Press Release: Guyana to Receive Over US$400 Million in Debt Relief

May 14, 1999

The International Monetary Fund (IMF) and the World Bank agreed that Guyana has met the requirements to receive about US$ 410 million in nominal debt service relief from its external creditors under the Heavily Indebted Poor Countries (HIPC) Initiative[1] (#I2). Of this amount, about US$ 40 million (equivalent to US$ 34.5 million in NPV terms) will be provided by the IMF. The decision on debt relief has the support of the Inter-American Development Bank (IDB), Guyana's largest external creditor.

Guyana reached its completion point under the Initiative today. In net present value (NPV) terms, relief from all of Guyana's creditors will be worth about US$256 million, equivalent to 24 percent of total debt outstanding at the end of 1998. This assistance under the HIPC Initiative will reduce the external debt burden, free budgetary resources and allow Guyana to deepen its development efforts.

The IMF assistance will take the form of a grant deposited into an escrow account to be used to cover part of the debt service falling due to the IMF. This will cover about 26 percent of Guyana's annual debt service to the IMF on average over the next nine years. All other multilateral and Paris Club creditors of Guyana have provided satisfactory assurances of their participation in that package.

Since the HIPC Initiative was approved in September 1996, seven countries have qualified for exceptional assistance. Total nominal debt service savings are projected at about US$6 billion for these countries. Assistance to Uganda, Bolivia and Guyana, the first three countries that have so far obtained debt relief under the Initiative, amounts to about US$1.8 billion in nominal terms.

In the case of Guyana, the substantial resources released from debt servicing under the HIPC Initiative amount to about 3½ percent of GDP (10 percent of public sector revenue) on average a year during 1999-2003 and 2 percent of GDP (5½ percent of public sector revenue) during 2004-09 . This will provide room for additional expenditures in social and poverty alleviation areas, which will help the government in its efforts to halve the number of people in poverty by 2015.

During the mid-1990s, Guyana reduced financial imbalances substantially while implementing major structural reforms aimed at increasing efficiency through market-orientedpolicies. Real GDP growth increased to an average annual rate of 7 percent and inflation fell from over 100 percent to 3½ percent. However, beginning in late 1997, Guyana's economy was adversely affected by external shocks, including a decline in major exports (sugar, rice, gold, timber) related to *El Niño* and weak overseas demand. It also suffered the consequences of civil disturbances following the December 1997 elections.

These developments diminished the production and the revenue base, undermined business confidence, and hampered the implementation of Guyana's three-year economic program supported by the IMF under the Enhanced Structural Adjustment Facility (ESAF).[2] (#I3) The authorities are now committed to returning the program closer to its original path, and creating a durable basis for economic growth and reduction in poverty through market-oriented policies. The revised medium-term program takes into account a less favorable external environment and other challenging factors and its policies, including structural reforms, aim at boosting real GDP growth from about 2 percent in 1999 to 4 percent in 2003, and reduce inflation to about 3 percent after a temporary rise in 1999.

Following a midterm review of the first year of the ESAF-supported program under these new parameters, the IMF Executive board approved on May 12, 1999, a new disbursement of SDR 8.96 million (about US$12.1 million) of the total SDR 53.76 million (about US$ 72.7 million) originally committed. The completion of that midterm review was one of the conditions for Guyana to reach the completion point of the HIPC Initiative.

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[1] The HIPC Initiative entails coordinated action by the international financial community, including multilateral institutions, to reduce to sustainable levels the external debt burden of heavily indebted poor countries that pursue IMF and World Bank-supported adjustment and reform programs, but for whom traditional debt relief mechanisms are insufficient.

[2] The ESAF is a concessional IMF facility for assisting eligible members that are undertaking economic reform programs to strengthen their balance of payments and improve their growth prospects. ESAF loans carry an interest rate of 0.5 percent a year and are repayable over 10 years, with a 5½-year grace period on principle payments.

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