

MONTHLY ECONOMIC BULLETIN

March, 2017



Republic of Guyana
Ministry of Finance
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www.finance.gov.gy



The Monthly Economic Bulletin

The Monthly Economic Bulletin (MEB), which is produced by the Economic Policy Analysis Unit (EPAU) of the Office of the Budget, Ministry of Finance provides a monthly update on some of the important developments within Guyana's economy. The sectors covered in the MEB are Real, Fiscal, Monetary and External. The MEB also provides an update on the forecast of key economic variables within Guyana's economy. The MEB is intended to be both informative and accessible not only to staff at the Ministry of Finance but also to staff at other government agencies and the wider public. The MEB can be used for research purposes and is available online at the Ministry of Finance's website at www.finance.gov.gy.

This Edition of the MEB covers data pertaining to February, 2017.

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Real Sector

Economic Growth

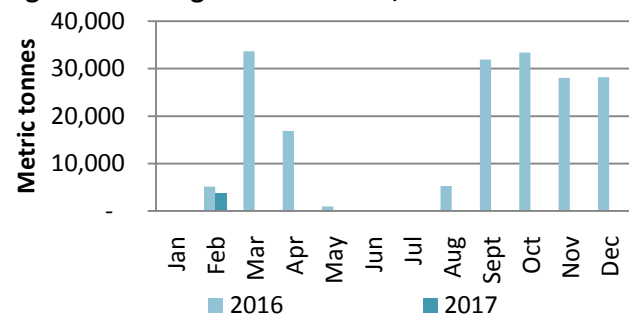
- Economic growth for 2017 remains targeted at 3.8 percent and is expected to be driven by growth in the mining and quarrying and services sectors; including construction, electricity and water and other services. Based on activities for the first two months of the year, this target appears feasible; however, ongoing challenges in the sugar industry may result in its downward revision. As fiscal policy is one of the main tools for stimulating growth in Guyana, government has injected an additional \$1.3 billion in capital expenditure for January and February, 2017, compared to 2016. This stimulus, which includes expenditure on several multi-year capital projects, is expected to catalyze the process for robust growth in 2017.

Agriculture

Sugar

- In February, 2017, 3,669 tonnes of sugar was produced compared with 5,151 tonnes in February, 2016. During February, sugar was produced mainly at Blairmont and Uitvlugt. Production was affected by rainfall, strike actions which resulted in some workers being off the job, and suspended production at Skeldon. The latter occurred due to the unsafe nature of the co-generation plant.

Figure 1. Sugar Production, 2016-2017



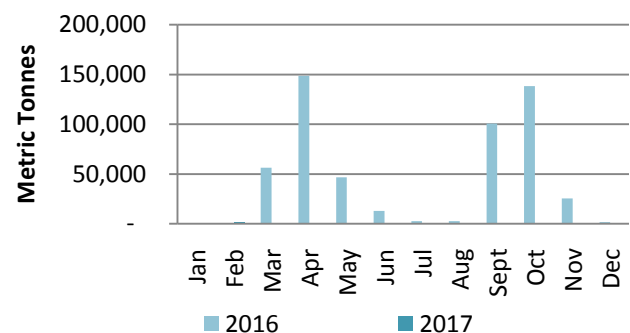
Source: Bureau of Statistics

Rice

- Rice production for February, 2017 reached 1,558.8 tonnes, compared to zero tonnes in February, 2016. No production takes place in January and February since sowing normally takes place in these months. Production for 2017 is expected to increase by 10.3 percent; with the first crop already on target. Burma Rice Research Institute began testing rice-wheat mix and is currently in negotiations with some private sector entities to manufacture these products. Aromatic rice continues to be marketed by private

entities, and production expected to expand this year.

Figure 2. Rice Production, 2016-2017



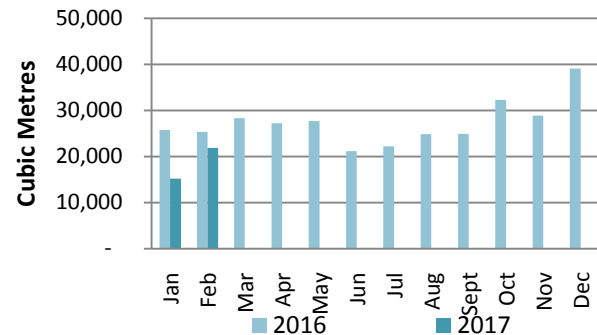
Source: Bureau of Statistics

Forestry

- Forestry production for February, 2017 amounted to 21,900 cubic metres compared with 25,319 cubic metres in February, 2016. This resulted in production reaching 37,074 cubic metres, year-to-date, compared to 51,052 cubic metres in 2016. Lower production for 2017 stemmed from the non-renewal of Barama's forest concessions as well as the repossession of Bai Shan Lin's concessions. These initiatives have been undertaken as the government aims to attract investors who will provide more value added forest products. Further, markets in China for

some species, such as Wamara logs, have reduced significantly.

Figure 3. Forestry Production, 2016-2017



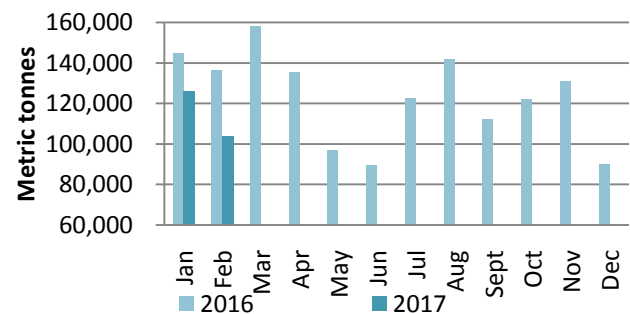
Source: Bureau of Statistics

Mining and Quarrying

Bauxite

- Bauxite production for February, 2017 was 103,606 tonnes compared to 136,377 tonnes in February, 2016. Year-to-date production is 229,441 tonnes compared to 280,901 tonnes produced in 2016, a decline of 18.3 percent. Low production, in the first two months was due to low demand. Nevertheless, this industry is expected to expand in 2017 as both demand and prices are expected to rise.

Figure 4. Bauxite Production, 2016-2017

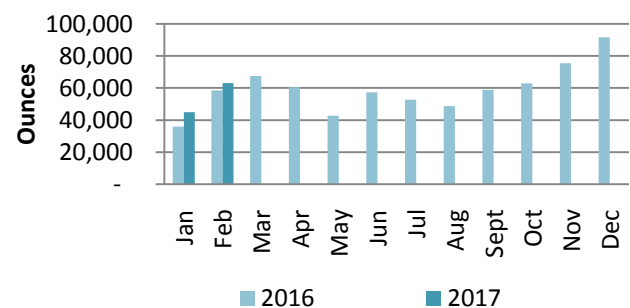


Source: Bureau of Statistics

Gold

Gold production for February, 2017 totalled 63,089 ounces compared to 58,485 ounces achieved in February, 2016. This brings the year-to-date total to 108,048 ounces compared to 94,432 in 2016. The main driver of growth for 2017 is the small and medium sized producers whose declarations rose significantly, compared to a fall in declarations for the two foreign companies. Rising gold prices is partly responsible for the higher declarations from the small and medium sized miners.

Figure 5. Gold Production, 2016-2017

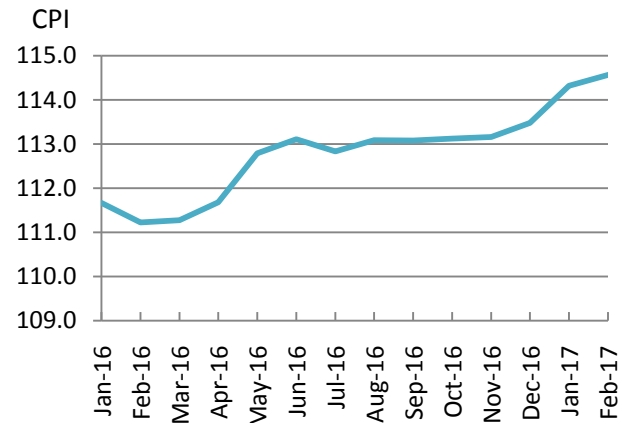


Source: Bureau of Statistics

Inflation

- Cumulative 12-month inflation rose by 3 percent between February, 2016 and February, 2017. The major driver behind this inflation rate continues to be rising food prices; especially fruits, vegetables, pulse and pulse products and spices as well as increased prices for medical care and transport and communication.
- Prices between February, 2017 and January, 2017 rose by 0.2 percent, primarily due to increased prices for clothing and education and recreational activities. Due to minor movement in food prices, monthly inflation has tapered off.

Figure 6. Consumer Price Index (CPI), 2016-2017



Source: Bureau of Statistics

Fiscal Sector

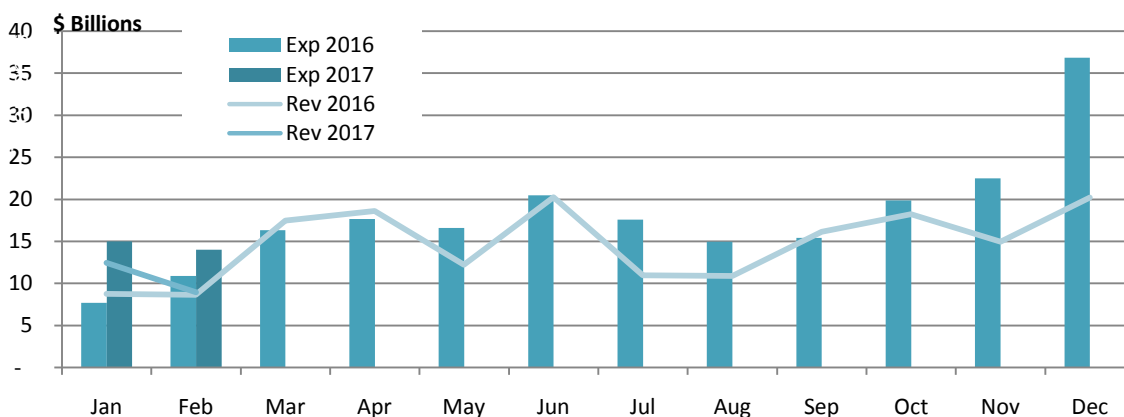
Revenues

- Central Government current revenues amounted to \$8.3 billion in February, 2017, an increase of 3.8 percent compared to February, 2016. This brings the year to date total to \$21.4 billion compared to \$17.4 billion collected during the same period in 2016. Growth was principally driven by an expansion in tax revenues due to increased arrears collection and greater compliance.
- Tax revenue collections amounted to \$8.5 billion in February, 2017, compared with \$7.3 billion collected in February, 2016. Total tax revenues at the end of February, 2017 reached \$20.5 billion compared to \$15.9 billion collected during January and February, 2016, an increase of 29 percent in the year-to-date total. Growth was mainly attributed to increased taxes for company, withholding and international trade which grew by 108.5 percent, 39.3 percent and 21 percent, respectively, as well as personal income tax which grew by 19.1 percent. Contributing factors for these improvements include rising arrears collections for company taxes; increased compliance for personal income taxes; growth in the value of imports for trade taxes and increased gold declarations for withholding taxes.
- Value Added Tax (VAT) collections amounted to \$2.4 billion in February, 2017 bringing the year to date total collections to \$6.1, a 5.5 percent growth. Expansion in VAT was due to growth in the value of imports.
- Excise tax collections amounted to \$2.2 billion in February, 2017 bringing the year to date total to \$4.5 billion, an increase of 67 percent over 2016's total. Much of the expansion in excise revenues was as a result of higher petroleum revenues.
- Non-tax revenues amounted to \$424 million in February, 2017 which resulted in a year-to-date total of \$911.5 million, a decrease of 38.8 percent compared to the amount collected in January and February, 2016. This decline was principally due to lower royalties in February.

Expenditure

- Central Government expenditure amounted to \$14 billion in February, 2017, compared to \$10.9 billion expended in February, 2016, mainly driven by growth in non-interest and capital expenditure due to the early passage of Budget 2017. The year-to-date total is \$29 billion, compared to \$18.6 billion spent during the same period in 2016.
- Non-interest expenditure totalled \$11.4 billion in February, 2017, compared to \$9.6 billion in February, 2016. Total non-interest expenditure, year-to-date, reached \$24 billion compared to \$16.7 billion expended in January and February 2016.
- Growth in non-interest expenditure was driven by expansion in all categories including employment, other goods and service, and transfers which increased by 16.2 percent, 58.7 percent and 62.3 percent, respectively, comparing expenditure for January and February, 2017 to 2016. Expansion in employment cost resulted from new recruitment as well as the annualization of 2016's salary increases, while growth in other goods and services was attributed to the early passage of Budget 2017 which facilitated an early commencement of the work programme in subcategories such as maintenance, purchase of materials and supplies and early payment for utility services. Expansion in transfer payments is accredited to a rise in subsidies and contributions to international organisations, catering for early subscription payments to organisations as well as increased pension payments.
- Capital expenditure was recorded at \$1.2 billion for February, 2017 compared to \$786.9 million in February, 2016, bringing the year to date total to \$2.1 billion, an expansion of 163.5 percent for this category. In February, 2017 monies were expended on Amerindian Development Fund, multi-year projects for structures in La Grange, Corentyne, Leguan and Wakenaam and the Citizen Security Programme, among others.

Figure 7. Current Revenues¹ and Expenditure



Source: Guyana Revenue Authority and Ministry of Finance

¹ Current Revenues does not include Grants

Monetary and Financial Sectors

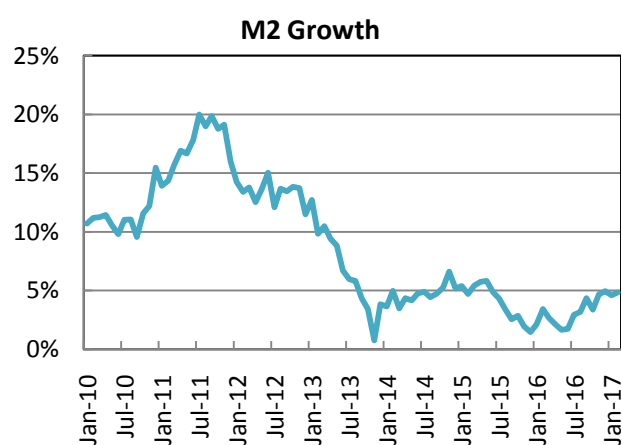
Money Supply

- The supply of money and quasi-money (M2) continued to grow moderately in February. M2, which includes currency, demand deposits, cashier's cheques and bank acceptances, and time and savings deposits, increased by 4.8 percent over the 12 months ending in February. The money growth rate remains consistent with low inflationary pressure, given current real growth rates.
- M2 growth was largely driven by fast growth in demand deposits, cashier's cheques and bank acceptances with an increase of 14.7 percent over the 12 months ending in February. Currency in circulation increased by 9.3 percent over the 12 months ending in February while time and savings deposits, which make up a little over 60 percent of money and quasi-

money, increased by only 0.5 percent over the same period.

- Guyana's money liquidity ratio, or the ratio of currency to M2, was roughly unchanged in February at 41 percent.

Figure 8. Month Growth of Money & Quasi-Money



Source: Bank of Guyana

Domestic Interest Rates

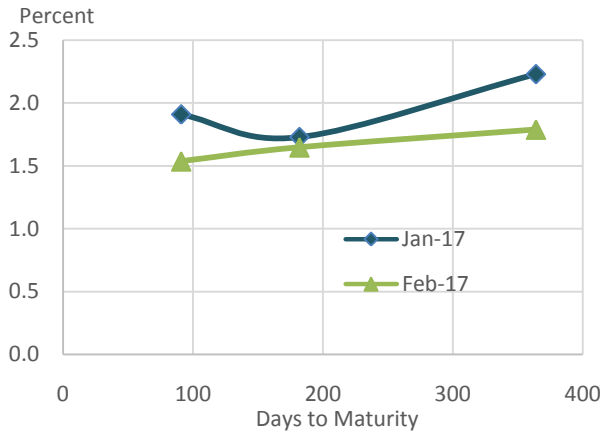
- Domestic Treasury Bill interest rates fell markedly in February. The interest rate on 91-day Treasury Bills fell by 37 basis points compared with January, while the interest rate on 364-day Treasury Bills fell by 44 basis points. The interest rate on 182-day bills had the smallest decline, falling by 8 basis points.
- Commercial bank rates were largely unchanged. The weighted average lending rate fell one basis point to 10.43 percent from 10.44 percent in January, while the small savings rate remained at 1.26 percent.

Table 1. Key Interest Rates

| | Current Interest Rate |
|------------------------------------|-----------------------|
| Bank Rate | 5.00% |
| Treasury Bills | |
| 91 Days | 1.54% |
| 182 Days | 1.65% |
| 364 Days | 1.79% |
| Commercial Bank Lending Rate | 10.43% |
| Commercial Bank Small Savings Rate | 1.26% |

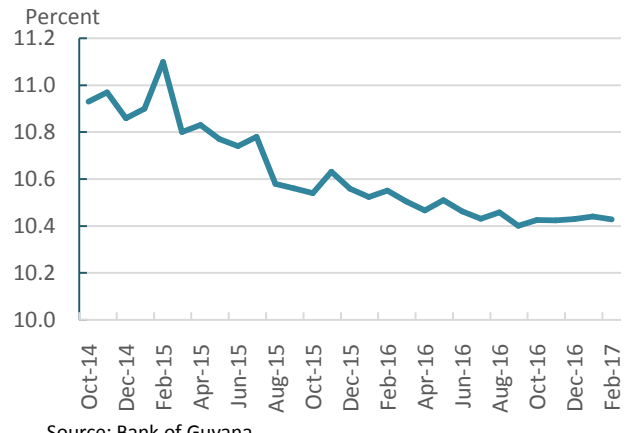
Source: Bank of Guyana

Figure 9.1 Yield Curve for Guyana Treasury Bills



Source: Bank of Guyana

Figure 9.2 Commercial Bank Average Lending Rate



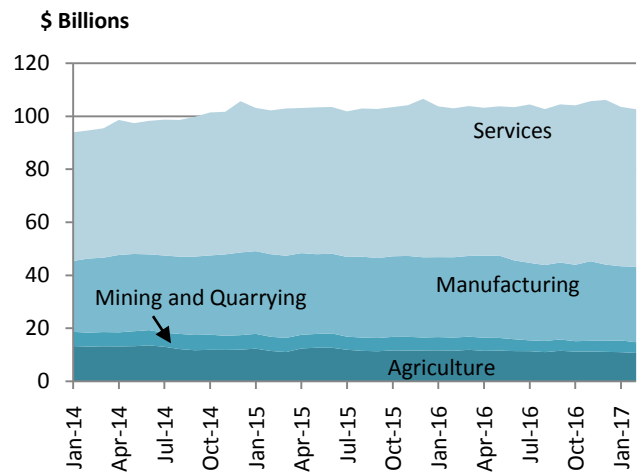
Source: Bank of Guyana

Private Sector Credit

- Domestic private sector lending, excluding real estate mortgages, continued to slow in February. Credit stock increased by only 0.6 percent compared with February 2016. Compared with January 2017, credit fell by about 1.0 percent. A small decline in credit between January and February is common, historically.
- Credit to the general government decreased to \$71.4 million in February, down from \$113.3 million in January. Credit to public enterprises rebounded to \$1.510 billion, after falling to \$1.226 billion in January.
- Lending to financial institutions fell markedly in February, due to a sharp decrease in lending to brokers and money lenders. Compared with one year ago, lending to financial institutions is down by 24.3 percent.
- Lending to private business enterprises, which accounts for about three-quarters of all lending, remained weak, falling by 0.3 percent compared with February 2016. Lending to the services sector remained the sole area of growth, driven primarily by large increases in lending to "other services".

- Lending to households fell by 1.3 percent compared with January. Although the stock of credit to households remains 6.1 percent above its level in February 2016, the 12-month growth rate is less than half what it was as recently as September 2016. The strongest growth in lending to households has been for education and travel, which make up small shares of total household lending.

Figure 10. Private Credit to Private Business, by Sector



Source: Bank of Guyana

Table 2. Loans by Sector, February 2017

| | Loans in February, \$ Billions | 1 Month % Change in Credit | 12 Month % Change in Credit |
|------------------------------------|--------------------------------|----------------------------|-----------------------------|
| TOTAL CREDIT | 134.15 | -1.0% | 0.5% |
| Public Sector | 1.58 | 18.1% | -23.6% |
| <i>General Government</i> | 0.07 | -37.0% | 85.1% |
| <i>Public Business Enterprises</i> | 1.51 | 23.2% | -25.7% |
| Financial Institutions | 0.92 | -24.3% | -9.6% |
| Private Business Enterprises | 102.63 | -0.8% | -0.3% |
| <i>Agriculture</i> | 10.78 | -2.5% | -6.9% |
| <i>Mining and Quarrying</i> | 4.02 | -9.0% | -19.4% |
| <i>Manufacturing</i> | 28.44 | 1.7% | -6.0% |
| <i>Services</i> | 59.40 | -1.1% | 5.8% |
| Households | 29.01 | -1.3% | 6.1% |

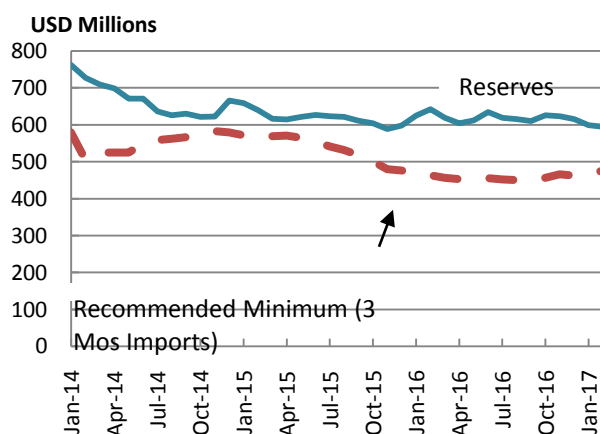
Source: Bank of Guyana

External Sector

Exchange Rate and Official Reserves

- The Bank of Guyana recorded an official exchange rate of 206.50 Guyana dollars to one U.S. dollar since March 2014. The rate was unchanged in February.
- Foreign reserves held by the Bank of Guyana fell by US\$4.5 million in February to US\$594.4 million, following a decline of \$16.8 million in January. The size of the January decline was not historically unusual; nevertheless, it may reflect underlying issues in the foreign exchange market.

Figure 11. Bank of Guyana Foreign Reserves



Source: Bank of Guyana

- The Bank of Guyana's foreign reserves were equal to about 3.8 months of imports, in line with the 3 month minimum generally considered to be a benchmark for reserve adequacy.
- The ratio of reserves to M2, an alternative measure of reserve adequacy, was approximately 35 percent in February, well above the benchmark minimum of 20 percent.

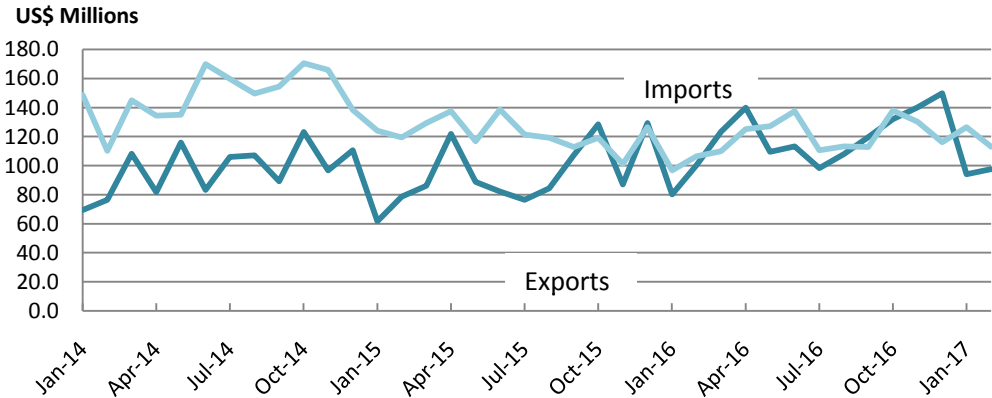
Imports and Exports

- Guyana ran a merchandise trade deficit of US\$15.6 million in February, 2017. This represents a greater deficit of US\$9.4 million or 152.1 percent relative to February, 2016. In 2016, the deficit was US\$ 6.2 million.
- Domestic exports fell by US\$2.7 million to US\$97.5 million in February, 2017, a decrease of 2.7 percent compared to February, 2016. Exports in 2016 were US\$100.2 million.
- Imports, on the contrary, increased by US\$6.8 million or 6.4 percent in February, 2017 to US\$113.1 million relative to February, 2016. In February, 2016, imports were US\$ 106.4 million.
- Gold exports rose by US\$3.3 million or 5.2 percent to US\$66.1 million in February, 2017 over February, 2016 gold exports of US\$62.8 million. Relative to February, 2016, exports from the Guyana Gold Board and Guyana Goldfields increased by 117.7 percent and 16.5 percent, respectively, and decreased by 44.6 and 29.4 percent for Troy Resources and other dealers, respectively.
- Diamonds, fish and fish by-products, and bottled rum and spirits also increased in

February, 2017 compared to February, 2016. Diamonds exports grew the strongest by US\$2.4 million or 289.0 percent to US\$3.3 million, whereas fish and by products and bottled rum and spirits grew by 55.5 and 2.6 percent, respectively.

- Bauxite, timber, and shrimp and prawns, on the other hand, decreased by 10.7 percent, 12.8 percent and 41.8 percent, respectively.
- Of the three categories of imports, only intermediate imports increased in February, 2017 by US\$1.7 million or 29.8 percent relative to February, 2016. The increase was largely driven by the growth in importation of chemicals of US\$7.9 million or 273.3 percent.
- Consumption and capital imports decreased by 5.5 percent and 26.0 percent, respectively. For consumption imports, all of the goods, except food for final consumption and motor cars, decreased; these goods, on the contrary, increased by 20.6 and 0.34 percent, respectively. For capital goods, only mining machinery recorded an increase of 51.2 percent in February, 2017 relative to February, 2016.

Figure 12. Merchandise Trade



Source: Guyana Bureau of Statistics

International Commodity Prices

- Global prices for Guyana's major traded commodities saw modest increases in February except sugar and rice. Compared to February, 2016, prices rose for all the commodities except logs and rice, declined by 4.1 percent and 4.4, respectively.
- Of the commodities, aluminum increased the greatest by 3.9 percent. This was largely driven by China's Air Pollution Control regulations implemented to reduce the production of the country's coal-reliant aluminum, which is among the most carbon intensive in the world and very polluting. These regulations are putting downward pressure on prices which has continued to rise 21.5 percent year to date.
- In February, 2017, crude oil was priced at US\$55.49 per bbl, indicating a modest increase of 1.1 percent. This was due to OPEC production being almost unchanged from January, as a slight improvement in compliance was offset by production recovery in Nigeria, which was exempt from the quota.
- The free market global price for sugar declined by 0.2 percent in February to US\$0.45. Compared to February, 2016 however, the price has increased by 52.8 percent.
- For rice, there were decreases in both the 1 and 12 month price change, with a decline of 2.7 percent and 4.4 percent, respectively.
- The international gold price rose by 3.5 percent in February. Gold prices have been trending upwards amid geopolitical anxiety and strengthening of the US dollar.

Table 3. International Commodity Prices, February

| Key Commodity Prices, February 2017 | | | |
|-------------------------------------|---------------|----------------------|-----------------------|
| Commodity | Price in US\$ | 1 Month Price Change | 12 Month Price Change |
| Crude Oil, Brent (per bbl) | \$55.49 | 1.1% | 67.1% |
| Gold (per troy oz) | \$1,234.20 | 3.5% | 2.9% |
| Aluminum (per mt) | \$1,860.75 | 3.9% | 21.5% |
| Sugar, world price (per kg) | \$0.45 | -0.2% | 52.8% |
| Rice, Thai 5% (per mt) | \$367.00 | -2.7% | -4.4% |
| Logs, Cameroon (per cubic m) | \$372.44 | 0.2% | -4.1% |

Source: World Bank Pink Sheet

International Economic News

Global Development

- The Latest U.S. economic data has been solid, revealing slow but stable growth of the U.S economy. The ISM manufacturing index rose from 56.0 to 57.7 percent in February, indicating that factory activity was picking up, which could also mean GDP growth could accelerate in the first quarter.
- In February, The Guardian international edition warned that Trump's presidency poses threats to global economy, despite the predicted possible boost to economic growth from his planned infrastructure spending, tax and red tape cuts. Key risks included possible disruptions to trade relations, limits on migration; that affect the amount of money foreign workers in the U.S send home, and "confrontational exchanges" between policy makers that could spark swings in currencies and other markets.
- For Europe, Brexit may offer an opportunity for the European Union. The European Union believes it stand a better chance of striking a free trade deal with India after the United Kingdom leaves the Union. This follows from the United Kingdom post-Brexit trade deal with India being threatened by Prime Minister Theresa May's visa crackdown.
- Headline inflation rates have recovered in advanced economies with the bottoming out of commodity prices, but core inflation rates have remained broadly unchanged and generally below inflation targets.
- Additionally, inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation.

International Interest Rates

- Major international interest rates increased in February. The secondary market interest rates on 1 year and 3 month U.S. Treasury Bills increased by 32 basis points and 30 basis points, respectively. U.S. Treasury yields rose as a result of investors being encouraged by upbeat bank earnings and positive U.S. economic data.
- The 3 month and 1 year London Interbank Offer Rates (LIBOR) increased by 6 and 7 basis points, respectively.
- The Federal Reserve meeting in February suggested that the Fed will remain in wait and see mode until it gets more clarity on the size and timing of the fiscal stimulus from the Trump administration. The expectation is that, until inflation hits its 2 percent target, the Fed probably won't raise rates. It is anticipated however, that there will be a few hikes in 2017 since faster inflation means a faster pace of rate hikes. Trump's plans for a major infrastructure bill could ramp up demand for U.S goods, that could quickly push up inflation, which has been sleepy in recent years.

Table 4. Key World Interest Rates

| | Interest Rate | As of: | 1 Month Change |
|---------------------|---------------|---------------|----------------|
| 3 Month US Treasury | 0.63% | March 1, 2017 | 0.30% |
| 1 Year US Treasury | 0.92% | March 1, 2017 | 0.32% |
| 3 Month LIBOR | 1.09% | March 1, 2017 | 0.06% |
| 1 Year LIBOR | 1.79% | March 1, 2017 | 0.07% |

Source: Federal Reserve Board and global-rates.com

Global Markets

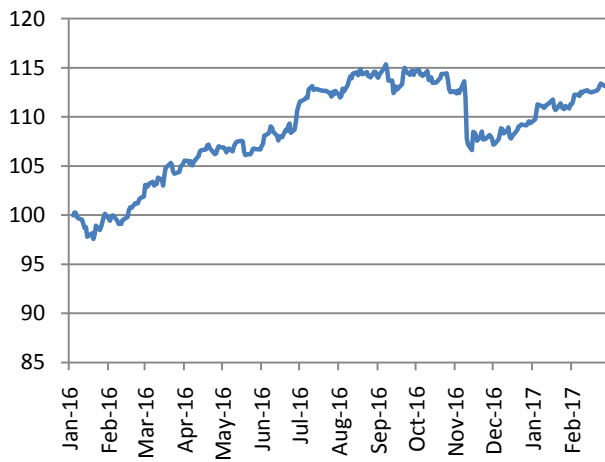
- World stock market performance was positive in February. Major stock market indexes remained above their levels a year ago.
- Prices for developing country sovereign bonds, as reflected in the JP Morgan Emerging Market Bond Index, rose slightly in February to 113.12 from 111.28 in January. This marginal increase in bond prices suggests investors still see economic growth in developing countries such as Mexico as more uncertain. Trump's protectionism for instance, could make matters worse for Mexico and Turkey, which have based their development strategies on rapid expanding exports and domestic business activity financed with dollar debts.
- Volatility in global stock markets rose in February. The CBOE Volatility Index, or VIX was at 12.92 on February 28th, 2017, up from 11.99 at the end of January, 2017.

Table 5. Global Markets Summary, March 03, 2017

| As of: | March 03, 2017 | | 1 Month Change | 12 Month Change |
|--------------------|----------------|-------|----------------|-----------------|
| | | Level | | |
| S&P 500 | United States | 2383 | 3.73% | 19.55% |
| FTSE | United Kingdom | 7374 | 2.59% | 20.29% |
| DAX | Germany | 12027 | 3.23% | 23.33% |
| Shanghai Composite | China | 3218 | 2.49% | 12.54% |
| Nikkei | Japan | 19469 | 2.91% | 14.79% |

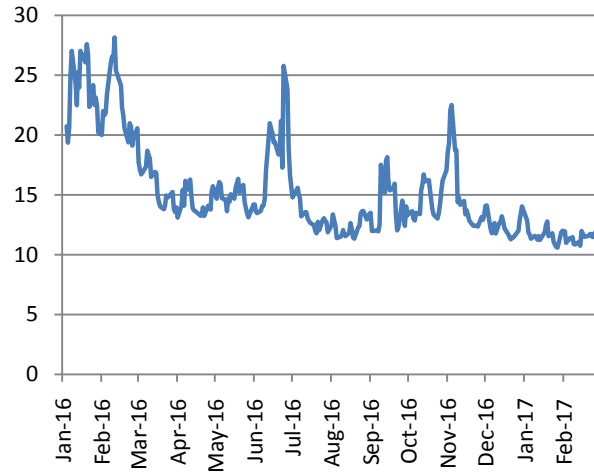
Source: Yahoo Finance

Figure 13. JP Morgan Emerging Market Bond Index



Source: Yahoo Finance

Figure 14. VIX Volatility Index



Source: Yahoo Finance