GUYANA

COUNTRY ECONOMIC REVIEW 2020

Guyana dollar (GY$); United States dollar (US$).

OVERVIEW

Guyana's economic growth significantly accelerated to 43.5% in 2020. This was mainly due to the first commercial production of oil, although production was dampened by the impact of COVID-19 on oil prices. Guyana registered just over 6,300 cases of the highly infectious virus, and 164 deaths in 2020. Social distancing measures to slow COVID-19 transmission also affected the non-oil economy, with mixed performance from the traditional main sectors. The fiscal deficit widened as the Government took measures to support individuals and businesses affected by the pandemic. Debt was relatively stable, although the Government's overdraft with the Bank of Guyana (BOG) increased.

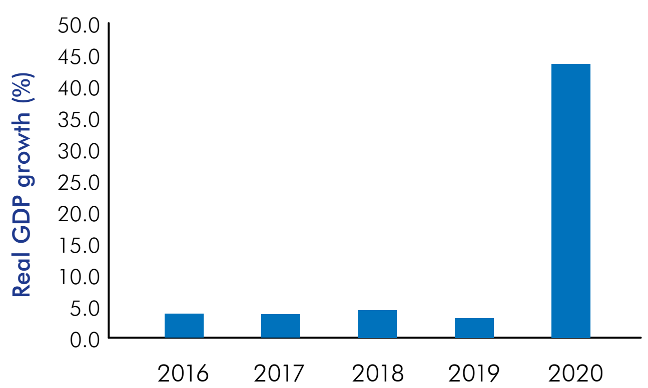
Prospects for non-oil recovery in 2021 are uncertain. Much will depend on the speed and effectiveness of vaccination against COVID-19 in Guyana and its trading partners. Oil production will increase, although the long-term prospects for the industry could be impacted by the effect of changing demand for energy as a consequence of changing work practices including remote working, and by increasing concerns about fossil fuels' impact on climate change.

KEY DEVELOPMENTS IN 2020

Oil production was the main contributor to economic growth in 2020. Despite the fall in oil price resulting from a price war between the Russian Federation and Saudi Arabia, and the collapse in global oil demand as the COVID-19 pandemic set in, the first full year of commercial oil production spurred strong economic growth of an estimated 43.5% (see Chart 1). The volume of production was not affected by the global economic conditions, although mechanical issues limited average daily production to 74,000 barrels per day (bpd) over the year, compared with a projected 102,000 bpd. In addition, some investments were put on hold.

The non-oil economy was adversely affected by COVID-19. After the first confirmed case of the virus in March, stringent containment measures were introduced aimed at controlling the spread of the pandemic. These included border closures and stay-at-home orders, which created a challenging business environment and adversely affected activity especially in construction, wholesale and retail trade, accommodation and food services, transport and storage, and financial and insurance activities. The agriculture sector recorded higher output of rice, poultry, meat and eggs but lower output of sugar and marine products. Gold, bauxite and diamond production fell. There were mixed performances in the manufacturing sector, with increased production of liquid pharmaceuticals, rum, and paints, and the falling output of stockfeed, alcoholic and non-alcoholic beverages.

Chart 1: Real gross domestic product growth



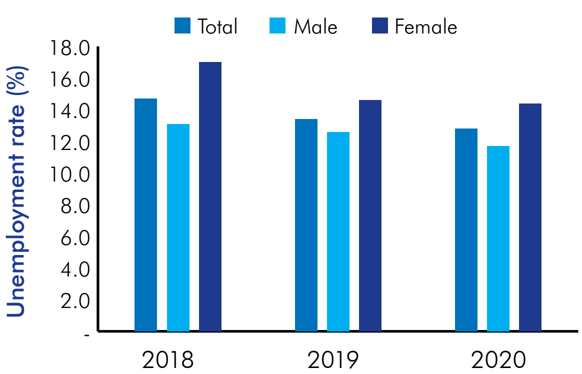
Sources: *Government of Guyana.*

Inflation fell as the pandemic dampened the oil boom. Price rises averaged 0.8% in the 12 months to December, compared with 2.1% for 2019. This was mainy due to a fall in oil prices in March.

Unemployment was much higher for women than for men. The latest available unemployment data pre-dates the start of the pandemic. Overall, unemployment was 12.8% in the first quarter of 2020, less than 13.4% in the same quarter of 2019 (see Chart 2). Female unemployment (14.4%) was higher than male unemployment (11.7%). For young people (aged 15-24), female unemployment was 36.4% and male unemployment was 25.4%. There were also gender disparities in earnings.

There are few indicators to illustrate the effect of the pandemic on employment. A survey by the Inter-American Development Bank (IDB)[1] reported that 71.6% of the households surveyed noted an income loss in April 2020, and 41.2% of households declared at least one job loss. Households reporting earnings below the minimum wage were more severely impacted. 44.8% of women lost their job, compared to 36.6% of men.

Chart 2: Unemployment



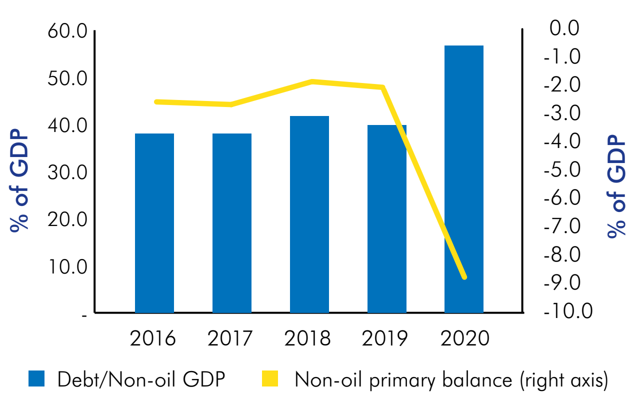
Source: *Guyana Bureau of Statistics (GBS).*

Public fiscal deficit widened. The primary deficit deteriorated to 8.6% of gross domestic product (GDP), from 2.0% in 2019 (Chart 3). Additional expenditure was necessary to address the pandemic, but this support was initially limited because of a protracted impasse over the results of the general elections held in March 2020. The new administration introduced a series of measures to cushion the impacts on businesses and households, including the removal of value added tax on electricity and water, medical supplies, and building and construction materials. In addition, GY$5 billion (bn) was allocated for cash transfers to support welfare. Total current expenditure increased by 15%, mainly due to increases in personal emoluments (4.8%); goods and services (25.2%); and transfer payments (19.7%). Total interest charges declined by 8.8%.

The pandemic contributed to a 5.5% decrease in current revenues. There were falls in receipts from value added and excise taxes, and from taxes on trade. However, income tax receipts increased. Capital expenditure increased by 14.9%, while capital revenue, grants and debt relief combined fell by 36.5%. The overall deficit was GY$90.5 billion (bn), compared with GY$29.9 bn for the same period in 2019.

The deficit was financed by an increase in public debt (see Chart 3). Domestic debt, including the overdraft with BOG, increased by 75% to GY$264.5 bn in 2020. As a consequence, domestic debt service payments were higher than in 2019. Meanwhile, external debt fell to US$1,320 mn, as disbursements from bilateral and multilateral creditors declined. External debt service payments fell by 4.0%, mainly due to the amortisation of debt to Trinidad and Tobago in May 2019.

Chart 3: Fiscal and debt performance



Sources: *BOG*

1 IDB August 2020, COVID-19 The Caribbean Crisis, Results from an Online Socioeconomic Survey

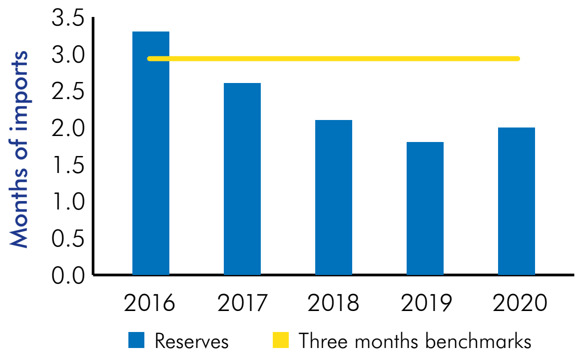
At the inception of the pandemic, BOG relaxed supervisory guidelines, and commercial banks were encouraged to introduce measures to support economic activity and alleviate the burden on borrowers. As the situation deteriorated, new measures included extending the moratoria on payments; relaxing the rules on loan renegotiation; and lowering liquidity requirements. Banks provided short-term working capital support and foregoed interest accrued on loans with outstanding balances.

Notwithstanding the easing in policy, the growth in private sector credit (2.2%) was less than for the same period in 2019 (8.6%). Loans were up for some sectors, except the personal, construction and engineering, and distribution sectors. There was also an increase in real estate mortgage loans.

At the end of September, the ratio of non-performing loans (NPLs) to total loans was 10.6%, just 0.1 percentage points lower than a year earlier. The absolute number of NPLs increased by 3.7%, mainly due to the deterioration in portfolios of three of the eight licensed depository financial institutions. NPLs were concentrated in the services and manufacturing sub-sectors. Bank capitalisation continued to be satisfactory, with the capital adequacy ratio increasing from 29.6% to 30.9% in the year to September.

The balance of payments improved to a surplus. The current account deficit shrank by more than three quarters to US$659.5 mn, on account of an increase in exports (mainly crude oil, gold and rice), and a decline in imports (largely reductions in intermediate, capital and consumption goods, related to lower fuel prices and lower economic activity following the enforced lockdown). The capital account surplus fell despite an increase in foreign direct investment, mainly because of the repatriation of profits by Esso Exploration and Production Guyana Limited. There was also some debt forgiveness. Foreign reserves stood at US$681 mn at the end of September, equivalent to two months of import cover (see Chart 4).

Chart 4: Gross foreign reserves



Sources: *BOG*

OUTLOOK

The Government is projecting growth of 20.9% in 2021. This assumes that oil output will increase by 46.7%, with production expected to be 109,000 bpd. Plans to increase output by expanding operations to other oilfields remain in place. The Government also expects that the non-oil economy will grow by 7.3%, based on higher output from agriculture, gold and bauxite extraction, manufacturing and construction.

However, this outlook remains clouded by COVID-19 uncertainty. COVID-19 could continue to affect the oil sector through price, especially if there is a reduction in demand as work practices change. Other sectors could be affected by ongoing social distancing requirements. The development and approval of new vaccines has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide rollout. About 70% of a country's population needs to be vaccinated to ensure that the entire population is protected. In the more developed countries, this might not happen until the second half of the year.

The pandemic has put government finances under increasing pressure. The Natural Resource Fund (NRF), a sovereign wealth fund set up in 2019 to manage the revenues from Guyana's newfound oil resources, has not grown as quickly as expected, due to low oil prices in 2020. Therefore, the Government will need to judiciously control its non-oil fiscal position, by prioritising its investments carefully, managing expenditure, and improving revenue collection.

A fiscal responsibility framework that constrains the annual non-oil deficit, and complements the NRF can be considered to enhance effective management of the oil wealth. Under the NRF Act, long-term fiscal transfers are determined by the expected financial return on the accumulated assets of the NRF. This envisages a transfer of around half of current oil revenue to the budget in the medium term. A complementary fiscal framework that constrains the annual non-oil deficit to not exceed the expected transfer from the NRF (i.e., a zero-overall fiscal balance), would ensure that a part of the oil revenue is saved as a buffer against shocks and for future generations. As an anchor for fiscal policy, this framework would help manage public expenditure, and prevent debt buildup at the same time as the NRF accumulates.

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

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.8	3.7	4.4	3.1	43.5
Average inflation (%)	0.8	1.9	1.3	2.1	0.8
Unemployment (%)	n.a.	12.1	14.1	13.4	12.8§
Primary balance (% of non-oil GDP)	-2.5	-2.6	-1.8	-2.0	-8.6
Public sector debt (% of non-oil GDP)	38.1	38.1	41.8	39.9	56.7

Sources: *BOG, GBS, Ministry of Finance, CDB.*

Notes: e – estimate (as at March 31, 2021); n.a. – not available.
§First quarter.