

Guyana

Guyana's economy continued to grow steadily in 2008 (by 4.8% compared with 5.3% in 2007), fuelled by a strong performance in the mining and service sectors, and significant public and private investments in infrastructure. This positive growth is, however, counterbalanced by high inflation, which is expected to reach 9% by the end of the year, and a widening trade and current account deficit; both of these factors may be attributed to the increasingly adverse international environment. Forecasts for 2009 point to more moderate growth (2.5%), recurrent inflationary pressures and a similarly large current account deficit.

As recommended in the poverty reduction strategy paper (PRSP) agreed on with international financial institutions, the government adopted policies designed to preserve economic growth, stabilize financial markets and fight inflationary pressures. Thus, the excise tax on fuel was lowered, while value added tax was eliminated on some basic items. A collateral effect was the deterioration of the primary balance, with current revenue rising by just 4.9% during the first half of 2008, while current expenditure expanded by 24%. This was offset, however, by a strong increase in capital receipts. During 2008, public debt swelled following the higher issuance of treasury bills, increased disbursements from multilateral agencies, and the impact of bilateral credits coming from the PETROCARIBE Energy Cooperation Agreement; at the same time, debt relief increased slightly under the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). By mid 2008, the total stock of public debt was approximately 96% of GDP.

The Bank of Guyana centred efforts on keeping the foreign exchange market stable, allowing a moderate depreciation of the national currency. Similarly, it kept interest rates steady with only marginal increases during the year; the Bank of Guyana's rate has remained at the same level (6.5%) since February 2007 while the Treasury Bill discount rate was set at 3.94% in September, slightly higher than in December 2007. Commercial interest rates were also relatively stable during the year. Domestic credit has been tighter overall, with the public sector bearing the brunt of the reduction, while credit to the private sector has continued to grow, albeit at a slower

pace than in 2007. Simultaneously, the Bank strove to increase international reserves, which topped US\$ 320 million in July.

Economic growth remained positive, at an estimated rate of 4.8%, down from 5.3% in 2007. As in previous years, the mining sector was the main contributor to economic expansion, with 15.2% growth during the first half of 2008 compared with the first half of 2007, fuelled by higher prices for commodity exports and significant investments in bauxite and gold mining. Services and construction also recorded positive performances. Meanwhile, the agriculture sector, which is a major employer, grew only marginally during the same period; while rice and sugar output increased moderately and benefited from investment and restructuring processes, fishing and forestry output contracted sharply.

Sugar production is expected to expand in 2009, once the upgraded Skeldon sugar factory, soon to be completed, becomes operational. However, the overall outlook for 2009 is for moderate GDP growth (2.5% for 2009) due to the impact of the global economic slowdown and the resulting fall in international prices and demand for Guyana's main exports.

A major economic issue is the gas and oil exploration that started during the third quarter of the year with the launch of seismic surveys in several offshore blocks. Exploratory drilling is expected to begin towards the end of 2009. In addition, several private proposals for biofuels production are currently being considered by the government.

Inflation, particularly the steep increase in food prices, has been a serious concern throughout 2008.

Accumulated headline inflation for January-June was 5.8% while accumulated food inflation stood at 8.9% during the same period. Although price increments are expected to have moderated during the last few months of 2008, reflecting falling food and oil international prices as well as the VAT exemption on several staple food items, it is still expected that headline inflation will reach 8%-9% by the end of the year.

External accounts deteriorated as a result of the negative evolution of the terms of trade, rising demand for imports and higher payments for services. While the value of goods exports grew by 22% during the first half of 2008 (compared with the first half of 2007), imports expanded at a higher rate: 29.2%. Even with the reduction in international commodity prices during the second half of the year, the trade and current account deficits are expected to widen in 2008, with the goods import bill forecast to be around 95% of GDP, and the current account deficit expected to be equivalent to 35% of GDP. Although workers' remittances from abroad increased during the first half of 2008, they are expected to diminish because of the global economic slowdown. The capital and financial account surplus was strengthened by capital inflows mainly from official sources and from foreign direct investment in telecommunications, mining and forestry. Since this surplus is sufficient to finance the current account, international reserves should remain steady.

A landmark event in 2008 was the signing of the Economic Partnership Agreement (EPA) between

GUYANA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	5.1	5.4	4.8
Per capita gross domestic product	5.2	5.5	5.1
Consumer prices	4.2	14.1	7.4 ^b
Money (M1)	27.0	12.8	28.3 ^c
Annual average percentages			
Central government			
overall balance / GDP	-13.1	-7.4	-4.8 ^d
Nominal deposit rate ^e	3.3	3.2	3.1 ^f
Nominal lending rate ^g	14.9	14.1	13.9 ^f
Millions of dollars			
Exports of goods and services	733	854	831 ^h
Imports of goods and services	1 130	1 335	1 372 ^h
Current account	-250	-232	-416
Capital and financial account	293	231	74
Overall balance	43	-1	-342

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

^a Preliminary estimates.

^b Twelve-month variation to June 2008.

^c Twelve-month variation to September 2008.

^d Official target in the 2008 budget.

^e Small savings rate.

^f Average from January to September, annualized.

^g Prime rate.

^h In 2008, refers to goods only.

CARIFORUM States and the European Union. Despite strong reservations by the Guyanese government, the entry into force of the EPA should have a positive impact on exports, preserving preferential trade access to European markets for sugar, rice and other products.