activity back to more normal channels;

- made reference to the substantial overall accumulation of external payment arrears, and expressed deep concern about the buildup of arrears to the Fund. Directors noted that the resumption of normal relations with donors and creditors would require the elimination of external payments arrears; and

- reiterated their support for the provision of technical assistance by the Fund.

As it is apparent from the present report, many of the issues raised at the end of the last consultation still remain. Guyana did adjust controlled and administered prices more often over the past few months, liberalize some others, and all but eliminated existing subsidies. Managerial changes were introduced in the public corporations with a view of improving efficiency. All of these measures had a positive impact already in 1984, contributing to a 5 percent rate of growth, the first increase in real GDP since 1980. The currency was depreciated by 28 percent between January 1984 and September 1985; however, this was clearly insufficient to correct the substantial overvaluation of the Guyana dollar.

GUYANA

Area and population	
Area	83,000 sq. miles (215,000 sq. kilometers)
Population (end-1984)	788,000
Annual rate of population increase (1977-84)	0.8 percent
GNP (1984)	SDR 389 million US$399 million G$1,529 million
GNP per capita (1984)	SDR 494

Origin of GDP	1981	1982	1983	Prel. 1984	Proj. 1985
			(percent)		
Agriculture	22.1	24.4	24.1	23.7	24.3
Mining	12.5	9.6	8.2	11.5	12.2
Manufacturing	14.2	13.8	12.4	11.8	11.9
Construction	7.2	7.2	7.6	7.2	7.1
Government	20.9	21.6	23.3	22.1	21.4
Other services	23.1	23.4	24.4	23.7	23.1
Ratios to GDP					
Exports of goods and nonfactor services	64.6	54.9	46.4	54.2	53.8
Imports of goods and nonfactor services	-87.8	-71.7	-66.9	-67.7	-69.8
Current account of the balance of payments	-33.3	-29.3	-32.1	-22.5	-24.5
Central government revenues	36.4	37.6	37.9	37.7	37.7
Central government expenditures	73.0	74.0	82.1	82.5	88.0
Nonfinancial public sector savings	-24.2	-28.3	-41.0	-38.1	-38.7
Nonfinancial public sector overall surplus or deficit (-)	-50.0	-52.4	-60.4	-51.9	-57.9
External public debt (end of year)	131.4	159.3	158.7	169.8	...
Gross national savings	-0.2	-1.4	-7.8	-1.5	0.1
Gross domestic investment	33.2	26.3	24.5	22.0	25.3
Money and quasi-money (end of year) 1/	55.6	76.3	90.5	89.6	96.1
Annual changes in selected economic indicators					
Real GDP per capita (at factor cost)	-1.1	-11.1	-10.4	4.7	2.6
Real GDP at factor cost	-0.3	-10.4	-9.6	5.5	3.4
GDP at current prices (market prices)	5.9	-9.5	0.6	16.8	12.2
Domestic expenditure (at current prices)	18.6	-14.1	3.7	10.2	14.7
Investment	(18.0)	(-28.3)	(-6.3)	(5.1)	(20.1)
Consumption	(18.8)	(-8.9)	(6.6)	(11.5)	(13.4)
GDP deflator	1.4	3.4	6.2	11.4	10.0
Consumer prices (annual averages) 2/	22.2	20.6	15.2	25.0 3/	18.0
Central government revenues	25.2	-6.6	1.6	16.1	12.3
Central government expenditures	33.4	-8.3	11.7	17.4	19.6
Money and quasi-money 1/	18.1	25.2	20.1	16.0	20.5
Money	(11.1)	(20.3)	(17.3)	(23.6)	(29.7)
Quasi-money	(21.8)	(26.4)	(20.4)	(11.7)	(15.0)
Net domestic bank assets 1/	22.0	37.5	30.3	21.3	23.7
Credit to public sector (net)	(22.0)	(40.7)	(28.2)	(28.1)	(25.0)
Credit to private sector	(33.9)	(19.5)	(20.2)	(22.9)	(12.0)
Merchandise exports (f.o.b., in U.S. dollars)	-11.4	-29.7	-20.2	9.4	2.1
Merchandise imports (c.i.f., in U.S. dollars)	11.1	-36.3	-11.5	-10.7	6.9

	1981	1982	1983	Prel. 1984	Proj. 1985
Central government finances		(millions of Guyana dollars)			
Total revenues	581.2	543.1	551.7	640.5	719.0
Total expenditures	1,166.3	1,069.5	1,195.1	1,403.2	1,678.0
Current account surplus or deficit (-)	-245.7	-246.6	-408.9	-628.5	-683.0
Overall surplus or deficit (-)	-585.1	-526.4	-643.4	-762.7	-959.0
External financing (net)	340.8	165.4	173.1	70.1	76.0
Internal financing (net)	244.3	361.0	470.3	692.6	883.0
Balance of payments		(millions of U.S. dollars)			
Merchandise exports, f.o.b.	344.7	242.2	193.3	211.5	215.9
Merchandise imports, c.i.f.	-440.0	-280.4	-248.3	-221.8	-237.0
Investment income (net)	-53.6	-52.2	-57.3	-44.6	-43.3
Other services and transfers (net)	-40.3	-51.1	-43.5	-45.0	-48.1
Balance on current and transfer accounts	-189.2	-141.5	-155.8	-99.9	-112.5
Public sector capital (net)	111.2	35.9	-9.6	-25.5	-16.4
Private capital and errors and omissions 4/ (net)	41.7	-24.9	-25.0	-0.2	...
Change in arrears (increase +)	74.2	124.8	206.7	158.0	139.9
Change in net reserves of banking system and public sector (increase -)	-37.9	5.7	-16.3	-32.4	-11.0

International reserve position 5/	Dec. 31 1982	Dec. 31 1983	Dec. 31 1984	June 30 1985	Dec. 31 1985
		(millions of SDRs)			
Central bank (net) 6/	-311.4	-512.1	-679.8	-744.6	-749.0
Central bank (gross)	7.7	6.2	5.0	3.3	2.3
Rest of banking system (net)	-13.8	-12.4	-8.6	-8.5	-7.5

1/ Monetary system.
2/ Official CPI.
3/ Estimated on the basis of actual data up to September 1984.
4/ Includes exchange profits and losses and profits from sale of gold by IMF.
5/ At exchange rates prevailing at the end of the period.
6/ Includes total liabilities on account of external arrears.

Financial Relations of the World Bank Group with Guyana

IBRD/IDA lending operations as of June 30, 1985	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
	(In millions of U.S. dollars)			
Education	8.30	7.03	--	--
Agriculture and forestry	22.90	2.53	--	8.80
Transportation	--	4.40	--	--
Program and structural adjustment loans	19.00	12.18	--	--
Sea defense	10.09	--	--	--
Energy	12.62	0.59	1.38	1.11
Other	2.07	--	--	--
Total	74.98	26.73	1.38	9.91

Principal payments:	US$9.28 million
Debt outstanding, including undisbursed:	US$103.72 million
Commitments, July 1984-June 1985:	US$8.8 million
Disbursements, July 1984-June 1985:	US$2.61 million
IFC investments:	US$3.7 million
Technical assistance:	The IBRD has provided technical assistance to Guyana through its project lending operations. In addition, a US$8 million loan for technical assistance in the power sector is under execution. A Technical Assistance Credit of US$6 million for the bauxite industry is planned for Board presentation in the current fiscal year.
Recent economic and sector missions:	Economic and investment review mission was conducted in February 1985 (Report: Guyana: A Framework for Economic Recovery, published May 15, 1985). A number of missions in connection with the supervision of ongoing lending operations have taken place during the past year.

Aid Consultative Group:	The seventh meeting of the Caribbean Group for Cooperation in Economic Development was held under the chairmanship of the IBRD in June 1985 in Washington, D.C. The eighth meeting will take place in December 1986.

GUYANA - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

A technical assistance mission to review data on prices, production and trade visited Guyana in May 1985 and the mission report was sent to the authorities in October 1985.

b. Government finance

The 1984 GFS Yearbook contains consolidated central government data for the period 1970-79. Data received in reply to the 1985 GFS questionnaire will be published in the forthcoming issue of the GFS Yearbook covering the period 1975-84.

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 October 1985 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 October 1985 IFS
Real Sector	- National Accounts	1983
	- Prices	December 1983
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	July 1985
	- Deposit Money Banks	June 1985
	- Other Financial Institutions	June 1985
External Sector	- Merchandise Trade: Value—exports	June 1985
	imports	December 1983
	Prices	June 1985 1/
	- Balance of Payments	1983
	- International Reserves	July 1985
	- Exchange Rates	July 1985

1/ For individual export commodities.