



# GUYANA

July 2016

## 2016 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 2016 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 May 9, 2016 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 May 9, 2016, following discussions that ended on March 8, 2016, 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 April 25, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Guyana.

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

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## **IMF Executive Board Concludes Article IV Consultation with Guyana**

On May 9, 2016 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Guyana.

Real economic activity expanded by 3 percent in 2015. Lower export commodity prices and budget delays weighed down on activity, while the opening of two new large gold mines helped support growth. Consumer prices contracted by 1.8 percent in the twelve months ending in December 2015, reflecting lower import prices and a one-off increase in VAT exemptions. The overall non-financial public sector deficit narrowed to 0.2 percent of GDP in 2015 from 5.7 percent in 2014. Despite the slowdown, revenues as a share of GDP increased by 4.2 percentage points, buoyed by fuel excises (which were raised as the international oil price declined), and one-off increases in non-tax revenues. Expenditures as a share of GDP declined by 1 percentage point, driven by a 30 percent decline in capital expenditures due to election-related budget delays. The current account deficit narrowed from 10.8 percent of GDP in 2014 to 4.6 percent in 2015, as the steep decline in international oil prices more than offset lower commodity export prices. Gross international reserves stood at 3.6 months of imports at end-2015. Bank capital adequacy ratios appear comfortable (averaging 23.9 percent as of December 2015), but nonperforming loans have increased to 11.5 percent of loans at end-December 2015 from 6 percent at end-December 2013.

The macroeconomic outlook is generally positive for 2016 and the medium-term. Growth is projected at 4 percent in 2016, supported by public investment and two new large gold mines. Twelve-month inflation is expected to remain low at around 2.1 percent by year-end. The 2016 budget reverses the fiscal stance, envisaging an overall deficit of 5.5 percent of GDP, driven by a 4 and a 2.1 percentage point increase in the shares of capital and current spending in GDP, respectively. Revenues are projected to remain broadly flat. Lower oil prices improve the

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<sup>1</sup> 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.

outlook for the current account deficit, which is projected to remain at about 4½ percent of GDP in 2016, financed by investment inflows and donor-supported investment. Reserve cover is projected to increase to 3.8 months of imports at end-2016.

### **Executive Board Assessment<sup>2</sup>**

The Executive Directors commended the resilience of Guyana's economy, which continues to grow despite global headwinds. They noted, however, that challenges and risks remain, and encouraged the authorities to build up fiscal buffers, implement structural reforms, and strengthen the financial sector. Directors welcomed the positive medium term outlook underpinned by an environmentally sustainable and socially inclusive growth strategy.

Directors welcomed the marked improvement in the current account, while noting that Guyana remains vulnerable to changes in commodity prices due to its dependence on imported oil and the concentration of exports on a few commodities. They noted that the exchange rate appears to be broadly in line with fundamentals, and underscored that exchange rate flexibility should play a larger role in helping Guyana cope with external shocks.

Directors stressed the importance of fiscal consolidation in order to safeguard debt sustainability and preserve fiscal and external buffers while maintaining growth momentum. They recommended that fiscal consolidation efforts focus on moderating the growth of current expenditures, in particular transfers to public enterprises, so as to preserve space for public investment while protecting social spending. On the revenue side, efforts to broaden the revenue base and strengthen tax administration were encouraged. Directors welcomed the efforts to reform public enterprises, notably the sugar and electricity companies, in order to improve efficiency and reduce reliance on government support.

Directors encouraged the authorities to move toward greater economic diversification by advancing reforms to promote competition and improve the business climate. Given that the high costs of electricity, transportation and telecommunications have been longstanding impediments to growth, they supported well targeted public investment and liberalizing reforms to lower costs and raise productivity.

Directors noted that the largely concessional nature of debt contributes to resilience and should be preserved. They commended the authorities for taking a cautious approach in factoring in possible future oil income in their medium term fiscal plans.

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

Directors concurred that the monetary policy stance should remain accommodative, as lower prices for imported goods, including fuel, continue to ease inflationary pressures.

While noting that the banking sector appears well capitalized, Directors recommended heightened vigilance given the rise in nonperforming loans, as well as tightening of provisioning requirements and close monitoring of related party lending. They looked forward to a more granular analysis of financial sector challenges by the upcoming FSAP mission.

Directors stressed the importance of strengthening the anti-money laundering and combating the financing of terrorism framework. They noted that remaining deficiencies amplify the vulnerability to de-risking, which will require greater international effort to address. They urged the prompt implementation of the action plan agreed with the Financial Action Task Force.

<b>Guyana: Selected Economic Indicators</b>					
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
				est.	proj.
(Annual percentage change unless otherwise indicated)					
<b>National income and prices</b>					
Real GDP growth	4.8	5.2	3.8	3.0	4.0
Inflation, average	2.4	2.2	1.0	-0.3	0.1
Inflation, end of period	3.5	0.9	1.2	-1.8	2.1
REER	3.2	0.2	-0.2	12.2	...
<b>Money and credit</b>					
Broad money	11.5	3.8	5.2	1.5	11.7
Credit to the private sector	20.1	14.5	9.1	6.2	6.0
Average lending rate	11.1	11.2	10.9	10.6	...
(In percent of GDP unless otherwise indicated)					
<b>Nonfinancial public sector finances</b>					
Revenue and grants	25.6	24.6	23.6	28.1	28.8
Expenditure	30.2	28.3	29.3	28.3	34.3
Primary balance 1/	-3.7	-2.9	-4.7	0.8	-4.5
Overall balance after grants	-4.6	-3.6	-5.7	-0.2	-5.5
Total public sector gross debt 2/	62.5	57.2	51.2	48.2	51.7
<b>External sector</b>					
Current account balance 3/	-11.6	-13.3	-10.8	-4.6	-2.5
FDI, net	10.3	7.2	8.3	3.8	5.6
Gross official reserves (months of imports)	4.1	4.0	3.5	3.6	3.9
External debt	47.7	41.8	39.5	36.1	36.0
<b>Memorandum item:</b>					
Nominal GDP at market prices (US\$ million)	2,854	2,990	3,078	3,164	3,335
Sources: Guyanese authorities; Information Notice System; and Fund staff estimates and projections.					
1/ Including grants and excluding the sugar factory Skeldon.					
2/ Including PetroCaribe.					
3/ Including official transfers.					



# GUYANA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

April 25, 2016

### KEY ISSUES

**Background.** While economic activity was supported by large new mining investments, growth slowed to 3 percent in 2015, reflecting delayed budget implementation and lower commodity prices. Inflation is expected to remain low. The decline in oil prices narrowed the current account deficit. The authorities plan to stimulate growth through increased public investment in 2016 and over the medium-term.

**Focus of the discussions.** Discussions centered on strategies to maintain fiscal and debt sustainability while boosting growth, and on strengthening financial sector resilience.

#### Key policy recommendations:

- **Preserving macroeconomic stability.** The prospect of large fiscal deficits throughout the medium-term will lead to a sizable increase in public debt. Sustainability concerns are mitigated by the largely concessional nature of debt, but fiscal consolidation is needed to stabilize the debt ratio. To preserve fiscal and external buffers, staff recommended tightening fiscal policy by reining in current expenditure and transfers to public enterprises. Monetary policy should remain supportive. Exchange rate flexibility should play a larger role in offsetting the effects of commodity price shocks and preserving external reserves.
- **Strengthening financial sector resilience.** Heightened vigilance is warranted due to increases in nonperforming loans, and staff recommended tightening: (i) provisioning requirements; (ii) large exposure limits; (iii) restrictions on related lending; and (iv) loan classification rules. Staff also stressed the importance of an AML/CFT framework that is fully compliant with international standards.
- **Structural policies to raise productivity and support strong and inclusive growth.** Reforms to the sugar sector, renewable energy projects, improvements to the business climate, and increased investment in infrastructure and human capital can remove structural bottlenecks, make growth more sustainable, broad based, and its benefits spread more widely.

**Approved By**  
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(WHD) and  
Andrea Richter  
Hume (SPR)

The team, comprising Marcos Chamon (head), Jacques Bouhga-Hagbe, Joshua Charap and Kalin Tintchev (all WHD), visited Guyana during February 24–March 8. Veronica Ramcharan participated in the meetings and Otaviano Canuto (both OED) also joined for the policy discussions. The team met with Finance Minister Winston Jordan, Central Bank Governor Gobind Ganga, other senior government officials, representatives of the private sector, labor community, and members of the political opposition. Research support was provided by Chuan Li and Franz Loyola; editorial support was provided by Heidi Canelas and Edward Moreno (all WHD).

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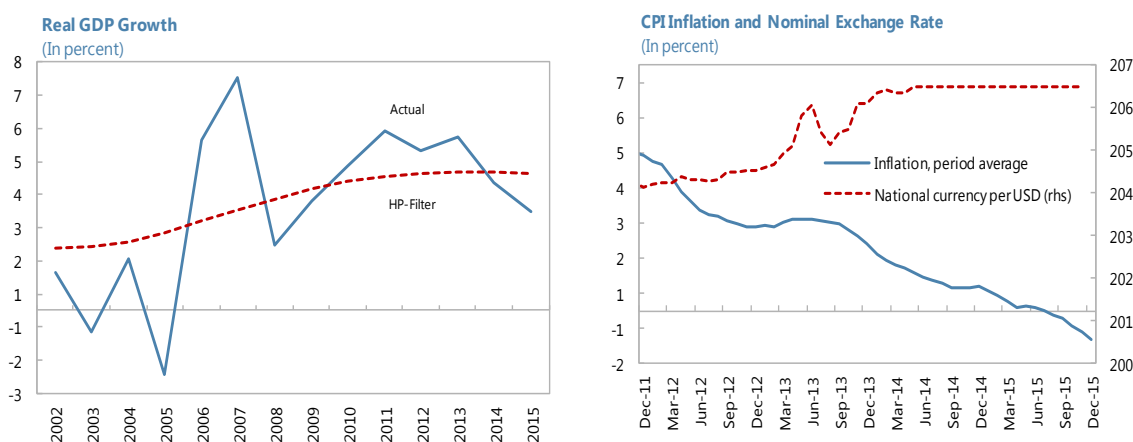
## BACKGROUND

- 1. Guyana has experienced a decade of uninterrupted growth.** Nevertheless, per capita income remains the lowest in the English-speaking Caribbean and the debt burden, though low by Caribbean standards, remains elevated (Figure 1). The economy depends on the export of six commodities—sugar, gold, bauxite, shrimp, timber, and rice—which represent nearly 40 percent of GDP. In 2015, Exxon Mobil made a significant oil discovery off the coast of Guyana, on the order of 700 million barrels. Commercial production is not expected within the medium-term. Public debt reached 186 percent of GDP at the HIPC completion point at end-2003. In March 2007, the IDB, Guyana's principal donor, canceled its debt of nearly US\$470 million (21 percent of GDP), which, along with other debt relief, brought the debt-to-GDP ratio to 65 percent by 2009. A strong commitment to macroeconomic stability reduced debt to 49 percent of GDP as of 2015.
- 2. The opposition won the May 2015 general elections leading to the first change of government in 23 years and the second since independence in 1966.** The government faced a legislative impasse after the ruling People's Progressive Party/Civic (PPP/C) lost its parliamentary majority and faced a no-confidence vote. The National Assembly was suspended in November 2014 and dissolved three months later. Elections in May 2015 were won by a coalition of A Partnership for National Unity–Alliance for Change (APNU-AFC), which formed a majority government. The political stand-off and subsequent elections significantly delayed budget implementation.
- 3. The authorities have an ambitious investment strategy for environmentally sustainable and socially inclusive growth.** Improvements in transportation and telecommunication infrastructure and renewable energy projects aim to boost productivity, integrate remote regions, facilitate economic diversification, and ease key impediments to growth. If well implemented, these investments can stimulate economic activity, provide a durable increase in competitiveness, and ensure that the benefits of growth are more broadly distributed.
- 4. Since the completion of the PRGF in 2006, the authorities' policies have been broadly in line with the Fund advice.** Initially, technical assistance focused on VAT implementation, public financial management, and statistics. These reforms contributed to the fiscal consolidation efforts that have helped reduce the debt-to-GDP ratio. In recent years the Fund has recommended further fiscal consolidation to help reduce the debt and rebuild policy buffers. The authorities view their fiscal stance as consistent with their objective of reducing the significant infrastructure deficit and addressing unmet social needs. The 2013 Article IV recommended ensuring that the Amaila Falls Hydroelectric Project remains financially and economically viable. The authorities are reviewing that project. As it may no longer be pursued, it is not considered in the baseline projections. The Fund also recommended boosting the efficiency of public enterprises. The authorities are pursuing these efforts, notably with regard to the electricity and sugar companies.

5. **The most recent safeguards assessment of the Bank of Guyana (BOG) was completed in May 2007.** It made recommendations to strengthen key functions, including internal audit and reserves management, which were implemented at the time. The BOG is audited by the Audit Office of Guyana and the audit reports state compliance with international standards. The audited financial statements are published.

## RECENT DEVELOPMENTS

6. **Guyana's economy continues to grow, despite headwinds.** The decline in global commodity prices affected main commodity sectors. The sharp decline in public investment spending due to the delayed budget and the slowdown in the commodity sectors had a knock-on effect on the non-tradable sector, especially construction, wholesale and retail trade. Notwithstanding those shocks, real GDP grew by 3 percent in 2015, down from 3.8 percent in 2014 and an average of 5 percent during 2010-13 (Text Figure). Growth was boosted by the opening of two new large gold mines in the last quarter of 2015 (in their absence, growth in 2015 would have been 2.3 percent). Consumer prices contracted by about 1.8 percent (y/y) as of December 2015, reflecting lower import prices and a one-off increase in goods exempted from the VAT.



7. **The steep decline in international oil prices narrowed the 2015 current account deficit, while the balance of payments deficit remained due to weaker capital inflows.** Lower prices reduced the cost of oil and fuel imports, which more than offset the effect of lower commodity export prices and narrowed the current account deficit to an estimated 4.6 percent in 2015 from 10.8 percent in 2014 and 13.3 percent in 2013. The overall balance was broadly unchanged, reflecting lower disbursements from multilateral donors and from the PetroCaribe agreement.<sup>1</sup> Despite a loss of international reserves, the lower oil import bill allowed reserve coverage of imports to remain at about 3½ months as of end-2015.

<sup>1</sup> Venezuela provides concessional long-term financing for oil importers in the region through PetroCaribe agreements. In July 2015, Venezuela suspended the agreement with Guyana due to revival of a longstanding border dispute.

8. **The fiscal balance improved in 2015, partly reflecting one-off factors.** The overall non-financial public sector (NFPS) deficit narrowed to 0.2 percent of GDP in 2015 from 5.7 percent in 2014, and 3.6 percent in 2013. The primary balance switched from a 4.8 percent deficit in 2014 to a 0.8 percent surplus in 2015. Despite the economic slowdown, revenue as a share of GDP increased by 4.2 percentage points, buoyed by fuel excises (which were raised as the international oil price declined), and a one-off increase in non-tax revenue from statutory agencies.<sup>2</sup> Capital expenditures declined by nearly 30 percent compared to 2014, reflecting the late start of the public sector investment program. Transfers to the loss-making state-owned sugar company (GuySuCo) remain a drag on fiscal performance.

9. **The 2016 budget reverses the 2015 contractionary fiscal stance.** The authorities plan to accelerate the implementation of the public sector investment program and an early budget was submitted to parliament, which envisages an increase in total NFPS expenditure of about 6 percent of GDP. This increase is mainly driven by a 4 percentage point increase in the share of capital spending in GDP. While this increase may seem large compared to the 2015 low base, due to the delayed budget, it corresponds to a 1.5 percentage point of GDP increase in the share relative to 2014. The share of current expenditure in GDP will also rise by 2.1 percentage points in comparison to 2015, reflecting a 1.5 percentage point of GDP increase in transfers as well as increases in wages and goods and services. To expedite project approval and execution, the authorities have streamlined the procurement process by updating the threshold values on projects that can be approved by individual agencies.

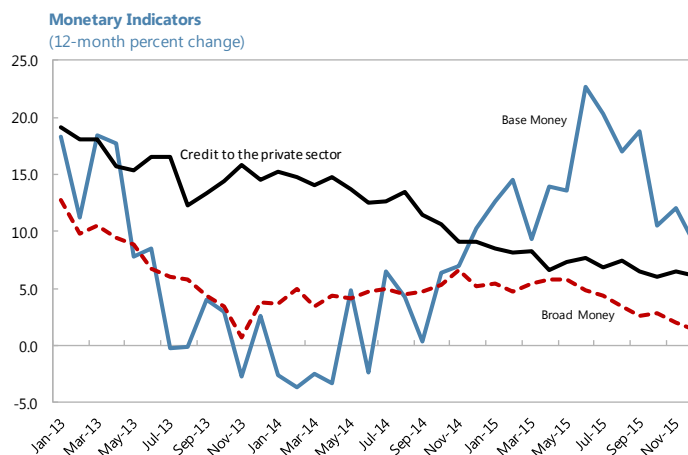
10. **The budget projects a moderate increase in revenue supported by improved tax administration.** Revenues are projected to remain broadly stable as a share of GDP in 2016. Some of the measures envisaged will lower revenues, notably exemptions from excise taxes for newer vehicles, a 10 percent increase in the threshold for nontaxable income, and a decline in fuel excise taxes amounting to a 10 percent reduction in gasoline prices. The revenue decline is expected to be partially offset by a planned removal of some discretionary tax exemptions. The government also intends to introduce measures to improve tax efficiency, enforcement and compliance in order to boost revenue.

11. **The monetary policy stance has remained accommodative, but growth in broad monetary aggregates decelerated in line with the slowdown in economic activity.** The Bank of Guyana (BoG)'s monetary policy goals are price stability and provision of adequate liquidity for credit expansion and economic growth. The BoG targets broad money, and manages liquidity through open market operations. Growth in broad money (y/y) slowed to 1.5 percent in 2015 from 5.2 percent in 2014. Credit had grown at a vigorous pace but still broadly in line with economic growth and financial deepening. Credit to the private sector expanded at a slower pace of 6.2 percent in 2015, down from 9.1 percent in 2014, mainly on account of reduced

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<sup>2</sup> In 2015, the government transferred large excess cash balances from statutory agencies (the Guyana Geology and Mines Commission and the National Frequency Management Unit) and the Lotto Fund to its account, amounting to about 1.4 percent of GDP, and resulting in a large one-off increase in non-tax revenues.

lending to businesses. Base money grew by 9.1 percent in 2015, driven mainly by banks' increasing excess reserves. The benchmark 91-day Treasury bill rate increased to 1.92 percent at end-December 2015 from 1.67 percent a year earlier. The real interest rate turned positive in 2015 and is higher than the nominal rate due to deflation. In the current environment of ample bank liquidity, foreign exchange intervention can play a stronger role in the management of liquidity. The decline in international oil prices tempered demand for foreign exchange in 2015 and the exchange rate versus the U.S. dollar remained broadly unchanged, despite limited central bank intervention.



12. **Despite rising nonperforming loans (NPLs) and declining profitability, bank capital adequacy ratios (CARs) appear comfortable.** NPLs increased to 11.5 percent of loans at end-December 2015 from 6 percent at end-December 2013, and are concentrated in the business sector. Returns on assets fell from 2.7 percent at end-2014 to 0.6 percent at end-December 2015. The effects of higher NPLs on bank CARs have been cushioned by slower accumulation of risk-weighted assets, delayed provisioning of NPLs, and strong noninterest income (fees and commissions). CARs have remained well above the 8 percent regulatory minimum (averaging 23.9 percent as of December 2015). However, provisioning has not kept pace with NPLs, declining from 69.5 percent of NPLs at end-December 2013 to 38 percent at end-December 2015 (regulations only require 20 percent provisioning when the loan is secured by collateral). Related party lending is a source of vulnerability.

13. **De-risking by global banks has been limited so far.** Close to half of Guyana's correspondent banking providers originate from the Caribbean. Only two of Guyana's banks have experienced terminations on their corresponding bank relationships, which took place prior to 2013. However, there is a concern that such losses could occur with short notice. Two of the largest banks are foreign-owned, which may attenuate their vulnerability to de-risking.

14. **The parliament passed amended AML/CFT legislation but further actions are needed to address remaining deficiencies.** Guyana has taken steps toward improving AML/CFT compliance, including by enacting the AML/CFT Amendment Act in 2015. Nevertheless, the FATF determined that strategic deficiencies remained, notably implementing an adequate framework for freezing assets, establishing an operational financial intelligence unit, and performing effective customer due diligence. In response, an amended AML/CFT bill was passed on December 2015, which included redefining 'beneficial ownership' and requiring customer identity verification when establishing a business relationship, among other measures. However, the

framework continues to fall short of the action plan agreed with the FATF, including the judicial discretion in freezing assets.

## OUTLOOK AND RISKS

### 15. **Growth is projected to increase, supported by public investment and gold output.**

In the baseline scenario, growth increases to 4 percent in 2016, supported by the recovery in public investment and the level effect from the gold mines that began production in late 2015, and are projected to contribute 1.7 percentage points to growth. Higher than expected gold output may lead to even higher growth. With the outlook for commodity exports subdued, medium-term prospects hinge upon productivity-enhancing reforms to diversify the economy, improve the business environment, and increase private investment. Growth is projected at 3.8 percent during 2017–21—broadly in line with staff’s assessment of potential growth—as public investment continues to provide stimulus and alleviate key infrastructure bottlenecks, which should also facilitate economic diversification. Lower electricity prices, and other mining projects should also help sustain growth once gold production in the two new mines stabilizes. Inflation turns positive in 2016 but remains modest due to lower prices for imported goods, including fuel.

16. **The external balance will improve in line with relatively low fuel prices and rising commodity export prices.** Despite the subdued outlook for rice and other non-gold commodity exports, lower oil prices will improve the outlook for the underlying current account deficit, which is projected to remain at 4½ percent of GDP in 2016.<sup>3</sup> The terms of trade are expected to improve further in 2016, then remain broadly constant over the medium term. The revival of a long-standing border dispute with Venezuela led to the cessation of in-kind trade of rice-for-oil at above-market rice prices in July 2015, which will lead to a decrease in the value of rice exports by about 2 percent of GDP. The current account deficit is projected to increase in the medium-term, averaging about 7.2 percent of GDP in 2017–21, financed by the resumption of investment inflows and donor-supported investment. The overall balance is expected to improve in the medium term, leading to an increase in reserve cover from 3½ months at end-2015 to about 5 months at end-2021.

17. **A sustained expansionary fiscal policy will lead to an increase in public debt.** The authorities indicated that the fiscal deficit is expected to remain between 5 and 6 percent of GDP over the medium term. Under that fiscal stance, domestic financing needs will remain high, and the debt-to-GDP ratio is projected to rise from about 49 percent in 2015 to 60 percent by 2021. While the risk of debt distress is estimated to remain moderate in the medium-term, it will continue to rise in the absence of fiscal consolidation, which is needed to stabilize the debt-to-GDP ratio. Adverse growth and exchange rate shocks can worsen the debt dynamics.

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<sup>3</sup> Approximately \$40 million in grants from the European Union are projected for 2016, which will improve the current account.

18. **Risks to the outlook are tilted to the downside (see RAM, Table 8).** The prices of Guyana's commodity exports tend to remain depressed with sluggish global growth, a continued slowdown in China, and a strong U.S. dollar. Heightened financial stability risks stemming from the slowdown in domestic activity and the large increase in NPLs warrant close monitoring. De-risking remains a major source of concern in Guyana, and throughout the Caribbean. On the upside, higher than expected gold production could increase output and exports. And sooner than expected development of Guyana's recently-discovered oil deposits would strengthen its energy security and broaden its sources of fiscal and export earnings.

## POLICY DISCUSSIONS

### A. Fiscal Policy

*Discussions centered on strategies to maintain fiscal and debt sustainability while boosting growth. The expansionary fiscal policy stance is depleting buffers that should be saved for the event of adverse external shocks. The growth in current expenditures should be moderated, the tax base broadened, and non-concessional financing avoided.*

19. **Staff recommended moderating current expenditure growth to avoid crowding out space for public investment.** Non-interest current expenditures are projected to rise by 16.0 percent in 2016, driven by double-digit increases in wages, transfers and goods and services. Staff cautioned that increases in current expenditures are difficult to unwind, particularly in a low inflation

environment. A more moderate increase in public sector wages would pose smaller risks and would also attenuate possible competitiveness pressures from spillovers to wages in the private sector. Wage growth moderation alone

cannot yield large savings. Staff also recommended a reduction in transfers, particularly to public enterprises, whose reform could underpin a fiscal consolidation effort. Narrowing the deficit by 1.5 percent of GDP in 2017–21 through a reduction in current expenditures would largely stabilize the debt, reducing the debt in 2021 to 53 percent of GDP, compared to 60 percent in the baseline scenario. Staff recommends that consolidation in order to preserve buffers.

20. **Staff welcomed the progress on public enterprise reforms.** Transfers to the Guyana Sugar Corporation (GuySuCo) were equivalent to 1.8 percent of GDP in 2015 and are budgeted at about 1.3 percent of GDP for 2016. Staff urged the authorities to adopt a restructuring plan for the sector that will improve cost efficiency, productivity, and alternative revenues streams, drawing upon the reforms proposed by the Commission of Inquiry. The initial steps taken in that

**Active Scenario**  
(In percent of GDP)

	Est.		Projections					
	2014	2015	2016	2017	2018	2019	2020	2021
<b>Baseline</b>								
Real GDP growth (in percent)	3.8	3.0	4.0	3.9	3.8	3.8	3.8	3.8
Overall balance after grants (percent of GDP)	-5.7	-0.2	-5.5	-5.5	-5.0	-5.0	-5.0	-5.0
Capital expenditure (percent of GDP)	8.0	4.7	7.5	7.4	8.2	8.2	7.9	7.8
Public sector debt-to-GDP	51.9	48.6	52.3	53.8	53.9	56.3	57.9	59.9
<b>Active Scenario</b>								
Real GDP growth (in percent)	3.8	3.0	4.0	3.3	3.6	3.8	3.8	3.8
Overall balance after grants (percent of GDP)	-5.7	-0.2	-5.5	-4.0	-3.5	-3.5	-3.5	-3.5
Capital expenditure (percent of GDP)	8.0	4.7	7.5	7.4	8.2	8.2	7.9	7.8
Public sector debt-to-GDP	51.9	48.6	52.3	52.3	51.0	52.0	52.4	53.2

direction are welcome. The scope and pace of reform should take into account social implications. Staff noted the improved financial performance of Guyana Power and Light (GPL), which no longer requires subsidies for its operations. However, most of those gains stem from low oil prices, which could prove transitory. Further progress to reduce transmission and commercial losses will help place GPL on a more sustainable financial footing.

21. **The simplified budgetary process for public procurement by individual agencies brings flexibility, but should not compromise project evaluation and internal controls.** Staff stressed the importance of maintaining the quality of public investment by carefully selecting projects, taking into account their financial feasibility, impact on productivity, and social considerations.

22. **Staff welcomed plans to improve revenues through better enforcement but cautioned against counting on gains before they materialize.** Since the revenue measures in the 2016 Budget are likely to reduce revenue, further tax exemptions should not be granted in expectation of improved revenue collection, especially before achieving concrete results. Broadening the tax base by reviewing tax exemptions would help raise revenues, and staff welcomes plans to review the VAT with a view to improve its effectiveness.

23. **The largely concessional nature of the debt is an important source of resilience, and staff cautioned against increases in non-concessional debt.** While sustained deficits will lead to an increase in debt over the medium-term, sustainability concerns are mitigated provided debt remains financed mostly in concessional terms. The projected deficits will be financed with a mix of concessional external funding and grants, and domestic borrowing. External financing of about 5½ percent of GDP, in line with recent historical experience excluding PetroCaribe, is expected. Domestic debt consists of short-term Treasury Bills. The authorities envisage issuing longer-term bonds with a view to developing domestic capital markets. Staff supports those plans, which can also help the National Insurance Scheme match its liability profile, but cautions that significant increases in domestic borrowing could crowd out credit to the private sector, raise domestic interest rates, and have implications for growth. Staff welcomes the authorities' intentions to continue to refrain from non-concessional external borrowing.

24. **Staff welcomes the authorities' exclusion of possible future oil income from their medium term plans.** The recently discovered deep water oil fields have relatively high extraction costs. Production may not be commercially viable if oil prices remain low. Exploration is proceeding, but oil revenues are not likely to materialize in the medium-term, and authorities have not factored in such income in their plans. Staff welcomes this cautious approach, and the authorities' interest in setting-up a fiscal framework for handling eventual oil revenues following best practices. The IMF Board Paper on Macroeconomic Policy Frameworks for Resource-Rich Developing Countries can provide guidance for these efforts.<sup>4</sup> Staff noted that the Fund stands

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<sup>4</sup> Available at: <https://www.imf.org/external/np/pp/eng/2012/082412.pdf>.

ready to help develop the institutional capacity and supportive infrastructure to implement fiscal rules that would facilitate a prudent use of mineral resource revenues.

### ***Authorities' views***

25. **The authorities stressed their plans to strengthen tax administration.** While they acknowledged that some tax measures approved in 2015 and envisaged for 2016 would decrease revenue, they expect the effect to be small and offset by improvements in tax administration. The authorities also noted that they expect stronger growth over the medium-term, which will raise revenue. The authorities also indicated their wish to have technical advice from staff and signaled their intent to solicit CARTAC support to conduct a detailed review of the application of the VAT since its inception to present with a view of benefitting from the resulting recommendations.

26. **The authorities noted that the large increase in current expenditure is due to one-off reclassification changes and an adjustment in wages.** In respect of the former, they clarified that the increase in transfers was due largely to a consolidation of expenditure items of constitutional agencies into a single category and higher capital expenditure at public enterprises, while the increase in spending on other goods and services could be viewed as a one-off change. As for the latter, they pointed out that wage growth will moderate in the future.

27. **The authorities remain committed to restructuring public enterprises to reduce their reliance on government support.** The restructuring of GuySuCo aims to reduce inefficiencies and place operations on a financially sustainable footing. One underperforming sugar estate has been targeted for closure and planned budget transfers for 2016 have been reduced by 25 percent. The company intends to transition to a new business model that would ensure its long-run viability, drawing upon the Commission of Inquiry's recommendations. With regard to the public utility GPL, a recent network modernization project has reduced some transmission losses; further progress is expected under a new IDB/EU project. Lower oil prices have reduced electricity generation cost and tariffs ensure cost recovery.

28. **The authorities indicated that they would continue to refrain from non-concessional external borrowing, and expressed interest in developing domestic debt instruments.** The authorities agreed that major public investment projects should continue to be donor financed on concessional terms. They also intend to mobilize private sector funding, including through well designed private public partnerships. The authorities expressed interest in developing long term domestic debt instruments with a view to developing financial markets and mobilizing domestic savings. In this regard, technical advice from staff on debt market development would be welcome. The authorities took note of staff's view that domestic borrowing should be pursued with caution as it could raise the interest burden and crowd out private investment. They also reiterated that they are not factoring in possible future oil income in their medium-term plans.



## B. External Stability

29. **EBA-based estimates suggest that the current account is broadly in line with its norm and that the REER is broadly in line with fundamentals** The real effective exchange rate (REER) appreciated by approximately 18 percent during July 2014–January 2016 and export growth has slowed. The underlying current account is projected to be broadly unchanged in 2016, with the loss of rice exports to Venezuela—a permanent shock—offset by higher gold exports. External reserves appear to be adequate under standard metrics, including when measured against the metric for Small Island Developing States (SIDS) states. Staff noted that while reserves are projected to grow, this is predicated on low oil prices and there is a need to build buffers to reduce vulnerability to adverse shocks. For example, if the price of oil were to rise to 60 dollars per barrel, ceteris paribus, reserve cover would dip below 3 months of imports in 2016 and 2017. Staff’s assessment of the external position, drawing on model-based estimates and judgment, is that it is broadly in line with fundamentals but vulnerable to downside risks. Staff’s proposed fiscal measures would help preserve external buffers and partly unwind the REER appreciation.

30. **De facto exchange rate flexibility would soften the impact of terms of trade shocks.** Given limited nominal exchange rate flexibility, a strong U.S. dollar contributes to Guyana’s real exchange rate appreciation. Recent adverse shocks to export commodity prices were offset by lower oil prices, attenuating the BOP impact of the former. Guyana remains vulnerable to large terms of trade shocks given its dependence on imported oil and the concentration of its exports on a few commodities. The exchange rate regime is a de facto stabilized arrangement, with very limited movements even in the face of large external shocks. Staff noted that exchange rate flexibility should play a larger role in facilitating adjustment to external shocks, mitigating their effect on growth, and safeguarding reserves. Exchange rate flexibility, supported by appropriate fiscal and monetary policies, can help maintain the current account deficit at a safer level, reducing external vulnerabilities.

### ***Authorities’ views***

31. **The authorities noted that the exchange rate is market determined.** Exchange rate stability reflects the confidence that market participants have in the currency and the economy needs that confidence. They also noted that over the past year, exchange rate depreciation was modest, with the central bank making net purchases of foreign exchange.

## C. Monetary Policy

32. **With inflationary pressures muted, the monetary policy stance should remain accommodative.** Lower prices for imported goods, including fuel, continue to restrain inflation despite the expansionary fiscal policy. Monetary policy has traction, with private credit playing an important role in the monetary transmission mechanism (see SIP). With the implementation of the new credit reporting act, banks will gradually have access to better information on borrower’s creditworthiness, which should boost high-quality lending, help reduce lending rates, and reduce

banks' excess reserves. As long as inflationary pressures remain contained, a more accommodative monetary policy stance, with base and broad money growing above nominal GDP, remains appropriate. Such a stance, combined with an effective credit rating system and other financial sector reforms, would support lending and growth. However, the authorities should stand ready to tighten monetary conditions if inflationary pressures arise.

### ***Authorities' views***

33. **The authorities agreed that the monetary policy stance should remain accommodative.** They will continue to monitor movements in international prices and their impact on inflation and growth. In addition to open market operations, they plan to manage liquidity through foreign-exchange market intervention.

## **D. Strengthening Financial Sector Resilience**

34. **The financial sector is dominated by commercial banks.** There are three foreign banks and three local banks, whose combined assets correspond to about 70 percent of financial sector assets, and are equivalent to 68 percent of GDP. The largest bank is Trinidad-based, followed by a domestic bank, accounting for 40 and 22 percent of commercial bank assets, respectively. That domestic bank plays a relatively large role in lending to businesses, and is the bank with the highest share of NPLs. Among non-bank financial institutions, the New Building Society (NBS), a deposit taking institution that focuses primarily on mortgage loans, is the largest entity accounting for about 7 percent of financial sector assets and over a quarter of non-bank financial institution assets.

35. **Vulnerabilities to foreign exchange and interest rate risks appear limited.** A depreciation of the exchange rate would improve the financial position of the overall banking system since banks in aggregate carry net long positions in foreign exchange (84 percent of capital and reserves as of December 2015). Interest rate risks are mitigated by banks' ability to adjust interest rates on existing loans, although a higher interest rate burden on debtors can increase credit risk. However, banks are exposed to credit risk in their CARICOM securities. Stress tests conducted by the authorities also suggest that the weaker banks are also vulnerable to downgrades on their investment portfolio.

36. **Banks remain well capitalized, but heightened vigilance is warranted due to increases in NPLs.** Since the 2006 Financial Sector Assessment Program (FSAP), the authorities have brought insurance companies and the NBS under central bank supervision. Staff supports plans to also include credit unions under central bank supervision. Banking system aggregate capital appears well positioned to absorb an increase in provisioning up to the levels observed prior to the recent rise in NPLs without breaching the prudential threshold of 8 percent, but individual banks with higher NPLs have weaker buffers. While all banks meet provisioning requirements, only 20 percent provisioning is required when the loan is secured by collateral. This exclusion is sensible when risks are assessed in isolation. But collateral can be difficult to

seize. And from a macroprudential perspective, there is a concern that its value may decline following aggregate or sectoral shocks, suggesting a case for tighter requirements.

37. **Staff encouraged the authorities to continue to strengthen financial sector supervision.** Given risks stemming from loan concentration, related party lending, potential loan classification weaknesses, collateral valuation and potential challenges in realizing collaterals, staff recommended tightening: (i) provisioning requirements; (ii) large exposure limits; (iii) restrictions on related lending; and (iv) loan classification rules. In addition, the stress testing toolkit could be expanded to include shocks to loan collateral values and also take into account inter-linkages among economic sectors, borrowers, and financial entities. Finally, staff argued for improved coordination of supervision of insurers and banks within the same business group. Risks from global banks' de-risking activity should continue to be monitored. An FSAP mission will visit Guyana in May, and provide a more granular analysis of financial sector challenges and assist the authorities with strengthening the prudential toolkit.

38. **While recent steps towards strengthening the Anti-Money Laundering and Combating the Financing of Terrorism framework are welcome, the authorities should address remaining deficiencies promptly.** In particular, the authorities are urged to accelerate the implementation of the action plan agreed with the Financial Action Task Force.

#### ***Authorities' views***

39. **The authorities will continue to monitor closely the strength of the financial system and reforms will be guided by the findings of the forthcoming FSAP mission.** In the meantime, they will continue their risk-based approach to onsite inspection of banks. They have already urged banks to reduce NPLs to no more than 5 percent and increase provisioning. Their financial stability assessments will continue to be published, including a summary of banks' stress tests results. They will continue monitoring global banks' de-risking decisions and are open to supporting potential solutions discussed with CARICOM. The authorities urged the Fund to actively support efforts to find a solution to this pressing issue. Reforms to the macro-prudential framework, including on the stress-testing framework, will be guided by the FSAP findings.

40. **The authorities plan to pass the revised draft insurance act by end-2016.** This act, which was prepared with technical assistance from the World Bank, aims to correct regulatory and supervisory failures that were highlighted by CLICO's bankruptcy.

41. **The authorities plan to upgrade the AML/CFT framework to international standards in the first half of 2016.** The authorities have received technical assistance from the World Bank on this matter. The authorities are exerting efforts to fully address all deficiencies identified by the FATF and implement the agreed action plan.

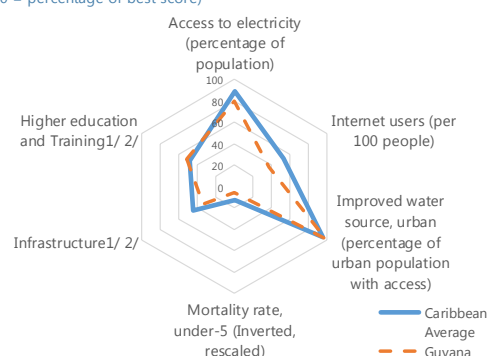
## E. Structural Policies to Raise Productivity and Support Strong and Inclusive Growth

42. **The mission welcomed authorities' focus on promoting inclusive growth through improvements in infrastructure, human capital, and financial inclusion.** Guyana has made considerable progress in reducing many dimensions of extreme poverty, and achieved most of its MDGs. But its Human Development Index remains low (at 0.636, making it the 124th country in the rankings). Integrating remote areas in the hinterland through improvements in transportation, access to electricity, social services and agency banking will help spread the benefits of growth and reduce poverty, given its strong regional dimension.

43. **There is scope for productivity-enhancing reforms in key sectors.** Staff noted the importance of lowering production costs in the sugar and rice sector given their high social impact and deteriorating market outlook. The mission pointed out that Guyana's extensive renewable energy resources could help achieve a durable reduction in electricity costs, which are among the highest in the region (Annex IV). This could strengthen competitiveness by promoting value added industries. Improving the connectivity of small green technology electricity generators to the grid could help increase supply and reduce energy losses. Staff also stressed the potential of business outsourcing, telecommunications and ICT services as other areas for diversification. Population aging will put pressure on the National Insurance Scheme. Increasing the statutory retirement age can help place its finances on a more sustainable financial footing, and also contribute to a higher potential output.

44. **The mission encouraged the authorities to further strengthen the business climate in priority areas.** The World Bank's 2015 Doing Business Report ranked Guyana 137th out of 189 countries in terms of ease of doing business. Staff noted several areas in which Guyana lags regional peers, notably access to electricity and credit, and resolving insolvencies. The 2015–16 World Economic Forum's Global Competitiveness Report ranked Guyana 121st out of 140 countries in terms of competitiveness, noting weaknesses in transport infrastructure, electricity and telecommunications, institutional quality, ICT, and innovation. The public investment program can help relieve structural bottlenecks such as transportation and electricity that have long been identified as impediments to growth and economic diversification.

**Infrastructure, Education, and Health**  
(100 = percentage or best score)



### **Authorities' views**

45. **The authorities outlined their strategy for environmentally sustainable and socially inclusive growth.** They reiterated their commitment to renewable energy projects, noting a recent memorandum of understanding with a private company for a 25 megawatt wind farm. Going forward, energy policies would draw upon the conclusions of IDB's comprehensive analysis

of the country's energy matrix that is currently underway. Mini hydro stations and solar panels are expected to play a central role in hinterland electrification. A number of projects aim to bridge the divide between the coastal area and the hinterland by improving transport infrastructure and access to healthcare, education, and other social services. In this regard, four hinterland communities have been selected for township development.

46. **The authorities will promote competition and economic diversification.** They plan to liberalize the regulatory framework for telecommunications and ICT services and seek to increase airlift supply from several countries, with the view of promoting growth in tourism and non-traditional exports, including fresh fruits and vegetables, fisheries and aquaculture.

## STAFF APPRAISAL

47. **Guyana's economy continues to grow despite global headwinds.** In 2015, real GDP grew at 3 percent. Growth is projected to increase to 4 percent this year, supported by the level effect of two new large gold mines, and an increase in public investment. Strengthening private sector confidence is essential for maintaining growth momentum.

48. **The public investment program can promote environmentally sustainable and socially inclusive growth.** The high cost of electricity, transportation and telecommunications are key impediments to growth. Public investment and liberalizing reforms can ease these bottlenecks, raise productivity, help integrate remote regions, and promote diversification and job creation. Well targeted investments can stimulate the economy in the short-run, and provide long-lasting competitiveness gains.

49. **Oil prices have particularly strong macroeconomic implications for Guyana.** Lower oil prices narrowed the current account deficit and also improved the fiscal balance through higher excise revenues and a reduction in the subsidies to the electricity company. While oil prices are expected to remain low, they can suddenly reverse. Oil represents a major source of fiscal and external vulnerability, particularly after the termination of PetroCaribe financing.

50. **Exchange rate flexibility should play a larger role in facilitating adjustment to external shocks.** Guyana remains vulnerable to movements in commodity prices due to its dependence on imported oil and the concentration of exports on a few commodities. The exchange rate regime is a de facto stabilized arrangement. The exchange rate is broadly in line with fundamentals and staff believes it should play a stronger automatic stabilizer role going forward.

51. **A moderation of the fiscal policy stance is needed to preserve fiscal and external buffers.** Sizable deficits of 5 to 6 percent of GDP in the medium-term would imply a large increase in debt, raising sustainability concerns and contributing to external vulnerability. Although debt distress risks remain moderate and debt service manageable due to its largely concessional nature, fiscal consolidation needs to take place in order to stabilize the debt ratio. Staff recommends starting consolidation in 2017, which would preserve fiscal buffers for use when adverse shocks materialize. Consolidation should limit the growth of current expenditure

and reduce public enterprises reliance in government support. Staff believes expenditure measures are needed to preserve fiscal space for public investment and poverty reduction, ease financing pressures and contain the public debt. Staff recommends a reduction in the fiscal deficit by 1.5 percent of GDP for 2017–21, compared to the authorities' current plans. This would largely stabilize the debt to GDP ratio over the medium-term. Expenditure measures can be complemented by improvements in tax administration. There is also scope for reviewing tax exemptions so as to broaden the tax base.

52. **The largely concessional nature of the debt remains an important source of resilience, and should be preserved.** Non-concessional financing should be approached with care, including domestic borrowing which can drive up interest rates. This may require adjusting the size of the planned fiscal deficits based on the envelope of concessional financing and grants.

53. **The monetary policy stance should remain accommodative.** Lower prices for imported goods, including fuel, continue to restrain inflation. As long as inflationary pressures remain contained, an accommodative policy stance remains appropriate.

54. **Banks remain well capitalized, but heightened vigilance is warranted due to increases in nonperforming loans.** There is scope for tightening provisioning requirements including in the case of collateralized loans, large exposure limits, restrictions on related lending, and loan classification rules. A Financial Sector Assessment Program mission will visit Guyana in May to provide a more granular analysis of financial sector challenges and assist the authorities with strengthening the prudential toolkit.

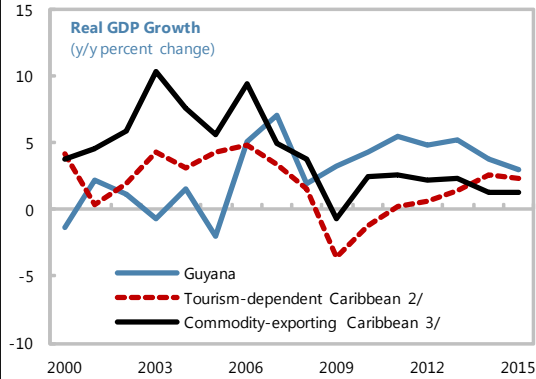
55. **While recent steps towards strengthening the Anti-Money Laundering and Combating the Financing of Terrorism framework are welcome, the authorities should address remaining deficiencies promptly.** In particular, the authorities are urged to accelerate the implementation of the action plan agreed with the Financial Action Task Force.

56. **Staff recommends that the next Article IV consultation with Guyana be held on the standard 12-month cycle.**

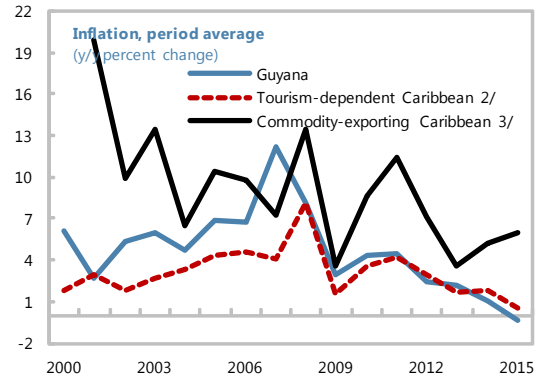
**Figure 1. Guyana: Comparative Regional Developments 1/**

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

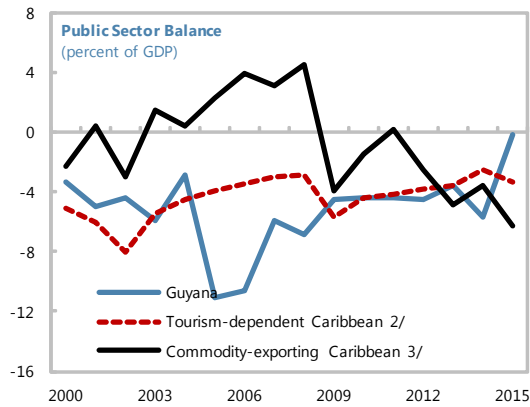
*Growth momentum slowed in 2015, driven by a slowdown in investment and lower commodity prices...*



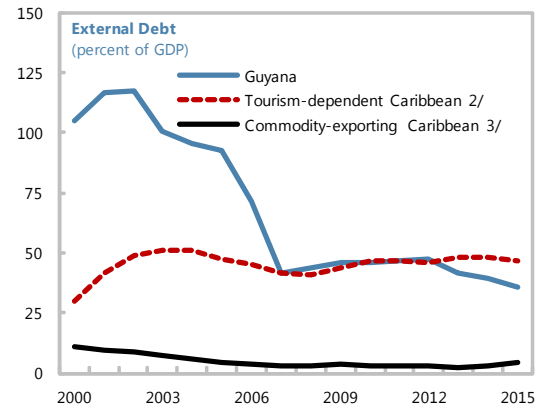
*... and inflation remains subdued.*



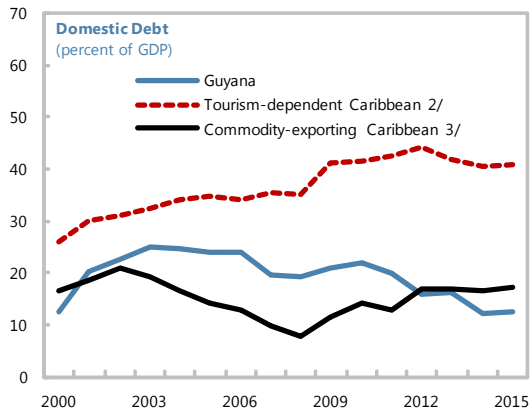
*The fiscal deficit narrowed somewhat in 2015...*



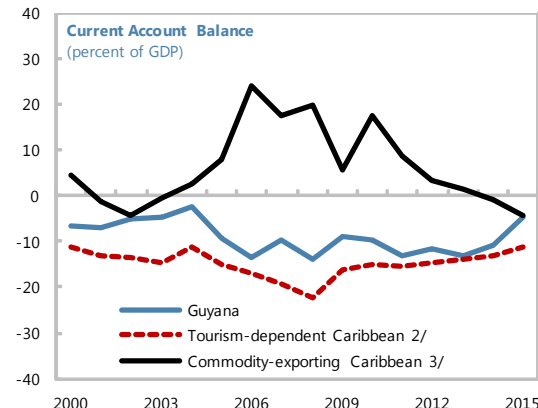
*... and external borrowing declined.*



*Domestic debt is in line with other commodity exporters...*



*...and the external current account deficit narrowed in 2015, with the decline in international oil prices*



Sources: Country authorities; and Fund staff calculations.

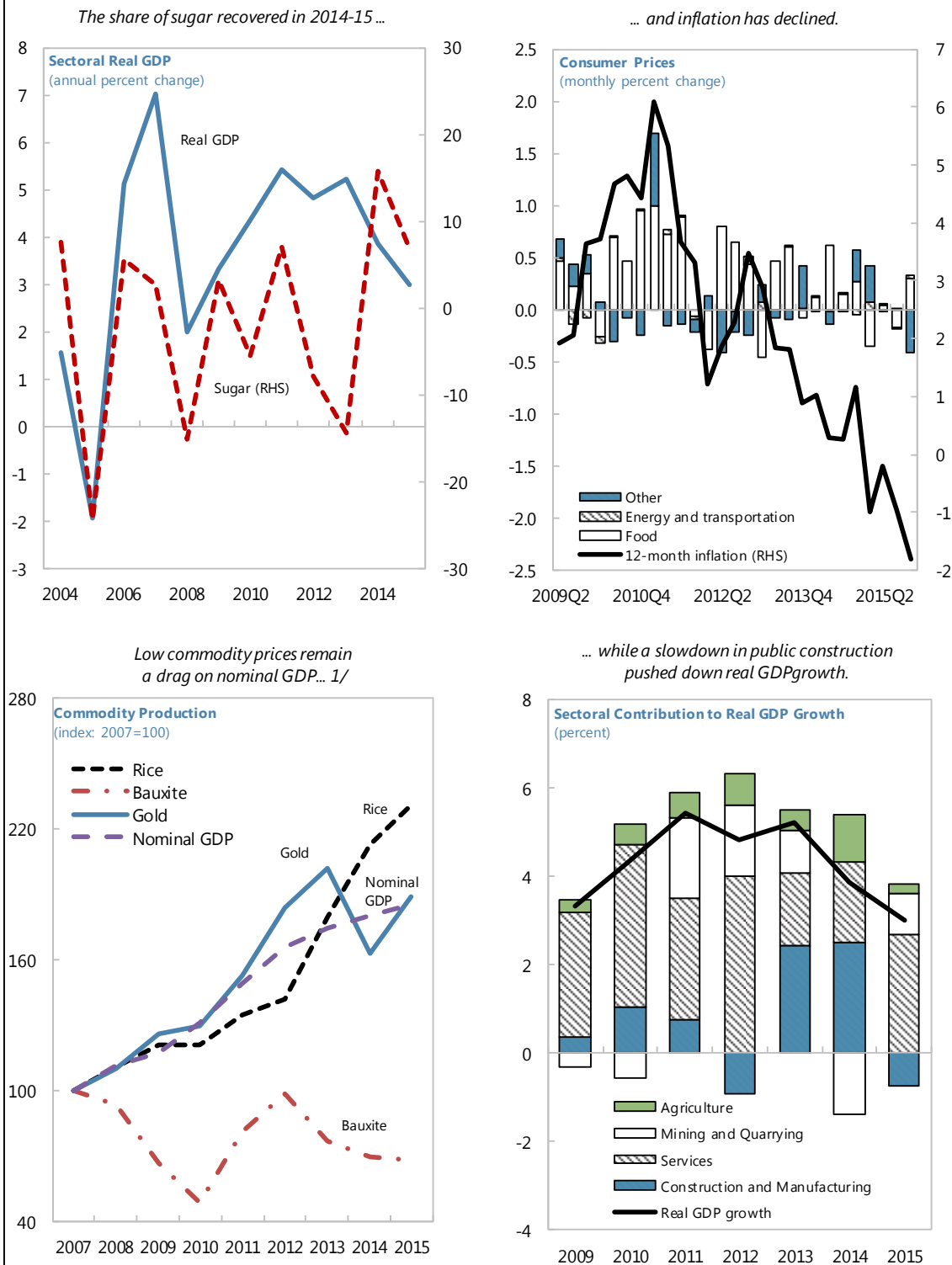
1/ Caribbean region measured as simple averages of corresponding variables.

2/ Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

**Figure 2. Guyana: Real Sector Indicators**

Activity slowed in 2015 and inflation remained subdued.



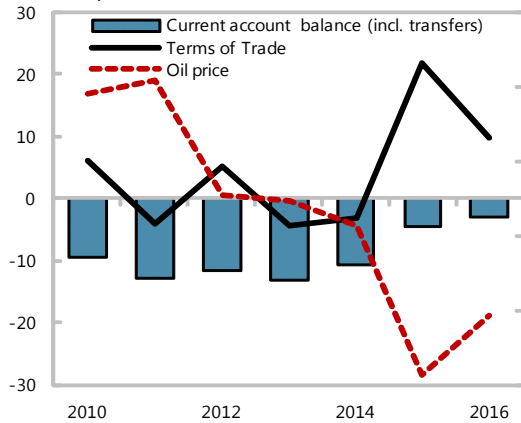
Sources: Bank of Guyana; Ministry of Finance; and Fund staff estimates.  
 1/ The rice agreement with Venezuela was suspended in the second half of the year and did not affect significantly rice production in 2015 but is likely to reduce future output.



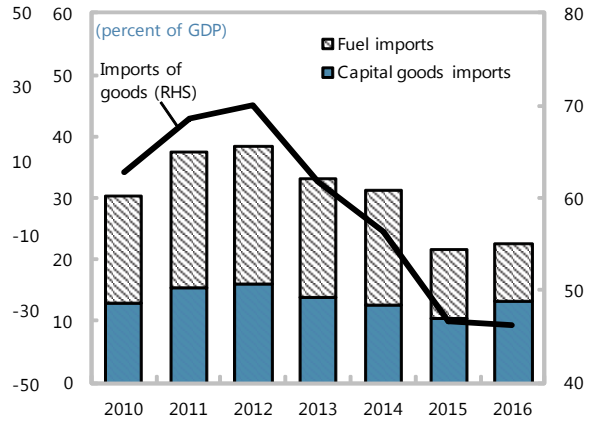
### Figure 3. Guyana: External Sector Developments

The external current account deficit narrowed in 2015 on the back of lower international oil prices and a slowdown in public investment.

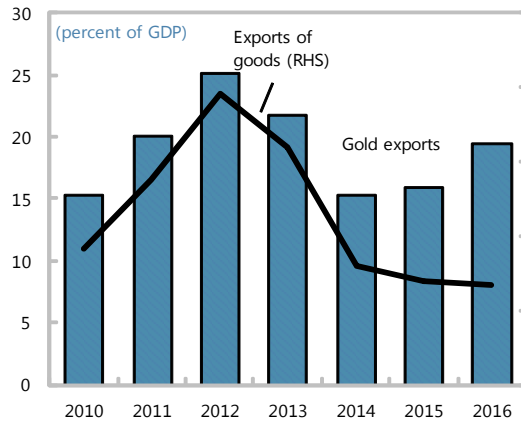
The sharp decline in international oil prices in 2015 helped narrow the current account deficit ...



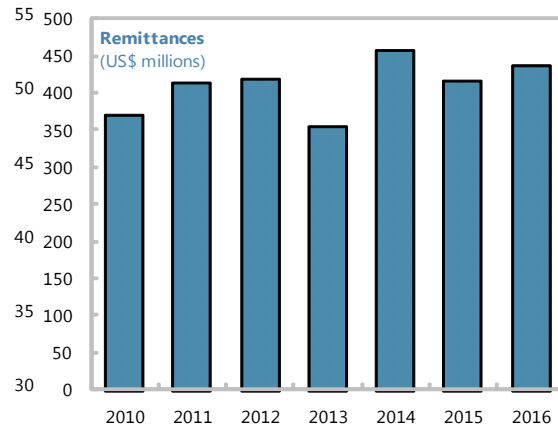
... by reducing the value of fuel imports.



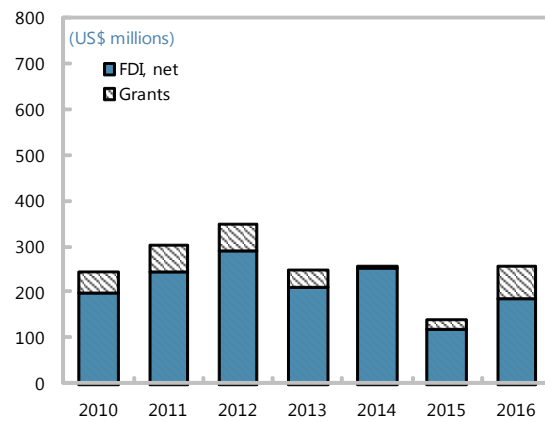
Exports have been on a declining trend due to lower commodity prices...



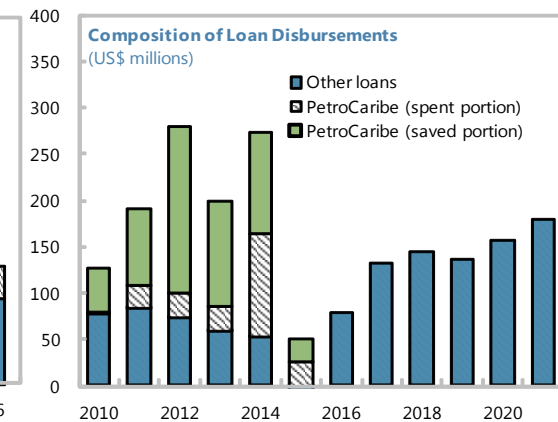
...while remittances remain a relatively stable source of foreign exchange.



FDI and official capital transfers were subdued in 2015...



... and the PetroCaribe agreement was discontinued.

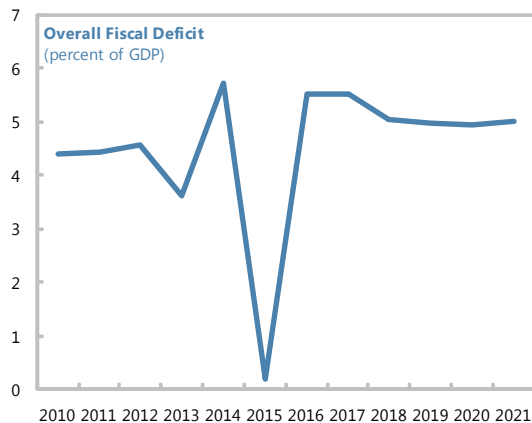


Sources: Bank of Guyana; and Fund staff estimates and projections.

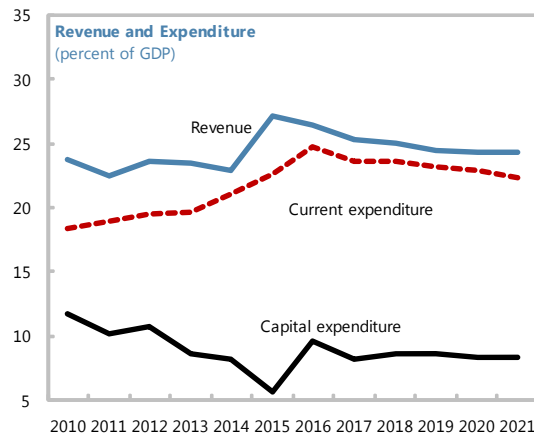
### Figure 4. Guyana: Fiscal Sector Developments

*Fiscal measures are needed to rebuild fiscal buffers and put public debt on a declining trajectory.*

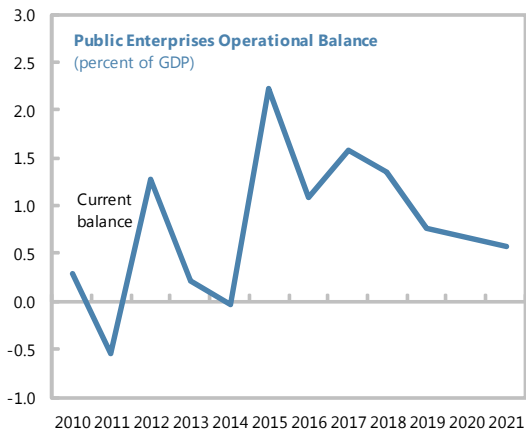
*Fiscal performance improved in 2015 due to a decline in capital expenditures and savings from low oil prices.*



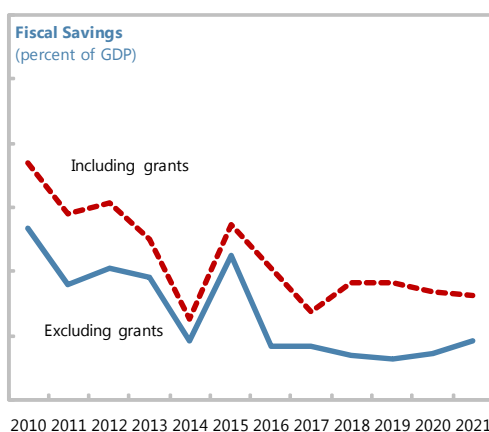
*Current expenditure has increased as a share of GDP.*



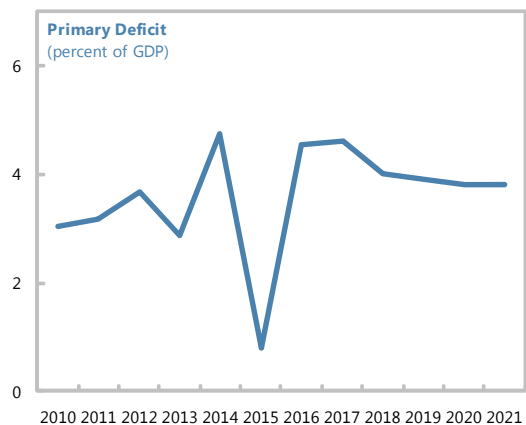
*Low oil prices boosted the performance of the public utility company...*



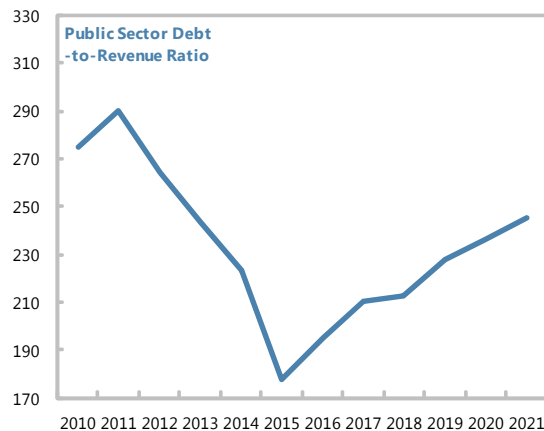
*...but fiscal savings net of grants would decline in the medium term.*



*Persistently large primary deficits in the medium term...*



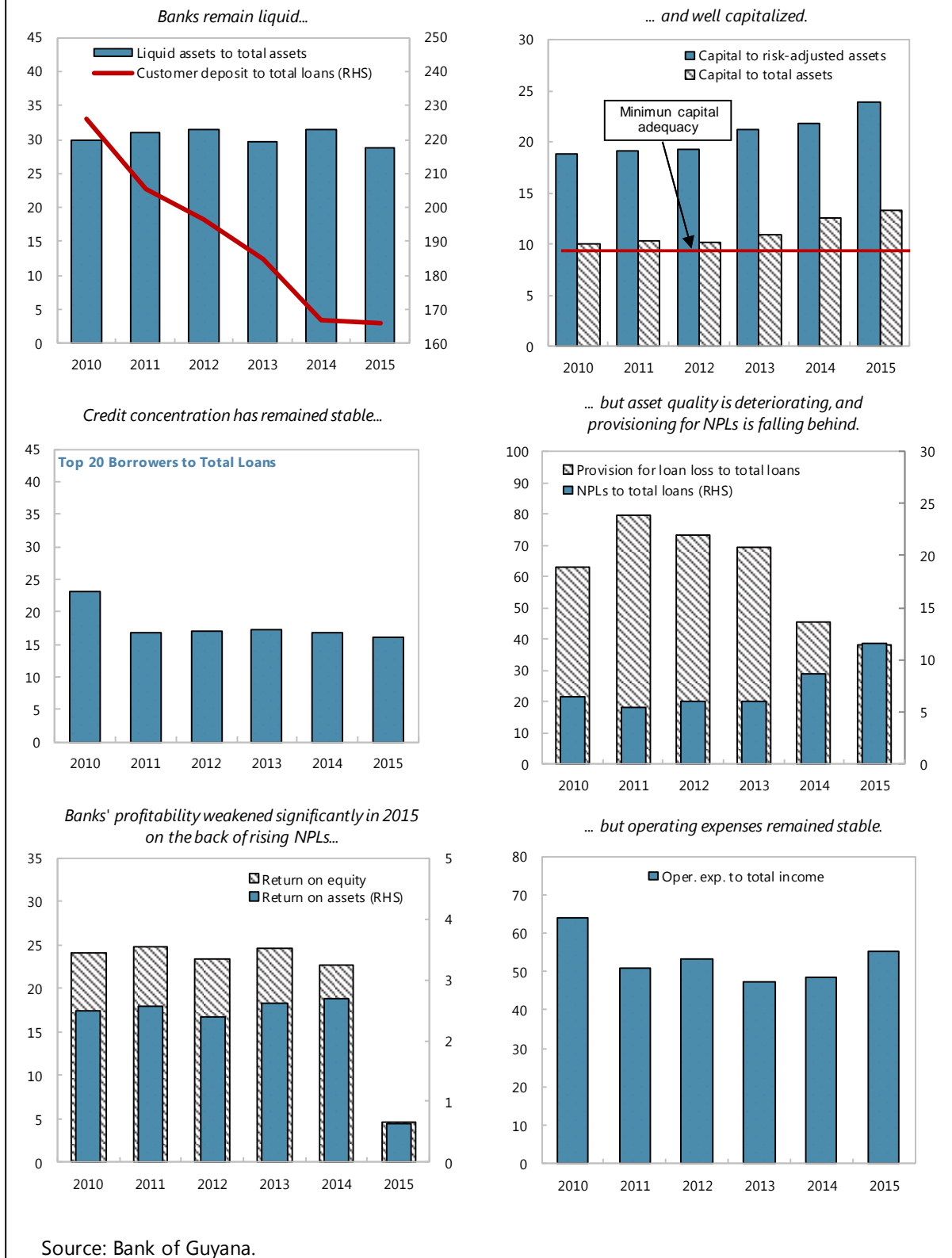
*... would increase public sector debt.*



Sources: Ministry of Finance; and Fund staff estimates and projections.

**Figure 5. Guyana: Financial Soundness Indicators**

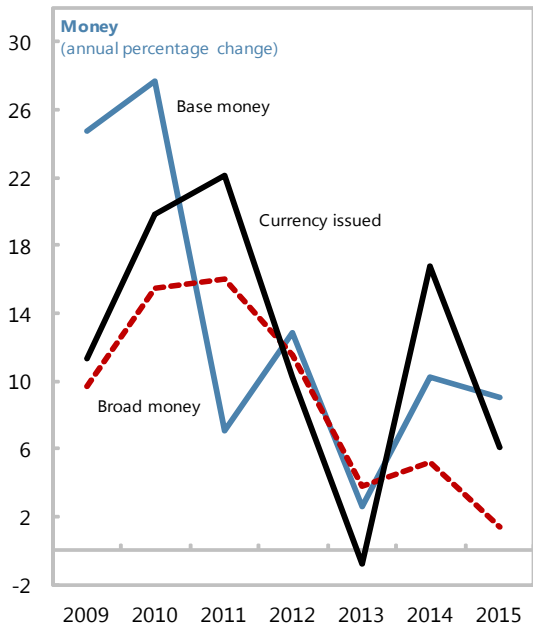
*The banking system is well capitalized and liquid but asset quality and profitability deteriorated rapidly in 2015.*



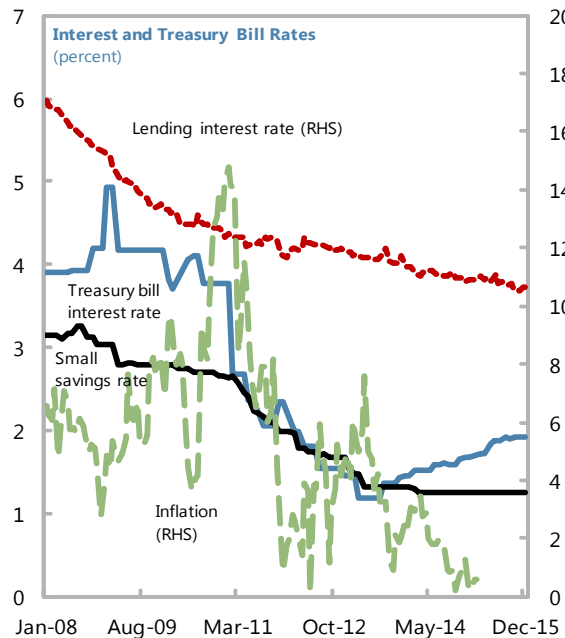
**Figure 6. Guyana: Monetary Developments**

*Monetary conditions are broadly supportive of growth.*

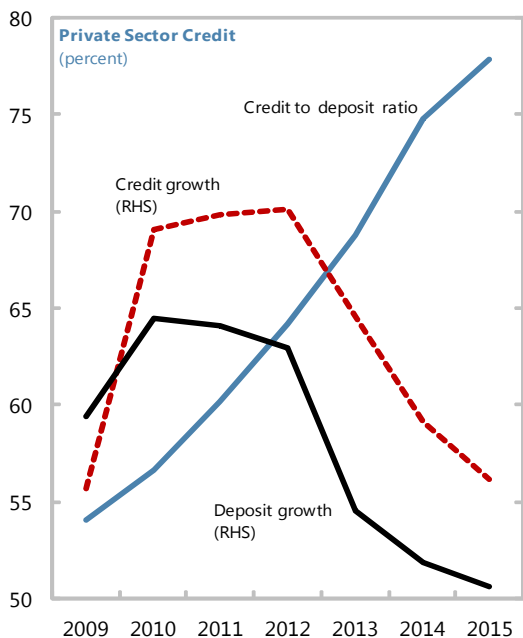
*Monetary growth has normalized, after a period of rapid increases...*



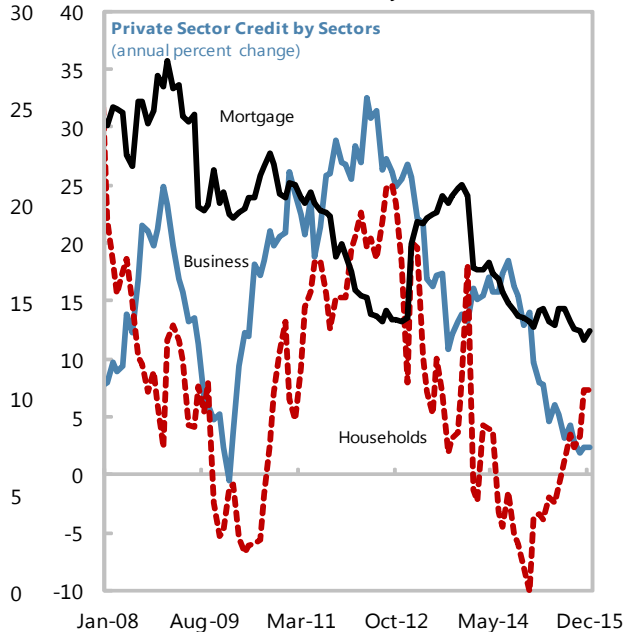
*... interest rates remained broadly stable...*



*... but credit growth slowed down sharply...*



*... particularly to businesses, while mortgage lending remained relatively stable.*



Source: Bank of Guyana Financial Statistics.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators						
Population, 2015 (thousands)	767			Population not using an improved water source (%), 2010		6.0
Life expectancy at birth (years), 2014	66			Gini index, 1992-2007		44.6
Under-five mortality rate (per 1,000 live births), 2010	30			HDI rank, 2014		124
Population living below the poverty line (%), 2000-06	35					
II. Economic Indicators						
	2012	2013	2014	Est. 2015	Projections	
					2016	2017
(Annual percent change)						
<b>Production and prices</b>						
Real GDP	4.8	5.2	3.8	3.0	4.0	3.9
Real GDP per capita	4.5	4.8	3.4	2.6	3.7	3.5
Consumer prices (average)	2.4	2.2	1.0	-0.3	0.1	2.1
Consumer prices (end of period)	3.5	0.9	1.2	-1.8	2.1	2.1
Terms of trade	5.2	-4.5	-3.2	21.7	9.7	-1.5
(In percent of GDP)						
<b>National accounts</b>						
Investment	19.2	16.7	16.4	13.8	17.6	16.1
Private sector	8.5	8.1	8.1	8.2	8.0	7.8
Public sector	10.7	8.6	8.2	5.7	9.6	8.3
National saving 1/	7.7	3.4	5.6	9.3	15.1	10.8
Private sector	2.6	-1.3	3.6	4.6	12.1	8.9
Public sector	5.1	4.8	2.1	4.7	3.1	2.0
External savings	11.6	13.3	10.8	4.6	2.5	5.2
<b>Nonfinancial public sector</b>						
Revenue and grants	25.6	24.6	23.6	28.1	28.8	26.4
Expenditure	30.2	28.3	29.3	28.3	34.3	31.9
Current	19.5	19.6	21.1	22.6	24.7	23.6
Capital	10.7	8.6	8.2	5.7	9.6	8.3
Overall balance (after grants) 2/	-4.6	-3.6	-5.7	-0.2	-5.5	-5.5
Total public sector gross debt (end of period)	63.7	57.9	51.9	48.6	52.3	53.8
External	47.7	41.8	39.5	36.1	36.0	35.5
Domestic	16.0	16.1	12.3	12.5	16.3	18.3
(Annual percentage change, end of period)						
<b>Money and credit</b>						
Broad money	11.5	3.8	5.2	1.5	11.7	15.6
Domestic credit of the banking system	7.5	25.8	20.5	17.6	17.5	12.2
Public sector (net)	-72.7	14.9	34.5	75.0	377.0	94.1
Private sector	20.1	14.5	9.1	6.2	6.0	6.0
(In millions of U.S. dollars, unless otherwise indicated; end of period)						
<b>External sector</b>						
Current account balance 2/	-330.0	-397.9	-331.3	-144.2	-83.6	-183.8
(Percent of GDP)	-11.6	-13.3	-10.8	-4.6	-2.5	-5.2
Gross official reserves 3/	855.6	776.9	665.6	598.5	690.4	854.4
Months of imports of goods and services	4.1	4.0	3.5	3.6	3.9	4.4
<b>Memorandum items:</b>						
Nominal GDP (G\$ billion)	582.7	614.1	635.3	653.3	692.1	735.1
Per capita GDP, US\$	3,766	3,929	4,029	4,125	4,335	4,545
Guyana dollar/U.S. dollar (period average)	204.1	205.4	206.4	206.5	...	...
PetroCaribe loans savings (stock, in % of GDP)	1.1	4.9	8.4	9.0	8.5	8.1

Sources: Guyanese authorities; UNDP Human Development Report; and Fund staff estimates and projections.

1/ Includes public enterprises.

2/ Including official transfers.

3/ Includes SDR allocation.

Table 2. Guyana: Balance of Payments

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
(In millions of U.S. dollars)										
<b>Current account (incl. official transfers)</b>	<b>-330.0</b>	<b>-397.9</b>	<b>-331.3</b>	<b>-144.2</b>	<b>-107.1</b>	<b>-209.9</b>	<b>-232.7</b>	<b>-292.1</b>	<b>-344.6</b>	<b>-325.7</b>
<b>Current account (excl. official transfers)</b>	-366.6	-425.4	-331.3	-144.2	-149.2	-209.9	-232.7	-292.1	-344.6	-325.7
<b>Merchandise trade (net)</b>	<b>-581.2</b>	<b>-471.4</b>	<b>-570.2</b>	<b>-304.9</b>	<b>-317.7</b>	<b>-385.2</b>	<b>-414.8</b>	<b>-481.5</b>	<b>-539.1</b>	<b>-521.4</b>
Exports (f.o.b.)	1,415.5	1,375.9	1,167.7	1,169.9	1,223.7	1,329.5	1,410.9	1,461.0	1,524.7	1,596.9
Bauxite	150.8	134.7	124.7	104.3	97.6	100.2	103.5	107.6	111.8	115.5
Sugar	132.1	114.3	88.0	80.9	77.6	73.6	74.2	72.5	70.8	71.4
Gold	717.0	648.5	469.8	501.1	646.0	717.6	762.7	783.6	816.2	866.4
Timber	39.0	38.5	53.4	43.5	44.5	44.9	45.4	45.8	46.3	46.7
Other	376.6	439.9	431.7	440.1	358.0	393.2	425.2	451.4	479.5	496.9
Imports (c.i.f.)	1,996.7	1,847.3	1,737.9	1,474.9	1,541.4	1,714.6	1,825.8	1,942.5	2,063.7	2,118.3
Capital goods	459.7	415.2	387.5	329.0	438.8	467.8	483.6	505.8	542.9	517.3
Fuel and lubricants	638.0	574.7	573.4	350.8	317.7	407.0	466.2	514.4	551.4	582.1
Other	899.0	857.4	776.9	795.1	785.0	839.9	876.0	922.3	969.4	1018.9
<b>Services (net)</b>	<b>-204.6</b>	<b>-307.2</b>	<b>-218.7</b>	<b>-255.8</b>	<b>-268.5</b>	<b>-283.7</b>	<b>-296.6</b>	<b>-311.0</b>	<b>-327.3</b>	<b>-346.3</b>
<b>Net private transfers</b>	<b>419.2</b>	<b>353.2</b>	<b>457.6</b>	<b>416.5</b>	<b>437.0</b>	<b>458.9</b>	<b>478.8</b>	<b>500.3</b>	<b>521.8</b>	<b>542.0</b>
<b>Capital and financial accounts</b>	<b>613.8</b>	<b>471.5</b>	<b>352.9</b>	<b>64.8</b>	<b>217.6</b>	<b>347.9</b>	<b>383.7</b>	<b>401.5</b>	<b>396.2</b>	<b>424.4</b>
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial account</b>	<b>613.8</b>	<b>471.5</b>	<b>352.9</b>	<b>64.8</b>	<b>217.6</b>	<b>347.9</b>	<b>383.7</b>	<b>401.5</b>	<b>396.2</b>	<b>424.4</b>
Nonfinancial public sector (net)	315.2	227.9	147.6	-83.0	96.1	139.9	167.3	171.3	160.8	185.8
Net official transfers	57.0	34.8	4.4	18.5	69.2	49.8	71.0	80.3	66.1	48.4
Net official borrowing	250.1	168.2	238.7	-47.4	26.9	90.1	96.3	91.0	94.8	137.6
Other public sector (net) 1/	8.1	24.9	-95.5	-54.1	-17.5	-0.3	-0.3	-0.3	-0.3	-0.3
Private sector (net)	298.6	243.5	205.2	147.8	121.5	207.9	216.4	230.2	235.3	238.7
Foreign direct investment (net)	293.7	214.0	255.2	121.7	187.4	240.8	244.8	249.1	253.3	257.7
Portfolio investment (net)	69.9	21.1	7.8	3.4	5.4	7.4	9.2	10.8	12.3	13.6
Other (net) 2/	-65.0	8.4	-57.8	22.7	-71.3	-40.2	-37.6	-29.7	-30.2	-32.7
<b>Errors and omissions, and short-term flows</b>	<b>-171.7</b>	<b>-120.0</b>	<b>-89.5</b>	<b>21.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Overall balance</b>	<b>75.5</b>	<b>-74.0</b>	<b>-67.9</b>	<b>-57.6</b>	<b>68.4</b>	<b>137.9</b>	<b>151.0</b>	<b>109.4</b>	<b>51.6</b>	<b>98.7</b>
<b>Financing</b>	<b>-75.5</b>	<b>74.0</b>	<b>67.9</b>	<b>57.6</b>	<b>-68.4</b>	<b>-137.9</b>	<b>-151.0</b>	<b>-109.4</b>	<b>-51.6</b>	<b>-98.7</b>
Bank of Guyana net foreign assets	-75.5	74.0	67.9	57.6	-68.4	-137.9	-151.0	-109.4	-51.6	-98.7
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items:</b>										
Current account, incl. off. transfers (in percent of GDP)	-11.6	-13.3	-10.8	-4.6	-3.2	-6.0	-6.3	-7.6	-8.5	-7.7
Current account, excl. off. transfers (in percent of GDP)	-12.8	-14.2	-10.8	-4.6	-4.5	-6.0	-6.3	-7.6	-8.5	-7.7
Gross international reserves	855.6	776.9	665.6	598.5	666.9	804.8	955.9	1,065.2	1,116.8	1,215.5
(in months of imports of goods and services)	4.1	4.0	3.5	3.6	3.8	4.2	4.7	4.9	4.9	5.1
Oil price assumption (US\$/b)	105.0	104.1	96.2	50.8	34.8	41.0	44.5	47.6	49.4	50.5
HIPC and MDRI debt service relief	33.9	22.3	21.1	20.4	19.4	18.1	17.4	16.7	16.1	14.0
GDP (US\$ million)	2,854	2,990	3,078	3,164	3,335	3,507	3,670	3,846	4,034	4,240
(Annual percent change)										
Exports of goods	25.6	-2.3	-15.2	-1.7	5.7	9.1	6.2	3.6	4.4	4.8
Imports of goods	12.8	-7.5	-5.9	-15.1	4.5	11.2	6.5	6.4	6.2	2.6
Terms of trade	5.2	-4.5	-3.2	21.7	9.6	-1.4	-0.8	-0.7	0.5	1.2

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes capital flows of PetroCaribe financing.

2/ Includes capital flows to finance the Berbice bridge and short-term capital flows.

3/ Includes debt relief and debt forgiveness.

**Table 3. Guyana: Nonfinancial Public Sector Operations**

(In billions of Guyanese dollars)

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
<b>Revenue</b>	<b>137.7</b>	<b>144.2</b>	<b>145.6</b>	<b>177.2</b>	<b>182.8</b>	<b>185.9</b>	<b>194.7</b>	<b>201.1</b>	<b>212.2</b>	<b>224.3</b>
Central government	130.2	143.0	145.7	162.7	173.3	179.2	189.1	199.8	211.4	224.1
Tax revenue	118.3	127.9	135.9	142.9	150.4	159.7	168.7	178.6	189.2	200.9
Non-tax revenue	11.1	14.2	8.8	18.8	22.9	19.0	19.8	20.7	21.6	22.7
GRIF	0.8	0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	1.0	0.0	0.5	0.5	0.5	0.5	0.5
Public enterprises	7.4	1.3	-0.1	14.5	9.4	6.7	5.6	1.3	0.8	0.3
<b>Expenditure</b>	<b>175.9</b>	<b>173.6</b>	<b>186.2</b>	<b>184.7</b>	<b>237.7</b>	<b>234.4</b>	<b>251.3</b>	<b>261.8</b>	<b>272.1</b>	<b>283.6</b>
Current expenditure	113.6	120.6	133.8	147.6	171.1	173.7	183.8	190.8	199.5	207.1
Wages and salaries	34.8	38.5	42.3	44.7	49.9	53.9	57.7	61.1	64.2	67.4
Other goods and services 1/	34.2	37.5	40.1	43.2	47.7	50.7	53.6	56.7	60.1	63.8
Transfers	39.4	39.9	45.1	53.3	66.7	62.5	64.5	64.1	65.3	64.8
Interest 2/	5.2	4.7	6.3	6.5	6.8	6.7	8.0	8.8	9.9	11.2
Domestic	2.6	1.7	1.5	1.7	1.9	2.8	4.0	4.6	5.2	5.8
External	2.6	2.9	4.8	4.8	4.9	3.9	4.0	4.2	4.7	5.4
Capital expenditure	62.3	53.0	52.4	37.1	66.6	60.7	67.5	71.0	72.6	76.5
External PSIP	22.3	13.8	11.2	9.7	19.7	37.9	45.2	45.9	47.7	49.4
GRIF Projects	0.8	0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local PSIP	26.5	29.7	35.1	18.9	30.6	16.2	18.6	21.4	21.0	23.1
Public enterprises	5.4	2.6	1.4	6.4	14.1	6.6	3.7	3.8	3.9	4.0
PetroCaribe projects	5.3	4.8	2.5	0.0	2.6	0.0	0.0	0.0	0.0	0.0
<b>Overall balance before grants</b>	<b>-37.8</b>	<b>-29.1</b>	<b>-40.6</b>	<b>-7.5</b>	<b>-54.6</b>	<b>-48.5</b>	<b>-56.6</b>	<b>-60.7</b>	<b>-59.9</b>	<b>-59.3</b>
Grants 3/	11.6	7.1	4.2	6.2	16.8	7.9	17.5	19.6	16.7	13.0
<b>Overall balance after grants</b>	<b>-26.6</b>	<b>-22.3</b>	<b>-36.4</b>	<b>-1.3</b>	<b>-38.2</b>	<b>-40.6</b>	<b>-39.1</b>	<b>-41.1</b>	<b>-43.2</b>	<b>-46.3</b>
<b>Financing</b>	<b>26.6</b>	<b>22.3</b>	<b>36.4</b>	<b>1.3</b>	<b>38.2</b>	<b>40.6</b>	<b>39.1</b>	<b>41.1</b>	<b>43.2</b>	<b>46.3</b>
Net foreign financing 2/	25.6	29.9	8.4	-0.4	7.3	18.8	20.3	19.4	24.8	30.0
Net domestic financing 4/	5.9	5.1	23.7	6.9	30.9	21.8	18.8	21.7	18.3	16.3
PetroCaribe savings	-4.9	-12.8	4.3	-5.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>										
NFPS wage bill	60.5	64.1	67.0	72.8	77.0	79.3	83.4	86.3	88.8	92.5
Total capital expenditure	62.3	53.0	52.4	37.1	66.6	60.7	67.5	71.0	72.6	76.5
Current balance before grants	24.1	23.6	11.8	29.6	11.7	12.1	10.9	10.3	12.7	17.3
Debt relief	2.6	2.2	0.5	0.7	0.5	0.4	0.2	0.2	0.2	0.2
Primary balance	-21.4	-17.6	-30.1	5.2	-31.4	-33.9	-31.1	-32.2	-33.2	-35.1
Nominal GDP at market prices (G\$ billion)	582.7	614.1	635.3	653.3	692.1	735.1	776.9	822.4	871.3	925.0

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.

2/ Reflects interest and amortization after total debt relief.

3/ Excludes HIPC grants and MDRI debt relief.

4/ Includes statistical discrepancies.

**Table 3. Guyana: Nonfinancial Public Sector Operations (Concluded)**

(In percent of GDP)

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
<b>Revenue</b>	<b>23.6</b>	<b>23.5</b>	<b>22.9</b>	<b>27.1</b>	<b>26.4</b>	<b>25.3</b>	<b>25.1</b>	<b>24.5</b>	<b>24.4</b>	<b>24.3</b>
Central government	22.4	23.3	22.9	24.9	25.0	24.4	24.3	24.3	24.3	24.2
Tax revenue	20.3	20.8	21.4	21.9	21.7	21.7	21.7	21.7	21.7	21.7
Non-tax revenue	1.9	2.3	1.4	2.9	3.3	2.6	2.6	2.5	2.5	2.5
GRIF	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	0.2	0.0	0.1	0.1	0.1	0.1	0.1
Public enterprises	1.3	0.2	0.0	2.2	1.4	0.9	0.7	0.2	0.1	0.0
<b>Expenditure</b>	<b>30.2</b>	<b>28.3</b>	<b>29.3</b>	<b>28.3</b>	<b>34.3</b>	<b>31.9</b>	<b>32.3</b>	<b>31.8</b>	<b>31.2</b>	<b>30.7</b>
Current expenditure	19.5	19.6	21.1	22.6	24.7	23.6	23.7	23.2	22.9	22.4
Wages and salaries	6.0	6.3	6.7	6.8	7.2	7.3	7.4	7.4	7.4	7.3
Other goods and services 1/ Transfers	5.9	6.1	6.3	6.6	6.9	6.9	6.9	6.9	6.9	6.9
Interest 2/ Domestic	6.8	6.5	7.1	8.2	9.6	8.5	8.3	7.8	7.5	7.0
External	0.9	0.8	1.0	1.0	1.0	0.9	1.0	1.1	1.1	1.2
Domestic	0.4	0.3	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.6
External	0.5	0.5	0.8	0.7	0.7	0.5	0.5	0.5	0.5	0.6
Capital expenditure	10.7	8.6	8.2	5.7	9.6	8.3	8.7	8.6	8.3	8.3
External PSIP	3.8	2.2	1.8	1.5	2.8	5.2	5.8	5.6	5.5	5.3
GRIF Projects	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local PSIP	4.5	4.8	5.5	2.9	4.4	2.2	2.4	2.6	2.4	2.5
Public enterprises	0.9	0.4	0.2	1.0	2.0	0.9	0.5	0.5	0.4	0.4
PetroCaribe projects	0.9	0.8	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0
<b>Overall balance before grants</b>	<b>-6.5</b>	<b>-4.7</b>	<b>-6.4</b>	<b>-1.2</b>	<b>-7.9</b>	<b>-6.6</b>	<b>-7.3</b>	<b>-7.4</b>	<b>-6.9</b>	<b>-6.4</b>
Grants 3/	2.0	1.2	0.7	1.0	2.4	1.1	2.3	2.4	1.9	1.4
<b>Overall balance after grants</b>	<b>-4.6</b>	<b>-3.6</b>	<b>-5.7</b>	<b>-0.2</b>	<b>-5.5</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-5.0</b>	<b>-5.0</b>	<b>-5.0</b>
<b>Financing</b>	<b>4.6</b>	<b>3.6</b>	<b>5.7</b>	<b>0.2</b>	<b>5.5</b>	<b>5.5</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>
Net foreign financing 2/	4.4	4.9	1.3	-0.1	1.1	2.6	2.6	2.4	2.9	3.2
Net domestic financing 4/	1.0	0.8	3.7	1.1	4.5	3.0	2.4	2.6	2.1	1.8
PetroCaribe savings	-0.8	-2.1	0.7	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>										
NFPS wage bill	10.4	10.4	10.5	11.1	11.1	10.8	10.7	10.5	10.2	10.0
Total capital expenditure	10.7	8.6	8.2	5.7	9.6	8.3	8.7	8.6	8.3	8.3
Current balance before grants	4.1	3.8	1.8	4.5	1.7	1.7	1.4	1.3	1.5	1.9
Debt relief	0.4	0.4	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Primary balance	-3.7	-2.9	-4.7	0.8	-4.5	-4.6	-4.0	-3.9	-3.8	-3.8
Nominal GDP at market prices (G\$ billion)	582.7	614.1	635.3	653.3	692.1	735.1	776.9	822.4	871.3	925.0

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.

2/ Reflects interest and amortization after total debt relief.

3/ Excludes HIPC grants and MDRI debt relief.

4/ Includes statistical discrepancies.



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

	2012				Est.		Projections				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
(In billions of Guyanese dollars, end of period)											
<b>I. Bank of Guyana</b>											
Net foreign assets	138.1	125.4	111.5	99.7	114.9	145.1	178.7	204.0	217.2	241.1	
Foreign assets	175.0	160.2	137.5	123.6	137.9	168.1	201.7	227.0	240.3	264.1	
Foreign liabilities 1/	-36.9	-34.8	-25.9	-23.9	-23.0	-23.0	-23.0	-23.0	-23.0	-23.0	
Net domestic assets	-79.1	-64.5	-39.1	-23.9	-34.7	-59.9	-88.6	-108.6	-116.2	-133.8	
<i>Of which:</i>											
Credit to public sector (net) 1/	-62.7	-56.9	-29.6	-3.8	0.0	0.0	0.0	0.0	0.0	0.0	
Liabilities to commercial banks	-52.9	-54.1	-53.4	-62.4	-66.2	-70.3	-74.3	-78.6	-83.3	-88.4	
Other items (net)	51.8	49.1	44.0	42.5	31.6	10.5	-14.2	-29.9	-32.8	-45.3	
Currency in circulation	60.3	60.9	72.5	75.8	80.3	85.2	90.1	95.4	101.0	107.3	
Base money	105.6	108.4	119.5	130.4	138.1	146.7	155.0	164.1	173.8	184.6	
<i>Of which:</i> Excess reserves	8.1	6.0	6.2	11.1	4.8	10.1	2.8	0.5	0.5	0.0	
<b>II. Monetary Survey</b>											
Net foreign assets	190.8	174.6	172.8	156.2	174.1	195.7	220.4	232.8	232.7	243.0	
Bank of Guyana 1/	138.1	125.4	111.5	99.7	114.9	145.1	178.7	204.0	217.2	241.1	
Commercial banks	52.7	49.2	61.2	56.5	59.2	50.6	41.7	28.8	15.4	1.9	
Net domestic assets	111.1	138.8	156.9	178.3	199.3	235.8	255.2	286.6	317.6	341.2	
Credit to public sector (net) 1/ 2/	-44.9	-38.2	-25.0	-6.3	17.4	33.7	47.8	64.0	77.8	90.0	
Private sector credit	161.6	185.1	202.0	214.5	227.4	241.0	255.5	271.3	288.7	307.4	
Other items (net)	-5.7	-8.1	-20.1	-29.9	-45.4	-38.9	-48.1	-48.7	-48.8	-56.2	
Broad money	301.8	313.4	329.6	334.5	373.4	431.5	475.6	519.4	550.3	584.2	
(Percentage change, 12-month basis)											
Net foreign assets	15.2	-7.5	-0.9	-8.5	11.5	12.4	12.6	5.6	-0.1	4.4	
Net domestic assets	3.6	31.0	15.5	15.9	11.8	18.3	8.2	12.3	10.8	7.4	
Domestic credit	7.5	25.8	20.5	17.6	17.5	12.2	10.4	10.6	9.3	8.5	
<i>Of which:</i>											
Private sector credit	20.1	14.5	9.1	6.2	6.0	6.0	6.0	6.2	6.4	6.5	
Business sector	26.8	13.2	14.0	0.8	...	...	...	...	...	...	
Household sector	8.0	18.2	-10.0	11.0	...	...	...	...	...	...	
Mortgage sector	13.6	24.1	13.2	11.7	...	...	...	...	...	...	
Other sectors	-3.7	3.1	-9.2	17.3	...	...	...	...	...	...	
Public sector net	-72.7	14.9	34.5	75.0	377.0	94.1	41.9	34.0	21.4	15.7	
Broad money	11.5	3.8	5.2	1.5	11.7	15.6	10.2	9.2	5.9	6.2	
(Contribution to changes in base money, 12-month basis)											
Base money	12.8	2.7	10.2	9.1	5.9	6.2	5.7	5.9	5.9	6.2	
Net foreign assets	15.5	-12.0	-12.8	-9.9	11.7	21.9	22.9	16.3	8.1	13.7	
Other including net credit to public sector	-2.7	14.7	23.0	19.0	-5.8	-15.7	-17.2	-10.5	-2.1	-7.5	
(In million of U.S. dollars, unless otherwise indicated)											
<b>Memorandum items:</b>											
Bank of Guyana's net foreign assets 1/	682.0	608.0	540.1	482.6	551.0	688.9	839.9	949.3	1000.9	1099.6	
Commercial banks' net foreign assets	257.5	238.6	296.4	273.7	283.7	240.3	196.0	134.0	71.0	8.8	
Money multiplier	2.9	2.9	2.8	2.6	2.7	2.9	3.1	3.2	3.2	3.2	
Income velocity of broad money	1.9	2.0	1.9	2.0	1.9	1.7	1.6	1.6	1.6	1.6	
Excess reserves (ratio to required reserves)	0.2	0.2	0.2	0.3	0.1	0.2	0.1	0.0	0.0	0.0	
Average lending rates, in percent	11.1	11.2	11.2	11.2	...	...	...	...	...	...	
Sources: Bank of Guyana, and Fund staff estimates and projections.											
1/ Includes Fund debt relief.											
2/ Includes G\$1.8 billion, a share of GUYMINE debt transferred from foreign assets to government credit in March 2006.											

**Table 5. Guyana: External Financing Requirements and Sources**

(In millions of U.S. dollars)

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
<b>Financing requirement</b>	<b>471.5</b>	<b>383.1</b>	<b>298</b>	<b>168</b>	<b>250</b>	<b>388</b>	<b>430</b>	<b>444</b>	<b>435</b>	<b>465</b>
External current account deficit (excludes official transfers)	366.6	425.4	331	144	149	210	233	292	345	326
Debt amortization	40.8	42.9	47	92	37	41	46	43	39	40
NFPS amortization 1/	29.4	31.6	35	81	32	41	46	43	39	40
Bank of Guyana amortization	11.4	11.3	12	10	4	0	0	0	0	0
<i>Of which:</i>										
IMF net credit	11.4	11.3	12	10	4	0	0	0	0	0
Gross international reserves (increase = +)	64.1	-85.2	-80	-68	64	138	151	109	52	99
<b>Available financing</b>	<b>472</b>	<b>383</b>	<b>298</b>	<b>168</b>	<b>250</b>	<b>388</b>	<b>430</b>	<b>444</b>	<b>435</b>	<b>465</b>
Capital transfers (MDRI)	0	0	0	0	0	0	0	0	0	0
Official transfers	57	35	4	18	69	50	71	80	66	48
NFPS loans	280	200	274	34	77	131	143	134	134	178
Other public sector net 2/	8	25	-96	-54	-17	0	0	0	0	0
Private sector (net) 3/	127	124	116	170	122	208	216	230	235	239
Exceptional financing	0	0	0	0	0	0	0	0	0	0
<b>Financing gap</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: Fund staff estimates and projections.

1/ Scheduled amortization of NFPS after debt relief.

2/ Includes the unspent portion of PetroCaribe financing.

3/ Including change of commercial banks NFA, short-term flows and trade credits, net foreign direct investment, and errors and omissions of balance of payments.

**Table 6. Guyana: Indicators of External and Financial Vulnerability**

(In percent, unless otherwise indicated)

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
<b>Financial indicators</b>										
Public sector debt-to-GDP	63.7	57.9	51.9	48.6	52.3	53.8	53.9	56.3	57.9	59.9
NPV of public sector debt-to-GDP	40.5	39.1	34.2	33.4	37.1	38.7	39.2	41.4	43.0	44.7
NPV of public sector debt-to revenue	157.9	158.6	145.2	118.9	128.7	146.9	143.4	154.3	163.7	174.2
Share of nonperforming loans in total loans	6.0	6.0	8.6	...	...	...	...	...	...	...
Share of nonperforming loans to total assets	2.6	2.7	4.2	...	...	...	...	...	...	...
Loan loss provisions to nonperforming loans	73.1	69.5	45.4	...	...	...	...	...	...	...
Risk-based capital-asset ratio (end of period)	19.3	21.2	21.8	...	...	...	...	...	...	...
Return on assets	2.4	2.6	2.7	...	...	...	...	...	...	...
Three-month T-bill rate (end of period)	1.5	1.5	1.7	...	...	...	...	...	...	...
CPI-inflation (end of period)	3.5	0.9	1.2	-1.8	2.1	2.1	2.4	2.8	2.9	3.0
<b>External indicators</b>										
Exchange rate (per US\$, end of period)	204.5	206.3	206.5	206.5	...	...	...	...	...	...
REER appreciation (12-month basis)	3.2	0.2	-0.2	12.2	...	...	...	...	...	...
Current account balance-to-GDP	-11.6	-13.3	-10.8	-4.6	-2.5	-5.2	-5.6	-6.9	-7.8	-6.9
Gross official reserves (in millions of U.S. dollars)	855.6	776.9	665.6	598.5	690.4	854.4	1033.2	1171.0	1252.3	1382.7
Gross official reserves in months of imports	4.1	4.0	3.5	3.6	3.9	4.4	5.1	5.4	5.5	5.9
Gross official reserves to short-term external public sector debt	2,099	1,811	1,426	652	1,883	2,103	2,244	2,728	3,198	3,439
External public sector debt to GDP	47.7	41.8	39.5	36.1	36.0	35.5	34.2	35.0	35.8	37.3
NPV of external public debt (in millions of U.S. dollars)	697	688	674	661	695	717	714	775	841	936
NPV of external public sector debt to exports	41.8	44.5	46.7	46.5	45.9	43.8	41.2	43.1	44.8	47.5
NPV of external public debt-to-central government revenue	103.4	97.9	95.5	77.0	79.0	80.8	77.6	82.4	85.6	91.0
NPV of external public debt-to-GDP	24.4	23.0	21.9	20.9	20.9	20.4	19.5	20.2	20.9	22.1
Sources: Bank of Guyana; and Fund staff estimates and projections.										

Table 7. Guyana: Medium-Term Macroeconomic Framework

	2012	2013	2014	Est. 2015	Projections					
					2016	2017	2018	2019	2020	2021
(Annual percent change)										
<b>Production and prices</b>										
Real GDP	4.8	5.2	3.8	3.0	4.0	3.9	3.8	3.8	3.8	3.8
Consumer prices (average)	2.4	2.2	1.0	-0.3	0.1	2.1	2.2	2.6	3.0	3.0
Consumer prices (end of period)	3.5	0.9	1.2	-1.8	2.1	2.1	2.4	2.8	2.9	3.0
Terms of trade	5.2	-4.5	-3.2	21.7	9.6	-1.4	-0.8	-0.7	0.5	1.2
(In percent of GDP)										
<b>National accounts</b>										
Investment	19.2	16.7	16.4	13.8	17.6	16.1	16.4	16.2	15.8	15.6
Private sector	8.5	8.1	8.1	8.2	8.0	7.8	7.7	7.6	7.4	7.3
Public sector	10.7	8.6	8.2	5.7	9.6	8.3	8.7	8.6	8.3	8.3
National saving 1/	7.7	3.4	5.6	9.3	14.4	10.1	10.1	8.6	7.2	7.9
Private sector	2.6	-1.3	3.6	4.6	11.3	8.1	8.3	7.1	5.5	5.7
Public sector	5.1	4.8	2.1	4.7	3.1	2.0	1.7	1.6	1.7	2.1
External savings	11.6	13.3	10.8	4.6	3.2	6.0	6.3	7.6	8.5	7.7
<b>Nonfinancial public sector</b>										
Central government revenue and grants	25.6	24.6	23.6	28.1	28.8	26.4	27.3	26.8	26.3	25.7
Tax revenue	20.3	20.8	21.4	21.9	21.7	21.7	21.7	21.7	21.7	21.7
Non-tax revenue	1.9	2.3	1.4	2.9	3.3	2.6	2.6	2.5	2.5	2.5
GRIF	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	0.2	0.0	0.1	0.1	0.1	0.1	0.1
Grants 2/	2.0	1.2	0.7	1.0	2.4	1.1	2.3	2.4	1.9	1.4
Public enterprises operational balance	1.3	0.2	0.0	2.2	1.4	0.9	0.7	0.2	0.1	0.0
Expenditure	30.2	28.3	29.3	28.3	34.3	31.9	32.3	31.8	31.2	30.7
Current 3/	19.5	19.6	21.1	22.6	24.7	23.6	23.7	23.2	22.9	22.4
Capital	10.7	8.6	8.2	5.7	9.6	8.3	8.7	8.6	8.3	8.3
Overall balance (before grants)	-6.6	-4.8	-6.4	-1.2	-7.9	-6.6	-7.3	-7.4	-6.9	-6.4
Overall balance (after grants)	-4.6	-3.6	-5.7	-0.2	-5.5	-5.5	-5.0	-5.0	-5.0	-5.0
Financing	4.6	3.6	5.7	0.2	5.5	5.5	5.0	5.0	5.0	5.0
Net external financing 3/	4.4	4.9	1.3	-0.1	1.1	2.6	2.6	2.4	2.9	3.2
Net domestic financing	1.0	0.8	3.7	1.1	4.5	3.0	2.4	2.6	2.1	1.8
PetroCaribe savings	-0.8	-2.1	0.7	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Total public sector gross debt (end of period)	63.7	57.9	51.9	48.6	52.3	53.8	53.9	56.3	57.9	59.9
External	47.7	41.8	39.5	36.1	36.0	35.5	34.2	35.0	35.8	37.3
Domestic	16.0	16.1	12.3	12.5	16.3	18.3	19.7	21.3	22.2	22.6
(In millions of U.S. dollars, unless otherwise indicated; end of period)										
<b>External sector</b>										
Current account balance	-330.0	-397.9	-331.3	-144.2	-107.1	-209.9	-232.7	-292.1	-344.6	-325.7
Gross official reserves	855.6	776.9	665.6	598.5	666.9	804.8	955.9	1065.2	1116.8	1215.5
Months of imports of goods and services	4.1	4.0	3.5	3.6	3.8	4.2	4.7	4.9	4.9	5.1
<b>Memorandum items:</b>										
Nominal GDP (G\$ billion)	582.7	614.1	635.3	653.3	692.1	735.1	776.9	822.4	871.3	925.0
Per capita GDP, US\$	3,766	3,929	4,029	4,125	4,335	4,545	4,741	4,955	5,181	5,430
Guyana dollar/U.S. dollar (period average)	204.1	205.4	206.4	206.5	...	...	...	...	...	...
PetroCaribe loans savings (stock, in % of GDP)	1.1	4.9	8.4	9.0	8.5	8.1	7.7	7.4	7.0	6.7
Sources: Guyanese authorities; and Fund staff estimates and projections.										
1/ Includes public enterprises.										
2/ Includes debt service savings under HIPC and MDRI.										
3/ Reflects interest and amortizations after debt stock operations.										

**Table 8. Guyana: Risks Assessment Matrix<sup>1</sup>**

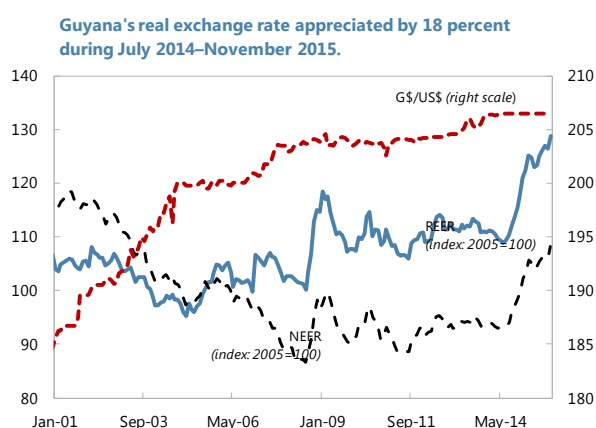
<b>Source of Risk</b>	<b>Risk<sup>2</sup></b>	<b>Impact<sup>2</sup></b>	<b>Policy Response</b>
Significant China slowdown.	L/M	H	Greater exchange rate flexibility to absorb external shocks.
Surge in the U.S. dollar as a result of the improved U.S. economic outlook.	H	M	Greater exchange rate flexibility to stem real appreciation and attenuate impact on current account deficit.
De-risking of global banks leading to a loss of correspondent banking services.	H	H	Implement the action plan agreed with the FATF and strengthen implementation of customer due diligence measures; consider temporary mechanisms involving public support, including subsidizing correspondent banks given the externalities; collectively approaching potential correspondent banks with other Caribbean countries to increase business volume.
Larger than expected slowdown in key sectors and losses/contingencies at public enterprises.	M	M	Allow automatic stabilizers to work; fiscal consolidation/restructuring of problem enterprises; medium-term expenditure framework.
A significant deterioration in the quality of domestic banks' credit portfolio.	H	M	Increase loan loss provisions; strengthen risk-based supervision; macroprudential regulations; contingency planning and crisis resolution framework.
<p><sup>1</sup> 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.</p> <p><sup>2</sup> Low (L), Medium (M), High (H).</p>			

## Annex I. External Balance Assessment

Model based estimates suggest that the current account deficit is broadly in line with its norm and that the real exchange rate is appropriate. Nevertheless, some flexibility in the nominal exchange rate together with fiscal consolidation would help contain prospective import growth, boost export competitiveness, and build buffers against potential external shocks.

**1. The real effective exchange rate (REER) appreciated by approximately 18 percent during July 2014–January 2016, notwithstanding modest nominal depreciation relative to the US dollar.**

The REER appreciation largely reflects developments in the value of the US dollar—which the Guyanese dollar follows closely—against the Euro and other major currencies.<sup>1</sup>



**2. Staff used the EBA-lite template to assess external stability in Guyana.**<sup>2</sup>

The EBA-lite estimation results are sensitive to the terms of trade, which developed favorably in 2015 and led to a narrowing of the current account deficit.

**3. Model based estimates suggest that the current account deficit is broadly in line with the norm and that the real exchange rate is appropriate.**

While the staff's preliminary analysis suggests a current account deficit gap of 1.1 percent of GDP in 2015, which would require real exchange rate appreciation of 4.2 percent, the staff's baseline medium term projection envisages a substantial widening of the current account deficit to about 8 percent due to expansionary fiscal policies and the projected recovery in oil prices; the discussions highlighted the need to limit spending, notably due to sustainability considerations, while shifting expenditure from wages and transfers toward capital. Nevertheless, higher imports of capital and intermediate goods would be desirable when underpinned by increased FDI inflows.

**Current Account and REER Gaps**  
(In percent of GDP, unless otherwise indicated)

	EBA (2015)
Current account norm	-5.7
Current account balance	-4.6
Current account gap, of which:	1.1
Policy gap	1.0
CA elasticity to REER 1/	-0.3
Exchange rate gap (percent)	-4.2

Source: Fund staff estimates.

1/ This elasticity is computed using the exchange rate elasticities for imports (0.92) and exports (-0.71) and the values of imports and exports of goods and services as a share of GDP.

<sup>1</sup> Guyana's exchange rate regime is a *de facto* stabilized arrangement.

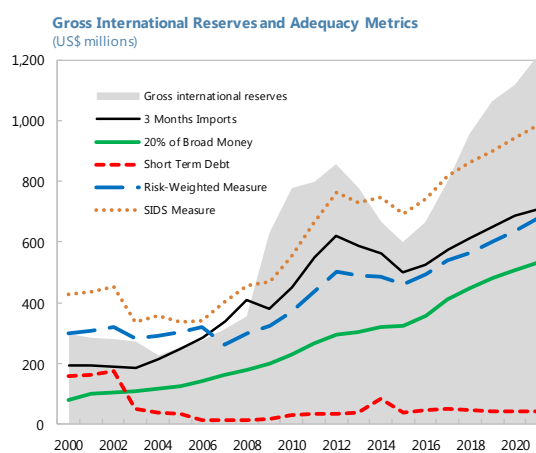
<sup>2</sup> The equilibrium real exchange rate could not be estimated due to the lack of data on productivity indicators.

## Annex II. External Reserves Adequacy

Both standard and risk-weighted measures of reserve adequacy indicate that reserve coverage of imports would be adequate through 2021. The current account deficit initially narrows in 2016 under the WEO projection of a sharp decline in international oil prices, then widens as the oil price rises and imports outpace exports due to higher investment and the subdued outlook for commodity exports, then narrows modestly. The reduced reserve coverage of imports would not provide an adequate buffer against severe but plausible external shocks.

### 1. International reserves are currently slightly above traditional non-risk based adequacy metrics, supported by lower international oil prices.

International reserves were 3.5 months of imports at end-2015, above the 3 month standard threshold (see Text Figure below). However, large and persistent terms of trade shocks reduced reserve coverage from 5.2 months of imports in 2010 to 3.5 months in 2014 (see Text Table below). The sizable decline in international oil prices and fuel imports in 2015 helped reserve coverage remain above the threshold, despite weaker capital inflows from PetroCaribe and lower disbursements.



### 2. Reserves are projected to remain well above 3 months of imports through 2021.

Coverage remains well above 3 months of imports under the WEO January 2016 assumption that international oil prices would fall to about 35 dollars per barrel in 2016 and remain below 50 dollars per barrel for most of the next five years. The ratios of reserves to broad money and reserves to short-term debt remain adequate, due to the small quantity of the latter. The projected reserve coverage of imports is sensitive to the assumptions made for the future path of international oil prices. For example, in a scenario where oil jumps back to 70 dollars per barrel, ceteris paribus, reserves would cover less than 2 months of imports by 2017, and less than one month by 2020.

### 3. With oil prices low, international reserves rise above the adequacy threshold under risk-weighted metrics.

The first risk-weighted measure is applicable to all countries and suggests that reserves at end-2015 represented 130 percent of the adequacy threshold and would exceed the threshold by 2021. The second risk-weighted measure, which uses specific metrics for Small Island Developing States (SIDS), also points to improving adequacy through 2021. Under this metric, reserve coverage of imports is in the middle of the adequacy range of 75–100 at end-2015 and exceeds the threshold by 2018.

**Table A2.1. 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
2002	87	62	147	273	159
2003	96	81	146	248	548
2004	78	63	105	196	573
2005	83	75	102	203	786
2006	87	81	98	194	1,976
2007	120	77	92	195	2,592
2008	119	78	87	198	2,848
2009	195	133	165	316	3,275
2010	212	141	173	340	2,575
2011	183	120	145	300	2,432
2012	170	112	138	290	2,432
2013	159	107	132	256	2,006
2014	137	89	118	208	780
2015	130	86	119	185	1,643
2016	135	90	127	186	1,487
2017	149	99	140	196	1,602
2018	169	111	156	214	2,028
2019	177	118	164	220	2,456
2020	176	119	163	220	2,590
2021	180	123	172	228	2,819
Adequate					
Range	100-150	75-100	100	100	100

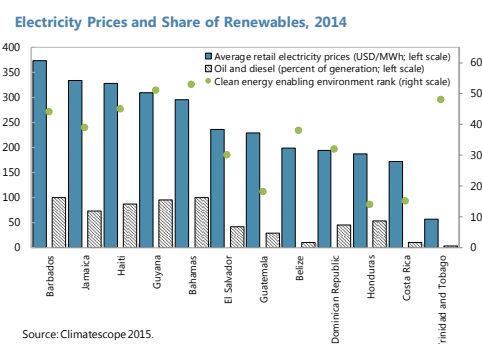


## Annex III. Guyana's Power Sector Reform

1. **Guyana depends heavily on imported oil for its power needs.** The country's installed power generation capacity is about 83 percent oil-based and 17 percent biomass (bagasse)-fueled. This capacity translates into a generation mix that is almost entirely dominated by oil-based generators, which supply about 95 percent of the country's power consumption.

2. **The oil-dependent power generation mix contributes to macroeconomic volatility.** High oil prices widen the external current account deficit, increase fiscal transfers to the public utility Guyana Power and Light (GPL) and reduce oil tax revenues due to the limited pass-through in the domestic fuel pricing regime. Accordingly, adverse oil price shocks consume foreign exchange and fiscal resources. Volatility in oil prices quickly propagates to the external and fiscal sectors.

3. **High electricity costs and tariffs are a drag on competitiveness and growth.** Oil price shocks increase the cost of power generation. When those costs are passed on to users, they increase the cost of production and constrain investment. Average retail electricity prices were among the highest in the region in 2014 (Text Figure 1). GPL's relatively high rate of technical and commercial losses also contributes to high electricity prices. Although the recent decline in oil prices has provided some respite, Guyana remains exposed to oil price corrections.



4. **Oil-dependent power generation is at odds with the vast renewable energy potential.** The country has extensive hydro power potential, estimated at 7600 MW, which by far exceeds its annual consumption and installed capacity. Various studies have identified 67 sites as suitable for hydro power generation. Guyana's climate is also suitable for wind and solar power generation while its sugar and rice industries provide opportunities for co-generation of electricity from biomass (sugarcane bagasse and rice husk).

5. **A transition to a green power matrix will bolster resilience to shocks while reducing its carbon footprint, but has been delayed by various constraints.** Interest in developing Guyana's hydro potential dates back to the first oil shock of 1974-75. Plans to build a large hydroelectric project at Amaila Falls began in the late 1980s and evolved through several proposals and rounds of negotiations but implementation has been constrained by the project's large size, complexity, cost, and Guyana's limited fiscal space.

6. **Guyana has recently launched a comprehensive review of its power sector strategy.** The government has tasked the Inter-American Development Bank (IDB) with a review of its optimal energy matrix. The IDB will assess the optimal power generation mix for the country, looking at a broad array of energy sources. The government has also retained an international

consultant for a review of the feasibility of Amaila Falls Hydropower Project. The power sector strategy will draw upon the results of these studies.

7. **The government has also taken steps to increase the contribution of renewables to its power generation mix.** A recently signed MoU with a private firm provides an opportunity for the construction of a 25 MW wind farm. The government has put in place fiscal incentives to promote solar power and will use solar panels and mini hydro stations in remote communities without grid access. Solar power is also increasingly used by businesses to power their buildings and operations. In this respect, enabling green technology independent power producers to sell their excess power to the grid could reduce energy losses, increase supply, and lower tariffs. The government is also exploring the modalities of renewing its ground-breaking low carbon partnership with Norway, which has provided grants for developmental projects in exchange for Guyana's progress in preventing deforestation and reducing the economy's carbon footprint.



# GUYANA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

April 25, 2016

Prepared by

Western Hemisphere Department

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## FUND RELATIONS

(As of February 29, 2016)

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

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

	<b>SDR Million</b>	<b>Percent Allocation</b>
SDR Department		
Net cumulative allocation	87.09	100.00
Holdings	2.81	3.23

<b>Outstanding Purchases and Loans</b>	<b>SDR Million</b>	<b>Percent Quota</b>
ECF Arrangements	1.85	1.02

### Latest Financial Arrangements:

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

### Overdue Obligations and Projected Payments to Fund<sup>2</sup>

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

	Forthcoming				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal	1.85				
Charges/Interest	0.04	0.05	0.05	0.05	0.05
<b>Total</b>	<b>1.89</b>	<b>0.05</b>	<b>0.05</b>	<b>0.05</b>	<b>0.05</b>

<sup>1</sup> Formerly PRGF.

<sup>2</sup> 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:**

- a. 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).
- b. On February 27, 2009, the Executive Board concluded the 2008 Article IV consultation.
- c. On March 17, 2010, the Executive Board concluded the 2009 Article IV consultation (IMF Country Report No. 10/292).
- d. On February 16, 2011, the Executive Board concluded the 2010 Article IV consultation (IMF Country Report No. 11/152).
- e. On November 9, 2012, the Executive Board concluded the 2012 Article IV consultation (IMF Country Report No. 12/254).
- f. On December 19, 2013, the Executive Board concluded the 2013 Article IV consultation (IMF Country Report No. 14/294). 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 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 BOG conducts transactions on the basis of the weighted average quotations of the three largest dealers in the exchange market. The currency of Guyana is the Guyana dollar. The exchange rate was G\$206.50 per U.S. dollar on December 31, 2015.

**ROSC, FSAP, EPA Participation**

- a. A fiscal ROSC was undertaken in July 2002.
- b. A WB/IMF FSAP took place in November 2005 and concluded in September 2006.
- c. Ex-Post Assessment findings were discussed with the authorities in June 2006 and concluded on October 23, 2006.

**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 Mission)
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)

**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).
June 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).

**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 (LTE: 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 mission.
Feb. 2014	CARTAC (External sector statistics mission).
Apr. 2015	CARTAC (Training on balance of payments).
Aug. 2015	CARTAC (Macro TA need assessment).
Nov. 2015	CARTAC (Medium-term macro framework).

### **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.

# BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE BANK

## A. Bank-Fund Collaboration Under the JMAP

1. **The World Bank Country Assistance Strategy (CAS), 2009–2012**, was endorsed by the Bank's Board of Executive Directors in May 2009. The completion report for the CAS is underway and a new country strategy is currently under preparation. The current IBRD/IDA<sup>1</sup> portfolio is comprised of three projects totaling US\$35.6 million. IFC's committed portfolio in Guyana amounts to \$48 million (January 2016), and includes one project in the mining sector. IFC also has four advisory services projects: i) the Guyana Bank for Trade and Industry (GBTI) Risk Management (\$0.3 million for Risk Management and SME Banking); ii) the LAC regional Indicator Based Reform Advisory (\$2.1 million); iii) the Caribbean Regional Credit Bureau (\$2.1 million); and iv) Trade Logistics in the Caribbean (\$2.3 million). Currently, MIGA has no exposure in Guyana.
2. **The work of the World Bank is aligned along the two main areas of the CAS.**
  - **Strengthening Environmental Resilience and Sustainability.** The Bank has two active projects focused on flood risk management: the IDA funded Flood Risk Management Projects (\$11.9 million), supporting the reduction of vulnerability of coastal areas to flooding of coastal areas; and the grant funded (Guyana REDD + Investment Fund – GRIF) Cunha Canal Rehabilitation Project (US\$3.7 million), approved in December 2015.
  - **Improving the Quality of Education.** The Bank is helping Guyana to improve the quality of education delivered through three projects. The current two IDA projects include the Guyana Secondary Education Improvement Project (US\$10 million), and the University of Guyana Science and Technology Support Project (US\$13.7 million). The third project, Early Childhood Education, is grant funded by the Global Partnership for Education.
  - **The Bank is conducting additional work in support of the financial sector** through a Financial Sector Reform and Strengthening Initiative (FIRST) grant to the Bank of Guyana (US\$0.5 million).

<sup>1</sup> Financing to Guyana is usually done at concessionary rates and channeled through the International Development Association (IDA), the World Bank's fund for the poorest that provides interest-free loans and grants to low-income countries and through a series of trust funds managed by the Bank. Guyana's total IDA 16 allocation for FY12–14 is 14.3 SDR/US\$21.9 million. IDA 17 indicative allocation for FY15–17 is 16.5 SDR/US\$22.7 million.



## B. Financial Relations

<b>Statement of World Bank Projects</b> (In millions of U.S. dollars, as of February 22, 2016)			
<b>Operation</b>	<b>Original Principal</b>	<b>Available<sup>1</sup></b>	<b>Disbursed</b>
Guyana Secondary Education Improvement (loan)	10.0	7.4	1.6
UG Science and Technology Support (loan)	13.7	7.2	5.2
GY Flood Risk Management (loan)	11.9	8.0	2.6
<b>Total</b>	<b>35.6</b>	<b>22.6</b>	<b>9.4</b>

<sup>1</sup> Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

<b>Disbursements and Debt Service</b> (Calendar Year)											
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>
Total disbursements	12.6	2.6	5.7	8.3	3.0	0.9	1.1	2.0	2.4	7.2	0.4
Repayments	2.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.0
Net disbursements	10.5	2.5	5.5	8.2	2.9	0.8	1.0	1.8	2.2	6.9	0.4
Interest and fees	0.9	0.1	0.1	0.1	0.1	0.1	0.08	0.08	0.1	0.1	0.0

\* January–February 2016

# RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of February 2016)

## 2016 Highlights

- Net cash flow was negative in 2015 for the first time in the last decade. With respect to loans, this trend is expected to continue in 2016.
- From the 2014–2015 Fund for special operations allocation period, a total of \$1.7 million for 3 Technical Cooperation (TC) projects was approved to support the collection of data and enhance data gathering capabilities in Guyana. Among these TCs is one for the design and execution of a survey of living conditions, which has not been undertaken in Guyana since 1992.

## 2016 Program

- The Bank is in the final year of implementing the Country Strategy (CS) for Guyana 2012-2016. The Strategy supports the priority areas of: sustainable energy, natural resources management, private sector development and public sector management, as well as the strategic dialogue areas of transport, citizen security and water and sanitation, with the cross-cutting theme of concerns affecting Amerindian communities. The Bank is at the preliminary stage of preparation of the new CS and given the focus of this Administration, it is expected that new priority areas may include social sectors, agriculture and private sector development.
- For 2016, projects expected to be approved include: Maternal and Child Health; Modernization of the Justice System; Sustainable Agricultural Development Program; and Enhancing National Quality Infrastructure for Diversification and Trade.

<b>Lending Program 2016</b>	
	<b>Amount (US\$ million)</b>
GY-L1044: Modernization of the Justice Administration System	8.0
GY-L1058: Support to Improve Maternal and Child Health	5.0
GY-L1059: Enhancing the National Quality Infrastructure for Diversification and Trade Promotion	9.0
GY-L1060: Sustainable Agricultural Development Program	18.0
<b>Total 2016</b>	<b>40.0</b>

- Three new TCs are scheduled for approval in 2016: (i) GY-T1120: Institutional Strengthening to Guyana Social Safety Net; (ii) GY-T1121: Improving the Delivery and Outcomes of Maternal and Child Health Services; and (iii) GY-T1122: Women Community Based Groups for Rural Road Maintenance. Other new TCs will come on stream as the 2016 allocation of US\$1.76 million received for Guyana under the Small and Vulnerable Countries Funding is yet to be programmed and the Bank is in discussion with GOGY regarding priorities.
- No investment grants are scheduled for approval in 2016.

### **Portfolio in Execution**

- The active investment portfolio consists of nine investment loan projects for an approved amount of US\$167.5 million; two investment loans co-financed with EU/CIF grant resources for US\$96.25 million; one loan guarantee for US\$2.5 million and four investment grant projects for US\$19.41 million, representing a total approved amount of US\$285.66 million with a total undisbursed balance of US\$200 million (please see text table below).
- In 2015, two investment loan projects exited the portfolio: (1) GY-L1019: Second Low Income Program (approved: US\$27.9 million); (2) and (2) GY-0055: Georgetown Solid Waste Management (approved: US\$18.1 million). GY-L1025: The Georgetown Sanitation Improvement Program (approved: US\$9.5 million) was extended for another 6 months to allow for completion of activities and will be closed in 2016. Similarly, wrap up activities for GY-L1006: Support for Competitiveness Program (approved: US\$48.7 million) are ongoing in 2016. Also in December 2015, one investment loan project, the Expansion and Integration of Basic Nutrition GYL-1028 with undisbursed balances of US\$3.1 million was reformulated to support hinterland housing across Guyana.
- Four new TCs were added to the portfolio in 2015 with financing from the FSO allocation for Small and Vulnerable Countries. These TCs were (1) GY-T1114: Support to Statistical Capacities of Guyana (US\$0.4 million); (2) GY-T1118: Design and Execution of a Labor Force Survey in Guyana (US\$0.4 million); (3) GY-T1119: Execution of Crime and Victimization Survey (US\$0.15 million) and (4) GY-T1117: Design and Execution of a Household Survey of Living Conditions (US\$0.75 million).

<b>Main Portfolio Indicators as at February 2016</b>	
<b>Investment Loans in Execution</b>	
Number	11
Available balance (US\$ million)	151.2
Percent available balance of total investment portfolio <sup>1</sup>	63.77
Median age of portfolio (years)	4.1 years
<b>Performance Index (No. of investment projects: 12)</b>	
Problem (0-0.4)	3
Alert (0.4-.0.8)	2
Satisfactory (>0.8)	3
N/A	4
<b>MIF in Execution</b>	
Number	3
Undisbursed balance (US\$ million)	2.4
<b>TC and Investment Grants in Execution</b>	
Guyana TCs (number)	11
Undisbursed balance (US\$ million)	9.8
Investment grants (Number)	6
Undisbursed balance (US\$ million)	48.9
<sup>1</sup> Excludes the fully disbursed PBL: GY-L1043.	

- Net loan flows are projected to continue to be negative in 2016, stemming from repayment amounts (principal and interests) higher than expected disbursements under the investment loan portfolio. As of 31 January 2016, Guyana's total outstanding debt to the IDB is US\$488,044,005. The Table below shows for 2016, projected negative net flows of US\$4.06 million. The table below does not account for projected disbursement of investment grants. If the projected disbursement amount of \$5.56 million of the two major investment grants were to be included, the result would be, although low, a positive net flow for 2016.

<b>Net Flow of IDB Convertible Currencies</b>						
(US\$ Million)						
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016 (p)</b>
a. Loan Disbursements	51.7	51.4	58.5	26.2	14.7	15.2
.....PBL Disbursements	13	9.9	16.9	0	17.2	0
b. Repayments (principal)	2.1	2.5	4.5	5.3	8.1	10.0
<b>c. Net Loan Flow (a-b)</b>	<b>49.6</b>	<b>48.9</b>	<b>54.0</b>	<b>20.9</b>	<b>6.6</b>	<b>5.2</b>
d. Subscriptions and Contributions	0.4	0.5	0	0	0	0
e. Interests and Charges	4.8	5.3	6.4	7.4	8.4	9.3
<b>f. Net Cash Flow (c-d-e)</b>	<b>44.4</b>	<b>43.1</b>	<b>47.6</b>	<b>13.5</b>	<b>-1.8</b>	<b>-4.1</b>
*(p) Projected						

Loans and Investment Grants in Execution as at February 15, 2016 (In US\$ millions)						
LOANS						
Project	Name	Approval Date	Approved	Disbursed	% Disbursed	Available
GY-L1006	Support for Competitiveness	28-Jun-06	7.5	7.4	99	0.1
GY-L1027	Road Improvement and Rehabilitation	28-Oct-09	24.8	17.3	69.5	7.5
GY-L1028	Sustainable Housing for Hinterland	11-Dec-09	5	1.9	37.7	3.1
GY-L1025	Georgetown Sanitation Improvement Program	27-Oct-10	9.5	9.5	100	0
GY-L1030	EBD 4 Lane Extension Providence-Diamond	17-Nov-10	20	18	90	2
GY-L1036	Linden Water Supply Rehab. Program	15-Jun-11	12	11.5	96.2	0.5
GY-L1037	Sustainable Operation Of the Electricity Sector & Improved Quality of Service	7-Sep-11	5	2.2	43.5	2.8
GY-L1031	Road Network Upgrade & Expansion Program	21-Jun-12	66.2	1.4	2.1	64.8
GY-L1041	Power Utility Upgrade Program	25-Jun-14	37.6	0.3	1.3	37.3
GY-L1040	Water Supply & Sanitation Infrastructure Program	3-Jul-14	16.8	1	13.3	15.8
GY-L1042	Citizen Security Strengthening Program	3-Dec-14	15	0.2	1	14.8
<b>Total Loans: 11</b>			<b>219.4</b>	<b>70.7</b>	<b>54%</b>	<b>148.7</b>
GY0055	Georgetown Solid Waste Management (Guarantee)		2.5	0	0	2.5
<b>Total Loans, inclusive of Guarantee</b>			<b>221.9</b>	<b>70.7</b>	<b>54%</b>	<b>151.2</b>
INVESTMENTS						
Project	Name	Approval Date	Approved	Disbursed	% Disbursed	Available
GY-G1002	Institutional Strengthening in support of Guyana's LCDS	1-Feb-12	5.9	5.2	87.8	0.7
GY-G1003	Micro and Small Enterprise (MSE) Development and Building Alternative Livelihood	27-Feb-13	5	2.5	49.3	2.5
GY-G1004	Sustainable Energy Program for Guyana	12-Jul-13	5	0.1	1	4.9
RG-X1011	Testing a Prototype Caribbean Regional Fund for Wastewater management GEF	11-May-11	3.5	3.2	92	0.3
GY-X1002	Power Utility Upgrade Program	25-Jun-14	26.9	0.3	0.01	26.63
GY-X1003	Water Supply & Sanitation Infrastructure Program	3-Jul-14	14.8	1	0.06	13.84
<b>Total Investment Grants: 6</b>			<b>61.1</b>	<b>12.3</b>	<b>38.3</b>	<b>48.87</b>

## RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of December 31, 2015)

- CDB remains one of Guyana's most important development partners, accounting for over 20 percent of the country's multilateral debt stock. Total loans approved for Guyana from CDB's inception (January 26, 1970) to December 31, 2015 amounted to \$298.3 million, representing 6.5 percent of CDB's total approved lending, and making Guyana CDB's sixth largest borrower out of its 19 borrowing member countries. Guyana is also the largest recipient of grant funding from CDB after Haiti, with cumulative grant approvals amounting to US\$31.1 million as of December 31, 2015.
- Of the total amount of loans approved, outstanding balances totaled \$143.6 million as of December 31, 2015. As of that date, undisbursed balances remained of \$57.15 million, detailed in the table below.

<b>Summary Statement of Loan Approvals and Undisbursed Balances, December 31, 2015</b>			
(In US\$ million)			
<b>Approval Date</b>	<b>Description</b>	<b>Approved</b>	<b>Undisbursed</b>
10-Dec-2008	Enhancement of TVET	7.50	0.08
22-Jul-2010	Community Roads Improvement Program	16.29	0.16
12-Dec-2012	Fourth Road Project	34.20	21.65
12-Dec-2013	Sea and River Defense Resilience Project	25.00	24.96
11-Dec-2014	Sugar Mechanization Project	7.50	7.50
<b>Total</b>		<b>82.99</b>	<b>57.15</b>

Source: Caribbean Development Bank.

- Most of the interventions programmed in CDB's 2013-17 Country Strategy Paper (CSP) for Guyana had already been approved as of December 31, 2015. These included the Sea and River Defense Resilience Project in the amount of US\$25 million and the US\$7.5 million Sugar Mechanization Project, which both remain under implementation. The Sugar Mechanization Project also entailed approval of a small grant component to address gender integration issues in the sugar industry. Other grants approved under the CSP totaled around \$2.25 million as of December 31, 2015, which largely reflected the approval of the eighth cycle of the Basic Needs Trust Fund poverty reduction program in Guyana (BNTF 8). Guyana also benefited during this period from grant funding under CDB's Caribbean Technological Consultancy Services (CTCS) program, as well as the Stand-by Facility for Caribbean Single Market and Economy (CSME) Implementation.
- **An uptick in approval activity is anticipated from the latter half of 2016.** New resources have become available for Guyana and the project pipeline is currently being expanded and the CSP revised accordingly.

## STATISTICAL ISSUES

(As of March 20, 2016)

### A. Assessment of Data Adequacy for Surveillance

**General:** Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage of selected data can be improved. Selected data are only available during missions and upon request. Monetary statistics, exchange rates, interest rates, and financial prudential indicators are available with a lag from the website of the Bank of Guyana (BOG). The Ministry of Finance (MOF) provides macroeconomic and fiscal statistics in various publications available on its website. While specific areas of statistics have received technical assistance, some limitations remain in the compilation and dissemination of data for certain sectors. Guyana has subscribed to the General Data Dissemination System (GDDS) in 2011.

**National Accounts:** The compilation of national accounts has been strengthened in the past decade but some limitations remain in certain areas. In 2010, GDP was rebased with 2006 prices to reflect the structural changes since the transition to a market-based economy. This resulted in a more than sixty percent increase compared to the old GDP, based on 1988 prices. Caribbean Regional Technical Assistance Center (CARTAC) missions have provided technical assistance on national accounts, which helped strengthen production-side GDP compilation, the rebasing of national accounts and medium-term projections. Further work could entail compilation of expenditure-side GDP and quarterly GDP. The Bureau of Statistics (BOS) could increase the coverage of surveys, particularly with respect to the services sector. Since January 2010, the BOS has adopted a new household income and expenditure survey (HIES) and has expanded the basket of the CPI index and revised its weights. The coverage of the CPI index could be further broadened to reflect price movements in areas other than Georgetown. There is also room to improve the timeliness of statistics on labor markets, gender and poverty.

**Government finance statistics:** Technical assistance delivered in 2014-15 has focused on building capacity in the areas of internal audit, tax administration, revenue forecasting, tariff classification of goods using the Harmonized System, customs valuation, debt management and medium-term fiscal projections. Past technical assistance missions have found that there is room to improve the definition and treatment of one-off nontax revenues in medium term projections. Authorities plan to continue to work on improving tax administration and to build a framework for managing mineral revenues based on international best practices. The authorities have expressed interest in technical assistance on developing a domestic long-term bond market. 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.

**Monetary statistics:** The BOG has made significant progress in improving the quality of monetary statistics, especially as regards 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 financial prudential indicators in its quarterly report and on its website on a regular basis.

**Balance of payments:** In 2014, a mission from CARTAC identified data gaps and made recommendations for improvements, including: (i) the development of a register of large public and private enterprises that could be requested to provide data on their transactions and positions with nonresidents; (ii) improving data collection and compilation with regards to services; (iii) inclusion of investment income from reserve assets; (iv) clarifying the classification of income accounts to ensure that they occur between residents and nonresidents; (iv) properly recording debt forgiveness; and, (v) surveying direct investment enterprises. The mission initiated the production of quarterly current and capital accounts according to the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) for the period March 2011 to September 2013. The mission also initiated the production of experimental (partial) international investment position (IIP) statistics from the information that is available on government debt, reserve assets of the central bank, and MFS. The mission developed an action plan for the implementation of balance of payments and IIP surveys and for the development of balance of payments and IIP statements. The BOG does not report the international investment position (IIP) because it currently does not have the capacity to compile such statistics. This is one of the priority areas identified for technical assistance from CARTAC.

## B. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since 2011.

## C. Reporting to STA (Optional)

No data are being reported for publication in the Government Finance Statistics Yearbook.



### Guyana: Table of Common Indicators Required for Surveillance

(As of March 20, 2016)

	<b>Date of Latest Observation (dd/mm/yy)</b>	<b>Date Received (dd/mm/yy)</b>	<b>Frequency of Data<sup>8</sup></b>	<b>Frequency of Reporting<sup>8</sup></b>	<b>Frequency of Publication<sup>8</sup></b>
Exchange Rates	30/09/13	31/10/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	12/12	04/13	M	M	M
Reserve/Base Money	04/13	09/13	M	M	M
Broad Money	04/13	09/13	M	M	M
Central Bank Balance Sheet <sup>2</sup>	04/13	09/13	M	M	M
Consolidated Balance Sheet of the Banking System <sup>2</sup>	04/13	09/13	M	M	M
Interest Rates <sup>3</sup>	07/13	09/13	M	M	M
Consumer Price Index	12/15	02/16	M	Half yearly	Monthly
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – General Government <sup>5</sup>	2015 Q4	02/16	Q	Half yearly	Half yearly
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – Central Government	2015 Q4	02/16	Q	Half yearly	Half yearly
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	2015 Q4	02/16	M	M	A
External Current Account Balance	2015	03/16	A	A	A
Exports and Imports of Goods <sup>7</sup>	2015	03/16	Q	Q	Q
GDP	2015	02/16	A	A	A
Gross External Debt	2015	02/16	A	A	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> 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.

<sup>3</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic nonbank financing (partial information).

<sup>5</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Only domestic debt, including currency and maturity composition (partial information).

<sup>7</sup> Quarterly data is only available for exports and imports of goods, not of services.

<sup>8</sup> Daily (D), Weekly (W), Monthly (M).



# GUYANA

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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*Guyana's risk of external debt distress remains moderate and debt service manageable. The update of the DSA shows that indicators of the risk of external debt distress remain under the relevant threshold despite some deterioration. The results of the debt sustainability analysis (DSA) suggest that the NPV of external debt to GDP reaches 28 percent of GDP over the medium term while debt service would rise to 6 percent of revenue. Stress tests reveal vulnerability of public debt to extreme shocks.*

## BACKGROUND

1. **Debt relief, PetroCaribe debt write-offs and fiscal consolidation efforts have helped reduce Guyana's external debt burden significantly in recent years.** Total public sector debt has declined from 96 percent of GDP in 2006 to 48.6 percent in 2015. Under the Multilateral Debt Relief Initiative (MDRI), the Fund, the World Bank, and the IDB provided debt relief amounting to US\$611 million in 2006–07. Paris Club bilateral creditors and some non-Paris Club creditors granted debt relief as part of the 2004 Paris Club agreement.<sup>1</sup> Negotiations with other non-Paris Club creditors about debt relief are protracted with the debt in question amounting to around 15 percent of total debt or 7 percent of GDP.<sup>2</sup> Meanwhile, part of the debt owed to Venezuela under the PetroCaribe agreement has been written off against Guyana's rice exports to that country. Furthermore, the non-financial public sector (NFPS) deficit declined from 8.6 percent of GDP in 2005 to 0.2 percent of GDP in 2015.
2. **Over the last six years, total gross public debt has declined by about 19 percent of GDP.** The debt-to-GDP ratio declined from 67 percent in 2009 to 48.6 percent in 2015. Over the same period, external debt declined from 46 percent of GDP to 36 percent, and domestic debt declined from 21 percent of GDP to 12 percent. Multilateral institutions—particularly the Inter-American Development Bank, the Caribbean Development Bank and the International Development Association—are the main external creditors. Debt has a long maturity profile and low average interest rates.
3. **Over the years, Venezuela had become an important donor through PetroCaribe's concessional loans to finance Guyana's oil imports, an arrangement that has stopped.** Although these loan disbursements were sizable, a large portion of these funds had been deposited in an account at the Central Bank of Guyana to be used as a 'sinking fund,' which, on a net debt basis, has a smaller impact and lowers debt vulnerabilities as it increases gross reserves available to service external debt. In addition, Guyana had repaid part of its PetroCaribe debt with rice exports and the accumulated savings under the financing arrangement.
4. **Guyana's external debt burden thresholds correspond to the ones associated with a medium policy performance rating.** The three-year average of the CPIA (Country Policy and Institutional Assessment) of Guyana has remained stable at 3.3, corresponding to a medium policy performance rating. This implies the following thresholds: (i) a PV of debt-to-GDP ratio of 40 percent; (ii) a PV of debt-to-exports ratio of 150 percent; (iii) a PV of debt-to-revenue ratio of 250 percent; and (iv) debt service-to-exports and revenue ratios of 20 percent, respectively.

<sup>1</sup> Debt relief under the Heavily Indebted Poor Country (HIPC) Initiative was granted by all multilateral creditors except one, by Paris Club bilateral creditors, and four non-Paris Club creditors (China, India, Venezuela, and Cuba). Debt owed to Brazil and North Korea was paid off without relief.

<sup>2</sup> These creditors include Argentina, Bulgaria, Kuwait, Libya, United Arab Emirates, and Serbia, as well as a loan from an Indian commercial entity (Tata). In addition, the situation of the CARICOM Multilateral Clearing Facility (CMCF) debt has not been resolved yet.

# MACROECONOMIC FRAMEWORK AND BASELINE SCENARIO ASSUMPTIONS

## A. Background

5. **Guyana's economy continues to expand, albeit growth slowed in 2015 due to domestic and external factors.** Real GDP growth decelerated to 3 percent in 2015 but is projected to increase to 4 percent in 2016, lifted by increased output from two large gold mines and accelerated implementation of the public sector investment program. Inflation will remain subdued, averaging 2 percent during the medium term and 3.5 percent on average during the long term. The external current account deficit is expected to widen to about 7 percent of GDP on average in 2017–21 and remain approximately at that level in the long term, reflecting higher oil imports and persistent shocks to the prices of Guyana's commodity exports. As a result of this and slightly lower net capital inflows, gross international reserves are projected to fall below the standard threshold (3 months of imports) in the long term without policy adjustment.

6. **The nonfinancial public sector deficit for 2015 was 0.2 percent of GDP and is expected to rise to 5.2 percent of GDP on average during 2016–21.** The lower fiscal deficit in 2015 was mainly due to one-off factors, including election-induced declines in public capital spending. Public debt stood at 48.6 percent of GDP in 2015.

## B. Baseline Scenario: Projections and Assumptions

7. **Medium term growth outlook remains positive but could be constrained by financing and low productivity barring far reaching structural reforms.** The authorities' plans for the energy sector and improvements in infrastructure, coupled with robust growth in construction and gold production, will sustain growth of about 3.8 percent on average in 2017–2021 and through the medium term.<sup>3</sup>

8. **Baseline fiscal consolidation is expected to be insufficient to reduce debt ratios more rapidly in the long term.** The overall NFPS deficit is projected to remain high at about 4.7 percent of GDP on average over the projection period, as capital spending associated with infrastructure needs remains high.<sup>4</sup> As a result, gross public debt is projected to increase to 60 percent and 75 percent of GDP by 2021 and 2036, respectively. The concessional nature of the debt helps limit that increase. The baseline scenario does not assume any additional debt reduction through rice exports to Venezuela in 2016 and beyond.

<sup>3</sup> The projection excludes the discovery of oil by Exxon Mobil, which could begin production as early as 2020. However, it is not accounted for as it is currently at an exploratory stage.

<sup>4</sup> Nevertheless, the primary deficit is projected to decline somewhat from 3.8 percent in 2021 to 2.3 percent in 2036.

9. **The current DSA shows some deterioration in long-run debt sustainability relative to the 2013 DSA**, driven by the looser fiscal stance assumed in the baseline. The public debt to GDP ratio in the current DSA reaches 75 percent by 2033 compared to 48.4 percent in the 2013 DSA, even though the initial debt stock is significantly lower (about 10 percentage points of GDP). The 2013 DSA assumed a steep fiscal consolidation that achieved an average surplus of 1 percent during 2013–33. In contrast, the current DSA assumes a continuation of the current fiscal stance, with an average fiscal deficit of 4.8 percent in the long-term.

## ASSESSMENT OF BASELINE SCENARIO: GROSS EXTERNAL DEBT

10. **The analysis suggests that Guyana’s external debt remains sustainable under the baseline scenario and the country faces a moderate risk of debt distress, but external debt ratios are vulnerable to shocks (Table 1, Figure 1).** All sustainability indicators remain comfortably below their thresholds. The PV of gross external debt-to-GDP ratio increases gradually to 28 percent in the long term (compared to 30 percent in the previous DSA). Most of the improvement in the PV of gross external debt-to-GDP ratio compared to the 2013 DSA was due to lower projected disbursements in the long term. External debt would remain manageable as long as the government is committed to the policy of borrowing on highly concessional terms. Debt service-to-exports and debt service-to-revenue ratios also remain well below their respective thresholds, reflecting the concessional nature of outstanding debt and new external borrowing in the near-term.

11. **Bound tests and alternative scenarios show that Guyana’s external debt is vulnerable to large shocks and a deteriorated economic environment (Table 2, Figure 1).** Guyana remains vulnerable to large terms of trade shocks given its concentration of its exports on a few commodities and dependence on imported oil. The PV of debt-to-GDP ratio breaches the threshold in the event of a one-time 30 percent depreciation (Figure 1 and Table 2, B6). Although stress tests suggest no breach of thresholds for the repayment capacity of Guyana, debt service-to-exports and debt service-to-revenue ratios are higher compared to the previous DSA, underlying increased vulnerability to large shocks. Please note that the declining debt under the Historical scenario is mostly driven by a mechanical extrapolation of past debt forgiveness, which is unlikely to take place in the future.

## ASSESSMENT OF BASELINE SCENARIO: GROSS PUBLIC DEBT

12. **The analysis of total gross public debt shows that the risk of debt distress increases in 2020–21 and beyond (Tables 3 and 4).** The nominal total debt-to-GDP ratio reaches the 60 percent threshold in 2021 and remains on an upward trajectory throughout 2036 absent fiscal consolidation. The PV of the public sector debt-to-GDP ratio is also estimated to increase

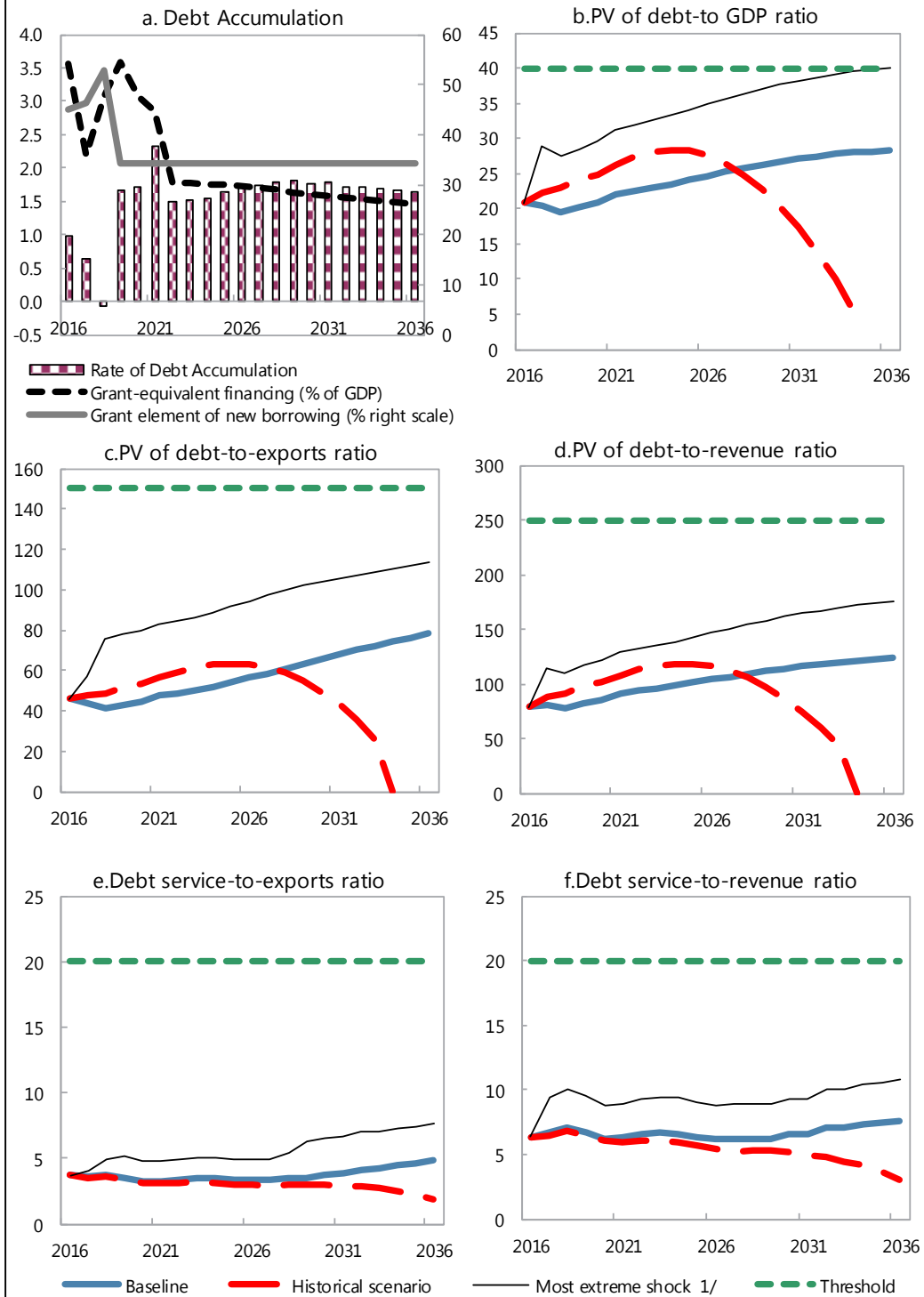
monotonically, reaching 61 percent of GDP in the long term. Given the trajectory, fiscal consolidation is needed to place the debt on a steadily downward path.

13. **Total public debt is vulnerable to standard shocks.** Vulnerability of the public debt to shocks underscores the importance of closer monitoring of the Public Sector Investment Program (PSIP). This is important to ensure that the projects are financially viable and that they increase the economy's productivity (Table 4, Figure 2). The PV of debt-to-GDP ratio is most vulnerable to shocks to GDP growth (Table 4, B1). Assuming a GDP growth is at historical average minus one standard deviation, the PV of debt-to-GDP ratio would increase to 47 percent in the medium term and 68 percent by 2036, which is 6 percentage points higher than the baseline scenario. Debt service payments would remain manageable reflecting the high concessionality of the public debt. Nevertheless, in some scenarios debt service could increase to as much as 20 percent of revenues, which could limit significantly resources for public investment and social spending.

## CONCLUSION

14. **Guyana's risk of debt distress remains moderate, but is rising.** In the baseline scenario, debt indicators remain well below their respective thresholds over the projection period. The PV of external debt-to-GDP ratio increases to around 28 percent in the long run. But Guyana remains vulnerable to large terms of trade shocks given the concentration of its exports on a few commodities, and its dependence on imported oil (which also has large implications for the fiscal sector). Sensitivity analysis and bound tests show high vulnerability of Guyana's debt to shocks, in particular, in the case of new loans on less favorable terms and one-time 30 percent depreciation. Nevertheless, debt service would remain manageable reflecting the high concessionality of public borrowing. However, under some scenarios and bound tests debt service could increase significantly, reducing the amount of resources available to public investment and social spending. In light of the risks associated with plans to significantly increase expenditure, the authorities should proceed with extreme caution (e.g., by ensuring that the projects are financially viable and that they increase the economy's productivity) and improve debt management. A significant increase in non-concessional debt, including domestic borrowing, may be needed to finance persistent deficits. That would bring additional risks which are not captured in this LIC DSA, and warrant close monitoring. The gross public debt to GDP ratio is projected to reach 60 percent of GDP by 2021, a relatively high level which can bring heightened financing risks on the non-concessional component.

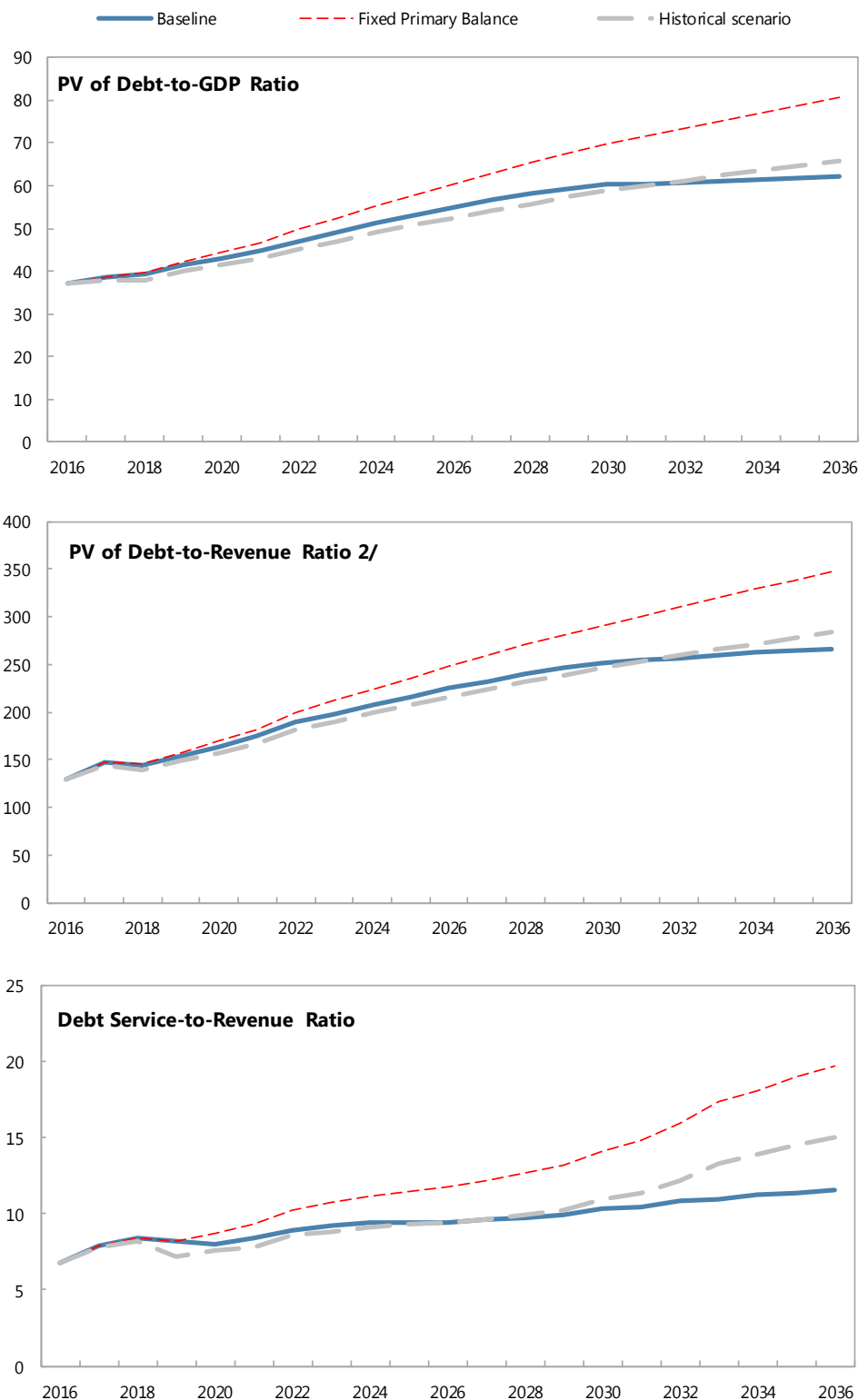
**Figure 1. Guyana: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2013-2033 1/**



Sources: Country authorities and Fund Staff estimates and projections

1/ The most extreme stress test is the test that yields the highest ratio in 2026. In Figure b., it corresponds to a One-time depreciation shock; in c., to an Exports shock; in d., to a One-time depreciation shock; in e., to an Exports shock, and in f., to a One-time depreciation shock.

**Figure 2. Guyana: Indicators of Public Debt under Alternative Scenarios, 2013-2033 1/**



Sources: Country authorities; and Fund Staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2026.

2/ Revenues are defined inclusive of grants.



**Table 1. External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/**  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average <sup>6/</sup>	Standard Deviation <sup>6/</sup>	Projections						2016-2021 Average	2026	2036	2022-2036 Average
	2013	2014	2015			2016	2017	2018	2019	2020	2021				
<b>External debt (nominal) 1/</b>	<b>41.8</b>	<b>39.5</b>	<b>36.1</b>			<b>36.0</b>	<b>35.5</b>	<b>34.2</b>	<b>35.0</b>	<b>35.8</b>	<b>37.3</b>		<b>39.6</b>	<b>41.8</b>	
of which: public and publicly guaranteed (PPG)	41.8	39.5	36.1			36.0	35.5	34.2	35.0	35.8	37.3		39.6	41.8	
Change in external debt	-5.8	-2.3	-3.4			-0.1	-0.5	-1.3	0.8	0.7	1.5		0.5	0.0	
Identified net debt-creating flows	4.0	1.3	-0.4			-4.5	-2.9	-2.4	-0.9	0.3	-0.5		1.6	10.1	
<b>Non-interest current account deficit</b>	<b>12.8</b>	<b>10.0</b>	<b>3.8</b>	<b>10.2</b>	<b>2.8</b>	<b>1.8</b>	<b>4.7</b>	<b>5.1</b>	<b>6.3</b>	<b>7.3</b>	<b>6.4</b>		<b>8.8</b>	<b>16.6</b>	11.4
Deficit in balance of goods and services	27.0	26.5	18.6			17.7	19.1	19.4	20.6	21.5	20.4		22.5	29.0	
Exports	51.6	46.8	44.9			45.4	46.7	47.2	46.7	46.5	46.4		43.8	36.2	
Imports	78.6	73.3	63.5			63.1	65.8	66.6	67.4	68.0	66.8		66.4	65.2	
Net current transfers (negative = inflow)	-12.7	-14.9	-13.2	-16.1	2.0	-14.4	-13.1	-13.0	-13.0	-12.9	-12.8		-12.4	0.0	-9.0
of which: official	-0.9	0.0	0.0			-1.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	-1.4	-1.6	-1.6			-1.5	-1.3	-1.3	-1.3	-1.3	-1.3		-1.3	-12.4	
<b>Net FDI (negative = inflow)</b>	<b>-7.2</b>	<b>-8.3</b>	<b>-3.8</b>	<b>-8.1</b>	<b>1.8</b>	<b>-5.6</b>	<b>-6.9</b>	<b>-6.7</b>	<b>-6.5</b>	<b>-6.3</b>	<b>-6.1</b>		<b>-6.6</b>	<b>-5.8</b>	-6.6
<b>Endogenous debt dynamics 2/</b>	<b>-1.7</b>	<b>-0.4</b>	<b>-0.3</b>			<b>-0.7</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>		<b>-0.7</b>	<b>-0.7</b>	
Contribution from nominal interest rate	0.5	0.8	0.7			0.7	0.5	0.5	0.5	0.5	0.6		0.7	0.8	
Contribution from real GDP growth	-2.4	-1.6	-1.2			-1.4	-1.3	-1.3	-1.2	-1.3	-1.3		-1.4	-1.5	
Contribution from price and exchange rate changes	0.2	0.4	0.1			...	...	...	...	...	...		...	...	
<b>Residual (3-4) 3/</b>	<b>-9.8</b>	<b>-3.6</b>	<b>-1.1</b>			<b>4.4</b>	<b>2.5</b>	<b>1.1</b>	<b>1.7</b>	<b>0.5</b>	<b>2.0</b>		<b>-1.1</b>	<b>-10.1</b>	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		-1.1	-0.7	
PV of external debt 4/	...	...	20.9			20.9	20.4	19.5	20.2	20.9	22.1		24.7	28.3	
In percent of exports	...	...	46.5			45.9	43.8	41.2	43.1	44.8	47.5		56.3	78.2	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>20.9</b>			<b>20.9</b>	<b>20.4</b>	<b>19.5</b>	<b>20.2</b>	<b>20.9</b>	<b>22.1</b>		<b>24.7</b>	<b>28.3</b>	
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>46.5</b>			<b>45.9</b>	<b>43.8</b>	<b>41.2</b>	<b>43.1</b>	<b>44.8</b>	<b>47.5</b>		<b>56.3</b>	<b>78.2</b>	
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>77.0</b>			<b>79.0</b>	<b>80.8</b>	<b>77.6</b>	<b>82.4</b>	<b>85.6</b>	<b>91.0</b>		<b>103.8</b>	<b>124.1</b>	
<b>Debt service-to-exports ratio (in percent)</b>	<b>3.0</b>	<b>4.0</b>	<b>7.4</b>			<b>3.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.5</b>	<b>3.2</b>	<b>3.3</b>		<b>3.4</b>	<b>4.8</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>3.0</b>	<b>4.0</b>	<b>7.4</b>			<b>3.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.5</b>	<b>3.2</b>	<b>3.3</b>		<b>3.4</b>	<b>4.8</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>6.5</b>	<b>8.2</b>	<b>12.2</b>			<b>6.3</b>	<b>6.7</b>	<b>7.1</b>	<b>6.7</b>	<b>6.2</b>	<b>6.3</b>		<b>6.2</b>	<b>7.6</b>	
Total gross financing need (Billions of U.S. dollars)	0.2	0.1	0.1			-0.1	0.0	0.0	0.1	0.1	0.1		0.2	1.1	
Non-interest current account deficit that stabilizes debt ratio	18.7	12.3	7.2			1.9	5.2	6.4	5.5	6.5	4.8		8.3	16.5	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	5.2	3.8	3.0	4.4	1.4	4.0	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.8	3.8
GDP deflator in US dollar terms (change in percent)	-0.4	-0.9	-0.2	4.7	4.3	1.4	1.3	0.8	1.0	1.1	1.2	1.1	1.0	1.3	1.1
Effective interest rate (percent) 5/	1.0	1.9	1.9	1.4	0.3	2.1	1.5	1.5	1.6	1.6	1.7	1.7	1.9	2.1	1.9
Growth of exports of G&S (US dollar terms, in percent)	-7.4	-6.7	-1.5	7.9	11.5	6.6	8.1	5.9	3.7	4.4	4.8	5.6	3.0	3.2	3.2
Growth of imports of G&S (US dollar terms, in percent)	-5.1	-4.0	-11.0	8.2	13.4	4.7	9.6	6.0	6.0	5.9	3.3	5.9	4.7	4.6	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.1	46.4	52.9	34.4	34.4	34.4	41.3	34.4	34.4	34.4
Government revenues (excluding grants, in percent of GDP)	23.5	22.9	27.1	...	...	26.4	25.3	25.1	24.5	24.4	24.3	...	23.8	22.8	23.5
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.1	...	...	0.1	0.1	0.1	0.1	0.1	0.1	...	0.0	0.0	...
of which: Grants	0.0	0.0	0.0	...	...	0.1	0.0	0.1	0.1	0.1	0.1	...	0.0	0.0	...
of which: Concessional loans	0.2	0.3	0.0	...	...	0.0	0.1	0.1	0.0	0.0	0.0	...	0.0	0.0	...
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	3.6	2.2	3.1	3.6	3.1	2.9	...	1.7	1.4	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	72.0	62.9	80.9	61.1	58.4	50.9	...	46.8	42.4	45.3
<i>Memorandum items:</i>															
Nominal GDP (Billions of US dollars)	3.0	3.1	3.2	...	...	3.3	3.5	3.7	3.8	4.0	4.2	...	5.3	8.7	...
Nominal dollar GDP growth	4.8	2.9	2.8	...	...	5.4	5.2	4.6	4.8	4.9	5.1	5.0	4.7	5.2	4.9
PV of PPG external debt (in Billions of US dollars)	...	...	0.7	...	...	0.7	0.7	0.7	0.8	0.8	0.9	...	1.3	2.4	...
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	...	...	1.0	0.6	-0.1	1.7	1.7	2.3	1.2	1.7	1.6	1.7
Gross workers' remittances (Billions of US dollars)	0.4	0.5	0.4	...	...	0.4	0.5	0.5	0.5	0.5	0.5	...	0.7	1.0	...
PV of PPG external debt (in percent of GDP + remittances)	...	...	18.5	...	...	18.4	18.1	17.2	17.8	18.5	19.6	...	21.9	25.5	...
PV of PPG external debt (in percent of exports + remittances)	...	...	36.0	...	...	35.6	34.2	32.3	33.7	35.1	37.3	...	43.8	59.7	...
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.7	...	...	2.9	2.8	2.9	2.7	2.5	2.6	...	2.6	3.7	...

Sources: Country authorities; and Fund Staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)]/(1+g+\rho+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 2. Guyana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036  
(In percent)

	2016	2017	2018	2019	Projections					
					2020	2021	2026	2034	2035	2036
<b>PV of debt-to GDP ratio</b>										
<b>Baseline</b>	21	20	19	20	21	22	<b>25</b>	28	28	28
<b>A. Alternative Scenarios</b>										
A1. Key variables at their historical averages in 2016-2036 1/	21	22	23	24	25	26	<b>28</b>	5	0	0
A2. New public sector loans on less favorable terms in 2016-2036 2/	21	21	21	22	23	25	<b>32</b>	41	42	42
<b>B. Bound Tests</b>										
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	21	21	20	21	21	23	<b>25</b>	29	29	29
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	21	24	29	29	30	31	<b>33</b>	33	33	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	21	20	19	20	21	22	<b>25</b>	28	28	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	21	20	18	19	20	21	<b>23</b>	27	27	28
B5. Combination of B1-B4 using one-half standard deviation shocks	21	20	19	20	21	22	<b>24</b>	27	27	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	21	29	28	28	29	31	<b>35</b>	39	40	40
<b>PV of debt-to-exports ratio</b>										
<b>Baseline</b>	46	44	41	43	45	48	<b>56</b>	74	76	78
<b>A. Alternative Scenarios</b>										
A1. Key variables at their historical averages in 2016-2036 1/	46	48	49	52	53	56	<b>63</b>	0	0	0
A2. New public sector loans on less favorable terms in 2016-2036 2/	46	45	44	46	50	55	<b>73</b>	108	113	117
<b>B. Bound Tests</b>										
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	46	44	41	43	45	47	<b>56</b>	74	76	78
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	46	57	76	78	80	83	<b>94</b>	110	112	113
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	46	44	41	43	45	47	<b>56</b>	74	76	78
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	46	42	38	40	42	45	<b>53</b>	72	74	76
B5. Combination of B1-B4 using one-half standard deviation shocks	46	46	46	48	50	53	<b>63</b>	82	85	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	46	44	41	43	45	47	<b>56</b>	74	76	78
<b>PV of debt-to-revenue ratio</b>										
<b>Baseline</b>	79	81	78	82	86	91	<b>104</b>	122	123	124
<b>A. Alternative Scenarios</b>										
A1. Key variables at their historical averages in 2016-2036 1/	79	89	92	99	101	108	<b>116</b>	0	0	0
A2. New public sector loans on less favorable terms in 2016-2036 2/	79	83	82	88	95	105	<b>134</b>	177	181	186
<b>B. Bound Tests</b>										
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	79	81	79	84	87	93	<b>106</b>	124	125	127
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	79	94	114	120	123	128	<b>140</b>	145	145	144
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	79	81	77	82	85	91	<b>103</b>	121	122	123
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	79	78	72	77	80	85	<b>98</b>	118	119	120
B5. Combination of B1-B4 using one-half standard deviation shocks	79	79	77	81	84	89	<b>102</b>	118	119	121
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	79	114	110	116	121	129	<b>147</b>	172	173	175

Table 2. Guyana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (Concluded)

	(In percent)									
	2013	2014	2015	2016	Projections					
					2017	2018	2023	2031	2032	2033
<b>Debt service-to-exports ratio</b>										
<b>Baseline</b>	4	4	4	3	3	3	<b>3</b>	4	5	5
<b>A. Alternative Scenarios</b>										
A1. Key variables at their historical averages in 2016-2036 1/	4	3	4	3	3	3	<b>3</b>	3	2	2
A2. New public sector loans on less favorable terms in 2016-2036 2/	4	4	4	4	3	3	<b>4</b>	7	7	8
<b>B. Bound Tests</b>										
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	4	4	3	3	3	<b>3</b>	4	5	5
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	4	4	5	5	5	5	<b>5</b>	7	7	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	4	4	3	3	3	<b>3</b>	4	5	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	4	4	4	3	3	3	<b>3</b>	4	4	5
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	4	4	4	<b>4</b>	5	5	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	4	4	4	3	3	3	<b>3</b>	4	5	5
<b>Debt service-to-revenue ratio</b>										
<b>Baseline</b>	6	7	7	7	6	6	<b>6</b>	7	7	8
<b>A. Alternative Scenarios</b>										
A1. Key variables at their historical averages in 2016-2036 1/	6	6	7	6	6	6	<b>5</b>	4	4	3
A2. New public sector loans on less favorable terms in 2016-2036 2/	6	7	7	7	6	7	<b>7</b>	11	12	12
<b>B. Bound Tests</b>										
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	6	7	7	7	6	6	<b>6</b>	7	8	8
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	6	7	7	8	7	7	<b>7</b>	10	10	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	6	7	7	7	6	6	<b>6</b>	7	7	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	6	7	7	7	6	6	<b>6</b>	7	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	7	7	6	6	<b>6</b>	7	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	6	9	10	9	9	9	<b>9</b>	10	11	11
<i>Memorandum item:</i>										
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	<b>36</b>	36	36	36
Sources: Country authorities; and Fund Staff estimates and projections										
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows. Debt forgiveness has significantly reduced the value of debt and extrapolating the shock leads to negative values in 2034-36, which were set to zero.										
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.										
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).										
4/ Includes official and private transfers and FDI.										
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.										
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.										



Table 4. Guyana: Sensitivity Analysis for Key Indicators of Public Debt, 2016-2036

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	37.1	38.7	39.2	41.4	43.0	44.7	54.9	62.0
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	37	38	38	40	41	43	52	66
A2. Primary balance is unchanged from 2016	37	39	40	42	44	47	60	81
A3. Permanently lower GDP growth 1/	37	39	40	42	44	46	60	77
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	37	39	40	43	45	47	59	68
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	37	40	42	44	46	47	57	64
B3. Combination of B1-B2 using one half standard deviation shocks	37	39	40	43	44	46	56	64
B4. One-time 30 percent real depreciation in 2017	37	47	47	49	50	51	61	68
B5. 10 percent of GDP increase in other debt-creating flows in 2017	37	47	47	49	51	52	62	68
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	129	147	143	154	164	174	224	267
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	129	144	139	149	158	167	215	283
A2. Primary balance is unchanged from 2016	129	147	145	158	169	182	247	346
A3. Permanently lower GDP growth 1/	129	148	145	157	168	180	244	332
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	129	149	147	160	171	182	240	294
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	129	151	154	165	174	185	235	276
B3. Combination of B1-B2 using one half standard deviation shocks	129	148	148	159	168	179	230	274
B4. One-time 30 percent real depreciation in 2017	129	180	174	183	191	200	247	293
B5. 10 percent of GDP increase in other debt-creating flows in 2017	129	178	174	183	193	203	254	293
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	7	8	8	8	8	8	9	12
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	7	8	8	7	8	8	9	15
A2. Primary balance is unchanged from 2016	7	8	8	8	9	9	12	20
A3. Permanently lower GDP growth 1/	7	8	8	8	8	9	11	17
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	7	8	9	9	9	9	11	14
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	7	8	9	10	11	9	10	13
B3. Combination of B1-B2 using one half standard deviation shocks	7	8	8	9	9	9	10	12
B4. One-time 30 percent real depreciation in 2017	7	9	11	11	12	12	14	19
B5. 10 percent of GDP increase in other debt-creating flows in 2017	7	8	10	20	10	13	12	15
Sources: Country authorities; and Fund Staff estimates and projections.								
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.								
2/ Revenues are defined inclusive of grants.								

**Statement by Otaviano Canuto, Executive Director for Guyana  
and Veronica Ramcharan, Senior Advisor  
May 9, 2016**

On behalf of the Guyanese authorities, we thank the IMF team for the constructive discussions on macroeconomic developments and policy issues in Guyana and appreciate the frank and open discussions with the mission team that visited Georgetown in February- March this year.

In an environment of heightened uncertainty and downside risks in the global economy, the authorities remain vigilant and focused on strengthening macroeconomic and financial resilience. Guyana's economy continues to benefit from strong macroeconomic policies and a strategic reform agenda designed to promote environmentally sustainable and inclusive growth. Beyond the short term, measures include structural reforms to raise productivity and labor participation, strengthening institutions and physical infrastructure, and further advancement of regional and global integration.

### **Economic Developments and Outlook**

Despite numerous challenges and a difficult external environment, Guyana's economy remains resilient, as evident by a decade of steady growth. The decline in oil prices has had a significant positive effect on the economy. Along with accelerated activities in the rice, sugar, gold and construction sectors, this has renewed optimism and confidence in the business community. Staff projects that GDP growth would increase to 4 percent in 2016 from 3 percent in 2015. However, the authorities are of the view that growth would accelerate at a faster pace this year to at least 4.4 percent, as the impact of the services sector is being underestimated by staff in their assessment.

The public investment program is expected to provide a significant boost to the construction and manufacturing sectors. Despite the decline in contribution from the rice and sugar industries as a result of external shocks, the authorities are currently assessing the viability of diversifying these sectors towards downstream value added products, which can boost GDP growth over the medium term and become an important source of fiscal revenue.

Pertaining to the significant oil and gas discoveries off the coast of Guyana, the authorities took the initiative to undertake exploration and other capacity building efforts. They are currently assessing the feasibility of developing an LNG facility to refine the gas. This investment will bring fruitful rewards to the Guyanese people through increased fiscal revenues, employment and income, which will propel Guyana towards achieving sustainable development goals and mitigate the country's exposure to any subsequent increase in oil prices. In addition, an Oil and Gas Committee was established in February 2016 and charged with developing the sector. In addition, external assistance is being sought to establish a Sovereign Wealth Fund and supporting legislation. It should be noted that the authorities have taken an

extremely conservative stance and have not factored in the possible future revenues from oil the gas into their medium-term framework.

On the external front, reserve coverage is expected to remain broadly adequate and the authorities agree with staff that the current account deficit is broadly in line with its norm and that the real exchange rate is appropriate. The current exchange rate regime has served the country well. The exchange rate is market determined and the Bank of Guyana (BOG) intervenes on occasion, but only to smooth excess volatility in the foreign exchange market.

## **Fiscal Policy**

The authorities are determined to promote robust economic growth while committing to prudent fiscal policies. Guyana's fiscal balance improved considerably in 2015, underpinned by the rebound in revenue collection. The primary balance registered a 0.8 percent of GDP surplus in 2015 from a 4.8 percent of GDP deficit in 2014. The overall Non- Financial Public Sector (NFPS) deficit improved considerably from 5.7 percent of GDP in 2014 to just 0.2 percent of GDP in 2015.

The fiscal deficit is projected to remain between 5 and 6 percent of GDP over the medium term. Given the ambitious development agenda undertaken to bridge the significant infrastructure gap and address unmet social needs, the authorities intend to carefully calibrate their consolidation strategy to limit the adverse impact on the debt-to-GDP ratio, without forfeiting their objectives. They continue to improve their debt management strategy and emphasize that they will refrain from utilizing non-concessional external borrowing. Private sector funding would be mobilized through the increased use of well-designed private public partnerships.

The Ministry of Finance instituted a macro-fiscal framework to aid in the fiscal diagnosis of the economy and to enhance projections for the real sector over the medium term. The outlook is positive for the coming years. Prudent and targeted expenditure, coupled with more effective revenue collection and a sustainable debt position, will continue to underpin fiscal policy. The government is determined to push ahead with its diversification drive in all sectors of the economy, upgrade infrastructure and promote structural reforms, to lay the foundation for progressively higher and inclusive growth. These measures will also mitigate the country's exposure to volatile global commodity prices and climate-related challenges.

An amended Fiscal Management and Accountability Act was passed and implemented in 2015, paving the way for the financial autonomy of constitutional bodies. The government is examining the establishment of a Parliamentary Budget Office to support the functioning of Parliament and has established a Tax Review Committee charged with providing a range of recommendations to improve the taxation system. The first report from the Committee recommended several measures that were already delineated in the 2016 budget. This has been done in conjunction with other revenue enhancing measures which include streamlining the

operational efficiency of the Guyana Revenue Authority (GRA) and amendments to several pieces of pertinent legislation.

### **Financial Sector Reform**

Last year, the authorities requested the Fund to conduct a new Financial Sector Assessment Program (FSAP). The scoping mission was completed during the latter part of 2015, with the actual financial sector assessment commencing this month. The FSAP findings will guide the reforms to the macro-prudential framework.

The authorities are committed to supporting the development of the financial sector and promote financial inclusion. Since the 2006 FSAP, the authorities have brought insurance companies and the New Building Society (NBS) under the supervision of the BOG. In order to promote financial inclusion and deepen the financial sector, the BOG has begun to license money service operators located outside of Georgetown, to facilitate businesses and individuals who reside in rural areas. Also, as part of the financial consumer protection initiative, the outreach of the National Financial Literacy Program has been broadened. The authorities are also assessing the feasibility of agency banking to allow local non-banks to provide some financial services in rural communities and will promote the expansion of mobile banking.

The BOG is currently moving towards Basel II implementation and intends to move to Basel III in the near future, to strengthen the regulatory framework and align banks' capital requirements with internationally recommended best practices. In addition, through the Financial Sector Reform and Strengthening Initiative (FIRST) of the World Bank, the BOG is receiving technical assistance to strengthen supervision of the non-bank financial institutions and insurance companies. The initiative aims to close gaps in the supervisory perimeter, regarding prudential and non-prudential standards, and to build supervisory capacity, as well as facilitate the development of a legal and institutional framework for market conduct and financial consumer protection. The BOG is currently in the process of rolling out a deposit insurance guarantee scheme. The authorities plan to pass the revised draft insurance act by end-2016, which was prepared with technical assistance from the World Bank, and is intended to correct regulatory and supervisory failures that were highlighted by CLICO's bankruptcy.

The authorities continue to cooperate with the Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force (CFATF) to fully comply with all outstanding deficiencies related to its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime and become compliant with the FATF Revised Recommendations. In 2015, the National Assembly passed legislation and guidelines on terrorism and terrorist financing and have fully satisfied five of the eight elements of the Action Plan and partially satisfied the remaining three. In December 2015, Guyana passed further amendments and regulations, including guidelines on freezing, unfreezing and providing access to frozen funds. The Financial Intelligence Unit is being restructured, to streamline the functions with those specified in the FATF Recommendation. The authorities have also initiated a National Risk



Assessment Exercise with technical assistance and guidance from the World Bank. The outcome will facilitate the implementation of appropriate risk management and risk mitigation policy strategies.

The de-risking phenomenon continues to be a source of concern for the authorities. However, while they agree that the current AML/CFT framework needs to be further strengthened – the deficiencies are expected to be rectified by the end of June 2016 – they wish to highlight that this does not guarantee that there will be a resolution to the issue. The authorities continue to call on the Fund to play a more active role in finding a solution and addressing the needs of its membership.

### **Structural Reforms**

Taking into account policy constraints, the authorities have targeted initiatives in areas that can deliver the greatest growth return. These include bridging the divide between coast and hinterland; investing in traditional and new industries; improving the conditions for private sector growth and job creation; enhancing the education system and the skill levels of the workforce; improving healthcare and caring for vulnerable sections of the population. Within the medium-term monitoring and evaluation strengthening initiative, it is now mandatory for all Ministries to report on their key performance indicators against set targets, while Budget Agencies and Regions must develop and implement strategic plans that are monitored through performance indicators and adopt Performance Monitoring Frameworks.

The authorities remain committed to restructuring public enterprises to reduce their reliance on government support. The re-engineering of the Guyana Sugar Company (GuySuCo) to a new business model aims to reduce inefficiencies and place operations on a financially sustainable path. Planned budget transfers have been substantially reduced for 2016 and are expected to steadily decline and eventually cease over the medium term.

With regard to the public utility Guyana Power and Light (GPL), the authorities are moving ahead with the necessary reforms to improve its efficiency, upgrade outdated infrastructure and strengthen governance. The government is negotiating a power purchase agreement (PPA) with a private developer for a \$50 million wind farm which is expected to provide a significant power increase to the national grid. The project will provide energy at less than half of the current cost, which will translate to lower electricity tariffs to consumers.

In collaboration with the Inter-American Development Bank (IDB), the government has developed a draft energy matrix – to be finalized in 2016 – indicating the most suitable blend of energy options to boost the resilience of the energy sector. One option presented in the matrix was the reconfiguration of the Amaila Falls Hydro Project, which was determined to be unviable in its current configuration. Discussions are currently ongoing with a bilateral partner pertaining to a final review and determination of the future of the project. In line with their policies to promote green energy, the authorities have prioritized the construction of four mini-hydro power

stations, which are expected to play a central role in hinterland electrification.

The authorities continue to promote competition and economic diversification. They plan to liberalize the regulatory framework for telecommunications and ICT services, and have already allocated funding towards the establishment of a Centre of Excellence in Information Technology (CEIT). They have also undertaken several projects to improve the business environment, which include the implementation of the Micro and Small Enterprise Development (MSED) initiative and the development of a Single Window Automated Processing System (SWAPS).

The authorities have recognized that strong data systems and data rich information are critical to policy formulation. As such, resources have been allocated to improve the capacity of the Bureau of Statistics to undertake critical surveys and generate timely socioeconomic statistics.