Guyana

1. General trends

Guyana's economy contracted by 0.6% in 2003 after having expanded slightly the preceding year (by 1.1%). This underperformance in relation to the authorities' target of 1.2% followed unexpected downturns in sales of two of the country's key products: sugar and gold.

The economic decline was reflected in lower tax receipts, which, together with a smaller inflow of grants under the Heavily Indebted Poor Countries (HIPC) Initiative, led to a widening of the fiscal gap from 5.8% of GDP in 2002 to 9.1% in 2003, including grants. The government financed the imbalance with external resources, which swelled the country's external debt stock.

The downshift in economic activity, combined with the monetary policy stance (which helped to keep real interest rates stable), contributed to the stagnation of demand for credit. This raised the banking system's liquidity levels and enabled the financial system to increase its net external assets and holdings of treasury notes.

In consonance with the prevailing macroeconomic environment, inflation declined from 6.2% to 4.9% and the nominal exchange rate remained unchanged.

On the external front, Guyana succeeded in lowering its balance-of-payments deficit from 3.5% of GDP in 2002 to 3% in 2003, thanks to the reduction of the current account deficit and, in particular, to the slow growth of imports, since the capital account balance worsened.

An upturn in economic growth (to 2.5%) is foreseen for 2004, stimulated by improvements in all sectors of activity except mining and quarrying. Inflation is expected to be in the 4%-to-5% range. The fiscal deficit will probably widen slightly, while the balance-of-payments current account deficit should stand at about 15% of GDP.

2. Economic policy

(a) Fiscal policy

The central government deficit, excluding grants, was slightly larger than the one posted the preceding year, as it rose from 14.3% in 2002 to 14.9% in 2003. This was because both the tax burden and public spending stayed at their 2002 levels (28.7% and 46.1% of GDP, respectively).

Revenues reflected the sluggish growth in their components as a result of the stalled economy. Thus, receipts from taxes on income, consumption and international transactions varied by 2.9%, 4.2% and -4.8%, respectively.

The tax reforms initiated in 2003 were not reflected in the fiscal accounts, but the authorities predict that their effects will be felt in fiscal year 2004. Two notable

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
					Annual growth rates [b]				
Gross domestic product	5.1	7.1	7.1	-1.7	3.0	-1.4	2.3	1.1	-0.6
Per capita gross domestic product	4.6	6.5	6.5	-2.1	2.4	-1.8	1.9	0.9	-0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.4	5.1	24.0	-6.4	14.6	-10.2	3.7	-11.6	-2.3
Mining and quarrying	-11.4	15.2	15.0	2.7	-8.4	5.9	4.2	-6.9	-8.7
Manufacturing	9.4	3.9	-39.4	-10.6	6.7	-11.7	0.0	107.1	-0.5
Construction	9.7	14.0	13.1	4.7	-10.0	6.6	2.0	-3.9	5.6
Basic services [c]	9.6	10.9	8.9	-3.1	2.1	7.1	5.4	4.5	4.9
Other services [d]	5.4	6.1	5.3	1.3	-0.8	5.1	0.9	0.4	1.4
					Millions of dollars				
Balance of payments									
Current account balance	-135	-69	-111	-102	-78	-115	-134	-107	-84
Merchandise trade balance	-41	-20	-48	-54	-25	-80	-94	-68	-55
Exports, f.o.b.	496	575	593	547	525	505	490	495	517
Imports, f.o.b.	537	595	642	601	550	585	584	563	572
Services trade balance	-38	-23	-23	-32	-31	-24	-20	0	...
Income balance	-118	-67	-80	-60	-61	-58	-64	-55	-50
Net current transfers	62	41	40	44	39	47	44	40	40
Capital and financial balance [e]	92	81	110	89	100	156	160	82	74
Net foreign direct investment	74	59	52	44	46	67	56	...	...
Financial capital	17	22	58	45	54	88	104	...	...
Overall balance	-43	12	-2	-13	22	40	26	-25	-10
Variation in reserve assets [f]	1	-14	3	23	-11	-24	-10	-4	-1
Other financing	42	2	-1	-10	-10	-16	-16	29	11
Other external-sector indicators									
Total gross external debt (millions of dollars)	2 058	1 537	1 513	1 516	1 210	1 195	1 193	1 246	1 084
Total gross external debt (% of GDP)	391.2	263.9	242.8	276.9	207.8	204.2	201.3	165.2	152.2
Prices									
Variation in consumer prices (December-December)	8.1	4.5	4.2	4.7	8.7	5.8	1.5	6.2	4.9
Variation in nominal exchange rate (December-December)	-1.6	0.6	1.8	14.0	10.2	2.4	2.6	1.2	2.0
Small savings rate (real)	8.1	7.4	7.1	6.7	7.3	6.9	6.6	4.0	3.3
Real lending rate (weighted)	15.7	17.7	17.6	17.5	16.4	16.7	17.3	15.9	14.8
					Millions of Guyana dollars				
Central government									
Current income	29 496	35 117	34 083	33 121	36 839	41 335	41 427	44 584	45 390
Current expenditure	23 775	23 944	28 081	30 195	31 840	40 646	47 054	48 153	49 684
Current balance	5 721	11 174	6 002	2 926	4 999	688	-5 627	-3 568	-4 294
Net capital expenditure	8 608	12 761	13 631	10 244	7 431	10 332	8 524	15 703	17 264
Primary balance	...	...	...	...	...	...	-2 463	-8 564	-12 696
Overall balance	-2 886	-1 587	-7 629	-7 317	-2 431	-9 643	-14 151	-19 271	-21 558
					Percentages of GDP				
Money and credit									
Domestic credit	44.6	56.9	64.7	71.6	69.2	70.1	74.1	57.6	75.1
To the public sector	20.3	19.4	17.2	15.8	12.9	12.3	16.0	13.0	24.1
To the private sector	24.3	37.5	47.5	55.8	56.2	57.8	58.1	44.7	51.1
Money stock and local-currency deposits (M2)	55.9	58.1	60.3	63.6	62.3	65.7	69.7	70.9	73.8

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 1988 prices. [c] Includes electricity, gas and water and transport, storage and communications. [d] Includes retail commerce, restaurants and hotels; financial institutions, insurance and real estate; and social and personal services. [e] Includes errors and omissions. [f] A minus sign (-) denotes an increase in reserves.

developments were the adoption of the Fiscal Enactment (Amendment) Act, which eliminated discretionary exemptions except on humanitarian grounds, and the introduction of a tax on professional services. The scope of the 10% tax on hotel activity was expanded to include the services offered by such establishments. Lastly, the taxable income threshold was raised from 216,000 to 240,000 Guyana dollars (G$) per year.

Public expenditure reflected higher payroll outlays as a result of compensation payments to laid-off workers in the bauxite industry, as well as an increase in government procurement of goods and services (from 7% of GDP in 2002 to 8% in 2003). These upturns were offset by a reduction in interest payments from 7.7% of GDP in 2002 to 6.1% in 2003.

The increase in capital outlays from 11% to 12% of GDP over the same period was attributable to infrastructure upgrades, including the rehabilitation of the airport runway and the modernization of the drainage and irrigation system in the agricultural sector.

Bearing in mind that grants received under the HIPC Initiative declined from G$ 8.701 billion to G$ 5.75 billion owing to a change in the method of calculating debt relief, the central government deficit grew from 5.8% to 9.5% of GDP and was covered using external resources. This raised the level of public debt, which by the end of 2003 had climbed to 172% of GDP (as against 169% in 2002), increasing concerns as to its sustainability.

In 2004 it is expected that the central government deficit will shrink to 10% of GDP and that tax revenues will remain at 31% of GDP. Total expenditure is likely to increase by more than one percentage point of GDP as a result of higher capital outlays.

(b) Monetary and exchange-rate policy

In 2004 monetary policy has continued to exhibit the stance adopted the preceding year. In 2003 commercial banks took a cautious approach to their operations, and this, together with the weak economy, enabled them to maintain the same level of liquidity as in 2002. Free reserves amounted to nearly half the level of required reserves, while the ratio of liquid assets to deposits, which stood at 45% in December 2002 and December 2003, increased to 47% in March 2004.

Nominal interest rates, which subsided from 17.2% to 16.7% between December 2002 and December 2003 (weighted prime rate) and from 16.8% to 15.6% over the same period (weighted lending rate of commercial banks), descended in line with the downturn in inflation. In real terms, these rates did not change, holding steady at 11% and 10%, respectively, in 2002 and 2003. The demand for credit contracted by 18% because of slower activity in most production sectors; for example, the demand for loans slumped by 48% in agriculture, by 15% in manufacturing and by 12% in mining.

In these circumstances, private banks used their liquidity to buy government paper and to build up their external assets, with the result that holdings of treasury bills increased from G$ 23 billion in December 2002 to G$ 32.248 billion in December 2003 and to G$ 37.767 billion in March 2004, an increase of 35%. The financial system's net external assets shot up by 71% (by 43% between March 2003 and March 2004), while the commercial bank share rose from 24% to 34% (and to 36% in March 2004).

The bigger supply of government securities pulled down interest rates. Discount rates on 91-, 182- and 364-day treasury bills went from 3.91%, 4.12% and 4.91% in December 2002 to 3.40%, 3.37% and 4.01%, respectively, in December 2003. The increase in net external assets and the decline in the financial system's net credit to the economy (-8%) were reflected in the rates at which narrow and broad money expanded (16.8% and 8.3%, respectively).

The nominal exchange rate showed a marginal depreciation of 1.3% in relation to the United States dollar, moving from G$ 191.75 to the dollar in December 2002 to G$ 195.50 in December 2003 and G$ 196.97 in March 2004. The stronger demand for foreign exchange fuelled operations equivalent to US$ 2.3 billion, a large proportion of which were effected through exchange bureaux. The central bank did not intervene in the foreign-exchange market.

(c) Other policies

The macroeconomic stance was complemented by a series of programmes and reforms designed to improve the country's institutional framework. With respect to the financial system, a consultation process was begun with a view to setting up an insurance plan to protect savers in the event that financial entities became insolvent. The privatization of the Guyana National Cooperative Bank relieved the national treasury of the financial burden represented by the deficit that the Bank had accumulated.

In addition, the government devised a plan of action with the Caribbean Regional Technical Assistance Centre (CARTAC) for the establishment of a value added tax in the medium term. Lastly, the issue of public-sector modernization was addressed through the Fiscal Management and Accountability Act, which provides the authorities with an updated legislative framework for the administration of public finances, including provisions for enhancing the efficiency and transparency of administrative practices.

3. The main variables

(a) Economic activity

Economic activity contracted by 0.6% in the period under review, reflecting the relatively weak performance of the main production sectors.

In agriculture, sugar output fell, while rice and other subsectors showed upturns. Sugar production contracted by 11% as a result of weather conditions that were adverse for sugar but favourable for rice yields, which were up by 26%. Both of these subsectors exhibit serious shortcomings in the areas of productivity and quality management. Livestock production and forestry expanded by 3.3% and 2%, respectively.

For 2004 the authorities project an increase in sugar production, to 450,000 tons. In addition, the new factory in Skeldon, which is due to come on stream in the course of the year, is expected to help slash production costs from US$ 0.17 to US$ 0.9 per pound by 2007.

Mining and quarrying decreased by 6.9% in 2002 and 8.7% in 2003, reflecting a decline in gold production (-14%) notwithstanding the rise in international prices. This situation was due to the depletion of exploitable reserves in the Fennell mine. Meanwhile, the output of the Omai and other mines registered drastic downturns of 16% and 10%, respectively, also owing to the depletion of resources. The low output of gold was partly offset by an increase in diamond production (66%) for the third straight year. Bauxite production also expanded (6.5%), as a result of strong external demand that was led by China and sustained by a shortage of the mineral due to the war in Iraq.

According to forecasts, the value added of mining and quarrying could decline by about 3% in 2004 because of lower gold and bauxite output. This is likely to be partly offset by a further increase in diamond production.

The authorities have begun to apply a strategy of restructuring and privatizing certain State-owned companies in the mining sector. Linden Mining Enterprises Ltd. (Linmine) will be taken over by private interests in 2004, thus opening up investment opportunities in this sector. In addition, the government intends to form a joint venture with Russian Aluminium (RUSAL) to increase aluminium production. Guyana will also benefit from the construction of an aluminium smelter in Trinidad and Tobago.

The 0.5% decline in manufacturing was attributable to a downturn in the sector's competitiveness and to problems of quality that have made it hard for Guyanese products to gain access to foreign markets. Wood, beverages and food items suffered significant contractions estimated at between 20% and 30%. Conversely, increases were recorded in cereals, cattle feed, carbonated beverages and corrugated cardboard. Manufacturing is expected to show a slight recovery in 2004 (of just 1.5%), concentrated primarily in beverages and wood processing.

A public investment programme geared to improving the country's infrastructure boosted the output of the construction sector by 5.6%. The service sector grew by 2.1% thanks to higher output in all branches of activity, especially government services. The telecommunications sector showed a 5% expansion, which is attributed to the more widespread use of cellular telephones.

(b) Prices and wages

Notwithstanding the rise in international oil prices, inflation declined from 6.2% in 2002 to 4.9% in 2003, in keeping with the slowdown in economic activity. A breakdown of the price index shows that the transport and communications component recorded the biggest increase (8.7%), reflecting the rise in international fuel prices and the high tariff rates applicable to fixed and cordless telecommunications.

The government kept its promise to raise civil-service wages and salaries by 5% for a third consecutive year, and increased the minimum wage from G$ 21,047 to G$ 22,090.

(c) The external sector

The overall balance-of-payments position was negative (-1.3%), but represented an improvement over the deficit recorded in 2002 (-3.5%). This was the result of a decline in the current account deficit, which narrowed from 14.6% of GDP in 2002 to 11% in 2003, since the capital account surplus shrank from 11.8% of GDP in 2002 to 10.6% in 2003. The balance-of-payments deficit was financed with resources from the HIPC Initiative, which enabled the central bank to accumulate net external assets equivalent to US$ 1 million.

The current account balance reflected positive growth in exports (4.5%) and a slight increase in imports, which expanded by just 1.5% owing to the economic standstill.

External sales of sugar and bauxite contributed substantially to the increase in exports. Sugar sales expanded by 8.2% owing to a rise in export volume, which more than compensated for a decline in international prices (-2.4%) and lower output. Conversely, gold exports diminished by 3.7% because of a volume decrease attributable to the depletion of exploitable deposits in some mines. Lastly, there was a 27% upturn in bauxite exports as a result of increases in both volume (9.6%) and price (16%).

Imports consisted for the most part of capital and intermediate goods for infrastructure projects, and reflected the higher cost of fuels due to the rise in international prices. Imports of consumer goods declined by 5.3%.

The deterioration in the capital and financial account was the consequence of a 40% slump in net private capital inflows and in receipts of official grants.