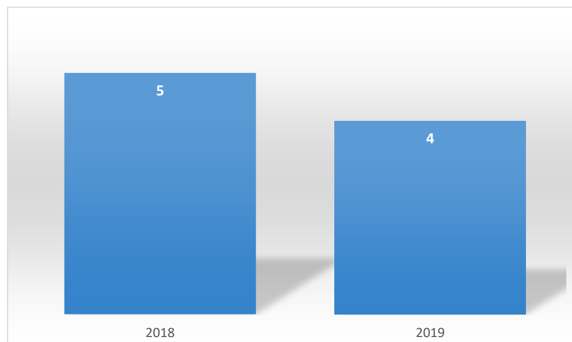
Mid-Year Review and Prospects for 2019

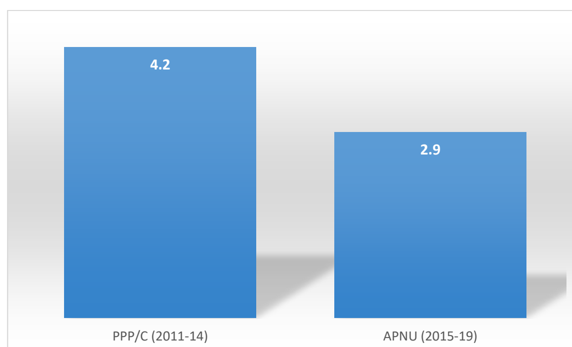
The half-year report presented by the Minister of Finance confirms that the economy continues to suffer from extreme fatigue. Based on his report, the real Gross Domestic Product (GDP) for the first half of 2019 decelerated to 4 percent, compared with the revised 5 percent for the corresponding period in 2018 (figure 1). Given the slow start to 2019, the projected growth for this year was *adjusted downwards* to 4.5 percent (figure 1).

Thus, the growth rate of the economy for the first half is not only lower than the corresponding period one year ago, but will contribute to economic growth that is below the level projected for 2019.

These outturns point to an economy that is struggling and consistently underperforming rather than one that is strong and improving. The consistent underperformance of the economy is also highlighted by the average half-year growth of 2.9 percent recorded under the ANPU government during the period 2015-2019 compared with 4.2 percent during the last five years when the PPP-C was in office (2011-2014) (see figure 1).

Figure 1: Comparison of half-year growth rates (%)

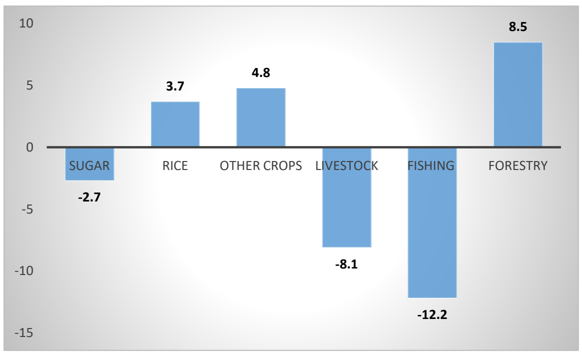




Source: Bank of Guyana Half Year Reports (various years) and 2019 Half Year Report of Ministry of Finance

The poor performance of the economy for the first half may be attributed to notable contraction registered in the sugar, livestock, fishing, bauxite, and other mining sub-sectors which declined by 2.7 percent, 8.1 percent, 12.2 percent, 2.9 percent, and 0.7 percent respectively (see figure 2).

Figure 2: Performance of key industries within the agriculture sector

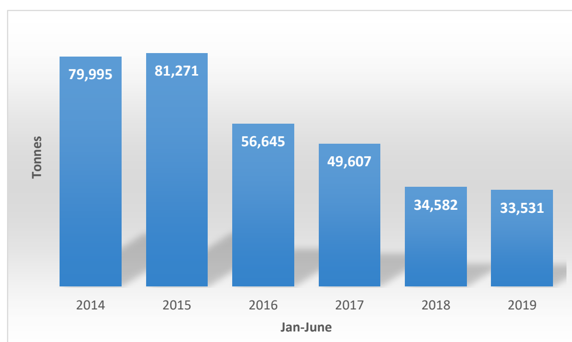


Source: 2019 Half Year Report of Ministry of Finance

Leading the sluggish economic performance for the first half of 2019, was agriculture sector which contracted by 0.3 percent; compared with a growth of 4.9 percent during the corresponding period last year (figure 2). This key sector was projected to grow by 3.9 percent during 2019. However, the growth forecast for the sector was *adjusted downwards* to 1.4 percent this year (figure 2).

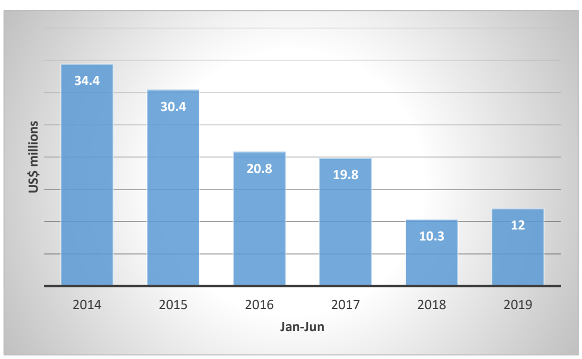
The poor performance of sugar subsector was due to the late delivery of materials and extended maintenance of equipment that delayed production. This caused sugar production to reach its lowest level of 33,531 metric tonnes during the first half of 2019. Compared with the first six months of 2014, this represented a 159 percent decline in sugar production. According to the half-year report, production for the remainder of the year and 2020 is likely to be affected by delays in procurement; a clear manifestation of mismanagement. The sugar subsector is now projected to grow my 2.3 percent during 2019 instead of 15.6 percent that was presented in the 2019 Budget.

Figure 3: Sugar production, 2014-2019



Consequently, the export revenue from sugar, which declined continuously since the APNU-AFC assumed office in 2015, is anticipated to shrink further. Revenue from the export of this commodity contracted from US$34.4 million during the first half of 2014, to US$12 million during the corresponding period in 2019. The budgeted export revenue of US$29.4 million for the entire 2019, which is 15 percent less than the half-year amount for 2014, was adjusted downwards to US$25 million due to gross mismanagement and the concerted efforts by the APNU-AFC government to destroy this industry.

Figure 4: Export revenue, 2014-15



The contraction of the livestock subsector was due mainly to the decline in mutton, chicken and milk production that has affected the entire population. One of the factors, which the mid-year report failed to highlight for the declining production in chicken is the prohibited and rising cost that is a major disincentive to local producers. Meanwhile, the fishing subsector suffered a major setback from decline in shrimp production and industrial finfish production. Based on the performance of the livestock subsector during the first half, this sector is now forecasted to register growth of 0.7 percent instead of 2.3 percent for 2019.

The bauxite and other mining subsectors contracted by 2.9 percent and 0.7 percent respectively. As a consequence, the budgeted growth targets for 2019, were reduced. The growth target of 8.6 percent for the bauxite during 2019 was lowered to 1.3 percent. The export revenue from this commodity had to be reduced from US$162.9 million to US$131.3 million. Similarly, the other mining subsector growth target was revised downwards from 5.3 percent to 1 percent for 2019.

While robust growth is project for the forestry sector that was injured by the spiteful actions of the APNU-AFC government, the export revenue from forestry products is anticipated to less than the amount forecasted in the 2019 Budget.

Balance of Payments

The current account deficit during the first six months of 2019 was US$866.8 million; US$288.3 million more than the deficit of US$578.5 million recorded last year. Notwithstanding improvements in the capital account, the overall deficit was US$86.9 million during the first half of 2019, compared with US$139.8 million during the corresponding period last year.

Based on the BOP in the half-year report, the economy will struggle for the remainder of the year. In his report, the Minister attempted to hide this fact by presenting unrealistic growth forecasts for the various sectors (appendix A1, half-year report). The more realistic projections of the sectoral performance, however, are contained in the Balance of Payments generated by the Bank of Guyana (appendix b). This statement shows that forecasted revenue of all the primary export commodities, including, bauxite, sugar, timber were revised downwards. The poor performance in the key export sectors coupled with the expansion of imports, the deficit in the current account is projected to widen to reach US$1,378.9 million, more than three time the deficit of US$361.5 million in the 2019 Budget. The overall balance which was projected to be a surplus of US$15 million is consequently expected to change to a deficit of US$106.13 million. The international reserves will therefore be depleted further and greater pressure will be placed on the foreign exchange rate, which in turn will translate into higher inflation. According to the BOP the government will be forced to borrow and hope for debt relief.

Inflation

The 12-month inflation rate, continued to trend upwards as a result of increases in the price meat, fish, vegetables and vegetable products, condiments and spices. These increases are strongly correlated with the marked reduction in the output levels reported in the livestock and fishing subsectors.

The Minister posited in his half year review that inflation will be contained at 2.5 percent. However, it is my respectful view that excess demand for these food items will persist thereby and depreciation in the foreign exchange rate will cause further spike in the inflation rate.

Public Finance

Apart from downplaying the economic disaster as reflected in the BOP, the Minister skillfully avoided a truthful analysis of the fiscal accounts contained in the half year report.

Based on the fiscal accounts, the government extracted more tax revenue during the first half of 2019 when compared to 2018. The total tax revenue increased from $100,618.3 million end-June 2018 to $108,964.8 million end-June 2019. The increase was attributed to higher income taxes, value added taxes and trade taxes.

The increased taxes financed the growth in current expenditure which ballooned from $92,848 million end-June 2018 to $97,325.6 end-June 2019 million. The overall balance before grants widened from $2,637.7 million end-June 2018 to reach $5,990.1 million end-June 2019.

Even though the economy is struggling with the high taxes and inflation rates, the government is plans to collect more income and trade taxes than it budgeted. The revenue from income tax and trade taxes that were budgeted at $88,673.3 million and $24,479.1 million were increased to $91,853.5 million and $25,165.9 million respectively. This represents an increase of $3,867 million.

The half-year report also revealed that the government intends to extract more from the private sector in the form of non-tax revenue. The budgeted amount of $8,439.8 million from this source was increased to $8,866.2 million.

These funds will be utilized to finance other goods and services that is projected to increase to $60,791.1 million, from a budgeted sum of $59,843 million for this category of government expenditure. The emoluments was maintained at $70,151.1 million.

Even with higher revenue from income and trade taxes and stable employment costs, the fiscal deficit is projected to widen from $41,497.4 million to $41,832.3 million. According to the half year report, the government intends to finance the larger deficit from external borrowing.

Monetary

While the monetary statistics paints a rosy picture of the investment climate it must be viewed cautiously. The monetary statistics revealed that credit to the private sector increased in all the key sectors.

However, the growth in credit should be cause for concern since the commercial banks are increasing credit at a time when the economy is struggling and non-performing loans is increasing.

The ratio of non-performing loans has trended upwards from 5.97 percent at end-June 2014 to 12.58 percent at end-June 2019. Meanwhile, the reserves for loan losses reduced continuously from 67.24 percent to 37.05 percent. Thus, while less reserves are set aside to cater for loans losses there is a continuous increase in non-performing loans.

Since the most important risks that confronts the banking system is credit risk, all should be concerned rather than happy with the growth in credit.

Figure 5: Ratio of non-performing loans to total loans, 2014-2019

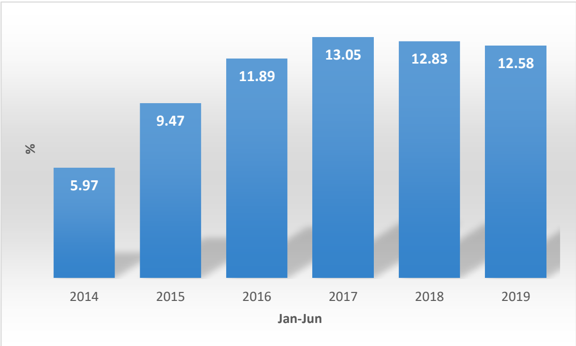
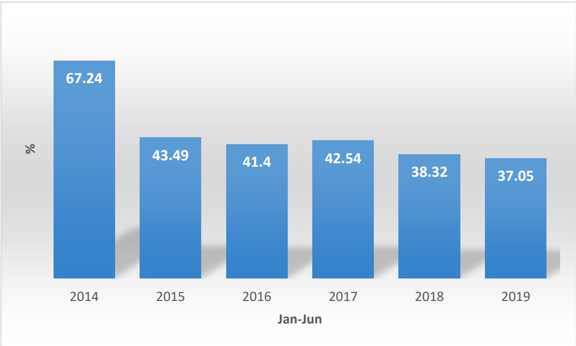


Figure 6: Ratio of reserves for loan losses to non-performing loans



Public Debt

During the first half of 2019, the domestic debt service and external debt service payment registered growth of 96.9 percent and 7.3 percent respectively. Of concern is the government guarantee $30 billion bond of which the government utilized approximately $17.6 billion and is yet to provide explanation to the people of Guyana regarding the use of these funds. In his report, the Minister also stated that $785.3 million was repaid by NICIL during the first half of 2019.

CONCLUSION

The economy growth posted for the first half of 2019 was slower than the corresponding period last year. Given the sluggish growth, the growth rate for the entire 2019 was adjusted downwards.

While the minister attempted to paint a rosy picture concerning the performance of the economy for the remainder of the year, the BOP shows that there will be a decline in the export revenue for bauxite, sugar, and timber. The decline in export revenue coupled with anticipated increase in exports will result in a balance of payment deficit instead of a budgeted surplus. This in turn will deplete the international reserves and force the government to seek debt relief and debt forgiveness to finance the deficit.

The increase in non-performing loans suggest that the economy is ailing economy and collides with the optimism expressed by the Minister regarding our growth prospect. It is not normal for individuals and businesses to default on their loan payments when things are going well in an economy. Loan default occurs when the economy is on the decline. Indeed, published research shows that rising non-performing is strongly linked to the decrease in economic growth and relaxed lending policies. The expansion of credit to the private sector should therefore be viewed with concern since it may be due to lax lending policies rather than buoyancy in the economy and optimism of individuals and businesses in future growth prospects. This type of behavior is dangerous and was responsible for the last global financial crisis caused by the extension of subprime loans.

It is unfortunate that the debilitating tax measures introduced by the government this year will deprive the people of Guyana of billions at a time when prices are rising. Even more sad is the reality that the increased revenue will not go towards increases in emoluments to public servants but to pay for more goods and services. To top add more injury, a larger deficit will accrue from the spending spree undertaken by the government which will be financed by more overseas borrowing that will have to be paid by Guyanese in the future.