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# A Suggested Medium-Term Fiscal Framework for Guyana

Rina Bhattacharya and Do Yeon Park

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**A Suggested Medium-Term Fiscal Framework for Guyana: Managing Guyana's  
Resource Wealth and Development Needs**  
Prepared by Rina Bhattacharya and Do Yeon Park

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**ABSTRACT:** Guyana is growing rapidly, and fiscal policy plays a critical role in ensuring that the country's wealth is managed effectively and equitably. The paper analyzes crucial elements of a comprehensive fiscal policy framework, anchored on a medium-term fiscal framework, that would help in balancing several, and sometimes competing, fiscal policy objectives common to natural resource rich developing countries.

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WORKING PAPERS

# **A Suggested Medium-Term Fiscal Framework for Guyana: Managing Guyana's Resource Wealth and Development Needs**

Prepared by Rina Bhattacharya and Do Yeon Park<sup>1</sup>

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<sup>1</sup> The authors would like to thank Alina Carare, Alun Thomas, Marwa Alnasaa, Ramon Hortado-Arcos, Dan Devlin, and Olivier Basdevant for helpful discussions and comments on earlier drafts of this paper.

# Contents

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
<b>SECTION I: INTRODUCTION</b>	<b>5</b>
<b>SECTION II: FISCAL POLICY FRAMEWORKS OPTIONS FOR GUYANA</b>	<b>6</b>
<b>SECTION III: ROLE OF SUPPORTIVE FISCAL SYSTEMS</b>	<b>14</b>
<b>SECTION IV: ROLE OF A SOVEREIGN WEALTH FUND</b>	<b>14</b>
<b>SECTION V: CONCLUDING REMARKS</b>	<b>15</b>
<b>REFERENCES</b>	<b>17</b>
<b>BOXES</b>	
<b>FIGURES</b>	
1. Present Value of Guyana's Oil Reserves	5
2. Fiscal Simulation Results	10
3. Staff's Recommended Fiscal Policy Path	13
<b>TABLES</b>	
1. Natural Resource Fund Oil Revenue Deposits and Transfers to the Budget	15
<b>ANNEXES</b>	
<b>REFERENCES</b>	<b>17</b>

## Executive Summary

*Guyana is growing rapidly, and fiscal policy plays a critical role in ensuring that the country's wealth is managed effectively and equitably. Issues of long-term fiscal and debt sustainability, while not of pressing concern, remain important as oil is an exhaustible resource. Issues of possible overheating, absorptive and institutional capacity constraints, together with inflationary and real exchange rate pressures, are likely to remain priority concerns for fiscal policy.*

*These considerations suggest adoption of a comprehensive fiscal policy framework that guides public spending decisions based on a medium-term fiscal framework (MTFF) and updated public investment management (PIM) and public financial management (PFM) frameworks. The MTFF should be based on a medium-term fiscal anchor.*

**Fiscal policy in resource rich developing countries (RRCs) usually has to balance several, and sometimes competing, policy objectives.** In particular, fiscal policy has a crucial role to play in (i) promoting and maintaining macroeconomic stability, (ii) safeguarding the sustainability of public finances, (iii) ensuring an equitable intertemporal distribution of oil wealth across generations, and (iv) meeting the economy's physical infrastructure and human capital needs, while taking into account absorptive and institutional capacity constraints.

**Key fiscal policy challenges for Guyana over the near- and medium-term will likely have to focus on containing possible overheating / inflationary pressures, loss of competitiveness, and absorptive capacity constraints.** With the help of oil revenues, first transferred to the budget in 2022, and debt financing the government has started investing heavily to address large development needs. As currently Guyana has one of the lowest public debt ratios in the world, under reasonable baseline scenarios public indebtedness and issues of fiscal or debt sustainability are not likely to be of major concern, in the absence of large and persistent negative shocks to oil prices or oil production. Stress tests carried out using the low-income country debt sustainability framework (LIC-DSF) suggest that long-term fiscal and debt sustainability could come under risk only if there are adverse shocks to real GDP growth, exports, and/or commodity prices. However, accumulation of savings under Guyana's Sovereign Wealth Fund (the Natural Resources Fund, or NRF), are rising and could provide a substantial buffer against such shocks. Therefore, issues of overheating, absorptive and institutional capacity constraints, and 'Dutch disease' concerns through inflationary and real exchange rate pressures, are likely to be more pressing policy challenges over the short- and medium-term.<sup>1</sup>

**Expenditure growth rules can help with containing overheating pressures and capacity constraints.** An expenditure growth rule is particularly desirable when scaling up public expenditures in the presence of absorption capacity constraints, and if the volatility of resource revenues requires precautionary savings.

**However, expenditure growth rules by themselves cannot ensure fiscal sustainability or inter-generational equity, and hence need to be accompanied by a suitable fiscal policy anchor.** Such an

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<sup>1</sup> Dutch disease describes a situation where natural resource windfalls increase the demand for non-traded goods, which would then draw production factors away from non-resource-traded sectors and generate an appreciation of the real exchange rate, thereby eroding competitiveness of the non-resource sector.

anchor should be designed to ensure macro-economic stability, fiscal sustainability, inter-generational equity, and insurance against large and persistent shocks.

**Many RRCs have adopted a target for their non-resource primary balance (NRPB) as their fiscal policy anchor, with calibration of the NRPB based on simulations of a modified Permanent Income Hypothesis (PIH) model.** This is particularly useful for countries with relatively short resource reserve horizons (typically 30 years or less) and where fiscal and debt sustainability are pressing fiscal policy concerns. However, practical challenges with calibrating a path for the non-resource primary balance (NRPB) that is relatively stable over time also suggest that this might not be a suitable fiscal policy anchor for Guyana. Oil prices in world markets are highly volatile, and there is considerable uncertainty about the level of Guyana's commercially viable oil and gas reserves (as many new oil fields are still being opened for discovery and exploration). In addition, there is the uncertain impact on future global demand for oil and gas from the still-evolving policy measures being adopted by countries throughout the world to combat climate change.

**Simulations show that a modified PIH approach can be consistent with meeting the authorities' ambitious public investment plans over the medium term.** Incorporating the government's 2023 budget, and using oil price assumptions and real GDP growth projections from the August 2023 *World Economic Outlook* vintage, estimates show that the modified PIH approach is consistent with a moderately high level of public capital spending over the medium-term, provided that it does not build up macroeconomic imbalances.

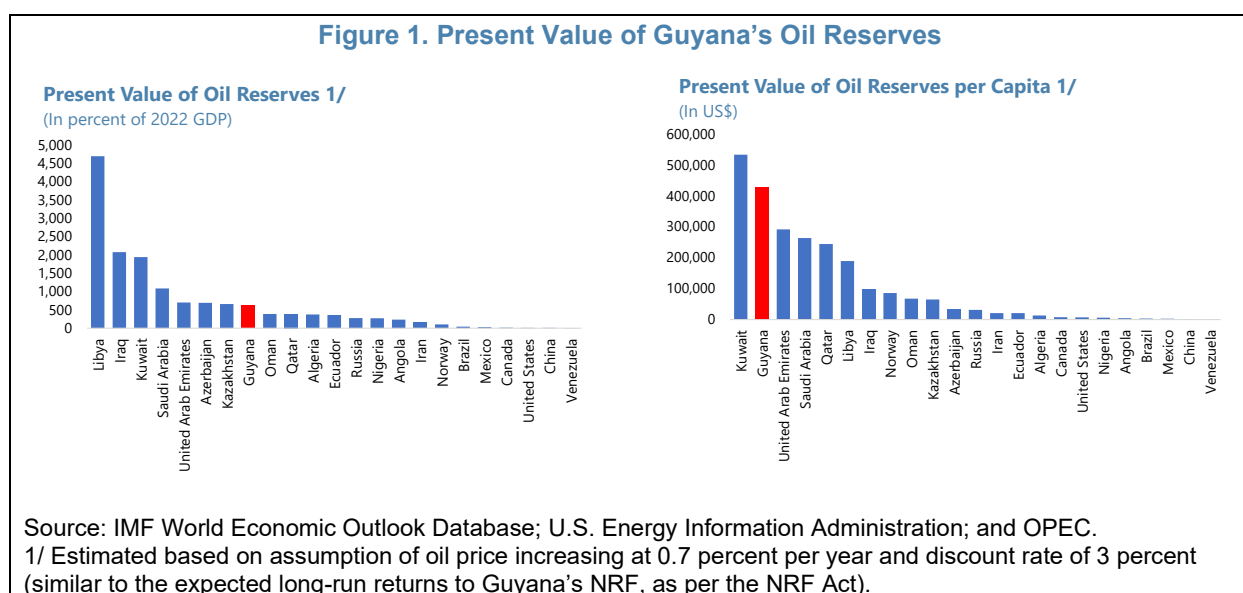
**Projected savings accumulation in the NRF suggests that a somewhat looser fiscal policy stance than that implied by the PIH approach would also be fiscally sustainable.** The size of the projected savings in NRF under the 2021 NRF rules, 2023 WEO economic assumptions and a non-modified PIH leads staff to assess that a more gradual decline in capital spending, moving steadily towards a zero overall fiscal balance by 2028 (instead of having overall fiscal surpluses over the next few years, as implied by the PIH rule), is also fiscally sustainable. This proposed path would help to meet urgent public spending needs while also being consistent with accumulation of financial and resource wealth to help maintain living standards for future generations, and with a steady decline in the public debt-to-GDP ratio.

**Over the medium- to long-term, the establishment of a precautionary stabilization buffer could help to mitigate the impact of large oil price shocks.** Transfers from the NRF to the budget cannot be drawn upon readily when shocks materialize, except in the case of a major natural disaster. An adequate precautionary stabilization buffer would help avoid a procyclical fiscal policy (a sudden adjustment in capital spending or increase in non-oil tax revenues), or borrowing at highly unfavorable terms, in case of an adverse oil price shock. Moreover, if a sizeable adverse oil price shock materializes, a precautionary stabilization buffer would help smooth the fiscal adjustment while giving the authorities time to ascertain the permanence (or otherwise) of the shock.

**Enhanced supportive public financial management systems can be very helpful in attaining the broad objectives of fiscal policy.** Strengthening the public financial management system would enhance the operational efficiency of public service delivery and increase the benefits from, and the effectiveness of, a rules-based medium-term fiscal framework. In addition, bolstering public investment management capacity would also ensure that scaling up of public spending will yield the expected growth benefits.

## Section I: Introduction

**Guyana’s medium- and long-term economic prospects have increased tremendously after the oil production started.** International oil companies have announced in 2015 that they discovered commercially recoverable petroleum reserves of around 11 billion barrels—the third largest in Latin America and the Caribbean, and one of the highest levels per capita in the world—that promises to transform Guyana's agricultural and mining economy into an oil powerhouse. Indeed, the present value of oil reserves per capita is higher than, or comparable to, oil-producing Gulf countries (Figure 1). By 2030, the oil sector in Guyana is projected to account for over 80 percent of GDP, more than 40 percent of central government revenues and over 90 percent of merchandise exports.



**While presenting tremendous opportunities, the economic management of oil and gas resources gives rise to major policy challenges everywhere in the world, especially for fiscal policy.** Oil production provides a momentous opportunity to boost inclusive growth and diversify the economy by addressing human development needs and infrastructure gaps. At the same time, the high volatility of oil prices makes it especially challenging to maintain macroeconomic stability in the face of external and terms-of-trade shocks. There is also considerable uncertainty about the level of Guyana’s commercially viable oil and gas reserves (as many new oil fields are still being opened for discovery and exploration). This is further compounded by the uncertain impact on future global demand for oil and gas from the still-evolving policy measures being adopted by countries throughout the world to combat climate change. Fiscal policy has an important role to play to (i) promote and maintain macroeconomic stability, (ii) safeguard the sustainability of public finances, (iii) ensure an equitable intertemporal distribution of oil wealth across generations, and (iv) meet the economy’s physical infrastructure and human capital needs while taking into account its absorptive and institutional capacity constraints.

**This paper discusses various fiscal strategy options for Guyana, consisting of the objectives of fiscal policy, adoption of a fiscal anchor, and the role of supportive fiscal institutions.** It presents the background details of the analysis presented in Annex IV of the 2023 AIV SR and therefore does not introduce additional policy recommendations, nor analysis of follow up developments. The policy dialogue with the authorities continue, and recent changes in the NRF transfer rules are not covered in this study. The next section lays out various options for a fiscal anchor for Guyana. Section III discusses, in the context of Guyana, how a suitable fiscal anchor can be supported by strong fiscal institutions to help achieve the broad objectives of fiscal policy. Section IV looks at the role of Guyana's Sovereign Wealth Fund (SWF), which is known as the Natural Resource Fund (NRF), in supporting a medium-term fiscal framework and promoting intergenerational equity in the distribution of Guyana's oil resources, and Section V presents some concluding remarks.

## Section II: Fiscal Policy Frameworks Options for Guyana<sup>2</sup>

**Fiscal policy frameworks in resource rich developing countries (RRCs) have to balance several key policy objectives.** These objectives typically include:

- Ensuring macro-fiscal stability and fiscal / debt sustainability;
- Managing government revenue volatility and avoiding fiscal procyclicality;
- Scaling up growth-enhancing public expenditures to address physical infrastructure and human capital needs, while taking account of absorption and institutional capacity constraints; and
- Adequate accumulation of precautionary savings as a buffer against shocks.

**The importance of resource exhaustibility, and the priority given to long-term fiscal sustainability, in the design of fiscal policy should be in part a function of the reserve horizon of natural resource endowments (IMF, 2012).**<sup>3</sup> In RRCs with relatively short resource reserve horizons, a pressing and immediate concern for fiscal policy formulation is having a benchmark for fiscal sustainability that takes into account the resources' exhaustibility. By contrast, in RRCs with long reserve horizons (30-35 years or longer), the main focus of fiscal policy in the short- to medium-term tends to be managing resource revenue volatility and avoiding fiscal procyclicality. Based on conservative estimates of proven commercially recoverable oil and gas reserves, Guyana's reserve horizon is over 41 years.

**The fiscal anchor for any RRCs is typically based on some version of the permanent income hypothesis (PIH), translated into a target for the non-resource primary balance (NRPB).** The PIH holds that a country should sustain a constant consumption flow from natural resources equal to the (implicit) return on the present value of future natural resource revenues. This follows from the intertemporal budget constraint which, for a country with large natural resources, is satisfied when the non-resource primary deficit is limited to the perpetuity value of resource wealth. Resource wealth is defined as the present value of all future resource revenues. The PIH approach thus provides a benchmark for the

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<sup>2</sup> This section draws heavily on Baunsgaard, Villafuerte, Poplawski-Ribeiro and Richmond (2012), IMF (2012), and IMF (2021).

<sup>3</sup> The reserve horizon refers to the expected life of resource reserves given projected production levels. A common threshold for classifying countries as having a long reserve horizon is 30-35 years, or about one generation.



NRPB that can be financed indefinitely. With projections for non-resource revenues, the NRPB benchmark also provides an estimate of the ‘sustainable’ level of government expenditure. De facto the PIH approach sets the target for the NRPB at a level consistent with the maintenance of the country’s total net wealth (resource wealth plus net financial wealth) constant over the indefinite future. Using the NRPB as an anchor—rather than the overall primary balance—for setting fiscal policy can help to insulate government spending from the volatility of resource revenues.

**The PIH approach has been criticized for providing a fiscal benchmark that is too tight for low-income countries with urgent public spending needs.** The criticism comes from the fact that current generations are likely to be poorer than future generations, hence justifying a growth in public spending that is higher than the level implied by the PIH (Collier et al, 2010, Van der Ploeg and Venables, 2011). This is especially relevant for capital-scarce and credit-constrained economies, where using part of the country’s nonrenewable natural resource wealth should be/ is used to build up its physical and human capital stock. The additional investments, if carefully selected based on sound objective criteria and well implemented, would increase potential growth and the welfare of future generations, as well as future non-resource fiscal revenues.

**While appealing from a conceptual and theoretical perspective, fiscal anchors based on the PIH approach have also a number of practical limitations and can be challenging to implement.** First, fiscal anchors modelled on the PIH can be difficult to calibrate, particularly when there is considerable uncertainty about the level of commercially viable reserves. Proven reserves may not be commercially viable when prices fall below certain levels, so that the estimated value of resource wealth can change abruptly over time when expected prices are revised. Second, although the PIH approach is designed to calibrate a stable path for government spending, in practice it often leads to sizeable revisions of the expenditure path in case of large and unexpected shocks to commodity prices (Eyraud, Gbohoui, and Medas, 2023). This is because price forecasts over a medium- to long-term horizon tend, in practice, tend to be very dependent on current observed prices. As a result, difficulties in separating temporary from permanent price shocks could result either in excessive volatility of spending (if all shocks are treated as permanent) or too little savings (if all negative shocks are treated as temporary).

**Hence, alternative fiscal frameworks and anchors should be considered.** A number of alternatives have been proposed in the literature, including a resource price-based rule that aims to determine expenditure levels on the basis of smoothed resource revenues for a given fiscal target; expenditure growth rules that set a limit on the growth of government spending—either in nominal or real terms, or as a percent of GDP / non-resource GDP; public debt anchors that set a ceiling on the level of public debt, usually as a percent of GDP or non-resource GDP; and, more recently, a floor on the net financial assets of the government (Eyraud, Gbohoui, and Medas, 2023).

### ***Model simulations***

**We next carry out a set of simulations to help analyze the macroeconomic impact of various fiscal sustainability anchors.** These anchors include a “Bird-in-Hand” (BIH) approach as well as several variants of the PIH approach. The approaches and simulations are described below. The data used includes the oil production projections from Liza-1 (which started production in December 2019), Liza-2 (February 2022), Payara (2024), Yellowtail (2026) and Uaru (2027) fields. They do not include additional offshore fields in the Stabroek Block announced by the Exxon Group after July 2022. Oil price projections,

and projections for key macroeconomic variables for Guyana, are taken from the August 2023 vintage of the IMF's WEO.

**The “Bird-in-Hand” approach (BIH) provides a very conservative fiscal policy anchor** Since under this approach all resource revenues are invested in financial assets. Consumption out of resource wealth is equivalent to the interest earned on accumulated financial wealth (i.e., not based on permanent income concepts). This approach is prudent, since it does not permit bringing forward consumption of (uncertain) future resource revenues and may be an appropriate anchor for some countries. This approach makes no allowance for a high degree of uncertainty about future resource revenues, borrowing constraints (either due to high cost or debt sustainability issues), or absorption capacity issues that prevent an efficient scale-up of public spending. The key drawbacks of the BIH approach are that it benefits future generations more than the current (likely less well-off) generation and allows policy makers no flexibility on borrowing to finance productive investment opportunities. For completeness we include this very prudent approach in our simulations.

**Fiscal sustainability anchors based on permanent income concepts and calibration of the NRPB allow more frontloading of consumption spending from natural resource wealth.** An ‘equal’ distribution of resource consumption across generations would be ensured by an anchor that is constant in real per capita terms (for example, a NRPB equivalent to \$X per capita in today’s prices). However, in practice, many countries define the anchor as a constant share of non-resource GDP. This calibration facilitates fiscal planning since it can be directly fed into a budgetary framework, although a key shortcoming is that it will result in future and potentially richer generations enjoying a higher level of resource consumption than the present, whenever economic growth exceeds population growth. Another calibration option is an anchor derived from the PIH that has a constant NRPB in real terms. This would lead consumption from natural resource wealth to decline over time in real per capita terms if population growth is positive.

**A template developed by the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF, 2021) was used to calibrate fiscal sustainability anchors under the different approaches discussed above and conduct simulations for Guyana.** The template uses data inputs to generate simulations of fiscal policy dynamics and to help analyze trade-offs associated with alternative fiscal strategies for the use of public resource wealth. We examine the macroeconomic impact of adopting the various fiscal sustainability anchors discussed above and compare them with a baseline scenario.

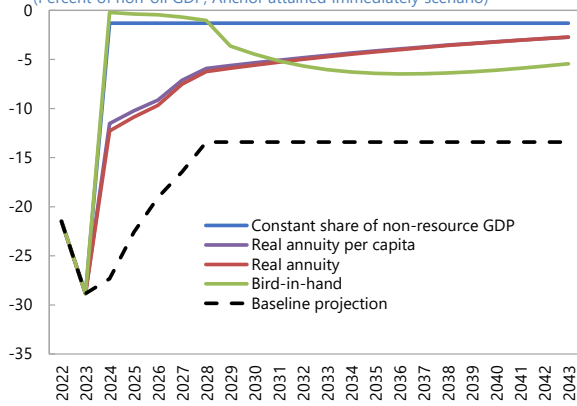
**Figure 2 presents the results of simulations under five alternative scenarios.** These include the BIH approach, resource consumption remaining a constant share of non-resource GDP (“Constant share of non-resource GDP”), resource consumption constant in real terms (“Real annuity”), resource consumption constant in real per capita terms (“Real annuity per capita”), and a baseline scenario. The baseline scenario uses staff baseline projections until 2028 and then assumes a constant NRPB in percent of non-oil GDP. The other simulations use data until 2022 and the 2023 Budget numbers, followed by projections from 2024 onwards based on the different approaches outlined above. Calibration results for the five scenarios are presented for the primary balance and non-resource primary balance (NRPB). The simulated path for the NRPB in percent of non-oil GDP under the “Real annuity” simulation scenario is then fed into the IMF staff’s macroframework developed for the 2023 Article IV consultation to calibrate a consistent trajectory for public capital expenditures and to derive consistent projections for the overall fiscal balance and for public debt, which are shown in the lower panel of Figure 2.

**The results indicate a steady tightening of fiscal policy from 2024 onwards, together with substantial accumulation of savings in the Natural Resource Fund.** The calibration results under the “Real annuity” scenario implies an improvement in the overall fiscal balance (after grants) from a deficit of 4.9% of GDP in 2023 to a surplus of 3.0% of GDP in 2030, with public capital expenditures falling steadily from 11.4% of GDP to 3.4% of GDP over the same period. Total public debt declines from 29% of GDP in 2023 to 15% of GDP in 2030 (Figure 2). Over the same period accumulation of savings in the NRF grows exponentially, from close to 13.0% of GDP (almost 30.0% of non-oil GDP) to 103.0% of GDP. Over the medium-term the “Real annuity” scenario produces very similar results to the “Real annuity per capita” scenario (due to Guyana’s low rate of population growth) and requires significantly less fiscal consolidation than the “Bird-in Hand” and “Constant share of non-resource GDP” approaches.

**Figure 2. Guyana: Fiscal Simulation Results 1/**

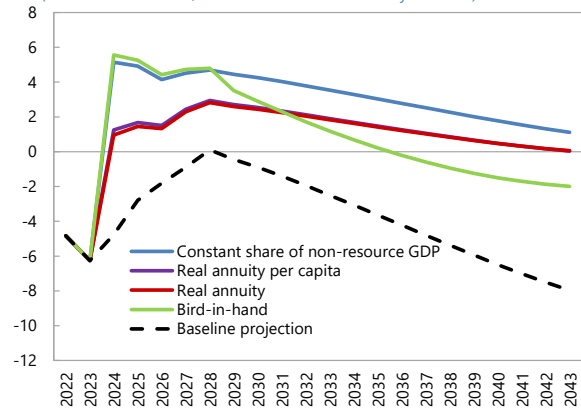
**Non-Resource Primary Balance**

(Percent of non-oil GDP; Anchor attained immediately scenario)



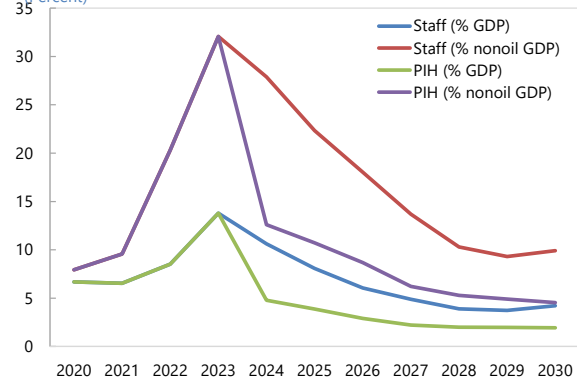
**Primary Balance**

(Percent of total GDP; Anchor attained immediately scenario)



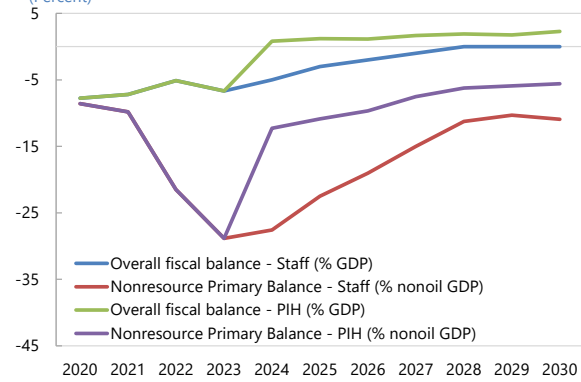
**Public Capital Expenditures**

(Percent)



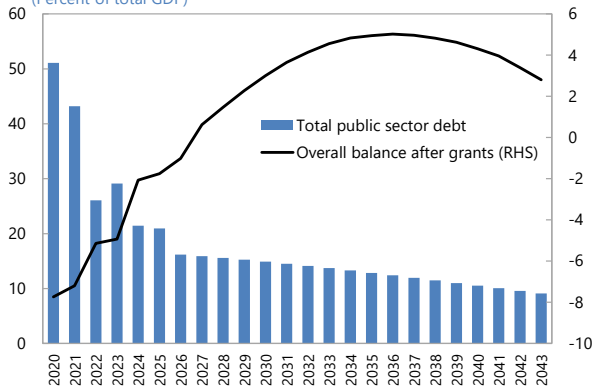
**Central Government Fiscal Balances**

(Percent)



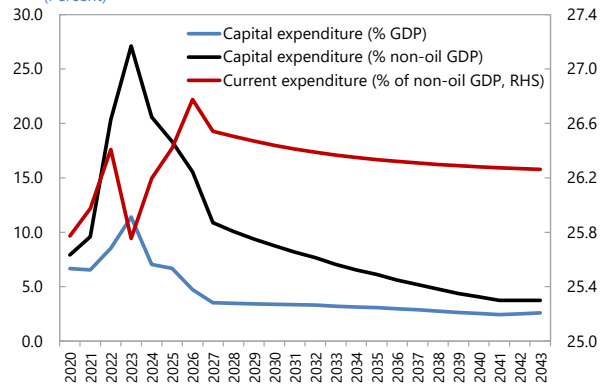
**Public Debt and Overall Fiscal Balance**

(Percent of total GDP)



**Central Government Expenditures**

(Percent)



Source: IMF staff calculations.

1/ PIH (Permanent Income Hypothesis) refers to the Real Annuity simulations.

***Recommendations on a medium-term fiscal framework for Guyana***

**A medium-term fiscal policy framework for Guyana should consider long-term fiscal and debt sustainability, but not making it the major constraint on fiscal policy.** Guyana is a resource-rich country with a small population and a moderate and falling ratio of public debt to GDP (as of end-2023, at around 30 percent of GDP, one of the lowest in the world). Under reasonable baseline scenarios, public indebtedness and issues of fiscal or debt sustainability are not likely to be of major concern, in the absence of large and persistent shocks to oil prices or oil production. Rather, issues of overheating, absorptive and institutional capacity constraints, and ‘Dutch disease’ concerns through inflationary and real exchange rate pressures, are likely to be more pressing policy challenges over the short- and medium-term. Specifically, stress tests carried out using the LIC-DSF framework during the [2023 Article IV consultation](#) suggest that long-term fiscal and debt sustainability could come under risk if there are adverse shocks to real GDP growth, exports, and/or commodity prices. However, accumulation of savings under the NRF are projected to be more than adequate to provide an adequate buffer against such shocks.

**An expenditure growth rule to limit the growth of government spending in real terms or in percent of GDP—as proposed also by Ter-Minassian (2021)—combined with a suitable fiscal anchor might work well for Guyana.** Baunsgaard et al (2012) pointed out that such a rule is desirable when scaling up public expenditures in the presence of absorption capacity constraints, and if the volatility of resource revenues requires precautionary savings. However, expenditure growth rules by themselves do not ensure intergenerational equity or long-term fiscal sustainability. Hence, such a rule should be accompanied by a suitable fiscal anchor. As mentioned earlier, there are considerable practical and operational challenges in calibrating a path for the NRPB consistent with some version of the PIH approach that is relatively stable over time. This is especially relevant for Guyana, given the large uncertainties both about future global demand for fossil fuels and the level of commercially viable oil and gas reserves. Hence, an alternative anchor for fiscal policy is likely to be more appropriate for Guyana.

**An in-depth analysis of development needs and existing absorptive and institutional capacity constraints on scaling up of public spending, together with proposed solutions, could help in formulating an appropriate expenditure rule.** As IMF (2021) notes, this would require a thorough assessment of the size of infrastructure gaps, the likely returns compared to investing in financial assets, and the impact on fiscal sustainability and intergenerational distribution of the nation’s oil and gas wealth. In turn, an assessment of institutional constraints requires an in-depth study of the strength of public investment management processes, while absorptive capacity will involve analysis of cost and price dynamics in labor and product markets.

**Adjustments to expenditure growth limits should ideally be informed by regular analysis of absorption and institutional capacity constraints.** To ensure that an adequate share of the additional spending goes to public investments, a ceiling could also be set on the ratio of current to total primary spending, but only if accompanied by deliberate efforts to address some of the weaknesses in the public investment management framework discussed below.<sup>4</sup>

**Simulations show that a modified PIH approach could be consistent with meeting the authorities' ambitious public investment plans over the medium term, and suggest an appropriate anchor, as long as there is a steady and significant decline in capital spending as a share of non-oil GDP over time, to avoid overheating.** Incorporating the government's 2023 budget, and using oil price assumptions from the August 2023 WEO, staff estimates show that the modified PIH approach is consistent with a moderately high, albeit declining, level of public capital spending over the medium-term, provided that it does not build macroeconomic imbalances. However, as shown in Figure 2, the PIH approach requires a steeper decline in public capital spending as a share of GDP, from 13.8 percent in 2023 to around 2.0 percent by 2030.

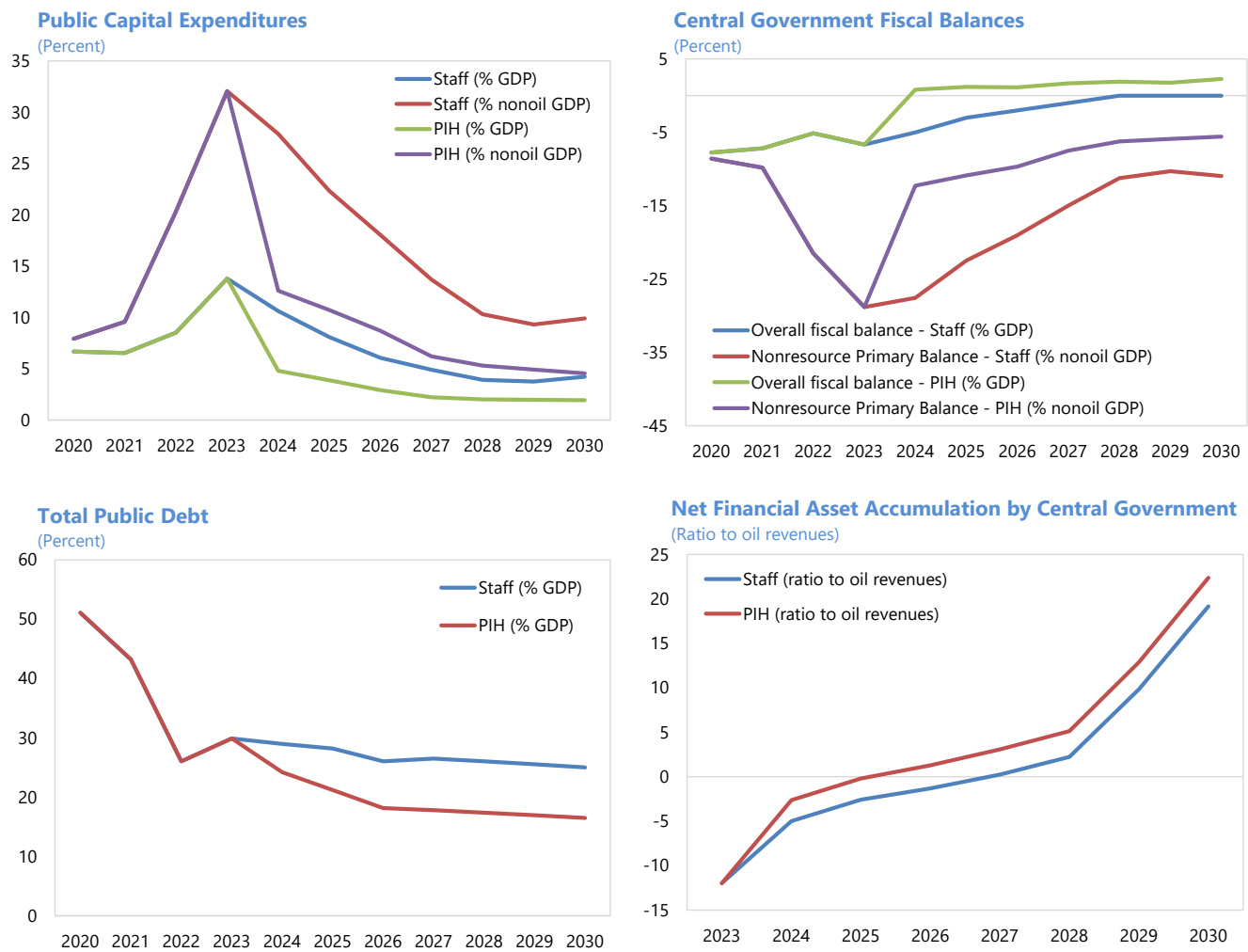
**As mentioned earlier, practical challenges with calibrating a path for the NRPB that is relatively stable over time suggests that this may not be a suitable fiscal anchor for Guyana, unless it is modified.** There are considerable practical difficulties in calibrating it—oil prices in world markets are highly volatile, and there is considerable uncertainty about the level of Guyana's commercially viable oil and gas reserves. This is further compounded by the uncertain impact on future global demand for oil and gas from the still-evolving policy measures adopted by countries throughout the world to combat climate change.

**Projected large savings accumulation in the NRF under the PIH approach suggests that a somewhat looser fiscal policy stance than that, implied by a modified PIH approach, would also be fiscally sustainable.** Simulations show that the modified PIH approach is consistent with substantial savings accumulation in the NRF, to 103 percent of GDP by 2028, based on IMF staff's projections of oil receipts and the operational rules for deposits and withdrawals from the NRF rules approved in 2021. The size of these projected savings leads staff to assess that a more gradual decline in capital spending, consistent with moving steadily towards a zero overall fiscal balance by 2028 (instead of overall fiscal surpluses over the next few years, as implied by the PIH rule), is also fiscally sustainable. Thus, staff's recommended path, as outlined in Figure 3, would allow high public capital spending but steadily declining over the medium-term. This path assumes that there are no overheating and absorptive capacity constraints. This path should allow the authorities to meet urgent public spending needs, while also being consistent with accumulation of substantial financial and resource wealth to help maintain living standards for the next generations.

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<sup>4</sup> The question of whether public investments should be excluded from spending rules or from budget balance targets is controversial in the literature. On balance, however, and as discussed in Ter-Minassian (2021), there may be a case for preferential treatment of public investment under a spending rule if certain conditions are met, namely (i) if fiscal sustainability is protected by a public debt rule; (ii) the country's infrastructure gap is large, as is the case in Guyana; (iii) the quality of public investments is guaranteed by sound systems of project appraisal, selection, monitoring, and evaluation; and (iv) the accounting regulations are effective in avoiding improper classification of current expenditures as investments.

**Figure 3. Guyana: Staff's Recommended Fiscal Policy Path**



Source: IMF staff calculations.

## Section III: Role of Supportive Fiscal Systems

**In general, supportive fiscal systems can be very helpful in attaining the broad objectives of fiscal policy.** These can include Medium-Term Fiscal Frameworks (MTFFs), Public Financial Management (PFM) systems, Fiscal Responsibility Laws (FRLs) and/or independent Fiscal Councils, and Sovereign Wealth Funds (SWFs). Supportive fiscal institutions and systems could effectively supplement a rules-based fiscal framework to ensure macroeconomic stability and long-term economic growth. A sound PFM management system, combined possibly with a FRL and/or an independent fiscal council, could enhance the credibility of the fiscal rule while strengthening the transparency and accountability of fiscal policy decisions. Building up strong political support for the MTFF, and a clear communications strategy to explain to the public the key elements of the government's fiscal strategy, would help to limit large and potentially destabilizing changes in expenditure policies over time.

**For Guyana, strengthening the public financial management (PFM) would enhance the growth impact of higher public spending.** The authorities have recently started to strengthen the PFM system, with support from development partners (e.g. the World Bank). However, additional elements of PFM need strengthening.

**In addition, bolstering public investment management capacity would also ensure that scaling up of public spending will yield the expected growth benefits.** In particular, a rolling MTFF, consistent with an expenditure rule, would facilitate assessment of the likelihood of meeting a floor on the overall fiscal balance under prudent and relevant macroeconomic, external, and policy assumptions. Public procurement plays a critical role in executing public investment projects and in determining the price, quality, and timeliness of public services. and bolstering public investment management capacity is critical to ensure that scaling up of public spending will yield the expected growth benefits. In this respect, standardizing the systems for the preparation, selection monitoring and implementation of public investment projects would help increase efficiency and scale up effectively public investment.

## Section IV: Role of a Sovereign Wealth Fund

**Sovereign Wealth Funds (SWFs) are widely used by resource-rich countries throughout the world to manage their resource wealth.** As Albino-War (2013) notes, they should be seen as complementary policy tools, not the main fiscal policy instrument. These funds are usually established to achieve one or more macro-fiscal objectives: (i) *stabilization*—to insulate the budget and the economy from volatile commodity prices; (ii) *savings*—to transfer wealth across generations or across time (e.g. pension funds), and (iii) *development*—to allocate resources to priority socioeconomic projects, based on appropriate medium-term fiscal framework and budgetary rules. As the budget is the main fiscal policy instrument, spending decisions of oil resources should be made within the budget framework and be guided by macroeconomic considerations and sound mechanisms to set expenditure priorities and allocate public resources.

**Guyana established its SWF in 2019, before oil production started, which is a clear sign of resolute goals and discipline since most countries introduced SWF legislation well after oil production.** Guyana passed the Natural Resource Fund Act on January 3, 2019 to establish a Natural Resource Fund (NRF). This is the SWF overseeing management of the nation's earnings from its oil resources. The Act has many excellent features required for accountability and transparency, and introduced a rule for



withdrawing funds from the NRF to the budget that aimed at facilitating a gradual scaling up of oil revenue-financed public spending, with a transition over the medium- to long-run towards a sustainable spending profile. Moreover, the rules clearly specify that annual transfers to the budget will be done only to finance capital spending, to support development needs, and savings for future generations. Amendments to the 2019 Natural Resources Fund Act were introduced in December 2021. These latter amendments set clear ceilings on withdrawals of oil revenues from the NRF for budgetary spending, with a progressively smaller proportion of the previous year's oil revenue deposits into the NRF being allowed to be transferred to the budget for public spending (Table 1). Subsequently the schedule of transfers to the budget have been amended again in January 2024, to allow for a more rapid transfer of funds to the budget. However, in the first few years, given the oil production profile, the 2021 and 2024 rules have similar results in terms of their revenue implications for the budget. Therefore, in this paper, we describe the 2021 rules, and use the model simulation and analysis done for the 2023 Article IV consultation. More specifically, the 2021 NRF rules implied that in any given year, US\$500 million can be withdrawn and then a declining percentage of what remains, starting with 75 percent from the second five hundred million; 50 percent from the third five hundred million; 25 percent from the fourth five hundred million; 5 percent from the fifth five hundred million, and then 3 percent from any amounts in excess of US\$2.5 billion.

**Table 1. Natural Resource Fund Oil Revenue Deposits and Transfers to the Budget**

Previous year's oil revenue deposits into the Natural Resource Fund, x	Amount transferred to the Budget
< US\$500 mn	x mn
US\$500 mn < x < US\$1000 mn	500 + 0.75*(x-500) mn
US\$1000 mn < x < US\$1500 mn	875 + 0.5*(x-1000) mn
US\$1500 mn < x < US\$2000 mn	1125 + 0.25*(x-1500) mn
US\$2000 mn < x < US\$2500 mn	1250 + 0.05*(x -2000) mn
US\$2500 mn < x	1275 + 0.03*(x-2500) mn

**The NRF Act does not represent a medium-term fiscal framework, which is still needed.** A laudable feature of the 2021 (or 2024) Natural Resource Fund Act is that the transfer of oil revenues to the budget is based on a clear and transparent formula that is easily understandable by the general public. However, the Act itself is not enough to substitute for a medium-term fiscal framework, as transfers of oil revenues to the budget are not yet closely integrated with budgetary financing needs in the context of an appropriate and effective medium-term fiscal anchor.

## Section V: Concluding Remarks

**Guyana is growing rapidly, and fiscal policy plays a critical role in ensuring that the country's wealth is managed effectively and equitably.** Oil production presents a momentous opportunity to boost inclusive growth and diversify the economy by addressing human development needs and infrastructure gaps. At the same time, it presents important policy challenges. In particular, the high volatility of oil prices makes it especially challenging to maintain macroeconomic stability in the face of external and terms-of-trade shocks. In this context fiscal policy has a crucial role to play, namely to (i) promote and maintain macroeconomic stability, (ii) safeguard the sustainability of public finances, (iii) ensure an equitable

intertemporal distribution of oil wealth across generations, and (iv) meet the economy's infrastructure and human capital needs while taking into account its absorption and institutional capacity constraints.

**The design of a suitable fiscal framework for Guyana should incorporate a number of important and complex considerations.** Stress tests carried out using the low-income country debt sustainability framework (LIC-DSF) in 2023 suggest that long-term fiscal and debt sustainability do not come under risk under plausible macroeconomic assumptions in the baseline scenario. However, long-term fiscal and debt sustainability could be affected if there are large and persistent adverse shocks to real GDP growth, exports, and/or commodity prices. Accumulation of savings under Guyana's Sovereign Wealth Fund (NRF) are rising and could provide a substantial buffer against such shocks. Over the short- and medium-term, however, issues of overheating, absorptive and institutional capacity constraints, and 'Dutch disease' concerns through inflationary pressures and real exchange rate misalignment concerns are likely to be more pressing policy challenges. In this context IMF staff recommended during the 2023 Article IV consultation the adoption of a comprehensive fiscal policy framework to guide spending decisions, based on a medium-term fiscal framework and updated public investment management and public financial management frameworks. Expenditure growth rules can also help with containing overheating pressures and capacity constraints. An in-depth analysis of development needs and existing absorptive and institutional capacity constraints on scaling up of public spending, together with proposed solutions, could help in formulating an appropriate expenditure rule. However, expenditure growth rules by themselves do not ensure intergenerational equity or long-term fiscal sustainability. Hence such a rule should be accompanied by a suitable fiscal anchor. Building up strong political support for the medium-term fiscal framework, and a clear communications strategy to explain to the public the key elements of the government's fiscal strategy, would help to limit large and potentially destabilizing changes in expenditure policies over time.

**Staff simulations show that a modified PIH approach could be consistent with meeting the authorities' ambitious public investment plans over the medium term, as long as there is a steady and significant decline in capital spending as a share of non-oil GDP over time.** Moreover, there are considerable practical and operational challenges in calibrating a path for the NRPB for Guyana consistent with some version of the PIH approach that is relatively stable over time - oil prices in world markets are highly volatile, and there is considerable uncertainty about the level of Guyana's commercially viable oil and gas reserves. This is further compounded by the uncertain impact on future global demand for oil and gas from the still-evolving policy measures adopted by countries throughout the world to combat climate change. Projected large savings accumulation in the NRF suggest that a somewhat looser fiscal policy stance than that implied by a modified PIH approach would also be fiscally sustainable. Staff hence recommends a more gradual decline in capital spending than that implied by this approach, consistent with moving steadily towards a zero overall fiscal balance by 2028 (instead of overall fiscal surpluses over the next few years, as implied by the PIH rule).

**Further institutional reforms could strengthen the fiscal policy framework to ensure that the country's oil wealth is managed effectively and equitably.** Supportive fiscal systems can be very helpful in attaining the broad objectives of fiscal policy. These include introducing a Medium-Term Fiscal Framework (MTFFs) and strengthening the Public Financial and Public Investment Management (PIM and PFM) systems. Finally, over the medium- to long-term, the establishment of a precautionary stabilization buffer could help to mitigate the impact of large oil price shocks.

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