GUYANA

ECONOMIC BRIEF

Guyana dollar (GY$); United States dollar (US$). US$1 = GY$208.5

Overview

Significantly higher oil production led to extraordinary economic growth in Guyana in 2022. The economy grew by 62.3% in real terms. The non-oil economy, which increased by 11.5%, also made notable contribution to the gross domestic product (GDP) following the ceasing of COVID-19 restrictions in 2022. Fiscal performance, however, led to a widening of the overall deficit. Meanwhile, the public debt ratio declined given the strong growth in the oil sector; but debt in relation to the non-oil economy decreased less. The balance of payments (BOP) recorded a marginally smaller surplus and the financial sector remained relatively stable.

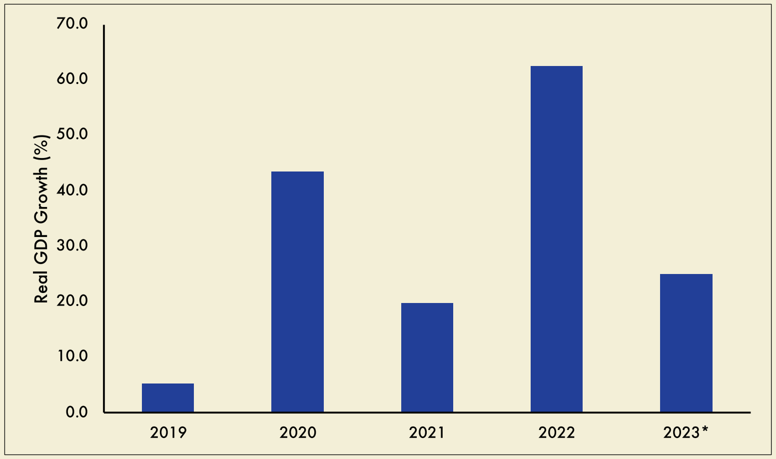
The economic outlook for 2023 is positive. Growth is expected to be driven by the continued expansion in the oil sector with positive knock-on effect on the non-oil sector.

KEY DEVELOPMENTS IN 2022

The economy was driven mainly by the offshore sector where strong oil production led to a boost in real growth of 62.3% (see Chart 1). Production of the Liza Phase 2 oil field reached its full potential earlier than expected propelling oil production to 101.4 million (mn) barrels from 42.7 mn in 2021. Authorities maintained a favourable fiscal policy stance which, in conjunction with elevated commodity prices, contributed to a broad economic recovery as the adverse COVID-19 impacts subsided.

The non-oil economy accelerated as the Government of Guyana (GOGY) provided fiscal relief to boost activity. Fiscal stimulus included the removal of the 20% Excise Tax on petroleum and the Value-added Tax (VAT) on cement, one-off cash grants for households in hinterland communities, and the distribution of fertilisers for the agricultural sector.

Chart 1: Real Gross Domestic Product Growth



Sources: *Bank of Guyana (BOG). *Caribbean Development Bank (CDB) estimate.*

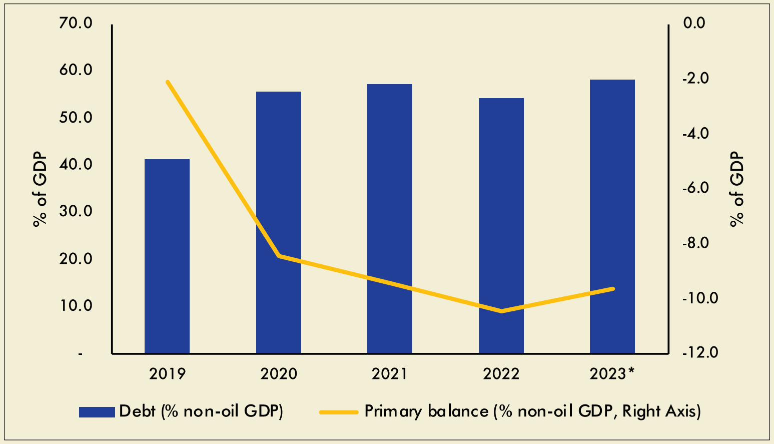
Agriculture, construction and wholesale and retail trade were the major drivers of growth in the onshore domestic economy. Agriculture recovered from the 2021 record floods, as rice production and other crops posted growth of 8.1% and 15.3%, respectively. The construction sector expanded by 26.3% driven by both private and public sector activity, and wholesale and retail trade increased by 15.6% due, in part, to the lifting of COVID-19 restrictions and the positive impact of the fiscal stimulus.

Average consumer price inflation accelerated to 6.4% from 4.9% in 2021. Year-on-year inflation peaked at 7.5% in April when food price increases reached almost 14%. The rate of yearly increase, however, decelerated over the second half of the year due to falling global energy and commodities prices which led to slight declines in the consumer price index.

The last official labour force data showed unemployment at 14.5% in 2021. Data from BOG showed a 10.9% decline in public sector employment between June 2021 and June 2022. This outturn was mitigated by growing employment in the private sector, primarily in the services sector due to the reopening of the economy.

Fiscal performance was marked by a widening of fiscal deficits. The primary deficit increased to 10.5% of non-oil GDP (see Chart 2). Revenue collection benefitted from stronger economic performance, though tax concessions were offered to stimulate growth. Tax revenue increased by 14.6% boosted by higher corporation taxes, personal income tax, and withholding taxes, where growth was mainly attributed to the oil and gas sector. Taxes on international trade and VAT also increased, but excise tax declined by 38.8% reflecting budgetary tax relief measures on imported goods. The budget benefited from the country's first US$607 mn allocation from the Natural Resources Fund (NRF) established to capture a share of oil revenue for reinvestment. Non-interest recurrent expenditure increased 18.6%, as personal emoluments, goods and services and transfer payments all rose as GOGY helped to alleviate cost-of-living pressures. Capital expenditure rose by 147.2% on account of increased spending on infrastructural upgrades including roads, bridges, and educational and public health care facilities.

Chart 2: Fiscal and Debt Performance



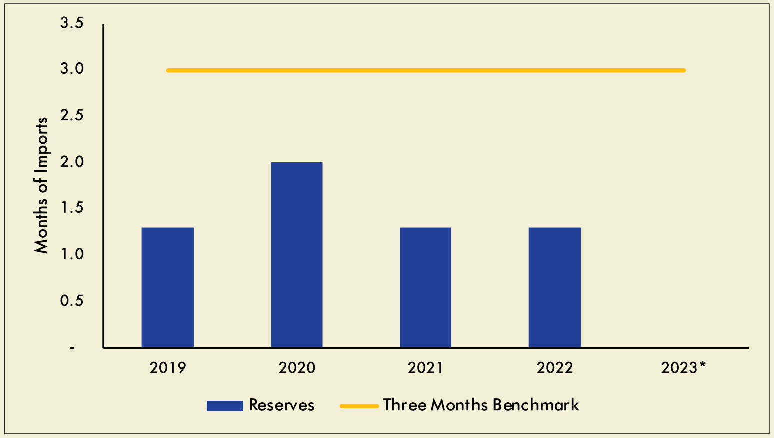
Sources: *Ministry of Finance (MOF). *CDB estimate.*

Influenced mainly by higher GDP, the public sector debt to non-oil GDP decreased in 2022. Public sector debt declined to 54.3% from 57.4% in 2021. The fiscal buffer from NRF stood at US$1.3 billion (bn) as of December (18.9% of non-oil GDP). GOGY remains committed to maintaining debt at moderate levels by limiting new borrowings to concessional finance to ensure debt sustainability.

Financial sector conditions remained stable and conducive for the economic recovery. Banks' capital adequacy ratios remained well above the 8% legal minimum at 19.3% albeit below 2021 levels, and non-performing loans as a share of total loans declined to 5.1% from 8.0% in 2021 as the reserve ratios for problem loans increased strongly. The ratio of liquid assets declined from 36.1% to 32.2%. Growth in domestic private sector credit accelerated to 14.5% (compared with 11.5% in 2021) as business, individual, and real estate mortgage loans all accelerated.

The overall surplus of BOP was stable as a capital account deterioration was offset by improvement in the current account. Higher oil exports led to a strong merchandise trade surplus, but foreign direct investment dropped and oil revenue outflow put the capital account under pressure due to both the repatriation of proceeds from profit oil and NRF flows to the United States of America (USA), where these are held with the Federal Reserve Bank. Development in gross foreign reserves in 2022 allowed for a stabilisation of the import coverage ratio (see Chart 3). International reserves increased by US$122 mn, stabilising the import coverage ratio at 1.4 months. Guyana's external position was also boosted by accumulation in the NRF.

Chart 3: Gross Foreign Reserves



Sources: *BOG.*

2023 OUTLOOK

In 2023 a broad confirmation of current trends is expected for both the oil and the non-oil economy. The rate of growth of overall real GDP is projected to decelerate to 25.1%, as oil production from Liza Phase 2 is at capacity and production from the Payara field is expected to start only towards the end of 2023. The expected economic slowdown in the major trade partner USA, will weigh on the non-oil economy which is expected to slow. The agriculture sector should continue to make an important contribution to economic growth, especially as mechanical issues are being addressed in the sugar and rice sectors, although erratic weather conditions including floods and droughts remain notable risks.

Fiscal conditions are expected to improve slightly in 2023, supported by the NRF which provides an effective buffer for ongoing fiscal pressures. The 2023 Budget is targeted at shielding vulnerable groups and broader society from the worst effects of the cost-of-living crisis and geared towards investment in major infrastructure projects with potentially transformational development impact including the: 165 megawatt (MW), US$700 mn, Amaila Falls Hydropower Project; US$260 mn Demerara Harbour Bridge; and US$1.3 bn, 300 MW, Wales gas-to-energy project. Also, Guyana signed financing agreements worth US$150 mn with the Kingdom of Saudi Arabia for the construction of 2,000 homes across three regions and for upgrading Wismar bridge in Linden from one-lane traffic to four-lane traffic.

Guyana's national development will be shaped by its Low Carbon Development Strategy (LCDS). Tabled in the National Assembly in 2022, LCDS lays out a development vision to 2030. LCDS will leverage Guyana's ecosystems and revenue from the oil and gas sectors to drive economic diversification and strengthen the economic and social infrastructure. In 2022, Guyana became the first country globally to have been issued carbon credits[1].

[1] The Architecture for Reducing Emissions from Deforestation and Forest Degradation Transactions – a standalone and independent programme that develops standardised procedures for crediting emission reductions from national programmes – has issued the world's first TREES credits to Guyana.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	5.4	43.5	19.8	62.3	25.1
Average Inflation (%)	2.1	2.1	4.9	6.4	5.0
Unemployment (%)[2]	13.4	12.8	14.5	n.a.	n.a.
Primary Balance (% of non-oil GDP)	-2.1	-8.4	-9.4	-10.5	-9.7
Public Sector Debt (% of non-oil GDP)	41.3	55.7	57.4	54.3	58.2

Sources: *Ministry of Finance, BOG, BOS, CDB staff estimates.*

Notes: e-estimate; n.a. – not available.

[2] 2021 refers to the third quarter, 2020 to the first quarter, and 2019 to the fourth quarter. No Labour Force Survey was published in 2022.