

**EXECUTIVE
BOARD
MEETING**

SM/22/195

Correction 1

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 corrections to SM/22/195 (7/22/22) have been provided by the staff:

**Mischaracterizations
of the Views of the
Authorities**

Page 9

Evident Ambiguity

Pages 17 and 63

**Factual Errors Not
Affecting the
Presentation of
Staff's Analysis or
Views**

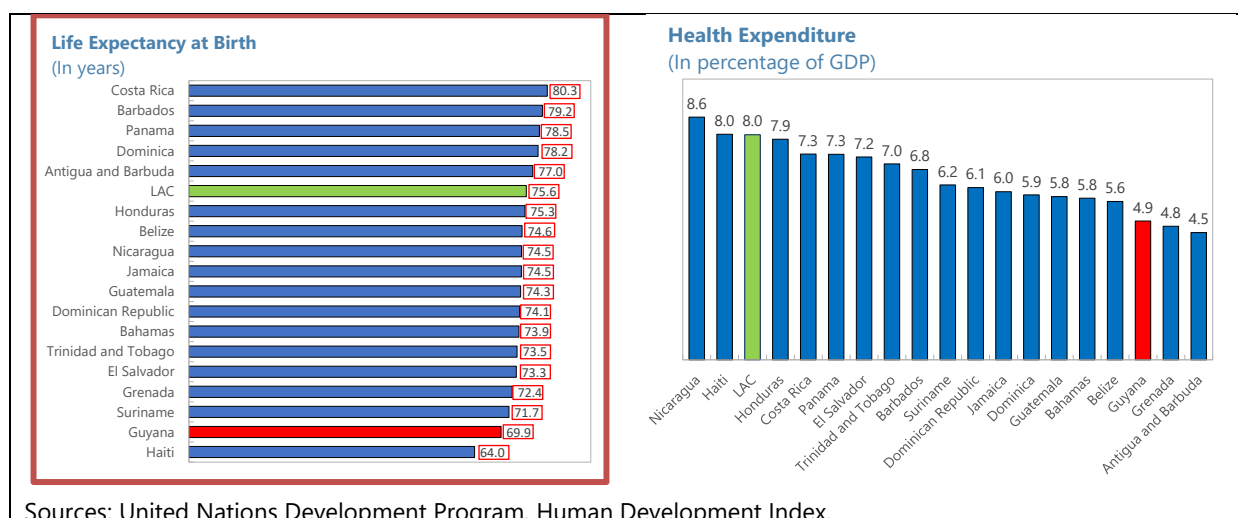
Pages 5, 6, 42

Typographical Errors

Page 14

Questions:

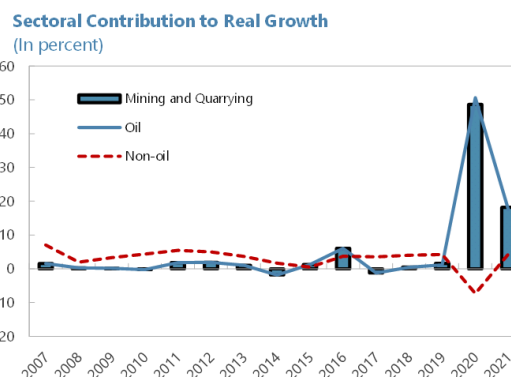
Ms. Carare, WHD (ext. 39749)
Mr. Ghazanchyan, WHD (ext. 37689)
Ms. Bhattacharya, WHD (ext. 38388)
Ms. Chin, WHD (ext. 36818)
Ms. Park, WHD (ext. 37830)



RECENT DEVELOPMENTS

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

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

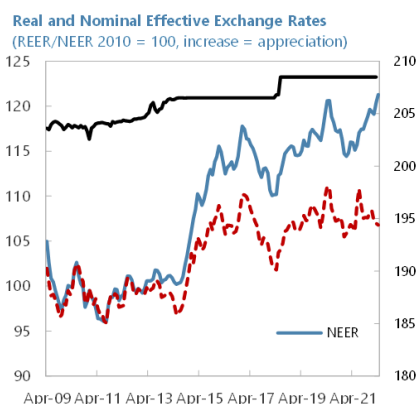


6. The COVID-19 situation has significantly improved. In 2020, the government implemented containment and mitigation measures that severely restricted mobility and provided additional public resources to the health system. Guyana has administered COVID vaccines to around two-thirds of the population.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

7. The war in Ukraine has impacted the economy, but is not expected to affect food security. Rising global food and commodity prices (including fuel) have resulted in inflation rising from 5.7 percent at end-2021 to 6.6 percent by May 2022, although inflation has declined in May, reflecting a more moderate contribution of food inflation. Second-round effects from inflationary pressures seem negligible so far, as the authorities have taken measures to ease cost-of-living

pressures for the population.³ Higher global oil prices are also strengthening the fiscal and external accounts.⁴ The impact of losing the limited trade connections with Ukraine and Russia could be absorbed by higher oil and food exports elsewhere, as agricultural production is recovering well. Imports from Ukraine and Russia contain limited quantities of milk products, thereby the war is not expected to affect food security in Guyana.

8. Guyana's external position strengthened in 2021 and is assessed to be broadly in line with the level implied by fundamentals and desirable policies (Annex I). In 2020, the decline in financing flows during the pandemic was offset by oil exports and the improvement in the non-oil current account balance as imports collapsed during the recession, leading to some accumulation in international reserves. In 2021, higher imports, reflecting mostly an increase in investment-related imports in the oil sector and the recovery in demand, and lower non-oil commodities exports, contributed to a widening of the current account deficit. The



financial account improved due to higher FDI in the oil sector, and with the new SDR allocation⁵ and higher oil exports, FX reserves coverage improved to 1.9 months of imports (2.9 months of non-oil imports).⁶ The real and nominal effective exchange rates depreciated slightly in 2021 and remained stable so far in 2022.

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

³ Fiscal measures include:

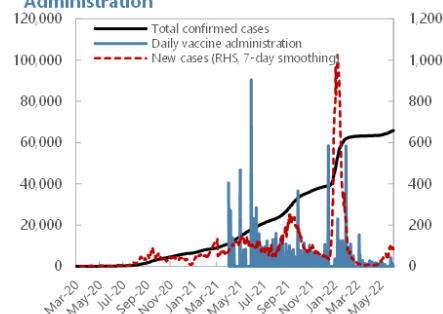
- (i) Extending the adjustment to the freight cost component in the CIF value used for the calculation of imports taxes in 2022, thereby reducing all revenues from imports and costing the budget around G\$6 billion (0.2 percent of GDP, 0.5 percent of non-oil GDP).
- (ii) Lowering the excise tax rate on gasoline and diesel from ~~52~~0 percent to ~~4~~0 percent.
- (iii) Allocating about 0.2 percent of GDP (0.4 percent of non-oil GDP) for implementation of other measures to ease the impact of cost-of-living increases on the most vulnerable sections of the society.

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

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

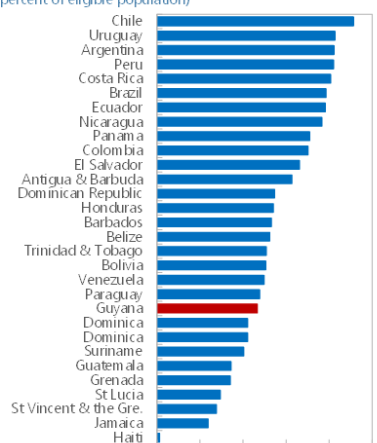
⁶ Non-oil imports are equal to total imports less imports related to oil production in the oil sector. Total imports are often distorted by large, temporary oil-related investments that are financed by FDI.

COVID-19: Confirmed Cases and Vaccine Administration



Source: Bloomberg and IMF staff calculations.

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



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

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

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

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

Authorities' Views

17. The authorities agreed that medium-term growth prospects are better than ever before ~~very favorable~~ despite the risks surrounding the outlook. The authorities noted that the upside potential to the outlook coming from new oil and gas discoveries is significant, with the large increase in oil production boosting growth and creating substantial policy buffers to withstand future shocks. They also agreed there are downside risks to the outlook. Those stemming from international developments¹¹ pose a particular concern. The authorities are confident that their measures will help contain inflationary pressures, especially on the housing and utilities parts of the CPI. The authorities are determined to

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

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

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

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

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

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

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

Authorities' Views

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

D. Structural and Governance Reforms to Support Inclusive Growth

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

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

E. Other Issues

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

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

Authorities' Views

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

STAFF APPRAISAL

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

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

Annex II. The Amended NRF Transfer Rule

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

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

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

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

5. Key differences from the 2019 Act, according to the Ministry of Finance, include the following:

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



Appendix I. Draft Press Release

IMF Executive Board Concludes 2022 Article IV Consultation with Guyana

FOR IMMEDIATE RELEASE

Washington, DC – [Month dd, YYYY]: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Guyana.

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

Oil production has increased significantly and has the potential to transform profoundly Guyana's economy. Guyana's commercially recoverable petroleum reserves is expected to reach one of the highest levels per capita in the world. This could help Guyana build up substantial fiscal and external buffers to absorb shocks while addressing infrastructure gaps and human development needs. Main downside risks to the outlook include volatility in global oil prices, a slowing global economy, or rapid increases in investment which could lead to macroeconomic imbalances, while upside risks include higher global oil prices and additional gas and oil discoveries.

Executive Board Assessment ²

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

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