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A Retrospect and Prospect
on
The Reform of Financial Sector in Guyana

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I. Introduction

1.1 Economic developments during the last decade have witnessed a global trend towards more liberal financial markets. The general consensus is that market-oriented financial reform plays a critical role in the development process. It is also now recognised that as economies transform, arbitrary credit and interest rate controls and ad-hoc restrictions on the functioning of financial intermediaries, become less effective instruments of monetary policy. Appropriate changes in the financial structure and reform of the financial sector policies help to bring about improved efficiency in the mobilisation and allocation of financial savings imparting greater flexibility to the central bank, the regulatory agencies, and the government in their macroeconomic management.

1.2 In the context of developing countries, a well functioning financial sector improves the allocative efficiency and helps the economy to achieve higher growth. In fact, in the case of weak economies, economic stabilisation and correction of macroeconomic imbalances must be accompanied by a substantial structural reform of the financial system[1]. Typically facing heavy external indebtedness, the resultant lack of access to commercial capital and a decline in net flow of resources from abroad, it becomes imperative that reforms are introduced to strengthen the domestic financial system. Financial liberalisation thus, becomes a policy tool in making the economy more modern, efficient and stable. Several developing countries, which are less vulnerable to exogenous pressures, have undertaken financial reform so as to exploit the full potential of the financial sector

[1] Although, given the realities of the real-world and the sequence of the reform process, there is little certainty that financial reform shall take the economy closer to the "Pareto Optimum".

on their development process[2].

1.3 The financial sector performs the basic economic function of intermediation essentially through the 'transformation mechanism', i.e., by accepting deposits as a liability and converting them into assets such as loans (liability-asset transformation); providing large loans on the basis of numerous small deposits (size-transformation); offering savers alternate forms of deposits according to their liquidity preferences while providing borrowers with loans of desired maturities (maturity transformation) and, distributing risks through diversification which substantially reduces risks for savers which would prevail while lending directly in the absence of financial intermediation (risk transformation).

1.4 The principal identified elements of financial reform include: interest rate liberalisation supported by market based monetary management and the development of a government securities market; removal of directed credit programs and government intervention in the allocation of credit; promotion of competition by easing entry and existing norms; allowing non-bank financial institutions to play an expanded role; strengthening of financial infrastructure with emphasis on the information, payment, legal and regulatory systems; and development of a capital and securities market.

1.5 However, by themselves, these reforms do not create well-functioning financial systems. In fact, for economies with deep structural weaknesses, financial sector reforms could cause turbulence, affecting the wider

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[2] As Maxwell J. Fry has recently observed: "At the outset one should recognise that there have been some major advances in the theoretical models on which much of the new applied research is based. At the macroeconomic level, endogenous growth models using externalities or quality ladders have been incorporated into financial development models to show how financial systems can accelerate economic growth by raising both the quantity and quality of investment. These models refute the conclusion derived from neoclassical growth models that steady-state growth rates are independent of investment ratios."

economic system. Thus, the link between the openness of a financial system, the soundness of the institutions and the overall economic balance needs to be preserved through a judicious mix of sound macro economic policies[3], institutional and legislative adjustments and an adoption of a gradual approach.

1.6 Guyana, since 1988, has undertaken a program of economic and financial sector reform. Economic policy has been reoriented, with excessive intervention by the state being replaced by market mechanism. The direction has been set clearly towards less government intervention in the financial sector and its development reflecting the changing structure of the real economy. This paper[4] seeks to assess the impact of the changes in financial policies implemented during the late 1980's and the first few years of the 1990's in Guyana. Section II gives an overview of the Guyana's financial system. The financial reform program in Guyana is discussed in Section III; Section IV provides an assessment of the impact of the reform program while Section V offers policy recommendations and concluding observations.

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[3] There are several instances, in the developing and developed countries, where serious economic problems arose due to the introduction of financial reform without adequate rectification of the macroeconomic imbalances, e.g.: the deregulation which the "Southern Cone" countries went through in 1970's or, the experience of the Nordic countries in 1970's.

[4] This paper is the first in the series on 'Financial Sector in Guyana'. The forthcoming papers will cover: (I) profitability of banks, (ii) monetary policy-making during economic transition, (iii) demand for money, (iv) financial markets in Guyana - the foreign exchange, call exchange and money market.

II. Overview of Guyana's Financial System

1.7 Guyana's financial industry consists of a small but wide range of banks and financial institutions. The Bank of Guyana, the country's central bank established in 1965, is at the apex of the financial system. Seven (7) commercial banks[5] with a network of 24 branches dominate the financial system holding 71.6% of the total financial assets. The non-bank financial sector accounts for the remaining 28.4% of financial assets and comprises: insurance companies, a building society, a development bank, a mortgage bank, trust companies, pension schemes, a social security scheme and a postal network, which undertake quasi banking work. (*See Table I*).

1.8 The relative importance of the financial sector has been growing in the economy. The real value of Guyana's GDP produced by financial services sector has grown from US$133.2 million in 1980 to US$249 million in 1995. Similarly, the ratio of money stock to GDP[6] has gone up from 22% in 1965 to 123% in 1986 and then declined to 67.3% in 1995. Structural composition of the financial sector shows (*See Table II*) that of all intermediaries' assets held by each category of intermediary, commercial banks were the major source of formal finance. While this is as expected in the context of a developing country, it has changed over time and especially since the period the state owned specialised financial institutions were set up. The role of non-intermediated finance remained small in Guyana due to the absence of a capital and securities market[7].

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[5] There are at present four (4) domestic banks and three (3) foreign banks. The local banks account for nearly 95% of the total assets held by the banking system.

[6] This excludes the role of non-bank institutions. Also, Guyana has not witnessed any significant change in the form of payments exchange - currency and cheques remain popular forms of exchange.

[7] A Call Exchange was started in December 1993. There are twelve registered members of the Exchange. Trading has remained thin and the Exchange has in fact been witnessing a declining turnover.

1.9 Until recently the financial system in Guyana evolved within the framework of a 'corporate state.' In the initial period of the banking history, the sole providers of banking services in Guyana were the foreign banks. By 1968, five foreign banks (Royal Bank of Canada, Barclays Bank, Chase Manhattan Bank, Bank of Nova Scotia & Bank of Baroda) were the main players. Banking services offered by them were however restricted and narrow and failed to go far in improving the depth and breadth of domestic banking. A government owned bank, Guyana National Cooperative Bank (GNCB) was established in 1970 to provide a more local orientation to the commercial financing needs of Guyanese business, support new investment, and extend financial services to the unbanked areas and the interior regions. In 1973, two specialised financial institutions were established - Guyana Agricultural and Industrial Development Bank (Gaibank) which financed agricultural and industrial development projects and the Guyana Co-operative Mortgage Finance Bank (GCMFB) to provide home mortgage for low income families.

1.10 During the 1970's the government intervention in the financial sector became predominant[3], with the 1980's witnessing government control virtually over the entire financial system. Three (3) out of the five (5) foreign banks operating in Guyana were nationalised, while other instruments of government intervention such as, specific credit allocation and controlled interest rates were introduced. Real interest rates were kept low and/or negative for most of the 1970's and 1980's. The main monetary policy tools were direct controls, interest rate ceilings and reserve requirements. Exchange rate was fixed and international flows controlled. Credit was

[3] In the context of the newly-industrialising economies (NIEs) of Northeast Asia (Korea and Taipei, China), where government intervention in the financial sector constituted an integral part of development policy, various studies have attempted to take a fresh look at the debate of intervention vs non-intervention. A strong proponent of state intervention is Stiglitz (1993). He has strongly denounced the McKinnon and Shaw (1973) model and is a strong advocate of the interventionist approach. The experience of economies in South-East Asia (Indonesia, Malaysia, Thailand and the Philippines) has also been studied. Based on which it has been argued that market oriented financial reform reflects a fundamental change in the relationship between the government and the financial system - a reorientation of the role of government vis-a-vis the financial sector and not necessarily a reduction in this role.

increasingly directed to specific industries, sectors and public sector corporations. While many of the objectives sought to emphasise the social aspect of banking, the fact was that the financial sector eventually degenerated into a system of 'behest lending' on a patently unviable basis.

1.11 Thus, by the end of the 1980's, the financial system had turned weak and was unable to support the macroeconomic environment. The three elements of the financial sector - the financial institutions, financial instruments and the financial markets, had either deteriorated or failed to develop. Accounting systems were lax, disclosure was poor and surveillance weak. An unstable financial system with a defective regulatory framework made commercial lending very risky, and banks, especially the two government-owned banks viz, GNCB and Gaibank, became excessively burdened with portfolios dominated by unproductive and non-performing assets (NPAs)[9]. The operational efficiency of the banks was highly unsatisfactory, and the financial system as a whole, lacked resilience to withstand external shocks.

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[9] The operational efficiency of the banks has been highly unsatisfactory. The balance sheets of banks were neither strong in terms of credit coverage nor in terms of viability. The NPA's of GNCB and Gaibank are estimated to have grown to around 29% of their total assets at the time of their merger in 1995.

III. Financial Reform in Guyana

1.12 The reform of the financial sector undertaken in Guyana (*See Table III*) is a component of the overall scheme of macroeconomic stabilisation and structural reform embarked in 1988 under the Economic Recovery Programme. The overall process is aimed at stabilizing and enhancing the efficiency and competitiveness of the economy. It seeks to channel investible funds more efficiently[10]. The reforms are comprehensive in scope covering, besides the financial sector, areas including domestic investment, infrastructure development through private sector initiatives, promoting foreign competition by reducing protective barriers such as import controls and high tariff, encouraging direct foreign investment as a source of technology upgradation, public sector reform including an aggressive privatisation program and reforming the tax system. All these reforms are closely inter-related, and progress in one area is intended to help to achieve objectives in others.

1.13 Importance of the financial sector reforms in this structured package needs to be delineated clearly. Structural reforms in areas such as agriculture, manufacturing and trade policy can succeed only if resources are redeployed towards more efficient producers which are encouraged to expand under the new policies. This reallocation is possible only if the financial system plays a crucial supportive role. The reforms in the banking sector and in the financial system as a whole are aimed precisely at achieving this primary objective.

1.14 The main elements of financial reform in Guyana can be analysed under three (3) broad categories:

(I) Adjustments in the policy framework.
(ii) Improving the stability and soundness of the financial institutions
(iii) Strengthening the institutional capacity in the financial sector

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[10] The savings rate as a percent of GDP in Guyana has been reasonably healthy. It was around 35% in 1980 and rose to 42% in 1990. In 1995 it is estimated to be around the same level.

(I) *Adjustments in the Policy Framework:*

1.15 The central feature of reform consisted of the removal of restrictions on interest rates, credit and foreign exchange transactions, and the use of indirect instruments of monetary policy and financial control by the Bank of Guyana. The primary objective was to bring about an improvement in the manner relating to allocation of funds and eliminating market fragmentation. A related purpose was to provide an external framework, within which banks could operate, keeping in view the principles of viability and sustainability. This was intended to help improve efficiency standards and productivity in banks.

1.16 The process towards interest rate liberalisation began in 1989 which saw an almost three fold increase in the level of interest rates (*See Table IV*). In 1991, steps were taken to develop the domestic money market and free the money market rate with the introduction of regular auctions of government treasury bills[11]. The 91 days treasury bill rate, has since emerged as a market reference rate, influencing the level of interest rates. Since interest rate reform has been accompanied by the introduction of prudential norms, a major safeguard exists against any 'adverse selection', i.e., a desire to lend to higher risk borrowers at high interest rates. Banks are being compelled to take on risk which bears a close relationship with its capital base and financial ability.

1.17 Resource pre-emptions, through reserve requirements on commercial banks has become a relatively less important instrument of monetary policy in the recent period. In the past, the cash reserve ratio and liquidity ratio had to be maintained, particularly because of the needs for directed credit and financing of government deficits. With reductions in fiscal deficit and removal of directed credit, the pre-emption of deposits has been partly

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[11] Bank of Guyana introduced a competitive bidding process for 91-day treasury bills in mid-1991. All other major rates, such as bank rate, rediscount rate, etc got determined in relation to the market determined treasury bill rates. These started as monthly auctions, which moved to bi-weekly auctions in 1995 and then to weekly auction in February 1996.

lowered and not varied much. In mid-1991, reserve requirements on demand deposits were increased from 6.0 percent to 11.0% and on savings and time deposits from 4.0% to 9.0%. In April 1994, the reserve requirements went up from 11.0% of demand deposits and 9.0% of savings and time deposits to 16.0 and 14.0% respectively, essentially as a measure to mop up excess liquidity available in the system. The ratio has remained at the same level since then. The liquid assets ratio has remained at 25.0% of the banks' demand deposits and 20.0% of time deposits since May 1991.

1.18 The reform of the external sector involved the abolition of exchange control and the establishment of a market determined exchange rate system. In 1990, both bank and non-bank foreign exchange markets (cambios) were allowed to operate. Partial convertibility of the Guyana Dollar was introduced during the same year. Under the new system, two markets - the official and the cambio market co-existed. In February 1991, the exchange rate in the two markets was unified. The Bank of Guyana, in order to meet its official reserves target began inter-bank cambio market operations from 1993. The regime of exchange control was wrapped up in December 1995.

(ii) Improving the stability and soundness of the financial institutions:

1.19 The financial sector reform process also aims at institutional strengthening and modernisation of the system. This has been sought to be brought about by effecting fundamental changes in the legal and regulatory framework through the enactment of the Financial Institutions Act (FIA) in March 1995. The legislation requires all institutions carrying on banking and financial business to be licensed by the Bank of Guyana and centralises the surveillance responsibility over all licensed financial institutions on the central bank.

1.20 To ensure the safety and soundness of the financial system and impart greater transparency and accountability in financial operations a major element of the financial sector reform has been the introduction of prudential norms and regulations. These norms will help to bring out the true position of a banks' loan portfolio and also help to arrest deterioration. The absence of an effective prudential framework can jeopardise all efforts at freeing up and liberalising the financial market. Similarly a proper definition of income helps to ensure that banks take into account income which is actually realised. Banks have now been given a clear definition of what constitutes a 'non-performing' asset. Prudential regulations also include norms relating to capital adequacy. A capital risk weighted asset system has been introduced more or less in conformity with international standards. The FIA also addresses issues of large exposures, limits on investment in non-banking companies, liquidity ratio, minimum capital for the setting up of a bank, licensing of new banks, insider lending, prohibited operations, loan classification, provisioning and capital adequacy.

1.21 In May 1996, the FIA was amended to promote competition and eliminate concentration of interests in the financial sector. A person who owns or acquires control of a licensed financial institution which accepts deposits is not allowed to acquire control of another such licensed financial institution. In addition, no person is allowed to acquire shares in one or more licensed financial institutions, which accepts deposits, in excess of 20.0% of the total paid up capital of all such licensed financial institutions, except for capital expansion of the financial institution in which that person has acquired control.

(iii) Strengthening the institutional capacity in the financial sector:

1.22 Along with relaxing the external constraints and introducing the prudential norms, a major effort has been to strengthen the financial system through appropriate institution building measures of (I) instilling a greater element of competition (ii) improving the quality of loan assets, (iii) strengthening the supervisory process.

1.23 A more competitive environment is being created. Banks are already facing competition from within the industry as well as from non-bank finance companies. Since the improvement in the efficiency of the banks and the need to improve their profitability will have to come from within banks with strong balance sheets obviously enjoy greater flexibility in going through the process of adjustment. This will also make them accountable to a wider base of shareholders resulting in better performance. Along with the establishment of new banks, state owned banks are being restructured through a program of privatisation and improved management system[12].

1.24 Financial reform and liberalisation must be accompanied by an alert and vigilant system of supervision. A credible mechanism is therefore being put in place for monitoring compliance with prudential regulations and directives of the Bank of Guyana and other regulatory agencies. The Bank of Guyana has started to provide an exclusive focus to supervisory issues. On-site examinations and off-site surveillance have been put into practice. Examiners in the Bank work towards ensuring compliance with regulations and guidelines in the areas of credit management, asset classification, income recognition, capital adequacy, provisioning and treasury operations. It must however, be recognised that supervision can at best be a second line of defence; the main mechanism of compliance and control must operate within the financial institutions.

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[12] In October 1994, two private banks viz Citizens Bank and Demerara Bank were set up. The government divested its equity shares in the two largest commercial banks - Guyana Bank for Trade & Industry (GBTI) in 1994 and National Bank of Industry & Commerce (NBIC) in 1996. In July 1995, the management system was strengthened further through the merger of the development bank (Gaibank) with the state-owned commercial bank GNCB.

IV. An assessment of the financial sector under reforms

1.25 The reform program is ongoing and a long drawn out process. The results have to be judged not merely in statistical terms but also on the basis of their sustainability. Any cross-country comparison should bear in mind that while significant areas of commonality do exist, there are substantial differences in the financial systems and structures among the countries in the Caribbean region. Furthermore, data and informational inadequacies further constrain conclusive comments on the effects of the reform. Nevertheless, an assessment of the impact reforms have so far had on the financial system has been attempted from the perspectives of the efficiency in intermediation, financial market development, monetary management, and the quality of banks' loan portfolios. This would, in turn, enable the identification of the ingredients of future reform. It is important though to bear in mind the distinction between financial reform and financial development. Reform is the process of changing the regulatory framework within which the financial sector operates. Financial development entails the diversification and growth of markets, products and services.

1.26 The relative importance of the financial sector at the end of four years of reforms can be gauged by looking at a few indicators (*See Table V*). In the post-reform period quasi-liquid assets expanded rapidly from G$3.8 billion in 1989 to G$18.4 billion in 1992 and rising to G$35.3 billion in 1995. As a percent of M2, quasi-liquid assets, which were 60.0% in 1988, increased to 70.0% in 1992 and rose to 72.0% in 1995. This indicator suggests the beginnings of financial deepening, largely explained by improvements in banking outreach, availability of better financial services and introduction of more diversified savings instruments[13]. In contrast to the quasi liquid assets to M2 ratio, the standard financial development ratio of money stock of GDP declined substantially after 1989. It fell from 114.5 percent in 1989 to 68.2% in 1990 and to 67.3% in 1995. However,

[13] The relationship between interest rates and aggregate savings may be at most marginally positive.

between the 1990-1995 period, the ratio has remained relatively stable. Similarly, the ratio of financial assets to GDP, which declined from 162.0% in 1988 to 96.0% in 1989 to 91.0% in 1995, remained relatively stable over the 1989-1995 period. The stability demonstrated by these ratios suggests that the structural adjustment in the financial sector and the use of intermediate monetary targets during the period of macroeconomic stabilisation, have helped to create a consistent framework within which the financial sector can grow further.

1.27 As regards credit dispensation (*See Table VI*), since 1989 the bulk of commercial bank credit has gone to the private sector. Not only has the credit growth been significant in absolute terms, but the ratio too has improved. The share of credit to the private sector rose from 24.0% in 1989 to 89.0% in 1992 to over 100.0 % between 1993 and 1995. With fiscal adjustment, the public sector, which was the largest borrower, became a net depositor to the banking system. The increase in private sector credit indicates that the banks have been diversifying their loan portfolio and looking out for new loan accounts. The sectoral distribution of the stock of private sector credit however shows that credit to business enterprises, including agriculture, manufacturing, mining and services, has declined from 85.0% in 1989 to 83.0% in 1992 and to 74.0% in 1995. The share of credit to households has however gone up from 13.3% in 1989 to 16.9% in 1992 and to 26.0% in 1995.

1.28 The keystone of reform from the point of view of monetary management has been the transition to indirect instruments of monetary policy, largely at present through the regular auction of Treasury Bills. This has resulted in an improvement in the capabilities of the Bank of Guyana to regulate more efffectively the growth in money and credit, through a market mechanism. The absorption of excess liquidity through the issue of treasury bills, has brought about better control and management of the money supply, as evidenced by the relative stability of the money multiplier during the 1992-1995 period. The auction mechanism is helping to create competitive market conditions, by compelling banks to critically examine their funds management practices and the manner of pricing their deposits and loans.

1.29 Banks have emerged as the largest holders of treasury bills. The share of treasury bills in the asset portfolio of banks has gone up from 35.0 percent in 1991 to 60.0 percent in 1995. This has been largely due to high yielding and riskless investment character of treasury bills. It is important to note that the auctioning of treasury bills for sterilisation purposes, which has improved the management of liquidity, has resulted in a high interest expenditure to the government of approximately G$20.0 billion during 1991-1995.

1.30 The removal of exchange control and unification of the exchange rate have led to a substantial growth in the local foreign exchange market. The turnover[14] has gone up from US$329 million in 1991 to US$873 million in 1995. The exchange rate spread both, among banks and between banks and non-bank foreign exchange dealers has also been narrowing (*See Table VII*). The stability in the exchange rate is reflective largely of the supply-demand conditions and the general improvement in Guyana's balance of payment. However, both, the foreign exchange and the money market remain thin. A regular inter-bank wholesale money and foreign exchange market is taking time to develop. A fundamental reason for this slow development has been the easy liquidity conditions that have prevailed in the recent period largely reflecting the overhang of monetised deficit financing during most of the 1980's. Another factor relates to the nature of inter-bank and bank-customer relationships, which remains very personal and based on traditional ties. Among themselves, the bankers follow the 'big boys' viz National Bank of Industry & Commerce (NBIC) and Guyana National Cooperative Bank (GNCB), which are state owned and tend at times to display an oligopolistic behaviour. This trend does appear to be breaking now, with increasing presence of Demerara Bank and Citizens Bank in the money, foreign exchange and treasury bills markets. These banks, though small, have brought new skills, technology and a service orientation.

[14] Calculated as total purchases and sales in US$, British Pound and CDN$. It excludes, other hard currencies and Caricom currencies.

1.31 Despite the liberalisation of interest rates, financial intermediation costs have not shown significant positive adjustment. The spread between deposit and lending rates, often used as a proxy for efficiency of financial intermediation remains large, although in the recent period narrowing of the spreads has been observed (*Table IV*). This spread went up from 4.94% in 1990 to 13.18% in 1992 and declined to 9.92% in June 1996. The banks have been justifying the wide spreads on high operating expenses - "the elasticity of the wage bill", cost of technological improvements, structural shift in lending to the private sector involving higher credit risks, provisioning for bad loans, removal of the special deposit scheme at the central bank, the composition of asset portfolio and lack of ability and expertise to forecast interest rates and manage interest rate risk. The commercial rates of interest have demonstrated considerable stickiness (in fact, financial institutions such as New Building Society, who have very different balance sheet imperatives operating on them, have not adjusted their rates for a length of time). High real rates of interest are admittedly a problem since they affect the real growth of the economy. The answer to the problem surely does not lie in lowering the real rate of interest by a higher rate of inflation! Sustainable decline in rates will require a significant change in perception. The belief must prevail that inflation rates will remain low in the future. It is here that the emphasis being given to monetary growth and a move towards open-market operations is a necessary one. A return to focussing on controlling and determining credit flows will carry deleterious inflationary effects and will adversely affect the viability of banks.

1.32 Financial results of banks (*Table VIII*) show that returns on equity and on assets, have fallen during the 1991-1995 period. The ratio of net profit to equity (ROE) declined from 53.5% in 1991 to 27.7% in 1993 and further to 15.9% in 1995. Similarly, the ratio of net profit to asset (ROA) also declined from 9.1% in 1991 to 4.0% in 1993 and to 2.9% in 1995. The decline in profit is explained by falling earnings. The ratio of operating income to assets declined from 21.3% in 1991 to 14.1% in 1995 while the operating expenses to assets ratio declined from 14.5% in 1991 to 11.2% in 1995. Moreover, the ratio of total operating expenses to total operating income increased from 68.3% in 1991 to 72.5% in 1993 and to 79.7% in 1995. Provision for bad

loans and narrow opportunities to invest excess resources also had an impact on bank profits. In 1991, the ratio of excess reserves to total deposits which was 1.03% declined to 0.16% in 1994 but increased sharply to 3.41% in 1995. The relatively large ratio in 1995 is explained in part by the removal of interest earning on the special deposit scheme at the central bank at end 1994.

1.33 The inability of banks to predict long term interest rates and assess risk also explain banks' excess reserves, falling profits and consequently, the wide interest rate margin. Specifically, when interest rates are forecastable, then the expectation theory of the term structure implies that long term rates should always reflect actual short term rates. If interest rates are unforecastable, then there will be mismatches between long and actual short rates. These maturity gaps cause problems for financial intermediaries who typically borrow short term and lend long term. In view of this, banks are reluctant to lend in the long term.

1.34 Surveillance over banking operations has been strengthened through enhanced supervision and the first round of on-site inspections completed. Prudential norms are helping the banks to undertake balance sheet adjustments of a structural nature. Provisions for bad loans to total assets marginally rose from 6.6% in 1992 to 6.8% in 1995. The size of non-performing loans, which was G$4,027.0 million in 1992, fell to G$264.0 million in 1994 and went up to G$5,057.0 million in 1995 mainly as a consequence of the merger of Gaibank and Guyana National Cooperative Bank (GNCB). As a percentage of total loans, non-performing loans declined from 40.69% in 1992 to 22.7% in 1995. Expressed in terms of total assets, there was a decline from 10.4% in 1992 to 8.7% in 1995.

1.35 Overall, adjustments and innovations in the financial sector have been possible largely due to the success achieved in bringing out macro-economic stability. Policy instruments, such as the interest rate and the exchange

rate, have been crucial elements in achieving relatively stable price levels. The latter in turn has been successful in the attainment of positive real interest rates during most of the period. While several of the quantitative indices of performance have shown improvement, there are many areas in which weaknesses still persist. The customer service needs improvement; technology needs to be upgraded and housekeeping has to improve in terms of reconciliation of entries and balancing of books. The shortage of human capital in the country has also resulted in banks being unable to lend for profitable ventures because risk cannot be assessed properly/reliably. Credit appraisal must be quicker and transmission of funds speedier.

1.36 It is indeed surprising that objections have been raised in Guyana against the introduction of prudential norms. These norms are basically intended to improve the soundness of the working of institutions. In order to avoid a serious set back to the functioning of banks and other institutions, prudential norms have also been introduced in Guyana in a phased manner. The circumstances prevailing in the local financial sector have been taken into account in determining the phasing in of prudential norms. The prudential norms have served a useful role wherever they have been introduced. They have compelled institutions to pay greater attention to the quality of lending. It is true that as a consequence of the introduction of capital adequacy norms, banks will witness lower profits. Had the prudential norms been introduced earlier, much of the problems of non-performing assets confronted by banks in Guyana today could have been avoided.

V. The Future Course of Financial Sector Reform in Guyana

1.37 The assessment of financial reform in Guyana reveals that encouraging developments are taking place in the financial system. Guyana has however witnessed only the first stage of the financial sector reform in which a general direction of change has been provided. As such, the financial system is set to grow not only in size but also in complexity. The following trends may tend to dominate the future course of financial development in

Guyana:

- specialisation in different niches of the market such as retail, agriculture, export, small-scale and corporate sector;
- reliance on non-fund business such as advisory and consultancy services, guarantee and custody services;
- overlap in product coverage between commercial banks and non-bank financial intermediaries; and
- financial disintermediation with large companies accessing securitised debt domestically and from financial markets abroad.

1.38 Given the macroeconomic projections and growth forecast over the medium term, the financial markets will need to appropriately service the real sector. The reform agenda, thus, has to be carried forward and the liberalisation process made sustainable. The central objective of the next stage of the reform should be to identify and remove various hindrances to the efficient working of the financial system and build the requisite financial infrastructure. The thrust of financial liberalisation will have to address the micro-structural issues relating to the development of the three elements of the financial sector viz, institutions, instruments and markets. However, the growth and sophistication in these areas carry two pre-requisites: macroeconomic stability and institutional strengthening of the Bank of Guyana. With market oriented reforms both, the Ministry of Finance and the Bank of Guyana have to assume altered roles in terms of direct or indirect control and responsibility.

1.39 The main macroeconomic objective should be to bring about a significant and enduring reduction in the inflation rate from the current average of a little over 8 percent per annum, to say, an average rate of 4 percent per annum. It is not enough for the authorities to have this as a desire. There must be a national mandate which is then given to the Bank of Guyana to implement along with adequate instruments of monetary control and their operational independence. Any change in the mandate should be a conscious and transparent change.

1.40 Furthermore, rapid progress in fiscal consolidation must accompany low inflation rate. As a general

principle it has to be recognised that fiscal policy needs to be tightened during periods of financial reform. It has been variously pointed out that as liquidity constraints ease, private sector saving could decline. If the government budget balance remains unaltered, then the overall savings-investment balance will worsen, which could also affect the current account. Further, financial reform typically leads to high real interest rates. This naturally worsens budget balance due to higher interest payments. Hence, the need to cut non-interest expenditure. Government's financing thus needs should be consistent with a realistic estimate of investible resources.

1.41 With a specific action plan to attract the retail investor to the Government security market and with investors of different perceptions, there would be greater liquidity in the market. In such a milieu, it could be expected that open market operations would become the major instrument of monetary control for the Bank of Guyana[15]. Open market operations would also help in putting in place a signalling device as far as interest rate policy is considered. The fact that the potential for monetary control improved as a result of the transition to the indirect instruments of monetary policy (treasury bills auctions) suggests that the Bank of Guyana should pursue an independent monetary policy through the conduct of a full fledged open market system where the money supply is influenced through base reserve money. This operation will require timely and accurate data on financial sector development, the balance sheet of the central bank and quantification of key monetary relationships. Projections of the demand for and supply of currency and bank resources as well as estimates of their effect on money aggregates will be crucial. Furthermore, with the increasing integration of the domestic money market and the forex market, developments in one market will impinge on the other market, and it will

[15] The true net asset position of the Bank of Guyana requires considerable strengthening through recapitalisation. As a general principle, the asset position of a central bank must be sufficient to back its monetary base. The balance sheet adjustment at the Bank of Guyana will significantly empower the central bank to pursue the monetary course more objectively and effectively.

be necessary to bring about a significant degree of improvement not only in the consistency of policy responses but also in the speed of the responses. In this context, monetary policy and exchange rate policy will become increasingly intertwined. All of these will require a strengthening of the Bank of Guyana's technical capacity and its ability to design an integrated and well functioning domestic interbank and money market.

1.42 Another element of the macro framework relates to the reserve ratio. In many respects the reserve requirement is a powerful yet a 'blunt instrument of monetary control', regarded as being an 'onerous tax on the banking system. With greater fiscal adjustment and the development of the capabilities within the banking system, a reduction in the reserve requirements should be high on the agenda of future reform.

1.43 Macroeconomic stability is also necessary given the free mobility of capital[16]. The stability will help reduce the vulnerability of the domestic financial system from unexpected movements of funds and wide variations in the international money and foreign exchange rates. The intrinsic strength of the domestic financial system also gets built through the role and operational capacity of the central monetary and regulatory authority. The manner of conduct of monetary policy and the quality and consistency of market surveillance, through appropriate regulations, gathering market intelligence and on-site and off-site examination, has an impact on the financial system.

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[16] It is important to note that indirect monetary instruments through open-market operations cannot be continuously relied on, particularly when there is sustained fiscal imbalance and major capital flows. In such a situation, open market operation becomes extremely costly and frustrates the objectives of macroeconomic policy objectives. Authorities therefore have to consider alternative or supplementary techniques and instruments that would provide the scope for more efficient sterilisation. Some typical responses could include, judicious use of direct controls, alternating access to central bank's refinance facility, switching government deposits between commercial banks and the central bank using currency swap operations.

1.44 The role of financial markets in economic development, and how it can help in improving its overall efficiency will have to be recognised and emphasis provided to the micro-economic aspects of the various markets. The money and securities market in Guyana is shallow and needs to become relatively more important in the financial sector. The 'asymmetric information paradigm', which helps to explain the changes in the financial systems in the developing countries, does indicate that in economies at early stages of development, business firms seeking funds will be informationally opaque to savers, who will be unwilling to directly lend funds. Preference would be to entrust savings to financial intermediaries, such as banks. In turn, these depositories can recycle the funds by selecting the best potential users of the funds through some specialised information screening process. As firms or borrowers build a track record and a financial history, savers feel more confident in acquiring debt and/or equity instruments directly from these borrowers. Thus, money markets and securities markets are likely to start becoming relatively more important in the financial sector. In this regard, given that banks at present, have both, an informational and a monitoring advantage, they should evolve innovative forms of short-term lending and market loans. Products, such as certificates of deposits, interbank deposits, and bankers' acceptance, along with the issuance of commercial papers by corporates should help in strengthening the product range for short-term savers.

1.45 The role of capital market is insignificant in Guyana. The future requirements of the economy will involve long-term debt financing and risk capital, with borrowers having the choice of directly raising resources. The program of privatisation of public enterprises can provide an important stimulus to the development of securities markets in Guyana. In addition, schemes, such as mutual funds, units, and a framework of operations for mortgage financing companies, pension funds, leasing and venture financing, which need to be designed and introduced. This of course requires strict surveillance over securities operations and laws to regulate and supervise the equities and bond markets. However, a review of the Call Exchange set up in 1993 could help to start the process and initiate steps to revive interest in capital market financing.

1.46 A critical element of financial development will be the payment systems, a relatively neglected area of the financial sector. The Bank of Guyana will have to develop and oversee the introduction of an electronic and preferably, paperless payments system. An Electronic Clearing House for cheque clearing can alleviate the long delays encountered by the present manual clearing of cheques. Initially, an offline interbank system, can be started in which the clearing house will use data disks containing data on interbank transfers to debit and credit the accounts of the member banks. Later on, an on-line system should be developed - such as a unified ATM pool which can act as a switching system. Moreover, non-cash payment forms have to be developed. A quantitative change has to take place in the nature of services provided by the financial institutions. These will require quick processing of information and speedy completion of transactions. A massive technological push, in both computer and communication technologies, will therefore become necessary. Similarly, the legal and accounting infrastructure within which the financial system operates also requires a critical re-examination, so as to keep pace with the changes. Standards of disclosure have to improve, entry and exit simplified and speedy legal recourse available to insolvency and default. Enforcement of bank claims in local courts should be quick and the financial institutions must be able to operate in an environment where they have resource to pledged security. This will also discourage obstructive attitude on the part of borrowers.

1.47 The move toward indirect and market-based system also entails a portfolio shift associated with increased risks. Banks will have to expand their traditional lending activities into more areas such as real estate, corporate financing, etc., and also pursue off-balance sheet activities[17]. In view of this, commercial banks need to develop risk assessment and treasury skills. Institutional assessment should be undertaken through risk asset reviews (RARs) to assess borrowers' condition, collateral values, portfolio risks under various scenarios; and the

[17] For instance, in the foreign exchange business, banks hardly undertake any forward or swap transactions. The letters of credit portfolio is also very modest.

adequacy of provisions, complemented by an inventory of the human capital in the system. Banks would need to adopt a more general approach of asset-liability management aimed at modifying their liability structure in consonance with the desired asset structure so as to avoid large maturity mismatches between banks' assets and liabilities. This entails a continuous process of planning, organising and controlling assets-liability volumes, maturities, rates and yields. It will be essential for banks to understand the growing interdependence of various market segments, and to develop the necessary expertise for forecasting the relevant variables.

1.48 Management of credit risks would have to be accorded a very high priority. Persistence of large non-performing assets is essentially a reflection of a poor credit risk management system. Since a high level of NPAs is symptomatic of poor credit management, banks with high NPAs would particularly need to put in place an effective credit appraisal and management system.

1.49 Further, for effective financial sector reform, the quality of the regulatory framework[18] will have to be improved. However, it is necessary to recognise that deregulation does not mean desurveillance. In fact, a greater degree of deregulation warrants even stronger surveillance. As part of the reform, there must be a mutually consistent set of minimal regulations but violation of these regulations should invite strong adversarial action. In this regard, market surveillance capabilities for enforcing the law and regulatory framework will have to be strengthened. The scope of traditional supervision over banks will have to expand to include all financial intermediaries. It must however be understood that an alert supervisory system can only supplement a system of vigilant and continuous internal control and audit. Financial institutions must develop capabilities which use the 'tripod' of internal control, external audit and supervision to attain higher levels of efficiency and safety and soundness in operations.

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[18] The increasing role of non-bank financial institutions and the entry of new types of financial instruments and agencies will require quick and consistent regulatory response.

1.50 The most difficult issue will arise in relation to human resource capabilities in the financial sector. Profitability, productivity and efficiency of the system is likely to get seriously impaired in the absence of skilled staff, professional work ethics and a competitive, yet a cohesive management culture. Financial institutions will have to evolve clear-cut policies for human resource development, assure career paths, develop performance appraisal system and introduce intensive training and skill upgrading exercises. An institutional as well as a collaborative mechanism must be evolved to impart functional training on a continuing basis. Greater accountability should be introduced at all levels and the organisational structure simplified, with well defined roles, and making use of independent profit and cost centres. As reforms aim at removing the problems which have arisen due to factors external to the financial system, banks and financial institutions must comprehensively address the problems internal to their operations and largely reflecting management shortcomings.

VI. CONCLUSION

1.51 The financial sector in Guyana has undergone a far reaching process of reform, from a highly regulated state system to one that is learning the nuances of market orientation. The analysis reveals that efforts so far have focussed mostly on financial deregulation. The emphasis has now to shift to fundamental institutional strengthening and the development of financial markets and instruments. Progress has been achieved with respect to more effective monetary control, in creating an environment conducive to financial intermediation and providing a sound banking system. What is now required is the building of the system in terms of its diversity and depth so as to be able to meet the future needs. The future agenda is massive and the task facing the government, the central bank and market participants is indeed daunting. This needs to be addressed by articulating a clear program of improving the operational capacity of the financial sector in Guyana. The elements of the program must place on the centre stage factors such as profitability, efficiency and responsiveness to the local needs. The effectiveness of the program will depend on proper implementation. Technological and

managerial modernisation will thus have to be encouraged through greater managerial autonomy and decentralised regulatory governance. Financial reforms however, are not a substitute for other macroeconomic reforms, such as those relating to price, investment, trade, and labour. It is therefore imperative that economic policies continue to be directed towards sustaining non-inflationary growth and fiscal consolidation in the promotion of financial stability.

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Table I
Percentage Distribution of Assets of Financial Institutions in Guyana

	1980	1985	1990	1995
Commercial Banks	63.9%	73.9%	64.2%	71.6%
Non-Bank Financial Institution	36.1%	26.1%	35.8%	28.4%
Building Society	5.3%	5.8%	4.7%	7.3%
Trust Companies	1.6%	2.0%	2.2%	5.5%
Insurance Companies	14.6%	9.6%	15.4%	9.5%
Life	9.0%	7.1%	13.1%	6.8%
Non-Life	5.6%	2.4%	2.3%	2.8%
Pension Schemes	8.8%	3.5%	4.1%	6.0%
Mortgage Bank	1.9%	1.0%	0.3%	0.1%
Development Bank	3.8%	4.2%	9.1%	0.0%
Total Assets	100.0%	100.0%	100.0%	100.0%

Source: Bank of Guyana

Table II
Percentage Distribution of Credit by Financial Institutions
(G$ millions)

	1980	1985	1990	1995
Commercial Banks	69.9%	64.9%	62.3%	52.9%
Non-Bank Financial Institution	30.1%	35.1%	37.7%	47.1%
Building Society	4.5%	10.3%	10.7%	12.7%
Trust Companies	1.6%	3.6%	5.3%	10.5%
Insurance Companies	8.4%	7.9%	4.4%	2.0%
Life	6.4%	5.4%	2.1%	1.2%
Non-Life	2.0%	2.4%	2.2%	0.8%
Pension Schemes	9.8%	5.0%	6.6%	9.6%
Mortgage Bank	2.0%	1.7%	0.6%	0.1%
Development Bank	3.9%	6.5%	10.2%	12.2%
Total Credit	100.0%	100.0%	100.0%	100.0%

Source: Bank of Guyana

Table III
PROGRESS OF FINANCIAL SECTOR REFORMS

	1990	1991	1992	1993	1994	1995
1. OVERALL MONETARY POLICY						
a.Reserve Requirements	The required reserve ratios was maintained at 6 per cent of demand liabilities and 4 per cent of time and saving liabilities during the year. The penalty for non-compliance was increased from 1/30 of 1 per cent per day on the amount of the deficiency to 5 percentage point above the Bank rate and the number of incidence of non-compliance declined from 19 during the first half of the year to 8 during the second half of the year. Earlier, in 1989, the liquid asset holdings of commercial banks had been frozen temporarily.	In effort to restrain credit expansion, the monetary authorities raised the statutory reserve requirements in May, 1991 by 5 percentage points to 11 per cent of demand and 9 percent of time liabilities. The previous ratios was 6 per cent and 4 per cent respectively.	During the year the statutory reserve requirementwas maintained at 20.0 per cent and 15.0 per cent of time and saving deposits. The monthly average level of required reserves amounted to G$2,284.1 Mn compared with G$1,262.4 Mn a year ago. When compared with 1991 it shows a significant improvement in compliance	The statutory reserve requirements was maintained at 11 per cent of demand liabilities and 9.0 per cent of time and saving liabilities. The monthly average level of required reserves during this period (G$3,356.7 Mn) was approximately 39 per cent higher than the monthly average of (G$2,422.2 Mn) recorded in the corresponding period last year. During the year, the monthly average reserves in excess of the required amount requirements declined to 3.1 per cent of the required amount compared with 8.2 per cent in 1992.	The statutory reserve requirements of the commercial banks with the Bank of Guyana continued to be used as an instrument of monetary policy. From April these reserve requirements were increased by five percentage points on both demand and time liabilities to 16 percent and 14 per cent respectively. The average monthly level of required reserves(G$5,215.7 Mn), was 52.9 per cent higher than in 1993. At the end of the year, the average excess reserves as a ratio of required reserve was 3.5 per cent compared with 3.1 per cent in 1993. This showed an improvement in commercial banks' compliance with the statutory reserve requirement.	The statutory requirements remained unchanged at 14 per cent of time liabilities and 16 per cent of demand liabilities. An average weekly required reserves holdings of G$6,536.5 Mn. Were 28 per cent above 1994, mainly on account of strong deposit growth over the year. The ratio of excess reserves to required reserves averaged 13 per cent through the year, although this varied considerably amongst the banks and at different times of the year This compared with 2.5 per cent in 1994, when free reserves was much lower on account of larger volumes of treasury bills issued and the availability of the special deposits facility at the Bank of Guyana.

b.Interest Rate	Interest rate remained relatively high, although they was some adjustment s downwards in a line with the anticipated decline in inflation rate. The Bank rate was changed from 35 per cent to 30 per cent from March. In 1989, the Bank rate had been raised from 14 percent to 35 percent while Treasury Bill rate increased from 11.3 percent to 33.73 percent.	The policy of market determination of interest rates was intensified in June with the introduction of Treasury Bill auctioning. Interest rate was raised following the devaluation of the official exchange rate. On February 28, bank rate was increased to 32.50 per cent from 30.0 per cent. The commercial banks were invited to raise their interest rates: prime rate : 33.5 per cent, from 31.0 per cent: saving deposits - 30.5 per cent from 27.5 per end; fixed deposits - a range of 30.5 per cent to 31.5 per cent from 28.5 per cent to 29.5 per cent.	In March the Bank of Guyana introduced a new interest rate determination mechanism, whereby the Bank of Guyana's Bank Rate and other rates was adjusted in line with movement in the market-determined Treasury bill rate. The Bank rate which was fixed at 32.5 per cent since February 1991 fell to 31.25 per cent in March . This downward trend continued during the year to reach the rate of 24.25 per cent at the end of December.	The Bank rate was reduced on four occasions since end-December 1992. The Bank rate fell from 24.25 per cent at end-December 1992 to 17.00 per cent by the end of the year - the lowest since December 1989.	The sale of treasury bills continued to be the major policy measure for guiding short term interest rate along a path consistent with the macroeconomic targets. Following declines in February and March, the 91-day treasury bill rate rose steadily, to 20.3 per cent in August. Falling in September and October, the rate reached 18.6 per cent at the end of the year.	Interest rates remained stable through May at 18.5 - 19 per cent, before declining steadily to 15.5 per cent at the end of the year. The bank rate, which is set at a margin of 1.5 percentage points above the 3-month treasury bill rate (rounded to the nearest 0.25 per cent).declined by 3.5 percentage points to 17 per cent at the end of the year
c. Domestic Debt-Management	The 91-day treasury bill rate fell from 33.75 per cent to 28.75 per cent at end-December. The authorities continued to pursue the economic recovery programme during the year, which was designed to restore sustainable economic growth. In July, the Bank established a monetary policy unit to strengthen the institutional framework for the conduct of monetary policy.	In an effort to contain the rate of inflation and strenghten the balance of payment, a number of credit restraint measures was implemented during the year. The policy of market determination of interest rate was intensified in June with the introduction of Treasury bill auctioning. Excess liquidity in the commerical banking system was converted into medium term liabilities	The credit policy focused on the reduction of credit to the public sector with a view to permitting the release of more financial resources to the private sector. The Bank rate was linked on March 18, to the Treasury bill rate, to ensure that bank credit reflected the market-determined cost of funds	Treasury bills with maturities of 182-day and 364-day was offered to the public for the first time in April. The discount rates arising from the initial auction of 182-day and 364-day Treasury bill was 17.03 per cent and 16.65 per cent respectively. The 182-day Treasury bill discount rate, after falling to 13.56 per cent in May, drifted upwards to reach 15.45 per cent by December. The rate for the 364-day Treasury bill exhibited mixed movement and ended at 14.78 per cent by December and the 3 month Treasury bill discount rate fell to 15.4 per cent at end-December.	Since January, auction of 91-day Treasury bills have been conducted on a bi-weekly basis thereby increasing the flexibility of this instrument. The 182-day and 364-day Treasury bill continued to be offered on a regular basis (monthly).	The sales of Treasury bills are used to influence market interest rates. The weighted-average interest rate determined by these competitive auctions is generally considered the reference rate in the market. The average number of participants in each auction increased to 119 from 100 in 1994. At the end of this year, approximately 44 per cent of treasury bills outstanding were held by banks.
d. Exchange Rate	On March 13, the authorities established the cambio system for foreign currency transactions. Transactions in this system was conducted freely with dealers setting the rate at which foreign exchange could be bought and sold. In the official market, on June 15, the Guyana dollar was devalued in the official market by 26.7 per cent from G$33 per US dollar to G$45 dollar per US dollar, largely to close the gap between the official and unofficial exchange rates.	On February 21, the local currency was devalued from G$45 per US$1 to G$101.75 per US$1. In December the exchange rate was G$122.75 per US dollar. The determination of official rate was done weekly based on the average free market rates for the preceding week.	The exchange rate continued to be determined on a daily basis, taking into consideration the weighted average of the free market(CAMBIO) rate. The exchange rate was changed on twenty occasions, moving from G$122.75 per US$ at the at the end of 1991 to G$126.0 per US dollar by the end of the year.	The U.S. dollar continued to be Guyana's intervention currency and during the year the exchange rate depreciated by 3.8 per cent to reach G$130.75 per US dollar. Bank of Guyana undertake inter-bank foreign exchange operations.	The US dollar continued to be Guyana's intervention currency and during the year the Bank of Guyana's transactions rate depreciated by 9 per cent to G$142.50 per US dollar at the end of the year.	The flexible exchange rate regime continued to support growth in trade and of the economy in general. The Bank of Guyana's official transaction rate continued to be determined daily. During the year this rate appreciated by 1.4 per cent from G$142.50 per US dollar at the end-1994 to G$140.50 per US dollar at the end of the year. The Exchange Control Act was abolished.

2. BANKING POLICY AND OTHERS						
Licensing, Prudential Norms etc.				Two new banks licenced, in November.	Special reserve deposits of banks were remunerated/eliminated.	On May 30, capital weighted risk assets ratio requirement was introducted using the Basle framework.The Financial Istitutions Bill (FIA) was passed and became operational in May 1995. Introduction of the FIA is the most significant legislative change affecting the financial sector in recent decades. The establishment of a Government- owned loan collection unit(The Guyana Co-operative Financial Service) and the merger of GNCB and GAIBANK were issued during the year. GAIBANK was dissolved from July 31, which provided the legal basis for the merger.

Table IV
GUYANA: SELECTED INTEREST RATES (%) AND SPREADS 1970-1996

	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996 Aug.
BANK OF GUYANA											
Bank Rate	6.5	6.5	12.5	14.00	30.00	32.50	24.25	17.00	20.25	17.25	12.00
Treasury Bill Discount Rate (91 Days) (1)	6.09	5.88	11.62	12.75	28.75	30.89	22.99	15.44	18.24	15.49	10.21
COMMERICAL BANKS											
Small Saving Rate (2)	3.5	3.5	10.5	11.50	27.50	26.18	16.58	9.46	11.20	10.47	8.32
Time Deposit Rate (3)	4.75	4	11	12.00	28.10	29.20	18.20	10.90	12.80	12.81	9.54
Prime Lending Rate (4)	7.5	7.5	13.5	15.00	31.00	33.50	25.90	17.45	19.89	19.07	17.50
Spreads											
(4-2)	4	4	3	3.5	3.5	7.32	9.32	7.99	8.69	8.6	9.18
(4-3)	2.75	3.5	2.5	3	2.9	4.3	7.7	6.55	7.09	6.26	7.96
(1-2)	2.59	2.38	1.12	1.25	1.25	4.71	6.41	5.98	7.04	5.02	1.89
(1-3)	1.34	1.88	0.62	0.75	0.65	1.69	4.79	4.54	5.44	2.68	0.67

Source: Bank of Guyana

Notes:
Figures represent the end of year positon, except for 1996 .

TABLE V

Selected Monetary Indicators

YEAR	Broad Money M2 %GDP	Deposits %GDP	Financial Assets %GDP (PRIVATE SECTOR)	Credit * to Private Sector %GDP	Quasi Money (G$MILLION)	Quasi Money %M2	Real Deposit Rate 1/	Real Lending Rate 2/	Inflation Rate	Interest Rate Spread 3/	Average Money Multiple
1985	115.6	109.2	181.8	31.1	1215.4	64.5	-3.1	-0.1	15.1	...	
1986	122.7	117.5	201.4	36.5	1453.6	65.1	4.1	7.1	7.9	...	
1987	105.2	117.5	155.3	32.3	1859.9	62.0	-16.7	-13.7	28.7	...	
1988	114.5	127.0	161.9	43.9	2462.6	59.8	-28.0	-25.0	40.0	5.5	
1989	68.2	78.3	96.2	27.8	3809.3	61.5	-87.8	-84.0	120.0	6.6	
1990	68.1	77.9	97.0	29.7	5982.9	63.6	-56.9	-54.0	85.0	4.9	
1991	48.4	56.7	71.4	19.8	10256.9	63.1	-41.1	-36.8	70.3	9.0	3.2
1992	64.6	76.1	87.9	21.5	18355.0	70.3	4.0	11.7	14.2	13.1	2.5
1993	67.4	75.9	89.7	20.7	23991.8	71.9	2.2	8.8	8.7	8.7	3.1
1994	61.9	63.7	86.0	27.8	26849.3	68.6	-3.3	3.8	16.1	9.8	3.2
1995	67.3	66.5	90.8	28.2	35332.7	71.6	4.7	11.0	8.1	9.9	3.2

Source: Bank of Guyana's:
Statistical Abstract (Dec 1994, Mar 1996)
Annual Report (1991, 1995)

* Credit by sector
... Not available
1/ Commercial Banks' three month time deposit rate
2/ Average prime lending rate
3/ Weighted average lending rate less average savings rate

TABLE VI

Credit Allocation

YEAR	Banking System Net Dom. Credit 1/ (G$Million)	Private Sector (G$Million)	Public Sector (G$Million)	Credit * to Private Sector %GDP	Private Sect. Share of Total Credit	Business Ent. Share of Priv. Sect. Credit	Households Share of Priv. Sect. Credit
1985	4645.1	507.6	4277	31.1	0.11	0.75	0.25
1986	5919.4	664.1	5368.7	36.5	0.11	0.76	0.24
1987	6987.1	921.6	6350.7	32.3	0.13	0.74	0.26
1988	8594.5	1580.1	7674.5	43.9	0.18	0.84	0.16
1989	10737.5	2525.7	9139.1	27.8	0.24	0.86	0.13
1990	11758.5	4109.8	9034.2	29.7	0.35	0.84	0.16
1991	9630.2	6650.9	5736	19.8	0.69	0.85	0.15
1992	9763.7	8681.7	4224.6	21.5	0.89	0.83	0.17
1993	2680.2	10230.8	-4706.7	20.7	3.82	0.79	0.20
1994	1229.7	13788.8	-11328.2	27.8	11.21	0.77	0.23
1995	8282.6	20719.5	-11070.2	28.2	2.50	0.74	0.26

Source: Bank of Guyana's:

Statistical Abstract (Dec 1994, Mar 1996)

Annual Report (1991, 1995)

TABLE VII
Exchange Rate

	1991	1992	1993	1994	1995
Buying	117.27	123.97	125.89	137.64	140.28
Selling	119.8	125.91	127.82	140.14	143.42
Spread	2.53	1.94	1.93	2.5	3.14

A. Bank Cambio Exchange Rate:	1994	1995	1996
Buying	136.56	139.22	137.55
Selling	139.6	143.61	142.36
Mid Rate	138.08	141.42	139.96
B. Non-Bank Cambio Exchange Rate:			
Buying	138.76	141.3	139.32
Selling	140.71	143.42	141.41
Mid Rate	139.74	142.36	140.37
Spreads			
Banks	3.04	4.39	4.81
Non-Banks	1.95	2.12	2.09

Source: Bank of Guyana

Table VIII

COMMERCIAL BANK PERFORMANCE INDICATORS (1991-1995)

RATIOS	1991	1992	1993	1994	1995
Net profit to equity - ROE	53.5	37.4	27.7	29.4	15.9
Net profit to asset - ROA	9.1	5.0	4.0	4.0	2.9
Operating income to assets	21.3	16.7	14.6	14.1	14.1
Operating expenses to assets	14.5	11.7	10.5	10.1	11.2
Operating expenses to operating income	68.3	70.1	72.5	71.9	79.7

Source: Bank of Guyana