INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/296

GUYANA

September 2019

2019 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 2019 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 30, 2019 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 30, 2019, following discussions that ended on June 14, 2019, 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 23, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- 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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September 17, 2019

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Guyana

On August 30, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guyana.[1]

Guyana's economic growth strengthened in 2018 with broad-based expansion across all major sectors. Real GDP grew by 4.1 percent, led by construction and services sectors, up from 2.1 percent in 2017. Inflation remained low at 1.6 percent at end-2018. The external current account deficit rose to 17.5 percent of GDP, from 6.8 percent in 2017, due to weaker exports and higher imports related to oil production, which was largely financed by foreign direct investment (FDI) in the petroleum sector. Public finances improved in 2018 as the central government deficit came in at 3.5 percent of GDP, lower than the budgeted 5.4 percent of GDP.

The medium-term prospects are very favorable as oil production is on schedule to begin in early 2020. Economic growth is projected at 4.4 percent in 2019, extending the broad-based expansion across all major sectors. The current account deficit is estimated to rise to 22.7 percent of GDP on the back of higher imports related to oil production, which will be largely financed by FDI in the petroleum sector. The commencement of oil production in 2020 will substantially improve Guyana's medium- and long-term outlook. The oil sector is projected to grow rapidly, accounting for around 40 percent of GDP by 2024 and supporting additional fiscal spending annually of 6.5 percent of non-oil GDP on average over the medium term, which will help meet critical social and infrastructure needs. Public debt and the external current account deficit are projected to decline steadily following the onset of oil production.

[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.

Executive Board Assessment[2]

Directors welcomed Guyana's broad-based economic expansion in recent years underpinned by prudent macroeconomic policies. Directors noted that the medium-term outlook is favorable but highlighted that the commencement of the oil production presents both opportunities and challenges. Directors emphasized that to ensure the effective use of windfall revenues, policies should focus on reducing macroeconomic vulnerabilities, addressing structural weaknesses, boosting inclusive growth, and promoting intergenerational equity.

Directors welcomed the authorities' Natural Resource Fund (NRF) legislation for managing Guyana's oil wealth and emphasized the need to complement it with a fiscal responsibility framework to avoid fiscal deficits. They commended that the NRF's framework aims to save some of the resource income for future generations and contain the pickup in public spending. To meet these objectives, Directors called for the authorities to constrain the annual non-oil deficit to not exceed the expected transfer from the NRF. This rule could be phased in over the next three years to allow a smooth widening of the non-oil deficit (in relation to non-oil GDP).

Directors agreed that monetary policy should gradually revert to a neutral stance to contain potential inflationary pressure as public spending increases, economic growth strengthens, and credit expands. Over the medium-term, developing the infrastructure for greater exchange rate flexibility within the monetary policy framework would help sustain healthy economic growth while maintaining price stability and facilitating adjustment to oil price and other external shocks.

Directors noted the continued progress in strengthening transparency and governance and encouraged sustained efforts to implement the recommendations of the 2019 Extractive Industries Transparency Initiative Report, which would promote effective and transparent management of the oil wealth. They also supported strengthening anti-corruption frameworks, including by facilitating the work of the Integrity Commission, to improve governance, support investor confidence and promote growth. At the same time, addressing institutional capacity weaknesses would enable decisive implementation of policy actions to further strengthen governance.

Directors noted that it is important to further improve the quality, efficiency, and transparency of public financial management. They recommended addressing the

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[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: https://www.imf.org/external/np/sec/misc/qualifiers.htm.

shortcomings identified by the 2017 Public Investment Management Assessment (PIMA) and expenditure review before public investment is significantly scaled-up with oil revenues.

Directors recommended an asset quality review to assess the credit quality of banks with high nonperforming loans. They welcomed the progress made in implementing the 2016 FSAP recommendations and encouraged completing the remaining ones. Directors noted the authorities' progress in strengthening the AML/CFT framework and called for further efforts in this regard.

Directors encouraged the authorities to use the opportunity presented by oil revenues to undertake structural reforms to support economic diversification, tackle skilled labor shortages, and achieve inclusive and equitable growth. Priority should be given to address infrastructure bottlenecks and upgrade the education system. In addition, promoting more flexible working arrangements could help increase female labor participation. Directors underscored the importance of improving the business environment and enhancing competitiveness. They also recommended putting more efforts into developing climate-resilient infrastructure networks.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2018 (thousands)	782	Population not using an improved	
Life expectancy at birth (years), 2017	66.8	water source (%), 2015	4.9
Under-five mortality rate (per 1,000 live births), 2017	31.3	Gini index, 1998	44.6
Population living below the poverty line (%), 2000-06	35	HDI rank, 2017	125

II. Economic Indicators

				Preliminary	Projections	
	2015	2016	2017	2018	2019	2020
Production and prices						
Real GDP 1/	3.1	3.4	2.1	4.1	4.4	85.6
Real GDP per capita	2.7	2.5	1.5	3.6	4.1	85.1
Consumer prices (average)	-0.9	0.8	1.9	1.3	2.1	3.3
Consumer prices (end of period)	-1.8	1.5	1.5	1.6	2.7	3.5
Terms of trade	19.7	12.1	-10.3	-8.7	2.0	1.6
Central government						
Revenue	24.6	24.5	26.2	26.9	28.0	18.5
Grants	1.0	1.1	1.6	1.3	1.3	0.6
Expenditure	27.0	30.0	32.2	31.6	34.3	19.7
Current	22.4	23.5	24.4	24.8	26.1	14.5
Capital	4.6	6.4	7.9	6.8	8.1	5.2
Overall balance (after grants)	-1.4	-4.4	-4.4	-3.5	-5.0	-0.7
Total public sector gross debt 2/	50.1	50.7	51.4	52.9	55.4	29.3
External	35.7	33.2	34.4	33.9	33.2	18.4
Domestic	14.4	17.6	16.9	19.0	22.2	10.9
Money and credit						
Broad money	3.7	5.4	-0.7	6.0	8.4	13.5
Domestic credit of the banking system	12.3	7.8	1.5	10.8	9.9	-2.7
Public sector (net) 3/	34.4	23.6	0.4	25.8	20.5	-14.9
Private sector	5.8	2.0	2.1	4.0	4.2	5.0
External sector						
Current account balance 4/	-163.0	13.2	-246.2	-683.3	-935.7	-1,483.6
(Percent of GDP)	-5.1	0.4	-6.8	-17.5	-22.7	-18.4
Gross official reserves	598.5	596.7	584.0	528.4	643.0	857.8
Months of imports of goods and services 5/	3.7	3.3	2.6	2.1	1.8	2.4
Memorandum items:						
Nominal GDP (G$ billion)	660.2	723.6	744.6	805.7	852.4	1,678.0
Nominal GDP, non-oil (G$ billion)	660.2	723.6	744.6	805.7	852.4	967.2
Per capita GDP, US$	4,168	4,531	4,636	4,984	5,252	10,249
Guyana dollar/U.S. dollar (period average)	206.5	206.5	206.5	206.7	…	…

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

1/ Projected real GDP growth in 2020 is potentially overstated and subject to large subsequent revisions because of the very high growth rate of oil GDP, which in turn is elevated on account of the very low (zero) base in 2019. Hence, even small changes to the projected oil output in 2020 would result in large changes in real oil GDP and overall real GDP growth rates. Work is ongoing to rebase the real GDP series to account for oil-related activities since 2015 in advance of actual oil production in 2020.

2/ Since 2015-16, public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank. The ratios do not include publicly-guaranteed debt.

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

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

5/ Gross reserves in months of imports of goods and services for 2017 onward are affected by high value imports of oil goods and services.

INTERNATIONAL MONETARY FUND

GUYANA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

July 23, 2019

KEY ISSUES

Context: Economic activity strengthened in 2018 with broad-based expansion across all major sectors. Inflation remains relatively low, and monetary stance accommodative. Oil production is expected to commence in early 2020, and additional oil discoveries have significantly improved the medium- and long-term outlook. This presents a momentous opportunity to boost inclusive growth by addressing human development needs and infrastructure gaps, provided the oil wealth is managed well.

Focus of the Discussions: Policies to fortify the fiscal policy framework to ensure effective use of the new-found oil wealth; develop the necessary infrastructure for a suitable monetary policy framework that facilitates adjustment to oil price shocks while maintaining price stability; and reforms to enhance competitiveness, promote economic diversification, strengthen governance, and achieve inclusiveness.

Key Policy Recommendations:

- ***Fiscal framework.*** The passage of the Natural Resource Fund (NRF) legislation is a critical step toward effective management of Guyana's natural resource wealth. To ensure that fiscal discipline is maintained and spending ramps up at a pace in line with absorptive capacity, the fiscal framework should be enhanced to prevent deficits.

- ***Monetary framework.*** In view of the expected large and potentially volatile receipts from oil exports, the exchange rate can play a valuable role as a shock absorber. Developing over the medium term the necessary infrastructure for increased exchange rate flexibility will facilitate growth while maintaining price stability.

- ***Safeguarding financial stability.*** The authorities' efforts to implement legal frameworks recommended in the 2016 FSAP and to strengthen financial sector resilience are welcome. Addressing high non-performing loans and under-provisioning in the banking system should remain a priority.

- ***Boosting inclusive growth.*** To achieve equitable growth, further efforts are needed to improve the business climate, reform public enterprises, reduce youth unemployment, and boost female labor force participation.

Approved By

Aasim M. Husain (WHD) and Edward R. Gemayel (SPR)

The team, comprising Meredith A. McIntyre (head), Julian Chow, Seedwell Hove, and Ippei Shibata (all WHD), visited Guyana during June 3–14. Aasim M. Husain (Deputy Director, WHD), Alexandre Tombini (Executive Director, OEDBR) joined the concluding meetings. Zahrah Mohammed (Senior Advisor to the Executive Director, OEDBR) participated in the meetings. The team met with Prime Minister Moses Nagamootoo, Finance Minister Winston Jordan, Minister of Legal Affairs and Attorney General Basil Williams, Central Bank Governor Gobind Ganga, other senior government officials, representatives of the labor community, of the private sector, and members of the political opposition. Research support was provided by Giovanni Melina (RES), Pablo A. Bejar and Lulu Shui (WHD); editorial support was provided by Heidi Canelas (WHD).

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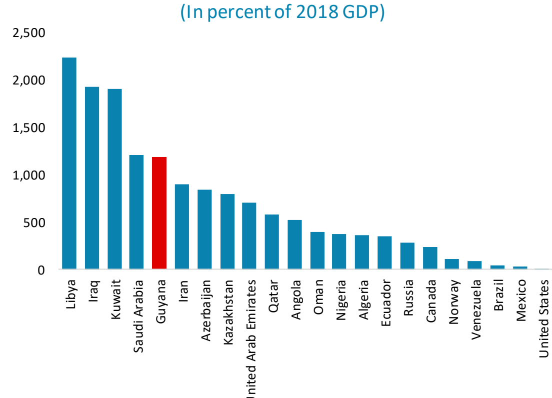
BACKGROUND

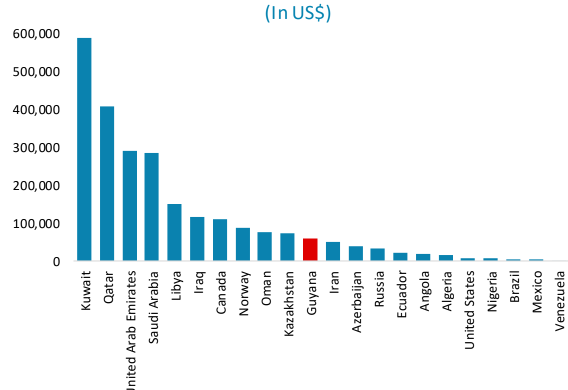
1. Income from Guyana's oil, which is on schedule to start production in early 2020, has the potential to transform the economy but will need to be managed effectively to minimize macroeconomic distortions related to Dutch disease and governance weaknesses. Oil production is estimated to begin in the first quarter of 2020, averaging 102,000 barrels/day (bpd), and rising to an average of 424,000 bpd in 2025.[1] The main direct effect of the oil sector on the domestic economy will be through fiscal revenue and its use.[2] The authorities have legislated a [Natural Resource Fund (NRF) Act 2019](#) which provides a framework for establishing a natural resource fund, a Public Accountability and Oversight Committee to report on the Fund, and a transfer rule that determines fiscal transfers from the NRF to the budget (Annex I). In the event of a delay in initial oil production, the NRF Act does not allow the front-loading of oil-financed spending in advance of the materialization of oil revenue.

Present Value of Oil Reserves 1/
(In percent of 2018 GDP)



Sources: IMF, World Economic Outlook Database; U.S. Energy Information Administration; and OPEC.
1/ Estimated based on a assumption of oil price increasing at 2 percent per year and discount rate of 3 percent (similar to the expected long-run returns to Guyana's NRF, as per the NRF Act). Guyana's oil reserves only include Liza I and Liza II at this stage.

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 a assumption of oil price increasing at 2 percent per year and discount rate of 3 percent (similar to the expected long-run returns to Guyana's NRF, as per the NRF Act). Guyana's oil reserves only include Liza I and Liza II at this stage.

2. Macroeconomic policies have been broadly in line with Fund advice. Key Fund recommendations in the past include a moderation in fiscal deficit to reduce financing needs and preserve external buffers before oil revenues materialize, refraining from non-concessional external financing, improving the efficiency of public investment management, allowing exchange rate flexibility to play a larger role in facilitating the adjustment to external shocks, and strengthening the supervisory and regulatory framework in line the 2016 FSAP. The authorities' policies have been broadly consistent with these recommendations (Annex II). In addition, the authorities continue to benefit from Technical Assistance (TA) delivered by the Fund and other providers.

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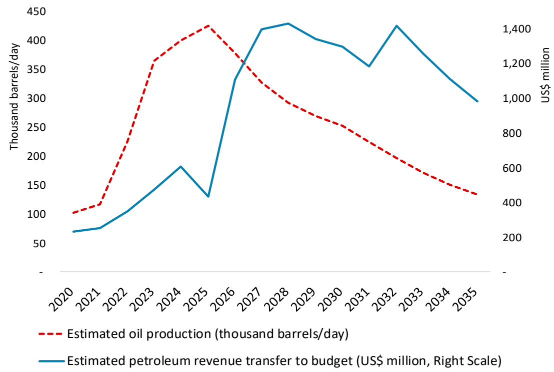
[1] Based on Liza I and Liza II. Additional discoveries have also been made but their oil production prospects are not known at this time and therefore excluded in the baseline.

[2] Oil sector output will raise overall GDP and exports substantially, but its direct impact on the domestic economy will be mostly offset by higher imports of oil extraction equipment and payments to the operators.

Guyana: Oil Production and Government Oil Revenue 1/



Sources: Authorities data; and IMF staff calculations.
1/ Based on projections on Liza Phase I and II only.

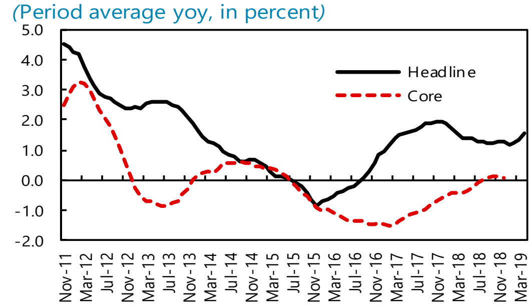
Guyana: Breakdown of Present Value of Oil Revenues 1/
(In percent of 2018 GDP)

Gross Total Oil Revenue	1,178
Total petroleum revenue for transfer to private oil company 2/	1,007
Total petroleum revenue for NRF	171
o/w: Petroleum revenue for transfer to budget	114

Sources: Authorities data; and IMF staff calculations.
1/ Based on projections from Liza Phase I and II until 2048.
2/ Based on cost recovery and production sharing agreement.

RECENT DEVELOPMENTS

Headline and Core Inflation
(Period average yoy, in percent)



Source: IMF, International Financial Statistics database.

3. **Economic growth strengthened in 2018 with broad-based expansion across all major sectors.** Real GDP grew by 4.1 percent (y/y) in 2018, up from 2.1 percent in 2017, led by construction and services sectors. Better performance in livestock, forestry and other crops helped offset the contraction in sugar production due to delays in the restructuring of the Guyana Sugar Corporation (GuySuCo). Inflation remained steady at 1.6 percent at end-2018, on the back of stable food prices and exchange rate. Core inflation remained close to zero.

4. **Guyana's external position is assessed to be broadly consistent with fundamentals and desirable policy settings** (see Annex X). Higher imports, driven by investment-related oil imports, contributed to a temporary worsening of the current account balance, which is projected to reverse as oil exports commence and increase over the medium term. The financial account improved due to higher FDI, particularly in the oil and gas sector. Gross reserve coverage declined to 2.1 months of imports, mainly due to higher imports. In 2018, the real and the nominal effective exchange rates appreciated by about 2.8 and 2.5 percent (end of year basis), respectively, mainly driven by appreciation against non-U.S. trade partners, such as Canada. During the same period, Guyana dollar depreciated against the U.S. dollar by 1 percent (y/y). Guyana's exchange rate regime remains a *de jure* float, but a *de facto* stabilized arrangement with foreign exchange rate interventions.

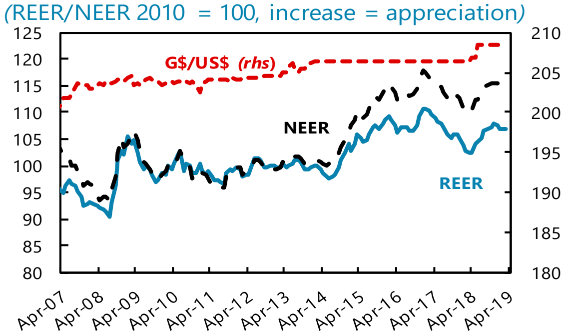
5. **The fiscal outturn was better than expected, supported by stronger revenues and lower growth in expenditure.** The central government's overall deficit came in at 3.5 percent of GDP, better than the 2018 Budget and Article IV estimates of 5.4 percent of GDP. Total revenues grew by 11 percent, supported by the tax amnesty program (which relaxed interest and penalties on payments of outstanding taxes) and a significant increase in corporate remittances which

contributed 3.7 percent and 2.4 percent, respectively, to total revenues. Tax reform measures such as the establishment of a Large Taxpayers Unit and electronic tax filing have increased income tax collection. Total expenditure rose at a slower pace, at 6 percent in 2018, compared to 11 percent in 2017, mostly due to weaker capital expenditure. Public debt, including government guarantee on a US$79 million syndicated loan raised by National Industrial and Commercial Investments Limited (NICIL), stood at 55 percent of GDP at end-2018.[3]

6. Credit to the private sector grew by 4.0 percent in 2018, faster than the growth rate of 2.1 percent in 2017, mostly driven by the business sector. The stronger credit growth bolstered GDP growth in 2018. Credit growth was stronger in the business (5.3 percent) sector, but weaker in the household sector (4.1 percent). The 91-day Treasury Bill rate remained at 1.54 percent at end-2018, unchanged from end-2017. The weighted average of commercial banks' prime lending rate remained at 10 percent at end-2018, unchanged from end-2017.

Real and Nominal Effective Exchange Rates

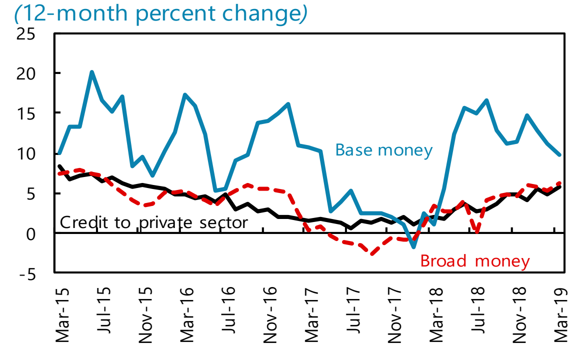
(REER/NEER 2010 = 100, increase = appreciation)



Source: IMF, International Financial Statistics database.

Monetary Indicators

(12-month percent change)



Source: Bank of Guyana.

7. The financial sector remains stable. The banking sector's nonperforming loans (NPLs) to total loans ratio has fallen slightly to 11.9 percent as of end-2018, from 12.2 percent a year before, but remained high. Average capital to risk-adjusted assets rose 2 percentage points to 29.6 percent during the period. Correspondent banking relationships remain stable as domestic banks maintain business with two foreign correspondent banks.

8. Political uncertainties have risen. The Caribbean Court of Justice announced its decision in June 2019 to uphold the December 2018 Parliamentary "no-confidence" vote against the government. As a result, fresh parliamentary elections are expected to be held in the coming months, though a date has not yet been set.

OUTLOOK AND RISKS

9. Guyana's medium-term prospects are very favorable as oil production is on schedule to begin in early 2020. Economic growth is projected at 4.4 percent in 2019, from 4.1 percent in

[3] This loan was intended for restructuring state-owned GuySuCo.

2018, as the domestic economy extends the broad-based expansion across all major sectors. Growth will be driven by continued strength in the construction and services sectors ahead of oil production in 2020, and strong recovery in mining. The commencement of oil production in 2020 will substantially improve the medium-and long-term outlook. The oil sector is projected to grow rapidly, accounting for around 40 percent of GDP by 2024 and supporting additional fiscal spending annually of 6.5 percent of non-oil GDP on average. This would boost non-oil GDP growth by 3.5 percentage points on average, based on a multiplier of 0.53 in the Caribbean (Narita, 2014).

10. The external outlook is expected to gradually improve after the start of oil production in 2020. The current account deficit is projected to narrow from -22.7 in 2019 to -18.4 percent of GDP in 2020, with the commencement of oil exports. The deficit will be financed largely by FDI inflows and donor-supported investment. In the medium term, the current account balance will improve further as oil-related imports subside with the completion of oil fields and as oil exports from Liza II commence in 2022. Public debt (including guarantee) is projected to peak at 56.6 percent of GDP in 2019 before declining sharply from 2020, reaching 15.8 percent of GDP by 2024, as the incoming oil revenue significantly reduces borrowing needs and increases GDP. Guyana's debt-sustainability analysis (DSA) shows that the risk of external and overall debt distress remains moderate at present, but debt dynamics will improve significantly as oil production begins and will give the country substantial space to absorb shocks.[4]

11. The favorable 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, and governance concerns. A slowing global economy could also affect non-oil exports, particularly sugar, rice, and other commodities. On the upside, further oil discoveries and production, if managed effectively, could significantly improve Guyana's economic welfare over the long-term. Concrete measures are needed to address issues relating to capacity constraints to mitigate the risks of under-execution of public capital investments.

POLICY DISCUSSIONS

A. Fiscal Policy

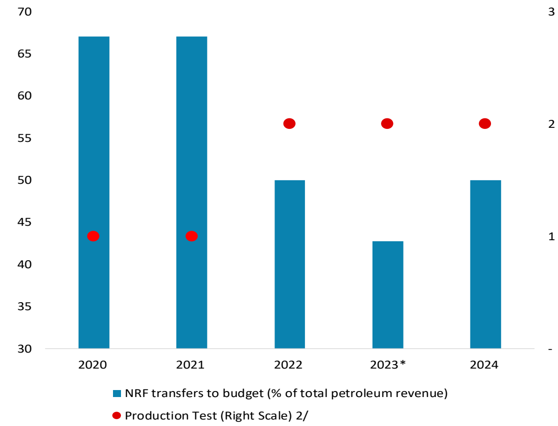
12. The fiscal stance remains appropriately expansionary in 2019 ahead of oil production, driven by significant need for capacity building and infrastructure development (Annex III). The central government's overall deficit is projected at 5 percent of GDP, on the back of higher capital and current expenditures. The increase in capital expenditure, projected at 25.7 percent, reflects the substantial infrastructural needs to support connectivity and human capital development within the country. Staff projects current expenditure to grow 11.6 percent, driven mainly by an increase in public wages and goods and services on the back of pressing needs to build capacity, and to

[4] The DSA report provides further details.

address skills shortages and over-crowding in schools and hospitals. Increased tax collection efficiency, a higher compliance rate following reforms by the Guyana Revenue Authority (GRA), and broadening growth in the domestic economy will increase VAT and trade taxes collections, supporting an increase in tax revenue by 12.6 percent.

13. The fiscal framework envisages sizable transfers of oil income to the budget over the next five years, together with accumulation of savings in the NRF. Based on projected oil prices and production, transfers to the budget will amount to a cumulative 32.7 percent of nonoil GDP over 2020−24 and the balance in the NRF would amount to 30.1 percent of nonoil GDP by end-2024. This presents an opportunity to scale-up capital and current spending to address infrastructure gaps and human development needs. Staff views the implied roughly equal shares of saving versus spending of the oil income during the first five years as appropriate—it should contain "Dutch Disease" effects (real exchange rate appreciation that could erode export competitiveness and crowd out private investment; Box 1). Staff emphasized the need to continuously monitor the economy's absorptive capacity and to stand ready to scale back spending if signs of overheating or spending inefficiencies emerge (Annex IV). Staff also highlighted the need to consider the impact on the economy's productive capacity when apportioning between capital and current expenditure.[5]

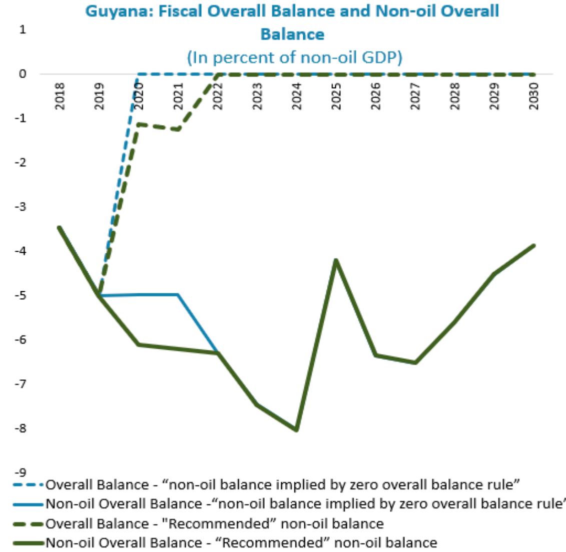
Guyana: NRF Transfers to Budget, 2020-2024 1/



Sources: Authorities data; and IMF staff calculations.
* Indicates a scenario where the cap on fiscal transfer (25 percent of non-oil revenue) is reached.
1/ Based on Staff estimates with data from the authorities.
2/ "1" indicates **Low** (*less than 200,000 bpd*); "2" indicates **Moderate** (*between 200,000 and 400,000 bpd*); "3" indicates **High** (*more than 400,000 bpd*).

14. Complementing the NRF Act with a fiscal responsibility framework is necessary to ensure effective management of the oil wealth. The NRF Act includes a budget transfer rule that ensures in the long-run that fiscal transfers are determined by the expected financial return on the accumulated assets of the NRF. In the medium-term, the rule envisages a transfer of around half of current oil revenue to the budget. To ensure compliance with the principle underlying this rule—that part of the oil revenue is saved as a buffer against shocks and for future generations—and 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

Guyana: Fiscal Overall Balance and Non-oil Overall Balance
(In percent of non-oil GDP)



Source: IMF staff calculations.

[5] Empirical studies (Alichi, et. al. (2019), Gonzales-Garcia, et. al. (2013), and Doumbia and Kinda (forthcoming)), on average, find that 1 percentage point (ppt) increase in capital spending could increase real GDP growth by 0.9 ppt while the same increase in current spending could increase real GDP growth by 0.1 ppt, in the medium-term.

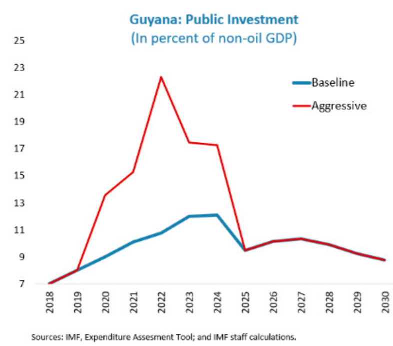
fiscal balance) is needed. This would ensure that public expenditure will not lead to debt growing at the same time as the NRF accumulates. Staff recommends that this complementary rule be phased in over the next three years to allow a smooth widening of the non-oil deficit (in relation to non-oil GDP).[6] It is also necessary to preserve the spirit of the NRF framework, which appropriately aims to save part of the income from oil as net wealth for future generations.

Box 1. Macroeconomic Impact of Scaling Up Public Investment

This Box analyzes the macroeconomic implications of scaling up the pace of public investment under two illustrative scenarios, using the [Debt, Investment, Growth and Natural Resources" (DIGNAR) model]

Scenarios Calibration

1. The DIGNAR model is calibrated for Guyana using specific macro- and micro-economic data, and cross-country comparison. Public investment efficiency is assumed at 59 percent, in line with the findings in 2017 PIMA Assessment (relative to 70 percent in LAC and 73 percent in EME). The return on public investment net of depreciation is assumed to be 15 percent based on cross-country estimates of marginal productivity of capital and close to the average rate of returns on Timor-Leste's public investment projects financed by the World Bank and evaluated by the Independent Evaluation Group.[1] The central government's oil revenues are projected to rise gradually from 1.6 percent of GDP to a peak of 5.3 percent of GDP in 2028.[2]



2. **The path of public investment scaling-up is simulated in two scenarios based on the pace of spending that depends on the speed of achieving an overall balanced budget.[3]** The "baseline" scenario models public investment expenditure in a situation where an overall balanced budget is achieved by 2022. "Aggressive" scenario depicts public investment expenditure where a zero-overall balanced budget is achieved slowly in 5 years (by 2025).

[1] Timor-Leste is a good approximation as the country is a small oil-rich economy with large infrastructure and social development needs. See IMF (2017). Democratic Republic of Timor-Leste: Staff Report for the 2017 Article IV consultation.

[2] Based on the Fiscal Analysis of Resource Industries (FARI) Model, assuming Liza I and Liza II production based on inputs from the authorities, taking into consideration oil royalty and production profit-sharing with ExxonMobil, and the budget transfer rule in the NRF Act.

[3] Based on Staff recommendation of a fiscal responsibility framework that targets an overall balanced budget. While the overall fiscal deficit will narrow and move to a balanced budget, the ratio of non-oil overall balance to non-oil GDP (often used to measure fiscal stance in oil-exporting countries) could still be in deficit, thus underpinning an expansionary fiscal policy.

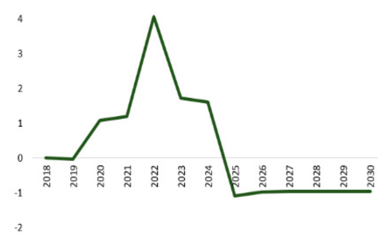
[6] As the authorities have not announced a medium-term fiscal path, the baseline assumes they will gradually adjust the nonoil deficit to nonoil GDP to the level compatible with the NRF transfer rule (in line with staff's recommended path).

Box 1. Macroeconomic Impact of Scaling Up Public Investment (Concluded)

Macroeconomic Implications

Dutch disease is lower under the "baseline" approach. Rapid growth in public investment spending in the "aggressive" approach would dampen private consumption and investment significantly due to large crowding out effects. In addition to higher real interest rates from large public sector borrowing in the short term, massive front-loading of government investment spending would lead to higher inflation and more pronounced appreciation of the real exchange rate, adversely affecting export competitiveness. This would feed into a relatively lower output in the traded sector and exacerbate the "Dutch disease" effects. In the "baseline" approach, the crowding out of private consumption and investment from the increase in government spending is less pronounced.

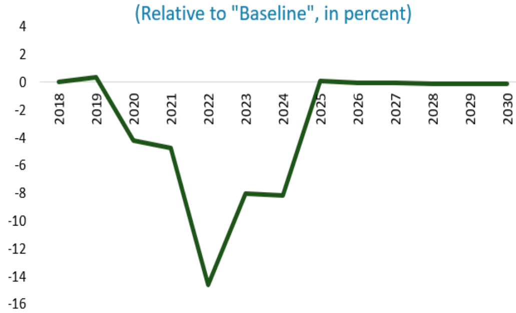
Guyana: Deviation in Non-Resource Output under "Aggressive" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

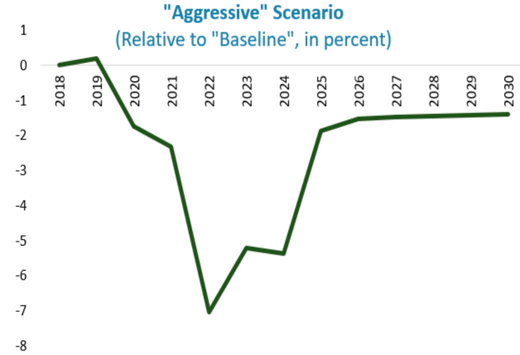
Despite the relatively lower amount of public investment spending to improve infrastructure compared to the "aggressive" approach, non-oil output growth in the medium- and longer-term are higher as public investment reinforces private investment, thus minimizing the effects of "Dutch disease" and crowding out of private demand.

Guyana: Deviation in Real Exchange Rate under "Aggressive" Scenario 1/
(Relative to "Baseline", in percent)



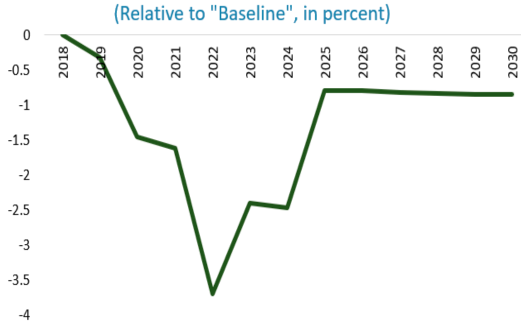
Source: IMF staff calculations.
1/ Downward movement implies an appreciation

Guyana: Deviation in Tradable Output under "Aggressive" Scenario
(Relative to "Baseline", in percent)



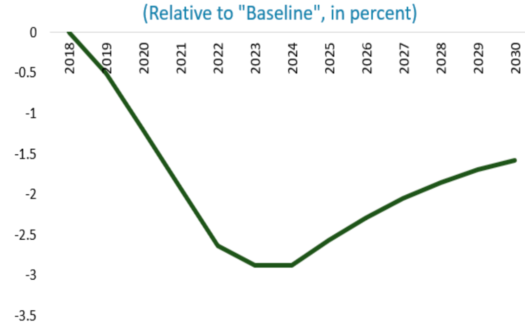
Source: IMF staff calculations.

Guyana: Deviation in Private Consumption under "Aggressive" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

Guyana: Deviation in Private Investment under "Aggressive" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

15. Continued reforms to improve institutional, governance, and management practices will strengthen macroeconomic performance. Staff welcomes the authorities' continued efforts in enhancing the quality and efficiency of public financial management, including submitting an early national budget to Parliament which allows a full 12 months for implementation, modernizing the revenue administration, and strengthening the public investment management system. As total public spending and current expenditure are among the highest in the region, addressing the weaknesses identified in the 2017 Public Investment Management Assessment (PIMA; Annex V) is important. In addition, undertaking the Fiscal Transparency Evaluations could help strengthen institutional, governance and management practices.[7] Greater urgency is attached to these reforms ahead of the expected increase in public spending as oil production begins.

16. Staff supports the authorities' commitment to reform public enterprises. The restructuring of GuySuCo is ongoing as offers have been received for the privatization of 3 of the 6 sugar estates, and all severance payments have been made to the 5,500 displaced workers.[8] Providing a safety net to protect those affected by this process will be important, considering the socio-economic implications and difficulties that sugar workers may face in transitioning to other occupations. To strengthen Guyana Power and Light's (GPL) governance structure in order to reduce the cost of electricity, the authorities are assessing the use of domestic natural gas as a transition energy source and planning to increase renewable energy. Acquisition costs for GuyOil have been reduced following the government's negotiation with CARICOM to suspend the Common External Tariff in February 2019 after the closure of Petroleum Company of Trinidad and Tobago. The Green State Development Strategy (GSDS) also envisions mini hydro plants and wind as future, alternative renewable energy sources.

Authorities' Views

17. The authorities remain committed to maintaining fiscal discipline. While the prospects of incoming large oil revenues present an opportunity to scale up public expenditure to address social development and infrastructural needs, they indicated that the country's absorptive capacity remains a challenge due to skills and labor shortages, and weak project implementation capacity in line Ministries. As such, they will take countervailing measures to minimize distortions in the event of overheating. They concurred with Staff's recommendation of a fiscal framework that constrains the annual non-oil deficit to not exceed the expected transfer from the NRF, to be phased-in gradually, to complement the NRF Act. This would help anchor fiscal policy and ensure that public debt will not increase. To further improve public financial management, the authorities intend to adopt rigorous project selection, prioritization and costing criteria within the context of the new long-term Green State Development Strategy, which will also inform multi-year budgeting. A Public Expenditure and Financial Accountability (PEFA) assessment has been conducted recently to assess the efficiency and effectiveness of public spending, and the authorities are in advanced stages of

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[7] Pillar IV focuses on resource rights and ownership; resource revenue mobilization; resource revenue utilization; and resource activity reporting and disclosure, complementing Pillars I-III which focus on fiscal reporting; fiscal forecasting & budgeting; and fiscal risk analysis & management.

[8] Government subsidies to GuySuCo amounted to 1–2 percent of GDP per year from 2015–17.

instituting a Public Investment Management Framework to operationalize the key recommendations of the 2017 PIMA. They are considering mechanisms to further improve fiscal transparency, including the Fiscal Transparency Evaluations.

18. With the onset of oil production and discussions on future oil development plans the authorities indicated their concern that the absence of a ring-fencing arrangement in the Stabroek Production Sharing Agreement could potentially affect the projected flow of government oil revenues. The rapid appraisal and development of multiple oil fields could affect the timing and amount of profit oil to be shared with the government from a producing oil field by allocating costs from various fields under development to the producing field. The authorities are developing strategies to mitigate such a possibility, including a national oil depletion policy to guide extraction and production and clearer ring-fencing rules for new investments.

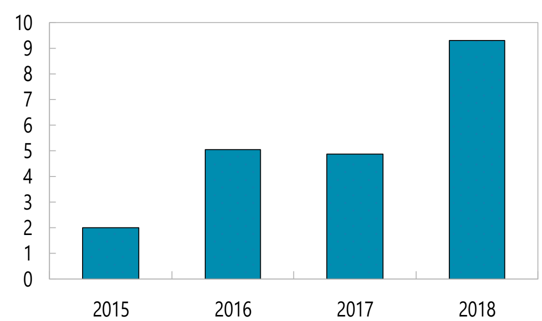
B. Monetary Policy and External Stability

19. Continually reassessing 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.

20. Exchange rate flexibility could play a greater role as part of the monetary policy framework for managing large and potentially volatile foreign inflows from oil production. Over the medium-term, developing the necessary infrastructure, supported by IMF Technical Assistance, for a suitable monetary policy framework with increased exchange rate flexibility would facilitate economic expansion and adjustment to oil price shocks while maintaining price stability and safeguarding foreign reserves.

21. The domestic bond market should also be developed further, following the 2017 MCM TA recommendations, in order to enhance financial intermediation. The government had accumulated an overdraft balance at the central bank of 9 percent of GDP at end-2018 (up from around 5 percent at end-2017 and end-2016). Staff recommends settling these balances at the central bank and relying on the issuance of Treasury Bills for future government cash flow management. Over the medium-term, for market development purposes, the authorities could consider extending the maturity of government bonds to help establish a yield curve.

Overdraft from the Bank of Guyana 1/
(In percent of GDP)



Source: Bank of Guyana.
1/ This amount is net off Treasury bills issued by the Bank of Guyana for monetary policy operations.

Authorities' Views

22. The authorities highlighted that price stability will continue to anchor monetary policy. Given the current low inflation rate, the central bank considers the current accommodative monetary stance appropriate. The authorities concurred with the importance of exchange rate flexibility as part of the monetary policy framework, given the expected large and potentially volatile foreign inflows from oil production, and requested IMF Technical Assistance to help design and develop the necessary infrastructure.

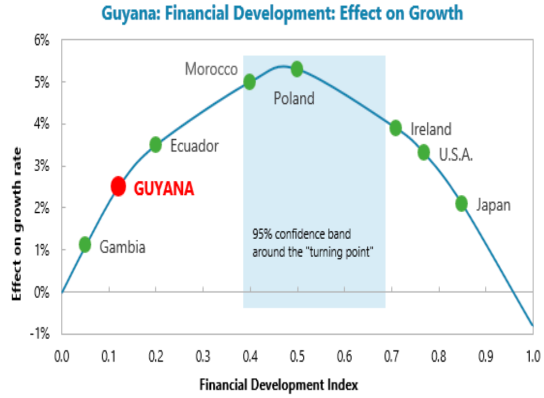
C. Strengthening Financial Sector Resilience

23. Financial sector stability should be further strengthened. The Bank of Guyana has been undertaking periodic follow-up examinations, meeting the management of commercial banks to discuss areas of significant concern, and requiring frequent reporting. However, NPLs for some banks remain high. To reduce NPLs and strengthen financial sector stability, further actions could be taken including an Asset Quality Review to examine banks' credit risks.

24. The divestment of the regional operations of a Canadian bank to a Caribbean bank poses some risk, but its impact on CBRs is expected to be benign. The sale of Scotiabank (Canada) to Republic Bank (Trinidad and Tobago) will increase the latter's share to about 50 percent of total bank assets in Guyana, potentially sparking concerns on market concentration, systemic and contagion risks. The sale is not expected to affect CBRs, however, as Republic Bank, being a regional bank, has its own panel of correspondent banks.

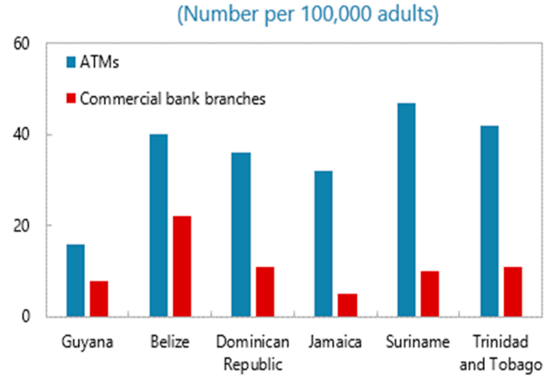
25. Several steps have been taken to promote financial inclusion. A private credit bureau, CreditInfo, was established in July 2013. In January 2016 the Credit Reporting Act was amended to mandate information sharing to the credit bureau by both credit institutions and public utilities. Since then, the coverage of credit information has expanded to other sectors including mobile phone companies, insurance companies, and utility companies. With the commencement of oil production, more foreign banks may become interested in entering the market. New entrants could promote competition, financial deepening, and efficiency.

Guyana: Financial Development: Effect on Growth



Sources: Sahay and others (2015), "Rethinking Financial Deepening: Stability and Growth in Emerging Markets" IMF SDN/15/08; IMF staff calculations.

Guyana: ATMs and Commercial Bank Branches
(Number per 100,000 adults)



Source: IMF, Financial Access Survey.

26. The authorities have made significant progress in implementing the 2016 FSAP recommendations, though action in some areas remains pending (Annex VI). In 2018, four bills were approved by Parliament: emergency liquidity assistance to deposit-taking financial institutions; orderly resolution of a failing institution; national payment system law; and deposit insurance. The deposit insurance scheme is in place as of July 1, 2019, guaranteeing up to two million Guyanese dollars in the event of a bank failure. The Bank of Guyana is on track to complete Basel II/III implementation and finalize the Crisis Management Framework by end-2019. Remaining steps include eliminating reduced provisioning requirements for "well-secured" proportions of NPLs; reducing the large exposure limit; and raising the minimum capital adequacy requirement to 12 percent.

27. Guyana is making progress in strengthening the AML/CFT framework. Based on the 2017 national risk assessment (NRA), the authorities have set a new guideline on customer due diligence, and reporting by money transfer companies and adopted amendments to the AML/CFT Act and established an AML/CFT National Co-ordination Committee. The Financial Intelligence Unit (FIU) is actively pursuing the membership of Egmont Group—an international group of FIUs—to facilitate information sharing with other FIUs. Guyana is scheduled to undertake a mutual evaluation by the Caribbean Financial Action Task Force (CFATF) in 2022. The authorities are encouraged to strengthen AML measures that support anti-corruption efforts – ensuring that information on the beneficial ownership of companies and trusts is available to authorities without impediments, measures targeted at politically exposed persons are implemented and corruption and the laundering of its proceeds are prosecuted and proceeds of crime confiscated.

Authorities' Views

28. The authorities remain committed to continuously strengthening AML/CFT framework. They plan to conduct another NRA before the mutual evaluation by the CFATF in 2022.

29. They also remain committed to strengthening the financial sector based on 2016 FSAP recommendations. The BoG continues to closely monitor the banks with high NPLs. The BoG plans to implement a hybrid approach to the Basel framework by end 2019 where the capital definition and operational risk are based on Basel III while market risk and the standard approach to assessing credit risk are based on Basel II. They indicated that they are in the process of finalizing and operationalizing the Crisis Management Plan and remaining FSAP recommendations.

D. Competitiveness, Inclusive Growth, and Governance

30. With the GSDS providing a useful development framework, structural reforms and infrastructure investment are needed to support economic diversification and achieve inclusive economic growth. The GSDS focuses on modernizing traditional economic sectors and expanding high-value adding sectors, while ensuring low carbon and climate resilient development, sound education, social protection and protection of natural resources. An Illustrative analysis suggests that successful implementation of structural reforms to boost public investment efficiency could add around 5 percentage points to non-oil real GDP by 2030 (Annex VII). Reform measures to enhance economic diversification and boost inclusive growth should focus on addressing skilled labor shortages and improving the domestic business environment to facilitate greater private sector involvement in the economy. Also, increased investment in infrastructural development and expanding the generation and transmission capacity of the electricity company will be vital to unlocking growth (Box 2).

Box 2. Strengthening Competitiveness and Boosting Growth

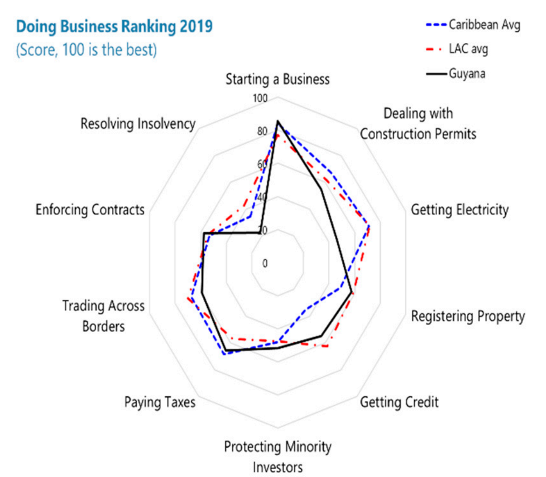
Structural reform measures to enhance economic diversification and boost inclusive growth include:

- ***Addressing skilled labor shortages.*** The shortage of skilled manpower continues to constrain medium to long-term growth. Gross school enrolment ratio at tertiary level for Guyana is about 12 percent, much lower than the Latin America and the Caribbean average of 44 percent. The current low expenditure on education of 10 percent relative to the Caribbean average of 18 percent of total government expenditure highlights the need to increase expenditure on education policy reforms aimed at expanding access to education, improving the curriculum to better connect to modern labor market needs and enhancing vocational training. To address skills gap and satisfy an expected increase in labor demand, Guyana could adopt more liberal or open immigration policies, including free movement of all categories of workers from other CARICOM countries. Female labor participation declined slightly from 42.6 percent in 2017 to 41.2 percent in 2018. Promoting more flexible working arrangements could help increase female labor participation.

- ***Improving Infrastructure.*** Inadequate infrastructure remains a key barrier to investment. Welcome efforts are underway to improve access to roads, electricity and telecommunication services to enhance shared growth, employment opportunities and help to reduce economic disparities between coast and the hinterland. Given Guyana's vulnerability to climate risks and related natural disasters, more effort should be put on developing climate resilient infrastructure networks.

- ***Energy sector:*** High energy costs remain a constraint to growth. Plans to use Guyana's natural gas resources for power generation will help to improve the cost-effectiveness, energy efficiency and sustainability of the current energy matrix, while providing cleaner energy solutions. The expansion of the generation and transmission capacity of GPL would help to meet immediate energy needs while renewable energy initiatives such as solar, wind and bio energy are being pursued. The Low Carbon Development Strategy, under which Guyana commits to reduce emissions and deforestation in exchange for development assistance bodes well for the transition to the green economy.

- ***Improving the business environment will unlock the potential of the private sector.*** Guyana continues to rank below the regional average, at 134th (out of 190 countries), reflecting challenges in dealing with construction permits, getting electricity, and resolving insolvency; but ranks relatively well in protecting minority investors. Reforms to the 'doing business' environment will be necessary to ensure that non-oil industries remain competitive. Key reforms needed to improve the business environment include: amendments to the code of practice to simplify and expedite the issuance of construction permits and inspections; improving the procedures and reducing the time and cost of accessing electricity; and strengthening the legal framework for dealing with insolvency and judicial liquidation.



Source: World Bank Doing Business Report.
Note: Ease of doing business score indicates an economy's position to the best regulatory practice and captures the gap between an economy's current performance and a measure of best regulatory practice set in Doing Business 2019 across the entire sample of the same 41 indicators for 10 Doing Business indicator sets used in previous years. 100 is the best and 0 the worst.

31. Staff's assessment of governance in Guyana points to weakness in several key areas that could give rise to corruption vulnerabilities. The main areas include fiscal governance (revenue and spending outcomes and procurement), regulatory framework (ease of doing business, the regulatory management practices, imports licensing, and discretionary foreign exchange allocation), rule of law, and AML/CFT (entity transparency, international cooperation, and aggregate AML).

32. The authorities have taken steps to strengthen governance in the areas highlighted by Staff, but capacity weaknesses continue to impact decisive implementation of policy actions. The authorities are making progress in strengthening governance, in the areas of anti-corruption, transparency in the extractive industry, and procurement (Annex VIII). Guyana completed its first Extractive Industries Transparency Initiative (EITI) Report in 2019 and started implementing its recommendations to further enhance transparency in the extractive industry. The recent re-establishment of the Integrity Commission has reinvigorated compliance with the asset declaration regime. Staff encouraged authorities to make the asset declarations public and develop the methodology for their verification. In public procurement, staff welcomed the steps to enhance the transparency of the bidding process and awarding of contracts, but also encouraged the authorities to ensure timely compliance with existing regulations and take further actions to fortify the transparency of the procurement system. Key governance institutions – Financial Intelligence Unit, National Procurement and Tenders Administration Board, Public Procurement Commission and the Integrity Commission – face significant capacity weaknesses with severe staff shortages, particularly legal and accounting expertise. This severely impacts the ability of the institutions to ensure compliance with existing regulations, conduct investigations including for politically exposed persons (PEPs) and implement additional actions to further strengthen governance systems to address corruption vulnerabilities.

Authorities' Views

33. The authorities indicated that structural reforms, increased infrastructure investment, and strengthening the education system will be key to achieving inclusive and equitable growth. They emphasized their commitment to implementing the GSDS, which focuses on modernizing traditional economic sectors and expanding high-value adding sectors, while ensuring low carbon and climate resilient development, sound education, social protection and protection of natural resources. In addition, they noted that major obstacles to growth include infrastructure bottlenecks, skilled labor shortages, and weaknesses in electricity supply. Therefore, increased investment in improving access to roads, electricity and telecommunication services, healthcare and education would help strengthen growth and bridge the gap between coast and the hinterland. They agreed that increased investment in upgrading the education system should aim to enhance skills and employment prospects, and they saw merit in liberal immigration policies to address skills gaps. They concurred that promoting more flexible working arrangements could help increase female labor participation.

34. The authorities emphasized that strengthening transparency and anti-corruption frameworks is a key priority. The first Extractive Industries Transparency Initiative (EITI) Report was completed in 2019 and the authorities have started implementation of the key recommendations to further enhance transparency in the extractive industry (Annex IX). The recent re-establishment of the Integrity Commission has resulted in over 50 percent of politically exposed persons (PEPs) and other required officers making asset declarations within the first year. They agreed that ensuring greater compliance with the asset declaration regime over time would underscore their support and commitment to the UN convention against corruption. The authorities also underscored their efforts to strengthen the procurement system. They are instituting mandatory procurement plans, reviewing debarment procedures, amending thresholds for restrictive tendering and developing a e-procurement system.

OTHER ISSUES

35. Data provision has been broadly adequate but should be strengthened to enhance effective surveillance. Quality and timeliness of macroeconomic indicators, due to low staffing and coverage issues, remain a challenge. Improvements are being made to coverage, input data, and statistical techniques to produce more robust and internationally comparable GDP estimates. The authorities are finalizing an all-urban CPI, a household budget survey, and a living conditions survey. Capacity constraints remain an obstacle in addressing these statistical weaknesses. Staff welcomed the compilation of balance of payments in line with BPM6, the Multi-Indicator Cluster Survey and efforts to rebase the National accounts to 2012. Improving statistics and further building institutional capacity and competency for statistical reporting on the petroleum sector is important as oil production starts. The compilation and dissemination of IIP data are also needed.

STAFF APPRAISAL

36. Guyana's macroeconomic outlook is very favorable. Income from oil wealth presents an opportunity to scale-up capital and current spending to address infrastructure gaps and human development needs. To minimize macroeconomic distortions related to Dutch disease and governance weaknesses, a measured pace of public spending expansion will be needed, and the authorities should stand ready to scale back spending if signs of absorptive capacity constraints or spending inefficiencies emerge.

37. The NRF legislation for managing Guyana's natural resource wealth is a welcome step that should expeditiously be complemented with a fiscal responsibility framework to ensure that fiscal deficits are avoided. The NRF framework commendably aims to save part of the natural resource income as net wealth for future generations. To ensure this and to keep public debt from rising, a zero-overall balance rule which constrains the annual non-oil deficit to not exceed the expected transfer from the NRF is needed. This rule could be phased in over the next three years to allow a smooth widening of the non-oil deficit (in relation to non-oil GDP).

38. The quality, efficiency, and transparency of public financial management should continue to be improved. It is important to address the shortcomings identified by the PIMA and expenditure review before public investment is significantly scaled-up with oil revenues.

Undertaking the Fiscal Transparency Evaluations to ascertain compliance with Pillar IV of the Fiscal Transparency Code will help guide future steps to improve fiscal transparency.

39. **Monetary policy should gradually revert to a neutral stance to contain inflationary pressure as public spending increases, economic growth strengthens, and credit expands.** Over the medium term, developing the infrastructure for greater exchange rate flexibility within the monetary policy framework would help sustain healthy economic growth while maintaining price stability and facilitating adjustment to oil price and other external shocks.

40. **Financial sector stability would be enhanced by an asset quality review to ascertain banks' credit risks.** In addition, completing the remaining 2016 FSAP recommendations, especially eliminating reduced provisioning requirements for "well-secured" proportions of NPLs, reducing the large exposure limit, and raising the minimum capital adequacy requirement to 12 percent, would further buttress financial stability. The authorities have also made progress in strengthening the AML/CFT framework, and are encouraged to continue their efforts in this regard, addressing remaining deficiencies and mobilizing the AML/CFT regime before the upcoming CFATF assessment and strengthening AML measures to support anti-corruption efforts, such as ensuring transparency of companies and trusts and implementation of measures targeted at politically exposed persons, notably domestic ones.

41. **Structural reforms are needed to support economic diversification, enhance competitiveness, and achieve inclusive and equitable growth.** Increased investment to improve access to roads, electricity, and telecommunication services, including the hinterland, would help address infrastructure bottlenecks. Investment in upgrading the education system would enhance skills and employment prospects. To further reduce skilled labor shortages, especially in the near term, more liberal immigration policies, including free movement of workers from other CARICOM countries, could be considered. Promoting more flexible working arrangements could help increase female labor participation. Regulatory and administrative reforms such as expediting the issuance of construction permits, improving the process of accessing electricity; and strengthening the legal framework for dealing with insolvency and judicial liquidation would help to improve the business environment and competitiveness.

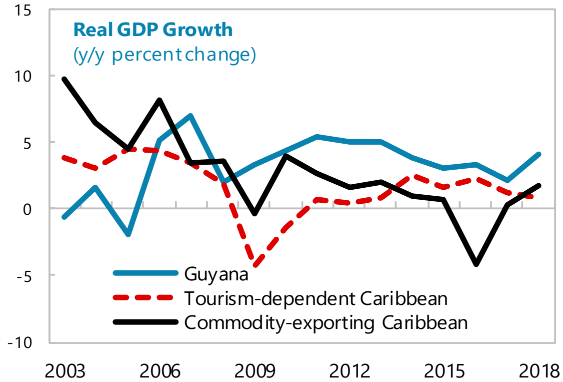
42. **Continuing the progress that has been made in strengthening transparency and governance would be welcome.** Sustained efforts in implementing the recommendations of the 2019 EITI Report would help to further enhance transparency in the extractive industry and promote effective management of the oil wealth. Strengthening anti-corruption frameworks, including by strengthening the asset disclosure framework, will improve governance, support investor confidence and promote growth. Efforts to ensure timely compliance with existing regulations and further actions such as registration and publication of bidders, using CARICOM Public Procurement Notice Board for advertising bids and developing an e-procurement system would help to fortify the transparency of the procurement system. Addressing capacity weaknesses would enable decisive implementation of policy actions and strengthen governance in the key areas highlighted

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

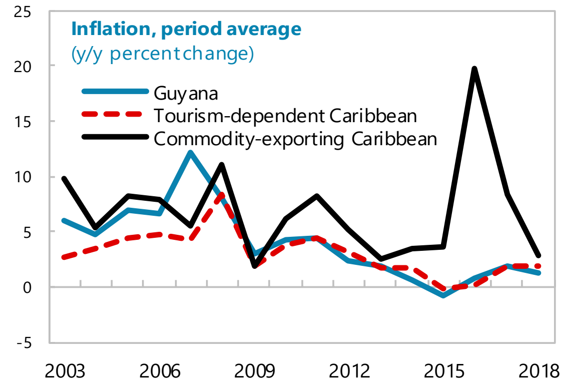
Figure 1. Guyana: Comparative Regional Developments 1/

Guyana continues to perform in line or better than some of its regional peers.

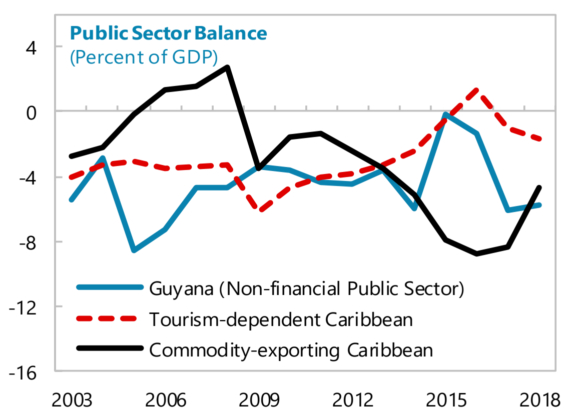
Growth strengthened in 2018 with broad-based expansion across all major sectors.



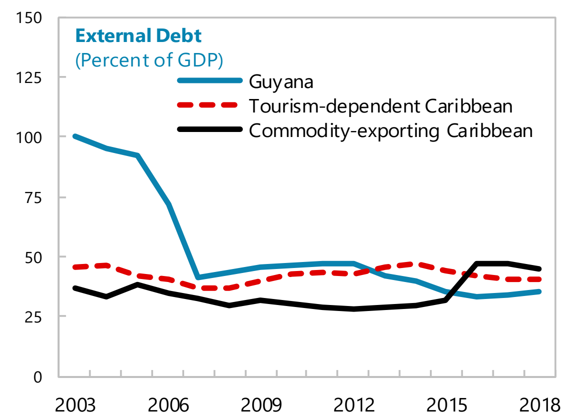
... and inflation remained subdued.



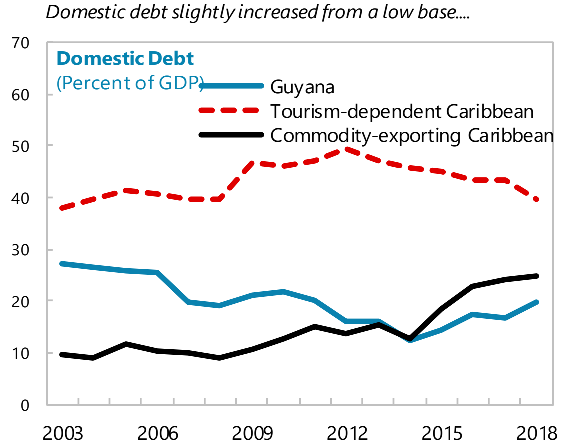
The fiscal outturn was better than expected, supported by stronger revenues and lower growth in expenditure...



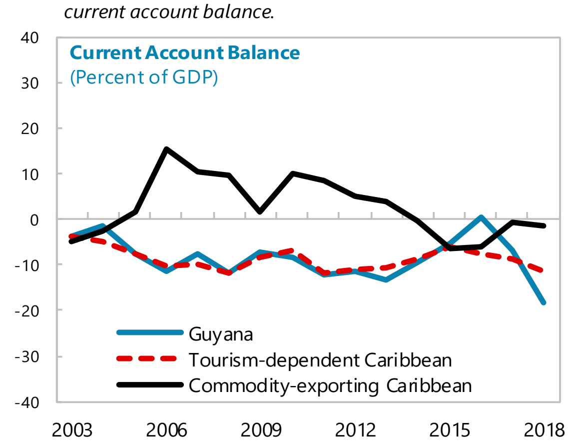
... and external borrowing remained low



Domestic debt slightly increased from a low base....



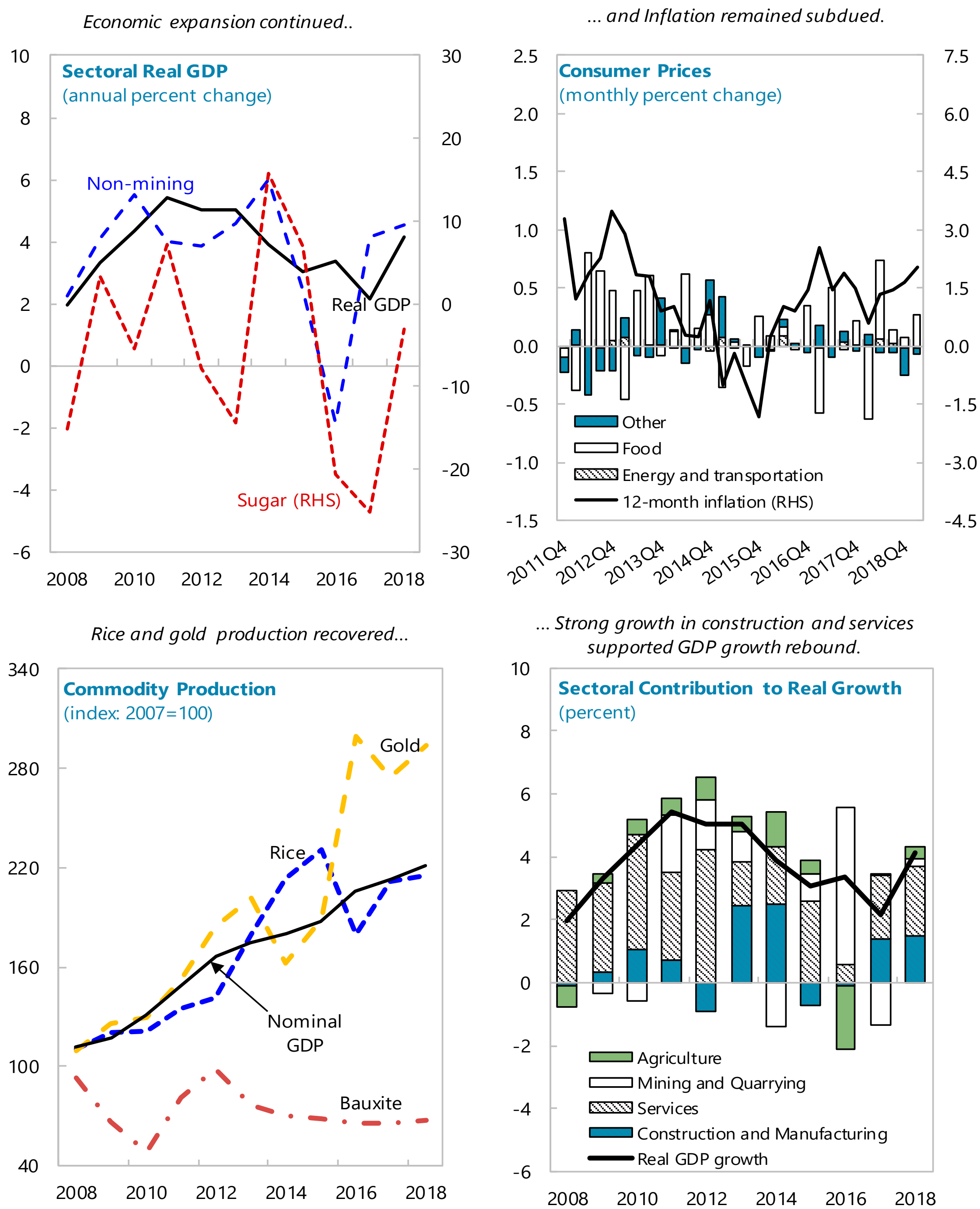
...and higher oil production-related imports worsened the current account balance.



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

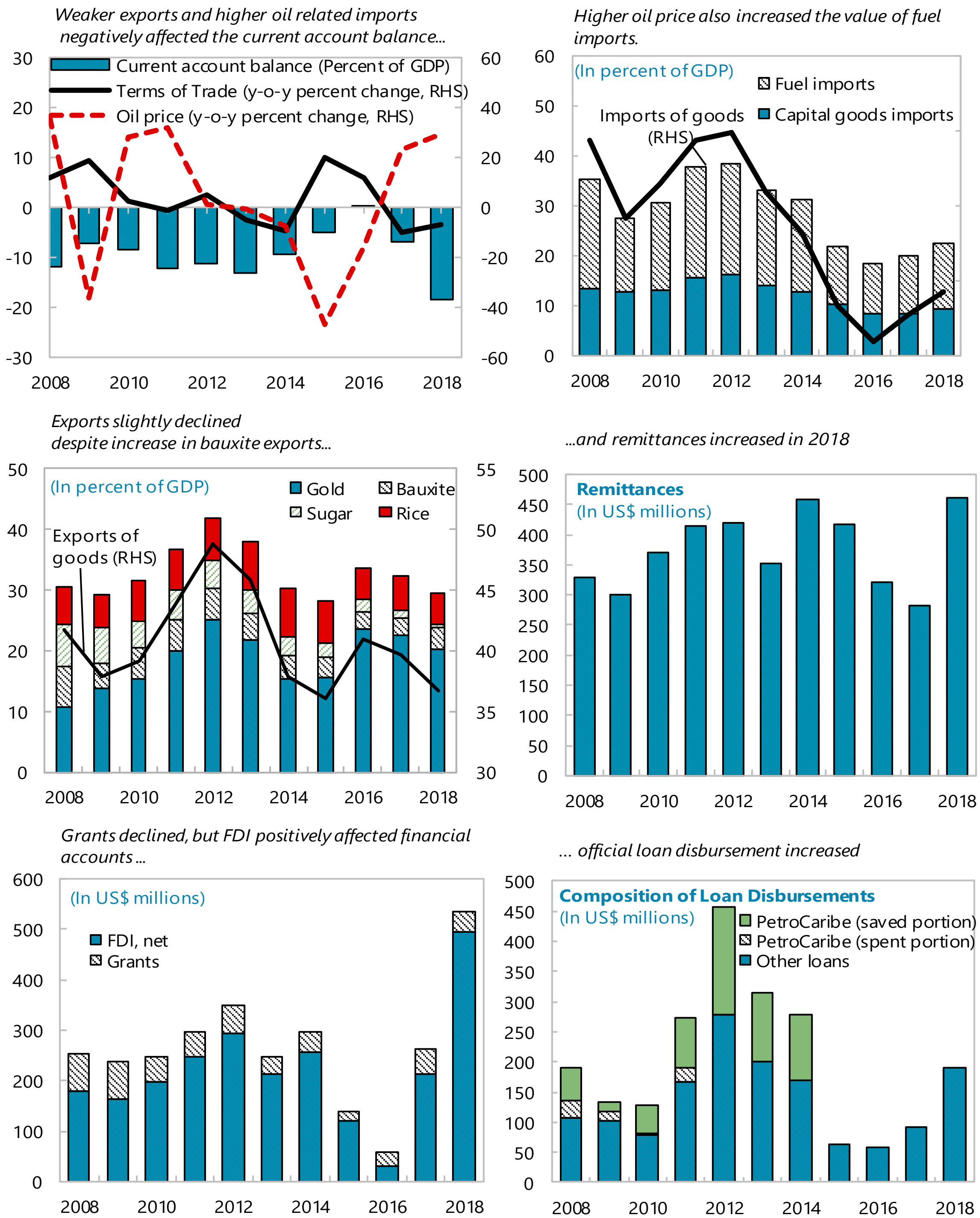
Economic activity picked up in 2018, and remained broad-based.



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

Figure 3. Guyana: External Sector Developments

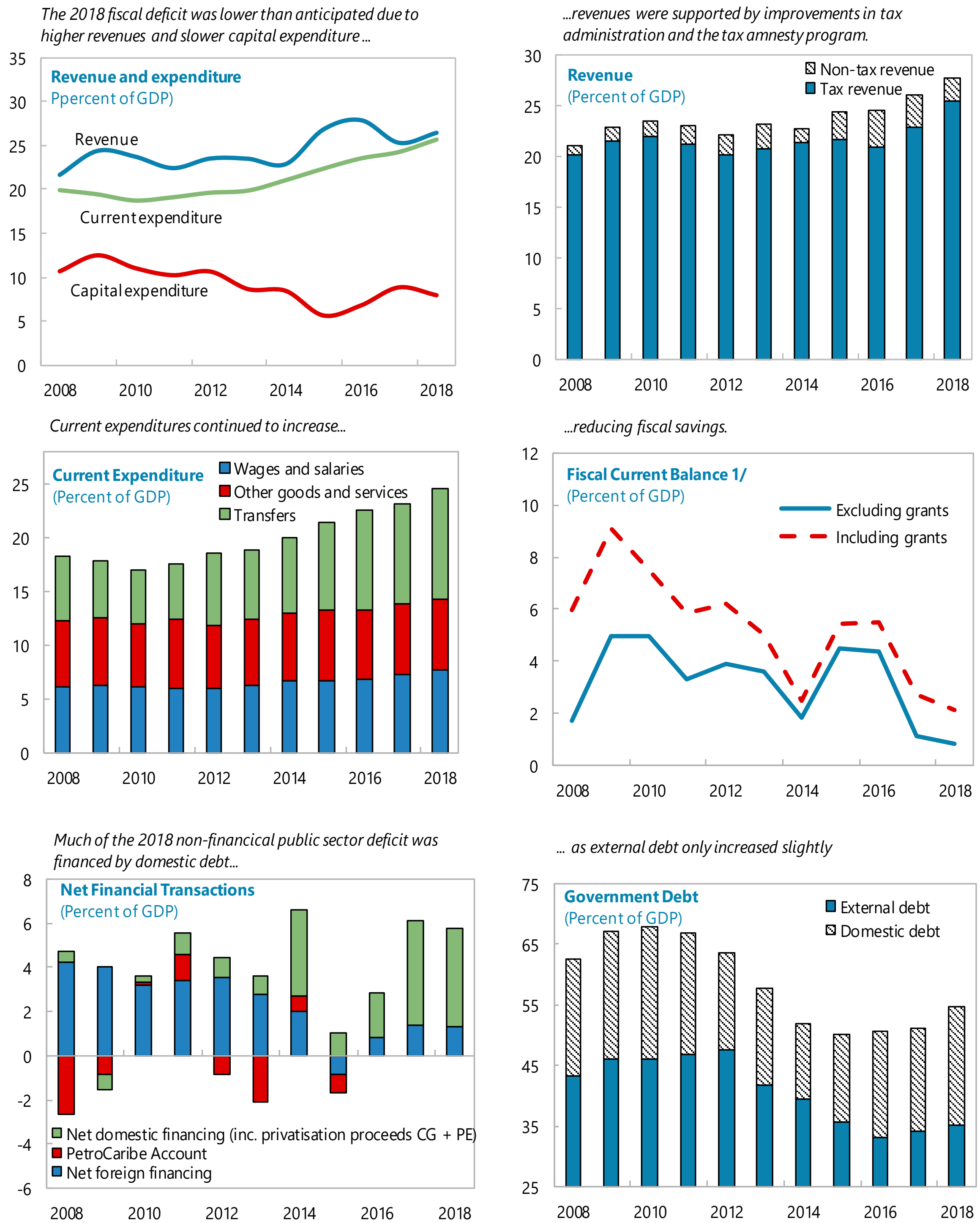
Weaker exports and higher oil related imports and net services in 2018 worsened the current account deficit.



Sources: Bank of Guyana; and IMF staff calculations.

Figure 4. Guyana: Fiscal Sector Developments

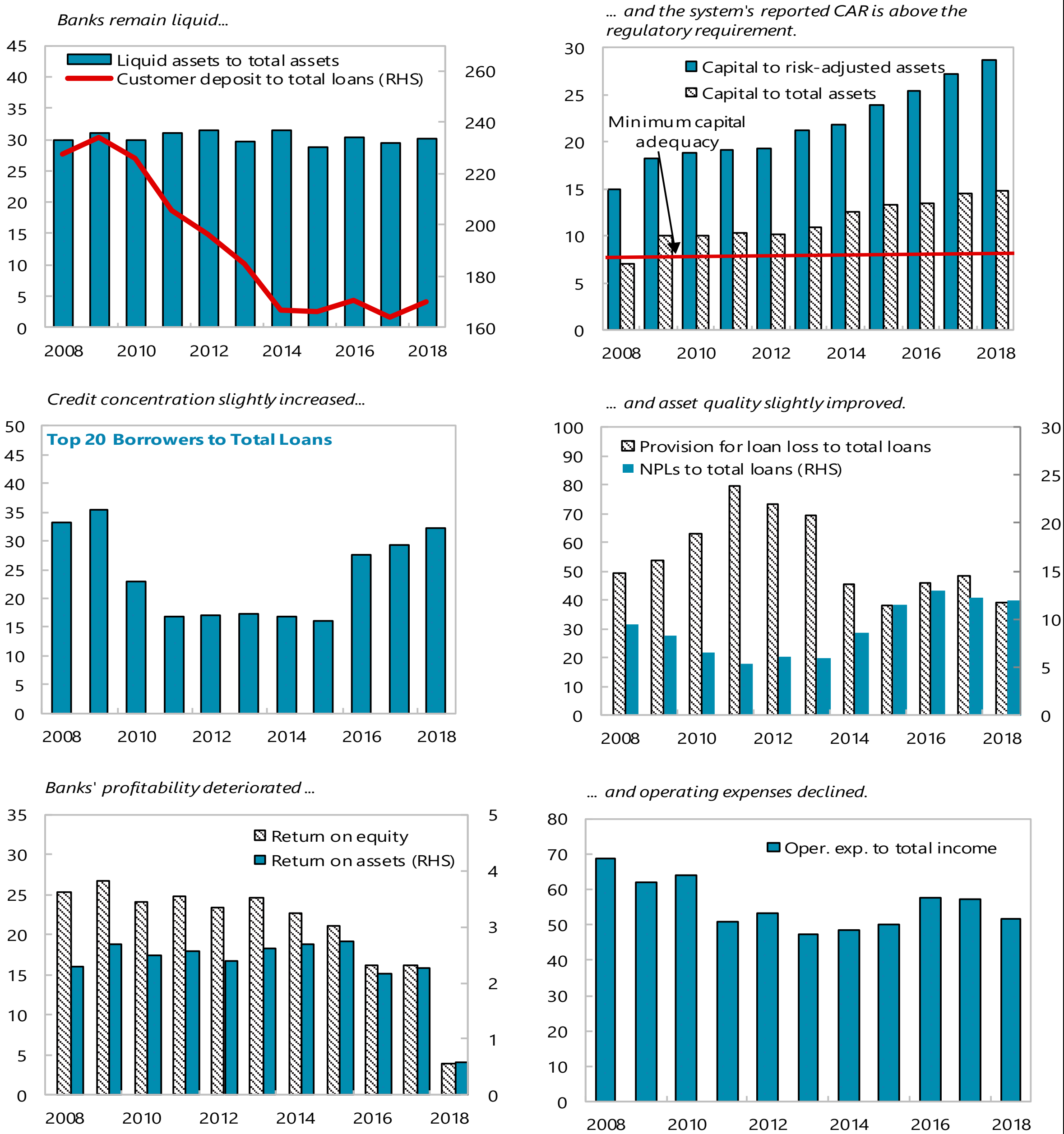
Fiscal deficit widened despite narrowing of the central government deficit.



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

Figure 5. Guyana: Financial Soundness Indicators

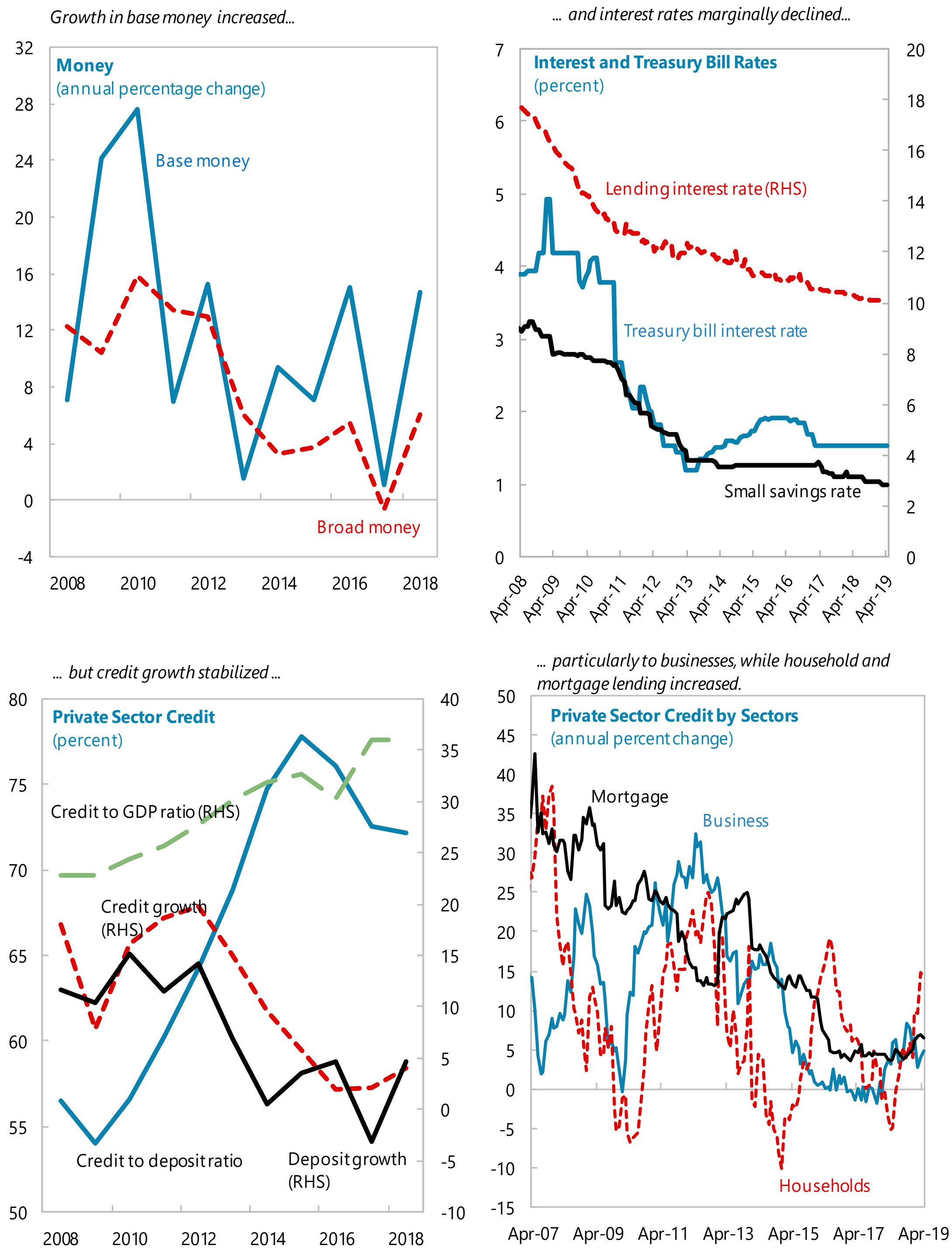
The banking system is well capitalized, liquid asset ratio remained stable, but bank profitability weakened.



Source: Bank of Guyana.

Figure 6. Guyana: Monetary Developments

Monetary conditions are broadly supportive of growth.



Source: Bank of Guyana.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2018 (thousands)	782	Population not using an improved water source (%), 2015	4.9
Life expectancy at birth (years), 2017	66.8	Gini index, 1998	44.6
Under-five mortality rate (per 1,000 live births), 2017	31.3	HDI rank, 2017	125
Population living below the poverty line (%), 2000-06	35		

II. Economic Indicators

				Preliminary	Projections	
	2015	2016	2017	2018	2019	2020
	(Annual percent change)					
Production and prices						
Real GDP 1/	3.1	3.4	2.1	4.1	4.4	85.6
Real GDP per capita	2.7	2.5	1.5	3.6	4.1	85.1
Consumer prices (average)	-0.9	0.8	1.9	1.3	2.1	3.3
Consumer prices (end of period)	-1.8	1.5	1.5	1.6	2.7	3.5
Terms of trade	19.7	12.1	-10.3	-8.7	2.0	1.6
	(In percent of GDP)					
Central government						
Revenue	24.6	24.5	26.2	26.9	28.0	18.5
Grants	1.0	1.1	1.6	1.3	1.3	0.6
Expenditure	27.0	30.0	32.2	31.6	34.3	19.7
Current	22.4	23.5	24.4	24.8	26.1	14.5
Capital	4.6	6.4	7.9	6.8	8.1	5.2
Overall balance (after grants)	-1.4	-4.4	-4.4	-3.5	-5.0	-0.7
Total public sector gross debt 2/	50.1	50.7	51.4	52.9	55.4	29.3
External	35.7	33.2	34.4	33.9	33.2	18.4
Domestic	14.4	17.6	16.9	19.0	22.2	10.9
	(Annual percentage change, end of period)					
Money and credit						
Broad money	3.7	5.4	-0.7	6.0	8.4	13.5
Domestic credit of the banking system	12.3	7.8	1.5	10.8	9.9	-2.7
Public sector (net) 3/	34.4	23.6	0.4	25.8	20.5	-14.9
Private sector	5.8	2.0	2.1	4.0	4.2	5.0
	(In millions of U.S. dollars, unless otherwise indicated)					
External sector						
Current account balance 4/	-163.0	13.2	-246.2	-683.3	-935.7	-1,483.6
(Percent of GDP)	-5.1	0.4	-6.8	-17.5	-22.7	-18.4
Gross official reserves	598.5	596.7	584.0	528.4	643.0	857.8
Months of imports of goods and services 5/	3.7	3.3	2.6	2.1	1.8	2.4
Memorandum items:						
Nominal GDP (G$ billion)	660.2	723.6	744.6	805.7	852.4	1,678.0
Nominal GDP, non-oil (G$ billion)	660.2	723.6	744.6	805.7	852.4	967.2
Per capita GDP, US$	4,168	4,531	4,636	4,984	5,252	10,249
Guyana dollar/U.S. dollar (period average)	206.5	206.5	206.5	206.7	…	…

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

1/ Projected real GDP growth in 2020 is potentially overstated and subject to large subsequent revisions because of the very high growth rate of oil GDP, which in turn is elevated on account of the very low (zero) base in 2019. Hence, even small changes to the projected oil output in 2020 would result in large changes in real oil GDP and overall real GDP growth rates. Work is ongoing to rebase the real GDP series to account for oil-related activities since 2015 in advance of actual oil production in 2020.

2/ Since 2015-16, public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank. The ratios do not include publicly-guaranteed debt.

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

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

5/ Gross reserves in months of imports of goods and services for 2017 onward are affected by high value imports of oil goods and services.

Table 2. Guyana: Balance of Payments 1/

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(In millions of U.S. dollars)									
Current account (incl. official transfers)	**-163.0**	**13.2**	**-246.2**	**-683.3**	**-935.7**	**-1,483.6**	**-1,378.3**	**-600.2**	**-103.1**	**265.2**
Current account (excl. official transfers)	-181.4	-12.4	-296.4	-683.3	-980.6	-1,764.9	-1,693.8	-987.3	-626.5	-340.4
Merchandise trade (net)	**-340.3**	**-30.7**	**-205.8**	**-451.2**	**-685.2**	**1200.1**	**1,551.2**	**3,764.0**	**6,463.9**	**7,143.2**
Exports (f.o.b.)	1,151.3	1,434.4	1,438.1	1,373.8	1,490.0	3,943.3	4,211.2	6,506.2	9,415.5	10,213.6
Bauxite	104.3	92.1	104.5	128.1	120.4	132.0	147.1	163.3	180.4	194.2
Sugar	78.4	73.4	48.5	27.1	16.5	19.7	20.9	21.9	22.1	22.3
Rice	220.8	178.8	201.0	186.1	196.6	213.6	221.3	229.9	238.9	252.9
Gold	501.1	830.7	817.5	766.8	871.5	906.0	946.2	992.0	1,036.1	1,083.2
Timber	43.7	40.4	35.8	33.3	33.3	33.5	33.9	34.2	34.5	35.2
Oil	-	-	-	-	-	2,378.1	2,577.5	4,796.7	7,633.1	8,353.1
Other	202.9	219.0	230.8	232.3	251.6	260.2	264.3	268.3	270.4	272.6
Imports (c.i.f.)	1,491.6	1,465.1	1,644.0	1,825.0	2,175.2	2,743.1	2,660.0	2,742.2	2,951.7	3,070.4
Capital goods	329.0	294.0	306.9	343.7	726.4	1,154.5	1,030.5	1,052.2	1,143.0	1,213.2
Fuel and lubricants	367.4	344.7	411.4	496.0	496.7	507.2	504.5	509.2	525.2	526.9
Other	795.1	826.4	925.6	985.3	952.1	1,081.4	1,125.0	1,180.7	1,283.5	1,330.3
Services (net)	**-282.3**	**-297.5**	**-360.8**	**-702.5**	**-752.5**	**-1,390.7**	**-1,504.4**	**-1,118.7**	**-1,047.2**	**-840.7**
Primary income (net)	**24.7**	**-4.6**	**-11.5**	**-27.7**	**-24.0**	**-2057.9**	**-2,229.0**	**-4,125.9**	**-6,541.4**	**-7,156.1**
Secondary income (net)	**434.9**	**346.0**	**331.9**	**498.2**	**526.1**	**764.9**	**803.9**	**880.4**	**1,021.6**	**1,118.8**
Financial account	**206.0**	**8.0**	**232.5**	**670.4**	**935.7**	**1,483.6**	**1,378.3**	**600.2**	**103.1**	**-265.2**
Nonfinancial public sector (net)	-8.9	12.4	58.9	82.5	62.5	109.7	80.3	110.8	98.6	102.6
Net official borrowing	-18.1	21.6	51.2	82.5	45.1	109.7	80.3	110.8	98.6	102.6
Other public sector (net) 2/	9.2	-9.2	7.7	0.0	17.4	0.0	0.0	0.0	0.0	0.0
Private sector (net)	147.8	-6.2	160.9	455.6	987.7	1588.7	1,512.1	764.8	246.8	-230.3
Foreign direct investment (net)	121.7	32.0	212.2	494.8	1021.8	1882.1	1,817.4	1,360.1	1,209.7	822.8
Portfolio investment (net)	3.3	-33.8	-52.8	-34.4	-47.4	-308.5	-319.9	-609.1	-980.9	-1073.1
Other (net)	22.7	-4.4	1.6	-4.8	13.4	15.1	14.7	13.8	18.0	19.9
Errors and omissions	**-43.0**	**-21.2**	**13.7**	**-10.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-67.1**	**-1.8**	**-12.7**	**-55.6**	**114.6**	**214.8**	**214.1**	**275.5**	**242.2**	**137.5**
Memorandum items:										
Current account, incl. off. transfers (in percent of GDP)	-5.1	0.4	-6.8	-17.5	-22.7	-18.4	-15.9	-5.6	-0.7	1.7
Current account, excl. off. transfers (in percent of GDP) /3	-5.7	-0.4	-8.2	-17.5	-23.8	-21.9	-19.5	-9.2	-4.5	-2.2
Gross international reserves	598.5	596.7	584.0	528.4	643.0	857.8	1,071.9	1,347.4	1,589.6	1,727.1
(in months of imports of goods and services) /4	3.7	3.3	2.6	2.1	1.8	2.4	3.2	3.8	4.5	4.5
Oil price assumption (US$/b)	50.8	42.8	52.8	68.3	65.5	63.9	60.7	58.5	57.6	57.4
GDP (US$ million)	3,197	3,504	3,606	3,899	...	...	...	...	...	...
	(Annual percent change)									
Exports of goods	-1.7	25.3	0.5	-4.5	7.6	167.0	6.8	54.8	44.9	8.5
Imports of goods	-14.2	-1.8	12.2	11.0	19.2	26.1	-3.0	3.1	7.6	4.0
Terms of trade	19.7	12.1	-10.3	-8.7	2.0	1.6	1.4	1.1	0.2	0.5

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 in months of imports of goods and services for 2017 onward are affected by high value imports of oil goods and services.

Table 3a. Guyana: Public Sector Operations
(In billions of Guyanese dollars)

	2015	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024
Central government revenue	**162.7**	**177.3**	**195.1**	**216.7**	**238.3**	**310.6**	**340.9**	**394.3**	**474.4**	**576.3**
Tax revenue	142.9	151.7	171.1	198.5	223.6	235.2	258.5	287.1	333.8	399.6
Income taxes	54.5	60.6	67.7	78.2	88.7	94.6	103.9	115.5	134.6	161.0
Consumption taxes	68.8	68.7	76.3	88.0	99.7	105.6	116.1	128.7	149.5	179.1
Trade taxes	14.0	16.9	18.5	22.0	24.5	22.5	24.7	27.4	31.8	38.2
Other	5.6	5.5	8.6	10.3	10.8	12.5	13.8	15.3	17.9	21.4
Non-tax revenue	18.8	25.6	23.9	18.2	14.7	75.3	82.4	107.3	140.6	176.7
Of which:										
Oil revenue	0.0	0.0	0.0	0.0	0.0	48.1	52.7	74.2	101.8	131.7
Net revenue from PE and statutory bodies	12.4	15.3	15.3	9.3	6.3	7.9	8.4	9.5	11.4	12.2
Capital revenue	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**6.3**	**7.9**	**12.2**	**10.2**	**11.2**	**9.3**	**8.1**	**4.2**	**5.5**	**0.0**
Central government expenditure	**178.3**	**216.8**	**240.0**	**254.8**	**292.2**	**330.9**	**362.4**	**399.0**	**480.1**	**576.6**
Current expenditure	147.6	170.2	181.4	199.7	222.9	243.8	254.8	272.1	315.7	377.9
Wages and salaries	44.7	49.4	54.4	59.5	70.2	75.4	82.9	92.0	106.8	127.9
Other goods and services	43.2	46.8	49.2	51.3	61.0	74.5	69.5	67.3	89.0	108.1
Transfers	53.3	67.3	69.7	80.4	83.1	84.1	92.5	102.6	109.5	131.2
Interest 1/	6.5	6.7	8.0	8.5	8.7	9.7	9.9	10.3	10.4	10.7
Domestic	1.7	1.9	2.0	1.3	1.1	3.8	3.6	3.6	3.3	3.1
External	4.8	4.8	6.1	7.2	7.6	5.9	6.3	6.7	7.1	7.5
Capital expenditure	30.7	46.6	58.6	55.1	69.3	87.1	107.5	126.9	164.4	198.7
External PSIP	9.7	15.4	19.8	19.9	24.1	38.1	40.0	44.1	44.5	35.1
Local PSIP	21.0	31.2	38.9	35.2	45.2	5.8	20.1	16.0	28.3	45.0
Oil-financed projects	0.0	0.0	0.0	0.0	0.0	43.3	47.4	66.8	91.7	118.5
Overall balance (before grants)	**-15.6**	**-39.4**	**-44.9**	**-38.1**	**-53.8**	**-20.3**	**-21.5**	**-4.6**	**-5.7**	**-0.3**
Overall balance (after grants)	**-9.3**	**-31.6**	**-32.8**	**-27.8**	**-42.6**	**-11.0**	**-13.4**	**-0.4**	**-0.3**	**-0.3**
Primary balance (after grants)	**-2.8**	**-24.8**	**-24.7**	**-19.3**	**-34.0**	**-1.3**	**-3.5**	**9.8**	**10.2**	**10.4**
Financing	**9.3**	**31.6**	**32.8**	**27.8**	**42.6**	**11.0**	**13.4**	**0.4**	**0.3**	**0.3**
Net foreign financing	-5.3	7.8	8.7	8.0	8.7	22.83	16.91	23.64	21.25	22.32
Net domestic financing 2/	14.6	23.7	24.0	19.8	34.0	-11.81	-3.52	-23.21	-20.99	-22.05

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 Operations
(In percent of GDP)

	2015	2016	2017	2018	Projections 1/ 2019	2020	2021	2022	2023	2024
Central government revenue	**24.6**	**24.5**	**26.2**	**26.9**	**28.0**	**18.5**	**18.7**	**17.3**	**15.7**	**17.1**
Tax revenue	21.6	21.0	23.0	24.6	26.2	14.0	14.2	12.6	11.1	11.9
Income taxes	8.3	8.4	9.1	9.7	10.4	5.6	5.7	5.1	4.5	4.8
Consumption taxes	10.4	9.5	10.2	10.9	11.7	6.3	6.4	5.6	5.0	5.3
Trade taxes	2.1	2.3	2.5	2.7	2.9	1.3	1.4	1.2	1.1	1.1
Other	0.8	0.8	1.2	1.3	1.3	0.7	0.8	0.7	0.6	0.6
Non-tax revenue	2.8	3.5	3.2	2.3	1.7	4.5	4.5	4.7	4.7	5.3
Of which:										
Oil revenue	0.0	0.0	0.0	0.0	0.0	2.9	2.9	3.3	3.4	3.9
Net revenue from PE and statutory bodies	1.9	2.1	2.0	1.2	0.7	0.5	0.5	0.4	0.4	0.4
Capital revenue	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**1.0**	**1.1**	**1.6**	**1.3**	**1.3**	**0.6**	**0.4**	**0.2**	**0.2**	**0.0**
Central government expenditure	**27.0**	**30.0**	**32.2**	**31.6**	**34.3**	**19.7**	**19.8**	**17.5**	**15.9**	**17.2**
Current expenditure	22.4	23.5	24.4	24.8	26.1	14.5	14.0	11.9	10.5	11.2
Wages and salaries	6.8	6.8	7.3	7.4	8.2	4.5	4.5	4.0	3.5	3.8
Other goods and services	6.5	6.5	6.6	6.4	7.2	4.4	3.8	3.0	2.9	3.2
Transfers	8.1	9.3	9.4	10.0	9.7	5.0	5.1	4.5	3.6	3.9
Interest 2/	1.0	0.9	1.1	1.1	1.0	0.6	0.5	0.5	0.3	0.3
Domestic	0.3	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.1	0.1
External	0.7	0.7	0.8	0.9	0.9	0.4	0.3	0.3	0.2	0.2
Capital expenditure	4.6	6.4	7.9	6.8	8.1	5.2	5.9	5.6	5.4	5.9
External PSIP	1.5	2.1	2.7	2.5	2.8	2.3	2.2	1.9	1.5	1.0
Local PSIP	3.2	4.3	5.2	4.4	5.3	0.3	1.1	0.7	0.9	1.3
Oil-financed projects	0.0	0.0	0.0	0.0	0.0	2.6	2.6	2.9	3.0	3.5
Overall balance (before grants)	**-2.4**	**-5.4**	**-6.0**	**-4.7**	**-6.3**	**-1.2**	**-1.2**	**-0.2**	**-0.2**	**0.0**
Overall balance (after grants)	**-1.4**	**-4.4**	**-4.4**	**-3.5**	**-5.0**	**-0.7**	**-0.7**	**0.0**	**0.0**	**0.0**
Primary balance (after grants)	**-0.4**	**-3.4**	**-3.3**	**-2.4**	**-4.0**	**-0.1**	**-0.2**	**0.4**	**0.3**	**0.3**
Financing	**1.4**	**4.4**	**4.4**	**3.5**	**5.0**	**0.7**	**0.7**	**0.0**	**0.0**	**0.0**
Net foreign financing	-0.8	1.1	1.2	1.0	1.0	1.4	0.9	1.0	0.7	0.7
Net domestic financing 3/	2.2	3.3	3.2	2.5	4.0	-0.7	-0.2	-1.0	-0.7	-0.7

Sources: Ministry of Finance; and IMF staff calculations and projections.
1/ The decline in fiscal accounts' GDP shares after 2019 are due to the large GDP increase after the start of oil production.
2/ Reflects interest and amortization after total debt relief.
3/ Includes statistical discrepancies.

Table 3c. Guyana: Public Sector Operations

(In percent of non-oil GDP)

	Projections				
	2020	2021	2022	2023	2024
Central government revenue	**32.1**	**32.1**	**33.5**	**34.7**	**35.1**
Tax revenue	24.3	24.3	24.3	24.4	24.4
Income taxes	9.8	9.8	9.8	9.8	9.8
Consumption taxes	10.9	10.9	10.9	10.9	10.9
Trade taxes	2.3	2.3	2.3	2.3	2.3
Other	1.3	1.3	1.3	1.3	1.3
Non-tax revenue	7.8	7.8	9.1	10.3	10.8
Of which:					
Oil revenue	5.0	5.0	6.3	7.4	8.0
Net revenue from PE and statutory bodies	0.8	0.8	0.8	0.8	0.7
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants	**1.0**	**0.8**	**0.4**	**0.4**	**0.0**
Central government expenditure	**34.2**	**34.1**	**33.8**	**35.1**	**35.2**
Current expenditure	25.2	24.0	23.1	23.1	23.0
Wages and salaries	7.8	7.8	7.8	7.8	7.8
Other goods and services	7.7	6.5	5.7	6.5	6.6
Transfers	8.7	8.7	8.7	8.0	8.0
Interest	1.0	0.9	0.9	0.8	0.7
Domestic	0.4	0.3	0.3	0.2	0.2
External	0.6	0.6	0.6	0.5	0.5
Capital expenditure	9.0	10.1	10.8	12.0	12.1
External PSIP	3.9	3.8	3.7	3.3	2.1
Local PSIP	0.6	1.9	1.4	2.1	2.7
Oil-financed projects	4.5	4.5	5.7	6.7	7.2
Overall balance (before grants)	**-2.1**	**-2.0**	**-0.4**	**-0.4**	**0.0**
Overall balance (after grants)	**-1.1**	**-1.3**	**0.0**	**0.0**	**0.0**
Primary balance (after grants)	**-0.1**	**-0.2**	**0.4**	**0.3**	**0.3**
Non-oil overall balance (after grants)	**-6.1**	**-6.2**	**-6.3**	**-7.5**	**-8.0**
Financing	**1.1**	**1.3**	**0.0**	**0.0**	**0.0**
Net foreign financing	2.4	1.6	2.0	2.0	1.0
Net domestic financing	-1.2	-0.3	-2.0	-2.0	-1.0

Sources: Ministry of Finance; and IMF staff calculations and projections.

Table 4. Guyana: Summary Account of the Bank of Guyana and Monetary Survey

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(In billions of Guyanese dollars, end of period)									
	Bank of Guyana									
Net foreign assets	92.3	96.5	92.3	81.1	104.7	153.9	204.1	268.4	325.2	360.5
Foreign assets	124.0	127.1	121.7	110.6	134.2	180.4	228.0	290.0	344.6	378.0
Foreign liabilities	31.7	30.6	29.4	29.5	29.5	26.6	23.9	21.5	19.4	17.4
Net domestic assets	42.2	58.1	64.0	98.0	95.5	89.6	79.9	66.8	67.2	87.1
Of which:										
Credit to public sector (net)	46.7	67.1	70.8	106.1	102.9	93.0	79.5	63.3	45.7	10.3
Liabilities to commercial banks	-3.4	-3.7	-6.2	-6.2	-6.6	-7.5	-8.2	-9.1	-10.6	-12.6
Currency in circulation	83.2	90.9	100.5	112.0	118.5	134.5	147.8	163.9	190.3	228.1
Base money	134.4	154.5	156.1	179.0	200.1	243.4	284.0	335.2	392.4	447.6
Of which: Excess reserves	9.2	19.2	11.8	…	…	…	…	…	…	…
	Monetary Survey									
Net foreign assets	145.9	150.0	146.0	135.8	156.7	203.2	251.0	313.0	367.5	400.8
Bank of Guyana	92.3	96.5	92.3	81.1	104.7	153.9	204.1	268.4	325.2	360.5
Commercial banks	53.6	53.5	53.7	54.7	52.0	49.4	46.9	44.6	42.3	40.2
Net domestic assets	297.1	316.9	317.9	355.6	376.1	401.4	413.4	423.9	472.3	596.2
Credit to public sector (net)	97.9	121.1	121.6	152.9	184.3	156.8	137.3	101.9	67.4	10.8
Private sector credit	259.2	264.3	269.8	280.8	292.6	307.2	321.0	335.8	351.5	368.4
Broad money	442.9	466.9	463.7	491.4	532.7	604.5	664.4	736.8	839.7	997.0
	(Percentage change, 12–month basis)									
Net foreign assets	-10.2	2.8	-2.6	-7.0	15.4	29.7	23.5	24.7	17.4	9.0
Net domestic assets	12.2	6.7	0.3	11.9	5.8	6.7	3.0	2.5	11.4	26.3
Domestic credit	12.3	7.8	1.5	10.8	9.9	-2.7	-1.2	-4.5	-4.3	-9.5
Of which:										
Private sector credit	5.8	2.0	2.1	4.0	4.2	5.0	4.5	4.6	4.7	4.8
Business sector	0.8	-0.4	0.9	5.3	…	…	…	…	…	…
Household sector	11.0	7.3	2.7	4.1	…	…	…	…	…	…
Mortgage sector	11.7	4.0	4.5	5.0	…	…	…	…	…	…
Other sectors	17.3	0.9	-23.4	-22.4	…	…	…	…	…	…
Public sector net	34.4	23.6	0.4	25.8	20.5	-14.9	-12.4	-25.8	-33.8	-84.0
Broad money	3.7	5.4	-0.7	6.0	8.4	13.5	9.9	10.9	14.0	18.7
	(Contribution to changes in base money, 12–month basis)									
Base money	7.1	15.0	1.0	14.7	11.8	21.6	16.7	18.0	17.1	14.1
Net foreign assets	-9.0	3.1	-2.7	-7.2	13.2	24.6	20.6	22.7	16.9	9.0
Other including net credit to public sector	16.1	11.9	3.8	21.8	-1.4	-2.9	-4.0	-4.6	0.1	5.1
	(In million of U.S. dollars, unless otherwise indicated)									
Memorandum items:										
Bank of Guyana's net foreign assets	446.9	467.3	447.0	392.1	505.9	735.6	963.1	1,250.5	1,502.9	1,649.6
Commercial banks' net foreign assets	259.4	259.2	260.3	264.6	251.3	236.1	221.4	207.7	195.7	184.1
Money multiplier	3.3	3.0	3.0	2.7	2.7	2.5	2.3	2.2	2.1	2.2
Income velocity of broad money	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Excess reserves (ratio to required reserves)	0.3	0.5	1.2	1.7	…	…	…	…	…	…
Average lending rates (in percent)	10.6	10.4	10.2	10.0	…	…	…	…	…	…

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

Table 5. Guyana: Indicators of External and Financial Vulnerability
(In percent, unless otherwise indicated)

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Financial indicators										
Public sector debt-to-GDP 1/	50.1	50.7	51.4	52.9	55.4	29.3	28.0	23.0	17.9	15.5
NPV of public sector debt-to-GDP	...	...	38.9	43.8	45.6	23.5	22.2	17.6	13.1	11.7
NPV of public sector debt-to revenue	...	...	153.5	163.0	163.2	127.1	118.9	101.5	83.5	68.1
Share of nonperforming loans in total loans	11.5	12.9	12.2	11.9	...	...	...	...	...	...
Share of nonperforming loans to total assets	5.6	6.1	5.8	5.6	...	...	...	...	...	...
Loan loss provisions to nonperforming loans	38.0	45.8	48.5	39.0	...	...	...	...	...	...
Risk-based capital-asset ratio (end of period)	23.9	25.4	27.1	28.7	...	...	...	...	...	...
Return on assets	2.7	2.2	2.3	0.6	...	...	...	...	...	...
Three-month T-bill rate (end of period)	1.9	1.7	1.5	1.5	...	...	...	...	...	...
CPI-inflation (end of period)	-1.8	1.5	1.5	1.6	2.7	3.5	3.5	3.5	3.1	2.5
External indicators										
Exchange rate (per US$, end of period)	206.5	206.5	206.5	206.8	...	...	...	...	...	...
Current account balance-to-GDP	-5.1	0.4	-6.8	-17.5	-22.7	-18.4	-15.9	-5.6	-0.7	1.7
Gross official reserves (in millions of U.S. dollars)	599	597	584	528	643	858	1,072	1,347	1,590	1,727
Gross official reserves in months of imports	3.7	3.3	2.6	2.1	1.8	2.4	3.2	3.8	4.5	4.5
Gross official reserves to short-term external public sector debt	652	1,473	1,453	959	1,182	1,642	1,963	2,383	2,789	2,939
External public sector debt to GDP	35.7	33.2	34.4	33.9	33.2	18.4	18.1	15.7	12.7	11.1
NPV of external public debt (in millions of U.S. dollars)	...	...	799	888	922	995	1,050	1,128	1,206	1,298
NPV of external public sector debt to exports	...	...	49.9	58.3	56.2	24.2	23.9	16.8	12.5	12.4
NPV of external public debt-to-GDP	...	...	22.2	22.8	22.4	12.3	12.1	10.5	8.6	8.4

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. The ratios do not include publicly-guaranteed debt.

Table 6. Guyana: Medium-Term Macroeconomic Framework

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections					
					(Annual percent change)					
Production and prices										
Real GDP 1/	3.1	3.4	2.1	4.1	4.4	85.6	4.8	20.6	26.2	3.2
Non-oil real GDP	3.1	3.4	2.1	4.1	4.4	4.8	4.6	4.7	4.9	5.0
Consumer prices (average)	-0.9	0.8	1.9	1.3	2.1	3.3	3.5	3.5	3.3	2.8
Consumer prices (end of period)	-1.8	1.5	1.5	1.6	2.7	3.5	3.5	3.5	3.1	2.5
Terms of trade	19.7	12.1	-10.3	-8.7	2.0	1.6	1.4	1.1	0.2	0.5
					(In percent of GDP)					
Central government										
Revenue	**24.6**	**24.5**	**26.2**	**26.9**	**28.0**	**18.5**	**18.7**	**17.3**	**15.7**	**17.1**
Tax revenue	21.6	21.0	23.0	24.6	26.2	14.0	14.2	12.6	11.1	11.9
Non-tax revenue	2.8	3.5	3.2	2.3	1.7	4.5	4.5	4.7	4.7	5.3
of which: Oil-related revenue	0.0	0.0	0.0	0.0	0.0	2.9	2.9	3.3	3.4	3.9
Capital revenue	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 2/	**1.0**	**1.1**	**1.6**	**1.3**	**1.3**	**0.6**	**0.4**	**0.2**	**0.2**	**0.0**
Expenditure	**27.0**	**30.0**	**32.2**	**31.6**	**34.3**	**19.7**	**19.8**	**17.5**	**15.9**	**17.2**
Current 3/	22.4	23.5	24.4	24.8	26.1	14.5	14.0	11.9	10.5	11.2
Capital	4.6	6.4	7.9	6.8	8.1	5.2	5.9	5.6	5.4	5.9
Overall balance (before grants)	-2.4	-5.4	-6.0	-4.7	-6.3	-1.2	-1.2	-0.2	-0.2	0.0
Overall balance (after grants)	-1.4	-4.4	-4.4	-3.5	-5.0	-0.7	-0.7	0.0	0.0	0.0
Financing	**1.4**	**4.4**	**4.4**	**3.5**	**5.0**	**0.7**	**0.7**	**0.0**	**0.0**	**0.0**
Net external financing 3/	-0.8	1.1	1.2	1.0	1.0	1.4	0.9	1.0	0.7	0.7
Net domestic financing	2.2	3.3	3.2	2.5	4.0	-0.7	-0.2	-1.0	-0.7	-0.7
Total public sector gross debt 4/	**50.1**	**50.7**	**51.4**	**52.9**	**55.4**	**29.3**	**28.0**	**23.0**	**17.9**	**15.5**
External	35.7	33.2	34.4	33.9	33.2	18.4	18.1	15.7	12.7	11.1
Domestic	14.4	17.6	16.9	19.0	22.2	10.9	9.9	7.3	5.2	4.4
					(Annual percentage change)					
Money and credit										
Broad money	3.7	5.4	-0.7	6.0	8.4	13.5	9.9	10.9	14.0	18.7
Domestic credit of the banking system	12.3	7.8	1.5	10.8	9.9	-2.7	-1.2	-4.5	-4.3	-9.5
Public sector (net) 2/	34.4	23.6	0.4	25.8	20.5	-14.9	-12.4	-25.8	-33.8	-84.0
Private sector	5.8	2.0	2.1	4.0	4.2	5.0	4.5	4.6	4.7	4.8
					(In percent of GDP, unless otherwise indicated)					
External sector										
Current account balance, incl. off. transfers	-5.1	0.4	-6.8	-17.5	-22.7	-18.4	-15.9	-5.6	-0.7	1.7
Gross official reserves (US$ million)	599	597	584	528	643	858	1,072	1,347	1,590	1,727
Months of imports of goods and services	3.7	3.3	2.6	2.1	1.8	2.4	3.2	3.8	4.5	4.5
					(In percent of GDP, unless otherwise indicated)					
Memorandum items:										
Nominal GDP (G$ billion)	660	724	745	806	852	1,678	1,826	2,280	3,018	3,361
Central government Primary balance	-0.4	-3.4	-3.3	-2.4	-4.0	-0.1	-0.2	0.4	0.3	0.3
General government overall balance (CG and NIS)	-1.2	-4.3	-4.3	-3.5	-4.8	-0.5	-0.6	0.1	0.1	0.1
Per capita GDP, US$	4,168	4,531	4,636	4,984	5,252	10,249	10,990	13,502	17,636	19,405
Guyana dollar/U.S. dollar (period average)	206.5	206.5	206.5	206.7	…	…	…	…	…	…

Sources: Guyanese authorities; and IMF staff calculations and projections.

1/ Projected real GDP growth in 2020 is potentially overstated and subject to large subsequent revisions because of the very high growth rate of oil GDP, which in turn is elevated on account of the very low (zero) base in 2019. Hence, even small changes to the projected oil output in 2020 would result in large changes in real oil GDP and overall real GDP growth rates. Work is ongoing to rebase the real GDP series to account for oil-related activities since 2015 in advance of actual oil production in 2020.

2/ Includes debt service savings under HIPC and MDRI.

3/ Reflects interest and amortizations after debt stock operations.

4/ Since 2015-16, the public debt to GDP ratios have been adjusted to reflect unsettled government balances at the central bank. The ratios do not include publicly-guaranteed debt.

Table 7. Guyana: Risks Assessment Matrix[1]			
Source of Risk	**Likelihood**	**Impact**	**Policy Response**
Global Risks			
Tighter global financial conditions, including strengthening of the U.S. dollar and/or higher rates.	L	M	Allow the exchange rate to play a more active automatic stabilizer role; tighten monetary policy to prevent interest rate differential with the U.S. from narrowing.
Weaker-than-expected global growth in key advanced economies and China.	M	M	Allow the exchange rate to play a more active automatic stabilizer role; accelerate structural reforms to support growth.
Large swings in energy prices.	M	M	This would make volatile the oil import bill and the exchange rate in the short-run, and could adversely affect investments in the oil sector, which would call for active fiscal and monetary responses; allow the exchange rate to play a more active automatic stabilizer role; accelerate structural reforms to support non-oil sector growth.
Country-specific risks			
More volatility in macroeconomic variables including GDP growth, fiscal revenues, expenditures, inflation and exchange rates due to excessive dependence on oil revenue and risk of a delay start in oil production.	H	H	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 rate to keep the competitiveness of non-oil exporting sector. Allow automatic stabilizers to work in the short-term.
Rapid ramping up of public spending could result in "Dutch disease" and a decline in public expenditure efficiency.	H	H	Fiscal policy needs to keep the pace of scaling-up of public spending gradual to not exceed capacity constraints, avoid inflationary pressure and ensure medium- and long-term economic and debt sustainability.
Reduced financial services by correspondent banks ("de-risking"), following Scotiabank's exit.	L	M	Monitor the status of CBRs; address drivers behind CBR pressure, including AML/CFT compliance and impediments to information sharing; effectively communicate efforts.

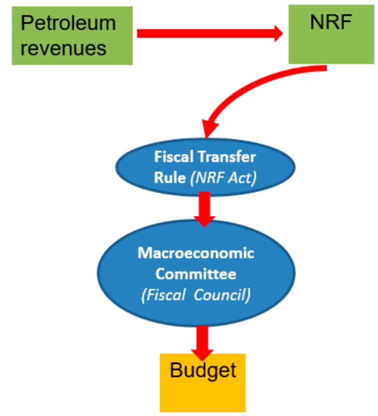
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" indicates a probability 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. Low (L), Medium (M), High (H).

Annex I. The NRF Budget Transfer Rule

1. **The Ministry of Finance prioritized the development of a framework for managing the incoming petroleum revenue.** The framework was articulated in the NRF Bill presented to Parliament in November 2018 and assented to law by the President in January 2019.

2. **The legislation establishes a Natural Resource Fund (NRF).**[1] All petroleum revenues (defined in Article 21 of the Act) flow into the NRF. A fiscal transfer rule determines the 'fiscally sustainable amount (FSA)' transfer from the NRF to the annual budget.[2] However, the Macroeconomic Committee can recommend a lower "Economically Sustainable" transfer.[3]

Guyana: NRF Framework



Annex Table 1. Guyana: Natural Resource Fund Budget Transfer Rule 1/

Sustainability Test: Has 3% of the balance of the NRF exceeded BPR in the past?						
Yes	No					
	Production Test: Is production low, moderate or high?					
	Low =< 200,000 bpd		=< Moderate < 400,000 bpd		High => 400,000 bpd	
	Ceiling Test: Is 2/3 of BPR > FSA Ceiling?		Ceiling Test: Is 1/2 of BPR > FSA Ceiling?		Ceiling Test: Is 1/3 of BPR > FSA Ceiling?	
	Yes	No	Yes	No	Yes	No
FSA = 3% of the NRF	FSA = FSA Ceiling	FSA = 2/3 of BPR	FSA = FSA Ceiling	FSA = ½ of BPR	FSA = FSA Ceiling	FSA = 1/3 BPR

Key
BPR: Benchmark Petroleum Revenues (that year's petroleum revenues assuming a long-term oil price)
FSA: Fiscally Sustainable Amount that can be withdrawn from NRF each year.
FSA Ceiling: Fiscally Sustainable Amount Ceiling = the larger of 3% of the NRF's balance and 25% of non-oil revenue.
Bpd: barrels of petroleum per day
NRF: Natural Resource Fund

Source: Ministry of Finance.
1/ If in a past fiscal year, 3 percent of the NRF balance for that past fiscal year exceeded Production Constrained Benchmark Petroleum Revenues for that past fiscal year, then for all future fiscal years the Fiscally Sustainable Amount shall not exceed 3 percent of the projected balance of the NRF for that fiscal year.

[1] The NRF will be an offshore sovereign wealth fund.

[2] The fiscal transfer rule is designed to ensure that in the long run, fiscal transfers are determined by the expected financial return on the NRF (a Bird-in-Hand), while in the medium term enabling some gradual, front-loading of fiscal transfers (a flexible Permanent Income Hypothesis).

[3] For example, the Committee can recommend a lower fiscal transfer if increases in public spending are assessed to generate undesirable macroeconomic effects, such as inflation or large crowding out of private investment.

3. **Guyana's fiscal transfer rule shares many characteristics with other small petroleum-producing countries, such as Timor-Leste and Ghana.**

- *Timor-Leste* established a fund under the Petroleum Fund Law 2005. The law provides mechanisms to manage oil revenue, defines risk limits and asset allocation of the fund, governs the collection and management of receipts from the investment, and regulates transfers to the government budget. Under the law, the entire oil revenue is transferred to the fund and invested in financial assets abroad. Withdrawals require parliamentary approval. The central bank manages its operation following the guidelines established by the Ministry of Finance.

- *In Ghana*, the Petroleum Revenue Management Act 2011 (PRMA) governs the management of oil revenues and provides a framework for withdrawals. Under the PRMA, oil revenues are deposited in the Petroleum Holding Fund. The revenues are disbursed firstly to the national oil company to finance its operations, and secondly to the government consolidated fund to support the national budget. Thirdly, the revenues are disbursed to the Ghana Petroleum Funds (Heritage and Stabilization Funds) for purposes of savings and investments, and finally for exceptional purposes such as tax refunds. The PRMA mandates the management of oil revenues and savings to be performed in accordance with the highest internationally accepted standards of transparency and good governance. The government is required to publish an annual report for transparency.

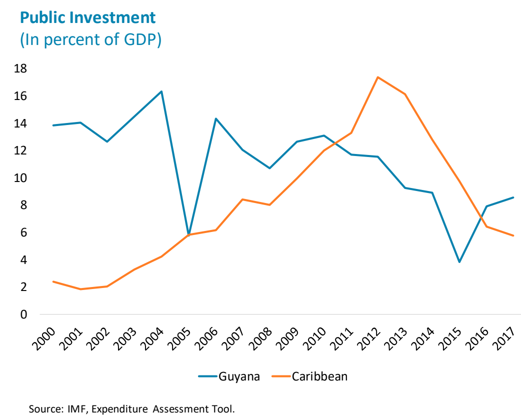
Annex II. Progress on 2018 Article IV Policy Recommendations

IMF 2018 Article IV Recommendations	Authorities' Response
Fiscal policy A moderation of the deficit would reduce financing needs and preserve external buffers. The rules-based fiscal framework for managing oil wealth should be transparent and consistent with the resource fund deposit/withdrawal rules	**Broadly consistent** The central government overall deficit (after grants) improved to 3.6 percent of GDP in 2018 from 4.4 percent of GDP in 2017. The NRF legislation was assented to law in January 2019, providing a legal framework for managing Guyana's natural resource wealth and includes provisions for public oversight; withdrawals, including parliamentary approval and amounts to be withdrawn; eligible investments; accounting, reporting and auditing of records; and codes of conduct for members of the Oversight and Investment Committee.
Monetary and exchange rate policies Maintain an accommodative monetary policy stance, but gradually move towards a neutral stance in 2018. Allow greater exchange rate flexibility to play a larger role in facilitating external adjustment.	**Broadly consistent** The monetary stance remained accommodative, due to low inflation. The exchange rate remains broadly stable. In June 2018, the exchange rate against USD has slightly increased by 0.8 percent.
Financial sector policy Strengthen supervisory and regulatory framework in line with the 2016 FSAP recommendations. Operationalize the crisis management framework. Continue to strengthen the AML/CFT framework.	**Broadly consistent** The authorities have made significant progress in implementing recommendations from the 2016 FSAP 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. The authorities remain committed to strengthening the AML/CFT framework.
Structural reforms Continue with further improvements to the business climate, diversification efforts, inclusive growth and structural reforms of key economic sector.	**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.

Annex III. Development and Infrastructure Needs

This Annex discusses the trends in Guyana's public investment spending and socio-infrastructural development needs.

1. **Guyana's public investment spending has been weak although it has started to recover slightly since 2015.** After reaching its peak in 2003 (at 14.5 percent of GDP), the ratio of public investment spending to GDP was on a declining trend although it was still higher relative to most Caribbean countries until 2011. The ratio started to dip below 10 percent of GDP in 2013. In 2015, infrastructure spending started to improve following oil discovery, but remained below levels seen in early-2000.



2. **Basic infrastructures are relatively well developed, but health services are weak.** Despite its relatively low-income levels, around 98 percent of the population have access to clean water, higher than the Caribbean's median of 95 percent. Guyana also scores relatively well in improved sanitation, with 83 percent of its population having access, slightly higher than the region's median of 82 percent. However, infant mortality rate and life expectancy are among the weakest relative to the region and EMDE.

3. **Human development in Guyana has lagged the region.** A report by the World Bank suggests that the country's human capital is lower than the median for its region and income group. Guyana's human capital index (HCI) is 0.49, below the medians in the Caribbean (0.50) and EMDE (0.51).[1] The report also indicates that children in Guyana can expect to complete 12.1 years of pre-primary, primary and secondary school by age 18, but when years of schooling are adjusted for quality of learning, it is only equivalent to 6.7 years: a learning gap of 5.4 years. A recent Inter-American Development Bank (IDB) report concurs with this finding, highlighting that although enrollment at the primary and secondary level is high, the quality of schooling varies as students' performance at the Caribbean Examination Council Examination is below the Caribbean average.

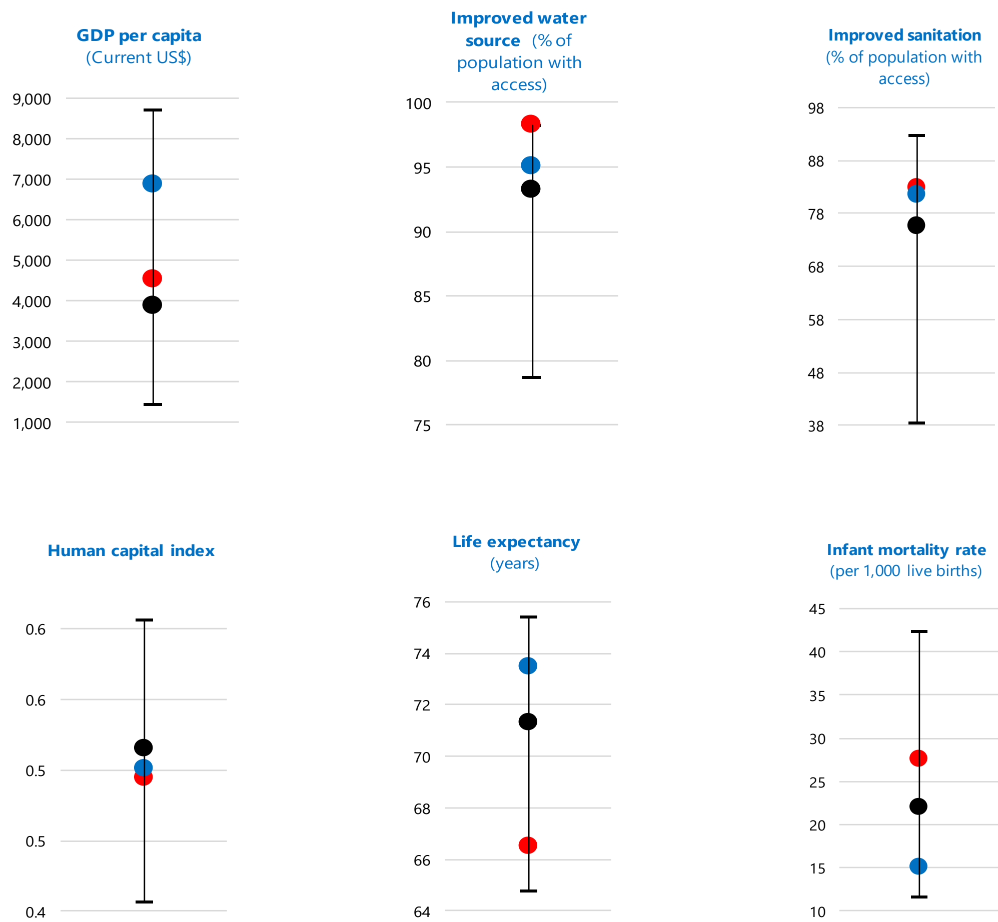
4. **Emigration has compounded the weaknesses in human capital formation**. The IDB Report noted that Guyana has the world's seventh-highest rate of emigration, and most emigrants are skilled and/or with university education. The report suggests that the development and growth challenges are due to low investment (about one third of the LAC average), high cost of domestic financing, and lack of access to international capital markets.

5. **The government is aware of these challenges and is actively working to improve infrastructure and human capital with development partners.** Recent infrastructure projects

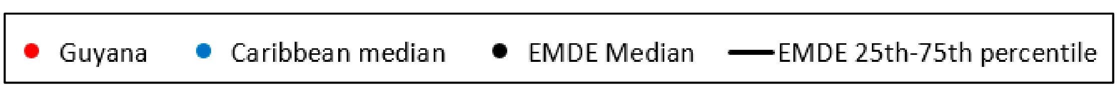
[1] The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

funded by the Inter-American Development Bank (IADB) and Chinese government include, among others, widening of the East Coast Demerara road, and rehabilitation of bridges and culverts that connect major coastal highways. On education, the government is collaborating with the World Bank through the Education Sector Improvement Project to improve teaching practices and student achievement in mathematics at the primary level in selected schools; and strengthen the teaching capacity and improve the learning environment of the University of Guyana faculty of health sciences.[2]

Annex Figure 1. Demographic and Social Indicators



Source: The World Bank.



[2] For further details, see World Bank Guyana Education Sector Improvement Project.

Annex IV. Pitfalls in Spending Oil Money: Lessons from Other Countries

1. **Rapid scaling up of public expenditure risks fueling macroeconomic distortions and inflationary pressures, and eroding competitiveness.** Trinidad and Tobago benefited from large increases in oil prices in the 1970s. Surpluses from oil revenues enabled the government to invest in large projects—in sectors such as steel and petrochemicals—with the intention of reducing the country's dependence on oil. As domestic expenditure expanded rapidly, and wage awards exceeded increases in productivity by a significant margin, inflationary pressures emerged, eroding the competitiveness of the non-oil economy. Prices of non-tradables, such as real estate, rose sharply in relation to prices of imports and exports. In 1982–83, as global oil prices weakened, and petroleum output declined from peak levels in 1978, the country began to face serious economic problems. The overall public sector fiscal position shifted from a surplus in 1981 to deficits amounting to around 15 percent of GDP in 1982–83 as outlays rose and the decline in oil revenues more than offset increases in other revenues. Four fifths of the public sector deficit originated from central government operations, reflecting higher public sector wages and transfers to cover operating losses and capital outlays of the nonfinancial public enterprises. The economy contracted by 7.5 percent (y/y) in 1983 as the decline in petroleum output was reinforced by the fall in the nonpetroleum sector. The country became increasingly uncompetitive with an appreciating real exchange rate, leading to considerable pressures on the balance of payments. Consequently, the large stock of foreign exchange reserves accumulated during the oil boom was depleted. Significant adjustment started in mid-1980s when the government tightened import and exchange controls and devalued the currency.

2. **Public debt could grow unsustainably at the same time as the sovereign wealth fund accumulates in the absence of a medium-term anchor that is consistent with SWF withdrawal rules.** Ghana started producing oil in 2011 and established the Petroleum Revenue Management Act (PRMA) in the same year. The onset of oil production attracted large inflows of foreign direct investment (FDI) and boosted its economic growth. As its per capita income rose to US$1,879 in 2013 (US$1,358 in 2010), Ghana's status improved to a Low Middle-Income Country (LMIC). However, the change into LMIC status constrained the country from accessing grants and concessional financing, and the rapidly rising public debt had also resulted in higher interest payments. In addition, the rapid increase in public wage bill and other current spending more than offset the increase in oil revenue. The rigid legal framework in the PRMA also did not allow the government to accommodate unexpected large shocks, forcing Ghana to continue financing large deficits with debt while transferring the oil revenues to the petroleum funds. In 2014, following the large drop in world oil prices, Ghana's exchange rate depreciation increased input costs and put pressure on growth, particularly in the industrial and services sectors, prompting the government to request an IMF program in 2015.

Annex V. Key Recommendations of the 2017 Public Investment Management Assessment

1. **Public investment management (PIM) in Guyana has many desirable features and further improvements will help close its efficiency gap.** Capital and recurrent budgets are prepared within the Ministry of Finance (MoF), information on capital spending is quite extensive, elements of a medium-term budget framework are being put in place, and the coordination between the central and lower levels of government is relatively orderly. Nevertheless, despite a relatively high capital stock, Guyana has an estimated efficiency gap of 41 percent compared to 30 percent in Latin America and the Caribbean (LAC), and 27 percent in Emerging Market Economies (EMEs). The efficiency of the PIM system is affected by weaknesses in the planning, budgeting, appraisal, selection, procurement, and implementation of capital projects. These weaknesses have important implications for key areas of public investment management.

2. **The ten key recommendations made by the 2017 PIMA are:**

- Put in place by 2020 a transparent rules-based fiscal framework, either excluding capital spending from budget balance targets, or introducing a floor on the overall level of capital spending.

- The GSDS being finalized should provide allocations for key sectors and identify key strategic public investment projects to guide medium-term budgeting, this requires significant involvement by the MoF.

- Complete and publish the policy framework on PPPs, with tightened fiscal safeguards and an enhanced oversight role for the MoF; prepare implementing regulations; and ensure that new PPPs are not implemented until essential PIM preconditions are satisfied (e.g., rigorous procedures for project appraisal).

- Improve the monitoring of SOEs to coordinate their public investments and to monitor fiscal risks, including by providing better resources for the Enterprise Monitoring Division, and consider reviewing the size and number of public enterprises to reduce fiscal risk and oversight costs and to achieve economies of scale.

- Introduce ceilings for agencies at the start of the budget cycle, aligned to improvements in budget discipline at cabinet level, and capacity of budget agencies to cost their strategic plans.

- Prepare and disseminate detailed guidance on project preparation and appraisal, allocate sufficient resources to pre-investment planning, and increase the capacity to undertake appraisals in budget agencies.

- Define minimum documentation requirements for inclusion of projects in the budget and build a pipeline of ready-to-implement projects.

- Enhance access to public procurement information, update regulatory framework to international standards, including the requirement for procurement planning
- Issue detailed guideline on project management, enforce ex-post reviews for major projects, and build a database for monitoring project implementation.
- Take small but gradual steps in monitoring public assets by conducting regular surveys, keeping record of value, condition, and location of non-financial assets.

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.
Assess credit risk without considering collateral values, given difficulties in collateral recovery. ¶20, ¶29	I	Stress tests were completed in June 2016. A new model is currently being reviewed which applies haircuts instead to 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	The BoG has requested TA from IMF in the modelling and implementation of macro-financial scenarios for its stress testing toolkit.
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 in September 3–5, 2018. Additional amendments for manual are ongoing.
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.

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

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 is currently being reviewed. Intention to implement this has been conveyed to Guyana Association of Bankers.
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	Ownership structure was updated, and questionnaire will be sent.
Require banks to develop contingency funding plans to manage liquidity risks due to deposit concentration. ¶35, ¶37, ¶56	I	First draft of guideline received as part of TA from World Bank's (Financial Sector Reform and Strengthening Initiative) FIRST Initiative.
Clarify the instruments, policies, required collateral and procedures for providing ELA. ¶58	I	The Bank of Guyana Act was amended in 2018 (Bank of Guyana (Amendment) Act) 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 amendments to Part VIII of the FIA on bank resolution. Currently ongoing.
Increase the minimum capital adequacy requirement, including charges for market and operational risk, to at least 12 percent. ¶50	NT	TA was provided by CARTAC on Basel II/III – Pillar I implementation, which reviewed the increase in the capital adequacy requirement and the risk weights. Guideline is now completed, and industry sensitization conducted, and QIS issued on September 19, 2018.
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	Commercial banks were notified of FSAP recommendations.
Streamline and operationalize the draft Crisis Management Plan. ¶52	NT	The draft Crisis Management Plan will be revisited since all the required legislation (amendments to the FIA, amendments to BoG and Deposit Insurance Law) were passed in 2018.

Recommendations	Time[1]	Authorities' Responses
Legislative Amendments:		
Provide resolution powers to the BoG and, to the extent possible, limit courts' ability to reverse the BoG's decisions. ¶54	NT	Amendments to the Part VIII of the Financial Institutions Act (the Financial Institutions (Amendment) Act 2018) was passed in July 2018.
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	The Deposit Insurance Act 2018 was passed in 2018.
Amend the BOG Act 1998 to facilitate the ELA framework.	NT	The Bank of Guyana Act was amended in July 2018 (Bank of Guyana (Amendment) Act 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	Completed. 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	Completed. 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.

Annex VII. Efficiency Gains from Structural Reforms

This Annex illustrates the potential economic gains from structural reforms which increases the rate of return of public capital spending by enhancing efficiency. It extends the analysis in Box 1, using the DIGNAR model.

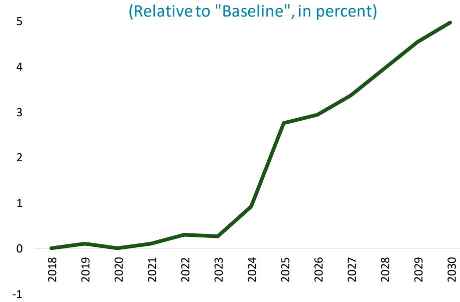
Assumptions

1. Given that lack of history on Guyana's experience in investing natural resource revenue in public infrastructure, the DIGNAR model is calibrated for a reform scenario based on the assumptions that public investment efficiency increases gradually by 10 percentage points relative to baseline over 2020−30, supported by structural and institutional reforms to improve governance and execution in the public sector.[1] This positively affects capital stock accumulation.

Implications

2. **Over time, the structural reform measures enhance growth in non-oil output.** They increase the extent to which public capital affects the productivity of private factors of production, bringing a more positive impact on growth and incomes. In this illustration, reforms and further improvements to institutional arrangements would deliver an additional 5 percentage points gain in non-resource output in 2030, supported by higher private consumption and investment. Improving public investment efficiency over time could also quickly build up public capital and to a higher level.

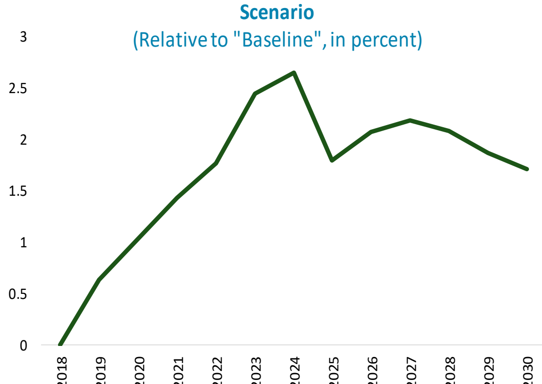
Guyana: Deviation in Non-Resource Output under "Reform" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

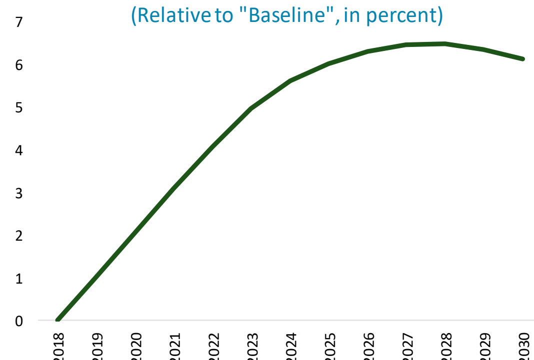
Impact of Structural Reforms

Deviation in Private Consumption under "Reform" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

Deviation in Private Investment under "Reform" Scenario
(Relative to "Baseline", in percent)



Source: IMF staff calculations.

[1] Based on Guyana's 2017 PIMA, the public investment efficiency rate was 59 percent compared to LAC efficiency rate of 70 percent. The 10-percentage point improvement assumed under the reform scenario would, in effect, close the efficiency gap between Guyana and the LAC.

Annex VIII. Strengthening Governance in Guyana

1. ***Anti-corruption:*** Guyana ranks 93 out of 180 countries in the 2018 Transparency International corruption perception index, marginally sliding from 2017. Authorities are taking measures to fight corruption and align with the United Nations Convention against corruption. These include: the enactment of the State Asset Recovery Act (2017), Protective Disclosures (Whistle Blower) Act (2018), the establishment of the Special Organized Crime Unit (SOCU) and the Financial Intelligence Unit (FIU) and launch of the anti-corruption and sensitization seminars. There is progress on the asset declaration regime. The reestablished Integrity Commission has received submissions from over 50 percent of the 1300 people required to declare assets in the 2018−19 cycle. The authorities are developing a framework for verification of declarations across time and against other sources of information. Sanctions for non-declaration or false declarations range from fines to prosecution. To strengthen the asset declaration regime, the authorities are reviewing some regulations to allow access to information, expanding coverage of people to declare assets, developing management information systems and operationalizing the whistle blower policy.

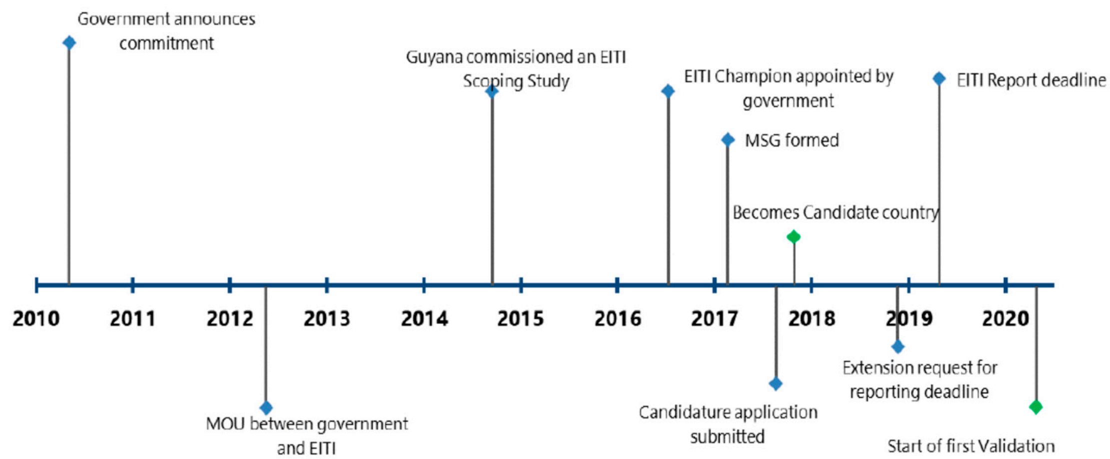
2. ***Extractive Industry Transparency Framework:*** Guyana continues to improve transparency. It published its first Extractive Industries Transparency Initiative (EITI) report in 2019 which highlights important recommendations to strengthen transparency and accountability in the extractive sector. These include: the creation of an open database for EITI, reporting EITI data at project level, accuracy and comprehensiveness of production and export data, public disclosure of the register of licenses, public disclosure of mineral agreements, more disclosure on the allocation of licenses and permits, acceleration of legislative reforms in the oil and gas sector, the restructuring of the Guyana Geological and Mines Commission (GGMC) to enhance efficiency, use of credible and audited financial statements for assessing payments and revenues to the government, enhancement of more industry participation on reporting, and waiving of legal confidentiality restrictions. The authorities have started implementing the recommendations. Going forward, sustained efforts in implementing the recommendations would help to fortify transparency and accountability in the extractive industry. Validation to assess the status of EITI progress on compliance is scheduled for April 2020. The authorities have launched the Beneficial Ownership Disclosure Roadmap, to enhance transparency from the extractive sector.

3. ***Public procurement:*** Guyana is making progress in reforming its procurement system, which is critical considering the envisaged scaling up of public investments. The authorities established the National Procurement and Tender Administration Board (NPTAB) in 2015, to administer the procurement system, and the Public Procurement Commission (PPC) in 2016 to regulate the procurement system. Several reforms are being implemented to strengthen the procurement system. These include: mandatory procurement plans, setting 20 percent of procurement to small businesses, in line with the provisions of the Small Business Act, registration of bidders, debarment procedures for contractors who do poor work, procedure for the operation of the Public Procurement Commission, and amendments of the thresholds for restrictive tendering and the quotation method. The authorities are developing an e-procurement system expected to be completed in 2021 that will help to improve the efficiency of the procurement system. Bids for large projects are also published on the UNDP development business website. Access to CARICOM's Public Procurement Notice Board and publication of bids and tenders will help to further boost transparency of the procurement system.

Annex IX. Strengthening Transparency in the Natural Resource Sector in Guyana

1. **Guyana joined the Extractive Industries Transparency Initiative (EITI) in 2017 after announcing commitment in 2010.** It aims to ensure transparency and accountability in the governance of the natural resource sector. The Guyana EITI is governed by a national Multi-Stakeholder Group (MSG) consisting of government, industry and civil society, supported by a Secretariat which oversees the day-to-day operations and implementation of its work plan.

Timeline for EITI implementation in Guyana



Source: EITI.

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, 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.

EITI Practice in Other Countries:

3. **Ghana joined EITI in 2007 to improve transparency and accountability in the extractive sector**. Ghana Extractive Industry Transparency Initiative (GHEITI) is governed by a Multi-Stakeholder Group (MSG) made up of government, civil society and industry and supported by a Secretariat. GHEITI has made progress in implementing EITI standards, with disclosures of rules and regulations for the award of exploration and production rights, contracts, beneficial owners, management of resource revenues and contribution of the extractive industries to the economy in various online portals. It has drafted the Ghana EITI bill (yet to be passed in parliament) to enforce reporting requirements and institutionalize the EITI process. The

Public Revenue Management Act guides revenue disclosures, allocations and management in the oil and gas sector. EITI is contributing to the reduction in corruption in Ghana: the corruption perception index has been declining since 2014.

4. **Timor-Leste joined EITI in 2008. The Ministry of Petroleum and Mineral Resources oversees EITI implementation, with the help of the Multi-sector working group.** Timor-Leste's commitment to the principles of the EITI has helped to improve transparency of the legal framework, licensing and contracting processes, production and fiscal regime for managing oil revenues. It continues to make progress in systematic disclosures and reporting of various information on the extractive sector in government online portals. Companies also publish information on production, export and taxes paid, allowing reconciliation of figures with government receipts. The Petroleum Fund stipulates how the resource funds are managed and spent in the national budget. Stakeholders in the MSG provides inputs to the EITI process, with open information sharing contributing to public debate. Timor-Leste has yet to establish EITI (Transparency) Law.

Annex X. External Sector Assessment

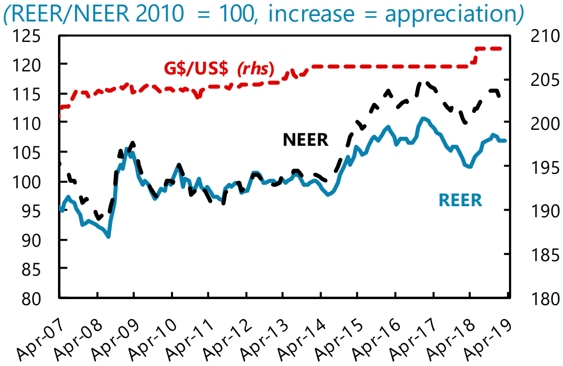
Guyana's external position in 2018 is assessed to be broadly consistent with fundamentals and desirable policy settings. The real exchange rate appreciated against currencies of trading partners. More flexibility in the nominal exchange rate would help Guyana cope with potential external shocks, and fiscal consolidation would help preserve external buffers. Further, staff's assessment indicated that international reserves are below traditional and risk-weighted measures in the short term. However, over the medium-term, foreign reserves will rise above those thresholds as oil exports increase.

A. External Balance Assessment

1. **The real effective exchange rate (REER) appreciated by about 2.8 percent during 2018.** Similarly, the Nominal Effective Exchange Rate (NEER) appreciated by around 2.5 percent during that same period. This appreciation largely reflects developments in the exchange rates against its non-U.S. trading partners including Canada.

Real and Nominal Effective Exchange Rates

(REER/NEER 2010 = 100, increase = appreciation)



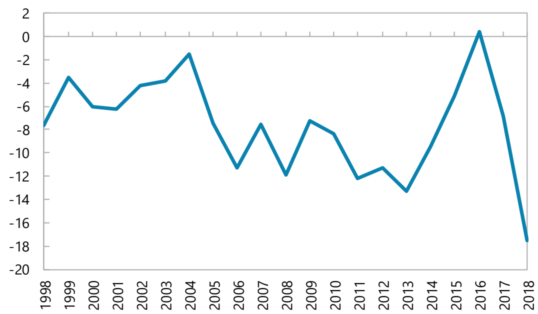
Source: IMF, International Financial Statistics database.

2. **Staff's bottom line assessment is that the external position in 2018 was broadly consistent with medium-term fundamentals and desirable policy settings**. EBA-Lite based estimates suggest that the external position in 2018 was substantially stronger than the levels consistent with medium-term fundamentals and desirable policy settings. Meanwhile, under the EBA-lite methodology, the cyclically adjusted (multilaterally consistent) current account norm was -27.1 percent compared with a cyclically adjusted actual level of -19.6 percent of GDP, resulting in an estimated current account gap of about 7.5 percent and a policy gap of 1.7 percent of GDP. That implies a substantial real exchange rate undervaluation. The Real Effective Exchange Rate Gap based on the Current Account model showed a substantial undervaluation of 20 percent. However, short-term real GDP growth rates fluctuate with the commencement of oil production, resulting in a large current account deficit norm. Moreover, the current account deficit of -17.5 percent of GDP in 2018 reflects FDI-financed large-scale imports of equipment for oil extraction, which resulted in a sharp widening of the current account deficit. Once these large temporary imports and abnormal high future growth rates are accounted for, staff estimates that the cyclically adjusted current account would be around -8.9 percent of GDP, which will be close to a multilaterally consistent cyclically adjusted norm of -8.7

percent of GDP.[1] This would imply adjusted current account gap of 0.2 percent of GDP, which in turn translates into a one percent overvaluation of real effective exchange rate. Thus, the staff bottom line assessment suggests that the external position in 2018 was broadly consistent with the medium-term fundamentals. As oil exports increase and extraction equipment imports decline, the current account is projected to strengthen over the medium term. Developments in the external sector will continue to be prone to idiosyncratic shocks, such as sharp changes in the prices of oil, gold, rice and sugar given the large concentration of exports in these commodities.

Current Account Balance

(In percent of GDP)



Sources: Guyana authorities; and IMF staff calculations.

Current Account Approach

(In percent of GDP, unless otherwise indicated)	**Model results**	**Staff adjustment**
CA-Actual	-17.5%	-6.9%
Cyclical Contributions (from model)	2.1%	2.1%
Cyclically adjusted CA	-19.6%	-8.9%
CA-Norm	-25.0%	-6.6%
Multilaterally Consistent Cyclically adjusted CA Norm	-27.1%	-8.7%
CA-Gap	7.5%	-0.2%
of/which Policy gap	1.66%	1.66%
Elasticity 1/	-0.38	-0.38
REER Gap	-20%	1%
CA-Fitted	-23.3%	-4.9%

1/ Adjusted CA and REER Gaps reflect adjustments for large, FDI-financed imports related to oil exploration and development activities. The elasticity is computed using the exchange rate elasticities for imports (0.29) and the values of goods and services as a share of GDP.

B. Reserve Adequacy

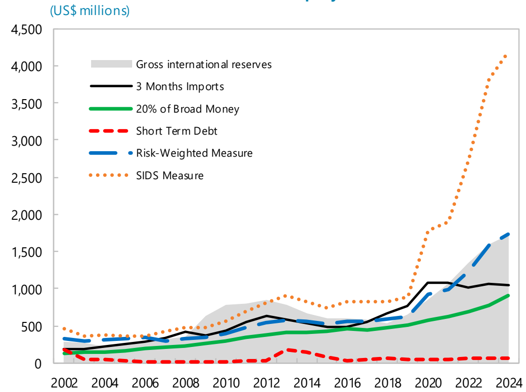
3. **The level of international reserves is temporarily below traditional non-risk-based adequacy metrics but exceeds them over the medium term.[2]** Foreign reserves are estimated to be 2.1 months of imports in 2018 but are expected to return to 3.8 months of imports in 2022 after oil production commences. This temporally low level of foreign reserves in months of imports is attributed to the large inflow of imports for oil exploration and development. As of end-2018, reserves are above 20 percent of broad money (M2) and around 959 percent of short-term debt, providing enough buffers against capital flight and limited market access in the event of adverse shocks.

[1] The balance of payments data do not permit disaggregation of imports into those related to oil extraction facilities. Hence, the corresponding adjustment is estimated based on past import patterns. The current account deficit that is adjusted for oil related imports in 2018 is projected as the past 5-year historical average. Staff adjusted growth rate uses a GDP growth rate in 2024 of 3.2 percent to avoid abnormal large fluctuations in GDP growth rate during the first few years after the commencement of oil production.

[2] Though traditional indicators ("rules of thumb") are simple and transparent, they may underestimate other potential outflows pressures (e.g., falling export income, outflows from other debt and equity liabilities).

4. **Guyana's international reserves are broadly above various metrics and will be above most risk-weighted metrics over the medium term.**[3] Guyana's level of international reserves stood at 90 percent of the Assessing Reserve Adequacy (ARA) metric at end-2018, placing it below the 100−150 percent adequacy range. However, its international reserves comfortably exceeded the adequate level in terms of broad money and short-term debt at end-2018. Level of reserves as months of imports is initially low due to large inflows of imports related to oil production and development in the short term. Over the medium term, Guyana's international reserves will exceed the adequate level in terms of ARA metric, broad money, and short-term debt, and months of imports once the impact of oil production on reserve accumulation fully takes place. The risk-weighted measures for Small Island Developing States (SIDS) provide an anomalous result of less-than enough adequacy level due to very rapidly rising oil exports and should not be used in the assessment.

Gross International Reserves and Adequacy Metrics
(US$ millions)



Source: IMF staff calculations.

Ratios of Reserves to Optimal Reserves Based on Various Measures
(In percent)

	Risk-Weighted Measure	SIDS Measure	3 months Import	20% of Broad Money	Short Term Debt
2007	109	74	94	149	2,592
2008	109	74	87	152	2,848
2009	178	132	173	243	3,275
2010	195	139	177	260	4,628
2011	169	115	145	235	2,962
2012	158	105	136	224	2,911
2013	134	85	132	193	424
2014	121	81	123	161	440
2015	114	80	125	140	735
2016	108	73	124	132	1,653
2017	103	71	107	130	1,453
2018	90	64	79	111	959
2019	102	73	84	125	1,182
2020	93	48	80	148	1,641
2021	109	56	99	171	1,962
2022	108	49	133	196	2,385
2023	101	42	150	205	2,792
2024	100	41	165	189	2,944
Adequate Range	100-150	75-100	100	100	100

Source: IMF staff claculations.

[3] The Assessing Reserve Adequacy (ARA) Board paper in 2011 proposed a new metric for assessing the adequacy of reserve held by emerging market economies. The ARA 2015 updated some of the weights.

INTERNATIONAL MONETARY FUND

GUYANA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 23, 2019

Prepared By	Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2019)

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	87.09	100.00
Holdings	0.50	0.57

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				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.74	0.99	0.99	0.99	0.99
Total	**0.74**	**0.99**	**0.99**	**0.99**	**0.99**

[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 December 18, 2003, the Executive Board determined that Guyana had reached the completion point under the enhanced HIPC Initiative (IMF Country Report No. 04/123).
- On February 27, 2009, the Executive Board concluded the 2008 Article IV consultation.
- On March 17, 2010, the Executive Board concluded the 2009 Article IV consultation (IMF Country Report No. 10/292).
- On February 16, 2011, the Executive Board concluded the 2010 Article IV consultation (IMF Country Report No. 11/152).
- On November 9, 2012, the Executive Board concluded the 2012 Article IV consultation (IMF Country Report No. 12/254).
- On December 9, 2013, the Executive Board concluded the 2013 Article IV consultation (IMF Country Report No. 14/294).
- On May 9, 2016, the Executive Board concluded the 2016 Article IV consultation (IMF Country Report No. 16/216). Guyana is on a 12-month cycle for Article IV consultations.
- 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.

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$209.2 per U.S. dollar as of July 16, 2019.

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

May 2006	Develop program to prepare for VAT implementation.
Aug. 2006	Monitor preparation for VAT implementation.
Sep. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Update progress in strengthening the public expenditure management system.
Jun. 2007	VAT implementation follow-up.
Apr. 2008	CARTAC (Budget management)
Feb. 2012	CARTAC (Guyana Revenue Authority, customs enforcement)
May 2012	CARTAC (Tax and customs administration mission)
Oct. 2012	CARTAC (Public finance management)
Feb. 2013	CARTAC (Management mission to Guyana Revenue Authority)
Feb. 2013	CARTAC (Risk Management mission to the Guyana Revenue Authority)
Oct. 2013	CARTAC (Customs Risk Management)
Apr. 2014	CARTAC (Internal audit training)
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.

Monetary and Capital Markets Department

Mar. 2009	CARTAC (Regulation of market risk capital charge).
Oct. 2009	CARTAC (Development of stress-testing).
Nov. 2009	CARTAC (Risk-based supervision training).
Dec. 2009	CARTAC (Development of stress-testing).
Jun. 2010	CARTAC (Credit bureau-related regulation and training).
Oct. 2012	CARTAC (Financial sector supervision and financial stability mission).
Jan. 2014	CARTAC (Financial stability workshop).
Jun. 2014	CARTAC (Meeting with the central bank).
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)

Statistics Department

Apr. 2005	Monetary and financial statistics
Apr. 2005	Government finance statistics
Apr. 2006	CARTAC (National accounts)
Apr. 2007	CARTAC (National accounts)
Oct. 2007	CARTAC (Improvement of annual GDP estimates)
Nov. 2007	CARTAC (Macroeconomic statistics for economists' course)
Jun. 2009	CARTAC (Training on balance of payments)
Jun. 2009	CARTAC (Needs assessment on national accounts)
Jun. 2009	CARTAC (CPI revision of Georgetown index)
Jun. 2009	CARTAC (Training in CPI methods and procedures)
Aug. 2009	CARTAC (National accounts rebasing)
Aug. 2009	CARTAC (CPI revision of Georgetown index)
Oct. 2009	CARTAC (National accounts rebasing)
Nov. 2009	CARTAC (CPI revision of Georgetown index)
Jan. 2010	CARTAC (National accounts rebasing)
Apr. 2011	GDDS (Metadata development)
Feb. 2014	CARTAC (External sector statistics)
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)

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 28, 2019, 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 May 28, 2019)

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, some limitations remain in the compilation and dissemination of data for certain sectors. Oil exploration and drilling is partially included in the balance of payment statistics, but not in the national accounts. Future technical assistance should focus on helping Guyana incorporate reliably the contribution of the oil sector in national statistics and balance of payment statistics, compiling an Industrial Production Index and a Producer Price Index.

National Accounts: The 2018 technical assistance mission from CARTAC provided advice to the Bureau of Statistics 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 to improve coverage and the source data quality issues and trained the Bureau of Statistics (BoS) national accounts staff on the recommended SNA changes. The 2019 technical assistance helped the BoS of Guyana to improve and rebase the GDP estimates, and build BoS staff capacity to compile the national accounts. The rebasing of GDP will help to incorporate oil production into the national statistics.

Future work will focus on compiling an Industrial Production Index and a Producer Price Index. The BoS could increase the coverage of surveys, particularly with respect to the services sector. It started the household budget survey in October 2018 and expect to complete in October 2019. The BoS has conducted a labour force survey and the results are expected to be published mid-2019. The BoS has launched the All-Urban CPI, Households Budget Survey, and Living Conditions Survey in 2018.

Government finance statistics: Fiscal statistics are disseminated through several Ministry of Finance (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.

Monetary and financial stability statistics: The BoG has made significant progress in improving the quality of monetary statistics, especially about 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.

External sector statistics (ESS): In 2017, a follow-up mission from CARTAC assisted the BoG in strengthening the compilation and dissemination of external sector statistics. There were some improvements in the quality of balance of payments data. Progress has been made on most of the main recommendations, including implementing a pilot enterprise survey, compiling a partial international investment position (IIP), and preparing quarterly balance of payments data following the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) format. The 2017 mission also provided hands-on guidance to major enterprises to complete and submit the survey forms. The BoG staff continues to follow up on the completion of the survey with the companies. For the IIP, beside capacity constraints at the BoG, the main data gaps include direct investment and other financial assets and liabilities of the nonfinancial private sector and public corporations. A pilot enterprise survey was conducted, but the response rate is low.

B. Data Standards and Quality

Guyana is a participant in the enhanced General Data Dissemination System (e-GDDS).

C. Reporting on STA (Optional)

In 2017, the BoG submitted to STA for dissemination the quarterly balance of payments in *BPM6* format, starting with data for 2015. No data are being reported for publication in the Government Finance Statistics Yearbook.

Guyana, Table of Common Indicators Required for Surveillance (As of June 1, 2019)					
	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	04/19	05/19	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/19	03/19	M	M	M
Reserve/Base Money	04/19	06/19	M	M	M
Broad Money	04/19	06/19	M	M	M
Central Bank Balance Sheet[2]	04/19	06/19	M	M	M
Consolidated Balance Sheet of the Banking System[2]	04/19	06/19	M	M	M
Interest Rates[3]	04/19	06/19	M	M	M
Consumer Price Index	04/19	06/19	M	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2018	03/19	Half yearly	Half yearly	Half yearly
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	2018	03/19	Half yearly	Half yearly	Half yearly
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2018	03/19	A	A	A
External Current Account Balance	2018	04/19	A	A	A
GDP	2018	03/19	A	A	A
Gross External Debt	2018	03/19	A	A	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[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

July 23, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Aasim M. Husain and Edward R. Gemayel (IMF), and Marcello Estevão (IDA)

Prepared by the staff of the International Monetary Fund and the International Development Association.

Risk of external debt distress	*Moderate*
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, but debt dynamics will improve significantly with the start of oil production in 2020.[1] *All external debt indicators remain below the relevant indicative vulnerability thresholds under the baseline scenario, which incorporates the average long-term effects of oil on economic growth, fiscal balance, and current account position. The PV of external debt-to-GDP is projected to decline to 3 percent over the long-term as the need for external borrowing is offset by the accumulation of external assets.*

Stress tests indicate the susceptibility of Guyana's external public debt in a very extreme shock which combines simultaneous shocks to real GDP growth, primary balance, exports, other flows (current transfers and FDI), and nominal exchange rate depreciation, as well as second order effects arising from interactions among these shocks. The combined effects of these shocks and their second order effects cause temporary but significant breaches in the external debt thresholds, prompting a moderate risk rating. Nonetheless, Guyana has substantial space to absorb these shocks, reflecting the current low level of external debt.

Guyana's medium- and long-term outlook is very favorable given the incoming oil production and revenues, which will eventually underpin fiscal surpluses and a reduction in external indebtedness. The authorities reiterated their commitment in preserving fiscal discipline.

[1] This DSA was jointly prepared by IMF and World Bank staff under the new debt sustainability framework (DSF) for low-income countries (LICs), implemented since July 2018. The debt-carrying capacity is classified using the country-specific composite indicator (CI) derived from three macroeconomic indicators and the World Bank's Country Policy and Institutional Assessment (CPIA). Guyana's capacity is assessed as "moderate" using the CI based on the April 2019 WEO and the 2017 CPIA.

PUBLIC DEBT COVERAGE

1. The coverage of public sector debt used in this report is central government debt and central government-guaranteed debt. As of end-2018, the government had 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) for the purpose of restructuring state-owned Guyana Sugar Corporation (GuySuCo).[2] The loan, which is also secured by NICIL's assets, carries an interest rate of 4.75 percent, placing Guyana as one of the lowest sovereign credit risks in the Caribbean.[3] 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 from 2015–17.[4] Proceeds from the privatization of GuySuCo's estates will be used to repay this loan. The central government debt also includes borrowing from the Central Bank of Guyana, amounting to G$72.5 billion (9.3 percent of GDP) as of end-2018.[5] 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.

Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
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

BACKGROUND

2. Total gross public debt has declined significantly over the past decade, driven by debt relief, repayments, and prudent debt management. Guyana's total public-sector debt declined to 55 percent of GDP (including central government guarantee on NICIL's G$16.5 billion syndicated

[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.

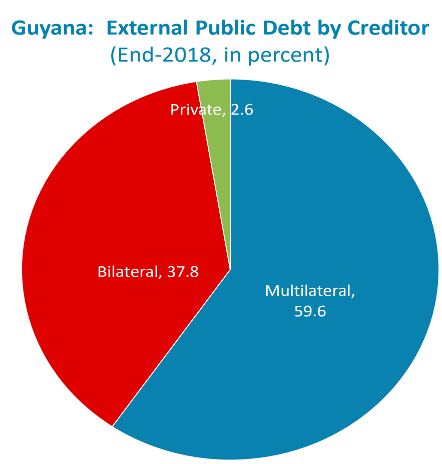
[3] The spread was broadly in line with investment-grade countries in the region. For example, Trinidad and Tobago's US$ sovereign bond maturing January 16, 2024 (rated BBB+ by S&P) traded at a yield-to-maturity of 4.36 percent at the point when NICIL raised the syndicated loan.

[4] The restructuring of GuySuCo is ongoing as offers have been received for the privatization of 3 of the 6 sugar estates, and all severance payments have been made to the 5,500 displaced workers.

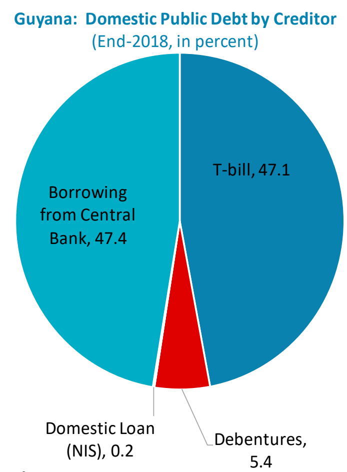
[5] The central bank does not borrow externally on behalf of the central government.

loan) in 2018 from 61.2 percent of GDP in 2008. The IMF, World Bank (IDA), and Inter-American Development Bank (IDB) provided debt relief amounting to US$640 million in 2006– 07, under the Multilateral Debt Relief Initiative (MDRI). In addition, Paris Club bilateral creditors and some non-Paris Club creditors granted debt relief within the 2004 Paris Club agreement.[6] Guyana's rice exports to Venezuela helped repay part of its debt owed to that country under the PetroCaribe agreement. The PetroCaribe agreement was suspended since 2015 following the revival of a border dispute, and no further borrowing was made since then. The pace of public debt accumulation has slowed following the government's commitment to containing non-essential expenditures and restraint from contracting large amounts of debt.

3. External debt accounts for two thirds of total public sector debt, mostly to multilateral institutions. Multilateral creditors accounted for around 60 percent of total external debt in 2018. The IDB is the largest multilateral creditor, followed by Caribbean Development Bank, accounting for 39.7 percent and 11.3 percent of total external debt respectively, as of end-2018. China's state-owned Export-Import Bank is the largest bilateral creditor, comprising 16.1 percent of total external debt at end-2018. Commercial banks are the most important private creditors. Domestic debt comprises mainly Treasury bills (T-bills) and borrowing from the central bank.



Source: Ministry of Finance.



Source: Ministry of Finance.

4. The authorities have remained committed to ensuring fiscal prudence and contracting external loans on highly concessional terms before the start of oil production. The government had been prudent in ensuring that its fiscal integrity would not be compromised by contracting large debt. It has been relying on concessional financing from Multilateral Development Banks, consistent with Staff recommendations. One instance of financing from private commercial banks was the publicly guaranteed NICIL syndicated loan to fund the restructuring of GuySuCo, which

[6] Debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) was granted by all multilateral creditors, by 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.

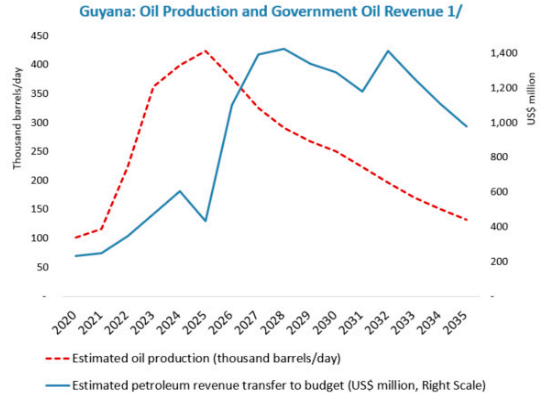
should strengthen the fiscal position over the medium-term by eliminating further government bailouts to that company.

BACKGROUND ON MACRO FORECASTS

5. Guyana is poised to be the major crude oil exporter in the Caribbean by 2020 as further oil discoveries have been made since 2015. ExxonMobil made a significant offshore oil discovery in 2015, conservatively estimated to hold between 800 and 1,400 million barrels. A recent 13th offshore discovery has been made in the Stabroek Block, adding to existing recoverable resources of approximately 5.5 billion oil-equivalent barrels, estimated by ExxonMobil. The oil company and its partners have also indicated potential for at least five floating production, storage and offloading vessels on the Stabroek Block producing more than 750,000 barrels/day (bpd) by 2025. The government has plans to undertake a third-party area reviews to ascertain the country's total oil reserves. The existing associated gas is being considered for the domestic market, allow Guyana to replace the heavy fuel oil (HFO) currently used for power generation.

6. Commercial oil production is expected to start in the first quarter of 2020 as planned. Liza Phase I will begin in the first quarter of 2020, averaging 102,000 bpd during that year. Liza Phase II is estimated to commence production in 2022, starting with an average output of 108,000 bpd. Additional discoveries have been made but their oil production prospects are not known at this time and thus, are excluded in the baseline.

Guyana: Oil Production and Government Oil Revenue 1/



Sources: Authorities data; and IMF staff calculations.
1/ Based on projections on Liza Phase I and II only.

7. The main direct effect of oil on the economy will be through fiscal revenues. Under the revenue-sharing agreement, 75 percent of oil production is initially allocated to "cost recovery" to ExxonMobil and its partners. The remaining 25 percent is considered "profit oil" and is shared 50−50 with the government. The agreement sets a royalty of 2 percent on gross earnings, which brings the government share to 14.5 percent of total oil revenues. The government share will increase substantially once cost recovery on the initial investment is met, and most of production consists of "profit oil." As the breakeven price for Liza Phase II is relatively low at around US$35 per barrel, it would take a major adverse price shock to delay its development plans. Upside potential remains considerable with prospects for new offshore oil discoveries in other blocks besides Stabroek, and many companies have expressed interest for the ultra-deep offshore block.

8. The assumptions in the baseline scenario are consistent with the macroeconomic framework presented in the staff report. As in the 2018 DSA, the baseline scenario incorporates the macroeconomic effects of oil through fiscal revenues and value added to domestic economic activities through employment and capital flows.[7] The discount rate used to calculate the net present value of external debt remains at 5 percent, consistent with the 2018 DSA and other LIC economies. The main assumptions are:

Guyana: Baseline Macroeconomic Assumptions

(In percent of GDP, unless otherwise stated)

	2018 DSA	2019 DSA
	2017-27 Average	2018-28 Average
Real GDP growth	11.8	16.7
Real Non-oil GDP growth	3.9	5.0
Consumer prices (eop) 1/	2.7	2.8
Central Government overall balance 2/	5.2	-0.9
External current account balance 3/	24.4	-5.3
Foreign direct investment	-15.7	11.1

Sources: Guyanese authorities, IMF staff calculations and projections.

1/ Measured as percent (y/y) change.

2/ After grants.

3/ The deterioration in external current account balance reflects high value imports of oil goods and services for 2018 onwards.

- Real GDP growth is projected at 16.7 percent, on average, during 2018–28. The projection takes into account three factors: (i) contribution of oil production starting from 2020 as Liza Phase I begins operation and Liza Phase II commences in 2022; (ii) stimulus to the domestic economy from an increase in central government developmental and capital spending to address social development and infrastructure needs, supported by oil revenues; and (iii) broadening of growth of the domestic non-oil sectors, benefitting from public capital investment, which improves infrastructure, connectivity, and efficiency. It also assumes a fiscal responsibility framework—consistent with the rule already in place governing transfers from the National Resource Fund (NRF) to the budget—that targets an overall balanced budget from 2022 onwards, by ensuring that the non-oil overall deficit do not exceed fiscal transfer from the NRF. This minimizes the "Dutch" disease crowding out effects on private investment and consumption while ensuring long-term fiscal sustainability and the accumulation of assets in the NRF as a buffer against shocks and for future generations.

- Inflation (measured by CPI) is projected to average 2.8 percent during 2018–28, slightly higher than the previous DSA projection to capture the structural rigidities associated with capacity constraints as the government increases spending to address infrastructure gaps and social development needs.

- Fiscal outlook: The ten-year forward-looking central government overall fiscal position is expected to average -0.9 percent of GDP, reflecting an overall balanced budget from 2022 onwards (in line with the fiscal path described above) compared to the assumption of accumulating surpluses in the 2018 DSA.[8] This allows some front-loading of government spending to address infrastructure gaps and social development needs, and ensures that the accumulation of assets in the NRF will not be offset by the accumulation of public debt.[9]

[7] Based on staff projections for Liza I and II 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, and the fiscal rule in the NRF Act.

[8] The framework assumes accumulation of assets in the NRF following the provisions of the NRF Act.

[9] The zero-overall balance framework will also allow a gradual repayment of the central bank overdraft.

It is assumed that the path of ramping up public spending would be gradual given the need to address capacity constraints and minimize macroeconomic distortions related to "Dutch" disease. Going forward, external financing is also not required as capital and current expenditures will be met by oil revenues and non-oil revenues.

- External sector outlook: The current account balance is projected to worsen to a deficit of 5.3 percent of GDP, on average, during the forecast period due to high value imports of oil-related equipment and services. However, the flow of foreign direct investment will increase, by an average 11.1 percent of GDP, reflecting mainly the private sector financing of these oil-related imports and oil exploration activities.

9. **The favorable outlook is subject to downside and upside risks.** The significant challenges associated with measuring economic performance amid major structural changes could cause reported outturns to differ from the baseline.[10] Also, 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, and governance concerns. A slowing global economy could also affect non-oil exports, particularly sugar, rice, and other commodities. On the upside, further oil discoveries and production, if managed effectively, could significantly improve Guyana's economic welfare over the long-term. Concrete measures are needed to address issues relating to capacity constraints to mitigate the risks of under-execution of public capital investments.

10. **The realism tools support the reasonableness of our projections, in line with historical and peer experiences, and expected structural changes in Guyana's economy with the emergence of significant oil production.**

- Forecast errors (Figure 3): In the past, changes in both public- and publicly-guaranteed (PPG) external debt and public debt are largely due to economic performance. This factor continues to be a major determinant underpinning the changes in debt levels in our forecast. For the projection of PPG external debt, FDI is now a significant contributor, consistent with large FDI inflows arising from oil production and continuing exploration. Forecast errors of our past debt estimates (measured as the difference between actual and anticipated contributions on debt ratios) suggest that that we have been conservative—our estimation of PPG external debt and public debt had been higher relative to their actual levels compared to the distribution of other LIC economies.

[10] Projected real GDP growth in 2020 is potentially overstated and subject to large subsequent revisions because of the very high growth rate of oil GDP, which in turn is elevated on account of the very low (zero) base in 2019. Hence, even small changes to the projected oil output in 2020 would result in large changes in real oil GDP and overall real GDP growth rates. Work is ongoing to rebase the real GDP series to account for oil-related activities since 2015 in advance of actual oil production in 2020.

- Realism of fiscal adjustment (Figure 4): The three-year adjustment in the primary balance of 2 percentage point of GDP is consistent with our recommendation to a adopt fiscal responsibility framework that targets an overall balanced budget. It is worth noting that fiscal policy will remain expansionary in the three years, supported by the new-found oil wealth.[11] The baseline growth path in 2020 is higher than implied under different fiscal multipliers due to the start of oil production which leads to a significant increase in exports, fiscal revenue, and FDI. This is consistent with the chart which shows significantly higher contribution of other factors (namely private capital from ExxonMobil and other oil-related companies) to economic growth compared to public capital. In addition, the chart on public and private investment rates shows that private investment will pick up gradually from 2022 onwards, in line with our current DSA assumption of a gradual increase in public capital spending which mitigates "Dutch" disease.

COUNTRY CLASSFICATION AND DETERMINATION OF SCENARIO STRESS TEST

11. **Guyana is assessed to have a "medium" debt carrying capacity**. Based on the April 2019 WEO macroeconomic framework, the country's composite indicator (CI) score is 3.01, within the range of 2.69–3.05 for "medium" rated countries. From the 2018 Guidance Note on The Bank-Fund Debt Sustainability Framework for Low Income Countries, the relevant indicative thresholds for public and publicly guaranteed (PPG) external debt in this category are: 40 percent for the PV of debt-to-GDP ratio,180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. The benchmark of the PV of total public debt for "medium" debt carrying capacity is 55 percent.

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	3.31	1.28	0.42
Real growth rate (in percent)	2.72	7.82	0.21	0.07
Import coverage of reserves (in percent)	4.05	30.90	1.25	0.42
Import coverage of reserves^2 (in percent)	-3.99	9.55	-0.38	-0.13
Remittances (in percent)	2.02	8.47	0.17	0.06
World economic growth (in percent)	13.52	3.56	0.48	0.16
CI Score			3.01	100%
CI rating			Medium	

[11] While the overall fiscal deficit will narrow and move to a balanced budget, the ratio of non-oil deficit to non-oil GDP (often used to measure fiscal stance in oil-exporting countries) would be widening gradually over the medium term, indicating a sustained expansionary fiscal stance.

Guyana: Composite Indicator Index Thresholds

EXTERNAL debt burden thresholds	Medium
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

12. The stress test for combined contingent liability shock adjusts the default setting for public–private partnership (PPP) debt. The authorities indicated no PPP debt outstanding as of end-2018 and any financing requirements by developmental agencies are met directly through central government borrowing. The World Bank Investments in IDA Countries Report also shows no outstanding PPI investments and projects in Guyana from 2013–17.

Guyana: Combined Contingent Liability Shock

1	**The country's coverage of public debt**	The central government plus social security, government-guaranteed 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	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	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	5.0	
	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

13. Under the baseline scenario, all external PPG debt indicators remain below the policy relevant thresholds for the next ten years (Figure 1). The PV of debt-to GDP ratio is expected to decline gradually from 22 percent in 2019 to 3 percent in 2029 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 starting from 2020 onwards.

14. The standardized stress test shows that combined shocks have the largest negative impact on the debt trajectory, causing a breach of the threshold for the PV of debt-to-GDP ratio in the immediate-term which normalizes in the medium-term. The combined shocks include temporary shocks to real GDP growth, primary balance, exports, other flows (including current transfers and FDI), and nominal exchange rate depreciation.[12] Under these shocks—a very extreme scenario—the PV of debt-to-GDP ratio could increase to 145 percent in the first year after the shocks, rising to 183 percent in the second year before declining gradually to 56 percent in 2029. In addition, the combined shocks which include a large nominal exchange rate depreciation[13] could also result in the PV of external debt service-to-revenue ratio breaching its threshold in 2021. Significant shocks to exports could also potentially lead to a temporary breach in the PV of debt-to-exports ratio in 2021 and 2022.

15. The results suggest that the risk of external debt distress remains moderate although in the baseline scenario, all sustainability indicators remain below their vulnerability thresholds. It is important to note that the breaches in the ratios of PV of debt-to-GDP, PV of external debt service-to-revenue, and PV of debt-to-exports are caused by shock assumptions which, under current and anticipated developments in Guyana, may be less relevant and probable.

- *External debt-to-GDP:* One reason for the PV of debt-to-GDP ratio threshold breach is that the sensitivity analysis neglects the high real GDP growth in 2020 (as if oil production in Liza Phase I did not start).[14] The historical standard deviation may be distorted by the underestimation of GDP, imports, and FDI in years prior to the start of oil production as the authorities' current data on the national accounts and balance of payments do not reflect foreign companies' investments in developing Guyana's offshore oil resources during the preparatory phase. Thus, while this scenario is meant to capture large but plausible adverse shocks, in this case it is mainly removing the level effect on GDP of going from no oil production to becoming an oil producer.

- *External debt service-to-revenue ratio:* The assumption of a one-time 30 percent nominal exchange rate devaluation in 2021 is not reflective of Guyana's current economic cycle and past exchange rate path (the steepest exchange rate depreciation since 1990 was 11 percent, in 1998). On the contrary, the start of oil production in 2020 will substantially increase international reserves and may create significant appreciation pressures on the Guyanese dollar.

- *Debt-to-exports:* The shock on exports is distorted by the high standard deviation of export growth in the historical data due to the high share of commodity exports (85 percent of total exports), high volatility of commodity prices, and a few idiosyncratic shocks (e.g. the suspension of rice exports to Venezuela, and the collapse of the sugar sector).

16. Guyana has substantial space to absorb shocks, reflecting the current low level of external debt. Figure 5 shows that all debt burden indicators in the baseline scenario are well below

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

[13] Assumes a one-time 30 percent nominal depreciation of the domestic currency in the second year of the projection period, or the size needed to close the estimated real exchange rate overvaluation gap, whichever is larger.

[14] The standardized shock on real GDP growth is set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.

their respective thresholds. 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

17. Under the baseline scenario, the PV of public debt-to-GDP ratio does not breach the 55 percent vulnerability threshold (Figure 2). The PV of debt-to-GDP ratio is expected to decline gradually from 46 percent in 2019 to 6 percent in 2029 as existing debt is being amortized and the need to incur large additional new external debt is significantly reduced with the increasing oil revenues as well as the fiscal responsibility framework that targets an overall balanced budget.

18. The standardized stress test shows that the largest shock that leads to the highest PV of debt-to-GDP ratio in 2029 is the shock to real GDP growth. Under this shock, the debt ratio could reach 122 percent of GDP in 2020.[15] In addition, commodity price shock could result in a breach of the vulnerability threshold in 2026, pushing the PV of debt-to-GDP ratio to 68 percent in 2020. The vulnerability to such a shock highlights the importance of structural reforms to diversify the domestic economy to ensure broad-based growth and reduce over-reliance on oil which could lead to large volatility in economic growth. The susceptibility these shocks also underscore the importance of adopting a fiscal responsibility framework to safeguard long-term debt sustainability.

CONCLUSION

19. The debt sustainability analysis under the new 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 test. In the baseline scenario, debt indicators remain well below their respective vulnerability thresholds over the projection period. The PV of external debt-to-GDP ratio is projected to decline to around 3 percent in the long run as the need for external borrowing is eliminated by the accumulation of external assets. However, stress tests indicate that Guyana's external public debt ratio is vulnerable to an extreme shock which combines simultaneous shocks to real GDP growth, primary balance, exports, other flows (current transfers and FDI), and nominal exchange rate depreciation as well as second order effects arising from interactions among these shocks. While some of these shocks are less probable given the distortions in the historical standard deviations used in the stress test, it highlights the importance of structural reforms to diversify and strengthen the domestic economy and reduce over-dependence on oil which could exacerbate economic growth volatility. At present, Guyana has substantial space to absorb shocks, reflecting the current low level of external debt. While the NRF Act enshrines a budget transfer rule that ensures fiscal transfers are determined by the expected financial return on the NRF in the long-run, a complementary fiscal responsibility framework is needed to ensure that fiscal policies remain disciplined in line with the principle underlying the budget transfer rule, which in turn is necessary to

[15] As in external debt, this standardized sensitivity analysis totally neglects the high real GDP growth in 2020 and treats as though oil production in Liza Phase I does not exist.

safeguard debt sustainability and the accumulation of net wealth (that is, asset accumulation without a corresponding accumulation of public debt) in the NRF.

AUTHORITIES' VIEWS

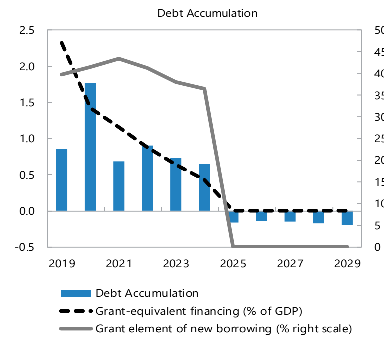
20. The authorities agreed with the debt sustainability assessment under the new framework and are committed to preserving fiscal discipline. They noted that prudent fiscal policies over the last 5 years had helped reduce the debt-to-GDP ratio, from 61.2 percent in 2008 to 55 percent (including central government guarantee on NICIL's G$16.5 billion syndicated loan) in 2018. Nevertheless, the authorities recognized that extreme shocks emanating from external risks such as fluctuations in global commodity prices and capital flows could put pressure on the domestic economy. As such, they are committed to maintaining fiscal prudence to ensure enough buffers to weather such shocks. They concurred with staff's recommendation of adopting a fiscal framework that anchors fiscal policy by constraining the annual non-oil deficit to not exceed the expected transfer from the NRF as this will ensure that public debt does not rise. To improve public financial management, the authorities intend to adopt rigorous project selection, prioritization and costing criteria that will also inform multi-year budgeting. They indicated that they would consider other mechanisms to further improve fiscal transparency and have requested further information on the Fiscal Transparency Evaluations.

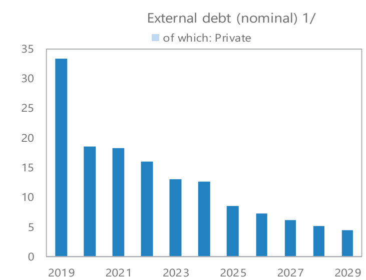
Table 1. Guyana: External Debt Sustainability Framework, Baseline Scenario, 2016–2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	33.2	34.4	33.9	33.3	18.6	18.3	16.0	13.0	12.6	4.4	1.0	40.5	13.0
of which: public and publicly guaranteed (PPG)	33.2	34.4	33.9	33.3	18.6	18.3	16.0	13.0	12.6	4.4	1.0	40.5	13.0
Change in external debt	-2.6	1.2	-0.5	-0.6	-14.7	-0.3	-2.3	-3.0	-0.4	-0.8	-0.1		
Identified net debt-creating flows	-4.4	0.0	2.3	-3.5	-19.5	-5.9	-10.2	-11.1	-7.4	-5.8	4.7	-1.3	-9.1
Non-interest current account deficit	-0.9	6.3	16.9	22.2	18.1	15.6	5.4	0.6	-1.9	-2.4	8.0	8.6	3.3
Deficit in balance of goods and services	9.4	15.7	29.6	34.9	2.3	-0.6	-24.7	-38.7	-40.8	-7.0	7.9	24.0	-14.0
Exports	45.7	44.7	39.1	39.8	51.0	50.7	62.8	69.0	68.0	29.1	13.1		
Imports	55.0	60.4	68.7	74.7	53.3	50.1	38.1	30.3	27.2	22.1	21.0		
Net current transfers (negative = inflow)	-9.9	-9.2	-12.8	-12.8	-9.5	-9.3	-8.2	-7.3	-7.2	-5.5	-2.0	-14.8	-7.6
of which: official	-0.7	-1.4	-1.0	-1.1	-0.6	-0.8	-0.4	-0.4	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	-0.4	-0.3	0.1	0.1	25.3	25.5	38.4	46.5	46.1	10.0	2.1	-0.7	25.0
Net FDI (negative = inflow)	-0.9	-5.9	-12.7	-24.8	-23.3	-20.9	-12.7	-8.6	-5.3	-3.0	-3.2	-7.5	-10.2
Endogenous debt dynamics 2/	-2.6	-0.4	-2.0	-1.0	-14.3	-0.6	-2.8	-3.0	-0.2	-0.4	0.0		
Contribution from nominal interest rate	0.5	0.6	0.6	0.5	0.2	0.2	0.2	0.2	0.2	0.1	0.0		
Contribution from real GDP growth	-1.1	-0.7	-1.3	-1.4	-14.6	-0.8	-3.1	-3.2	-0.4	-0.5	-0.1		
Contribution from price and exchange rate changes	-2.0	-0.2	-1.3	...	...	...	...	...	...	...	...		
Residual 3/	1.8	1.2	-2.7	2.9	4.8	5.6	7.9	8.1	7.0	5.0	-4.8	0.4	6.4
of which: exceptional financing	0.0	0.0	-2.0	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	...	...	22.8	22.4	12.3	12.1	10.5	8.6	8.4	3.1	0.7		
PV of PPG external debt-to-exports ratio	...	...	58.3	56.2	24.2	23.9	16.8	12.5	12.4	10.6	5.4		
PPG debt service-to-exports ratio	3.4	3.8	5.1	4.5	1.7	1.7	1.2	0.9	0.8	1.2	0.7		
PPG debt service-to-revenue ratio	6.3	6.4	7.4	6.4	4.8	4.7	4.3	3.8	3.2	1.3	0.4		
Gross external financing need (Billion of U.S. dollars)	0.0	0.1	0.2	0.0	-0.3	-0.4	-0.7	-1.0	-1.0	-1.8	3.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.4	2.1	4.1	4.4	85.7	4.7	20.6	26.1	3.2	9.9	5.1	4.0	17.2
GDP deflator in US dollar terms (change in percent)	6.0	0.8	3.8	1.2	5.4	2.7	2.2	3.9	6.9	1.9	-0.2	3.3	6.2
Effective interest rate (percent) 4/	1.5	1.8	1.8	1.5	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	23.6	0.7	-5.4	7.6	150.9	6.9	52.7	43.8	8.8	-4.1	1.8	5.1	24.5
Growth of imports of G&S (US dollar terms, in percent)	0.6	12.9	22.9	15.0	39.8	1.1	-6.5	4.2	-1.0	9.5	5.2	5.9	10.8
Grant element of new public sector borrowing (in percent)	...	...	...	39.7	41.4	43.4	41.4	38.1	36.4	0.0	0.0	...	21.9
Government revenues (excluding grants, in percent of GDP)	24.5	26.2	26.9	28.0	18.5	18.7	17.3	15.7	17.1	26.1	26.7	24.0	20.9
Aid flows (in Billion of US dollars) 5/	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.3	1.4	1.2	0.9	0.6	0.4	0.0	0.0	...	0.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	60.3	53.7	55.4	47.2	46.2	36.4	...	...	...	49.9
Nominal GDP (Billion of US dollars)	4	4	4	4	8	9	11	14	15	35	69		
Nominal dollar GDP growth	9.6	2.9	8.1	5.7	95.7	7.6	23.2	31.0	10.4	12.0	4.9	7.4	24.2
Memorandum items:													
PV of external debt 7/	...	...	22.8	22.4	12.3	12.1	10.5	8.6	8.4	3.1	0.7		
In percent of exports	...	...	58.3	56.2	24.2	23.9	16.8	12.5	12.4	10.6	5.4		
Total external debt service-to-exports ratio	3.4	3.8	5.1	4.5	1.7	1.7	1.2	0.9	0.8	1.2	0.7		
PV of PPG external debt (in Billion of US dollars)			0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.1	0.5		
(PVt-PVt-1)/GDPt-1 (in percent)				0.9	1.8	0.7	0.9	0.7	0.7	-0.2	-0.1		
Non-interest current account deficit that stabilizes debt ratio	1.7	5.0	17.4	22.9	32.9	15.9	7.7	3.6	-1.5	-1.6	8.1		

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.

Notes: The residuals reflect external debt comprising mainly concessional borrowing with long-term maturities. Projected real GDP growth in 2020 is potentially overstated and subject to large subsequent revisions because of the very high growth rate of oil GDP, which in turn is elevated on account of the very low (zero) base in 2019. Hence, even small changes to the projected oil output in 2020 would result in large changes in real oil GDP and overall real GDP growth rates. Work is ongoing to rebase the real GDP series to account for oil-related activities since 2015 in advance of actual oil production in 2020. The GDP deflator in 2020 reflects deflators in the non-oil and sectors. The deflator in the oil sector accounts for prices of ancillary services relating to oil production, in addition to oil price projections.

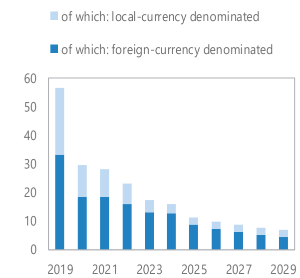
Table 2. Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

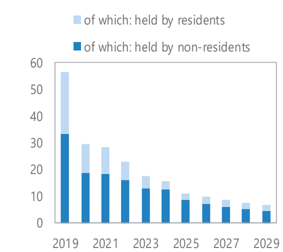
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	50.7	51.4	55.0	56.6	29.7	28.3	23.0	17.5	15.8	6.9	3.8	58.2	19.5
of which: external debt	33.2	34.4	33.9	33.3	18.6	18.3	16.0	13.0	12.6	4.4	1.0	40.5	13.0
Change in public sector debt	0.6	0.6	3.6	1.6	-26.9	-1.4	-5.4	-5.5	-1.7	-0.8	-0.2		
Identified debt-creating flows	-0.2	2.7	-0.7	1.6	-26.9	-1.4	-5.3	-5.5	-1.6	-0.8	-0.1	-0.6	-4.4
Primary deficit	3.4	3.3	2.4	4.0	0.1	0.2	-0.4	-0.3	-0.3	-0.1	0.0	2.5	0.2
Revenue and grants	25.6	27.8	28.2	29.3	19.1	19.1	17.5	15.9	17.1	26.1	26.7	25.8	21.2
of which: grants	1.1	1.6	1.3	1.3	0.6	0.4	0.2	0.2	0.0	0.0	0.0		
Primary (noninterest) expenditure	29.0	31.2	30.6	33.3	19.1	19.3	17.0	15.6	16.8	26.0	26.7	28.4	21.4
Automatic debt dynamics	-3.6	-0.6	-3.1	-2.4	-26.9	-1.6	-4.9	-5.1	-1.3	-0.7	-0.1		
Contribution from interest rate/growth differential	-2.2	-1.0	-2.5	-2.6	-26.5	-1.4	-4.9	-4.9	-0.8	-0.7	-0.2		
of which: contribution from average real interest rate	-0.5	0.1	-0.5	-0.3	-0.3	-0.1	0.0	-0.1	-0.2	0.0	0.0		
of which: contribution from real GDP growth	-1.6	-1.1	-2.0	-2.3	-26.1	-1.3	-4.8	-4.8	-0.5	-0.7	-0.2		
Contribution from real exchange rate depreciation	-1.5	0.4	-0.6	...	...	...	...	...	...	...	...		
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	0.8	-2.1	4.3	0.2	-0.5	-0.1	-0.1	-0.3	-0.6	0.0	0.0	-0.1	-0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.8	45.6	23.5	22.2	17.6	13.1	11.7	5.6	3.5		
PV of public debt-to-revenue and grants ratio	...	...	155.6	155.8	123.4	116.1	100.5	82.6	68.1	21.4	13.3		
Debt service-to-revenue and grants ratio 3/	58.2	68.3	63.3	69.2	65.9	58.2	51.1	38.0	27.7	10.0	10.6		
Gross financing need 4/	18.3	22.3	20.2	24.2	12.6	11.3	8.5	5.7	4.4	2.5	2.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.4	2.1	4.1	4.4	85.7	4.7	20.6	26.1	3.2	9.9	5.1	4.0	17.2
Average nominal interest rate on external debt (in percent)	1.5	1.8	1.8	1.5	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.4	1.4
Average real interest rate on domestic debt (in percent)	-3.8	0.8	-2.7	-0.7	-2.1	-0.1	0.4	-0.9	-3.3	1.1	1.1	-0.8	-2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.2	1.2	-1.7	...	...	...	...	...	...	...	...	-1.6	...
Inflation rate (GDP deflator, in percent)	6.0	0.8	3.9	1.3	6.0	3.9	3.5	4.9	7.9	1.9	0.9	3.4	6.9
Growth of real primary spending (deflated by GDP deflator, in percent)	15.3	9.6	2.2	13.6	6.9	5.6	6.5	15.1	11.7	10.6	5.3	5.2	15.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.8	2.7	-1.2	2.4	26.9	1.6	4.9	5.1	1.3	0.7	0.2	1.4	4.6
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 . 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, 2019–2029 (In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	22	12	12	11	9	8	6	5	4	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	22	25	27	30	33	36	37	40	**43**	**45**	**46**
B. Bound Tests											
B1. Real GDP growth	22	**42**	**42**	37	30	29	20	17	15	13	11
B2. Primary balance	22	13	13	11	9	9	7	6	5	4	4
B3. Exports	22	28	**44**	37	30	28	20	18	16	15	13
B4. Other flows 3/	22	23	31	27	21	20	14	13	12	10	9
B5. Depreciation	22	15	14	12	10	10	7	6	5	4	4
B6. Combination of B1-B5	22	**145**	**183**	**155**	**123**	**117**	**84**	**75**	**68**	**62**	**56**
C. Tailored Tests											
C1. Combined contingent liabilities	22	13	13	11	9	9	6	6	5	4	4
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	22	13	14	13	11	11	8	7	6	5	5
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	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	56	24	24	17	12	12	11	11	11	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	56	49	53	48	48	53	70	91	114	134	158
B. Bound Tests											
B1. Real GDP growth	56	24	24	17	12	12	11	11	11	11	11
B2. Primary balance	56	25	25	18	14	14	13	13	13	13	13
B3. Exports	56	148	**277**	**190**	138	133	124	131	138	140	148
B4. Other flows 3/	56	44	62	42	31	30	28	29	30	31	32
B5. Depreciation	56	24	22	16	12	12	10	11	10	10	10
B6. Combination of B1-B5	56	**200**	96	**186**	135	130	121	129	136	138	147
C. Tailored Tests											
C1. Combined contingent liabilities	56	25	25	18	13	13	12	13	13	12	13
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	56	27	29	20	15	16	15	16	16	16	17
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	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	5	2	2	1	1	1	1	1	1	1	1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	3	3	3	2	3	3	4	5	6	7
B. Bound Tests											
B1. Real GDP growth	5	2	2	1	1	1	1	1	1	1	1
B2. Primary balance	5	2	2	1	1	1	1	1	1	1	1
B3. Exports	5	5	8	7	5	5	5	5	5	6	6
B4. Other flows 3/	5	2	2	2	1	1	1	1	1	1	2
B5. Depreciation	5	2	2	1	1	1	1	1	1	1	1
B6. Combination of B1-B5	5	4	9	7	5	5	4	5	5	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	5	2	2	1	1	1	1	1	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	5	2	2	1	1	1	1	1	1	1	1
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	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	6	5	5	4	4	3	3	2	1	1	1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	6	9	9	10	11	10	12	8	7	8	8
B. Bound Tests											
B1. Real GDP growth	6	16	16	15	13	11	10	6	5	5	5
B2. Primary balance	6	5	5	4	4	3	3	2	2	1	1
B3. Exports	6	5	7	8	7	6	5	3	3	2	2
B4. Other flows 3/	6	5	6	7	6	5	4	2	2	2	2
B5. Depreciation	6	6	6	5	5	4	3	2	2	2	2
B6. Combination of B1-B5	6	18	**31**	**33**	**29**	**24**	**20**	12	10	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	5	4	4	3	3	2	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	6	5	5	5	4	4	3	2	2	2	1
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	18	18	18	18	18	18	18	18	18	18	18

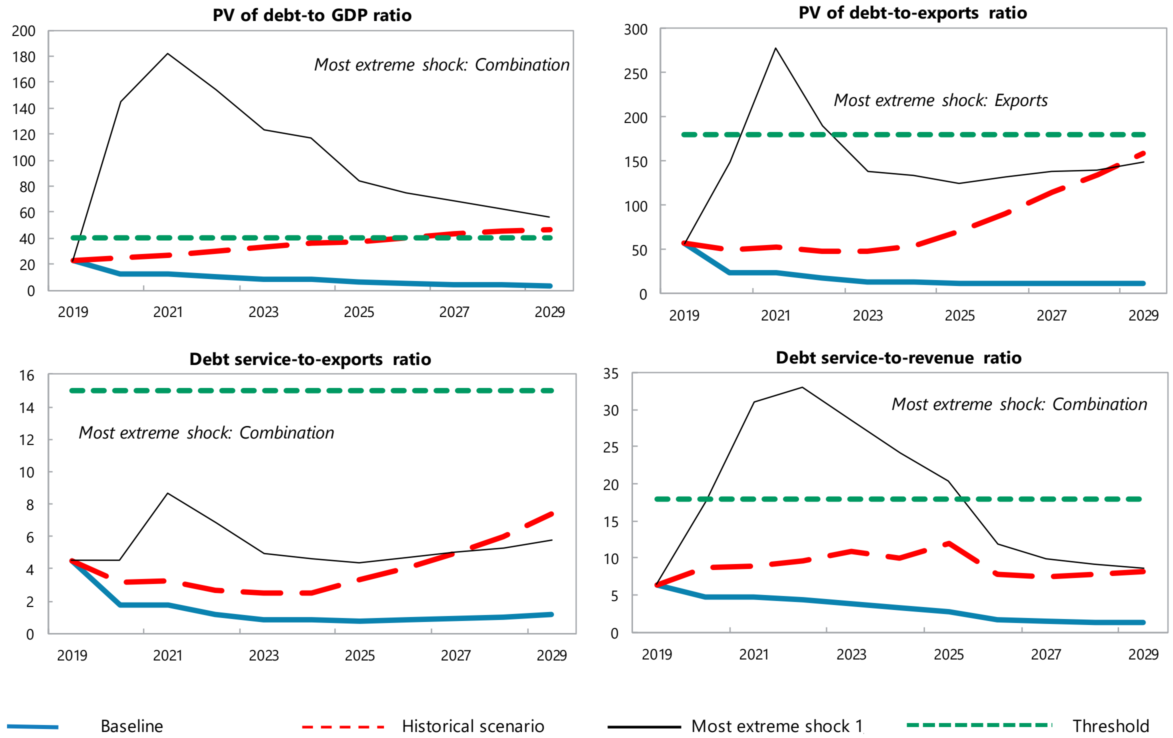
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

Table 4. Guyana: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	46	24	22	18	13	12	8	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	46	44	44	43	41	41	41	42	42	42	41
B. Bound Tests											
B1. Real GDP growth	46	**122**	**160**	**164**	**158**	**180**	**182**	**211**	**237**	**261**	**283**
B2. Primary balance	46	27	29	23	17	15	11	10	9	8	7
B3. Exports	46	38	53	43	33	31	22	20	18	17	15
B4. Other flows 3/	46	34	41	34	26	24	17	15	14	13	12
B5. Depreciation	46	25	22	17	12	10	7	5	4	2	1
B6. Combination of B1-B5	46	44	41	43	43	49	49	**58**	**64**	**70**	**75**
C. Tailored Tests											
C1. Combined contingent liabilities	46	28	26	21	15	14	10	9	8	7	7
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	46	**68**	**107**	**122**	**126**	**152**	**160**	**192**	**219**	**245**	**268**
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	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	156	123	116	100	83	68	57	32	27	24	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	156	228	225	240	256	237	279	181	165	160	159
B. Bound Tests											
B1. Real GDP growth	156	599	789	916	965	1,052	1,235	923	939	1,005	1,086
B2. Primary balance	156	142	151	129	105	87	75	43	34	30	27
B3. Exports	156	201	276	247	210	179	150	87	72	65	59
B4. Other flows 3/	156	178	217	193	163	138	116	67	56	50	45
B5. Depreciation	156	133	117	99	77	58	45	22	14	8	4
B6. Combination of B1-B5	156	224	213	246	268	289	333	251	255	270	287
C. Tailored Tests											
C1. Combined contingent liabilities	156	149	138	118	97	80	68	39	32	28	25
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	156	375	587	736	826	906	1,107	838	868	941	1,027
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	69	66	58	51	38	28	19	12	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	69	118	106	109	99	77	71	48	45	45	47
B. Bound Tests											
B1. Real GDP growth	69	209	373	496	542	606	782	534	547	598	657
B2. Primary balance	69	66	74	78	58	43	34	19	16	14	13
B3. Exports	69	66	60	55	41	30	21	13	12	11	11
B4. Other flows 3/	69	66	60	53	40	29	20	13	11	11	11
B5. Depreciation	69	62	55	44	36	26	18	11	10	9	9
B6. Combination of B1-B5	69	111	100	88	119	145	194	142	153	173	194
C. Tailored Tests											
C1. Combined contingent liabilities	69	66	79	67	50	37	28	16	14	13	12
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	69	69	264	411	486	553	745	502	517	568	628
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, 2019–2029



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	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	36
Avg. grace period	5	15

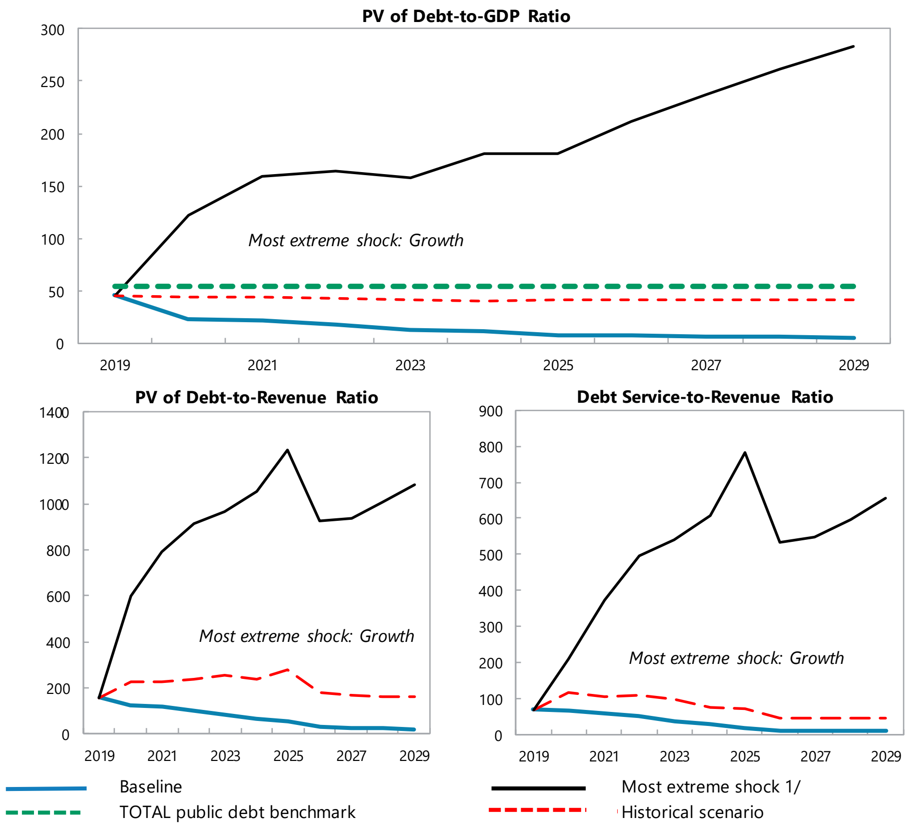
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2029. 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, 2019−2029



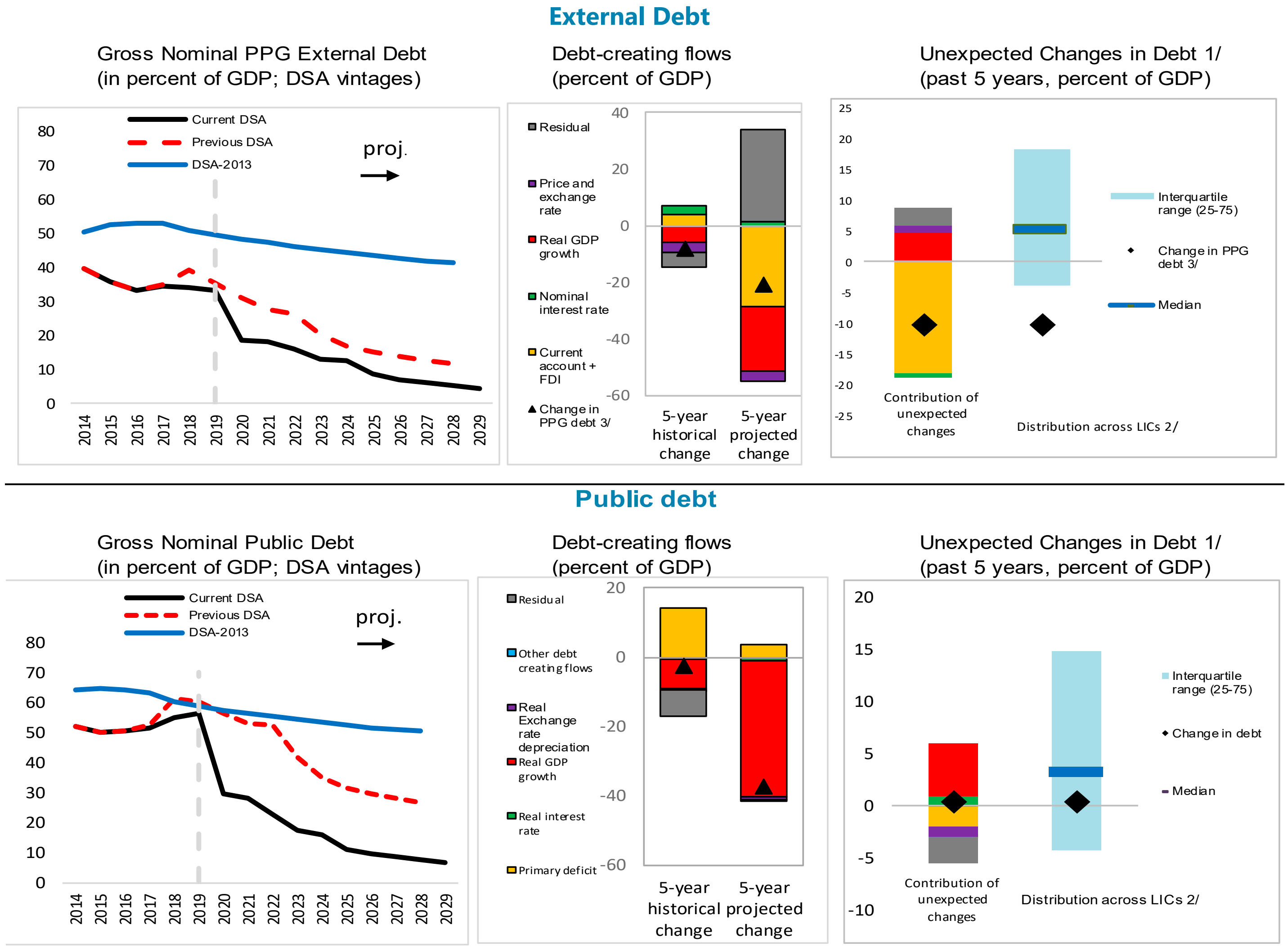
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	10%	10%
Domestic medium and long-term	0%	0%
Domestic short-term	90%	90%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-6.9%	-6.9%

* 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 2029. 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



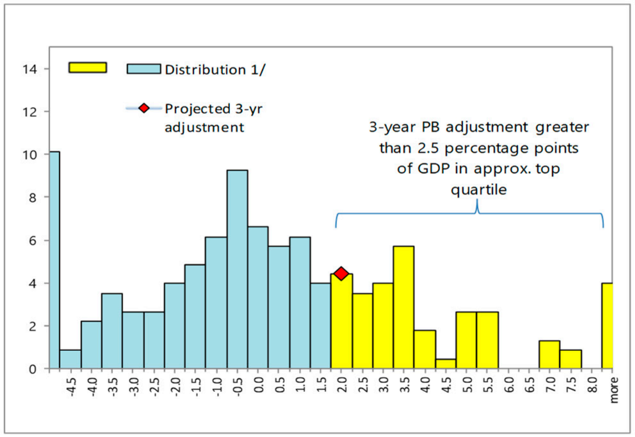
1/ Difference betw een anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for w hich LIC DSAs w ere 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.

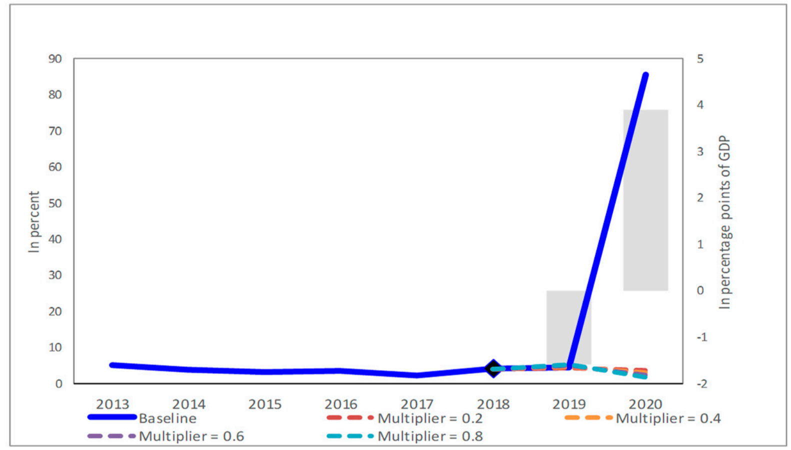
Figure 4. Guyana: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



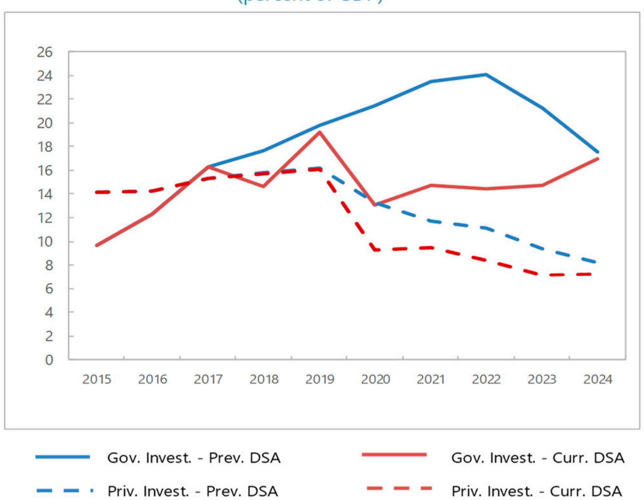
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

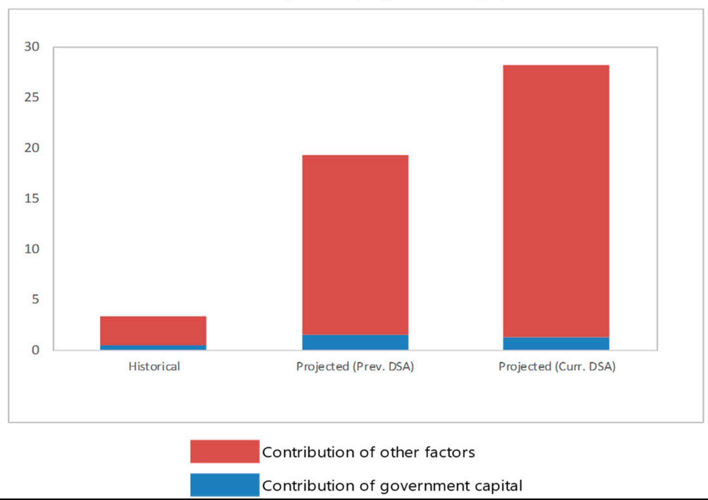
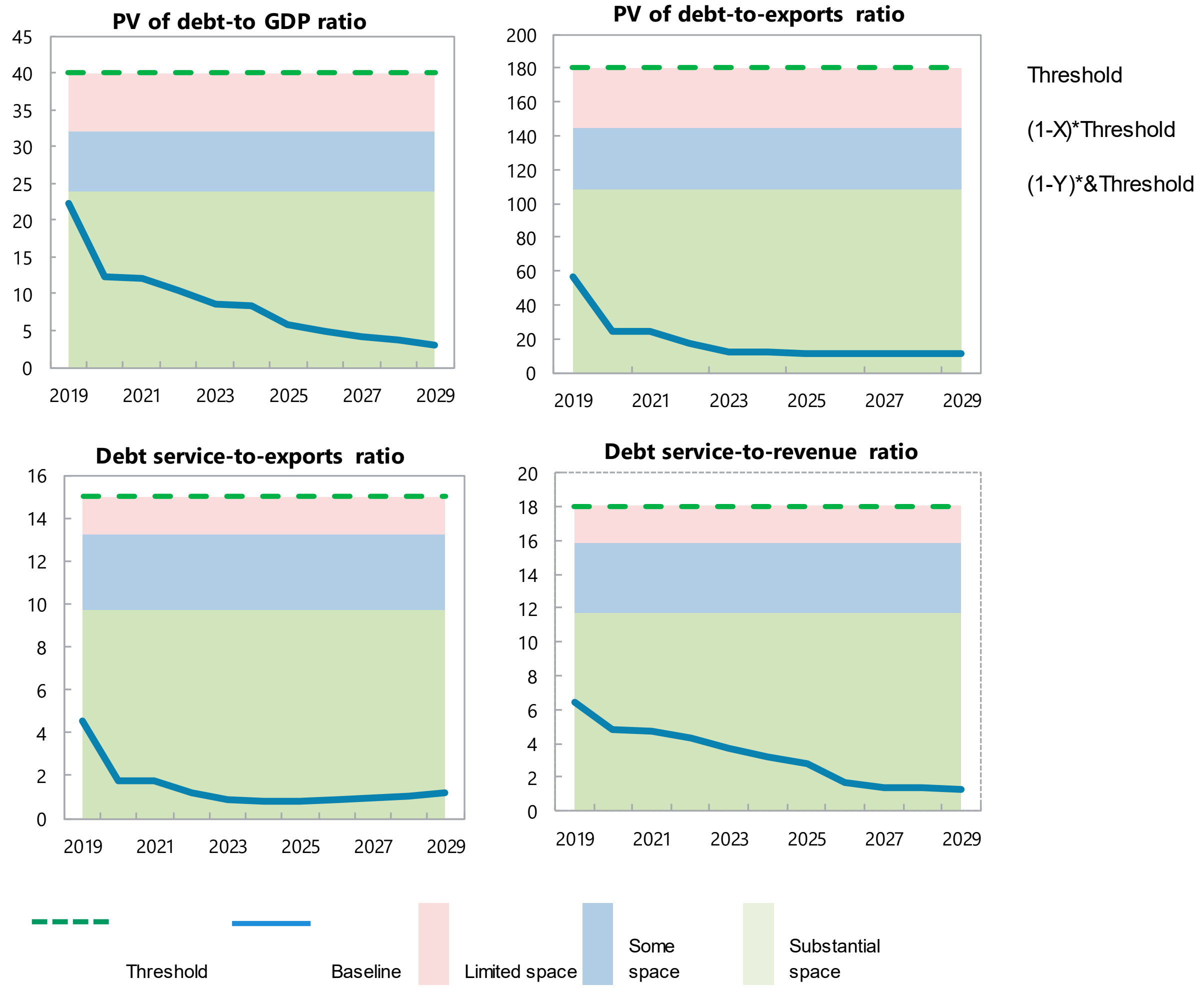


Figure 5. Guyana: Qualification of the Moderate Category, 2019–2029 1/



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 Alexandre Tombini, Executive Director for Guyana and Zahrah Mohammad, Senior Advisor to Executive Director
August 30, 2019

1. On behalf of our Guyanese authorities, we thank the mission team for the productive engagement during this year's Article IV consultation. The authorities welcome staff's valuable advice and appreciate the well-balanced nature of the report.

2. **Guyana economy is at the cusp of a major transformation with oil production scheduled to commence in early 2020.** In light of incoming oil wealth, the authorities remain committed to preserving fiscal discipline and saving part of the oil income. They have been proactive in their preparation to manage the expected petroleum revenues in setting up a rules-based Natural Resource Fund (NRF). This sovereign wealth fund will be governed by transparent fiscal transfer rules. The authorities welcome this opportunity to increase expenditure to address the infrastructure gap and meet developmental and social needs in both the urban areas and hinterland. However, they intend to take a conservative stance and ramp-up public spending in line with Guyana's absorptive capacity to mitigate macroeconomic distortions.

Economic Development and Outlook

3. **Over the past 10 years, Guyana's growth rate has consistently been above the regional Caribbean average, but significant development needs remain.** The discovery of relatively large oil reserves has brightened Guyana's medium-term prospects and provides an opportunity to address the country's development needs. Nevertheless, the impact of the oil production on government flow of revenues is not immediate, since there will be an initial period of upfront cost recovery for the energy company.

4. **Economic growth momentum recovered in 2018 with broad based expansion in all major sectors**. Increased activity in the construction and services sectors, together with a recovery in the mining sector and improved performance in livestock and other crops buoyed growth in 2018. The growth impetus is anticipated to continue into 2019, with the authorities projecting economic growth of 4.5 percent, driven by continued strengthening of construction and services sectors, ahead of oil production in 2020. Inflation remained well contained at 1.6 percent at the end of 2018, allowing monetary policy to remain accommodative. The authorities project inflation to stand at 2.5 percent in 2019.

5. **Going forward, external stability is projected to improve substantially.** With the onset of oil production, the ramp-up of oil-related imports have weakened the current account deficit, which have widened to 17.5 percent of GDP in 2018 from 6.8 percent in 2017. This temporary worsening of the current account is anticipated to continue this year and would continue to be largely financed by higher foreign direct investment in oil-related activity.

However, in the medium-term, it is expected to improve significantly with the reduction of oil-related imports due to the completion of oil fields and the start of oil exports.

Fiscal Reforms and Policy

6. **The Guyanese authorities continue to implement a prudent fiscal policy and are strongly committed to maintaining fiscal discipline**. Central government revenues improved in 2018 as tax collection increased substantially, supported by a tax amnesty program which relaxed the interest and penalties on payment of outstanding taxes. The introduction of electronic tax filing and the operations of the Large Taxpayers Unit also contributed to improved revenue and efficiency of tax collection. These tax measures, together with lower expenditure due to slower capital spending, resulted in a central government deficit of 3.5 percent of GDP, below the 2018 budgeted target of 5.4 percent of GDP. The authorities intend to continue focusing on strengthening tax administration efficiency and tax compliance to improve revenue collection and encourage discipline in the system. They are also committed to strengthening revenue administration with improved monitoring and control of customs transactions, with the commencing of a pilot of the Automated System for Customs Data.

7. **The central government's overall deficit is projected at 5 percent of GDP in 2019, on the back of higher capital and current expenditures to meet substantial infrastructural needs to support connectivity and human capital development.** Going forward, a balanced budget is being considered by 2022, as the authorities intend to follow a fiscal framework that constrains the annual non-oil deficit to not exceed the expected transfer from the NRF to the budget, which is in line with the NRF Act. A medium-term expenditure framework would be developed in accordance with the multi-year budgeting framework of their Green State Development Strategy (GSDS). The authorities plan to enhance the quality and efficiency of expenditure and tax administration whilst further strengthening public investment management with a thorough criteria-based project selection process and prioritization in accordance with the GSDS. This will serve as a key input into costing the implementation of the GSDS. Improving the choice of public investment projects and making them criteria-based within the budget, as well as enhancing the procurement system, are vital to fiscal discipline and transparency.

8. **The authorities are always cautious to safeguard public debt sustainability and they have continued to improve their debt management strategy**. The authorities have indicated that they do not intend to compromise the fiscal integrity of Guyana by contracting large debt, in light of impending oil revenues. Nevertheless, they have acknowledged that the debt ratio would rise slightly over the near-term and will improve significantly over the medium-term, as oil production commences in 2020. Meanwhile, the debt service would remain manageable due to the concessional nature of a large portion of their external debt portfolio. In addition, the authorities have committed to consolidating and strengthening their debt management legislation.

Monetary Policy and Financial Sector

9. **Monetary policy remained broadly accommodative in 2018**. The Bank of Guyana (BoG) maintained a bank rate of 5 percent, whilst ensuring an adequate level of liquidity in the banking system to create an enabling environment for credit and economic growth. Accordingly, private sector credit grew by 4 percent in 2018, reflecting a faster pace than in 2017. This improved credit growth in 2018 was mainly driven by the business sector.

10. **The authorities underscore that over the years, the current exchange rate arrangement has served the country well, as it has remained broadly in line with macroeconomic fundamentals**. Guyana is committed to a flexible exchange rate regime and the BoG allows the exchange rate to adjust to changing market dynamics. With the new era of oil production and its accompanying robust growth and potential price pressures, the BoG will continue to closely monitor its monetary policy stance.

11. **The financial sector remains sound and the banking system is well capitalized, liquid and profitable**. Despite trending downwards, non-performing loans (NPLs) for some banks remain high. The BoG intends to continue closely monitoring this trend and has increased frequency of reporting by commercial banks, enhanced on-site inspections and intensified follow-up actions to ensure greater bank compliance, as well as hold regular discussions with commercial banks. The BoG also plans to implement a hybrid approach to the Basel framework by end 2019 where the capital definition and operational risk are based on Basel III while market risk and credit risk are based on Basel II.

12. **The authorities have made significant progress with implementation of the 2016 Financial Sector Assessment Program (FSAP) recommendations**. They have fortified several pieces of legislation with amendments to include emergency liquidity assistance to deposit-taking financial institutions and orderly resolution of failing institutions. The Deposit Insurance Act and the National Payment System Act were both assented in 2018 and made operational this year. The authorities are currently in the process of finalizing and operationalizing a Crisis Management Plan and intend to build on the progress so far to further strengthen their financial supervision oversight and regulatory framework.

13. **The AML/CFT framework has been improved based on recommendations of the 2017 National Risk Assessment (NRA), including amending the AML/CFT Act and establishing a National Co-ordinating Committee.** The Financial Intelligence Unit has been actively pursuing greater collaboration with its regional and international peers and has been closely monitoring suspicious activities including laundering of money and terrorist financing and criminal proceeds, including those of companies and politically exposed persons. In February 2019, Guyana was removed from the European Union terrorism financing and money laundering blacklist and the authorities intend to continue to strengthen the AML/CFT

framework by undertaking another NRA prior to the Caribbean Financial Action Task Force (CFATF) in 2022. Although correspondent banking relationships (CBRs) have stabilized, the authorities continue to be vigilant and remain committed to build on the progress made to date by mitigating any drivers behind CBR pressure.

SOE Reforms and Inclusive Growth Strategies

14. **The authorities remain committed to enhancing the efficiency of the state-owned enterprises, particularly upgrading the infrastructure of Guyana Power and Light Incorporated (GPL) and Guyana Sugar Corporation (GuySuCo).** Reducing the cost of electricity and improving its reliability are critical to improving Guyana's business environment and external competitiveness. In this regard, the authorities intend to strengthen the management and governance structure of GPL, with a focus on reducing the overall electricity losses, both technical and commercial, and improving the safety and reliability of the system. They also intend to assess the use of domestic natural gas resources as an energy source and seek to strengthen and expand the generation and transmission capacity of GPL, thereby potentially reducing the cost of electricity. The restructuring of GuySuCo and the recapitalization of estates are ongoing, and it is anticipated that sugar production will increase progressively over the next few years.

15. **The authorities are cognizant that oil revenue would provide fiscal space and the opportunity to undertake the much-needed structural reforms and investment to boost productivity and improve the standard of living of the Guyanese people.** The GSDS charts a path of development that is diversified, inclusive and sustainable and captures a more holistic view of social, economic and environmental well-being in line with the United Nation's Sustainable Development Goals. The GSDS has identified the modernization of the traditional sectors, expansion in high-growth sectors and development of new high value-adding sectors such as tourism, business process outsourcing, and agro-processing. It also highlights as critical the provision of new opportunities for investments in renewable power supply and efficient roads and infrastructure to bridge the divide between coast and hinterland. The authorities have indicated that despite their capacity constraints, they intend to prioritize investment to improving quality of education, health care and caring for the vulnerable sections of the population whilst improving conditions for private sector growth and job creation. They remain committed to enhancing the education system to make meaningful steps to empower Guyanese people with the requisite skills to enable them to optimize the benefit from the future employment prospects.

16. **Considering the scaling up of public investments, the Guyanese authorities intend to strengthen governance and transparency, as well as enhance its procurement system.** To strengthen transparency and accountability in the extractive sector, the authorities are implementing the Extractive Industries Transparency Initiative (EITI) report's recommendations. They have also launched the Beneficial Ownership Disclosure Roadmap to

enhance transparency from the extractive sector and are reviewing legislation governing the extractive sector. Moreover, the public procurement legal framework is being amended to be in line with best international practices. The National Procurement and Tender Administration Board is currently undertaking the implementation of several reforms including setting aside 20 percent of government procurement for small businesses and debarment procedures for contractors who do inferior work. These would not only further enhance transparency of the procurement system but help develop small businesses. The authorities also intend to further promote transparency and inclusiveness with the use of the CARICOM Public Procurement Notice Board and the development and implementation of an electronic procurement system by 2021.

17. **Guyana remains exposed to risks of climate change, volatile commodity prices, and possible negative regional and international spillovers.** With its coast being below sea level, Guyana remains highly vulnerable to climate change and the consequent trend in sea level rise. Although the authorities do not foresee any additional major significant spillovers from neighboring Venezuela, an influx of migrants into the rural areas has increased socio pressures on the local communities. Also, Guyana remains subject to commodity price shocks, heightened protectionist trends and slowdown in international trade. As such, the authorities intend to continue working to build a more robust and diversified economy, achieve financial resilience and foster inclusive growth, whilst expanding opportunities and competitiveness for businesses to grow and flourish and supporting its green economy initiatives.

Conclusion

18. **The Guyanese authorities have made considerable progress on macroeconomic and financial reforms, despite financial and human capacity constraints.** However, substantial infrastructure gaps, social needs and pockets of poverty continue to exist. With the upcoming oil wealth, the authorities have pledged unwavering commitment to building human capital through investment in health and quality education whilst meeting the Sustainable Development Goals and investing for the benefit of present and future generations. As the country addresses these long-standing issues and new challenges, the authorities reiterate their appreciation for IMF staff adept analysis and advice and hope to continue its close collaboration with the Fund and CARTAC.