

GUYANA

1. General trends

The Guyanese economy grew by a robust 4.8% in 2012, thanks to the high prices of exportable commodities and to public and private investments, especially in the infrastructure and mining sectors. Government expenditures, which hit record levels in 2012 and 2013, have further boosted the economy through investments in physical infrastructure, ICT and the power supply system, in addition to helping the key mining and agricultural industries to recapitalize and upgrade their facilities. Several infrastructure projects are expected to receive support from foreign governments under agreements and memoranda of understanding (MOU) signed with countries such as China and Brazil. The government budget has been targeting poor and vulnerable groups, including older persons, the homeless and indigenous communities. Several consecutive years of fiscal deficit, plus new loans from external multilateral and bilateral donors, have raised the debt-to-GDP ratio to 65%.

On the political front, the administration has had difficulties in implementing its agenda because the opposition has held a majority in parliament since 2011. The 2013 budget includes substantial cuts in funding for one of the government's key policies, the Low Carbon Development Strategy (LCDS). The central bank's monetary policy has accommodated growth with a marginal increase in money supply and stable interest rates; this contributed to a modest rate of inflation (3.4% at year-end) and minimal depreciation of the domestic currency. The current account deficit increased slightly in 2012 due to an expansion of imports (both goods and services). However, the current account deficit increased only marginally because imports were mostly offset by robust growth of goods exports, driven by high commodity prices. Despite the current account deficit, the overall balance of payments recorded a surplus as foreign direct investment inflows were robust and cancelled out the trade balance deficit.

The economy is expected to continue growing in 2013. The mining sector remains the principal driver of growth, due to the high price of commodities. The expected better performance of the sugar industry, which experienced negative growth last year, will also contribute to the economy. Public and private investments are expected to increase thanks to ongoing major infrastructure projects. The growth rate in 2013 is therefore likely to be about the same as in 2012, at around 4.8%.

2. Economic policy

(a) Fiscal policy

The government recorded a large fiscal deficit of 4.7% of GDP in 2012, due to an expansionary fiscal stance designed to boost the economy. Expenditure hit a record level because of investments in large infrastructure projects and public sector wage increases. The budget for 2013 reflects government plans to continue an expansionary policy based on the same principle. The budget stressed the need to improve infrastructure in order to accelerate growth; among the goals are a more efficient power supply (through, for example, substantial support for Guyana Power & Light Inc., ICT use and physical infrastructure (including roads, bridges, airports and sea ports). The government also aims to modernize traditional sectors such as agriculture and mining. The government will continue to provide considerable

support to the sugar sector (whose output declined in 2012 due to weather conditions and some mechanical problems), especially to the largest producer, Guyana Sugar Corporation Inc. (GuySuCo).

On the revenue side, the government's intention to boost the economy has been reflected in its tax reforms. After the corporate income tax rate was lowered in 2011 (although it is still high compared with the regional standard), the personal income tax was reformed in 2012 with a higher threshold and a lower tax rate resulting in a fall in personal income tax collection in 2012. However, total tax revenue increased in 2012 thanks to expanding economic activity and an increase in import duties. For 2013, revenue is expected to increase owing to higher tax collection thanks to expanding economic activity and reinforced compliance checks, especially for the self-employed. However, these increases will not be enough to offset growing expenditure, and the overall balance will deteriorate further in 2013. The stock of public debt increased to 65% of GDP at the end of 2012 because external debt increased more rapidly than internal debt declined. Internal debt fell as the issuance of treasury bills declined. This was because the central bank helped the government to sterilize excess liquidity by selling foreign currency in the foreign exchange market. With respect to external debt, while considerable disbursements were made in such sectors as infrastructure and the environment, the government sought to maintain debt sustainability by means of debt relief negotiations with donors. Under a debt compensation agreement negotiated with Venezuela in 2012, the US\$ 100.8 million PetroCaribe debt was reduced in exchange for Guyanese rice and paddy shipped between 2009 and 2011. A second debt compensation agreement with Venezuela is expected to be reached in 2013; it will partially offset the increase in external debt. However, the total public debt stock will increase in the light of expected disbursements in infrastructure projects including the Amaila Falls hydroelectric power plant.

(b) Monetary policy

Instruments available to the Bank of Guyana include reserve requirements and open-market operations. The bank recently adopted open-market operations for implementing its short- to-medium term policy. The reserve requirement rate has remained unchanged at 12% since 2002.

The central bank's monetary policy goal for 2012 and the first quarter of 2013 was to maintain a neutral stance while ensuring adequate levels of liquidity consistent with the current robust economic growth. Both narrow money (M1) and broad money (M2) grew gradually in 2012, reflecting an increase in demand deposits and quasi money, but each grew slightly less than in 2011. Commercial bank interest rates declined in early 2012 and remained at that level throughout the year, which contributed to the considerable growth in private sector credit (20%) during the year. The rice milling industry was a main driver of this growth in credit as it recorded a 106% increase, followed by the mining and quarrying sector and other manufacturing sectors. Considering the favourable economic outlook for 2013, the monetary policy stance will not change dramatically throughout the year and lending to the private sector is expected to expand.

(c) Exchange-rate policy

Foreign exchange market activity increased by 12% in 2012 owing to higher trade, remittances and investment flows. The central bank has made a point of having a stable nominal exchange rate and intervened in the foreign exchange market by selling foreign currency, which helped hold currency depreciation to a minimal 0.37% year-on-year to December. The Guyanese dollar depreciated slightly in the first quarter of 2013; this gradual nominal depreciation is expected to continue due to structural weaknesses in Guyana's external accounts and the central bank's exchange rate policy stance.

(d) Other policies

In 2012 and 2013, the government signed several economic development cooperation agreements or MOUs with foreign governments. Among them are economic and technical cooperation agreements with China under which Guyana would receive a total of US\$ 9.6 million. Both governments also signed a US\$ 130 million concessional loan agreement for upgrading the Cheddi Jagan International Airport. The Government of Guyana signed an MOU with Brazil to cooperate on infrastructure projects, which would contribute to the substantial physical integration of two countries. It has also sought to take the initiative in combating climate change and continued to push its LCDS, under which Guyana can receive performance-based payments up to US\$ 250 million from the Government of Norway. It was reported that by the end of 2012 Guyana had fulfilled all the requirements for a third tranche of US\$ 45 million. In May 2013, however, negotiations between the administration and the opposition (which has a majority in parliament) ended with a 5% budget cut for LCDS. This has raised concerns about the smooth implementation of LCDS-related projects, including the Amaila Falls hydroelectric power plant.

3. The main variables**(a) The external sector**

The current account deficit expanded, reflecting increases in the service account deficit, especially in non-factor services such as freight and insurance. However, the deterioration was marginal thanks to robust growth in goods exports as well as slight increases in the surpluses on the income and transfers accounts. Gold exports were the main driver of this expansion of exports, thanks to the favourable international price. Bauxite exports increased due to higher export volumes despite a lower export price. Exports of agricultural products such as rice also helped to push goods exports up. Although sugar export volume declined, total sugar export value increased marginally thanks to favourable prices. The capital account surplus rose significantly, driven above all by foreign direct investment inflows, mainly in the mining and telecommunication sectors, which were 19% more than in 2011. As a result of this strong capital account performance, the overall balance of payments recorded a surplus in 2012. Consequently, international reserves held by the central bank increased by 8% year-on-year to the end of 2012, and its gross foreign reserves became equivalent to four months of imports. In 2013, the current account deficit is expected to increase once again due to several large infrastructure projects that will boost imports. Preliminary trends suggest that FDI inflows continue to be robust; these inflows may offset the current account deficit to keep the overall balance of payment in surplus.

(b) Economic growth

The economy grew by 4.8% in 2012 (the seventh consecutive year of positive growth) as high prices and private and public investments fuelled the extraction of commodities. In mid-2012, the government revised the growth forecast down from 4.1% to 3.8% after growth during the first half of the year turned out to be less than expected, mainly due to sugar sector underperformance because of unfavourable weather conditions. However, the economy posted a strong performance in the second half of the year, leading to an outcome that was better than originally projected. The main driver was 14.8% mining sector growth. The gold mining sector contributed the most, thanks to increased activity due to high international prices. The high price of gold attracted not only foreign investors but also small- and medium-scale local miners who contributed to more efficient production. Bauxite production was up as well and contributed to the growth thanks to higher international demand, despite the halt in operations caused by civil unrest in response to electricity rate hikes. In the agricultural sector, the rice industry

continued to increase production. In addition to the favourable market price, the continuing growth of production was attributed to the improvement of infrastructure, such as drainage and irrigation systems. Sugar output contracted by 7.8% in 2012, due to unfavourable weather conditions in the first half of the year, an industrial dispute and some mechanical problems. The service sector performed fairly well, driven by the transport sector as demand for imported vehicles rose and by financial and insurance activities thanks to the rise in private sector credit.

Preliminary information suggests that the economy will continue to grow at a steady pace in 2013. Exports are expected to expand thanks to high primary commodity prices. The sugar industry, which constrained growth in 2012, will gradually improve this year as the GuySuCo recapitalisation plan and processing facility upgrades are implemented. In March 2013, the European Union decided to extend its sugar regime to 2019-2020. Since this regime allows importers in the European Union to access tariff- and quota-free sugar from Least Developed Countries (LCDs), sugar exports to the European Union are unlikely to contract drastically. ICT is another sector that can drive the economy in 2013. The Government has begun to put serious efforts towards expanding this sector by making investments to improve connectivity in the country. Investment in large physical infrastructure projects will increase as well. As a consequence, the economy is expected to grow by around 4.8% in 2013.

(c) Prices, wages and employment

Despite higher food prices and demand-side pressures on the back of robust economic growth, inflation remained under control at 3.4% at year-end. Consumer prices were stable thanks to the central bank's prudential monetary policy and a reduction in the excise tax on imported fuel, which cushioned the impact of the international fuel price hike. Considering the anticipated food and fuel price uptrend, the inflation rate in 2013 is expected to increase but still remain moderate at around 4.3%.

While official figures for recent changes in the private sector labour market are not available, continued above-trend growth has likely contributed to a decline in unemployment. It was reported that public-sector employment increased by 3.5% in 2012. Wages for public-sector employees and public education system teachers increased by 5% in January 2012.

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 a/ |
|---|-------|-------|-------|-------|-------|-------|-------|-------|---------|
| Annual growth rates b/ | | | | | | | | | |
| Gross domestic product | 1.6 | -2.0 | 5.1 | 7.0 | 2.0 | 3.3 | 4.4 | 5.4 | 4.8 |
| Per capita gross domestic product | 1.2 | -2.3 | 4.8 | 6.8 | 1.8 | 3.1 | 4.2 | 5.2 | 4.6 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 3.2 | -13.7 | 6.5 | 0.6 | -2.9 | 1.3 | 2.3 | 2.7 | 3.7 |
| Mining and quarrying | -6.5 | -17.8 | -21.6 | 14.7 | -0.1 | -2.9 | -5.4 | 19.2 | 14.8 |
| Manufacturing | 0.0 | 12.0 | 5.2 | 3.0 | -4.4 | 4.3 | 0.3 | 6.8 | 2.4 |
| Electricity, gas and water | ... | ... | ... | 0.6 | 9.5 | 3.6 | 1.0 | 2.1 | 5.7 |
| Construction | 4.1 | 9.4 | 12.0 | 7.3 | 2.2 | 0.5 | 10.7 | 2.8 | -11.0 |
| Wholesale and retail commerce, restaurants and hotels | 1.9 | 15.0 | 10.1 | 8.7 | 4.5 | 9.8 | 10.9 | 4.5 | 6.7 |
| Transport, storage and communications | 3.6 | 9.4 | 10.0 | 16.3 | 7.7 | 1.3 | 6.9 | 8.1 | 12.2 |
| Financial institutions, insurance, real estate and business services | 1.0 | 6.3 | 8.4 | 0.1 | 7.8 | 8.5 | 10.2 | 7.9 | 11.8 |
| Community, social and personal services | 1.2 | 3.2 | 3.4 | 6.6 | 4.3 | 4.8 | 3.3 | 2.4 | 2.4 |
| Balance of payments | | | | | | | | | |
| Millions of dollars | | | | | | | | | |
| Current account balance | -20 | -158 | -250 | -189 | -321 | -220 | -246 | -372 | -395 |
| Goods balance | -8 | -233 | -300 | -365 | -522 | -401 | -534 | -642 | -582 |
| Exports, f.o.b. | 584 | 551 | 585 | 698 | 802 | 768 | 885 | 1 129 | 1 396 |
| Imports, f.o.b. | 592 | 784 | 885 | 1 063 | 1 324 | 1 169 | 1 419 | 1 771 | 1 978 |
| Services trade balance | -47 | -53 | -98 | -100 | -113 | -102 | -96 | -136 | -231 |
| Income balance | -39 | -39 | -69 | -11 | -15 | -17 | 13 | -9 | -1 |
| Net current transfers | 74 | 167 | 216 | 287 | 329 | 300 | 371 | 415 | 419 |
| Capital and financial balance c/ | 41 | 166 | 293 | 188 | 327 | 454 | 363 | 357 | 407 |
| Net foreign direct investment | 30 | 77 | 102 | 110 | 178 | 164 | 270 | 308 | 294 |
| Other capital movements | 11 | 89 | 191 | 78 | 149 | 290 | 93 | 49 | 114 |
| Overall balance | 21 | 8 | 43 | -1 | 6 | 234 | 117 | -15 | 12 |
| Variation in reserve assets d/ | -10 | -24 | -61 | -37 | -43 | -271 | -155 | 15 | -55 |
| Other financing | -11 | 16 | 18 | 39 | 38 | 37 | 38 | 0 | 43 |
| Other external-sector indicators | | | | | | | | | |
| Net resource transfer (millions of dollars) | -10 | 143 | 242 | 215 | 350 | 474 | 414 | 348 | 449 |
| Gross external public debt (millions of dollars) | 1 189 | 1 215 | 1 043 | 718 | 834 | 933 | 1 043 | 1 111 | ... |
| Prices | | | | | | | | | |
| Annual percentages | | | | | | | | | |
| Variation in consumer prices (December-December) | 5.5 | 8.2 | 4.2 | 14.1 | 6.4 | 3.6 | 4.5 | 3.3 | 3.4 |
| Variation in nominal exchange rate (annual average) | 2.3 | 0.8 | 0.2 | 1.1 | 0.6 | 0.2 | -0.2 | 0.2 | 0.0 |
| Nominal deposit rate e/ | 3.4 | 3.4 | 3.3 | 3.2 | 3.1 | 2.8 | 2.7 | 2.3 | 1.8 |
| Nominal lending rate f/ | 16.6 | 15.1 | 14.9 | 14.1 | 13.9 | 14.0 | 15.2 | 14.7 | 14.2 |
| Central government | | | | | | | | | |
| Percentajes of GDP | | | | | | | | | |
| Total revenue | 24.8 | 26.4 | 27.4 | 26.0 | 25.4 | 27.2 | 26.0 | 25.6 | 24.7 |
| Tax revenue | 19.4 | 20.2 | 20.1 | 22.0 | 20.2 | 21.6 | 21.9 | 21.2 | 20.1 |
| Total expenditure | 29.1 | 34.9 | 35.6 | 30.5 | 29.2 | 30.8 | 28.9 | 28.7 | 29.4 |
| Current expenditure | 20.1 | 21.6 | 21.3 | 18.4 | 20.0 | 19.5 | 18.8 | 19.1 | 19.7 |
| Interest | 3.1 | 2.8 | 2.4 | 1.8 | 1.7 | 1.6 | 1.7 | 1.5 | 1.1 |
| Capital expenditure | 9.0 | 13.4 | 14.3 | 12.2 | 9.2 | 11.4 | 10.1 | 9.5 | 9.7 |
| Primary balance | -1.2 | -5.7 | -5.8 | -2.8 | -2.1 | -2.1 | -1.2 | -1.6 | -3.6 |
| Overall balance | -4.3 | -8.5 | -8.2 | -4.5 | -3.8 | -3.7 | -2.9 | -3.1 | -4.7 |
| Public debt | ... | 183.9 | 93.1 | 60.0 | 61.6 | 60.5 | 61.2 | 65.2 | 62.0 |

Table 1 (concluded)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 a/ |
|-----------------------|---|------|------|------|------|------|------|------|---------|
| Money and credit | Percentages of GDP, end-of-year stocks | | | | | | | | |
| Domestic credit | 15.0 | 15.2 | 14.8 | 12.8 | 15.3 | 11.4 | 12.1 | 17.8 | 17.0 |
| To the public sector | -0.4 | -1.2 | -3.6 | -5.4 | -4.7 | -8.1 | -9.0 | -4.9 | -7.7 |
| To the private sector | 19.4 | 19.9 | 21.2 | 20.8 | 22.8 | 22.8 | 24.4 | 25.6 | 27.7 |
| Others | -4.0 | -3.6 | -2.8 | -2.6 | -2.8 | -3.4 | -3.4 | -2.9 | -3.0 |
| Monetary base | 17.4 | 18.5 | 17.3 | 15.5 | 14.9 | 17.5 | 20.0 | 18.7 | 19.4 |
| | 46.0 | 47.2 | 49.2 | 46.4 | 47.0 | 48.9 | 50.7 | 51.5 | 51.8 |

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 2006 prices.

c/ Includes errors and omissions.

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

e/ Small savings rate.

f/ Prime lending rate.

Table 2
GUYANA: MAIN QUARTERLY INDICATORS

| | 2011 | | | | 2012 | | | | 2013 | |
|--|------|------|------|------|------|------|------|------|------|---------|
| | Q.1 | Q.2 | Q.3 | Q.4 | Q.1 | Q.2 | Q.3 | Q.4 | Q.1 | Q.2 a/ |
| Goods exports, f.o.b. (millions of dollars) | 219 | 363 | 235 | 313 | 306 | 276 | 375 | 438 | ... | ... |
| Goods imports, c.i.f. (millions of dollars) | 374 | 487 | 452 | 457 | 475 | 473 | 447 | 583 | ... | ... |
| Gross international reserves (millions of dollars) | 782 | 779 | 805 | 798 | 811 | 762 | 872 | 862 | 812 | 764 b/ |
| Consumer prices (12-month percentage variation) | 6.1 | 5.7 | 4.7 | 3.3 | 1.2 | 1.9 | 2.3 | 3.4 | ... | ... |
| Average nominal exchange rate (Guyana dollars per dollar) | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 | 204 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate c/ | 2.6 | 2.4 | 2.2 | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 | 1.5 | 1.3 d/ |
| Lending rate e/ | 15.0 | 14.5 | 14.9 | 14.5 | 14.6 | 14.2 | 14.1 | 13.0 | 12.5 | 12.5 d/ |
| Monetary policy rates | 5.6 | 5.3 | 5.3 | 5.4 | 5.5 | 5.5 | 5.3 | 5.3 | 5.2 | 5.2 d/ |
| Domestic credit (variation from same quarter of preceding year) | 16.3 | 31.1 | 42.7 | 46.9 | 45.9 | 66.4 | 38.7 | 18.1 | 22.1 | 21.1 b/ |
| Non-performing loans as a percentage of total credit | 4.8 | 5.1 | 6.0 | 5.4 | 5.1 | 4.9 | 5.6 | 6.0 | 5.7 | ... |

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.