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PUBLIC POLICY AND SAVINGS BEHAVIOUR

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CONTENT

1. Introduction

The determinants of savings at both the micro-economic and macro-economic level have a significant influence on the welfare of households. There exists a large body of literature which focuses on the intertemporal allocation of resources from both the positive and normative points of view. Yet in spite of this tradition there are major disagreements over the determination of savings and the circumstances for government intervention to increase savings. Most of the recent work in this area are empirical estimates of the savings function which focus on the magnitudes that influence private savings. From those studies the source of disagreement often tend to be the nature of the question posed and the specification of the magnitudes to answer the question (s).

In sharp contrast to much of the modelling exercises, this paper focuses on the consequences of savings behaviour given the adjustment process in Guyana to correct the internal and external disequilibrium of the economy. In analysing the problems associated with savings in the context of Guyana's Economic Recovery Programme (ERP) the central issue is the consequence of reducing the fiscal deficit. The paper is divided into seven sections and these are as follows: a brief review of the recent literature, the Guyana setting, the effects of fiscal and monetary policies, financial developments, public policy and some concluding remarks.

2. Some Theoretical Issues

Given the volume of studies on savings behaviour rather than risk repeating what already exist it may be more useful in this section to highlight some elements of the recent literature relevant to the issues discussed in this paper.

In recent years several studies have focused on the relationships between consumption/savings and public expenditure/deficits, Barro (1974), Modigliani (19..), Fisher and Easterly (1990) and the McCallum (1990) among others have examined the behaviour of savings under the theoretical framework of the Life Cycle Hypothesis, the Keynesian Hypothesis and the Ricardian Equivalence Hypothesis. The central issue of these studies have been whether or not a household/individual takes into consideration the burden of taxation as a constraint and the likely impact of this constraint on savings behaviour. The general trend from these modelling exercises has been that expost savings are likely to fall with government intervention.

This of course depends on the restrictiveness of the assumptions in the model especially with regard to the degree of substitutability between public and private consumption, foreign and domestic savings among others. Thomas (1991) has reviewed some elements of three issues that arise from the application of different variants of modelling exercise in the Caribbean economies.

Within the conventional Neoclassical growth model adopted by the Fund and the World Bank, private savings is assumed to be proportional to income and that there is a high degree of substitutability between public and private savings. This model also assumes that there is a strong relationship between monetary stability and fiscal austerity. Tanzi (1990) has emphasized that the Funds is stabilisation programmes are essentially fiscal in its approach towards attaining internal and external balance. Under such circumstances the Central Bank's role is often seen as passive and determined largely by the role of government in the economy as articulated in many of the Fund and World Bank growth modelling exercises. [Khan, et.al. (1990) and Montiel (1990)]. More importantly, in these modelling exercises the role of savings are often unspecified and thereby not assigned any specific tasks in the adjustment process.

3 - The Guyana Setting

Guyana is at a critical stage of the economic reform programme it embarked on in April, 1989. During the 1960s real GDP growth averaged approximately 4 percent. This relatively good performance of the economy evaporated by the mid 1970s as a result of a set of 'commandist' socio-economic policies which imposed a structure of economic pathologies that leads to the classification of Guyana as one of the poorest and mostly heavily indebted country in the western hemisphere. According to the World Bank (1994) Guyana's economic crisis which became manifest in the latter half of the 1970s is primarily due to the combination of a decline in the terms of trade and export volume associated with the economy's narrow primary production base of: sugar; bauxite and rice. This report also supported the arguments that the irrational policy initiatives associated with the 'commandist' policies of the government compounded the situation in spite of Guyana's access to significant foreign resources which subsequently led to the heavy debt burden (see Table I). Over the period 1972-92 the economy declined by an average - 2.4 percent per annum although the investment - GDP ratio averaged 25.6 percent.

Table II shows that while the capital output ratio was rising overtime, the capital stock, total factor productivity and GDP growth were falling which suggest the inefficiencies in the maintenance and operations of the capital stock. Moreover, the worsening of the terms of trade and the collapse of export volume in the external sector and the expansion of the state in the domestic sector led to the sharp increase in the fiscal deficit. This deficit was financed by external loans and credit from the domestic financial system. Under these conditions a process of: demonetization, the marginalisation of the private sector, rampant inflation and the growth of a large informal/parallel economy evolved. Thomas (1989) estimated the parallel economy to be as large as the official economy. Under these conditions the public sector finance deteriorated, the external debt become unsustainable, the supply of foreign exchange evaporated, the social and physical infrastructure disintegrated along with the massive migration of highly skilled personnel from the country.

After 5 years of pursuing the ERP, many of the objectives of the programme have been realised. Real GDP over the period 1991-93 have grown at an average of 7 percent per annum. The principal source of the recovery has been essentially the integration of the large informal sector into the official economy and significant improvements in the of sugar and rice subsectors along with the output from new investment in the gold industry. (See Table III). More importantly, it should be noted that there are considerable apprehension over the national income accounts as a benchmark [World Bank (199); IDB (1994) and IMF (1994)] for GDP in Guyana because of its inadequate coverage of the informal sector.

There is a backlog in policy initiatives that is required to sustain the reform efforts given the structural features of the economy where a few primary commodities constitutes the plank of the economy. The sustainability of the recovery ought to be given the highest priority without the addition of other constraints. However, the options available are limited given the legacy of socio-economic and political developments over the past twenty-five years. The cumulative decline of the national economy have imposed a premium on: policy-making; sequencing; timing; strategic planning; and the use of resources. Then to deepen the recovery effort more attention should be given to the development of strategic sectors within the domestic economy and how the latter functions within the international setting.

4. Government Fiscal and Monetary Policies

Accompanying the pattern of growth in output has been a discretionary fiscal and monetary policy stance through a limited range of instruments that focuses explicitly on the unification of the exchange rate markets and the collection of government revenue. In pursuit of these objectives most of the policy instruments were mainly of the non-market variant which focused on the removal of administrative restrictions and the development of a secondary market for government securities.

Although the liberalisation policies implemented under the ERP are closely interrelated public sector reform was given high priority which was geared essentially towards the streamlining of the public sector financial performance and subsequently the 'downsizing' of its role in the economy.

In the context of Guyana, where there were a backlog in public sector accounting and the unavailability of updated consolidated public sector accounts it was difficult to identify the source of financial imbalances in the public sector. As such, the government adopted on expenditure cutting approach at all levels of government rather than pursuing a set of structural changes in revenue generation and the prioritization of public expenditures given the shortcomings discussed above in Table 2. As can be seen in Table 4 there had seen sizable reductions in the overall fiscal deficit which averaged 48.8 percent and 37 percent of GDP in the periods 1981-85 and 1986-90, declined significantly to 20.1 percent of GDP in 1991-93 respectively. However, according to the tradition in public finance, the significance of the adjustment effort is captured in the primary current account balance which excludes interest on outstanding debt payments, capital transactions and other items beyond the influence of short-term economic policies. From the trend in Guyana's primary current account in Table 4 the balance show a surplus throughout the 1980s which significantly improved over the period 1991-93. These trends do not reflect the traditional national income accounting proposition that the direction of change in the primary current account matches those of the overall accounting balance. Rather, the Guyana situation reflects the significant role of outstanding interest payments on debt obligations and the limited scope for flexibility facing policy-makers.

Ironically, in spite of the government's emphasis on revenue generation the improvements which occurred in the overall balance on the current account came largely from cuts in the government non-interest current expenditure which stood at an average 34.6 percent of GDP over the period 1981-85 declined to 31.7 percent and 23.3 percent of GDP in the periods 1986-90 and 1991-93 respectively. These figures do not reflect any corresponding increases in economic activity by taxes as shown in table 4. Given this situation it is difficult to identify the net effect of these reforms on the national economy. As such, a comprehensive public expenditure review is required to identify the achievements of these cutbacks. Generally, the tax base of the economy remains extremely low and this also requires a comprehensive review and the implementation of the long awaited tax reforms

5: Developments in the Financial Sector

The financial system of Guyana comprises the Bank of Guyana - the Central Bank, three locally-owned commercial banks with varying degrees of state ownership, six commercial banks of which three are branches of overseas banks and three are privately owned banks. In addition, there are two state-owned development banks and a relatively large number of small non-banks financial institutions. Information on the non-bank financial sub-sector is not readily available on a timely basis and many of these institutions are not appropriately covered by the country's financial regulations.

Over the 1970s and 1980s the state obviated the need for financial intermediation and the financial institutions ignored the opportunities associated with risk taking while accommodating the credit demands of the state. During these two decades monetary policy was passive and the flow of finance were largely directed by the central government budgetary provisions. The development banks mainly financed investment projects from budgetary transfers. There were the non-existence of competition among the institutions of the financial system.

With the deepening of the reform efforts in 1991, the central bank shifted to more market-oriented policy instruments which targeted the liquidity position of the financial institutions rather than the setting of interest rates as an attempt to develop an inter-bank market for securities. The portfolio of the commercial banks in Guyana have been highly liquid because they have not been lending more than one-third of their funds and most of which were invested treasury bills (IDB, 1994). The general trend among the commercial banks had been to minimize their exposure to risks. According to the IDB (1994) and the IMF (1994) in the 1980s operational performance of commercial banks excluding the Guyana National Cooperative Bank the commercial banks had:

(1) an operating cost to assets ratio within the range of 2 to 5 percent per annum;

(2) a rate of return on assets within the range of 5 to 10 percent per annum;

(3) rates of return on equity between 70 and 90 percent per annum, and

(4) their provision on doubtful debts were less than 5%

Nevertheless, over the period 1991-93 the net domestic assets of the banking system grew at a much lower pace than its liabilities to the private sector. Further, although the domestic banks credit to the public sector declined after 1990, the credit from the banks to the central government increased steeply by 45 percent in real terms in 1993. (See table 5). This increase reflects not only the rapid growth of commercial bank holdings of treasury bills but also a strong tendency for the central bank to act as the government's fiscal agent. There are real possibilities that this role of the central bank can be entrenched in light of the history of the Bank of Guyana in the country's socio-economic development. This tendency in principle raises questions about the desirability of the central bank's independence.

On the other hand, it is important to point out that use of treasury bills to develop a wholesale money market also provides working capital for the government and this can be inflationary. Alternatively, the demand for treasury bills can also be used by the central bank to impose liquidity reserve requirements on banks for prudential and monetary control. While this latter approach had been adapted by the Central Bank to influence the commercial banks reserve requirements and their short-term interest rates, the commercial banks response have been sluggish in response to adjusting their lending and depositrates in line with the market-oriented treasury bill rate which have instead contributed to the large spread of the rates. One possible explanation for this behaviour is the oligopoly structure of the banking system and the existence of some amount of non-performing loans. This situation indicates that the use of treasury bills also requires monitoring and is no substitute for the supervisory functions of the Central Bank which is urgently required in Guyana. In response to commercial banks behaviour the government is hoping that with modernization of the laws on the financial system it would be able to reduce the build up of special deposits of commercial held at the Bank of Guyana which would enhance the ability of interest rates to influence financial divisions (see Table VI).

Rural Credit and the Financial System

Given the potential of the agricultural sector in Guyana's economy, the small scale farming sector suffers significantly from the deficiencies of the financial system. The commercial banks and the Guyana Agricultural and Industrial Development Bank (GAIBANK) are the two major sources of agricultural credit in Guyana. The IDB (1994) estimate that approximately two-thirds of the agricultural sector's credit is provided by the commercial banks mainly to the large-scale commercial farmers while GAIBANK attends to the credit needs of small farmers - mainly rice farmers. It is generally felt by Guyanese policy-makers that in spite of the gaps which exist between credit requirements and credit demand, the supply of credit is not the binding constraint given the high level of liquidity in the financial sector. Rather, it is felt that the problem is one of accessibility because of the small-scale farmer collateral as a result of a range of social and other non-economic factors such as land tenure, inappropriate payment system among others which are beyond the scope of this paper.

6. Public Policy and Savings Behaviour

Thomas (1991) have pointed out that

> "... in all successful market systems, the protection and nurturing of enterprises in their early phase of development, have been key features of public policy..."

These issues have been eloquently discussed in the edited publication by Worrell et.al. (1991) as they affect the Caribbean region. In the context of Guyana's adjustment experience while the financial sector policies are aimed at constraining credit growth it has developed a series of quasi-fiscal activities within the financial system which appear essentially to cut public sector expenditure as an end in itself. Rather, public sector deficits should be controlled to the extent that it does not jeopardise an economy's output nor a fall in private investment. Moreover, given the stage of Guyana's development where private domestic savings are inadequate to match the needs of development finance and where foreign capital inflows are drying-up, public sector savings automatically appears to be the principal candidate to generate national savings in Guyana.

However, the trends in Table VI indicate that although there have been significant improvements in controlling the fiscal deficits in Guyana there have not been similar improvements in national savings and investment nor has there been any significant structural change in these aggregates. The data on gross domestic investment show that Guyana have a relatively high investment ratio averaging 29.6 percent and 38.7 percent of GDP over the periods 1980-89 and 1990-92, respectively. Meanwhile, the trends in national saving and its components which averaged -0.6 and -7.1 percent of GDP over the 1980's and 1990-92 period did not show any dramatic change. However it should be pointed out that capital flight has been a significant element in Guyana's economic crisis' has not been estimated nor fully articulated in the reform experience of Guyana although it affects the economy at different levels including national savings. The public investment trend does not show any significant change. The increases in foreign savings result not from the voluntary decisions of the rest of the world but originates Guyana's inability to generate the large trade surplus required to honour its financial obligations as shown by the indicators with regard to Guyana's debt. The increased foreign investment came from two major projects - the Barama forestry sector project and Omai Gold Mines Incorporation. On the other hand, the fiscal deficit have been transformed to a surplus, this result as discussed above evolved from the contraction of public consumption. This dramatic decline indicate that those most dependent on government for wages and social services suffered significantly. This situation raises the issue of poverty and poverty alleviation which is beyond the scope of this paper but have been discussed by Thomas (1993) and the World Bank (1994). It should also be pointed out that because of inadequate data it is difficult to translate the impact of government expenditure cuts on the labour market, income distribution, output, savings and investment. These figures as mentioned above ought to be interpreted with caution due to the poor quality of national income data on Guyana.

Nevertheless, given Guyana's experience on the basis of these crude indicators it is hopeful that policy makers would take greater caution as to the potential impact effects of their actions. Also it is hoped that the current project on savings in the Commonwealth Caribbean would not only provide data but would influence policy makers to adopt a more active coordination of programmes to promote and mobilise savings.

7. Some Concluding Remarks

The experience of Guyana over the last two decades demonstrate that national savings have not been given the attention it requires as a critical component of growth and development. This situation is even more disturbing from the results to date on the current reform efforts where the structure of national savings and domestic investment have shown no significant change. Under these circumstances policy makers need to recognise the strategic importance of savings and the mobilisation of savings in the reform efforts. With this recognition the task confronting policy makers should be to choose policy instruments that target for specific constraints facing the economy. In this process recognition ought to be given to the dynamic relationships between different sectors in the economy and impact effects of changes in public expenditure, savings, investment, output and taxation. Once the elements within this matrix are recognised, the central issue should be targetting objectives that would maximize the rate of growth in the economy which many studies have identified as the major determinant of savings.

Moreover, given the structure of the Guyanese economy, where the public sector is still dominant and per capita incomes are small, this implies that increases in national savings would have to come from the public sector. As such fiscal policy should be recognised as the most potent weapon for the achievement of both economic and social objectives given the current state of the economy. This, nevertheless, does not imply that the government should not deepen the reform in the financial system to create avenues for resource mobilisation and productive investment.

TABLE I

GUYANA: EXTERNAL SHOCKS AND REAL GDP GROWTH RATES: 1972-91[a]

(period averages as percent of GDP)

	1972-75	1976-80	1981-85	1986-91
Terms of Trade Effect	-1.05	3.36	5.70	-1.32
Export Volume Effect	1.34	0.34	1.64	-1.44
Interest Rate Effect	-0.01	0.21	-0.23	-0.18
Additional Debt Service	0.75	2.79	8.06	12.22
Total External Stock	1.03	6.70	15.17	9.26
Total ~~External~~ GDP Shock	3.62 3.50	-0.60 8.06	-3.86 -5.14	-0.52 -4.48

Note: (a) Positive values indicate adverse shocks while negative values indicate favourable shocks

Source: World Bank (1994). Table 2.8 p.119

TABLE II

GUYANA: CAPITAL, INVESTMENT, IMPORT INDICATORS AND GDP GROWTH RATES, 1972-90

(Average Annual Percentages of GDP)

	1972-76	1977-81	1982-90	1972-90
Growth of Real GDP	3.6	-1.7	-2.9	-2.6
Investment/GDP	-	-	-	24.0
Capital Stock	1.1	0.5	-3.1	-3.0
Capital/Output Ratio	3.0	3.1	3.3	3.4
Labour Force Growth	-	-	-	0.5
Total Factor Productivity	-	-	-	-3.2

Source: Frimpong, C. (1992), World Bank (1994).

TABLE III

GUYANA: NATIONAL ACCOUNTS: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN

(Real Annual Growth Rates)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Agriculture, forestry and fishing	-3.7	3.5	-3.5	-9.3	-0.5	3.3	1.5	-4.7	-13.7	-2.9	-13.5	12.1	24.3	5.6
Sugarcane	-9.1	11.7	-4.5	-12.2	-3.6	0.5	1.0	-9.9	-23.8	-1.5	-20.7	22.3	52.0	1.0
Rice Paddy	20.3	-2.2	4.6	18.7	16.2	-9.3	15.4	-20.0	-19.4	10.3	-34.4	59.5	11.9	20.0
Livestock	3.8	-7.3	-15.7	-27.1	0.0	12.8	7.3	6.8	0.0	0.0	-29.8	-16.7	-1.8	5.0
Other agriculture	6.2	0.0	2.2	11.4	4.5	9.2	.2.2	2.2	0.0	0.0	4.8	0.0	-1.0	8.0
Fishing	0.0	-7.4	-6.9	7.4	8.0	28.7	0.0	0.0	0.0	-15.7	0.0	10.8	-3.5	4.0
Forestry	-11.7	-12.1	13.8	0.0	-12.1	13.8	-12.1	13.8	-12.1	-10.0	-1.4	1.4	22.2	20.0
Mining and Quarrying	-11.2	-10.3	-14.1	-33.4	37.2	-1.2	-7.8	3.0	-4.5	-26.1	18.8	20.6	-11.5	42.3
Bauxite	12.0	-15.9	- 9.1	-32.8	33.1	-0.8	-11.6	-4.0	-2.6	-30.0	21.0	12.6	-26.9	40.0
Other 1/	2.9	72.2	-50.0	-41.9	100.0	-5.6	32.4	53.3	-13.0	-6.7	10.7	53.2	34.7	46.0
Manufacturing	-1.0	6.7	-14.6	-19.3	-7.5	-2.2	-1.1	-6.9	-5.5	-7.4	-13.4	10.8	19.3	3.0
Sugar	-10.9	10.8	-3.8	-13.3	-5.1	0.5	0.5	-10.1	-25.4	-1.6	-21.0	22.4	52.5	1.0
Rice	0.0	0.0	31.3	-14.3	11.1	-5.0	26.3	-20.8	21.1	8.7	-36.0	68.8	11.1	15.0
Construction	2.9	1.4	-10.0	-4.6	0.0	0.0	-1.6	4.9	-4.7	-2.0	2.1	2.0	2.0	5.0
Services	1.1	-0.8	-8.2	-4.7	1.4	-0.4	1.0	3.9	-1.5	-1.1	1.6	-0.5	1.2	3.2
Distribution	2.2	-4.3	-20.1	-19.2	5.4	0.0	0.0	5.2	1.8	-4.1	3.2	4.9	5.0	6.0
Transport and communication	1.7	0.0	-1.7	0.0	3.4	-4.6	1.4	12.9	-9.9	-5.0	2.1	0.0	3.1	4.0
Rental of dwellings	0.0	0.0	0.0	0.0	5.2	0.0	0.0	6.6	0.0	0.0	1.5	0.0	0.0	5.0
Financial services	2.5	2.4	-4.7	0.0	0.0	5.0	7.1	0.0	2.2	4.9	3.1	0.0	2.0	4.0
Government	1.3	0.0	-7.6	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.9	-2.0	1.0
Other services	-5.3	0.0	1.6	-0.8	-4.0	0.0	0.0	4.2	0.0	0.0	2.4	2.3	2.3	2.0
GDP in constant prices at factor cost	-2.1	0.6	-8.9	-11.5	2.2	0.3	-0.2	-0.2	-6.0	-4.9	-2.9	5.9	7.8	7.4

1/ Includes gold
2/ Includes electricity, gas and water

Source: Statistical Bureau 1994 and IDB (1994)

TABLE IV

GUYANA: SUMMARY OPERATIONS OF THE CENTRAL GOVERNMENT

(Percentage of GDP)

	1981-85	1986-90	1991-93
Current revenue	37.8	37.8	35.5
Current non-interest expenditures	34.6	31.7	23.3
Primary (non-interest) surplus	3.2	6.2	12.0
Interest payments due	27.4	33.4	23.0
Current account deficit (-)	-24.2	-27.2	-11.0
Capital expenditures and net lending	25.8	15.5	12.3
Overall surplus or deficit (-)	-48.8	-37.0	-20.1

Source: IDB (1994)

TABLE V

GUYANA: NET CREDIT DISTRIBUTION OF THE BANKING SYSTEM

	1989	1990	1991 at December 31st	1992	1993
			(In millions of Guyana dollars)		
Total Net Credit	2,884.8	1,317.7	-432.7	266.4	-2,872.1
Extended by					
Monetary authorities	359.5	-1,093.0	-4,174.8	-4,975.4	-14,699.0
Commercial banks	2,370.4	2,655.7	3,563.4	5,263.7	11,684.4
Interbank float	154.9	-245.0	178.7	-21.9	142.5
Use	2,884.8	1,317.7	-432.7	266.4	-2,872.1
Public Sector	1,480.9	-127.3	-3,298.2	-1,511.5	-7,252.5
Central Government 1/	2,070.4	172.9	-616.9	525.2	-8,250.7
Public enterprises	-451.1	-182.8	-1,503.8	-1,343.9	1,054.3
Other public sector	-138.6	-117.4	-1,177.5	-692.8	-56.1
Private Sector	975.2	1,593.5	2,512.8	2,062.3	4,418.9
Other 2/	273.8	96.5	174	-262.5	-181.0
Interbank float	154.9	-245.0	178.7	-21.9	142.5
Sources	2,883.6	1,317.7	-432.7	266.4	-2,872.1
Liabilities to private sector	2,226.5	3,631.1	8,104.9	11,820.9	6,894.4
Liabilities to nonbank financial institutions	296.8	467.5	1,343.0	417.3	-328.6
Deposits on external payments arrears	168.6	-41.3	-170.4	-229.0	-149.0
Net international reserves					
(net of valuation) and other	-549.6	-2561.9	10,954.1	11,499.4	-8,686.8
Medium term foreign liabilities	741.3	177.7	1,201.6	243.4	602.1
			(In percent of total)		
Total net credit	100.0	100.0	100.0	100.0	100.0
Extended by					
Monetary authorities	12.5	-83.0	964.8	-1867.6	-511.8
Commercial banks	82.2	201.5	-823.5	1975.9	406.8
Interbank float	5.3	-18.6	-41.3	-8.2	5.0
Use	100.0	100.0	100.0	100.0	100.0
Public sector	51.3	-9.7	762.2	-567.4	-252.5
Central government 1/	71.8	13.1	142.6	197.1	-287.3
Public enterprises	-15.6	-13.9	347.5	-504.5	36.7
Other public sector	-4.9	-8.9	272.1	-260.1	-2.0
Private sector	33.8	120.9	-580.7	774.1	153.9
Other 2/	9.5	7.3	-40.2	-98.5	-6.3
Interbank float	5.3	-18.6	-41.3	-8.2	5.0
Sources	100.0	100.0	100.0	100.0	100.0
Liabilities to private sector	77.2	275.6	-1873.1	4437.3	240.0
Liabilities to nonbank financial institutions	10.3	35.5	-310.4	156.6	-11.4
Deposits on external payments arrears	5.8	-3.1	39.4	-86.0	-5.2
Net international reserves					
(net of valuation) and other	-19.1	-194.4	2531.6	-4316.6	-302.8
Medium-term foreign liabilities	25.7	-13.5	-277.7	-91.4	-21.0
Official capital	-	-	-	-	-

Notes

1/Excludes special interest-free debenture contributions from the Treasury to the Bank of Guyana to cover exchange rate losses: G$2.9 billion in 1987, G$13.6 billion in 1989, G$8.2 billion in 1990, and G$31.5 billion as of June 30, 1991.

2/Include counterpart of medium-term external liabilities

Source: IMF (1994)

TABLE VI

GUYANA: MEASURES OF CENTRAL GOVERNMENT FISCAL DEFICIT, SAVINGS AND INVESTMENT: 1980-92
(Average Annual Percentage of GDP)

Domestic Absorption	1980-89	1990-92
Private consumption	57.8	67.5
Public consumption	21.7	11.0
Gross Domestic Investment	29.6	38.7
National Savings	-0.6	-7.1
Public Savings	-25.1	-20.4
Private Savings	24.5	13.3
Public Investment	24.6	27.9
Foreign Direct Investment	0.4	12.9
Foreign Savings	30.2	45.8
Policy Measures		
Fiscal Deficit	-32.33	39.6
Current Account Balance (US$)	-27.2	-23.2
Private Consumption per Capita (1988 US$)	304.5	283.3
Stocks		
External Debt (US$)	3031.3	1952.6
External Debt/GDP (%)	305.4	546.3
Changes in Reserves	-3.3	-48.0

Sources: IDB (1994) and IMF (1994)

GUYANA. Monetary Survey

(Percentage of GDP; position on December 31)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	(June) 1993
oreign assets	-26.3	-30.2	-45.7	-62.9	-84.6	-85.3	-84.1	-119.5	-157.4	-214.3	-439.7	-195.0	-156.0	-137.3
Bank of Guyana	-26.5	-29.1	-42.8	-60.2	-82.6	-83.9	-81.7	-120.1	-158.0	-219.8	-449.4	-198.9	-160.1	-138.3
Commercial banks	0.2	-1.1	-2.9	-2.7	-1.9	-1.4	-2.4	0.6	0.6	5.5	9.7	3.8	4.1	1.1
omestic credit	96.9	113.4	172.5	231.2	261.1	274.3	288.0	240.9	207.7	103.9	75.1	24.7	20.7	17.4
To government	68.2	72.8	129.1	158.8	201.0	204.8	242.5	201.9	187.9	95.3	64.0	25.4	23.0	18.5
To other public sector	15.6	24.2	21.6	44.8	32.7	43.0	15.2	10.5	-2.5	-6.9	-6.3	-10.7	-14.1	-9.6
To private sector	13.0	16.5	21.9	27.7	27.3	26.5	30.3	28.5	22.2	15.5	17.4	10.0	11.8	8.5
oney supply	56.4	62.4	87.8	111.1	106.8	110.5	117.9	112.2	99.6	59.9	60.1	41.7	55.7	56.4
Currency	11.1	11.6	16.0	19.5	19.7	21.5	22.9	21.0	25.6	14.6	14.1	9.5	10.9	9.5
Demand deposits	10.4	10.4	14.2	17.3	16.8	16.2	17.0	16.6	14.5	8.5	7.8	5.9	5.6	5.2
Time & savings deposits	35.0	40.4	57.6	74.3	70.3	72.8	78.0	74.7	59.5	36.9	38.2	26.3	39.2	41.7
ther items (net)	14.2	20.8	39.0	57.2	69.7	78.5	86.1	9.1	-49.3	-170.3	-424.8	-212.1	-190.9	-176.2
morandum items														
Narrow money (M1)	21.4	22.1	30.2	36.8	36.5	37.7	39.9	37.6	40.1	23.1	21.9	15.4	16.5	14.7
Quasi money	35.0	40.4	57.6	74.3	70.3	72.8	78.0	74.7	59.5	36.9	38.2	26.3	39.2	41.7
Broad money (M2)	56.4	62.4	87.8	111.1	106.8	110.5	117.9	112.2	99.6	59.9	60.1	41.7	55.7	56.4

urce: Bank of Guyana, Statistical Bureau of Guyana.

Table viii

GUYANA. Selected Interest Rates

(Percent per annum)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	(June) 1993
Local rates 1/														
Bank of Guyana														
Bank rate	12.50	12.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	35.00	30.00	32.50	24.25	17.75
Treasury bills	11.62	11.62	12.75	12.75	12.75	12.75	12.75	10.36	10.80	33.75	28.75	30.89	22.99	15.96
Interest rate on														
External Payment Deposits 2/	9.00	9.00	12.50	12.50	12.50	12.50	12.50	12.50	12.50	34.00	29.00	31.50	23.25	16.75
Commercial banks														
Prime lending rate	13.50	13.50	15.00	15.00	15.00	15.00	15.00	15.00	15.00	36.00	31.00	33.50	25.25	18.75
Small savings rate	10.50	10.50	11.50	11.50	11.50	11.50	11.50	10.90	10.50	31.50	27.50	26.18	16.58	9.41
Time deposits														
3 months	11.00	11.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	32.25	28.13	29.20	18.20	10.50
6 months	11.50	11.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	33.00	28.50	31.00	n.a.	n.a.
12 months	12.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	34.25	29.50	31.50	n.a.	n.a.
International rates 3/														
LIBOR	14.03	16.72	13.60	9.93	11.29	8.65	6.85	7.30	8.13	9.27	8.35	6.08	3.94	4.47
Treasury bill rates in														
United Kingdom	13.07	13.03	11.47	9.59	9.30	11.56	10.37	9.25	9.78	13.05	14.08	10.96	8.94	5.19
United States	15.66	14.08	10.72	8.62	9.57	7.49	5.97	5.83	6.67	8.11	7.51	5.41	3.46	3.10
Canada	14.41	17.72	13.64	9.30	11.06	9.43	8.97	8.15	9.48	12.05	12.81	8.73	6.59	4.54
Jamaica	9.91	9.83	8.61	12.38	13.29	19.03	20.88	18.16	18.50	19.10	26.21	25.56	34.36	21.96 4/
Trinidad and Tobago	3.06	3.06	3.05	3.08	3.39	3.47	3.99	4.63	6.01	7.13	7.50	7.67	9.26	9.29
Memorandum items:														
Consumer price index	14.2	24.7	20.2	13.2	25.2	15.1	7.9	28.7	40.0	89.7	63.6	105.9	26.6	11.3
Implicit real interest rates 5/														
Treasury bills	-2.3	-10.5	-6.2	-0.4	-10.0	-2.0	4.5	-14.3	-20.8	-29.5	-21.3	-36.4	-2.9	4.2
Prime lending rate	-0.7	-9.0	-4.3	1.6	-8.2	-0.1	6.6	-10.7	-17.8	-28.3	-19.9	-35.2	-1.1	6.7

1/ End of period.

2/ Until 1989, interest paid on deposits against payments arrears with commercial banks.

3/ Period average.

4/ May.

5/ Deflated by the consumer price index.

Source: Bank of Guyana, Statistical Bureau of Guyana, and IMF, International Financial Statistics.

Table ix

GUYANA. Inflation and the Exchange Rate (1970-1993)

Year	Inflation (averages)	Consumer price index (1988=100) 1/	Average exchange rate (official: period average)	Real effective exchange ra (1988=100)
1970	n.a.	8.0	2.00	73.0
1971	1.0	8.1	1.98	74.4
1972	5.0	8.5	2.09	78.9
1973	7.5	9.1	2.11	83.1
1974	17.5	10.7	2.23	89.7
1975	7.9	11.5	2.36	101.7
1976	8.9	12.6	2.55	104.6
1977	8.2	13.6	2.50	101.0
1978	15.2	15.6	2.50	98.9
1979	17.8	18.4	2.50	97.0
1980	14.2	21.0	2.50	94.3
1981	24.7	26.2	2.81	86.1
1982	20.2	31.5	3.00	77.0
1983	13.2	35.7	3.00	67.4
1984	25.2	44.7	3.83	66.3
1985	15.1	51.4	4.25	66.1
1986	7.9	55.5	4.27	67.7
1987	28.7	71.5	9.76	130.0
1988	40.0	100.0	10.00	100.0
1989	89.7	189.7	27.16	142.8
1990	63.6	310.3	39.53	134.6
1991	105.9	639.0	110.72	181.8
1992	26.6	809.0	125.09	163.9
1993	12.0	906.1	125.70	143.4

1/ Due to the non-existence of an official consumer price index after 1989, the consumer price index shown and associated inflation rates are based on official data until 1989 and IMF estimates thereafter.

Source: IMF International Financial Statistics and IDB estimates.

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