



END OF YEAR OUTCOME 2016

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COOPERATIVE REPUBLIC OF GUYANA

**ELEVENTH PARLIAMENT
OF THE
COOPERATIVE REPUBLIC OF GUYANA
UNDER THE
CONSTITUTION OF THE
COOPERATIVE REPUBLIC OF GUYANA**

FIRST SESSION 2017

END OF YEAR OUTCOME - 2016

Honourable Winston DaCosta Jordan, M.P.

Minister of Finance

April 13, 2017

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1. Introduction

1.1 Budget 2017, *Building a Diversified, Green Economy: Delivering the Good Life to All Guyanese*, was presented to Parliament on 28th November 2016. It was the first Budget in four decades to be presented before the start of the fiscal year. The Government made delivering a timely Budget a priority, in order to support economic management; financial management; and effective implementation of government's policies. By presenting the Budget before the beginning of the fiscal year, Budget Agencies have a greater opportunity and more time to execute their annual budgets, allowing programmes that are critical to our country's development to move forward expeditiously.

1.2 Because Budget 2017 was laid in Parliament before the end of the calendar year, the 2016 economic and fiscal data presented in the Budget were projections based on actual data available at the time the Budget was prepared, and forecasts for the remaining months of 2016. These projections were prepared in a collaborative process by the Macro-Fiscal Forecasting Committee, which includes senior and technical staff from the Ministry of Finance, Bureau of Statistics, Bank of Guyana, and Guyana Revenue Authority.

1.3 To support full transparency and accountability regarding both fiscal performance and the accuracy of economic forecasting, this Government has committed to presenting Parliament with an End of Year Outcome - 2016 statement of actual economic and fiscal data for 2016 within the first half of 2017. The information contained herein represents an update to the projected data presented in Budget 2017 and is compiled using data estimates as of April 7, 2017. This End of Year Outcome - 2016 explains any notable differences between the projections and actual data, and provides an updated appraisal of economic conditions in 2016, to better guide policy going forward.

2. Global Economic Development

2.1 The global economic environment at the end of 2016 was largely in line with the conditions reported in the 2017 Budget Speech. The IMF, in its October World Economic Outlook, projected 2016 global growth at 3.1 percent. This estimate was unchanged in its January World Economic Outlook Update.

2.2 The outlook for the global economy as a whole remained generally unchanged, with the IMF projecting global growth for 2017 at 3.4 percent in its January Update. However, growth prospects for advanced economies have improved since the 2017 Budget Speech, in part reflecting stronger than expected economic activity in the second half of 2016. In contrast, prospects for developing and emerging market economies worsened slightly, as financial conditions have tightened. In its January Update, the IMF revised its 2017 projection for growth in advanced countries up from 1.8 percent to 1.9 percent, and revised its projection for growth in developing and emerging market economies down from 4.6 percent to 4.5 percent.

2.3 Since the 2017 Budget Speech, the outlook for Latin America and the Caribbean has both deteriorated and become more uncertain. The IMF World Economic Outlook January Update revised its 2017 growth projection for the region down from 1.6 percent to 1.2 percent. The downward revision reflects deepening crisis in Venezuela, weaker-than-expected growth in Brazil and Argentina in the second half of 2016, and uncertainty regarding Mexico's economic relationship with the United States under the new administration.

2.4 The outlook for commodity prices was largely unchanged between the Budget Speech and the end of 2016. The average international price of gold for 2016 was US\$1,249, up 7.6 percent compared with 2015. According to the World Bank's Commodity Markets Outlook for January 2017, gold prices are still expected to face downward pressure in 2017 due to higher projected interest rates. The World Bank's

projections for oil prices were unchanged, at US\$55 per barrel in 2017, up from an average of US\$43 per barrel for 2016.

2.5 The risks noted in the 2017 Budget Speech remain relevant for our relatively undiversified economy. These include unfavorable commodity price movements, climate change and adverse weather events, internal financial distress in our major industries, and de-risking in the banking sector. In addition to these risks, foreign currency shortages in the Caribbean region have become a growing concern since the Budget Speech was delivered. The downward revision to projected growth in the Latin American and Caribbean region also suggests that the risk of adverse shocks to demand for our exports has increased. These challenges underscore the importance of effectively implementing the programmes and policies outlined in the 2017 Budget, so that we can advance towards our goal of becoming a more diversified and resilient economy.

3. Domestic Development

A. Real Sector

3.1 Real gross domestic product increased by 3.3 percent in 2016, 0.7 percentage points higher than the 2.6 percent growth rate projected at the time of the 2017 Budget. The improvement was due to stronger-than-expected performance in the gold, fishing, and construction industries. Final production for the sugar and rice industries was below the projections at the time of the presentation of Budget 2007, as was output in the manufacturing sector. Table 1 below, presents three sets of real GDP growth figures for 2016: growth as projected in the 2016 Budget, growth as projected at the time of the presentation of the 2017 Budget, and revised growth as at March 2017.

Table 1.
PRODUCTION OF SELECTED COMMODITIES

Item	2016 Budget (As in Budget 2016)	2016 Revised (As at November 2016 in Budget 2017)	2016 Actual (As at March 2017)
Sugar, tonnes	242,287	188,000	183,400
Rice, tonnes	630,028	600,000	534,450
Bauxite, tonnes	1,526,467	1,591,045	1,443,281
Gold, ounces	550,000	644,816	712,706
Forestry, cubic metres	392,469	300,664	282,085

Source: Bureau of Statistics

3.2 Overall, the agriculture, fishing and forestry sector contracted by 10.4 percent in 2016, 0.9 percentage points more than the rate projected at the time of the presentation of the 2017 Budget. Fishing and other crops were the only industries in this sector to experience positive growth. Sugar production contracted even further than projected in November 2016, as the industry underestimated the negative impacts of late planting of the second crop on production; in addition, the late arrival of spare parts for factories negatively affected the processing stage of production. Rice production also performed worse than projected, due to lower-than-expected yields and acreage related to late planting.

Table 2.
ANNUAL REAL GDP GROWTH RATES BY SECTOR

Item	2016 Budget (As in Budget 2016)	2016 Revised (As in Budget 2017)	2016 Revised (As at March 2017)
Agriculture, Fishing and Forestry	0.3	-9.5	-10.4
Sugar	4.8	-18.7	-20.7
Rice	-8.4	-13.6	-22.3
Other Crops	2.5	2.5	2.5
Livestock	0.5	-5.1	-5.6
Fishing	1.5	11.8	17.5
Forestry	2.5	-33.3	-27.3
Mining and Quarrying	16.6	35.7	45.3
Bauxite	0.0	9.6	0.1
Gold	22.0	43.0	58.1
Other	4.4	22.1	21.4
Manufacturing	-0.7	-7.1	-9.5
Sugar	4.8	-18.7	-20.7
Rice	-7.8	-12.2	-21.8
Other Manufacturing	2.4	-1.2	0.6
Electricity and Water	3.6	8.4	9.5
Construction	10.5	3.2	6.3
Services Industries	2.9	1.3	0.7
Wholesale and Retail Trade	3.9	-3.8	-1.8
Transportation and Storage	2.8	2.6	0.7
Information and Communication	2.8	2.1	1.2
Financial and Insurance Activities	2.9	3.6	2.5
Public Administration	1.2	1.2	0.0
Education	2.5	2.5	1.5
Health and Social Services	2.5	1.4	1.1
Real Estate Activities	3.3	1.4	1.2
Other Service Activities	2.5	8.5	5.7
TOTAL	4.4	2.6	3.3
Non-Sugar Growth Rate (%)	4.3	3.6	4.4

Source: Bureau of Statistics

However, livestock production was near projections while forestry production contracted by less than projected, falling 27.3 percent compared with a projected 33.3 percent, reflecting good performance in the construction industry. Fishing grew by 5.8 percentage points more than 11.8 percent projected, due partly to growth in production of tuna, a relatively high-priced product.

3.3 The mining and quarrying sector grew by a phenomenal 45.3 percent in 2016, far exceeding the 35.7 percent growth projected at the time of the presentation of the 2017 Budget. The improved performance was attributed to stronger than projected growth in the gold industry, which grew by 58.1 percent in 2016, performing better than the 43 percent growth projected at the time of the presentation of the 2017 Budget, reflecting an unexpected spike in gold production in December, due to higher-than-expected production by both the foreign companies and small and medium-sized miners. (See Table 3.) Output in the bauxite industry grew by 0.1 percent, although well below the 9.6 percent projected at the time of the presentation of the 2017 Budget. Growth in the other mining and quarrying sector, which includes production of diamonds, sand and stone, was largely in line with projections.

Table 3.
GOLD PRODUCTION BY INDUSTRY PARTICIPANT

	2016 Production Projected at the time of the presentation of the 2017 Budget	Actual 2016 Production
Guyana Goldfields, Inc.	150,000	161,000
Troy Resources Limited	50,000	69,000
Small and medium-sized miners	444,000	482,000

3.4 The manufacturing sector contracted by 9.5 percent in 2016, performing worse than the 7.1 percent contraction estimated at the time of the presentation of the 2017 Budget, as a result of subpar performances in the rice and sugar industries.

3.5 The construction industry grew by 6.3 percent in 2016, better than the anticipated 3.2 percent growth at the time of the presentation of the 2017 Budget.

3.6 The services sector grew a modest 0.7 percent in 2016, about half of the expected 1.3 percent projected at the time of the presentation of the 2017 Budget. All subsectors had growth rates slightly below their projections, with the exception of wholesale and retail trade, which contracted by 1.8 percent, significantly less than the projected 3.8 percent.

B. External Sector

3.7 The overall balance of payments narrowed to a deficit of US\$34.4 million in 2016, from a deficit of US\$107.7 million in 2015. The deficit was slightly larger than the US\$29.2 million projected at the time of the presentation of the 2017 Budget. The current account was stronger than projected, while the capital account was weaker than projected.

3.8 The current account balance improved to a surplus of US\$13.0 million in 2016, from a deficit of US\$181.5 million in 2015, notably the first current account surplus recorded in nearly four decades. Merchandise exports were larger than projected, as exports of gold and other exports were above expectation in the last two months of the year. Also, imports were recorded at US\$1.4 billion, well below the US\$1.6 billion projected at the time of the presentation of the 2017 Budget. As a result, the merchandise trade deficit of US\$7.2 million was considerably lower than the projected deficit of US\$185.5 million. Net remittances were also stronger than forecast, with net transfers recorded at US\$320.4 million, from the projected US\$274.4 million. However, the stronger merchandise trade balance and stronger transfers were partly offset by a larger-than-projected deficit in net non factor services.

3.9 The capital account weakened to a \$US13.2 million deficit, from a projected surplus of US\$71.6 million surplus at the time of the presentation of the 2017 Budget. This was largely on account of overestimation of foreign direct investment inflows, and larger than expected foreign direct investment outflows in late 2016. Net outflows of short term capital totalled US\$4.4 million, much smaller than the anticipated outflows of US\$40.7 million.

3.10 The 2016 balance of payments deficit was financed by debt relief and debt forgiveness of US\$55.4 million, which was in line with the projections in the 2017 Budget. This allowed for a US\$21 million increase in net foreign assets of the Bank of Guyana. Due to the larger-than-projected balance of payments deficit, the increase in net foreign assets was lower than the US\$26.1 million increase projected at the time of the presentation of the 2017 Budget. Gross reserves of the Bank of Guyana were equal to about 4 months of import cover at the end of 2016, well above the 3-month minimum benchmark for reserve adequacy.

C. Monetary Sector

3.11 Broad money (M2) grew by 5 percent over the 12 months ending in December 2016. This was faster than the 3.8 percent rate of growth projected at the time of the presentation of the 2017 Budget. The difference was due to much higher-than-expected growth in demand deposits, which increased by 14.7 percent over the period. Currency in circulation increased by 9.5 percent, approximately in line with projections. Time and savings deposits increased by only 1 percent over the 12 months ending in December 2016, slower than the projected growth rate of 2 percent.

3.12 Net domestic credit of the banking system increased by 7.6 percent over the 12 months ending in December. This increase was larger than the 4 percent growth rate projected at the time of the presentation of the 2017 Budget. The higher rate of credit growth was due entirely to a larger-than-expected increase in net credit to the public sector, including the central government, public enterprises, and the National Insurance Scheme. Credit to the private sector grew 2.1 percent over the 12 months ending in December, below the 3.2 percent projection. Credit growth to the private sector was slower than expected in every subcategory except credit card debt.

3.13 Commercial banks remained well-capitalised through the end of 2016. Total liquid assets of commercial banks stood at \$121.6 billion in December 2016. Treasury Bills accounted for 54 percent of total liquid assets. Banks' excess reserves stood at \$24.3 billion at the end of December, as reserves exceeded requirements by more than

50 percent. The non-performing loan ratio was 11.6 percent at the end of December, up slightly from 11.3 percent at the time the 2017 Budget was prepared, and higher than the ratio in December 2015 of about 10 percent. Despite the small uptick in the non-performing loan ratio, commercial bank prudential indicators for the end of 2016 were largely in line with those reported in the 2017 Budget, and commercial bank finances appear to remain sound.

E. Prices

3.14 Consumer price inflation remained moderate in 2016. The 12-month inflation rate stood at 1.4 percent as of 31st December 2016. This is closely in line with the 1.3 percent inflation rate projected at the time of the presentation of the 2017 Budget.

3.15 Interest rates remained low and stable through December 2016, as projected at the time of the presentation of the 2017 Budget. The small savings rate remained flat at 1.26 percent. The weighted average lending rate for December was 10.43, down slightly from 10.56 in December 2015. Treasury Bill rates were also somewhat lower than their December 2015 levels. The December 2016 interest rate on 91-day and 182-day Treasury Bills was 1.68 percent, while the interest rate on 364-day Treasury Bills was 2.13 percent.

3.16 The exchange rate between the Guyana dollar and the U.S. dollar of the Bank of Guyana remained stable at 206.5 through December 2016, as projected at the time of the presentation of the 2017 Budget. However, there are some signs that the Guyana dollar came under some downward pressure in late 2016. Market buying and selling rates increased slightly in December. Also in December, the Bank of Guyana sold US\$6.1 million from foreign reserves, the largest monthly intervention since January 2014.

D. Fiscal Sector

a. Non-Financial Public Sector

3.17 The non-financial public sector recorded a deficit of \$20.6 billion in 2016, or 2.9 percent of GDP, smaller than the \$30.4 billion deficit projected at the time of the

presentation of the 2017 Budget, equal to 4.3 percent of GDP. Revenues of the non-financial public sector were \$2.3 billion higher than projected, largely due to higher inflows from excise tax, import duties and arrears taxes of \$1,221 million, \$631.2 million and \$200 million respectively. Current expenditures were \$3.3 billion lower than projected, while capital expenditures came in \$4.2 billion below projected.

b. Central Government

3.18 The central government recorded a fiscal deficit (after grants) of \$31.7 billion in 2016, or 4.4 percent of GDP, smaller than the \$38.4 billion, or 5.4 percent of GDP, deficit projected at the time of the presentation of the 2017 Budget. The smaller-than-projected deficit was due to lower expenditures, particularly current expenditures, coupled with higher-than-projected revenues and grants.

3.19 Tax and non-tax revenue collections in 2016 were \$177.3 billion, \$2.5 billion, or 1.4 percent, above the projections in the 2017 Budget, due to higher-than-expected tax revenues. Tax revenues rose to \$151.7 billion in 2016, \$2.5 billion greater than projected at the time of the presentation of the 2017 Budget. Total non-tax revenue increased to \$25.5 billion, in line with projections at the time of the presentation of the 2017 Budget. The Guyana Revenue Authority (GRA) remitted \$42.3 billion in 2016; a marginal \$274 million, or 0.06 percent, below projections at the time of the presentation of the 2017 Budget.

3.20 Total expenditure of the central government amounted to \$216.8 billion in 2016, \$4.2 billion lower than projected at the time of the presentation of the 2017 Budget. Total non-interest recurrent expenditure amounted to \$163.4 billion in 2016, marginally less than the \$166.7 billion projected at the time of the presentation of the 2017 Budget presentation, due to lower-than-projected spending for Other Goods and Services and Transfer Payments. Other Goods and Services totaled \$46.8 billion for 2016, slightly less than the \$48.8 billion projected. Transfer Payments totaled \$67.3 billion in 2016, marginally less than the anticipated \$68.8 billion. A sum of \$686.8 million was unspent from Constitutional Agencies largely due to the non-execution of

the House to House census and to several projects being unable to be executed due to setbacks from the tender process. Employment cost totalled \$49.4 billion in 2016, slightly higher than the \$49 billion anticipated.

3.21 Central Government capital expenditure amounted to \$46.6 billion, slightly below the projected year-end position of \$47.6 billion, due largely to continued slow implementation of our loan portfolio, which declined by 12 percent. The revised latest estimates saw improved performance of our grant portfolio and domestically-financed public sector investment programmes, by 3 and 2 percent respectively.

3.22 Interest payments totalled \$6.7 billion in 2016, up from \$6.5 billion in 2015, an increase of 3.7 percent. Actual 2016 interest payments were in line with the projections reported in the 2017 Budget.

b. Public Enterprises

3.23 The combined operations of the public enterprises resulted in a surplus of \$11.1 billion, \$3.1 billion higher than projected at the time of the presentation of the 2017 Budget. Total current expenditures were \$106.3 billion. Capital expenditures of the public enterprises were well below projections, coming in \$3.2 billion lower than expected, due mainly to reduced spending by GuySuCo and Guyana Power and Light, Inc. (GPL). GuySuCo experienced severe cash flow problems while GPL rescheduled its capital programme for 2017. Revenue collections of the public enterprises were \$3.0 billion below the 2017 Budget projections, which was a direct result of a shortfall in production in sugar and a lower sales collection rate by GPL.

E. Debt Management

3.24 As at 31st December 2016, Guyana's total public debt totalled US\$1,601 million, US\$1.6 million higher than projected at the time of the Budget 2017 presentation. This marginal increase was mainly attributed to disbursements from the Export Import Bank

of China, which were made in December 2016 and were not previously included in the revised 2016 total public debt position at the time of Budget 2017. The change in the total public debt to GDP ratio remained as projected at the time of the presentation of the 2017 Budget, declining from 48.6 percent in 2015 to 46.4 percent in 2016.

3.25 As at 31st December 2016, external public debt stock stood at US\$1,162.4 million, marginally higher than the projected 2016 figure of US\$1,159.9 million. External public debt accounted for 72.6 percent of total public debt stock as at 31st December 2016.

3.26 External public debt service for 2016 was US\$53.8 million, US\$0.1 million lower than projected. This was mainly due to the variances in exchange rates used at the time of budget versus the actual exchange rates applied at the time of the payments. For 2016, 5.6 percent of total revenue earned went towards servicing the external public debt, roughly the same as the 5.5 percent projected at the time of the presentation of the 2017 Budget. This was a notable decrease compared with 11.1 percent in 2015.

3.27 As at 31st December 2016, domestic public debt stock stood at US\$438.6 million, marginally lower than the US\$439.4 million projection. Domestic debt accounted for 27.4 percent of total public debt stock as at 31st December 2016.

3.28 Domestic debt service payments for 2015 amounted to US\$9.3 million, a marginal decrease from US\$9.31 million projected at the time of budget.

4. Conclusion

5.1 Overall, economic and fiscal performance in 2016 was similar to, or slightly better than, the projections developed at the time the 2017 Budget was prepared. Central Government expenditure was close to projections, although some categories of expenditure fell short. Although real GDP growth came in above projections, the economy remained dependent on gold production to fuel growth, and Guyana remains highly vulnerable to shocks due to the absence of a diversified economy. Since the 2017 Budget was prepared, the risk of external shocks has increased. The IMF's projections for growth in the Latin American and Caribbean region have been revised downward, and foreign currency liquidity shortages in the region appear to have worsened. The risks discussed in the 2017 Budget, including uncertainty surrounding Brexit and the policies of the new U.S. administration, remain. To address these risks, the Government will maintain prudent fiscal policies and sound macroeconomic policies, including maintaining clear policies regarding the regulation of foreign exchange, to provide certainty to workers, businesses, investors, and financial markets. Our Government will continue to improve its operations to ensure that the 2017 Budget is executed on schedule, so that programmes that support welfare and economic development can be delivered to our citizens. In parallel our Government will continue to engage with our private sector, our Caribbean neighbors and development partners, to address economic instability and build a more robust economy both in Guyana and throughout the region.

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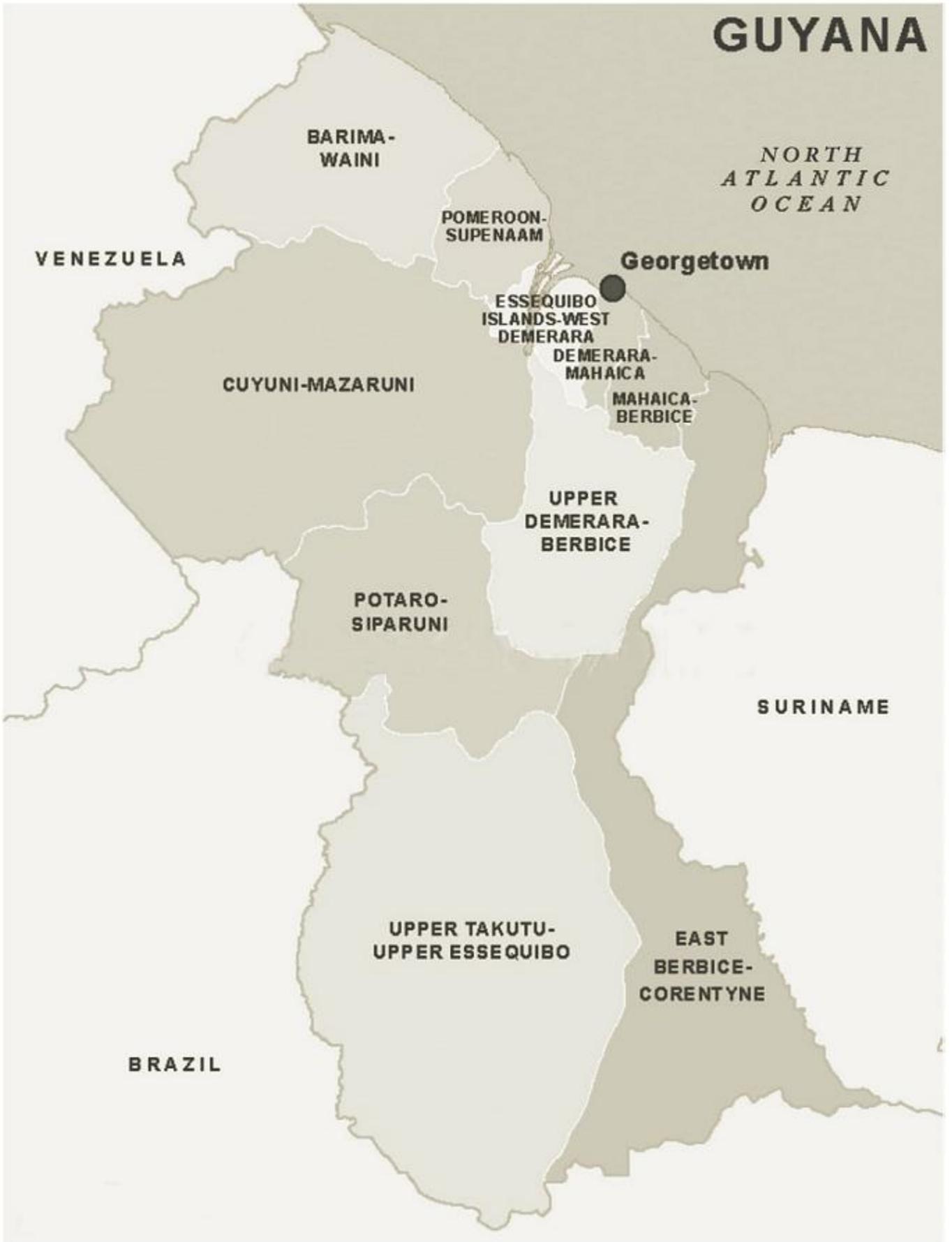
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