

**EXECUTIVE
BOARD
MEETING**

SM/22/195

Correction 2

August 30, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Guyana—Staff Report for the 2022 Article IV Consultation**

Board Action: The attached correction to SM/22/195 (7/22/22) has been provided by the staff:

Evident Ambiguity

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Questions:

Ms. Carare, WHD (ext. 39749)
Ms. Bhattacharya, WHD (ext. 38388)
Mr. Ghazanchyan, WHD (ext. 37689)
Ms. Chin, WHD (ext. 36818)

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

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

Authorities' Views

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

B. Monetary and Exchange Rate Policy

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

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