|  |
| --- |
| The magnifying effect of rebasing the national accounts calculations |

|  |
| --- |
| Last Sunday’s column ended with a brief description of how a typical balance of payments statement for an economy like Guyana’s might be constructed.  In this week’s column I shall go on to examine the behaviour of Guyana’s balance of payments during 2009 in order to indicate, where relevant, signs of the impact of the ongoing global financial crisis and economic recession. Before doing this I need to add a few comments, by way of expansion, to three observations made in recent columns.   **Comments**  First, I had lamented in last week’s column the absence of an official series on Guyana’s terms of trade and real effective exchange rate. Instead, I had reported the observation by the WTO (2009) that the “real effective exchange rate had been appreciating in recent years.” This did not include all of 2009.  More recently, the IMF’s Pin Note based on its 2010 Article IV Consultations on the Guyana economy reports that the real effective exchange rate is “broadly in equilibrium.”  As readers know, the IMF is responsible for exchange rate surveillance of all its members.  Second, I had also reported that several Caricom countries had approached the IMF for funding to cope with the negative impact of the global economic crisis. I have been arguing that such resort is typical for economies whose economic growth is debt and capital inflows-led.  In this instance the resort to the IMF for funding was based on the IMF’s Exogenous Shock Facility. This was established precisely “to provide support and financial assistance to low income countries facing exogenous shocks.”  The ongoing global economic crisis qualified as such an event.  **Rebased national accounts**  The third observation is more substantive.  It refers to my earlier mention that Guyana’s national accounts have been re-calculated and re-based on 2006 prices, thereby replacing former calculations based on 1988 prices.  This rebasing has made an enormous difference to the values of various components of the country’s GDP. Indeed it puts in disarray the continued use of economic series calculated on the basis of 1988 prices, especially when these require using the GDP as a numerator or denominator.  At this stage, it would be useful for me to indicate to readers the magnitudes of these changes, as the government’s intention is to use the new national accounts based on 2006 prices from this year.  To begin with, the largest sum, gross domestic expenditure, which for 2009 was measured as $357.5 billion based on 1988 prices increases to $514.8 billion based on 2006 prices.  The more familiar GDP at factor cost, which was $202.3 billion in 2009 based on 1988 prices, is now increased to $359.5 billion based on 2006 prices.  This is now termed GDP at current basic prices in the new National Accounts data.  This is an increase greater than three-quarters.  To calculate the GDP at current market prices based on the GDP at factor cost, one has to add the value of indirect taxes in the economy and subtract the value of subsidies.  These figures (taxes and subsidies) are not affected by the rebasing of the national accounts data to 2006 prices.  When this calculation is made on the basis of 1988 prices the total we get is $255.8 billion. However, when the exercise is carried out using the rebased 2006 prices, the sum we get is $413.1 billion.  This is now termed GDP at current purchaser’s prices.  Consequently, as readers might expect, all the components of the national accounts, for example, consumption (private and public); investment (public and private); savings (domestic and foreign), change in magnitude.  Of note, for the specific topic covered in this column, the values for the balance of payments are not affected.  This is because the valuation of imports and exports in foreign markets does not depend on the methodology employed for calculating the national accounts, but are derived from the prices and exchange rates applicable to these transactions.  The Bureau of Statistics acknowledges “a rebasing exercise immediately results in two predictable outcomes: the size of nominal GDP expands significantly and the growth rate generally increases.”  Indeed their extrapolation of the new series over the period 2006-2009 reveals that generally it is about two-thirds higher than what was previously given, based on 1988 prices.  Next week I shall return to a fuller discussion of this rebasing exercise. For the rest of today’s column I would like to conclude, as indicated earlier, by offering some comments on Guyana’s balance of payments for 2009.  **Balance of payments, 2009**  First, and perhaps most importantly, the overall Guyana’s balance of payments was estimated to be in surplus to the tune of US$234 million for 2009. The current account, which reflects current transactions taking place in the economy (for example, importing and exporting goods and services and transfers) was in deficit to the tune of US$220 million.  Private transfers were down by eight per cent at US$300 million.  The main item here is remittance flows, which were estimated to be down by four per cent on 2008.  It should be noted that if this estimate is correct, remittance flows top gold as the country’s largest foreign exchange earner! There were no recorded official transfers for 2009.  The capital account on the balance of payments was reported as being in surplus to the tune of US$454 million.  The SDRs issued to Guyana by the IMF, which I indicated last week (US$110 million) plus net private investment flows (US$208 million) are estimated as being mainly responsible for this outcome.  The National Budget 2010 ascribes the net private investment flows “to repatriation of portfolio investments.” As a result of all this, the net international reserves of Guyana grew from US$299 million to US$569 million (and gross reserves from 356 to 628 million US dollars) during 2009.  In conclusion readers should observe that the reported debt of Guyana at the end of 2009 was approximately US$1.37 billion. Of this US$933 million was external debt and US$435 million was internal debt.  Based on the national accounts series used in the 2010 National Budget (1988 prices), this represents about 125 per cent of the country’s GDP. However, using the rebased 2006 prices this would be substantially reduced, to about 75 per cent of GDP!  Next week I shall wrap up the discussion on the re-calculation of the national accounts based on 2006 prices, and not 1988 prices as was previously the case. |