

Guyana

1. General trends

Economic growth in Guyana slowed to 3.1% in 2008, dampened by a mixture of external and internal factors, such as the global recession and the sugar industry's struggle. The current account deficit deteriorated significantly to stand at 25.8% of GDP, while the external public debt increased substantially to 72% of GDP. Inflation eased significantly, however (from 14.1% in December 2007 to 6.4% in December 2008).

Throughout 2008, the Guyanese authorities implemented diverse measures aimed at countering the impact of negative externalities; fighting price inflation during the first half of the year; and seeking to keep financial markets steady and preserve economic growth during the second. Nevertheless, those efforts implied a cost: a loss of revenue from consumption tax, lower capital expenditure and a growing stock of public debt.

Official estimates for 2009 point to substantial growth, low inflation, and a modest improvement in

the external accounts. The structural weaknesses of the economy persist, however and will probably be exacerbated by the deepening of the global crisis. Faced with a commodity-based export sector, a significant dependence on remittances from abroad, a high poverty rate and an elevated debt to GDP ratio, the country's fiscal and monetary authorities will have to tread carefully in order to preserve stability and growth. ECLAC estimates zero growth for 2009.

2. Economic policy

The commitments assumed under the poverty reduction strategy paper (PRSP) and the Heavily Indebted Poor Countries (HIPC) Initiative, among others, continued to shape economic policy.

(a) Fiscal policy

In 2008, total revenue for the central government grew by 8.8%, although fiscal revenue showed mixed results. Income and trade taxes increased by 6.4% and 9.2% respectively, reflecting the government's efforts to improve tax monitoring and collection. Likewise, property taxes and environmental tax receipts also evolved positively. Consumption tax receipts contracted by 3.1%, however, following a reduction in value-added and excise tax rates and the introduction of tax exemptions on essential goods,

including fuels and food, in an effort to curb inflation. Thus, although overall tax income grew by 2.3%, as a percentage of GDP it fell from 35.6% to 33.5%.

Boosted by higher transfers from the Bank of Guyana's income, non-tax revenue grew by 11.5%, offsetting lower dividend income from equity holdings. Overall, current revenues rose by 2.6% in 2008, much lower than the very high growth rate (28.7%) recorded in 2007, thanks to the introduction of the value added tax. Grant receipts increased significantly by 48.6%, while transfers from the HIPC Initiative fell by 18.9%.

Growth in fiscal expenditures was lower than expected (at 6.5%) following a drastic reduction (15.1%) in capital expenditures owing to the completion of major projects such as the Skeldon Sugar Complex modernization programme. This reduction in capital expenditure helped

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	-0.7	1.6	1.2	-0.7	1.6	-2.0	5.1	5.3	3.1
Per capita gross domestic product	-0.7	1.6	1.0	-0.9	1.4	-2.0	5.2	5.5	3.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-10.2	-11.4	24.1	-1.7	3.2	-13.7	6.5	0.7	-5.8
Mining	5.9	4.2	-6.9	-8.7	-6.5	-17.8	-21.6	22.5	6.1
Manufacturing ^c	-11.7	86.7	-45.2	-2.2	0.0	12.0	5.2	0.8	-1.9
Construction	6.6	2.0	-3.9	5.6	4.1	9.4	12.0	5.7	8.6
Wholesale and retail commerce, restaurants and hotels	5.2	0.5	-0.9	-2.6	1.9	15.0	10.1	8.8	11.9
Transport, storage and communications	7.1	5.4	4.5	4.9	3.6	9.4	10.0	13.0	10.0
Financial institutions, insurance, real estate and business services	3.6	-3.5	-0.8	1.6	1.0	6.3	8.4	6.2	10.2
Community, social and personal services	8.5	-2.9	-0.8	1.1	1.2	3.2	3.4	2.0	2.6
Millions of dollars									
Balance of payments									
Current account balance	-82	-91	-62	-45	-20	-158	-250	-189	-299
Goods balance	-47	-56	-24	-17	-8	-233	-300	-365	-502
Exports, f.o.b.	503	485	490	508	584	551	585	698	798
Imports, f.o.b.	550	541	514	525	592	784	885	1 063	1 300
Services trade balance	-24	-20	-24	-15	-47	-53	-98	-100	...
Income balance	-58	-59	-55	-55	-39	-39	-69	-11	-15
Net current transfers	47	44	40	43	74	167	216	287	329
Capital and financial balance ^d	122	71	84	59	41	166	293	188	306
Net foreign direct investment	67	56	44	26	30	77	102	110	179
Other capital movements	55	15	41	33	11	89	191	78	127
Overall balance	40	-19	22	14	21	8	43	-1	7
Variation in reserve assets ^e	-24	35	-13	-5	-10	-24	-61	-37	-45
Other financing	-16	-16	-9	-9	-11	16	18	39	38
Other external-sector indicators									
Net resource transfer	48	-3	20	-6	-10	143	242	215	329
Gross external public debt	1 193	1 197	1 247	1 085	1 071	1 215	1 043	719	834
Average annual rates									
Prices									
Variation in consumer prices (December-December)	5.8	1.5	6.0	8.2	4.2	14.1	6.4
Variation in nominal exchange rate (annual average)	2.5	2.7	1.8	1.7	2.3	0.8	0.2	1.1	0.6
Nominal deposit rate ^f	7.3	6.7	4.3	3.8	3.4	3.4	3.3	3.2	3.1
Nominal lending rate ^g	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.1	13.9
Percentages of GDP									
Central government									
Total income ^h	37.0	37.0	40.5	37.3	39.6	42.2	43.7	42.1	42.2
Current income	31.8	31.1	32.2	31.5	33.1	34.1	34.1	36.9	34.9
Tax income	29.1	28.3	29.5	28.8	30.9	32.1	32.0	35.6	33.5
Capital income ^h	5.2	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Total expenditure	44.4	47.6	46.1	46.5	46.5	55.7	56.8	49.4	48.5
Current expenditure	31.3	35.3	34.8	34.5	32.1	34.4	34.0	29.7	33.1
Interest	...	8.8	7.7	6.2	4.9	4.4	3.9	2.8	2.8
Capital expenditure	13.2	12.4	11.4	12.0	14.3	21.3	22.8	19.7	15.4
Net capital expenditure	...	-1.8	2.0	-3.0	-2.0	-9.1	-9.3	-4.5	-3.6
Overall balance	-7.4	-10.6	-5.7	-9.1	-6.9	-13.5	-13.1	-7.4	-6.3
Public-sector external debt	167	168	172	146	136	147	114	67	72.0
Percentages of GDP									
Money and creditⁱ									
Domestic credit	19.2	19.5	21.0	17.5	23.9	24.1	23.7	20.7	25.3
To the public sector	-19.9	-18.1	-15.9	-9.2	-0.6	-2.0	-5.7	-8.8	-7.9
To the private sector	44.9	43.3	42.4	33.7	31.0	31.8	33.7	33.7	37.8
Others	-5.8	-5.7	-5.4	-7.0	-6.4	-5.7	-4.4	-4.3	-4.7
Liquidity (M3)	65.7	69.7	70.9	73.8	73.3	75.2	78.5	75.1	78.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 1988 prices.

^c Includes electricity, gas and water.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Small savings rate.

^g Weighted average prime rate.

^h Up to 2001, includes grants.

ⁱ The monetary figures are end-of-year stocks.

to counterbalance the considerable expansion of current expenditures (20.8% increase), fuelled by strong increases in goods and services (19.2%), staff costs (8.7%), and particularly in transfer payments (45.1%). The increase in transfer payments is the result of higher pension and public assistance disbursements.

Consequently, the overall fiscal deficit for 2008 was equivalent to 6.3% of GDP, far exceeding the budgetary target (4.8% of GDP). It was nevertheless an improvement compared with the deficit in 2007 (7.4% of GDP). The deficit was financed with external borrowing; thus, the external public debt grew by 16% to stand at over US\$ 834 million by December 2008 or 72% of GDP. Other factors fuelling this disturbing trend in the external debt stock were disbursements from the Inter American Development Bank and the Petrocaribe Fund. In parallel, the stock of domestic debt grew by 8.3% in 2008, mainly because of the strong expansion (208.9% on an annualized basis) in the volume of outstanding six-month treasury bills. Total public debt rose by 98.8%, to stand at 103.8% of GDP. Debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiatives (MDRI) totalled US\$ 71 million.

For 2009, allocations for major infrastructure projects will lead to significant increases in capital expenditure and, consequently, to a further deterioration of the fiscal balance. Thus, the fiscal deficit is expected to widen by 24.6% in 2009, or by the equivalent of a full percentage point of GDP, bringing it to 7.3%. The Government has redoubled its efforts to secure debt relief agreements with bilateral and commercial creditors.

(b) Monetary policy

The main objectives for the monetary authorities in 2008 were, first, to keep inflationary pressures at bay; second, to stabilize the exchange rate; and, third, to promote private sector credit and economic growth. In that regard, inflation decelerated, particularly during the second half of 2008, and the exchange rate was basically stable, while credit to the private sectors grew significantly (21.8% increase).

The sectors that benefited most from this credit expansion were mining (100.6% growth), rice milling, distribution, agriculture and services. Lending for real estate mortgages and personal household consumption also

picked up substantially: by 29.7% and 13.1%, respectively. Credit to the central government swelled by as much as 65.9%, although overall credit to the public sector decreased by 2.7% as a consequence of the reduction in credit to non-central government public sector entities.

The key mechanism for monetary policy was treasury bills in the primary market, issued in order to absorb excess liquidity in the financial system. Thus, by the end of 2008, the total stock of treasury bills had increased by 16.7% compared with 2007. Conversely, annual growth of money (12.5%) and broad money (12.7%) decelerated slightly compared with the previous year. Interest rates showed just minor variations, with the average nominal deposit rate declining from 3.2% to 3.1%, while the average nominal lending rate fell from 14.1% to 13.9%, as result of high levels of excess liquidity.

For 2009, the reverberations of the CLICO corporate meltdown will be a major issue for monetary and financial policies. CLICO, one of the major financial corporations in the Caribbean, with subsidiary operations in Guyana, had to be bailed out by the Government of Trinidad and Tobago at the beginning of 2009, and the aftershock is still being felt in Guyana. Thus, in February 2009 the government took control of CLICO Guyana, committing up to US\$ 34 million to provide guarantees to policyholders and stakeholders.

(c) Exchange-rate policy

Activity in the foreign-exchange market rallied during 2008 by 21.9% with an accumulated total of US\$ 4.8 billion in transactions. The stronger inflows of foreign currency were due to higher exports receipts and current transfers, but these were offset by rising demand attributable to the higher cost of imports, particularly during the second and third quarters of the year.

Currency depreciation was minimal, thanks to measures implemented by the Bank of Guyana, including open interventions in the foreign-exchange market. Thus, nominal depreciation of the Guyana dollar (G\$) vis-à-vis the United States dollar averaged just 0.7% for the year, while the December 2007-December 2008 currency depreciation was just 0.86%. For 2009, expectations are that the Bank of Guyana will keep supporting a stable exchange rate through market interventions.

3. The main variables

(a) Economic activity

The activity levels of the productive sectors of the Guyanese economy varied widely, mainly as a consequence

of exposure to external factors, such as the volatility of international prices of oil and other imported inputs, or the reduction in external demand and the fall in the prices of its exports on international markets.

Distribution was the sector with the most positive performance during 2008, with an 11.9% annual growth rate, thanks to increased demand for consumer and intermediate imported goods. Financial and real estate services, and transport, storage and communication were also buoyant (up by 10.2% and 10%, respectively). In the case of the former, growth can be attributed to significant expansion in private sector credit, while in the latter, the sector expanded thanks to rising competition in non-fixed line telecommunications and higher transportation activity between coastal areas and the interior.

Among the sectors with negative results, agriculture, forestry and fishing (the largest sector of the economy, at 28% of GDP) suffered a larger contraction, countering the gains made in the two previous years. The main catalyst of this fall was the sharp decline in sugar production (-15.1%), owing to delays in the operations of the upgraded Skeldon Sugar Factory, labour problems, pest infestation, and adverse weather conditions. The output of rice, the other major crop, was up by 10.6%, but logging also contracted sharply (by 16.7%).

Manufacturing was down by 1.9%. High fuel and inputs costs were the main factors behind this contraction.

The mining sector grew by 6.1%, although this represented a significant slowdown compared with the growth rate recorded in 2007 (22.5%). This slowdown is attributable to the fall in international bauxite prices during the second half of 2008, which severely affected the industry, with dried bauxite production slumping by 18.1% compared with 2007 levels. Furthermore, preliminary information for the first months of 2009 suggests that the bauxite sector will continue to face a very adverse environment throughout the year.

Overall, GDP growth in 2008 stood at 3.1%, much below the 5.3% achieved in 2007. For 2009, ECLAC estimates 0% GDP growth, but the government hopes to achieve 4.7% growth. If this ambitious goal is to be achieved, several key factors must be present: a fast and smooth recovery in the sugar industry, stabilization of the bauxite sector, or a rally in manufacturing. In that sense, although the outlook for sugar and rice (the country's two main export crops) is generally positive, it should be recalled that the European Union-African-Caribbean-Pacific Sugar Protocol comes to an end in September and that the sugar price guaranteed by the European Union in the second phase of the transition period to the Economic Partnership Agreement (EPA) will be much lower.

(b) Prices, wages and employment

One positive development was the slowdown in price inflation. Thus, cumulative consumer price inflation at the end of 2008 was 6.4%, less than half the level recorded in 2007 (14.1%). For 2009, the official target for inflation has been set at 5.2%, a reflection of lower prices for oil and other imported inputs. Inflation was just 0.4% during the first quarter 2009.

The number of strikes in the public sector escalated from 177 in 2007 to 202 in 2008, of which 198 involved GUYSUCO, the national sugar company. A total of 92,018 person-days were lost in the public sector (an increase of 38.8%), while wage losses by public-sector workers were up by 40.7%. In 2008, the latter received a 5% cost-of-living adjustment in May and December. Similarly, pensions and the minimum public-sector wage were also raised to help to preserve the purchasing power of vulnerable segments of the population.

(c) The external sector

The current account deficit expanded in 2008, from 17.6% of GDP to 25.8% of GDP, owing to the higher cost of imports, such as oil and food, and the negative outturn of the service and income balances. The merchandise trade deficit widened to US\$ 502 million, equivalent to 43.3% of GDP. Thanks to higher inflows of in-kind transfers and receipts from bank accounts abroad, net current transfers expanded to stand at US\$ 329 million, 28% of GDP, despite a marginal decline in workers' remittances. The current account deficit was offset by an 81% increase in the capital and financial balance surplus, thanks to a considerable increase in FDI inflows. Thus, the overall effect was a modest improvement in the balance of payments, which turned the small 2007 deficit into a rather small surplus in 2008. By year end, net international reserves stood at US\$ 299 million, equivalent to 2.7 months of import cover.

The balance of payments in 2009 is expected to deteriorate and turn into a deficit. Although the forecast is for an increase in export earnings, thanks to the recovery in sugar exports, and a lower import bill, this will probably be countered by a sharp decline in workers' remittances and in-kind transfers due to the global recession. Meanwhile, the capital and financial account will record a lower surplus, attributable to weaker private capital inflows and official transfers.