Working Paper 

Development Performance and Economic Policy in Guyana, 1990-2021

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Abstract

This chapter evaluates Guyana's economic performance since 1990, using the UNDP's *Human Development Index.* The confident expectations for Guyana's resource-rich economy in the 1970s were defeated by a failed experiment in state control which caused a major regression in economic development in the 1980s. By 1990 Guyana had fallen behind the rest of the Caribbean - Haiti excepted - in the HDI rankings. By that date, however, the last of the controls that had strangled production were being dismantled. In the three decades to 2019, the year when a new era as a petroleum exporter began, Guyana's development performance was among the best in the Caribbean, thanks mainly to investment in gold production in response to rising international gold prices. Investor confidence was restored by fiscal prudence on the part of the Guyanese Government, which maintained savings on the current account for all but a few years around the turn of the 20th century. With the restoration of fiscal credibility, capital flight subsided and the exchange rate stabilised even though the Bank of Guyana no longer actively intervened in the foreign currency market. The transformation to the oil economy since 2019 poses immense challenges for economic management to secure development commensurate with the country's new-found economic potential.

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Introduction

Guyana's economic prospects appeared promising in the early 1970s, before the first global oil price crisis; however, after a period of great turbulence in the second half of the 1970s, the economy went into a period of sustained contraction that lasted for the entire decade of the 1980s. GDP of US$313 million in 1989 was just about half what was recorded in 1980. The death of President Forbes Burnham in 1985, and the subsequent reversal of policies of state ownership of major commercial activity, saw a revival of Guyana's fortunes, beginning in the early 1990s.

The present chapter analyses the development of the Guyanese economy from 1990, at a time when the Guyanese economy was resetting from a centrally controlled system, directed by the state, to the system which Guyana shared with the rest of the Caribbean before the Burnham era. Our analysis takes advantage of the availability, since 1990, of the Human Development Index, a statistic which improves on the usual measure of economic progress, the Gross Domestic Product, in three critical dimensions. First, it recognises that the average income (in US dollars) of Guyanese purchases more than an equivalent US dollar income would purchase in some foreign countries, while in other countries you would not be able to buy as much as in Guyana with that income. The HDI therefore adjusts the first of three indexes it uses, the Gross National Income per person, according to the amount it will purchase in each country for which the calculation is made. Secondly, the HDI recognises that health outcomes are an important indicator of the quality of life in any country; it therefore incorporates an index based on the life expectancy at birth in each country. The third element incorporated into the HDI is education, measured by years of schooling. The HDI is now the best indicator of development that is published annually for all countries, and it is available for most countries, including Guyana, from 1990.

Guyana, like all small economies, depends for its economic development on earnings of foreign currency with which to purchase the imports that support the livelihoods and economic activities of its people. In this regard, a small economy is much like a household, which earns income from work outside the household to maintain the livelihood of its members. The higher the household income, the better the family members live. Just as self-sufficiency affords a low-income family only a meagre subsistence livelihood, the small economy which insists on self-sufficiency condemns its citizens to lives of deprivation. Therefore, at the heart of our analysis of the Guyanese economy are the factors which have propelled the performance of export activities and earnings of foreign exchange.

It is true that domestic activities such as wholesale and retail trade, the provision of water and electricity, transport services, health and education, and other domestic transactions are major contributors to the GDP, in small countries as in large. The contrast with large countries is that in small economies these activities, referred to as nontradables, bear a fixed relationship to earnings and borrowings in foreign currency. Unlike for large countries which produce a wide variety of import-competing products, in the small economy every nontraded transaction generates a need for imports, directly or indirectly. The ratio of nontradable to export activity can be expected to change with changes in technology, personal preferences and social organization, and with the introduction of new products and services. Such changes are incremental, over many years, and the ratio may go in either direction.

While the total output in the small economy is ultimately determined by earnings and borrowing from abroad, prices in local currency may deviate from the US dollar prices of the imports for domestic consumption and investment. One obvious reason will be a depreciation of the US dollar value of the local currency. It is not surprising that the populations of small economies like Guyana prize the stability of the US dollar value of their currency so highly. However, as anyone familiar with the Guyanese economy knows only too well, managing the US dollar value of the Guyanese dollar has been a major challenge. Almost everyone seems to believe that the way the value of local currencies may be protected is by holding very large reserves of foreign currency. There are two problems with this approach. The first is that it requires the country to divert excessive amounts of foreign earnings, and in some instances foreign borrowing, into what are, in effect, loans to the US Treasury. In so doing, the small country sacrifices domestic investment in infrastructure and public services that would have accelerated the growth of the economy. The second problem is that the foreign reserves, however large, always prove insufficient when there is a balance of payments crisis that triggers capital flight.

The key to exchange rate management and price stability in the small economy is the management of government finances and borrowing. It can be shown that the necessary conditions for exchange rate stability and avoidance of excess inflation are the maintenance of savings on the public sector account that are consistent with investment and private sector savings, and the use of borrowing for public capital expenditure (Worrell, 2023, Chapter 7).

The central bank in the small open economy has no control over the interest rate, which commercial banks set on the basis of the US Treasury bill rate, plus a premium for the perceived riskiness of investment in the domestic economy. With respect to the rate of inflation, the best that a small country can achieve, except in the short run, is a rate that is no higher than the world rate of inflation.

The analysis of Guyana's economic development in this chapter takes the story to 2019, when two major events occurred which have altered the structure and prospects of the Guyanese economy beyond all recognition. The Covid-19 pandemic reduced the life expectancy of Guyanese by five per cent by the end of 2021, but the onset of the pandemic coincided with the beginning of petroleum exports. The expansion of petroleum was so rapid that its contribution to the national income was large enough to more than compensate for the loss in life expectancy, and Guyana was one of only two countries in Central America and the Caribbean that recorded an increase in its Human Development Index score between 2019 and 2021 (Worrell, 2022). Guyana’s oil reserves are of such magnitude, with such far-reaching consequences, that we will devote a separate section of this chapter to a discussion of economic developments in the years 2020 – 2022.

In 1970 Guyana's prospects were among the most promising in the English-speaking Caribbean. The country boasted a good educational system on which a skilled human resource bank could be built; the GDP had been expanding since the end of a state of emergency in 1964, inflation was low, and external payments were in overall balance. Prospects for the export of bauxite were good, as Guyana was the main producer of calcined bauxite used to line steel furnaces, and sugar production was on the increase. On the distaff side, rice production was falling and the rate of unemployment was high.

The contraction of the economy from the mid-1970s was mainly the result of government policy failure. Guyana felt little effect from the first oil shock because prices of sugar and other commodities it exported rose sharply, yielding a large windfall of foreign earnings. The use of this foreign currency windfall to nationalise much of the productive capacity of the economy in 1976 left Government with no reserves to cushion the impact of the fall in sugar prices in 1977. A series of adjustment programmes, supported with IMF finance, were insufficient to restore external balance. Strict rationing of the foreign exchange supply by the Bank of Guyana led to shortages, high inflation and the growth of informal trading which grew in importance to rival the formal importing and distribution channels.

As the informal economy overtook most trade and commerce, it became impossible to manage the exchange rate. The Bank of Guyana abandoned all attempts to target the parity with the US dollar after a series of devaluations in the 1980s failed to reduce the shortages in the official market for foreign exchange. With the nationalisation of the economy and the chronic foreign currency shortages over a period lasting a decade and a half, productivity levels fell, and output contracted in the 1980s decade (Worrell, 1987, Chapter 4).

The economy reached a nadir following the death of President Burnham in August 1985. His successor President Hoyte opened the economy to foreign investment and began a process of reversing the policy of state ownership of commercial enterprises. These policies began to bear fruit at the beginning of the 1990s decade, which is where our investigation of the development performance of the economy begins.

In this chapter, Section I is devoted to an analysis of Guyana's HDI in 2019 compared with 1990 and with other small open economies. The discussion will include an assessment of the contribution of each element to the overall HDI score.

Section II considers the foreign exchange earning sectors, identifying changes in the relative importance of the main items over the past three decades. The discussion covers the driving factors for each activity, Guyana's international competitiveness, and the investment patterns in the economy.

Section III explores the relationship between the nontradable and foreign earning sectors of the economy, covering issues including the determination of aggregate domestic demand, the import propensity, the impact of fiscal expansion, and the impact of imbalances between domestic demand and supply and the balance of external payments.

Section IV analyses the performance of the public sector in terms of its impact on economic growth and of its effects on aggregate demand. This is where the analysis explores the impact of the management of government finances on the balance of payments.

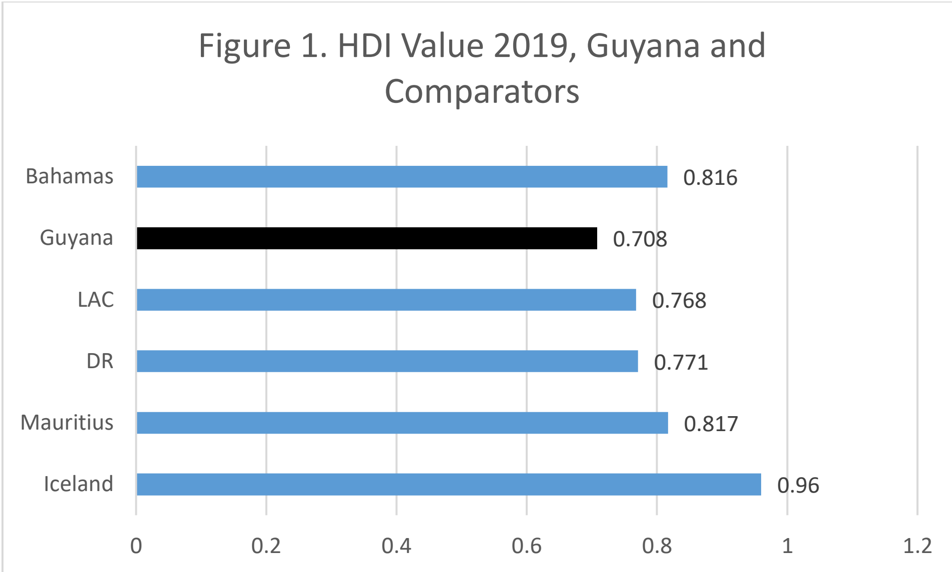
Section V is devoted to monetary and exchange rate issues, exploring the factors which serve to explain the observed patterns of exchange rate movement.

In Section VI we discuss the ways in which the sudden explosion of the oil economy is changing the Guyanese economy, and the challenges which this poses for the future development of the nation.

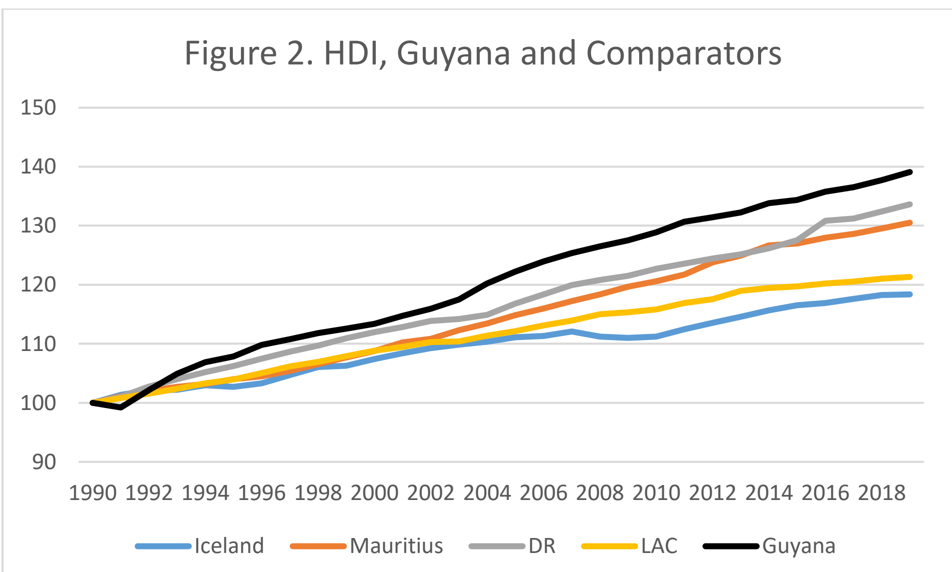
The final section summarises the findings of this exploration of the structure and progress of the Guyanese economy between 1990 and 2019, and the ways in which the economic features and relationships we describe may change with the emergence and sudden dominance of the oil economy.

Section I. Human development in Guyana from 1990 to 2019

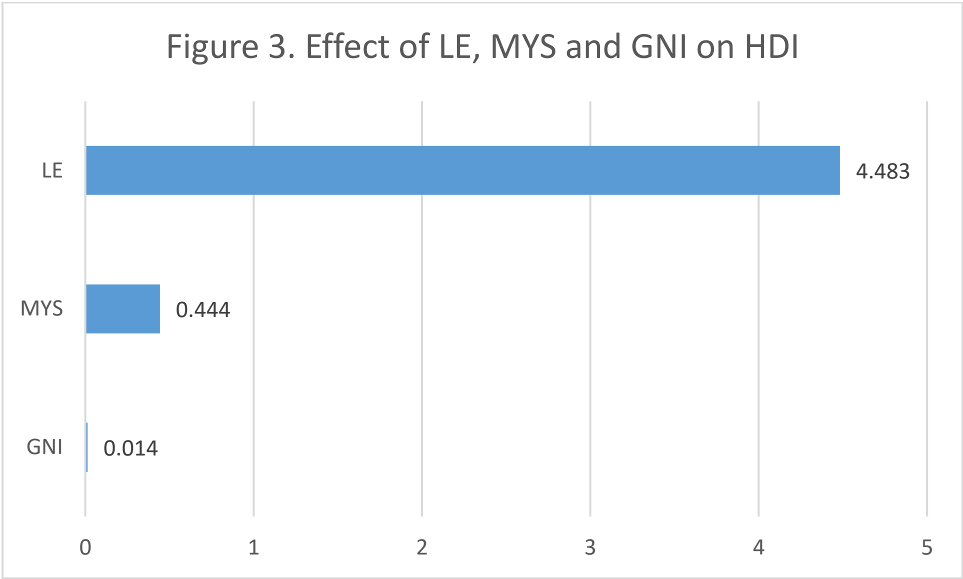
The unfortunate experiences of the late 1970s and the 1980s left Guyana with an HDI score in 1990 which was among the lowest in the Caribbean (0.548), compared with 0.732 for Barbados and 0.668 for Trinidad andTobago, the English-speaking Caribbean's largest economy. With such a relatively low starting point, by 2019 Guyana's HDI score of 0.708 remained below the average for Latin America and the Caribbean (0.768), and a considerable distance behind The Bahamas, the most developed Caribbean economy, with a score of 0.816. In Figure 1, Guyana is also compared with the Dominican Republic, with the highest score in the Spanish-speaking Caribbean, as well as with Mauritius, judged the most successful of 41 small developing countries in Worrell (2023), and Iceland, an independent nation of just about 300,000 inhabitants that boasts one of the world's highest HDI scores.



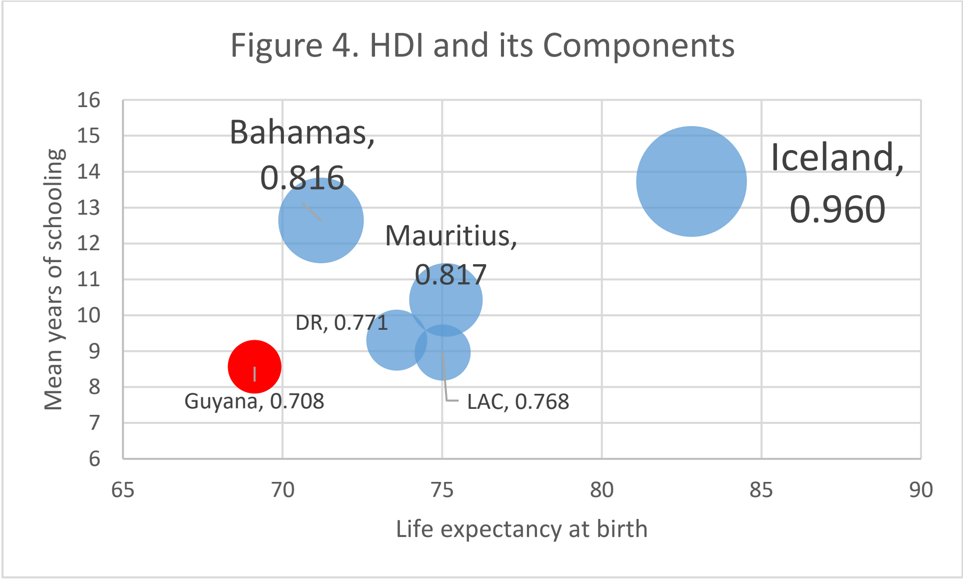
Guyana's level of development in 2019 was the result of its low starting point in 1990. In fact, the improvement in Guyana's HDI score between 1990 and 2019 (39 per cent) was higher than for the comparators (Figure 2). Iceland was already among the world's most developed nations in 1990. Mauritius' development level was sufficiently higher than Guyana's to begin with that the country ended in the top quartile of the HDI, even though the HDI gain was somewhat lower than Guyana's.



An important feature of the HDI is that it is designed to reflect the increasing importance of improvements in health and education, once a country's average national income rises above subsistence levels. The importance of improvements in health and education is reflected in Guyana's experience. Life expectancy at birth (LE) increased from 62 to 69 years between 1990 and 2019, an increase of 11 per cent; that contributed almost 50 per cent of the improvement in the HDI over that period. The increase in the mean years of schooling (MYS), 62 per cent, contributed 24 per cent, while the increase in average incomes, which was as high as 564 per cent over the period, contributed only about 10 per cent to the HDI improvement. (The remaining 15 per cent or thereabouts may be due to factors that we have not taken account of and unavoidable errors in the measurement of the variables). The comparative impact of health, education and average incomes on Guyana's HDI score is shown in Figure 3.



In 2019 Guyana fell short of its comparators on all three elements of human development incorporated in the HDI. The purchasing power of the GNI, US$13,600, was the lowest, below the average for Latin America and the Caribbean, and less than half that of The Bahamas, the highest in the Caribbean. Life expectancy of 69 years was six years less than the Latin American and Caribbean average, and 14 years below the expected lifespan of new-born Icelanders. Mean years of schooling, nine, were the same as the Latin American and Caribbean average, but four years less than for the The Bahamas, and five less than for Iceland (Figure 4).



Summing up Guyana's development experience between 1990 and 2019, it is evident that the country had developed continuously throughout the period, at a pace that exceeded that, not only of Latin America and the Caribbean, but of the most developed of small states. However, Guyana had fallen so far behind in the decade and a half prior to 1990 that its comparatively rapid development since then left it short of the average level of human development of the region, and far short of the highest levels in the Caribbean.

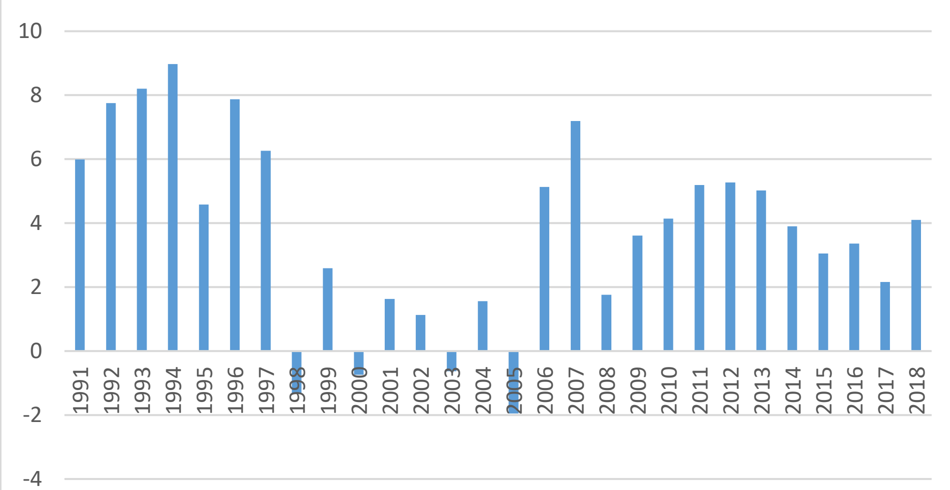
The remainder of this chapter is an analysis of the factors affecting the Guyanese national income. Even though increases in average national incomes do not have a powerful impact on the quality of life directly, higher income provides the financial wherewithal to improve health and educational services, which have much more powerful effects. Therefore, the economic analysis does not tell the full story; what matters more than the increase in average incomes is how effectively government policies stimulate the improvement of health and educational services. That discussion is beyond the scope of this chapter, which deals with factors affecting production and incomes, and the evaluation of macroeconomic policies. From the point of view of prescriptive development policy, the economic analysis should be complemented with an analysis of the efficiency of implementation of health and educational policies.

Section II. Export-propelled growth, 1990-2018

A series of reforms to the foreign currency market opened the way for foreign investment, propelling rapid growth of the Guyanese economy during the 1990s decade. The informal arrangements that had become the dominant platforms for trading US dollars in Guyana were formalised into a regulated system of *cambios* in March 1990, followed by devaluations of the official exchange rate in 1990 and 1991. In August 1993 the Bank of Guyana began trading on the cambio market, effectively allowing the exchange rate for all transactions to fluctuate in line with the scarcity of US dollars in the local market.

These measures, and changes in official policies towards private investment, attracted foreign investment inflows averaging US$85 million per year between 1992 and 1997, directed mainly to bauxite mining, gold mining and forestry (IMF, 1999). This surge in foreign investment was the principal factor in the rapid growth of the Guyanese economy, by an average of seven per cent a year between 1991 and 1997 (Figure 5).

Figure 5. Real Growth Rate, %



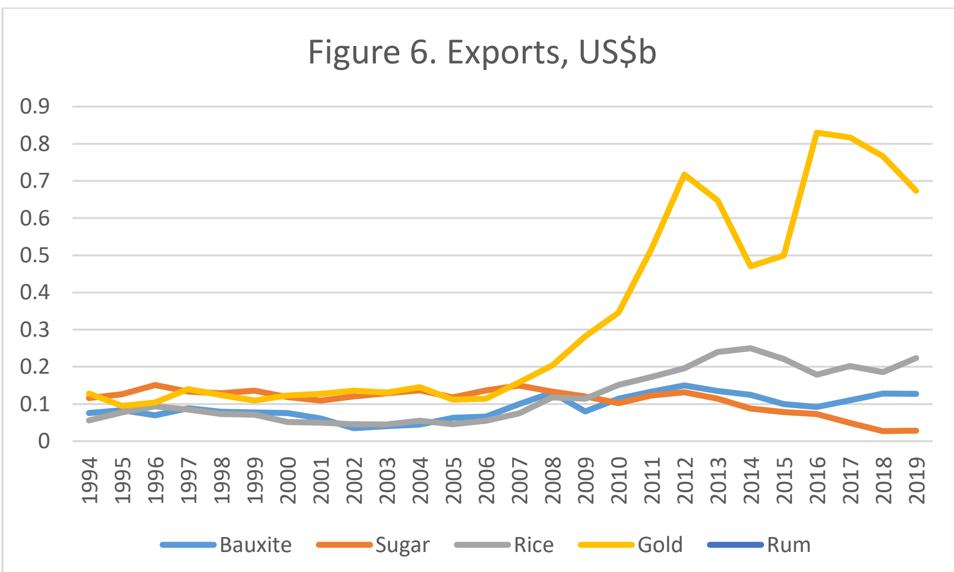
However, the death in office of President Cheddi Jagan in March 1997 marked the beginning of a period of political uncertainty which lasted for the next seven years. During that period the average foreign investment each year was only half what it had been previously. With this loss of momentum, the Guyana economy stagnated between 1998 and 2005.

Economic growth resumed from 2006 onwards, propelled by a new surge of investment in gold mining. Exports of gold rose from an average of US$126 million a year in the 1998-2005 period to four times that average during the 2006-2018 period. By 2019, the year oil exports began, exports of gold accounted for 62 per cent of Guyana's foreign earnings. The expansion of gold production and exports, together with the boom in gold prices, were the principle sources of renewed growth in the Guyanese economy, at an average rate of four per cent per year during this period. Major oil discoveries led to foreign investment of an entirely different order of magnitude, starting in 2018. Between 2018 and 2021 foreign investment averaged US$1,400 million per year.

In 2019, exports of rice and bauxite were the other significant contributors to foreign earnings. Exports of rice peaked in 2014, and have fallen off somewhat since then, accounting for 21 per cent of foreign earnings in 2019. Bauxite exports contributed 12 per cent. Sugar and rum exports together were five per cent of the total.

Changes in the structure of exports

There was a dramatic change in the composition of Guyana's exports in the three decades to 2019, with the growth to dominance of exports of gold. In the early 1990s gold was already the largest export activity, with one third of total foreign earnings. At that time exports of sugar were almost as large, with another 20 per cent contributed by bauxite exports and 15 per cent from exports of rice. Exports of gold exploded from 2008 onwards, and by 2019 they accounted for two-thirds of all export earnings. Over that period rice exports had increased enough to maintain its one-fifth share, but sugar exports had declined to insignificance (Figure 6).



The increase in gold exports was a response to the steep rise in the international price, from less than US$300 per ounce in 2000, to over US$1,700 at December 2011. After dipping to around US$1,000 in

2015, there was a resurgence which brought the price close to an all-time peak of almost US$2,000 by 2019 (macrotrends.net, downloaded August 24, 2023). These price trends are mirrored closely in the Guyanese export statistics, with gold exports increasing over 600 per cent between 2006 with a peak in 2012, with a slump in 2014 and 2015 and recovery to a record level in 2016. Exports fell off somewhat thereafter, but the US$673 million recorded in 2019 was back to the level of 2012.

The steady increase in rice production since the turn of the 21st century stands in contrast to the slow collapse of sugar output. In 2002 sugar production of 331,000 tonnes was 43,000 tonnes greater than for rice. However, whereas rice producers had invested in improved production and marketing to raise output to 763,000 tonnes in 2019, sugar production in that year fell to a mere 86,000 tonnes. The exporters of rice have never benefitted from special marketing arrangements similar to those which were in effect for sugar exports in the 1950s and 1960s. As a result they have developed expertise in selling to the international market, and with it information and skills in production and marketing that equipped them to keep up with changes in market preferences and production technologies to remain competitive.

The collapse of the Caribbean sugar industry stands in stark contrast. The sugar industry remains the most sophisticated production activity in which the Caribbean has ever been involved, and in its heyday the Caribbean boasted world-leading expertise in the cultivation, processing, marketing and global distribution of the range of products of the industry, which included crystal and liquid sugars, molasses for industrial and household use, industrial oils, building materials, fertilizer and biofuels[1]. The industry spawned a variety of food, beverage, pharmaceutical and other products. The regional sugar institutions constituted networks of information and expertise that nurtured skills which opened doors for Caribbean experts to find opportunities in sugar industries in Australia, Brazil and elsewhere.

The unquestionable potential which the sugar industry offered was lost during the 1970s and 1980s, as the industry failed to adjust to the loss of its protected market in the UK. Most sugar is traded through special arrangements, and the European market in particular is largely inaccessible to non-European producers. Very little sugar is sold at what is reported as the “world market price”, which remains stuck below the average cost of production worldwide. With the end of the colonial era, and the consequent loss of their protected market in the UK, Caribbean sugar producers failed to rise to the challenge of developing alternative strategies to ensure the sugar industry’s international competitiveness. Instead, they wasted their energies in a protracted campaign to salvage the special export regime, an exercise which was always doomed to failure.

Bauxite production has fluctuated from year to year within a range of about 500,000 tonnes, but the two million tonnes produced in 2019 was just about the same output as in the mid-1990s.

Section III. Production structure and aggregate demand

As with all small economies, the total of economic activity in Guyana is determined by the output of the sectors that earn foreign exchange, because all economic activity generates a demand for imports, and the foreign exchange with which to purchase them. However, the total of domestic output is a multiple of the production of exports, thanks to nontradables such as business, personal and social services, public utilities, construction and domestic transport. For Guyana, total GDP was 1.3 times the output of the agricultural, manufacturing and mining sectors that have been the sources of foreign exchange over the

[1] Information on the industrial uses of by-products of sugar processing may be found in Thomas (1985).

past three decades. It is noteworthy, however, that up to the turn of the new century the nontradable output was lower than the output of tradables, a highly unusual circumstance. It is evident that the chronic shortages of foreign exchange which characterised the Guyanese economy before the liberalisation of the exchange regime had severely repressed domestic activity, and that the political changes and uncertainty of the 1990s postponed the positive response to exchange rate liberalisation for a decade. However, ever since 2000 nontradable activity has expanded at a rate that is a multiple of the rate of growth of traded activity, and that multiple has continued to increase (Figure 7).

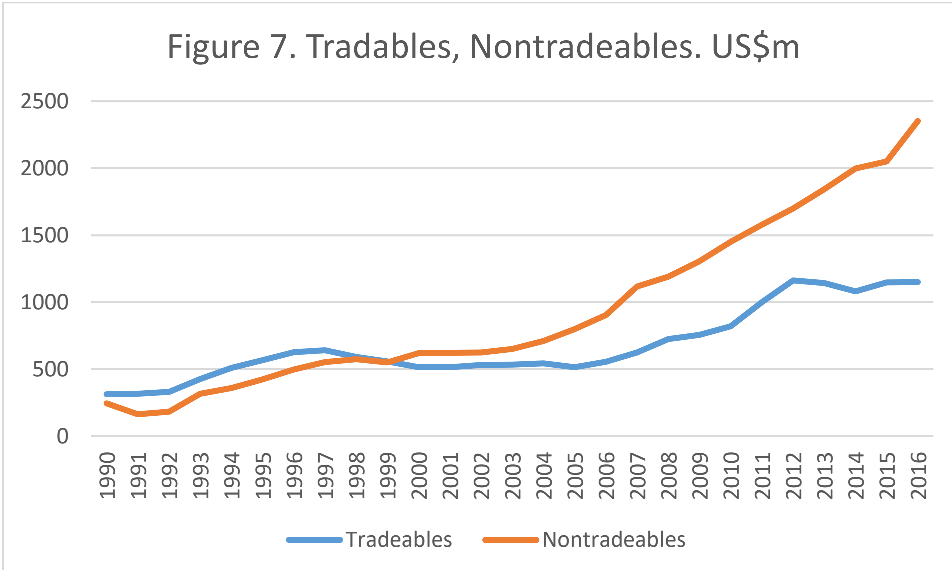
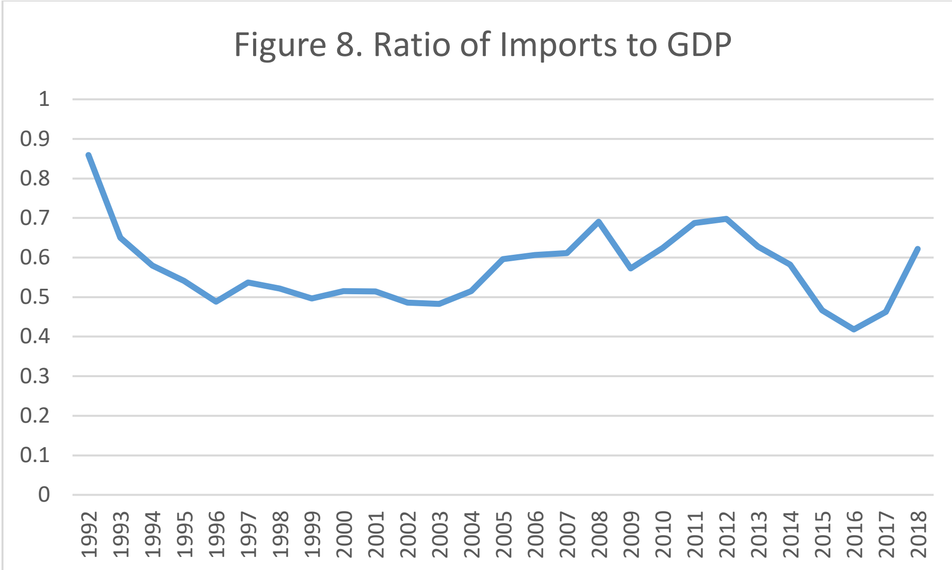


Figure 7. Tradables, Nontradeables. US$m

The ratio of imports to national income provides another measure of changes in economic structure in Guyana in response to the economic and political changes that took place in the late 1980s and 1990s. In the early 1990s imports were in the region of 75 per cent of recorded GDP, but the ratio declined to about 50 per cent by the middle of the decade, as the growth of imports lagged behind the rapid expansion of income. When income stagnated until the mid-2000s, the import ratio remained unchanged. The renewal of economic growth saw a resurgence of imports, sufficient to raise the import/GDP ratio to about 60 per cent by the end of the decade. There was an unexplained 27 per cent fall in the value of imports between 2012 and 2016, but imports subsequently recovered, and the ratio to GDP in 2018 was again over 60 per cent (Figure 8).



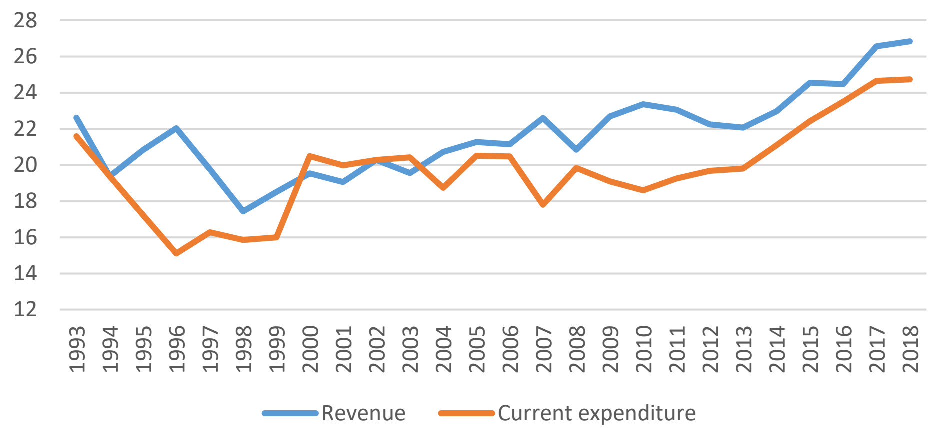
Changes in the extent of informal activity in the Guyanese economy would have affected the picture with respect to both the relationship between tradable and nontradable activities as well as the ratio of recorded imports to GDP. It is almost certainly the case that GDP was underestimated by a considerable amount in the 1980s and 1990s. Tradable activities would have been underestimated by the value of illegal exports of gold, but the majority of the unreported activity would have been in nontraded activities. It is probable that the actual multiplier effect of tradable activity on nontradables was actually greater than unity, contrary to the figure actually recorded. It is reasonable to conclude that nontradeable production was indeed repressed by shortages of foreign currency for needed inputs, but the extent of such compression would have been overstated, because we need to take account of informal activity that is not included in the reported statistics.

The extent of informal activity would also have distorted the picture presented by the import ratio. The ratio was probably much lower than appears to be the case in the 1990s, because the recorded GDP would have been under-reported by the amount of informal activity. However, the constriction of domestic activity would also have been reflected in a reduction of imports, because of foreign currency shortages. Only when the economy started to grow in the mid-2000s would the import ratio have begun to reflect the extent of demand from the economy more faithfully.

Section IV. Government

The Guyana government finances were managed in line with prudent rules of thumb in the past three decades, except for a short period between 2000 and 2006. The period of rapid economic growth brought with it an increase in government revenues by one third by 1997, with more modest increases thereafter. National income growth was so rapid up to 1997 that the ratio of government revenue to GDP fell, in spite of that rapid increase in the dollar amount. From 1998 onwards, the ratio of government revenue to GDP increased steadily from 17 per cent to 27 per cent by 2018, through the seven years of economic stagnation, and the subsequent growth revival (Figure 9).

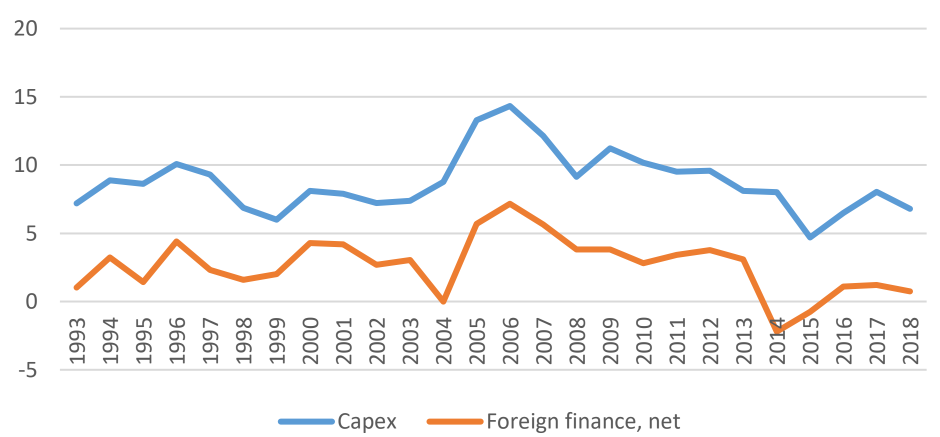
Figure 9. Government Revenue, Expenditure, % of GDP



Government's current expenditure increased much more slowly than revenue, by less than ten per cent to 1997. There was a jump in government current expenditure in 2000 which took the ratio to GDP from 16 per cent to 20 per cent, and opened a small deficit on the current account. Increases in current spending over the next seven years left no savings on the government current account. Current expenditures were brought under control in 2008, and current account savings equivalent to two per cent of GDP or greater were recorded in subsequent years, with only two exceptions.

Government capital expenditure fluctuated between six and eight per cent of GDP up to 2004. In 2005 and 2006 there was a burst of new capital expenditure which took the figure to 14 per cent. Capital expenditure increases levelled off after that, and with the growth of national income after 2006 the ratio to GDP declined to seven per cent by 2018. It is evident that the Government borrowed abroad exclusively to finance capital projects. Foreign finance has provided between a quarter and half of the funding of capital expenditure over the years, including the period of peak expenditure (Figure 10).

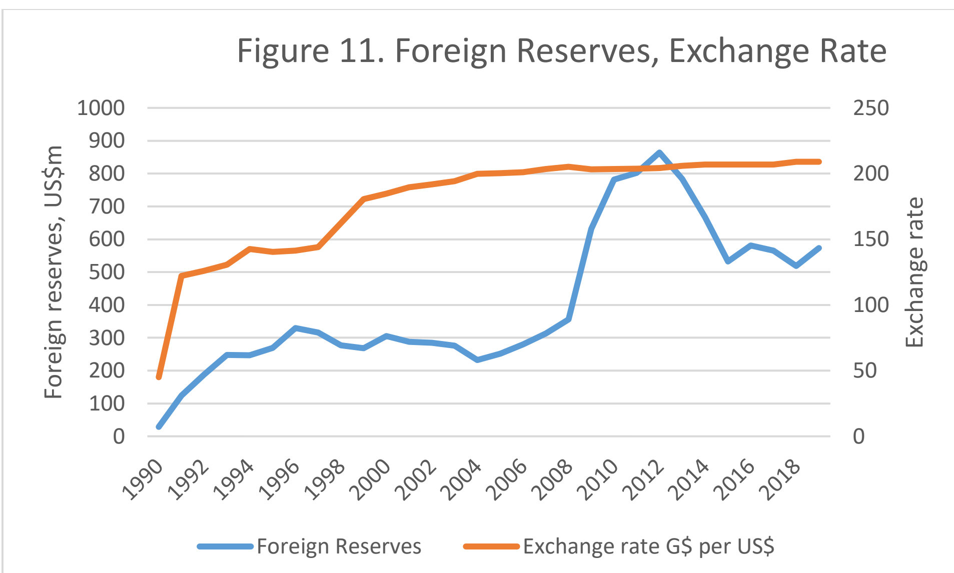
Figure 10. Capital Expenditure, Foreign Finance, % of GDP



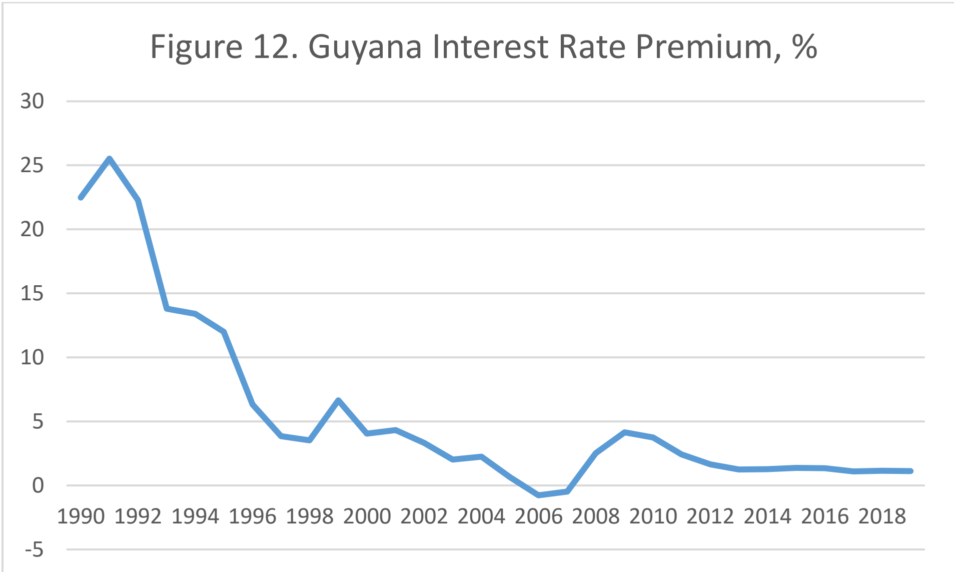
Government's overall deficit has been contained, except for the period from 2001 to 2006. The deficit averaged three per cent of GDP to 2000, and almost four per cent from 2007 onwards. In the intervening years the overall deficit rose as high as eight per cent of GDP on one occasion, averaging almost six per cent per year for the period. The management of public finances during this troubled period evidently unsettled the foreign exchange market, as reflected in the depreciation of the Guyanese dollar by 13 per cent between the end of 2000 and 2008. Once the public finances appeared to be under control and the government's current account was again in surplus, the value of the currency stabilised, with only marginal variations in the exchange rate to 2019.

Section V. Interest and exchange rates

The Guyana interest and exchange experience in the past three decades is typical of the workings of the small open economy. Devaluations of the official rate for trading US dollars by 370 per cent in 1990 and 1991, together with liberalisation of foreign exchange trading arrangements, failed to stabilise the value of the US dollar and eliminate premiums on the informal market. Foreign reserves rose from a low of just US$29 million to ten times that value by 1996, and in 1993 the Bank of Guyana abandoned the practice of setting an official rate, but the value of the US dollar continued to rise (Figure 11). The risk premium on interest rates in Guyana, measured by the difference between US and Guyanese interest rates, was as high as 22 percentage points in 1990. With the liberalisation of the foreign exchange market that premium fell sharply to about five percentage points by the turn of the century. Meanwhile, the exchange rate continued to depreciate, by 43 per cent between 1992 and 2000, and the level of foreign reserves in the latter year remained at the level reached four years earlier.



The picture changes only in the mid-2000s, when government finances were brought under control, with the restoration of surpluses on the current account. It is evident from the stability of the exchange rate, the sharp rise in foreign reserves, and the reduction of the interest rate premium to a range of one to two percentage points, that a degree of confidence had been restored to the foreign exchange market by this time (Figure 12). The Bank of Guyana has remained agnostic about the exchange rate, but the depreciation of the local currency in the decade to 2019 was no more than three per cent. The Bank of Guyana benefitted from a surge of foreign reserves with the beginning of the gold export boom in the late 2000s, but lost much of these gains by 2015. Neither the surge in reserves nor the subsequent decline had any perceptible effect on the exchange rate, which remained virtually unchanged by these ups and downs.



The thesis that prudent fiscal policy provides reassurance to both foreign currency and domestic credit markets is more consistent with this evidence than is the conventional explanation that the exchange rate is determined by demand and supply in foreign currency markets. When the foreign exchange and credit markets were satisfied that government finance was firmly set on a sustainable path, the exchange rate stabilised and the country risk premium fell to very low levels. There is no evidence of foreign exchange intervention by the Bank of Guyana, nor did the Bank pursue any active policy with respect to the cost of domestic credit. That suggests that monetary policy and exchange rate management played no part in the stability exhibited by the exchange rate in the 2010s, or in the very low interest premium achieved on domestic credit during that period.

Section VI. The new oil exporting economy

Guyana had the unique fortune to have begun exporting petroleum in 2019, the year before Covid-19 was declared to be global pandemic, and to have ramped up oil production with extraordinary rapidity from 2020 onwards. As a consequence, Guyana was one of only two countries in Central America and the Caribbean which improved its score in the Human Development Index between 2019 and 2021, the most recent data available as this is being written. Guyana recorded an improvement of 0.8 per cent, in contrast to the Latin American and Caribbean region as a whole, with a loss of 1.8 per cent, and the world average loss of 0.9 per cent.

Guyana's HDI gain was entirely the result of the impact of oil revenues, which propelled a 65 per cent increase in national income per head in just two years. As for the other elements in the HDI, life expectancy at birth declined by five per cent, among the worst recorded in the Central American and

Caribbean, while the impact on schooling, which has also been negative, will not be apparent for some years to come.

Guyana's petroleum exports have grown at an extraordinary pace, driven by the immensity of the reserves which have been found, as well as geopolitical factors, notably Western sanctions on two large exporters, Russia and Guyana's next door neighbour Venezuela. Exports have grown from one billion US dollars in 2020 to ten times that value two years later. In 2022 petroleum accounted for 90 per cent of exports, with gold, previously two-thirds of the total, only eight per cent.

The immediate impact of the oil boom has been a jump in inflation, with prices rising 12 per cent between 2020 and 2022. Adverse effects on the distribution of income have also become apparent: there is a loss of 17 per cent in Guyana's HDI score when adjustment is made for income inequalities.

Guyana's development prospects

The challenges of realising the immense development possibilities which oil exports now open up for Guyana should not be underestimated. We may infer from the HDI analysis in Section I that priority should be given to the upgrade of health and educational institutions and structures. Government will need to mobilise research and skills to design medium term investment strategies, and acquire the capacity to operationalise and implement those strategies. Attenuation of the degree of income inequality also needs to be a priority, to reduce the considerable development losses which are recorded in the HDI when the score is adjusted to take account of inequities. Devising policies and strategies to reduce income inequality is a many-faceted exercise, involving both tax and expenditure elements, as well as changes in the mix of public and private provision of services such as higher education, transportation, water, electricity, housing and other social services. Infrastructure investments on a scale never before seen in Guyana are already underway to service the oil export sector, but there are many other priorities with respect to road transport, electrification and electronic services, public buildings, sea defenses and much else.

The volume of high-level expertise that the country needs to mobilise presents a daunting task. There is no shortage of advisers and consultants willing to provide their services to the Guyana government, and international institutions are all crowding in to help. However, the ultimate management of all this expertise, the putting it together in a national plan of action with implementation deadlines, monitoring and continuous adjustment to stay on course, all these are in the hands of the President and top management of the public sector. The challenge of acquiring the skills, building the leadership capacity and getting up to speed to cope with these new responsibilities should not be trivialised; it is key to realising the development potential which oil revenues present.

The Guyanese people and their government will need to find a way to cope with the fact that investments in health, education, infrastructure, public utilities and social and economic equity will yield development gains only in the longer term. In the meanwhile there will be only incremental changes in the circumstances over the average Guyanese, some to their benefit - such as new job opportunities - but others potentially harmful, such as price inflation. The experience of the Eric Williams government in Trinidad and Tobago in the 1970s is instructive: even such a visionary leader as Eric Williams was criticised, to the end of his life, for his far-sighted policy of sequestering part of the oil price bonanza to finance the industrial park at Point Lisas, which provided the economy a measure of export diversification, but only more than a decade later (Worrell, 2023, Page 77). There will be enormous pressure on Government to expand public sector spending on make-work activities which yield no lasting benefit. As in Trinidad, the situation on Guyana is aggravated by a climate of racial competition.

Guyana's development experience up to 2019, with which this chapter has been concerned, offers few clues to the country's economic future. The process of economic change has already begun, with the surge in inflation, particularly in housing in Georgetown, the capital and main commercial hub. The construction boom in the city will already have begun to attract labour from the countryside, to the detriment of agriculture, which is in decline. As inflation and higher wages attract labour to oil-related construction of ports, transport infrastructure, hotels, commercial real estate, housing, restaurants and bars, entertainment and other services, the migration of labour to Georgetown will accelerate, aggravating existing imbalances between town and country.

Section VII. Concluding observations

As has been the case elsewhere, the Guyana government's experiment in state control of the economy caused a major regression in economic development. In 1990 Guyana had fallen behind all its Caribbean counterparts - except for Haiti - in the HDI rankings, as the last of the controls which had strangled economic production were being dismantled. Having opened the economy to foreign investment, government reluctantly abandoned efforts to manage the exchange rate in the early 1990s. However, after several years of prudent fiscal management, with savings on the government's current account and modest overall deficits, government current spending rose sharply at the turn of the century, and the expected benefits of economic liberalisation failed to materialize in the early 2000s. Foreign investment fell, the economy stagnated and foreign exchange shortages persisted. The factors which opened the way for a resumption of growth were a rise in the international price of gold, which spurred investment and exports, and the control of government expenditure, which restored fiscal savings on the current account and public confidence in the management of the fiscal accounts. This renewed credibility of the management of the public finances, together with the surge in export receipts, served to quiet the foreign currency market, and the exchange rate has remained virtually unchanged to the present, with no active intervention by the Bank of Guyana. With the stabilisation of the exchange rate, inflation subsided and the country interest rate premium fell to historically low levels.

The retrogression in Guyana's development in the 1980s was so severe that even the comparatively large gains of three decades left the country's HDI score below the average for Latin America and the Caribbean in 2019. With the swift ramping up of oil production, that picture now changes. The rate of improvement in the HDI score has already begun to accelerate, thanks to the growth in the spending power of average incomes. However, the imponderable factor is how resources will be deployed to improve outcomes with respect to health, education and the reduction of income inequalities. The more successful the Guyanese government is in allocating finance and building capacity in these areas, the more rapidly will the economy develop in the coming years.

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