

## Guyana

In 2007 the economy is expected to record an estimated annual growth rate of 4.5%, similar to the 2006 figure (4.7%). Inflation picked up to 10.4% (4.2% in 2006) owing to a number of factors including the one-off effect of the introduction of VAT in January. Despite the increase in revenue from this tax, the fiscal deficit widened. The current account deficit remained high (27.9% of GDP), reflecting significant capital and intermediate goods imports associated with ongoing private and public investment projects as well as high import prices and deterioration in tourism earnings. Capital inflows were not enough to finance the external gap, resulting in an overall balance of payments deficit of some US\$ 54 million (surplus of US\$ 45 million in 2006). It is expected that the Guyanese economy will grow around 3.5-4% in 2008.

In recent years, economic policy has been conducted within the framework of the poverty reduction strategy paper (PRSP) agreed upon with international financial institutions. Under this agreement the country has benefited from concessional lending from the IMF poverty reduction and growth facility (PRGF) and from debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). In mid-2007 external public debt was US\$ 655 million (some 70% of GDP), nearly half the level observed one year before. This considerable reduction was due to US\$ 189 million in debt forgiveness under the MDRI and US\$ 412 million in debt relief granted by the Inter-American Development Bank.

In January 2007 Guyana introduced VAT. Despite the higher- than-expected increase in revenue from this tax, the fiscal deficit widened to 12.1% of GDP (11.9% in 2006) owing to rapid growth in capital spending, partly related to the Cricket World Cup and the upgrade of the Guyana Sugar Corporation (GUYSUCO), an investment to modernize the state-

owned sugar monopoly in order to reduce production costs and enhance competitiveness.

The inflation rate accelerated from 4.2% in 2006 to 10.4% in 2007 owing to the combined effect of the introduction of VAT (at a rate of 16%) and increasing oil and food import prices. The one-off effect of the new tax drove monthly inflation to 6.6% in January.

The central bank reduced the expansion rate of monetary aggregates in an effort to meet the inflation target of 8%. From January to August 2007, domestic credit to the private sector increased by 9.8% (17.9% in 2006). Meanwhile, M1 grew by 21.7% in September year on year (13.8% in 2006), whereas M3 expanded by 12.7% (15.9% in 2006). While the nominal lending rate slightly decreased (from 14.9% to 14.5%), the deposit rate fell more sharply (from 3.3% to 2.5%).

The largest increase in loans and advances is attributed to consumer and housing credits, followed by the mining and services sectors. Loans and advances to agriculture and manufacturing experienced declines.

The financial sector became less vulnerable, as the non-performing loan ratio fell from 18.9% in March 2005

to 11% in March 2007. With the monetary authorities operating a managed float the exchange rate slightly appreciated in the second semester of 2007 to a rate above G\$ 200 per US\$.

The fair level of growth recorded by the Guyanese economy was mainly driven by agriculture and mining. During the first half of the year, agriculture is expected to expand at an annualized rate of 6% led by the strong output of crops such as sugar (12%) and rice (20%). Mining also expanded in response to high international prices. In particular, in January-June gold production picked up by 20% year on year.

The sugar industry is an important foreign exchange earner and employs a large number of workers. However, the recent European Union decision to reduce minimum prices by 36% over a four-year period—a decision linked to the reformed common market organization—could pose a serious challenge to the export performance of GUYSUCO. The government has already begun to invest heavily in its modernization to increase competitiveness. Meanwhile, biofuel production has awakened some interest in the industry and considerable savings might be possible in converting molasses to ethanol.

In the case of rice, there is uncertainty in the CARICOM market as Jamaica, a major importer, has been threatening to import extraregionally, neglecting its obligation to impose tariffs on extraregional rice imports. The timber industry is challenged by maintaining sustainable harvesting and the low level of processing taking place in the sector.

The current account deficit on the balance of payments is large, around US\$ 250 million or 27.9% of GDP (20.1% in 2006). During January-June travel and tourism receipts dropped by 6%, as the expected earnings from the Cricket World Cup failed to materialize. The number of actual visitors was below expectations, as India and Pakistan exited the tournament early. This was partly offset by a 25% increase in inward transfers owing to higher workers' remittances. Capital inflows were not enough to finance the current account deficit despite high foreign direct investment in telecommunications

#### GUYANA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	-2.0	4.7	4.5
Per capita Gross domestic product	-2.0	4.7	4.7
Consumer prices	8.2	4.2	10.4
Money (M1)	10.2	13.8	21.7 <sup>b</sup>
<b>Annual average percentages</b>			
National administration overall			
balance / GDP	-12.6	-11.9	-12.1
Nominal deposit rate	3.4	3.3	3.2 <sup>c</sup>
Nominal lending rate	15.1	14.9	14.2 <sup>c</sup>
<b>Millions of dollars</b>			
Exports of goods	551	604	533
Imports of goods	784	885	875
Current account	-158	-181	-250
Capital and financial account	166	226	196
Overall balance	8	45	-54

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to September 2007.

<sup>c</sup> Average from January to August, annualized.

(especially Digicel, a newly arrived mobile-phone operator), mining and forestry. The balance of payments will record an estimated overall deficit of US\$ 54 million compared with a US\$ 45 million surplus in 2006.

As regards the Millennium Development Goals (MDG), Guyana has already attained two targets, the eradication of extreme hunger and the achievement of universal primary education. It is expected that the reduction of the infant mortality rate and access to safe drinking water by more than half of the population will be met by 2015.

The aforementioned European Union decision to reduce sugar prices will necessitate restructuring of the industry and technology upgrades. Other export sectors such as rum and rice will have to undergo similar restructuring. These problems are aggravated by difficulties with the full implementation of government reforms and by infrastructure bottlenecks which hamper productivity and competitiveness.