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| Facing external shocks: The perils of debt and capital inflows-led growth |

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| **Terms of trade**In last week’s column I had observed that, because of lags in their publication, timely trade data are perhaps the weakest of all the published economic series on Guyana’s economy. In the 2010 National Budget the Finance Minister announced that from this year the official series on the National Accounts would be updated and rebased on 2006 prices and the consumer price index will also reflect prices based on an updated basket of goods.There are no regularly published official terms of trade series, and as I reported last week the World Trade Organization (W[Save](http://idsguyana.org/articles/prof-clive-thomas/global-crisis.html?task=add)TO) had opined over recent years Guyana’s real effective exchange rate has appreciated, mainly on account of the higher inflation rate in Guyana than in its trading partners. Because our main import markets like the USA have shown no mentionable inflation during the ongoing global crisis and indeed they fear the opposite ─ deflation, and our inflation rate for 2009 has been reported as 3.6 per cent and for 2010 it is projected at 4 per cent, real exchange rate appreciation might have persisted throughout 2009, and unto now. The picture, however, in relation to the commodity terms of trade (that is the simple ratio of the index of export prices to import prices) might have been more positive. The price of fuel imports, which accounts for about one quarter of our import bill fell dramatically. The average price of oil peaked at about US$150 per barrel in 2008 and has over the past eighteen months averaged just around US$70 per barrel. Food prices on world markets have also declined significantly during 2009. And, although recent research in Caricom suggests importers have exerted market power and did not pass on their price gains to consumers, nevertheless overall the commodity terms of trade would have benefited.On the export side the full effect of the transition from Sugar Protocol to market-based prices in the European Union (EU) occurred in 2009. Rice export prices declined but more positively the price of gold on the world market has sustained its remarkable rise unto now, as there have been no certain signs of sustained recovery from the ongoing global crisis. While it is true that minerals like bauxite have not fared well on the world market, in the absence of official data for the commodity terms of trade, I would not be surprised if on balance there has been some improvement.**‘Triplet deficits’**The structural over-dependence of Guyana’s economy on exports (largely primary commodity based) has been consistently accompanied by significant current account deficits on the balance of external payments.  Last week I provided figures on this for recent years.  This deficit combines with two others and together these three reveal the key driver of economic growth in Guyana.One of these other deficits is the fiscal deficit, which has resulted because government expenditure has been consistently in excess of its spending. There are many complex factors leading to this outcome, which I do not intend to address here, as my main concern is to simply identify this deficit as being also consistently the case in past years. It reflects both an ex post outcome as seen in the country’s economic accounts and an ex ante (that is intended) outcome planned by the government.In macroeconomics, these two are referred to as the celebrated twin deficits and there is a voluminous literature on the economic analysis and modelling of this. Again, I cannot go into these considerations in a Sunday column as they are far too technical for lay readers.  However, the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) has found it useful to add a third deficit to this, when analysing Caribbean economies, which is the private sector deficit (that is, private sector spending in excess of income). These three are referred to in their publications as the ‘triplet deficits’ ― a not so elegant term.How did the triplet deficits behave for Guyana, and by way of comparison Caricom as a whole?  The schedule below summarises some results for two periods: 2005-2007 and 2008-2009.Triplet Deficits 2005 – 2009 (as % of GDP)Year   Fiscal Current       PrivateAccount       SectorGuyana 2005 – 2007 11.4    21.4           10.0Guyana 2008 – 2009   7.2    21.1           13.9CARICOM 2005 – 2007   2.8    14.2           11.4CARICOM 2008 – 2009    2.2    16.5           14.3Source: UNECLAC on the basis of official figuresNote: Using simple averageWhile in Guyana the classic twin deficits (fiscal and current account of the balance of payments) have declined somewhat over the two periods 2005/2007 and 2008/2009, the private sector deficit has grown by just under 40 per cent. Clearly those who have been casually and also causally attributing the current account deficit on the balance of payments to the fiscal deficit of the government do not have the full story, as in Guyana (and for that matter Caricom as a whole) the private sector deficit has grown appreciably. The detailed data are not shown in the schedule but these reveal that for 2008/2009 the private sector deficit exceeded 25 per cent of GDP in six states; all of these are members of the OECS! It should be noted, parenthetically, Suriname and Trinidad and Tobago recorded surpluses for all three deficits for the entire period (2005-2009).**Key driver of growth**The larger issue that arises from this discussion of the triplet deficits in Guyana is that it underscores the fact that the main driver of economic growth has been the reliance on external savings obtained largely from official foreign borrowing (aid) and private investments. This combined with 1) the exchange rate regime 2) the continuous appreciation of the real effective exchange rate 3) the limited diversification of production and exports 4) the weak growth of sales in the domestic and regional markets, contribute both to concerns about low rates of growth of the Guyana economy (as highlighted in several studies of Guyana conducted by both individual scholars and international organizations like the IMF, World Bank, IADB and UNECLAC) and the overexposure of the economy to external shocks.In conclusion readers should note that, reflecting dependence on debt and capital inflows-led growth, Guyana and the wider Caricom have leaned heavily on the IMF to weather the crisis during 2009. Thus the region received a total of US$947 million from the Special and General Allocation of Special Drawing Rights of the IMF in August and September last year. The total Guyana received was US$110 million, about 9 per cent of its GDP. Jamaica was the largest beneficiary and it has also sought a formal stand-by arrangement with the IMF.Next week I shall continue the discussion from this point and go on to examine the impact on the key driver of growth: capital inflows into the economy, during the ongoing global economic crisis. |