EXTERNAL DEBT MANAGEMENT WITH SPECIAL REFERENCE TO GUYANA

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C O N T E N T S

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INTRODUCTION

Since the early 1960's the external debt of developing countries has shown a sharply rising trend. From 20 billion at the end of 1960 the total external debt of 80 developing countries had risen to 46 billion at the end of 1969, and an annual debt servicing payments rose by about 9 per cent per annum over the same period. After 1973 the problem of balance of payments management in a number of developing countries, became seriously complicated by the protracted deterioration in the terms of trade of non-oil developing countries as a group, and the effect on exports of the developing world of the severe recessions and slow recoveries in the industrial countries. Another contributory factor was the incidence of expansionary domestic policies in some of the non-oil producing L.D.C's. This led to even heavier foreign borrowing on the part of developing countries, a considerable proportion of which (21% in 1973, 24% in 1974 and 28% in 1975) was on non-concessional terms. The net external borrowing of non-oil developing countries rose from approximately US$10 billion in 1973 to an average of US$24 billion per annum during 1974-76.

These countries according to World Bank estimates increased their external debt from $142 billion in 1974 to $315 billion in 1978, 61% of which was from private banks. Servicing of the external debt therefore, became a major problem for many countries. For some the resulting reduction in capital inflows, had a detrimental impact on employment and income objectives.

Moreover, the uncertain prospects for significant reductions in their current account deficits, and financing requirements made their external debt a matter of concern for debtors and creditors alike and even international agencies. The major increases in prices of petroleum products in 1979, has led Economists to claim that the International Economy is going into a period of slower growth and recession in 1980-81. Consequently, L.D.C's will face a rising payments gap (expected to be well over $50 billion U.S. in 1980, for non-oil L.D.C's), and will have to seek more external credit on more difficult repayment terms. Many countries will also face tighter policy constraints as they attempt to contain inflation, sustain or achieve growth with balance of payments constraints.

Guyana in recent years has been plagued with balance of payments problems. The increase in prices of commodity exports - particularly sugar during 1974 and 1975, sheltered Guyana from the full impact of the crisis faced by many non-oil developing countries from 1974 onwards. In fact over these years, the terms of trade moved in favour of Guyanese exports. Production levels were also relatively high and the country was able to increase its reserves. Since 1976 however, a combination of adverse internal and external conditions has resulted in economic stagnation with all the associated problems. *Recovery is proving to be a painful and difficult process* very dependent on foreign borrowing.

The I.M.F. noting the experience of several member countries, emphasizes the need for debt management especially the management of the external public debt, and encourages member countries to implement policies to prevent the emergence of debt servicing difficulties. In addition, ceilings on external borrowing have been imposed where countries with persistent balance of payments problems borrow from the I.M.F. in the higher credit tranches.

Against this background, this paper looks at debt management policies, their usefulness and some of their limitations. In view of Guyana's moves towards a centrally planned Economy, debt management within the socialist model of financial planning and control is briefly examined. Finally, it focuses on the actions of the Guyanese authorities in recent years with relation to external debt management.

ASPECTS OF MANAGEMENT

The national debt is of great economic significance to every country. For less developed countries, dependent on trade and foreign loans for development, the external public debt, is of even greater significance. Foreign liabilities have implications for monetary and fiscal policy, and also the Balance of Payments. Its management should therefore be of cardinal importance among other economic measures to avert undesirable repercussions on the wider financial structure of the economy, and the Balance of Payments, and to facilitate growth and development at the best terms possible.

Moreover, the control of the external public debt is an integral part of central planning. Central planning involves the setting of targets or objectives with respect to growth and the Balance of Payments, among others. Given the productive and absorbtive capacity of the economy, there is a certain level of demand, particularly investment demand that is broadly consistent with the attainment of these objectives. For this level to be achieved, the total financial flows must be compatible with the desired level of A.M.D. Hence the need for financial planning in Socialist countries.

There are three aspects of management, the control of the quantity of inflows or total indebtedness, the terms, and the utilization. Quantity and terms are controlled to ensure that debt servicing difficulties are avoided, and that there is internal and external stability. If loans are efficiently and productively utilised, then the elusive growth objective will be satisfied, and the country's debt servicing capacity will be increased overtime.

Quantity control is also necessary for the attainment of a particular growth path, or for adjustment of the Balance of Payments over a period of time. Controlled inflows are used to make the adjustment process less stringent than it would have to be otherwise and to aid recovery. It should be ensured that foreign inflows supplement rather than replace local savings to prevent the equivalent in resources from being channelled into undesirable consumption expenditure, perhaps leading to inflation or as is more likely in L.D.C's, added pressure on the Balance of Payments. If debt servicing difficulties are avoided, inflows are sustained at favourable terms.

In negotiating new loans, care should be taken to get the lowest interest rate possible. Commercial borrowing should therefore be kept to the minimum possible. Future repayment obligations should also be evenly spread over time.

Efficient use of foreign funds contributes to increased productivity and export potential. Projects to be financed by foreign borrowing, in fact, all projects should be assessed and economic feasibility established. In countries where the private sector is an important borrower of foreign funds, rational investment decisions should be encouraged to ensure that the yield on projects financed by foreign borrowing is commensurate with the cost of financing. The interest rate, exchange rate and pricing policies, should be realistic in order to create the environment conducive to rational investment policies even in the public sector. There should be careful scrutiny of public sector investment, priorities, and the pricing and tariff policies of public enterprises to ensure that the return to resources channelled to this sector is at least adequate. These policies can help to improve overall resource allocation and consequently increase the effectiveness of the use of foreign resources. Borrowing to support consumption should be avoided, wherever possible, since it has a negative impact on the country's debt servicing capacity. Ideally, borrowing from abroad should support investment programmes that are soundly conceived, efficiently managed, and appropriately financed.

MECHANISMS OF CONTROL

I.M.F. RECOMMENDATIONS:

The International Monetary Fund in its concern for member countries and their external debt difficulties, recommends management policies to avoid these problems, and to speed up the recovery process in many developing countries. Ceilings were also introduced on external borrowing for countries that borrow from the I.M.F., in the higher credit tranches, and in the context of periodic consultations there is a careful examination of external debt management policies.

The fund emphasizes the need for some mechanism of surveillance and centralised control of public sector borrowing from abroad, and also the private sector where necessary and possible. This authority should approve of borrowing and set limits, ensuring that only priority projects and those that are financially sound are financed. The operations of the public sector should be monitored in the interest of financial discipline and all external debt transactions should be recorded to facilitate proper control and monitoring. Such records would help in the prevention of bunching of repayments.

MANAGEMENT IN SOCIALIST COUNTRIES

Under Socialist Economic planning, the total foreign borrowing indeed the total volume of credit as well as the allocation of such credit, is centrally determined by credit plans. The function of all credit is to accommodate production and other targets set by the planning authority. A target is therefore set on foregin inflows of credit, and the responsibility of the State bank is its attainment and allocation. A number of Socialist banks have established representative officers or branches in the leading western financial centres and other convenient locations. Advice on foreign borrowing is given by these banks, and in cases they arrange and complete the negotiations for loans. Because of their location, they are likely to gain a profound knowledge of financial conditions and market operations, putting them at an advantage in negotiations for loans. They are therefore in a position to gain adequate financing, at the best available terms. It should be noted that the socialist countries have a sound record of meeting all foreign obligations, probably because of proper management.

The State bank examines the purpose for which credit is sought to establish that proposals are consistent with the overall plan. Priorities would have been established in real sector planning and projects thoroughly evaluated. Moreover, through the bank's financial control of the economy, it tries to ensure that all loans are efficiently and economically utilised. It supervises the implementation of the plan to secure compliance with the credit agreement and to keep corruption and inefficiency to a minimum. Sanctions are imposed against entities that do not comply with the plan and credit regulations. Funds for incentives may be withheld, credits may be suspended or penalty interest rates may be imposed. In some cases even wages can be reduced. Because the banks in the Socialist countries are virtually the only suppliers of finance, they are in a strong position to control entities.

LIMITATIONS

There are however, some limitations to the effectiveness of policies and institutional arrangements for managing the external public debt. Active management of the external public debt in L.D.C's for the most part, only takes place in countries that run into Balance of Payments problems. Under normal circumstances, the resources necessary for this exercise are either not available or cannot be afforded, since the opportunity cost is too high. Management of the debt is however one of the terms of agreement with the I.M.F. for Balance of Payment support. An adjustment programme, sets about cutting demand and encouraging production and exports while trying to finance a deficit which is progressively reduced or kept as low as possible. Attempts are therefore made to control the inflows of foreign loans. But the internal conditions of production may be adverse, or the terms of trade may move progressively against the country. This leads to even heavier borrowing than targeted with future Balance of Payments implications. The control of inflows is consequently not without problems.

It seems to be the case that the countries that most need to control the external public debt are the least capable of doing so. The countries that are weakest economically and find themselves confronted with Balance of Payments difficulties are in a weak negotiating position with regards to the terms offered, since in some cases it is difficult to get enough loans to meet the projected deficit. To control Aggregate Demand, is not an easy task. If demand is not controlled, then attempts to manage the external public debt would meet limited success.

There are limits to the effectiveness of the measures to control the external debt even in Socialist countries. In fact, there are limits to the effectiveness of financial planning. The efficiency of monetary measures rests critically on the accuracy of planning of real flows. However, planning is full of imperfections, among them imperfect information and human beings, and the world is not a static place. There are weather changes among other things that make the job of planning a difficult one.

Many developing countries do not have the skills necessary for proper project appraisal and the monitoring of the entitites to ensure economical use of resources and for proper managing of the external public debt. However, despite the limits to the effectiveness of management, there is still a need for, and gains to be realised from its management.

THE GUYANESE ECONOMY IN THE 1970's

Up to 1975, Guyana paid little or no attention to the growth of the external debt[1] or to its management, because it was relatively small, and no difficulties were experienced in the servicing of the debt. But from 1976 things changed somewhat, as the Economy entered a phase of recession, with falling production, adverse external conditions for the sale of exports and the consequent increase in the growth rate of foreign liabilities. From 1975 the Government also accelerated its nationalisation programme taking over the assets of three companies in 1975, namely, Demerara Sugar Terminals, Sprostons Guyana Limited and Reynolds Guyana Limited. In 1976 three other

[1] The external debt of Guyana comprises external liabilities contracted by the Central Government, and those of Public Corporations, which are guaranteed by the Central Government. The external debt is therefore the external public debt.

companies joined the list of Public acquisitions, the Booker group, West Indian Oil Company Limited and Berger Paints Limited. This also contributed significantly to the growth of the external public debt. (See Table 1). From 1976 therefore, problems associated with the external public debt seemed to be imminent.

TABLE 1

GROWTH OF THE EXTERNAL PUBLIC DEBT

G$Mn.

YEAR	External Debt	% Growth	Debt without Nationalization Loans	% Growth
1965	96.9		96.9	
1966	99.8	3	99.8	3
1967	108.5	9	108.5	9
1968	113.9	5	113.9	5
1969	129.8	14	129.8	14
1970	146.8	13	146.8	13
1971	296.8	102	189.1	29
1972	332.8	12	215.0	14
1973	378.2	14	259.6	21
1974	440.8	17	325.9	26
1975	675.8	53	499.5	53
1976	881.9	30	655.4	31
1977	970.8	10	758.6	16
1978	1086.0	12	886.0	17
1979	1153.8	6	953.8	8

SOURCE: B.O.G's Annual Reports
I.M.F. R.E.D. Publications

The years 1974 and 1975 were good years for production and export prices. The terms of trade improved over these years by about two-fifths over the level of 1973, leading to an increase in the value of exports of 174% over the 1973 level and 41% over the value of exports in 1974 by the end of 1975 (See Table III). Domestic expansion was therefore booming and imports were on the increase as public investment was used to give the Economy an impetus for growth. The 53% increase in the external debt in 1975 (Table 1) also contributed to this trend, assisting public investment to grow by approximately 75% in 1975. International reserves of the banking system rose by 90 million from December 1974 to December 1975, to G$184.5 million and by G$ 70 million during 1974, because of the good export performances and the fact that savings expanded faster than bank credit during these years. By the end of 1975 Guyana seemed set on a growth path, with its impressive investment programme, large reserves and high levels of production.

TABLE II

EXTERNAL PUBLIC DEBT COMPARED WITH G.D.P.

G$Mn.

YEAR	Ext. Debt 1	G.D.P. 2	1 as % of 2
1965	96.9	325.0	29.8
1966	99.8	341.9	29.2
1967	108.5	374.7	29.0
1968	113.9	405.2	28.1
1969	129.8	438.0	29.6
1970	146.8	467.0	31.4
1971	296.8	495.2	59.9
1972	332.8	529.3	56.1
1973	378.2	576.4	65.6
1974	440.8	865.0	51.0
1975	675.8	1096.4	61.6
1976	881.9	1024.5	86.1
1977	970.8	1011.5	96.0
1978	1086.0	1126.0	96.4
1979	1153.8	1170.0	98.6

SOURCE: B.O.G's Annual Report
I.M.F. R.E.D. Publications

Unfortunately bad weather in 1976 was the main reason for a fall in production while domestic expenditure continued to increase. There was also a sharp 44% fall in the unit values of sugar coupled with increases in prices of petroleum products leading to a 25% shift in the terms of trade against Guyanese exports. Consequently export receipts fell from the record G$914 million in 1975 by 17% to G$760 million for the period January to December 1976.

With the good economic record of 1974 and 1975 and the building up of reserves over these years, the Government decided that the time was ripe for an acceleration of the nationalization programmes and for increased investment in the public sector to be financed by the running down of reserves during 1976.[2]

Investment was increased by 40% and consumption by 20% supported by a 40% increase in Public Expenditure. These factors with the fall in export receipts resulted in a deficit on the current account of the Balance of Payments of G$335 million. Net capital inflows also declined by about a fifth, leading to a substantial fall in international reserves of G$239.5 million.

Things did not improve in 1977. In fact the economy slipped further into depression with a decline in real production, due mainly to industrial disputes. Increasing oil prices and the falling price of sugar conspired to ensure that the terms of trade hardly changed from the unfavourable shift against Guyana in 1976. Export earnings therefore fell by G$52 million, or a further 7%

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[2] Budget 1976 Co-operative Republic of Guyana, pp. 21.

from the 1976 level. The situation required sharp cuts in expenditure on imports and payments. Activity in all sectors of the economy was reduced. But domestic expenditure was not reduced by the amount necessitated by the reduction in the production levels of the economy. An external gap of G$241 million was financed by the further running down of reserves of the banking system by G$52 million, and by net inflows of about G$96 million.

Further cuts in domestic expenditure were required in 1978, as the performance of the economy only improved slightly over that of 1977. Production levels improved only marginally over 1977 but because of a recovery in the sugar industry, exports expanded by approximately 14%. This was the main reason for a 13% increase in the value of exports. Reductions in imports of 12% largely due to a fall in investment, led to a reduction in the current account deficit of G$189 million to G$52 million. From a current account gap of G$335 million in 1976, the country was down to one of G$52 million in 1978 while there was an improvement in the position of net international reserves of G$51 million.

Total output in the Guyanese economy was again disappointing in 1979, and fell slightly below the level of the previous year. Current incomes and aggregate demand were controlled, rising only by 5% and 17% respectively. The increase in public expenditure was about 13% and private expenditure increased by some 17%. Despite a 12% contraction in the volume of imports other than oil, the total value of imports increased by some 14% to G$972 million.

TABLE III

DEBT SERVICE RATIO

G$Mn.

YEAR	1 Debt Charges	% Growth	2 Exports	1 as % of 2	3 G.N.P.	1 as % of 3
1965	9.0		206	4	297.7	3
1966	10.7	19	220	5	309.2	4
1967	16.3	52	244	7	341.7	5
1968	14.8	- 9	266	6	375.0	4
1969	9.4	-37	295	3	396.2	2
1970	12.4	32	304	4	424.9	3
1971	8.4	-321	333	3	459.2	2
1972	16.4	95	344	5	507.3	3
1973	20.1	23	333	6	549.4	4
1974	32.3	61	650	5	827.0	4
1975	40.0	24	914	4	1056.4	4
1976	94.8	137	760	12	964.5	10
1977	99.6	5	706	14	945.0	11
1978	193.8	95	798	24	1073.0	18
1979	271.9	40	782	35	1095.0	25

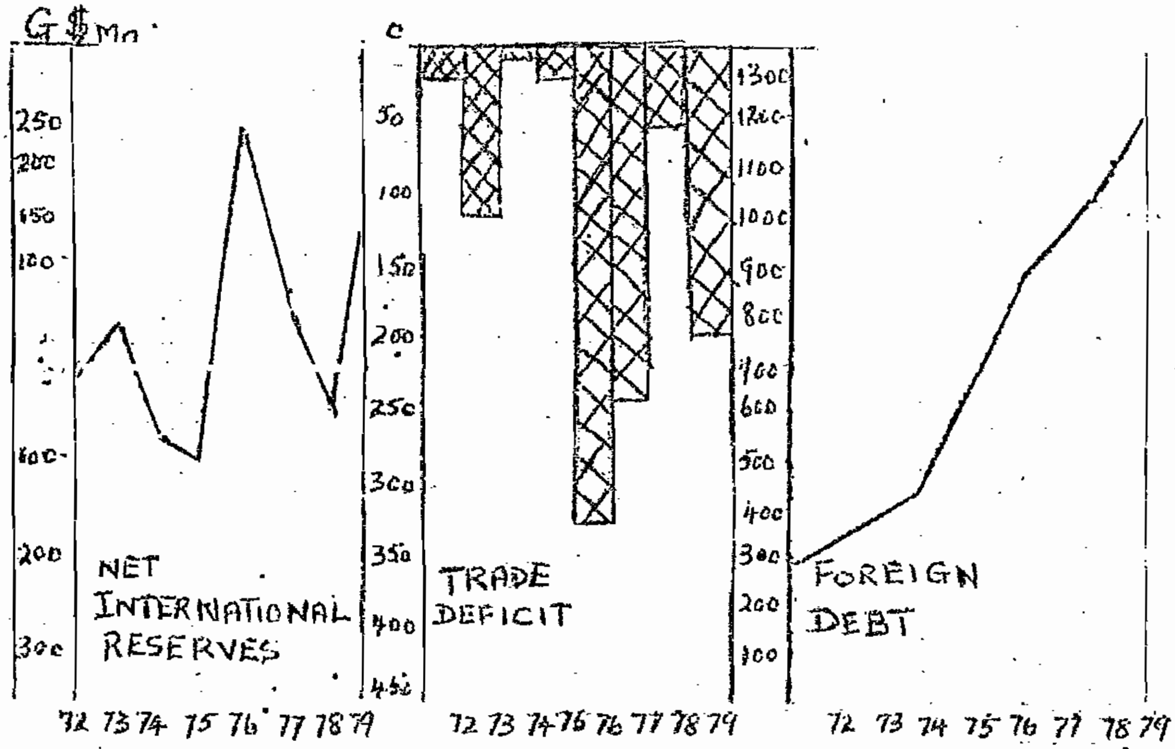
SOURCE: B.O.G's Annual Reports
I.M.F. R.E.D. Publications

TABLE IV

G$Mn

YEAR	Trade Deficit	Net Reserves	Foreign Debt
1971	- 14	- 12*	296.8
1972	- 23	- 20	332.8
1973	-123	+ 43	378.2
1974	- 10	- 70	440.8
1975	- 26	- 90	675.8
1976	-335	+237	881.9
1977	-242	+ 56	970.8
1978	- 52	- 51	1086.0
1979	-190	+123	1153.8

* Decrease (+) or Increase (-)


G $ Mn
NET INTERNATIONAL RESERVES
TRADE DEFICIT
FOREIGN DEBT
72 73 74 75 76 77 78 79
72 73 74 75 76 77 78 79
72 73 74 75 76 77 78 79

There was a 14% fall in the volume of exports leading to a slight 2% decrease in value below the 1978 level. The deficit in the Balance of Trade therefore was at G$190 million over three times higher than that of the previous year, reflecting in part a 15% deterioration in the terms of trade. In addition net capital inflows fell by almost G$34 million from 1978 and only contributed slightly over a third of the requirement of the current account gap. The movement in the net international reserves was consequnetly a deterioration of G$123 million from an improvement of G$51 million in 1978.

The main trends in Guyana's economic deterioration between 1976 and 1979, were therefore the precipitous decline in the price of sugar on the world market, adverse weather conditions and bad industrial relations, resulting in the fall in value of exports of almost one fourth from 1975 to 1977. Since then there has been no significant recovery. The terms of trade moved against Guyana as the price of petroleum products increased substantially. Domestic expenditure and the level of imports remained high while the level of saving was relatively low, leading to external borrowing to support Aggregate Demand. The deficit on the current account of the Balance of Payments therefore rose from 3% of G.N.P. (G$35 million) in 1975 to 36% (G$349 million) in 1976 and was 27% of G.N.P. (G$252 million) in 1977. This deficit was reduced with relatively favourable circumstances and tight budgetary management in 1978 to G$67 million or 6% of G.N.P. but was back to a high G$189 million, 17½% of G.N.P. in 1979. Such deficits were financed by the running down of reserves and by heavy foreign borrowing, increasingly on commercial terms, with short maturities. The debt service ratio was therefore on the increase (See Table III). From 4% of exports in 1975, debt charges had risen to 12% in 1976 and was 35% by 1979. Between 1975 and 1979 there was an increase of 580% in these charges. Inflows (Table IV) were very high, almost equating outstanding debt with G.D.P., over the years 1976-1979. (See Table II).

There was obviously cause for concern. If the trend continued uncontrolled, then in the near future Guyana would experience even greater financial difficulties. It was already beginning to be a problem to get necessary inflows of foreign loans to meet expected deficits in the Balance of Payments.

The situation necessitated reductions in domestic expenditure particularly on imports and some control of the external public debt. Demand management policies were introduced along with import restrictions in 1977 in order to aid the recovery of the economy and to improve the Balance of Payments. Attempts were made to cut public sector expenditure and increase surpluses in public enterprises, therefore increasing savings. Restrictions on imports, were necessary because of the tight Balance of Payments constraint and were a means of cutting private sector expenditure on imports. A reduced deficit on the current account of the Balance of Payments, was expected to result in lower inflows of foreign loans.

Although some success was secured, in attempts to reduce A.M.D., it did not reduce by the amount necessitated by the output levels of the economy. In 1977, domestic expenditure was reduced by about 7%, from the 1976 level due mainly to a 40% cut in public expenditure. Total expenditure of the Central Government fell by G$245 million. Investment in the public sector was down by 35% from approximately G$355 million in 1976 to G$230 million in 1977, while private sector investment decreased by G$10 million from the G$70 million level in 1976. But total consumption increased by 4% over 1976. Private consumption was up by 11% and public consumption was reduced by 9%. Imports of merchandise and services were curtailed despite the increase in value of oil imports from G$137 million in 1976 to G$160 million in 1977. The reduction in the value of imports was G$147 million, (14%) to G$948 million. Consequently the value of non-oil imports was therefore reduced by about a quarter.

The factors outlined above led to a reduction in the current account deficit of the Balance of Payments from G$335 million in 1976 to G$242 million in 1977. But international reserves were further reduced by about G$56 million and drawings of foreign loans not associated with nationalization fell from G$211.4 million in 1976 to G$150.4 million. Interestingly, external loans needed to avoid the increase in arrears of payments on external bills were not forthcoming.

Despite improvements in 1977, the economy was still not out of danger. Further reductions in A.M.D. were necessary, and in consultations with the I.M.F. in 1978 for the 11th standby arrangement in as many years, it was agreed that more emphasis would be given to

TABLE V

LOAN INFLOW AND SERVICE CHARGES
1973-1980

G$Mn.

YEAR	1 Debt Charges	2 Total Inflows	Net Inflows	3 Loans For Nationalization	2 - 3
1973	20.1	46.6	26.5	-	46.6
1974	32.3	79.1	46.8	-	79.1
1975	40.0	203.9	163.9	45.0	158.9
1976	94.8	274.1	179.3	62.7	211.4
1977	99.6	151.3	51.7	0.9	150.4
1978	193.8	251.1	57.3	-	251.1
1979	271.9	339.7	67.8	-	339.7

SOURCES: B.O.G's Annual Reports
I.M.F. R.E.D. Publications

demand management policies rather than restrictions for the control of A.M.D., and that there would be greater control of the external debt through the setting up of a body responsible for data collection and central control. It was also agreed that ceilings would be set on external borrowing. The Government felt the need for a programme to raise revenue, tighten spending policies and to foster a higher degree of efficiency in the public sector. For the first time therefore, in 1978 the National budget covered not only the operations of the Central Government, but also those of the rest of the public sector.

A central planning authority, the State Planning Commission was established in keeping with this objective and started to operate around the middle of 1978. The Commission was given the responsibility of the planning of the Economy within the framework of the Socialist philosophy and objectives of Government. Around the same time a monitoring sub-committee of Cabinet was set up to monitor primarily, financial operations of public sector entities, to ensure that targets set are attained and to recommend policy for their attainment whenever necessary. These institutions work towards an optimum utilization of resources.

With a combination of fiscal and monetary measures, domestic expenditure was reduced to a level slightly below that of 1977 due mainly to a 16% cut in public sector capital expenditure. Imports were consequently reduced by 10% from the 1977 level, and with a 13% increase in exports, the gap in the current account of the Balance of Payments was reduced to G$52 million. Inflows of loan funds were held to G$251 million, but debt charges accounted for G$193.6 million or 77% of that amount.

Due to the encouraging results of tight financial management in 1978 further Economic improvement was anticipated in 1979. A real growth of 6% was projected for Guyana in 1979 and in cognizance of the prevailing obligations the expenditure was set accordingly. The growth of saving was also crucial to the financial programme for 1979, so that Bank rate was increased from 8 to 10%.

Unfortunately the projected growth did not materialise because of bad weather conditions and unstable industrial relations. The savings level required was also not obtained reflecting the slow growth of money incomes and higher prices. The adjustments necessitated by the depressed state of output were not achieved. In fact, investment, which was budgeted at G$325,[3] was in fact only held to G$310 with Central Government increasing its investment by 71% to G$140 million. Consumption in real terms hardly changed, but the value of consumption expenditure increased by 13%.

The Balance of Payments suffered as a result, with a current account gap of G$189 million which was G$89 million more than the target. The increase in the price of fuel of course took its toll, contributing to a 15% movement in the terms of trade against Guyana. The increased value of oil alone accounted for about 4/5 of the increase in total value of merchandise imports. At G$230 million, oil imports represented about 33% of total merchandise imports, G$60 million more than the value in 1978 and absorbed 29% of export earnings. Instead of the projected G$130 million in net inflows, there was only about G$68million. The reserves therefore decreased by G$123 million to minus G$181.6 million while bank borrowing was increased by 23.6% or G$183.4 a massive G$123 million above the target.

MANAGEMENT OF GUYANA'S EXTERNAL DEBT

In evaluating external debt situations of developing countries recourse is taken in a number of indicators, as the only objective criteria for analysis. The areas of concentration are firstly the outstanding debt (Dout), and this is compared with the (GNP) Gross National Product or (GDP) Gross Domestic Product of the country.

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[3] Budget Speech 1979 pp. 53

Secondly, Debt flows are considered, with the Debt service ratio (i.e. Debt Service Payments as a percentage of Exports DS/X), becoming the most popular measure of creditworthiness. The maturity structure of the Debt is also given some attention and finally the level of dependence on foreign inflows as reflected in the "roll over" or Debt Service payments compared with disbursements (DS/DISB). These considerations give a general picture of the level of indebtedness of a country and its debt carrying capacity, indicating when problems are likely to arise and making possible improvements in flows and in the utilization of loans.

Using the above criteria in a study of 69 developing countries, Pierre Dhonte,[4] concluded that the countries with debt service problems, are countries which are active borrowers not only to finance maturing obligations but to secure a large sustained net transfer relative to Imports on which they have become dependent. They seek large capital inflows even though their debt accumulates on terms which are not favourable and in spite of its high level, debt continues to grow faster than exports. While a satisfactory "roll-over" ratio is maintained, this is the consequence of increasingly larger external borrowing rather than a cautious policy with respect to the terms of new borrowing .... The conditions of past borrowing have led to a bunching of maturities. To pursue a policy of securing high net transfers under these conditions would soon involve a borrowing level which could not be maintained because of supply or "absorption" constraints.

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4 DM/74/26 Quantitative Indicators and Analysis of External Debt Problems by P. Dhonte - I.M.F. Documents.

From G$578.2 million in 1973, the external debt of Guyana was up by 205% to G$1153.8 million by December 1979. (See Table 1). Table II indicates that when compared with G.D.P., the Debt rose from 66% of G.D.P. in 1973 to 98.6% in 1979. Table VI compares DOUT with the G.N.P. with even more startling results. From 1977 the Debt was larger than the G.N.P.[5]

When the ratio DOUT/G.N.P. is considered for 92 middle and low income countries for 1977, only in one case was the ratio higher than that of Guyana. (i.e. the case of Mauritania where it was 111.7% in 1977). Moreover, the ratio was only close to 70% in three cases i.e. Egypt, Mali and the Congo. The average for low income countries was 25% and for middle income countries 18.6%.

However, the growth of Guyana's external Debt has slowed considerably in recent years, from 55% during 1976 to 6% in 1979 (See Table VI). The rate of growth of G.N.P. has also been on the decline, and significantly, in the 1970's it was only in two years 1974 and 1978 that the debt grew slower than the G.N.P.

When compared with Exports a similar pattern emerges with the external Debt being greater than exports from 1976 and only growing at a slower rate in two years again 1974 and 1978. In fact export growth has been negative for three of the last four years, so that when compared with ability to repay the growth of the external debt has been noteworthy.

As a consequence debt service payments have been on the increase, exacerbated by increased borrowing in the Eurodollar market

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5 World Development Report. Document of the World Bank, August 1979.

in recent years and the rapid rise in the Eurodollar rate. The Debt Service charges rose from an average 5% of G.N.P. for the first 6 years of the 1970's to 25% of G.N.P. by 1979. (See Table III). The increase between 1975 and 1976 was 137% and it was 95% and 40% in 1978 and 1979 respectively. In 1979 debt service outflows were at the record level of G$271.9 million, over a third of exports. Together with oil imports of G$230 million in 1979, the debt service represented nearly 2/3 of the value of exports. The debt service ratio was on the climb from 1976, reaching 35% of exports in 1979 from 4% in 1975.

When compared with the debt service ratio for 1977 of the same 92 middle and low income countries mentioned earlier, only in 14 cases was the ratio higher, with the average for low income countries being 7.6% and for middle income countries 9.2%.

TABLE VI

EXTERNAL DEBT COMPARED WITH G.N.P. AND EXPORTS

YEAR	External Debt 1	Growth	G.N.P. 2	Growth	1 as % of 2	Exports 3	Growth	1 as % of 3
1965	96.9		297.7		32.5	206		47.0
1966	99.8	3	309.2	4	32.2	220	6%	45.4
1967	108.5	9	341.7	11	31.8	244	10%	44.5
1968	113.9	5	375.0	10	30.3	266	8%	42.8
1969	129.8	14	396.2	6	32.8	295	10%	44.0
1970	146.8	13	424.9	7	34.5	304	3%	48.3
1971	296.8	102	459.2	8	64.6	333	10%	89.1
1972	332.8	12	507.3	10	65.6	344	3%	96.7
1973	378.2	14	549.4	8	68.8	333	- 3%	113.6
1974	440.8	17	827.0	50	53.3	650	95%	67.8
1975	675.8	53	1056.4	28	64.0	914	41%	73.9
1976	881.9	30	964.5	- 7	91.4	760	-17%	116.0
1977	970.8	10	945.0	- 2	102.7	706	- 7%	137.5
1978	1086.0	12	1073.0	13	101.2	798	+13%	136.1
1979	1153.8	6	1095.0	2	105.4	782	- 2%	147.5

Because of the rising debt service charges, the inflows of external liabilities have to be correspondingly high in order to realize a net transfer or "roll-over" enough to breach the gap in the current account of the Balance of Payments. Guyana has therefore become dependent on large inflows to make available the necessary capital imports for growth and development in the future and survival in the short run. Fortunately or unfortunately from 1977 to 1979 the desired level of inflows did not materialise.

The fact that borrowing on commercial terms was on the increase in recent years, is brought out in Table VII. Up from 3% of total outstanding debt in 1971 to 37% and 35% in 1978 and 1979 respectively. With this increase the maturity structure of the debt therefore deteriorated significantly. (See Table VIII). Debt outstanding of under six years maturity, rose from 2% of total debt outstanding 1974 to 25% of this total in 1978. And as Table IX indicates, there was a corresponding increase in interest charges, growing by 20% in 1978 and 50% in 1979. The increase between 1974 and 1978 was 278%. The average interest rate therefore stood at 6% in 1979 from 4.7% in 1974.

TABLE VII

COMMERCIAL LOANS OUTSTANDING

YEAR	Outstanding Debt 1	Commercial 2	1 as % of 2
1971	296.8	8.9	3
1972	332.8	14.5	4
1973	378.2	49.1	13
1974	440.8	56.4	13
1975	675.8	165.8	25
1976	881.9	280.7	32
1977	970.8	346.7	36
1978	1086.0	401.5	37
1979	1153.8	406.9	35

TABLE VIII

MATURITY STRUCTURE OF GUYANA'S EXTERNAL PUBLIC DEBT CONTRACTED

G$Mn.

	1974	1975	1976	1977	1978
TOTAL	734.8	948.2	1165.1	1355.6	1822.2
Under 6 yrs.	14.9	101.2	225.7	282.9	456.4
6 - 12 yrs.	58.6	128.6	192.4	192.4	211.2
Over 12 yrs.	661.3	718.4	747.0	880.3	1154.6
			As Percent of Total		
Under 6 yrs.	2.0	10.7	19.4	20.9	25.0
6 - 12 yrs.	8.0	13.5	16.5	14.2	11.6
Over 12 yrs.	90.0	75.8	64.1	64.9	63.4

SOURCE: I.M.F. R.E.D. of Guyana - June 1979

TABLE IX

DEBT CHARGES

G$Mn.

YEAR	Amortization	Interest	Growth	Total Debt Service	Average Interest Rate 1)
1974	14.6	17.7		32.3	4.7
1975	18.3	21.7	23	40.0	4.9
1976	48.0	46.8	16	94.8	6.9
1977	62.4	37.2	-21	99.6	4.2
1978	149.3	44.5	20	193.8	4.6
1979	205.0	66.9	50	271.9	6.0

1) Ratio of Interest Payments to Debt at the beginning of the year.

TABLE X

PERCENTAGE OF TOTAL PUBLIC DEBT INFLOWS USED FOR DIRECTLY PRODUCTIVE INVESTMENT

	1972	1973	1974	1975	1976	1977	1978
Total Inflows	26.7	43.9	79.1	203.9	274.1	151.3	251.1
Productive Investment	6.7	2.9	9.7	64.7	102.8	70.3	185.3
% of Total	25%	7%	12%	32%	53.3%	46.4%	74.8%

The picture that emerges from the foregoing analysis, is one of a country in financial difficulties, with a high and growing external public debt. More significantly the growth of income and exports is not keeping pace with the growth of external liabilities. Moreover, because of an increase in the level of borrowing by Public Sector non-financial institutions on commercial terms, there has been a deterioration in the structure of the external debt in recent years, with the consequent rise in interest and service payments. A re-negotiation of some of external credits therefore became necessary in 1979. Finally, in order to effect a large enough net transfer for Balance of Payments and other purposes, Guyana is forced to borrow more on commercial terms, and in fact desired inflows are not realized because of the country's questionable creditworthiness.

Guyana's economic woes, in the late 70's were preceded by buoyant sugar revenues and high levels of output in 1974 and 1975. This encouraged the policy-makers to embark on an ambitious development programme with expensive public sector projects. Generous pay increases were granted and the allure of nationalization was too great to be ignored. Long term commitments were made on current income rather than a more long term permanent income approach. Demand climbed, supported by the rising price of imported fuel. The country was therefore not prepared for the sudden fall in sugar prices from late 1975. Exports suffered even further due to the depressed levels of output over the years 1976 to 1979, while demand remained high and supported by external savings. The external debt therefore became a focal point as Guyana was confronted with a serious debt management crisis. To reduce aggregate demand while trying to increase revenue in the face of falling prices is problematic in view of the commitments of the previous years. Workers were promised further increases in salaries in 1977, 1978 and even 1979 and to stop some of the development projects would have caused even greater costs to the economy than the costs associated with continuation. New investment is quite often necessary to maintain or increase production. Consumption demand may only be controlled to a point, without affecting production.

Attempts were made nevertheless with some success to control aggregate demand from 1977. More stringent exchange control measures became a part of the Guyanese existence in the 1970's and other institutional arrangements were introduced for greater central control of the economy. Financial and other targets were set including ceilings on local and external borrowing. With the advent of more rational investment planning serious attempts were made to adjust capital expenditure to available resources. Local savings was encouraged by the increases in interest rates in 1978 and 1979 and salary increases were controlled in 1979.

The growth rate of the External Debt was consequently held to 12% in 1978 and 6% in 1979 from a high 53% growth in 1975. The Balance of Payments Deficit on Current Account fell from G$349 million in 1976 to G$52 million in 1978 and was G$190 million in 1979. Demand was not controlled to the amounts necessitated by the fall in revenue and the planners were assisted by a shortfall in inflows in their efforts to control the outstanding debt. On the production side such factors as the weather and industrial relations contrived to keep production levels depressed. Furthermore, the pace of projected implementation has been slow because of shortages of skilled technicians, institutional weaknesses, and high cost over-runs to be met locally in an economy plagued by a shortage of cash.

Serious efforts were therefore made to control loan inflows, but much attention was not paid to the micro control of debt, i.e. to maturity structures and interest rates. As may be seen in Table IX, the average interest rate was as high as 6% in 1979 from 4.6% in 1978. Commercial loans remained over 30% of total outstanding loans from 1976 falling only marginally in 1979 from 37% in 1978 to 35% at the end of 1979. See Table VII. Short term loans are still on the increase with the contracted debt under six years as a proportion of total growing every year. This is partly due to the seriousness of the debt problem. Efforts are made to get as much of the targeted inflow as possible on concessionary terms, but because of the level required a considerable proportion has to be taken on commercial terms. The need therefore constrains the borrower.

But the foreign debt committee which was instituted in 1979 to keep a comprehensive record of external debt operations, to approve external borrowing and hopefully to make such efforts as possible to improve the structure of the debt, has not been doing very much if anything in this direction. This may be so because of the shortages of skilled manpower and the consequent overwork of the members of the committee, saddled with a full-time job, to be done in their spare time. The economy has so far been unable to undertake the sort of centralised borrowing common in socialist countries with the related advantages.

In the area of utilization of external credits, hopefully the mistakes of 1976 will not be repeated, with the new institutional arrangements and a more rational and long term perspective to planning, the Investment programme would be tailored to revenues. Alternative investment opportunities should be well investigated. The World Bank has complained that there is 'insufficient co-ordination and monitoring of project execution'. It is clear that more needs to be done in this direction, but again the manpower constraint is an obvious cause.

In the short run, however, one can only ask more effort and commitment on the part of those involved. Fortunately, an increasing proportion of the external inflows is being used to directly increase the productive capacity of the economy. (See Table X). In 1972 only 25% of inflows was used to increase production. Even smaller amounts were utilized in this direction in 1973 and 1974, but in 1978 it was almost 75%. This is a good sign and the trend should be continued since increasing the ability of the economy to service the debt is an important aspect of management.

CONCLUSIONS

The merits of External Debt management despite the limitations and difficulties are obvious. Because of Guyana's current financial squeeze, proper management of the debt is of paramount importance if we are to avoid getting deeper into the "debt trap". Such control and management is an important facet of the planning process for growth and development. Through macro control of the economic variables, some downward pressure has been exerted on the growth of the debt. However despite the shortages of skilled manpower more needs to be, and can be done in the area of micro control (i.e. the control of the terms) of foreign borrowing and in the utilization of such credits. The debt committee which seems somewhat dormant needs to be revitalized and should offer some direction and advice to the policymakers.

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