INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/317

GUYANA

September 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUYANA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Guyana, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 31, 2022 consideration of the staff report that concluded the Article IV consultation with Guyana.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 31, 2022, following discussions that ended on June 1, 2022, with the officials of Guyana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 20, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF with the World Bank.
- A **Statement by the Executive Director** for Guyana.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/323

IMF Executive Board Concludes 2022 Article IV Consultation with Guyana

FOR IMMEDIATE RELEASE

Washington, DC – **September 27, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Guyana.

Following the pandemic-induced recession in 2020, and protracted political transition, non-oil economic growth recovered in 2021, despite being negatively impacted by floods. Inflation increased markedly since 2021 owing to the floods and supply-side disruptions, as well as continually rising fuel and food prices.

Oil production has increased significantly. Oil GDP is expected to grow over 100 percent in 2022, and by about 30 percent on average per year during 2023-26. Oil production has the potential to transform profoundly Guyana's economy (overall real GDP growth rate is projected to be 57.8 percent in 2022). Guyana's commercially recoverable petroleum reserves is expected to reach over 11 billion barrels, one of the highest levels per capita in the world. This could help Guyana build up substantial fiscal and external buffers to absorb shocks while addressing infrastructure gaps and human development needs. Main downside risks to the outlook include volatility in global oil prices, a slowing global economy, or rapid increases in investment which could lead to macroeconomic imbalances, while upside risks include higher global oil prices and additional gas and oil discoveries.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the broad-based economic recovery in 2021, following a protracted political transition and the pandemic-induced recession in 2020, and the unprecedented high real GDP growth, supported by a steep rise in oil production and accommodative policies. Directors highlighted that the increasing oil production could help transform the economy, address development needs, and build substantial buffers to absorb shocks. Nevertheless, considering the potential challenges related to volatility in global oil prices and effective management of natural resources, they highlighted the need for continued prudent policies and structural reforms, assisted by Fund technical assistance, to avoid buildup of macroeconomic vulnerabilities, ensure inclusive growth and intergenerational equity, as well as address structural weaknesses and climate challenges.

Directors welcomed the significant decline in public debt and favorable debt dynamics going forward, the authorities' commitment to maintain debt sustainability and stressed the importance of anchoring fiscal policy in a medium-term framework. They welcomed the restraint in using oil

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

revenues before the passage of the recent amendments of the Natural Resource Fund Act and encouraged continued prudent management of oil revenues. Directors called for moderately ramping up public investment by constraining the annual non-oil overall fiscal balance to not exceed the expected oil transfers. They also encouraged the authorities to continue improving the targeting of social spending.

Directors agreed with the authorities that exchange rate stability serves Guyana’s current needs best and emphasized the importance of taking measures to further develop and deepen financial and foreign exchange markets, as the oil production increases. They saw merit in revising the monetary policy framework over the medium to long-term to ensure it is well suited for the economy’s needs, and that it allows more flexibility in the exchange rate to absorb shocks and help maintain competitiveness.

Directors commended the authorities’ efforts to maintain financial stability and promote financial inclusion. They welcomed the progress in implementing the 2016 FSAP recommendations and the commitment to fully implement the recently strengthened AML/CFT framework, while encouraging further efforts in this area, in particular to strengthen the regulation of digital payments.

Directors called for the continuation of broad-based reforms to address structural weaknesses and diversify the economy, emphasizing the significant human development and infrastructure needs. They commended the authorities’ progress in strengthening Guyana’s anti-corruption framework and fiscal transparency and encouraged continued progress on implementation of the recommendations provided by the Extractive Industries Transparency Initiative (EITI). Directors commended the authorities’ efforts to build resilience to climate change as envisioned under their Low Carbon Development Strategy.

Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2021 (thousands)	789	Population not using an improved water source (%), 2015	4.9
Life expectancy at birth (years), 2019	70		
Under-five mortality rate (per 1,000 live births), 2020	28	Gini index, 1998	45
Population living below the poverty line (%), 2000-06	35	HDI rank, 2019	122

II. Economic Indicators

	Prel.	Proj.					
	2021	2022	2023	2024	2025	2026	2027
			(Annual percent change)				
Production and Prices							
Real GDP	23.9	57.8	25.2	21.2	28.2	25.5	3.3
Real Non-Oil GDP	4.6	7.2	5.0	5.1	5.2	5.2	5.2
Real Oil GDP	56.9	116.1	36.8	28.3	36.5	31.1	2.9
Real GDP per capita	23.4	57.3	24.8	20.9	27.9	25.1	3.0
Consumer prices (average)	3.3	7.6	7.6	5.0	3.8	3.5	3.5
Consumer prices (end of period)	5.7	9.4	6.0	4.1	3.5	3.5	3.5
Terms of trade	13.0	20.9	(5.5)	0.7	(0.3)	0.3	1.3
			(Percent of non-oil GDP)				
Central Government							
Revenue	24.3	34.3	36.3	37.4	37.9	37.9	37.6
Grants	0.5	0.8	0.0	0.0	0.0	0.0	0.0
Expenditure	35.3	36.8	37.5	37.9	37.9	37.9	37.6
Current	25.8	24.7	25.2	25.4	25.4	25.4	25.1
Capital	9.5	12.1	12.3	12.5	12.5	12.5	12.5
Overall balance (after grants)	-10.5	-1.7	-1.2	-0.5	0.0	0.0	0.0
			(Percent of GDP)				
Total public sector gross debt 1/	42.9	22.8	20.9	18.8	16.2	13.7	13.5
External	17.8	10.1	10.6	10.5	9.7	8.0	7.8
Domestic	25.1	12.7	10.2	8.3	6.5	5.7	5.8
			(Annual percent change)				
Money and Credit							
Broad money	12.2	11.5	12.3	9.9	9.0	8.9	9.0
Domestic credit of the banking system	18.1	3.4	-4.2	-2.3	-4.2	3.5	7.3
Public sector (net) 2/	32.0	-0.7	-16.2	-13.9	-22.1	-2.8	10.1
Private sector	7.1	7.4	6.7	6.1	6.3	6.2	6.2
External Sector							
Current account balance 3/	-1,971.7	6,457.0	5,107.4	5,380.8	3,951.2	7,229.5	7,555.3
(Percent of GDP)	-25.5	43.5	30.4	28.3	17.2	26.1	26.6
Gross official reserves 4/	810.8	837.1	1,223.8	1,692.1	2,242.4	2,576.2	2,877.3
Months of imports of goods and services 5/	1.9	1.3	2.7	2.7	4.7	6.2	6.6
Crude oil production (million barrels)	42.4	93.4	124.5	155.5	207.0	264.6	264.6
Oil price (barrel)	69.4	99.9	83.5	77.8	74.1	71.8	70.3

Memorandum Items:							
Nominal GDP (G$ billion)	1,609.1	3,094.0	3,503.5	3,961.3	4,780.1	5,776.2	5,925.9
Nominal GDP, non-oil (G$ billion)	1,098.3	1,264.0	1,388.1	1,509.1	1,633.4	1,767.6	1,913.2
Per capita GDP, US$	9,777.6	18,744.6	21,162.3	23,855.8	28,700.7	34,578.0	35,367.6
Holdings of SDRs, in millions of U.S. dollars	1.7	1.6	1.6	1.6	1.7	1.7	1.7
Guyana dollar/U.S. dollar (period average)	208.5	…	…	…	…	…	…

Sources: Guyanese authorities; UNDP Human Development Report; World Bank; and IMF staff calculations and projections.

1/ Since 2015-16, public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank.

2/ The changes in public sector (net) are from a small base, making the series volatile.

3/ The external current account for 2018 onwards includes high value imports of oil goods and services.

4/ From 2022 through 2027 reserves include transfers of oil revenues consistent with staff's fiscal policy advice on the use of oil revenues.

5/ Gross reserves in months of projected imports of goods and services. From 2017, these are affected by high value imports of oil goods and services.

GUYANA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

July 20, 2022

KEY ISSUES

Context. Following the pandemic-induced recession in 2020, economic growth recovered in 2021, with non-oil GDP growth reaching 4.6 percent, despite being negatively impacted by floods. Inflation increased markedly since 2021 owing to the floods and supply-side disruptions, as well as continually rising fuel and food prices. Oil production increased and will ramp up substantially over the medium term.

Outlook and Risks. Guyana's medium-term outlook is very favorable, with increasing oil production having the potential to transform Guyana's economy and expand its buffers to absorb shocks. Downside risks to the outlook, stemming mostly from the global developments, include highly volatile commodity prices, exacerbated by the war in Ukraine, and a slowing global economy. Rapid increases in government spending could generate adverse macroeconomic effects over the medium term. On the upside, additional oil field discoveries and higher oil prices could further boost growth.

Focus. Discussions focused on actions to strengthen medium-term policy frameworks to ensure effective use of the nation's oil resources, including a fiscal policy anchor, deepening financial markets, and reforms to strengthen governance, labor market and climate change policy frameworks.

Key Policy Recommendations:

- Implement a feasible and moderate increase in capital spending to address social development needs and infrastructure gaps and avoid macroeconomic imbalances.

- Set budgets within a fiscal framework that, over the medium term, maintains a zero overall fiscal balance to anchor fiscal policy in a sustainable way.

- Develop and deepen the markets needed to support a move towards greater exchange rate flexibility over the medium to long term.

- Further strengthen governance, anti-corruption and AML frameworks, particularly on following up on implementing the Extractive Industries Transparency Initiative recommendations.

- structural reforms to support inclusive growth—including through labor market reforms—and strengthen the climate change policy framework.

Approved By
James Morsink (WHD) and Geremia Palomba (SPR)

Discussions took place remotely from Washington, DC during May 18–June 1, 2022. The staff team comprised Alina Carare (Incoming Mission head), Meredith A. McIntyre (Outgoing Mission Head); Rina Bhattacharya; Manuk Ghazanchyan and Moya Chin (All WHD). Alternative Executive Director Frank Fuentes and Reshma Mahabir, Senior Advisor to the Executive Director, joined most meetings. The mission met with Finance Minister Dr. Ashni Singh, Minister of Parliamentary Affairs Gail Teixeira, Central Bank Governor Gobind Ganga, other senior officials, representatives from the private sector, opposition party, labor unions and other stakeholders, including Guyana's development partners. Assistance of the report was provided by Minnie Park, Grey Ramos, and Bennett Sutton.

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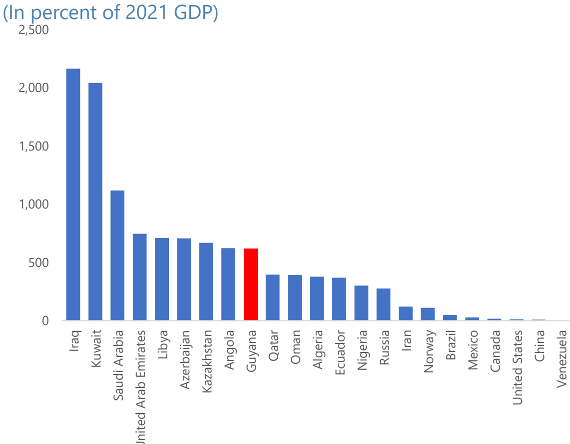
BACKGROUND

1. The Guyanese economy was negatively impacted by the pandemic. Guyana's economic growth was poised to accelerate sharply with the start of oil production in 2019, but the COVID-19 pandemic led to a non-oil GDP contraction of -7.3 percent, particularly sharp in construction and services. Oil GDP expanded in 2020, leading to an overall GDP growth of 43.5 percent.

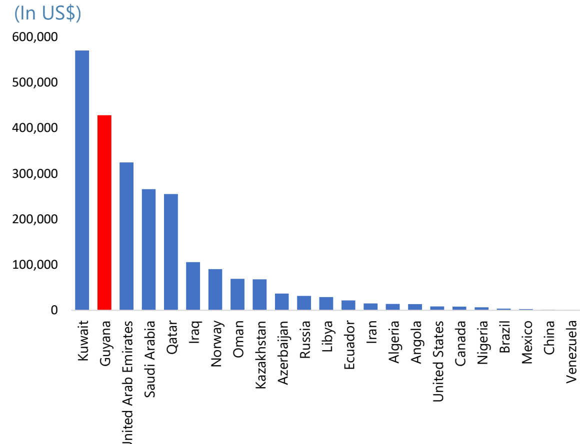
2. Oil production has increased significantly and has the potential to transform profoundly Guyana's economy. Oil production increased 57 percent in 2021 to 110,000 bpd. With the coming on stream of three additional fields—Liza-2 (February 2022), Payara (end-2023) and Yellowtail (2025)—oil production is projected to reach 720,000 bpd by 2026.[1] Furthermore, Exxon has announced the discovery of three additional offshore fields in the Stabroek Block in April 2022. Guyana's commercially recoverable petroleum reserves might reach over 11 billion barrels, the third largest in Latin America and Caribbean and one of the highest levels per capita in the world.

3. Human development needs are large. The country's human development index is lower than the median for the region and for countries in the same income group (charts).[2] The government plans to improve access to and quality of social services, improve infrastructure to support growth and diversify the non-oil economy, and advance more broadly towards the Sustainable Development Goals.

Present Value of Oil Reserves 1/
(In percent of 2021 GDP)



Present Value of Oil Reserves per Capita 1/
(In US$)

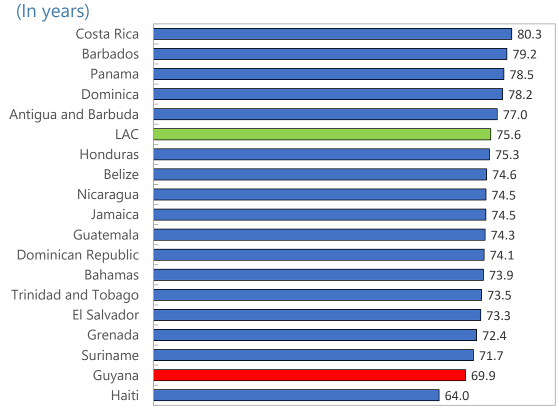


Sources: IMF, World Economic Outlook Database; U.S. Energy Information Administration; and OPEC.
1/ Estimated based on assumption of oil price increasing 0.7 percent per year and discount rate of 3 percent (the expected long run returns to Guyana's NRF, as per the NRF Act).

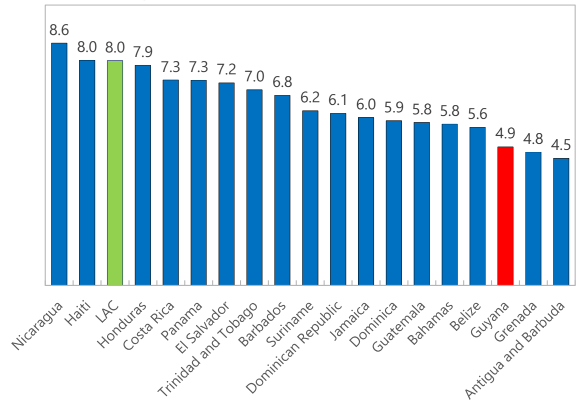
[1] The direct impact on the non-oil economy will be limited in the initial years, reflecting the cost of investment in the extraction infrastructure. Ratios in the macroframework Tables 1-6 are generally reported in relation to non-oil GDP, to avoid distortions.

[2] With the start of oil production, Guyana graduated from low-income status in 2020.

Life Expectancy at Birth
(In years)



Health Expenditure
(In percentage of GDP)



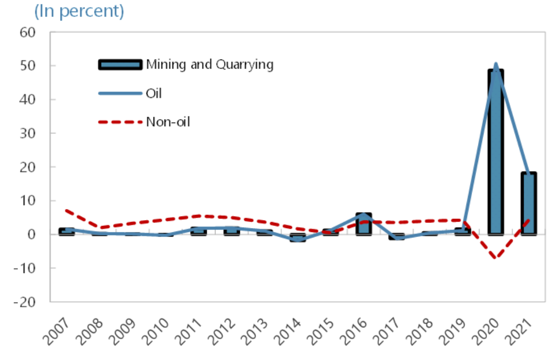
Sources: United Nations Development Program. Human Development Index.

RECENT DEVELOPMENTS

4. A political crisis stalled the reform program and delayed the government's response to the pandemic. After a no-confidence vote in December 2018 requiring prompt elections, and a delay in transition from the March 2020 elections, a new administration took office in August 2020. As a result, the 2020 budget was approved only in September, affecting confidence and forcing increased reliance on direct financing from the central bank as external funding slowed down.

5. The Guyanese economy was negatively impacted by the pandemic and the 2021 floods but has recovered well, supported by the oil boom. Non-oil GDP growth recovered in 2021, supported by the mining, construction, and service sectors. However, summer floods affected the agricultural sector and economic activity in the hinterland in 2021. Inflation increased owing to higher food and fuel prices, and supply-side disruptions.

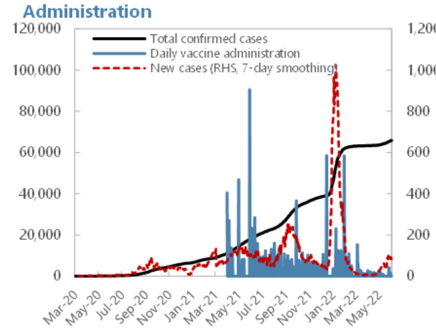
Sectoral Contribution to Real Growth
(In percent)



6. The COVID-19 situation has significantly improved. In 2020, the government implemented containment and mitigation measures that severely restricted mobility and provided additional public resources to the health system. Guyana has administered COVID vaccines to around two-thirds of the population. A three-phase reopening of the economy started in 2021.

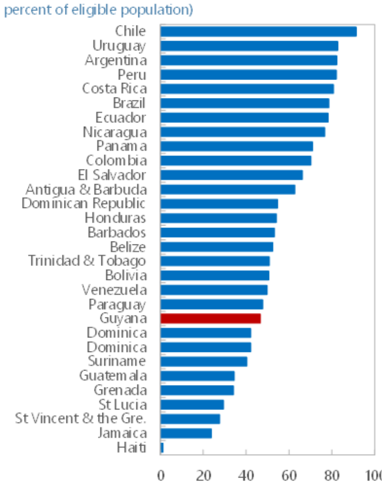
7. The war in Ukraine has impacted the economy, but is not expected to affect food security. Rising global food and commodity prices (including fuel) have resulted in inflation rising from 5.7 percent at end-2021 to 6.6 percent by May 2022, although inflation has declined in May, reflecting a more moderate contribution of food inflation. Second-round effects from inflationary pressures seem negligible so far, as the authorities have taken measures to ease cost-of-living pressures for the population.[3] Higher global oil prices are also strengthening the fiscal and external accounts.[4] The impact of losing the limited trade connections with Ukraine and Russia could be absorbed by higher oil and food exports elsewhere, as agricultural production is recovering well. Imports from Ukraine and Russia contain limited quantities of milk products, thereby the war is not expected to affect food security in Guyana.

COVID-19: Confirmed Cases and Vaccine Administration



Source: Bloomberg and IMF staff calculations.

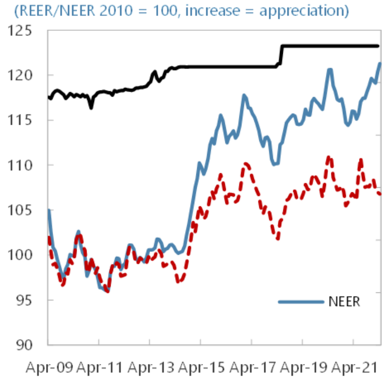
Fully Vaccinated Population in Latin American and the Caribbean
(In percent of eligible population)



Source: Bloomberg, LLC (reported on June 13, 2022).

8. Guyana's external position strengthened in 2021 and is assessed to be broadly in line with the level implied by fundamentals and desirable policies (Annex I). In 2020, the decline in financing flows during the pandemic was offset by oil exports and the improvement in the non-oil current account balance as imports collapsed during the recession, leading to some accumulation in international reserves. In 2021, higher imports, reflecting mostly an increase in investment-related imports in the oil sector and the recovery in demand, and lower non-oil commodities exports, contributed to a widening of the current account deficit. The financial account improved due to higher FDI in the oil sector, and with the new SDR allocation[5] and higher oil exports, FX reserves coverage improved to 1.9 months of imports (2.9 months of non-oil imports).[6] The real and nominal effective exchange rates depreciated slightly in 2021 and remained stable so far in 2022.

Real and Nominal Effective Exchange Rates
(REER/NEER 2010 = 100, increase = appreciation)



9. After deteriorating markedly in 2020, the fiscal position remained appropriately supportive in 2021. In

[3] Fiscal measures include:

(i) Extending the adjustment to the freight cost component in the CIF value used for the calculation of imports taxes in 2022, thereby reducing all revenues from imports and costing the budget around G$6 billion (0.2 percent of GDP, 0.5 percent of non-oil GDP).

(ii) Lowering the excise tax rate on gasoline and diesel from 50 percent to 0 percent.

(iii) Allocating about 0.2 percent of GDP (0.4 percent of non-oil GDP) for implementation of other measures to ease the impact of cost-of-living increases on the most vulnerable sections of the society.

[4] Some of the increase in oil production in currently operating fields is due to the war in Ukraine. Oil companies indicated that they will take advantage of the increase in global oil prices, and ramp up production, where possible.

[5] Guyana received an SDR allocation of 247.5 million in 2021, which was been maintained in international reserves.

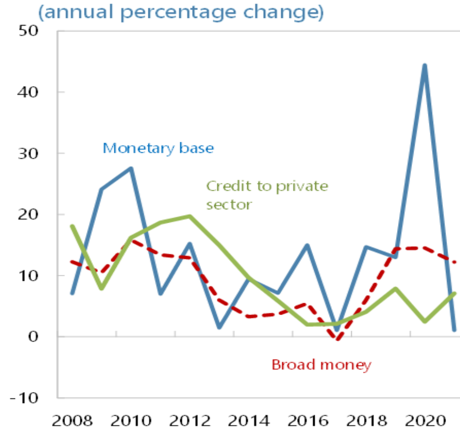
[6] Non-oil imports are equal to total imports less imports related to oil production in the oil sector. Total imports are often distorted by large, temporary oil-related investments that are financed by FDI.

response to the pandemic, the authorities reallocated expenditures towards cash grants and transfers to households[7] and 'shovel ready' public investment projects, primarily focused on improving road networks and providing affordable housing and eased the tax burden on the most vulnerable by, for example, setting the VAT rate on basic food items and household necessities to zero. The overall deficit (after grants) in percent of non-oil GDP witnessed a sharp deterioration in 2020, followed by a smaller deterioration in 2021. Public debt stood at 42.9 percent of GDP at end-2021, one of the lowest in the region.

10. Credit to the private sector improved in 2021. Broad money grew by 12.2 percent in 2021 and credit to the private sector recovered to its pre-pandemic levels (rising by 7.1 percent), driven by loans to the services and household sectors. The weighted average of commercial banks' prime lending rate declined from 9.3 percent at the start of 2021 to 8.9 by year-end.

11. Guyana's financial sector is well capitalized, but profitability and liquidity ratios have weakened. Notwithstanding the current context of excess liquidity and, at times, increased budget financing, the macro-financial risks are well monitored with eight indicators, including credit-to-GDP measures and the systemic risk matrix. House prices have declined by about 0.2 percent in 2021. At end-2021, domestic banks' capital adequacy ratio (CAR) of 29.1 percent was well above the regulatory minimum of 8 percent, while the ratio of nonperforming loans to total loans improved to 7.8 percent from 10.8 percent at end-2020. However, returns on assets and equity deteriorated, likely related to the increased provisioning, significant write-offs owing to the recent asset quality reviews (AQR), and the narrowing of the lending spread. The Bank of Guyana (BoG) has advanced in major reform areas, specifically in (i) revising AQR guidelines (including revised credit classification and provisioning for the loss category) and (ii) implementing some pillars of Basel II and III.

Monetary Indicators
(annual percentage change)



Source: Guyanese authorities.

OUTLOOK AND RISKS

12. Guyana's medium-term outlook is very favorable, with increasing oil production having the potential to transform profoundly Guyana's economy. Non-oil GDP growth is expected to rebound strongly in 2022 due to the recovery of sugar and rice production from the floods and positive spillovers from the oil sector. Over the medium term, non-oil GDP growth is expected to average 5 percent per year and inflation is expected to reach around 3.5 percent owing to more stable projected international food and fuel prices. Oil GDP is expected to grow over 100 percent in 2022, with the coming on stream of Liza-2, and to grow by about 30 percent on average

[7] Mostly untargeted measures.

per year during 2023–26. Inflation is expected to rise to 9.4 percent at year-end 2022 and decline thereafter.

13. Public investment spending is expected to increase in the medium term, to close infrastructure gaps and to support development needs, helping growth in the non-oil economy. The 2022 budget includes a rapid expansion in public investment and construction in the economy and measures to ease cost-of-living pressures for the population. However, only around 10 percent of budgeted public capital investment was executed in the first four and a half months of the year. Although some major projects were recently approved, the year-end execution rate is unlikely to be higher than 70 percent. This level of public capital investment, as well as the authorities' commitment to a zero overall balance in the medium term (see next section), form the basis of the medium-term macro-fiscal framework presented in this report (see text table below and Macroframework tables 1–6). With this level of expected public investment implementation, and with tenders for large infrastructure projects allotted to international firms that will import capital goods and workers, inflation is expected to be contained in the medium term.

Text Table Guyana: Medium-Term Macroeconomic Projections

	2021 Prel.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Production and Prices *(Percent change)*							
Real GDP	23.9	57.8	25.2	21.2	28.2	25.5	3.3
Real Non-Oil GDP	4.6	7.2	5.0	5.1	5.2	5.2	5.2
Real Oil GDP	56.9	116.1	36.8	28.3	36.5	31.1	2.9
Consumer prices (average)	3.3	7.6	7.6	5.0	3.8	3.5	3.5
Consumer prices (end of period)	5.7	9.4	6.0	4.1	3.5	3.5	3.5
Central Government *(Percent of non-oil GDP)*							
Revenues and grants	24.3	34.3	36.3	37.4	37.9	37.9	37.6
o/w oil revenues	0.0	10.0	12.2	13.4	13.9	13.8	13.9
Expenditure	35.3	36.8	37.5	37.9	37.9	37.9	37.6
Current	25.8	24.7	25.2	25.4	25.4	25.4	25.1
Capital	9.5	12.1	12.3	12.5	12.5	12.5	12.5
Overall balance (after grants)	-10.5	-1.7	-1.2	-0.5	0.0	0.0	0.0
Financing	10.5	1.7	1.2	0.5	0.0	0.0	0.0
Net foreign financing	1.1	2.6	5.5	3.2	3.1	0.1	-0.2
Net domestic financing	9.5	-0.9	-4.3	-2.7	-3.1	-0.1	0.2
Other Indicators							
Broad money (% change)	12.2	11.5	12.3	9.9	9.0	8.9	9.0
Public Debt (% of GDP)	42.9	22.8	20.9	18.8	16.2	13.7	13.5
Current account balance (% of GDP)	-25.5	43.8	30.8	28.7	17.4	26.3	26.7
Gross official reserves (US$ millions)	810.8	870.7	1323.3	1856.6	2454.3	2832.2	3172.5
(in months of imports of goods and services)	1.9	1.3	2.9	2.9	5.1	6.8	7.2
(in months of non-oil imports of goods and services)	2.9	3.1	4.5	6.0	7.6	8.1	8.5
End of year balance at the Natural Resource Fund (US$ millions)	607.5	1446.8	2304.7	3776.4	7850.5	14227.6	21141.6
Crude oil production (millions of barrels)	42.4	93.4	124.5	155.5	207.0	264.6	264.6
Oil price (US$ per barrel)	69.1	106.8	92.6	84.2	78.5	74.7	72.5

Sources: Guyanese authorities and IMF staff calculations and projections.

14. The external outlook is expected to recover strongly, with revenues from oil production providing substantial buffers. Reserves cover will steadily improve and substantial buffers will accumulate in the Natural Resource Fund (NRF), which is expected to reach almost

US$20 billion in 2027. The current account balance (including grants) will turn into a significant surplus in 2022, as oil exports from Liza-2 commence and oil prices remain high. Public debt peaked at 51 percent of GDP in 2020 and is expected to decline steadily thereafter, reaching around 13 percent at the end of the projection period in 2027.

15. Guyana's debt-sustainability analysis (DSA) indicates that the risk of external debt distress remains moderate, with debt dynamics improving significantly with incoming oil revenues. Guyana's debt carrying capacity, for both overall public debt and public external debt, has been downgraded from 'moderate' to 'weak,' reflecting a relatively low international reserves-to-imports cover in 2022 that is driven by a sharp increase in oil-related imports. Nevertheless, Guyana still has substantial space to absorb shocks, reflecting the current low level of external debt, a rapid expected increase in international reserves, and accumulation of savings in the NRF over the medium term. Furthermore, Guyana's level of international reserves is expected to remain above adequate levels in terms of short-term debt, broad money, and non-oil related imports.[8]

16. Guyana's medium-term outlook is subject to both downside and upside risks (Tables 7 and 8). On the downside, highly volatile oil prices, the slowing global economy, and the war in Ukraine (which could result in escalating sanctions and other disruptions, leading to even higher commodity prices) could adversely affect growth and fiscal performance, especially if the global economy enters a recession, leading to a reduction in oil demand and oil prices. New outbreaks of Covid could weaken growth. An excessively rapid increase in government spending could subject Guyana to appreciation pressures on the real exchange rate and an eventual loss in reserves,[9] and possible governance concerns. At the same time, further oil discoveries and production could significantly improve Guyana's long-term economic prospects.[10]

Authorities' Views

17. The authorities agreed that medium-term growth prospects are better than ever before despite the risks surrounding the outlook. The authorities noted that the upside potential to the outlook coming from new oil and gas discoveries is significant, with the large increase in oil production boosting growth and creating substantial policy buffers to withstand future shocks. They also agreed there are downside risks to the outlook. Those stemming from international developments[11] pose a particular concern. The authorities are confident that their measures will help contain inflationary pressures, especially on the housing and utilities parts of the CPI. The authorities are determined to ensure that the strategy to address the country's development needs will not

[8] Guyana's level of international reserves will remain below adequate levels in terms of the Assessing Reserve Adequacy (ARA) Emerging Markets (EM) Metric, due to the large increase in oil exports.

[9] Given that the majority of oil receipts are held offshore in the NRF, the main source of appreciation pressures stems from the expansionary fiscal stance.

[10] Exxon announced in April 2022 the discovery of three additional offshore oil fields, which are not incorporated into projections.

[11] Volatility of oil prices, the impact of the lingering war in Ukraine on imported prices (vis-à-vis the shock to global commodity prices), continued supply chain disruptions, or a slowdown in the global economy.

bring macroeconomic imbalances (e.g. excessively high inflation, significant loss of competitiveness and reserves).

POLICY DISCUSSIONS

Effective use of Guyana's oil wealth will enhance the population's living standards and the economy's physical and human capital. To achieve these goals rapidly, yet in a prudent way, the authorities will need to put in place a medium-term fiscal framework with a clear fiscal anchor as well as structural reforms to ensure good governance, support inclusive growth and address challenges relating to climate change.

A. Fiscal Policy

18. Fiscal policy in 2022 has been appropriately supporting growth, while considerably reducing the fiscal deficit. The 2022 budget has reduced current expenditures by about 1 percent of non-oil GDP compared to 2021. It maintains support for pandemic-related health expenditures and ensures that the transfers to households implemented earlier in the pandemic to mitigate the impact of the lockdowns are not permanent. Additional measures have been implemented to mitigate the impact of rising commodity prices on households. Capital spending has been ramped up to support the non-oil economy. However, given implementation capacity constraints, an execution rate of around 70 percent of the 2022 capital budget is expected (representing an increase of about 2½ percent of non-oil GDP). Oil revenue (transferred to the budget in line with the amended NRF Act) is projected to increase sharply. As a result, the overall fiscal deficit is expected to decline significantly to 1¾ percent of non-oil GDP from 10½ percent of non-oil GDP in 2021. While the fiscal balance is still expected to record a small deficit, the public debt ratio is expected to decline, given the large increase in the nominal GDP.

19. Going forward, it is important to maintain prudent fiscal policy. Staff broadly supported the authorities' measures to temporarily ease the burden of higher global commodity prices on the most vulnerable groups of society, given the absence of adequate safety nets. Since tax measures are poorly targeted tools, staff recommended a gradual unwinding of the general subsidies provided through the tax system and moving to full pass-through of international prices to domestic prices since the shock does not appear to be temporary, and therefore other forms of government support are more appropriate. This should be done simultaneously with measures to further develop and strengthen a well-targeted social safety net system. In addition, a sustainable and feasible increase in capital spending to support the transformation of the Guyanese economy is needed, but within a framework that does not generate macroeconomic imbalances. Moreover, the debt to the central bank incurred while monetizing the deficit during 2015-mid 2021 needs to be drawn down.

20. The NRF Act was strengthened recently. After a thorough review, and while restraining the spending of the oil receipts, the authorities amended the NRF Act in December 2021. The recent amendments set clear ceilings on withdrawals from the Fund for budgetary spending (Annex II).

21. However, the amendments to the NRF Act do not provide an effective fiscal anchor and Guyana still lacks a medium-term fiscal framework. The experience of other oil-producing countries shows that the absence of such a framework, in which annual budgets are developed within a medium-term framework, anchored in clear targets, has resulted in major macroeconomic imbalances (Annex III). A fiscal framework that constrains the annual non-oil overall fiscal deficit (after grants) to not exceed the expected transfer from the oil savings fund will anchor fiscal policy in the short term in Guyana and ensure that fiscal spending increases at a measured pace to address development needs without resulting in macroeconomic imbalances, including a loss of competitiveness and an appreciation of the real exchange rate due to an increase in non-tradeable prices (see Annex IV). Staff also recommended that a zero overall fiscal balance anchor should be supported by a medium-term expenditure framework, with current expenditures mostly growing in line with non-oil GDP and growth of capital expenditures being guided by absorptive capacity constraints (Annex IV). The medium-term framework presented in this report is consistent with achieving a zero overall fiscal balance target by 2025. Moreover, to serve effectively as a fiscal anchor a zero overall fiscal balance target needs to be complemented by a rigorous analysis and supplemented with changes if needed to the transfers rule set under the NRF, and an operational target for the non-oil balance. The transfer rule needs to ensure that transfers to the budget are optimally set to ensure intergenerational equity and long-term sustainability. This would also allow a sufficient build-up of savings in the NRF for Guyana to be able to reap the full benefits of its natural resource wealth.[12] In this sense a clear operational target for the non-oil balance that ensures achieving all these objectives is also needed, and should be accompanied by measures that help mobilize non-oil revenues and contain the wage bill and non-current spending, to ensure that medium-term consolidation is not driven mostly by oil revenues which could be volatile.

22. Capacity weaknesses in the management of public investment must be tackled simultaneously with the strategy to close infrastructure gaps and development needs. The 2017 PIMA report highlighted weaknesses in the planning, budgeting, appraisal, selection, procurement, and implementation of capital projects. Staff urged the authorities to implement the recommendations of the report, and to undertake a public expenditure review to assess the efficiency and effectiveness of public spending.[13]

23. Guyana's fiscal strategy—consisting of the objectives of fiscal policy, adoption of a fiscal anchor, and the transition path towards a sustainable fiscal position—should evolve over time as more information and expertise relating to management of oil resources become

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[12] For example, transfers from the NRF could be based on a standard permanent income hypothesis (PIH) rule that aims to smooth consumption based on the annuity / perpetuity value of expected future oil revenues; or a more conservative 'bird in hand' rule by which public spending is based on the returns on the oil revenues already materialized.

[13] The 2017 Public Investment Management Assessment report identified as critical (i) the completion and publication of a *policy framework on PPPs;* (ii) updating the regulatory framework to international standards; (iii) improving the monitoring of public corporations to coordinate their public investments and to monitor fiscal risks; and (iv) the preparation and dissemination of detailed guidance on project appraisal and selection, while allocating sufficient resources for pre-investment planning, and increasing the capacity to undertake project appraisals and selection in budget agencies.

available. As Guyana is a relatively new oil producer, it is advisable that a simple fiscal framework, such as a zero overall fiscal balance (after grants), be implemented in the short term (next couple of years). As more accurate information becomes available about the scale of Guyana's oil resources, and as absorptive and institutional capacity improve, Guyana should adopt a more comprehensive fiscal strategy. This would involve a fiscal anchor translated into an operational target for the non-oil primary fiscal balance. The transition to the long-term fiscal anchor should take into account Guyana's infrastructure and human capital needs, intergenerational equity and fiscal sustainability, as well as absorptive and institutional capacity constraints.

24. Staff also emphasized the importance of continuing reform of public enterprises. With the increases in energy prices and the re-opening of three sugar estates, it is important to strengthen governance and transparency, and to control costs, at Guyana Power and Light Inc. (GPL) and at the sugar company GuySuCo.

Authorities' Views

25. The authorities are strongly committed to fiscal prudence, while meeting critical developmental needs. The authorities agreed that containing the fiscal position over the medium term is crucial in anchoring fiscal policy in a sustainable way, by setting *over the medium term* annual budgets within a fiscal framework that constrains the annual non-oil overall fiscal deficit (after grants) to not exceed the expected transfer from the NRF. The authorities noted that the new framework strengthens the fiscal prudence of the existing system.[14] Moreover, this will ensure that scaling up public investment to address Guyana's infrastructure and human development needs is as rapid as feasible, without generating macro-economic imbalances. Consistent with the amended NRF Act, the authorities are committed to conducting periodic reviews of the oil transfer rule, which would be helpful in ensuring the long-term sustainability of the NRF and intergenerational equity.

B. Monetary and Exchange Rate Policy

26. Given the expected continued tightening of the U.S. monetary policy, monetary policy in Guyana also needs to be tightened, to maintain exchange rate stability. In addition, monetary policy will need to contain inflationary pressures due to elevated international commodity prices, the recovery in domestic economic activity, and higher government spending. Staff suggested deploying a combination of instruments to curb the growth of monetary aggregates, including raising the reserve requirement rate and expanding the sale of Treasury bills to contain excess liquidity.

[14] The limits posed by the recently amended NRF Act, together with the Fiscal Management and Accountability Act of 2003, provide constraints on fiscal policy in practice, and debt sustainability is ensured by the commitment to maintain Guyana's risk of debt distress at a moderate (or lower) level.

27. The exchange rate should continue to serve as the nominal anchor, along with increased efforts to deepen the domestic financial markets.[15] Exchange rate stability serves Guyana's current needs best, given the underdevelopment of domestic financial markets. The accumulation of substantial buffers in the NRF will also strengthen Guyana's headroom to maintain a stable exchange rate. Staff advised that foreign exchange interventions should be used to address disorderly market conditions and to smooth short-term fluctuations in the nominal exchange rate when these are not related to fundamentals. Over the medium to long term, as Guyana becomes a major oil producer, staff support authorities' aims to deepen financial markets. Staff also recommended revising the monetary policy framework to ensure it is well suited for the economy's needs, including allowing the exchange rate to absorb shocks and increase its flexibility to maintain competitiveness.[16,17] Creating the necessary infrastructure for the effective functioning of the interbank, domestic debt, and FX markets will strengthen the monetary policy transmission mechanism and enhance the credibility of the central bank (Annex V).

Authorities' Views

28. The authorities noted that the current monetary policy framework focused on exchange rate stability serves Guyana's needs best currently, and as the economy grows over the medium term, a revised monetary policy framework may be needed. The authorities noted that the accumulation of reserves and substantial buffers in the NRF will strengthen Guyana's headroom to maintain a stable exchange rate. Exchange rate stability serves best Guyana's current needs of a nominal anchor. The authorities consider that over the medium to long term, as Guyana become a major oil producer, a gradual shift towards greater exchange rate flexibility may allow the economy to better withstand shocks and maintain competitiveness. The authorities desire a step-by-step approach in deepening the interbank, domestic debt, and FX markets to strengthen the monetary policy framework and the transmission mechanism. The authorities emphasized that in the current framework, the reserves requirement rate can be used to curb credit supply, and this is a sufficient policy tool to tighten the monetary policy stance when needed.

C. Financial Sector Policy

29. With the financial sector expected to grow with the growth of the economy, it is important to maintain financial stability. The authorities made good progress on implementing the recommendations of the 2016 FSAP (Annex VI), specifically on accelerating the implementation

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[15] Guyana's exchange rate regime is a *de* jure float, but a *de facto* stabilized arrangement with occasional foreign exchange rate interventions to maintain the nominal exchange rate.

[16] Staff proposed an 'inflation-lite' targeting framework to modernize the current monetary policy framework in Guyana, in line with authorities' efforts to develop the financial markets infrastructure needed to support it.

[17] As government spending financed by oil revenues increases over time, larger FX inflows will need to be sterilized by the central bank to avoid pressures on the exchange rate. These sterilization costs, or pressures on the exchange rate, in addition to external shocks, will require ever-greater management to maintain exchange rate stability. As such, greater exchange rate flexibility will facilitate the economic expansion and adjustment to oil price shocks while maintaining price stability and safeguarding foreign reserves.

of Basel II/III, and remain committed to completing the implementation of the FSAP recommendations. They have also conducted commercial banks' asset quality reviews. As a result, banks wrote off a substantial stock of NPLs, thereby reducing their credit risks. Progress was also made in updating Crisis Management and Supervision Guidelines, although moving away from paper-based functioning and towards broad based risk-based supervision remain key challenges. Guyana should ensure effective implementation of its AML/CFT framework. Guyana is expected to undergo the fourth mutual evaluation by the Caribbean Financial Action Task Force (CFATF) by end-2023. With the completion of the 2021 National Risk Assessment (NRA), the BoG is working on implementing the recommendations of the NRA with CARTAC.

30. Digital payments are growing. Until recently, Guyana was mostly a cash-based society, with bank services limited to electronic banking, credit, and debit cards. However, the COVID-19 pandemic accelerated the digital change, and many consumers adopted the existing Mobile Money Payment System offered by the Guyana Telephone and Telegraph Company (GT&T). Development in mobile money and digital payment should be balanced with a risk-based approach to regulation to mitigate risks including ML/TF risks. Staff suggested that the authorities consider technical assistance from the Fund on the regulation and supervision of mobile payments.

31. Staff welcomed the authorities' strategies to promote financial inclusion. The authorities have already taken steps to promote financial inclusion. For example, a private credit bureau, CreditInfo, was established in July 2013. In January 2016, the Credit Reporting Act was amended to mandate information sharing to the credit bureau by both credit institutions and public utilities. Staff noted that fintech and digitalization could help increase the contribution of the financial sector to growth and help diversify the non-oil economy.

Authorities' Views

32. On the financial sector, the authorities are committed to continuing with financial reforms and ensuring alignment of its legal framework with international standards. The authorities emphasized that Guyana is committed to strengthen effectiveness of its AML/CFT regime, by implementing its NRA recommendations and action plans. The authorities recognize that accelerating the digitalization could enhance the contribution of the financial sector to growth.

D. Structural and Governance Reforms to Support Inclusive Growth

33. To support growth, Guyana needs to lower unemployment, especially for youth in rural areas, and reduce inter-industry skills mismatches going forward. Staff advised the government to implement education and labor market policies to expand and diversify the non-oil economy (Annex VII).[18] Staff recommended a multi-pronged approach, focusing on involving Guyanese diaspora, changing labor market regulation, and improving the education system by

[18] In the 2019 Consultation, staff emphasized that Guyana's weak education indicators, particularly low secondary school enrollment ratios, had resulted in significant skill shortages and was a key impediment to long-term inclusive growth.

investing in expanding schools for all educational levels. The needed increase in expenditure on education policy reforms should focus on expanding access to education, improving the curriculum to better connect to current labor market needs and enhancing vocational training. Amongst other structural reforms, increased investment will be needed in healthcare, access to roads and electricity and telecommunication services. Also, international experience shows that reducing local content requirements can be beneficial for successful tackling of the skills mismatch problem by early engagement of foreign qualified skilled workers.

34. Further efforts in strengthening the anti-corruption framework as well as transparency of the governance of oil receipts will also be needed to support growth. The 2019 Article IV report noted weaknesses in the governance and anti-corruption frameworks that could give rise to corruption vulnerabilities.[19] Staff noted the authorities' progress in strengthening Guyana's anti-corruption framework and fiscal transparency in the extractive industries (Annexes VIII and IX). Recent progress on the anti-corruption framework includes publication of audit reports of public expenditures, including for COVID,[20] implementation of some recommendations noted in the 2019 Article IV Staff Report, as well as the re-establishment of the Integrity Commission. Asset declarations of a large number of public officials are submitted annually, and public procurement tenders are streamed live. On EITI (Extractive Industries Transparency Initiative), staff urged the authorities to improve the information sharing and publication of extractive industries' financial statements, move towards electronic disclosures and more closely follow up on EITI's recommendations to address the remaining gaps, where Guyana scores low (Annex X).

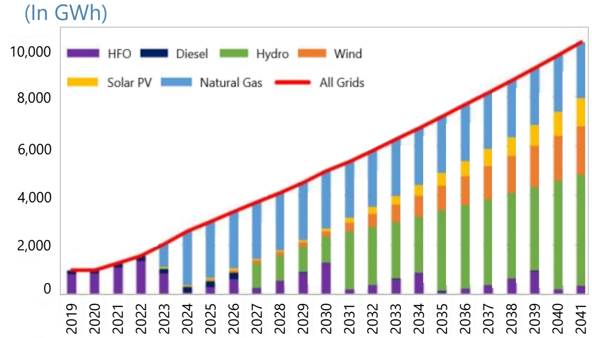
35. Staff welcomed the authorities' plans for building resilience to climate change in the Low Carbon Development Strategy (LCDS). Guyana faces natural disaster risks, particularly floods and droughts, which are exacerbated by climate change (Annex X). With resources from the Guyana-Norway Partnership, Guyana developed a Climate Resilience and Adaptation Strategy to set out a comprehensive and overarching framework for adapting and building resilience to climate change impacts. Staff welcome the authorities' efforts in this respect, and the implementation of the LCDS in 2022. On adaptation efforts, the LCDS includes a shift to renewable sources of energy, including investment in hydroelectric power, to diversify the energy matrix and help lower electricity costs (text charts), thereby supporting growth. On mitigation, by entering the international carbon credits market, Guyana will monetize and maintain its vast forest coverage.[21] Furthermore, Guyana commits to reduce emissions by 70 percent before 2030 mainly via maintaining vast forest coverage and monitoring closely oil emissions on a sectoral and additive basis.

[19] The weaknesses were noted in the areas of revenue administration, ease of doing business, import licensing, discretionary licensing allocation and the rule of law.

[20] http://www.audit.org.gy/reports.html#

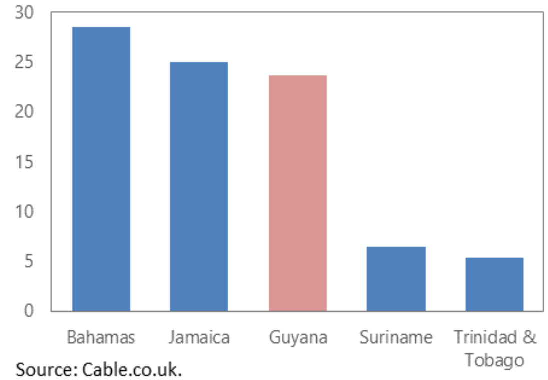
[21] Guyana's vast forests and low deforestation rate support its effort to mitigate climate change, which has benefited from the REDD+ Investment Fund (GRIF), established through an agreement with Norway, and more recently via a new proposal to join the LEAF (Lowering Emissions by Accelerating Forest Finance) Coalition.

Energy Balance in DBIS (Demerara Berbice Interconnected System) and Isolated Grids to 2041
(In GWh)



Source: Guyana's Low Carbon Development Strategy, 2030

Residential Electricity Cost, 2021
(US cents per Kilowatt-hour)



Source: Cable.co.uk.

Authorities' Views

36. **The authorities are working actively to improve efficiency and reduce mismatches in the labor market.** The authorities recognize the importance of an efficient and responsive labor market given the scale and pace of the structural changes occurring in the economy. In response, the authorities are investing heavily in human capital development, including technical and vocational education, to ensure an adequate supply-side response to emergent demands in the market for skilled labor. Additionally, work has begun with the support of an expert to gather critical data to inform strategic interventions aimed at addressing labor market mismatches.

37. **While there is considerable fiscal transparency and a robust anti-corruption framework, the authorities are committed to further strengthen governance, particularly on EITI.** The authorities recognize that following up adequately on EITI recommendations is critical. Prioritization will be needed as capacity is built over time. The authorities are committed to accelerate the electronic publication of key information on procurement contracts, establish a bidders register, continue publishing audit reports of public expenditures including COVID-19 funds, and further strengthen mechanisms and processes for required follow up as applicable. The authorities noted that the anti-corruption framework is aligned with international standards, and is being further improved (e.g., by ensuring proper coordination and information of all public agencies involved). Moreover, the government intends to increase public awareness about the functions of its anti-corruption framework including increasing the efficiency of the Integrity Commission and the National Procurement and Tender Administration Board.

38. **The authorities have advanced preparation of an expanded Low Carbon Development Strategy (LCDS)**. Recognizing the large contribution made by Guyana's standing forests to the global fight against climate change, the authorities have developed the LCDS 2030 which has benefited from wide consultations and aims to monetize the climate services provided by Guyana's vast forest cover, as well as to accelerate economic growth along a low carbon path. The LCDS also recognizes the urgent need for investment in the transition to clean and renewable energy and to strengthen resilience to floods and improve water management.

E. Other Issues

39. Capacity development needs are large, and they need to be prioritized carefully. Staff urged the authorities to request technical assistance from FAD on their framework for the management and use of oil resources, including the FARI model, and from MCM to support the development of financial market infrastructure, stress testing of bank balance sheets and AQRs for financial stability. Staff also noted capacity development available from the Fund for governance-related issues, including on strengthening transparency of public procurement process and public investment management frameworks.

40. Data provided to the Fund is broadly adequate for surveillance purposes. The authorities have made considerable progress in improving data provision to the Fund, notably in compiling International Investment Position data beginning in 2020. However, timeliness, reliability, and coverage can be further improved.

Authorities' Views

41. The authorities concurred with staff on the need to prioritize capacity development requests.

STAFF APPRAISAL

42. Following a protracted political transition and a pandemic induced recession in 2020, the economy recovered in 2021, supported by fiscal policy and the oil boom. The new administration took office only in August 2020 which delayed considerably the 2020 budget approval and the implementation of pandemic measures and forced an increased reliance on direct financing from the central bank. In 2021, the economy recovered from the contraction of the non-oil sector in 2020, despite floods, supported by fiscal policy. Public debt declined almost 10 percent of GDP, reaching 42.9 percent of GDP at end-2021, one of the lowest in the region. Guyana maintained a moderate risk of external debt distress, with debt dynamics improving significantly with incoming oil revenues. The external position strengthened, and it is assessed to be broadly in line with the level implied by fundamentals and desirable policies.

43. Fiscal and monetary policies should be cautious. In 2022, the government implemented tax measures to limit the passthrough to consumers of rising food and energy prices from the war in Ukraine. A gradual unwinding of these untargeted measures and strengthening and better targeting the social safety net system are recommended to better mitigate the impact of the inflationary shock. In addition, while a sustainable and feasible increase in capital spending to start the transformation of the Guyanese economy is needed, significant progress towards a new fiscal framework that does not generate macroeconomic imbalances is also needed. To maintain exchange rate stability and given the expected continued tightening of the U.S. monetary policy, monetary policy in Guyana should continue to be tightened.

44. Guyana's medium-term prospects are very favorable, with increasing oil production having the potential to transform Guyana's economy. Oil production is expected to increase significantly with the coming on stream of two large oilfields during 2023–26. Guyana's commercially recoverable petroleum reserves is the third largest in Latin America and Caribbean, and one of the highest levels of oil reserves per capita in the world. This could help Guyana build up substantial fiscal and external buffers to absorb shocks while addressing infrastructure gaps and human development needs. However, increased dependence on oil revenues will expose the economy to volatility in global oil prices. A slowing global economy and the repercussions from the war in Ukraine could also adversely affect non-oil exports. On the other hand, higher global oil prices and additional gas and oil discoveries could significantly improve Guyana's long-term economic prospects.

45. Staff strongly support the authorities' goals to transform the economy, address development needs in an inclusive way, and protect the long-term economic well-being of the country. Staff welcome the authorities' efforts to reduce electricity costs, improve transport infrastructure, diversify the economy, improve access to and quality of social services, and advance more broadly towards the Sustainable Development Goals. Staff commend the authorities' efforts outlined in the LCDS 2030 to maintain the country's forest coverage and address climate change challenges by shifting towards renewable energy sources, while entering the international carbon credits market.

46. Staff welcome the recent amendments to the NRF Act. The recent amendments to the NRF Act set clear ceilings on withdrawals from the Fund for budgetary spending and promote transparency in the management and use of oil resources. Staff praise the authorities' thorough review of the NRF Act before making amendments, and the restraint in using any oil revenues before the passage of the amendments.

47. Staff recommend a feasible and moderate increase in public investment while further strengthening the medium-term framework for fiscal policy. Staff welcome the emphasis on public investment and policies to sustain growth into the longer term but urge caution in determining the pace of ramping up public investment. Staff also urge the authorities to simultaneously strengthen the capacity to manage public investment, based on 2017 recommendations on public investment management. Staff recommend setting annual budgets within a fiscal framework that, over the medium term, constrains the annual non-oil overall fiscal deficit (after grants) to not exceed the expected transfer from the NRF, to anchor fiscal policy in a sustainable way. Staff also recommend further analysis and any needed adjustment to the oil transfer rule, to ensure the long-term sustainability and intergenerational equity in the management of oil resources and to move towards a more robust fiscal framework if needed.

48. Staff agree with the authorities that exchange rate stability serves Guyana's current needs best. The use of the exchange rate as the nominal anchor is currently appropriate, along with increased efforts to deepen domestic financial markets. The accumulation of substantial buffers in the NRF will strengthen Guyana's headroom to maintain a stable exchange rate. Over the medium to long term, as Guyana becomes a major oil producer, staff support the authorities' aims to deepen financial markets and recommend revising the monetary policy framework to ensure it is well suited for the economy's needs, including allowing the exchange rate to absorb shocks and increase its flexibility to maintain competitiveness.

49. Staff commend the authorities' efforts to maintain financial stability. Macro-financial risks are well monitored with a broad spectrum of indicators, including credit developments and the systemic risk matrix, and banks are well capitalized. Staff welcome BoG's successful asset quality reviews, the progress in conducting stress testing exercises, and the authorities' strategies to promote financial inclusion. Staff strongly support the authorities commitment to complete the implementation of the 2016 FSAP recommendations and the move towards broad based risk-based supervision.

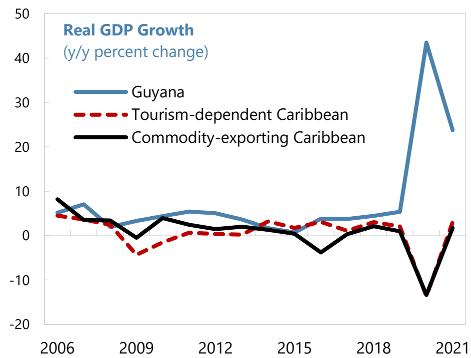
50. Guyana has recently strengthened the AML/CFT framework and staff recommend ensuring sustained efforts for its effective implementation. Guyana has been removed from the CFATF list of strategic jurisdictions with strategic deficiencies in November 2016. Full compliance with international standards would bolster Guyana's fight against money laundering and terrorism financing. Guyana should implement the recommendations and action plans identified in the recent NRA. Efforts to strengthen its AML/CFT legal framework should be sustained by ensuring its effective implementation. Full compliance with international standards would bolster Guyana's fight against money laundering and terrorism financing.

51. Staff commend the authorities' progress in strengthening Guyana's anti-corruption framework and fiscal transparency and support further advances. Several pillars of the anti-corruption framework have been recently strengthened, including the Integrity and Public Procurement Commissions and the National Procurement and Tender Administration Board. Audit reports of public expenditures, including for COVID, are published, and their recommendations are followed up on. Asset declarations of a large number of public officials are submitted annually, and public procurement tenders are streamed live. The authorities made progress in implementing the recommendations of the 2019 and 2021 EITI reports, notably on the reconciliation with the fiscal regime. Some progress has also been made on information sharing and publication of extractive industries' financial statements, and the authorities are strengthening capacity to address remaining gaps, including in moving towards electronic disclosure and adequate follow-up.

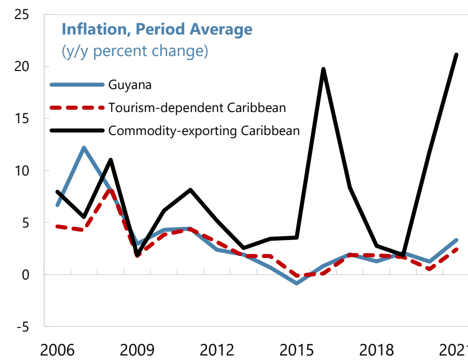
52. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Guyana: Comparative Regional Developments 1/

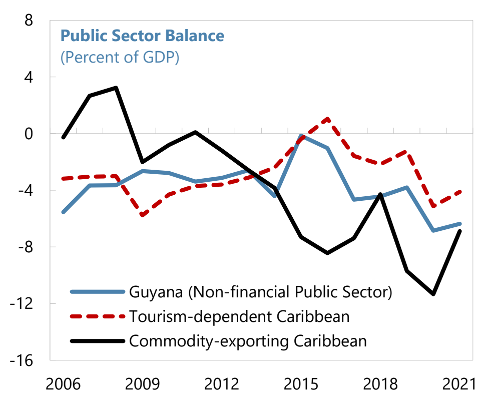
Guyana continues to perform in line or better than some of its regional peers. Growth is higher in Guyana than in regional peers owing to the start of oil production…



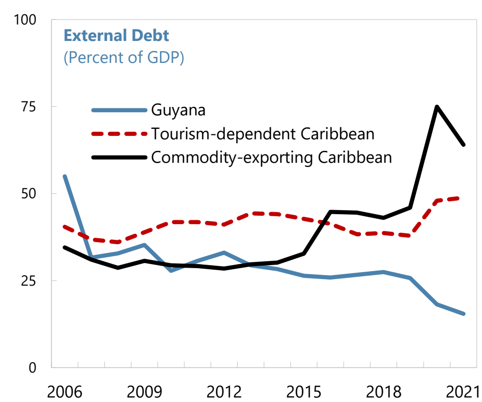
…and inflation remained subdued though most recently was slightly higher than in other tourism destinations.



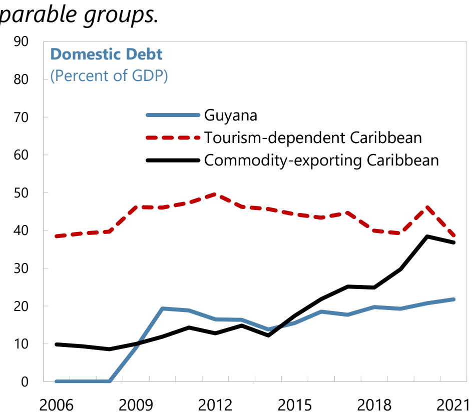
The fiscal performance was better than in other regional commodity exporters…



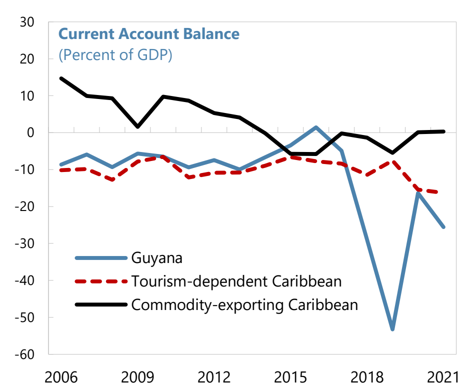
…and external borrowing remained low.



Domestic debt is on the rise but lower than in comparable groups.



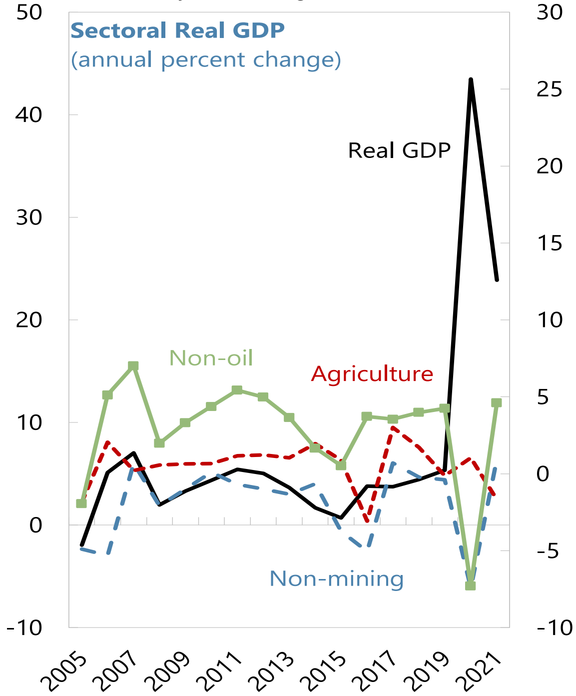
The current account balance has stabilized.



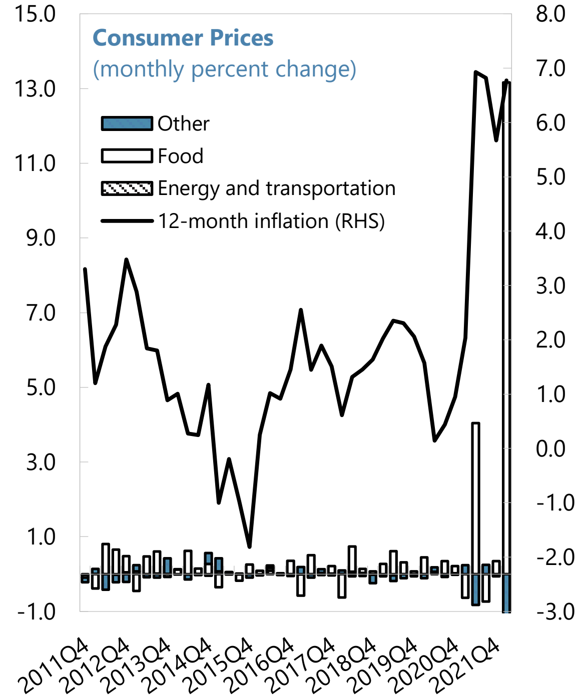
Sources: Country authorities; and IMF staff calculations.
1/ Caribbean region measured as simple averages of corresponding variables.
Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
Commodity-exporting Caribbean includes Belize, Suriname and Trinidad and Tobago.

Figure 2. Guyana: Real Sector Indicators

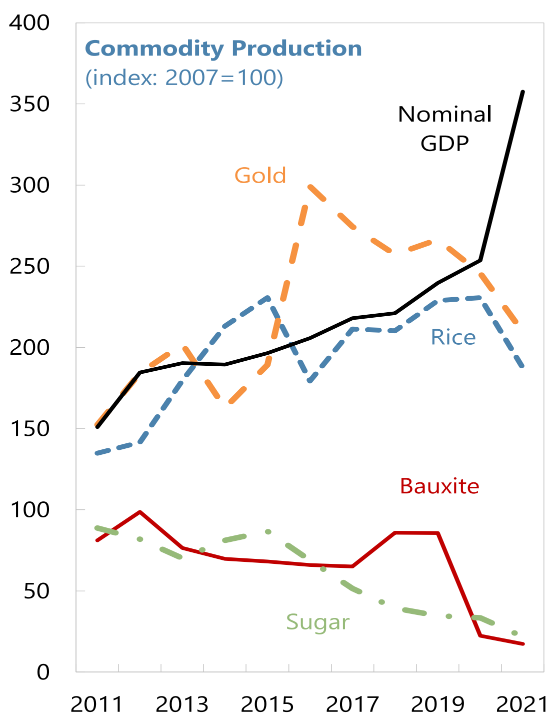
Economic activity slowly picked up in 2021. After the political crisis, floods and pandemic lockdowns, non-oil economic recovery was strong in 2021.



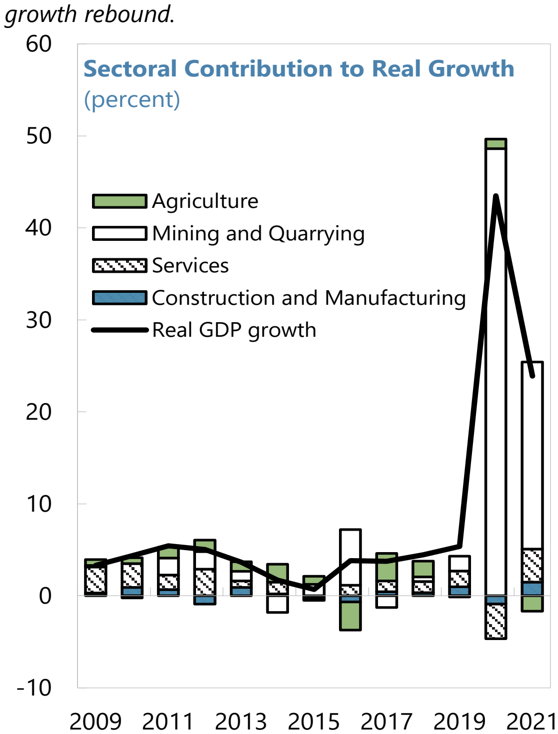
Like elsewhere in the world, inflation is rising.



The floods affected sugar and rice production in 2021.



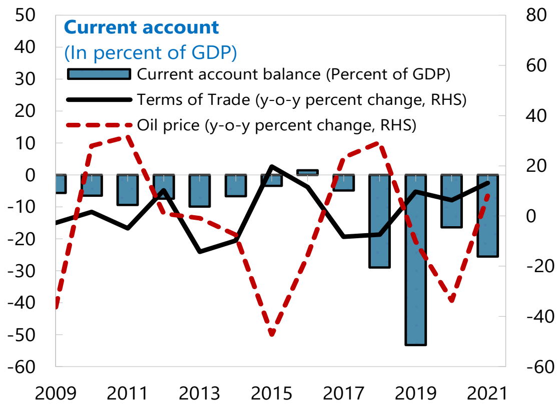
Growth in construction and services helped GDP growth rebound.



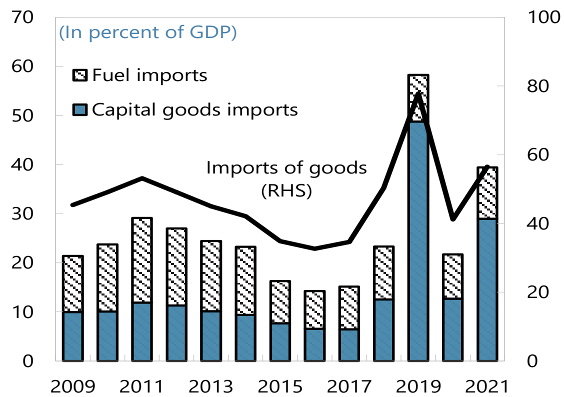
Sources: Bank of Guyana; Ministry of Finance; and IMF staff calculations.

Figure 3. Guyana: External Sector Developments

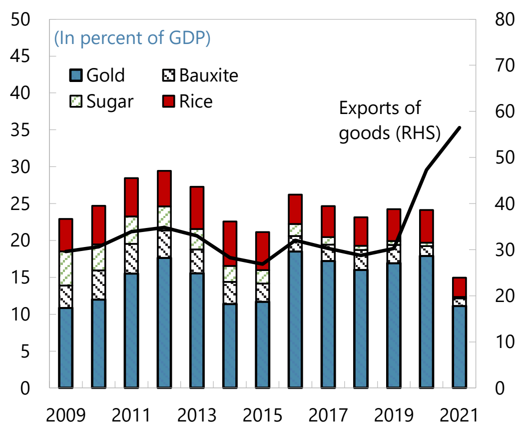
The external position has stabilized from the covid crisis. Large oil-related imports increased the current account deficit in values...



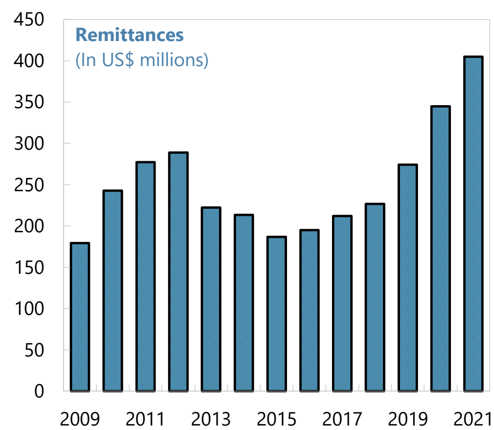
...and volumes.



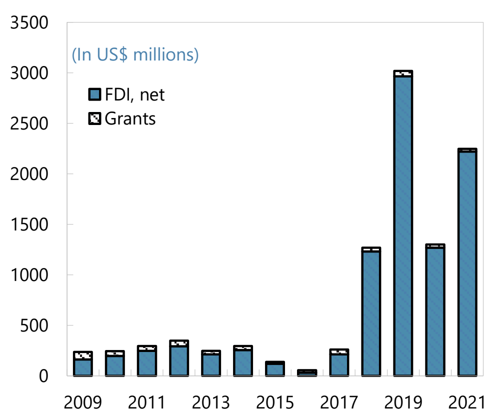
While total exports increased, non-oil commodity exports have declined...



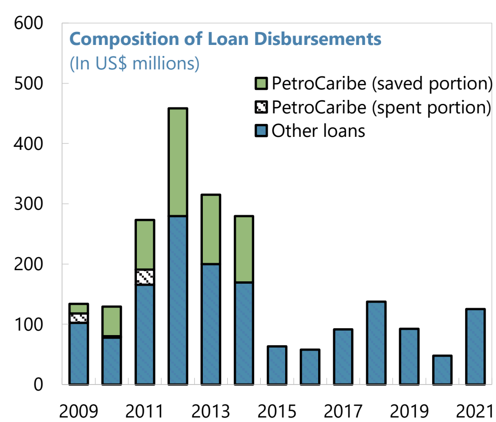
...and remittances have increased.



FDI declined during the covid crisis, with the recovery in 2021 due to oil related FDI...



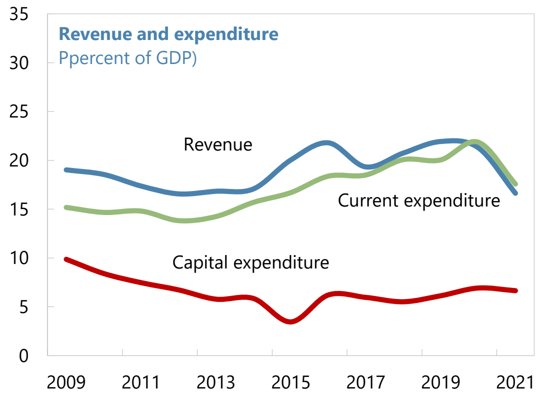
...and official loan disbursements have increased.



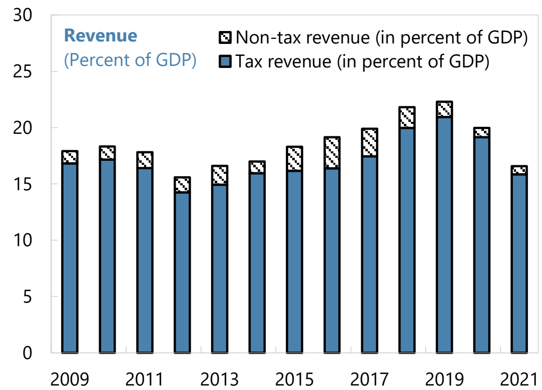
Sources: Bank of Guyana; and IMF staff calculations.

Figure 4. Guyana: Fiscal Sector Developments

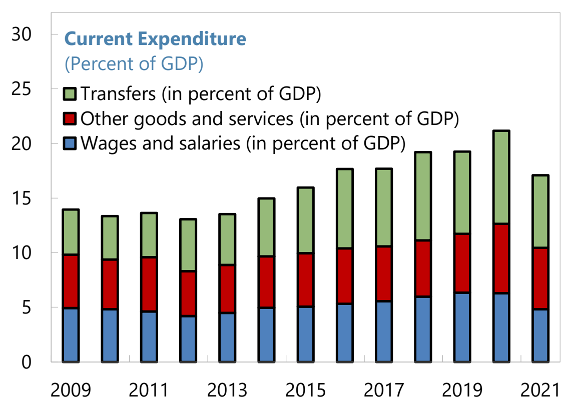
Fiscal deficit deteriorated slightly in 2021 due to declining revenues despite the unwinding of covid-related measures.



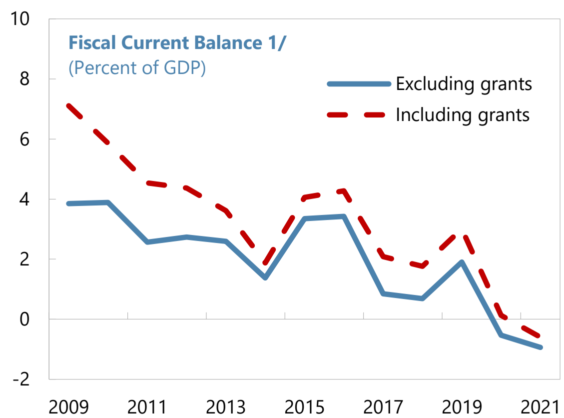
Revenues declined owing to continued fall in tax revenues.



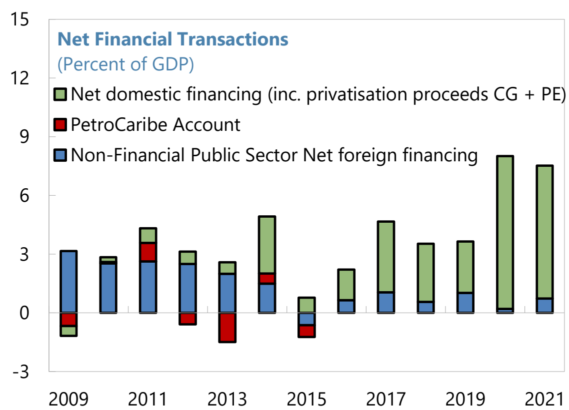
Current expenditures are declining including transfers.



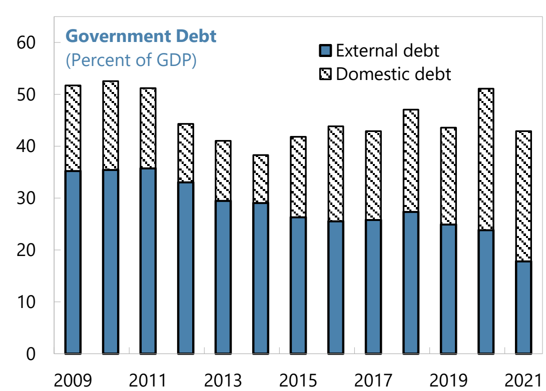
The fiscal balance is deteriorating slightly.



Net domestic financing has recently declined somewhat…



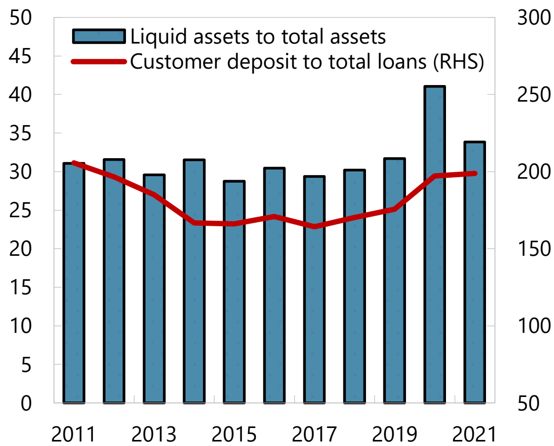
…with an increased domestic debt.



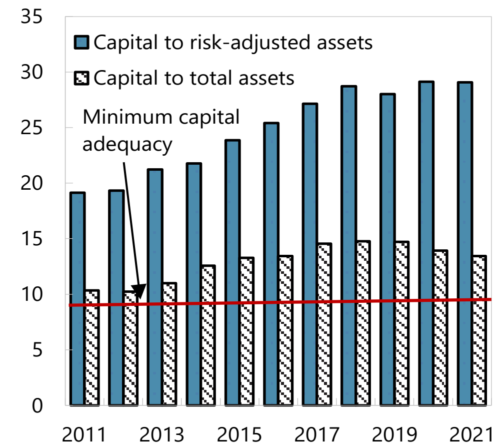
Sources: Ministry of Finance; and IMF staff calculations.
1/ Computed as total revenue less current expenditures.

Figure 5. Guyana: Financial Soundness Indicators

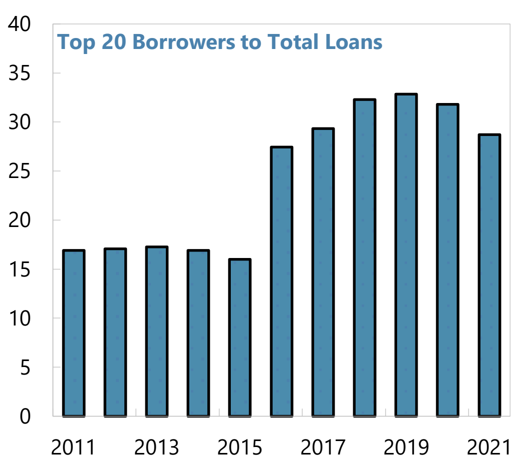
The banking system is well capitalized, the liquid asset ratio remained stable, and profitability has slightly improved. Banks remain liquid...



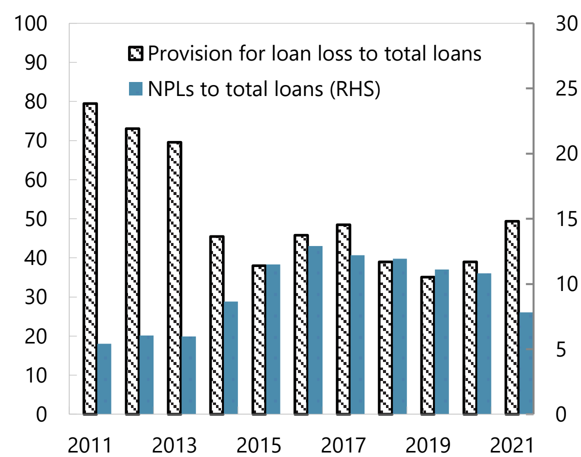
... and the system's reported CAR is above the regulatory requirement.



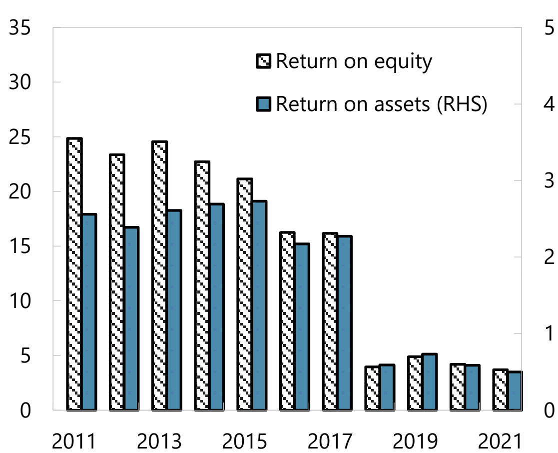
Credit concentration slightly decreased...



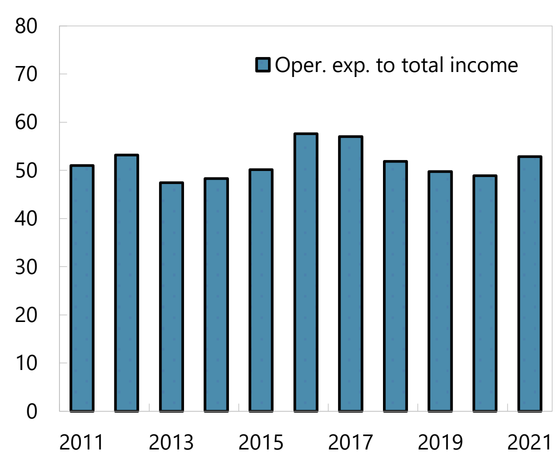
...and asset quality improved.



Banks' profitability deteriorated slightly in 2021...



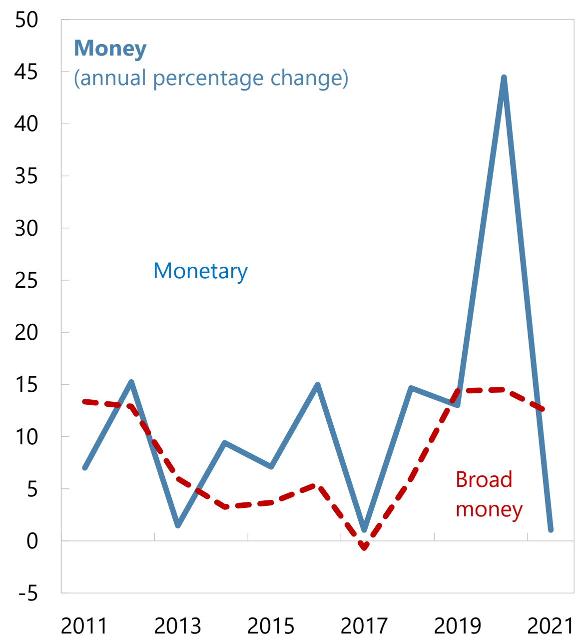
...as operating expenses increased.



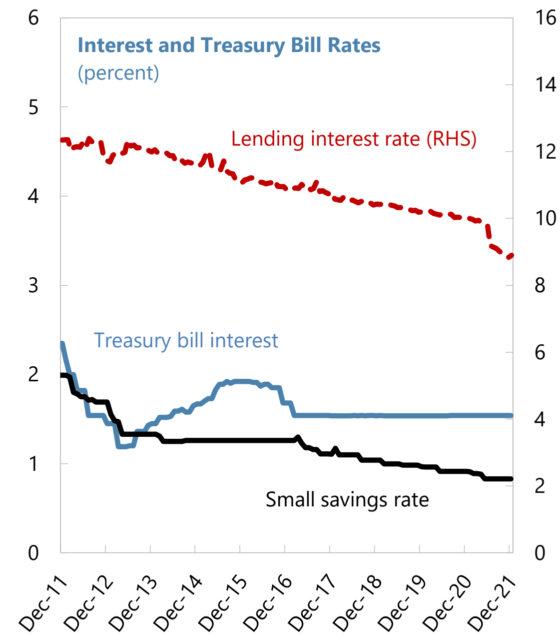
Source: Bank of Guyana.

Figure 6. Guyana: Monetary Developments

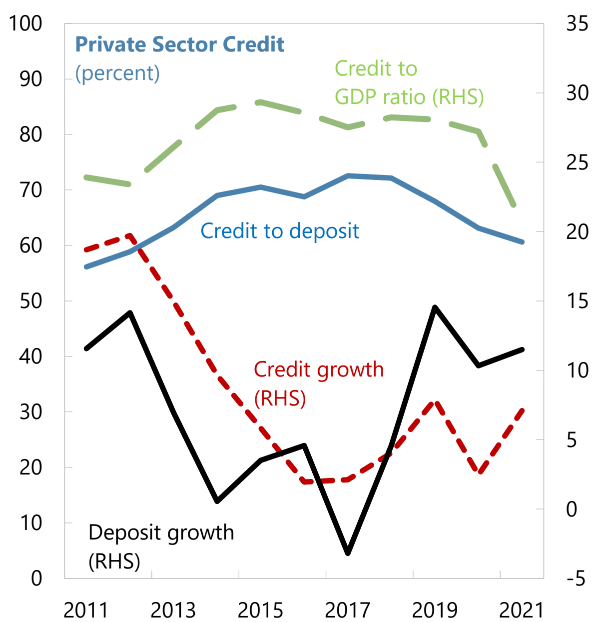
Monetary conditions are supportive of growth. The base money has stabilized...



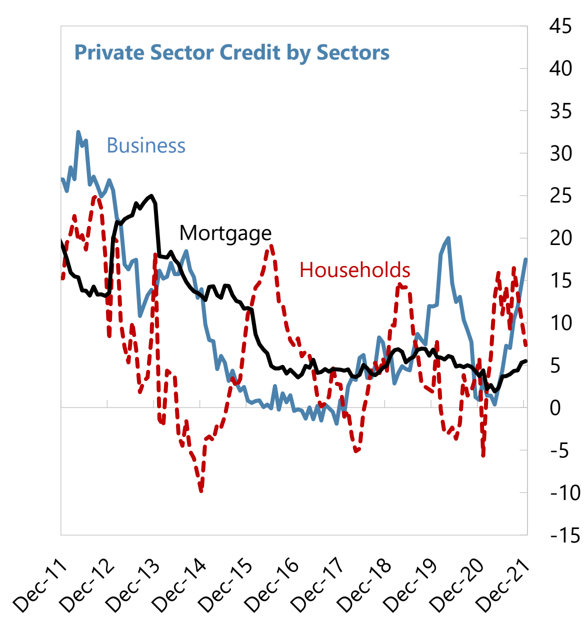
...and interest rates marginally declined.



Credit growth reached pre-pandemic levels...



...particularly business lending.



Source: Bank of Guyana.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2021 (thousands)	789	Population not using an improved water source (%), 2015	4.9
Life expectancy at birth (years), 2019	70	Gini index, 1998	45
Under-five mortality rate (per 1,000 live births), 2020	28	HDI rank, 2019	122
Population living below the poverty line (%), 2000-06	35		

II. Economic Indicators

	Prel.	Proj.					
	2021	2022	2023	2024	2025	2026	2027
	(Annual percent change)						
Production and Prices							
Real GDP	23.9	57.8	25.2	21.2	28.2	25.5	3.3
Real Non-Oil GDP	4.6	7.2	5.0	5.1	5.2	5.2	5.2
Real Oil GDP	56.9	116.1	36.8	28.3	36.5	31.1	2.9
Real GDP per capita	23.4	57.3	24.8	20.9	27.9	25.1	3.0
Consumer prices (average)	3.3	7.6	7.6	5.0	3.8	3.5	3.5
Consumer prices (end of period)	5.7	9.4	6.0	4.1	3.5	3.5	3.5
Terms of trade	13.1	28.0	(3.0)	(0.9)	(2.2)	(1.0)	1.0
	(Percent of non-oil GDP)						
Central Government							
Revenue	24.3	34.3	36.3	37.4	37.9	37.9	37.6
Grants	0.5	0.8	0.0	0.0	0.0	0.0	0.0
Expenditure	35.3	36.8	37.5	37.9	37.9	37.9	37.6
Current	25.8	24.7	25.2	25.4	25.4	25.4	25.1
Capital	9.5	12.1	12.3	12.5	12.5	12.5	12.5
Overall balance (after grants)	-10.5	-1.7	-1.2	-0.5	0.0	0.0	0.0
	(Percent of GDP)						
Total public sector gross debt 1/	42.9	22.8	20.9	18.8	16.2	13.7	13.5
External	17.8	10.1	10.6	10.5	9.7	8.0	7.8
Domestic	25.1	12.7	10.2	8.3	6.5	5.7	5.8
	(Annual percent change)						
Money and Credit							
Broad money	12.2	11.5	12.3	9.9	9.0	8.9	9.0
Domestic credit of the banking system	18.1	3.7	-3.7	-1.9	-3.8	3.7	7.4
Public sector (net) 2/	32.0	0.0	-15.1	-12.8	-20.7	-2.0	10.1
Private sector	7.1	7.4	6.7	6.1	6.3	6.2	6.2
External Sector							
Current account balance 3/	-1,971.7	6,502.6	5,173.3	5,445.9	3,998.7	7,273.5	7,594.6
(Percent of GDP)	-25.5	43.8	30.8	28.7	17.4	26.3	26.7
Gross official reserves 4/	810.8	870.7	1,323.3	1,856.6	2,454.3	2,832.2	3,172.5
Months of imports of goods and services 5/	1.9	1.3	2.9	2.9	5.1	6.8	7.2
Crude oil production (million barrels)	42.4	93.4	124.5	155.5	207.0	264.6	264.6
Oil price (barrel)	69.1	106.8	92.6	84.2	78.5	74.7	72.5
Memorandum Items:							
Nominal GDP (G$ billion)	1,609.1	3,094.0	3,503.5	3,961.3	4,780.1	5,776.2	5,925.9
Nominal GDP, non-oil (G$ billion)	1,098.3	1,264.0	1,388.1	1,509.1	1,633.4	1,767.6	1,913.2
Per capita GDP, US$	9,777.6	18,744.6	21,162.3	23,855.8	28,700.7	34,578.0	35,367.6
Holdings of SDRs, in millions of U.S. dollars	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Guyana dollar/U.S. dollar (period average)	208.5	…	…	…	…	…	…

Sources: Guyanese authorities; UNDP Human Development Report; World Bank; and IMF staff calculations and projections.

1/ Since 2015-16, public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank.

2/ The changes in public sector (net) are from a small base, making the series volatile.

3/ The external current account for 2018 onwards includes high value imports of oil goods and services.

4/ From 2022 through 2027 reserves include transfers of oil revenues consistent with staff's fiscal policy advice on the use of oil revenues.

5/ Gross reserves in months of projected imports of goods and services. From 2017, these are affected by high value imports of oil goods and services.

Table 2. Guyana: Balance of Payments 1/

(In millions of U.S. dollars)

	2019	2020	Prel. 2021	Proj. 2022	2023	2024	2025	2026	2027
				(In millions of U.S dollars)					
Current Account (incl. official transfers)	**-2,757**	**-897**	**-1,972**	**6,503**	**5,173**	**5,446**	**3,999**	**7,274**	**7,595**
Current Account (excl. official transfers)	-2,810	-929	-1,980	6,503	5,173	5,446	3,999	7,274	7,595
Merchandise Trade (net)	**-2,459**	**336**	**-5**	**8,827**	**8,941**	**11,977**	**13,801**	**20,033**	**20,615**
Exports (f.o.b.)	**1,567**	**2,590**	**4,356**	**11,628**	**13,268**	**14,920**	**18,181**	**23,212**	**23,722**
Bauxite	127	73	80	111	110	103	98	93	92
Sugar	28	24	15	24	23	21	21	20	21
Rice	223	243	201	246	253	262	272	282	293
Gold	877	979	858	1,024	1,092	1,165	1,243	1,315	1,387
Timber	34	28	26	29	29	30	31	31	32
Oil	-	1,064	2,975	9,978	11,532	13,097	16,259	21,193	21,617
Other	279	178	199	217	228	241	258	278	280
Imports (c.i.f.)	**4,026**	**2,254**	**4,361**	**2,801**	**4,327**	**2,944**	**4,380**	**3,179**	**3,107**
Capital goods	2,523	695	2,236	598	1,193	694	1,212	770	766
Fuel and lubricants	491	493	808	812	1,313	759	1,238	752	665
Other	1,013	1,066	1,317	1,392	1,821	1,491	1,930	1,658	1,676
Services (net)	**-886**	**-1,788**	**-2,602**	**-1,946**	**-3,238**	**-2,217**	**-2,972**	**-2,273**	**-1,505**
Primary Income (net)	**-47**	**-108**	**-390**	**-1,106**	**-1,275**	**-5,065**	**-7,588**	**-11,248**	**-12,279**
of which: Repatriated oil earnings	...	-125	-387	-1,048	-1,211	-3,457	-6,013	-8,937	-9,769
Secondary Income (net)	**634**	**663**	**1,026**	**727**	**744**	**752**	**758**	**762**	**763**
Financial Account	**2,857**	**879**	**1,896**	**-6,552**	**-5,222**	**-5,485**	**-4,040**	**-7,328**	**-7,652**
Nonfinancial public sector (net)	44	-203	-94	-683	-577	-1,240	-3,835	-6,363	-6,928
Net official borrowing	38	-5	68	156	281	231	239	14	-14
Other public sector (net) 2/	6	-198	-162	-839	-858	-1,472	-4,074	-6,377	-6,914
Private sector (net)	2,861	1,186	2,120	-5,809	-4,193	-3,712	394	-587	-384
Foreign direct investment (net)	2,966	1,269	2,222	-5,681	-4,047	-3,547	579	-376	-224
Portfolio investment (net)	-43	-21	-50	-57	-63	-68	-74	-80	-87
Other (net)	-62	-62	-52	-71	-83	-96	-112	-130	-74
Errors and Omissions	**-128**	**-30**	**-6**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**48**	**105**	**130**	**60**	**453**	**533**	**598**	**378**	**340**
Memorandum Items:									
Current account, incl. off. transfers (in percent of GDP)	-53.3	-16.4	-25.5	43.8	30.8	28.7	17.4	26.3	26.7
Current account, excl. off. transfers (in percent of GDP) 3/	-54.3	-17.0	-25.7	43.8	30.8	28.7	17.4	26.3	26.7
Gross international reserves	575.9	680.6	810.8	870.7	1,323.3	1,856.6	2,454.3	2,832.2	3,172.5
(in months of imports of goods and services) 4/	1.6	1.1	1.9	1.3	2.9	2.9	5.1	6.8	7.2
(in months of imports of non-oil goods and services)	3.1	3.3	2.9	3.1	4.5	6.0	7.6	8.1	8.5
Oil price assumption (US$/b)	61.4	41.3	69.1	106.8	92.6	84.2	78.5	74.7	72.5
Gold price assumption (US$/troy ounce)	1,377	1,632	1,707	1,815	1,853	1,891	1,930	1,955	1,973
HIPC and MDRI debt service relief	16.7	16.1	14.0	10.4	9.8	9.3	8.9	8.4	8.0
End of year balance of the NRF		198	608	1,447	2,305	3,776	7,850	14,228	21,142
GDP (US$ million)	5,174	5,471	7,717	14,839	16,804	18,999	22,926	27,704	28,421
Guyana dollar/U.S. dollar (period average)	208.5	208.5	...	...	...	...	...	...	...
Guyana dollar/U.S. dollar (end-of-period)	208.5	208.5	...	...	...	...	...	...	...
				(Annual percent change)					
Growth of Value of Exports	16.8	55.8	66.2	157.2	13.9	12.3	21.5	27.2	2.3
of which exports of goods (excl re-exports)	9.9	70.7	68.8	168.3	14.1	12.4	21.9	27.7	2.2
Growth of Value of Imports	49.5	-17.4	70.8	-30.3	56.0	-30.2	40.2	-24.4	-13.9
of which Imports of goods	67.1	-44.0	93.5	-35.8	54.5	-32.0	48.8	-27.4	-2.3
Growth of Volume of Exports	7.0	159.0	43.9	85.1	28.4	22.1	30.1	34.4	4.9
Growth of Volume of Imports	8.8	27.5	15.8	-24.7	40.5	-22.5	27.4	-18.9	-13.5
Terms of trade (Goods)	9.7	6.3	13.1	28.0	-3.0	-0.9	-2.2	-1.0	1.0
Goods Export Price Index	7.4	5.1	36.3	42.3	-11.5	-7.9	-5.9	-4.4	-2.7
Goods Import Price Index	-2.1	-1.2	20.5	11.2	-8.8	-7.1	-3.8	-3.5	-3.6

Sources: Bank of Guyana; and IMF staff calculations and projections.
1/ Table has been revised to BPM6 presentation.
2/ Includes capital flows of PetroCaribe financing.
3/ The external current account for 2018 onwards includes high value imports of oil goods and services.
4/ Gross reserves are in months of projected imports of goods and services. For 2017 onward, these are affected by high value imports of oil goods and services.

Table 3a. Guyana: Public Sector Operations

(In percent of GDP)

	2019	2020	Prel. 2021	Proj. 2022	2023	2024	2025	2026	2027
Central Government Revenue	**22.3**	**20.0**	**16.6**	**14.0**	**14.4**	**14.3**	**12.9**	**11.6**	**12.1**
Tax revenue	20.9	19.1	15.8	9.3	9.0	8.7	7.8	7.0	7.3
Income taxes	8.7	9.2	7.6	4.6	4.4	4.2	3.8	3.4	3.6
Consumption taxes	9.0	7.3	5.9	3.3	3.2	3.1	2.8	2.5	2.6
Trade taxes	2.3	1.7	1.6	1.0	1.0	0.9	0.8	0.7	0.8
Other	1.0	0.9	0.7	0.4	0.4	0.4	0.4	0.3	0.3
Non-tax revenue	1.4	0.8	0.7	4.6	5.4	5.6	5.2	4.6	4.8
Of which:									
Oil revenue	0.0	0.0	0.0	4.1	4.8	5.1	4.7	4.2	4.5
Net revenue from PE and statutory bodies	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Capital revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Grants	**1.1**	**0.7**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Central Government Expenditure	**26.2**	**28.5**	**24.1**	**15.0**	**14.8**	**14.5**	**13.0**	**11.6**	**12.2**
Current expenditure	20.0	21.8	17.6	10.1	10.0	9.7	8.7	7.8	8.1
Wages and salaries	6.4	6.3	4.8	2.9	2.8	2.7	2.4	2.2	2.3
Other goods and services	5.4	6.4	5.6	3.0	3.1	3.1	2.8	2.5	2.6
Transfers	7.5	8.5	6.6	3.9	3.8	3.6	3.2	2.9	3.1
Interest 1/	0.8	0.7	0.5	0.3	0.3	0.2	0.2	0.2	0.1
Domestic	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
External	0.7	0.6	0.3	0.2	0.2	0.1	0.1	0.1	0.0
Capital expenditure	6.1	6.7	6.5	4.9	4.9	4.8	4.3	3.8	4.0
Overall Balance (before grants)	**-3.9**	**-8.5**	**-7.5**	**-1.0**	**-0.5**	**-0.2**	**0.0**	**0.0**	**0.0**
Overall Balance (after grants)	**-2.8**	**-7.9**	**-7.2**	**-0.7**	**-0.5**	**-0.2**	**0.0**	**0.0**	**0.0**
Primary Balance (after grants)	**-2.0**	**-7.2**	**-6.7**	**-0.4**	**-0.2**	**0.0**	**0.2**	**0.2**	**0.1**
Non-Oil Overall Balance (after grants)	**-2.8**	**-7.9**	**-7.2**	**-4.8**	**-5.3**	**-5.3**	**-4.7**	**-4.2**	**-4.5**
Financing	**2.8**	**7.9**	**7.2**	**0.7**	**0.5**	**0.2**	**0.0**	**0.0**	**0.0**
Net foreign financing	1.0	0.2	0.7	1.0	2.2	1.2	1.1	0.0	0.0
Net domestic financing 2/	1.8	7.7	6.5	-0.4	-1.7	-1.0	-1.1	0.0	0.1
Memorandum Items:									
Total public debt	43.6	51.1	42.9	22.8	20.9	18.8	16.2	13.7	13.5
Domestic	18.6	27.2	25.1	12.7	10.2	8.3	6.5	5.7	5.8
External	24.9	23.8	17.8	10.1	10.6	10.5	9.7	8.0	7.8

Sources: Ministry of Finance; and IMF staff calculations and projections.
1/ Reflects interest and amortization after total debt relief.
2/ Includes statistical discrepancies.

Table 3b. Guyana: Public Sector Operation

(In billions of Guyanese Dollars)

	2019	2020	Prel. 2021	Proj. 2022	2023	2024	2025	2026	2027
Central Government Revenue	**241**	**228**	**267**	**433**	**504**	**565**	**619**	**669**	**720**
Tax revenue	226	218	255	287	316	343	371	402	435
Income taxes	94	105	123	141	155	168	182	197	213
Consumption taxes	97	84	95	103	113	123	133	144	156
Trade taxes	25	20	26	30	33	36	39	43	46
Other	11	10	12	12	15	16	17	18	20
Non-tax revenue	15	9	12	142	188	222	248	268	285
Of which:									
Oil revenue	0	0	0	126	170	202	226	245	266
Net revenue from PE and statutory bodies	7	2	3	7	8	8	9	10	5
Capital revenue	0	0	0	4	0	0	0	0	0
Grants	**12**	**8**	**5**	**10**	**0**	**0**	**0**	**0**	**0**
Central Government Expenditure	**282**	**325**	**388**	**465**	**520**	**573**	**619**	**670**	**720**
Current expenditure	216	249	284	312	349	384	415	449	481
Wages and salaries	69	72	78	90	99	107	116	126	136
Other goods and services	58	72	90	93	110	124	134	145	157
Transfers	81	97	107	120	132	143	155	168	181
Interest 1/	9	7	9	10	10	10	10	10	7
Domestic	1	1	4	4	4	4	4	4	4
External	7	6	5	6	5	6	6	6	3
Capital expenditure	66	76	104	152	171	189	204	221	239
Overall Balance (before grants)	**-42**	**-97**	**-121**	**-32**	**-17**	**-8**	**0**	**0**	**0**
Overall Balance (after grants)	**-30**	**-90**	**-116**	**-21**	**-17**	**-8**	**0**	**0**	**0**
Primary Balance (after grants)	**-21**	**-82**	**-107**	**-11**	**-7**	**2**	**10**	**10**	**6**
Non-Oil Overall Balance (after grants)	**-30**	**-90**	**-116**	**-147**	**-186**	**-210**	**-227**	**-245**	**-267**
Financing	**30**	**90**	**116**	**21**	**17**	**8**	**0**	**0**	**0**
Net foreign financing	11	2	12	32	76	49	51	2	-3
Net domestic financing 2/	19	87	104	-11	-59	-41	-50	-1	3
Memorandum Items:									
Total public debt	470	583	690	707	731	744	774	790	802
Domestic	201	311	403	394	359	329	312	330	343
External	269	272	287	313	372	415	462	460	459

Sources: Ministry of Finance; and IMF staff calculations and projections.
1/ Reflects interest and amortization after total debt relief.
2/ Includes statistical discrepancies.

Table 3c. Guyana: Public Sector Operations

(In percent of Non-Oil GDP)

			Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Central Government Revenue	**22.7**	**23.7**	**24.3**	**34.3**	**36.3**	**37.4**	**37.9**	**37.9**	**37.6**
Tax revenue	21.3	22.7	23.2	22.7	22.7	22.7	22.7	22.7	22.7
Other	8.8	10.9	11.2	11.2	11.1	11.1	11.1	11.1	11.1
Non-tax revenue	9.1	8.7	8.6	8.1	8.1	8.1	8.1	8.1	8.1
Oil revenue, after measures	2.4	2.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Oil revenue measures	1.0	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0
Non-tax revenue	1.4	1.0	1.1	11.3	13.5	14.7	15.2	15.1	14.9
Of which:									
Oil revenue	0.0	0.0	0.0	10.0	12.2	13.4	13.9	13.8	13.9
Net revenue from PE and statutory bodies	0.6	0.2	0.3	0.6	0.6	0.6	0.6	0.6	0.2
Capital revenue	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Grants	**1.1**	**0.8**	**0.5**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Central Government Expenditure	**26.6**	**33.9**	**35.3**	**36.8**	**37.5**	**37.9**	**37.9**	**37.9**	**37.6**
Current expenditure	20.4	25.9	25.8	24.7	25.2	25.4	25.4	25.4	25.1
Wages and salaries	6.5	7.5	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Other goods and services	5.5	7.5	8.2	7.3	7.9	8.2	8.2	8.2	8.2
Transfers	7.7	10.1	9.7	9.5	9.5	9.5	9.5	9.5	9.5
Interest 1/	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.3
Domestic	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.2
External	0.7	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.1
Capital expenditure	6.3	7.9	9.5	12.1	12.3	12.5	12.5	12.5	12.5
Overall Balance (before grants)	**-3.9**	**-10.1**	**-11.0**	**-2.5**	**-1.2**	**-0.5**	**0.0**	**0.0**	**0.0**
Overall Balance (after grants)	**-2.8**	**-9.4**	**-10.5**	**-1.7**	**-1.2**	**-0.5**	**0.0**	**0.0**	**0.0**
Primary Balance (after grants)	**-2.0**	**-8.6**	**-9.7**	**-0.9**	**-0.5**	**0.1**	**0.6**	**0.6**	**0.3**
Non-oil Overall Balance (after grants)	**-2.8**	**-9.4**	**-10.5**	**-11.7**	**-13.4**	**-13.9**	**-13.9**	**-13.9**	**-13.9**
Financing	**2.8**	**9.4**	**10.5**	**1.7**	**1.2**	**0.5**	**0.0**	**0.0**	**0.0**
Net foreign financing	1.0	0.2	1.1	2.6	5.5	3.2	3.1	0.1	-0.2
Net domestic financing 2/	1.8	9.1	9.5	-0.9	-4.3	-2.7	-3.1	-0.1	0.2
Memorandum Items:									
Total public debt	44.3	60.7	62.8	55.9	52.6	49.3	47.4	44.7	41.9
Domestic	19.0	32.3	36.7	31.1	25.8	21.8	19.1	18.6	17.9
External	25.4	28.3	26.1	24.8	26.8	27.5	28.3	26.0	24.0

Sources: Ministry of Finance; and IMF staff calculations and projections.
1/ Reflects interest and amortization after total debt relief.
2/ Includes statistical discrepancies.

Table 4. Guyana: Summary Account of the Bank of Guyana and Monetary Survey
(In billions of Guyanese dollars, end of period)

	2019	2020	2021	2022 Proj.	2023	2024	2025	2026	2027
				(In billions of Guyanese dollars, end of period)					
				Bank of Guyana					
Net Foreign Assets	94.5	116.6	94.5	107.0	201.4	312.6	437.2	516.0	586.9
Foreign assets	124.3	146.5	174.7	187.2	281.6	392.8	517.4	596.2	667.1
Foreign liabilities	29.7	30.0	80.2	80.2	80.2	80.2	80.2	80.2	80.2
Net Domestic Assets	107.9	182.6	201.6	359.6	480.7	630.9	810.3	1,078.5	1,405.3
Of which:									
Credit to public sector (net)	116.2	188.0	213.0	206.0	198.0	190.0	182.0	174.0	166.0
Liabilities to commercial banks	-5.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other items (net)	1.6	0.4	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Currency in Circulation	128.1	162.2	183.6	337.2	540.1	789.1	1,080.5	1,413.9	1,796.8
Base Money	202.3	292.2	295.2	465.6	681.1	942.5	1,246.6	1,593.6	1,991.3
				Monetary Survey					
Net Foreign Assets	161.8	194.0	184.7	211.9	323.5	454.8	602.7	708.7	811.3
Bank of Guyana	94.5	116.6	94.5	107.0	201.4	312.6	437.2	516.0	586.9
Commercial banks	67.3	77.4	90.1	104.9	122.1	142.2	165.5	192.7	224.3
Net Domestic Assets	400.5	456.7	538.4	595.8	583.7	540.4	481.8	472.6	475.4
Credit to public sector (net)	174.2	248.9	328.6	328.7	279.0	243.2	192.9	189.2	208.3
Private sector credit	302.9	310.3	332.3	357.0	381.0	404.4	429.7	456.5	485.0
Other items (net)	-76.5	-102.6	-122.5	-89.9	-76.3	-107.2	-140.8	-173.1	-217.9
Broad Money	562.1	643.6	722.3	805.1	903.7	992.8	1,081.7	1,178.4	1,284.0
				(annual percent change)					
Net Foreign Assets	19.1	19.9	-4.8	14.8	52.7	40.6	32.5	17.6	14.5
Net Domestic Assets	12.6	14.0	17.9	10.7	-2.0	-7.4	-10.8	-1.9	0.6
Domestic Credit	10.0	17.2	18.1	3.7	-3.7	-1.9	-3.8	3.7	7.4
Of which:									
Private sector credit	7.9	2.5	7.1	7.4	6.7	6.1	6.3	6.2	6.2
Public sector net	13.9	42.9	32.0	0.0	-15.1	-12.8	-20.7	-2.0	10.1
Broad Money	14.4	14.5	12.2	11.5	12.3	9.9	9.0	8.9	9.0
				(Contribution to changes in base money, 12–month basis)					
Base Money	13.0	44.5	1.0	57.7	46.3	38.4	32.3	27.8	25.0
Net foreign assets	7.5	10.9	-7.5	4.2	20.3	16.3	13.2	6.3	4.5
Other including net credit to public sector	5.5	33.6	8.6	53.5	26.0	22.0	19.0	21.5	20.5
Memorandum Items:									
Bank of Guyana's net foreign assets, in millions of U.S. dollars	453.3	559.1	453.4	513.2	965.8	1,499.2	2,096.9	2,474.8	2,815.1
Commercial banks' net foreign assets, in millions of U.S. dollars	322.6	371.3	432.2	503.2	585.8	681.9	793.9	924.2	1,075.9
Money multiplier	2.8	2.2	2.4	1.7	1.3	1.1	0.9	0.7	0.6
Income velocity of broad money	1.9	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Non-oil Nominal GDP	1060	960	1098	1264	1388	1509	1633	1768	1913
Growth Rate	7.7	-9.4	14.4	15.1	9.8	8.7	8.2	8.2	8.2

Sources: Bank of Guyana, and IMF staff calculations and projections.

Table 5. Guyana: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
Financial Indicators									
Public sector debt-to-GDP 1/	43.6	51.1	42.9	22.8	20.9	18.8	16.2	13.7	13.5
NPV of public sector debt-to-GDP	32.3	39.3	36.7	19.2	16.8	14.8	12.5	10.6	10.5
NPV of public sector debt-to revenue	144.9	196.9	221.2	137.3	117.0	103.7	96.5	91.1	86.8
CPI-inflation (end of period)	2.1	0.9	5.7	9.4	6.0	4.1	3.5	3.5	3.5
External Indicators									
Exchange rate (per US$, end of period)	208.5	208.5	208.5	…	…	…	…	…	…
Current account balance-to-GDP	-53.3	-16.4	-25.5	43.8	30.8	28.7	17.4	26.3	26.7
Gross official reserves (in millions of U.S. dollars)	575.9	680.6	810.8	870.7	1,323.3	1,856.6	2,454.3	2,832.2	3,172.5
Gross official reserves in months of imports 2/	1.6	1.1	1.9	1.3	2.9	2.9	5.1	6.8	7.2
Gross official reserves to short-term external public sector debt	1,054.1	1,297.4	1,413.3	1,378.5	1,900.9	2,610.0	3,494.2	3,975.6	5,869.5
External public sector debt to GDP	25.8	18.2	15.5	10.9	10.2	9.3	8.1	6.4	6.2
NPV of external public debt (in millions of U.S. dollars)	853.7	935.6	898.0	964.0	1,106.4	1,229.1	1,366.5	1,343.8	1,352.3
NPV of external public sector debt to exports	47.8	33.6	19.4	8.1	8.1	8.1	7.4	5.7	5.6
NPV of external public debt-to-GDP	16.5	17.1	11.6	6.5	6.6	6.5	6.0	4.9	4.8

Sources: Bank of Guyana; and IMF staff calculations and projections.

1/ Since, 2015-16, the public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank.

2/ Gross reserves are in months of projected imports of goods and services. For 2017 onward, these are affected by high value imports of oil goods and services.

Table 6. Guyana: Medium-Term Macroeconomic Framework
(Annual percent change)

				Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percent change)								
Production and Prices									
Real GDP	5.4	43.5	23.9	57.8	25.2	21.2	28.2	25.5	3.3
Non-oil real GDP	4.3	-7.3	4.6	7.2	5.0	5.1	5.2	5.2	5.2
Oil real GDP	124.2	2,603	56.9	116.1	36.8	28.3	36.5	31.1	2.9
GDP deflator	3.0	-26.3	13.9	21.9	-9.6	-6.7	-5.9	-3.7	-0.7
Non-oil sector	3.3	-2.3	9.3	7.4	4.6	3.4	2.8	2.8	2.9
Oil sector	-15.5	-64.3	80.5	65.8	-15.5	-9.6	-6.0	-2.9	-2.7
Consumer prices (average)	2.1	1.2	3.3	7.6	7.6	5.0	3.8	3.5	3.5
Consumer prices (end of period)	2.1	0.9	5.7	9.4	6.0	4.1	3.5	3.5	3.5
Terms of trade	9.7	6.3	13.1	28.0	-3.0	-0.9	-2.2	-1.0	1.0
	(In percent of GDP)								
Central Government									
Revenue	**22.3**	**20.0**	**16.6**	**14.0**	**14.4**	**14.3**	**12.9**	**11.6**	**12.1**
Tax revenue	20.9	19.1	15.8	9.3	9.0	8.7	7.8	7.0	7.3
Non-tax revenue	1.4	0.8	0.7	4.6	5.4	5.6	5.2	4.6	4.8
of which: Oil-related revenue	0.0	0.0	0.0	4.1	4.8	5.1	4.7	4.2	4.5
Capital revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Grants 1/	**1.1**	**0.7**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Expenditure	**26.2**	**28.5**	**24.1**	**15.0**	**14.8**	**14.5**	**13.0**	**11.6**	**12.2**
Current	20.0	21.8	17.6	10.1	10.0	9.7	8.7	7.8	8.1
Capital	6.1	6.7	6.5	4.9	4.9	4.8	4.3	3.8	4.0
Overall balance (before grants)	-3.9	-8.5	-7.5	-1.0	-0.5	-0.2	0.0	0.0	0.0
Overall balance (after grants)	-2.8	-7.9	-7.2	-0.7	-0.5	-0.2	0.0	0.0	0.0
Financing	**2.8**	**7.9**	**7.2**	**0.7**	**0.5**	**0.2**	**0.0**	**0.0**	**0.0**
Net external financing 2/	1.0	0.2	0.7	1.0	2.2	1.2	1.1	0.0	0.0
Net domestic financing	1.8	7.7	6.5	-0.4	-1.7	-1.0	-1.1	0.0	0.1
Total Public Sector Gross Debt 3/	**43.6**	**51.1**	**42.9**	**22.8**	**20.9**	**18.8**	**16.2**	**13.7**	**13.5**
External	18.6	27.2	25.1	12.7	10.2	8.3	6.5	5.7	5.8
Domestic	24.9	23.8	17.8	10.1	10.6	10.5	9.7	8.0	7.8
	(Annual percent change)								
Money and Credit									
Broad money	14.4	14.5	12.2	11.5	12.3	9.9	9.0	8.9	9.0
Domestic credit of the banking system	10.0	17.2	18.1	3.7	-3.7	-1.9	-3.8	3.7	7.4
Public sector (net)	13.9	42.9	32.0	0.0	-15.1	-12.8	-20.7	-2.0	10.1
Private sector	7.9	2.5	7.1	7.4	6.7	6.1	6.3	6.2	6.2
	(In percent of GDP, unless otherwise indicated)								
External Sector									
Current account balance, incl. off. transfers	-53.3	-16.4	-25.5	43.8	30.8	28.7	17.4	26.3	26.7
Gross official reserves (US$ million)	576	681	811	871	1,323	1,857	2,454	2,832	3,173
Months of imports of goods and services 4/	1.6	1.1	1.9	1.3	2.9	2.9	5.1	6.8	7.2
	(In percent of GDP, unless otherwise indicated)								
Memorandum Items:									
Nominal GDP (G$ billion)	1,079	1,141	1,609	3,094	3,504	3,961	4,780	5,776	5,926
Growth rate	8.5	5.8	41.1	92.3	13.2	13.1	20.7	20.8	2.6
Central government Primary balance	-2.0	-7.2	-6.7	-0.4	-0.2	0.0	0.2	0.2	0.1
General government overall balance (CG and NIS)	-2.8	-7.9	-7.3	-0.7	-0.5	-0.2	0.0	0.0	0.0
NFPS overall balance	-3.8	-6.8	-6.4	-1.0	-0.7	-0.3	0.0	0.0	-0.3
DSA public sector gross debt	43.6	51.1	42.9	22.8	20.9	18.8	16.2	13.7	13.5
External	24.9	23.8	17.8	10.1	10.6	10.5	9.7	8.0	7.8
Domestic	18.6	27.2	25.1	12.7	10.2	8.3	6.5	5.7	5.8
Per capita GDP, US$	6,594.4	6,952.7	9,777.6	18,744.6	21,162.3	23,855.8	28,700.7	34,578.0	35,367.6
Guyana dollar/U.S. dollar (period average)	208.5	208.5	208.5	…	…	…	…	…	…

Sources: Guyanese authorities; and IMF staff calculations and projections.
1/ Includes debt service savings under HIPC and MDRI.
2/ Reflects interest and amortizations after debt stock operations.
3/ Since 2015-16, public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank.
4/ Gross reserves are in months of projected imports of goods and services. For 2017 onward, these are affected by high value imports of oil goods and services.

Table 7. Guyana: Financial Soundness Indicators

(In percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
Capital Adequacy						
Capital to risk-adjusted assets	25.41	27.14	28.72	28.01	29.12	29.06
Tier I capital to risk-weighted assets	25.68	27.62	29.55	28.22	29.33	29.26
Capital to total assets	13.44	14.56	14.77	14.72	13.92	13.43
Lending to Connected Parties						
Related party loans to total loans	4.07	3.38	2.95	3.12	3.52	3.77
Related party loans to capital base	16.32	12.95	10.00	10.93	11.40	12.53
Director exposure to related party exposure	0.60	1.60	2.21	2.59	3.07	5.53
Asset Composition						
Business enterprises to total loans	49.24	49.14	48.68	49.94	49.32	51.58
Agriculture to total loans	5.49	6.11	5.86	4.89	5.42	5.75
Mining and quarry to total loans	1.90	2.38	2.19	1.74	1.83	1.45
Manufacturing to total loans	13.52	11.32	10.79	10.44	8.42	9.47
Services to total loans	28.33	29.32	29.83	32.88	33.65	34.91
Households to total loans	13.51	13.54	13.53	12.65	13.10	12.54
Asset Quality						
Nonperforming loans to total loans	12.91	12.19	11.93	11.11	10.83	7.82
Nonperforming loans to total assets	6.05	5.81	5.55	5.06	4.47	3.22
Gross loans to deposits	58.54	60.92	58.71	56.97	50.72	50.27
Gross loans to gross assets	48.23	47.68	46.48	45.57	41.31	41.18
Earnings and Profitability						
Return on assets	0.55	0.57	0.59	0.73	0.59	0.50
Return on equity	4.05	3.90	3.95	4.88	4.17	3.69
Net interest income to gross income	66.09	65.59	66.53	64.59	64.89	67.48
Noninterest expenses to gross income	47.73	24.98	25.44	28.29	40.72	25.43
Operating expense to total income	58.30	57.16	51.82	49.72	48.86	52.86
Liquidity						
Interest expense to average earning assets	0.28	0.23	0.19	0.21	0.19	0.16
Net interest income to average earning assets	1.72	1.62	1.58	1.88	1.52	1.50
Liquid assets to total assets	30.44	29.36	30.21	31.68	41.05	33.84

Source: Bank of Guyana.

Table 8. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Impact	Policy Response
Global Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia include oil, gas, and food sectors, which together with the reduction of food exports from Ukraine, lead to even higher commodity prices.	**High**	**High.** Increased inflationary pressures. On the positive side, higher global oil prices may strengthen the fiscal and external accounts.	Maintain the fiscal measures to alleviate the cost of living of the population.
Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth.	**High**	**Medium**	Maintain the adequacy of fiscal and social measures.
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries.	**High**	**Medium.** Weaker growth, worsening fiscal and external balances as oil prices fall in world markets due to subdued demand.	Extend pandemic relief measures and prepare contingency medium-term plans to preserve fiscal sustainability and build up external buffers.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. //These seem to have been included in the matrix?// The following three shocks in the GRAM were deemed to be low risk and/or low impact for Guyana, or incorporated in some of the other risks, and are therefore not included in the matrix: (i) de-anchoring of inflation expectations in the U.S. and/or advanced European economies; (ii) widespread social discontent and political instability; and (iii) global information infrastructure failure.

Table 8. Risk Assessment Matrix (continued)

Source of Risk	Likelihood	Impact	Policy Response
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated.	**High**	**High.** Shortages of intermediate and final consumer goods, slowdown in growth, and price surges.	Try to diversify supply chains, build up stockpiles of essential goods and commodities.
Abrupt growth slowdown in China. A combination of a sharper than expected slowdown in the property sector, more frequent Covid-19 outbreaks, and inadequate policy responses result in a sharp slowdown of economic activity, affecting other countries through financial, trade, and commodity price channels.	**Medium**	**Medium.** Weaker growth, worsening fiscal and external balances as oil prices fall in world markets due to subdued demand.	Prepare contingency medium-term plans to preserve fiscal sustainability and build up external buffers.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities.	**Medium**	**Medium**	Strengthen the financial stability and resilience framework. Strengthen the AML/CFT framework.
Rising and volatile food and energy prices.	**High**	**High**	Try to contain inflationary pressures through appropriate use of monetary policy. Strengthen social safety net to protect the most vulnerable sections of society.
Geopolitical tensions and de-globalization.	**High**	**Medium.** Disruption to trade flows, lower global demand for commodities. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.	Try to diversify supply chains, build up stockpiles of essential goods and commodities. Try to contain inflationary pressures through appropriate use of monetary policy.
Natural disasters related to climate change. Higher frequency of natural disasters causes severe economic damage and accelerate emigration. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	**Medium**	**Medium.** Damage to infrastructure and agriculture.	Invest in resilient infrastructure. Develop self-insurance and ex-ante mitigation strategies. Secure access to contingent credit facilities. Ensure transparency and accountability measures in climate investment programs.

Table 8. Risk Assessment Matrix (concluded)

Source of Risk	Likelihood	Impact	Policy Response
Country-Specific Risks			
Greater macroeconomic volatility. More volatility in macroeconomic variables, including GDP growth, fiscal revenues, expenditures, inflation and exchange rates due to excessive dependence on oil revenues.	**High**	**High**	A fiscal rule to contain excessive spending needs to be adhered to. Monetary policy needs to carefully monitor the impact of large inflows of government revenue on the exchange rate market and inflation to maintain the competitiveness of the non-oil exporting sector. Allow automatic stabilizers to work in the short term.
Adverse 'Dutch disease' effects. Rapid ramping up of public spending could result in 'Dutch disease' and a decline in public expenditure efficiency.	**High**	**High**	Fiscal policy needs to keep the pace of scaling-up of public spending gradual to not exceed capacity constraints, avoid inflationary pressures and ensure medium- and long-term economic and debt sustainability. Ensure transparency and accountability in public procurement and an effective anti-corruption framework to effectively manage the potential negative impact of the Dutch disease on governance.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Guyana in 2021 was broadly in line with the level implied by fundamentals and desirable policies and strengthened compared to 2020. The real exchange rate against currencies of trading partners depreciated slightly and reserve adequacy improved to 1.9 months of imports and 2.9 months of non-oil imports. As oil production increases and oil prices remain high, the external position is expected to continue improving and substantial external buffers will be accumulated in the NRF. While the outlook is favorable, there are signs of appreciation pressures which will be exacerbated if inflation continues accelerating and if oil receipts are brought onshore.*

Current Account

1. Guyana's current account has been in deficit over the last 20 years, averaging -9.6 percent of GDP per year, and reaching -25.5 percent of GDP in 2021. The widening of the current account deficit in 2021 is attributed to large FDI-financed imports for oil investment, the recovery in imports along with the recovery in the economy, and summer floods which lowered non-oil commodities exports–developments that staff view as temporary. National savings as a share of GDP declined in 2021 and has been negative since 2018, reflecting strong growth in private consumption. Private investment as a share of GDP, which declined during the pandemic, remained stable relative to 2020. With oil production in Liza-2, Payara and Yellowtail expected to reach capacity in 2022-26 and recovery in non-oil commodity exports, the current account is expected to turn to a significant surplus in 2022-27, averaging 29.0 percent of GDP.

2. Staff's assessment is that the external position in 2021 was broadly in line with the level implied by fundamentals and desirable policies. Staff assessed the current account position using the current account balance that adjusts for large, temporary FDI-financed imports in the oil sector. The EBA-lite model estimates using the unadjusted current account balance suggest that the external position in 2021 was substantially weaker than the level implied by fundamentals and desirable policies. The cyclically adjusted (multilaterally consistent) current account norm was -9.2 percent of GDP compared with a cyclically adjusted actual level of -27.9 percent of GDP. This results in a current account gap of -18.7 percent and a policy gap of 1.0 percent, implying a substantial real exchange rate overvaluation of 48.0 percent. However, the current account balance has been distorted by the development of the oil sector. FDI-financed goods imports in the oil sector were 35.9 percent of GDP in 2021, accounting for the sharp widening of the current account deficit. A substantial share of these imports is large and temporary in nature, comprising equipment for oil extraction.[1] Once these are accounted for, the cyclically adjusted current account is -9.5 percent of GDP. This suggests a current account gap of -0.3 percent of GDP and a 0.8 percent overvaluation of the real effective exchange rate. Thus, staff assess that the external position was broadly in line with the level implied by fundamentals and desirable policies. As oil exports increase and oil-related imports decline, the current account is projected to strengthen over the medium term.

[1] The size of large, temporary oil-related imports was estimated by using estimates of large oilfield development costs for Liza-1 and Liza-2 in the FARI model. This difference is equal to 22.6 percent of GDP. A statistical adjustment (-4.2 percent of GDP) was also made to accommodate the classification of transfers to/from bank accounts abroad (see Informational Annex).

Text Table 1. Guyana: EBA-lite Model Results, 2021

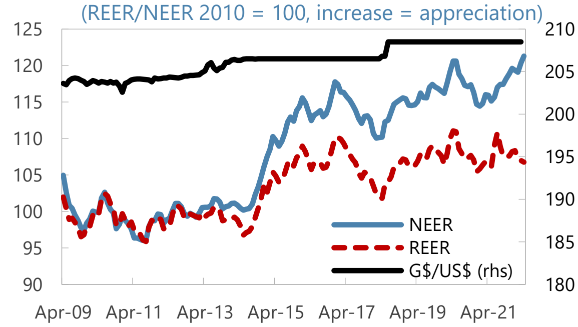
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-25.5**	
Cyclical contributions (from model) (-)	1.8	
COVID-19 adjustor (-) 2/	0.8	
Additional temporary/statistical factors (-)	-18.4	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-9.5**	
CA Norm (from model) 3/	**-9.2**	
Adjusted CA Norm	**-9.2**	
CA Gap	**-0.3**	**-3.8**
o/w Relative policy gap	1.0	
Elasticity	-0.39	
REER Gap (in percent)	**0.8**	**9.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of tourism (-0.13 percent of GDP) and remittances (-0.53 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

3. The real effective exchange rate (REER) was stable in 2021, depreciating about 0.47 percent. Similarly, the nominal effective exchange rate (NEER) depreciated by around 0.95 percent. Historically, effective exchange rates have been broadly stable, with movements typically being driven by developments of the US dollar vis-à-vis other currencies. The REER has remained stable since end-2021.

Real and Nominal Effective Exchange Rates
(REER/NEER 2010 = 100, increase = appreciation)



4. Staff's assessment is that the REER in 2021 was broadly in line with the level implied by fundamentals and policies, but that there is significant risk of appreciation pressures. The EBA-lite model estimates using the REER model suggest that the external position in 2021 was substantially weaker than the level implied by fundamentals and desirable policies. The REER norm was 97.5 compared with the actual level of 107.6. This results in a REER gap of 9.9 percent and a policy gap of -3.8 percent, implying a current account gap of -3.8 percent.[2] However, the development of the oil sector has caused large short-term fluctuations in real GDP, distorting results from the REER model. Given the recent stability of the REER and government plans to increase investment and implement supply-side policies to improve growth and competitiveness in the non-oil sector, staff do not view the REER as misaligned. This assessment is subject to downside risks. While the majority of oil receipts are held offshore in the NRF, there is significant risk of appreciation pressures if inflation accelerates and if significant oil receipts are brought onshore.

[2] The policy gap is driven by loose monetary policy and low private credit growth in 2021.

Capital and Financial Accounts: Flows and Policy Measures

5. Foreign direct investment has been the major source of capital inflows in Guyana since 2018 and was equal to 28.8 percent of GDP in 2021. Foreign direct investment inflows related to oil investment were equal to US$4,430.1 million, or 57.4 percent of GDP, and are expected to decline in 2022-27, averaging 12.6 percent of GDP, as oil investment needs decline. While there was a net inflow of foreign direct investment in 2021, this will reverse to a net outflow in 2022 as outflows increase due to oil operator cost recovery. Non-oil related foreign direct investment declined during the pandemic, from US$272.6 million in 2019 to US$87.8 million in 2020, and US$23.1 million in 2021. This is expected to slowly recover in 2022-27. On the public sector side, capital flows mainly comprise concessional loans, which totaled US$125.2 million in 2021, and oil revenue flows, which were US$409.2 million in 2021 and are expected to grow to US$8,191.7 million by 2027.

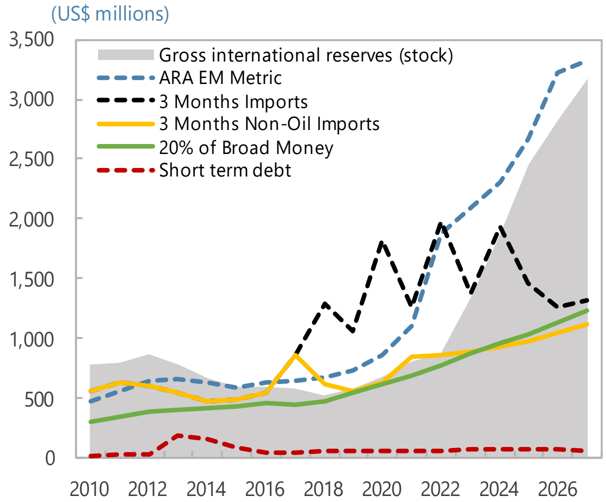
6. With the growth in oil production, Guyana's financial account will be vulnerable to external shocks. Shocks to oil production and oil prices will impact government oil revenue flows. Another risk is a slower-than-expected recovery in non-oil related foreign direct investment. However, given the concessional nature of public external borrowing and low reliance on other financial flows in the private sector, vulnerabilities remain contained.

Reserves Level

7. Guyana accumulated reserves in 2021 and had an adequate stock of international reserves, equal to 10.5 percent of GDP. The level of foreign reserves has been low since 2018 due to a combination of large inflows for oil exploration and development in 2018-19 and the impact of the pandemic in 2020. The resumption of oil exports and the new SDR allocation countered the rebound in private and public demand, resulting in an accumulation of reserves in 2021. As of end-2021, reserves are 1.9 months of imports, or 2.9 months of non-oil imports, 23.4 percent of broad money (M2), and 1,362.2 percent of short-term debt, providing enough buffers against capital flight and limited market access in the event of adverse shocks.

8. Guyana's level of international reserves is expected to be above most reserve adequacy metrics by 2025 and in the medium term, and revenues from oil production will provide substantial external buffers to absorb adverse shocks. Guyana will accumulate substantial external buffers from oil production revenues, with the balance in the NRF growing from US$607.5 million in 2021 to US$21,141.6 million in 2027. The level of reserves in terms of short-term debt, broad money, and non-oil related imports are expected to remain well above adequate levels (text chart and table). The level of reserves in terms of imports will reach 2.9 months of imports in 2023 and continue to improve in the medium term. However, the level of international reserves will remain below adequate levels (using Assessing Reserve Adequacy (ARA) Emerging Markets (EM) Metric) as this measure is skewed by the large increase in oil exports.

Gross International Reserves and Adequacy Metrics
(US$ millions)



Text Table 2. Guyana: Ratio of Reserves to Optimal Reserves Based on Various Measures
(in percent)

		ARA EM Metric	3 Months Imports 1/	3 Months Non-oil Imports 1/	20% of Broad Money	Short Term Debt
2010		164.9	141.6	141.6	260.4	4627.9
2011		143.0	126.5	126.5	235.4	2962.4
2012		134.8	145.0	145.0	225.7	2933.2
2013		118.4	143.6	143.6	192.8	424.1
2014		106.1	138.9	138.9	160.8	439.5
2015		100.8	124.2	124.2	139.5	734.9
2016		95.3	109.6	109.6	131.9	1653.1
2017		90.8	68.0	68.0	130.0	1453.1
2018		79.2	41.1	86.5	112.1	958.8
2019		79.6	54.3	104.2	106.8	1054.1
2020		78.7	37.6	109.0	110.2	1297.4
2021	Prel.	73.5	64.2	96.7	117.0	1362.2
2022	Proj.	46.5	44.2	101.9	112.7	1378.5
2023	Proj.	63.4	96.2	149.8	152.6	1900.9
2024	Proj.	80.8	96.3	200.6	194.9	2610.0
2025	Proj.	92.0	168.4	252.0	236.5	3494.2
2026	Proj.	87.9	225.6	269.7	250.6	3975.6
2027	Proj.	95.5	240.4	284.7	257.6	5869.5
Adequate Range		100-150	100	100	100	100

Source: IMF staff calculations
1/ Gross reserves are in months of projected imports of goods and services. For 2017 onward, these are affected by high value imports of oil goods and services.

Annex II. The Amended NRF Transfer Rule

1. To date international oil producers have discovered 11 billion barrels of commercially recoverable oil and gas that promises to transform Guyana's agricultural and mining economy into a large oil producer, particularly considering it is a nation of about 790,000 people.

2. Guyana's Parliament approved local content rules for oil producers and amendments to the 2019 Natural Resource Fund Act on December 29, 2021 to oversee management of the nation's earnings from its oil resources.

3. The landmark Local Content Bill requires that energy projects use local businesses for specific projects, including environmental studies and metal fabrication. It paves the way for local companies and citizens to participate in at least 40 critical areas in the oil sector. The government and a number of private sector stakeholders say that this will ensure international oil companies and their contractors utilize more local services and products. Oil companies and their subcontractors will have up to December 2022 to prepare a five-year plan that outlines how they intend to employ and procure indigenous services.

4. The Natural Resources Fund Bill, No. 21 of 2021 introduced Amendments to the 2019 Natural Resources Fund Act. It was passed in the National Assembly despite an in-House protest from the Opposition.

5. Key differences from the 2019 Act include the following:

- The Bill removes extensive powers from the Minister of Finance and vests them in a new Board of Directors.
- The Bill proposes a much simpler and clearer formula to calculate how much can be withdrawn from the Fund for government expenditures. The formula is designed to be easily understood by the public, thereby promoting greater transparency.
- The Bill replaces the 22-member Public Accountability and Oversight Committee with a new 9-member committee. The new committee is designed to establish practical and effective non-governmental oversight over the management and use of the nation’s oil resources.
- The Bill requires that all reports and receipts of all petroleum revenues be published in the Official Gazette. Failure to comply with this obligation results in a harsher penalty of $5 million- and ten-years prison time.
- Finally, a key amendment in the legislation is that the Minister of Finance could face up to ten years imprisonment if he fails to disclose the receipt of any petroleum revenues received by Government in the Official Gazette within three months of receipt of such monies.

6. The new Bill has several good features, including making the transfer of oil revenues to the budget based on a clear formula that is easily understandable by the general public. All petroleum revenues, including royalties and profit oil, accruing to the government initially gets deposited in the Natural Resource Fund, the NRF. The balance in the NRF in period t, x_t, follows the path:

$$x_t = x_{t-1}$$

$$+ \quad Oil\ revenues\ accruing\ to\ the\ government\ in\ period\ t$$

$$- \quad Oil\ revenue\ transfers\ to\ the\ budget\ in\ period\ t$$

7. The Natural Resource Fund (NRF) Bill, signed into law by President Irfaan Ali on December 30, 2021, allows the government to extract the entire amount deposited in the NRF, over US$600 million, in the first year of operation of the Fund (2022) and use it for budgetary spending. Thereafter, after the first withdrawal, the proposed legislation sets out a ceiling on withdrawals, with a progressively smaller proportion of the balance in the NRF being allowed to be transferred to the budget for public spending, and the remainder of the petroleum revenues is accumulated as savings in the NRF. More specifically, in any given year, US$500 million can be withdrawn and then a reducing percentage of what remains, starting with 75% from the second five hundred million; 50% from the third five hundred million; 25% from the fourth five hundred million; 5% from the fifth five hundred million, and then 3% from any amounts in excess of US$2.5 billion (see Table below).

Text Table Guyana: Natural Resource Fund Balance and Transfer to the Budget

Balance in the Natural Resource Fund, *x*	**Amount Transferred to the Budget**
x < US $500 mn	*x* mn
US $500 mn < *x* < US $1000 mn	500 + 0.75*(*x*-500) mn
US $1000 mn < *x* < US $1500 mn	875 + 0.5*(*x*-1000) mn
US $1500 mn < *x* < US $2000 mn	1125 + 0.25*(*x*-1500) mn
US $2000 mn < *x* < US $2500 mn	1250 + 0.05*(*x*-2000) mn
US $2500 mn < *x*	1275 + 0.03*(*x*-2500) mn

8. However, the new Bill does not incorporate a key principle of any suitable framework for the management and use of oil resources, which is that the transfer of oil revenues to the budget should be closely integrated with budgetary financing needs in the context of an appropriate and effective fiscal anchor. This is the same logic underlying the recommendation that was made in the 2019 Article IV Staff Report for “adopting a fiscal framework that anchors fiscal policy by constraining the annual non-oil fiscal deficit to not exceed the expected transfer from the NRF. This will ensure that fiscal spending is increased at a measured pace to address development needs while not resulting in public debt accumulation and adverse public debt dynamics.”

Annex III. Cross-Country Experiences and Lessons in Management of Oil Resources

1. **This Annex briefly describes the framework for management and use of oil resources in three countries with similar economic and structural characteristics to Guyana: Timor-Leste, Ghana, and Kuwait.** There are three key policy lessons to be drawn. The first is the need to supplement a prudent oil revenue management framework with a strong and effective public financial management system, and in particular a robust public investment management (PIM) framework. Second, the experiences of Ghana and Kuwait highlight the need to have an effective fiscal anchor to contain fiscal deficits and public debt accumulation. And third, the transfer of oil revenues to the budget should be closely integrated with budgetary financing needs in the context of an appropriate and effective fiscal anchor.

A. Timor-Leste

2. **Petroleum is the mainstay of the economy in Timor-Leste**. Although modest by international standards in terms of the absolute level of reserves, reliance on petroleum is extremely important to Timor-Leste given its small non-oil GDP. Income from petroleum currently accounts for over 70 percent of GDP and over 95 percent of total revenues. The fiscal framework in Timor-Leste is centered on two elements: a Petroleum Fundand a guideline focused on long-term fiscal sustainability.

3. **To date, Timor-Leste's fiscal framework has been an important anchor to ensure fiscal sustainability.** In particular, strict application of a Permanent Income Hypothesis (PIH)-based benchmark has helped preserve the real value of government wealth from oil. At the same time, Timor-Leste's pressing development needs as a low-income country have led to higher public spending in recent years. Balancing fiscal sustainability and addressing development needs is a critical policy issue for resource rich developing countries (RRDCs).

B. Ghana

4. **Ghana started oil production at the end of 2010**. Ghana discovered oil in large-scale commercial quantities in 2007 when a consortium of oil companies made a discovery in the Tano Basin. Production officially commenced in December 2010. The Norwegians assisted Ghana in the development of its framework for management of its oil resources. In 2011 the Petroleum Revenue Management Act (PRMA) was passed by Parliament (Act 815) to govern the utilization of oil revenues.

5. **The early experience of Ghana in managing the nation's oil resources has important lessons for other oil producing countries.** The first is the need to supplement a prudent oil revenue management framework with a strong and effective public financial management system, and in particular a robust public investment management (PIM) framework. Second, Ghana's experience highlights the need to have an effective fiscal anchor to contain fiscal deficits and

accumulation of public debt. And third, Ghana's difficulties during the first ten years of oil production illustrate clearly why the transfer of oil revenues to the budget has to be closely integrated with budgetary financing needs in the context of an appropriate and effective fiscal anchor.

C. Kuwait

6. As in the case of Ghana, Kuwait's experience highlights the need to have a sound fiscal policy anchor for both macroeconomic stabilization and intergenerational equity purposes. For oil-producing and oil-exporting economies such as Kuwait (and Guyana), a well-designed fiscal rule would help preserve intergenerational equity by underpinning savings for future generations. At the same time, by providing medium-term fiscal targets or ceilings, it would better insulate the economy from oil price shocks, help protect government spending decisions from political pressures, and reinforce multiyear budget frameworks designed to contain fiscal deficits and accumulation of public debt.

Annex IV. Macroeconomic Impact of Scaling Up Public Investment[1]

This Annex analyzes the macroeconomic impact of scaling up the pace of public investment under a baseline scenario and an alternative 'aggressive' scenario using the Debt, Investment, Growth and Natural Resources (DIGNAR) model.

1. DIGNAR is a dynamic stochastic general equilibrium model of a small open economy used to analyze the macroeconomic and debt sustainability effects of scaling up public investment in resource-abundant developing countries. Financing public investments in infrastructure and human capital, natural resource revenues may help foster development and growth. Increases in public capital can raise the productivity of labor and private capital, inducing more accumulation of these productive factors and, therefore, growth. In addition, resource revenues can serve as collateral for borrowing from international markets, making it possible to build up public capital even before these revenues are generated. And by providing this external financing, resource revenues may help to mitigate and 'smooth out' the crowding out effects on private consumption and investment that are often associated with public investment increases. In practice, however, the management of natural resource revenues has been challenging for policy makers in developing countries and led to opposite results. One of them is the 'natural resource curse': resource-rich countries may end up having lower growth rates and loss of competitiveness compared to their non-resource rich counterparts. The DIGNAR model is particularly well-suited to studying and quantifying these possible 'Dutch disease' effects.

A. Scenarios Calibration

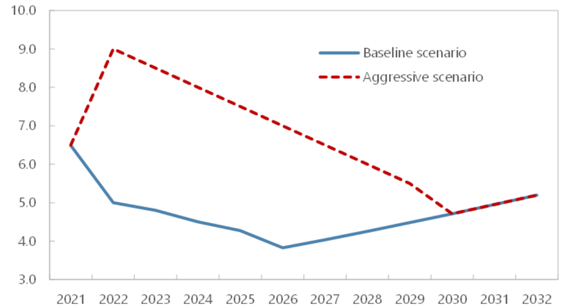
2. The DIGNAR model is calibrated for Guyana using specific macro- and micro-economic data and cross-country comparisons. Public investment efficiency is assumed at 59 percent in the 'baseline' scenario, in line with the findings in the 2017 PIMA Assessment (relative to 70 percent in LAC and 73 percent for EMEs). In the 'aggressive' scenario public investment efficiency is assumed to increase steadily from 59 percent to 70 percent, reflecting absorption constraints associated with rapid increases in public investment. The depreciation rate of public capital is assumed to be 7 percent. Exports in percent of GDP are projected to rise from around 58 percent in 2022 to 87 percent in 2024 before falling steadily to 40 percent by 2045.

3. The path of public investment scaling-up is simulated in two scenarios based on the pace of public investment spending and the speed of achieving an overall balance budget. This reflects a gradual adoption of staff's recommendation of a fiscal responsibility framework that targets an overall balanced budget. The 'baseline' scenario models a path of public investment

[1] Special thanks to Alexei Goumilevski and Max Yarmolinsky in ITD, and Zamid Aligishiev and Cian Ruane in RES, for help in running the DIGNAR model for Guyana.

expenditures that allows an overall balanced budget to be achieved by 2025 (see fiscal policy section), to which the authorities agree and is in line with oil transfers from NRF to the budget consistent with the NRF Act. The 'aggressive' scenario models a path of public investment spending that allows an overall balanced budget to be achieved five years later, by 2030. The 'baseline' scenario sees a steady increase in public investment in percent of non-oil GDP from 9.5 percent in 2021 to 12.5 percent in 2024 and remaining at that level thereafter. By contrast the 'aggressive' scenario models a sharp increase in public investment from 9.5 percent of non-oil GDP in 2021 to almost 23 percent in 2026 (for illustrative purposes) and then a steady decline in the ratio to 12.5 percent by 2030.

Guyana: Public Investment
(In percent of GDP)



B. Macroeconomic Implications

4. The simulation results show less crowding out of private investment and contraction of the non-resource sector in the long run under the more gradual 'baseline' scenario. Rapid growth in public investment spending under the 'aggressive' scenario dampens private investment considerably more relative to the 'gradual' scenario—by a cumulative 10.8 percent over ten years—due to stronger crowding out effects. This is due not only to higher real interest rates from large public sector borrowing in the short term, but also to the massive front-loading of government investment spending leading to higher inflation and more pronounced appreciation of the real exchange rate, which in turn adversely affects export competitiveness. This is reflected in output in the tradable sector being 2.5 percent lower under the 'aggressive' scenario compared to the 'baseline' scenario after ten years. Similarly, despite the relatively lower amount of public investment spending to improve infrastructure, non-oil output growth under the 'baseline' scenario is higher in the long term compared to the 'aggressive' scenario, as the effects of the 'Dutch disease' and crowding out of private sector demand are lower: after ten years non-oil output is 3.3 percent lower under the 'aggressive' scenario.

Annex V. Financial Market Development, Monetary Policy Transmission, and Exchange Rate Flexibility

1. **Guyana needs to take policy measures to modernize the monetary policy framework and strengthen the monetary policy transmission mechanism, as well as to develop and deepen the markets needed to support a move towards greater exchange rate flexibility over the medium to long term.** As the 2016 FSSA notes, Guyana's domestic capital markets are underdeveloped and mostly provide short-term funding: both corporate and government bond markets are minuscule, there is no secondary market trading, and long-term investors mostly hold short-term securities (which constrains their ability to generate reasonable returns and match long-term liabilities). Moreover, available empirical evidence suggests that that monetary policy transmission mechanism in Guyana is weak as the links between interest rates, monetary aggregates, and inflation appear to be weak at present. Preliminary results from VAR estimation by staff suggest that movements in the key central bank policy rate have no significant impact on monetary aggregates or on CPI inflation – which is hardly surprising, given that the policy rate has been fixed at 5 percent since March 2013.

2. **Creating the necessary infrastructure, and establishing effective regulatory and supervisory frameworks, for the effective functioning of the interbank, domestic debt, and FX markets will be necessary to achieve these goals.** Developing such infrastructure, and regulatory and supervisory frameworks. are essential pre-conditions for strengthening the monetary policy transmission mechanism, enhancing the credibility of the central bank, and facilitating the shift towards greater exchange rate flexibility.

3. **Cross country evidence suggests that adopting an alternative nominal anchor to the exchange rate in Guyana in the short term would require developing deep, liquid, and efficient financial and foreign exchange markets (Bhattacharya, R, forthcoming).** Further strengthening the monetary policy transmission mechanism, and putting in place systems to monitor, assess, regulate, and manage FX exposures and related risks, should be key priorities over the short term.

4. **Based on earlier recommendations from the FSSA 2016, the following key measures continue to be critical:**

- Extend maturities of government securities to facilitate capital market development and use in sterilizing structural liquidity. Extending government paper maturities can be initially started with two-year instruments. A gradual deepening of the government securities market can enable banks to rebalance their portfolios away from foreign assets and reduce their large FX open positions owing to oil-related inflows. It would also expand medium- to long-term investment opportunities for institutional investors.

- Develop an effective National Payments System (NPS) and medium-term savings products. A robust legal and regulatory framework, and safe and efficient payment infrastructures, are critical for facilitating account transactions and thus access to finance. These relate to both interbank payment mechanism and retail services. Innovative retail payment services, including bill payment and e-money services, should be further promoted. Execution should be broad-based for interbank currency trades, money market transactions, collateral placements in government securities, and government securities trading. Market infrastructures should develop immediately to electronically record transactions, manage risks, provide market transparency, or enable the Bank of Guyana to monitor developments on a timely basis.

5. These measures, coupled with efforts to reduce chronic excess liquidity in Guyana's financial system, will effectively create the conditions to strengthen the monetary policy transmission mechanism and allow a gradual shift to a more flexible exchange rate regime.

Annex VI. Implementation of 2016 FSAP Recommendations

Recommendations	Time[1]	Authorities' Responses
To improve systemic risk monitoring and stress testing:		
Analyze system-wide risks by clearly mapping upstream and downstream ownership of banks, collecting data on housing market developments and corporate and household balance sheets. ¶20, ¶50.	I	The ownership structure of the banks is in the process of being updated. Data on upstream ownership will be obtained. Initial discussions have been held with the Bureau of Statistics on collecting data on housing market development and corporate and household balance sheets. The authorities will request technical assistance to expedite the progress.
Assess credit risk without considering collateral values, given difficulties in collateral recovery. ¶20, ¶29	I	Done for stress tests in June 2016. Further, a new model is being considered in which haircuts are applied to collateral instead of total removal of collateral.
Develop real estate price indices (possibly the Bureau of Statistics). ¶20, ¶50	NT	Initial discussions have been held with the Bureau of Statistics.
Expand BoG's stress testing toolkit to incorporate macro financial scenarios; collect more detailed data; and carry out validity checks to ensure data accuracy and reliability. ¶27	NT	BOG has requested TA from IMF in the modelling and implementation of macro-financial scenarios for its stress testing toolkit. CARTAC provided TA during the week of January 17-21, 2022, to present a multifactor Stress Test covering the risk areas of Credit, Concentration, Foreign Currency Exposure, and Interest Rates. BOG is implementing this proposal.
To enhance banking supervision, regulations, and financial safety nets:		
Ensure consistency across the continuum of supervisory functions, from routine supervision to intervention and resolution. ¶42	I	Revised Risk-Based Supervision Manual has been revised. CARTAC's RBS workshop held on September 3−5, 2018. Work is in progress to upgrade and enhance the risk-based approach over time.
Continue to enforce timely and effective remedial actions from banks, as recently initiated by the BoG, to ensure bank compliance with requirements of bank examinations. ¶44	I	The BoG has continued to intensify its follow-up action to ensure all recommendations of examinations are adequately addressed prior to the next examination cycle. Some of the initiatives undertaken are: - More frequent follow-up examinations - More frequent periodic reporting - Meetings are convened with the Board of Directors and senior management of institutions to discuss areas of significant concern.

Recommendations	Time[1]	Authorities' Responses
Eliminate reduced provisioning requirements for "well-secured" portions of NPLs and ensure that loan classification and provisioning reflect borrowers' true financial conditions. ¶45	I	SG No. 5 was revised and issued with effect from July 30, 2021. Policy decision was taken to retain vis-à-vis other provisions to reduce NPLs and loss accounts.
Fill information gaps on banks' condition and group structures to facilitate consolidated supervision and to design ex-ante contingency plans for takeover when necessary. ¶46, ¶50, ¶56	I	On completion of ownership structure update, a questionnaire will be sent to relevant institutions. Ownership structure updated. Will be reassessed with implementation of consolidated supervision.
Require banks to develop contingency funding plans to manage liquidity risks due to deposit concentration. ¶35, ¶37, ¶56	I	Liquidity Risk Management Guideline drafted and issued for comments.
Clarify the instruments, policies, required collateral and procedures for providing ELA. ¶58	I	BOG Act was passed in Parliament on July 13, 2018 and assented to on September 7, 2018.
Reinforce the role of the Financial Stability Committee as a forum for rigorous systemic assessments, including activation of crisis protocols. ¶52, ¶55	I	A Financial Stability Unit was established in July 2017, and focuses on, inter alia, identifying and measuring systemic risks.
Amend the FIA to make the definition of banks' related parties more stringent and reduce the large exposure limit from 40 percent to 25 percent of capital. Start mapping the amounts and types of related-party transactions to quantify hidden concentrations and wind-up excess risks as soon as possible. ¶45–46	NT	Several amendments to the FIA have been drafted, but a policy decision was taken to prioritize other legislation- Bank Resolution, ELA & DIC.
Increase the minimum capital adequacy requirement, including charges for market and operational risk, to at least 12 percent. ¶50	NT	Supervision Guideline (SG) No. 14 was issued. A decision was taken to retain the 8 percent capital requirement now. The credit risk weighting of CARICOM government securities now reflect individual countries risks weight in SG No. 14.
Phase out the zero-risk weighting of CARICOM government securities and align the weights with individual countries' risks. ¶45	NT	
Encourage banks to cease the practice of overdraft lending. ¶47	NT	A policy decision was taken to not address in the recent revision of SG No. 5.
Streamline and operationalize the draft Crisis Management Plan. ¶52	NT	The draft Financial Crisis Management Plan was updated to reflect changes in the legislation.
Legislative Amendments:		
Provide resolution powers to the BoG and, to the extent possible, limit courts' ability to reverse the BoG's decisions. ¶54	NT	Bill passed in Parliament on July 12, 2018 and assented to on September 28, 2018.

Recommendations	Time[1]	Authorities' Responses
Organize a small group at the BoG to develop resolution plans for vulnerable financial institutions. ¶57	NT	
Amend FIA (Part VIII) to enable effective resolution of failing or about-to-fail banks. ¶53−54	NT	
Set up a resolution group for regionally active entities and request group recovery and resolution plans. ¶57	NT	
Review the draft DIS, eliminate its participation in open bank assistance, and ensure that all preconditions for its introduction are satisfied. ¶59	NT	Legislation passed in Parliament on July 13, 2018, assented to on August 13, 2018 with commencement dates of April 2nd and 3rd 2019. DIC operationalized on April 3, 2019.
Amend the BOG Act 1998 to facilitate the ELA framework.	NT	Bill passed in parliament on July 13, 2018 and assented to on September 7, 2018.
To further develop the financial system and promote responsible access to finance:		
Expedite preparation of required regulations to support the recently adopted insurance law. ¶48	I	Regulations came into effect in 2018.
Adopt a robust law to govern the NPS and enable the safe and efficient use of electronic payments and strengthen the regulatory framework. Grant the BoG enforcement powers. ¶64	I	The National Payments Systems laws has been passed by the Parliament in July 2018.
Strengthen the AML/CFT framework in line with international standards. ¶65	I	The legislation has been amended.
Extend maturities of government securities to facilitate capital market development and use in sterilizing structural liquidity. ¶39	NT	IMF TA was provided in July 2017. The implementation of TA recommendations is being examined.

[1] I: immediate; NT: near term; MT: medium term. Paragraph numbers refer to the FSSA

Annex VII. Key Features of Guyana's Labor Market and Policy Challenges[1]

This annex summarizes the findings by Luong (2020) on labor market strategies with the start of oil production in Guyana. It concludes, based on international experience, that government policies to boost educational and vocational training of the labor force, especially the youth, and effectively engaging diaspora in Guyana's professional and investment networks will be vital in the medium and longer term while flexibility in migration laws and local content requirements will be key for the short term. Engaging the private sector as the major employer of Guyana's labor force will also be critical.

1. **The recently started oil production will significantly transform Guyana's economy going forward.** One of the challenges the country will face going forward is the impact on its labor market and the skills gap.

2. **Labor-market strategies can help the workforce adapt to Guyana's changing production and export structure following the start of oil production.** The findings of the product-space and occupation-space analyses by Luong (2020) reveal how strategic diversification and workforce training can lead to a wealthier and more inclusive Guyanese economy. The product-space analysis highlights several key goods, notably cement, the production of which could be expanded to achieve short- and long-term development objectives. Meanwhile, diversifying Guyana's range of wood-related products is likely to boost the country's income level. Links between sectors and occupations (Hartmann et al., 2019) are especially important in Guyana, with its small labor market and high rate of emigration. Previous analytical work (Neffke et al. 2017) has shown that labor mobility between industries is limited in Guyana. Moreover, the difficulty of shifting between industries is due to industry-specific skills as well as occupation-related skills (Jara-Figueroa et al., 2018). Indeed, the polarization of the occupation space in Guyana indicates that workforce flexibility is likely to be a major challenge beyond the short and medium term.

3. **Strategies on migration laws, local content requirements and educational fundings will be key going forward.** With the low base in education and growing demand for skilled labor, the country needs to make a serious effort to reduce youth unemployment and build human capital – knowledge, skills, creativity, and well-being – by improving the education and health system. Such conditions are essential if the population is to effectively benefit from the wealth generated by the production of oil and other natural resources, as well as to generate ways to add the value needed to achieve the desired diversification of the country's economy. However, this is also an issue that can only be overcome in a medium- to long-term time frame. For this reason, to fill the specialized labor gaps in the short term, the country will need to reattract the Guyanese diaspora that have left the country and attract foreign professionals (Goldwill, 2019) as did many Gulf countries including Kuwait. In this respect, labor market regulations allowing immigration from the Caribbean as a start, including within CARICOM, would be key. Lowering local content requirements in energy policies

[1] Prepared by Manuk Ghazanchyan and Minnie Park. We thank Anna Luisa Paffhausen and Rohan Longmore, both at the World Bank, for their helpful comments.

would also be important in the short term. For encouraging the influx of diaspora, the international experience suggests a multipronged approach including with creating a diaspora ministry, and for some countries, especially in the transition economies, encouraging joint venture enterprises with diaspora members and providing access to professional networks has worked quite well (Agunias and Newland, 2021).

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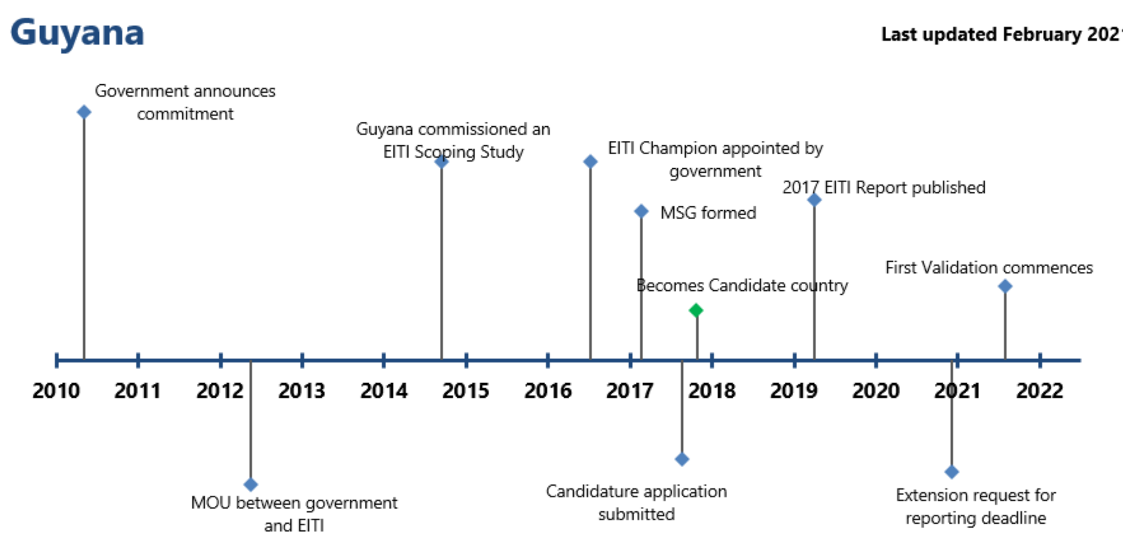
Annex VIII. Progress with Implementation of EITI Recommendations

1. **Guyana joined the Extractive Industries Transparency Initiative (EITI) in 2017 after announcing commitment in 2010.** In 2015, the Ministry of Natural Resources of Guyana, declared the commencement of a process to appoint the members of a Multi-Stakeholder Group (MSG). In February 2017, the MSG was officially launched comprising twelve (12) members, four (4) representatives each from civil society organizations, extractive entities, and government agencies. The MSG approves the work plan for the Secretariat, approves the annual EITI Report, and assures that EITI contributes to the public debate. The Government of Guyana has also set up the GYEITI, which is the national secretariat in charge of coordinating EITI implementation. The MSG aims to ensure transparency and accountability in the governance of the natural resource sector and oversees the day-to-day operations and implementation of its work plan.



2. **Under the EITI standards, Guyana commits to:** (i) high standards of transparency and accountability in government operations and business, (ii) full disclosure of laws, procedures and conditions under which contracts and licenses to extract and develop the resources are issued, including institutional responsibilities of the State, (iii) full disclosure of exploration, production and exports in the extractive sector (iv) report ownership structures, including beneficial ownership information, transactions and financial flows in the extractive sector, (v) disclose the fiscal regime for managing natural resource revenues and expenditures as articulated in the Natural Resource Fund Act (vi) report the contribution of the extractive sector in the economy.

3. **Guyana published its second EITI Report, covering fiscal year 2018 in April 2021 and is currently going through the validation process under the EITI Standard started in October 2021.** The report includes data on extractive activities such as mining, oil and gas, fisheries, and forestry. Currently the government of Guyana is working on improving the public access to information related to the extractive sector and has set up a work plan for 2021–22 with outlined

expected outputs by December 2022 for a total cost of 567,000 US dollars. Amongst other tasks, the authorities are committed to having all contracts, licenses and permits published along with their geo-located data. These disclosures have been tasked to the e-governance unit of the National Data Management Agency (NDMA). For this the NDMA will work with the statutory bodies such as the Guyana Lands and Surveys Commission, Guyana Geology and Mines Commission, Guyana Forestry Commission, and Department of Energy, to establish online digital portals for the corresponding disclosures. The NDMA will also be working with the Deeds Registry to digitize company registration data so that it is easily accessible to the public.

Annex IX. Progress on 2019 Article IV Policy Recommendations

IMF 2019 Article IV Recommendations	Authorities' Response
Fiscal policy Complement the Natural Resource Fund Act with a fiscal responsibility framework to ensure effective management of the oil wealth. To anchor fiscal policy, a complementary fiscal framework that constrains the annual non-oil deficit to not exceed the expected transfer from the NRF (i.e., a zero-overall fiscal balance).	**Broadly consistent** The NRF legislation was assented to law in January 2019, providing a legal framework for managing Guyana's natural resource wealth. The NRF included a fiscal transfer rule that envisaged that around half of current oil revenue would be transferred to the budget and the other half saved as a buffer against future shocks and for future generations. The authorities did not spell out a complimentary fiscal framework. The new government that took over government in August 2020 announced amendments to the legislation for the management of oil revenues. The Natural Resources Fund Bill, No. 21 of 2021, was signed into law by the President at the end of 2021 and included a new fiscal transfer rule based on a simplified formula. The Budget did not spell out an anchor for fiscal policy.
Monetary and exchange rate policies Continually reassess the monetary policy stance to reflect changes in the macroeconomic outlook and risks remains appropriate. Monetary policy should gradually revert to a neutral stance to contain inflationary pressure as economic growth strengthens and credit expands. Over the medium term, allow greater exchange rate flexibility to play a larger role in facilitating external adjustment.	**Broadly consistent** Monetary policy was accommodative to support economic growth and support a rebound from the pandemic induced recession in 2020. With the recovery taking hold and rising inflation monetary policy should tighten. The authorities have not taken decisive steps to develop the financial market infrastructure to allow increased exchange rate flexibility to play a larger role in facilitating external adjustment. Consequently, the exchange rate remains broadly stable.

IMF 2019 Article IV Recommendations	Authorities' Response
Financial sector policy Strengthen supervisory and regulatory framework in line with the 2016 FSAP recommendations. Closely monitor NPLs and take steps to strengthen financial sector stability Continue to strengthen the AML/CFT framework.	**Broadly consistent** The authorities have made good progress in implementing recommendations from the 2016 FSAP including by passing: amendments to the Bank of Guyana's Act to provide emergency liquidity assistance (ELA) to deposit taking financial institutions; amendments to Part VIII of the Financial Institutions Act (FIA) for orderly resolution of a failing institution; the National Payment System (NPS) law to facilitate the establishment, regulation and oversight of a modern national payment system; and the Deposit Insurance Act to foster financial stability by protecting depositors and by contributing to the resolution of member institutions. . Work needs to accelerate in areas of under-provisioning and related party lending. The authorities registered some progress in adopting a Crisis Management Plan and Supervision Guideline; accelerated Basel II/III implementation; and Guyana has strengthened its AML/CFT legal framework to be consistent with global standards and recently completed its 2021 NRA. Current efforts are focused on implementing recommendations made in the NRA. The preparation for the 2022 Mutual Evaluation by the Caribbean Financial Action Task Force is underway. The authorities have closely monitored NPLs and an Asset Quality Review to examine Banks' credit risks remains under consideration. NPLs have considerably declined in 2021.
Structural reforms Structural reforms and infrastructure investment are needed to support economic diversification and achieve inclusive economic growth.	**Broadly consistent** The authorities continue to reduce the cost of doing business through the public investment program and administrative reforms. They remain committed to a cleaner and more affordable energy matrix, to eliminating infrastructure deficits, and integrating remote regions in the Hinterland, as per GSDS. The authorities need to decisively implement reform measures spelt out in the Green State Development Strategy (GSDS) to enhance economic diversification and boost inclusive growth. Addressing skilled labor shortages is vital to strengthening long-term growth and the authorities are allocating

IMF 2019 Article IV Recommendations	Authorities' Response
	increased resources to education and training. However, actions need to be taken to build on the progress made in implementing more liberal or open immigration policies, including free movement of all categories from other labor from other CARICOM countries. Also, the authorities are scaling-up investment in infrastructural development and expanding the generation and transmission capacity of the electricity company to help in unlocking growth. However, the authorities must be mindful of absorptive capacity in implementing their investment program.
Governance	**Broadly consistent**
Continue the progress that has been made and take additional steps to tackle capacity weaknesses to strengthen transparency and governance.	Recent progress on the anti-corruption framework includes publication of audit reports of public expenditures, including for COVID, and partial implementation of recommendations as well as the re-establishment of the Integrity Commission. are published, and their recommendations followed up on. The authorities informed staff that asset declarations of a large number of public officials are submitted annually and public procurement tenders are streamed live. The authorities made progress in implementing the recommendations of the 2019 and 2021 EITI (Extractive Industries Transparency Initiative) reports, notably on the reconciliation with the fiscal regime. Some progress has also been made on information sharing and publication of extractive industries' financial statements, but further progress is needed to improve Guyana's overall score to address remaining gaps, including in moving towards electronic disclosure and adequate follow-up.

Annex X. Strategically on Reducing Climate Change Risks

This Annex describes the climate change risks faced by Guyana and presents the authorities' comprehensive strategy to manage them.[1]

1. **Guyana faces serious climate change and natural disaster risks, particularly floods and droughts**.[2] This has been reflected in multiple and recurrent floods,[3] alternating with droughts, which have caused significant damage to infrastructure and disruption of economic activity. The worst documented damages reached 60 percent of GDP in 2005.

2. **Climate change will accentuate risks faced by Guyana.** Sea level along the Guyana coastline is rising faster than the global average[4] and is expected to accelerate in the coming decades due to global warming.[5] This could result in increased flooding, prolonged inundation of settlements and agricultural land, and contamination of fresh water supplies, with negative impacts on economic activity.

3. **The high disaster risk index for Guyana is due to high exposures and lack of coping and adaptive capacities.** Guyana's coastal vulnerability is aggravated by its ageing infrastructure system which is ill-equipped to handle higher water levels and more intense storm surges (Hickey and Weis, 2012).[6] Investments in identified priority areas, such as upgrading infrastructure to protect against flooding and hinterland adaptation, would increase resilience.

4. **Guyana has started to take action to build resilience and enhance capacity to adapt.** It has ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 and the United Nations Convention to Combat Desertification in 1997. At the national level, Guyana has prepared the Green State Development Strategy (GSDS) Vision 2040, a framework for a 20-year national green agenda to achieve a sustainable, low-carbon and resilient development, with an emphasis on inclusiveness and intergenerational equity

5. **Crucial investment in adaptation infrastructure should be part of a comprehensive strategy to fill infrastructure gaps and prioritize development needs.** The absorptive capacity of

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[1] This Annex contributed from the work of Seedwell Hove and Hussein Bidawi when they were part of the IMF Guyana team.

[2] The 2021 UN World Risk Index, which measures exposure to natural disasters, susceptibility, and the capacity to adapt and cope with these events places Guyana in the 7th position in its disaster risk ranking of 181 countries.

[3] It experienced floods in 1996, 2005, 2006, 2008, 2010, 2011, 2013, 2014, 2015, and 2021, alternating with droughts in 1997-1998, 2009-2010, and 2015-2016 (NAPG, 2016).

[4] Sea level off Guyana coast rose at a rate of six times the global average, (0.4 inch, or 10.2 millimeters per year) from 1951 to 1979 (Guyana National Climate Committee, 2002).

[5] Projections for Guyana suggest that sea level could rise by 0.14m to 0.26m by 2030s, and 0.4 to 0.51m by 2100 (McSweeney et al. 2010).

[6] About 25 percent of the Guyana's coast is protected by seawalls, 60 percent by mangroves, and 15 percent by natural sandbanks.

the domestic economy and labor market will need to be considered in determining the pace of public investment. Incorporating governance-related measures in climate investment programs is crucial to ensure investment is governed with transparency, accountability and integrity.

6. Saving a part of the oil wealth in financial assets will promote intergenerational equity and insure against transition risk. A decarbonized world will have positive effects on Guyana by mitigating the effects of climate change but poses a challenge in the medium term on a lucrative source of revenue.

7. Guyana is committed to net-zero carbon emissions, but efforts should continue to meet its ambitious domestic targets and to compensate for increased emissions from oil extraction. The Low Carbon Development Strategy (LCDS) 2030 commits to reduce emissions by 70% before 2030 mainly via maintaining vast forest coverage and monitoring closely oil emissions on a sectoral and additive basis. Guyana is committed to address climate change challenges by shifting towards renewable energy sources, hydropower and solar, while entering the international carbon credits market. While Guyana does not currently have a carbon tax, it has implemented a flaring tax at US$45 per ton of carbon. Guyana's vast forests and low deforestation rate supports its effort to mitigate climate change, which has benefited from the REDD+ Investment Fund (GRIF), established through an agreement with Norway, and more recently via a new proposal to join the LEAF (Lowering Emissions by Accelerating Forest Finance) Coalition. According to LCDS, starting in 2022, Guyana can access market-based mechanisms for forest climate services that includes private, as well as international public sector financing. This will enable a pathway to transition from the existing Guyana-Norway partnership and increase the value of sustainably managing Guyana's forests.

INTERNATIONAL MONETARY FUND

GUYANA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 20, 2022

Prepared By | Western Hemisphere Department

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FUND RELATIONS

(As of May 31, 2022)

Membership Status. Joined: September 26, 1966; Article VIII.

General Resources Account	**SDR Million**	**Percent Quota**
Quota	181.80	100.00
IMF's Holdings of Currency (Holdings Rate)	181.80	100.00
Reserve Tranche Position	0.00	0.00

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	261.33	100.00
Holdings	0.99	0.38

Outstanding Purchases and Loans: **None**

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Sep. 20, 2002	Sep. 12, 2006	54.55	54.55
ECF[1]	Jul. 15, 1998	Dec. 31, 2001	53.76	24.88
ECF[1]	Jul. 20, 1994	Apr. 17, 1998	53.76	53.76

[1]Formerly PRGF.

Overdue Obligations and Projected Payments to Fund[1]

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest	0.81	1.64	1.64	1.64	1.64
Total	**0.81**	**1.64**	**1.64**	**1.64**	**1.64**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Previous Decisions and Article IV Consultation Cycle:

- On May 24, 2017, the Executive Board concluded the 2017 Article IV consultation (IMF Country Report No. 17/175). Guyana is on a 12-month cycle for Article IV consultations.
- On June 15, 2018, the Executive Board concluded the 2018 Article IV consultation (IMF Country Report No. 18/220). Guyana is on a 12-month cycle for Article IV consultations.
- On August 30, 2019, the Executive Board concluded the 2019 Article IV consultation (IMF Country Report No. 19/296). Guyana is on a 12-month cycle for Article IV consultations.

Safeguard Assessments

The most recent safeguards assessment of the Bank of Guyana (BoG) was completed in May 2007 in respect of the then expected PRGF arrangement. Overall, the assessment noted capacity constraints, including in the internal audit function. Recommendations were made to enhance internal audit reporting and to improve external audit quality to enable compliance with International Standards on Auditing (ISA) and IFRS. In the reserves management area, staff recommended the establishment of an investment committee. The latter has been implemented. The BoG continues to be audited by the Audit Office of Guyana and the reports state compliance with ISA. The BoG's financial statements refer to IFRS and are published.

Exchange Rate Arrangement

Guyana has accepted the obligations of Article VIII—Section 2, 3, and 4—and maintains an exchange system that does not have any multiple currency practices, and is free of restrictions on the making of payments and transfers for current international transactions, with the only exception of certain exchange restrictions for the preservation of national and international security. Guyana's *de jure* exchange rate regime is floating. Guyana's *de facto* exchange rate regime is classified as a stabilized arrangement. The currency of Guyana is the Guyana dollar. The exchange rate was G$208.8 per U.S. dollar as of June 21, 2022.

ROSC, FSAP, EPA Participation

- The ROSC on Fiscal Transparency Module was undertaken in July 2002.
- A WB/IMF FSAP took place in November 2005 and concluded in September 2006.
- Ex-Post Assessment findings were discussed with the authorities in June 2006 and concluded on October 23, 2006.
- A WB/IMF FSAP took place in May 2016 and concluded in March 2017.

Technical Assistance - Fiscal Affairs Department

Feb. 2015	CARTAC (Training on chart of accounts)
Mar. 2015	CARTAC (Tax Administration)
Jun. 2015	CARTAC (Statistical data analysis and revenue forecasting mission)

Sep. 2015	CARTAC (Tariff classification of goods using the Harmonized System)
Jan. 2016	CARTAC (Customs Valuation training)
Jan. 2016	CARTAC (Debt Management)
Aug. 2016	CARTAC (VAT administration and policy review)
Mar. 2017	CARTAC (Tax Administration)
Apr. 2017	Tax Administration Diagnostic Assessment Tool (TADAT).
Jul. 2017	A Reform Agenda for Petroleum Taxation and Revenue Management.
Sep. 2017	Next Steps in Modernizing the Revenue Administration (TADAT).
Sep. 2017	Public Investment Management Assessment (PIMA).
Mar. 2018	Selected Petroleum Fiscal Issues.
Jun. 2018	Tax Administration: Risk Based Compliance Management.
Aug. 2018	Tax Administration: Strategic Management Framework.
Feb. 2019	Mining and Petroleum Fiscal Regime Review.
May 2020	Strengthening Risk Management in Customs
Sept 2020	Developing Post Clearance Audit Capacity in CustomsMar 2021 Strengthening Risk Management in Customs
Jul 2021	Strengthening Performance Management in Customs
Aug. 2021	Tax Administration: Developing Audit Capacity
Nov. 2021	Tax Administration: Developing Audit Capacity – Train the Trainers
May 2022	Strengthening Performance Management in Customs
June 2022	Developing Data Analysis Capacity in Customs

Monetary and Capital Markets Department

Jan. 2015	CARTAC (Risk-based supervision training).
Apr. 2015	CARTAC (Identifying and developing measures of systemic risk).
Sep. 2015	CARTAC (Financial soundness indicators for insurance sector).
Sep. 2016	CARTAC (Systemic risk indicators)
Mar. 2017	CARTAC (Stress testing framework for the insurance sector)
Apr. 2017	CARTAC (Financial health indicators for the pension sector)
Apr. 2017	CARTAC (Financial crisis management framework)
Aug. 2017	Government debt market development
Feb. 2018	CARTAC (Implementation of Basel II and III)
Apr. 2018	CARTAC (Correspondent bank relationships monitoring toolkit)
Sep. 2018	CARTAC (Developing macroprudential framework)
Nov. 2018	CARTAC (Stress testing)
Nov. 2019	CARTAC (Basel II/III – Pillar 2)
Mar. 2021	CARTAC (Feedback on risk management guidelines – Pillar 2 Implementation)
Jan. 2022	Stress Testing

Statistics Department

Apr. 2015	CARTAC (Training on balance of payments)
Aug. 2015	CARTAC (Macro TA need assessment)

Nov. 2015	CARTAC (Medium-term macro framework)
May 2016	CARTAC (National accounts)
Aug. 2016	CARTAC (External sector statistics)
May 2017	CARTAC (National accounts)
Jun. 2017	CARTAC (External sector statistics)
Jun. 2018	CARTAC (Implementation of BPM6)
Mar. 2019	CARTAC (National Accounts)
Jun. 2017	CARTAC (Balance of Payments statistics)
May 2019	CARTAC (External sector statistics)
Feb. 2021	CARTAC (External sector statistics)
July 2021	CARTAC (CPI)
Nov. 2021	CARTAC (National Accounts)
March 2022	CARTAC (External sector statistics)

Legal Department

May 2005	Tax legislation
Aug. 2005	VAT regulations
Sep. 2005	Update AML/CFT legislation
Apr. 2006	Income-tax regulations
Aug. 2006	Tax drafting

Resident Representative

The office was closed in end-January 2009.

COLLABORATION WITH THE BANK AND OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- As of May 31, 2022, Guyana has collaborations with The World Bank Group, Inter-American Development Bank, and Caribbean Development Bank.

- Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/en/country/caribbean/overview
Inter-American Development Bank	https://www.iadb.org/en/countries/guyana/overview
Caribbean Development Bank	https://www.caribank.org/countries-and-members/borrowing-members/guyana

STATISTICAL ISSUES

(As of July 7, 2022)

A. Assessment of Data Adequacy for Surveillance

General: Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage can be improved. Selected data are only available during missions and upon request. Monetary and external statistics, exchange rates and interest rates are reported to the Fund and available also from the website of the Bank of Guyana (BoG) but with certain lags. The Ministry of Finance (MOF) provides macroeconomic and fiscal statistics in annual and semiannual publications on its website in a PDF format. While specific statistics areas have received technical assistance (TA), some limitations remain in the compilation and dissemination of data for certain sectors. Oil exploration and drilling is partially included in the balance of payments statistics and requires further refinement in the national accounts.

National Accounts: The 2018 TA mission from CARTAC provided advice to the Bureau of Statistics (BoS) to improve the GDP-P and GDP-E methodology and related source data, as well as implement the relevant *System of National Accounts 2008 (2008 SNA)* changes. The compilation files were redeveloped for manufacturing, construction, accommodation, food services, real estate, business, and other services industries, with 2012 as the new base year. The TA also helped improve coverage and the source data quality issues and trained the BoS national accounts staff on the recommended SNA changes. The 2019 technical assistance helped the BoS incorporate oil production into the national accounts statistics. In 2021, technical assistance reviewed the compilation methodology for several activities and established the basis for producing chained volume measures for both the annual and quarterly estimates of GDP from 2012-2021. The mission also provided advice on the completion of work to develop Supply and Use Tables (SUT) for 2019, which can be used to improve the input/output ratios and estimates of informal activity used in GDP compilation. A further national accounts mission is planned in November 2022 to support finalization of the rebased estimates of GDP and oil sector refinements. Future work will focus on compiling an Industrial Production Index and a Producer Price Index.

A mission on the CPI supported the preparation of an update of the expenditure weights based on the results of the 2018/19 household budget survey. Dissemination of the updated CPI was expected in the course of 2022.

Government finance statistics (GFS): Fiscal statistics are disseminated through several MOF publications, including the Mid-Year Report on the annual budget, the Budget Speech and other budget-related documents. Authorities plan to upgrade their fiscal statistics to reflect the impact of future petroleum revenue and to incorporate it in their future budget projections. While fiscal data are published by the MoF, GFS data are not reported to the IMF Statistics Department for publication in the GFS database.

Monetary and financial sector statistics: The BoG has made significant progress in improving the quality of monetary statistics, especially the institutional coverage. The monetary statistics currently include the BoG, other depositary corporations (commercial banks, the New Building Society, and trust companies), and other financial corporations (finance companies, life insurance companies, non-life insurance companies, pension funds, and asset management companies). The BoG's monetary statistics provide data for publication in the IFS Supplement, based on standardized report forms. The BoG publishes, on a regular basis, prudential indicators for commercial banks, depository and non-depository nonbanks in its quarterly report and on its website. CARTAC has helped make progress with developing macro-prudential/systemic risk indicators and financial stability indicators for the insurance sector. The BoG also reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External sector statistics (ESS): In 2022, a follow-up mission from CARTAC assisted the BoG in strengthening the compilation and dissemination of external sector statistics. The BoG disseminates quarterly balance of payments data following the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) format; however, it maintains its Balance of Payments Manual, fourth edition (BPM4)-based balance of payments for national publications. The mission strongly recommended that the BoG compiles one set of balance of payments data, based on BPM6. Since 2021, the BoG is preparing an analytical table of selected balance of payments data for the oil and gas sector, nevertheless there are still some gaps on source data. Several other recommendations have been made, related to the classification of transfers of funds to/from bank accounts abroad.

B. Data Standards and Quality

Guyana is a participant in the IMF Enhanced General Data Dissemination System (e-GDDS) and disseminates key economic data through the National Summary Data Page launched in December 2019.

Guyana: Table of Common Indicators Required for Surveillance
(As of July 7, 2022)

	Date of Latest Observation (dd/mm/yy)	Date Received (dd/mm/yy)	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	06/22	06/22	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/22	05/22	M	M	M
Reserve/Base Money	04/22	05/22	M	M	M
Broad Money	04/22	05/22	M	M	M
Central Bank Balance Sheet[2]	04/22	05/22	M	M	M
Consolidated Balance Sheet of the Banking System[2]	04/22	05/22	M	M	M
Interest Rates[3]	04/22	05/22	M	M	M
Consumer Price Index	04/22	04/22	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2021	05/22	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	2021	05/22	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2021	05/22	A	A	A
External Current Account Balance	2021	05/22	A	A	A
Exports and Imports of Goods	2021	05/22	A	A	A
GDP	2021	11/21	A	A	A
Gross External Debt	2021	02/22	A	A	A
International Investment Position	Q22021	11/21	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Balance sheet information of the Bank of Guyana and the consolidated balance sheet of the other depository corporations on standardized report forms are submitted to the Statistics Department of the IMF.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing (partial information).

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Only domestic debt, including currency and maturity composition (partial information).

[7] Daily (D), Weekly (W), Monthly (M).

INTERNATIONAL MONETARY FUND

GUYANA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

July 20, 2022

Approved By
James Morsink (IMF), Geremia Palomba (IMF), Marcello Estevão, and Robert R. Taliercio (IDA)

Prepared by the Staff of the International Monetary Fund and the International Development Association based on the debt sustainability framework (DSF) for low-income countries (LICs), implemented since July 2018.

Risk of external debt distress	*Moderate*[1]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Substantial space to absorb shock*
Application of judgment	*No*

The risk of external and overall debt distress for Guyana remains moderate (as in the previous DSA of July 2019). There are significant favorable upside risks to the outlook for debt dynamics in the medium- to long-term given the latest projections of high oil prices and continuing discoveries of new oil fields, which will help Guyana build up significant external buffers against adverse shocks. All external debt indicators remain below the relevant indicative vulnerability thresholds under the baseline scenario, which incorporates the long-term effects of oil production.

Stress tests illustrate the susceptibility of Guyana's external public debt to shocks, and in particular to an export shock and to a combined shock scenario featuring simultaneous shocks to real GDP growth, primary balance, exports, other flows (current transfers and FDI), and nominal exchange rate depreciation, which could cause significant breaches in the external debt thresholds. Guyana has substantial space to absorb shocks, reflecting the current low level of external debt.

[1] Guyana uses the LIC-DSF due to its IDA status, despite its graduation from the PRGT in 2020. The debt-carrying capacity is classified as "weak" due to the value of the Composite Indicator (CI), (down from "medium" in the last DSA, due mostly to a sharp increase in oil-related imports).

PUBLIC SECTOR COVERAGE

1. The coverage of public sector debt used in this report is central government debt and central government-guaranteed debt. In May 2018 the central government guaranteed a five-year syndicated loan amounting to G$16.5 billion (2.1 percent of GDP) raised by the National Industrial and Commercial Investments Limited (NICIL)[2] for the purpose of restructuring state-owned Guyana Sugar Corporation (GuySuCo). The loan, which is also secured by NICIL's assets, carries an interest rate of 4.75 percent. The government had undertaken the restructuring of GuySuCo following continued losses which resulted in heavy subsidies amounting to 1–2 percent of GDP per year during 2015–20. Proceeds from the privatization of GuySuCo's estates will be used to repay this loan. In December 2020 a decision was made to classify all outstanding liabilities from this loan as central government domestic debt since the government had been obliged to meet debt service obligations under this bond during the year. Central government debt also included borrowing from the Central Bank of Guyana (BOG) during 2015-2020, amounting to G$163.3 billion (14.3 percent of GDP) as of end-2020.[3] However, in June 2021 the government securitized the inherited overdraft at the BOG using variable-rate debentures, with tenors ranging from 1 to 20 years, totaling G$200 billion (approximately US$960 million). In addition, state-owned enterprises' (SOEs) debts are included in central government debt as these entities are not allowed to borrow directly. The central government borrows and on-lends to the SOEs. The central government does not issue explicit or implicit guarantees on sub-nationals and local governments' debts, which are not included in the DSA. External debt is defined based on residency basis.

2. The Government of Guyana has been working closely with the World bank on issues related to debt transparency and management in the context of Sustainable Development Finance Policy (SDFP). This included increasing the periodicity and coverage of debt statistics and strengthening the policy framework for debt management.

Text Table 1. Guyana: Coverage of Public Sector Debt

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	X

[2] NICIL was incorporated as a Private Limited Company under the Companies Act of 1991 and is 100 percent owned by the Government of Guyana.

[3] The central bank does not borrow externally on behalf of the central government.

BACKGROUND

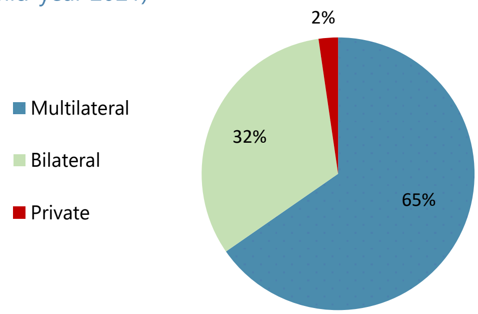
3. **The Guyanese economy was negatively impacted by the pandemic and the 2021 floods but has recovered well, supported by the oil boom, while medium-term prospects are more favorable than ever before**. Non-oil economic growth recovered in 2021 but was dampened by the floods in the summer, which affected the agricultural sector and economic activity in the hinterland. Inflation increased in 2021 owing to higher food and fuel prices as well as to supply-side disruptions and have more recently been exacerbated by the war in Ukraine. Oil production is expected to increase significantly with the coming on stream of two large oilfields in the Stabroek Block during 2022-26. Guyana's commercially recoverable petroleum reserves is estimated to be well over 11 billion barrels, the third largest in Latin America and Caribbean, and one of the highest levels of oil reserves per capita in the world. This could help Guyana build up substantial fiscal and external buffers to absorb shocks while addressing infrastructure gaps and human development needs. However, increased dependence on oil revenues will expose the economy to volatility in global oil prices. A slowing global economy and the repercussions from the war in Ukraine could also adversely affect non-oil exports. On the other hand, higher global oil prices and additional gas and oil discoveries could significantly improve Guyana's long-term economic prospects.

4. **Total gross public debt has declined significantly over the past decade, driven by repayments, and prudent debt management.** Guyana's total public-sector debt declined to 42.9 percent of GDP in 2021 (including central government guarantee on NICIL's G$16.5 billion syndicated loan) from 57.7 percent of GDP in 2011.[4] Rice exports to Venezuela helped Guyana repay part of its debt owed to that country under the PetroCaribe agreement (which was suspended since 2015 following the revival of a border dispute) and there has been no further borrowing from Venezuela since then. In addition, the Guyanese authorities have been prudent in accumulating new public debt and the oil production since 2020 has helped to reduce the ratio by significantly increasing nominal GDP, the denominator.

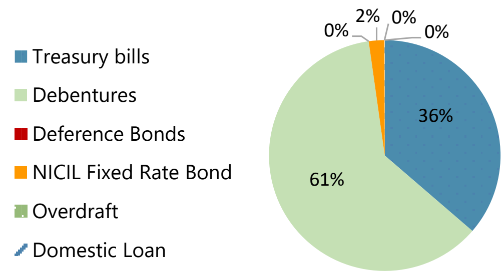
5. **External debt accounts for over 40 percent of total public sector debt, mostly to multilateral institutions.** Multilateral creditors accounted for over 65 percent of total external debt in 2021. The IDB is the largest multilateral creditor, accounting for 46.1 percent of total external debt at end-2021. China's state-owned Export-Import Bank is the largest bilateral creditor, comprising 17.3 percent of total external debt at end-2021. Eurobond holders are the only private (commercial) creditors. Domestic debt comprises mainly Treasury bills (T-bills) and borrowing from the central bank, which is now securitized (see below).

[4] Debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) was granted by all multilateral creditors, Paris Club bilateral creditors, and five non-Paris Club creditors (China, India, Venezuela, Bulgaria, and Cuba). Debt owed to Brazil and North Korea was paid off without relief. The IMF, World Bank (IDA), and Inter-American Development Bank (IDB) provided debt relief amounting to US$640 million in 2006–07, along with Paris Club bilateral creditors and some non-Paris Club creditors within the 2004 Paris Club agreement.

Guyana: External Public Debt by Creditor
(mid-year 2021)



Guyana: Domestic Public Debt by Creditor
(mid-year 2021)



6. **The authorities remain committed to ensuring fiscal prudence and contracting external loans on highly concessional terms.** In particular, the government has been prudent in ensuring that its fiscal integrity would not be compromised by contracting large debt and has been relying on concessional financing from Multilateral Development Banks, consistent with Staff recommendations.

7. **The government is planning to diversify the economy and support long-term growth by investing in infrastructure and education.** In response to the pandemic in 2020, the authorities reallocated expenditures towards cash grants and transfers to households and 'shovel ready' public investment projects, primarily focused on improving road networks and providing affordable housing. The 2022 budget includes a substantial increase in public investment, and the government is planning to maintain this effort over the medium term to address bottlenecks to growth, focusing on transport infrastructure and education (including greater access to education in the hinterland by building new schools). Public capital spending is projected to increase from 9.5 percent of non-oil GDP in 2021 to 12.1 percent in 2022 and to 12.5 percent of non-oil GDP over the medium-term. Additional support for long-term growth is expected to come from further progress on strengthening the governance framework, as it ensures a good use of public funds. Several pillars of the anticorruption framework have been recently strengthened, including the Integrity and Public Procurement Commissions (IC and PPC) and the National Procurement and Tender Administration Board (NPTAB). Audit reports of public expenditures, including for COVID, are published, and their recommendations are followed up on. On oil revenue transparency Guyana published its second EITI Report, covering fiscal year 2018 in April 2021 and is currently going through the validation process under the EITI Standard started in October 2021. Furthermore, the authorities are committed to follow up adequately on all EITI recommendations.

MACROECONOMIC ASSUMPTIONS

8. **The assumptions in the baseline scenario are consistent with the macroeconomic framework presented in the Staff report.** The baseline scenario incorporates the macroeconomic effects of oil through fiscal revenues from 2022 onwards and value added to domestic economic activities through employment and capital flows.[5] The scenario also includes the authorities' commitment to set in the

[5] Based on staff projections from the Fiscal Analysis of Resource Industries (FARI) Model with inputs from the authorities, taking into consideration oil royalty and production profit-sharing with ExxonMobil.

medium-term annual budgets within a fiscal framework that constrains the annual non-oil overall fiscal deficit (after grants) to not exceed the expected transfer from the NRF. The discount rate used to calculate the net present value of external debt is 5 percent, consistent with the 2018 guidance note on Bank-Fund debt sustainability framework for low- income countries. The baseline projections are subject to significant risks, both upside and downside, relating to the future path of both oil prices and production, and to the government's fiscal policy stance. On the one hand, if the global economic recovery turns out to be more protracted, and/or the global shift towards greater reliance on non-fossil fuels turns out to be more pronounced than currently anticipated, this will put further downward pressure on oil prices. On the upside further oil discoveries and production, if managed effectively, would have positive effects on GDP growth and on the fiscal and external accounts. It is also important here to note that future economic volatility could be very different from past volatility, given the much stronger reliance on oil production and exports reflected in the projections.

9. The main assumptions are:

- **Real GDP growth is projected at 16.8 percent on average during 2022-2032, with considerable volatility reflecting projected movements in oil production.** Real GDP growth rose sharply in 2020 as Liza-1 oil field began operations. After declining somewhat in 2021, growth of oil production and real GDP are projected to spike sharply again in 2022 as Liza-2 started operating early in the year, followed by the Payara oil field at the end of 2023 and the Yellowtail oil field in 2025 (all included in the macroframework and the DSA). The 2020 growth outturn was lower than had been projected in the 2019 DSA, owing mostly to the impact of the COVID 19 pandemic and the economic effects of the political impasse. The projections also take into account 2022 measures to mitigate the impact of rising commodity prices on households, and an increase in capital spending to address social development and infrastructure needs, supported by oil revenues. In addition, growth projections of the domestic non-oil sectors, benefitting from the increases in public capital investment, are also included.

Text Table 2. Guyana Baseline Macroeconomic Assumptions
(Period averages)

	2019 DSA (2021-31)	2022 DSA (2022-32)
Real GDP growth	10.4	16.8
Real Non-oil GDP growth	4.3	5.4
Consumer prices (eop) 1/	2.8	4.3
Central Government overall bal. (pct of GDP 2/	1.3	-0.1
External current account balance (pct of GDP)	0.1	26.5

Sources: Guyanese authorities; and IMF staff calculations and projections.
1/ Measured as percent (y/y) change.
2/ After grants.

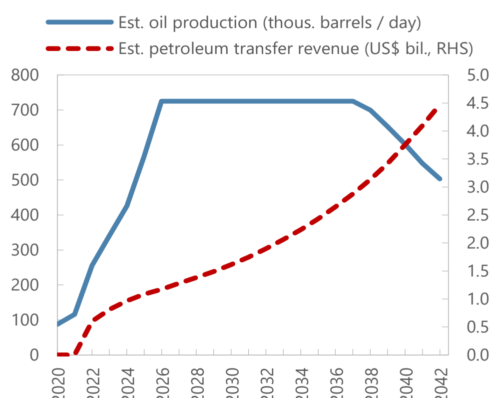
- **Inflation (measured by CPI) is projected to average 4.3 percent during 2022-2032.** This is higher than the previous forecast of 2.8 percent in the 2019 DSA, reflecting in part higher projected global food and commodity prices and the impact of higher fiscal spending on domestic demand.

- **Central government overall balance is expected to average close to zero percent of GDP during 2022-2032.** Following the significant fiscal impulse in 2021, reflecting the government's fiscal response to the COVID-19 pandemic, there is projected to be a moderate pace of fiscal consolidation from this year onwards, consistent with the authorities' commitment reflected in the baseline scenario, as well as higher oil revenues. More specifically, there is projected to be a significantly smaller and shrinking overall fiscal deficit (less than 1 percent of GDP) over 2022-2024. Thereafter, the government is projected to maintain a zero overall budget balance over the long-run, in line with staff's recommendations, to which the authorities agreed. This fiscal framework helps minimize the negative macroeconomic effects of large capital spending, including the crowding out effects on private investment and consumption, while ensuring long-term fiscal sustainability. The accumulation of assets in the Natural Resources Fund serves as a buffer against shocks and for future generations. This fiscal path is somewhat different from what was projected at the time of the 2019 Article IV, given the fiscal policy developments. Government spending rose to address COVID related health expenditures and to mitigate the impact on the economy of COVID in 2020-21. Inflation projections are higher in 2022 and in the medium-term, and there is higher public spending projected to address social development needs and infrastructure gaps, given the much higher than expected oil revenues.

- **The projections take into account the recently revised rules for withdrawing funds from the Natural Resource Fund.** The Natural Resource Fund (NRF) Bill, signed into law by President Irfaan Ali on December 30, 2021, allows the government to extract the entire amount deposited in the NRF, over US$600 million, in the first year of operation of the Fund (2022) and use it for budgetary spending. Thereafter, after the first withdrawal, the proposed legislation sets out a ceiling on withdrawals, with a progressively smaller proportion of the balance in the NRF being allowed to be transferred to the budget for public spending, and the remainder of the petroleum revenues is accumulated as savings in the NRF. More specifically, in any given year, US$500 million can be withdrawn and then a reducing percentage of what remains, starting with 75% from the second five hundred million; 50% from the third five hundred million; 25% from the fourth five hundred million; 5% from the fifth five hundred million, and then 3% from any amounts in excess of US$2.5 billion.

- **Starting from 2022, oil revenues coming into the budget will have a significant positive impact on budget financing and debt dynamics.**[6] Oil production is expected to increase by 2025 by more than 300,000 barrels per day (to 720,000), compared to the 2019 DSA. Over the medium-term estimated oil revenues[7] will more than cover the cost of additional

Guyana: Oil Production and Government Oil Revenue[1]



Sources: Authories data and IMF staff calculations.
[1] Projections on Liza Phase I and II only.

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[6] Under the 2016 Production Sharing Agreement, up to 75% of each's year's oil revenues can be assigned to production costs while the remainder comprises profit oil to be split evenly between Guyana on one hand and ExxonMobil, Hess and CNOOC on the other. In addition, the contracts include a 2% royalty on gross earnings, leaving the government to receive 14.5% of initial oil revenues. The government will begin to receive higher revenues after the oil companies recuperate initial costs.

[7] By end-2027 more than US$21 billion are expected to be accumulated in the NRF, from US$607 million at end-2021.

spending planned by the new government on priority social sectors–health and education–and on infrastructure, and also the cost of gradually paying off the government's overdraft with the central bank. With real growth projections averaging close to 17 percent a year over 2022-2032 (reflecting both the direct and indirect effects of rapid growth of the oil sector) and substantially exceeding the real interest rate paid by the government on its debt, the public debt to GDP ratio is projected to fall from 22.8 percent in 2022 to 12.7 percent in 2032.

- **The current account balance is projected to improve significantly to a surplus of 26.5 percent of GDP on average during the forecast period.** The current account deficit widened significantly in 2021, mostly reflecting a significant increase in capital goods imports as the government ramped up public investment and oil companies continued to invest to expand new production capacity. However, as oil production from Liza II came into full swing in April 2022, followed by Payara and Yellowtail during the next three years, and as oil companies tamper down new investments, the current account is projected to shift to a significant surplus from 2022 onwards, also reflecting upward revisions of oil price projections This also takes into account the positive spillovers from the oil sector through investments in the non-oil economy.

- **Financing of the overall fiscal deficit will shift toward medium-term domestic sources.** The authorities are working on a step-by-step approach in deepening the interbank, domestic debt, and FX markets to strengthen the monetary policy framework and the transmission mechanism. In line with the government's plans to develop and deepen the domestic financial market, the share of short-term T-bills in domestic financing of the government's fiscal deficit is projected to fall steadily from 85% in 2022-27 to 65% in 2028-32, 45% in 2033-37, and to 40% in 2038-42. Correspondingly, the share of short-term bonds (1-3 years) increases over this period from 10% to 30%, and the share of medium-term bonds (4-7 years) increases from 5% to 30%. Given the projected large increases in oil revenue receipts, it is assumed that the government will not need to borrow externally after 2027. Medium-term external financing of the government's fiscal deficit is thus projected to decline steadily from 2023 to 2027.

RISK RATING AND VULNERABILITIES

10. Guyana's economic outlook is subject to downside and upside risks. On the downside, increased dependence over time on oil revenue could expose the economy to oil price volatility. In addition, excessively rapid increases in government spending from oil revenues could subject Guyana to the "natural resource curse," with significant inflationary pressures, eroding competitiveness from real exchange rate appreciation, and governance concerns. New waves of the COVID-19 virus associated with new variants, and delays in vaccinations, may make the impact of the pandemic more severe and long-lasting than currently expected. Prolonged disruption of international commodity markets and heightened oil price volatility, aggravated by the repercussions from the Russian invasion of Ukraine, also represent (both downside and upside) risks to the outlook. On the upside, further oil discoveries, some already announced in April 2022, and increases in production could significantly improve Guyana's economic prospects over the long-term. In particular, the oilfield discoveries announced by Exxon in April 2022 are not incorporated into projections. As in the past, they will be incorporated only when the production agreements with the government are concluded, and investment plans by Exxon management approved. Oil prices, which are currently taken from the latest WEO forecast, may be higher than under current projections if sanctions on Russia intensify.

11. The realism tools support the reasonableness of our projections, in line with historical and peer experiences, and taking into account the continuing structural changes taking place in Guyana's economy.

- **Forecast errors** (Figure 3): Forecast errors of past external debt projections (measured as the difference between actual and anticipated contributions on debt ratios) are at a relatively low level. The forecasts of both public and external debt to GDP ratios have been slightly higher relative to their actual outturns, largely owing to stronger real GDP growth than had been forecast and, in the case of external debt, to stronger-than-anticipated FDI flows. Relatively large residuals for external debt forecasts for the next five years are due for the most part to the DSA external debt dynamics assuming financing of the current account balance by both the private and public sectors, while in the case of Guyana data for private sector external debt is missing.

- **Realism of fiscal adjustment** (Figure 4): The three-year adjustment in the primary balance of 6.7 percentage point of GDP over the period 2021-2024 is large but consistent with our recommendation to use some of the accumulated oil revenues to finance expenditures only after improving the management and governance framework of oil revenue in 2022. The large projected primary surpluses over the next three years are mostly resulting from oil revenues flowing into the budget from 2022 onwards, and a commitment to a balanced budget by not increasing expenditures, especially capital spending beyond those revenues. Fiscal adjustment measures are not assumed. On a similar vein projected growth over the medium term is significantly higher than implied by the application of standard fiscal multipliers, mainly reflecting the major structural changes to the economy with the coming into production of new oil fields. These structural changes to the economy are also distorting the relationship between investment (private and public) rates and real GDP growth.

COUNTRY CLASSIFICATION AND SCENARIO STRESS TESTS

12. Guyana is assessed having a "weak" debt carrying capacity, given the large oil-related imports. Based on the April 2022 WEO and the 2020 CPIA, the country's composite indicator (CI) score is 2.66, falling just below the range of 2.69–3.05 for "medium" rated countries. Guyana's debt carrying capacity has fallen from a clear "medium" in the 2019 DSA, mainly due to lower import coverage of FX reserves, as oil-related imports have been revised upwards. It is important to note here that staff expects import coverage of FX reserves to improve significantly over the medium-term, and the authorities are also building up substantial external buffers in the Natural Resource Fund (NRF) which should help to mitigate negative shocks. Moreover, the DSA calculations do not take into account the structural changes the economy is going through and ignores expected reserve accumulation in the NRF, and hence may underestimate the true debt absorption capacity of the Guyanese economy.[8]

Text Table 3. Guyana: Debt Carrying Capacity Under the Composite Indicator Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	3.27	1.26	47%
Real growth rate (in percent)	2.72	8.52	0.23	9%
Import coverage of reserves (in percent)	4.05	20.29	0.82	31%
Import coverage of reserves^2 (in percent)	-3.99	4.12	-0.16	-6%
Remittances (in percent)	2.02	5.01	0.10	4%
World economic growth (in percent)	13.52	3.05	0.41	15%
CI Score			2.66	100%
CI rating			Weak	

Text Table 4. Guyana: Composite Indicator Index Thresholds

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

Text Table 5. Guyana: Debt Carrying Capacity and Thresholds

Country	Guyana
Country Code	**336**
Debt Carrying Capacity	**Weak**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 2.66	Weak 2.68	Medium 2.79

13. **The stress test for a combined contingent liability shock does not adjust the default setting for public–private partnership (PPP) debt.** The authorities indicated no PPP debt outstanding as of end-2021 and any financing requirements by developmental agencies are met directly through central

[8] The relevant indicative thresholds for public and publicly guaranteed (PPG) for external debt in this category are: 30 percent for the PV of debt-to-GDP ratio,140 percent for the PV of debt-to-exports ratio, 10 percent for the debt service to-exports ratio, and 14 percent for the debt service-to-revenue ratio. The benchmark of the PV of total public debt for "weak" debt carrying capacity is 35 percent.

government borrowing. The World Bank Investments in IDA Countries Report also shows no outstanding PPI investments and projects in Guyana for 2013–21. Government liabilities included under the contingent liability shock include SOE debt and debt of financial institutions implicitly or explicitly guaranteed by the government.

Text Table 6. Guyana: Variables Used in Stress Test

1	The country's coverage of public debt	The central government plus social security, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.00	The authorities and IDA confirmed that PPP stock is zero
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)	7.0		

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEBT SUSTAINABILITY ANALYSIS

A. External PPG Debt

14. **Under the baseline scenario, all external PPG debt indicators remain below the policy relevant benchmarks for the next ten years (Figure 1).** The PV of external PPG debt is expected to decline gradually from 6.5 percent of GDP in 2022 to 3.4 percent in 2032 as existing debt is being amortized and the need to incur additional new external debt is significantly reduced with the incoming oil revenues to the central government budget starting from this year. This is largely consistent with the 2019 DSA results, although the base debt ratios for 2021 are significantly higher than had been projected in 2019. This mostly reflected the impact of the COVID 19 pandemic on the fiscal accounts, through (i) urgent need for pandemic related public spending, (ii) revenue losses brought about by the economic contraction, and (iii) tax policy measures introduced by the government to support households and businesses.

15. **The standardized stress tests show that the debt trajectory deteriorates very early on with a combined shock, with the breach of the benchmark for the PV of external PPG debt-to-GDP ratio starting in 2024 (Table 3, Figure 1).** The combined shock includes temporary shocks to real GDP growth, primary balance, exports, other flows (including current transfers and FDI), and nominal exchange rate depreciation.[9] Under these shocks—a very extreme scenario—the PV of debt-to-GDP ratio could increase to 49 percent in the first year after the shocks before declining steadily to 35 percent by 2030 and to 31 percent by 2032. A shock to exports also leads to relatively small breaches of the PV of debt-to-GDP benchmark over 2024-30. The debt service to revenue indicator benchmark is also breached under both the combined and export shocks for the years 2030-32. However, it is important to note that shocks under the stress tests could be overestimated because these shocks are based on historical macroeconomic paths that include structural changes caused by oil production.[10]

[9] Section VI of the 2018 Guidance Note provides further details.

[10] The standardized shocks reflect the past structural shift (high real GDP growth in 2020 and 2021).

16. Largely consistent with the 2019 DSA, the results suggest that the risk of external debt distress remains moderate in the baseline scenario, with all solvency and liquidity indicators remaining below their relevant benchmarks. It could be argued that the breaches of the benchmarks under the shock scenarios are caused by shock assumptions which, under current and anticipated developments in Guyana, may be less relevant and likely. Moreover, consistent with the recently amended formula for transfer of oil revenues to the budget, the Natural Resource Fund is expected to accumulate substantial savings over the medium term, amounting to almost 216 percent of non-oil GDP by 2027.

17. With the current low level of external debt, Guyana's has substantial space to absorb shocks. Figure 5 shows that all debt burden indicators in the baseline scenario are well below their respective benchmarks from the Moderate Risk tool and show that Guyana has substantial space to absorb shocks. Only shocks in the upper quartile of the observed distribution of shocks would downgrade the country to high risk of debt distress.

B. Public Sector Debt

18. Under the baseline scenario, the PV of public debt-to-GDP ratio does not breach the 35 percent benchmark (Table 2). The PV of debt-to-GDP ratio is expected to decline gradually from 19.2 percent in 2022 to 10.6 percent in 2032. The existing debt is being largely amortized and the need to incur large additional new external debt is significantly reduced with increasing oil revenues from 2022 onwards. The assumed adoption of a full fiscal responsibility framework that targets an overall balanced budget of zero, as agreed by the authorities, contributes to a further decline of the public-debt-to-GDP ratio.

19. The standardized stress tests show again that shocks to real GDP and to commodity prices are the ones leading to the highest PV of the debt-to-GDP ratio (Table 4, Figure 2). Under the real GDP growth shock, the debt ratio could reach close to 165 percent of GDP by 2032. In addition, a commodity price shock could result in a breach of the vulnerability threshold in 2024, pushing the PV of public debt-to-GDP to 42 percent that year and rising to 160 percent by 2032. The vulnerability to the latter shock highlights the importance of structural reforms to diversify the domestic economy to ensure broad-based growth and reduce reliance on the oil sector, thereby making the economy less exposed to oil price shocks. The susceptibility to these shocks also underscores the importance of adopting a fiscal responsibility framework to safeguard long-term debt sustainability.

CONCLUSION

20. The debt sustainability analysis under the LIC DSF framework suggests that Guyana's risk of external and overall debt distress remains moderate. While the country's debt dynamics improve considerably under the baseline, it remains vulnerable under the standardized stress tests. In the baseline scenario, debt indicators remain well below their respective benchmarks over the projection period. The PV of external debt-to-GDP ratio is projected to decline to around 3.4 percent over the coming decade as the need for external borrowing is eliminated by the accumulation of external assets. At the same time stress tests indicate that Guyana's external public debt ratio is vulnerable to shocks, and in particular an extreme shock scenario that combines simultaneous shocks to real GDP growth, primary balance, exports, other flows (current transfers and FDI), and nominal exchange rate depreciation. Nevertheless, Guyana still has substantial space to absorb shocks, reflecting the current low level of external debt, as confirmed by the results from the Moderate Risk tool (Figure 5). Moreover, the Natural Resource Fund is expected to accumulate substantial savings over the medium term, amounting to almost 216 percent of non-oil GDP in 2027.

Authorities' Views

21. The authorities broadly agreed with the analysis and conclusions of the DSA, emphasizing the major structural changes taking place in the Guyanese economy and the significant savings accumulated and projected to accumulate in the Natural Resource Fund, which are not counted in gross official FX reserves, but represent considerable buffers.[11]

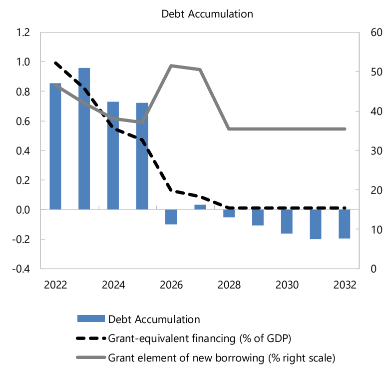
[11] Only the transfers from the NRF to the budget are included into reserves.

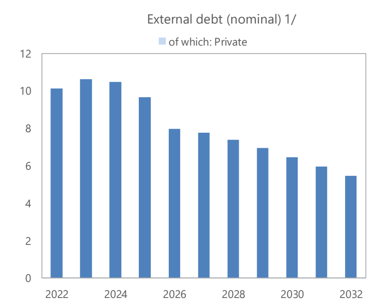
Table 1. Guyana: External Debt Sustainability Framework, Baseline Scenario, 2019–2042

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**24.9**	**23.8**	**17.8**	**10.1**	**10.6**	**10.5**	**9.7**	**8.0**	**7.8**	**5.5**	**2.0**	**26.3**	**8.1**
of which: public and publicly guaranteed (PPG)	**24.9**	**23.8**	**17.8**	**10.1**	**10.6**	**10.5**	**9.7**	**8.0**	**7.8**	**5.5**	**2.0**	**26.3**	**8.1**
Change in external debt	-2.5	-1.1	-6.0	-7.7	0.5	-0.1	-0.8	-1.7	-0.2	-0.5	-0.2		
Identified net debt-creating flows	**-6.1**	**-8.2**	**-10.2**	**-10.9**	**-9.0**	**-12.0**	**-22.4**	**-26.9**	**-26.2**	**-21.0**	**-3.3**	**-2.8**	**-20.3**
Non-interest current account deficit	**52.8**	**16.0**	**25.2**	**-44.0**	**-31.0**	**-28.8**	**-17.6**	**-26.4**	**-26.8**	**-21.3**	**-3.2**	**15.1**	**-26.6**
Deficit in balance of goods and services	64.7	26.5	33.8	-46.4	-33.9	-51.4	-47.2	-64.1	-67.2	-56.1	-18.8	**25.8**	**-55.8**
Exports	34.6	51.0	60.1	80.4	80.9	80.3	80.9	85.1	84.9	75.6	41.5		
Imports	99.3	77.6	93.9	34.1	46.9	29.0	33.6	21.0	17.7	19.5	22.8		
Net current transfers (negative = inflow)	-12.3	-12.1	-13.3	-4.9	-4.4	-4.0	-3.3	-2.7	-2.7	-2.3	-0.8	**-10.9**	**-3.1**
of which: official	-1.0	-0.6	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1		
Other current account flows (negative = net inflow)	0.4	1.5	4.7	7.3	7.4	26.5	32.9	40.4	43.1	37.2	16.4	**0.2**	**32.3**
Net FDI (negative = inflow)	**-57.3**	**-23.2**	**-28.8**	**38.3**	**24.1**	**18.7**	**-2.5**	**1.4**	**0.8**	**0.5**	**0.0**	**-16.2**	**7.6**
Endogenous debt dynamics 2/	**-1.6**	**-0.9**	**-6.6**	**-5.2**	**-2.1**	**-1.8**	**-2.3**	**-1.9**	**-0.2**	**-0.2**	**-0.1**		
Contribution from nominal interest rate	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0		
Contribution from real GDP growth	-1.4	-10.2	-4.0	-5.4	-2.3	-2.0	-2.5	-2.0	-0.3	-0.3	-0.1		
Contribution from price and exchange rate changes	-0.7	8.9	-2.9	...	...	...	...	...	...	...	...		
Residual 3/	**3.6**	**7.1**	**4.2**	**3.2**	**9.5**	**11.8**	**21.6**	**25.2**	**26.0**	**20.5**	**3.1**	**1.0**	**19.2**
of which: exceptional financing	-1.9	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**11.6**	**6.5**	**6.6**	**6.5**	**6.0**	**4.9**	**4.8**	**3.4**	**1.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**19.4**	**8.1**	**8.1**	**8.1**	**7.4**	**5.7**	**5.6**	**4.5**	**2.8**		
PPG debt service-to-exports ratio	**4.4**	**2.7**	**1.8**	**0.8**	**0.7**	**0.7**	**0.6**	**0.5**	**0.3**	**0.5**	**0.3**		
PPG debt service-to-revenue ratio	**6.8**	**7.0**	**6.5**	**4.4**	**4.0**	**3.8**	**3.6**	**3.9**	**2.4**	**2.5**	**0.5**		
Gross external financing need (Billion of U.S. dollars)	-0.2	-0.3	-0.2	-0.8	-1.1	-1.8	-4.5	-6.8	-7.3	-6.7	-1.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.4	43.5	23.8	57.8	25.2	21.2	28.2	25.5	3.3	5.1	5.1	**9.6**	**16.8**
GDP deflator in US dollar terms (change in percent)	2.6	-26.3	14.0	21.9	-9.6	-6.7	-5.9	-3.7	-0.7	-1.5	0.4	**0.5**	**-1.1**
Effective interest rate (percent) 4/	1.8	1.8	1.9	2.0	1.9	1.9	2.1	2.2	1.3	1.2	1.1	**1.6**	**1.6**
Growth of exports of G&S (US dollar terms, in percent)	16.8	55.8	66.2	157.2	13.9	12.3	21.5	27.2	2.3	0.8	-4.1	**15.2**	**21.6**
Growth of imports of G&S (US dollar terms, in percent)	49.5	-17.4	70.8	-30.3	56.0	-30.2	40.2	-24.4	-13.9	5.6	7.0	**16.3**	**2.1**
Grant element of new public sector borrowing (in percent)	...	...	...	46.5	41.9	38.1	37.2	51.4	50.5	35.5	0.0	**...**	**40.3**
Government revenues (excluding grants, in percent of GDP)	22.3	20.0	16.6	14.0	14.4	14.3	12.9	11.6	12.1	15.6	23.3	**18.7**	**13.6**
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.0	0.8	0.6	0.5	0.1	0.1	0.0	0.0	**...**	**0.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	56.6	41.9	38.1	37.2	51.4	50.5	35.5	...	**...**	**41.2**
Nominal GDP (Billion of US dollars)	5	5	8	15	17	19	23	28	28	33	52		
Nominal dollar GDP growth	8.1	5.8	41.1	92.3	13.2	13.1	20.7	20.8	2.6	3.5	5.5	**9.4**	**16.2**
Memorandum items:													
PV of external debt 7/	...	...	11.6	6.5	6.6	6.5	6.0	4.9	4.8	3.4	1.2		
In percent of exports	...	...	19.4	8.1	8.1	8.1	7.4	5.7	5.6	4.5	2.8		
Total external debt service-to-exports ratio	4.4	2.7	1.8	0.8	0.7	0.7	0.6	0.5	0.3	0.5	0.3		
PV of PPG external debt (in Billion of US dollars)			0.9	1.0	1.1	1.2	1.4	1.3	1.4	1.1	0.6		
(PVt-PVt-1)/GDPt-1 (in percent)				0.9	1.0	0.7	0.7	-0.1	0.0	-0.2	-0.1		
Non-interest current account deficit that stabilizes debt ratio	55.3	17.0	31.2	-36.3	-31.4	-28.7	-16.8	-24.7	-26.6	-20.8	-2.9		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

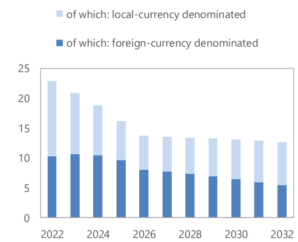
Table 2. Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042

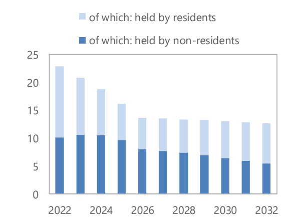
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	43.6	51.1	42.9	22.8	20.9	18.8	16.2	13.7	13.5	12.7	10.2	45.2	15.6
of which: external debt	24.9	23.8	17.8	10.1	10.6	10.5	9.7	8.0	7.8	5.5	2.0	26.3	8.1
			25.1	12.7	10.2	8.3	6.5	5.7	5.8				
Change in public sector debt	-3.5	7.5	-8.2	-20.1	-2.0	-2.1	-2.6	-2.5	-0.1	-0.2	-0.3		
Identified debt-creating flows	-1.1	5.4	-7.7	-18.3	-3.2	-2.9	-3.8	-3.1	-0.4	-0.5	-0.3	-0.2	-3.1
Primary deficit	2.0	7.2	6.7	0.4	0.2	0.0	-0.2	-0.2	-0.1	-0.1	0.0	3.1	0.0
Revenue and grants	23.4	20.6	16.9	14.3	14.4	14.3	12.9	11.6	12.1	15.6	23.3	19.6	13.7
of which: grants	1.1	0.7	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	25.4	27.9	23.6	14.7	14.6	14.2	12.7	11.4	12.0	15.5	23.3	22.7	13.6
Automatic debt dynamics	-3.1	-1.8	-14.3	-18.7	-3.4	-2.9	-3.6	-3.0	-0.3	-0.4	-0.3		
Contribution from interest rate/growth differential	-2.8	-8.4	-12.7	-18.7	-3.4	-2.9	-3.6	-3.0	-0.3	-0.4	-0.3		
of which: contribution from average real interest rate	-0.4	4.8	-2.9	-3.0	1.2	0.8	0.5	0.3	0.1	0.2	0.2		
of which: contribution from real GDP growth	-2.4	-13.2	-9.8	-15.7	-4.6	-3.7	-4.1	-3.3	-0.4	-0.6	-0.5		
Contribution from real exchange rate depreciation	-0.3	6.5	-1.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-2.3	2.1	-0.5	-1.7	1.2	0.9	1.2	0.6	0.3	0.3	0.1	-1.3	0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.7	19.2	16.8	14.8	12.5	10.6	10.5	10.6	9.4		
PV of public debt-to-revenue and grants ratio	...	...	216.8	134.1	117.0	103.7	96.5	91.1	86.8	68.2	40.4		
Debt service-to-revenue and grants ratio 3/	64.0	68.2	129.3	39.1	33.9	21.8	13.8	9.9	10.2	14.9	12.0		
Gross financing need 4/	17.0	21.3	28.5	6.0	5.1	3.1	1.6	1.0	1.1	2.2	2.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.4	43.5	23.8	57.8	25.2	21.2	28.2	25.5	3.3	5.1	5.1	9.6	16.8
Average nominal interest rate on external debt (in percent)	1.8	1.8	1.9	2.0	1.9	1.9	2.1	2.2	1.3	1.2	1.1	1.6	1.6
Average real interest rate on domestic debt (in percent)	-2.4	36.3	-11.2	-17.1	12.4	9.2	8.5	6.0	2.9	4.2	2.8	1.7	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.1	37.3	-8.7	...	...	...	...	...	...	...	...	2.7	...
Inflation rate (GDP deflator, in percent)	3.0	-26.3	14.0	21.9	-9.6	-6.7	-5.9	-3.7	-0.7	-1.5	0.4	0.8	-1.1
Growth of real primary spending (deflated by GDP deflator, in percent)	8.1	57.4	4.8	-1.7	24.2	18.2	15.0	12.4	9.0	10.3	8.7	11.3	11.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	5.5	-0.3	14.8	20.4	2.2	2.0	2.4	2.3	0.0	0.1	0.2	6.7	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Guyana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	6	7	6	6	5	5	5	4	4	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	6	10	16	27	**40**	**53**	**65**	**75**	**83**	**91**	**96**
B. Bound Tests											
B1. Real GDP growth	6	11	16	15	12	12	11	11	10	9	8
B2. Primary balance	6	7	8	8	7	7	7	7	7	7	7
B3. Exports	6	20	**44**	**39**	**33**	**33**	**33**	**33**	**31**	30	28
B4. Other flows 3/	6	19	30	26	22	22	22	22	21	20	19
B5. Depreciation	6	9	15	13	11	11	11	11	10	9	9
B6. Combination of B1-B5	6	19	**49**	**43**	**37**	**37**	**37**	**36**	**35**	**33**	**31**
C. Tailored Tests											
C1. Combined contingent liabilities	6	7	8	7	6	6	6	6	6	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	16	22	20	17	17	17	17	17	16	16
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	8	8	8	7	6	6	6	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	8	13	20	33	47	62	78	92	105	117	127
B. Bound Tests											
B1. Real GDP growth	8	8	8	7	6	6	6	5	5	5	5
B2. Primary balance	8	9	10	10	8	9	9	9	9	9	9
B3. Exports	8	30	83	72	58	59	61	61	60	58	57
B4. Other flows 3/	8	23	37	32	26	26	27	27	26	25	25
B5. Depreciation	8	8	14	13	10	10	10	10	10	9	9
B6. Combination of B1-B5	8	17	30	34	27	28	28	28	28	27	26
C. Tailored Tests											
C1. Combined contingent liabilities	8	9	10	9	7	8	8	8	8	8	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8	24	33	28	22	21	22	22	22	22	21
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	1	1	1	1	1	0	0	0	0	1	1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	1	1	1	1	1	1	2	2	3	4	4
B. Bound Tests											
B1. Real GDP growth	1	1	1	1	1	0	0	0	0	1	1
B2. Primary balance	1	1	1	1	1	0	0	1	1	1	1
B3. Exports	1	1	2	2	2	2	2	3	5	5	5
B4. Other flows 3/	1	1	1	1	1	1	1	1	2	2	2
B5. Depreciation	1	1	1	1	1	0	0	1	1	1	1
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	2	2	2
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	1	1	1	0	0	0	1	1	1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	1	1	1	1	1	1	1	1	2	2	2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	4	4	4	4	4	2	2	3	3	3	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	4	4	5	6	9	9	11	13	**16**	**19**	**22**
B. Bound Tests											
B1. Real GDP growth	4	6	9	9	9	6	6	6	7	7	6
B2. Primary balance	4	4	4	4	4	3	3	3	4	4	4
B3. Exports	4	4	7	10	10	8	8	11	**18**	**17**	**15**
B4. Other flows 3/	4	4	6	7	7	6	5	9	12	11	10
B5. Depreciation	4	5	5	6	6	4	4	4	6	6	5
B6. Combination of B1-B5	4	6	10	13	13	10	10	13	**20**	**19**	**17**
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	4	4	3	3	3	3	3	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4	5	7	9	8	6	5	7	9	9	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

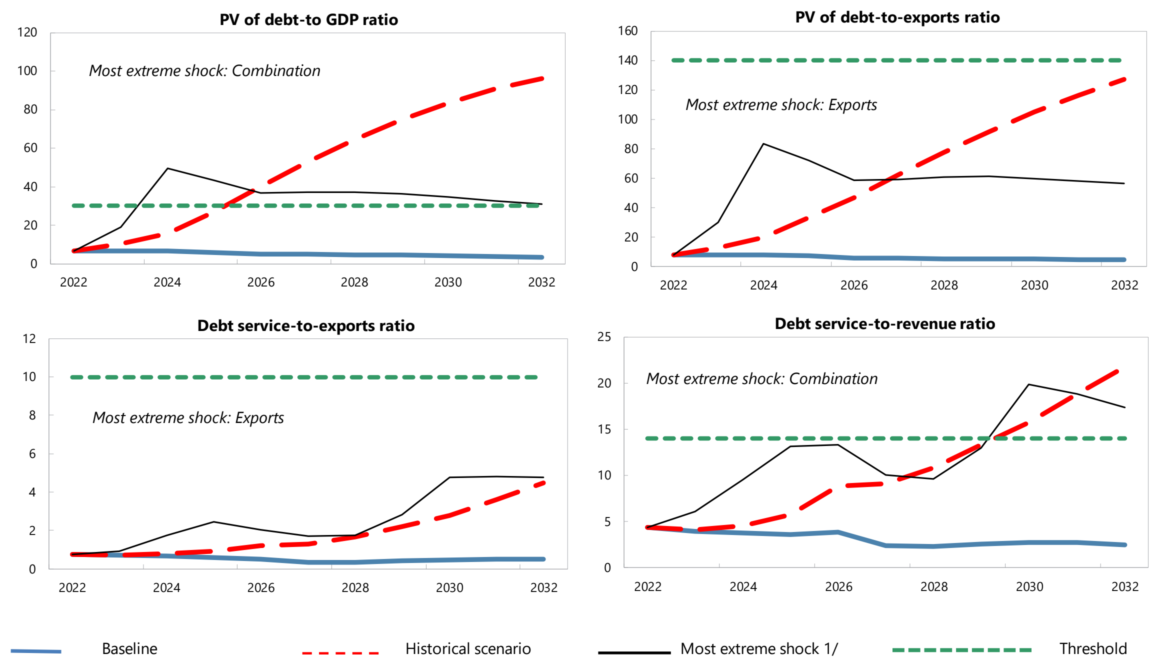
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Guyana: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032 1/

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	19	17	15	12	11	11	11	11	11	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	19	19	19	20	20	21	22	22	23	23	24
B. Bound Tests											
B1. Real GDP growth	19	**35**	**65**	**70**	**73**	**88**	**103**	**117**	**133**	**148**	**165**
B2. Primary balance	19	22	24	19	16	16	16	16	16	16	16
B3. Exports	19	29	**47**	**40**	34	35	**35**	35	34	33	32
B4. Other flows 3/	19	29	**38**	33	28	28	28	28	27	27	26
B5. Depreciation	19	17	14	11	9	8	7	7	6	6	5
B6. Combination of B1-B5	19	23	24	22	22	25	28	31	33	**36**	**38**
C. Tailored Tests											
C1. Combined contingent liabilities	19	23	20	17	14	14	14	14	14	14	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	19	25	**42**	**56**	**65**	**82**	**98**	**113**	**128**	**143**	**160**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	134	117	104	96	91	87	83	79	75	72	68
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	134	132	134	153	176	173	169	165	161	157	152
B. Bound Tests											
B1. Real GDP growth	134	247	458	544	631	721	802	872	938	999	1,057
B2. Primary balance	134	150	165	150	139	132	125	118	111	105	100
B3. Exports	134	200	328	310	296	285	274	259	240	221	204
B4. Other flows 3/	134	201	267	251	240	231	222	209	194	180	166
B5. Depreciation	134	116	97	84	74	66	58	51	44	37	31
B6. Combination of B1-B5	134	163	172	169	189	206	219	228	235	240	243
C. Tailored Tests											
C1. Combined contingent liabilities	134	162	141	129	120	114	108	103	97	93	88
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	134	231	398	609	736	796	828	838	904	966	1,024
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	39	34	22	14	10	10	11	12	13	14	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	39	35	23	16	13	13	13	14	15	16	16
B. Bound Tests											
B1. Real GDP growth	39	55	110	167	224	287	336	373	406	434	458
B2. Primary balance	39	34	43	54	42	37	32	29	28	27	26
B3. Exports	39	34	24	19	15	15	15	19	26	26	26
B4. Other flows 3/	39	34	24	18	13	13	14	18	22	23	23
B5. Depreciation	39	32	21	14	10	10	10	11	12	12	12
B6. Combination of B1-B5	39	39	30	19	37	59	75	90	102	113	121
C. Tailored Tests											
C1. Combined contingent liabilities	39	34	51	37	28	25	23	22	21	21	21
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	39	46	32	114	237	317	357	372	403	429	452
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 1. Guyana: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–2032



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price 2/	No	No
Market financing	n.a.	n.a.

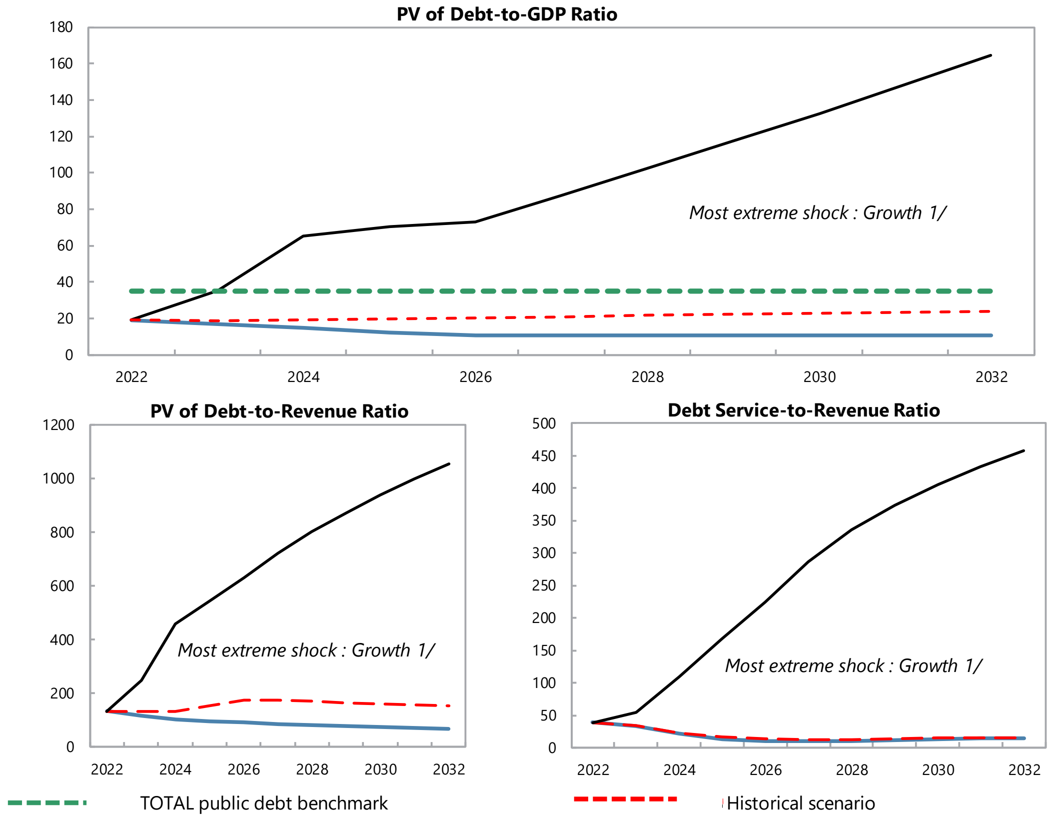
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Guyana Indicators of Public Debt Under Alternative Scenarios, 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	19%	19%
Domestic medium and long-term	11%	11%
Domestic short-term	70%	70%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	8.6%	8.6%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	3.2%	3.2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

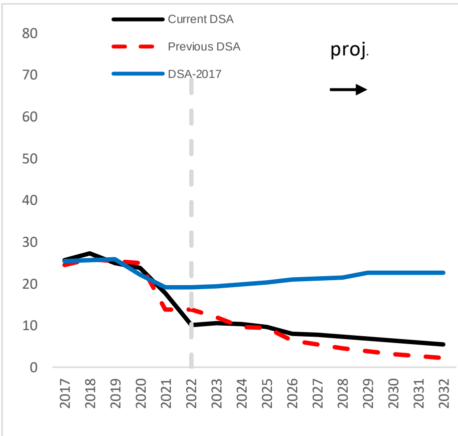
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

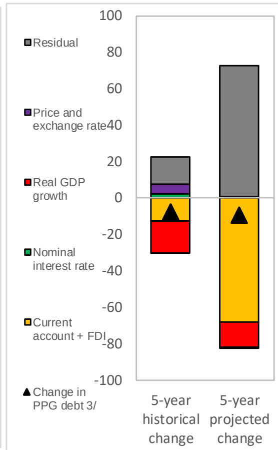
Figure 3. Guyana: Drivers of Debt Dynamics – Baseline Scenario

External debt

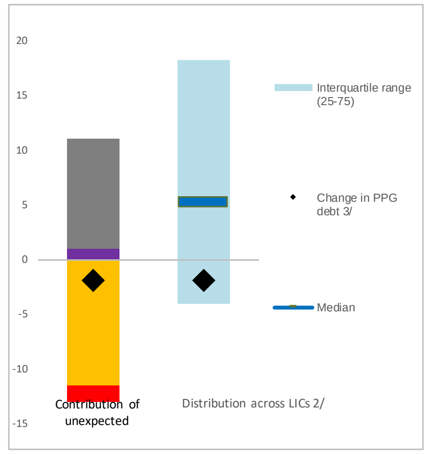
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

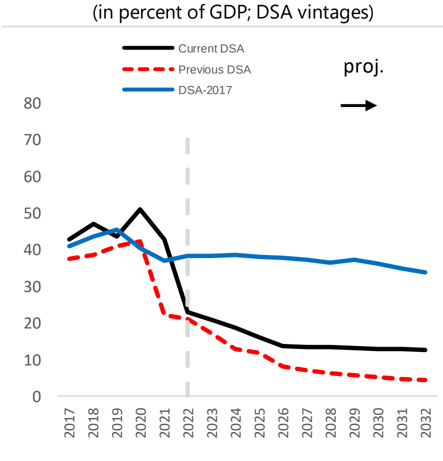


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

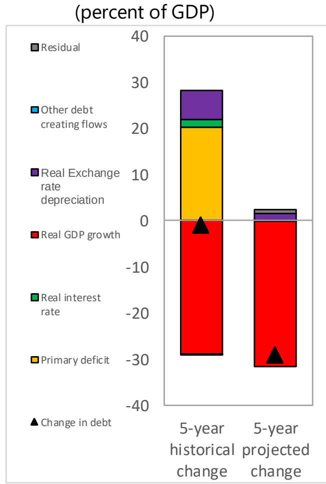


Public debt

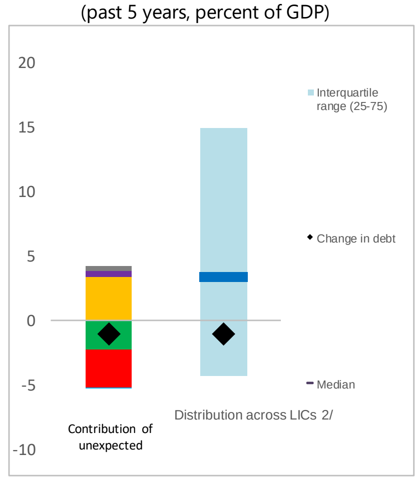
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were produced.
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Guyana: Realism Tools

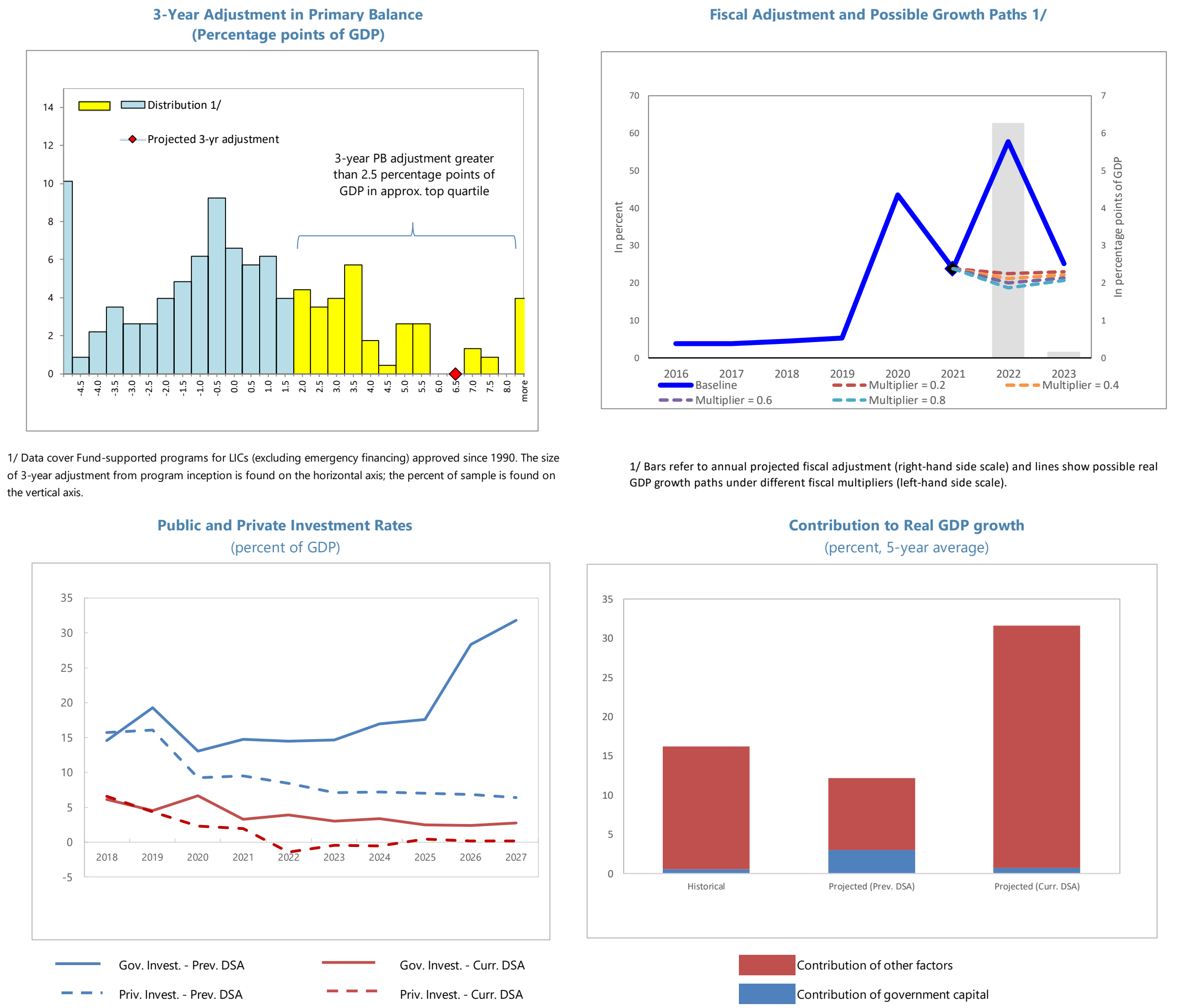
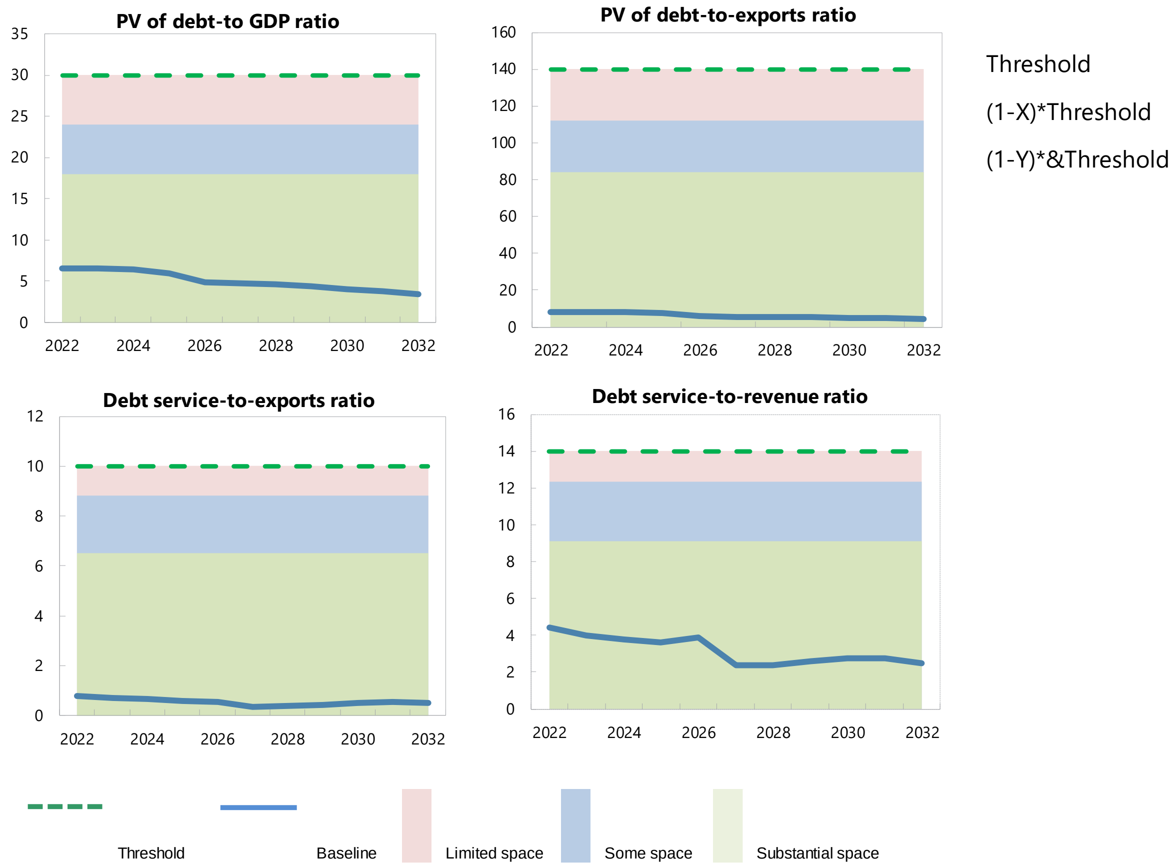


Figure 5. Guyana: Qualification of the Moderate Category, 2022–2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Bevilaqua, Mr. Fuentes, and Ms. Mahabir on Guyana
August 31, 2022

On behalf of our Guyanese authorities, we thank the mission team led by Ms. Alina Carare for their open and constructive dialogue during this year's Article IV consultation. The authorities also want to acknowledge the work of former mission chief Mr. Arnold McIntyre, who recently retired from the Fund.

Notwithstanding the authorities' appreciation of staff advice and candor, they believe the report does not fully represent the current dynamism and prospects of the Guyanese economy. Guyana is in the midst of an energy boom after the discovery and production of oil and natural gas. The rapid growth in the energy sector is impacting the rest of the economy and propelling a major economic transformation. Foreign oil and gas companies operating in Guyana have raised their long-term production forecasts, which will help to attract new capital investment and lift the growth outlook to a double-digit expansion for at least the next five years. From the authorities' standpoint, this remarkable macroeconomic outlook should've been widely featured in the analysis presented in the report instead of leaving it in the annex tables.

The current administration overcame extremely challenging socio-political conditions. A parliamentary no-confidence motion in the previous administration was enacted in December 2018, triggering a constitutional requirement for elections to be held by March 2019. The election was pushed back until March 2020, and the electoral results were delayed until August 2020. This situation impacted the authorities' ability to respond to the pandemic crisis through standard budgetary procedures. In addition, the dire political situation resulted in the withholding of access to funding by key multilateral and other development partners, and a reluctance by the private sector to fully engage in the economy. After taking office, the new administration embarked upon rapid investment and social protection programs amid difficult prevailing conditions.

The Guyanese government will continue to leverage on the experiences of other resource-rich countries. The authorities are well aware of the unique challenges associated to oil, mining and gas extraction, and are fully committed to make policy decisions that help avoid some of the mishaps while maximizing the benefits. In that vein, the authorities plan to boost investment in education, health, and infrastructure to help ensure the general population profit from the country's expected economic growth. In addition, they have put in place local-content policies to facilitate that local businesses are able to benefit from the energy sector development.

Recent macroeconomic developments

The new oil discovery in Guyanese waters has propelled the country into becoming the fastest growing economy in the world. The Guyanese economy is projected to grow 57.8 percent in 2022, according to staff estimates. This unprecedented rate of expansion is expected to be driven by the oil sector, with all major sectors regaining momentum from the full reopening of the economy as the pandemic gradually wanes and supporting fiscal measures alleviate the rising costs of production and services. During the first quarter of the year, real GDP growth was consistent with the forecast, with the non-oil sector exhibiting a strong performance led by agriculture, manufacturing, and services.

The upward trend in international oil prices has prompted foreign operators to bring forward investments, accelerating the development of oil fields. For instance, Exxon Mobile recently reported that it had already exceeded its original year-end daily production target of 340,000 barrels of oil equivalent per day. Oil export growth, along with higher public and private investment, should continue to provide a sustained boost to domestic demand, and overall economic growth, even despite a high base of comparison and the lingering impact of the pandemic.

Despite a slight recent moderation, inflationary pressures continue. Inflation was already surging prior to the war in Ukraine due to rising commodity prices and disruptions in global value chains. While war-related shortages are expected to continue to put pressure on international commodity prices, domestic inflation, particularly food, has somewhat slowed down during the second quarter of 2022 as the authorities continue to take measures to ease the cost-of-living and guarantee food security. For year-end 2022, the inflation rate is expected to remain around 4 percent according to official estimates.

Fiscal Reforms and Policies

In the short-term, fiscal policy will remain sensitive to growth needs and inflationary pressures. The NRF Act allowed Parliament to authorize a US$607.6 million transfer to support the 2022 budget to invest heavily in capital expenditure while supporting the needs of the vulnerable population. In addition, the strong oil windfall is allowing the authorities to temporarily lower rates or remove taxes on selected items, including gas and diesel fuels, to mitigate the impact of rising inflation. Furthermore, considering the significant rise in fertilizer prices, the authorities are also supporting farmers to access fertilizers at a more affordable cost.

The authorities are committed to gradually adjust the fiscal stance and strengthen the medium-term fiscal framework. The framework will reflect the annual non-oil overall fiscal deficit (after grants) constrained to not exceed the expected transfer from the NRF over the medium to longer term. Such actions will put the country on an even more sustainable fiscal position and reduce the risk of macroeconomic imbalances. However, the road to a balanced budget may take longer than the 2025 target put forward by staff in the report, considering the significant investment in both physical and human capital needed to support Guyana's development goals.

The oil windfall will help boost fiscal buffers and significantly improve the public debt outlook. Guyana currently exhibits one of the lowest debt-to-GDP ratios in the region, with all external debt indicators below the relevant indicative vulnerability thresholds according to staff's Debt Sustainability Analysis, and a fact that should've been more prominently featured in the staff report. In addition, the authorities have established effective statutory ceilings on domestic and external debt, that will be recalibrated to reflect the economy's evolving financing needs and the country's debt-carrying capacity. In this regard, staff's assessment may be inconsistent with the growing international reserves and the fact that imports associated with oil production tend to rise vis-à-vis the energy boom. Therefore, a more adequate metric to estimate debt-carrying capacity for oil producing economies may be needed to avoid misconstructions. Using imports net of capital imports for the energy sector may be a more suitable benchmark.

Monetary Policy and Financial Sector developments

The Bank of Guyana (BoG) has maintained its focus on price stability. The BoG continues to monitor local and international conditions to react to the global tightening, especially to the rate increases in the US by the Federal Reserve. With the rapid growth of the oil sector, there has been increased foreign exchange transactions in all segments of the market including bank and non-bank. Therefore, the monetary authorities have strategically intervened in the market to avoid disorderly conditions. Notably there has been an increase in international reserves due to foreign exchange inflows, which was complemented by IMF's injection of SDRs. The inherited overdraft at the Bank of Guyana was effectively addressed with the issuance of debentures in June 2021, though this contributed to a rise in domestic debt.

The financial sector remains resilient. The authorities are fully committed to continue the implementation of the recommendations of the 2016 FSAP, particularly regarding Basel II and III. The modernization of the payment system has accelerated with many consumers and businesses adopting digital payments solutions as the country rapidly transitions away from a cash-based society. In this context, the integration of the Guyana Real Time Gross Settlement (G-RTGS) and Guyana Central Securities Depository (G-CSD) systems with the Automated Clearing House (ACH) system would help accelerate this trend in an orderly fashion.

Structural reforms

Notwithstanding the focus on the energy sector, diversification efforts will be intensified. The authorities are conscious of the international push away from fossil fuels and have ensured that funds are being devoted to further diversify and boost production in the non-oil sector, with an expansion into non-traditional areas such as wheat and soya bean, and investment in a seed bank to increase its food security and diversification. In addition, the tourism industry is also set to experience a significant boost as international hotel chains such as Hyatt, Best Western and Marriot are expected to start or complete construction of new hotels across the country.

Human capital investment remains a top priority. The Ministry of Labor, through its Board of Industrial Training, is implementing programs to boost technical capacity in areas, related to new and emerging sectors, to help reduce geographical and occupational inter- industry skills mismatches going forward. Policies to improve the education system are also being implemented including by investing in expanding schools at all educational levels. The authorities are also looking at the country’s immigration policy to address evolving trends and meet the country's present labor market needs.

Infrastructure investment will strategically support sustainable growth efforts. The construction of new highways, bridges, and roads will also help boost the non-energy sector as the authorities ramp up capital expenditure. The New Demerara River Bridge, the Corentyne River Bridge linking Guyana and Suriname, and road infrastructure linking Guyana to Brazil are some of the projects to be undertaken. The construction sector will also benefit from the authorities push to increase the housing stock across the country. In all cases, the procurement process will be open and competitive, including public and online viewing of opening of bids and publication of awardees.

The authorities are fully committed to further strengthen governance. The anti- corruption framework is aligned with international best practices standards, and the ongoing improvement of the legal framework, public financial management practices and policy coordination across public agency remain a priority. Furthermore, the country is also part of the Extractive Industries Transparency Initiative (EITI), which promotes the transparent and accountable management of resources from the mining, energy, fishing, and forestry industries, and the authorities recognize that following up adequately on EITI recommendations is paramount. The government is currently working on increasing public awareness about the functions of its anti-corruption framework including increasing the efficiency of the Integrity Commission and the National Procurement and Tender Administration Board.

Investment in climate change adaptation is a key element of the authority’s policy agenda. The country will invest in renewable energy with multiple utility-scale, photovoltaic solar projects distributed across the country supported by Norway's International Climate and Forest Initiative and implemented by the IDB. The country is also looking to enter the international carbon credit market to issue between 8 and 10 million carbon credits in ART- TREES (Architecture for REDD+ Environmental Excellence Standard). Furthermore, the country has implemented a flaring tax at US$45 per ton of carbon and commits to reduce emissions by 70 percent before 2030.

Conclusion

The Guyanese authorities have made considerable progress capitalizing on the energy boom, despite the limitations imposed by the pandemic, political instability, and human capacity constraints. As the country addresses long-standing development challenges, the authorities reiterate their commitment to maintain a productive engagement and close collaboration with the Fund and CARTAC.