

GUYANA

1. General trends

The Guyanese economy continued to expand robustly in 2013 (by 5.2%) owing to the strong performance of key commodity sectors such as gold and rice, as well as the construction sector, fuelled by public investment in infrastructure. The gold industry, the main driver of the real economy in recent years, continued to perform well, achieving a record high output, which compensated for the fall in the world market price. Conversely, the sugar sector could not emerge from its difficult years of low production. Government has sought to further boost the economy by making investments in physical infrastructure, information and communications technologies (ICTs) and the power supply system, and by helping the key mining and agricultural industries to recapitalize and upgrade their facilities. Several infrastructure projects are expected to receive support from foreign governments and multilateral donors in 2014. The increase in the wages of public sector employees contributed to the record level of government expenditure. While government revenue increased thanks to the expansion of economic activities, this was not sufficient to offset the expenditure, and government ran a fiscal deficit, which was financed by new borrowings from domestic and external sources.

The government has had difficulties in implementing its policy agenda since the opposition gained a majority in the parliament in 2011. After the budget speech in March 2013, the opposition succeeded in cutting the budget before it was finally approved by the parliament in April. Key government policies have been affected by this situation, including the Low-Carbon Development Strategy and various capital expenditure projects. The central bank's monetary policy has accommodated growth with a marginal increase in the money supply and stable interest rates, which contributed to a modest rate of inflation of 0.9% at year-end, and a marginal depreciation of the local currency. Although the trade deficit contracted, the current account deficit increased in 2013 owing to a decline in remittances from abroad. Overall, the balance of payments turned into a deficit as the capital account surplus weakened because of a decline in foreign direct investment inflows.

The economy is expected to continue to grow robustly in 2014. The mining sector and rice industry will remain the principal drivers of growth. Preliminary information suggests a slightly better performance of the sugar sector in the first quarter of the year, but it will take several years for the sector to be fully recapitalized and mechanized. The growth rate in 2014 is estimated at around 4.5% with downside risks of a fall in commodity prices and the awkward political situation, which could adversely affect investors' interest.

2. Economic policy

(a) Fiscal policy

The central government ran a large deficit of 4.5% of GDP in 2013 mainly owing to higher public sector wages, which were not covered by an increase in tax revenue. Although capital expenditure contracted slightly compared with 2012, the government implemented a number of projects aimed at boosting the economy and improving infrastructure. These projects included upgrading the highway along the East Coast and the access road to Cheddi Jagan International Airport, as well as construction of

energy substations and the continuation of the One Laptop Per Family programme, aimed at the distribution of laptops to provide access to ICT services for every family in the country. The government also sought to modernize traditional commodity sectors such as agriculture and mining. This included support to the sugar industry which has been underperforming in recent years, in order to return it to a growth trajectory. In particular, the Guyana Sugar Corporation (GUYSUCO), the country's largest sugar producer, is receiving assistance with its restructuring programme.

Government revenue increased by 4.8% compared with 2012. A series of tax reforms, instituted respectively in 2011 and 2012, set a higher tax threshold and a lower rate of corporate and personal income tax. Despite this tax relief, total tax revenue increased in 2013, thanks to the expansion in economic activity and reinforcement of compliance initiatives, especially for the self-employed.

In 2014, the government is expected to continue to adopt an expansionary fiscal policy. Revenue is expected to increase further thanks to the expansion of the economy, but will be outweighed by an increase in capital expenditure. In addition to the ongoing projects, the government will continue initiatives aimed at improving roads and bridges as well as air and river transport infrastructure; it will also launch key projects in 2014, including the improvement, in collaboration with the Caribbean Development Bank (CDB), of the West Coast Demerara road and the promotion of an e-government system. The projected deficit for 2014 is 4.7% of GDP.

Despite the consecutive years of fiscal deficit, Guyana reduced outstanding external debt stock in 2013, thanks to the debt relief agreement with Venezuela, under the Guyana-Venezuela PetroCaribe rice-fuel deal, in which accumulated debt was offset against the supply of Guyanese rice to Venezuela. On the other hand, domestic debt increased in 2013 to finance the fiscal deficit. The debt-GDP ratio at the end of 2013 was 57.9%. Since disbursements from several donors including China, India, CDB, and the Inter-American Development Bank (IDB) are scheduled for 2014, public debt will increase slightly towards the end of the year.

(b) Monetary policy

Instruments available to the Bank of Guyana include reserve requirements and open market operations. Recently, the Bank has adopted the latter for implementing its short/medium term policy, while the reserve requirement rate has remained unchanged at 12% since 2002.

Following the global financial crisis, the central bank's monetary policy has sought to ensure that the level of liquidity is in line with the current robust economic growth. Both narrow money (M1) and broad money (M2) grew gradually in 2013, reflecting an increase in demand deposits and quasi-money. The interest rates of commercial banks trended downwards in 2013, which contributed to the growth in private-sector credit, especially in the manufacturing, construction and engineering sectors. The stance of the monetary policy will not change in 2014, given the favourable economic outlook.

(c) Exchange-rate policy

The foreign exchange market was impacted by high demand for foreign currency, mainly driven by fuel imports. The central bank has made a point of maintaining a stable nominal exchange rate and intervened in the foreign exchange market by selling a total of US\$ 163.6 million. As a consequence, the Guyana dollar depreciated against the United States dollar in 2013, but only marginally (by 0.86%) on a year-to-year basis at the end of the year. Activity in the foreign exchange market contracted by 5.8% compared with that of 2012. The Guyana dollar depreciated slightly in the first quarter of 2014, and its

gradual nominal depreciation is expected to continue due to the structural weaknesses in Guyana's external accounts and the stance of the central bank's exchange-rate policy.

(d) Other policies

One of the main areas of concern has been the failure to pass key legislation on financial crime – the anti-money laundering and countering of financing terrorism bill. Indeed, this could prejudice the country's access to international financial markets and foreign investment. The bill is considered to be a part of international efforts to fight illegal financing and, as a result, its passage is required by the international community. Being the only country in the Caribbean which has not passed the bill, Guyana was blacklisted by the Caribbean Financial Action Task Force, and this may discourage financing institutions and investors from dealing with Guyanese institutions.

The government signed several bilateral loan/grant agreements in 2013 and during the first quarter of 2014. Among them were the series of agreements with China, which shows a closer economic relationship between the two countries since the economic and technical cooperation agreement signed in 2012. Guyana also signed a grant agreement of US\$ 8.16 million in August and of US\$ 4.93 million in December to implement technical cooperation projects in the country. The government also recently (in 2014) secured a US\$ 2.9 million grant from Japan to establish funds for the private sector.

3. The main variables

(a) The external sector

The overall balance of payments recorded a deficit of US\$ 119.45 million in 2013, compared with a small surplus of US\$ 32.89 million the year before, owing to expansion of the current account deficit and contraction of the capital account surplus. The main reason for the widening of the current account deficit was a decline in transfers, especially remittances due to the unfavourable economic situation in the major source markets. The deficit in the merchandise trade balance contracted from US\$ 581.3 million (2012) to US\$ 471.4 million (2013). While export earnings diminished owing to the fall in commodity prices, this decrease was offset by lower imports, resulting in an 18.9% contraction in the deficit. The capital account surplus contracted from US\$ 418.3 million to US\$ 314.75 million, which was attributed to a decrease in foreign direct investment inflows. The deficit in the balance of payments was financed by a drawdown of international reserves, which resulted in a 5.7% decline in net international reserves. The drop in investment inflows was mainly due to the completion of several investment projects. However, since there are key infrastructure projects planned in 2014, the decline observed in 2013 can be considered to be a temporary incident. Foreign direct investment is still robust in the mining, and telecommunication sectors. The economy is expected to record a smaller deficit on the balance of payment in 2014 owing to higher foreign direct investment inflows which can partially offset the deficit on the current account.

(b) Economic activity

The Guyanese economy expanded significantly by 5.2% in 2013, fuelled by the strong performance in the rice and gold industries as well as in the construction sector, which was driven by large infrastructure projects. Rice output increased sharply (26.9%), thanks to private sector investment and favourable weather conditions. The PetroCaribe debt relief agreement has also positively impacted the rice industry, as rice exports have been used to offset fuel debt. Gold output in 2013 recorded a historic high, in spite of the fall in the world market price. The increase in gold production reflected the

expansion of small- and medium-scale miners. Meanwhile, sugar output experienced a decline of 14.4% in 2013, due to a combination of negative factors such as unfavourable weather for sugar production, industrial dispute, a labour shift to other sectors, and an insufficient supply of quality cane. The performance of the service sector also contributed to the growth of the economy, driven by the expansion of construction (22.6%), as well as financial, insurance and real estate sectors (11.2%).

Preliminary information suggests that the economy is continuing to grow in 2014. The fluctuations in the price of gold are among the downside risks, but foreign investment in the sector, along with the activities of small- and medium-scale miners, is expected to continue to boost the economy. The rice, manufacture, and sugar sectors are performing better in the first quarter of 2014, compared with the corresponding period in 2013. However, the improvement in the sugar sector will be marginal until GUYSSUCO has completed its recapitalization and mechanization initiatives under its 2014-2017 strategic plan. The construction sector continues to drive growth with public and private investment. As a consequence, the economy is expected to grow by around 4.5% in 2014, the primary downside risks being commodity prices and the impact of the political situation, which may discourage foreign investors.

(c) Prices, wages and employment

Inflation remained under control throughout 2013. The year-on-year variation in consumer prices at the end of the year was 0.9% thanks to a marginal change in food prices and government support to electricity suppliers aimed at keeping the cost of electricity low. Inflation will continue to be moderate in 2014 but will be higher than in 2013, owing to the expected upward pressures on fuel and food prices.

While official figures for recent changes in the labour market in the private sector are not available, continued, above-trend growth has likely contributed to a decline in unemployment. In the public sector, it was reported that employment increased by 4.7% in 2013. The salaries for public sector employees were increased by 5.0% in December 2013, retroactive to January of the same year.

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual growth rates b/									
Gross domestic product	-2.0	5.1	7.0	2.0	3.3	4.4	5.4	4.8	5.3
Per capita gross domestic product	-2.5	4.5	6.3	1.3	2.6	3.7	4.8	4.2	4.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-13.7	6.5	0.6	-2.9	1.3	2.3	2.7	3.7	3.7
Mining and quarrying	-17.8	-21.6	14.7	-0.1	-2.9	-5.4	19.2	14.8	3.0
Manufacturing	12.0	5.2	2.6	-1.8	4.1	0.4	5.8	3.1	4.3
Electricity, gas and water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	9.4	12.0	0.1	7.8	8.5	10.2	7.9	11.8	-10.2
Wholesale and retail commerce, restaurants and hotels	15.0	10.1	-1.3	9.5	10.7	12.9	9.7	13.8	11.2
Transport, storage and communications	9.4	10.0	4.0	3.0	2.0	2.0	1.6	4.5	4.0
Financial institutions, insurance, real estate and business services	6.3	8.4	6.1	2.8	4.8	4.6	6.7	2.2	3.5
Community, social and personal services	3.2	3.4	7.0	2.0	3.3	4.4	0.0	4.8	5.3
Balance of payments									
Millions of dollars									
Current account balance	-158	-250	-189	-321	-231	-247	-372	-367	-425
Goods balance	-233	-300	-365	-522	-411	-534	-641	-581	-471
Exports, f.o.b.	551	585	698	802	768	885	1,129	1,415	1,376
Imports, f.o.b.	784	885	1,063	1,324	1,179	1,419	1,771	1,997	1,847
Services trade balance	-53	-98	-100	537	443	593	-136	-229	-336
Income balance	-39	-69	-11	-15	-17	13	-9	24	29
Net current transfers	167	216	287	329	300	371	415	419	353
Capital and financial balance c/	166	293	188	553	950	624	654	700	289
Net foreign direct investment	77	102	110	178	164	198	247	294	214
Other capital movements	89	191	78	375	786	426	407	407	75
Overall balance	8	43	-1	6	234	117	-15	33	-119
Variation in reserve assets d/	-24	-61	-37	-43	-271	-155	-25	-76	74
Other financing	16	18	39	38	37	38	40	43	45
Other external-sector indicators									
Net resource transfer (millions of dollars)	143	242	215	576	970	675	685	767	363
Gross external public debt (millions of dollars)	1,215	1,043	718	834	933	1,043	1,206	1,358	1,248
Prices									
Annual percentages									
Variation in consumer prices (December-December)	8.2	4.2	14.1	6.4	3.6	4.5	3.3	3.4	0.9
Variation in nominal exchange rate (annual average)	0.8	0.2	1.1	0.6	0.2	-0.2	0.2	0.0	2.3
Nominal deposit rate e/	3.4	3.3	3.2	3.1	2.8	2.7	2.3	1.8	1.4
Nominal lending rate f/	15.1	14.9	14.1	13.9	14.0	15.2	14.7	14.0	12.1
Central government									
Porcentajes of GDP									
Total revenue	25.9	27.4	26.0	25.4	27.2	26.0	25.6	24.5	23.3
Tax revenue	20.2	20.0	21.9	20.2	21.6	21.9	21.2	20.3	20.3
Total expenditure	34.9	35.6	30.5	29.2	30.8	28.9	28.7	29.4	27.7
Current expenditure	21.6	21.3	18.4	20.0	19.5	18.8	19.1	19.7	19.6
Interest	2.8	2.4	1.8	1.7	1.6	1.7	1.5	1.1	1.0
Capital expenditure	13.4	14.3	12.2	9.2	11.4	10.1	9.5	9.7	8.1
Primary balance	-6.2	-5.8	-2.8	-2.1	-2.1	-1.2	-1.6	-3.8	-3.4
Overall balance	-9.0	-8.3	-4.6	-3.8	-3.7	-2.9	-3.1	-4.9	-4.3
Public debt	183.9	93.1	60.0	61.6	60.5	61.2	65.2	62.0	60.5

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	15.2	14.8	12.8	15.3	11.4	12.1	17.8	17.0	19.9
To the public sector	-1.2	-3.6	-5.4	-4.7	-8.1	-9.0	-4.9	-7.7	-5.8
To the private sector	19.9	21.2	20.8	22.8	22.8	24.4	25.6	27.7	29.8
Others	-3.6	-2.8	-2.6	-2.8	-3.4	-3.4	-2.9	-3.0	-4.1
Monetary base	18.5	17.3	15.5	14.9	17.5	20.0	18.7	19.4	18.5
Money (M1)	14.4	16.5	15.4	15.6	16.1	17.6	18.5	19.3	18.5

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 2008 prices. Up to 2008, local currency at constant 2003 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total. New measurements have been used since 2010; the data are not comparable with the previous series.

h/ Nationwide total. The 2004-2005, 2006-2009 and 2010-2012 series are not comparable. In the first series a different sample was used and in the later series different measurements were used.

i/ Non-adjustable 90-360 day operations.

j/ Does not include publicly guaranteed debt.

k/ The monetary figures are December averages.

Table 2
GUYANA: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	829	773	827	856	820	766	675	713	732	685 b/
Consumer prices (12-month percentage variation)	2.6	1.7	2.3	3.1	3.1	2.4	2.3	1.1
Average nominal exchange rate (Guyana dollars per dollar)	204	204	204	203	206	208	209	211	212	207
Nominal interest rates (annualized percentages)										
Deposit rate c/	1.9	1.8	1.7	1.7	1.5	1.3	1.3	1.3	1.3	...
Lending rate e/	14.6	14.2	14.1	13.0	12.5	12.4	12.0	11.7	11.2	11.2 d/
Monetary policy rates	5.5	5.5	5.3	5.3	5.2	5.0	5.0	5.0	5.0	5.0 d/
Domestic credit (variation from same quarter of preceding year)	45.9	66.4	38.7	18.1	22.1	19.8	30.6	32.4	22.7	20.5 b/
Non-performing loans as a percentage of total credit	5.1	4.9	5.6	6.0	5.7	5.4	5.3	6.0

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

a/ Preliminary figures.

b/ Figures as of May.

c/ Small savings rate.

d/ Figures as of April.

e/ Prime lending rate.