



**COUNTRY  
ECONOMIC  
REVIEW 2019  
GUYANA**



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GUYANA ECONOMIC BRIEF 2019

## OVERVIEW

**Economic growth in Guyana increased to 4.5% in 2019**, mainly due to increased timber and gold production. In advance of commercial oil production due to start in 2020, there was growth in other areas of the economy, such as construction and services. The overall fiscal deficit widened as current and capital expenditure increased. The public debt ratio fell slightly.

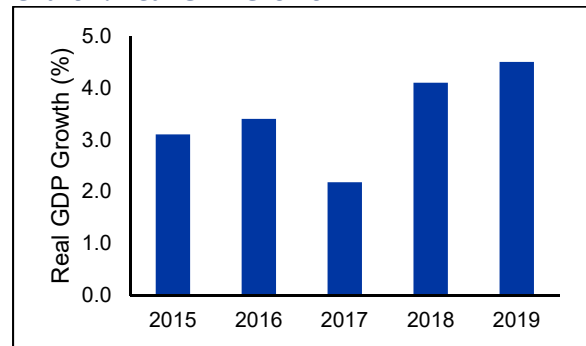
**Oil production starts in 2020, stimulating economic growth and providing windfall revenues for the Government.** The resulting increase in public expenditure will need to be carefully managed to avoid creating inflationary pressure. Reforms to the business environment will be necessary to ensure that non-oil industries can become more competitive.

## KEY DEVELOPMENTS IN 2019

**Economic growth rose in 2019.** Based on performance in the first nine months of the year, the economy was estimated to have grown by 4.5%, compared with 4.1% in 2018 (see Chart 1). Real gross domestic product (GDP) expanded, mainly on account of increased forestry and mining activity. Logs and sawnwood production rose by 19.1% and 1.9%, respectively. Gold declarations were up by 6.8%, and the average export price increased by 6.2%. Bauxite production also rose, albeit by just 0.7%. Of the other main traditional industries, rice output contracted by 6.4% as a result of crop losses

early in the year. Operational challenges in the sugar industry led to an 11.4% fall in production. There was also a contraction in livestock production, mainly chicken, milk, and in fisheries output. Diamond mining fell, while sand and stone quarrying rose. Preparation continued for the start of commercial oil production, with increases in construction, finance and insurance. There were also increases in wholesale trade and transportation.

**Chart 1: Real GDP Growth**



Source: Government of Guyana.

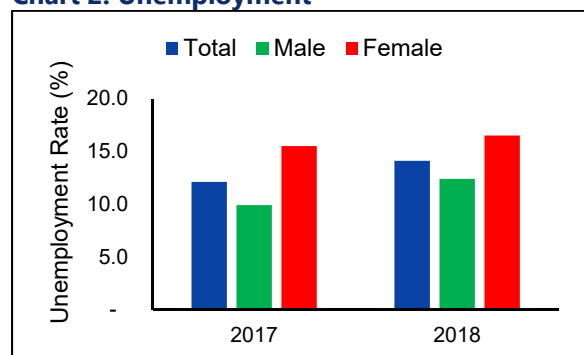
**Oil production will be significant for the economy.** Since the first major offshore oil discovery in 2015, there have been 12 discoveries in the Starbroek block. It is estimated that production will be more than 400,000 barrels per day by 2025<sup>1</sup>. To help manage the revenue windfall, the Natural Resources Fund (NRF) Act was passed in 2019. The Act provides a framework for establishing the NRF, which is a sovereign wealth fund; a Public Accountability and Oversight Committee to report on the Fund; and a transfer rule that determines fiscal transfers from the NRF to the Consolidated Fund.

<sup>1</sup> Based on Liza 1 and Liza 2 only. Additional discoveries not yet included.

**Inflation is already increasing in advance of the oil boom.** Price rises averaged 2.0% in the 12 months to the end of October, compared with 1.2% for the same period in 2018. There were higher price rises for many items, especially food and housing. Inflationary pressures are expected to intensify as activity ramps up.

**Unemployment was much higher for women than for men.** The latest available data show that overall unemployment averaged 14.1% in 2018, slightly higher than 12.1% the previous year (see Chart 2). Female unemployment (16.5%) was higher than male unemployment (12.4%). For young people (aged 15-24), female unemployment was 34.6% and male unemployment was 20.9%. There were also gender disparities in earnings.

**Chart 2: Unemployment**



Source: Guyana Bureau of Statistics (GBS).

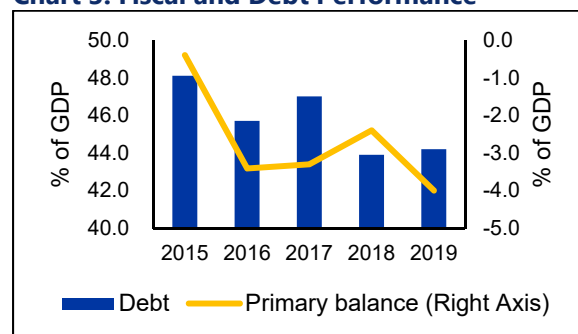
**Central Government recorded an overall fiscal surplus.** In the first nine months of 2019, current revenue grew by 7.6%, mainly due to increased collections of direct and indirect taxes. Non-interest expenditure rose, driven by employment costs (14.5%), purchases of goods and services (15.6%) and transfer payments (0.5%). Interest expenditure rose by just 0.4%, with fewer domestic payments on treasury bills and debentures. Capital expenditure increased by

37.3%, outweighing the increase in capital revenue from grants and debt relief.

**The public debt ratio rose slightly to 44.2% of GDP in 2019 (see Chart 3).**

External debt to multilateral creditors increased, but bilateral obligations fell on account of US\$50.7 million (mn) debt relief from the Government of Kuwait. Debt service payments increased to both multilateral and bilateral creditors. Outstanding domestic debt increased marginally, but the service costs almost doubled, reflecting payments for 364-day treasury bills.

**Chart 3: Fiscal and Debt Performance**



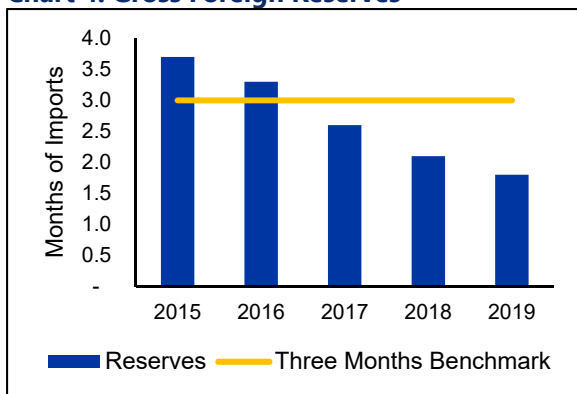
Source: Bank of Guyana (BOG).

**Net credit from the banking system increased. Meanwhile, further measures were taken to strengthen the financial sector.** Net domestic credit grew by 14.2% in the first 10 months of 2019, as loans to both the Central Government and the private sector rose. Commercial loans were up for manufacturing, construction and distribution. There was also an increase in real estate mortgage loans. Loans were down for agriculture and mining. The ratio of gross non-performing loans to total loans was 12.6% at the end of June, slightly higher than 12.3% a year earlier. Bank capitalisation continued to be satisfactory, with the capital adequacy ratio falling from 30.7% to 30.0% in the year to June.

To strengthen financial sector resilience, a deposit insurance scheme was introduced in July, guaranteeing up to GY\$2 mn in the event of a banking failure. Correspondent banking relationships remained stable, with domestic banks maintaining business with two foreign correspondent banks.

**The balance of payments deficit contracted, mainly because of a larger financial account surplus.** The current account deficit widened, driven by increased imports of goods and services to support the oil and gas sector. Gold and sugar exports increased slightly. An increase in the financial account surplus was mainly because of higher levels of foreign direct investment in oil and gas. The overall deficit was funded by debt relief and by a drawdown on international reserves (see Chart 4). Reserves fell below two months of imports but should increase once oil exports take off.

**Chart 4: Gross Foreign Reserves**



Source: BOG.

## OUTLOOK

**The outlook for Guyana has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies.** In early 2020 the first commercial oil was delivered, but the subsequent collapse in the global oil price has implications for production and investment. Government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

**Once oil production ramps up again, Guyana will be keen to avoid the “Dutch Disease”** (whereby a dominant oil sector damages other productive sectors). Many oil and other resource-rich countries have previously experienced exchange rate appreciation negatively affecting their non-resource-based industries, which failed to re-emerge after the oil resources had been exhausted. To guard against a similar situation emerging, the Government can pursue careful macroeconomic management, ensuring that inflation is contained. The NRF can help in this regard. The authorities can also ensure that the business environment provides the right conditions for economic diversification. Guyana ranks 134<sup>th</sup> in the 2020 World Bank Doing Business Index, the same position as in 2019. While Guyana performs relatively well in starting a business, there is scope for improvement in other areas, such as dealing with construction permits, getting electricity, registering property and improving access to credit.

## DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources and are the latest available at time of publication. Some are subject to revision.

### Selected Indicators

	2015	2016	2017	2018	2019 <sup>e</sup>
Real GDP Growth (%)	3.1	3.4	2.2	4.1	4.5
Average Inflation (%)	0.9	0.8	1.9	1.3	2.0*
Unemployment (%)	n.a	n.a	12.1	14.1	n.a
Primary Balance (% of GDP)	1.1	-3.4	-3.0	-1.6	-3.7
Public Sector Debt (% of GDP)	48.1	45.7	47.0	43.9	44.2

Sources: BOG, GBS, Ministry of Finance, Caribbean Development Bank.

Notes: e – estimate (as at January 31, 2020); n.a. – not available.

\*Inflation in 2019, average 12 months to the end of October.



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