FOR AGENDA

EBD/98/59

June 16, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Guyana—Enhanced Structural Adjustment Facility—Economic Policy Framework Paper for 1998–2000**

Attached for consideration by the Executive Directors is the policy framework paper for Guyana for the period 1998–2001. This subject, together with Guyana's request for arrangements under the Enhanced Structural Adjustment Facility (EBS/98/101, 6/16/98), will be brought to the agenda for discussion on a date to be announced.

Mr. Itam (ext. 35350), Mr. Hussein (ext. 36567), or Mr. Jiang (ext. 34284) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Commission (EC), the Food and Agriculture Organization (FAO), the Inter-American Development Bank (IDB), and the United Nations Development Programme (UNDP), following its consideration by the Executive Board.

Att: (1)

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INTERNATIONAL MONETARY FUND

GUYANA

Enhanced Structural Adjustment Facility
Policy Framework Paper, 1998–2001

Prepared by the Guyanese Authorities in Collaboration with the Staffs of the International Monetary Fund and the World Bank

June 12, 1998

I. INTRODUCTION

1. Guyana has been implementing an economic stabilization and restructuring programme designed to reduce the severe macroeconomic imbalances that had emerged in the 1980s and to promote economic growth that would alleviate the widespread poverty. The broad strategy has been to reorient economic management away from the administrative controls that had impeded economic development in the 1980s and toward market-based policies. The principal objectives of the government's economic policy have been to achieve sustainable economic growth with low inflation, external viability (including a substantial reduction in the external debt burden), and a lasting solution to widespread poverty. These efforts have been supported by technical and financial arrangements from the Fund (including two three-year ESAF arrangements) and resources from the World Bank, the Inter-American Development Bank (IDB), the Caribbean Development Bank (CDB), the European Union (EU), and bilateral donors. Guyana would also benefit from assistance under the Initiative for Heavily Indebted Poor Countries (HIPC), with a completion point now expected in February 1999, conditional on strong policy performance.

2. Guyana has made significant progress toward the achievement of the macroeconomic objectives and the restructuring of the economy. Substantial reduction in the overall fiscal deficit through 1996 has been complemented by reform of the public sector that involved its streamlining, tax reform, expenditure controls, civil service reform, and the privatization of public enterprises. In the financial sector, the institutional conditions for financial intermediation have been strengthened (mainly through the enactment of the Financial Institutions Act), the central bank's role has been enhanced, and indirect instruments of monetary control have been adopted. At the same time, the exchange and trade system has been liberalized with the removal of restrictions and the reduction in tariffs; the incentive framework for the private sector has been improved through the removal of virtually all price controls and state intervention; and—in recognition of the short-term adverse impact of the adjustment process—the most vulnerable groups affected by the reform process have been provided with transitional support.

3. This policy framework paper (PFP) summarizes progress made during the last three years under the ESAF arrangement (1995–1997)[1] and outlines the government's medium-term objectives covering 1998–2001, the basis for Guyana's request for a new three-year ESAF arrangement. The paper also examines Guyana's external financing needs during this period.

II. ECONOMIC PERFORMANCE AND POLICY IMPLEMENTATION IN 1995–97

4. Guyana's annual economic programs during 1995–97 were implemented with determination and remained broadly on track, except for a weakening in public finances in the last quarter of 1997 associated in large part with political disturbances surrounding the December 1997 elections,[2] and the effects of the El Niño weather phenomenon. Real GDP growth averaged 6½ percent a year, and 12-month inflation declined from 16 percent in December 1994 to around 4 percent in December 1997.

5. Public savings more than doubled to 16 percent of GDP a year during 1995–96, reflecting strong efficiency gains in tax administration, strict control of non-interest current expenditures, a decline in interest payments, significantly higher surpluses of the public enterprises, and substantially lower central bank operational losses. However, in 1997 public savings fell to about 9 percent of GDP due to a shortfall in government revenues partly because of interruption in tax administration and the adverse effect on incomes of El Niño, and expenditure overruns by the public enterprises (mainly unexpected outlays on goods and services and advancement of some capital expenditure). Although capital outlays—mainly projects to rehabilitate the physical and social infrastructure—rose by about 7 percentage points of GDP during 1995–96, the overall deficit of the public sector was reduced by half to 3 percent of GDP in 1996. However, even though capital outlays declined slightly to about 18 percent of GDP in 1997, the public sector's overall deficit rose to 9 percent of GDP because of the shortfall in public savings.

6. Credit policy during 1995–97 was geared toward facilitating economic activity in the private sector in the context of market-determined interest rates, and money velocity declined

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[1]A detailed discussion of economic developments and policy measures implemented since 1988 is contained in previous policy framework papers, the latest of which was issued on April 2, 1997 (EBD/97/33), and in the recent background paper on economic developments and selected issues (SM/96/241, 9/24/96).

[2]General elections were held in December 1997 and the ruling coalition (PPP/Civic) was reelected under the leadership of Mrs. Janet Jagan. These elections were observed by IFES, OAS, and the Commonwealth Secretariat. However, the elections outcome was challenged by the opposition and there were street demonstrations until mid-January 1998 when regional political leaders brokered an agreement among the political parties for the conduct of an audit of the results. The audit is expected to be completed by end-May 1998.

somewhat with the continuing remonetization of the economy. Broad money rose by an average of 18 percent a year while bank credit expansion to the private sector continued to be strong, although it slowed in 1997 in part due to a slowing of economic activity (especially rice production). Except for 1997, expansion of credit to the private sector was accommodated mainly by significant net repayment by the public sector to the banking system. Partly because of the generally improved fiscal situation over the period as a whole and lower inflation, treasury bill rates (three-month) declined by 8 percentage points during 1995–97 to about 10 percent. Partially reflecting the decline in treasury bill rates, deposit and lending rates also declined (by about 3 percentage points) during the same period, but real interest rates remained significantly positive.

7. The official international reserve position remained strong in 1995–97, rising to US$315 million (about five months of imports of goods and nonfactor services) compared to US$269 million in 1994. Higher export receipts and lower interest payments on the external debt more than offset the strong increase in imports associated with the expansion of investment. The external current account deficit narrowed from 19½ percent of GDP in 1994 to 14½ percent of GDP in 1997.

8. In the area of structural reform, efforts in 1995–97 concentrated on institutional building, and streamlining the public sector. Institutional reforms included the computerization of the Inland Revenue and Customs Departments, the strengthening of antismuggling measures, and the improvement of the operational arrangements for the execution of the public sector investment program (PSIP). In addition, legislation was passed to establish a new Revenue Authority (combining the operations of the Inland Revenue and Customs Departments), and the government initiated program budgeting. In the financial sector, the Financial Institutions Act (FIA) and other conforming legislations and regulations were passed;[3] the Exchange Control Act was repealed to complete the liberalization of the exchange system; and a revised Act to strengthen the independence of the central bank was presented to Parliament. Also, the foreign exchange surrender requirements for sugar and gold exports were reduced in stages from 60 percent in 1994 to 20 percent in June 1996 and eliminated in December 1996. Also, the maximum import duty was lowered from 35 percent in 1994 to 25 percent in 1995 and to 20 percent in 1997, in line with CARICOM's Common External Tariff (CET) policy. In June 1997, a plan was developed (in collaboration with the IDA and IDB) to streamline the size of the public sector including the civil service. During the latter half of 1997, steps were taken to establish a regulatory framework for the state-owned sugar company (GUYSUCO) and to continue the implementation of a modernization and restructuring plan for the company with a view to enhancing its production and marketing efficiencies. In early 1998, the Finance Minister issued an administrative order to implement a regulatory framework.

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[3]The new regulations of the Financial Institutions Act have tightened the requirements for the provisioning for bad and doubtful debts, raised capital adequacy standards, established borrower limits, and improved reporting and disclosure to meet regional and international standards.

exchange regime, a deepening of structural reforms, and invigorating the private sector; and budgetary policies that will direct resources to the social sector areas and basic infrastructure.

12. The strategy will aim at raising gross national savings gradually from about 20 percent of GDP in 1996–97 to 23 percent of GDP by 2001, with an increasing contribution by the private sector but substantial effort coming from the public sector. Investment relative to GDP would be maintained at about 31½ percent a year with its composition shifting in favor of the private sector and with the public sector concentrating on infrastructure. To attain a sustainable fiscal and external position, Guyana's adjustment effort would need to be supported by external assistance, including through a new three-year ESAF arrangement and debt relief under the HIPC Initiative.

13. A detailed timetable of measures to achieve the objectives of the medium-term program is set out in the policy matrix (Attachment I). Below are brief descriptions of the main macroeconomic policies and structural reforms envisaged during the 1998–2001 period (the associated selected economic and financial indicators are presented in Attachment II).

B. Macroeconomic Policies

Fiscal policies

14. The medium-term fiscal strategy is to continue to generate sufficient public savings to permit increased investment (especially in the social sectors and the infrastructure) and a reduction in public debt. Public savings would increase to about 16 percent of GDP by 2001, principally through the continuation of tax reforms and reorientation of primary current expenditure. This, together with somewhat lower and more efficient capital expenditure, would reduce the overall deficit of the public sector from 9 percent of GDP in 1997 to approximate balance by 2000. The strengthening of the public sector finances will continue to permit a significant reduction in its net indebtedness—particularly to the domestic banking system—and facilitate credit expansion to the private sector and a decline in interest rates.

Central government

15. Despite recent progress, the tax system is still insufficiently responsive to changes in income and reforms are needed to improve its elasticity. The effort to maintain central government revenues at about 33 percent of GDP a year over the medium term would be crucial to attaining the fiscal objectives and would depend critically on broadening the tax base, improving tax administration, and recovering costs of services provided by the government. Substantial progress was made during 1991–97 with the rationalization of taxes on income and imports. Initiatives to further broaden the tax base in 1998–2001 would involve taking measures to improve the efficiency of collection and administration including land registration and up to date valuation.

16. With regard to tax administration, the medium-term efforts will focus on improving the efficiency of revenue-collecting agencies. The new Revenue Authority, which had merged the operations of the Inland Revenue and Customs Departments, will be computerized and made fully operational, ensuring a more effective system of inspection and internal audit and a wider coverage (particularly of the informal sector). The ASYCUDA and the TAXADMIN systems (at the former Customs and the Inland Revenue Departments, respectively) would also become fully operational and help strengthen tax enforcement and improve the data bases for audit and coverage. In addition, the staff of the Revenue Authority will be separated from the civil service, and more qualified staff will be recruited—through a better salary and incentive structure—in order to improve valuation, recording, and collection and to stem corruption.

17. Government expenditure will be carefully managed over the medium term to enhance the caliber of the civil service, expand social programs, improve the infrastructure, and meet the recurrent expenses associated with completed capital projects. Spending allocations to priority areas—such as education, health, poverty alleviation—would increase in accordance with the targets set under the HIPC initiative. In accordance with the civil service reform plan and with a view to recruit and retain staff in the public sector, wages and salaries—especially for key and critical positions—would be gradually adjusted upwards to within 10 percent of their comparable levels in the private sector. Outside of this adjustment, general wage increases will be confined to gains in productivity in line with the merit-based performance system introduced in 1997. The wage bill of the central government relative to GDP will be maintained at about 8 percent in 1998–2001. Also, the government will continue its policy of accommodating no supplementary budgetary requests except in emergencies. To complement these efforts and make the budget an effective tool of economic policy, the government is reforming the budgetary process to provide for the introduction of modern expenditure management practices and principles. Reform of the system of budgetary formulation, execution, control, and auditing will be continued, and program budgeting (introduced with assistance from CIDA and USAID) would become well entrenched.

18. The attainment of a satisfactory growth rate and lower unemployment requires an appropriate level of public investment and continued improvement of its efficacy. Public investment therefore is to be at about 15½ percent of GDP a year over 1998–2001. Investment in infrastructure would focus on the rehabilitation of the road network, the drainage systems, and the sea defense system. In the social sectors, attention will continue to focus on the rehabilitation of schools and clinics (emphasizing primary and secondary education and preventive care) and on the improvement of the water distribution and sanitation systems. These projects will be supported by resources from the IDA, IDB, CDB, and the EU. The institutional framework for the implementation of the PSIP will be further strengthened—particularly in the areas of project identification and coordination among executing agencies—after completion of the ongoing restructuring of the Ministry of Finance.

Public enterprises

19. The overall performance of the enterprises that would remain in the public sector is expected to improve over the medium term. The combined current operating surplus, however, is expected to decline somewhat after 1998 as public enterprises are sold to the private sector. However, efficiency gains in operations would result in a reduction in current expenditure and an increase in the savings of the public enterprises to about 5 percent of GDP a year in 1998–2001. This rate of savings would be more than sufficient to finance capital expenditure of the public enterprises of around 2 percent of GDP a year.

20. The government will continue with the privatization programme. The bauxite companies of LINMINE and BERMINE are expected to be brought to the point of sale again in 1998, and eight other small public enterprises are also targeted for privatization in 1998 and 1999. GUYSUCO has revised its five-year strategic plan, and the regulatory framework to guide the operations of the company was put in place in early 1998. Also, GUYSUCO's private sector management contract will remain in place until the company is restructured.

Monetary policy and financial sector reform

21. Monetary policy will be consistent with the inflation and balance of payments objectives of the program, and the central bank will continue to rely on indirect instruments for monetary management. In addition, the technical and supervisory skills of the central bank as well as its monetary management capacity will be enhanced further with continued technical assistance from the Fund. The pursuit of a prudent credit policy would be facilitated by the expected improvements in the public finances, as the public sector reduces its net indebtedness to the banking system. Increased credit to the private sector (including to the small and microenterprises) would be accompanied by measures to improve the institutional framework of the financial sector, deepen financial intermediation, and strengthen banking supervision.

22. The central bank's reserve money program (which was started on an experimental basis in April 1997) would be assessed and strengthened with a view to facilitate timely intervention in the treasury bill market and move toward full-scale open-market operations. Also, given Guyana's experience with treasury bill auctions, the central bank will reopen existing issues as a means to facilitate the development of a secondary market. The central bank's interest rates will continue to be market determined (in line with the average rate in auctions of three-month treasury bills) and the rediscount policy will continue to discourage early redemption of treasury bills (through a positive spread in the interest rates). The ceiling on lending in domestic currency to nonresidents (without reference to the central bank) will be maintained but kept under review.

23. Financial sector reforms will focus on (i) the modernization of the central bank's operations with a view to enhancing its capacity for monetary management, including through its reorganization, recapitalization, and further transfer of foreign liabilities from its books to the central government; (ii) implementation of the FIA regulations especially regarding

licensed nonbank financial institutions; (iii) revision of the 1966 circulars on liquid assets and reserve requirements; (iv) implementation of the restructuring plan for the GNCB (the only remaining government bank) with assistance from the IDA and IDB with a view to ensuring the financial recovery and operational strengthening of the institution in the medium term; (v) elaboration of plans to further reduce government's share in the financial sector below 25 percent (the ratio achieved with the sale of NBIC in late 1997); and (vi) introduction of a regulatory framework for the insurance sector.

External sector policies

24. Guyana's exchange system is free of restrictions, and since 1991 all transactions have taken place at a market-determined exchange rate. The sharp depreciation after the floating of the currency, the trade liberalization measures, and the structural reforms implemented in recent years have enhanced competitiveness and resulted in a significant response in the tradable sector, including a substantial increase in nontraditional exports. An appreciation of about 5 percent in the real effective exchange rate in 1997 appears to have had little adverse effect so far on competitiveness as both private investment and exports remain strong. Given its objective to pursue a development strategy of export-oriented and efficient import-substitution activities, the government will seek to maintain a stable exchange rate for the Guyana dollar (vis-à-vis the intervention currency U.S. dollar) through prudent fiscal, monetary, and wage policies, and to improve competitiveness through efficiency-raising structural reforms. The central bank's intervention in the foreign exchange market will be limited to meeting its international reserves target and smoothing out temporary fluctuations in the exchange rate that do not reflect fundamental economic trends. With the removal in 1996 of the surrender requirements for export receipts, Guyana's trade system became free of all trade restrictions except those relating to health and security concerns.

25. In May 1996, Guyana received from the Paris Club creditors—including Trinidad and Tobago—a stock-of-debt operation on Naples terms involving a 67 percent reduction in the net present value (NPV) of eligible debt and has sought at least comparable treatment from non-Paris Club bilateral and commercial creditors. Nonetheless, Guyana's public debt and debt-service obligations would remain heavy over the medium term. At end-1997, total nominal external public debt outstanding amounted to US$1½ billion (192 percent of GDP), and scheduled debt service was about 17 percent of exports of goods and nonfactor services. The fiscal burden of external debt remains high, with an NPV of debt-to-government revenues of 427 percent and debt service-to-government revenues of 52 percent. Without further relief, the public debt-to-GDP ratio would decline gradually to about 161 percent by 2001 and the debt-service-to-exports ratio to about 11 percent, but the fiscal burden would remain heavy with a ratio of debt service-to-government revenues of about 35 percent a year during 1998–2001.

26. In December 1997, the Boards of the Fund and the World Bank decided that Guyana would be eligible for assistance under the HIPC Initiative. Following agreed debt relief under the Initiative at the completion point, the fiscal burden would be reduced significantly, as the

NPV of debt-to-government revenues would fall to 272 percent and the debt service-to-government revenues ratio would be reduced by around 10 percentage points a year. In NPV terms, debt relief under the HIPC Initiative is projected at US$253 million, equivalent to 25 percent NPV reduction in debt owed to multilateral and bilateral creditors.[6]

IV. Structural and Sectoral Policies

27. As indicated earlier, the role of the public sector in economic activities will be further reduced over the medium term, with emphasis on the provision of an efficient and durable physical and social infrastructure and the maintenance of a transparent regulatory, legal, and administrative framework. To these ends, the government will continue to pursue structural and sectoral policies that would create an environment conducive to private investment and promote a greater diversification of the production base.

A. Privatization

28. The government's strategy is to rely increasingly on private sector-led investment and income generation. The government intends to accelerate the privatization program by divesting/restructuring or broadening the share ownership of the remaining public entities. Part of the divestment proceeds may have to be used for expenditures related to the privatization program, such as severance pay for the displaced workers belonging to enterprises that are restructured. In parallel to the privatization, government will continue to develop and implement regulations in the sugar, utilities and the financial and insurance sectors.

29. For the 1998 programme, entities to be offered for sale to the private sector include LINMINE, BERMINE, Guyana Pharmaceuticals, National Printers, Guyana Stores, Wauna Oil Palm Estate, GEC, Versailles Dairy Complex, and GNCB Trust. The 1999 privatization programme will include Surapana Farm, Ruimveldt Industrial Estate, and Seals and Packaging. The remaining enterprises—National Shipping, GNCB, GAC, Guyoil, and GUYSUCO—are to be restructured over the medium term.

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[6]The Fund's contribution under the Initiative would amount to US$34.5 million, and would be disbursed in the form of a grant, slightly frontloaded and spread over the life of current obligations to the Fund (nine years from the completion point). The contribution from IDA would amount to US$27.1 million through the HIPC Trust Fund; these resources will be used to buy back IDA debt—starting with the longest outstanding—to achieve the targeted reduction in the NPV of debt-to-exports ratio.

B. Public Sector Reform Strategy

30. The government is keen to move toward a functional public service that complements the private sector and effectively delivers the essential services in close partnership with the private sector. To achieve this objective, the government intends to enhance compensation to its employees while improving public sector rules, monitoring work performance and training staff. Within the next three years, the public sector is to be modernized by improving the financial and information systems. Key ministries are to be restructured, greater autonomy is to be given to agencies/departments such as the Revenue Authority and the Public Hospital of Georgetown, and several public services are to be contracted out to the private sector. User costs in health and education are to be gradually introduced wherever feasible. The local governments are to be strengthened to ensure maintenance and rehabilitation of small basic infrastructure. Increased participation of the private sector, including the labor unions and NGOs, in policy formulation is being sought by the government.

C. Agriculture and Forestry

31. The government's development strategy stresses the importance of agriculture and forestry, which in 1997 accounted for 40 percent of GDP and over 45 percent of exports, and employed 41 percent of the labor force. In agriculture, the government emphasizes the need for improving international market access, in particular for rice, enhancing extension services and improving essential infrastructure in secondary towns and rural areas. Guyana has benefitted from preferential markets for sugar (17 percent of GDP and 26 percent of exports) and rice (4 percent of GDP and 17 percent of exports). These sectors would suffer severe dislocation if changes are made to international trading arrangements and access quotas to the rice markets in the EU.

32. To improve competitiveness, the strategic plan for GUYSUCO that includes an investment plan will seek to reduce the average cost of producing sugar from approximately US$0.19 per pound in 1997 to around US$0.13 per pound by the end of the strategic plan in 2002. Current efforts to penetrate markets in the Caribbean and Latin America by GUYSUCO will be strengthened. To sustain rapid growth in rice production, the government will continue to foster research to raise farm and milling productivity and extension services to improve production practices and the use of better seeds. As in the case of sugar, rice exporters are increasingly penetrating new markets in the Caribbean, Latin America and Africa with strong competition in terms of both quality and variety.

33. Nontraditional agricultural products that have significant growth potential—such as livestock and fisheries—will be promoted and the agricultural sector will benefit from the externalities associated with the efforts to rehabilitate the country's infrastructure and efforts to facilitate market access and to disseminate market intelligence.

34. Land reform is needed to encourage investment in agriculture production and housing development. The legal and regulatory framework will be enhanced to increase the security of land tenure by simplifying procedures for obtaining titles, strengthening of the land registry, and modernizing land records. In the area of land reform, the government has developed a land tenure policy that provides for allocation of public lands either through conversion of leaseholds to freeholds and/or sale of land to promote agricultural development and social welfare. The Lands and Surveys Department is to be given greater autonomy to expedite/ regularize land titling.

35. The development of the forestry sector has been constrained by an inadequate policy and institutional framework and the competing claims between forestry and mining activities. The Guyana Forestry Commission is working with the DFID[7] on establishing effective policies and institutions that will guide, monitor, and regulate concessions and exploitation; put in place a land-use planning system and long-term strategy; and deepen research on sustainable forest management and biodiversity conservation. The government's initiatives such as the Iwokrama and the National Protected Areas project are supportive of its environmental policy. Following these steps, forestry exploitation is expected to expand in an orderly fashion with the granting of more concessions.

D. Mining

36. The government will continue to seek private investment to develop gold, diamonds, oil, and other mineral deposits, mindful of the need to protect the environment. To this end, concessions and fiscal arrangements will be designed to permit Guyana to receive a fair share of the proceeds of its natural resources and to ensure that the environment is protected. The government will maintain a standardized approach developed under its mineral policy of 1997 and improve the existing system for granting mining concessions. The government is also seeking donor assistance to develop policies and facilitate joint ventures with investors. The sale of BERMINE and LINMINE is expected to bring in new investment and technology to the mining sector.

E. Manufacturing and Tourism

37. The manufacturing sector in Guyana, which accounts for 7 percent of GDP, continues to be limited by outdated technology and infrastructural constraints. The high cost and unreliable supply of electricity and a shortage of qualified managers and skilled labor hinder firms' ability to ensure continuous production, maintain consistent quality, and compete internationally. CAGI and Guyana Manufacturers Association with IDB assistance are more active in promotion (mainly through training) programs for management. Furthermore,

[7]Previously the U.K. ODA.

shortage of long-term financing and high debt leverage constrain firms from retooling obsolete equipment. Some of these constraints will ease as the infrastructure improves and commercial lending rates decline. Additional institutional support such as the services of a marketing consultant may also help but the sector may need more foreign investors, or where possible borrow externally, to obtain the critical long-term financing for upgrading plant and equipment. Also, the government will continue to encourage technical assistance programs by donors to upgrade the skills of private sector manufacturers.

38. Tourism remains a small sector with significant commercial potential. However, it is constrained mainly by lack of funds for promotion and insufficient air transport. Given Guyana's biodiversity with respect to its rain forests—teeming with flora and fauna—and natural assets such as waterfalls, a niche market could focus on ecotourism. In this regard, the government (working with the private sector) will undertake a tourism marketing strategy, in particular through use of its embassies, and design and put in place a set of regulations that ensures environmentally sustainable development.

V. INFRASTRUCTURE

39. The government program in this area is focused on increasing private sector participation in telecommunications, electricity, aviation, raising safety standards and in improving the legal and regulatory frameworks for critical infrastructure sectors. Over the medium term, the government intends to focus on the rehabilitation of existing infrastructure, as well as to expand the systems of infrastructure into new areas.

A. Electricity and Water

40. Notwithstanding improvements in the power sector in recent years, the rehabilitation of the existing generation, transmission, and distribution facilities has not been completed and the power supply remains unreliable and unable to meet peak demand. Following the set back encountered with the withdrawal of Sask Power to purchase 50 percent of GEC, the government has approved a new list of bidders and expects the company to be privatized around mid-1998. The proposed investment of the strategic partner will allow the GEC to increase both its maintenance and capital programs. With the passage of legislations to provide an improved legal and regulatory framework for the electricity sector—the Electricity Sector Reform Act (ESRA) and the Public Utilities Commission Act (PUCA)—the participation of private capital and management in GEC should allow for more stable and efficient power supply in Guyana.

41. With respect to water, the government with the assistance of donors will continue to work on a strategy to strengthen the operations and finances of the Guyana Water Authority

(GUYWA) and the Georgetown Sewerage and Water Commission (GS&WC).[8] The key issues are weak finances of the companies, dilapidated facilities, weak cost recovery, and high turnover in management personnel. The adverse effects of El Niño have exacerbated the water shortages. Capital expenditure will be targeted to repair and replacement. In the interim, GUYWA has undertaken a study to ensure water access by the poor and has prepared a pilot program for private sector participation in selected pumping stations. In addition, an IDA financed study has identified options for private sector participation in the provision of water services; GS&WC has already contracted out some functions to the private sector. Also, GUYWA will adjust water tariffs periodically to cover fully its operating costs by the year 2000. The IDA, EU, EIB, CDB, and DFID are currently financing the improvement of water supply systems in the regions.

42. In addition, the phased rehabilitation of the Georgetown water supply system and institutional strengthening of GS&WC is being conducted with IDB assistance, including the preparation of a new organizational structure, implementation of a new wage structure, and recruitment of staff to improve the delivery of services. The government will prepare a tariff study and a metering/pipe rehabilitation strategy during 1998.

Urban and rural infrastructure

43. The government/IDB Urban Development Programme, expected to be approved in December 1998, will enhance the institutional and financial framework for urban management. This would facilitate enhanced private sector participation in the improvement of urban services.

B. Transportation, Sea Defenses, and Other Transportation

44. The government's strategy in this sector is to rehabilitate and expand infrastructure, particularly in priority areas as required to support the private sector and export development. The government will continue with the rehabilitation of the main road network, aviation and water transport systems to improve efficiency, and to update its Transport Plan, rebuild the Central Transport Planning Unit, and centralize the responsibility for roads maintenance. In its capital programs, the government has devoted substantial resources to road repair and maintenance.

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[8]The deterioration of water quality, service and infrastructure resulted mainly from the lack of human and financial resources in the public service. It is characterized by the general inability of the public potable water systems to provide service meeting minimal international standards of quality and quantity. GS&WC operates the potable water systems in the city of Georgetown, while GUYWA operates and maintains the potable water systems in the regions.

45. Guyana's sea defense system has deteriorated over time due to budgetary constraints, lack of maintenance, and the loss of qualified staff. Rehabilitation and maintenance requirements will remain high for the coming decade. The government has initiated a medium-term program—focusing on: (i) establishing a Project Execution Unit to speed up project implementation; (ii) improving the maintenance of the existing sea defenses, including the involvement of local contractors; and (iii) designing a comprehensive sea defense policy, including adequate standards.

46. Finally, other projects in the area of transportation have been identified as having direct and immediate economic impact. The first is the construction of a deep-water port to permit more efficient handling of bulk cargo, particularly sugar, rice and other nontraditional exports.[9] A recently commissioned study will evaluate alternative locations and the extent to which one facility could efficiently handle containerized and other general cargo. Second, the reliance of the country upon air transport is evident from the huge geographical area and scant population, factors working against a major ground transport system. Rehabilitation of physical facilities at the international airport have begun and the government intends to establish by 1999 an Airport Authority for the management of airports and a Civil Aviation Authority for regulatory functions. A study on privatization options for the local airport at Ogle has been completed and the government is reviewing the recommendations.

VI. Human Resource Development, Environment, and Poverty Alleviation

A. Health and Education

47. Guyana's health system, like the rest of its infrastructure, deteriorated substantially in the mid-to-late 1980s. The government has drafted a National Health Plan that seeks over the next four years to: (i) strengthen and expand primary health care; (ii) improve secondary care services in regional and district hospitals; (iii) improve tertiary care at the Georgetown Public Hospital; and (iv) strengthen the general management of the health sector. These objectives will be supported by resources from the IDA and IDB and will address the physical, technological, as well as the preventive aspects of health care. In the health sector, emphasis will be placed on health, education, and disease prevention and the provision of basic health care at public facilities. Also, a National Nutrition Policy has been developed. Accordingly, both current and capital expenditure by the government in the health sector would be increased from about 2 percent of GDP in 1996–97 to about 3¼ percent of GDP in 1998 and to about 4 percent of GDP by 2000 (Attachment III).

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[9]At present, all cargo is shipped over the wharves in central Georgetown, a rather dilapidated facility. Most bulk cargos originate in the Berbice region in the east; and rice and sugar are transported by truck to the port in Georgetown, adding to road wear and congestion.

48. To redress the deterioration in the quality of education, the government—with the assistance of donors—has prepared a five-year education plan which will (i) refurbish and upgrade educational facilities; (ii) reform and strengthen the curriculum; (iii) improve teacher training; (iv) increase student access to textbooks and instructional materials; (v) improve efficiency in spending; and (vi) strengthen the management by reactivating the school inspectorate system and restructuring the lines of authority between the central ministry and the regional administrations.

49. The government will continue with its policy to improve the efficiency and effectiveness of expenditure and service delivery at the early childhood, primary, and secondary school levels. Measures will be adopted to raise pre-primary enrollment, increase secondary education coverage, expand teacher training, and improve the access and quality of basic education for the population, especially Amerindians and poor rural communities. Also, the government will establish mechanisms for a wider participation in the provision, management and financing of technical and vocational education, and will continue with cost recovery at the tertiary education level. In addition, resources to cover basic recurrent cost items—such as textbooks, materials, and school maintenance—will be increased significantly. Consistent with these objectives, budgetary allocations to the education sector would increase from 4 percent of GDP in 1996–97 to about 5 percent of GDP in 1998 and about 5½ percent of GDP by 2000, with concentration on the early childhood, primary, and secondary levels (Attachment IV).

B. Environment

50. The country faces a peculiar situation: a vast, thinly populated territory well endowed with rich forest cover and promising mineral resources, yet has 90 percent of the population concentrated in Georgetown and the coastal zone (resulting in the environmental problems common to urban areas). Also, the economic and social development of the country rests in large part on its extensive renewable and nonrenewable natural resources, requiring an environmentally sustainable exploitation policy. Because of its low population density and level of industrialization, Guyana has not yet witnessed widespread environmental degradation. However, the risk of opening up the country too quickly to large-scale logging and mining operations may affect both its ecosystem and therefore the long-term sustainability of natural resource exploitation. In addition, the current living conditions of the population (inappropriately maintained sea walls, sanitary landfills, sewerage systems, etc.) threaten the productivity and the health of residents, especially in the costal areas.

51. Environmental protection measures are being taken to avoid damage caused by the extraction of gold and diamonds, which takes place in dispersed locations and with methods and chemicals that adversely affect the environment. Under the National Forestry Action Plan (NFAP) the government will seek to manage the use of the rain forest through land-use planning and the factoring of conservation clauses in mining and forestry leases. Also, with assistance from the Commonwealth Secretariat and UNEP, the government will establish a

system of protected areas to conserve biodiversity and increase research in sustainable forestry development.

52. The enactment of the Environmental Protection Act (EPA) in May 1996 was an important step in formulating a consistent set of policies. The act constitutes the legal framework to manage and protect natural resources and calls for the establishment of an agency (EPA) that is responsible for environmental regulation aspects applicable to all sectors. Its responsibilities will include the evaluation of environmental impact of proposed government and private investment projects; environmental management; prevention and control measures for pollution through permits, licensing and/or prohibition; and enforcement of environmental regulation norms and standards through investigation and prosecution for damages.

C. Social Safety Nets and Poverty Alleviation

53. Long periods of economic decline and limited budgetary resources led to rising poverty and deterioration of social services in Guyana. Although Guyana compares favorably with the other HIPCs in some respects, the situation remains one of concern with about 43 percent of the population (according to the government) below the poverty line (officially defined as the equivalent of an annual income of US$110)—most of whom live in the rural areas, with the heaviest incidence amongst the Amerindian population (Attachment V). The situation has been ameliorated somewhat by high growth in recent years and by the poverty alleviation operations of the Government's Social Impact Amelioration Program (SIMAP), the Basic Needs Trust Fund, and the activities of NGOs.

54. Over the medium term, the government will continue to strengthen poverty reduction efforts through SIMAP while ensuring more effective targeting of the beneficiaries. Coordination and collaboration of SIMAP with the ministries and other public agencies will be enhanced, including the simplification of procedures and accountability in matters such as procurement, project approval, and reporting systems. In addition, the application process for benefits will be reviewed so that it does not prevent the poor and vulnerable groups—who often possess limited skills—from presenting requests. In the long run, sustainable increases in real output and income will be the key to raising the general standard of living of the population and reducing the existing levels of both unemployment and poverty.

55. Central government expenditure in the social sectors has increased noticeably in recent years with priority given to basic education, primary health care, and the rehabilitation of infrastructure as important steps toward reducing poverty on a permanent basis. Substantial outlays would be required to bring the social conditions to acceptable standards. It is expected that continued donor support, and the release of budgetary resources from debt service as a result of the agreed assistance under the HIPC Initiative, would allow for a sustained increase and reallocation of public spending toward nonsalary inputs and maintenance, and the government would support the institutional changes to strengthen monitoring of poverty and the

impact of growth and public expenditure, as well as to improve the targeting of poverty amelioration efforts (Attachment VI).

VII. External Financing Requirements

56. The implementation of the policies described above will contribute significantly to strengthening the balance of payments. The external current account deficit would be targeted to narrow from about 14½ percent of GDP in 1997 to about 10 percent of GDP a year during 1998–2001. Increases in the export volumes of gold, timber, and nontraditional items are expected to more than offset the weakness in gold prices and the assumed reduced access to preferential markets for sugar and rice in the EU. The volume of imports would increase by 4 percent a year over the same period, with continued shift in favor of intermediate and capital goods. Nonetheless, Guyana will continue to rely heavily on concessional external assistance to finance public investment and on private capital inflows for identified investments in mining and forestry. However, to the extent that the envisaged investments are not undertaken, the external current account deficit is expected to be correspondingly lower.

57. External financing requirements are about US$168 million a year for 1998–2001 if international reserves are to be maintained at the equivalent of four–five months of imports of goods and nonfactor services.[10] These financing requirements are expected to be covered by the envisaged disbursements under the new ESAF arrangement and IDA/IDB credits, and by debt relief under the HIPC Initiative (Attachment VII). At the same time, it is expected that the envisaged policies for the next 3–4 years will allow Guyana to consolidate and build upon the benefits of having external debt reduced to a sustainable level in the framework of the HIPC Initiative (Attachment VIII).

VIII. Technical Assistance Requirements and Statistical Issues

58. The provision of a comprehensive technical assistance program from multilateral and bilateral agencies will continue to be an important complement to the government's policy

[10]Maintaining reserves at a relatively high level is prudent in the case of Guyana given that increased private sector financing may take time to materialize, the likely up-front resource requirements for accelerated reform measures committed under the HIPC initiative, and vulnerability associated with export concentration on agricultural and mineral products, which are subject to wide fluctuations in world commodity prices and/or weather. The effect of the fluctuations in commodity prices and vagaries in weather could reduce reserves by up to 1½ months of imports based on historical data for 1991–97.

reforms.[11] Particularly important are efforts to strengthen the Ministry of Finance, the Bank of Guyana, and the Bureau of Statistics. Guyana's macroeconomic statistics have improved but remain deficient. The government will continue efforts to improve the quality of statistical data and will seek external assistance to support this effort. It will strengthen the institutional capacity of government agencies, take steps to increase the timeliness and frequency of reporting, and improve data sources. The Bureau of Statistics expects to receive help from the ODA and Sweden in the preparation of national income and other statistics, while the Fund will provide technical assistance in the form of advisors attached to the central bank and the Ministry of Finance. In addition, the Fund will provide assistance in the development of a secondary market involving the reopening of treasury bills.

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[11]The key areas and likely sources of such technical assistance are identified in the policy matrix presented in Attachment I.

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
1. Incentive policies				
a. Exchange and trade system	Promote export-oriented economic growth, ensure external competitiveness, and maintain appropriate incentives for private sector activity.	• Maintain a flexible exchange rate system.	1998–2001	
b. Domestic pricing	Avoid subsidies and rely on market pricing.	• Price of electricity to be determined within newly established regulatory framework.	1998–2001	
c. Role of the private sector	Increase the role of the private sector and encourage competition.	• Introduce an investor guide and strengthen the one-stop office (Go-Invest).	September 1998	
		• Accelerate land reform with steps to strengthen the institutions, the conversion of lease holds to free holds, and making more land available for economic activities.	1998–2001	1998–2001 IDB, DIFD
2. Fiscal policy and public sector reform				
a. Central government	Reduce overall deficit, improve capacity while increasing investment.	• Strengthen fiscal management.	1998–2001	IMF
	Strengthen revenue.	• Continue to broaden the tax base by: - not renewing expiring contracts for tax remissions; and - making more services subject to the consumption tax.	1998–2001	1998 IMF
		• Make the revenue authority fully operational.	September 1998	IDA
		• Continue to improve tax administration by strengthening the newly created Revenue Authority through adequate staffing and computerization.	1998–2001	IDA, DFID

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
	Improve efficiency of expenditure.	• Improve cost-recovery mechanisms and broaden their scope.	1998–2001	
		• Gradually increase non-interest current expenditure as a ratio to GDP while reorienting spending priorities toward: - maintenance expenses; and - gradually adjusting public service pay levels to those of comparable jobs in the private sector.	1998–2001	
		• Enhance expenditure control and management through the establishment of adequate fiscal management systems and more frequent monitoring.	1998–2001	1998 IMF, CIDA
	Strengthen local governments	• Improve accounting, management, and project implementation capacity through an urban development programme.	1998–2001	1998 IDB
b. Public enterprises	Improve the efficiency and financial performance of the public enterprises, further rationalize their operations, and reduce the size of the public sector.	• Complete and implement a regulatory framework for GUYSUCO as agreed with IDA; and subsequently restructure the company.	Early 1998	IDA
		• Bring to the point of sale Guyana Stores Ltd, Guyana National Printers, Guyana Pharmaceutical Company, Wauna Estate, LINMINE, BERMINE, and Versailles Dairy Complex.	September 1998	IDA
		• Restructure or privatize remaining public enterprises.	1998–2001	IDA
c. Public investment	Rehabilitate basic infrastructure and productive capacity.	• Maintain priorities for the central government programme (roads, sea defenses, power, water, social services).	1998–2001	1998–2000 IDA, IDB CDB, EU
		• Ensure adequate provision for maintenance expenditures associated with existing and new investments.	1998–2001	
		• Implement the planned rehabilitation work for GUYSUCO.	1998–2001	
		• Strengthen the preparation of PSIP in close collaboration with external agencies.	1998–2001	

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
d. Civil service reform	Improve efficiency of public services.	• Develop a new remuneration structure for managerial, professional, and technical positions in the civil service to bring the remuneration to such levels, relative to the private sector, as would enable the civil service to attract and retain skilled persons for these positions.	September 1998	IDA, IDB
		• Develop norms and mechanisms for periodic adjustment of the remuneration structure vis-à-vis the private sector.	September 1998	
		• Review and streamline the public service rules (including the pension scheme) in order to facilitate public service management, enhance transparency in key personnel decisions, improve incentives for performance, and strengthen accountability.	December 1998	
		• Complete the restructuring of the Ministry of Finance and use that as a pilot to restructure the Ministries of Health and Education.	December 1998	
		• Commence the implementation of the new remuneration structure for managerial, professional, and technical positions in the public service.	January 1999	
		• Continue to implement public sector reform: - computerization of information systems. - restructuring of other ministries. - providing autonomy to agencies/departments. - contracting out public services.	1999–2001	IDA, IDB

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
3. **Financial sector policies**	Strengthen institutional framework, increase financial sector competition, improve effectiveness of monetary policy.	• Complete financial and operational plan of the new GNCB.	December 1998	IDA, IDB
		• Continue to implement the financial and operational restructuring plan for "new" GNCB.	1998–2001	IDA, IDB
		• Implement the new liquidity management framework for forecasting reserve money and foster the development of a secondary market in government securities and a more active foreign exchange interbank market.	1998–2001	1998–99 IMF
		• Continue to institute a cost-sharing formula for bank supervision.	1998–2001	1998–99 IMF
		• Complete the reorganization and recapitalization of the Bank of Guyana.	December 1998	
		• Revise 1966 circulars on liquid assets and reserve requirement.	September 1998	
		• Reduce the government's share in all financial institutions below 25 percent.	1998–2001	
		• Comply fully by all licensed financial institutions with the required minimum paid-up capital under the Financial Institutions Act.	June 1999	IDB
		• Establish a securities trading regulatory framework.	October 1998	
		• Introduce a regulatory framework for the insurance industry.	October 1998	
		• Undertake institutional strengthening and modernization of deeds registry.	September 1998	
		• Reduce levels of nonperforming loans in the banking system.	1998–2001	IMF, IDA

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
4. **Sectoral policies**				
a. Agriculture and forestry	Sugar: Improve productivity and efficiency, invest in refurbishment and expansion of capacity and progress toward the restructuring of the industry.	• Continue the private sector management contract for GUYSUCO until its restructuring programme is completed.	1998–2001	IDA
		• Complete administrative measures to establish regulatory framework.	February 1998	
		• Revise sugar levy and make it more transparent.	January 1998	
		• Subject GUYSUCO to corporation tax at the normal rate.	January 1998	
		• Bring import regime for inputs to GUYSUCO in line with other enterprises.	January 1998	
		• Introduce semiannual performance benchmarks related to reducing unit costs of production into the management contract for GUYSUCO.	December 1998	
		• Complete revision of medium-term strategic plan for GUYSUCO to reduce costs to competitive levels.	December 1998	IDA
		• Begin to implement strategic plan.	March 1998	
		• Update all land registration, improve security of tenure, and strengthen the land registry system for titling.	1998	IDB
		• Adjust lease hold rents toward market-based values and strengthen lands and surveys commission.		

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple- mentation	TA Requirements
	Rice: maintain producer incentives, improve quality of production, and increase production and exports while maintaining the presence of small farmers in rice production.	• Continue rehabilitation and improvement of drainage and irrigation and other basic infrastructure and promote private sector participation.	1999–2001	IDB
		• Shift more state-owned farmland from lease to free hold.	1998–2001	
		• Improve provision of land-titling services.	1998–2001	IDB
	Forestry: use of natural forestry resources on the basis of sustainable management practices.	• Ensure that forests are harvested in a sustainable manner and without damaging the tropical forest ecosystem by establishing effective policies and institutions.	1998–2001	CIDA, IDB
	Land reform.	• Expedite land titling.	1998–2001	IDB, DFID
b. Mining	Bauxite: restore LINMINE to a viable commercial operation with a view to eliminating direct government involvement in the industry.	• Bring LINMINE and BERMINE to the point of sale.	1998	
	Other minerals: increase exports of gold and diamonds and develop oil and other mineral deposits.	• Maintain fiscal arrangements to provide government with a fair share of proceeds from extracting resources without impairing competitiveness. • Develop comprehensive policies that facilitate joint ventures with domestic and foreign investors and help improve the availability of geological data.	1998–2001	
c. Manufacturing and tourism	Expand activity and value added.	• Government to work with private sector in implementing a marketing study.	1998–2001	IFC

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
d. Electricity	Rehabilitate the electricity sector and support the privatization of GEC, with the creation of a new GEC and related sectoral, policy and regulatory reforms.	• Put into effect and start implementation of the Electricity Sector Reform Act; the Public Utilities Amendment Act; and the Energy Sector Act.	1998	IDB
		• Implement plan for the satisfactory transfer of management responsibilities and operations to the strategic partner.	1998	IDB
		• Implement plan to increase equity participation in the new GEC to private investors (excluding public enterprises).	1998–2001	IDB
e. Transport, infrastructure, and water supply	Rehabilitate the transport and water supply networks.	• Seek additional external assistance for the rehabilitation of the transport network.	1998–2001	IDA, IDB
		• With external assistance, implement the management and maintenance programme for the sea defenses.	1998–2001	1998–2001 IDB, EU
		• Execute with multilateral assistance the rehabilitation programme for the existing water and sanitation facilities.	1998–2001	IDA, IDB, CDB, EU, DFID
		• Introduce and improve cost-recovery policies, including the phasing in of long-run marginal cost pricing for water.	1998–2001	1998–2001 IDA
		• Develop a national transportation plan.	1998–99	1998 IDB
		• Prepare study on tariff and rehabilitation strategy for water.	1998	1998 IDB
f. Human resource development and social impact of the programme (details contained in the attached policy matrices on education, health and poverty alleviation)	Ameliorate burden of adjustment on the more vulnerable segments of the population through implementation of the Social Impact Amelioration Programme (SIMAP) and improve health and education services.	• Continue to improve targeting of SIMAP beneficiaries, enhance SIMAP's planning and project-implementation capacity with emphasis on health, nutrition, and water and sanitation.	1998–2001	1998–2001 IDB
		• Seek donor support for social programmes including for refurbishing and upgrading of school and health care facilities.	1998–2001	1998–2001 IDA, IDB

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
		• Strengthen cost-recovery measures and encourage participation of nongovernmental organizations and the private sector in health and education.	1998–2001	1998 IDA
g. Environment	Limit adverse environmental effects of current and future economic development.	• Continue to implement policies and enact legislation to address issues regarding the proper disposal of solid waste, uncontrolled development in mining and forestry, unsustainable exploitation of resources.	1998–2001	CIDA, IDB, DFID, IDA
5. **External debt policies**	Maintain normal financial relations with external creditors and a viable external debt position.	• Complete all discussions to regularize debt service to external creditors and seek terms at least comparable to those provided by the Paris Club from other bilateral creditors.	1998	1998 IDA
		• Negotiate and execute settlement of the debt External Payments Deposits Scheme.	1998	IDA, CIDA
	Strengthen the institutional capacity for debt management.	• Computerization and modernization of debt-management database software.	1998	DRI
		• Implement BEEP's recommendation on human resource restructuring.	1998–99	DRI
		• Strengthen staff training and establish an information center on debt-related issues.	1998–99	DRI
6. **Statistical policies**	Improve the quality of the statistical data to strengthen the capacity to monitor economic and financial developments, and seek donor support to sustain and further improve the production of statistics.	• Strengthen the institutional capacity of the corresponding govern ment agencies along the lines of the Fund's recommendations.	1998–2001	IMF
		• Accelerate the implementation of the recommendations of prior Fund technical assistance missions in statistics.	1998	

Guyana: Policy Matrix 1998–2001

Policy Area	Objectives and Targets	Strategies and Measures	Imple-mentation	TA Requirements
		• Complete compilation of historical balance of payments statistics based on survey returns on private sector investment.	March 1998	
7. **Technical assistance requirements**	Address the lack of skilled manpower within the government.	• Provide counterpart staff to better absorb and make technical assistance more effective.	1998–2001	CIDA, DFID
		• Continue to focus on technical assistance in macroeconomic and related areas with emphasis on strengthening the Ministry of Finance, the Bank of Guyana, and the Bureau of Statistics.	1998–2001	

Guyana: Selected Economic and Financial Indicators, 1994–2001

	1994	1995	1996	1997	Projections 1998	1999	2000	2001
	(Annual percentage changes, unless otherwise indicate)							
Output, incomes, and prices								
Real GDP	8.6	5.0	7.9	6.2	3.1	4.4	4.2	4.9
Real GDP per capita	7.0	3.0	6.4	5.2	2.1	3.4	3.2	3.9
Real per capita consumption	3.1	-6.3	10.8	8.7	5.4	2.3	2.2	3.4
Consumer price index (year-end)	16.1	8.1	4.5	4.2	5.5	4.5	3.5	2.9
Consumer price index (average)	13.6	12.3	7.1	3.6	4.6	4.5	4.0	3.5
External sector (in U.S. dollars)								
Exports (f.o.b.) at current prices	10.7	10.8	16.1	3.0	4.1	6.9	5.8	6.0
Imports (c.i.f.) at current prices	4.7	6.0	10.8	7.8	1.8	7.3	5.7	5.7
Exports volume	12.3	-1.7	11.5	15.1	6.6	4.1	3.2	4.1
Imports volume	-7.1	-3.6	1.6	7.7	3.1	3.7	3.8	3.8
Terms of trade (decline -)	-12.4	2.5	-4.7	-10.7	-1.2	-0.7	0.6	0.0
Real effective exchange rate (depreciation -)	-2.2	1.3	8.1	5.7	...	...		
Money and credit								
Net domestic assets 1/ 2/	7.4	25.1	-82.0	-23.0	-16.2	-6.0	0.9	0.7
Net domestic credit 1/	-9.1	19.6	13.9	18.3	0.1	-0.6	7.2	5.7
Of which: Government	-19.8	1.0	-16.9	3.4	-11.2	-12.1	-3.3	-4.6
Private sector	10.7	18.7	30.8	14.9	11.3	11.5	10.6	10.3
Money and quasi-money (M2) 1/	17.2	26.1	16.7	11.7	6.5	8.9	8.8	8.2
Central bank intervention rate (percent per annum) 3/	18.0	16.0	10.0	9.0	...	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Public finances								
General government								
Revenue	31.3	37.4	39.7	36.6	39.9	40.2	39.0	38.0
Of which:								
Tax revenue	29.6	31.3	32.2	29.8	31.4	32.0	31.6	31.3
Nontax revenue	2.2	1.9	2.4	2.3	2.3	2.2	2.1	2.1
Expenditure	36.9	41.4	42.9	45.4	42.0	41.0	39.1	36.8
Of which: Military expenditure	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Current expenditure	25.4	25.1	23.8	27.2	26.3	25.0	23.4	22.2
Of which: Wages and salaries	5.9	6.2	6.5	8.0	8.2	8.2	8.0	7.7
Capital expenditure	11.5	16.3	19.1	18.2	15.7	16.0	15.7	14.5
Primary balance	16.3	18.2	18.4	14.4	15.5	16.3	16.6	16.8
Overall deficit (-)	-5.7	-4.0	-3.2	-8.8	-2.0	-0.8	-0.1	1.3
Savings and investment								
Gross national savings	12.6	17.8	21.9	18.1	20.0	21.0	22.0	22.9
Public sector	5.9	12.3	15.9	9.1	13.6	15.2	15.6	15.8
Private sector	6.7	5.5	6.0	9.0	6.4	5.8	6.5	7.1
Gross domestic fixed capital formation	31.6	36.9	31.1	32.5	30.7	31.4	31.9	32.0
Public sector	10.8	16.3	19.1	18.2	15.7	16.0	15.7	14.5
Private sector	20.8	20.6	12.0	14.3	15.0	15.4	16.2	17.5
External current account balance	-19.5	-17.6	-9.3	-14.5	-10.7	-10.4	-9.8	-9.1
External and public debt and debt service								
Public sector external debt (end of year)	382.0	308.0	220.8	191.7	188.1	182.1	171.5	161.0
Of which: External arrears								
Public sector external debt service	31.2	26.0	14.7	16.7	14.4	12.6	12.2	10.1
Of which: Interest due	15.8	13.3	4.6	7.2	6.0	5.4	4.9	4.4
Public sector external debt service/exports of goods and services (percent)	17.0	16.9	14.5	16.8	14.5	12.7	12.5	10.5
Public sector domestic debt (end of year)	206.7	187.0	132.7	104.7	93.3	79.9	70.1	60.7
Of which: Domestic arrears	...	...	...	...	...	...	...	...
Gross official reserves								
In millions of U.S. dollars	269.0	269.0	331.6	315.0	333.0	376.0	386.0	398.0
In months of imports of goods and services	5.1	4.6	5.2	4.6	4.7	5.0	4.9	4.8
Exchange rate (local currency/U.S. dollars)	142.5	140.0	140.2	142.8	...	...	...	...
Nominal GDP (in millions of U.S. dollars)	539.0	646.2	703.0	741.0	771.0	824.0	884.0	949.0

Sources: Data presented by the Guyana authorities; and Bank and Fund staffs' estimates and projections.

1/ Change in percent of broad money.
2/ Net of valuation changes.
3/ Three-month treasury bill rate.

Guyana: Social Development Policy Matrix for Health 1/

Objectives	Strategies and Measures	Implementation Date
Strengthen institutional capacity of the Ministry of Health (MOH) and upgrade human resources	Implement restructuring/reorganization of MOH	
	• Plan completion in collaboration with the Public Service Commission	September 1998
	• Plan approval by Cabinet	September 1998
	• Implementation	Begins October 1998 and to be completed by December 1998
	Develop and implement training plan for MOH personnel	
	• Plan completion	October 1998
	• Allocate resources	1999 budget
Improve health services	Increase budgetary allocation on health	
	• Total expenditure (current and capital) to reach 3.2 percent of GDP	1998
	• Total expenditure (current and capital) to reach 3.8 percent of GDP	2000
	Increase proportion of budget spent on drugs and medical supplies	
	• Expenditure on drugs and medical supplies to reach 27.3 percent of current health spending	1998
	Increase proportion of budget spent on maintenance	
	• Expenditure on maintenance to reach 10 percent of current health spending	1998
	• Expenditure on maintenance to reach 12 percent of current health spending	2000
	Increase spending on primary and preventive services to increase health impact, improve access to basic services, and increase targeting to the poor	
	• 80 percent of the increase in expenditures will be devoted to high priority preventive services and primary care, especially at health centers, clinics, aide posts	
	Evaluate the role of selective user charges and public/private collaboration to improve targeting of pubic health spending	
	• Prepare evaluation report	August 1998

1/ This table presents details on the broad area covered in the policy matrix in Attachment I and was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

Guyana: Social Development Policy Matrix for Education 1/

Objectives	Strategies and Measures	Implementation Date
Strengthen institutional capacity of the Ministry of Education (MOE)	Implement restructuring/reorganization of MOE and upgrade human resources	
	• Plan completion in collaboration with the Public Service Commission	September 1998
	• Plan approval by Cabinet	September 1998
	• Implementation	Begins October 1998 and to be completed by December 1998
	Develop and implement training plan for MOE personnel	
	• Plan completion	October 1998
	• Allocate resources	1999 budget
Increase resources and improve allocation in the education sector	Review sector needs and prepare action plan	
	• Completion date for action plan	June 1998
	Increase budgetary allocation on education	
	• Total expenditure (current and capital) to reach 4.9 percent of GDP	1998
	• Total expenditure (current and capital) to reach 5.6 percent of GDP (of which primary and secondary: 5.3 percent of GDP)	2000
	Increase proportion of budget spent on the supply of educational materials	
	• Expenditure on educational materials to reach 7 percent of current education spending	1998
	• Expenditure on educational materials to reach 12.3 percent of current education spending	2000
	Increase proportion of budget spent on school maintenance	
	• Expenditure on school maintenance to reach 10 percent of current education spending	1998
	• Expenditure on school maintenance to reach 12 percent of current education spending	2000
	Increase number of trained nursery, primary, and secondary school teachers	
	• Train 375 teachers	October 1998
	• Train 1,400 teachers	2000
Improve management information system and educational statistics	Develop a plan to strengthen the management information system and database of educational statistics (coverage should include generally accepted education and expenditure statistics following internationally standardized definitions)	
	• Plan completion date	September 1998
	• Implementation begins	October 1998
Enhance technical skills of youth	Develop a training and placement program in association with potential employers	
	• Completion date for plan	March 1998
	• Begin training 1,000 youths	Mid-1998 and complete by December 1998

1/ This table presents details on the broad area covered in the policy matrix in Attachment I and was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

Guyana: Income and Social Indicators

Item Unit of Measure	Latest Single Year 1980-85	1986-90	1991-96	1997	Program Period 1998	1999	2000	2001
Population								
Population (midyear)	756,700	749,910	760,379	770,139	777,840	785,619	793,475	801,410
Population growth rate (annual average) 1/	-0.1	-0.2	1.1	1.0	1.0	1.0	1.0	1.0
Total fertility rate (births per woman)	3.3	2.8	2.4	2.3	2.3	2.2	2.2	2.2
Poverty								
National poverty line (local currency) 2/	...	...	35,000	49,625	51,766	53,323	54,867	56,456
Total	26	43	29	27	26	25	23	22.0
Urban poverty	...	...	14	14	13	13	12	11.0
Rural poverty	...	...	35	32	31	30	29	28.0
National headcount index (percent of population)								
Total	...	...	29	...	...	...	...	...
Urban	...	...	27	...	...	...	...	...
Rural	...	...	51	...	...	...	...	...
Income								
GNP per capita (U.S. dollar)	400	350	590	800	872	915	1,066	1,243
Index of real wages (minimum in public sector 1989=100)	...	100.0	101.0	115.9	116.0	116.0	118.0	120.0
Consumer price index	72	151	242	250	262	274	285	295
Food price index	71	250	444	471	494	511	532	551
Income/consumption distribution								
Share of income or consumption (percent)								
Lowest quintile	...	...	6	7	8	8	8	8
Highest quintile	...	...	52	51	50	50	50	50
Social indicators								
Share of public expenditure as percent of GDP 3/	65.4	66.6	41.0	41.1	39.4	38.4	37.0	34.7
Health 1/	3.1	2.1	2.3	2.0	3.2	3.6	3.8	3.8
Education 1/	6.7	2.9	3.6	4.0	4.9	5.3	5.6	5.7
Social security and welfare	...	0.6	0.8	0.8	1.1	1.2	1.3	1.4
Gross primary school enrollment ratio (percent of school age popuation)								
Total	103	106	105	104	102	103	102	102
Male	104	109	106	105	103	104	103	103
Female	101	104	105	103	101	102	101	101
Access to safe water (percent of population)								
Total	80	...	83	93	97	100	100	100
Urban	100	100	100	100	100	100	100	100
Rural	60	...	75	90	95	100	100	100
Immunization rate (percent under 12 months)								
Measles 3/	33	73	83	86	87	90	90	90
DPT	43	83	90	90	90	90	90	90
Child (under 5) malnutrition rate (percent)	22	...	3	2	2	2	2	2
Life expectancy at birth (rate)								
Total	61	64	66	67	67	68	68	68
Male	58	60	63	64	64	65	65	66
Female	64	66	69	70	70	71	70	70
Infant mortality rate (per 1,000 live births)	63	39	28	28	27	26	25	23
Under 5 mortality rate (per 1,000 live births)	...	45	36	35	34	33	32	31
Maternal mortality rate (per 100,000 live births)	189	200	131	90	80	63	55	45

Sources: World Bank data base, Social Indicators of Developments, 1996: World Bank; Guyana: Strategies for Reducing Poverty, May 1994; Government of Guyana and UNICEF, International Straightening of Social Statistics, 1995; Guyana, Bureau of Statistics, Statistical Bulletin, June 1996; and IDB, Social and Economic Progress in Latin America, 1996 Report.

1/ Period average.
2/ Lower poverty line; upper poverty line is G$47,500 for 1991-96.
3/ For central government.

Guyana: Social Development Policy Matrix for Poverty Alleviation 1/

Objectives	Strategies and Measures	Implementation Date
Strengthen statistics system to monitor poverty impact of economic growth and public expenditure policies	Plan a follow-up to the 1993 LSMS/HIES household survey as part of development of a poverty monitoring capacity	August 1998
	• Specify the date of next survey	October 1998
Improve the targeting of public subsidies	Develop a poverty map of Guyana to better target subsidies	Completed
	Target Amerindian population (85 percent of whom fall below the poverty line) with community development projects	October 1998
	• Identify at least 25 Amerindian community projects for appraisal by SIMAP	October 1998
	Target community development projects to other poor communities as determined by the poverty map	October 1998
	• Identify at least 20 projects in other poor communities for appraisal by SIMAP	October 1998

1/ This table presents details on the broad area covered in the policy matrix in Attachment I and was prepared by the Guyanese authorities in collaboration with the staffs of the IMF, the World Bank, and the IDB.

Guyana: External Financing Requirements and Resources, 1996-2003

(In millions of U.S. dollars)

	1996	Prel. 1997	Projections 1998	1999	2000	2001	2002	2003
Current account 1/	-65	-107	-82	-86	-87	-87	-88	-84
Exports of goods and services	714	737	767	817	863	913	957	1003
Imports of goods and services	-767	-825	-844	-901	-951	-1,004	-1,054	-1,103
Noninterest current account 1/	-11	-48	-31	-35	-38	-39	-41	-39
Interest (net)	-54	-59	-52	-50	-49	-48	-47	-45
Capital account	-525	-4	-6	-3	-5	10	11	7
Scheduled amortization	-37	-29	-29	-23	-25	-27	-26	-32
IMF repurchases and repayments	-24	-25	-21	-22	-26	-17	-17	-18
Other capital 2/ 3/	-465	50	44	42	46	53	54	57
Increase in net official reserves (-) 4/	-74	4	-34	-58	-23	-23	-10	-7
Change in arrears (decrease -)	13	-25	-185	0	0	0	0	0
External financing requirements	652	132	308	147	115	100	87	84
Resources	652	132	307	146	115	100	87	84
Grants	17	24	13	10	8	7	7	3
Loans 5/	86	67	103	83	55	54	53	54
IMF	25	24	12	24	24	12	0	0
Debt relief	524	18	179	30	27	27	27	27
Residual financing gap	0	0	0	0	0	0	0	0

Sources: Data provided by the Guyanese authorities; and Fund and Bank staffs' estimates and projections.

1/ Excluding official transfers.
2/ Including foreign direct investment.
3/ Including amortization of future principal obligations as a result of the Paris Club stock of debt operation in 1996.
4/ Excluding the net use of IMF credit.
5/ Including both existing and expected new commitments.

Guyana: Key Public External Debt-Sustainability Indicators, 1997-2019 1/

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2010	2015	2019	Average 1997-2006	Average 2007-2019
	(In percent)													
Key ratios														
Debt to GDP ratio	192	188	182	172	161	151	141	132	123	87	63	47	155	73
NPV of debt to exports ratio 2/														
Before HIPC assistance	146	138	135	128	122	116	109	103	97	71	55	43	118	62
After HIPC assistance	146	138	103	98	95	92	88	84	81	63	51	41	100	56
NPV of debt to revenues ratio 3/														
Before HIPC assistance	427	386	359	333	313	297	281	273	256	188	142	107	316	160
After HIPC assistance	427	386	272	256	246	236	227	224	213	166	132	104	268	145
NPV of debt to GDP ratio														
Before HIPC assistance	136	132	127	118	111	104	97	91	84	58	42	31	108	49
After HIPC assistance	136	132	96	91	87	82	78	74	70	51	39	30	91	44
Debt-service ratio 4/														
Before HIPC assistance	17	14	13	12	11	10	10	10	10	6	5	4	12	6
After HIPC assistance	17	14	9	9	8	7	7	7	7	5	4	4	10	5
Debt service to revenue ratio 3/														
Before HIPC assistance	52	42	36	34	29	27	27	27	27	16	14	10	33	16
After HIPC assistance	52	42	25	26	21	19	20	21	20	13	12	10	27	13
	(In millions of U.S. dollars)													
Memorandum items:														
Debt stock	1,421	1,449	1,501	1,517	1,529	1,529	1,523	1,507	1,489	1,428	1,447	1,419	1,491	1,432
NPV of debt	1,009	1,020	1,046	1,042	1,050	1,052	1,047	1,036	1,021	956	967	934	1,030	955
Exports of goods and services 5/	693	739	773	815	864	911	958	1,004	1,053	1,347	1,756	2,189	891	1,614
Central government revenue 3/	236	264	291	313	335	354	372	379	398	510	680	870	336	624
GDP	741	771	824	884	949	1,013	1,080	1,144	1,209	1,650	2,303	3,001	990	2,079

Sources: Data provided by the Guyanese authorities; and staff estimates and projections.

1/ Data before HIPC assistance reflect the May 1996 Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction), and assumes comparable treatment in 1998 from other bilateral creditors.
2/ In terms of a simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances.
3/ Revenue is defined as the central government revenue valued at end-1997 exchange rate.
4/ In terms of current year exports of goods and nonfactor services, excluding workers' remittances.
5/ Simple historical three-year average of exports of goods and nonfactor services, excluding workers' remittances.

June 12, 1998

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431

Dear Mr. Camdesus:

On behalf of the Government of Guyana, I am pleased to transmit herewith a Policy Framework Paper (PFP), prepared in collaboration with the staffs of the International Monetary Fund and the World Bank, setting forth the government's basic economic objectives for 1998–2001 and the macroeconomic and structural adjustment policies designed to achieve them. I am today forwarding the same paper to the President of the World Bank.

The Government of Guyana requests that the Fund distribute the PFP publicly, including transmittal to the governments and organizations listed in the attachment.

Sincerely yours,

/s/

Bharrat Jagdeo
Minister of Finance

Attachment

List of Governments and Organizations to Which Guyana Wishes the PFP Transmitted by the Fund

Governments

Argentina
Brazil
Canada
China, People's Republic
Denmark
Finland
France
Germany
India
Italy
Japan
The Netherlands
Norway
Russia
Spain
Sweden
Switzerland
Trinidad and Tobago
United Arab Emirates
United Kingdom
United States
Venezuela

Organizations

Caribbean Development Bank
Commissions of the European Community
Commonwealth Secretariat
European Investment Bank
Kuwait Fund
OPEC Fund for International Development
United Nations Development Programme
World Trade Organization