

Guyana

The economy grew by only 1.3% in 2006 following the 3% contraction recorded in 2005, which was caused by the impact of the floods. Contrary to all predictions, the August elections took place in an atmosphere of calm, which eased political tensions and restored confidence among stakeholders. The central government's fiscal position deteriorated, reflecting higher election-year spending and capital outlays on preparations for the 2007 Cricket World Cup. Debt relief within the framework of the multilateral debt reduction initiative helped to increase the overall balance-of-payments surplus, despite the increased current-account deficit.

Fiscal policy was directed towards strengthening tax administration, in particular the collections systems, and tax reform. This included establishing the legal and administrative system to cater for the introduction of value added tax (VAT) in January 2007. With respect to outlays, the multi-year agreement for increases in teachers' salaries will introduce an element of stability and reduce budget vulnerability to unforeseen salary rises in this sector.

Nevertheless, the overall fiscal deficit widened by more than 35% to approximately 13% of GDP. Revenues grew by a remarkable 9.6% thanks to improved assessment methods and more effective tax and tariff administration. Expenditure rose more sharply, however (20.6%). Above all, capital expenditure linked to the renewal and expansion of infrastructure ahead of the Cricket World Cup increased significantly. Debt forgiveness within the framework of the multilateral initiative provided some compensation. The government is seeking substantial relief from the Inter-American Development Bank, the country's foremost creditor.

The Bank of Guyana raised the benchmark 91-day treasury bill by 11 basis points during the first half of the year, in order to mop up local currency and manage liquidity within the banking system, as well as to trigger an increase in interest rates. This measure was aimed at reducing the risk of inflation and other risks linked to depreciation of the local currency. However, it had little impact as the principal lending rate remained unchanged and the average lending rate actually dropped by 66 basis points.

Broad money was up 14.1% as of the end of the third quarter of 2006, compared with the same quarter of 2005.

Credit to the private sector increased by 13%, maintaining the recovery from 2005. There was an expansion in credit for productive activity in manufacturing and agriculture.

The net international assets of the banking system rose sharply during the year. Commercial banks' net foreign assets grew by almost 6%, reflecting increased investments abroad for portfolio diversification and more favourable returns in some instances. The central bank's net foreign assets expanded substantially owing to reduced foreign liabilities following debt relief. With these developments, international reserves cover more than three months' imports of goods and non-factor services.

Economic activity picked up slightly (1.3%) in 2006, driven by construction and personal services. Growth in construction (4.5%) was buoyed by public investments in infrastructure, including roads and bridges, and the building of social housing in the context of an urban renewal programme. Work also continued on the stadium for the Cricket World Cup and accommodation for visitors to this event. Nevertheless, shortages of cement and higher costs for labour and other inputs put a damper on the sector's performance.

Agricultural growth was very sluggish (0.4%) owing to the impact of further floods in February 2006. Sugar production was up by 5.1% and rice by 8.1%. Manufacturing maintained steady growth of 2%, reflecting increased production of pharmaceuticals, paints and fabrics. The increase in the production of alcoholic beverages was partly counterbalanced by a fall in non-alcoholic beverages. Mining output contracted by 15.5% following the closure of the Omai gold mine in 2005, which was only partially offset by increased output of diamonds. The forestry

and fisheries sectors posted growth rates of 4% and 1%, respectively. Ironically, shrimp production decreased significantly at a time when Guyana had just secured a lucrative market for this product in the United States.

Inflation diminished to 5.3% in the 12 months to September 2006, compared with 8.2% in 2005. Food shortages abated somewhat and, though high, oil prices moderated in the latter part of the year.

Public-sector employment contracted in 2006 following a 5.4% cut in staff by the State-owned Guyana Sugar Corporation (GUYSUCO) as part of its restructuring initiative. Public-sector wages increased in line with the 7% rise granted in December 2005. Private-sector wages were also expected to improve as a result of the demand for labour in the construction sector.

The overall balance of payments improved in 2006 with the surplus increasing by almost 15%. Net capital inflows (including errors and omissions) showed robust growth of 67%, although the current account deficit widened by 70% owing mainly to higher imports and a marginal decline in exports.

On the merchandise account, imports of intermediate and capital goods registered a strong increase associated with new and ongoing public- and private-sector projects. On the export side, earnings from sugar and rice increased thanks to higher prices, although export volumes actually

Table 1
GUYANA : MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
	Annual growth rates		
Gross domestic product	1.6	-3.0	1.3
Consumer prices	5.5	8.2	5.3 ^b
Money (M1)	19.6	10.2	11.5 ^c
	Annual average percentages		
Central government overall balance/GDP	-6.9	-14.2	...
Nominal deposit rate	3.4	3.4	3.3 ^d
Nominal lending rate	16.6	15.1	15.0 ^d
	Millions of dollars		
Exports of goods and services	748	706	694
Imports of goods and services	852	990	1 100
Current account	-70	-150	-255
Capital and financial account	27	158	264
Overall balance	-43	8	9

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

^a Preliminary estimates.

^b Twelve-month variation to July 2006.

^c Year-on-year average variation, January to October.

^d Average from January to September, annualized.

declined. Bauxite receipts were up, owing to higher export volumes and an 11.3% rise in prices.

Growth in tourist receipts thanks to the Cricket World Cup and improved productivity in sugar and rice linked to competitiveness measures should contribute to a stronger balance-of-payments position in 2007.