

GUYANA

1. General trends

The Guyanese economy continued to show strong growth due to buoyant commodity prices and robust domestic demand. Growth in 2010 was estimated at 3.5%, up from 3.3% in 2009. This performance was observed despite a 5.5% contraction in the sugar industry, which is a mainstay of the domestic economy and a key contributor to foreign-exchange earnings in Guyana. The non-sugar economy grew by 4.3%. In 2011 GDP growth of 4.0% is forecast owing to the continuing difficulties in the sugar industry.

In line with the expansion in domestic activity, public finances also improved as tax revenues increased. Foreign-exchange inflows were boosted by foreign direct investment and remittances, which improved considerably relative to 2009. Consequently, the foreign exchange market was stable and monetary policy moderately expansionary, resulting in a fall in interest rates, which led to credit expansion in a number of sectors.

Guyana has also continued to pursue its low-carbon development strategy and expects to receive further support for this endeavour in 2011. Under the terms of a memorandum of understanding signed with the Government of Norway for the joint implementation of the strategy, the first performance-based funds of US\$ 30 million were deposited in 2010 with the Guyana REDD (Reducing Emissions from Deforestation and Degradation) + Investment Fund (GRIF). Payments to Guyana by the Government of Norway will amount to approximately US\$ 250 million over the period to 2015, depending on Guyana's performance based on an evaluation methodology set out by the two countries in November 2009. This arrangement will certainly boost confidence in the economy and may attract further foreign-exchange inflows in the future.

2. Economic Policy

(a) Fiscal Policy

The fiscal policy stance was restrained after a period of rising public expenditure, especially in infrastructure. The fiscal deficit of \$13.4 billion Guyana dollars (G\$) in 2010 corresponded to around 2.9% of GDP compared with a deficit of 3.7% in 2009. Central government revenue in 2010 stood at G\$ 108 billion, representing an increase of 14% over 2009. At the same time, tax revenue grew by 13.3% and non-tax revenue was up by 19.1%. These revenue increases reflected the vibrancy of the domestic private sector.

Two taxes that showed substantial gains were corporate taxes (21.5%) and income taxes paid by the self employed (18.5%), which, according to the budget of fiscal year 2010/2011, was due to higher reported profits. Meanwhile, revenue from income taxes deducted at source increased by 15.8%. The higher import duties also triggered a 20% rise in revenue from imports. The increase in the value added tax was a more modest 8.2%. Grants totalled G\$ 11.7 billion, down by 32.6% from the previous year.

Expenditure increases were moderate as government expenditure went up by 4.5% over 2009 to stand at G\$ 133.1 billion, while current expenditure rose by 7.4% to G\$ 86 billion. Meanwhile, capital expenditure was largely unchanged at G\$ 47 billion.

In 2010, Guyana received debt relief totalling more than US\$ 100 million through the Highly Indebted Poor Country (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). In spite of this, the gross stock of both domestic and external debt increased, but as a share of GDP they were 22.1% and 46.6%, respectively, down from 22.3% and 48.5% in 2009. These numbers appear far lower than in previous years because GDP was rebased with effect from 2006, in most cases upward to reflect the inclusion of new classes of products. This upward adjustment in GDP is the direct cause of the reduction in these debt indicators.

(b) Monetary policy

With revenues increasing and the foreign-exchange market remaining relatively stable, the monetary policy stance consisted in maintaining a low inflation regime while focusing on lowering interest rates to facilitate access to credit by the private sector. Credit to the private and public sector grew by 19% and 24%, respectively. Regarding the private sector, credit expansion was due to a 71.5 % jump in credit to the mining and quarrying sector, a 32% expansion of credit to the agricultural sector and increases of 18.7%, 24.8% and 24% to the manufacturing, distribution and real-estate sectors, respectively. These figures point to the buoyancy of private investment, especially in such areas as mining, which has been taking advantage of the very high price for gold on international markets. Credit to the public sector expanded by 24.9% in 2010 to meet the government's borrowing requirements for infrastructure projects.

In line with the positive economic performance, broad money expanded by 15.5% in 2010 compared with 8.7% in 2009, while M1 increased by 21.8%. These expansions reflected both the currency in circulation and private-sector deposits, which increased by 19.7% and 12.4%, respectively, in 2010.

The benchmark rate, which is the 91-day treasury bill rate, declined by 40 basis points to 3.78% and consequently interest rates declined as the weighted average lending rate diminished to 11.97% from 12.18% in 2009. The small savings rate also slipped, from 2.78% to 2.64%, and the interest rate spread remained relatively stable at just over nine percentage points.

(c) Exchange-rate policy.

In 2010 there was relative exchange-rate stability as the value of the Guyana dollar appreciated by 0.45% against the United States dollar to reach \$G 202.58 to US\$ 1. There was also an increase in the value of transactions on the foreign-exchange market. The volume grew by 9.24% to US\$ 5.13 million, which was in line with accelerating trade and foreign exchange inflows.

3. The main variables

(a) Economic activity

The Guyanese economy registered growth at 3.6% in 2010. The positive economic performance in the last five years has been due to improved prices for commodities such as gold, sugar and rice and to the fact that producers have been able to boost supply in the wake of these price increases. In terms of the distribution of output, agriculture, forestry, fishing and hunting accounted for 20.3% of GDP, with mining at 9.5% and construction at 10.3%. In addition, the manufacturing sector contributed 6.8% to GDP and transport, storage and communication 14.9%.

Sugar, a major contributor to output (5.4% of GDP), experienced a contraction in production and earnings in 2010 due to a drop in the price of sugar and in export volumes. This sector's export earnings decreased by 13.2%, while the amount exported was down by 3.7%. The fall-off in production reflected the persistence of various problems in the industry, including industrial unrest and managerial problems, despite considerable investment in upgrading the industry. The sector is projected to grow by 35.3% but this may be difficult in light of ongoing industrial and other difficulties.

Rice production stood at 360,996 tonnes in 2010, representing an expansion of 0.4%, and the second highest annual output for the industry in a decade. The rest of the agricultural sector grew by 3.2%, in 2010, partly because of campaigns encouraging farmers to grow more food and because a bridge was built across the Berbice river, making it easier for them to transport their produce.

The mining and quarrying sector declined by 6.9%. The bauxite industry continued to experience difficulties and ended the year with a contraction of 9.8%. This was due to sluggish international demand and a build-up of inventories in the industry. The picture was different for the gold industry. With the rise in gold prices and investment in increased capacity, gold earnings expanded by 2.9%.

The manufacturing sector was basically stagnant in 2010, as the overall sector grew by 0.3%, which is considerably weaker than the growth of 4.3% recorded in 2009.

The construction sector continued to perform well in 2010. Building activity in the commercial and industrial sectors and the government's infrastructure projects, including housing construction, contributed to 10.8% growth. With the continuation of the government's capacity-building programme, the sector is expected to expand by 4.5% in 2011.

Financial and insurance services grew by 9.3% in 2010, which was slightly lower than in 2009, and contributed 4% of GDP, reflecting the growing strength of the domestic economy.

Considerable investment during 2010 stimulated growth in the information and communications services, while transportation and storage and government services such as education, health and social services also turned in positive results. In 2011, real GDP growth is expected to stand at 4%, somewhat lower than originally estimated owing to continuing weakness in the sugar industry and ongoing industrial unrest. On the other hand, with general elections scheduled for the end of 2011, spending on government services will undoubtedly increase.

(b) Prices, wages and employment

The inflation rate was 3.6% in 2009 and 4.5% in 2010 and this reflected the dampened economic conditions abroad, which moderated inflationary pressures in the latter part of the year. Prices were also moderate as the government continued to apply concessional excise tax rates on fuel products, lowering the impact of high world fuel prices. These and other countercyclical measures have been in place since the time of the crisis.

A number of categories of workers received wage increases of 5% in 2010 and among these were public servants and police and army personnel. Teachers received a 1% rise as an incentive payment under a multiyear agreement covering the period 2006-2010.

(c) The external sector

The current account deficit was slightly larger in 2010 relative to 2009. In 2010 it was US\$ 239 million compared with US\$ 220 million in 2009; this was due to improvements in many of the subaccounts. For example, merchandise imports increased by 21% to US\$ 1.42 billion, reflecting increased economic activity. On the other hand, merchandise export earnings grew by 16% in 2010, to stand at US\$ 891.9 million.

The goods and services balance further deteriorated by 21% from a deficit of US\$ 401 million in 2009 to a deficit of US\$ 525.8 million in 2010. Earnings from sugar were 13% below the 2009 level, following a decline in prices and production volumes, while other exports including bauxite earnings picked up in 2010. The higher bauxite earnings were due to increased average prices, since export volumes were down. The services balance showed an improvement of 4.2% in 2010, as the deficit narrowed by about US\$ 5 million.

According to the budget for fiscal year 2010/2011, workers' remittances increased by 40.3% to US\$ 367.8 million and this was due to more buoyant economic activity in major host countries. The financial account balance deteriorated from US\$ 417 million in 2009 to US\$ 312.2 million in 2010. Foreign direct investment continued to flow in steadily, soaring by 64% in 2010 to reach US\$ 269.7 million or 17.8% of GDP.

Thus, the gross overall external reserve position of the Bank of Guyana improved by 24%, moving from US\$ 628 million in 2009 to US\$ 780 million in 2010. Meanwhile, new international reserves increased by 27% in 2010, from US\$ 56.9 million in 2009 to US\$ 72.4 million, representing 6.1 months' worth of import cover.

Reserves are expected to increase more modestly in 2011, by US\$ 24.4 million, as the import bill will outweigh export earnings, leading to a wider current account deficit.