MONETARY POLICY

IN

GUYANA

(1974 - 1985)

by

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INTRODUCTION

The use of appropriate monetary policy can be important in alleviating the economic problems of developing countries. Over the last decade the unstable international economic system has had significant repercussions for inflation and balance of payments for developing countries. The disequilibria cannot be attributed to international factors[1] only, but, in some measure, to domestic policies also. The domestic economic policies, did contribute to the increasing deficits and the run down of international reserves in many of these developing countries. The instability caused by both the international and domestic factors inhibited growth and development in these economies.

Monetary policy is an essential part of economic policy and is effected through the Central Bank. The essential purpose of monetary policy is to regulate the money supply to maintain economic stability and facilitate economic growth[2].
In Guyana, the Central Bank was established with the principal objectives of "fostering monetary stability and promoting credit and exchange conditions conducive to the growth of the economy"[3]. However, unpredictable influences on foreign exchange receipts and the uncontrollable impact of fiscal deficits made the task of controlling the money supply difficult. Although the success of monetary policy with regards to the overall economic goals may be limited, greater achievement can be attained on the intermediate targets.

This paper reviews the monetary and credit policies in the Guyanese economy over the period 1974-1985. The paper is divided into two sections. The first section examines the theoretical and general aspects of monetary policies in small developing countries. The applicability of the traditional monetary instruments will be examined with cognisance being taken of the structural features of these countries. The use of credit, interest rates and exchange rates as measures in pursuit of policy goals will be analysed in greater detail.

The second section reviews the monetary policy in Guyana during three phases according to the peculiar events experienced by the macro economy. The monetary developments will be analysed in relation to the general economic performance of the country and the programme adjustments undertaken with assistance from the International Monetary Fund. The period is divided as follows:-

(a) 1974-1977, the period characterised by the boom and eventual fall in export prices and earnings.

(b) 1978-1982, the period in which the country experienced serious economic and financial crises. This second period can be classified as a period of 'tight' or 'restrictive' monetary policy.

(c) 1983-1985, the period characterised by the revival of economic growth but with the futher deterioration of monetary aggregates. The monetary policy during this period can be regarded as very accommodating.

SECTION 1
THEORETICAL ASPECTS OF MONETARY POLICY

The classical monetarists view the supply of money (basically currency and commercial banks demand deposits) to be directly related to the level of economic activity. They view that a greater money supply induces expanded economic activity by enabling people to purchase more goods and services. Thus, by controlling the growth of money supply, the authorities can to a great extent regulate economic growth and control inflation.

The Keynesians, on the other hand, relate monetary policy to interest rate changes. They argue that an expanded supply of money in circulation increases the availability of loanable funds. A supply of loanable funds in excess of the demand leads to lower interest rates. Since investment is assumed to be inversely related to the prevailing interest rates, businessmen will expand their investments as interest rates fall and credit becomes more available. The higher level of investment, ceterius paribus, raises aggregate demand, leading to increase economic activity.

The monetary policy in the developed countries as explained by both the classical monetarists and the Keynesians assumes the existence of a highly organised and efficient financial market. By contrast, the pursuit of monetary/credit policies in developing countries is constrained by the low level of development of the financial markets[4]. Given, therefore, the significant difference in financial sophistication between the developed and developing countries it is evident that many of the measures of monetary control would be of little use in the developing countries.

Open market operations as a monetary instrument are generally inapplicable because of the lack of securities. Further, the control of the money supply in developing countries is constrained by the openness of these economies and by the fact that foreign exchange earnings are a significant and variable source of domestic financial resources. Since the commercial banks' deposits are therefore liable to steep increases at various times of the year, the use of the reserve requirements and the bank rate will be inapplicable or ineffective since they will necessitate frequent changes[5] to keep the supply of commercial bank credit constant.

Most important, the commercial banking system of most developing countries restrict its activities almost exclusively to allocating the scarce funds to "credit worthy" medium and large-scale enterprises in the manufacturing and commercial sectors. Small farmers and small scale entrepreneurs and traders in the manufacturing and service sectors generally have to seek finance elsewhere - usually from the informal credit network (local moneylenders), where exorbitant rates of interest are charged[6].

In addition to the underdevelopment of the financial structure the economic structure of developing countries pose constraints to the achievements of policy objectives. This idea is clearly articulated by Dr. Prebish in reference to Latin American countries.

> "There are extremely powerful structural factors in Latin America which lead to inflation and against which traditional monetary policies is [are] powerless"[7].

The severe structural supply constraints (that is, the low elasticities of supply) in many developing countries may be due to obsolete machinery, plant size, the inadequate supply of inputs, the technology used, inefficiency of management and the general lack of interdependence within the industrial sector. Notwithstanding these factors, the structural supply rigidities imply that an increase in the demand for goods and services will not necessarily be matched by increases in domestic supply. Instead the excess demand will lead to or worsen inflation[8].

Inflationary pressures in developing countries are linked to the expansion of the money supply. A significant expansion in the money supply creates an excess in the aggregate demand for goods and services, which can lead to higher prices. An expanded money supply exerts little or no inflationary pressure on the economy provided that there is a change in the availability of goods and services to satisfy the excess demand. The availability of goods and services to satisfy the expansion in aggregate demand depends on the capacity to import and the expansion in domestic production. The capacity to import in turn depends on the increase in export earnings and capital inflows. Within recent years, there has however been a reduction in net lending by developed countries and the export earnings of developing countries have also fallen. Hence, the use of credit policies becomes crucial in regulating the money supply.

Monetary Policy and Credit

Credit policies have been the most important aspect of monetary policies in developing countries. The net level of domestic credit extended by the banking system (that is, the domestic component of the money stock) is generally taken as a basic monetary tool since the monetary authorities can control this aspect of the money supply. The growth of domestic credit is, however, closely linked to the government borrowing requirements and hence to its fiscal policy. Since the governments of developing countries finance their deficits largely from borrowing from the banking system, the expansion of fiscal deficits results in the increase in domestic credit.

Credit developments in an economy generally affect national income and the balance of payments. When domestic credit exceeds the amount of money demanded nominal income is raised leading to an increase expenditure on domestic goods which in turn, fuels inflation. However, in an open economy the increase in expenditure will give rise to an increase in the demand for imports. In order to finance these imports the banking system must therefore draw upon its holdings of foreign assets[6]. In the open economies of the developing countries the increase in bank credit would 'leak out' of the system in the form of imports resulting in balance of payments deficits[7].

Credit policy is significant in that through loans and advances the banks can provide funds which, if properly invested, can assist in national development. The Central Bank, therefore, has that important role to ensure that the lending of the commercial banks be directed to the most economic and productive use. The Central Bank can stimulate an expansion or force a contraction of the loans and advances made by the commercial banks by varying the reserve requirements which must be maintained. But, invariably, reserve requirement are almost always exceeded in developing countries. The Bank can also set guidelines as to the allocation of the credit supplied from savings through the banking system, for example, how much to the government, the other public sector and the private sector and also how to allocate in the private sector between particular users (that is, personal, agriculture, manufacturing, etc.).

The Central Bank through its direct guidelines and to a lesser extent, by moral suasion can influence commercial banks' lending. The level of lending rates, overall credit ceilings and sectoral ceilings have been and continue to be the most important aspect of the Central Bank's actions in influencing the credit practice of commercial banks.

Monetary Policy and Interest Rates

The use of interest rate policies to effect economic growth and development in developing countries is still an unsettled issue. Many theorists claim that interest rate policy is useful in mobilising savings and directing credit to the most efficient sectors, thereby contributing to economic growth. On the other hand, others claim that the investment decisions are not influenced in any great extent by the interest rate policies[10].

Assuming that capital shortage is a serious constraint to economic growth in developing countries, the reduction of capital inflows in recent years makes it imperative that domestic savings must be mobilised and tapped. To encourage savings the approach should emphasize an increase in interest rates. It has been argued that the low interest rate policies pursued in many developing countries have contributed to the repression of financial intermediation[11]. The negative real rates of interest prevailing in the economies of developing countries result in a low level of financial savings and the inefficient allocation of resources.

There are several reasons advanced in support of positive interest rates from a demand management perspective. Among them are:-

(a) Savings will be more effectively mobilised because the increase financial reward will induce people to increase their savings. The increase in interest rates will encourage individuals to reduce current consumption and place more funds into interest-bearing deposits.

(b) Positive interest rates will assist in the efficient allocation of funds among borrowers. The higher cost of capital will discourage entrepreneurs who are inefficient[12].

(c) Positive interest rates can have a depressing impact on inflation. The increase in interest rates can cause a curtailment in investment. The impact of the reduction in investment will be reflected in the decline in aggregate wages, which in turn reduces real consumption. The reduction in consumption can have a dampening effect on inflation.

Monetary Policy and Exchange Rate

The use of exchange rate as a policy instrument has frequently been a source of controversy. It has been argued that, in certain circumstances, devaluing the currency can be a direct and powerful method of improving the balance of payments, and in other cases, it causes declining economic growth and the increase in unemployment. The effects of an exchange rate devaluation are reflected on domestic economic activities, international trade and payments and, in general, on the balance of payments accounts.

An exchange rate change can be viewed as facilitating a reallocation of resources into sectors producing export goods. It is anticipated by the elasticity approach of devaluation analysis that there will be a significant improvement in the export performance. Therefore, the net foreign reserve position of the domestic banking system will improve favourably.

Exchange rate changes in many developing countries do not always result in the desired benefits because of the structural nature of these economies. The unattainment of these benefits do result in the use of severe exchange control restrictions, which, in turn, encourage a bouyant 'blackmarket or parallel sector' for currency as well as goods and services in these economies. The 'blackmarket rate' is higher than the official exchange rate. An exchange rate devaluation further increases the 'blackmarket rate'. In cases, where the blackmarket rate is very high relative to the official exchange rate the banking system suffers because many transactions will be done in the informal sector.

In developing countries, the existence of the 'parallel or blackmarket' for currency has disastrous implications for macroeconomic policies. The use of exchange rate changes, in these circumstances, can frustrate the monetary authorities' actions aimed at reducing aggregate demand. The higher 'black market' exchange rate can lessen the monetary authorities' control on the money supply since they might not know the extent of the impact of the parallel market.

SECTION II

MONETARY POLICY IN GUYANA

I. Review of Monetary Developments

During the years 1970-1972 Guyana experienced an average rate of economic growth of 2 percent. This real growth coupled with a favourable terms of trade resulted in the relatively low current account deficits in the balance of payments (5 percent of GDP). An adequate amount of capital inflows over these years allowed the economy to build up its stock of international reserves. At the end of 1972, these reserves amounted to G$66.8 million. This state in the external sector impacted favourably on the domestic scene. Consequently, the finances of the central government were almost in balance with the deficit amounting to 10 percent of GDP.

These developments meant that there was no pressure on the domestic banking system. The money supply grew at an annual average of 15 percent. Thus the domestic prices were rather stable at an annual average of 3 percent in the years 1970-1972. Also, both private and public savings were rising rapidly.

During 1973 a series of adverse developments led to a substantial decline in the current account of the balance of payments. In the first instance, the price of fuel, one of the major and most essential input into the productive sector skyrocketed in the latter half of the year. Also, the level of production and exports of the major products declined. The deficit of the balance of payments at the end of 1973 amounted to G$123.4 million, 82 percent larger than in the previous year.

These developments in 1973 placed a severe strain on the banking system. Credit to the central government amounted to G$74.3 million compared with G$25.4 million in 1972. The net international reserves declined by 64 percent to reach G$23.9 million at the end of 1973. As was expected, in early 1974 the lower level of foreign reserves placed considerable pressure on the foreign payments position of the country. The need therefore arose to restrict effective demand to reduce the balance of payments deficit and to moderate the rate of inflation.

The monetary policy pursued within the first seven months of 1974 was very restrictive. The focus was on restrictive credit expansion and tight exchange controls. The Central Bank in its guidelines to the commercial banks placed a firm restraint on any increase in bank credit (Appendix I). There was the reduction and subsequent suspension of tourist travel allowances and the suspension of emigration allowances for Guyanese nationals. In addition, the foreign owned companies from outside the Caricom area were asked to reduce their indebtedness to the banking system and to retain funds arising from depreciation within Guyana.

Between January and July credit to central government declined and credit to the private sector showed a modest increase. Bank credit to central government declined by G$9.4 million from the beginning of the year to reach G$146.2 million at end of July 1974, and credit to the private sector showed a 15 percent rise to record G$108.8 million during the same period. In addition, during the same period the net foreign assets of the banking system registered a 22 percent decline to reach G$18.6 million from G$23.9 million at the beginning of 1974. The success of the measures implemented cannot singly account for the monetary aggregates; incorporated also, were the balance of payments and fiscal policies aimed at achieving the same objectives.

However, the economic performance of the economy improved significantly through the phenomenal boom in export commodity prices (especially sugar) in the latter half of 1974. Consequently, export earnings increased considerably accompanied by the improved net foreign reserve position (Tables I & II). The Central Bank modified the credit guidelines to allow the commercial banks to lend to the productive enterprises particularly small agriculture and manufacturing. There was also the relaxation of the imposition of exchange controls made earlier in the year with regards to licensing of imports and the imposition of quota for the importation of certain consumer goods.

The commercial banks' credit to agriculture which had declined by G$1.2 million in the first half of 1974, recovered in the latter half to G$9.4 million at the end of 1974. However, the annual percentage change had decline by 1 percent from the previous year's total of G$9.5 million. In addition to the agricultural sector, bank credit to other manufacturing and processing showed substantial rises especially in the latter half of the year, registering a 29 percent rise at year-end over 1973 level (Table VI). Credit to the other public sector (public enterprises) accelerated in the latter half of 1974, registering a total of G$59.7 million at end of the year compared with G$22.4 million in 1973. At the end of 1974, credit of the banking system declined by 8 percent from the previous year's total of G$280.9 million.

At the end of 1974, the economic performance of the country had showed a generally marked improvement from the previous year. The balance of payments deficit reduced to G$10 million compared with G$123 million in 1973. The total resources placed in the banking system outpaced credit expansion and there was an increase in net foreign asset position by G$70.3 million. The money supply grew by G$43.8 million (16 percent) from the previous year. Narrow money rose faster than quasi-money. Prices were however under some pressure as the performance of the non-traditional sub-sector (coconuts, ground provision, plantains, meat, eggs etc.) was not significant. In effect, inflation rose by 17.5% in 1974.

The boom conditions which started during the second half of 1974 continued in 1975. The rising export earnings and increasing capital inflows impacted favourably on the economic performance of the economy. There was basically no pressure on the balance of payments since the net foreign reserve position was rising rapidly. The net foreign assets of the banking system increased by G$90.3 million during the year to reach G$184.5 million by year-end. With foreign reserves rising during the year there were less restrictions on foreign exchange transactions.

During 1975 the Central Bank did not set any ceilings on overall credit but sought through moral suasion to encourage the commercial banks to direct credit to the productive sectors (particularly agriculture). The credit guidelines placed limits to personal loans and to the distributive trades (Appendix). In addition, the approval of the monetary authority was needed for lending to public corporations above a specific limit.

Credit to agriculture increased by G$1.2 million (12.8 percent) during 1975 to reach G$10.6 million at year end. In spite of this increase, the credit extended to small agriculture has been below the minimum ceiling reflecting the commercial banking attitude towards small farmers[13] (Table IV). Credit extended to personal loans and to the distributive trade were also kept within the guidelines. Credit to the public sector increased by G$0.2 million during 1975 and the total credit extended to this sector in 1975 was below the ceiling of G$4.3 million set in the guidelines(Table IV).

Bank credit to central government in 1975 rose by G$56.3 million following a decline of G$63.6 million the previous year. The significant rise in credit to the central government reflected the poor fiscal operations. While personal emoluments were contained within budgeted levels, miscellaneous charges expanded rapidly. Also, there was a substantial rise in capital expenditure (G$351.5 million compared with G$104.4 million in 1974). The significantly large capital inflows together with substantially higher prices of the major exports contributed to the relatively low deficit in the balance of payments. The deficit in the balance of payments reached

G$23 million in 1975 compared with G$10 million and G$123 million in 1974 and 1973 respectively.

The money supply expanded by G$131.5 million in 1975, 41.4 percent above the previous year. Resources placed with the banking system expanded faster than bank credit and thus permitted an increase in foreign assets by G$90.3 million. Again as in the previous year, narrow money rose faster than quasi-money. However, the improved levels of domestic production of non-traditional agricultural and manufactured goods lessened the pressure on prices. Consequently, inflation rose by 7.9 percent in 1975 compared with 17.5 percent in the previous year.

By 1976 the boom conditions the economy experienced earlier had virtually ended. The declining terms of trade, caused by falling sugar prices, reduced export earnings drastically and placed severe pressure on the balance of payments (Table I). The balance of payments deficit on the current account increased from G$22.9 million at the beginning of the year to G$350.8 million at the end of 1976. Monetary policies were directed at restoring stability in the management of the foreign reserves to ease the growing foreign exchange problem. Credit policies were aimed at restraining credit expansion to both the private and public sectors(Appendix).

The net foreign reserves declined rapidly throughout 1976 creating a serious foreign exchange problem. The net foreign assets of the banking system declined from G$184.5 million at the beginning of the year to G$56.9 million in June to minus G$4.7 million at end of September. It reached minus G$52.8 million at year end. The resulting foreign exchange problem necessitated stringent exchange control measures. In November, the Central Bank decided to monitor more closely the foreign receipts and payments through the banking system. The receipts from exports were centralised in the Bank thus limiting the extent to which the commercial bank could offset export receipts. The Central Bank allowed the commercial banks to make import payments exceeding G$10,000.

The Central Bank through its more restrictive credit guidelines to the commercial banks in 1976 sought to achieve a very modest increase in credit. The net bank credit to the private sector showed a marginal increase of G$2.5 million in response to the ceiling of 7 percent credit expansion to the private sector (excluding co-operatives) established by the Central Bank. Credit to the other public sector increased by G$21.7 million as compared with the marginal increase of G$0.8 million in 1975. This shift towards increased public sector lending reflected the acquisition of externally owned enterprises notably, the transfer of sugar manufacture to government ownership. The central government deficit rose significantly in 1976 because of the fall in the sugar levy and the large nationalisaton payments. The net banking system credit to finance central government deficit amounted to G$242.3 million in 1976 against G$56.3 million in the previous year.

The money supply expanded slowly by 9.4 percent in 1976 (contrasting to the 41.4 percent increase in the previous year) and this was due in large measure to the large decline of narrow money (mainly demand deposits). Unlike the previous two years, quasi money expanded faster than narrow money. The increase in currency in 1976 was greater than demand deposits . The government of Guyana treasury bills rose substantially from G$167.3 million at the end of 1975 to G$331.6 million at the end of 1976, thereby, contributing to the liquidity position of the commercial banks. The substantial increase in treasury bill issues financed the government's borrowing needs (which increased significantly with the fall in sugar prices and the subsequent decrease in sugar levy). The impact of the growth in money supply did contribute to an increase in domestic prices. The inflation rate in 1976 was 9.1 percent compared with 7.9 percent in 1975.

In 1977, the economy was pushed into further depression, by the decline in the real production in the export sector[14]. The production of the two major export sectors (sugar and bauxite) were below the levels in the previous year . Export earnings declined again during the year and activities in most sectors of the economy were reduced. These developments during the year highlighted the need to effect adjustment to the external sector in subsequent years.

The restrictive monetary policy of the latter half of 1976 remained unchanged in 1977. The Central Bank in January withdrew the delegated authority of the commercial banks from making import payments exceeding G$10,000. The Bank also began to effectively monitor the licencing system through which import licence quotas were allocated to individuals on the basis of a foreign exchange budget. The aim of this system was to limit import payments to the availability of foreign exchange. In addition, the Bank reimposed restrictions on the allowances for holiday travel and gift vouchers.

The expenditure restraint in both the current and capital accounts resulted in the reduced deficit in central government finances in 1977. Consequently, banking system credit to the central government reached G$143.5 million compared with G$242.3 million in 1976. On the other hand, credit to the other public sector (public corporations) increased by G$41.0 million in 1977. Credit to the private sector during 1977 declined by G$7.7 million as against an increase of G$2.5 million in 1976. The credit expansion by the banking system in 1977 was G$176.8 million compared with G$266.5 million in 1976.

Given the decline in net foreign assets and the expansion in domestic credit, the money supply expanded by 22.7 percent in 1977. But, unlike the previous year, narrow money accelerated much more sharply than quasi money. Narrow money expanded by G$62.8 million whereas quasi money grew by G$48.8 million. Within narrow money, currency expanded more rapidly than demand deposits especially in the last quarter and this was primarily related to the large wage payments. The deliberate monetary expansion had consequential implications for inflation. Inflation rose by 8.3 percent in 1977 compared with 9.1 percent and 7.9 percent in 1976 and 1975 respectively.

The restrictions on import payments coupled with the salary increases during the year contributed to an unusual growth in deposits in the banking system. The liquidity in the system reflected to some extent the build up of arrears of overseas payments by the business sector. The liquid assets ratio of the commercial bank increased to 45 percent of total deposits in 1977 compared with 37.6 percent in 1976.

In mid 1978, a one-year standby-arrangement under the assistance of the International Monetary Fund was implemented. This was done in order to check the economic decline and prepare the stage for economic recovery. The short term standby programme was directed at limiting aggregate demand and consequently inflation (that is, restoring internal and external balance). Accordingly, the programme included the following targets.

(a) an increase in domestic savings from 5 percent to 10 percent of gross national product and

(b) a reduction in the current deficit of the balance of payments to 10 percent of gross national product.

These financial targets, if achieved, were expected to limit borrowing from the domestic banking system considerably. Thus, certain performance criteria were established with respect to the net domestic assets of the Bank of Guyana and net bank credit to the public sector.

The authorities, in a tight demand management programme, implemented the following measures within the framework of the objectives:-

(a) A firm fiscal policy with a restraint on expenditure and increased taxation so as to generate additional public savings.

(b) An increase in the domestic interest rates to stimulate private savings and to assure a better allocation of credit. Accordingly, the Central Bank increased the bank rate in June 1978 from 6.5 percent to 8.5 percent. The commercial banks were requested to increase their interest rates on deposits by 3 percentage points.

(c) The establishment of the External Payment Deposits Scheme designed to streamline arrangements for the elimination of commercial arrears. This scheme required all requests for foreign payment of commercial arrears to be accompanied by Guyana dollar deposits of equivalent amounts in the commercial banks[15], and

(d) A relaxation of the exchange restrictions by rescinding the prohibition on transfers abroad of funds arising from the depreciation allowance by foreign based companies.

The targets of the financial programme under the standby arrangement were largely achieved by the end of 1978. The fiscal measures raised public savings from negative 3 percent of GNP in 1977 to 5 percent GNP in 1978. Also, the balance of payments deficit recorded an improvement to G$73.2 million in 1978 compared with deficits of G$251.1 million and G$350.8 million in 1977 and 1976 respectively. The improved balance of payments performance together with the smaller increase in credit extended by the banking system showed an increase in the net foreign asset position by G$50.6 million after registering declines of G$237.3 million and G$56.4 million in 1976 and 1977 respectively.

The ceilings under the stand-by programme on public sector borrowing from the banking system and the net domestic assets of the Bank of Guyana were observed with wide margins, thereby reflecting an improvement in the finances of the public sector in 1978 (Table IX). There was a general improvement in the demand for credit by the public sector. The use of domestic bank credit by the public sector was drastically reduced to G$73.0 million in 1978 compared with G$185.4 million in 1977.

The monetary developments in 1978 witnessed the deceleration in the rate of increase of total money supply (from G$115.5 million in 1977 to G$61.2 million in 1978). Most of the reduced rate was evidenced in the growth of money proper from 29 percent in 1977 to 5 percent in 1978 as the arrears deposit scheme sterilised money balances to the extent of G$56.6 million. On the other hand, the growth of quasi money responded to the increased payments of wages and to the higher interest rates (Table II).

The improvement in the management of the total financial programme in 1978 was overshadowed by the decline in the economic performance of the country. There was no increase in the overall real output during the year. The production of sugar recovered but was countered by the decline in the output of bauxite/alumina and rice (Table 1). Also, because of widespread shortages of domestic and imported goods and the upward adjustment to the prices of many consumer goods and services, the increase in consumer prices rose from 8.3 percent in December 1977 to 15.2 percent in December 1978.

In 1979, the monetary policy objectives remained basically the same as in 1978 with the continuation of the stand-by arrangement. The main monetary concern was centered on demand management, with targets aimed at the increase in domestic savings and the restraint in credit expansion. The ceilings on credit expansion to the public sector and ceilings on the net domestic assets of the Bank of Guyana were achieved within limits in the first four months of the year (Table IX). The total bank credit showed a small increase of G$31.5 million from the end of 1978 to the end of April 1979, of which central government registered a minimal increase of G$5.4 million during the same period. At the end of June 1979, the net domestic assets of the Bank of Guyana was kept within the ceiling but public sector borrowing had exceeded the ceiling (Table IX).

The implementation of the 1978-1979 stabilisation programme brought about a sharp improvement in the public sector accounts as well as the strengthening of international reserves. The net foreign asset of the banking system at the end of March 1979 was negative G$56.0 million as against negative G$58.6 million at the beginning of the year. The authorities, in response, liberalized the restrictive exchange control system by the reintroduction of the basic allowance for tourist in April 1979. At the end of June, 1979, the net foreign assets of the banking system moved to negative G$74.0 million.

With the culmination of the standby agreement, the authorities negotiated and entered into a three year Extended Fund Facility (EFF) arrangement in June 1979. The basic objective of the Extended Fund Facility was to deal with the inter-related problems of balance of payments deficits, inflation and low economic growth. The strategy was to broaden significantly the productive and export bases through diversification. The diversification of production and the maintenance of an annual growth rate of about 5 percent necessitated a high level of investment by both the public and private sectors. The Extended Fund Facility, therefore, continued to rely heavily on targets on domestic savings.

In order to give support to the saving programme, the Central Bank increased the bank rate from 8.5 percent to 10.5 percent in May 1979. The commercial banks were requested to increase their deposit rates and their rate to prime borrowers by two percentage points. Credit ceilings were once again highlighted in the three year E.F.F. arrangement. Ceilings were placed on Net Domestic Asset of the Bank of Guyana and net credit by the banking system to the public sector.

The outcome of the economic performance in 1979 was most disappointing. Physical output in the main productive sectors failed to achieve target levels by significant margins due to adverse weather conditions and unstable industrial relations. The fall in production was reflected in lower than anticipated national savings. In addition, the net capital inflows were lower than in 1978 and the net external reserves declined by G$123 million by the end of 1979 to reach minus G$182.5 million.

The poor financial outcome of the total public sector at the end of 1979 resulted in the large deficit of G$214.0 million, 28 percent above the previous year. Financing the large public sector deficit incurred an expansion of bank borrowing to G$190.3 million, G$117.3 million more than in 1978. Resulting from the increase in bank credit to the public sector, the credit ceilings set in the financial programme were not achieved (Table IX). Consequently Guyana was not able to make the second purchase of SDRs 8 million from the Fund. The Extended Arrangement which was approved in June 1979 was subsequently cancelled.

The money supply in 1979 expanded by 7 percent compared with 10.6 percent in 1978. The deceleration in the growth in the money was evident in narrow money, where currency and demand deposits declined from the previous year. With falling production levels, inflation rose by 17.8 percent in 1979 compared with 15.2 percent in the previous year.

In July 1980, the IMF approved a new Extended Fund Facility (EFF) programme in an amount equivalent to SDR 100 million. The programme emphasized demand management and focus was centered on the mobilisation of savings[16], the restraint on banking system credit and the control of the demand for scarce foreign exchange.

Credit ceilings were placed on the net domestic assets of the Bank of Guyana as well as public sector borrowing. The first purchase of SDR 18.6 million under this new IMF agreement was made in August, 1980.

The ceilings set by the IMF programme were not maintained at any of the periods in the remaining part of 1980. The net domestic assets of the Bank of Guyana and public sector borrowing exceeded their ceilings by G$63.3 million and G$55.4 million respectively at the end of September (Table IX). A waiver was granted and a further drawing of SDR 17 million was made in November 1980. The credit expansion continued and at year-end the ceilings for both the net assets of the Bank of Guyana and credit to the public sector from the banking system were far exceeded.

The increased deficit in the balance of payments in 1980 reflected the deterioration of the financial performance in the public sector. The current deficit of the balance of payments moved from G$209 million in 1979 to G$221 million in 1980. Also, the low level of capital inflows necessitated the running down of the net international reserves by G$215 million. At the end of 1980, the net foreign assets reached minus G$396.4 million.

The overall public sector deficit widened from G$214 million in 1979 to G$354 million in 1980. The increase in the overall deficit was due to the significant shortfall in capital inflows, the increased cost associated with higher prices for fuel and increased capital expenditure. Consequently, the demand for credit from the banking system by the public sector rose by G$34 million.

Noteworthy, however, in 1980 was the G$123.9 million increase in monetary resources placed with the banking system. Notably, there was the growth of resources in the form of interest-bearing deposits (time and savings deposits) of G$92.0 million (56 percent) above the level in 1979. The public sector made a greater placement of deposits in the banking system which increased by G$15.9 million - the largest increase since 1975. Within the private sector, business firms and individual customers recorded substantial increases in deposits. These increases in deposits have resulted, in some cases, from switches out of narrow money into higher interest bearing deposits, and to the lack of investment opportunities created by the continuous shortages of imported inputs.

The economy in 1980 recorded a modest 2 percent growth, which was evident in the second half of the year. This growth was attributed mainly to an improvement in export prices. Expectations were that the recovery would be sustained and even strengthened in 1981.

In anticipation of the recovery of output in 1981[17], the authorities permitted a freer scope in its approval of licences and the imports of both consumer and intermediate goods increased sharply. However, due to the world economic recession the export performance fell below expectations. The expected recovery particularly in the bauxite/alumina sector did not take place and the economic performance was disappointing. In these circumstances, it became impossible to reduce imports below the targeted levels immediately.

The financial performance of the public sector continued to deteriorate during the first half of 1981. Consequently, bank credit to finance the public sector deficit widened by G$26.0 million in June 1981. Credit to the public sector exceeded the ceilings set by the IMF Extended Fund Facility programme during the first half of 1981. Likewise, the ceilings on the net domestic asset of the Bank of Guyana were not maintained. Due to the non-attainment of the target ceilings the IMF suspended the EFF programme during the first half of 1981. However, a wiaver was agreed on for the second year of the programme commencing in July, 1981.

In June 1981, the monetary authorities for the first time in the review period focussed on exchange rate as a monetary instrument to reduce the internal stability caused by the appreciation of the U.S. dollar. The continuous appreciation of the U.S. dollar, since the middle of 1980, made the authorities look at the competitive position of the traditional exports as well as the profit position of the two major export-earners (sugar and bauxite). On June 2, 1981, the exchange rate was devalued by 15 percent and pegged to a basket of currencies.

The performance of the bauxite and sugar sectors was worse in the latter part of 1981 due to lower prices and declining demand. As a result, the performance of the public sector was disappointing. Credit to the public sector rose strongly by G$284.1 million by the end of 1981, thereby exceeding the levels fixed under the IMF programme. Drawing under the IMF programme was suspended in the final quarter of 1981. The authorities made some effort during 1981 to restraint credit expansion in the public sector. The Bank of Guyana fixed borrowing levels for the public corporations while the State Planning Commission did the same for central government. However, due to the deteriorating performance of the total public sector little success was achieved in retaining these levels.

There was the substantial increase in monetary resources mobilised by the banking system in 1981 inspite of no change in the interest rate. Total deposits increased by G$123.3 million, stemming entirely from the private sector. The public sector deposits declined by G$0.4 million in 1981 against an increase of G$15.8 million the previous year.

The economic decline continued in 1982 with a fall in real output (Table I). At year end economic growth had declined by 10.4 percent and the balance of payments current deficit reached G$426 million compared with G$475 million in 1981. The consolidated public sector deficit widened to G$1,040 million as compared with G$659 million in 1981. In view of the major imbalances the Bank of Guyana sought to reduce the external imbalance by limiting imports to the 'barest' essentials. The internal imbalance reflected the increasing deficit of the public sector which was financed principally by credit from the banking system. Overall, the credit needs exceeded the resources mobilised by the banking system and the deficiency was financed by the further decline of international reserves (G$178.8 million) and the further build up of external payment arrears by G$147.4 million in 1982.

The internal imbalance between the demand for financial resources (especially by the public sector) and the mobilisation of private sector bank deposits widened and became more pronounced in 1982. Thus, in an effort to increase domestic savings, the Bank of Guyana increased the bank rate from 12.5 percent to 13 percent in June 1982. The commercial banks were requested to increase their deposit rates and their rate to prime borrowers by 1.5 percentage points. The deposits of residents grew by G$210.8 million (26.5 percent) during 1982 as compared with an increase of G$123.4 million (18.3 percent) in 1981.

The deep recession in the international economy in 1983 had severe consequences on the performance of the domestic economy. Economic growth declined by 10.6 percent in 1983 and the balance of payments current deficit remained high (G$403 million in 1983 compared with G$426 million in 1982).

The shortage of foreign exchange directed the authorities to place prime concern on the allocation of the available foreign exchange mainly to the important sectors of the economy and to the payment of external debt. As a consequence, exchange controls were 'further' tightened in terms of trade and payments restrictions and a foreign exchange budget was prepared. Significantly, the monetary policy in connection to credit took a very accommodative stance as the Central Bank credit guidelines were changed. The Central Bank credit to central government will be determined by the National Legislative (Appendix II).

The poor overall performance in the public sector in 1983 was reflected in G$630.9 million in borrowing from the banking system compared with G$629.8 million in 1982. The sugar and mining sectors were largely responsible for the G$305.7 million increase in bank borrowing from the ' other public sector'.

At the close of 1983 the economy was further depressed, as the major productive sectors were experiencing low external demand for their products at non-renumerative prices. In 1984 the situation had not changed considerably. The monetary authorities adjusted the exchange rate in January in light of increasing imbalance of the exporting sectors and the strong appreciation of the U.S. dollar. The effects of this change was reflected in part in some improvement recorded in the financial accounts in the public corporations. The exchange rate action had consequential effects on the development of the parallel economy with its inflationary implications.

Credit developments in 1984 continued to be accommodative to the increasing deficit in the public sector. The public sector deficit in 1984 increased by 31 percent to reach G$882 million. The increased central government deficit of G$1082.6 million (which included the large G$378 million capital transfers to the public corporations) was largely responsible for this increase. The public sector enterprises made a net repayment of G$61.3 million to the banking system due to their improved production and financial performance.

The net foreign assets held by the banking system continued its sharp decline during 1984 by G$620.4 million. One of the major factors underlying this decline was the devaluations done during the year since the foreign liabilities were significantly more than the holdings of foreign assets. The money supply in 1984 grew by 18.3 percent and inflation rose by 25 percent compared with 15 percent in 1983.

The year 1984 had experienced a modest growth of about 2 percent compared with the decline of 10.6 percent in 1983. The expectations were therefore strong for continued and improved economic performance in 1985. Real output grew by 1 percent in 1985 . Sugar performed better in 1985 than in the previous year, but rice and bauxite performed well below expectations.

The financial performance of the public sector showed a significant improvement in 1985 (27 percent) to record a deficit of G$723.0 million. But with a reduction in capital inflows, bank credit to the public sector rose by G$1134.6 million (49 percent) over the previous year. There was the running down of the international reserves by G$185.8 million in 1985 and a G$158 million build up in public debt arrears.

II. Review of Monetary Policy in Guyana

The monetary policy undertaken in the first period (1974-1977) was directed at credit restraint and restricting foreign exchange payments. The credit policy was the dominant element in the monetary policy pursued during this period. Guidelines were issued to the commercial banks by the Central Bank with respect to the desired allocation of credit. These guidelines set out maximum limits on the rate of growth of credit in areas of low priority (i.e. personal loans, distributive trades) and minimum ceilings to areas of high priority (agriculture).

Generally, these guidelines were observed, except for public sector credit and credit extended to small holdings in the agriculture sector. The credit extended to public corporations showed a progressive increase, accelerating in the latter two years. This extension of credit to the public corporations was as a result of the shift from private ownership to state ownership. The performance of the guidelines with respect to small agriculture has been below the minimum ceiling set as the commercial banks veiw agriculture as risky and not "credit-worthy". While restriant was placed on bank lending to the private sector, similar restraint was not evident in central government borrowing. The Central Bank financing of central government's deficit increased progressively from G$28.4 million in 1974 to G$346.8 million in 1977. Thus, the statutory limits of 30 percent of the Central Bank holdings of securities and 45 percent of total Central Bank credit to the central government in relation to the annual average revenue of the last three years were attained in 1974-1975 but not in 1976-1977 (Table V).

The expansion of domestic credit was closely linked to the fall in the net foreign reserve position of the banking system. While strong inflationary pressures were not evident, the rise in deficit financing had been diverted into increased imports, which created a loss in the net foreign assets. Resulting from the increase deficit financing, the commercial banks' holdings of securities increased. The existence of the high degree of liquidity in the commercial banks seemed to indicate that the traditional liquid asset ratio would have been inappropriate. This was possible to the extent that the enforcement of the maximum limits could have been raised and still leave the banks with large amounts of resources available for investment as loans and advances.

The deteriorating economic growth and serious balance of payments problems in 1976 and 1977 had forced the authorities to respond by controlling the demand for imports through exchange control measures. These measures did help to protect the stock of international reserves but at the same time did contribute to bottlenecks in production, as a result of the shortage of essential inputs and spare parts. The adverse developments of these two years forced the government to resort to the International Monetary Fund for assistance.

The monetary policy pursued during the second period was essentially within the framework outlined in the IMF arrangements. The objectives under the IMF programmes were centred towards the increase in domestic savings, an improvement in the balance of payments deficits, the restoration of real economic growth and the reduction in the rate of domestic banking credit expansion. Under the programmes the ceiling on public sector credit was used as the key variable in demand management.

The Standby-Arrangement in 1978-1979 had achieved a high degree of success with the attainment of the targets set for this programme. The ceilings on public sector borrowing were largely maintained during the period. Also, the net domestic assets of the Bank of Guyana were kept within limits for the entire programme (Table IX). The balance of payments deficit lessened mainly because of the increased in export earnings (due to increases in prices and to a lesser extent increases in production) and the reduction in imports. The net foreign assets of the banking system improved in 1978 after registering substantial declines in 1976 and 1977. However, inflationary pressures were evident as indicated in the rise in the consumer price index. The increase in prices was a direct result of the change in pricing policies of the public corporations.

The achievements under the Standby-programme had led the authorities to negotiate for a longer programme to correct the economic imbalances in the economy. The E.F.F. programme continued to be restrictive with ceilings on public sector borrowing and greater reliance was placed on targets of domestic savings. In order to support the savings programme the Central Bank increased the interest rates in 1979, 1980 and again in 1982.

The achievements under the E.F.F. programme were most disappointing. In 1979 the decline in real output was reflected in the poor financial outcome in the total public sector. This adverse development necessitated an extension of domestic credit to finance the increased deficit of the public sector. As a consequence, the credit ceilings under the financial programme were not maintained. The balance of payments deficit on the current account also widened. The E.F.F. programme was cancelled in 1979 but, however, a new programme was approved in 1980.

The poor overall public sector performance continued in 1980 due in large measure to the increased cost associated with higher prices for fuel, the significant shortfall in capital inflow and increased capital expenditure. Consequently, bank credit to finance the increased public sector deficit expanded and the credit ceilings under the IMF programme were exceeded. The balance of payments deficit widened in 1980 reflective of the financial performance of the public sector. However, the economy recorded a modest 2 percent growth which was attributed mainly to the improvement in export prices.

Although the authorities made efforts to fix borrowing levels in both the public corporations and the central government in 1981 the levels were not maintained as credit expanded to finance the increased public sector deficit. Consequently, the credit ceilings under the IMF programme were greatly exceeded and the E.F.F. programme was finally suspended in the latter half of 1981. The balance of payments accounts widened further in 1981 primarily because of the reduced level of export earnings coupled with an increase in imports. Export earnings declined because of the reduced prices for both sugar and bauxite and the decline in the demand for bauxite.

The economic decline continued in 1982 with the substantial deteriorating financial performance of the public sector. The reduced demand and prices for export products led to a substantially larger balance of payments deficit than 1981. Real growth declined by 10.4 percent and inflation remained very high. The greater internal imbalance led to higher domestic borrowing than in 1981.

This second period had seen the concerted effort by the authorities to increase domestic savings through the use of interest rate policy. Increases in interest rates occurred in 1978, 1979, 1980 and 1982. The real interest rates remained negative during the period due to the inflationary pressures in the economy. Studies by Singh indicated that the savings response during the period was not significantly different from earlier periods when there were no changes in the level of interest rates.

During the period two adverse developments arose which had disastrous implications for monetary and other policies. Firstly, there was the growth and development of the parallel market resulting from the stringent foreign exchange control measures and the reduction of essential imports. The parallel market impeded the monetary authority's actions in pursuit of achieving policy objectives in that many transactions were shifted from the formal to the informal sector. Secondly, the internal debt had shown a progressive increase. The result of this development was evident in the large debt interest payments in the government accounts.

The third period did not witness monetary policy operating under any specified framework. The monetary policy was essentially accommodative to the continuously large fiscal deficit of the public sector. The amendment of the Bank of Guyana Act in the latter half of 1983 in effect had removed the control (even in principle) of the monetary authority in controlling credit expansion to the public sector (Appendix II). This development in monetary policy meant that the monetary authority had to accommodate whatever limits as approved by the National Assembly.

Although economic growth had recovered modestly in 1984 and 1985, substantial improvements were not readily evident in the balance of payments accounts and the public sector finances. The exchange rate policy in 1984 did impact somewhat favourably on the finances of the public corporations but it had negative influences on the net foreign assets position. The credit expansion during this period was substantially larger than in former period although the public sector finances did show small improvements.

CONCLUSION:

Over the last decade, it was evident that the government had taken an active role in the development process. Monetary policies in effect had thus become secondary to fiscal policies. It would seem that the monetary authority was more concerned with facilitating growth and development through accommodating fiscal expansion. Thus, the Central Bank was no longer central in the domestic economic system and its flexibility, restricted by fiscal policy. In principle, the emphasis on accommodation was correct, however, to the extent that the growth rate was negative it is the view here that monetary policy should have been more restrictive. This would have contained price instability which itself had negatively contributed towards the country's economic performance.

FOOTNOTES

1. These factors include (a) the phenomenal increases in oil prices (b) rising prices of imports from industrialised countries (c) highly unstable prices for primary products, and (d) the reduce flow of capital from the developed countries.

2. The other macroeconomic goals include achieving a low rate of inflation, balance of payments equilibrium and a high level of employment.

3. Bank of Guyana Act. Section 5.

4. The financial system is generally rudimentary and characterised by (a) a few foreign-owned commercial banks, which mostly finance domestic and export industries, and (b) an informal credit network serving a large fraction of the rural activities.

5. This view is also shared by Dr. Blackman. See "The role of the Central Bank in the formulation and implementation of economic policy in small developing countries". Also Tulsieram points out that there is the tendency of the actual reserves to exceed the required levels, thereby, making the monetary instruments of reserve requirements ineffective.

6. See Todaro, p. 503.

7. See Todaro, "Economic development in the Third World" Longman, New York, 1985 p. 501.

8. This assumes that there is no increase in capital inflows and/or export earnings which will facilitate an increase in imports.

9. Modeste argues that regardless as to whether the expansion in credit is for financing the fiscal deficit or for financing investment activities the increase in domestic credit would be accompanied by a reduction in foreign assets.

10. For a full discussion, see Stanlake G.F. "Macro-economics" Longmans 1968, p. 60-61.

11. See Shaw, E.S. "Financial Deepening in Economic Development," New York, 1973.

12. Galbis (1977) and Chandarakar (1977) argue that an appropriate interest rate policy should make the real return on financial assets more attractive so as to channel savings more efficiently into productive use.

13. For a full discussion on commercial banks'attitude towards small agriculture read Lewars G, "Small farm financing in Guyana". I.S.E.R., 1977.

14. The production of sugar in 1977 was 241,000 tons, 27 percent less than the level in 1976 and this was due in large measure to the prolonged strike in the industry. The bauxite/alumina production in 1977 was 5 percent below the 1976 level of 731,000 tons.

15. The funds in the External Payments Deposits scheme were later sterilised in the Bank of Guyana.

16. The Central Bank once again increased the interest rates in July, 1980. The bank rate was increased by two percentage points. The commercial banks were requested to increase their rates by three percentage points (See Table VII).

17. In addition to the anticipation of the recovery there was the expectation of large capital inflows from the Trinidad and Tobago Oil Facility.

APPENDIX I

Guidelines to Commercial Banks:

The following were the major areas covered in the various guidelines issued by the Central Bank over the period 1973 to 1976.

1) 1973 Guidelines issued on 12th January, 1973.
Personal loans, other than for house-building, should not be expanded in 1973 by more than a twentieth of the increment in your deposits during 1973 and should be oriented towards domestic production.

Loans (including commercial bills) to the distributive trades should not be expanded in 1973 to the extent of more than a sixth of the increment in your deposits during 1973 and should be directed to satisfying additional needs for stocking or purchasing producer goods and for encouraging domestic production.

For the above purposes it may be assumed that deposits will grow in 1973 by at least 7 1/2% of their level at the beginning of the year.

The efforts to expand loans to small agriculture must be continued. At least a fifth of any expansion of total credit (through loans, advances and commercial bills) to the private sector in 1973) should go - whether directly or through on-lending financing institutions - ultimately to "agriculture" as defined in our statistical return (i.e. excluding public enterprise and sugar estates).

2) 1974 Guidelines issued on 4th February, 1974.
In particular, it is necessary to hold total bank credit through loans and advances and commercial bills to its level at the end of 1973. You should not therefore expand your total credit through loans, advances and commercial bills beyond its level at the end of last year.

In order to ensure that this limited volume of bank credit is used to the best advantage of the community - to meet the priority needs of productive enterprise in the Other Public Sector (public corporations etc.) and in the Private Sector - it is proposed to reduce bank credit to those sections which are in a position to procure resources from elsewhere (e.g. foreign-based companies) and to hold down such credit to those categories (personal loans other than for housing and credit to the distributive trades) which serve less essential needs.

Personal (non-business) loans other than for house-building, should accordingly be held down to the same level projected for last year - i.e. should not be higher than the 1972 year-end level by more than a twentieth of the increment of your deposits last year (1973).

Loans (including commercial bills) to the distributive trades should be held down to the same level projected for last year - i.e. should not exceed the 1972 year-end level by more than a sixth of the increment of your deposits during last year (1973), and should be directed to satisfying additional needs of producer goods and encouraging domestic production.

Since scarce resources have to be balanced tightly against priority needs throughout the year, I should be grateful if you would endeavour to keep the credit you extend at all times, as far as is practicable, within the limits discussed above. It is proposed to analyse performance at the end of each quarter to ensure that the objective of the guidelines are being achieved.

Your efforts to expand loans to <u>small agriculture</u> - whether directly or through - on-lending finance institutions - should continue. In our economic circumstances this is clearly a priority area.

3) 1974 Guidelines issued on 18th September, 1974.
However, the expansion of credit to the agriculture sector has fallen far below expectations. Credit to public corporations has risen more than was projected at the beginning of the year. The other disappointing factor has been the slow growth of deposits, which have been very sluggish in the first half-year, through offering some promise of improvement in the second half-year.

In the light of these developments, it is proposed that:-

(i) any increment in credit this year to Small Agriculture (including logging and fishing should not count against the overall ceiling;

(ii) any further increment in deposits above your level at the end of August may be lent without restriction for the development of Manufacture to expand exports or substitute imports; and

(iii) any further expansion in credit (beyond its present level) to any public corporation will be subject to specific approval.

In all other respects the 1974 Guidelines, as set out in the letter of 4th February, continue to apply.

4) Guidelines issued on 10th January, 1975
<u>1975 Guidelines</u>
It is not proposed to place any restraint on <u>total bank credit</u> this year. But, as in previous years, it will be necessary to limit the expansion of bank credit to the less-essential sectors so as to allow the maximum expansion to the more productive sectors of the economy.

With this objective, <u>personal</u> (non-business, other than for house-building) loans should not be allowed to expand by more than a twentieth of the increment in your deposits during 1975 and should be oriented towards domestic production.

Loans (including commercial bills) to the <u>distributive trades</u> should not be expanded in 1975 to the extent of more than a sixth of the increment in your deposits during 1975 and should be directed to satisfy additional needs for stocking or purchasing producer goods and for encouraging domestic production.

For the above purposes it may be assumed that deposits will grow in 1975 by 71/2% of their level at the beginning of the year.

The need to expand loans to <u>small agriculture</u> continues. At least a sixth of any expansion of total credit (through loans, advances and commercial bills) to the private sector in 1975 should go - whether directly or through on-lending finance institutions - ultimately to "agriculture" as defined for our statistical return (i.e. excluding public enterprise and sugar estates).

Any further expansion in <u>credit</u> (beyond 71/2% above the level at 31st December, 1974) to any public corporation will be subject to specific approval.

5) 1976 Guidelines issued on 26th January, 1976.
You are therefore requested to hold total bank credit to the private sector other than co-operatives through loan and advances and commercial bills to 107 percent of its level either at the 31st December, 1974 or 31st December, 1975, whichever is higher.

The need to direct this limited volume of available credit to priority areas exists. To this end personal loans and loans to the distributive trade other than for satisfying additional needs of producer goods and encouraging domestic production should not exceed the higher of the end of 1974 or the end of 1975 levels.

Loans to small agriculture and manufacturing should also be given emphasis in your lending policies and any additional lending directed mainly to these sectors.

Credit to the other public sector (public corporations and public companies) should be held to 105 percent of the level at 31st December, 1975. Any credit beyond this level will be subject to specific approval.

APPENDIX II

Central Bank Credit Limits to the Central Government

In Guyana, the Central Bank's ability to grant credit to the central government was clearly defined in the Bank Act Section 48 and 49 for the period 1974 to August 1983.

> "The Bank may make direct advances to the central government, provided that at any one time the total outstanding amount of such advances shall not exceed fifteen percent of the average annual revenues collected and accounted for by the government during the last three preceeding financial years. Such direct advances shall not, during any financial year of the bank be outstanding for a total of more than three hundred and fifty days".

Also, a ceiling of 30 percent was set of the annual average revenue collected by the government on the amount of government securities the Bank of Guyana can hold. Therefore, at any one time, the Bank of Guyana should not finance the central government in excess of 45 percent of the annual average revenues collected in the past three years.

The Bank Act was amended on 25th August 1983. Sections 48 and 49 were changed to read:-

48 (1) "With a view to offsetting fluctuations between receipts and payments of the government, the Bank may, subject to any limitation that the Assembly may by resolution prescribe, make direct advances to the government.

(2) Such direct advances:-

(a) Shall not, during any financial year of the Bank, be outstanding for a total of more than three hundred and fifty days.

(b) Shall bear interest at such rate as may be determined by the Bank in agreement with the Minister, such rate in no event being less than three percent per annum.

49 "The Bank may purchase or sell negotiable securities issued by the government provided that the amount of negotiable securities owed by the Bank under the authority of this section shall not at any time exceed any limitation that the National Assembly may by resolution prescribe".

SOURCE: Bank of Guyana.

Table I

GROSS DOMESTIC PRODUCT, EXPORTS AND PRODUCTION

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
	(In Millions of Guyana dollars)												
Gross Domestic Product	576.4	865.0	1,069.0	1,024.5	1,011.5	1,135.6	1,179.0	1,336.0	1,350.0	1,250.0	1,200.0	1,410.0	1,630.0
Sugar	67.2	250.0	334.5	191.0	104.4	165.0	166.0	198.0	160.0	112.0	112.0	140.0	215.0
Rice	15.9	29.3	42.2	30.0	58.2	49.5	40.0	51.0	54.0	62.0	62.0	65.0	56.0
Bauxite	80.4	117.0	142.2	145.0	164.2	178.5	169.0	221.0	101.0	88.0	88.0	45.0	22.0
Memo Item :- Real GDP 1/	872.0	941.0	1,032.0	1,050.0	1,019.0	990.0	976.0	994.0	989.0	886.0	804.0	821.0	829.0
Merchandise Exports	281.9	592.0	840.5	695.2	651.8	739.9	736.6	976.6	953.5	697.7	548.7	807.7	875.4
Sugar	75.9	284.8	413.1	258.7	185.7	234.6	230.6	307.6	302.8	263.6	214.6	271.5	282.3
Rice	25.0	49.0	84.8	73.6	66.8	96.0	80.8	87.5	110.0	60.7	64.9	80.9	56.6
Bauxite	138.3	198.2	271.9	288.8	331.0	332.0	326.8	479.3	427.3	289.4	218.8	359.0	421.6
	Volume: Long Tonns, 1972 = 100												
Production Index 2/													
Sugar	84.1	108.2	93.2	105.4	76.8	103.1	94.7	85.6	95.5	91.3	79.9	76.8	77.1
Rice	117.0	152.1	170.2	117.0	223.4	193.6	151.1	117.6	176.6	190.4	154.5	188.3	163.5
Bauxite - Dried	100.7	85.5	84.4	59.0	60.9	73.0	75.1	59.8	57.8	46.9	44.5	45.5	62.9
- Calcined	93.2	105.2	112.6	105.6	102.7	82.6	82.2	87.1	74.3	56.3	48.7	81.4	78.7
- Alumina	91.1	121.0	119.5	101.3	107.9	90.3	61.0	83.8	66.1	27.5	-	-	-

1/ Real GDP at constant 1977 prices

2/ PRODUCTION LEVELS AT 1972 :-
Sugar : 315,000 tons, Rice : 94,000 tons, Bauxite :-
Dried : 1,643,000 tons
Calcined : 690,000 tons
Alumina : 262,000 tons

Source : Bank of Guyana
Research Dept.

Table II

MONETARY SURVEY

G$Million

PERIOD ENDED	FOREIGN ASSETS TOTAL	BANK OF GUYANA	COMM. BANKS	DOMESTIC CREDIT TOTAL	TO GOVT. (NET)	TO OTHER PUB. SEC.	TO PRIVATE SECTOR	MONEY SUPPLY TOTAL	CURRENCY	DEMAND DEPOSITS	TIME DEPOSITS	SAVING DEPOSITS	OTHER ITEMS (NET)	MEMORA ITEMS NARROW MONEY	QUASI MONEY
1973	23.9	18.8	5.1	280.9	155.6	22.4	102.9	274.0	56.0	41.2	79.2	97.6	30.8	97.2	176.
1974	94.2	94.6	-0.4	258.8	92.0	59.7	107.1	317.8	64.0	65.5	77.1	111.2	35.2	129.5	188.
1975	184.5	177.3	7.2	327.4	148.3	60.5	118.6	449.3	91.9	110.6	97.3	149.5	62.6	202.5	246.
1976	-52.8	-57.8	5.0	593.9	390.6	82.2	121.1	491.5	105.5	113.0	105.6	167.4	49.6	218.5	273.
1977	-109.2	-103.8	-5.4	770.7	534.1	123.2	113.4	603.0	142.6	138.6	126.0	195.8	58.5	281.2	321.
1978	-58.6	-56.0	-2.6	853.0	603.3	127.0	122.7	667.2	156.2	140.6	136.6	233.8	127.6	294.4	370.
1979	-182.5	-180.3	-2.2	1084.7	743.2	177.4	164.1	713.3	148.1	135.5	167.2	262.5	189.9	283.6	429.
1980	-396.4	-399.8	3.4	1461.2	1028.7	235.9	196.6	850.4	166.8	156.4	219.2	308.0	214.4	323.2	527.
1981	-482.7	-464.6	-18.1	1811.6	1162.5	386.2	262.9	997.1	185.8	166.4	260.8	384.1	229.6	352.3	644.
1982	-661.5	-619.4	-42.1	2494.7	1866.6	311.9	316.2	1269.3	230.7	205.9	364.1	468.6	563.9	436.6	832.
1983	-867.4	-830.7	-36.7	3191.2	2191.8	617.6	381.8	1533.7	268.7	239.2	407.6	618.2	790.0	508.1	1025.
1984															
Mar	-1115.2	-1085.6	-29.6	3368.7	2607.7	379.0	382.0	1551.7	260.5	219.0	421.2	651.0	701.7	479.5	1072.
Jun	-1200.1	-1164.4	-35.7	3569.9	2707.2	445.1	417.6	1584.4	266.1	200.3	423.0	695.0	797.3	479.5	1118.
Sep	-1203.1	-1170.2	-32.9	3746.2	2809.9	504.9	431.4	1659.6	271.3	227.5	451.0	709.8	883.4	498.8	1160.
Dec	-1487.8	-1453.9	-33.9	4033.7	3012.7	556.3	464.7	1814.9	335.6	284.1	464.6	730.6	731.0	619.8	1195.
1985															
Jan	-1468.6	-1429.5	-39.1	4135.1	3087.8	591.8	455.5	1817.6	326.0	265.1	479.3	747.2	846.4	591.1	1226.
Feb	-1493.4	-1467.8	-25.6	4184.9	3113.9	618.9	452.1	1835.8	327.0	269.1	483.9	755.8	855.1	596.2	1239.
Mar	-1532.1	-1497.6	-34.5	4209.3	3098.5	654.4	456.4	1832.5	331.0	262.1	479.8	759.6	844.2	593.1	1239.
Apr	-1580.2	-1545.1	-35.1	4319.6	3187.7	672.8	459.1	1875.0	335.0	271.1	485.9	782.0	863.9	606.1	1268.
May	-1615.5	-1578.2	-37.3	4403.3	3227.2	706.6	469.5	1895.6	338.0	258.7	498.8	800.1	890.8	597.6	1298.
Jun	-1636.8	-1601.1	-35.7	4439.8	3237.2	736.3	466.3	1892.0	340.4	231.1	506.2	814.3	910.6	571.5	1320.
Jul	-1668.5	-1641.9	-26.6	4541.8	3321.5	746.3	474.0	1930.8	328.3	271.5	503.0	828.0	942.0	599.8	1331.
Aug	-1703.8	-1674.5	-29.3	4616.0	3364.9	760.7	490.4	1949.4	336.5	271.5	507.0	834.4	962.3	608.0	1341.
Sep	-1700.9	-1676.4	-24.5	4703.7	3420.9	783.3	499.5	1960.4	345.4	259.0	508.3	847.7	962.3	604.4	1356.
Oct	-1687.2	-1659.8	-27.4	4807.9	3512.4	792.8	502.7	2027.5	355.4	283.7	519.8	868.6	1092.7	639.1	1388.
Nov	-1718.9	-1662.4	-56.5	4925.4	3580.6	830.1	514.7	2069.9	381.6	304.2	524.0	860.1	1139.5	685.8	1384.
Dec	-1673.6	-1645.6	-28.0	5225.0	3959.7	743.9	521.4	2169.7	421.4	318.7	520.6	909.0	1481.3	740.0	1429.

TABLE III

FACTORS AFFECTING CHANGES IN MONEY SUPPLY

G$Mn.

Period	Foreign Assets	Credit to Gov't (net)	Credit to Other Pub. Sector	Credit to Private Sector	Other Items	Quasi Money	Narrow Money	Total Money Supply
1974	70.3	-63.6	37.3	4.2	4.4	11.5	32.3	43.8
1975	90.3	56.3	0.8	11.5	-27.4	58.5	73.0	131.5
1976	-237.3	242.3	21.7	2.5	13.0	26.2	16.0	42.2
1977	-56.4	143.5	41.0	-7.7	-4.9	48.9	62.7	111.6
1978	50.6	69.2	3.8	9.3	-71.7	48.1	13.2	61.3
1979	-123.0	139.9	50.4	41.4	-58.5	59.7	-10.8	48.9
1980	-214.8	285.5	58.5	32.5	-25.7	97.5	39.6	137.1
1981	-86.3	133.8	150.3	66.3	-117.4	117.7	29.1	146.8
1982	-178.8	704.1	-74.3	53.3	-232.1	189.8	84.3	274.1
1983	-205.9	325.2	305.7	65.6	-226.2	193.0	71.5	264.5
1984	-620.4	820.9	-61.3	82.9	59.1	169.5	111.7	281.2
1985	-185.8	947.0	187.6	56.7	-650.7	234.4	120.2	354.6

SOURCE : Bank of Guyana Annual Reports

Table IV

CREDIT CEILINGS AND ACTUAL PERFORMANCE

G$Mn.

	1973		1974		1975		1976	
	ACTUAL	CEILINGS	ACTUAL	CEILINGS	ACTUAL	CEILINGS	ACTUAL	CEILINGS
PRIVATE SECTOR	17.7	n.a.	12.3	0.0	-1.2	n.a.	2.5	7.9
DISTRIBUTIVE	3.4	5.9	1.2	0.0	-3.2	16.3	1.1	3.2
PERSONAL	4.2	1.8	-1.5	0.0	0.9	4.9	1.8	0.0
SMALL AGRICULTURE 1/	1.0	3.5	-0.1	n.a.	1.2	16.3	0.9	0.0
PUBLIC SECTOR	8.6	n.a.	37.3	n.a.	0.8	4.3	21.7	2.9

SOURCE. : Bank of Guyana
Research Dept.

1/ For small agriculture ceilings are minimum ceilings while other ceilings are maximum.

Table V

ANALYSIS OF CREDIT BY BANK OF GUYANA TO CENTRAL GOVERNMENT

G$Mn.

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Annual Average Revenue of last three years.	212.6	321.8	400.4	409.4	371.2	378.7	411.2	481.2	528.4	565.7	607.5	691.1
2. Central Bank Holdings of Securities.	20.3	44.5	218.2	342.0	397.3	591.8	820.6	854.0	1,404.2	2,026.4	2,420.7	3,109.9
3. 2. as a percent of 1.	9.5	13.8	54.5	83.5	107.0	156.3	199.6	177.5	265.7	358.2	398.5	450;0
4. Central Bank Advances to Central Government.	8.1	-	36.6	4.8	-	-	17.2	85.4	70.9	-	-	55.9
5. 4. as a precent of 1.	3.8	0.0	9.1	1.2	0.0	0.0	4.2	17.7	13.4	0.0	0.0	8.1
6. Total Central Bank Credit to Central Government	28.4	44.5	254.8	346.8	397.3	591.8	837.8	937.4	1,475.0	2,026.4	2,420.7	3,165.8
7. 6. as a percent of 1.	13.4	13.8	63.6	84.7	107.0	156.3	203.7	195.2	279.1	358.2	398.5	458.1

DOMESTIC BANKING SYSTEM CREDIT TO CENTRAL GOVERNMENT

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
8. Commercial bank's Holdings of Securities	64.8	146.8	136.7	187.5	213.1	199.0	216.8	247.9	415.4	575.1	625.7	816.6
9. Total Banking System	93.2	191.3	391.5	534.3	610.4	790.8	1,045.6	1,187.0	1,890.4	2,601.0	3,046.4	3,982.4
10. Percentage change in Banking System Credit to Central Government.	-40.1	105.3	104.7	36.5	14.2	29.6	32.2	13.5	59.3	37.6	17.1	30.7

SOURCE : Bank of Guyana Annual Reports

Table VI

LOANS & ADVANCES TO PRIVATE & PUBLIC SECTORS BY COMMERCIAL BANKS : 1974 - 1985

G$Mn.

	Av. % 1974-1985	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1
PRIVATE SECTOR		113.4	112.1	114.5	111.0	116.4	187.7	184.6	249.7	309.3	376.3	442.5	50
1. Individual Customers		23.4	26.4	31.7	35.6	42.2	86.2	65.7	84.0	98.2	112.9	110.9	12
Annual Percentage change	17.9	-0.4	12.8	20.1	12.3	18.5	104.3	-23.8	27.9	16.9	15.0	-1.8	1
2. Agriculture		9.4	10.6	11.5	11.2	11.4	14.1	15.5	18.9	20.3	21.2	33.3	4
Annual Percentage change	15.5	-1.0	12.8	8.5	-2.6	1.8	23.7	9.9	21.9	7.4	4.4	57.1	4
3. Mining, Manufacture & Construction		44.5	40.9	31.7	24.9	28.0	41.4	51.9	75.3	83.6	97.2	135.3	14
Annual Percentage change	15.0	28.6	-8.1	-22.5	-21.5	12.4	47.9	25.4	45.1	11.0	16.3	39.2	
4. Private Financial Institutions		1.0	0.9	0.9	0.2	1.2	1.0	0.4	0.3	2.2	4.7	1.5	
5. Services		35.1	33.3	38.7	39.1	33.6	45.0	51.1	71.2	105.0	140.3	161.5	19.
PUBLIC SECTOR		58.5	59.6	81.5	123.0	127.3	177.1	235.5	387.6	314.2	620.2	560.4	85
6. Central Government		-	-	-	-	0.7	0.1	-	1.7	2.4	2.9	4.3	
7. Local Government		1.7	1.6	2.2	3.7	4.0	3.5	4.3	6.1	5.2	3.6	4.5	
8. Gov't Enterprises		56.8	58.0	79.3	119.3	122.6	173.5	231.2	379.8	306.6	613.7	551.6	84
Annual Percentage change	43.9	173.0	2.1	36.7	50.4	2.8	41.5	33.3	64.3	-19.3	100.2	-10.1	5.
TOTAL CREDIT		171.9	171.7	196.0	234.0	243.7	364.8	420.1	637.3	623.5	996.5	1002.9	135
Annual Percentage change	23.9	39.3	-0.1	14.2	19.4	4.1	49.7	15.2	51.7	-2.2	59.8	0.6	3

SOURCE : Bank of Guyana - Annual Reports

Table VII

FINANCIAL SAVINGS WITH COMMERCIAL BANKS : 1974 - 1985

G$Mn.

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
TOTAL DEPOSITS (Year end)	244.6	342.4	365.7	427.1	479.6	549.3	683.2	796.2	1007.3	1231.8	1436.3	1718.7
Percentage Increase	12.3	40.0	6.8	16.8	12.3	14.5	24.4	16.5	26.5	22.3	16.6	19.7
Demand Deposits	56.3	95.6	92.8	105.3	108.5	117.4	143.6	147.7	167.5	198.6	234.7	285.9
Percentage Increase	55.5	69.8	-2.9	13.5	3.0	8.2	22.3	2.9	13.4	18.6	18.2	21.8
Time & Savings	188.3	246.8	272.9	321.8	371.1	431.9	539.6	648.5	839.8	1033.2	1201.6	1432.8
Percentage Increase	6.5	31.1	10.6	17.9	15.3	16.4	24.9	20.2	29.5	23.0	16.3	19.2
COMPOSITION OF DEPOSITS												
A. DEMAND	56.3	95.6	92.8	105.3	108.5	117.4	143.6	147.7	167.5	198.6	234.7	285.9
Public Sector	6.9	32.4	26.1	18.7	36.7	31.3	41.5	36.2	51.7	57.9	61.4	72.3
Private Sector	49.4	63.2	66.7	86.6	71.8	86.1	102.1	111.5	115.8	140.7	173.3	213.6
B. TIME & SAVINGS	188.3	246.8	272.9	321.8	371.1	431.9	539.6	648.5	839.8	1033.2	1201.6	1432.8
Public Sector	13.5	20.6	30.4	31.6	17.9	19.5	35.2	29.8	41.3	79.1	105.8	119.1
Private Sector	174.8	226.2	242.5	290.2	353.2	412.4	504.4	618.7	798.5	954.1	1095.8	1313.7

SOURCE : Bank of Guyana - Annual Reports

Table VIII

SELECTED INTEREST RATES (Percent Per Annum)

	COMMERCIAL BANKS									
		LOANS		DEPOSITS						
PERIOD	Av. Discount Rate on Three Mths. Treas. Bills	Prime Lending Rate	Average Lending Rate	Small Savings Deposits	3 Mths Time Fixed	6 Mths Time Fixed	12 Mths Time Fixed	Gov. Bond Yields	URBAN CONSUMER PRICE INDEX 1970=100	% CHANGE IN URBAN CONSUMER PRICE INDEX
1974	5.88	7.5	8.90	3.5	4.0	4.5	5.5	7.0	133.9	17.5
1975	5.88	7.5	8.90	3.5	4.0	4.5	5.5	7.0	144.5	7.9
1976	5.88	7.5	8.90	3.5	4.0	4.5	5.5	7.0	157.5	9.1
1977	5.88	7.5	8.90	3.5	4.0	4.5	5.5	7.0	170.5	8.3
1978	7.80	9.5	10.50	6.5	7.0	7.5	8.5	8.0	196.5	15.2
1979	9.72	11.5	12.75	8.5	9.0	9.5	10.5	9.0	231.4	17.8
1980	11.62	13.5	13.88	10.5	11.0	11.5	12.5	9.0	164.0	14.1
1981	11.62	13.5	13.94	10.5	11.0	11.5	12.5	9.0	322.7	22.2
1982	12.75	15.0	16.21	11.5	12.0	12.5	13.0	14.5	390.2	20.9
1983	12.75	15.0	16.21	11.5	12.0	12.5	13.0	14.5	448.5	14.9
1984	12.75	15.0	16.21	11.5	12.0	12.5	13.0	14.5	561.5	25.2
1985	12.75	15.0	16.21	11.5	12.0	12.5	13.0	14.5	n.a	n.a

SOURCE : Bank of Guyana and Statistical Bureau

Table IX

I.M.F. CEILINGS AND ACTUAL PERFORMANCE

G$Mn.

	NET DOMESTIC ASSETS			PUBLIC SECTOR BORROWING		
	ACTUAL	CEILING	EXCESS	ACTUAL	CEILING	EXCESS
DATE						
31.08.78	221.3	240.0	-18.7	635.7	645.0	-9.3
31.10.78	178.6	240.0	-61.4	636.2	645.0	-8.8
30.12.78	222.6	255.0	-32.4	767.4	675.0	92.4
28.02.79	185.7	255.0	-69.3	662.7	675.0	-12.3
30.06.79	255.0	270.0	-15.0	693.4	690.0	3.4
31.08.79	338.7	270.0	68.7	766.5	690.0	76.5
27.09.79	362.1	270.0	92.1	804.2	725.0	79.2
31.12.79	369.8	285.0	84.8	854.8	725.0	129.8
31.01.80	381.4	285.0	96.4	863.2	725.0	138.2
30.08.80	567.0	516.1	50.9	1,030.3	1,010.9	19.4
30.09.80	582.9	519.6	63.3	1,066.3	1,010.9	55.4
31.12.80	696.5	543.0	153.5	1,219.1	1,013.9	205.2
21.02.81	543.1	533.0	10.1	1,103.1	1,041.9	61.2
21.03.81	575.1	533.0	42.1	1,138.7	1,041.9	96.8
31.03.81	594.9	533.0	61.9	1,162.1	1,041.9	120.2
25.04.81	584.1	541.0	43.1	1,137.7	1,041.9	95.8
30.04.81	592.7	541.0	51.7	1,151.9	1,041.9	110.0
30.05.81	549.3	540.7	8.6	1,134.2	1,063.9	70.3
06.06.81	545.0	540.7	4.3	1,130.1	1,063.9	66.2
30.09.81	n.a	n.a	n.a	n.a	1,314.3	n.a

SOURCE : Bank of Guyana

\- Below Ceiling
\+ Above Ceiling

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