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| 2008: Shocks to the Guyana economy and its prospects for 2009 |

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| **Shifting gears**This week I am shifting gears and stating a new discussion on the performance of the Guyana economy during 2008 and its prospects for the year ahead. It is intended that this discussion will lead into an assessment of the National Budget for 2009, which is expected to be laid in the National Assembly shortly.Regular readers would recall that twelve weeks ago I had started an extended examination of the credit crunch, financial crisis and economic recession, which began with the bursting of the US private housing market bubble in the last quarter of 2008.  This has since spread worldwide during the last quarter of 2008. My examination of those issues has turned out to be a rather longer task than I had originally anticipated. I am now forced to cut short some of this discussion as readers have expressed the wish that I deal with the Guyana economy in 2008 as quickly as possible, and certainly before the 2009 National Budget is presented to the National Assembly.Although I have already briefly touched on the channels through which these external reverses have been impacting on Caricom and Guyana, this has not been, in my view, adequate. However, in the course of reviewing Guyana’s experience over the past year and its prospects for 2009. I will necessarily have to treat with some further aspects of these external reverses on the region, as revealed by Guyana’s experience. **2008: Two distant phases**To the close observer the Guyana economy clearly faced two distinct types of shocks an economic challenge during 2008. As we might fear, both of these have impeded growth and development, putting significant pressures on the levels of living of the vast majority of Guyanese. The first set of these shocks and economic challenges occurred in the first half of 2008. The second set of shocks occurred in the second half of 2008 – particularly the latter part of the third quarter of 2008 and all of the fourth.  Let us identify the main shocks and economic challenges.In the first half of the year the shocks and economic challenges were posed by two unprecedented global developments. These were, firstly rising food prices, and secondly rising oil prices. When these two merged the country also faced the related economic challenges of a bio-fuels bubble, with rising speculation over its global future.**Shocks of the second phase**The second half of the year saw numerous, but distinctly different shocks and economic challenges emerge. Indeed, these even took on an opposite character as for example, oil prices. These shocks and economic challenges were firstly, the bursting of the US private housing market bubble at the start of the fourth quarter of 2008.  In a matter of days this was followed with the dramatic appearance of a calamitous credit crunch and financial crisis in the US banking system. Secondly, the economic fallout from these events was compounded by the US economy being at that point of time in an economic recession, although this was statistically unverifiable. Later, the official statistics showed that the economy had been in economic recession since December 2007.Thirdly, in the space of a few weeks, if not days, these occurrences spread globally. By the end of 2008, there was a fairly general consensus that there was a global slow-down and possibly recession unfolding for 2009.Fourthly, in this same period the threat of rising food and oil prices receded.  Indeed, the price of oil fell from around US$150 per barrel to US$40 per barrel.  Such a turnaround of oil prices gives support to those who had argued during the first half of 2008 that high oil and food prices were principally the product of speculation and not fundamental shifts in the demand and supply curves for energy and food. The drive for rapid biofuels production at all costs came to look absurd. Commodity prices generally, have fallen and the great fear for 2009 is now a global deflation. Related to these several considerations is their combined impact on Guyana’s dollar exchange rate in relation to other currencies. Because of the operation of a fixed Guyana dollar exchange rate to the US dollar, the Guyana rate follows the US rate in relation to all other currencies.  However, currency movements not related to the Guyana economy mean that the country’s exchange rate has become a conduit for external shocks.The final important set of shocks and economic challenge, which arose late in 2008 was that posed by the Guyana floods and the manifest pressures on the water management and drainage system. However, there were two other important developments, which did not necessarily follow this early and late-year distribution in their effects. The first of these was the wage negotiation process. Although the public sector wage was finally settled in the second half of 2008, as a process the wage negotiation and determination system produced negative economic effects throughout the entire year. The same thing can be said for the sugar industry. Although crucial decisions about its future were made late in 2008 (if not later) the negative impacts of sugar on the country’s development were felt for the entire year.Other shocks and economic challenges were caused by 1) The Economic Partnership Agreement (EPA) and 2) performance of the underground economy.  The schedule below indicates the items I have identified above. My intention is to discuss these in the order listed in the coming weeks. The premise of my presentation will be that these shocks and economic challenges would have most certainly dominated economic performance and outcomes for 2008. Moreover, the prospects for 2009 will be seriously constrained by their lingering effects in the coming months. To believe otherwise would be to act like the proverbial ostrich.2008: Shocks to the Guyana EconomyA 1st half of 2008                                           B. 2nd half of 20081. Rinsing food prices                                      4. Credit crunch and financial crisis in US2. Rising oil prices                                           5. Recession in US (December 2007)3. The bio-fuels bubble                                   6. Globalisation of 4 & 57. Commodity price falls (oil) – deflation8. Guyana exchange rate mechanism9. Bursting the bio-fuels bubble10. Guyana floods11. Wages mechanism12. Guysuco modernisation stumbles13. EPA (October 2008)14. Performance of underground economy (UE) |