THE STATE, CENTRAL BANK POLICY AND COMMERCIAL BANK BEHAVIOUR IN GUYANA 1966-1980

By

Mohammed Khayum

THE STATE, CENTRAL BANK POLICY AND COMMERCIAL BANK BEHAVIOUR IN GUYANA 1966-1980

by

M. F. RHAYUM

Institute of Development Studies
University of Guyana

13th Regional Monetary Studies Conference

25th-27th November, 1981

THE STATE: CENTRAL BANK POLICY AND COMMERCIAL BANK BEHAVIOUR IN GUYANA* 1966-1980:

Introduction:

A distinguishing feature of Guyana's economy during the period 1966 to 1980 has been the expansion in the scale of activities and expenditure by the state. The dominant aspect of this expansion was the process of expropriation of foreign direct investment which was concentrated within the period 1970-1977. The exclusion of foreign financial institutions from this process of expropriation is notable and underlines the varied positions held by the state towards foreign direct investment in the economy. This has followed a pattern of tacit acceptance of foreign direct investment from 1966 to 1969, restrictions from 1970 to 1977 and finally active encouragement from 1978 onwards.

State policy towards foreign commercial banks in particular reflected the varied positions held by the state towards foreign direct investment. From 1966 to 1969 for instance, there was an obvious encouragement of foreign commercial banks by the state since in this period two additional multinational banks ware given permission to establish branches in Guyana. From 1970 to 1977 there was a shift in policy. In the early part of this period the state emphasized a policy of minimizing the operations of foreign commercial banks. It was proposed that these banks should no longer handle local savings but limit their activities to arranging and facilitating foreign loans. The establishment of an indigenous bank in 1970 was to provide the basis for

*The content of this paper is derived from a research project on Commercial Banking in Guyana, 1966-1980; and has been adapted for presentation at the 13th Regional Monetary Studies Conference.

effecting such a policy. By 1976, the nationalization of these banks became a prominent issue. However by 1980, the foreign commercial banks were still actively operating in Guyana and appeared to be doing so without undue pressure from the state.

In the context of state expansion and the obvious need of the state to meet its funding requirements, the purpose of this paper is to explore the process of interaction between the state and the financial system with particular emphasis on the commercial banking system. This would also involve an examination of the role of the central bank since it is mainly through this institution that the state intervenes in the financial system and indicates its policy relation to the process of capital accumulation, as well as, the basis for its expansion.

In relation to the above objective the main subdivisions of the period under study are as follows (a) 1966 to 1969; 1970 to 1977 and 1978 to 1980 with reference to state policy towards foreign direct investment and (b) 1966 to 1977 and 1978 to 1980 with reference to central bank policies towards commercial banks.

The sections which follow deal with (1) the state, central bank, and the process of capital accumulation in capitalist and underdeveloped countries (2) the relations between commercial babks and central bank in Guyana, in terms of the objectives, rationale and results of the policies pursued by the Central bank and (3) state expansion and the role of the banking system in macro-economic adjustment in Guyana. The influence of the International Monetary Fund (IMF) would also be considered in relation to these issues.

1. The State and the Process of Capital Accumulation In Developed Countries

The process of capital accumulation in the development of capitalism in the industrialised economies was characterised by its interrelationship with the financial system.[2] This meant that state intervention in the financial system served to indicate the state's policy relation to the process of capital accumulation. The central bank was the primary institution through which the state intervened in the financial system. This institution was inserted at the apex of the financial system and was seen to undertake certain policies, aimed principally at ensuring the overall stability of the financial system and meeting, when necessary, the funding requirements of the state.[3] In the context of the instability of the banking system which accompanied the development and extension of credit in capitalist countries the purpose of ensuring overall stability was the integral feature of the rise of central banks and was reflected in the laws governing central bank operations. In practice the central bank accomplished this through its provision of lender of last resort, rediscounting and borrowing facilities to banks in periods of crisis. A related feature of central bank practice was the tendency for limits to be placed upon credit extended to the state.

The historical examples of inflation and currency depreciation that were seen to accompany credit creation on behalf of the state provided the basis for the tradition of sound finance underlying the financial relations between the state and the central bank in 19th century economies. In conformity with this tradition the central bank was expected to grant credit to the state within defined limits which was to be repaid within a relatively short time. This policy which was seen to coincide with the objective of ensuring stability in the financial system, gave to central bank practice a certain degree of autonomy. Further, this autonomy of central banks appeared to be much greater with the growth of capitalism on a world scale in the latter half of the 19th century. In this period exchange stability became the precondition for further accumulation and as a result the central bank was seen to vary interest rates and conditions affecting the availability of credit to maintain this stability. Inevitably, this restriction placed upon national monetary systems under the gold standard arrangements, was reflected in the tendency for the state to adopt a restrained financial policy in its relations with the central bank.

Concurrently, as the evolution of central banking practice has indicated, however, the state can make the central bank subservient to its needs, and the autonomy of the central bank is seen to be more apparent than real. Such instances bring into sharp focus the role of the central bank as an instrument of the state and particularly the policy of the state towards the process of accumulation.

In capitalist economies, state intervention in the financial system has been essentially to sustain accumulation by the capitalist class.[4] In order to sustain this private accumulation the early central banks sought continuously to maintain internal stability and/or exchange stability as preconditions for further accumulation.[5] This resulted in the countercyclical policies undertaken and the limits placed on the extent of central bank accommodation to the state's demands for credit.

However, restraint by the state is undermined in crisis periods of war, major social and political change or the general expansion of the state to fulfil its functions. When crises occur and there are severe obstacles to further private accumulation in capitalist countries, the state engages in the restructuring of the process of production and its relationship to the process of accumulation may appear in a more direct form than is usually discerned. But as the historical evolution of capitalism has indicated it is only in periods of severe crises that such restructuring occurs.

The responses of the state to the accumulation crises of the capitalist class have been varied and depends upon the forms taken by these crises, and the balances of social forces within these economies. Thus a crisis in accumulation which it met by central bank support for credit expansion by the financial system and which leads to high levels of inflation can severely disrupt the financial system as money and other financial assets generally lose their facet as a store of value. The options for the state are either (a) to adopt deflationary policies (through central bank) such as restricting the money supply, or (b) to attempt to carry through the necessary restructuring of capital, as a precondition for further capitalist accumulation. Alternatively if the crisis is one of recession, the options include reflationary policies and or restructuring of production.

One of the deepest accumulation crises of capitalism occured during the period between the two world wars. This period of crisis was characterized by declining output, mass unemployment and numerous bankruptcies. The response of the state was reflected in the shift in the nature of monetary management.[6] Central banks in individual capitalist economies changed their principal interest from international exchange stability to internal issues such as real income and employment. This change was manifested by accommodation to state expenditure, protectionist policies, competitive devaluations and suspension of convertibility of national currencies into gold. These measures taken to bolster these economies and bring them out of the crisis were part of the attempt to restore the confidence of private enterprise.

Rebuilding the international monetary system, however, became an integral feature of the effort to promote recovery from the depression and World War II era, and prevent the recurrence of crises of such a fundamental nature with capitalist economies. An essential feature was the attempt to establish a balance between domestic issues and external stability in monetary management by emphasizing exchange stability without forcing countries to revert to gold standard rules. In general, the reshaped international monetary system worked up to the mid 1960's[7]. By the early 1970's the system broke down in two main areas, namely, the adjustable peg exchange rate regime and the gold exchange standard which governed the supply of reserves. The breakdown of the international monetary system, together with stagflation in developed economies, and unabated balances of payment problems in underdeveloped economies evidently marked a deepening world economic crisis. In response to the crisis situation, the particular form which has received much attention within the developed economies has been that of inflation. Consequently, monetary policy and the issue of internal price stability has become a central feature underlining contemporary central bank operations in developed economies.[8] Thus the semblance of autonomy characteristic of central bank operations in the evolution of capitalist economies is still very much in evidence in the face of deepening domestic and world crises.

The State and the Process of Capital Accumulation in Underdeveloped Countries

The emergence of new nation states and the subsequent establishment of central banks which occurred after the second world war has initiated a phase in the evolution of central banking practice characterized by differences in emphasis on the purposes of central bank operations and the form of state relation with the process of accumulation.

Invariably the legislation governing the operations of the central banks in the new states have conferred on them the authority to limit credit to the state and to use the range of monetary policy instruments found applicable in the advanced capitalist economies, in the interest of maintaining monetary stability. The practice of central banks in many of the new states however, is characterized by an apparent emphasis on issues of development and accumulation. In the context of the rapid rise of state involvement in economic activity,[9] ostensibly for development, state funding, inevitably has become a primary aspect of central bank operation in these countries. A direct result of the primacy attached to meeting the funding requirements of the state has been the absence of the same semblance of institutional autonomy which characterizes central banking practice in developed economies.

Unlimited credit expansion by the central bank to the state, however, has been subject to two primary sources of restrictions in underdeveloped economies.

The first source of restriction lies in the consequences of excessive credit creation, particularly that of inflation, which has considerable influence on the political response of the mass of the population. (However, the effectiveness of this response has been inversely related to the dominance of the coërcion function in state activity).

The second source of restrictions arises from the position occupied by the new states in the international monetary system and the structure of their economies. The existence of an external sector which dominates economic activity, membership with the International Monetary Fund (IMF), acceptance of the IMF's Article VIII provisions[10] and the use of the national currencies of developed economies as intervention currencies, limit the extent to which monetary and credit policy can be used to influence the functioning of these economies.[11] In this context expanding state expenditure has in many instances led to balance of payments problems. Within the framework of the integration of underdeveloped economies in the international monetary system the mechanisms for adjustment to balance of payments deficits are entrusted to a number of instruments. These are exchange rate adjustment, use of foreign exchange reserves or other forms of financing such as drawings on the IMF, restrictions on capital outflow and restrictions on imports. The only one expected (within this framework) to be applied entirely at the discretion of the nation state is capital restrictions.

Cases of acute balance of payments disequilibrium therefore have inevitably led to a process of interaction between the IMF and the state in these economies.[12]

The IMF is the institution entrusted with the task of moderating and preventing crises within the international monetary system thereby permitting the orderly international expansion of trade and investment.

In order to carry out this task the charter of the IMF included explicit provisions on the issues of (1) market convertibility of currencies (2) the supply of reserve assets (3) exchange stability and (4) management of the international monetary system. However, the provisions in relation to balance of payments adjustment were ambiguous on the issues of (a) responsibility for initiating adjustment and (b) crisis proof methods for effecting adjustment. The early response of the IMF to balance of payments problems facing its member countries in the context of exchange stability was to emphasize the association between domestic credit creation and reserve level changes - hence the necessity of demand management policies.[13] From this association, monetary and financial policies were regarded as substitutes for exchange rate changes to correct payments imbalances. Although the force of events led to the acceptance of flexible exchange rates as instruments of payments adjustment in the 1970's, the prevailing policies suggested by the IMF for adjustment still have a strong demand management bias. This is particularly so with regards to IMF relations with underdeveloped countries which in general have tended to remain within a fixed exchange rate regime. Hence, the underlying feature of the IMF's policy to remedy payments problems in underdeveloped economies is the concern to immediately re-establish domestic and external financial balance with the former being a necessary condition for the latter. This has resulted in considerable influence being exerted on the operations of the central bank by the IMF.[14] Invariably in the context of large state sector deficits in underdeveloped economies, the policies of the IMF place direct emphasis on;

(a) the need to restrain state sector growth, (b) the promotion of the commercial viability of public enterprises, and (c) the encouragement of private enterprise.[15] These policies are in direct contrast to the process of state expansion which has been an observable feature of many underdeveloped economies.[16]

An important implication of the policies deemed acceptable by the IMF, is the significant role attached to private enterprise in restructuring the process of accumulation. The response of the state has been seen to be dependent on the object of state power and the strength of social forces to limit or control the power of the state. The object of state power in these new states vary. However the rulers of those states which claim to and/or attempt economic restructuring vis-a-vis the metropolitan countries and their domestic economies also engage in social and political restructuring i.e. class destruction and class creation. Where those who wield executive power in the state indulge in economic activities for their private accumulation (within and outside the state apparatus), or sponsor the private accumulation of others, their conformity to the policies of the Fund becomes more likely. (e.g. Phillipines) An additional consideration in this context, however is whether with the existing state apparatus this policy of increased (large scale) privatization can be carried through in spite of social protest.

Aternatively, if the state is significantly influenced by the interests of the mass of the population, and resists the removal of benefits derived from previous social struggle and social policy a process of conflict can emerge from State-IMF relations. (e.g. Jamaica, Tanzania, Grenada).

The case of Guyana serves as a useful illustration of the influence of state involvement in the process of accumulation as well as IMF-State relation in the evolution of the monetary system of a new state. The section which follows examines the interaction of the state and the commercial banking system through the policies of the Central bank.

II State Intervention In The Financial System in Guyana:

Measures aimed at restructuring the pattern of credit allocation executed by financial institutions have been among the principal instruments by which the state has indicated its policy relation to the process of capital accumulation in Guyana. These measures, directed primarily at the commercial banks (mainly because of the significance of these institutions in the financial intermediation process) have been mediated mainly by the central bank since its establishment in 1965.

Central bank policies - particularly in relation to the commercial banking system may be usefully divided into two phases. The first from 1966 to 1977, was characterized by measures aimed at restricting credit to the private sector and simultaneously increasing the access of the state sector to commercial bank credit and restructuring the pattern of credit allocation to certain activities. The second from 1978 to 1980, was distinguished by a reversal in policy emphasis. Limits were placed on state sector borrowing from the banking system and direct regulation of commercial bank leading to the private sector was limited.

The underlying continuity of central bank policy during the entire entire period has been the emphasis on credit availability as the principal means of influencing economic activity. Indirect and direct regulation of commercial bank lending and liquidity have been the manifestations of this emphasis in the first period. In the context of the ineffectiveness of open market operations and discount policy,moral suasion[17] has been the primary means of influencing this channel of transmission of monetary policy.

The initial measures implemented by the central bank to influence expenditure and the credit behaviour of the commercial banking system proved ineffective. These measures were (a) variation of the liquid assets ratio in December 1966, which required commercial banks to hold a minimum level of liquid assets equivalent to 20 percent of time deposits and 15 percent of demand deposits in comparison with the minimum level required since January 1966 of 15 percent of time deposits and 10 percent of demand deposits and (b) the imposition of a 100 percent pre deposit requirement against private sector letters of credit opened for import purposes in 1961.

The stated purposes of these measures were to keep the expansion of bank credit within reasonable bounds and to restrict import trade respectively.

Since the commercial banks had actual liquidity ratios above the minimum required,[18] it was difficult to evaluate the impact of the variation on the commercial banks' credit operations and as a quantitative policy instrument this measure was meaningless.

Additionally, the predeposit scheme which is typically expected to affect the cost and availability of credit - in terms of tying up funds for longer periods than would be the case if the requirement did not exist - was found to affect an insignificant part of import financing (letters of credit amounted to $2 million in the commercial banks accounts whereas imports were valued at $202 million in 1966). As a result in 1967 this stipulation was rescinded.

The response of the central bank to these early failures was to introduce more direct controls on the lending pattern of commercial banks. These took the form of guidelines establishing global credit ceilings and selective credit controls, (See Table 1) and from 1969 to 1977 these guidelines have constituted the basis for central bank policies towards commercial banks.

The discernible features of these measures, in the first phase, have been the attempts to (1) limit credit expansion by commercial banking, particularly private sector access to credit, and (2) direct commercial banks to channel more resources to state determined priority areas, such as small scale agriculture. The respective reasons for these measures were (a) the association between credit expansion and changes in the level of international reserves and (b) the distortions created in the economy by commercial bank lending to non-productive activities such as the distributive trades and personal consumption.

Notwithstanding the rationale for the early global ceiling however, as long as they were strictly observed they had implications for the allocation of resources between the private and state sectors. The 1969 and 1970 global credit ceilings stipulated that the percentage increase in the commercial banks credit to the private sector be no greater than the percentage increase in deposits for these years. Since the commercial banks' loan

(a)

TABLE 1

CREDIT GUIDELINES

YEAR	Global Ceilings	Selective Controls
1969	Credit to private sector not to expand more than 110% of 1968 level.	
1970	Credit to private sector to be limited to rate equal to percentage increase in deposit liabilities.	(1) Personal Loans to be reduced to 110% of level at end of 1968. (2) At least $\frac{1}{6}$ of any expansion to private sector to be directed to agricultural sector.
1971.	Banks allowed to extend credit by amount of increase in deposits 1969, 1970 and 1971 less amount of credit extended in 1969, 1970.	(1) Personal loans not to expand more than $\frac{1}{12}$ of increase in total credit. (2) At least $\frac{1}{6}$ of credit expansion to go to small scale agriculture. (3) Loans to distributive trades to be increased only to purchase producer goods/ encourage domestic production.
1972		(1) Personal ~~loans not to expand~~ by more $\frac{1}{20}$ of increase in desposits during year. (2) Loans to distributive trades not to expand by more than $\frac{1}{6}$ of increase in deposits during year. (3) At least $\frac{1}{5}$ of increase in total loans and advances to private sector to be directed to small agriculture.
1973		(1) Personal loan (excluding house-building) not to expand by more than $\frac{1}{20}$ of increase in deposits during the year.

(b)

1973		(2)	Loans to distribute trades not to expand by more than $\frac{1}{6}$ of increase in deposits during the year.
		(3)	At least $\frac{1}{5}$ of increase in total loans and advances to private sector to be directed to small scale agriculture.
1974	Total bank credit to be held at end of 1973 level.	(1)	Personal loans (excluding housebuilding) not to be higher than 1972 level by more than $\frac{1}{20}$ of increase in despoits in 1973.
		(2)	Loans to distributive trades not to exceed 1972 level by more than $\frac{1}{6}$ of increase in deposits in 1973.
		(3)	Instruction to direct credit so as to encourage domestic production; Expand loans to small scale agriculture.
		(4)	Toward end of year last quarter expansion in credit to public corporation subject to approval.
1975		(1)	Personal loans (other than housebuilding) not to expand by more than $\frac{1}{20}$ of increase in deposits during 1975.
		(2)	Distributive loans not to expand by more than $\frac{1}{6}$ of increase in deposits during 1975.
		(3)	Loans to agriculture to rise by not less than $\frac{1}{6}$ of any expansion in total credit.
		(4)	Expansion of credit to public corporations beyond 7.5% of level on December 31, 1974 subject to specific approval.
1976	Ceiling of 7 per cent in expansion of bank credit to the private sector (excluding cooperatives) on 1974 or 1975 level whichever is higher.	(1)	No growth in personal loans in 1977 or 1975 level whichever is highever.
		(2)	No growth in distribution loans.
		(3)	Credit to public sector enterprise to be held at 105% of level at 31st December, 1975.
1978	Total bank credit to private sector to be held at 105% of level at and 1977:		

Source: Bank of Guyana/Commercial Banks.

TABLE 2 CREDIT GUIDELINES – STIPULATED AND ACTUAL RESULTS (G$ millions)

YEARS	GLOBAL CEILINGS: STIPULATED INCREASE IN CREDIT TO (PRIVATE SECTOR).*	GLOBAL CEILINGS: ACTUAL INCREASES	SELECTIVE CEILINGS: PERSONAL LOANS – MAXIMUM STIPULATED	PERSONAL LOANS – ACTUAL	DISTRIBUTION LOANS – MAXIMUM STIPULATED	DISTRIBUTION LOANS – ACTUAL	AGRICULTURAL LOANS – MINIMUM STIPULATED	AGRICULTURAL LOANS – ACTUAL
1969	10% *	21%						
1970	8% *	18.6%	$10.6mm.	$12.8mm			$2.1mm.	$1.1mm.
1971	$17.4	$3.7mm.	$ 0.3mm.	$1.2mm.	–	–	$0.6mm.	$0.8mm.
1972			$1.6mm.	$2.1mm	$5.2mm	$2.8mm.	$0.1mm.	$1.3mm.
1973			$1.8mm.	$4.0mm.	$5.9mm.	$4.9mm.	$3.8mm.	$1.2mm.
1974	$160.6mm.	$167.2mm.	$1.7mm.	$-0.2mm.	$5.7mm.	$30.2mm.	–	–
1975	–	– –	$5.0mm.	$0.9mm.	$16.7mm.	$ 9.1mm.	$1.1mm.	$1.2mm.
1976	$8.0mm.* (60.2mm)+	$2.7mm. (76.5)+	$0.0mm.	$5.4mm.	0.0	15.4		
1977								
1978	$112.7mm.	$122.7mm.						

SOURCES: Bank of Guyana: Commercial Bank: (Ceiling in relation to public enterprises)

TABLE 3

COMMERCIAL BANKS LOANS AND ADVANCES TO THE PRIVATE SECTOR

At End of	Total	Business Firms:	Of Which Distributive Trades	Indv.	Other
1966	41.0	29.1	11.4	5.9	3.9
1967	44.1	28.2	13.0	7.5	5.7
1968	56.5	38.4	20.0	9.7	5.0

Source: Bank of Guyana Annual Reports.

The efficacy of these guidelines was somewhat mixed while the selective guidelines appeared to be relatively successful in limiting the expansion of credit to the distributive trades in the private sector, did not significantly benefit the defined priority areas as is seen in the slow growth of bank credit to agriculture and other manufacturing (See Table 4).

TABLE 4

COMMERCIAL BANKS' CREDIT TO SPECIFIC SECTORS IN RELATION TO DEPOSIT GROWTH ($ million)

END OF YEAR:	1970	1971	1972	1973	1974	1975	1976	1977	1978	1978	1980
Agri. Forestry and Fishing			8.5	10.0	9.7	11.1	12.9	13.9	11.9	15.6	19.3
State sector	...	...	-	0.5	0.3	0.5	1.4	2.7	0.5	1.5	3.8
Private sector	6.4	7.2	8.5	9.5	9.4	10.6	11.5	11.2	11.4	14.1	15.5
Other Manufacture			24.1	28.5	37.1	34.2	38.1	29.0	36.7	54.6	75.4
State Sector	...	...	6.7	5.4	14.1	13.0	17.8	16.6	19.3	31.5	46.0
Private sector	14.3	16.0	17.4	23.1	23.0	21.2	20.3	12.4	17.4	23.1	29.4
Distribution	...	...	27.2	37.8	57.4	66.5	80.9	86.4	82.4	91.5	119.2
State sector	...	...	3.1	12.0	26.5	37.3	50.7	65.3	63.4	67.6	87.8
Private sector	25.5	21.3	24.1	25.8	30.9	29.2	30.2	21.1	19.0	23.9	31.4
Personal (Private Sector)	13.0	14.1	16.5	23.6	23.4	26.5	31.8	35.8	42.2	53.2	69.5
TOTAL			99.7	125.3	166.8	179.1	203.3	236.6	249.7	341.5	432.4
State sector			13.3	22.4	59.7	60.5	82.2	123.2	127.0	177.4	235.8
Private sector	82.1	85.9	86.4	102.9	107.1	118.6	121.1	113.4	122.7	164.1	196.6
TOTAL DEPOSITS	124.2	147.9	174.6	212.0	244.5	342.3	365.7	426.9	482.1	549.3	637.1

... Not Available

Source: Bank of Guyana Annual Reports.

The principal direct beneficiary of these policies, in fact, was the state sector. The state had accounted for 30 percent of credit granted by banks in 1966. In 1977 it was 73 percent.[20]

In the context of the traditional loan policies of the foreign commercial banks and the form taken by state intervention in the economy the pattern of credit allocation which emerged towards the end of the first phase could not have been totally unexpected.

By their practice these banks had indicated their risk averse nature in terms of (a) their preference for short term, self liquidating loans; (b) the neglect of small scale agriculture in their resource allocation and (c) the emphasis collateral based criteria in their lending operations.[21]

Consequent to increased state intervention in the economy by way of expropriation of and participation with private enterprises between 1970 and 1977 (See Appendix 1), there was increasing private sector uncertainty, reflected in declining private sector investment and demand for commercial bank credit.[22] As a result it became increasingly possible for the state to preempt an increasing share of commercial bank credit[23] to the extent that it was able to issue liabilities (on itself) that coincided with the preferences of commercial banks. This the state was able to achieve through (a) its issue of Treasury bills - a relative risk free and short term asset which rose from 3.2%

of total commercial banks' assets in 1966 to 32.4 percent in 1977 and (b) state guarantees on loans and advances granted to state enterprises, with demand loans and advances accounting for nearly 80 percent on average of these loans since 1970. (See Table 5).

TABLE 5

COMMERCIAL BANKS DEMAND AND TERM LOANS AND ADVANCES
G$ million

END OF YEARq	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Demand Loans	38.2	38.6	48.0	55.0	73.9	76.3	64.9	84.8	105.6	111.1	133.7	170.0
Demand Loans	5.1	3.5	6.2	10.8	12.1	10.6	17.6	44.6	45.9	67.8	108.3	114.6
Private sector	33.1	35.1	41.8	44.2	61.8	65.7	47.3	40.2	59.7	43.3	25.4	55.4
TERM TOANS	15.4	13.9	17.3	23.4	20.3	21.6	31.9	37.8	54.9	56.1	58.6	60.6
State sector	7.3	4.8	4.9	4.5	2.9	2.0	2.6	4.7	13.9	13.7	13.7	14.7
Private sector	8.1	9.1	12.4	18.9	17.4	19.6	29.3	33.1	41.0	42.4	44.9	45.9

Source: Bank of Guyana Annual Reports

By 1974, therefore, claims on the state sector had surpassed claims on the private sector in the commercial banks asset portfolio (See Table 6).

TABLE 6

COMMERCIAL BANKS ASSET PORTFOLIO ($ million)

Claims on State sector 1966	Claims on state sector 1967	Claims on state sector 1968	Claims on state sector 1969	Claims on state sector 1970
17 8	19.6	30.4	30.5	34.6
1971	1972	1973	1974	1975
51.8	72.4	88.8	113.4	206.6
1976	1977	1978	1979	1980
218.2	310.5	340.5	376.0	452.3

CONT'D

TABLE 6 Cont'd

Claims on private sector 1966	Claims on private sector 1967	Claims on private sector 1968	Claims on private sector 1969	Claims on private sector 1970
41.0	44.3	57.5	68.6	81.4
1971	1972	1973	1974	1975
85.8	86.4	102.9	107.1	118.5
1976	1977	1978	1979	1980
121.1	113.4	122.7	164.1	196.6

Source: Bank of Guyana

Significantly there was no marked change in the pattern of credit allocation to distribution, Personal consumption and small scale agriculture accompanying the increased access of the state to commercial banks resources. The share of distribution loans in total loans and advances rose from 21.4 percent in 1966 to 37.3 percent in 1977. The share of personal loans declined from 9.1 percent in 1966 to 8.3 percent in 1977 and the relative neglect of agriculture was still maintained (See Table 7). These trends clearly indicate that the desired restructuring of credit allocation did not occur. In this context it is useful to examine the operations of the indigenous commercial bank, the Guyana National Cooperative Bank, (GNCB) which was established in 1970, to aid the process of marginalization of the local operations of the foreign commercial banks and thereby facilitate the redirection of credit.

To promote the indigenous bank, certain direct measures were taken by the State (See Table 8). By the end of 1977, the GNCB had surpassed at least four of the foreign commercial banks in terms of its share of total deposits which rose from 5.5 percent in 1970 to 25.4 percent in 1977. Additionally, the GNCB accounted for 86 percent of state sector deposits, 25 percent of private business deposits and 19 percent of households deposits by the end of 1977. Although the growth of the GNCB in terms of its deposits and hence its asset was considerable within such a relatively short time however the experience of 1977, underlined an area of weakness in the local bank's operations, namely its deposit operations. An examination of the GNCB's share of total households, state sector and private businesses deposits indicates (1) that the major share of state sector deposits are placed with the GNCB, (2) that the households sector's share has been gradually increasing between 1973 and 1977 and (3) that both the share of private businesses and the state sector have had a tendency to fluctuate.(See Table 9).

TABLE 7

RELATIVE SHARES OF LOANS AND ADVANCES TO DISTRIBUTION; HOUSEHOLDS AND SMALL SCALE AGRICULTURE

	1966	1968	1975	1976	1977	1978	1979	1980
Distribution Loans as % of Total Loans and Advances	21.4	30.8	36.6	40.2	37.3	35.2	28.3	28.6
Personal Loans as % of Total Loans and Advances	9.1	12.4	7.8	7.9	8.3	10.2	15.6	15.7
Small Scale Agriculture*as % of Total and Advances	4.4	6.0	3.4	3.2	2.3	2.3	4.3	3.7
Credit to State Sector Distribution as % of Total Distribution	...	...	62.2	68.2	77.4	77.0	73.6	73.7

*Loans and advances for Private Sector Agriculture: ...Previous classification of date do not yield this information.

Source: Bank of Guyana

TABLE 8

MEASURES TAKEN BY THE STATE TO PROMOTE THE G.N.C.B.

- State contribution to share capital - 90%
- Opening of New branches encouraged
- Post Office Savings Bank with extensive rural network acted as deposit agent for the GNCB. At end 1975 POSB absorbed by the GNCB.
- Promotion of GNCB as State Sector Bank with growth of State Sector.
- State Control over external Trading (with establishment of external Trade Bureau in 1970) and consequent transactions through the GNCB (1) Private trading firms found it convenient to hold transaction balances with the GNCB (2) the local bank also became more involved in the operation of the foreign payments system. (3) Negotiation of foreign lines of credit became a major area of activity.
- October 1976 directive from state instructing that sector enterprises can only deposit employees salaries into their accounts if these accounts are held by the GNCB.

SHARE OF THE GNCB'S SHARE OF TOTAL DEPOSITS IN ALL BANKS BY SECTORS %

	1973	1974	1975	1976	1977	1978	1979	1980
Households	7	6	14	17	19	14	18	17
State Sector	67	96	81	81	86	76	77	78
Private Business	26	22	21	27	25	16	18	26

Sources: GNCB and Bank of Guyana Annual Reports

These trends when taken in conjunction with the distribution of total deposits in terms of those sectors in the GNCB's portfolio (See table 10), indicate that the household sector is by far the major contributor to total deposits within the GNCB. However because the household sector has been the only source of consistent growth in residents' deposits over the years 1966-1977 and the likelihood of instability in deposit growth was directly related to the significance of sources other than the household sector, then the deposit operations of the GNCB was subject to instability more than that of the foreign banks combined. The experience of 1977 in fact highlighted this uncertainty in the GNCB's deposit operations. Whereas the increase in deposits for the entire banking system amounted to $68.7 million in 1977, the GNCB experienced no growth. Significantly, the household sector's deposits in the GNCB grew by $7.3 million in 1977, but state sector deposits and private businesses deposits fell by $4 million and $7.7 million respectively. On the basis of this, it was evident that a basic precondition for sustained growth by the GNCB was for the local bank to attract an increasing share of households deposits. In terms of the allocation of its resources, the operations of the GNCB was not markedly different from the pattern established by the foreign commercial banks, though certain obvious differences existed in the asset operations of the local and foreign banks between 1970 and 1977. Whereas the proportion of liquid assets to total assets held by the GNCB gradually declined from 54.6 percent in 1970 to 40 percent in 1977, for the entire banking system the ratio increased from 20.5 percent to 43.6 percent. This mirrored the increase in treasury bills holdings of the foreign commercial banks, and the diminished holdings of treasury bills by the GNCB towards the end of 1977. It further indicated that the major share of credit to the state by the GNCB took the form of lending to state enterprises as opposed to the central government. The foreign banks on the other hand, because of the amount of resources mobilized extended credit to both state enterprises and the central government.

TABLE 10

SOURCES OF DEPOSITS IN THE GNCB AND FOREIGN BANKS
COMBINED % OF TOTAL OWN DEPOSITS

GNCB	1975	1976	1977	1978	1979	1980
State Sector	48	42	38	38	31	33
Households	34	37	46	40	54	42
Private Business	18	21	16	22	15	22
FOREIGN BANKS						
State sector	7	8	5	6	5	6
Households	76	77	72	77	76	73
Private Business	17	15	23	17	19	21

Source: GNCB and Bank of Guyana Annual Reports

A second feature was the decline in the percentage of loans and advances to total assets for the entire banking system from 64.3 percent in 1970 to 43.8 percent in 1977, while that for the GNCB rose from 39.8 percent in 1970 to 49.7 percent in 1977. However by the end of the first phase of central bank policy, the loan/deposit ratio of the local bank was no different from that of the foreign banks (about 0.52) and in many respects the local banks' lending policies were very similar to that of the entire banking system.

Firstly, the GNCB's ratio of advances to total loans and advances had moved in the same direction as that for all the banks combined. Between 1970 and 1974 this ratio for the GNCB had fallen from 59 percent to 47.6 percent but by 1977, it was 61.7 percent.

For corresponding years, the ratio for all banks was 78 percent, 65 percent and 73 percent respectively.

Similarly, the sectoral allocation of credit followed the pattern for all banks. Agriculture accounted for less than 10 percent of total loans and advances extended by the GNCB and, the combined share of credit to personal consumption and distribution amounted to over 50 percent of the GNCB's total loans and advances (See Table 11).

TABLE 11

SECTORAL ALLOCATION OF LOANS AND ADVANCES BY THE GNCB AS PERCENT OF TOTAL LOANS AND ADVANCES BY GNCB.

	1975	1976	1977
Agriculture	6.5	6.3	5.6
Distribution	37.0	29.9	32.4
Households	19.3	24.6	25.5

Sources: GNCB Annual Reports.

Additionally, the trend of redirection of loans and advances to the state sector, featured in the GNCB's operations. At the end of 1975 the share of loans and advances to non financial state enterprises was 28.8 percent. By the end of 1977 it was 33 percent. Correspondingly, the share of total loans and advances to the private business sector dropped from 50 percent in 1974 to 35 percent in 1977.

By the end of 1977, the pattern of which had evolved therefore, was one of increased allocation of credit to the state by commercial banks, but at the same time this did not significantly alter the sectoral allocation (activities) of credit. In large measure this was a direct result of the form of state expansion namely, changes in ownership structure of major sectors within the economy. In this changed institutional context and the manifestation of a crisis in the process of production, the second phase of central bank policy occurred.

The second phase of central banking policy (1978-1980) was characterized by the emphasis on interest rate changes and efforts to limit borrowing by the state sector from the banking system. The latter measure however, did not take the form of defined guidelines to the commercial banks but was more an attempt at moral suasion directed at state enterprises. Direct regulation of the commercial banks asset portfolio was therefore limited and emphasis was placed on deposit mobilization.

While the period 1966 to 1977 was largely one of fixed interest rates, the period 1978 to 1980 was characterized by a more active interest rate policy. As table 12 indicates this policy of interest rate variation resulted in increased levels of interest rate in each succeeding year as well as changing spreads between time deposit rates and the treasury bills and average lending rates.

In the period of relatively fixed interest rates (1966-1977), the annual average rate of growth of total deposits was 14.9 percent and from the end of 1977 to 1980 the annual average rate of growth was about 12 percent. Though the growth rates of deposits were not dissimilar in the two periods, in nominal terms the impact of interest rate changes appears to be significant. Between 1970 and 1977, total deposits grew by

TABLE 12

INTEREST RATE LEVELS AND SPREADS %

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Savings Deposits	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	6.5	8.5	10.5
3 months time	4.75	4.75	4.0	4.0	4.0	4.0	4.0	4.0	7.0	9.0	11.0
6 months time	5.5	5.5	4.5	4.5	4.5	4.5	4.5	4.5	7.5	9.5	11.5
12 months time	6.5	6.5	5.5	5.5	5.5	5.5	5.5	5.5	8.5	10.5	12.5
Prime Rate	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	9.5	11.5	13.5
Av. Lending Rate	8.8	8.9	9.1	8.9	8.9	8.9	8.9	8.9	10.5	12.7	13.5
Treasury Bill Rate	6.1	5.88	5.88	5.88	5.88	5.88	5.88	5.88	7.8	9.7	11.6
Spread Between: Treasury Bill Rate											
and 3 months time	1.35	1.13	1.88	1.88	1.88	1.88	1.88	1.88	0.8	0.7	0.6
6 months time	0.6	0.4	1.38	1.38	1.38	1.38	1.38	1.38	0.3	0.2	0.1
12 months time	-0.4	-0.7	0.38	0.38	0.38	0.38	0.38	0.38	-.7	-.8	-.9
Average Lending Rate											
and 3 months time	4.05	4.15	5.1	4.9	4.9	4.9	4.9	4.9	3.5	3.7	2.5
6 months time	3.3	3.4	4.6	4.4	4.4	4.4	4.4	4.4	3.0	3.2	2.0
12 months time	2.3	2.4	3.6	3.4	3.4	3.4	3.4	3.4	2.0	2.2	1.0

Source: Bank of Guyana Annual Reports

TABLE 13

G$Mn. DEPOSIT GROWTH: NOMINAL AND REAL (PRICE INDEX 1970=100)

End of Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total Deposits	124.2	147.9	176.4	212.0	244.5	342.3	365.7	426.9	482.1	549.3	673.1
Change in Total Deposits	-	23.7	28.5	36.6	32.5	97.8	23.4	61.2	55.2	67.2	123.8
Time and Savings Deposits	100	114.9	139.9	164.6	180.8	224.6	262.9	295.8	359.8	412.8	491.2
% Increase in Time & Savings		14.9	21.8	17.7	9.8	24.2	17.1	12.5	21.6	14.7	19.0
Real Time and Savings (1970 prices)	103.0	120.7	137.9	135.1	140.6	170.7	173.3	188.7	188.8	186.6	200.6

SOURCE: Bank of Guyana.

$302 million whereas in the shorter period (1978-1980) total deposits increased by $246.2 million. When demand deposits are excluded the comparison becomes more striking. Time and savings deposits increased by $207.7 million from 1978 to 1980, whereas in the seven year period (1970-1977) the increase was $228.8 million. In real terms, however the growth in deposits has not been as evident and the positive influence of interest rate changes on (real) deposit growth is somewhat tenuous (See Table 13).

Although the liability structure of commercial banks was not significantly affected -- time deposits share of total deposits rose from 28 percent in 1977 to 32 percent in 1980; demand deposits share fell from 25 percent to 21 percent and savings deposit fluctuated but maintained its dominance between the same years - a direct effect of interest rate variation was to alter the maturity structure of time deposits as is indicated in Table 14.

TABLE 14

($ Million)

MATURITY STRUCTURE OF TIME DEPOSITS

END	3 MONTHS	6-12 MONTHS	TOTAL
Dec. 1966	0.70	11.7	12.8
Dec. 1977	36.6	91.0	129.7
June 1978	38.7	105.0	146.0
Dec. 1978	64.7	74.7	141.6
June 1979	121.4	46.2	168.9
June 1980	157.9	44.2	204.3

Source: Bank of Guyana

Thus although the share of time deposits in total deposits had increased between 1978 and 1980 and a likely conclusion was that the constraint on term lending would have been released, the shift in the maturity structure of time deposits held by banks away from the 6 to 12 months category to the 3 months fixed largely negates that conclusion.

While the entire banking system portrayed this shift however, the response of the local bank was different, since it did not adopt the policy of restricting longer term fixed deposits. The varied responses to the interest rate changes between the local and foreign banks in turn, highlighted differences in operations.

The local banks' operations continued to be subject to structural instability. Since 1978, the loan/deposit ratio of the GNCB moved sharply away from the loan/deposit ratio prevailing for all banks reaching 0.81 by 1980, whereas for the banking system as a whole it was 0.6, and for the foreign banks, 0.52.

In the context of the continued decline in the share of liquid assets in total assets of the GNCB in the period 1978-1980, with about 20 percent of these liquid assets being held in foreign correspondent banks by 1980, the accommodative credit policy has had to be occassionally supported by the central bank's provision of its lender of last resort function between 1978 and 1980. Non-accessibility to this source of funds therefore would pose a severe strain on the bank's lending capacity.[24]

Additionally, the underlying weakness of the GNCB's deposit operations, evident in 1977, surfaced again in 1979, when the increase in deposits mobilized by the GNCB amounted to $3.8 million, whereas the increase for the entire banking system amounted to $75.5 million. The inability of the GNCB to make inroads into the foreign commercial banks share of household deposits since 1977 (See table 9) therefore has been and continued to be the most serious obstacle to deposit stability and growth. These features in turn raise the crucial issue of how long can the GNCB maintain its present loan portfolio.

Another aspect of the local banks operations vis-a-vis the foreign banks has been the increasing tendency for the average loan size of foreign banks to increase at a faster pace than the GNCB's as is indicated in Table 15. This to a large extent is reflected in the decline in the share of the GNCB's loans and advances to the non-financial state sector since 1978 and the continued pattern of significant lending to the household sector (which increasingly accounted for the greater share of loans) by the GNCB (See Table 16).

TABLE 15

AVERAGE LOAN SIZE GNCB AND FOREIGN BANKS

	1975	1978	1980
GNCB			
Number of Loans	6,926	8,567	10,468
Value of Loans $('000)	36,493	73,322	145,974
Average Loan size	5.3	8.5	13.9
FOREIGN BANKS			
Number of Loans	12,060	7,841	7,245
Value of Loans $(000	127,500	160,581	270,573
Average Loan size	10.6	20.5	37.3

Source: Bank of Guyana

TABLE 16

GNCB LENDING PATTERN:

	1976	1977	1978	1979	1980
GNCB Loans and advances to Non-financial State Sector as % of all Banks loans to Non Financial State Sector.	24.3	18.3	26.7	21.7	21.0
GNCB Loans and advances to households as % of all banks loans and advances to households	57.2	50.6	70.5	59.7	70.3
Number of Loans to households as % of Total number of loans and advances.	69.7	71.7	73.9	77.5	77.6
Number of loans to Non Financial State. Sector as % of Total number. of Loans and Advances:	0.2	0.3	0.2	0.4	0.3

Despite these differences however basic similarities existed between the foreign banks and the local bank in their lending operations. First the sectoral allocation of credit by both the foreign banks and the local banks which was evident by the end of the first phase of central bank policy was unchanged. Secondly, the response of the commercial banks to the increases in the prime lend rate which accompanied deposit rate changes was to maintain a lending rate structure above the prime rate range shown in table 17. Thirdly, all the banks offer concessional rates (prime rates) to state sector borrowers and as a result the private sector has had to bear the brunt of the higher lending rates.

In terms of underlying rationale for interest rate changes - namely to ensure that resources are allocated more efficiently, by discriminating effectively among investments - commercial banks are entrusted with the vital task of being efficient allocators of funds. The above features of commercial bank lending behaviour however did not coincide with this function, to the extent that increased lending rates was not allowed to discriminate between state sector borrowers and the private sector. In fact the approach by the commercial banks was one of accommodation to the state sector between 1978 to 1980; with strict adherence to the credit criteria applied to the private sector borrowers not being exercised, even in the light of the declining viability of state enterprises.

The role played by the commercial banks in the period 1978-1980, becomes even more pronounced in the context of IMF-State relation which prevailed in to a situation of deepening internal economic crisis, reflected in part as a balance of payments problem.

TABLE 17 LENDING RATE STRUCTURE: ALL BANKS:

	1968	1970	1975	1977	1978	1979	1980
Prime Rate %	7.5	7.5	7.5	7.5	9.5	11.5	13.5
Percent of Total Loans within interest rate ranges.							
6% - 8%	65.3	43.0	37.8** ***	48.1** ***	11.4+	5.9	4.4
8% - 10%	33.4*	51.8*	45.5*	33.5*	43.5++ *	3.7	2.7
10¾% - 12¾%	0.8	4.6	14.9	17.9	44.7	47.2	0.3
12¾% - 14¾%						43.2	53.6
> 14¾%							39

* > 10% + 6¾% - 8¼%
** 6¼% - 8¼% ++ 8¾% - 10¾%
*** 8¼% - 10¼%

Source: Bank of Guyana

TABLE 18 SECTORAL CONTRIBUTION TO GDB AT CORRECT FACTOR COST %

	1970	1980
Agricultural, Forestry and Fishing	19.2	23.4
Mining and Quarrring	20.4	17.0
Manufacturing and Processing	12.2	12.0
Construction	7.7	7.0
Services	40.2	40.6

The IMF's relation with Guyana began in 1966. By 1980, there had been twelve Article VIII consultations between the Fund and the State, eleven standby arrangements and two Extended Fund Facility agreements (See Appendix 2).

Between 1966 and 1977, the state had entered into ten standby arrangements with the IMF, and had drawn resources on four of these. The prominent features of these arrangements were quantitative targets on (1) central government indebtedness to the banking system (2) domestic assets of the Bank of Guyana and (3) international reserves levels. Generally, these targets were not rigidly observed by the state, since in this period the state was fully committed to its self expansion. Several of the policies pursued by the state in this period of expansion, however proved disastrous for the economy and were contributory aspects to the critical balance of payments position which emerged towards the end of 1976.

Firstly, the policy of increased borrowing from international private financial institutions between 1973 and 1976, (at a time when the supply of official capital inflows was inadequate to meet the needs of state expansion), had a severe impact on the external debt burden. The shorter maturities and higher interest rates of finance from private creditors compared with those of official lenders quickly increased the external debt service from 3.5 percent of gross national product in 1974 to 16.3 percent in 1978. Correspondingly, there was a marked rise in the share of payments of interest and charges on external state sector debt in the balance of payments. These payments rose from $17 million in 1973 to $55 million in 1979.

Secondly, state borrowing from the banking system at levels beyond the amount of resources mobilized internally inevitably resulted in depleted international reserves. (See Appendix 3) This was particularly evident from 1976, when at the end of December, net international reserves was G$52.8 million in comparison to G$184.5 million at the end of 1975. The striking feature of this process was the conformity of the central bank to the state's policy of depleting the reserves to support its expansion. This was reflected by the greater share of banking system credit accounted for by the central bank as opposed to the commercial banks since 1976 and the absence of any (obvious) consideration by the central bank of the fact that the level of credit it extended to the state from 1976 and exceeded one of its statutorily imposed limits (See Appendix 4). By observing these limits,the central bank would have greatly reduced the drain on international reserves, which had become so vital in the context of the continued rise in import prices, especially oil and uncertain export values facing underdeveloped economies in the 1970's.

Inevitably, these policies by the state in combination with the above features of the world economy and a crisis in internal production from 1975[25] resulted in serious balance of payments difficulties by the end of 1976.

In response, certain measures were taken by the state. In 1977, state expenditure was restricted, partly through a reduction of existing subsidies, widespread import restrictions were introduced, credit for the purchase of consumer durables was tightened and the central bank was given greater control over the allocation of foreign exchange for imports. Despite these measures however, in October 1977, reserves were equivalent to only one month's imports and by the end of January 1978 it was about G$25 million. Increasingly, the need to resort to overseas borrowing evident and eventually in mid 1978 the eleventh stand-by arrangement was negotiated with the IMF. By this time the state had already used up its first credit tranche with the IMF and access to the upper credit tranches entailed that IMF conditionality be a prominent feature in IMF-State relations.

Borrowing from the IMF under these circumstances has invariably meant that the conditions for IMF assistance are closely linked to the way in which the IMF perceives the problems facing members with serious balance of payments difficulties (See Chart 1). Within the above framework concern of the IMF in the period from 1966 to 1977, centred on issues of (1) the level of international reserves (2) central bank credit to the state and (3) the uncertainity surrounding private sector activity. The process of expansion overshadowed the concern by the state over these issues and the impact of state policies upon internal and external financial balance together with the crisis in production ensured that these issues remained at the core of the IMF proposals.

Consequently, the 1978, arrangement with the IMF included the following conditions

(1) reduction in the current account deficit
(2) increase in the gross foreign assets of the Bank of Guyana (by restraining credit to the state)
(3) reduction on Commercial credit arrears.
(4) increase public sector current surplus.

The moderate success of the 1978-79 stabilisation programme, in reducing the current account deficit from $251.1 million in 1977 to $72.3 million in 1978 and increasing reserve levels (gross) from $81.9 million

CHART 1

IMF POLICIES FOR ADJUSTMENT:

Features of National Problem → Request for IMF Assistance To Finance Deficits → IMF Proposals For Adjustment → Functions

1. Demand Management.
2. Promote Development Mobilizing Resources to Finance Investment.

- Accelerated Inflation.
- Balance of Payment Deficits
- Heavy External Debt Burden
- Slow Growth

-Policies encompassing:

1. Financial Measures
   - Fiscal - Reducing large state sector deficits — Generate Sector State Sector Savings
   - Monetary - Ensuring stable monetary environment. — Realistic Interest Structure
   - Exchange Rate — Exchange Rate Variation
   - Credit changes
   - Reserve level ceilings
   - Income and Price Policies
2. Improved savings Performance
3. Improved efficiency of Investment

ULTIMATE OBJECTIVE — IMMEDIATE AIM

To increase real domestic savings.

To improve productive base of economy.

To re-established domestic and external financial balance.

in 1977 to $182.9 million in 1978 reinforced the strength of policy measures adopted.

The dominant emphases emanating from IMF-State relations in the period 1978 to 1980 have been primarily t e need to restrict the deficit of the state sector as a primary means of restoring internal and external financial balance and (2) the growing importance attached to commercial evaluative criteria of state enterprises and private sector investment as possible responses to the crisis in production. These emphases have resulted in the formulation of quantitative targets on state sector borrowing as well as state sector savings and efforts aimed at increasing state sector efficiency.

Concurrently, these measures with others (See chart 2) were expected to restore monetary stability and aimed to provide the context for increased private sector involvement in the process of restructuring production. Evidently, these measures were in sharp contrast to the pre-1978 policies of the state and indicates the considerable sway the IMF has had over the state.

However, IMF policies for financial balance adopted by the state were simply extensions to the underlying processes of adjustment which have characterized state expansion. State expansion was direct source of macro-economic instability, since the ex ante inequality between state sector savings and the state sector investment which accompanied this process had to be equilibrated by adjustment mechanisms other than those which were (given a primary role) by the state. Foreign savings often expected to be a primary equilibrating variable, (by the state) has tended to be uncertain in its supply and as a result credit changes by the banking system has played a vital role in the actual process of adjustment over the entire period. Between 1970 and 1980 for instance, in only two years was the budgeted amount for borrowing from the banking system not exceeding by actual borrowing, in the financial operations of the central government. (See Appendix 5).

CHART:2 POLICIES FOR MACROECONOMIC ADJUSTMENT IN GUYANA 1970-1980

EX-ANTE STATE SECTOR INVESTMENT EXCEED EX-ANTE STATE SECTOR SAVINGS: PERIOD	MECHANISMS FOR EQUILIBRIUM
1975 - 1978	FOREIGN SAVINGS
1970 - 1973 1975 - 1977 1979 - 1980	CREDIT FROM DOMESTIC BANKING SYSTEM
1978 - 1980	INTEREST RATE CHANGES.
1978 - 1980	PRICE CHANGES
1970 - 1974 1978 - 1980	OTHER STATE POLICIES -DECREASE IN INVESTMENT
1981	EXCHANGE RATE CHANGES

Apart from borrowing, or curtailing state expenditure, other mechanisms for adjustment to ex-ante savings-investment disequilibrium utilized by the state were of little significance up to 1977. With the increased influence of the IMF since 1978 however, price changes aimed at increasing state sector savings, interest rate changes aimed at increased national savings and reduced state borrowing have been adopted as additional adjustment measures. The underlying significance of these additional measures which influence relative prices e.g. (interest rate variation, price changes) is very much in keeping with IMF analysis which views development as requiring "decisions to be made about the allocation of resources" and since "these decisions are influenced by relative prices", then policy instruments that "affect the relative prices of domestic and imported products and factors and saving and investment decisions"[26] become vital. The realism of this reasoning in Guyana's case however is open to question.

The restriction of imports and the relative insignificance of consumer imports in import demand by 1978 had reduced the freedom of choice between domestic and imported products. Similarly, rigidities on the pattern of production (see Table 18) acted as constraints to the reallocation of resources and hence the response of factors of production to relative prices. In the context of the dominance of state sector investment within the economy, and its dependence on credit from the banking system, the policy of increased interest rates since 1978, evidently had implications for the efficiency of state enterprises as well as the level of state borrowing provided that these relative prices become the bases for decisions. However, the policy of the state to guarantee loans granted to its entities removed the incentive for increased efficiency and made it possible for these units to continue borrowing even at rates of interest beyond their current repayment capacity. State sector borrowing from the banking system therefore has still played a vital role as an adjustment mechanism as savings-investment disequilibrium was still a dominant feature of macro-economic activity from 1978 to 1980, in the light of continued production decline and poor performance in the state enterprises

Conclusion:

The practice of central banking in Guyana, since 1966 is seen to be related to the issue of meeting the funding requirements of the state; central bank relations with the commercial banking system and state intervention in the financial system in general has also served to indicate the state's policy to the process of capital accumulation. This has been one of fostering state expansion and consequently increasing involvement of the state in the process of accumulation. At the same time central bank operations in Guyana were indicative of the position of the central bank as an instrument of the state. Additionally at the policy level the usefulness of credit controls may be questioned. The main implication of their impact is that selective controls may be a necessary but not sufficient condition for the restructuring of credit allocation.

The function of the commercial banking system has also been to aid the process of state expansion. This was reflected in the changed asset structure of the foreign commercial banks between 1966 and 1980 in terms of claims on the state and private sectors. The operations of the indigenous bank largely determined by its position as a state-owned bank, has also been marked by the policy of accommodation to the credit demands of state sector entities.

The crisis in the economy which was manifested since 1976 primarily as a balance of payments problem, resulted in closer relations between the state and the IMF. The evident linkages between state expansion and the precarious international reserves levels influenced the formulation of policies which have sought to restrict state sector expansion within the framework of measures to promote internal and external balance. The continued growth of the state sector after 1978 in the context of the evident crisis in production and accumulation, has reinforced the prescriptions of international financial institutions (IMF and IBRD) to promote private sector investment as a possible solution to the crisis in production; as well as the need for the state sector enterprises to satisfy commercial evaluative criteria in their operations. The latter emphasis has increasingly placed the burden of economic adjustment to the economic crisis on the majority of the population, particularly in terms of freezing the rewards to the working population. Simultaneously, the commercial banking system has benefitted from absence of regulation and an increasing tendency to play a more important role in the efficient allocation of credit since commercial criteria has been emphasised as the basis for continued state sector survival.

oo0Ooo

FOOTNOTES:

1. These were the Bank of Baroda in 1966 and the Nova Scotia in 1968. This brought the total number of foreign banks operating in Guyana to five; the other banks were the Royal Bank of Canada, Chase Manhattan Bank and Barclays Bank International.

2. Analyses of the role of the financial system in the development process in these economies though emphasising two extreme positions (a) active i.e supply leading role and (b) passive i.e demand following role; both start from this point.

3. These objectives in general have dominated from a historical perspective.

4. This was particularly evident in the historical circumstances when a basic precondition for further accumulation was monetary stability.

5. In the 19th century each of these issues assumed dominance over the other; the former in the early 19th century and the latter under the existing gold standard arrangements in the latter half of the 19th century.

6. Domestic issues such as real income and employment became the focus of monetary management and pushed aside the issue of exchange stability as this crisis threatened the survival of individual countries.

7. European nations experienced payments problems since the 1950's but this did not result in a crisis in the international monetary system. Measures were taken among central banks and cooperative efforts (OECD) were made to alleviate these problems.

8. This is clearly reflected in the restrictive monetary policies adopted by OECD countries during the period 1975-1980 which have resulted in a slowing down of the rates of monetary expansion in these countries.

9. A useful indicator of this is the expenditure on economic services by the state in these new states as a proportion of total expenditure which has surpassed that of the developed States e.g in 1978 the relevant percentage for the developing countries was 28 whenever that for the developed countries was 15.

10. The relevant aspects of the Article V111 provisions regard is the obligation to avoid restrictions on current payments.

11. The openess of these economies inleontext of payments restrictions and limited exchange flexibility has often reduced the impact of monetary and credit policy in the economies.

12. The number of underdeveloped countries which have entered into stabilization programmes with the IMF, have been positively correlated with the increasing defiicts experienced by underdeveloped countries as a whole.

13. This emphasis was particularly /the work of Fund Staff (J. Polak) /evident in since the 1950's.

14. For two reasons (1) the significamce of commercial Banks as the single most important type of financial institution in underdeveloped economies and (2) the responsibility of the central bank in the management of international reserves as well as its institutional link with IMF whenever a country becomes a member.

15. These emphases derive directly from the preoccupation of the IMF with financial equilibrium and the importance of relative prices (market relations) as vital mechanisms for adjustment.

16. This does not negate close relations between States and the IMF, provided that the basis for such relations is the continued integration and domination of these States in the world system through an acceptance of the policies of the IMF. Thus the IMF may (and has) provided assistance for State expansion but on conditions which have continued to strengthen the dependence of these states in the international system.

17. Apart from the absence of the institutional preconditions for these policies the effectiveness of moral suasion has been reinforced by the policy of expropriation of foreign investment.

18. From 1965 to 1969 for instance the ratio of surplus liquid assets to required liquid assets was above 0.5.

19. The ratio of Foreign liquid assets to liabilities moved from 16.8 per cent in December 1965, to 2.8 per cent in December 1968.

20. This includes loans and advances as well as holdings of Treasury Bills.

21. Previous studies on commercial banks behaviour in Guyana have indicated these tendencies; particularly C. Bourne's "Business Financial Behaviour and the Credit system in Guyana" Mimeo, I.S.E.R. U.W.I; 1972.

22. Interviews with commercial banks managers have confirmed the tendency for the private business sector demand for credit to decline; Private sector investment fell from $62.3 million in 1967 to $39.1 million in 1971 and had not reached the 1969 level by 1977.

23. This is amply illustrated in the volatility of state sector deposits. In 1976 for instance, when the change in time deposits for the entire banking system was $9.2 million, the change in time deposits held by the GNCB was $8.1 million; the main contributor to the total increase was the state sector, moving from $10 million in 1975 in the 6.12 months category to $19.8 million in 1976; By the end of 1977, deposits by the state sector in the same category had dropped to 16,1 million.

24. The increases in the discount rate as well as IMF stipulations on central bank lending to the local bank in fact raises this possibility to the fore.

25. As can be gleaned from the following data on output 'ooo' (tons)

	1974	1975	1980
Sugar	341	300	269
Rice	286	288	237
Dried Bauxite	1383	1350	956
Calcined Bauxite	726	778	593

26. Views and Comments by IMF managing director in Finance and Development Vol. 17, 1980

APPENDIX 1

STATE POLICY TOWARDS THE PRIVATE SECTOR

PERIOD	POLICY	INDICATORS
1966 - 1969	Cautious State policy	- absence of overt efforts to restrain private sector. - capital inflows encouraged.
1970 - 1977	State sector expansion	1970: State purchased majority interest in a bus company, a trading company and a newspaper - State control over agriculture company - State control over external trade - External Trade Bureau established. - Number of state enterprises increased from 14 in 1974 to 29 in 1977.
	Expropriation of foreign/local enterprises.	1971-1977 - Bauxite: 1975, 1976 - Bookers Group 1976 - Others 1976 - 1976 - establishment of state controlled financial institutions GNCB, GMFB; GAICDB: GIC
	Reduced private sector activity:	Private sector investment $39.1 million in 1971 $47. million in 1978
1978 - 1980	-Private Sector Investment encouraged. -State sector increasingly subject to commercial evaluative criteria -Attemps to restrain state sector investment.	1978: Investment code promulgated outlining opportunities for private investment. - Multinational firms engaged in bauxite industry operations - Encouragement of foreign investors Structural adjustment loan from IBRD with condition for clarification of opportunities for private investment. International Financial Corporation involved in local company operations. Export Development Fund established to meet private as well as state sector foreign exchange needs. Negotiations with foreign companies on oil exploration.

APPENDIX 2

GUYANA – INTERNATIONAL MONETARY FUND TRANSACTIONS

Millions SDRs	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Quota	15.0	15.0	15.0	15.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	25.0	25.0	37.5
Fund Holdings of Currency	[illegible]	13.80	13.80	13.79	18.19	22.06	19.43	23.80	25.0		37.2	37.2	55.2	65.5	104.9
Use of Fund Credit: Net in Period	–	–	–	–	–	2.1	-2.1	3.9	1.1	-5.0	17.3	–	13.0	10.2	26.9
Cumulated	–	–	–	–	–	2.1	–	3.9	5.0	–	17.3	17.3	30.3	40.5	67.4
Of which Net Credit Tranche drawings in period	–	–	–	–	–	2.1	–	3.9	–	–	–	–	4.2		
Cumulated	–	–	–	–	–	2.1	–	3.9			7.2	7.2	11.4	10.7	
Net Compensatory Drawings in Period	–	–	–	–	–	–	–	–	5.0	–	–	–	8.75	–	
Cumulated	–	–	–	–	–	–	–	–	5.0	–	10.0	10.0	18.75	18.75	
Net Buffer Stock Drawings	–	–	–	–	–	–	–	–	–	–	–	–	–	0.7	
Net Extended Facility Ordinary in period	–	–	–	–	–	–	–	–	–	–	–	–	–	1.4	
Cumulated	–	–	–	–	–	–	–	–	–	–	–	–	–	1.4	
Net Extended Facility:SFF* in period	–	–	–	–	–	–	–	–	–	–	–	–	–	8.5	
Cumulated	–	–	–	–	–	–	–	–	–	–	–	–	–	8.6	
All Drawings						40.0	–	4.6	5.0	–	22.3	–	12.9	12.9	41.9
Stand Bys Agreed	–	7.5	4.0	4.0	3.0	4.0	2.8	4.3	5.0	5.[illegible]	7.25	–	6.25	–	
Drawings Under Stand-By	–	–	–	–	–	2.2	4.0	–	–	–	–	–	4.2	2.1	
Extended Fund Facility Agreed	–	–	–	–	–	–	–	–	–	–	–	–	–	25.0	100.0
Drawings: Ordinary And SFF	–	–	–	–	–	–	–	–	–	–	–	–	–	10.0	35.6
Buffer Stock Facility Agreed and Drawn	–	–	–	–	–	–	–	–	–	–	–	–	–	0.7	
Reserve Position in Fund	122	1.2	1.2	1.2	1.8	-0.6	0.6	-1.[illegible]	-3.2	5.[illegible]	–	–	–	–	

* SFF – Supplementary Financing Facility

Source: International Financial Statistics

APPENDIX 3

USES AND SOURCES OF CENTRAL BANK FUNDS: $G Millions

CENTRAL BANK	1970 U	1970 S	1971 U	1971 S	1972 U	1972 S	1973 U	1973 S	1974 U	1974 S	1975 U	1975 S	1976 U	1976 S	1977 U	1977 S	1978 U	1978 S	1979 U	1979 S	1980 U	1980 S
1. NET INTERNATIONAL RESERVES (S-increase in liabilities)	40.4		52.1		72.8		18.8		95.0		177.3			57.8		103.8		56.0		180.3		399.8
2. ALLOCATION OF SDRS.		5.0		9.3		14.7		18.1		14.7		24.4		20.1		21.8		22.5		30.6		39.9
3. CREDIT TO STATE SECTOR	21.2		20.4		28.7		89.2		28.4		44.5		254.8		346.8		397.3		591.8		811.2	
4. CURRENCY OUTSIDE BANKS		37.1		40.5		47.9		58.4		63.4		91.4		105.0		142.0		155.7		147.6		166.2
5. CURRENCY IN BANKS		3.0		3.3		5.1		5.9		6.7		9.6		6.9		9.6		10.7		11.0		12.0
6. DEPOSITS IN COMMERCIAL BANKS		7.6		9.3		17.0		10.1		10.9		19.6		21.9		24.9		90.7		102.6		102.6
7. OTHER DOMESTIC DEPOSITS		2.5		2.7		2.9		4.1		4.4		5.5		7.0		8.5		7.0		9.5		25.2
8. CREDIT TO BANKS	-		-		-		-		-		-		-		-		-		21.4		-	
9. STATE SECTOR DEPOSITS		-		5.2		-		-		-		42.2		-		-		3.2		38.2		-
10. OTHER LIABILITIES (NET)		6.4		7.4		8.7		14.4		23.3		29.1		32.8		37.0		54.5		93.4		122.4
11. TOTAL	61.6		72.5		101.5		108.0		123.4		221.8		254.8		346.8		397.3		618.2		833.2	

Use - U (u)
Source- S (s)

SOURCE: Bank of Guyana

APPENDIX 4

G$ Millions LEGAL STIPULATIONS ON CENTRAL BANK ASSET COMPOSITION:

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1 Average Current Revenue[1]	69.2	76.6	85.2	93.6	102.0	115.4	123.5	136.9	145.6	210.1	318.5	391.0	402.7	365.8	371.5
2 Ceiling on Government Securities held by Central Bank[2] (0.30 x 1)	20.8	23.0	25.6	28.1	30.6	34.6	37.1	41.1	43.7	63.0	95.6	117.3	120.8	109.7	111.5
3 Actual Holdings	4.5	5.5	3.3	6.3	11.1	16.8	28.8	68.8	20.3	44.5	218.1	342.0	397.3	589.1	811.2
Securities	(3.3)	(3.3)	(3.3)	(3.2)	(3.2)	(3.6)	(3.7)	(3.4)	(4.7)	(5.9)	(5.9)	(5.9)	(5.9)	(2.2)	(2.2)
Treasury Bills	(1.2)	(2.2)	-	(3.1)	(7.9)	(13.2)	(25.1)	(65.4)	(15.6)	(38.6)	(212.2)	(336.1)	(391.4)	(586.9)	809.0
4 Minimum Relationship Between Currency Issue and Foreign Assets[3].	15.8	17.9	19.2	20.1	20.1	21.9	26.5	30.7	35.1	50.5	56.0	75.8	83.2	79.3	89.1
5 Actual Foreign Assets:	27.1	36.9	46.5	40.8	40.2	56.1	73.0	27.4	133.9	254.2	75.7	60.3	148.9	44.3	32.4

1 *Average Annual Current Revenue of Government over 3 preceding years.*

2 Stipulated to be not more than 30 per cent of annual average current revenue over 3 previous years.

3 Required to maintain reserve of external assets not less than 50 per cent of notes and coins in circulation.

APPENDIX 5 FINANCIAL OPERATIONS OF CENTRAL GOVERNMENT

G$Mn.	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1. DEFICIT (-)											
BUDGET:	63.4	58.9	71.9	135.9	167.3	152.3	293.5	159.9	265.5	451.8	544.8
ACTUAL:	40.2	62.6	56.3	138.3	36.4	191.7	455.7	277.5	266.9	374.9	630.2
(INCREASE +)		3.7		2.4		39.4	162.2	67.6	1.4		75.4
(DECREASE -)	23.2		15.6		130.9					76.9	
2. CAPITAL EXPENDITURES:											
BUDGET:	79.1	75.2	79.4	145.2	173.2	227.3	261.8	134.9	181.5	281.9	374.4
ACTUAL:	52.1	60.0	56.4	83.2	103.9	288.4	288.7	165.2	147.5	207.0	348.0
INCREASE(+)						61.1	26.9	33.4			
DECREASE(-)	27.0	15.2	23.0	62.0	69.3				34.0	74.9	26.4
3. CURRENT EXPENDITURE:											
BUDGET:	116.4	130.6	145.9	173.6	220.0	303.9	402.1	411.2	463.8	586.8	668.2
ACTUAL:	123.7	134.7	154.7	218.1	254.5	383.8	556.9	417.3	485.3	581.3	748.7
INCREASE(+)	7.3	4.1	8.8	44.5	32.5	79.9	154.8	6.1	21.5		80.5
DECREASE(-)										-5.5	
4. REVENUE:											
BUDGET:	132.1	146.9	153.8	182.9	227.9	378.9	370.4	386.1	378.8	416.9	497.8
ACTUAL:	135.6	132.1	152.7	163.0	322.0	480.5	389.7	358.0	365.9	413.4	466.5
INCREASE(+)					94.1	101.6	19.3				
DECREASE(-)		14.8	1.1	19.9				28.1	13.9	3.5	31.3
5. EXTERNAL BORROWING (GROSS)											
BUDGET:	50.0	47.5	45.5	104.1	134.9	88.9	53.9	27.7	105.2	193.2	226.8
ACTUAL:	19.3	24.8	20.0	41.1	66.5	144.8	159.6	60.6	101.7	135.5	205.3
INCREASE(+)						55.9	105.7	32.9			
DECREASE(-)	30.7	22.7	25.5	-63.0	-68.4				3.5	-57.7	-21.5
6. BANKING SYSTEM											
BUDGET:	2.2	0.4	0	6.8	7.4	38.4	188.1	47.2	81.1	105.1	185.0
ACTUAL:	5.5	16.8	25.4	74.3	-63.5	56.2	243.2	143.5	71.9	136.7	295.3
INCREASE(+)	3.3	16.4	25.4	67.5		17.8	55.1	96.3		31.6	110.3
DECREASE(-)					-70.9				-9.2		

SOURCE: Bank of Guyana Annual Report 1970-1980.