

Guyana: Staff Report for the 2009 Article IV Consultation

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on January 6, 2010, with the officials of Guyana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 2, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Supplement to the staff report.
- A Public Information Notice (PIN).
- A statement by the Executive Director for Guyana.

The document listed below will be separately released.

Selected Issues

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GUYANA

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation with Guyana
(In consultation with other departments)

Approved by Gilbert Terrier and Dhaneshwar Ghura

March 2, 2010

EXECUTIVE SUMMARY

- **Background.** Guyana has sustained a solid economic performance in recent years, supported by a strengthened policy framework. New GDP series recently released reveal that the debt overhang is lower than previously estimated, while the fiscal and current account deficits are also smaller. In 2009, output growth was robust despite the global crisis, and the outlook for 2010 remains positive. However, with public debt still at high levels, and continued real, fiscal, and financial vulnerabilities, there is a case for staying the course of prudent policies, given the downside risks to the outlook.
- **Key policy recommendations and authorities' views.** While there was broad agreement on the need to preserve a prudent policy framework to further entrench fiscal and debt sustainability, the stronger-than- envisaged fiscal consolidation achieved in 2009 allows for a somewhat more gradual pace for fiscal tightening in 2010–11. This will help accommodate priority infrastructure spending, and support growth. In the short term, inflation risks are expected to remain contained by the presence of a negative (albeit narrowing) output gap and a cautious monetary policy stance. Recent efforts to strengthen banking supervision should be accompanied by a careful monitoring of asset quality, and enhanced prudential measures. Ongoing structural reforms to modernize the sugar sector and diversify Guyana's productive base are critical to sustaining long-term growth and alleviating poverty. Data quality and dissemination efforts could be enhanced further, including through subscribing to GDDS.
- **Exchange rate system.** Guyana's *de jure* exchange rate regime is a managed float and the Fund has classified the *de facto* regime as a stabilized arrangement. There have been no changes in the exchange system and the related legal framework since the last Article IV Consultation.
- **Mission.** The team that visited Georgetown during January 6–16, 2010 comprised María González (Head), Magda Kandil, Carla Macario (all WHD), and Felix Eschenbach (SPR). Leslie-Ann DesVignes, (OED, Senior Advisor) and Maurizio Bussolo (World Bank) also participated in the discussions. The team met with Minister of Finance Ashni Singh, Central Bank Governor Lawrence Williams, representatives of the private sector, labor, and the donor community, and members of the political opposition.

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I. CONTEXT

1. **In recent years, Guyana has sustained a solid macroeconomic performance, supported by a strengthened policy framework.** Newly released GDP series (based on 2006 prices) suggest that Guyana's economic growth exceeded 4 percent a year on average during 2007-09—compared with 3½ percent in the previous GDP series (based on 1988 prices), while nominal GDP at market value is some 65 percent higher than before. This reflects, in part, the incorporation of new economic sectors, and of the previously large informal activity that moved into the formal sector since Guyana changed course in the late 1980s (Box 1). Inflation has declined steadily since the imported price shock of 2008, to around 3½ percent at end-2009. This performance owes much to the implementation of prudent policies, which have helped reign in public debt, while supporting growth and external stability.

2. **While Guyana has been adversely affected by the global crisis, it has weathered it significantly better than its Caribbean peers—and policy indicators have strengthened relative to regional standards.** Guyana's real GDP growth was generally below the regional average in the first half of the decade, but the pace of economic activity has picked up since 2006, and showed much higher resilience to the 2009 global crisis than the rest of the region (Figure 1). Inflation has been contained at lower levels than in other Caribbean commodity exporters, and the fiscal deficit has narrowed steadily in recent years. Concurrently, debt ratios have improved—also supported by debt relief—bringing external debt within the regional range, while domestic debt is low relative to the Caribbean average.

Selected Caribbean Countries: Economic, Social, and Political Indicators

	Guyana	Suriname	Trinidad & Tobago
Economic Indicators			
Real GDP growth (2007-09) 1/	4.1	4.6	1.3
GDP per capita (US\$, 2008) 2/	1,509	5,928	19,870
Inflation, end-of-period (2007-09) 1/	8.0	7.8	8.5
Unemployment rate (percent, 2007)	11.0	11.0	5.6
Social Indicators			
Human development index (UNDP, rank) 3/	114	97	64
Health and primary education index (WEF, rank) 3/	67	54	62
Life expectancy at birth, total (years, 2007)	66.9	68.9	69.7
Mortality rate, infant (per 1,000 live births, 2007)	45.0	27.4	31.1
Business Climate			
Inward FDI performance index (UNCTAD, rank) 3/	11	141	54
Global competitiveness index (WEF, rank) 3/	104	102	86
Business sophistication index (WEF, rank) 3/	94	115	75
Regulatory quality (WB, percentile rank) 4/	31.8	25.6	70.5
Political Indicators			
Corruption perception index (TI, rank) 3/	126	75	79
Political stability (WB, percentile rank) 4/	26.3	51.1	47.8
Rule of law (WB, percentile rank) 4/	27.7	44.4	48.8

Sources: World Bank; United Nations Development Programme; United Nations Conference on Trade and Development; World Economic Forum; and Transparency International.

1/ Simple average.

2/ Guyana's GDP per capita is based on 1988 constant prices.

3/ The lower, the better.

4/ The higher, the better.

II. RECENT DEVELOPMENTS

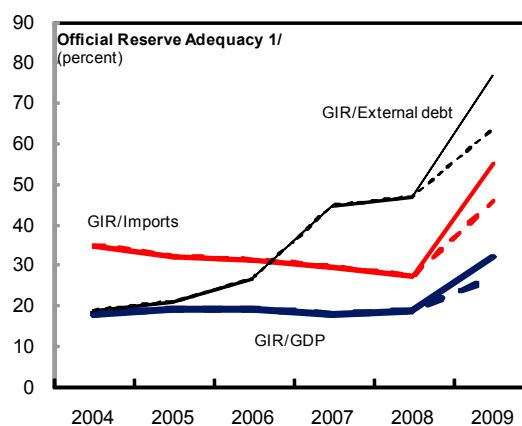
3. **Economic activity strengthened in 2009, and inflation declined.** Real growth was about 3¼ percent in 2009, up from 2 percent in 2008 (Figure 2).¹ Economic activity was affected during the first half of the year by difficulties with the start-up of the new large public sugar plant at Skeldon, and the impact of the global and weather shocks on the sugar and bauxite industries. In the second half, economic growth benefited from robust activity in

¹ Estimates using the old GDP series suggest that real growth was 3.1 percent in 2008, and 2.3 percent in 2009.

the non-tradable sectors and a recovery in agriculture and gold production (see Attachment I: “The Impact of the Global Crisis through the Real Channel”). End-year inflation fell to 3½ percent from 6½ percent in 2008, reflecting the decline in world commodity prices.

4. In 2009, the external current account deficit narrowed, while the international reserve position strengthened significantly.

The current account deficit fell by some 5 percent of GDP, to 8½ percent, driven by a reduction in imports—particularly fuel imports—and notwithstanding the adverse effect of global conditions on exports and remittances (Figure 3) and the phasing out of sugar price preferences by the EU in October (see Attachment II: “Guyana: Elimination of the EU Sugar Preferences”). In the capital account, steady short-term inflows, including by commercial banks that brought back assets held abroad to benefit from higher domestic interest rates, helped offset a decline in FDI. These developments, together with the SDR allocation, led to a large increase in gross reserves, to US\$623 million at year-end.²



1/ Dotted lines denote value before SDR allocation (US\$108.6 million) in 2009.

5. Monetary policy tightened, supporting the decline in inflation. Growth of broad money—the monetary policy anchor—fell to 9.7 percent in December (y/y), compared to 12.7 percent a year earlier. T-Bill rates rose in real terms—turning from being negative in 2008 to positive in 2009 as inflation declined, leading commercial banks to increase their holdings of government securities, in the context of a slow demand for credit. The nominal currency has remained broadly stable against the U.S. dollar.

6. The pace of fiscal consolidation strengthened in 2009, helping contain public debt. The NFPS deficit (after grants) is estimated to have declined to 3.3 percent of GDP in 2009 from 4.7 percent in 2008, on the back of strong fuel excise collections that offset a modest under-performance by public enterprises and a shortfall in official grants. This outturn was equivalent to a deficit of 5.3 percent of (old) GDP—below the budget target of 6½ percent of (old) GDP. Owing to this retrenchment, public debt (net of savings of PetroCaribe-related disbursements) declined by about 1 percent of GDP to 56¾ percent of (new) GDP.

Nonfinancial Public Sector Operations
(In percent of GDP)

	2009	
	Budget	Outturn
Revenue and grants	28.2	28.8
Tax revenue	20.9	21.6
Non-tax revenue	0.9	1.4
Public enterprises	1.8	1.6
Grants	4.6	4.2
Expenditure	32.3	32.0
Wages and salaries	6.4	6.3
Other goods and services	6.5	6.3
Transfers	5.1	5.3
Interest	1.6	1.6
Capital expenditure	12.6	12.6
Overall balance after grants	-4.0	-3.3

Sources: Ministry of Finance; and Fund staff estimates.

² The authorities sold SDR 70 million out of the total allocation of SDR 87.1 million last September; the proceeds have been invested in US Treasuries, in the context of their international reserves management.

Box 1. The Rebased GDP Figures

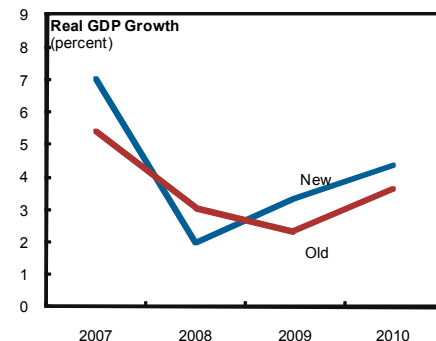
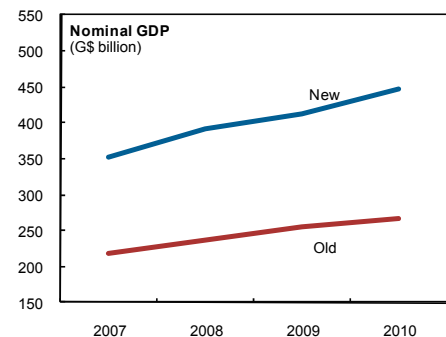
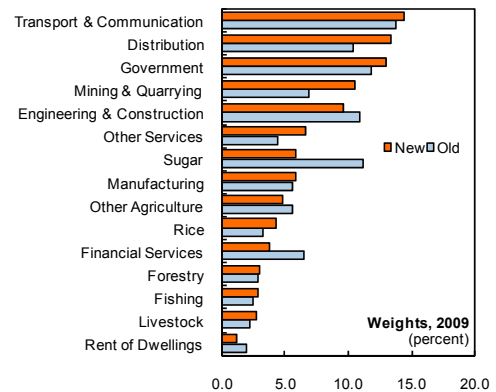
GDP data have been rebased from 1988 to 2006. As a result of these changes, 2009 GDP at market prices is higher than previously estimated by 64 percent. Preliminary estimates suggest that the new GDP per capita reached US\$2,630 as of end-2008, up from US\$1,504 in the old series. The rebasing project benefited from technical assistance from the U.S. Census Bureau (under an IDB project) and CARTAC. The establishment of the new base year aimed at capturing changes in relative industrial costs and price structures, the large informal sector that has gradually formalized itself since the late 1980s, and the emergence of new economic activities. The project has improved the national accounts compilation system.¹

The change in sectoral composition reflects better accounting of activity in key sectors. The rebased GDP includes higher weights for several sectors. For example, the government services sector now captures statutory bodies. Health and education services—formerly classified under the government sector—are now separated and expanded to include private sector activities. The distribution sector has an expanded coverage of commodity flows (using data on imports and domestic production), and an improved estimation of trade margins. The mining and quarrying sector now reflects a larger share of gold and diamond production, and a lower share of bauxite. The new benchmark for manufacturing reflects the use of an expanded index of 47 products; and the “other services” sector captures new categories, including hotels and restaurants, and professional services.

The transportation and communications sector saw several important coverage enhancements—for instance, the scope of communications was broadened to include cell phone activities, and internet service providers and TV broadcasting. The operations of mini buses, taxis, lorries, domestic air services and coastal speedboats, and the services provided by air/sea ports and bridges are now in the transportation sector.

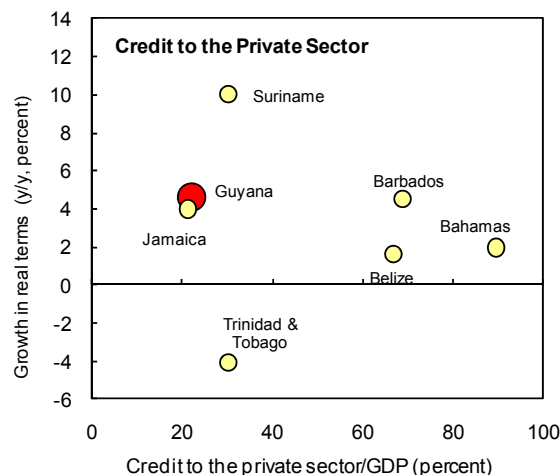
The importance of the sugar sector in total output declined. As an industry, sugar's calculations are robust, since they draw on data from the public company. However, the old series used an arbitrary split in the value added between agriculture and manufacturing, while the new series draw on actual employment costs, while sugar manufacturing was reclassified into manufacturing.

There were no major changes in the coverage of financial services, as commercial banks' activities are generally well measured. However, the new series introduce enhanced estimation techniques. Going forward, there is scope for improving measurements of the insurance sector.



¹ The project was developed in the context of a CARICOM agreement for harmonizing the base of the GDP series across member countries to inform policy decisions and advance regional integration.

7. **The impact of the global crisis on the financial sector has been limited so far, but private sector credit has slowed.** In early 2009, banks tightened their lending standards and private sector credit growth slowed to about 6 percent by December (y/y), down from nearly 22 percent in 2008. Banks remain liquid and well capitalized. Although NPLs for the banking sector have declined significantly over the last decade, they remain relatively high (at 8¼ percent), while provisions are low (at 54 percent). Loan concentration is high for the banking sector (at about 35½ percent loan portfolio); while the more contained related-party lending remained broadly unchanged (y/y) at around 4.5 percent as of end-December. The resolution process for CLICO is underway, with a potential fiscal cost to the government of 2-3 percent of GDP, largely arising from investments by the National Insurance System. To date, banking sector asset losses from CLICO's collapse have been very modest, and limited to one bank.³



1/ Based on latest available monthly data for 2009 for each country.

Financial Soundness Indicators, 2004-09
(In percent)

	2004	2005	2006	2007	2008	2009
Capital to risk-adjusted assets	14.3	14.4	15.5	15.0	14.9	18.3
NPLs to total loans	17.8	13.9	11.6	10.7	9.5	8.3
Provision for loan loss to NPLs	39.7	44.4	41.0	54.2	49.3	53.8
Return on assets	1.4	1.9	2.3	2.4	2.3	2.7
Return on equity	16.4	23.1	27.7	27.6	25.2	26.6
Liquid assets to total assets	33.3	32.5	33.0	26.5	29.8	30.9
Related party loans to total loans	6.0	5.0	3.8	3.7	4.5	4.5
Top 20 borrowers to total loans	45.4	44.5	44.4	39.2	33.2	35.5

Sources: Guyanese authorities.

8. **The authorities have undertaken reforms to address fiscal and financial risks:**

- **Fiscal Sector.** To enhance the accounting and transparency of public investment, a modern chart of accounts for capital expenditure has been introduced into the integrated financial management system (IFMAS); in addition, the authorities are piloting an exercise with IDB support to integrate donor projects into the IFMAS. Efforts to improve the Guyana Revenue Authority (GRA) also continue, including by consolidating the new functional organization, completing the rolling out the integrated tax information system (TRIPS), and the improvements in filing, refund, arrears collection and audit functions. The zero-rated VAT list has not been expanded, and the authorities are adhering to the existing system of rules-based tax exemptions, which has remained broadly unchanged in the last year.

³ The commercial bank absorbed these losses directly.

- **Financial Sector.** To deepen financial sector surveillance, the authorities have legally consolidated insurance and bank supervision at the central bank, incorporated risk-based supervision, and issued new guidelines on risk management. The authorities are also publishing regularly key financial soundness indicators for licensed deposit-taking institutions. In addition, the AML/CFT Act and the Money Transfer Agencies Act were enacted in 2009, while the bill for authorizing the operation of Credit Bureaus was tabled in Parliament.

9. **The agenda has also focused on achieving sustainable long-term growth and alleviating poverty:**

- **Sugar sector.** Reforms continued to focus on modernizing the sugar sector through ensuring that the new plant at Skeldon becomes fully operational, and by raising overall efficiency.
- **Low Carbon Development Strategy (LCDS).** Recent progress includes a model agreement signed with Norway, which would provide US\$250 million in 2010–15 in exchange for the preservation of Guyana’s rainforests. These resources would support, *inter alia*, the development of non-traditional economic sectors and the reconversion of Guyana’s fuel-dependent energy sectors.
- **Infrastructure.** The government is spearheading key projects as Public-Private Partnerships (PPPs) to help close the infrastructure gap. These include the construction of a hydropower plant at Amalia Falls (with private sector financing for some 23 percent of GDP from China and the IDB), and a 450 km. road, connecting Guyana’s interior to Brazil (11–16 percent of GDP). Public investment plans include an access road to Amalia Falls, and improving electricity generation and distribution.
- **Business climate** The authorities computerized business registration and incorporated the records into the Deeds Registry in 2009. In addition, the authorities provided support to small enterprises through the creation of facilitation programs providing advisory services (including with IDB support) and the improvement of community market infrastructure.
- **Poverty reduction.** The authorities are finalizing the 2008–12 Poverty Reduction Strategy Paper (PRSP). This proposes seven strategic pillars: (i) economic growth led by broad-based job creation; (ii) environmental protection; (iii) stronger institutions and better governance; (iv) investment in human capital and emphasis on basic education and primary health; (v) investment in physical infrastructure; (vi) improved safety

Guyana: Selected Social and Poverty Indicators

	2005	2006	2007	2008	2009
Vital Statistics					
Infant Mortality Rate (per 1,000 persons)	22.0	19.2	20.3	17.5	14.9
Under 5 mortality rate (per 1,000 live births)	26.5	20.3	23.9	20.2	19.8
Health and Education					
Public Expenditure on:					
Education as a share of Budget	13.7	13.0	17.1	15.5	15.7
Health as a share of Budget	7.5	9.0	10.6	9.3	9.9
Number of physicians (per 10,000 population)	4.9	4.9	5.1	6.6	6.6
Under 5 severely malnourished (in percent of total attendees in clinics)	0.6	0.4	0.5	0.3	0.2
1 year olds immunized against polio (percent)	93.0	92.0	94.0	94.0	96.0

Source: Guyana, 2010 Budget.

nets, and (vii) special intervention programs to address persistent pockets of poverty. The development of a monitoring and evaluation system (with support of the UNDP and the IDB) will enhance the effectiveness of public spending.

Box 2. Key Policy Recommendations of the 2008 Article IV Consultation

Staff's advice centered on the need to:

- ***Continue implementing a sound policy framework.*** A more gradual deficit reduction than previously envisaged was appropriate, given the global slowdown. A faster convergence than planned to the previous fiscal framework was recommended over the medium term. While the exchange rate was broadly in line with fundamentals, some additional flexibility was desirable.
- ***Enhancing financial system surveillance.*** While there were no signs of financial distress, staff recommended intensified monitoring of the sector, the development of a crisis response plan, and enhancing the reporting of standard prudential indicators.
- ***Implementing structural reform.*** Given the importance of the sugar modernization plan, it was imperative to address business and labor relations, and prepare contingency measures. Continuing to address the high cost and unreliability of energy generation was also considered important. In addition, it was recommended to avoid a further expansion of the zero-rated VAT list, adhering to a system of rules-based exemptions and continue improving the revenue administration.
- ***Pressing ahead with the poverty reduction agenda,*** through ensuring consistency between the medium-term framework and the PRSP, while establishing an effective system for its monitoring and evaluation.

Authorities' views. The authorities broadly shared the staff's assessment and welcomed the policy advice. They expressed their readiness to implement measures to contain the deficit and achieve the inflation target as needed. They planned to enhance financial sector supervision and implement the structural reform agenda. They noted that they would continue to favor exchange rate stability, since greater flexibility could lead to excessive volatility, which could be disruptive in their view.

III. MEDIUM-TERM OUTLOOK AND RISKS

10. **The baseline macroeconomic outlook remains positive for 2010 and the medium term.** Guyana would benefit from the global recovery, the coming on stream of the Skeldon sugar plant, and the start-up of public investment projects, which would spur average growth to 4-5 percent in the medium term. Growth is projected to gradually converge to its potential rate of 3¼ percent over the long term.⁴ While fully financed, the external current account

⁴ As agreed with the authorities, long-term potential output growth is now estimated to be somewhat higher than in the 2008 Article IV Consultation (at 3¼ percent of GDP in the baseline scenario, compared to 3 percent a year ago). This accounts for the improved performance of the Guyanese economy in recent years, the impact of planned public investment in 2010–14, and the effect of the revised GDP accounting, vis-à-vis the remaining risks and vulnerabilities. The large PPP projects have not been included into the baseline projections of this report, since they are still under evaluation.

deficit would widen somewhat in 2010—led by rising world oil prices, the elimination of sugar price preferences by the EU, and the up tick in domestic demand—before narrowing in subsequent years.

Medium-Term Macroeconomic Framework
(In percent of GDP, unless specified otherwise)

	2006	2007	2008	Prel. 2009	Projections				
					2010	2011	2012	2013	2014
Real GDP (in percent)	5.1	7.0	2.0	3.3	4.4	4.9	4.2	3.9	3.6
o/w sugar sector	5.5	2.7	-15.1	3.3	19.8	10.0	9.1	9.7	6.0
o/w non-sugar sector	3.3	7.2	3.4	3.0	3.4	1.8	3.8	3.5	3.4
Inflation (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
Overall fiscal balance	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2	-2.9	-2.5	-2.2
External current account balance	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
NPV of public debt-to-GDP ratio (in percent)	65	42	41	49	49	50	50	51	53
<i>Excluding unspent portion of PetroCaribe loans</i>	65	42	39	49	47	45	44	44	44
NPV of public debt-to-revenue ratio (in percent) 1/	222	152	159	169	168	170	169	174	184
<i>Excluding unspent portion of PetroCaribe loans</i>	222	152	151	159	155	149	149	154	156
Gross official reserves (in US\$ millions)	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
In months of imports	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Revenue including grants.

11. **Risks appear tilted to the downside in the near term, but are balanced over the longer term.** Key downside risks include those linked to a weaker or delayed global recovery, higher-than-envisaged oil prices, and further delays in completing the modernization of the public sugar company—which is critical to the baseline growth projection. The recent elimination of preferential sugar prices by the EU, which will increasingly expose Guyana to the volatility of world market prices for its sugar exports, could also complicate the outlook, notwithstanding the recent firming of sugar prices in the world market. Upside potential hinges on the sound completion of key large investment projects through PPPs, the eventual exploitation of Guyana’s oil reserves (expected to begin in 2014), and on the potential benefits from the global carbon credit markets on account of the country’s rainforests in the context of the LCDS.

IV. POLICY DISCUSSIONS

12. **Discussions took place against the backdrop of strengthened economic prospects, despite remaining vulnerabilities and risks to the outlook.** Thus, the focus was on establishing:

- ***A Macroeconomic Policy Framework to Support Growth and Protect Sustainability.*** *The newly rebased GDP series, coupled with a stronger-than-envisaged fiscal consolidation in 2009, have revealed a larger space for fiscal policies to accommodate key investment spending and remain supportive of growth. It will be important to strike a balance between allowing for a more gradual fiscal consolidation while staying the*

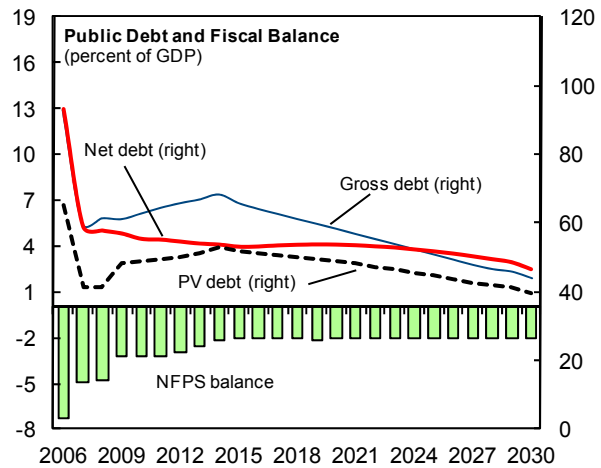
course of prudent policies to consolidate fiscal and debt sustainability. In this context, monetary policy should remain cautious to ensure price stability.

- ***An Agenda to Further Reduce Vulnerabilities, Entrench Growth, and Alleviate Poverty.*** Reducing vulnerabilities would require measures to restrain fiscal risks linked to public investment and PPPs, and further strengthening the financial sector. Reforms to modernize the sugar industry, diversify the productive base, and enhance the business climate are critical to sustaining long-term growth and speeding up poverty reduction.

A. A Macroeconomic Policy Framework to Support Growth and Protect Sustainability

Fiscal Policies

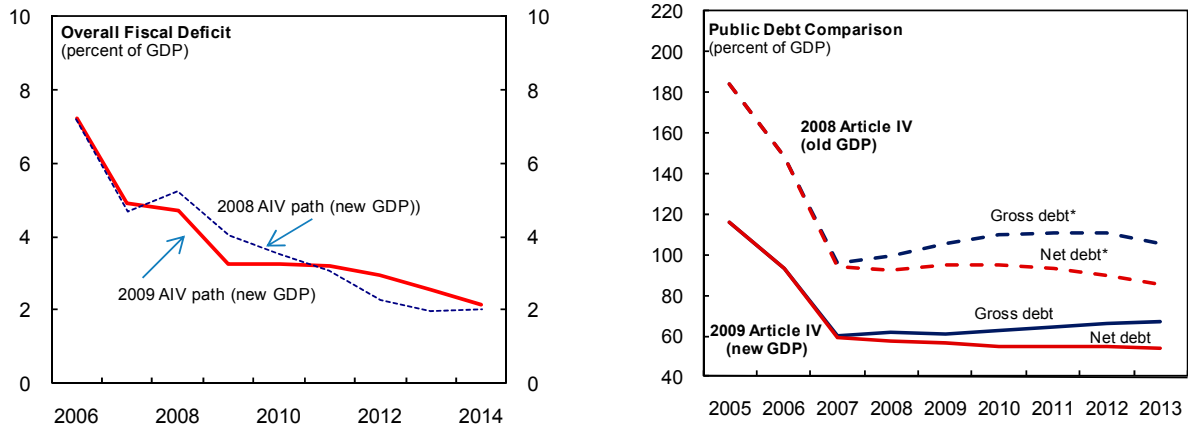
13. **The authorities plan to maintain prudent fiscal policies in the near and medium term to protect sustainability.** Following an important upfront consolidation effort in 2009, the 2010 budget and medium term plans envisage a somewhat slower fiscal tightening. The path would maintain the NFPS deficit at around 3.2 percent of GDP in 2010–11, and gradually converge to a deficit of 2.2 percent of GDP by 2014. While this stance entails a positive fiscal impulse in 2010–12, the presence of a negative (albeit narrowing) output gap would help contain inflation risks (See Attachment III: Assessing Guyana’s Fiscal Structural Policies). The authorities noted that this strategy would allow for a reduction in the net debt-to-GDP ratio, while providing some space to support growth through public investment.



14. **Staff agreed that the fiscal stance was appropriate, but noted that risks call for heightened caution.** While the rebased GDP data has revealed a lower debt overhang than considered earlier, Guyana still faces a risk of moderate debt distress.⁵ Moreover, the revised consolidation path could entail a somewhat pro-cyclical fiscal stance in the medium term. These and other downside risks (including those related to the sugar sector and world fuel prices) require exercising fiscal prudence, including through contingency planning. The authorities stressed that the fiscal effort of 2009 had aligned the outcome with the consolidation path agreed at the time of the 2008 Article IV consultation earlier than envisaged. In addition, the fiscal impulse would shield growth against downside risks, while upside risks to potential output from productive infrastructure spending also lessened the urgency for faster consolidation. They expressed their readiness to implement expenditure measures, if needed, to meet the fiscal targets and protect debt sustainability. They also

⁵ This assessment, which is unchanged from that in the 2008 Article IV Consultation, is linked to the stress tests on debt service (see *Guyana—Joint IMF-World Bank Debt Sustainability Analysis*).

concluded with staff that a balanced package of structural measures to further strengthen the revenue administration and to secure the long-term viability of the National Insurance System—including through parametric reform—along with a phased reduction of non-priority spending would be critical to maintain a low fiscal deficit. This, along with the continued savings of a large share of the PetroCaribe disbursements would help gradually bring the PV of public debt closer to the DSA benchmark of 40 percent of GDP.⁶



Monetary and Exchange Rate Policies

15. **The monetary stance appears appropriate to maintain macroeconomic stability.** Staff noted that while inflation is currently low, it will be important to prevent the rekindling of inflationary pressures through an early monetary policy easing. The authorities noted that they would continue conducting monetary policy through open market operations,⁷ and agreed that the high liquidity available in the system should provide a buffer to satisfy a pick up in the demand for private sector credit, as global conditions recover further. The authorities stressed their readiness to tighten monetary policy—should inflationary pressures develop—to ensure compliance with their inflation objective of 4 percent.

16. **Staff observed that a move toward greater exchange rate flexibility would provide a useful buffer against external shocks, but noted that there was space to implement this gradually.** The still high volatility in prices for Guyana's commodity exports provides some rationale for following a gradual approach to prevent disruptive exchange rate fluctuations from temporary shocks given the still volatile global conditions—particularly as international reserves remain comfortable. At the same time, greater flexibility would contain fiscal costs linked to sterilization and enhance the effectiveness of monetary

⁶ Net public debt excludes PetroCaribe disbursements that are saved in an escrow account. In the baseline scenario, these deposits are assumed to rise hand-in-hand with larger PetroCaribe disbursements, as world fuel prices increase over the medium term—following past practice by the Guyanese authorities.

⁷ Guyana introduced a competitive bidding process for 91-day treasury bills in mid-1991; the central bank holds weekly auctions (see Ganga, G., 2009, "Building Resilience in the Guyanese Banking System", mimeo).

policy. As in the past, the authorities expressed a preference for exchange rate stability— noting that, in their view, volatility could be disruptive, including because of the still relatively thin market and Guyana’s exposure to commodity price shocks. Guyana’s real effective exchange rate is assessed to be broadly in equilibrium (Box 3).

B. An Agenda to Lower Fiscal Risks, Entrench Growth, and Alleviate Poverty

17. There was agreement that implementing a sound investment framework would be critical to minimizing fiscal risks and protecting sustainability.

- ***Public investment should be of high quality.*** Projects should ensure a high value-for-money, and help enhance Guyana’s growth and debt-repayment capacity. In the sugar sector, there was agreement on the urgency of ensuring the full operation of the Skeldon plant, increasing mechanization and planning against weather shocks, and establishing a stable framework to address labor conflicts. The authorities are enhancing the fiscal accounting and transparency of investment projects with the IDB, and undertaking detailed cost-benefit analysis of all of the large donor projects, to ensure their feasibility. Staff recommended gradually expanding these initiatives to all public investment. There was agreement that continued access to high concessional terms remains critical to protect sustainability. There was also agreement that the LCDS may play a pivotal role in catalyzing green funds for the development of new sectors.
- ***Minimizing fiscal risks from PPPs will require close attention to international best practice.*** While PPPs can facilitate private participation, they can also pose sustainability risks, particularly in the presence of sovereign guarantees. Staff urged the authorities to ensure that PPP contracts provide a fair balance of risks between the private and public sectors, limit fiscal contingencies, and prevent renegotiation risks, observing that these features could eventually be entrenched into a comprehensive legal framework for PPPs. The authorities agreed to reflect any firm or contingent liabilities from upcoming PPP contracts in the public debt statistics. They also noted that the hydropower plant at Amalia Falls should go a long way in limiting exposure to world oil prices and improving reliability, while clarifying that the IDB is still assessing the economic and environmental viability for the project under the new global conditions. Likewise, the Brazilian authorities continue to evaluate the Brazil-Guyana road project, also with IDB technical support. Prospects for starting oil extraction in 2014 remain positive.
- ***Other contingent liabilities should be limited.*** In this context, the fiscal costs related to the resolution of CLICO should be minimized.

Box 3: Surveillance Decision: External Sustainability Assessment

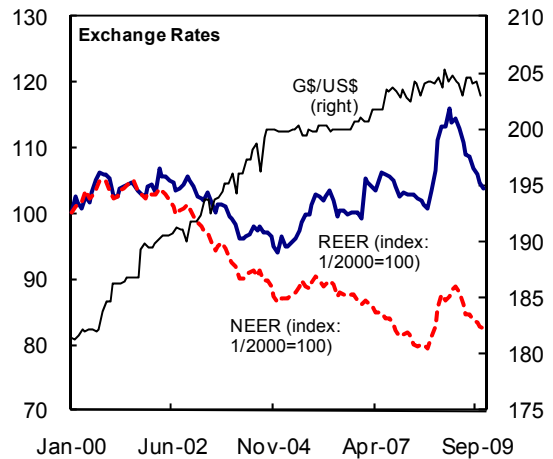
Guyana's real effective exchange rate has been depreciating since its peak in January 2008. The real depreciation of 10 percent between end-January 2009 and November 2009 has reversed the sharp real effective appreciation of the Guyanese dollar of 11 percent that took place in the second half of 2008, and largely reflects the volatility of the U.S. dollar (which the Guyanese dollar follows closely) vis-à-vis the Euro and other major currencies.¹

CGER-type of analysis suggests that the Guyanese dollar is broadly in equilibrium.

The assessment relies on the external sustainability (ES) and macroeconomic balance (MB) approaches.² In a baseline scenario, the results indicate that the real effective exchange rate is broadly in line with fundamentals. Under both methodologies, results show an estimated misalignment in both directions of less than 5 percent in each case.

Sensitivity analysis confirms these results. Given the well-known uncertainties linked to the CGER-analysis, a number of sensitivity tests were conducted, based on changes to key parameters, for both the ES and MB approaches. The results indicate, in all cases, that the deviation of the REER from equilibrium is moderate (of less than 10 percent) in both directions in the stress tests.

An assessment based on the financial account suggests that sustainability risks are balanced. Staff projects a gradual decline in external financing needs after a temporary widening of the current account deficit in 2010. Private and official capital inflows are expected to be sufficient, as FDI and remittances have not been drastically affected by the global crisis, while large IFI and bilateral disbursements are being secured to finance key infrastructure projects in the next few years. Sustainability has been buffed up through the SDR allocation. Higher oil prices, while raising current account pressures, would be mirrored by financial inflows from PetroCaribe; Guyana could become a net oil exporter in 2014.



Scenario	REER GAP under ES	Δ to baseline	REER GAP under MB	Δ to baseline
Baseline	3.6		-0.3	
MT current account balance				
-1 p.p.	9.5	5.9	5.6	5.9
+1 p.p.	-2.3	-5.9	-6.2	-5.9
Current account norm				
-1 p.p.	-2.3	-5.9	-6.2	-5.9
+1 p.p.	10.5	6.9	5.6	5.9
Elasticity (CA to REER)				
+0.1	11.2	7.6	-0.7	-0.4
-0.1	1.9	-1.7	-0.2	0.1
Change in REER through 2014				
+3%	6.6	3.0	2.7	3.0
-3%	0.6	-3.0	-3.3	-3.0

¹The Fund classifies Guyana's exchange rate regime as a stabilized arrangement.

²The approach of the equilibrium real exchange rate could not be applied given the lack of reliable data on productivity indicators.

18. **The authorities plan on a prompt publication of the PRSP.** With the soon-to-be-published PRSP based on 2006 data, they are working towards including an updated macroeconomic framework and an MDG costing exercise in subsequent PRSPs.

C. An Agenda to Address Financial Sector Vulnerabilities

19. **Staff stressed the need to continue monitoring commercial banks closely.** Recent data suggest that the banking system as a whole would withstand a series of shocks before becoming vulnerable, although resilience varies across individual banks (see Attachment IV: Guyana—The Financial Sector). While the authorities stressed their ongoing efforts to enhance financial supervision, staff urged them to require banks to increase provisions, and tighten the legislation on the exposure to large borrowers and related-party lending. It would also be important to ensure that all banks prepare crisis management plans of sufficient quality. The authorities noted that existing legislation embeds a reliable framework to provide liquidity support and deal with troubled licensed financial institutions; staff noted the importance of ensuring that these provisions—including, for instance, the eligibility requirements for liquidity support—remained consistent with the evolving structure of the financial system. A program that extends tax and reserve requirement exemptions on small mortgages also requires monitoring, to avoid excessive exposures from developing in households' balance sheets.

20. **While welcoming efforts to deepen the financial system, staff noted that strict regulatory standards are critical for non-bank financial institutions.** As most licensed non-bank financial institutions are now under central bank supervision, staff encouraged the authorities to bring credit unions and cooperatives within the same regulatory perimeter. Staff also recommended that draft legislation to bring the mortgage institution NBS under direct central bank supervision be tabled in Parliament. There was agreement that ongoing efforts to reduce the large interest rate spreads, including through the development of new financial instruments (with IDB technical support) would help deepen financial sector intermediation.

D. Data Provision

21. **The authorities have made important efforts to improve data quality in the past year, but the timely availability of data is still an issue.** Staff noted the very significant progress entailed in the finalization of the rebased GDP. New CPI series, also prepared with CARTAC assistance, are being compiled in line with a new basket. Staff urged the authorities to complement these efforts by expanding and accelerating data provision, and to subscribe to the *General Data Dissemination System* (GDDS). The authorities agreed to review the GDDS requirements, and are considering an eventual subscription to the system.

V. STAFF APPRAISAL

22. **With a fresh perspective on its economic stance at hand, Guyana is at a cross-road.** New GDP series suggest that economic performance in recent years has been stronger than previously considered, while inflation has declined to low levels since the 2008 food price shock. Guyana has weathered the global crisis well, in part owing to the

implementation of prudent policies. Going forward, it will be important to strike an appropriate balance between using the fiscal space to entrench the economic recovery, and protecting sustainability, given persistent vulnerabilities and risks to the outlook.

23. **Modernizing the sugar sector and diversifying Guyana's productive base are critical to sustaining growth.** Staff welcomes the innovative plans under the Low Carbon Development Strategy, and those to finalize the modernization of the sugar sector. Given its key role in the Guyanese economy, it will be critical for the public sugar company to implement its recovery measures, and ensure the rapid operation of the plant.

24. **In the period ahead, the authorities' commitment to prudent policies should be underpinned by a heightened fiscal caution, given the risks to the outlook.** Staff welcomes the consolidation effort exerted in 2009, which provides a buffer to debt sustainability, while opening space for medium-term fiscal policies to remain supportive to growth, including by accommodating key infrastructure spending. While the authorities' overall fiscal stance in the near and medium term is broadly appropriate, it will be critical to prevent debt and inflation risks that could emerge from pro-cyclical fiscal policies. In this context, staff commends the authorities' readiness to take expenditures measures, if needed, to meet their fiscal targets, support price stability, and protect debt sustainability. Pressing ahead with the implementation of ongoing or planned structural reforms in the revenue administration and the National Insurance System should serve this objective well.

25. **Minimizing fiscal risks from public investment and public-private-partnerships will be critical to ensuring debt sustainability.** Public projects should ensure a high value-for-money, and help enhance Guyana's growth and debt-repayment capacity. Staff welcomes efforts to enhance the economic assessment, fiscal accounting, and transparency of investment projects from donors, which could gradually be expanded to all public investment. Staff commends the authorities' commitment to seeking access to high concessional terms to protect debt sustainability. Minimizing fiscal risks from PPPs will require close attention to international best practices, particularly to limit risks linked to sovereign guarantees. It will also be critical to reflect any firm or contingent liabilities from PPPs in the public debt statistics. The authorities' decision to minimize the fiscal cost from the resolution of CLICO is welcome.

26. **It will be important to prevent an emergence of inflationary pressures as the recovery ensues.** In this context, the authorities' decision to maintain a tight monetary policy stance is adequate, especially since the high liquidity level in the system provides a buffer to satisfy a pick up in the demand for private sector credit. While moving toward greater exchange rate flexibility would provide a buffer against shocks, a gradual approach would help prevent disruptive exchange rate fluctuations stemming from temporary terms of trade shocks and Guyana's still thin foreign exchange market—particularly as international reserves remain comfortable.

27. **The balance of risks calls for a careful monitoring of the domestic financial system.** So far, the banking system has remained broadly resilient to the global crisis. However, the level of NPLs, provisioning, borrower concentration and related-party credit raise concerns. In this context, staff welcomes the forthcoming reporting and monitoring

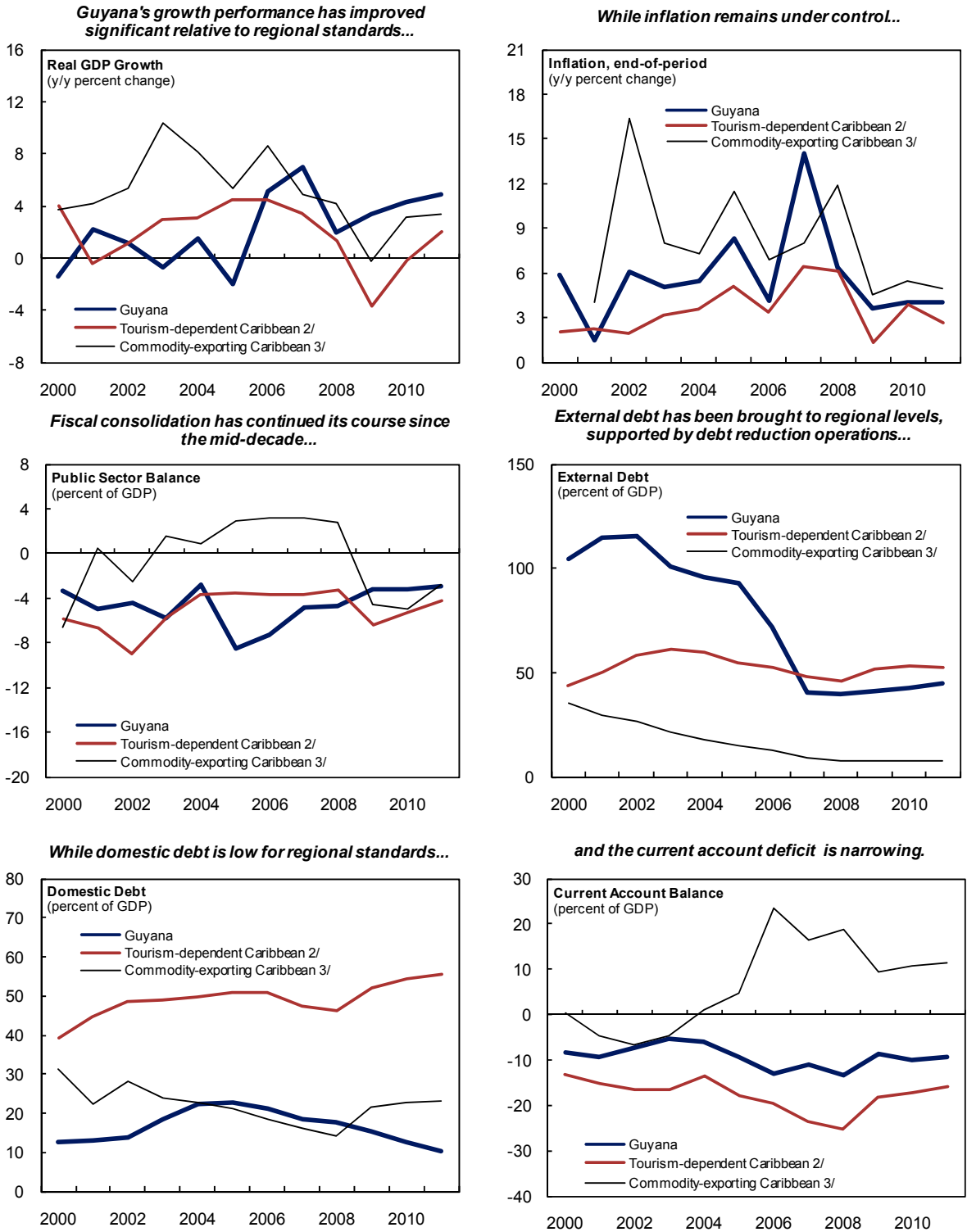
guidelines for financial institutions, and urges the authorities to require banks to step up their provisioning levels, and to tighten the legislation on the exposure to large borrowers and related-party lending. While the recent initiatives to deepen financial intermediation (such as the forthcoming law on Credit Bureaus) are commendable, the program that extends tax exemptions and reserve requirements on mortgage loans should be monitored closely, to avoid developing exposures in households' balance sheets. Staff welcomes the recent amendment to bring insurance supervision under the purview of the central bank; and recommends to gradually bring credit unions and cooperatives under the same regulatory perimeter of other nonbank financial institutions, and to bring the mortgage institution NBS under direct central bank supervision.

28. **The authorities' long-standing commitment to poverty reduction calls for a prompt publication of the PRSP.** Given the importance of including an updated macroeconomic framework and an MDG costing exercise in subsequent PRSPs, staff welcomes ongoing work with donor support to cost the achievement of the MDGs.

29. **The important improvements in data quality achieved in the recent year should be accompanied by a further strengthening in data availability.** Staff commends the very significant progress entailed in the finalization of the rebased GDP and CPI series. Staff also welcomes the authorities' decision to review the requirements of the *General Data Dissemination System* (GDDS) with a view of considering a future subscription.

30. Staff recommends that the next Article IV consultation with Guyana be held on the standard 12-month cycle.

Figure 1. Guyana: Comparative Regional Developments 1/



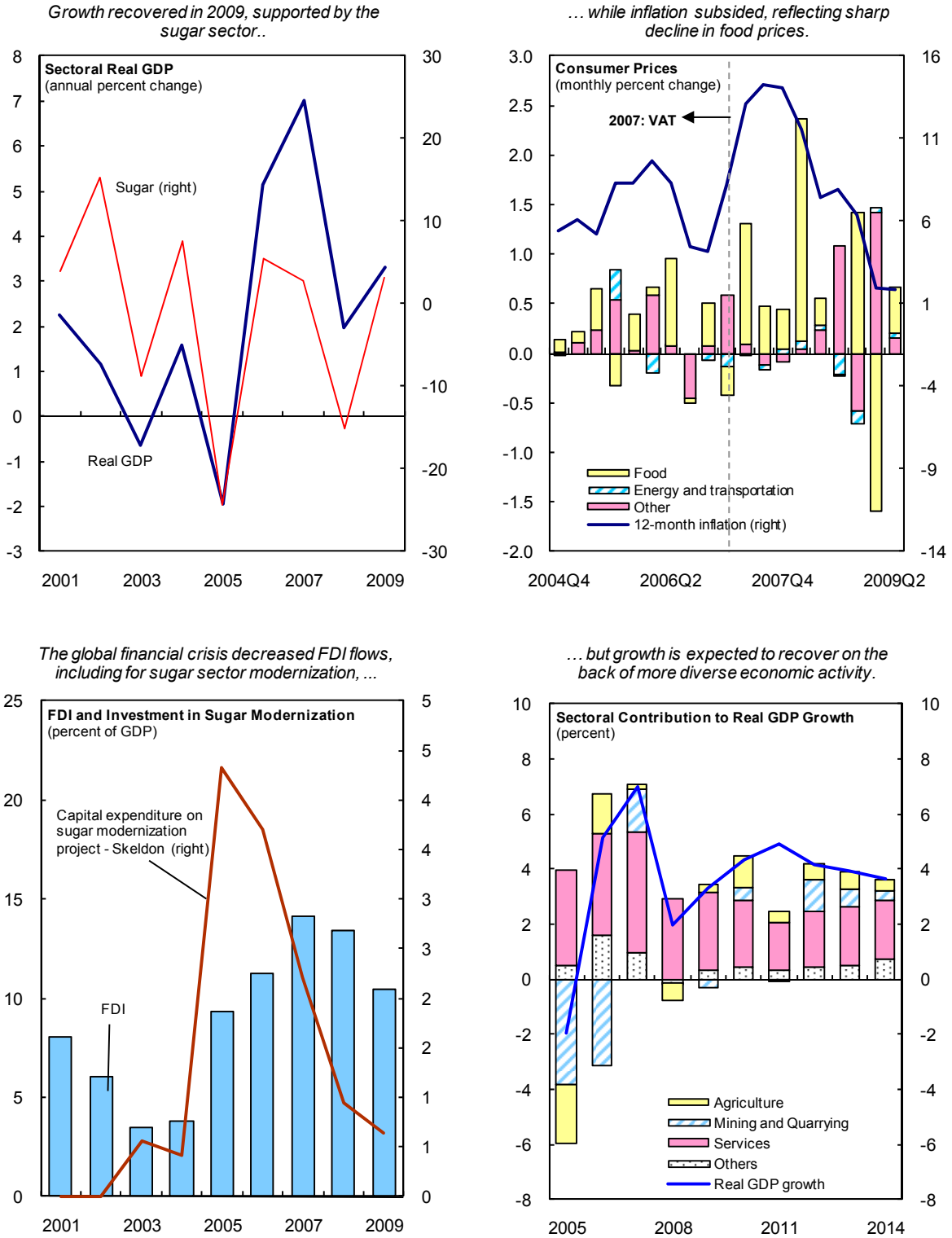
Sources: Country authorities; and Fund staff calculations.

1/ Caribbean region measured as simple averages of corresponding variables.

2/ Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

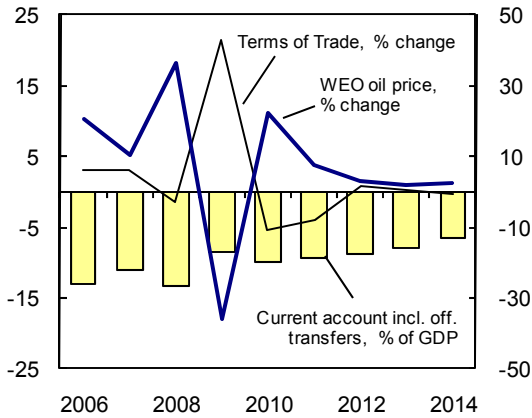
Figure 2. Guyana: Real Sector Indicators



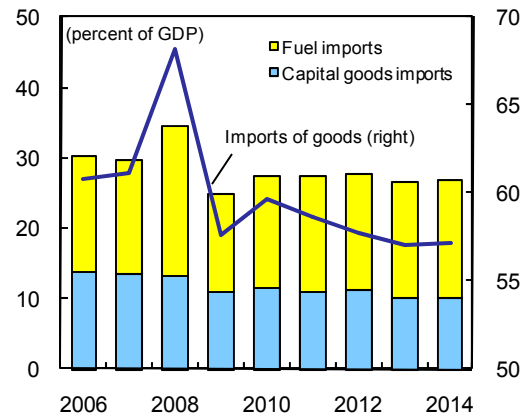
Sources: Bank of Guyana; Ministry of Finance; and Fund staff estimates.

Figure 3. Guyana: External Sector Developments

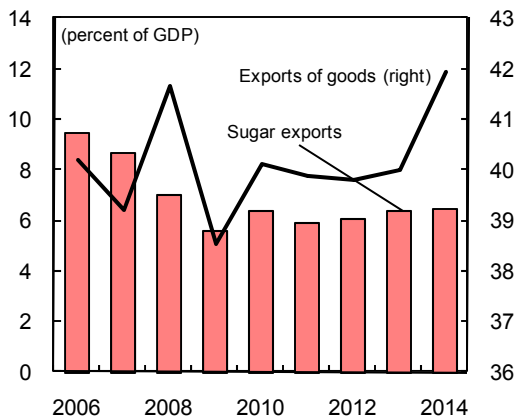
Due to higher oil prices the current account deficit is projected to widen in 2010 and to narrow thereafter



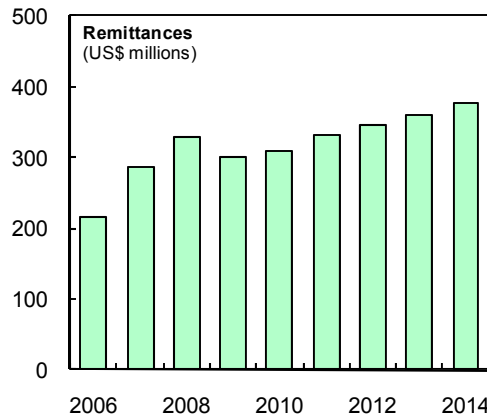
... as oil prices and imports of capital goods stabilize at lower levels following the completion of large projects.



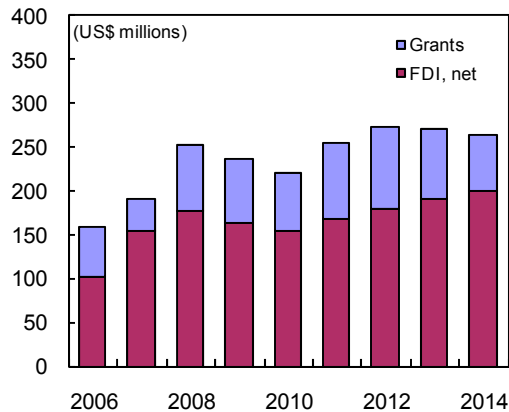
Exports are projected to recover over the medium term even though increased sugar production cannot compensate the loss of EU preferences.



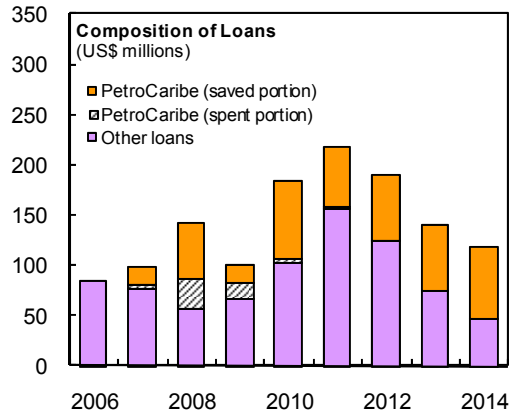
Remittances have declined only moderately in 2009 and are projected to increase in line with the global recovery.



The current account deficit is fully financed by FDI, official capital transfers and private flows...



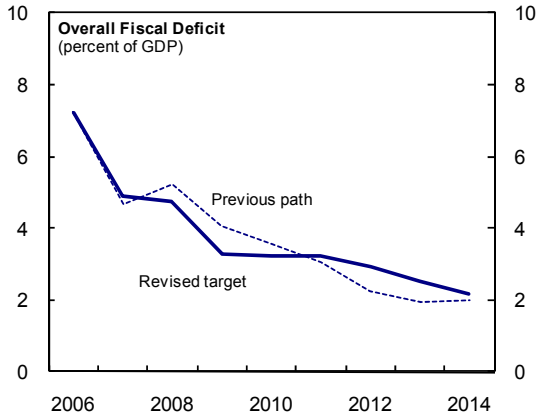
... and loans, with disbursements from Venezuela under the PetroCaribe agreement largely saved abroad.



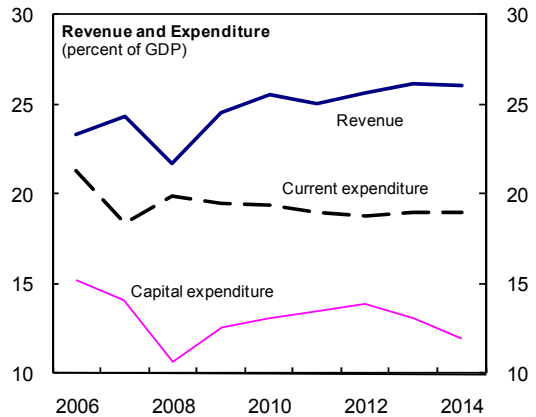
Sources: Bank of Guyana; and Fund staff estimates and projections.

Figure 4. Guyana: Fiscal Sector Developments

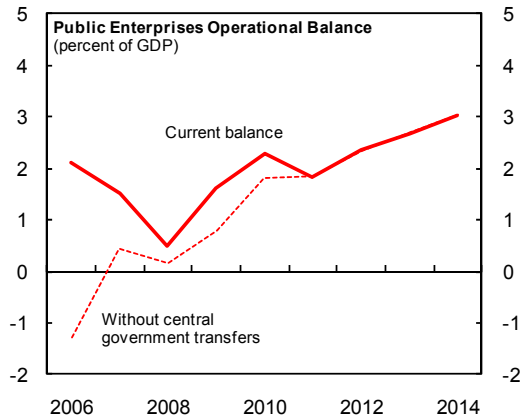
While fiscal performance was better than envisaged in 2009, a slower fiscal consolidation is projected over the medium term...



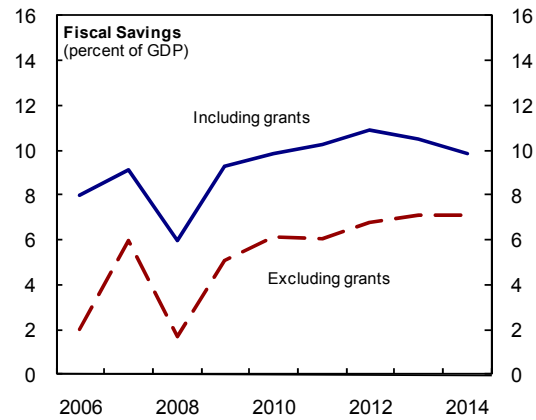
... to accommodate key infrastructure spending, financed with higher revenues and partly offset by some reduction of current spending.



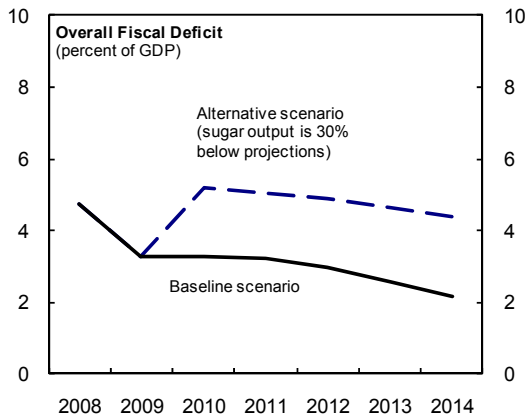
Significant improvements in sugar output and investments in the electricity company are expected to offset the impact of lower EU sugar prices.



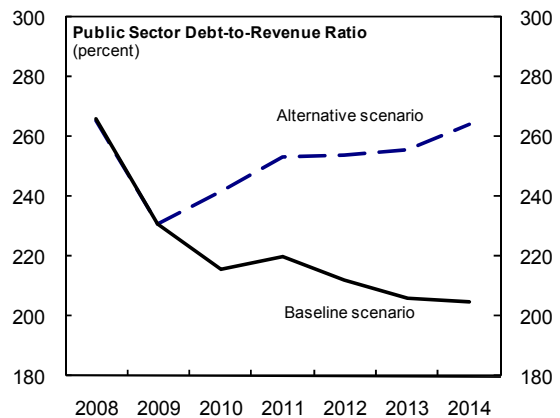
Fiscal savings net of grants would improve.



Guyana, however, faces significant risks ahead, such as shortfalls in sugar production...



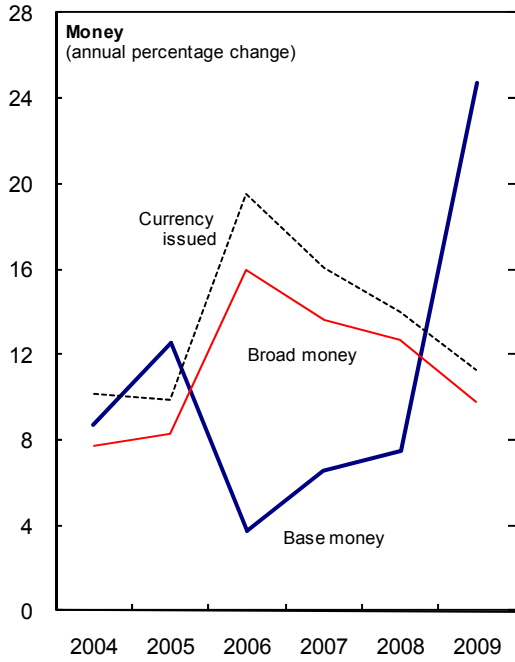
... that would increase public sector debt.



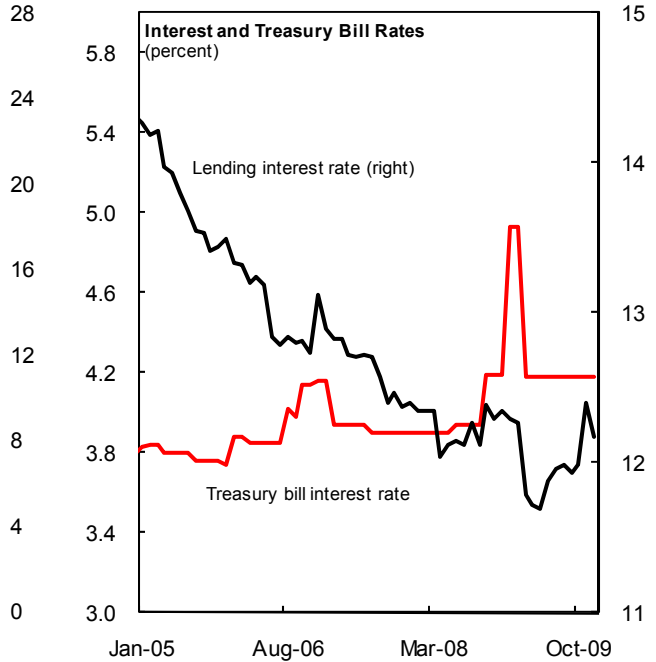
Sources: Ministry of Finance; and Fund staff estimates and projections.

Figure 5. Guyana: Monetary Developments

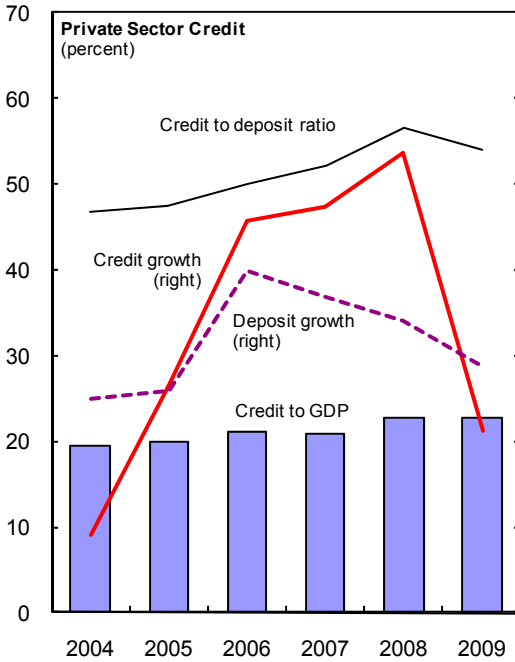
Despite an increase in international reserves, monetary growth declined and...



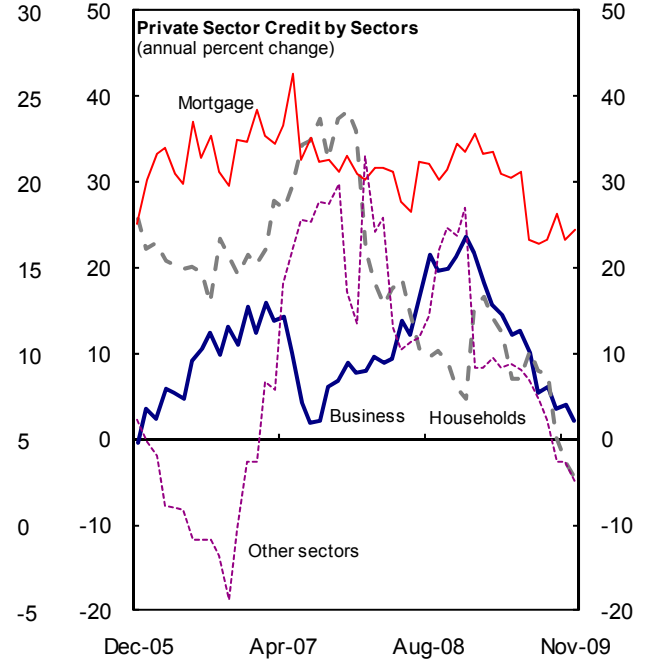
... interest rates were reduced, following a post-Lehman hike.



Nonetheless, both deposits and credit growth decelerated significantly...



... across various sectors of the economy.



Source: Bank of Guyana Financial Statistics.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators						
Population, 2008 (thousands)	767.4				Population not using an improved water source (%), 2006	7.0
Life expectancy at birth (years), 2007	66.5				Gini index, 1992-2007	44.6
Healthy life expectancy at birth (years), 2007	55				HDI rank, 2009	114.0
Population living below the poverty line (%), 2000-06	35					
II. Economic Indicators						
	2006	2007	2008	Prel. 2009	Projections	
					2010	2011
(Annual percent change)						
Production and prices						
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9
Real GDP per capita	4.8	6.7	1.5	3.0	4.0	4.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0
(In percent of GDP)						
National accounts						
Investment	21.0	20.7	19.0	16.5	18.2	19.0
Private sector	5.8	6.6	8.4	4.0	5.1	5.5
Public sector	15.2	14.1	10.7	12.6	13.1	13.5
National saving	7.9	9.6	5.8	8.0	8.2	9.6
Private sector	2.3	2.4	1.3	0.6	0.0	1.9
Public sector	5.6	7.2	4.5	7.4	8.3	7.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4
Nonfinancial public sector						
Revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4
Current	21.3	18.4	19.9	19.5	19.4	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5
Overall balance (after grants) 1/	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2
Total public sector debt (end of period) 2/	93.1	58.9	57.7	56.8	55.2	55.0
External 2/	71.8	40.6	39.7	41.6	42.6	44.8
Domestic	21.3	18.3	17.9	15.2	12.6	10.2
(Annual percentage change, end of period)						
Money and credit						
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
Domestic credit of the banking system	4.3	5.6	30.4	-13.2	9.7	18.5
Public sector (net)	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Private sector	17.9	18.7	21.8	5.7	10.7	17.3
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
External sector						
Current account balance 1/	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2
Gross official reserves 3/	277.3	312.6	355.9	623.0	658.6	738.5
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2
Memorandum items:						
Nominal GDP (G\$ billion)	292.0	352.2	391.5	413.1	448.1	490.4
Per capita GDP, US\$	1,907	2,277	2,497	2,629	2,831	3,059
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	...	...
PetroCaribe loans savings (stock, in % of GDP)	...	1.1	3.6	4.3	7.5	9.4

Sources: Guyanese authorities; UNDP Human Devt. Report 2009; and Fund staff estimates and projections.

1/ Including official transfers.

2/ After delivery of HIPC assistance and MDRI and excluding Petrocaribe savings in 2007-11.

3/ Includes SDR allocation.

Table 2. Guyana: Balance of Payments

	2006	2007	2008	Prel. 2009	Projections	
					2010	2011
(In millions of U.S. dollars)						
Current account (incl. official transfers)	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2
Current account (excl. official transfers)	-226.1	-204.6	-305.2	-213.8	-256.5	-255.6
Merchandise trade (net)	-300.0	-380.9	-507.8	-387.7	-427.9	-443.6
Exports (f.o.b.)	585.1	681.6	798.4	779.6	877.5	945.3
Bauxite	65.5	101.5	131.1	77.6	96.8	110.4
Sugar	137.0	150.1	133.4	112.5	139.0	139.3
Gold	114.4	153.1	203.7	282.0	308.0	318.1
Timber	55.0	55.4	53.8	41.9	63.4	63.2
Other	213.1	221.5	276.4	265.6	270.3	314.2
Imports (c.i.f.)	885.0	1062.5	1306.2	1167.3	1305.4	1388.9
Capital goods	201.2	233.6	254.8	219.0	251.5	260.6
GUYSUICO project	51.1	44.0	23.8	6.8	0.0	0.0
Fuel and lubricants	238.5	284.6	406.8	281.5	347.4	386.9
Other	445.4	544.3	644.6	666.8	706.5	741.3
Services (net)	-142.4	-110.7	-126.1	-125.8	-138.6	-144.4
Net private transfers	216.3	287.1	328.8	299.6	310.0	332.4
Capital and financial accounts	279.5	236.3	333.1	477.4	293.6	342.9
Capital account 1/	237.0	363.0	12.5	0.0	0.0	0.0
Financial account	42.5	-126.7	320.6	477.4	293.6	342.9
Nonfinancial public sector (net)	-39.8	-245.1	137.0	256.5	159.1	225.1
Net official transfers	59.7	38.0	74.4	73.4	67.3	87.0
Net official borrowing	-119.7	-279.4	120.0	200.5	168.5	196.7
Other public sector (net) 2/	20.3	-3.6	-57.3	-17.4	-76.7	-58.6
Private sector (net)	82.2	118.4	183.5	221.0	134.5	117.8
Foreign direct investment (net)	102.6	153.8	178.0	164.0	154.0	166.9
Portfolio investment (net)	-5.8	-38.7	1.1	33.0	14.4	-19.0
Other (net) 3/	-14.6	3.3	4.4	24.0	-33.9	-30.1
Errors and omissions, and short-term flows	-10.0	-1.2	16.9	3.5	0.0	0.0
Overall balance	43.4	30.5	44.8	267.1	37.1	87.3
Financing	-43.4	-30.5	-44.8	-267.1	-37.1	-87.3
Bank of Guyana net foreign assets	-61.0	-37.3	-44.8	-267.1	-37.1	-87.3
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	17.5	6.8	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Current account, incl. off. transfers (in percent of GDP)	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4
net of Skeldon (in percent of GDP)	-8.2	-8.3	-11.6	-8.2	-10.0	-9.4
Gross international reserves	277.3	312.6	355.9	623.0	658.6	738.5
(in months of imports of goods and services)	3.1	2.9	2.7	5.1	4.9	5.2
Oil price assumption (US\$/b)	64.3	72.5	97.0	62.0	76.0	82.0
HIPC and MDRI debt service relief	54.4	72.5	56.5	58.3	56.5	55.9
GDP (US\$ million)	1455.3	1739.0	1916.3	2024.1	2186.6	2369.6
(Annual percent change)						
Exports of goods	6.2	16.5	17.1	-2.4	12.6	7.7
Imports of goods	12.9	20.1	22.9	-10.6	11.8	6.4
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes the IDB's stock of debt operation in 2007

2/ Includes capital flows of PetroCaribe financing.

3/ Includes capital flows to finance the Berbice bridge and short-term capital flows

4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

Table 3. Guyana: Nonfinancial Public Sector Operations

	2006	2007	2008	Prel.	Projections	
				2009	2010	2011
(In percent of GDP)						
Revenue	23.3	24.4	21.7	24.6	25.6	25.0
Central government	21.2	22.8	21.2	23.0	23.3	23.2
Tax revenue	19.8	22.0	20.2	21.6	21.0	21.0
Non-tax revenue	1.3	0.9	0.9	1.4	0.9	0.9
GRIF	0.0	0.0	0.0	0.0	1.4	1.3
Capital revenue	0.0	0.0	0.1	0.0	0.0	0.0
Public enterprises	2.1	1.5	0.5	1.6	2.2	1.8
Expenditure (excluding Skeldon)	32.8	30.2	29.7	31.4	31.6	32.4
Current expenditure	21.3	18.4	19.9	19.5	19.4	19.0
Wages and salaries	6.9	6.2	6.1	6.3	6.3	6.1
Other goods and services 1/	6.7	5.8	6.2	6.3	6.2	6.2
Transfers	5.3	4.6	6.0	5.3	5.2	5.2
Interest 2/	2.4	1.8	1.7	1.6	1.7	1.5
Domestic	0.9	0.9	0.8	0.8	0.8	0.6
External	1.5	0.9	0.9	0.8	0.9	0.9
Capital expenditure (excluding Skeldon)	11.5	11.8	9.7	11.9	12.2	13.5
External PSIP	6.5	6.8	5.4	4.2	4.9	8.2
Local PSIP	4.4	5.4	3.9	6.3	5.3	3.4
Public enterprises	0.6	-0.3	0.4	0.7	1.7	1.7
PetroCaribe projects	...	...	...	0.8	0.2	0.1
Overall balance before grants (excluding Skeldon)	-9.5	-5.8	-8.0	-6.8	-6.0	-7.4
Grants 3/	6.0	3.2	4.2	4.2	3.7	4.2
Overall balance after grants (excluding Skeldon)	-3.5	-2.7	-3.8	-2.6	-2.3	-3.2
Capital expenditure on Skeldon	3.7	2.2	1.0	0.6	0.9	0.0
Overall balance after grants	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2
Financing	7.2	4.9	4.7	3.3	3.2	3.2
Net foreign financing 2/	6.3	5.5	6.8	4.9	8.0	7.0
Net domestic financing 4/	0.9	0.5	0.5	-0.8	-1.3	-1.4
PetroCaribe savings	...	-1.1	-2.6	-0.9	-3.5	-2.5
Memorandum items:						
NPFS wage bill	13.6	12.2	11.5	11.0	10.9	10.5
Total capital expenditure	15.2	14.1	10.7	12.6	13.1	13.5
Current balance before grants	2.0	6.0	1.7	5.1	6.2	6.1
Primary balance (excluding Skeldon)	-1.1	-0.9	-2.1	-1.0	-0.6	-1.8
Nominal GDP at market prices (G\$ billion)	292.0	352.2	391.5	413.1	448.1	490.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.

2/ Reflects interest and amortization after debt stock operations.

3/ Includes debt service savings under the MDRI.

4/ Includes statistical discrepancies.

Table 4. Guyana: Summary Account of the Bank of Guyana and Monetary Survey

	2006	2007	2008	2009	Projections	
					2010	2011
(In billions of Guyanese dollars, end of period)						
I. Bank of Guyana						
Net foreign assets	36.6	44.7	54.2	108.7	117.2	136.4
Foreign assets	55.7	63.6	73.0	127.5	136.2	155.4
Foreign liabilities 1/	-19.1	-19.0	-18.8	-18.8	-19.0	-19.0
Net domestic assets	-10.6	-14.9	-19.7	-70.3	-75.5	-90.8
Of which:						
Credit to public sector (net) 1/	-36.0	-38.6	-18.5	-65.4	-65.4	-65.4
Liabilities to commercial banks	-24.6	-24.7	-23.6	-33.7	-36.9	-40.8
Other items (net)	50.0	51.9	39.5	49.0	56.0	44.5
Currency in circulation	26.0	29.8	34.6	38.4	41.7	45.6
Base money	47.9	51.1	54.9	68.4	73.4	80.7
Of which: Excess reserves	4.1	1.3	1.1	4.8	4.8	4.3
II. Monetary Survey						
Net foreign assets	55.5	83.1	94.1	142.0	151.6	171.3
Bank of Guyana 1/	36.6	44.7	54.2	108.7	117.2	136.4
Commercial banks	18.9	38.5	39.9	33.3	34.4	34.9
Net domestic assets	88.3	80.3	90.0	60.1	77.4	88.9
Credit to public sector (net) 1/ 2/	-10.4	-19.1	-18.5	-32.9	-37.1	-42.7
Private sector credit	61.8	73.3	89.3	94.4	104.5	122.6
Other items (net)	36.9	26.0	19.2	-1.4	10.0	9.0
Broad money	143.8	163.4	184.2	202.1	229.0	260.2
(Percentage change, 12-month basis)						
Net foreign assets	31.3	49.9	13.3	50.8	6.7	13.0
Net domestic assets	8.0	-9.1	12.1	-33.2	28.8	14.8
Domestic credit	4.3	5.6	30.4	-13.2	9.7	18.5
Of which:						
Private sector credit	17.9	18.7	21.8	5.7	10.7	17.3
Business sector	15.5	7.7	23.6	2.3	...	...
Household sector	21.5	35.9	4.8	-4.4	...	...
Mortgage sector	34.6	31.0	33.6	24.4	...	...
Other sectors	-2.7	13.4	27.0	-5.0	...	...
Public sector net	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
(Contribution to changes in base money, 12-month basis)						
Base money	3.7	6.6	7.5	24.7	7.3	10.0
Net foreign assets	26.7	16.8	18.7	99.2	12.4	26.2
Other including net credit to public sector	-23.0	-10.2	-11.3	-74.5	-5.1	-16.2
(In million of U.S. dollars, unless otherwise indicated)						
Memorandum items:						
Bank of Guyana's net foreign assets 1/	182.1	219.5	264.2	534.8	571.9	659.2
Commercial banks' net foreign assets	93.9	188.9	194.5	163.9	149.5	168.5
Money multiplier	3.0	3.2	3.4	3.0	3.1	3.2
Income velocity of broad money	2.0	2.2	2.1	2.0	2.0	1.9
Excess reserves (ratio to required reserves)	0.2	0.1	0.0	0.2	0.2	0.1
Average lending rates, in percent	13.1	12.4	12.3	12.2	...	...

Sources: Bank of Guyana, and Fund staff estimates and projections.

1/ Includes Fund debt relief.

2/ Includes G\$1.8 billion, a share of GUYMINE debt transferred from foreign assets to government credit in March 2006.

Table 5. Guyana: External Financing Requirements and Sources
(In millions of U.S. dollars)

	2006	2007	2008	Prel.	Projections				
				2009	2010	2011	2012	2013	2014
Financing requirement	492	620	372	380	309	363	372	347	306
External current account deficit (excludes official transfers)	226	205	305	214	256	256	266	259	224
Debt amortization	240	379	24	-101	17	28	35	41	46
NFPS amortization 1/	205	379	22	-101	15	20	23	29	34
Bank of Guyana amortization	35	0	2	0	1	7	12	12	12
<i>Of which</i>									
IMF net credit	38	0	0	0	1	7	12	12	12
Gross international reserves (increase = +)	26	37	43	267	36	80	72	47	36
Available financing	492	620	372	380	309	363	372	347	306
Capital transfers (MDRI)	237	363	13	0	0	0	0	0	0
Official transfers	60	38	74	73	67	87	93	81	66
NFPS loans	85	99	142	100	184	217	191	140	118
Other public sector net 2/	20	-4	-57	-17	-77	-59	-67	-66	-72
Private sector (net) 3/	72	117	200	224	134	118	156	192	194
Exceptional financing	18	7	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0

Source: Fund staff estimates and projections.

1/ Scheduled amortization of NFPS before HIPC relief through 2003.

2/ Includes the unspent portion of PetroCaribe financing

3/ Including change of commercial banks NFA, short-term flows and trade credits, net foreign direct investment, and errors and omissions of balance of payments.

Table 6. Guyana: Indicators of External and Financial Vulnerability
(In percent, unless otherwise indicated)

	2006	2007	2008	Prel. 2009	Projections				
					2010	2011	2012	2013	2014
Financial indicators									
Public sector debt-to-GDP 1/	93.1	60.0	61.6	61.4	63.0	64.6	66.0	67.1	68.5
NPV of public sector debt-to-GDP 1/	65.0	41.6	41.1	48.6	49.1	49.6	50.3	51.4	53.1
NPV of public sector debt-to revenue 1/	222.0	152.3	158.9	169.0	167.9	169.7	169.0	174.1	184.4
Share of nonperforming loans in total loans	11.6	10.7	9.5	8.3	...	...	...	...	...
Share of nonperforming loans to total assets	3.8	3.7	3.6	3.0	...	...	...	...	...
Loan loss provisions to nonperforming loans	41.0	54.2	49.3	53.8	...	...	...	...	...
Risk-based capital-asset ratio (end of period)	15.5	15.0	14.9	18.3	...	...	...	...	...
Return on assets	2.3	2.4	2.3	2.7	...	...	...	...	...
Three-month T-bill rate (end of period)	4.2	3.9	4.2	4.2	...	...	...	...	...
CPI-inflation (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
External indicators									
Exchange rate (per US\$, end of period)	201.0	204.0	205.0	204.3	...	...	...	...	...
REER appreciation (12-month basis, -=appreciation)	3.8	-4.3	-10.1	...	...	...	...	...	...
Current account balance-to-GDP	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
Gross official reserves (in millions of U.S. dollars)	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
Gross official reserves in months of imports 2/	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Gross official reserves to short-term external public sector debt	1,147.2	2,228.0	2,625.0	4,344.1	2,605.6	1,801.2	1,468.2	1,344.6	1,226.0
External public sector debt to GDP 1/	71.8	41.6	43.7	46.1	50.4	54.5	56.7	57.1	57.2
NPV of external public debt (in millions of U.S. dollars) 1/ 3/	636.9	422.8	556.1	675.6	797.7	933.9	1,045.6	1,120.6	1,180.4
NPV of external public sector debt to exports 1/ 3/	85.1	49.2	57.4	69.5	74.0	80.7	84.2	84.2	81.7
NPV of external public debt-to-central government revenue 1/ 3/	204.6	107.0	134.0	135.8	142.7	157.6	160.0	158.5	159.8
NPV of external public debt-to-GDP 1/ 3/	43.8	24.3	29.0	33.4	36.5	39.4	41.0	41.4	41.7
Memorandum items:									
Public sector debt-to-GDP excluding unspent PetroCaribe 1/ 4/	93.1	58.9	57.7	56.8	55.2	55.0	54.4	53.9	53.6
NPV of public sector debt-to-GDP excluding unspent PetroCaribe 1/ 4/	65.0	41.6	39.2	48.6	46.6	45.4	44.4	44.0	44.2
NPV of public sector debt-to revenue excluding unspent PetroCaribe 1/ 4/	222.0	152.3	151.4	159.2	155.3	149.1	149.1	153.7	156.5

Sources: Bank of Guyana; and Fund staff estimates and projections.

1/ Reflects debt relief under O-HIPC, E-HIPC and MDRI as of 2007.

2/ Imports of the current year excluding those related to the GUYSUICO investment project.

3/ Excludes the letter of credit used for financing the sugar restructuring project for comparability with the debt definition for the NPV of external debt ceiling.

4/ Excluding the unspent portion of PetroCaribe in 2007-14.

Table 7. Guyana: Medium-Term Macroeconomic Framework

	2006	2007	2008	Prel.	Projections				
				2009	2010	2011	2012	2013	2014
(Annual percent change)									
Production and prices									
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9	4.2	3.9	3.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0	4.0	4.0	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0	4.0	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0	0.7	0.3	-0.3
(In percent of GDP)									
National accounts									
Investment	21.0	20.7	19.0	16.5	18.2	19.0	19.3	18.2	17.4
Private sector	5.8	6.6	8.4	4.0	5.1	5.5	5.4	5.1	5.4
Public sector	15.2	14.1	10.7	12.6	13.1	13.5	13.9	13.0	12.0
National saving	7.9	9.6	5.8	8.0	8.2	9.6	10.6	10.1	10.9
Private sector	2.3	2.4	1.3	0.6	0.0	1.9	1.9	1.4	2.2
Public sector	5.6	7.2	4.5	7.4	8.3	7.7	8.7	8.7	8.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4	8.7	8.0	6.5
Nonfinancial public sector									
Central government revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2	29.8	29.5	28.8
Tax revenue	19.8	22.0	20.2	21.6	21.0	21.0	21.0	21.0	21.0
Non-tax revenue	1.3	0.9	0.9	1.4	0.9	0.9	0.9	0.9	0.9
GRIF	0.0	0.0	0.0	0.0	1.4	1.3	1.6	1.8	1.8
Capital revenue	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants 1/	6.0	3.2	4.2	4.2	3.7	4.2	4.1	3.4	2.7
Public enterprises operational balance	2.1	1.5	0.5	1.6	2.2	1.8	2.2	2.4	2.4
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4	32.7	32.1	30.9
Current 2/	21.3	18.4	19.9	19.5	19.4	19.0	18.8	19.0	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5	13.9	13.0	12.0
Overall balance (before grants)	-13.2	-8.1	-9.0	-7.4	-6.9	-7.4	-7.1	-5.9	-4.8
Overall balance (after grants)	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2	-2.9	-2.5	-2.2
Financing	7.2	4.9	4.7	3.3	3.2	3.2	2.9	2.5	2.2
Net external financing 2/	6.3	5.5	6.8	4.9	8.0	7.0	5.6	3.6	2.6
Net domestic financing	0.9	0.5	0.5	-0.8	-1.3	-1.4	0.0	1.4	2.1
PetroCaribe savings	...	-1.1	-2.6	-0.9	-3.5	-2.5	-2.6	-2.4	-2.5
Total public sector debt (end of period) 3/	93.1	58.9	57.7	56.8	55.2	55.0	54.4	53.9	53.6
External 3/	71.8	40.6	39.7	41.6	42.6	44.8	45.1	43.9	42.2
Domestic	21.3	18.3	17.9	15.2	12.6	10.2	9.3	10.0	11.3
(In millions of U.S. dollars, unless otherwise indicated; end of period)									
External sector									
Current account balance	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2	-222.0	-217.6	-182.9
Gross official reserves	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Memorandum items:									
Nominal GDP (G\$ billion)	292.0	352.2	391.5	413.1	448.1	490.4	535.7	579.9	624.4
Per capita GDP, US\$	1,907	2,277	2,497	2,629	2,831	3,059	3,282	3,473	3,619
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	...	...	...	...	...
PetroCaribe loans savings (stock, in % of GDP)	...	1.1	3.6	4.3	7.5	9.4	11.3	13.1	15.1

Sources: Guyanese authorities; and Fund staff estimates and projections.

1/ Includes debt service savings under HIPC and MDRI.

2/ Reflects interest and amortizations after debt stock operations.

3/ After delivery of HIPC and MDRI and excluding the unspent portion of PetroCaribe loans in 2007-14.

Table 8. Guyana: Medium-Term Balance of Payments

	2006	2007	2008	Prel.	Projections				
				2009	2010	2011	2012	2013	2014
(In millions of U.S. dollars unless otherwise indicated)									
Current account (incl. official transfers)	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2	-222.0	-217.6	-182.9
Current account (excl. official transfers)	-226.1	-204.6	-305.2	-213.8	-256.5	-255.6	-265.7	-258.6	-224.3
Merchandise trade (net)	-300.0	-380.9	-507.8	-387.7	-427.9	-443.6	-458.1	-461.0	-432.2
Exports (f.o.b.)	585.1	681.6	798.4	779.6	877.5	945.3	1014.6	1082.6	1186.1
Bauxite	65.5	101.5	131.1	77.6	96.8	110.4	124.3	131.4	138.6
Sugar	137.0	150.1	133.4	112.5	139.0	139.3	155.0	171.7	182.8
Gold	114.4	153.1	203.7	282.0	308.0	318.1	333.1	348.5	391.9
Timber	55.0	55.4	53.8	41.9	63.4	63.2	65.1	65.8	67.5
Other	213.1	221.5	276.4	265.6	270.3	314.2	337.0	365.3	405.3
Imports (c.i.f.)	885.0	1062.5	1306.2	1167.3	1305.4	1388.9	1472.7	1543.6	1618.3
Capital goods	201.2	233.6	254.8	219.0	251.5	260.6	284.8	274.5	283.6
GUYSUICO project	51.1	44.0	23.8	6.8	0.0	0.0	0.0	0.0	0.0
Fuel and lubricants	238.5	284.6	406.8	281.5	347.4	386.9	418.1	445.5	473.3
Other	445.4	544.3	644.6	666.8	706.5	741.3	769.8	823.6	861.4
Services (net)	-142.4	-110.7	-126.1	-125.8	-138.6	-144.4	-154.3	-158.9	-168.0
Net private transfers	216.3	287.1	328.8	299.6	310.0	332.4	346.7	361.3	375.9
Capital and financial accounts	279.5	236.3	333.1	477.4	293.6	342.9	349.2	317.4	271.7
Capital account 1/	237.0	363.0	12.5	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	42.5	-126.7	320.6	477.4	293.6	342.9	349.2	317.4	271.7
Nonfinancial public sector (net)	-39.8	-245.1	137.0	256.5	159.1	225.1	193.2	125.1	77.9
Net official transfers	59.7	38.0	74.4	73.4	67.3	87.0	92.8	80.7	65.9
Net official borrowing	-119.7	-279.4	120.0	200.5	168.5	196.7	167.5	110.6	83.7
Other public sector (net) 2/	20.3	-3.6	-57.3	-17.4	-76.7	-58.6	-67.1	-66.3	-71.7
Private sector (net)	82.2	118.4	183.5	221.0	134.5	117.8	156.0	192.3	193.9
Foreign direct investment (net)	102.6	153.8	178.0	164.0	154.0	166.9	179.6	190.6	199.2
Portfolio investment (net)	-5.8	-38.7	1.1	33.0	14.4	-19.0	-17.3	-13.3	-12.0
Other (net) 3/	-14.6	3.3	4.4	24.0	-33.9	-30.1	-6.3	15.0	6.6
Errors and omissions, and short-term flows	-10.0	-1.2	16.9	3.5	0.0	0.0	0.0	0.0	0.0
Overall balance	43.4	30.5	44.8	267.1	37.1	87.3	83.5	58.8	47.5
Financing	-43.4	-30.5	-44.8	-267.1	-37.1	-87.3	-83.5	-58.8	-47.5
Bank of Guyana net foreign assets	-61.0	-37.3	-44.8	-267.1	-37.1	-87.3	-83.5	-58.8	-47.5
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	17.5	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Current account, incl. off. transfers (in percent of GDP)	-13.1	-11.1	-13.2	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5
net of Skeldon (in percent of GDP)	-8.2	-8.3	-11.6	-8.2	-10.0	-9.4	-8.7	-8.0	-6.5
Gross international reserves	277.3	312.6	355.9	623.0	658.6	738.5	810.2	857.2	892.9
(in months of imports of goods and services)	3.1	2.9	2.7	5.1	4.9	5.2	5.4	5.4	5.4
Oil price assumption (US\$/b)	64.3	72.5	97.0	62.0	76.0	82.0	84.8	86.5	88.5
HIPC and MDRI debt service relief	54.4	72.5	56.5	58.3	56.5	55.9	54.7	53.3	51.1
GDP (US\$ million)	1,455	1,739	1,916	2,024	2,187	2,370	2,550	2,706	2,829
(Annual percent change)									
Exports of goods	6.2	16.5	17.1	-2.4	12.6	7.7	7.3	6.7	9.6
Imports of goods	12.9	20.1	22.9	-10.6	11.8	6.4	6.0	4.8	4.8
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0	0.7	0.3	-0.3

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes the IDB's stock of debt operation in 2007

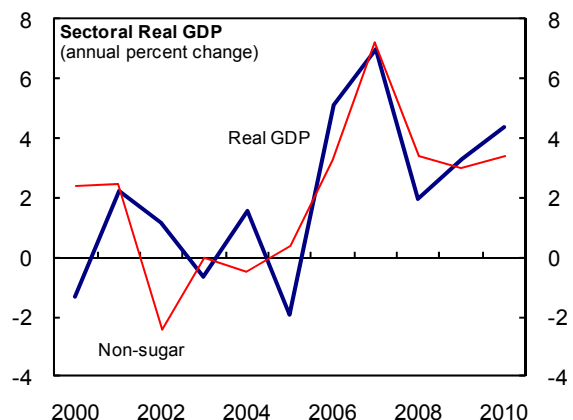
2/ Includes capital flows of PetroCaribe financing.

3/ Includes capital flows to finance the Berbice bridge and short-term capital flows

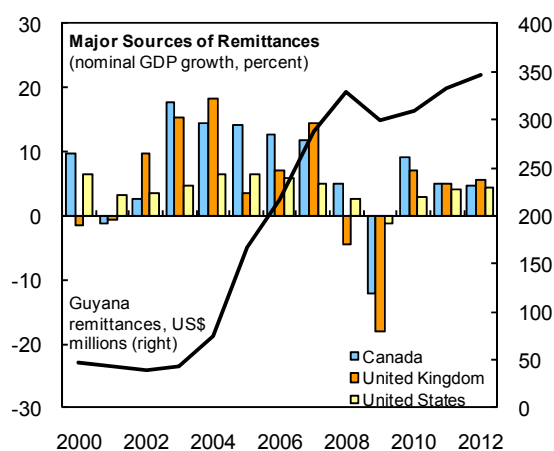
4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

ATTACHMENT I. THE IMPACT OF THE GLOBAL CRISIS THROUGH THE REAL CHANNEL⁸

31. **Guyana has been affected by the global crisis mainly through the real sector channel.** Initially shielded by its limited exposure to the direct financial shock, it has suffered mostly as its main sources of foreign income—including remittances and FDI inflows—declined, led by the contraction of growth and employment in developed economies. In addition, the reduction in prices and global demand also hit the country’s commodity exports.



32. **The steep decline in global economic activity has reduced demand for Guyanese exports.** Lower export prices had adverse effects on exports and growth. The largest declines were recorded in the prices of bauxite and rice. While rice output grew by 9 percent, bauxite output declined by 31 percent in 2009. In contrast, an increase in gold production of 21 percent followed the firming up in the gold price (12½ percent).



33. **Lower remittances also weakened foreign exchange inflows.** Remittances grew at an average rate of nearly 55 percent a year in 2004–08—to about 17 percent of (new) GDP, the largest level in the region. However, these flows declined by 9 percent in 2009.

34. **A recent private sector study⁹ suggests that the global crisis has affected not only the export sectors, but also their related services.** Based on information collected through focus groups and surveys, the study suggests that the decline in production ranged from 5–30 percent across different sectors. For instance, manufacturing production and sales declined by approximately 15 percent overall in the first half of 2009, relative to the same period in 2008, reflecting lower consumer demand. The services sector also posted a decline, with distribution activity falling by some 15 percent, and tourism by around 20 percent. Participants noted that firms resorted to hoarding employment, while pursuing other cost cutting strategies to weather the shock.

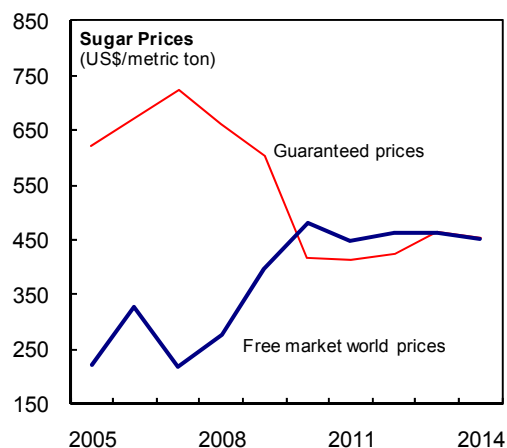
⁸ See the companion Selected Issues Paper “Guyana: The Impact of the Global Crisis and Policy Response”.

⁹ See Persaud, Chinnatambi and Roopchand-Edwards (2010), “The Impact of the Global Economic Crisis on the Business Sector of Guyana,” Guyana’s Private Sector Commission

ATTACHMENT II. GUYANA: ELIMINATION OF THE EU SUGAR PREFERENCES¹⁰

35. **Guyana’s sugar sector has strongly benefited from preferential agreements with the EU since the 1970s.** Preferential access was gained mainly under the terms of the Sugar Protocol, which guaranteed sugar purchases by the EU from Guyana for some 160,000 metric tons a year at a fixed price. In 2008, the average guaranteed price was set at US\$715 per ton (€485 per ton). In contrast, the price offered in the US market was US\$470 per ton, while the average world market price was US\$275 per ton in the same year.

36. **Although the EU eliminated most of these advantages in October 2009, transitional arrangements are in place.** Since October, Guyana benefits from a minimum guaranteed price of €301.5 a ton until September 2012. Guyana may sell at world market prices, if these prices are higher—which has been the case since late 2009. In addition, the CARIFORUM-EU Economic Partnership Agreement (EPA) concluded in October 2008 ensures that sugar is duty and quota free since October 2009. However, a transitional safeguard mechanism would apply for the next 6 years, limiting exports in the event of a risk of serious damage to the EU sugar industry.



Agreements with other trading partners entail more modest benefits:

- **United States.** The U.S. Department of Agriculture (USDA) issues sugar quotas under the Tariff Rate Quota (TRQ) system on a country-by-country basis. Under this system, sugar enters the U.S. duty free. The quota allocated to Guyana in the fiscal year 2009 amounts to 12,636 metric tons of raw sugar. Recent U.S. import data suggest that the quota is unlikely to be filled, in part because of the lower prices prevailing in the U.S. market.
- **CARICOM.** The CARICOM Common Market establishes a Common External Tariff (CET) to protect certain regional products. A 40 percent duty applies to brown (raw) cane sugar from outside the region. This agreement has allowed Guyana to import sugar from CARICOM for domestic consumption in order to benefit from EU prices when production capacity was low.

37. **The removal of EU preferences will have an important adverse impact on Guyana.** The EU is the main export destination for Guyanese sugar—accounting for at least

¹⁰ See the companion Selected Issues Paper “Guyana: The Impact of the Elimination of Preferential Sugar Prices”.

90 percent of total. Further, the EU preferential agreements have allowed Guyana to generate windfall revenue exceeding the market sugar price amounting to nearly 55 percent of total sugar revenue in recent years.

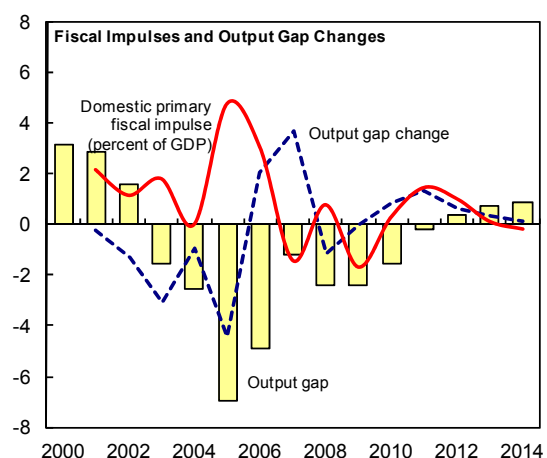
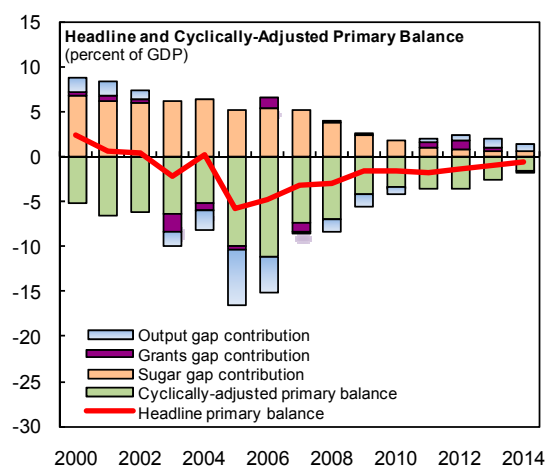
38. **Guyana has been modernizing its sugar sector to mitigate this effect but the modernization program is subject to severe challenges.** Supported by a transitory financial package from the EU, a sugar modernization plan was launched in 2000 to raise output and reduce production costs, including by the construction of a large sugar factory at Skeldon, recently completed. Technical problems with the operations of the new factory, labor disputes, and managerial weaknesses all have surfaced in 2009, further complicated by weather shocks. Resolving these issues will require a significant strengthening of the management and improving labor and business practices.

ATTACHMENT III. ASSESSING GUYANA'S FISCAL STRUCTURAL POLICIES¹¹

39. **Guyana's fiscal balance is highly exposed to exogenous shocks.** In particular, it has large exposures to sugar revenues and grants,¹² and is vulnerable to external shocks transmitted through commodity exports and fuel imports, remittances, and other channels of regional contagion. As a result, the overall fiscal balance does not represent the best measure of the discretionary fiscal effort exerted by the authorities, although it is a key determinant to the debt dynamics

40. **The fiscal impulse is the most appropriate measure to assess the stance of discretionary policies in Guyana.** This is measured by the change in the “cyclically adjusted” domestic primary balance, which excludes external revenues from sugar and grants, as well as the impact of the domestic business cycle on tax revenues.¹³ It allows for a better assessment of the magnitude and impact of discretionary fiscal policy measures. It also constitutes a useful indicator for guiding the medium-term fiscal framework, to gradually allow for the implementation of neutral or countercyclical policies, made consistent with a continued reduction in the public debt-to-GDP ratio to sustainable levels.¹⁴

41. **Staff estimates suggest that Guyana's fiscal impulse was broadly countercyclical for most of the past decade.** In 2005, the steep decline in real GDP following severe floods was partly offset by a strong expansionary fiscal impulse. Conversely, in 2007, a fiscal policy tightening accompanied the closing output gap. In 2008, fiscal measures to contain



¹¹ See the companion Selected Issues Paper “Guyana: Assessing the Fiscal Structural Stance”

¹² Guyana also receives funds from Norway under the Low-Carbon Development Strategy (about 1.6 percent of GDP on average for 2010-15).

¹³ See “Fiscal Policy Response to the Crisis: How Much Room for Countercyclical Policy?”, in World Economic and Financial Surveys, Regional Economic Outlook-Western Hemisphere, Crisis Averted—What’s Next, International Monetary Fund, October 2009.

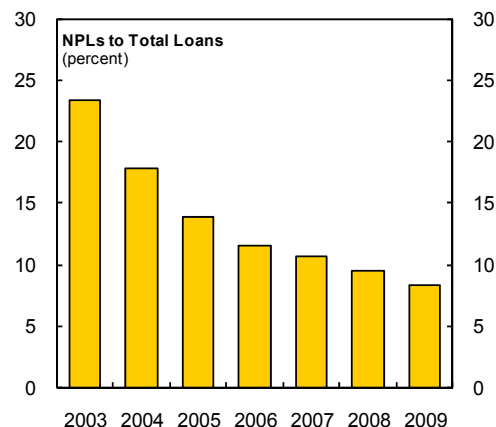
¹⁴ The structural fiscal balance plays a key role in the medium-term fiscal framework of several commodity-exporting countries that have significantly improved their fiscal position and reduced their debt (including Chile and Norway).

the pass-through of commodity prices into the economy countered the widening of the negative output gap driven by the surge of commodity prices and output shortfalls in the sugar sector. Nonetheless, a fiscal retrenchment in 2009 supported the debt sustainability goal.

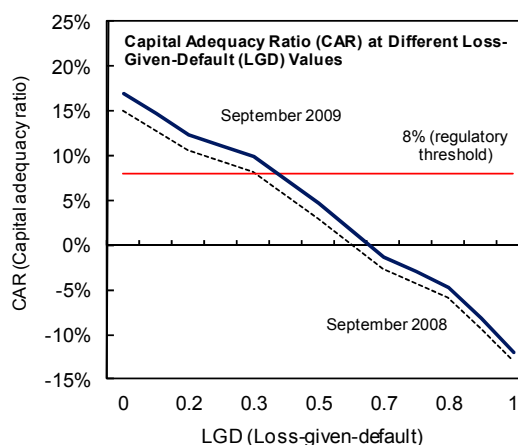
42. **Policies in 2010 would remain supportive to growth, given the presence of a negative (albeit closing) output gap.** The authorities' efforts to reduce the infrastructure gap in 2011–12 would also entail a positive fiscal impulse. While this would appear somewhat pro-cyclical in light of the narrowing output gap, uncertainties on its size and pace of change nuance the risks of this stance. In particular, infrastructure spending could lead to a higher-than-envisaged potential output, widening the gap. Moreover, downside risks to the outlook could also slow output growth, preventing the gap to close as fast as projected.

ATTACHMENT IV. GUYANA: THE FINANCIAL SECTOR

43. **Guyana's banking system has so far been resilient to the direct impact of the global crisis.**¹⁵ As of end-September 2009, all banks had CARs well above the regulatory minimum of 8 percent, and liquidity was comfortable. The banking system's risk-weighted CAR rose from 14.9 percent in December 2008 to 18.3 percent in December 2009, as banks raised the share of risk-free T-Bills in total assets. However, banks' NPLs are relatively high at about 8.3 percent of total loans, while provisions are low (54 percent of NPLs),¹⁶ while loan concentration to the top 20 borrowers stood at about 35½ percent of the loan portfolio as of end-December—some 7 percent higher than by end-2008.¹⁷ Loans to related parties remained broadly unchanged (y/y) at 4½ percent as of end-December.



44. **September 2009 data suggest that banks remain resilient, with vulnerabilities emerging only after severe shocks across the economy or a combination of shocks.** Despite somewhat high NPLs, most banks have only a relatively small loan portfolio in comparison to their total assets, and their liquidity is high.



45. **While the nonbank financial sector contracted following the CLICO crisis, the remaining institutions in the sector appear to be stable.** The collapse of CLICO, the largest insurance company, resulted in a fall of domestic life insurance policies of about 70 percent, which reduced the nonbank sector by about 8 percent. The New Building Society, the main nonbank financial institution—with some 80 percent of nonbank deposits—has remained as an important mortgage lender, although with slowing credit growth to the private sector and relatively large exposures to key borrowers.

¹⁵ The authorities informed staff that, so far, the CLICO crisis has not had a significant impact on banks.

¹⁶ In nonbanks, NPLs remain high, at slightly below 25 percent in September 2009.

¹⁷ The exposure to the top 20 borrowers relative to the capital base decreased from 166.8 percent in December 2008 to 160.5 by end-2009.

APPENDIX I. SUMMARY OF APPENDICES

Fund Relations

The 2008 Article IV consultation with Guyana concluded on February 27, 2009 (SM/09/41). On December 18, 2003, the Executive Board determined that Guyana had reached the completion point under the enhanced HIPC Initiative. MDRI was granted in January 2006. A FSAP was carried out in November 2005 and the FSSA was discussed in August 2006 (SM/06/292). FAD, STA, LEG, and CARTAC have provided technical assistance since 2005. On December 31, 2009, Guyana's outstanding purchases and loans amounted to SDR 37.06 million.

Exchange Arrangements

Guyana has accepted the obligations of Article VIII—Section 2, 3, and 4—and maintains an exchange system that is free of restrictions on the making of payments and transfers for international transactions, with the only exception of certain exchange restrictions for the preservation of national and international security. Guyana's *de jure* exchange rate regime is a managed float. The Fund classifies Guyana's *de facto* exchange rate regime as a stabilized arrangement.

Statistical Issues

Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage of the data hamper assessment of the economic situation on a continuing basis. Most data are only available during missions and by telephone/email contacts by the staff, except for monetary statistics, exchange rates, interest rates, and financial prudential indicators, which are available with a lag from the website of the Bank of Guyana (BOG). Considerable work has been completed to strengthen the national accounts, as the GDP has been rebased with 2006 prices, reflecting more than a sixty percent increase compared to the old GDP, based on 1988 prices; the authorities are also compiling a rebased CPI basket to be released through 2010. The authorities are considering subscribing to the General Data Dissemination System (GDDS).

Relations with the World Bank Group

As of December 31, 2009, IDA's portfolio consisted of two projects totaling US\$21.3 million; HIV/AIDS (US\$10 million) and Water Sector Consolidation (US\$11.3 million), in addition to a Trust Fund portfolio of US\$18.9 million. A new CAS (2009–2012), discussed by the Board of Executive directors on May 26, 2008, included two new lending projects: (i) the Forestry, Climate Change, and Community Project (US\$3 million); and (ii) the Education Quality Project (US\$3 million). It also included three analytical activities: On-demand economic monitoring and just-in-time analysis; Agriculture Risk Insurance, and Safety Nets.

Relations with the Inter-American Development Bank

As of December 31, 2009, Guyana's outstanding debt to the IDB was US\$259.4 million (excluding undisbursed HIPC debt relief, but after MDRI) while the undisbursed portfolio totals US\$195.1 million. The IDB cancelled US\$356.5 million (principal) of Guyana's outstanding debt effective January 2007. A further US\$35 million was cancelled from some loans in execution, which were undisbursed. A new formula for the allocation of resources to FSO-eligible countries was adopted as part of the MDRI program. Lending to Guyana has continued to be concessional (but with a lower grant element than before), consisting of a 50–50 blend of resources from the IDB's Fund for Special Operations and Ordinary Capital.

INTERNATIONAL MONETARY FUND

GUYANA

Joint IMF/World Bank Debt Sustainability Analysis

Prepared by the Staffs of the World Bank and the International Monetary Fund

Approved by Gilbert Terrier and Dhaneshwar Ghura (IMF)
and Sudarshan Gooptu and Marcelo Giugale (World Bank)

March 1, 2010

The debt sustainability analysis (DSA) indicates that Guyana's risk of debt distress remains moderate. In addition, the recent rebasing of GDP statistics has improved Guyana's debt-to-GDP ratios significantly. The risk of debt distress hinges from an eventual departure from the agreed fiscal consolidation path—particularly if foreign external financing were to be higher or at less concessional terms than currently envisaged. In addition, further delays in completing the modernization of the public sugar company—which remains important to the baseline growth projection—, a weaker or slower global recovery, and higher-than-projected world oil prices could also add to sustainability concerns. The authorities' continued commitment to fiscal consolidation and structural reforms to entrench long-term growth would help reduce these risks over time.

I. BACKGROUND

1. **Debt relief from the international community helped reduce Guyana's external debt burden significantly in recent years.** In 2006–07, the Fund, the World Bank, and the IDB provided debt relief amounting to US\$611 million under the Multilateral Debt Relief Initiative (MDRI). In November 2006, Japan finalized its bilateral debt cancellation agreement and wrote off its claims as part of the 2004 Paris Club.¹ In July 2007, China granted a write-off of US\$15 million of outstanding debt. In 2008, Venezuela cancelled a US\$12.5 million debt stock, while Russia cancelled about US\$0.25 million of outstanding debt. Ongoing negotiations with Kuwait and Libya on debt relief worth US\$61.9 and US\$38.8 million, respectively, have not yet been concluded.

¹ HIPC debt relief was granted by all multilaterals but one, Paris Club bilateral creditors, and four non-Paris Club creditors (China, India, Venezuela, and Cuba). Debt owed to Brazil and North Korea was paid off without relief. The other creditors have yet to provide HIPC debt relief.

2. **Total gross public debt has increased slightly since 2007, driven by foreign borrowing.** Total gross public debt stood at 60 percent of GDP in 2007—rising to around 61½ percent of GDP in 2008–09. This was driven largely by an increase in gross external debt (from official and bilateral sources), which, after having declined from 71¾ percent of GDP at end-2006 to 41½ percent of GDP at end-2007 on account of HIPC debt relief, rose to about 46 percent of GDP by 2009. The central government’s short-term domestic debt, defined on a gross basis, has fallen sharply, from 21¼ percent of GDP in 2006 to 15¼ percent in 2009, helping contain total public debt.

Guyana: External Stock of Debt as of end-2009
(by creditor)

	US\$ million	Share of total
Total Public External Debt	933.0	100
Non-Financial Public Sector	827.6	88.7
Multilateral	447.8	48.0
Bilateral	375.2	40.2
<i>of which</i> Paris Club	54.8	5.9
Commercial Bank	3.8	0.4
Other	0.8	0.1
Central Bank	105.4	11.3
Multilateral	89.2	9.6
Bilateral	0.0	0.0
Suppliers' Credit	12.7	1.4
Other	3.5	0.4

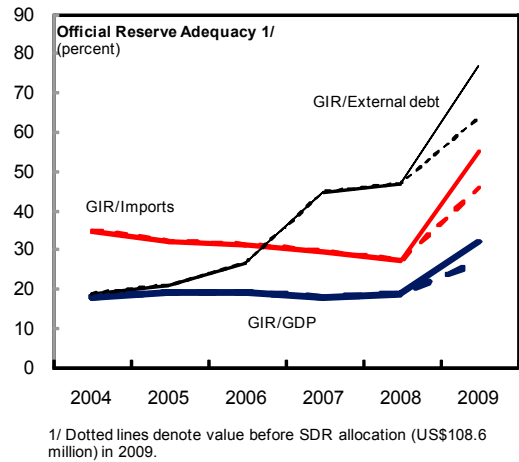
Source: Ministry of Finance of Guyana

II. MACROECONOMIC AND FINANCING FRAMEWORK

A. Background

3. **Guyana has sustained a solid macroeconomic performance in recent years, supported by prudent policies.** Newly released GDP series (based on 2006 prices) suggest that Guyana’s economic growth exceeded 4 percent a year on average during 2007–09—compared with 3½ percent in the previous GDP series (based on 1988 prices), while nominal GDP at market value is some 65 percent higher than before. This reflects improved pricing estimates, as well as the incorporation of new sectors of economic activity, and of the previously large informal activity that moved into the formal sector since Guyana changed course in the late 1980s (Box 1). Inflation has declined steadily since the imported price shock of 2008, to around 3½ percent at end-2009, supported by a cautious monetary policy stance and the softening in world commodity prices. In addition, the non-financial public sector (NFPS) deficit declined steadily from 8.6 percent of GDP in 2005 to 3.3 percent of GDP in 2009. This benefited from a strong fiscal consolidation effort in the last year, when the deficit was ¾ percent narrower than the budget target, largely on account of stronger-than envisaged tax revenues.

4. **External sustainability indicators have strengthened, including through reserve accumulation.** In 2009, the current account narrowed significantly—by some 5 percent of GDP—to 8½ percent of GDP, largely on account of a reduction of imports, particularly of fuel. At the same time, capital and financial inflows remained strong, supported by official financing (including the Fund’s SDR allocation, along with concessional loan and grant disbursements).² Domestic commercial banks also reduced their net foreign assets to benefit from the relatively higher domestic interest rate, adding to the external inflows. This increased gross reserves to US\$623 million by end-year (exceeding 5 months of imports). In addition, the authorities have also accumulated some 4¼ percent of GDP in an escrow account, where disbursements under Venezuela’s PetroCaribe Initiative are saved.³



B. Baseline Scenario: Projections and Assumptions

5. **The baseline macroeconomic framework underpinning the DSA projects that the economy will continue to perform well (Table 1).** In particular, it reflects the recent information on macroeconomic performance observed as of end-2009, as well as the changes implied by the GDP rebasing exercise, and the updated assumptions on the prospects for the global economy.

- ***Real GDP growth is projected to remain strong:***
 - Following output growth of 3¼ percent in 2009, real GDP is expected to rise over the medium term at an annual average rate of 4¼ percent through 2014, which is broadly equal to the average rate observed in 2006–09. Drivers of growth would include key public infrastructure investment projects (including in energy and roads), the yields from the implementation of the sugar modernization plan (expected to deliver an annual average growth of nearly 11 percent in raw sugar production in 2010–14), and growth in other commodity export sectors, including gold and bauxite. Real GDP growth would stabilize at its potential level of around 3¼ percent over the long term.
 - The growth path is somewhat conservative, projecting a slightly lower real GDP growth in 2010–14 than at the time of the 2008 Article IV Consultation

² The SDR allocation is assumed to bolster up reserve accumulation, as indicated by the authorities.

³ The authorities have saved, on average, nearly 70 percent of PetroCaribe disbursements in 2007–09, and plan to save almost 94 percent in 2010. They are committed to use savings prudently, as an insurance against shocks and to support key investment projects if funding were not available. The stock has risen steadily, in the presence of sufficient financing for the public sector investment program, and despite the global shock of 2009.

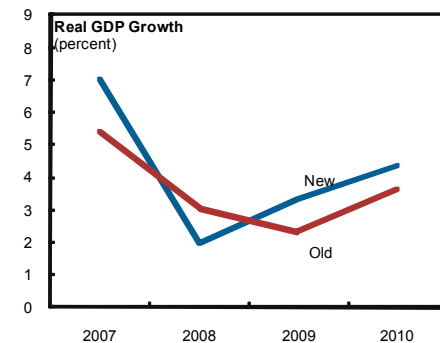
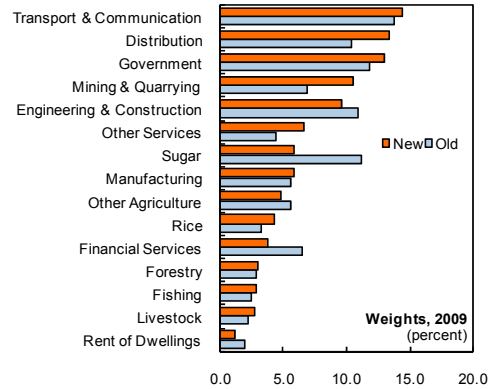
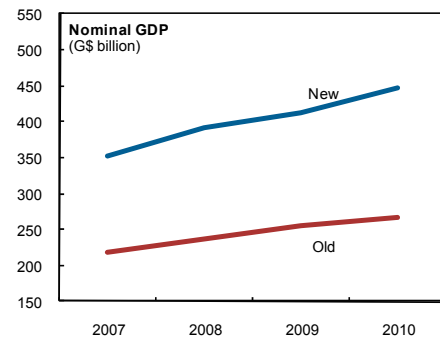
(which envisaged real growth at 4.6 percent on average in the same period). The revised projection takes into account the weaker-than-envisaged performance of the sugar sector in 2009, and the still muted prospects for global recovery. At the same time, key investments completed over the medium term would support long-term growth of over 3¼ percent in 2010–30 in the revised baseline framework, which is slightly higher than the potential growth of 3 percent assumed in the 2008 DSA.

Box 1. The Rebased GDP Figures

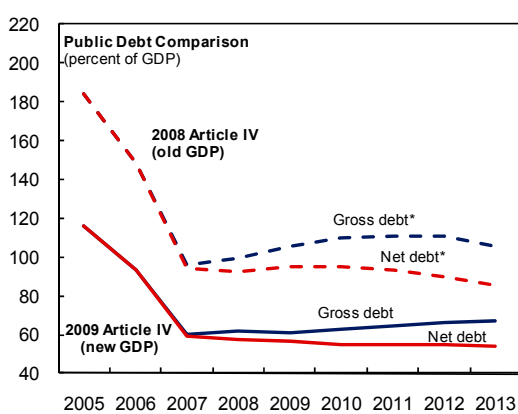
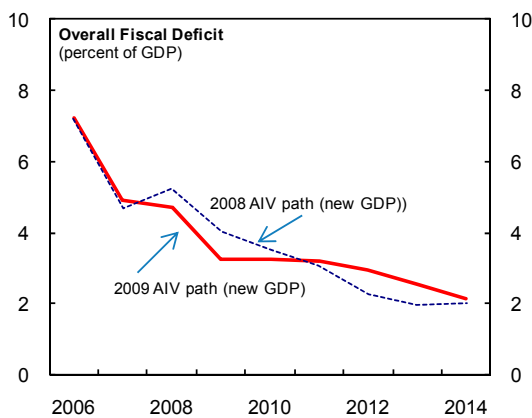
GDP data have been rebased from 1988 to 2006. As a result of these changes, 2009 GDP at market prices is higher than previously estimated by 64 percent. Preliminary estimates suggest that the new GDP per capita reached US\$2,630 as of end-2008, up from US\$1,504 in the old series. The rebasing project benefited from technical assistance from the U.S. Census Bureau (under an IDB project) and CARTAC. The establishment of the new base year aimed at capturing changes in relative industrial costs and price structures, the large informal sector that has gradually formalized itself since the late 1980s, and the emergence of new economic activities. The project has improved the national accounts compilation system.

The change in sectoral composition reflects better accounting of activity in key sectors. For example, the government services sector now captures statutory bodies. Health and education services (formerly classified under the government sector) are now separated and expanded to include private sector activities. The distribution sector has an expanded coverage of commodity flows and an improved estimation of trade margins. The mining and quarrying sector now reflects a larger share of gold and diamond production, and a lower share of bauxite. The new benchmark for manufacturing reflects the use of an expanded index of 47 products; and the “other services” sector captures new categories, including hotels and restaurants, and professional services. The transportation and communications sector saw important coverage enhancements—for instance, to include cell phone activities internet and TV broadcasting. There were no major changes in the coverage of financial services.

The importance of the sugar sector in total output declined. As an industry, sugar's calculations are robust. However, the old series used an arbitrary split in the value added between agriculture and manufacturing, while the new series draw on actual employment costs, and sugar manufacturing was reclassified into manufacturing.



- The external current account would widen slightly as the economy recovers in 2010, narrowing gradually over the medium term.*** The current account deficit is projected to increase to 10 percent of GDP in 2010 and to subsequently decline gradually to 6½ percent of GDP by 2014, and further to about 3½ percent by 2030. This adjustment would be supported by higher commodity exports, and a moderate recovery in imports. This is explained by the modest upturn in FDI (which would limit private capital import growth), and relatively stable oil imports.⁴ The envisaged fiscal consolidation plan should also help contain the growth in imports, including as nearly all of the bilateral disbursements by PetroCaribe are projected to be saved, in line with the authorities' commitment to use these resources very sparsely and the availability of alternative funding for the public investment program under the baseline scenario.
- Prudent fiscal policies would underpin debt sustainability during the projection period.*** The fiscal consolidation effort in 2009 resulted in a stronger fiscal balance than agreed at the time of the 2008 Article IV Consultation. Moreover, the rebased GDP figures revealed a significantly smaller fiscal deficit than previously considered.⁵ In this light, the revised fiscal path would maintain the NFPS deficit at around 3¼ percent of GDP in 2010–11, and gradually converge to a deficit of 2¼ percent of GDP by 2014.⁶ This strategy would support growth, while allowing for a reduction in the net public debt-to-GDP ratio (excluding savings of disbursements by PetroCaribe). Gross public debt, while increasing somewhat over the medium term before converging to over 45 percent of GDP by 2030, would be rising more moderately than projected at the time of the 2008 Article IV Consultation, mainly on account of the smaller NFPS deficits (as a share of GDP) in the 2009 baseline.



⁴ WEO projections assume an increase in oil prices in 2010 that moderates somewhat over the medium term.

⁵ The NFPS deficit of 3.3 percent of (new) GDP in 2009 is equivalent to a deficit of 5.3 percent of (old) GDP.

⁶ The consolidation effort would rely on the gradual moderation of the public investment program as well on structural reform, including the modernization of the public sugar company, measures to further enhance the revenue administration and reforms to ensure the long-term viability of the National Insurance System.

- ***High and stable inflows of foreign capital are projected over the medium term.*** So far Guyana has weathered the global crisis well by regional and global standards, notwithstanding a modest decline in its external financing resources (including remittances and FDI). The moderate decline in capital inflows observed in 2009 is projected to be followed by a gradual and sustained recovery over the medium term. This would be further supported by higher external disbursements available for the Public Sector Investment Program (PSIP), including from PetroCaribe. The current account deficit is therefore expected to remain fully financed.⁷ In 2010–14, FDI is projected to reach some 7 percent of GDP per year on average, while concessional loans and grant gross disbursements together would average some 10 percent of GDP annually. In the long run, FDI would decline to about 4½ percent of GDP. Concessional loans and grants would also fall gradually to some 3½ percent of GDP,⁸ particularly as concessional financing from Venezuela under the PetroCaribe initiative—projected to hover at 2–4 percent of GDP—is assumed to be discontinued by end-2014.^{9 10}

6. **Risks to the outlook are balanced over the medium and long term:**

- ***Downside risks*** include those related to a protracted global recovery, which could impinge on FDI, remittances and exports and, eventually, on growth. Higher-than-envisaged oil prices could also cause a further widening of the current account given Guyana’s significant exposure to fuel imports—including for electricity generation. Further delays in completing the modernization of the public sugar company would add to these concerns, particularly given the recent elimination of the preferential sugar prices by the EU, which will increasingly expose Guyana to the volatility of world sugar prices. Buffers to these risks include the increasingly comfortable reserve levels, and the funds saved in the escrow account for PetroCaribe.
- ***Upside potential*** includes the successful completion of the potential key infrastructure projects still not included in the baseline scenario, but which are envisaged for execution sometime in 2010–14—including the hydropower plant at Amalia Falls, which could drastically reduce Guyana’s exposure to oil prices.¹¹ Likewise, the

⁷ The current account deficit would remain fully financed even if the share of PetroCaribe loans that are expected to be saved abroad is excluded.

⁸ This assumption is broadly consistent with that used in the DSAs completed during the 2007 and 2008 Article IV Consultations.

⁹ Projections for PetroCaribe disbursements provided by the authorities are based on the end-2009 WEO oil price baseline.

¹⁰ Given the relatively high grant element of PetroCaribe disbursements, the assumption that these will be discontinued in 2014 reduces the average grant element for all lending in that same year. This assumption is consistent with that applied in the DSAs completed as part of the Article IV Consultations in 2007 and 2008.

¹¹ The hydropower plant and other large infrastructure projects are still being assessed for financial and economic viability, with IDB. They are expected to be completed as public-private partnerships, and only the firm and contingent liabilities arising from them will eventually be reflected in the public debt statistics.

positive prospects for eventual oil extraction and export (currently expected for 2014) could further support a boost to growth. Finally, Guyana could also benefit significantly from the further development of the global carbon credit markets, on account of the country's rainforest, in the context of the Low Carbon Development Strategy (LCDS).

III. ASSESSMENT OF THE BASELINE SCENARIO: GROSS DEBT¹²

A. Results of the External Debt Sustainability Analysis

7. **The analysis of Guyana's gross external debt sustainability suggests that the country faces a moderate risk of debt distress.** This assessment, which is unchanged from the 2008 Article IV Consultation, is supported by a gradual decline in gross external borrowing that is projected over the long-term, in line with the envisaged path for fiscal tightening. Debt sustainability concerns could emerge if there were a significant deviation from the fiscal adjustment path outlined in the baseline macroeconomic policy framework, or in the presence of strong exogenous shocks.

8. **The assessment of the baseline scenario suggest sustainability for all indicators, with one minor exception.** Under the baseline scenario, all sustainability indicators remain well below their respective thresholds, with the exception of a temporary and minor breach by the PV of the gross external debt-to-GDP ratio (Figure 1). This breach is driven by the relatively high upfront gross borrowing projected in the PSIP (including from PetroCaribe). Nonetheless, this indicator is also affected by the reduction in the discount rate used in the DSA exercise, which is one percentage point lower than last year.¹³ External debt burden indicators are projected to improve significantly over the long term. For instance, the PV of external debt-to-revenue ratio and external debt-to-exports ratios remain well below the debt burden thresholds (Table 2, Figure 1).¹⁴ Moreover, debt-service ratios are projected to remain low (at about 4 percent of exports and 10 percent of revenue in the long term), indicating that the government would have the ability to meet its debt service payments comfortably.

9. **The inclusion of remittances into the analysis support the aforementioned assessment of a moderate risk of debt distress.** In particular, the inclusion of remittances still implies that the trajectories for all sustainability indicators in the baseline scenario remain well within their respective thresholds, with, again, the very minor exception of the PV of debt to GDP-and-remittances ratio (Figure 2). As before, the debt-service ratios (to

¹² Gross debt includes the total value of disbursements by Venezuela's PetroCaribe as debt, although the authorities have saved most of these disbursements in an escrow account. Debt net of such savings is significantly lower, and nuances further most of this assessment of risks, as presented in the alternative scenarios in this document.

¹³ Using the same discount rate as in the 2008 Article IV Consultation in the 2009 DSA, the breach disappears completely—with the PV of the debt-to-GDP ratio peaking at 37½ percent of GDP in 2014.

¹⁴ Based on the World Bank classification, the external debt burden thresholds relevant for Guyana are (i) PV of debt-to-exports ratio of 150 percent; (ii) PV of debt-to-revenue of 250 percent; (iii) PV of debt-to-GDP of 40 percent; and (iv) debt service-to-exports and revenue ratios of 20 and 30 percent, respectively.

exports and revenues) also continue to indicate a comfortable capacity to repay the debt incurred.

10. **The sensitivity analysis shows that Guyana’s resilience to shocks is broadly unchanged relative to the 2008 DSA, also confirming the assessment of a moderate risk of debt distress** (Table 3, Figure 1):

- ***PV of the external debt-to-GDP ratio.*** The use of the rebased GDP series does not prevent the PV in all stress tests for the debt-to-GDP indicator from breaching the threshold of 40 percent—with the highest long-term risks associated to a shock on a combined shock of real GDP, export value growth, US dollar GDP deflator and net non-debt generating flows at a standard deviation of their historical average (B4), and to a 30 percent nominal depreciation of the currency (B6).
- ***PV of the external debt-to-revenue.*** This indicator breaches its threshold only under two of eight tests (as in the 2008 DSA).¹⁵ First, under the A1 scenario, which uses key variables (real GDP growth, non-interest current account, growth of GDP deflator, non-debt creating flows) at their historical averages in 2010–30, the PV of external debt-to-revenue ratio breaches the threshold in 2023 and remains above it until the end of the projection period. Second, under the B5 test, which assumes that net non-debt creating flows, real GDP, exports and the GDP deflator in US dollars grow at their respective historical averages minus one standard deviation in 2009/10. In this extreme case, the PV of the external debt-to-revenue ratio would increase to 284 percent in 2012 and decline below the threshold starting in 2022.¹⁶
- ***PV of external debt-to exports.*** A minor temporary breach of the threshold takes place under the extreme combination of shocks (B5) in 2012, when the PV of external debt peaks at 153 percent of exports, above the threshold of 150 percent of exports.

B. Results of the Public Debt Sustainability Analysis

11. **Driven largely the external debt dynamics, the sustainability assessment of Guyana’s total gross public debt also confirms the presence of a moderate risk of debt distress.** Most critically, Guyana’s public debt is considered manageable as long as the authorities adhere to their fiscal consolidation strategy and continue to ensure that financing is at sufficiently high concessional terms. In light of the sufficient availability of external financing, the macroeconomic scenario assumes no recourse to domestic financing of the fiscal deficit in the medium term and allows for a gradual redemption of domestic securities.

¹⁵ Importantly, the breach to these stress tests would be reduced significantly if the (higher) discount rates relevant at the time of the 2008 Article IV had been used instead. In particular, only the B5 test for the external-debt-revenue ratio would have been exceeded marginally, and for a short period of four years, while there would have been no breach by the external-debt to export ration under the B5 test, nor any breach under the A1 Test for any indicator.

¹⁶ If net non-debt creating flows were to grow at the historical average minus one standard deviation in 2009-10 (B4), the PV of external debt-to-revenue ratio would reach exactly the threshold in 2016 but not exceed it.

As external financing falls beyond 2012, domestic financing needs would remain broadly constant until 2020, and decline beyond that point. Thus, the PV of total public debt-to-revenue ratio would rise over the medium term from 168 percent in 2010 to about 184 percent in 2014, reflecting large external disbursements, and gradually decline thereafter to 157 percent by 2030. Given the authorities' assurances of their commitment to implement the agreed fiscal framework, the projected primary fiscal balances are consistent with debt sustainability (Table 4, Figure 4).¹⁷

12. Under alternative scenarios and stress tests, total public debt vulnerabilities highlight the importance of adhering to sound policies (Table 5).^{18 19}

- ***PV of public debt-to-GDP ratio.*** The PV of public debt-to-GDP ratio in the test with GDP growth at its historical average minus one standard deviation in 2011–12 (B1) almost reaches 100 percent by 2030.
- ***PV of public debt-to-revenue.*** If GDP growth were at its historical average minus one standard deviation in 2011–12, adversely affecting the revenue collection, the PV of public debt would reach 390 percent of revenue by 2030 (B1). Likewise, if real GDP growth and primary balances were at historical averages (A1), if there were permanently lower GDP growth (A3), or if GDP and the primary balance were both at their historical average using one half standard deviation shocks in 2011–12 (B3), the PV of public debt to revenue would also exceed the threshold of 300 percent.
- The results of the *sensitivity analysis* underscore the importance of pursuing sound macroeconomic policies to achieve high GDP growth and maintain low fiscal deficits. In particular, severe shocks to these variables would push public debt—and the debt service obligations—up relative to fiscal revenue, potentially posing debt repayment risks.

IV. ALTERNATIVE SCENARIOS

A. External Debt Net of PetroCaribe Savings

13. External debt sustainability risks are further nuanced by the projected saving of a large share of the disbursements under the PetroCaribe initiative. As in recent years, the upfront borrowing from PetroCaribe is projected to be saved in an escrow account, in line with the authorities' commitment to use these resources sparsely. With the public investment program well financed over the medium-term, PetroCaribe savings are expected to continue

¹⁷ The real domestic interest rate is expected to be positive throughout the projection period, supported by prudent monetary policies and low inflation.

¹⁸ The assumptions for marginal lending in the case of shocks under the public DSA is unchanged with respect to the 2008 DSA, with 70 percent external and 30 percent domestic borrowing and concessionality slightly below the baseline.

¹⁹ While the magnitude of the breach of these tests would be somewhat more muted if the discount rate of the 2008 DSA had been used instead, the same concerns outlined here would remain.

accumulating until 2014, after which they would be gradually unwound, helping maintain net debt indicators on a downward path (Figures 1 and 3, Table 6).²⁰

14. While debt indicators improve substantially when only the spent part of PetroCaribe financing is considered, the baseline scenario conclusions remain valid.

Given the magnitude of the estimated savings accumulated from PetroCaribe financing through 2014, the net debt indicators are significantly lower than in the gross-basis baseline scenario (Table 6 and Figure 3). The PV of the external debt-to-revenue ratio would reach 126 percent in 2014 (some 34 percentage points lower than in the baseline scenario), and would converge to values similar to those obtained in the baseline scenario in the long-term, as the savings are used up. Under the baseline scenario, the PV of debt-to-GDP would rise by about three percentage points in both 2010 and 2011 in the gross DSA (Table 2), compared to an increase of 0.5 percent and 1.3 percent, respectively, in the net-debt DSA (Table 6).

B. A “High Investment, Low Growth” Scenario

15. The emergence of a “high investment, low growth” scenario in Guyana does not appear to be a high probability event when contrasted with the baseline scenario underlying this DSA. Guyana's economic structure and sources of growth have strengthened significantly in the last decade, particularly because of the gradual decline in importance of traditional commodity export sectors (which tend to be more vulnerable to external shocks) than the non-tradable and service sectors that have picked up over time. In particular, the early part of the last decade witnessed a weak economic growth, which averaged only 0.6 percent in 2000–04. In contrast, average growth in 2005–09 rose to 3.1 percent, even when accounting for the devastating flood of 2005 (which generated a contraction of 2 percent). Indeed, the average growth rate is much higher for 2006–09 (at 4.4 percent). This suggests that the average projection of 3.5 percent in 2010–30 is not overly-optimistic, and could be reasonably supported by the planned public investment program and projected global conditions.

16. Stress tests suggest, however, that there would be risks attached to unproductive public investment, underscoring the need to implement high-quality projects. This is illustrated by the test A1 for gross external debt, which assumes that key macroeconomic variables (including growth) remain at their 10-year historical averages in 2010–30, despite the continued presence of disbursements underlying the authorities' public investment program. In this case, gross external debt would rise rapidly over the medium term, with the PV of debt-to-GDP ratio exceeding the 40 percent of GDP threshold as soon as in 2012, reaching nearly 70 percent of GDP by 2030. While the PV of the debt-to exports ratio would remain within the sustainable range, the PV of debt-to revenue ratio would also exceed its threshold of 250 percent by the end of the projection period. All debt service ratios, however, would be well within their thresholds, helping nuance any potential concerns on the country's ability to repay.

²⁰ The expected increase to the discount rate over the medium term should also provide a more nuanced view.

C. The Impact of Reduced Concessional Financing for Guyana

17. **The importance of continued access to concessional resources is illustrated through a scenario that assumes a temporary greater reliance on commercial financing.** In particular, the exercise assumes that an average of about 32 percent of total disbursements (currently concessional, at terms comparable to those offered by the IDB) would gradually be converted into commercial terms in the period 2010–14.²¹ The assumptions on the degree of concessionality for the remaining period (2014–30) remain as in the baseline scenario.

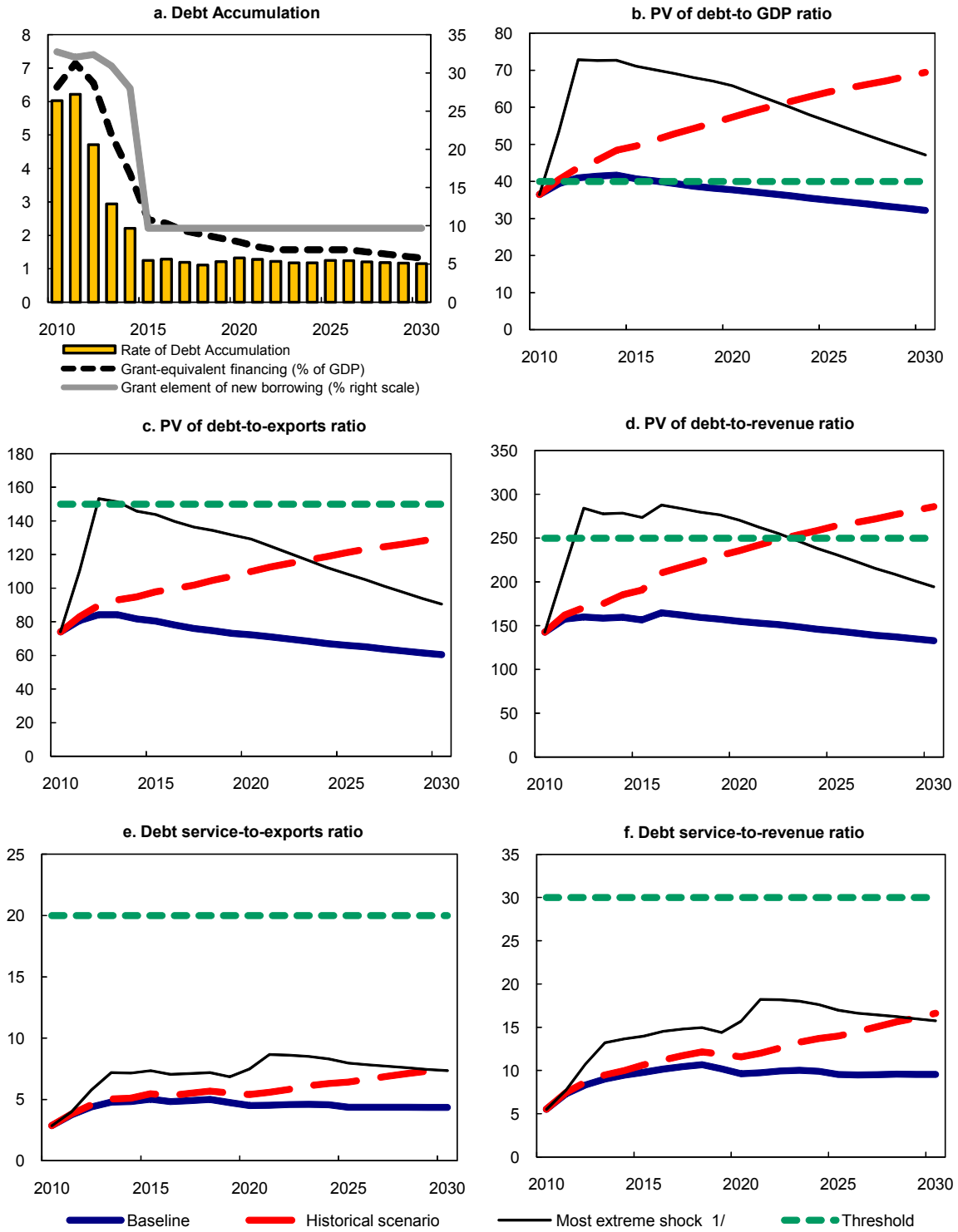
18. **External debt indicators would significantly worsen if future disbursements for Guyana were in less concessional terms (Figure 5).** The relevant tests suggest that the breach of the threshold of the PV of debt-to-GDP ratio would be longer and more pronounced than under the concessional terms currently granted to Guyana (Figure 1). In addition, the path of debt would be significantly more vulnerable to external shocks, with the PV of external debt to exports exceeding the threshold under the most extreme shock (when it did not in the scenario with full concessionality), and a more pronounced and prolonged breach of the threshold for the PV of external debt to revenue.

V. CONCLUSION

19. **Guyana remains at a moderate risk of debt distress.** Most of the relevant external debt indicators are well below their thresholds in the baseline scenario, with the PV of debt-to-GDP ratio showing only a minor and temporary breach which does not alter the assessment of moderate risk. Sustainability indicators for public sector debt show broadly the same level of vulnerability than those for external debt, given its large share on the total—including that related to currency risk. The presence of some risk of debt distress underscores the importance of further entrenching fiscal consolidation, and maintaining a prudent macroeconomic framework that is supportive to growth and external stability. Going forward, broadening the sources of growth, and maintaining prudent fiscal and debt strategies—including through focusing on concessional lending—would be critical to preserve and further strengthen the gains to sustainability achieved to date.

²¹ The package of loans shocked in this exercise represents nearly 40 percent of total annual disbursements in 2010–12, 30 percent of total disbursements in 2013, and 13¼ percent of total disbursements in 2014. For instance, 100 percent of the package of loans subject to the stress test would be disbursed under concessional terms in 2010. The share of concessional lending would reduce to 75 percent in 2011, to 50 percent in 2012, and to 25 in 2013, becoming fully commercial in 2014. For the period 2014 onwards, the previous assumptions on the concessionality terms have not been affected relative to the baseline.

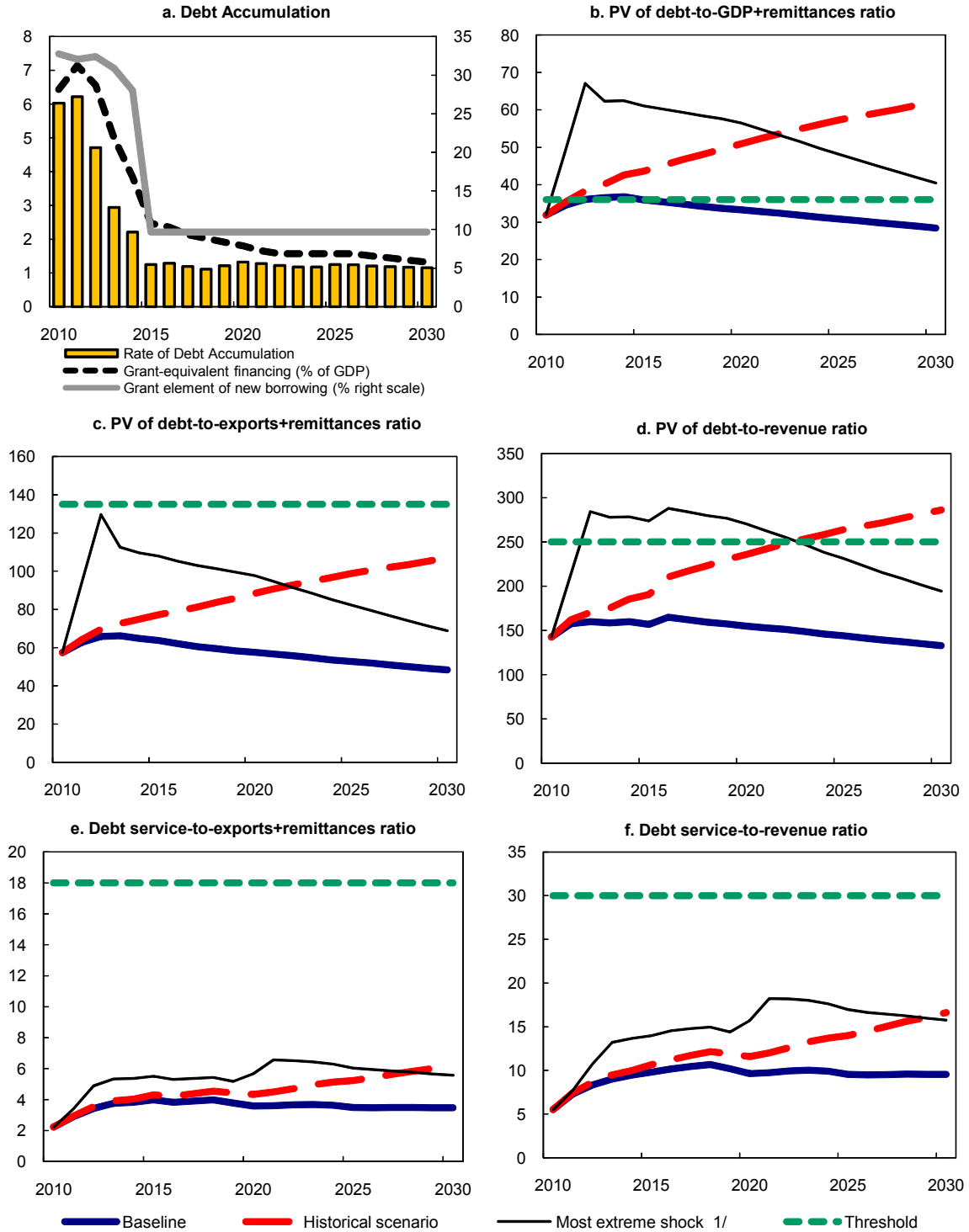
Figure 1. Guyana: Indicators of Public and Publicly Guaranteed External Debt, 2010-30, Baseline Scenario 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock.

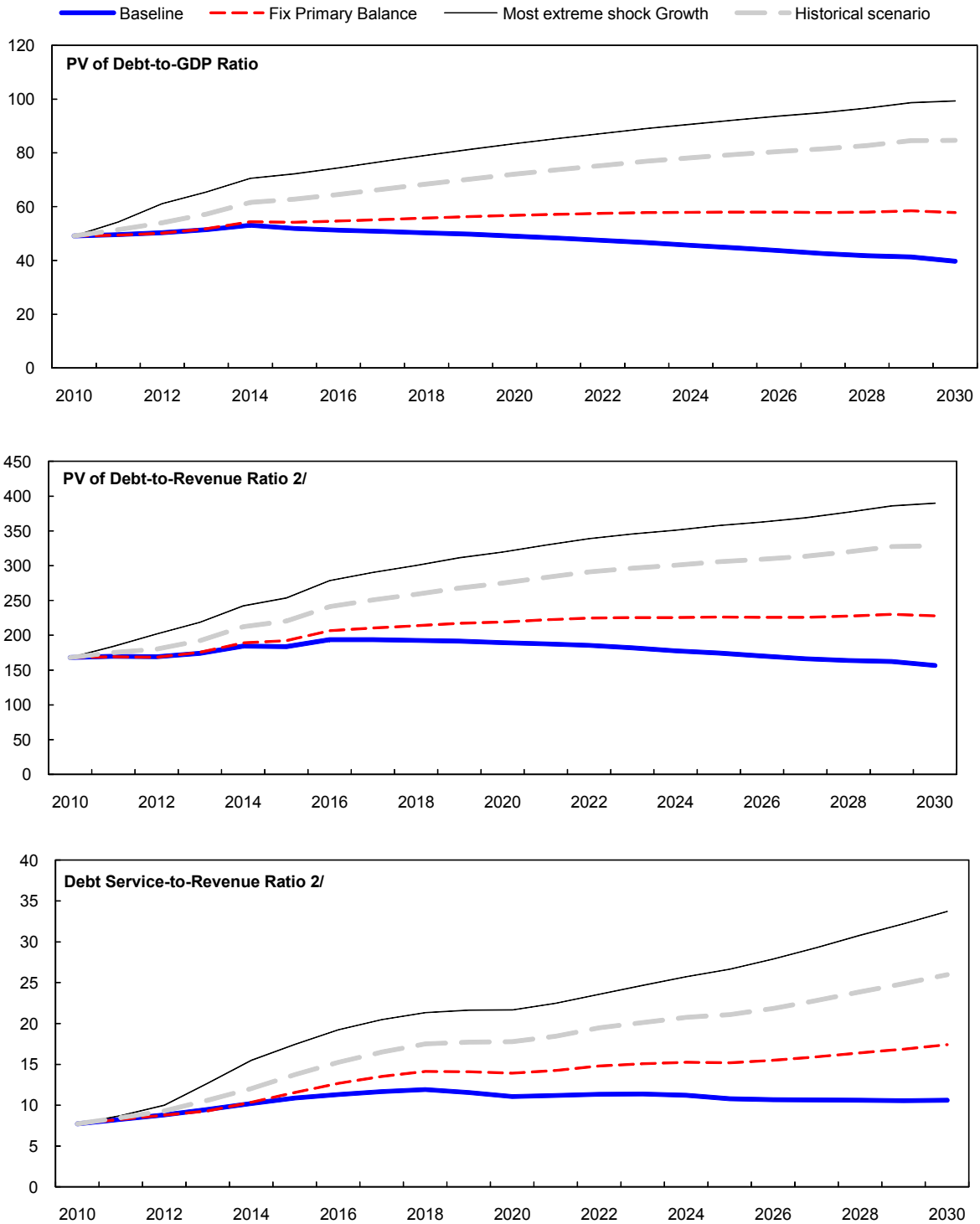
Figure 2. Guyana: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2010-30 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock.

Figure 3. Guyana: Indicators of Public Debt Under Alternative Scenarios, 2010-30 1/

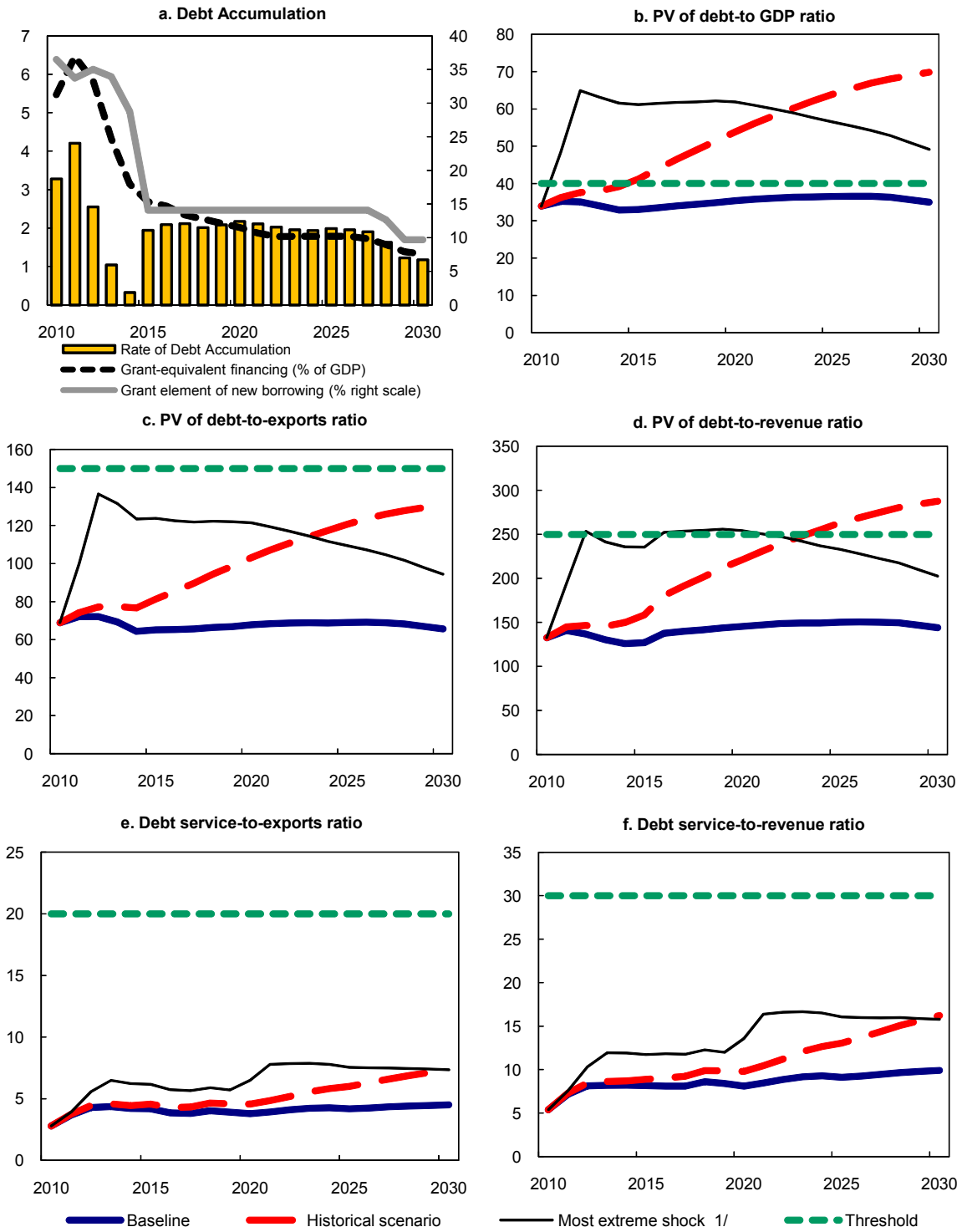


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

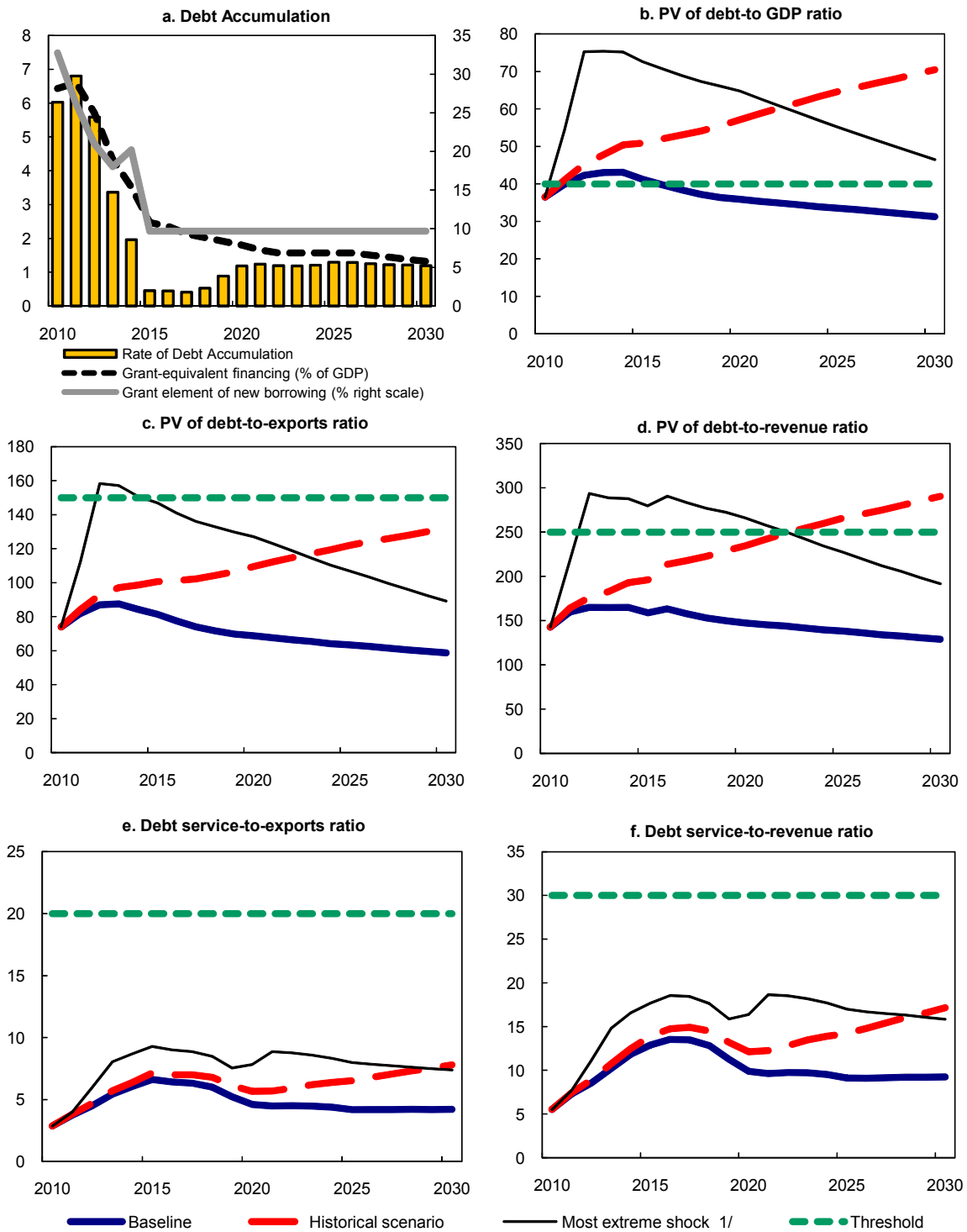
Figure 4. Guyana: Indicators of Public and Publicly Guaranteed External Debt, 2010-30, Petrocaribe on a Net Basis 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock.

Figure 5. Guyana: Indicators of Public and Publicly Guaranteed External Debt Under A Case of Lower Concessionalality, 2010-30 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock.

Table 1. Guyana: Main Elements of the Macroeconomic Framework
(In percent of GDP, unless otherwise indicated)

	Medium Term						Long Term			Averages		
	2009	2010	2011	2012	2013	2014	2020	2025	2030	2010-14	2015-30	2010-30
Economic growth and inflation												
Real GDP (percentage change)	3.3	4.4	4.9	4.2	3.9	3.6	3.3	3.2	3.1	4.2	3.2	3.5
GDP (in billions of G\$)	413.1	448.1	490.4	535.7	579.9	624.4	933.9	1310.6	1867.0	535.7	1166.1	1016.0
End-of-period inflation (in percent)	3.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
National Income (percent of GDP)												
Investment	16.5	18.2	19.0	19.3	18.2	17.4	15.7	16.2	17.2	18.4	16.4	16.8
Private	4.0	5.1	5.5	5.4	5.1	5.4	6.0	6.1	6.6	5.3	6.3	6.0
Public	12.6	13.1	13.5	13.9	13.0	12.0	9.6	10.1	10.6	13.1	10.1	10.8
National savings	8.0	8.2	9.6	10.6	10.1	10.9	10.0	11.7	13.6	9.9	11.3	11.0
Fiscal sector												
Central government operations												
Revenue and grants	28.8	29.2	29.2	29.8	29.5	28.8	25.9	25.6	25.4	29.3	25.9	26.7
<i>Of which: tax revenue</i>	21.6	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Expenditure	32.0	32.5	32.4	32.7	32.1	30.9	27.9	27.6	27.4	32.1	27.9	28.9
Current expenditure	19.5	19.4	19.0	18.8	19.0	19.0	18.3	17.5	16.7	19.0	17.9	18.1
Capital expenditure	12.6	13.1	13.5	13.9	13.0	12.0	9.6	10.1	10.6	13.1	10.1	10.8
Public enterprises overall balance	1.6	2.2	1.8	2.2	2.4	2.4	2.4	2.4	2.4	2.2	2.4	2.4
PetroCaribe savings	-0.9	-3.5	-2.5	-2.6	-2.4	-2.5	0.8	0.8	0.0	-2.7	0.7	-0.1
Primary balance (excluding Skeldon)	-1.0	-0.6	-1.8	-1.5	-1.1	-0.7	-0.5	-0.6	-0.7	-1.1	-0.6	-0.7
Overall balance after grants	-3.3	-3.2	-3.2	-2.9	-2.5	-2.2	-2.0	-2.0	-2.0	-2.8	-2.0	-2.2
Balance of payments												
Current account bal. (incl. official transfers)	-8.5	-10.0	-9.4	-8.7	-8.0	-6.5	-5.6	-4.6	-3.6	-8.5	-5.1	-5.9
Exports of goods and services	48.0	49.3	48.8	48.7	49.2	51.1	52.2	52.9	53.3	49.4	52.5	51.7
Imports of goods and services	72.6	74.2	72.5	71.2	70.5	70.7	70.7	70.2	69.7	71.8	70.3	70.7
Current transfers, net	16.8	15.9	15.4	15.3	14.9	14.8	14.7	14.6	14.6	15.3	14.7	14.8
Official transfers (current)	2.0	1.7	1.4	1.7	1.5	1.5	1.4	1.3	1.3	1.6	1.4	1.4
Foreign direct investment	8.1	7.0	7.0	7.0	7.0	7.0	6.0	5.1	4.6	7.0	5.6	5.9
Gross official reserves (in months of imports)	5.1	4.9	5.2	5.4	5.4	5.4	5.6	5.8	6.0	5.2	5.7	5.6
Terms of trade (percent change)	21.5	-5.3	-4.0	0.7	0.3	-0.3	-0.6	-0.3	0.0	-1.7	-0.3	-0.6
Financing												
External financing (in millions of U.S. dollar)	173.1	251.3	303.9	283.3	220.7	183.6	142.4	175.1	225.9	248.5	164.4	184.4
External financing	8.6	11.5	12.8	11.1	8.2	6.5	3.8	3.7	3.7	10.0	3.8	5.3
Loans	4.9	8.4	9.2	7.5	5.2	4.2	2.4	2.4	2.4	6.9	2.4	3.4
<i>Of which: PetroCaribe financing</i>	1.6	3.7	2.6	2.6	2.4	2.5	0.0	0.0	0.0	2.8	0.0	0.7
Grants	3.6	3.1	3.7	3.6	3.0	2.3	1.4	1.3	1.3	3.1	1.4	1.9

Source: Staff estimates and projections.

Table 2. Guyana: External Debt Sustainability Framework, Baseline Scenario, 2010–30
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	41.6	43.7	46.1			50.4	54.5	56.7	57.1	57.2	54.9		47.2	36.7	
o/w public and publicly guaranteed (PPG)	41.6	43.7	46.1			50.4	54.5	56.7	57.1	57.2	54.9		47.2	36.7	
Change in external debt	-30.2	2.0	2.5			4.2	4.1	2.3	0.4	0.1	-2.3		-1.2	-0.9	
Identified net debt-creating flows	-9.5	0.1	-1.9			1.1	0.0	-0.5	-1.1	-2.6	-1.7		-1.9	-2.1	
Non-interest current account deficit	10.5	12.7	8.0	8.0	3.1	9.4	8.7	7.9	7.2	5.6	6.2		4.7	2.7	4.0
Deficit in balance of goods and services	27.6	32.3	24.5			25.0	23.6	22.5	21.3	19.6	19.9		18.5	16.3	
Exports	48.6	50.6	48.0			49.3	48.8	48.7	49.2	51.1	50.6		52.2	53.3	
Imports	76.3	83.0	72.6			74.2	72.5	71.2	70.5	70.7	70.6		70.7	69.7	
Net current transfers (negative = inflow)	-17.2	-19.8	-16.8	-11.8	6.1	-15.9	-15.4	-15.3	-14.9	-14.8	-14.7		-14.7	-14.6	-14.6
o/w official	-0.7	-2.7	-2.0			-1.7	-1.4	-1.7	-1.5	-1.5	-1.5		-1.4	-1.3	
Other current account flows (negative = net inflow)	0.1	0.2	0.3			0.3	0.5	0.7	0.7	0.8	1.0		1.0	0.9	
Net FDI (negative = inflow)	-8.8	-9.3	-8.1	-5.8	2.5	-7.0	-7.0	-7.0	-7.0	-7.0	-6.9		-6.0	-4.6	-5.5
Endogenous debt dynamics 2/	-11.1	-3.3	-1.8			-1.2	-1.6	-1.3	-1.3	-1.1	-0.9		-0.6	-0.2	
Contribution from nominal interest rate	0.6	0.6	0.5			0.6	0.7	0.8	0.8	0.8	0.9		0.9	1.0	
Contribution from real GDP growth	-4.2	-0.7	-1.4			-1.9	-2.3	-2.1	-2.1	-2.0	-1.8		-1.5	-1.1	
Contribution from price and exchange rate changes	-7.5	-3.1	-1.0			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-20.7	1.9	4.4			3.1	4.1	2.7	1.5	2.6	-0.6		0.6	1.3	
o/w exceptional financing	-19.5	3.0	0.9			3.5	2.5	2.6	2.4	2.5	0.0		0.0	0.0	
PV of external debt 4/	...	...	33.4			36.5	39.4	41.0	41.4	41.7	40.7		37.7	32.2
In percent of exports	...	...	69.5			74.0	80.7	84.2	84.2	81.7	80.4		72.3	60.4
PV of PPG external debt	...	...	33.4			36.5	39.4	41.0	41.4	41.7	40.7		37.7	32.2
In percent of exports	...	...	69.5			74.0	80.7	84.2	84.2	81.7	80.4		72.3	60.4
In percent of government revenues	...	...	135.8			142.7	157.6	160.0	158.5	159.8	156.8		155.0	132.8
Debt service-to-exports ratio (in percent)	2.3	2.1	1.8			2.9	3.7	4.4	4.8	4.8	5.0		4.5	4.3	
PPG debt service-to-exports ratio (in percent)	2.3	2.1	1.8			2.9	3.7	4.4	4.8	4.8	5.0		4.5	4.3	
PPG debt service-to-revenue ratio (in percent)	4.5	4.9	3.5			5.5	7.3	8.3	9.0	9.5	9.8		9.6	9.5	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.0			0.1	0.1	0.1	0.1	0.0	0.1		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	40.7	10.6	5.6			5.1	4.6	5.7	6.8	5.5	8.4		6.0	3.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.0	2.0	3.3	1.9	3.1	4.4	4.9	4.2	3.9	3.6	3.3	4.1	3.3	3.1	3.2
GDP deflator in US dollar terms (change in percent)	11.7	8.1	2.2	4.1	4.1	3.5	3.3	3.3	2.1	0.8	2.1	2.5	1.4	2.2	1.7
Effective interest rate (percent) 5/	1.0	1.5	1.2	1.4	0.7	1.5	1.4	1.5	1.6	1.6	1.6	1.5	1.9	2.7	2.2
Growth of exports of G&S (US dollar terms, in percent)	15.4	14.8	0.2	3.9	6.8	10.8	7.4	7.3	7.1	8.6	4.6	7.6	4.7	5.3	5.3
Growth of imports of G&S (US dollar terms, in percent)	17.3	19.9	-7.6	7.7	10.0	10.5	5.8	5.7	5.1	4.8	5.4	6.2	4.6	5.4	4.9
Grant element of new public sector borrowing (in percent)	32.8	32.0	32.4	30.9	28.0	9.7	27.6	9.7	9.7	9.7
Government revenues (excluding grants, in percent of GDP)	24.4	21.7	24.6			25.6	25.0	25.6	26.1	26.1	26.0		24.3	24.3	24.3
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.2			0.3	0.3	0.3	0.2	0.2	0.1		0.1	0.2	
o/w Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.1	0.1	0.1			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/			6.4	7.1	6.6	5.0	3.8	2.5		1.8	1.3	1.7
Grant-equivalent financing (in percent of external financing) 8/			53.2	53.4	56.5	58.3	56.2	53.4		45.5	37.9	43.7
<i>Memorandum items:</i>															
Nominal GDP (Billions of US dollars)	1.7	1.9	2.0			2.2	2.4	2.5	2.7	2.8	3.0		3.8	6.2	
Nominal dollar GDP growth	19.5	10.2	5.6			8.0	8.4	7.6	6.1	4.5	5.5	6.7	4.7	5.3	5.0
PV of PPG external debt (in Billions of US dollars)	...	...	0.7			0.8	0.9	1.0	1.1	1.2	1.2		1.4	2.0
(PVt-PVt-1)/GDPt-1 (in percent)			6.0	6.2	4.7	2.9	2.2	1.2	3.9	1.3	1.2	1.2
Gross remittances (Billions of US dollars)	0.3	0.3	0.3			0.3	0.3	0.3	0.4	0.4	0.4		0.5	0.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	29.1			32.0	34.6	36.1	36.5	36.8	36.0		33.3	28.4
PV of PPG external debt (in percent of exports + remittances)	...	...	53.1			57.5	62.7	65.8	66.3	64.8	63.7		57.6	48.4
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.4			2.2	2.9	3.4	3.8	3.8	4.0		3.6	3.5

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes PetroCaribe savings, exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3. Guyana: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-30
(In percent)

	2009	Projections							
		2010	2011	2012	2013	2014	2015	2020	2030
PV of debt-to GDP ratio									
Baseline	33	36	39	41	41	42	41	38	32
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	33	36	41	44	46	48	50	57	69
A2. New public sector loans on less favorable terms in 2010-2030 2	33	36	41	45	46	47	46	46	47
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	33	36	42	46	46	47	46	42	36
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	33	36	43	52	52	53	51	48	37
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	33	36	41	44	44	44	43	40	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	33	36	51	63	63	63	62	57	41
B5. Combination of B1-B4 using one-half standard deviation shocks	33	36	53	73	73	73	71	66	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	33	36	55	58	58	59	57	53	45
PV of debt-to-exports ratio									
Baseline	70	74	81	84	84	82	80	72	60
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	70	74	83	90	93	95	98	110	130
A2. New public sector loans on less favorable terms in 2010-2030 2	70	74	85	92	94	93	92	89	88
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	70	74	81	84	84	82	80	72	60
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	70	74	98	131	130	125	124	111	84
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	70	74	81	84	84	82	80	72	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	70	74	104	130	128	124	122	110	78
B5. Combination of B1-B4 using one-half standard deviation shocks	70	74	110	153	151	146	144	129	91
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	70	74	81	84	84	82	80	72	60
PV of debt-to-revenue ratio									
Baseline	136	143	158	160	158	160	157	155	133
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	136	143	162	171	175	186	191	236	286
A2. New public sector loans on less favorable terms in 2010-2030 2	136	143	166	175	177	182	179	191	192
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	136	143	167	179	178	179	176	174	149
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	136	143	173	204	200	201	198	195	152
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	136	143	163	171	169	170	167	165	141
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	136	143	203	247	242	242	238	235	171
B5. Combination of B1-B4 using one-half standard deviation shocks	136	143	213	284	278	278	274	270	194
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	136	143	222	225	223	225	221	218	187

Table 3. Guyana: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-30 (Continued)
(In percent)

	2009	Projections							
		2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports ratio									
Baseline	2	3	4	4	5	5	5	4	4
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	2	3	4	5	5	5	5	5	8
A2. New public sector loans on less favorable terms in 2010-2030 2	2	3	4	5	5	5	5	6	6
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	2	3	4	4	5	5	5	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	2	3	4	6	7	7	7	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	2	3	4	4	5	5	5	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	2	3	4	5	6	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	6	7	7	7	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	2	3	4	4	5	5	5	4	4
Debt service-to-revenue ratio									
Baseline	4	6	7	8	9	9	10	10	10
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	4	6	7	9	9	10	11	12	17
A2. New public sector loans on less favorable terms in 2010-2030 2	4	6	7	9	9	10	10	12	13
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	4	6	8	9	10	11	11	11	11
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	4	6	7	9	10	11	11	11	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	4	6	8	9	10	10	10	10	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	4	6	7	10	12	12	12	14	14
B5. Combination of B1-B4 using one-half standard deviation shocks	4	6	8	11	13	14	14	16	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	6	10	12	13	13	14	14	13
<i>Memorandum item:</i>									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	...	15	15	15	15	15	15	15	15

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-30
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate		Projections							
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	60.0	61.6	61.4			63.0	64.6	66.0	67.1	68.5	66.0		58.5	44.2	
o/w foreign-currency denominated	41.6	43.7	46.1			50.4	54.5	56.7	57.1	57.2	54.9		47.2	36.7	
Change in public sector debt	-33.1	1.6	-0.2			1.6	1.7	1.4	1.1	1.4	-2.5		-1.5	-1.9	
Identified debt-creating flows	-30.7	-1.1	-0.1			-1.4	-1.8	-1.8	-1.4	-1.0	-1.7		-0.9	-0.5	
Primary deficit	3.4	3.4	2.0	2.4	2.6	1.8	2.0	1.7	1.3	0.8	0.7	1.4	0.6	0.7	0.6
Revenue and grants	27.5	25.9	28.8			29.2	29.2	29.8	29.5	28.8	28.2		25.9	25.4	
of which: grants	3.2	4.2	4.2			3.7	4.2	4.1	3.4	2.7	2.2		1.6	1.1	
Primary (noninterest) expenditure	30.9	29.3	30.7			31.0	31.2	31.4	30.8	29.6	28.9		26.5	26.0	
Automatic debt dynamics	-13.5	-4.5	-2.1			-3.1	-3.7	-3.5	-2.7	-1.9	-2.4		-1.5	-1.2	
Contribution from interest rate/growth differential	-11.7	-5.6	-0.5			-3.2	-4.5	-4.1	-3.7	-3.6	-3.4		-2.6	-1.9	
of which: contribution from average real interest rate	-5.6	-4.4	1.5			-0.7	-1.5	-1.5	-1.2	-1.2	-1.2		-0.7	-0.5	
of which: contribution from real GDP growth	-6.1	-1.2	-2.0			-2.6	-3.0	-2.6	-2.5	-2.4	-2.2		-1.9	-1.4	
Contribution from real exchange rate depreciation	-1.8	1.1	-1.6			0.1	0.8	0.6	1.0	1.7	1.0		...	...
Other identified debt-creating flows	-20.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-20.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.5	2.7	-0.1			3.0	3.4	3.1	2.5	2.4	-0.8		-0.5	-1.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	48.6			49.1	49.6	50.3	51.4	53.1	51.9		49.0	39.7
o/w foreign-currency denominated	...	...	33.4			36.5	39.4	41.0	41.4	41.7	40.7		37.7	32.2
o/w external	...	...	33.4			36.5	39.4	41.0	41.4	41.7	40.7		37.7	32.2
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	23.0	21.7	20.6			18.1	15.9	13.6	12.6	13.1	14.3		14.3	11.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	169.0			167.9	169.7	169.0	174.1	184.4	183.9		189.3	156.7
PV of public sector debt-to-revenue ratio (in percent)	...	...	197.7			192.1	198.2	196.3	196.7	203.3	199.7		201.5	163.7
o/w external 3/	...	...	135.8			142.7	157.6	160.0	158.5	159.8	156.8		155.0	132.8
Debt service-to-revenue and grants ratio (in percent) 4/	7.2	7.1	5.8			7.7	8.3	8.8	9.5	10.2	10.9		11.1	10.6	
Debt service-to-revenue ratio (in percent) 4/	8.1	8.4	6.8			8.9	9.7	10.2	10.7	11.3	11.8		11.8	11.1	
Primary deficit that stabilizes the debt-to-GDP ratio	...	1.8	2.2			0.1	0.3	0.3	0.2	-0.6	3.2		2.1	2.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.0	2.0	3.3	1.9	3.1	4.4	4.9	4.2	3.9	3.6	3.3	4.1	3.3	3.1	3.2
Average nominal interest rate on forex debt (in percent)	1.0	1.5	1.2	1.4	0.7	1.5	1.4	1.5	1.6	1.6	1.6	1.5	1.9	2.7	2.2
Average real interest rate on domestic debt (in percent)	-6.8	-4.1	2.5	4.4	9.5	2.0	0.8	0.4	1.0	1.2	0.8	1.1	1.4	0.5	1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.9	2.9	-3.6	0.9	2.6
Inflation rate (GDP deflator, in percent)	12.7	9.0	2.1	5.6	3.8	3.9	4.3	4.8	4.2	3.9	4.1	4.2	3.4	4.2	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	32.8	32.0	32.4	30.9	28.0	9.7	27.6	9.7	9.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes total gross debt for the consolidated public sector.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 5. Guyana: Sensitivity Analysis for Key Indicators of Public Debt 2010-30

	Projections								
	2009	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio									
Baseline	49	49	50	50	51	53	52	49	40
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	49	49	51	54	57	62	63	72	85
A2. Primary balance is unchanged from 2010	49	49	49	50	52	54	54	57	58
A3. Permanently lower GDP growth 1/	49	49	50	51	53	56	56	62	80
A4. Alternative Scenario :[Customize, enter title]	49	49	51	53	54	56	55	48	30
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	49	49	54	61	65	70	72	83	99
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	49	49	53	57	58	59	58	55	45
B3. Combination of B1-B2 using one half standard deviation shocks	49	49	54	58	62	66	67	74	83
B4. One-time 30 percent real depreciation in 2011	49	49	64	63	64	65	64	64	59
B5. 10 percent of GDP increase in other debt-creating flows in 2011	49	49	60	60	61	63	61	58	48
PV of Debt-to-Revenue Ratio 2/									
Baseline	169	168	170	169	174	184	184	189	157
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	169	168	175	180	192	212	220	275	329
A2. Primary balance is unchanged from 2010	169	168	169	169	175	189	192	219	228
A3. Permanently lower GDP growth 1/	169	168	171	173	181	195	199	237	316
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	169	168	184	202	219	242	254	320	390
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	169	168	180	190	195	206	206	212	179
B3. Combination of B1-B2 using one half standard deviation shocks	169	168	182	193	207	226	234	283	324
B4. One-time 30 percent real depreciation in 2011	169	168	218	212	215	227	228	245	232
B5. 10 percent of GDP increase in other debt-creating flows in 2011	169	168	204	202	207	218	218	225	190
Debt Service-to-Revenue Ratio 2/									
Baseline	6	8	8	9	9	10	11	11	11
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	6	8	8	9	11	12	14	18	26
A2. Primary balance is unchanged from 2010	6	8	8	9	9	10	12	14	17
A3. Permanently lower GDP growth 1/	6	8	8	9	10	11	12	15	25
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	6	8	9	10	13	16	17	22	34
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	6	8	8	9	13	14	13	12	14
B3. Combination of B1-B2 using one half standard deviation shocks	6	8	9	10	12	14	16	19	27
B4. One-time 30 percent real depreciation in 2011	6	8	10	12	13	15	16	18	22
B5. 10 percent of GDP increase in other debt-creating flows in 2011	6	8	8	11	20	12	15	13	15

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 6. Guyana: External Debt Sustainability Framework, Petrocaribe on a Net Basis, 2010-30
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	40.6	39.7	41.6			42.6	44.8	45.1	43.9	42.2	41.8		42.2	38.9	
o/w public and publicly guaranteed (PPG)	40.6	39.7	41.6			42.6	44.8	45.1	43.9	42.2	41.8		42.2	38.9	
Change in external debt	-31.3	-0.8	1.8			1.0	2.2	0.3	-1.3	-1.7	-0.4		0.2	-1.0	
Identified net debt-creating flows	-9.5	0.2	-1.7			1.3	0.4	-0.1	-0.7	-2.1	-1.2		-1.7	-2.2	
Non-interest current account deficit	10.5	12.7	8.0	8.0	3.1	9.4	8.7	8.0	7.3	5.7	6.3		4.8	2.6	4.0
Deficit in balance of goods and services	27.6	32.3	24.5			25.0	23.6	22.5	21.3	19.6	19.9		18.5	16.3	
Exports	48.6	50.6	48.0			49.3	48.8	48.7	49.2	51.1	50.6		52.2	53.3	
Imports	76.3	83.0	72.6			74.2	72.5	71.2	70.5	70.7	70.6		70.7	69.7	
Net current transfers (negative = inflow)	-17.2	-19.8	-16.8	-11.8	6.1	-15.9	-15.4	-15.3	-14.9	-14.8	-14.7		-14.7	-14.6	-14.6
o/w official	-0.7	-2.7	-2.0			-1.7	-1.4	-1.7	-1.5	-1.5	-1.5		-1.4	-1.3	
Other current account flows (negative = net inflow)	0.1	0.2	0.3			0.3	0.6	0.8	0.8	0.9	1.1		1.0	0.9	
Net FDI (negative = inflow)	-8.8	-9.3	-8.1	-5.8	2.5	-7.0	-7.0	-7.0	-7.0	-7.0	-6.9		-6.0	-4.6	-5.5
Endogenous debt dynamics 2/	-11.1	-3.2	-1.6			-1.1	-1.3	-1.0	-0.9	-0.8	-0.6		-0.5	-0.2	
Contribution from nominal interest rate	0.6	0.6	0.5			0.6	0.6	0.7	0.8	0.8	0.8		0.9	1.0	
Contribution from real GDP growth	-4.2	-0.7	-1.2			-1.7	-1.9	-1.7	-1.7	-1.5	-1.3		-1.3	-1.2	
Contribution from price and exchange rate changes	-7.5	-3.0	-0.9			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-21.8	-1.0	3.5			-0.2	1.8	0.4	-0.6	0.4	0.8		1.8	1.2	
o/w exceptional financing	-20.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	33.4			33.9	35.2	35.1	34.0	32.9	33.0		35.4	35.0	
In percent of exports	...	...	69.5			68.9	72.1	72.1	69.3	64.4	65.2		67.8	65.6	
PV of PPG external debt	...	...	33.4			33.9	35.2	35.1	34.0	32.9	33.0		35.4	35.0	
In percent of exports	...	...	69.5			68.9	72.1	72.1	69.3	64.4	65.2		67.8	65.6	
In percent of government revenues	...	...	135.8			132.8	140.8	136.9	130.3	125.9	127.0		145.4	144.2	
Debt service-to-exports ratio (in percent)	2.3	2.1	1.8			2.8	3.7	4.3	4.4	4.2	4.2		3.8	4.5	
PPG debt service-to-exports ratio (in percent)	2.3	2.1	1.8			2.8	3.7	4.3	4.4	4.2	4.2		3.8	4.5	
PPG debt service-to-revenue ratio (in percent)	4.5	4.9	3.5			5.4	7.2	8.1	8.2	8.2	8.1		8.1	9.9	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.0			0.1	0.1	0.1	0.1	0.0	0.0		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	41.8	13.5	6.2			8.3	6.5	7.7	8.6	7.4	6.7		4.6	3.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.0	2.0	3.3	1.9	3.1	4.4	4.9	4.2	3.9	3.6	3.3	4.1	3.3	3.1	3.2
GDP deflator in US dollar terms (change in percent)	11.7	8.1	2.2	4.1	4.1	3.5	3.3	3.3	2.1	0.8	2.1	2.5	1.4	2.2	1.7
Effective interest rate (percent) 5/	1.0	1.5	1.3	1.4	0.7	1.6	1.6	1.7	1.8	1.8	1.9	1.7	2.1	2.6	2.3
Growth of exports of G&S (US dollar terms, in percent)	15.4	14.8	0.2	3.9	6.8	10.8	7.4	7.3	7.1	8.6	4.6	7.6	4.7	5.3	5.3
Growth of imports of G&S (US dollar terms, in percent)	17.3	19.9	-7.6	7.7	10.0	10.5	5.8	5.7	5.1	4.8	5.4	6.2	4.6	5.4	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.5	33.7	35.0	33.9	28.7	14.1	30.3	14.1	9.7	13.4
Government revenues (excluding grants, in percent of GDP)	24.4	21.7	24.6			25.6	25.0	25.6	26.1	26.1	26.0		24.3	24.3	24.3
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.2			0.3	0.3	0.3	0.2	0.2	0.1		0.1	0.2	
o/w Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.1	0.1	0.1			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.5	6.5	5.8	4.3	3.1	2.7		2.0	1.3	1.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			63.7	59.3	65.0	70.6	73.1	49.7		42.6	37.9	41.3
<i>Memorandum items:</i>															
Nominal GDP (Billions of US dollars)	1.7	1.9	2.0			2.2	2.4	2.5	2.7	2.8	3.0		3.8	6.2	
Nominal dollar GDP growth	19.5	10.2	5.6			8.0	8.4	7.6	6.1	4.5	5.5	6.7	4.7	5.3	5.0
PV of PPG external debt (in Billions of US dollars)	...	...	0.7			0.7	0.8	0.9	0.9	0.9	1.0		1.3	2.2	
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			3.3	4.2	2.5	1.0	0.3	1.9	2.2	2.2	1.2	1.9
Gross remittances (Billions of US dollars)	0.3	0.3	0.3			0.3	0.3	0.3	0.4	0.4	0.4		0.5	0.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	29.1			29.7	30.9	30.9	30.0	29.0	29.1		31.2	30.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	53.1			53.5	56.0	56.3	54.5	51.1	51.6		54.0	52.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.4			2.2	2.9	3.3	3.4	3.3	3.3		3.0	3.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)] / (1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

INTERNATIONAL MONETARY FUND

GUYANA

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

March 1, 2010

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APPENDIX I. GUYANA: FUND RELATIONS
As of December 31, 2009

I. Membership Status: Joined September 26, 1966; Article VIII					
II. General Resources Account		SDR million	In percent of quota		
Quota		90.90	100.0		
Fund holdings of currency		90.90	100.0		
III. SDR Department		SDR million	In percent of allocation		
Net cumulative allocation		87.09	100.00		
Holdings		2.49	2.86		
IV. Outstanding Purchases and Loans		SDR million	In percent of quota		
PRGF arrangements		37.06	40.77		
V. Financial Arrangements					
	<u>Approval</u>	<u>Expiration</u>	<u>Amount approved</u>	<u>Amount drawn</u>	
<u>Type</u>	<u>Date</u>	<u>Date</u>	<u>(SDR million)</u>	<u>(SDR million)</u>	
PRGF	9/20/2002	9/12/2006	54.55	54.55	
PRGF	7/15/1998	12/31/2001	53.76	24.88	
PRGF	7/20/1994	4/17/1998	53.76	53.76	
VI. Projected Payments to Fund					
(SDR million; based on existing use of resources and present holdings of SDRs)					
	<u>Forthcoming</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal	0.93	4.64	7.41	7.41	7.41
Charges/Interest	0.39	0.37	0.34	0.30	0.26
Total	1.31	5.00	7.75	7.71	7.67
VII. Implementation of Multilateral Debt Relief Initiative (MDRI)					
I.	MDRI-eligible debt (SDR million) ¹		45.06		
	<i>Of which:</i> MDRI Trust		31.58		
	Remaining HIPC resources		13.48		
II.	Debt relief by facility (SDR million)				
	<u>Delivery Date</u>		<u>GRA</u>	<u>Eligible Debt</u>	<u>Total</u>
	January 2006		N/A	45.06	45.06

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

VIII. Implementation of HIPC Initiative

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Dec. 1997	Nov. 2000	
Assistance committed by all creditors (US\$ million) ²	256.40	334.50	
<i>Of which:</i> IMF assistance (US\$ million)	34.50	40.00	
(SDR equivalent in millions)	25.56	31.07	
Completion point date	May 1999	Dec. 2003	
II. Disbursement of IMF assistance (SDR million)			
Amount disbursed	25.56	31.07	56.63
Interim assistance	...	15.35	15.35
Completion point balance	25.56	15.73	41.29
Additional disbursement of interest income ³	...	2.96	2.96
Total disbursements	25.56	34.03	59.59

IX. Previous Decisions and Article IV Consultation Cycle

- a. On December 18, 2003, the Executive Board determined that Guyana had reached the completion point under the enhanced HIPC Initiative (EBS/03/158).
- b. On February 27, 2009, the Executive Board concluded the 2008 Article IV consultation (SM/09/41). Guyana is on a 12-month cycle for Article IV consultations.

X. Safeguards Assessments

An updated safeguards assessment of the Bank of Guyana (BoG), related to the then expected PRGF arrangement, was completed in May 2007. The assessment found that the BoG has taken steps to improve its safeguards since the previous assessment in 2003. In particular, compliance with International Financial Reporting Standards (IFRS) in the annual financial statements have improved, although certain disclosures still do not meet requirements, and a new internal audit charter and associated practices have been adopted. The assessment recommended involvement of an audit firm with experience in International Standards on Auditing and IFRS in future BoG external audits to address professional capacity constraints in Guyana, and reconstitution of the Board of Directors to address governance shortcomings. The latter action was completed in May 2007.

XI. Exchange Rate Arrangement

Guyana has accepted the obligations of Article VIII—Section 2, 3, and 4—and maintains an exchange system that is free of restrictions on the making of payments and transfers

² Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

³ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

for international transactions, with the only exception of certain exchange restrictions for the preservation of national and international security. Guyana's *de jure* exchange rate regime is a managed float. Guyana's *de facto* exchange rate regime is classified as a stabilized arrangement. The BoG conducts transactions on the basis of the weighted average quotations of the three largest dealers in the exchange market. The currency of Guyana is the Guyana dollar. The exchange rate was G\$203.3 per U.S. dollar on December 31, 2009.

XII. ROSC, FSAP and EPA Participation

- a. A fiscal ROSC was undertaken in July 2002.
- b. A WB/IMF FSAP took place in November 2005 and concluded in September 2006 (SM/06/292).
- c. Ex-Post Assessment findings were discussed with the authorities in June 2006 and concluded on October 23, 2006 (SM/06/338).

XIII. Technical Assistance

Fiscal Affairs Department

May 2006	Develop program to prepare for VAT implementation.
Aug. 2006	Monitor preparation for VAT implementation.
Sep. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Update progress in strengthening the public expenditure management system.
Jun. 2007	VAT implementation follow-up.
Apr. 2008	CARTAC (budget management).

Monetary and Capital Markets Department

Mar. 2009	CARTAC (Regulation of market risk capital charge)
Oct. 2009	CARTAC (Development of stress-testing)
Nov. 2009	CARTAC (Risk-based supervision training)
Dec. 2009	CARTAC (Development of stress-testing)

Statistics Department

Apr. 2005	Monetary and financial statistics, follow up.
Apr. 2005	Government Finance Statistics.
Apr. 2006	CARTAC (national accounts)
Apr. 2007	CARTAC (national accounts)
Oct. 2007	CARTAC: LTE: Improvement of Annual GDP Estimates—Review of Survey Instruments.
Nov. 2007	CARTAC (Macroeconomic Statistics for Economists course)
June 2009	CARTAC (Training in Balance of Payments)
June 2009	CARTAC (Needs assessment on National Accounts)
June 2009	CARTAC (CPI revision of Georgetown index)
June 2009	CARTAC (Training in CPI methods and procedures)
Aug. 2009	CARTAC (National accounts rebasing)
Aug. 2009	CARTAC (CPI revision of Georgetown index)
Oct. 2009	CARTAC (National accounts rebasing)

Nov. 2009 CARTAC (CPI revision of Georgetown index)
Jan. 2010 CARTAC (National accounts rebasing)

Legal Department

May 2005 Tax legislation.
Aug. 2005 VAT regulations.
Sep. 2005 Update AML/CFT legislation.
Apr. 2006 Income-tax regulations.
Aug. 2006 Tax drafting.

XIV. Resident Representative

Mr. Saqib Rizavi, since January 2005. The office was closed in end-January 2009.

APPENDIX II. GUYANA: RELATIONS WITH THE WORLD BANK GROUP
(As of December 31, 2009)

The Guyana portfolio of IDA-financed projects is comprised of two projects totaling US\$21.3 million; HIV/AIDS (US\$10 million) and Water Sector Consolidation (US\$11.3 million). In addition, a Trust Fund portfolio totaling US\$18.9 million, includes: (i) the Education for All/Fast Track Initiative (EFA–FTI) program supported by the FTI Catalytic Fund (US\$12.2 million); (ii) the Global Environment Facility (GEF) grant for the Conservancy Adaptation Project (US\$3.8 million); (iii) the Bagasse Cogeneration project (US\$2.6 million) funded by the Community Development Carbon Fund managed by the World Bank, and a (iv) Trust Fund for National Statistics Strategy and Statistical Development TA project (US\$285,000).

Ongoing analytical work includes a regional energy study (Alternative Energy Supply), which is in line with the Government’s objective of diversifying power supply sources, and limiting Guyana’s exposure to hydrocarbon price fluctuations. Additionally, in 2009, an Integrated Fiduciary Assessment was completed and delivered to the Government.

A new CAS (2009-2012), discussed by the Board of Executive directors on May 26, 2008, included two new lending projects: (i) the Forestry, Climate Change, and Community Project (US\$3 million); and (ii) the Education Quality Project (US\$3 million). It also includes three analytical activities: On-demand economic monitoring and just-in-time analysis; Agriculture Risk Insurance, and Safety Nets.

World Bank Support to the Climate Change Agenda

Adaptation

The Bank supports the adaptation to climate change through two projects: first, the GEF financed “*Mainstreaming Adaptability to Climate Change*” (US\$5million) for CARICOM member states that has served as a platform to promote mainstreaming of climate change considerations and strengthen climate modeling capacity; second, the *Conservancy Adaptation Project* (US\$3.5million), which began operating in January 2008, to help reduce the vulnerability to catastrophic flooding from a rise in sea level.

Mitigation

The Forest Carbon Partnership Facility (FCPF) is an important attempt to reduce emissions through the conservation of existing carbon sinks in return for large-scale financial transfers.⁴ Guyana was one of the first countries to join the FCPF in July 2008, and the very first country to submit a full-fledged Readiness Plan to the FCPF in February 2009.

⁴ The Kyoto Protocol (2008-2012) does not include Forest Conservation and Avoiding Deforestation.

A grant is being processed for the Readiness Plan, and another grant will be available for its implementation. Guyana is an important pilot for the FCPF, which will help put in place the structures and accountability mechanisms.

More generally, the Country Assistance Strategy identifies four areas of support to Guyana's forests:

- i) The FCPF;
- ii) An IDA forest project complementing the FCPF grant and piloting innovative community management approaches;
- iii) A JSDF grant to support community-based enterprises in the hinterland; and
- iv) A possible GEF grant.

The Bank also supports Guyana's climate mitigation efforts through the *Skeldon Bagasse Cogeneration Project*. This project is not operational at this time because the Emission Reductions (ER) have not yet begun. ER will start when a power-purchasing agreement is signed with the Guyana Power and Light for export of bagasse-generated power to the grid.

Financial Relations

Statement of World Bank Loans

(In millions of U.S. dollars, as of December 31, 2009)

Operation	Original Principal	Available¹	Disbursed¹
GEF Conservancy Adaptation Project	3.8	3.2	0.6
GY (CRL) Water Sector Consolidation Project	11.3	2.3	9.3
HIV/AIDS Prevention and Control Project	10.0	0.0	10.0
Education for All Fast Track Initiative	12.2	0.0	12.2
Total	15.1	5.5	9.9

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service

(Fiscal Year ending January 2010)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 *
Total disbursements	7.0	7.5	6.2	20.9	3.6	2.5	12.3	4.6	7.8	3.7
Repayments	5.1	3.8	5.7	4.9	3.5	3.9	0.1	0.1	0.1	0.1
Net disbursements	2.0	3.8	0.6	16.0	0.1	-1.4	12.2	4.4	7.7	3.6
Interest and fees	2.0	1.8	1.7	1.8	1.9	1.7	0.1	0.1	0.1	0.03

*July 2009 – January 2010

APPENDIX III. GUYANA: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of December 31, 2009)

The IDB is Guyana's major source of multilateral concessional financing with projects spanning most sectors. Since 1977, the Bank has approved loans amounting to US\$1,187.4 million. Outstanding debt stands at US\$259.4 million (excluding undisbursed HIPC debt relief, but after MDRI) while the undisbursed portfolio totals US\$195.1 million. The IDB cancelled US\$356.5 million (principal) of Guyana's outstanding debt effective January 2007. A further US\$35 million was cancelled from some loans in execution, which were undisbursed. A new formula for the allocation of resources to FSO-eligible countries was adopted as part of the MDRI program. Lending to Guyana has continued to be concessional (but with a lower grant element than before), consisting of a 50–50 blend of resources from the IDB's Fund for Special Operations and Ordinary Capital. New allocations will be determined based on the outcomes of recapitalization discussion at the next IDB Board of Governors Meeting in 2010.

The Board of Directors approved the IDB Country Strategy with Guyana 2008–2012 in January 2009. According to the new Strategy, the IDB and the GoG will make strategic interventions, while maximizing future financial allocations that increase the productivity of human inputs for all, promote entrepreneurship, strengthen the private sector, buffer the negative impacts of the economic transformation on the marginalized sectors of society, and create opportunities for key infrastructure improvements in partnership with the national and international private sector. The baseline scenario in the strategy envisages total lending of US\$113 million according to the following pillars: (i) strategic infrastructure investment, (ii) enhanced competitiveness, and (iii) social development for growth.

The large existing IDB portfolio, aligned with the above pillars and future allocations, is a principal foundation of this new strategy. Consequently, future initiatives will augment the positive, IDB-financed work already underway in Guyana. Beginning in 2009, the IDB has moved actively toward the use of country systems while ensuring a timely and efficient delivery of the important stock of projects in execution. The first set of steps focuses on improving financial management and institutional capacity of line ministries to execute projects directly. Country capacity will dictate the pace of this transition in addition to the measures needed to improve the execution and disbursement of the portfolio and the achievement of the development objectives, both at the strategic and project level.

In 2009, the IDB approved three projects totaling US\$34.8 million projects: Transport Sector Improvement & Rehabilitation Program (US\$24.8 million), the second phase of the Financial Sector Reform (US\$5 million), and the Expansion of the Basic Nutrition Program (US\$5 million). The 2010 pipeline consists of four operations: The Financial Sector Reform Program III (US\$5 million), Transport Umbrella Program II (US\$20 million), Water and Sanitation Program (US\$9.5 million), and Supplementary Financing for the Georgetown Solid Waste Program (US\$2 million).

Summary Statement of Active Loans, January, 2010 (in millions of U.S. dollars)				
Loan or Credit No.	Approval Year	Purpose	Amount Approved	Undisbursed
1047/SF	1999	Georgetown II Water Supply & Sewerage	14.8	1.6
1103/SF	2002	Unserved Areas Electrification Program	21.2	5.5
1548/SF	2004	Health Sector Program	23.0	4.2
1554/SF	2004	Moleson Creek-New Amsterdam Road	37.3	1.9
1558/SF	2004	Agricultural Support Services	17.4	11.3
1730-1/SF	2006	Georgetown Solid Waste Management	20.6	12.2
1745-6/SF	2006	Modernization of the Justice Administration System	25.0	16.0
1750-1/SF	2006	Support for Competitiveness Program	26.6	16.3
1752/SF	2006	Citizen Security	19.8	14.4
1803/SF	2006	Transport Infrastructure Rehabilitation Program	24.3	20.0
1929/SF	2007	Agricultural Export Diversification Program	20.9	18.3
1938/SF	2007	Power Sector Support Program	12.0	10.0
2102/BL	2008	Second Low Income Program	27.9	26.9
2215/BL	2009	Road Improvement and Rehabilitation Program	24.8	24.8
2270/BL	2009	Expansion and Integration of Basic Nutrition Program	5	5
Total number of credits = 15			320.6	188.4
Source: Inter-American Development Bank.				

APPENDIX IV. GUYANA: STATISTICAL ISSUES

(As of February 9, 2010)

Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage of the data hamper assessment of the economic situation on a continuing basis. Most data are only available during missions and by telephone/email contacts by the staff, except for monetary statistics, exchange rates, interest rates, and financial prudential indicators, which are available with a lag from the website of the Bank of Guyana (BOG). Despite receiving substantial technical assistance, including from the Fund, to strengthen statistics, weaknesses in compiling and dissemination of data remain. Guyana is considering subscribing to the General Data Dissemination System (GDDS).

Real sector

Considerable work has been completed to strengthen the national accounts. Building on significant structural changes in the economy since the launch of market-oriented reforms, GDP has been rebased with 2006 prices, reflecting more than sixty percent increase compared to the old GDP, based on 1988 prices. Caribbean Regional Technical Assistance Center (CARTAC) missions visited Georgetown in 2003, 2006, and 2007 and have since provided technical assistance on national accounts, which helped facilitate this exercise for the production side. Further work could entail reassessing the rebased GDP on the expenditure side. To this end, the Bureau of Statistics (BOS) could complete its register of enterprises and secure higher response rates for business surveys.

Since January 1994, the BOS has been producing a consumer price index, based on weights derived from a household income and expenditure survey (HIES) for the year comprising the second quarter of 1992 through the first quarter of 1993. The CPI index reflects movements in prices in the Georgetown area. A new HIES was recently completed and new CPI series, reflecting more items in the basket and revised weights, will be published starting 2010.

Fiscal sector

A government finance statistics (GFS) mission, which visited Georgetown in May 2005, assisted the authorities in determining the sources of the discrepancy between the fiscal data and monetary and financial data. The mission recommended improvements in the compilation of GFS (such as expanding the coverage of central government operations to include important statutory bodies with their own revenue and accounts) and improving data on the details of domestic financing. The authorities have made progress in implementing these recommendations, including the compilation of quarterly data for the National Insurance Scheme (NIS), and five nonfinancial public enterprises. Progress on the medium-term objective of adopting the methodology of the *Government Finance Statistics Manual (GFSM 2001)* is proceeding very slowly.

Monetary and financial sectors

Monetary and financial statistics missions visited Georgetown in 2002, 2003, and 2005. The BOG has made significant progress in improving the quality of monetary statistics, especially

as regards the institutional coverage. The monetary statistics currently include the BOG, other depositary corporations (commercial banks, the New Building Society, and trust companies), and other financial corporations (finance companies, life insurance companies, non-life insurance companies, pension funds, and asset management companies). The BOG's monetary statistics provide data for publication in the *IFS Supplement*, based on standardized report forms. The BOG publishes financial prudential indicators in its quarterly report and on its website on a regular basis.

External sector

In 2003, a mission from CARTAC noted several weaknesses in the compilation of balance of payments statistics, including that external debt arrears were not recorded in line with the fifth edition of the *Balance of Payments Manual*, and important financial account transactions were not identified. It recommended that the BOG continue the development of the new reporting form for direct investment, revise the methodology for recording arrears, and seek new data sources for improving the coverage of services. At present, estimates for other services are derived from surveys and an annual survey of major enterprises is used to collect data on inward direct investment. Despite some improvements, deficiencies with customs trade data have not been fully resolved, and the BOS maintains its own in-house capacity for processing customs data.

Guyana: Table of Common Indicators Required for Surveillance

(As of February 9, 2010)

	Date of Latest Observation	Date Received	Frequency of Data ⁸	Frequency of Reporting ⁸	Frequency of Publication ⁸
Exchange Rates	12/31/09	2/1/10	D	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/31/09	2/1/10	W	I	M
Reserve/Base Money	12/31/09	2/1/10	D	W	M
Broad Money	12/31/09	2/1/10	M	M	M
Central Bank Balance Sheet ²	12/31/09	2/1/10	M	M	M
Consolidated Balance Sheet of the Banking System ²	12/31/09	2/1/10	M	M	M
Interest Rates ³	12/31/09	2/1/10	M	M	M
Consumer Price Index	9/30/10	1/10/2010	M	I	I
Revenue, Expenditure, Balance and Composition of Financing ⁴ – General Government ⁵	12/09	1/10/2010	Q	I	NA
Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central Government	12/09	1/10/2010	Q	I	NA
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	12/09	1/10/2010	A	I	A
External Current Account Balance	12/09	1/10/2010	M	I	Q
Exports and Imports of Goods and Services	12/09	1/10/2010	M	I	Q
GDP/GNP	2009	1/6/2010	A	I	A
Gross External Debt	12/09	1/10/2010	A	A	A
International Investment Position ⁷	12/09	1/10/2010	N/A	I	N/A

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Balance sheet information of the Bank of Guyana and the consolidated balance sheet of the other depository corporations on standardized report forms are submitted to the Statistics Department of the IMF.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing (partial information).

⁵ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁶ Including currency and maturity composition (partial information).

⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents (partial information).

⁸ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 10/48
FOR IMMEDIATE RELEASE
April 13, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Guyana

On March 17, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guyana.¹

Background

Guyana has weathered the impact of the global crisis well by regional and global standards. Newly released GDP series (re-based to 2006 prices) suggest that economic activity expanded by 3.3 percent in 2009, compared to 2 percent in 2008, largely on the back of a recovery in agriculture in the second half of the year along with continued strong gold production and robust activity in the non-tradable sector. This mitigated the adverse impact of global and weather shocks on output in early 2009. End-year inflation fell to 3.6 percent from 6.4 percent as of end-2008, reflecting the softening in world commodity prices.

In 2009, the external current account deficit narrowed, and the international reserve position strengthened significantly. The current account deficit declined by 5 percent of GDP (to 8.5 percent of GDP), largely led by a reduction in imports, particularly of fuel. This, together

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

with strong official inflows (including concessional loans and grants, and the Fund's Special Drawing Rights allocation) and steady short-term capital inflows by commercial banks— attracted to higher domestic interest rates—helped offset a decline in Foreign Direct Investment and raised Guyana's gross international reserves to US\$623 million by end-year (over 5 months of imports). The nominal exchange rate remained stable, and the real effective exchange rate is assessed to be broadly in equilibrium. The impact of the crisis on the financial sector has been limited so far, although expansion in private sector credit has moderated to about 6 percent in 2009 (down from nearly 22 percent in 2008), reflecting both a deceleration in private sector credit demand, as well as tighter lending standards by the banking sector.

Macroeconomic policies have remained prudent. Monetary policy tightened somewhat in 2009, supporting the decline in inflation and external stability. The fiscal deficit for the non-financial public sector declined to 3.3 percent of GDP (equivalent to 5.3 percent of old GDP) from 4.7 percent of GDP in 2008, on the back of higher-than expected revenues that supported the full execution of priority spending, including on infrastructure. Guyana's public debt has fallen from 93.1 percent of GDP as of end-2006 to 56.8 percent of GDP in 2009, assisted by debt relief operations and fiscal consolidation efforts.

Structural reform has continued to focus on further reducing vulnerabilities and entrenching long term growth. On the financial sector, the authorities have consolidated insurance and bank supervision at the central bank, incorporated risk-based supervision, issued new guidelines on risk management and enacted the Anti-Money Laundering/Combating the Financing of Terrorism legislation and the Money Transfer Agencies Act. In the fiscal area, a modern chart of accounts for capital expenditure has been introduced into the integrated financial management system, enhancing the accounting and transparency of public investment. Efforts to further strengthen the Guyana Revenue Authority also continued, including consolidating the new functional organization, completing the rolling out of the integrated tax information system, and improvements in the filing, refund, arrears collection and audit functions. Reforms to support growth centered on modernizing the sugar sector, and on implementing the Low Carbon Development Strategy (LCDS), which could help Guyana benefit from external resources in exchange for the preservation of its rainforests in the world's carbon credit markets—including through a model agreement signed with Norway, whose resources will allow, among others, the development of non-traditional economic sectors and the conversion of Guyana's energy sector.

Guyana's outlook remains positive in the near and medium term, although some important challenges remain. Growth is expected to benefit from the global recovery, the modernization of the sugar sector and the start up of investment projects, which could spur average growth to 4-5 percent in the medium term. The current account would widen somewhat in 2010 with the uptick in domestic demand and the increase in fuel prices, but would narrow gradually over time. Nonetheless, challenges remain, particularly if the upturn in world economic activity were slower than envisaged; or if oil prices were to rise more sharply than projected. Slower progress than expected with the modernization of the sugar sector could also complicate this outlook, particularly in light of the recent phasing out of the preferential sugar prices by the EU, which will increasingly expose Guyana to world-price volatility. Upside potential is related to

the full implementation of the LCDS, the eventual exploitation of Guyana's oil reserves and the sound completion of key large public-private investment projects over the next few years.

Executive Board Assessment

Executive Directors noted that Guyana has weathered the global crisis well, sustaining a solid macroeconomic performance supported by prudent policies. Directors commended the authorities' commitment to further entrench macroeconomic stability and fiscal sustainability, while promoting long-term growth and development to improve the country's standard of living and reduce poverty.

Directors observed that the strong fiscal consolidation in 2009 provides space for a more gradual tightening over the near term to support infrastructure investment and growth. A cautious fiscal stance remains nevertheless warranted given remaining vulnerabilities. Directors therefore supported the authorities' commitment to maintain prudent expenditure policies and to continue implementing structural reforms aimed at safeguarding fiscal sustainability.

Directors commended the authorities' intention to continue seeking highly concessional terms when contracting debt and to minimize fiscal risks from public investment and public-private-partnerships (PPPs), paying close attention to international best practices. They welcomed the authorities' efforts to continue to enhance the quality of the assessment and fiscal accounting of public investment. Directors commended the authorities' commitment to reflect any firm or contingent liabilities related to PPPs in the public debt statistics.

Directors welcomed the authorities' efforts to achieve sustainable long-term growth, including under the Low Carbon Development Strategy. Continued modernization of the sugar sector and diversification of Guyana's productive base are key to sustaining growth. In this context, Directors stressed the importance for the public sugar company to implement its recovery measures and ensure that the new plant at Skeldon becomes fully operational in the near term.

Directors commended the authorities' prudent monetary policy aimed at maintaining low inflation. They noted that the exchange rate appears broadly aligned with fundamentals, and that the current exchange rate policy has served the country well. Looking forward, some Directors supported a gradual approach toward greater exchange rate flexibility, while others considered that a more detailed assessment of the advantages and disadvantages of greater exchange rate flexibility in Guyana is needed.

Directors noted that the financial system has not been directly affected by the global crisis. They welcomed ongoing efforts to further strengthen supervision and enhance the banking system's resilience. Directors encouraged the authorities to require banks to increase provisioning, monitor asset quality, and further tighten the legislation on the exposure to large borrowers and related-party lending. They commended the recent amendment to bring

insurance supervision under the purview of the central bank, and recommended gradually bringing all non-bank financial institutions under a similar regulatory perimeter.

Directors commended the continued upgrading of Guyana's statistical capacity. They welcomed the completion of the national accounts rebasing exercise, which resulted in a significant upward revision of GDP data. Directors welcomed the authorities' intention to review the requirements of the General Data Dissemination System (GDDS).

Directors supported the forthcoming publication of the Poverty Reduction Strategy Paper to underpin the authorities' long-standing commitment to poverty reduction and reaching the Millennium Development Goals.

It is expected that the next Article IV consultation with Guyana will be held on the standard 12-month cycle.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guyana: Selected Economic Indicators

	2006	2007	2008	Prel. 2009	Projections	
					2010	2011
(Annual percent change)						
Production and prices						
Real GDP	5.1	7.0	2.0	3.3	4.4	4.9
Real GDP per capita	4.8	6.7	1.5	3.0	4.0	4.6
Consumer prices (average)	6.7	12.2	8.1	2.9	3.8	4.0
Consumer prices (end of period)	4.2	14.0	6.4	3.6	4.0	4.0
Terms of trade	3.2	3.1	-1.3	21.5	-5.3	-4.0
(In percent of GDP)						
National accounts						
Investment	21.0	20.7	19.0	16.5	18.2	19.0
Private sector	5.8	6.6	8.4	4.0	5.1	5.5
Public sector	15.2	14.1	10.7	12.6	13.1	13.5
National saving	7.9	9.6	5.8	8.0	8.2	9.6
Private sector	2.3	2.4	1.3	0.6	0.0	1.9
Public sector	5.6	7.2	4.5	7.4	8.3	7.7
External savings	13.1	11.1	13.2	8.5	10.0	9.4
Nonfinancial public sector						
Revenue and grants	29.3	27.5	25.9	28.8	29.2	29.2
Expenditure	36.5	32.4	30.6	32.0	32.5	32.4
Current	21.3	18.4	19.9	19.5	19.4	19.0
Capital	15.2	14.1	10.7	12.6	13.1	13.5
Overall balance (after grants) 1/	-7.2	-4.9	-4.7	-3.3	-3.2	-3.2
Total public sector debt (end of period) 2/	93.1	58.9	57.7	56.8	55.2	55.0
External 2/	71.8	40.6	39.7	41.6	42.6	44.8
Domestic	21.3	18.3	17.9	15.2	12.6	10.2
(Annual percentage change, end of period)						
Money and credit						
Broad money	15.9	13.6	12.7	9.7	13.3	13.6
Domestic credit of the banking system	4.3	5.6	30.4	-13.2	9.7	18.5
Public sector (net)	-229.1	-83.6	2.7	-77.5	-12.7	-15.1
Private sector	17.9	18.7	21.8	5.7	10.7	17.3
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
External sector						
Current account balance 1/	-190.8	-193.0	-253.6	-172.5	-218.6	-222.2
Gross official reserves 3/	277.3	312.6	355.9	623.0	658.6	738.5
Months of imports of goods and services	3.1	2.9	2.7	5.1	4.9	5.2
Memorandum items:						
Nominal GDP (G\$ billion)	292.0	352.2	391.5	413.1	448.1	490.4
Per capita GDP, US\$	1,907	2,277	2,497	2,629	2,831	3,059
Guyana dollar/U.S. dollar (period average)	201.0	202.5	204.3	204.1	...	...
PetroCaribe loans savings (stock, in % of GDP)	...	1.1	3.6	4.3	7.5	9.4

Sources: Guyanese authorities; UNDP Human Devt. Report 2009; and Fund staff estimates and projections.

1/ Including official transfers.

2/ After delivery of HIPC assistance and MDRI and excluding Petrocaribe savings in 2007-11.

3/ Includes SDR allocation.

**Statement by Mr. Nogueira Batista, Executive Director for Guyana
and Ms. Des Vignes, Senior Advisor to Executive Director
March 17, 2010**

1. On behalf of the Guyanese authorities, we thank Ms. Gonzalez and her team for the high quality dialogue during the Article IV Consultation Mission and for their candid and well-written report. The authorities also thank CARTAC for the technical assistance provided to improve the quality of the national statistics and, particularly, in the recent rebasing of the national accounts and the consumer price index. The support received from CARTAC in this exercise, underlined by the Center's results-oriented focus to technical assistance delivery, reflects its excellent track record in responding to the needs of the region. With the rebasing completed, Guyana's economic performance is now more accurately measured; real GDP is on a higher growth path and the country's economic size was in fact considerably larger than previously calculated. Consequently, the public debt, the fiscal deficit and the external current account relative to GDP are now much lower. The achievements of Guyana in 2009 were remarkable, although challenges remain. There is urgent need to improve the physical and social infrastructure, further reduce poverty and entrench good economic performance while ensuring fiscal and debt sustainability in the medium term.

Recent Economic Developments

2. Against the backdrop of the global financial and economic crisis, the Guyanese economy performed well in 2009. Staff in their Selected Issues Paper have accurately described the severe impact of the crisis on Guyana. In spite of this, the country's economic performance stands out in the region with real GDP growth estimated at 3.3 percent in 2009, though this was somewhat below the 2006-2008 average of 4.7 per cent. Inflation has decelerated to an average of 2.9 percent mainly on account of the reduction of international commodity prices. With the downward trend in inflation the authorities took the opportunity to consolidate the fiscal position by withdrawing measures implemented in 2008 to dampen the impact of inflationary pressures on the population. The current account deficit contracted as the value of imports declined more rapidly than that of exports. The improved current account, together with higher net capital inflows and the SDR allocation, helped pushed reserves to record levels. The financial sector also fared well in the midst of the turmoil in international financial markets and the exchange rate was relatively stable.

3. Economic growth in 2009 was driven by increased economic activity in the sugar and non-sugar sectors which expanded by 3.3 percent and 3 percent, respectively. A number of facilitative government initiatives in the agricultural sector contributed to boosting the production of rice and other crops and livestock. Gold production soared, reaching its highest production level to date, but this was more than offset by the decline in bauxite and diamond production. Further, distribution and financial services realized significant growth while tourism reached a record high as visitor arrivals peaked in 2009, even when other destinations in the region were experiencing notable declines. In fact, the rate of growth in visitor arrivals in Guyana was the highest in the Caribbean.
4. Despite the decline in export earnings and remittances, the balance of payments returned a substantial surplus in 2009. The value of exports decreased on account of lower commodity prices on the international market and reduced global demand for bauxite. The price of sugar fell as the European Union price cuts took effect on 1 October 2009. The price of rice also declined. However, offsetting these declines was the higher price received on gold exports. The fall in merchandise imports was even sharper and reflected largely the decline in the value of imported fuel and lubricants as the international price of oil trended downward. Meanwhile, the capital account recorded a surplus due to the SDR allocation and increased in net private investment.
5. Prudent macroeconomic management enabled Guyana to perform well despite the international crisis, for which the authorities are to be commended. Fiscal policy focused on maintaining macroeconomic stability, while achieving fiscal consolidation. The authorities have been successful in reducing the fiscal deficit over the past few years. The deficit has narrowed to 3.3 percent of GDP in 2009 from 4.7 percent in 2008 and 7.2 percent in 2006. The improved fiscal position resulted in part from higher revenue collections from both tax and non-tax sources, while expenditure increased at a slower pace. The bulk of increased expenditure was related to investment spending in agriculture, construction and housing which helped to stimulate growth and at the same time enhanced the infrastructure of Guyana. The removal of the measures put in place in 2008 to limit the effects of inflation helped to reduce the fiscal deficit. In 2008, excise taxes on gasoline and diesel were lowered. However, as the international price of oil fell, this measure was reversed. Also removed in 2009 was the subsidy to the electricity company that had been introduced in 2008 to help offset the rising costs associated with the high fuel prices.

6. Guyana's public debt to GDP ratio fell to 61.4 in 2009 percent from over 90 percent in 2006. The authorities are committed to ensuring debt sustainability in the medium term and are working towards reducing or eliminating the stock of outstanding debt with the bilateral non-Paris Club creditors. Going forward they will seek to borrow only at concessional rates in an effort to contain the cost of borrowing.
7. With respect to monetary policy, the authorities' stance was appropriate and focused on maintaining price and exchange rate stability on one hand, while promoting growth in credit to the private sector on the other.
8. Meanwhile, the financial system has not been directly affected by the global financial crisis and remains adequately capitalized, highly liquid and profitable. Asset quality is improving as seen by the declining trend in nonperforming loans to total loans which have fallen from 17.8 percent in 2004 to 8.3 percent in 2009. Following the CLICO debacle, CLICO Guyana has been placed under judicial management and the government stands ready to give financial support upon liquidation. The authorities have since stepped up surveillance and have taken steps to strengthen the regulation and supervision of the financial system. A supervision guideline on risk management was issued to licensed financial institutions and the new Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Act and the Money Transfer Agencies (Licensing) Act were enacted in 2009.

Outlook

9. Looking ahead the authorities aim to build on the achievements of 2009 and the policy objectives for the medium term are rightly focused on maintaining macroeconomic stability, promoting long term growth and development, improving the standard of living of the Guyanese people while transforming the economy and achieving fiscal and debt sustainability. The 2010 Budget passed in Parliament on February 8, 2010 conveys the authorities' commitment to fiscal prudence. However, fiscal consolidation will proceed at a more gradual pace than in 2009 to facilitate the much needed infrastructural development and to sustain economic growth. The deficit is projected to narrow to 3.2 percent of GDP in 2010 and going forward will remain at this level before declining further to under 3 percent in 2012. In 2010, revenues are expected to receive a boost from the higher VAT collections and in particular from the implementation of the Memorandum of Understanding (MOU) between Norway and Guyana which is expected to result in the receipt of US\$30 million in 2010 and a total of US\$250 million by 2015. This MOU is related to the authorities' Low Carbon Development Strategy (LCDS) launched in June 2009. It outlines an overarching vision for Guyana, whereby the country exports

environmental services to the rest of the world and the foreign exchange inflows are used to assist in transforming the economy along a low carbon development path.

10. In 2010 inflation is projected to increase to 4 percent in expectation of higher oil prices. The authorities are committed to keeping inflation in check; monetary policy will focus on maintaining price and exchange rate stability.
11. Despite the risks to growth, the outlook for Guyana remains positive for 2010 and beyond with the global economy poised to improve, the start up of the Skeldon sugar factory, the implementation of the LCDS, and the government's investment program geared to modernizing and transforming the economy. A number of initiatives are in train to modernize the traditional sectors, such as sugar, rice and mining and quarrying, and to diversify the economy into new areas of agriculture, tourism, oil and alternative sources of energy.
12. Further a number of projects were completed in 2009 which will augur well for the economy going forward. In particular, the commissioning of the new Takutu bridge which links Guyana and Brazil will assist in strengthening the trade and economic ties between these countries. In addition, the authorities are seeking to promote investment in other alternative energy sources as a means of reducing dependence on the importation of costly fuel. For instance, several pre-investment studies in bio fuel production are expected to be conducted in conjunction with private firms by the end of 2010. The construction of a hydropower generation plant is also in the pipeline.
13. The authorities will continue their reform agenda to strengthen supervision of the financial system in 2010 as a number of laws are drafted or enacted. These include the drafting of legislation to bring the New Building Society Ltd. under the supervision of the Bank of Guyana and completing regulations and guidelines pursuant to the AML and CFT Act. Initiatives for improving the business environment will persist under the leadership of the National Competitiveness Council, as well as reforms to modernize the Guyana Revenue Authority along functional lines.