

GUYANA'S DEBT PROBLEM

by

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INTRODUCTION

1. The Public debt of Guyana (both foreign and domestic) has become a major economic issue since 1982. The problem is immediately hallmarked by the magnitude of this debt and the inability of Government to adequately service it. This problem is part of a broader spectrum of economic pathologies facing Guyana which include low and declining levels of production, declining exports and a resultant inability to earn adequate amounts of foreign exchange, a large importation bill and an inability to attract desired levels of investment both local and foreign. The large public sector deficits which were financed by monetary expansion also compounded the difficult external environment. The concomittant balance of payments deficits were largely financed by the accumulation of external payments arrears.

2. As an isolated issue Guyana's public debt is part of the more generalised Third World debt problem that has been attracting much concern and treatment by policy-makers and scholars alike. This paper will point to some distinct features of Guyana's public debt.

3. I have chosen to analyse both the internal and external parts of Guyana's public debt. In contrast most studies on the Third World debt problem tend to focus almost exclusively on the external

debt of these nations. The main reason for the dual emphasis is the interlocking nature of the internal and external public debts and their seemingly common causation. Foreign debts have been almost exclusively Government contracted or government guaranteed. Declining avenues of external borrowings have induced the prevailing public sector to increase heavily its internal borrowings. The internal debt problem is complicated by the fact that a sizeable proportion of Governments' borrowing is not for investment purposes but to meet current expenditures. This has serious implications for production, capacity to repay, inflation and other related factors.

4. At the end of 1986 Guyana had a total public external debt of US\$1.48 billion. Of this sum US\$706.3 million or 47.8% represented the total disbursed sum while the remainder represented an accumulated arrears and interest on such arrears. During 1986 Guyana had a debt servicing burden estimated at US\$202.7 million of which only US\$33.4 million or 16.5% was actually paid. The sum of US\$169.3 million remained an arrear to be carried over to another period. The inability to fully service the debt has been typical since about 1981. To further understand the gravity of this situation the foreign debt servicing burden can be compared with Guyana's total export earnings of US\$248.2 million for the year 1986.

5. Guyana's foreign debt per capita at the end of 1986 was estimated at US\$1,739. That is, if each resident of Guyana was equally liable for repayment of the foreign debt then he/she would have to pay seventeen thousand, three hundred and ninety Guyana dollars at the current official exchange rate.

6. The total internal public debt at the end of 1986 amounted to G\$6.1 billion or US\$1.38 billion<sup>1</sup>. This sum brought to US\$2.86 billion Guyana's total public debt at the end of 1986.

7. I will posit reasons for the seemingly uncontrollable build up of the debt and arrears and their impact on the economy. The measures taken in the economy to deal with the debt will be identified. Finally, Guyana's public debt will be briefly portrayed in relation to the Third World debt problem.

## 2. THE EXTERNAL PUBLIC DEBT

8. Guyana's external public debt can be conceptualised as passing through four critical periods. These periods are typified both in terms of a descriptive and a functional manifestation of the debt problem and highlight its focal aspects. The first is the period of Debt Diversification which occurred between 1965 and 1970. The second is the Nationalisation Debt period which occurred between 1971 and 1977. The third period occurred between 1978 and 1982 and is the period of Debt Rescheduling. The fourth is the period of Debt Arrears and runs from 1983 to the present. There is much continuity and overlapping between the four periods which are nevertheless differentiated as a heuristic device in the analysis. What is common to the periods is that they point to the emergence and development of Guyana's debt problem from 1965 to the present.

2.1 The Period of Debt Diversification: 1965-1970:

9. This period was indicative of an expansion of the purposes for which debt is incurred as well as a broadening of the sources of borrowing. Prior to 1965 Guyana's external borrowing was almost exclusively from the United Kingdom. However with the granting of Independence in 1966, the independent nation sought other avenues of foreign aid. By the end of 1970 loans had been contracted from the United States of America, Canada and multilateral agencies like the IBRD and the IDA. This new capacity to diversify its borrowings underlined Guyana's nationhood status.

10. During this initial period external loan utilisation was primarily for social development and economic infrastructural purposes. Loans were granted for major projects such as sea defence, rice rehabilitation, the expansion of the telephone system, education, livestock projects, aircraft purchases and airport improvement, building of roads, electricity expansion and water improvement schemes to name a few. With a few exceptions the majority of these projects were not in themselves income generating. There was therefore a heavy dependency on other sectors of the economy to generate income to repay the loans for these projects.

11. Table 1 shows Guyana's External Public Debt profile between 1965 and 1986. In 1965 the External Public Debt was US\$62.2 million. By 1970 this debt rose by 27.9% to US\$79.6 million. This represented an average annual increase of 5.2% during this five year period.

Table 1

GUYANA'S EXTERNAL DEBT (including Arrears) 1965 - 1986

US \$ Mn.

Year	Total Public External Debt	Amount Outstanding and Disbursed	Bilateral	Multi-lateral	Financial	Suppliers' Credit	Nationalisation	Bonds	Amount in Arrears	Total Debt Service	as a % of Exports	as a % of GNP
1965	62.1	62.1	35.3	0.6	0.7	0.3	-	25.2	-	-	-	-
1966	66.1	66.1	39.1	0.5	0.7	0.7	-	25.1	-	5.8	4.5	2.7
1967	61.4	61.4	38.3	0.3	0.6	0.5	-	21.7	-	6.1	4.3	2.7
1968	62.3	62.3	44.8	0.2	0.6	0.4	-	16.3	-	5.6	4.1	2.7
1969	70.6	70.6	54.3	-	-	0.2	-	16.1	-	5.1	3.4	2.7
1970	79.5	79.5	62.9	1.2	-	-	-	15.4	-	5.2	3.4	2.7
1971	145.8	145.8	73.3	2.5	-	-	52.5	17.5	-	3.8	2.5	1.7
1972	157.6	157.6	83.9	4.8	-	-	52.7	16.2	-	6.9	4.6	2.7
1973	151.4	151.4	64.3	8.7	12.5	-	51.8	14.1	-	12.4	8.6	3.1
1974	212.0	212.0	108.7	14.3	13.7	0.2	60.8	14.3	-	13.8	4.6	3.1
1975	287.5	287.5	143.0	20.0	47.7	0.9	63.6	12.3	-	14.0	4.4	3.1
1976	363.8	363.8	159.5	23.7	71.3	17.4	81.6	10.3	-	37.2	12.6	8.1
1977	404.4	404.4	179.1	28.9	79.7	25.8	79.3	11.6	-	39.0	14.2	9.1
1978	438.7	438.7	206.1	41.7	75.6	27.8	75.2	12.3	-	48.7	15.3	9.1
1979	507.1	507.1	221.3	70.6	107.6	25.3	68.8	13.5	-	48.4	15.6	4.1
1980	448.7	448.7	116.3	108.0	119.8	26.3	63.8	14.5	-	85.0	22.3	14.1
1981	694.3	660.3	292.1	173.5	110.9	20.8	55.4	7.6	34.0	96.1	26.2	16.1
1982	807.3	681.3	285.0	205.5	113.3	18.2	52.9	6.4	126.0	102.3	32.9	24.1
1983	962.5	692.6	281.3	234.5	110.9	17.1	43.0	5.8	269.9	139.8	52.6	34.1
1984	1114.0	682.5	269.7	246.2	106.0	14.3	41.7	4.6	431.5	142.3	62.4	41.1
1985	1307.5	691.9	266.5	262.4	105.9	14.4	38.1	4.6	615.6	184.2	76.0	49.1
1986	1477.4	706.2	266.2	283.9	102.3	13.9	35.5	4.4	771.2	202.7	61.4	57.1

Source : Bank of Guyana

12. During the period of Diversified Borrowing the country experienced no problems servicing its debt. As a percentage of GNP Guyana's external debt servicing had fluctuated between 2.8% in 1966 and 2.1% in 1970. As a percentage of total exports, the country's external debt servicing fluctuated between 3.4% and 4.5% between 1966 and 1970 (See figure 1 and Table 1). These statistics all reflected the relatively favourable terms the Government had managed to negotiate on its external borrowings. Loans from both Canada and the United States carried low interest rates and extended grace periods. Also, between 1965 and 1970 the maturity profile of loans granted to Guyana was constantly improving. Up to the end of 1970 Guyana's external public debt was quite manageable relative to the foreign and other earnings within the economy.

## 2.2 The Nationalisation Debt Period: 1971-1977:

13. The Nationalisation Debt period is typified by the rapid growth in the external public debt mainly as a consequence of nationalisation. During this period also Guyana's economic fortunes declined precipitously (Danns 1987 (a); Danns 1987 (b)). This gave rise to increased borrowings in an effort to support the balance of external payments and the overall economy.

14. In February of 1970 Guyana was declared a Co-operative Socialist Republic. The Government began to advocate a policy of ownership and control of resources of the society for the benefit of its people. Bold initiatives were taken by the Government to increase its involvement in and control of the economy. In 1971 the external public debt increased significantly by 83.4% over 1970. This steep

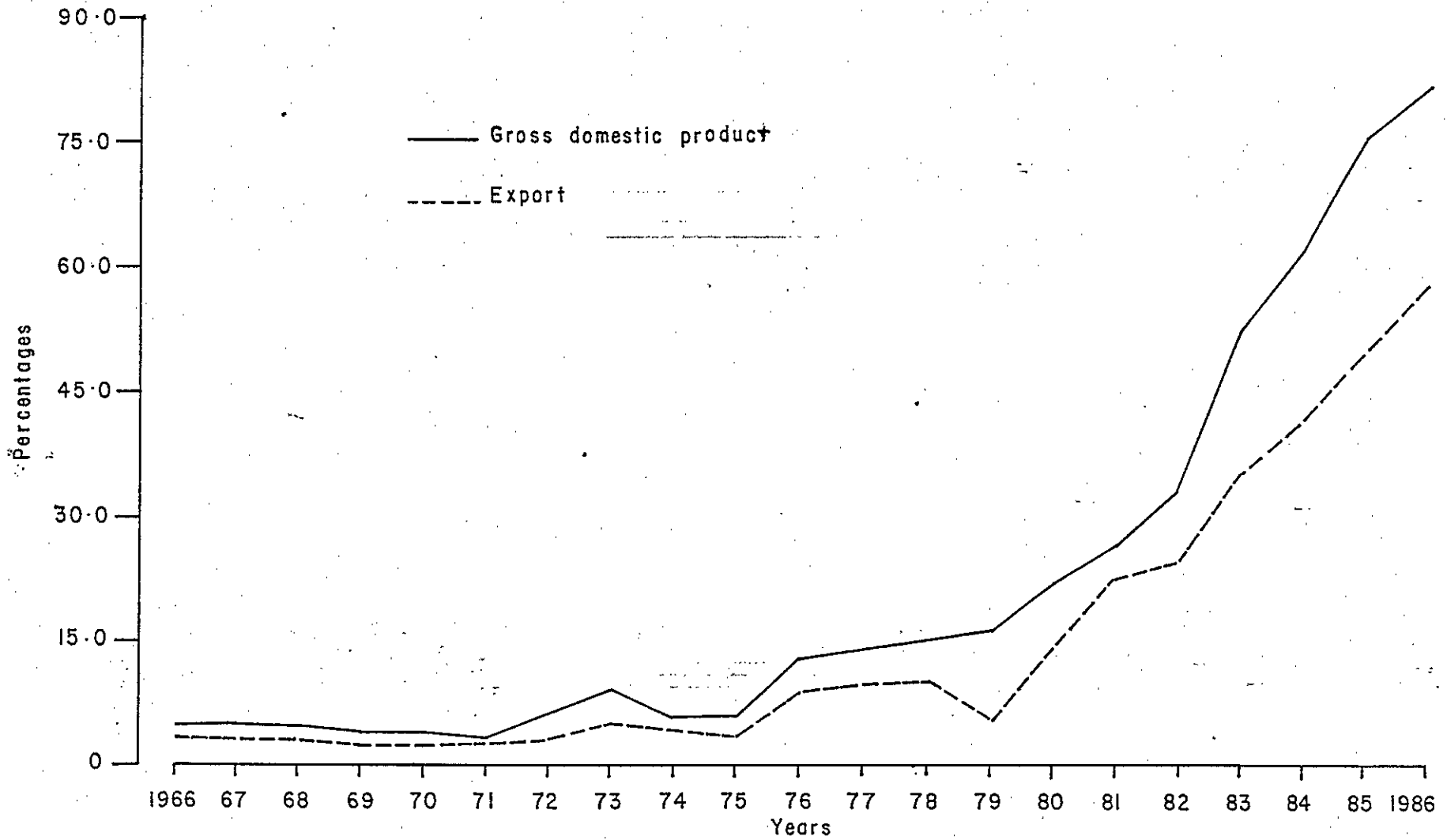


FIG.1 DEBT SERVICING AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT AND EXPORTS



rise in 1971 was as a result of the Government's nationalisation of the Demerara Bauxite Company - previously owned by Alcan, a Canadian Firm. For its purchase the Government had to pay US\$53.5 million at a 6% rate of interest over a period of 20 years. This was the first in a series of nationalisations which took place over the following six years.

15. The period 1971 to 1977 marked a tremendous build-up of external debt and completely changed Guyana's debt profile. By 1977 Guyana's external debt had increased by 408% over 1970s total to US\$404.4 million. The debt obligations that had arisen because of nationalisation by 1977 amounted to US\$79.3 million and represented 19.6% of the total external debt. Besides the Demerara Bauxite Co., the Government had nationalised Reynolds Mining - another bauxite Company, Spronstons Engineering Company, the Demerara Sugar Company, Bookers McConnell Ltd. - a trading enterprise, the West Indies Oil Company, Berger Paints Ltd. and Cable and Wireless Co. Ltd. These nationalisations obligations with the exception of the West Indies Oil Company all carried interest payments of between 6% and 8.5%. The total nationalisation debt obligations at the end of 1977 amounted to a sum as large as the total external debt of 1970.

16. Countries engage in external borrowings or negotiate external debt in order to fill one or both of two resources gaps - the savings/ investment gap or the foreign exchange gap (Bourne 1979). Guyana's nationalisations of the 1970s while officially treated as net capital inflows did not stimulate any new investment in the economy.

Thomas (1983) explained that the nationalisations represented a "commercial repurchase of Guyanese assets". He explained further that:-

"The effect of such a commercial repurchase was to turn national assets into a national foreign debt, denominated in an external currency; this meant that a heavy premium was placed on all future foreign exchange earnings".

Such an analysis is particularly true for nationalised industries such as the sugar industry and the bauxite industry which had owned and exploited vast amounts of local lands.

17. Besides debt obligations resultant from nationalisation, government had very notable increases in loans from bilateral, multilateral and financial sources and also in suppliers' credit between 1970 and 1977. Bilateral debt increased from US\$62.9 million to US\$179.1 million between 1970 and 1977. While Guyana continued to receive bilateral assistance from the traditional United Kingdom, United States of America and Canada, it had in a sense made some new acquaintances. Bilateral assistance was being obtained from some OPEC countries, the German Democratic Republic, the People's Republic of China and Yugoslavia. These new sources of borrowing were not surprising and were consistent with the Republic of Guyana's commitment to a Socialist ideology and a non aligned foreign policy. Much of the loans up to 1973 were for specific projects but the Government from 1974 had been receiving balance of payments support from bilateral sources.

18. Multilateral loans moved from US\$1 million to US\$28.9 million between 1970 and 1977. These credits were obtained from the traditional sources of the IBRD, the IDA, the CDB in addition to new sources such as the OPEC Special Fund, the IDB, the European Development Fund and the Agricultural Development Fund.

19. During the 1970-1977 period projects for which loans were negotiated included roads and bridges construction, electrification, irrigation systems repair and construction. Financing was also received for the newly established Guyana Mortgage Finance Bank and Guyana Agricultural and Industrial Bank.

20. An emergent and significant feature of the external debt in the 1970s was the rapid increase in commercial borrowings to accommodate the financing need of an expanding public sector. During 1973 and 1974 outstanding commercial debt averaged US\$13.1 million per annum but rose to an average of US\$66.1 million per annum between 1975 and 1977. This weighty foreign borrowing was to provide for the working capital needs of public enterprises in the wake of the 1970s nationalisations. This was particularly true in the sugar industry and in the bauxite industry. For the bauxite industry during the 1975-1977 period there was also a mismatching of expenditure and financing. This industry was financing its capital expansion programme with relatively short-term commercial loans. Commercial or financial loans in 1973 represented 8.2% of the external public debt, in 1977 this total represented 19.7% of the total external debt. Borrowing from commercial sources like the Euro-currency market and International Banking Corporations usually presents terms much less

favourable than loans under bilateral and multilateral agreements. Interest rates are higher and grace periods much shorter.

21. The increased borrowing from commercial sources had far reaching implications for Guyana's debt maturity profile. The maturity structure deteriorated because of the six-fold increase in loans on commercial terms between 1974 and 1977. Debt with less than 6 years' maturity accounted for 2% of the total debt in 1974 but rose to 20.9% in 1977. While in 1974 92% of all external loans had maturity of over 10 years by 1977 the ratio had deteriorated to 65%.

22. The total increased borrowings, the nationalisations and the unfavourable commercial loans during the mid 1970s had caused debt service payments to sharply increase as a ratio to export earnings from about 1975. While in 1975 this ratio was 4.4% by 1977 it increased to 14.2%. As a percentage of GNP debt servicing rose from 3.5% in 1975 to 9.4% in 1977 (See Table 1). From the commencement of the first period in 1965 to the end of the second period in 1977 Guyana's external debt increased from US\$62.2 million to US\$404.4 million. This represented an increase of 550% over 12 years. Of interest is the fact that Guyana's external debt increased 2.8 times between 1973 and 1977. In contrast it has been estimated that the total Third World external debt during the same period doubled (Taylor 1985)

23. Debt apart, the 1970s was a period of economic turmoil and fluctuating fortunes in the Guyana economy. While external debt and debt servicing had definitely contributed to the economic problems in the 1970s, it cannot be said to have truly caused the problems.

The Independent nation of Guyana inherited a structurally weak economy which it has been unable to fundamentally transform. Sugar and bauxite exports averaged approximately 75% of the total export earnings and this tendency has remained unaltered. It is therefore the earnings of these two sectors and in particular the sugar industry that determines the country's ability to import and to service debt. Anything that happens in the sugar industry, in particular, therefore has a serious implication for growth in the other sectors of the economy.

24. Economic growth during the 1970s reflected the impact of the sharp movements in the country's terms of trade. In 1974 and 1975 massive increases in the price of sugar internationally had almost tripled Guyana's sugar export earnings from 1973. Growth in the total economy had reached the levels of 7.3% and 10.8% in 1974 and 1975 respectively. The sugar earnings had increased the net international reserves from US\$16.7 million in 1973 to US\$78.9 million by the end of 1975. These earnings had served amply as a buffer for the rising prices of oil on the world market during the same period. However, by 1976 the country experienced a precipitous decline in export earnings after sugar prices in 1976 fell by 45.8%. This decline coupled with an increasing importation bill and a mounting external debt marked the beginning of an economic recession.

### 2.3 The Debt Rescheduling Period: 1978-1982:

25. The period of debt rescheduling is indicative of an inability to meet debt repayments as a consequence of Guyana's deepening economic crisis. At the beginning of 1978 the external

public debt stood at US\$404.4 million. By 1982 it had almost doubled to reach an amount of US\$807.3 million. This doubling of Guyana's internal debt during this period accorded with the general trend in the Third World, (Taylor, 1985). In this period also the total external debt had exceeded GDP for the first time in any one year. This occurred in 1979 and from 1981 to the present time (See Figure 2)

26. The foreign exchange crisis which Guyana continued to experience had occasioned significant flows of concessionary loans from bilateral and multilateral agencies during the period 1978-1982. Between 1978 and 1982 bilateral loans increased by 38.3% to a total of US\$285.0 million. Multilateral loans increased by a mammoth 392.8% to US\$205.5 million. In 1981 especially there were particularly large inflows from these two categories of creditors. A significant amount of almost US\$71 million originated from a Trinidad and Tobago Oil Facility. Other sources of funds came from the World Bank, the IMF, the IDB and OPEC. While some of these new debts were for the purpose of balance of payments support some were for long term development purposes. However these were not grants and were still to be repaid.

27. From 1978 to 1979 loans from financial sources increased from US\$75.6 million to US\$107.6 million. Many of the major public enterprises had obtained Government guaranteed loans from such sources. The largest borrower was the Guyana Bauxite Company and others included the Guyana National Co-operative Bank, the Agricultural Development Bank, Guyana Liquor Corporation, the Guyana Airways Corporation, Guyana Stores Ltd., Guyana Telecommunications and

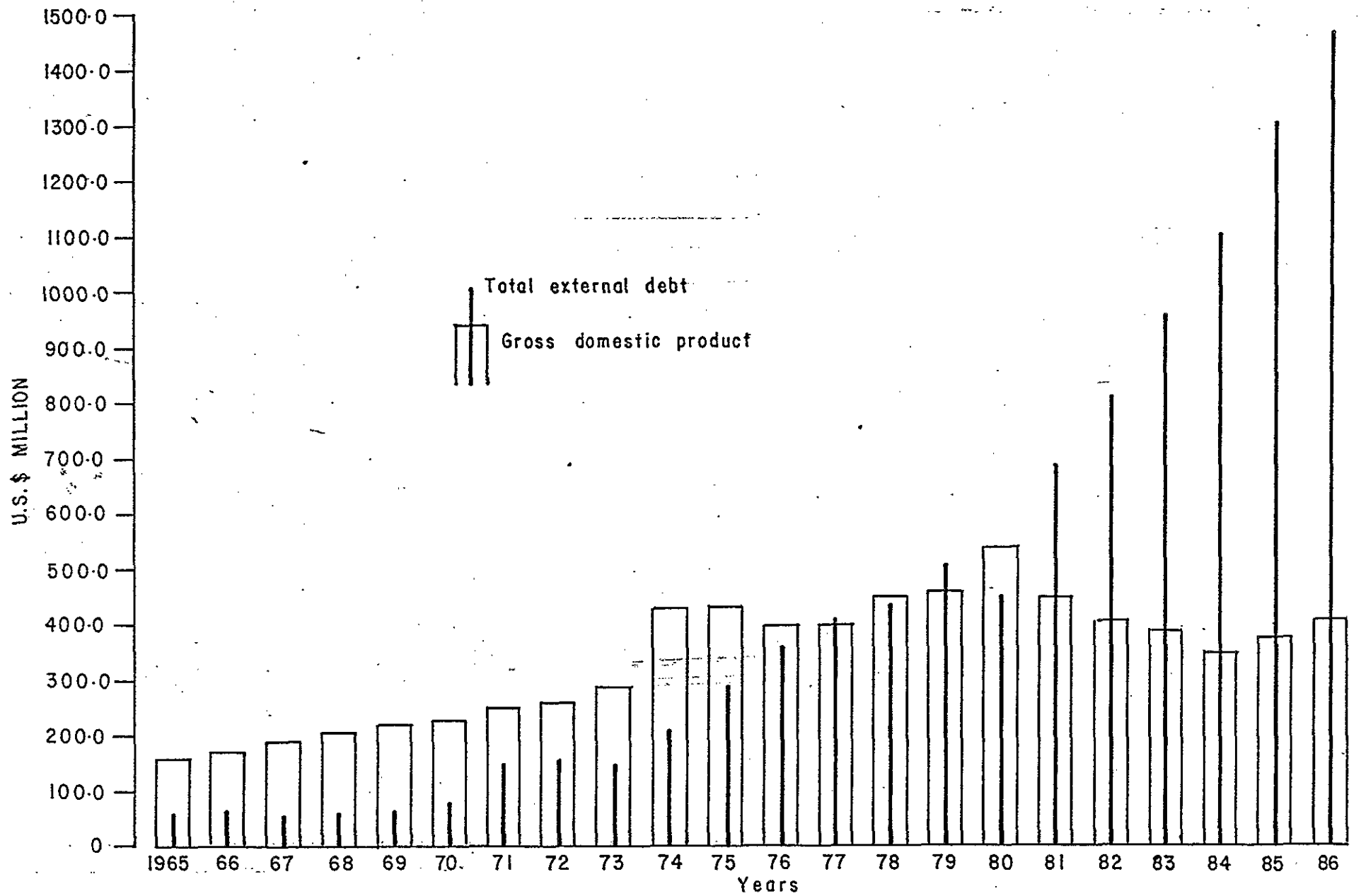


FIG. 2 TOTAL EXTERNAL DEBT AND GROSS DOMESTIC PRODUCT 1965 - 1986

Guyana Timbers Ltd. The problem with such debt is that not many of these enterprises at the time were making a profit. Very few of such enterprises were foreign exchange earners. These debts therefore remained the responsibility of the Central Government. The sources of foreign earnings within the economy remained unchanged and in this period those earnings continued to decline yet the demand for external financing by public agencies increased. This mismatch of expenditure and earnings had started to create serious problems within the economy with grave implications for the external debt.

28. In the initial period of the foreign exchange crisis Guyana had continued to service its external debt. In 1978 it was constrained to reschedule some of its debts. This did very little to alleviate its debt servicing burden which had started to become onerous by the end of the Nationalisation Debt period. In 1978 and 1979 debt servicing was US\$48.7 million and US\$48.4 million respectively. In both these years a debt servicing to export ratio of over 15% was recorded (See Table 1).

29. By 1980 Guyana's Net International Reserves had reached US\$-184.9 million after large balance of payment deficits. This situation along with the increasing internal economic problems and the total turmoil in the foreign sector had made it patently evident that debt servicing would have become very problematic into the 1980s unless drastic changes in the terms of trade had occurred.

30. Debt servicing had risen to 32.9% of total exports in 1982 and as a percentage of GDP it was 24.5% (See Table 1). By the



early 1980s there was an involuntary build up of arrears on suppliers credit and it became impossible to meet debt repayments on other types of debts. Rescheduling of the external debt was again done in 1982. By this time it had become increasingly difficult for Guyana to obtain further loans from any source as arrears on external debt had amounted to US\$126 million. The country had lost its credit-worthiness.

31. In the wider economy, by 1982 all major economic activities with the exception of rice had declined. Real GDF fell by an estimated 10% in 1982 after a similar percentage decline in 1981. The prices for most imports especially oil had risen. The performance of both production and exports were well below their 1970s levels. In US dollar terms 1982's exports earnings were at its lowest since 1973. Yet Guyana was faced with a growing debt burden in 1982 which was 5.3 times higher than that of 1973. The country had fallen into a "debt trap" from which based on current economic performance it is almost impossible to extricate itself. In short then this phase of the development of Guyana's debt problem was characterized by large increased borrowings from bilateral, multilateral and financial sources, an emergent accumulation of arrears and a loss of credit worthiness.

#### 2.4 The Debt Arrears Period: 1983-Present:

32. The Debt Arrears period is typified by a significantly large build up of foreign debt arrears, stemming from the inability of the economy to service previously contracted debts and, a drastic reduction of avenues of external assistance in the form of loans.

33. At the beginning of 1983 the foreign debt stood at US\$807.3 million inclusive of arrears of US\$126.0 million or (15.6%). By 1986 the total external public debt had reached US\$1,477.5 million. Of this sum US\$771.2 million or 52.2% represented an accumulated arrears on previously contracted debt and interest on the arrears. The actual debt disbursed and outstanding rose by only 3.7% over 1983's outstanding amount to a total of US\$706.3 million within the Debt Arrears period. The only sources of external financing was from multilateral agencies. Loans disbursed from multilateral agencies increased from US\$205.5 million at the beginning of 1983 to US\$283.9 million at the end of 1986. The disbursed sums were for projects in the Bauxite and Agricultural sectors of the economy.

34. The total debt servicing on the external debt rose from US\$102.3 million at the end of 1982 to almost double (US\$202.7 million) at the end of 1986. A debt service payment of US\$215.8 million is proposed for 1987. Of the scheduled debt service payments lesser and lesser sums were actually paid on the debt during this final period of Guyana's external debt development. This meant that larger and larger balances were being recorded as arrears. In 1983 Guyana paid US\$65.6 million or 46.9% of the accrued debt service payments. In 1984 a sum of US\$54.7 million or 38.4% of scheduled debt payments was actually paid. By 1986 a sum of only US\$33.4 million or 16.5% of scheduled payments was paid. It is estimated that by the end of 1987 an even lesser sum of US\$30.6 million will be paid on the total debt service of US\$215.8 million (See Table 2).

TABLE 2

DEBT SERVICE PAYMENTS: 1982-86

In US\$ Million

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	1982	1983	1984	1985	1986
Total debt service accrual	102.3	139.8	142.3	184.2	202.7
Actual sum paid	63.1	65.6	54.7	32.7	33.4
In Arrears	39.2	74.2	87.6	151.5	169.3

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SOURCE: Bank of Guyana

35. At this point it is virtually impossible for Guyana to service its external debt and at the same time sustain any reasonable levels of importation for the economy. Scheduled debt repayments in 1986 were 81.4% of Guyana's total export earnings. At the same time importation in the Guyana economy in 1986 was 102% of total export earnings. The deficit on the balance of payments amounted to US\$85.4 million and Net International Reserves were at a level of US\$-543.3 million at the end of 1986.

36. Guyana seems to have fallen completely in a debt dilemma. While in terms of the total Third World debt Guyana's debt occupy a very miniscule place, its debt burden has and will continue to be a very focal and revealing part of the operations of the entire economy. In 1986 the scheduled debt service payment occupied a 57.8%

share of the GNP. Unless production and export earnings can dramatically increase Guyana will continue to build up arrears and increase its external debt. In the meanwhile creditors will continue to be wary about loaning any significant sums to the country. This will definitely have implications for investment and economic growth on the whole. To compound this situation Guyana's main exports - Sugar and Bauxite - show very limited potential for attracting increased prices on the world market. Also, the internal attempts at diversifying the economy are presently not impacting in any significant way on the country's foreign earnings.

### 3. THE INTERNAL PUBLIC DEBT

37. To finance faltering state enterprises and its regular operations the Central Government has been incurring very large deficits and has become by far the largest borrower from the local banking system. In 1967 the banking system claims on the public sector accounted for 37% of its total claims on the public and private sector. In 1970 it increased to 40%. By 1975 it increased dramatically to 70%. In 1980 it continued to spiral to 86.7% and by 1984 reached a staggering 89.3% (See Fig. 3).

38. Table 3 shows that the Internal Public debt at the end of 1965 stood at G\$41.6 million but had risen by more than 157% to G\$107.2 million at the end of 1970. Within this five year period of

Table 3

PUBLIC FINANCES AND INTERNAL DEBT

G \$ Mn.

YEAR	Current Surplus + / Deficit -	Capital Deficit	Overall Deficit	Domestic Borrowing	% of Deficit financed Internally	Accumulated Total Internal Debt	Overall Deficit as a % of GDP	Domestic Borrowing as a % of GDP
1965	-4.7	-17.6	-22.6	21.1	94.6	41.6	6.9	6.5
1966	1.2	-24.8	-23.6	12.7	53.8	58.0	6.9	3.7
1967	5.0	-27.1	-22.1	-1.3	0.0	63.4	5.9	0.0
1968	11.7	-32.1	-20.4	-9.7	47.5	72.7	5.0	2.4
1969	10.9	-35.9	-25.0	11.5	56.5	87.8	5.7	2.6
1970	14.0	-48.3	-34.3	17.3	50.4	107.2	7.3	3.7
1971	-1.8	-158.0	-159.8	39.3	24.6	148.4	33.3	8.0
1972	6.6	-54.5	-47.9	34.1	71.2	189.2	9.0	6.4
1973	-37.9	-79.2	-117.1	104.3	89.1	282.9	20.3	18.1
1974	72.0	-102.3	-30.3	-20.0	0.0	269.1	3.5	0.0
1975	167.7	-288.0	-120.3	34.1	28.3	399.2	11.0	3.1
1976	-122.5	-286.0	-108.5	301.0	73.7	657.2	39.9	29.4
1977	-9.1	-188.6	-190.7	186.0	97.5	838.9	18.7	18.2
1978	-60.2	-147.5	-207.7	168.8	81.3	993.2	18.3	14.9
1979	-102.4	-174.6	-277.0	201.3	72.7	1270.9	23.5	17.1
1980	-146.3	-311.7	-458.0	364.9	79.7	1636.7	34.3	27.3
1981	-245.8	-339.4	-585.2	200.7	34.3	1779.2	43.3	14.9
1982	-280.9	-673.4	-954.3	898.2	94.1	2758.0	76.3	71.9
1983	-395.3	-178.3	-573.6	536.8	93.6	3809.5	47.8	44.7
1984	-624.4	-131.7	-756.1	702.2	92.8	4544.0	53.6	49.8
1985	-375.5	-288.3	-663.8	601.6	90.6	5412.0	40.7	36.9
1986	-465.4	-1224.5	-1689.9	1446.4	85.6	6092.8	92.9	79.5

Source : Bank of Guyana Annual Reports & IMF Estimates

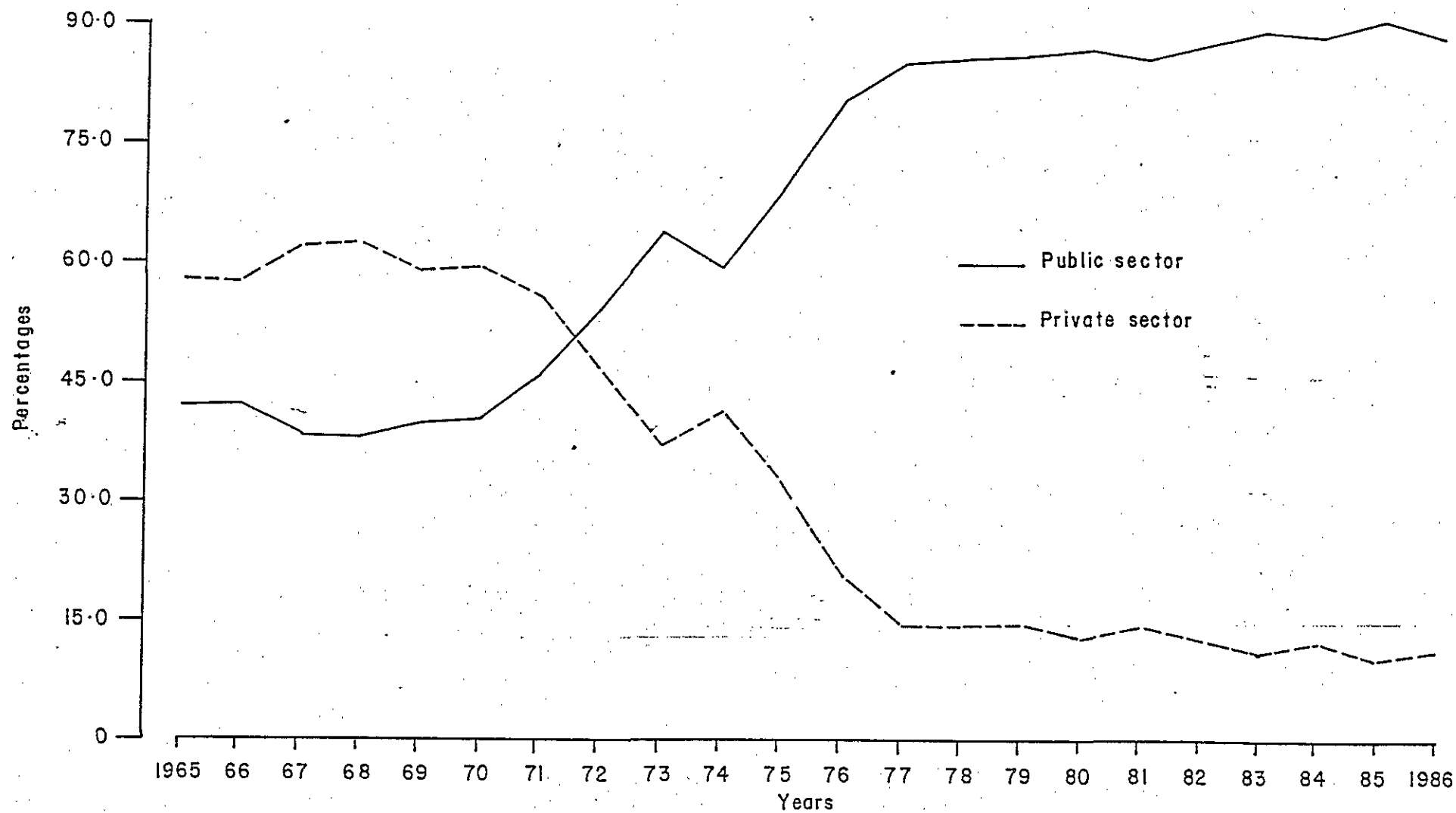


FIG. 3 BANKING SYSTEM CREDIT TO PUBLIC AND PRIVATE SECTORS 1965-1986

the newly independent nation there were overall fiscal deficits which were partly financed through domestic borrowing. On an average, during this period 41.9% of the overall fiscal deficit was financed locally while external funds served to finance the remainder.

39. An interesting feature of the 1966-70 period was that the Government in each year recorded a surplus on the Current Account thus using all available finances for the capital account deficit. While the disbursement of debt financing was for longer term capital projects the Government was increasingly financing these investments through the use of short term financial instruments. Table 4 shows that while in 1965 short term financing accounted for 13.2% of the total internal debt by 1970 short term financing had accounted for 33.6%.

40. During the period 1971 to 1976 deficits on the current account of the public finances were recorded in 3 years. These years were 1971, 1973 and 1976. During this period the Government continued to increase its investment in capital projects and in all years deficits were recorded in the capital account. This period coincided with the Government's expansion into other sectors of the economy. The capital deficit in 1970 was G\$48.3 million but by 1976 this deficit was G\$286 million. From about 1973 to 1976 the Government's capital expenditure grew sharply. There were quite substantial increases in fixed capital formation and in nationalisation. However the nationalisations were financed by external borrowing. There were

Table 4

TOTAL INTERNAL PUBLIC DEBT

G\$bn.

YEAR	Total	Short Term	Long Term
1965	41.6	8.3	33.3
1966	58.1	17.4	40.7
1967	63.5	15.2	48.3
1968	72.7	21.2	51.5
1969	87.8	32.3	55.5
1970	107.2	39.3	67.9
1971	144.6	67.5	77.1
1972	189.4	86.0	103.4
1973	289.0	157.8	131.2
1974	269.1	112.4	156.7
1975	399.2	215.4	183.8
1976	657.2	448.0	209.2
1977	838.9	592.3	246.6
1978	993.2	699.3	293.9
1979	1,270.9	916.3	354.6
1980	1,636.7	1,191.3	445.4
1981	1,779.2	1,245.7	533.5
1982	2,758.0	2,069.3	688.7
1983	3,809.5	2,966.7	842.8
1984	4,544.0	2,993.7	1,550.3
1985	5,412.0	3,615.1	1,796.9
1986	6,092.8	3,985.1	2,107.7

Source : Bank of Guyana Annual Report (1974)  
Bank of Guyana Statistical Bulletin (1986)



also increased social infrastructure in the areas of health and education which required some capital expenditure.

41. As earlier explained up to 1971 the banks in Guyana had invariably lent more to the private sector than to the public sector. However from 1972 this relationship changed and the gap between the banks' lending to the private sector and the public sector has since widened to a great extent. In addition the Central Bank also began lending increasingly large amounts to Government.

42. By 1975 the Government's short term internal debt exceeded its long term internal debt. This had started to have implications for the servicing of these debts as the maturity profile of Government's internal debt had deteriorated.

43. From 1977 to the present time the Public Finance had deteriorated to such a state that deficits on both the current and capital accounts were recorded for each year. The current account deficits became progressively larger between 1977 and 1984. In 1977 the current deficit was G\$9.1 million; in 1981 this deficit had reached G\$245.8 million and in 1984 it was G\$624.4 million.

44. As the Central Government's deficit continued to grow from 1977, the sources of external financing were becoming scarcer as Guyana started to project a less than creditworthy picture to foreign creditors. Greater percentages of financing for the deficits therefore had to be generated from internal borrowing. With the exception of 1981 in which year only 34% of the deficit was financed

locally, between 72% and 97% of the fiscal deficits were financed from local sources during the period 1977 and 1986.

45. An overwhelming proportion of the Government's internal debt during this period was on a short term basis. Greenidge (1985) points out that in relation to Guyana's internal indebtedness "Short term cash flows, long-term developmental needs and basic imbalances were all met primarily by borrowing short-term. Such borrowing is, not surprising, more expensive than long term borrowing". Between 1977 and 1986 an average of 29% of total yearly internal debt was long-term in nature while the capital deficit during this period averaged 58% annually. This situation represented a similar mismatching of expenditure and debt that occurred with Guyana's external debt.

46. Large sums of current expenditure involved local debt repayment to the banking system and the public at large. A significant percentage of public borrowings in any one year went to the repayment of previously contracted debts.

47. The internal public debt had accumulated to an amount of G\$6.1 billion by the end of 1986. This represented an increase of 626.3% from 1977. At the end of 1986, a sum of G\$3.9 billion (64% of the internal debt) was owed to the banking system. Of this sum the Bank of Guyana had loaned G\$2.8 billion to the Central Government. Mellon 1933 remarked that "a nation is not in danger of financial disaster because it owes itself money" (as cited in Greenidge, 1985). Be that as it may, a Government's present deficits and indebtedness

send signals and in fact economic shocks to all other sectors of the economy. Government's spending and subsequent indebtedness has serious implications for money supply and the rate of inflation in particular. Also, such unfettered spending is at variance with attempts to correct the external economic imbalances which developed from 1976 and with adjustment programmes proposed by the IMF. Further, in an attempt to cover the fiscal deficits the Bank of Guyana has for years been required to lend to Central Government far in excess of its statutory limits.

#### 4. COPING WITH THE PUBLIC DEBT

48. The public debt in Guyana has risen to virtually uncontrollable levels. The internal debt is as a result of large budgetary deficits. The external debt can be attributed in part to declining production and export earnings. In both cases however the less than satisfactory fiscal and financial management of the economy are largely responsible for the debt trap into which Guyana has fallen. According to Kempe Hope "... developing countries themselves bear the fundamental responsibility for their debt management. Most of the measures to avoid debt difficulties lie with them, rather than with the capital providers" (1985:33). In a very fundamental way Guyana's debt problem is symptomatic of efforts at transforming an underdeveloped economy. Importantly too, it is suggestive of a need for the state to reassess the nature and degree of its intervention in the economy.

49. Guyana's Finance Minister, Carl Greenidge, has indicated the government's commitment to repay all external debts based on a prioritisation of the debt categories as follows:-

1. Payments to Multilateral Institutions e.g. the IMF, IDB, CDB.
2. Honouring of existing deferment arrangements with commercial banks.
3. Payments for Nationalisations.
4. Repaying bilateral debts.
5. Liquidating commercial arrears (Greenidge 1987).

50. Guyana has been unable to service fully even debts in the first priority category. In fact it is only the IDB loans that are presently being serviced. The country is presently seeking bridging finance for its debt to the IMF. It is necessary to first clear arrears to this institution in order to negotiate a further facility.

51. Apart from prioritisation of the external debt there has been some measure of debt rescheduling. A deferment payment agreement with a consortium of 29 banks was signed in 1982 in which the principal owed to these banks was converted into a longer term loan. At the same time the agreed interest payment was 2.5% above Libor (Greenidge 1987).

52. Another strategy employed by the Government is entering into agreement with specific creditors for the liquidisation of an outstanding debt. In 1984 such an agreement was reached with Alcan for the nationalisation debt. In this regard there has been a

five-year extension to the original 20 year term agreement. Also the Government had managed to preserve the original interest rate of 6% and to link the retirement of the debt to new contractual deliveries of bauxite.

53. A third measure involved countertrade arrangements. Products have been exported from Guyana in exchange for some imported items coupled with an agreement to liquidate previously contracted debts. This type of arrangement has mainly been employed for the liquidation of suppliers credit. A similar compensatory trade agreement being pursued is the establishment of joint ventures. In this arrangement a local exporting entity is provided with inputs from a finance and marketing entity in a country to which Guyana is indebted. In turn the local company produces and exports the agreed commodities to the finance company which in turn pays the creditors in that country a sum equivalent to the export proceeds less the value of the inputs. Locally, the exporting entity is paid by the Government the equivalent of the export. Such an agreement along with other compensatory trade agreements have the dual purpose of liquidating the country's debt and increasing exports.

54. While the countertrade/joint venture strategy has been only applied to debt with Caricom countries Guyana has tried to apply it to other creditor nations. It has been successful in applying it to Venezuela but only in terms of recently contracted suppliers credit (Greenidge 1987).

55. Guyana has also been negotiating to have the balances on some bilateral loans converted to grants. So far only Canada has assisted in this regard. The other bilateral debts remain largely unpaid. There has been some other avenues particularly in terms of debt-conversion that are presently being considered but no concrete agreements have been reached.

56. The efforts so far taken by government to deal with its massive external debt are neither sufficient nor fundamental in reducing the debt burden. Effectively liquidating the external debt must hinge on the country being able to vastly expand and improve its export capabilities and earnings. So far, efforts in this direction are inadequate and resulting success minimal (Danns 1987 (b)).

57. Coping with the internal debt has been somewhat less difficult for the government. This is primarily because there are very limited avenues of investments for financial entities in Guyana and there is excessive liquidity in the financial system. The government borrows and borrows again to fulfil its internal debt obligations.

58. Reducing the internal public indebtedness hinges in the first place on the government being able to transform its fiscal deficits into surpluses. The government has to a large extent failed in its attempts to reduce the fiscal deficits - and has reverted to converting its short term internal debt in an attempt to reduce the burden of interest and amortization payments.

59. In 1984 the government made provision to have a new issue of fixed-date debentures in lieu of interest payments on financial securities previously held. Another initiative was to have treasury-bill holders convert their 3-months securities to 24-months treasury bills on a voluntary basis. This restructuring of the maturities of internal debt served to reduce the debt charges in 1985 from its 1984 and 1984 levels. However by 1986 the internal debt charges had risen by 45% over the 1985 charges.

60. In 1987 again there has been the rescheduling of internal debt in favour of longer-term securities. There has been the introduction of one-year treasury-bill at a rate of 13.5%. The government's 91-day treasury bill no longer carries a fixed interest rate but has a new competitive-tendering feature to it. This allows the government to sell its treasury bill at the rates best suited to them. Also in an effort to delimit investment in short term security and encourage investment in longer-term government securities the government has placed a ceiling on the total purchase of treasury bills by financial entities. This ceiling also serves the purpose of reducing the discount rate.

61. In addition the government has increased interest rates on 5-year and 10-year debentures but has introduced moratoria on interest payment of 3 and 5 years respectively on these securities. With these measures in place, the government will be able to postpone for some time the burden of interest payments on its internal debt.

62. The year 1987 witnessed a government announcement of a policy of "Purposeful Economic Adjustment". Fundamental to this policy is an adoption of a seemingly more realistic approach to the public sector, its expenditure and its indebtedness. In some ways this adjustment may have started in 1986.

63. The first of the new adjustment measures was aimed at minimising losses of public corporations and reducing their dependency on the Central Government for financing. In 1986 the government agreed to close or sell public entities which operations were proving a liability to the entire public sector. Two public corporations - The Guyana Timbers Limited and Savannah Bicycle Factory - along with two factories of the Guyana Sugar Corporation were subsequently closed. Other policy measures included the constant review of the corporations' pricing policy and the rationalisation of expenditure in the big public entities. This rationalisation includes the eliminating of some social and other costs. The Central Government itself proposed expenditure-switching techniques for the benefit of productive agencies and the reviewing of staffing and other costs.

64. In 1987 the Guyana dollar was devalued by 127% (in local dollar terms) to a new parity of G\$10 = US\$1. The pricing objective of this devaluation was not to benefit the economy by improving the competitiveness of the country's exports and reducing the demand for imports but rather it was aimed at improving the financial health of a major exporting public corporation - the Guyana Sugar Corporation. This corporation has in recent years been receiving equity contributions from the Central Government. In the presentation of the



1987 Budget Speech the Minister of Finance noted that on the basis of the G\$4.30 = US\$1 rate the Guyana Sugar Industry did not make a profit.

65. The above measures are expected to reduce the budgetary deficit in 1987 to almost one half of the 1986 deficit. A continuation of the adjustment measures is hoped to help reduce the government's internal indebtedness. The adumbration of these deficit reducing measures is some indication of a return to prudent financial and fiscal management.

#### 5. GUYANA'S DEBT BURDEN - A THIRD WORLD DILEMMA

66. Guyana's debt burden must be seen in a broader context as an economic problem of Third World countries in general. New nations are immediately faced with a number of Developmental Debt Imperatives (DDIs). The record of economies managed by colonial governments in this region indicates that the public debt was always a very small proportion of GDP. Further, the Central Government's current expenditure hardly, if ever exceeded current revenue. The Development of colonies was neither a serious concern of colonial governments nor colonial ruling classes. The governments of new underdeveloped nations are immediately faced with development imperatives the furtherance of which require incurring substantial debt. An examination of the composition of Guyana's Public debt suggests that Guyana's DDIs include borrowing to finance the development of infrastructure, education and training, health and

social welfare, communication, agriculture and other economic activities.

67. Developing countries confronted with the task of borrowing externally to finance DDIs are often constrained to accept credit on less than favourable terms. Bourne (1987) points to the constraints faced by "A small country in the world of big finance". Immediately then small countries like Guyana incur a debt burden that mortgages their prospects for future development.

68. In the case of Guyana the nationalisation of the assets of multinationals which controlled the economy did not yield the anticipated results of greater economic viability. Instead, the policy of nationalisation backfired under pressure to procure markets and to obtain maintenance funds for nationalised entities among other factors. The government in addition was saddled with having to repay multinationals for their assets. As a consequence the debt profile of the country was further aggravated.

69. Prudent fiscal and financial management of the affairs of new nations are rarely achieved. Mismanagement is invariably a feature of new governments with even the best of intentions. Guyana has experienced the failure of projects like the Glass Factory and the Mahdia road project for which external debts were incurred. Further, there are instances where inadequate funding for projects commenced have resulted in inordinate and costly delays in completion or else abandonment. Guyana was also faced with the unfortunate experience of having its bigger and more powerful neighbour Venezuela discourage

external investment and loans for its Upper Mazaruni Hydro Electric Project after considerable sums were invested for feasibility studies and other purposes. Such causation coupled with an inability of the economy to generate adequate levels of production are sure recipes for a strangling debt burden.

70. From a regional standpoint Guyana's debt problem has seriously threatened the viability of the regional economic movement and soured relations with sister Caricom countries. Trinidad from which Guyana obtained its supplies of fuel has ceased to export its fuel to Guyana because of a large outstanding debt. Further Guyana's large indebtedness to the Caricom Multilateral Clearing Facility (CMCF) and its inability to service this debt has halted the operations of this facility. The functional tolerance of the Caribbean Development Bank has been stretched to its limits to accommodate Guyana's indebtedness. The debt problem of Guyana then has serious implications for its Caricom neighbours and its solution must involve their tolerant support in the interest of the future of viability of Caricom. In the final analysis however, Guyana's debt burden remains a problem the solution to which must be worked out in the economy itself.

FOOTNOTE

1. End of 1986 rate of US\$1=G\$4.40 used. The current official exchange rate is US\$1=G\$10.

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