GUYANA

1. General trends

Economic activity in Guyana is accelerating ahead of the oil boom expected in 2020, with growth estimated at 4.1% in 2018, up from 2.1% in 2017. The construction sector made the largest contribution to economic growth, reflecting an uptick in private investment, particularly in residential houses. While the restructuring of State-owned sugar company, Guyana Sugar Corporation (GuySuCo), led to a cut in sugar production, the agriculture, fishing and forestry sector saw positive growth, largely on the back of the strong rebound in the livestock sector following the influx of hardier breeds and improved production practices. Despite the continued weakness in gold extraction, the mining and quarrying sector returned to positive growth for the first time in two years, owing to a significant increase in bauxite, diamond, sand and stone production, underpinned by stable global and local demand. Growth is projected to accelerate in 2019, reaching 4.6%, as the major sectors continue to flourish and the negative effects of the restructuring of GuySuCo and the supply constraints on gold extraction abate. However, recent political uncertainty in the country poses a risk to economic activity, as some private businesses have postponed investment decisions.

Even though public spending expanded, the central government’s fiscal deficit narrowed modestly to 3.6% of gross domestic product (GDP) in 2018, down 4.5% in 2017, owing to higher tax receipts. Current expenditure rose by 10.1%, reflecting higher contributions to local and international organizations, while tax revenue increased by 16.0%, largely owing to the improved tax collection following the restructuring of the Guyana Revenue Authority (GRA). The Government of Guyana expects the deficit to widen to 5.0% of GDP in 2019, mainly driven by higher capital expenditure, which is forecast to expand by 25.7%.

The monetary policy stance remained accommodative in 2018, as net redemptions of treasury bills issued for monetary policy purposes amounted to 56.9 billion Guyana dollars (G$), while the central bank rate was unchanged at 5.00%. Commercial interest rates fell slightly and year-on-year net domestic credit had expanded by 15.7% in December 2018. Inflation increased slightly, up from 1.5% in December 2017 to 1.6% in December 2018, reflecting higher food prices and fuel costs. The inflation rate is expected to rise moderately to 2.5% in 2019. However, the government recognizes that unexpected inflationary pressures could arise as economic activities pick up in anticipation of the first oil production in 2020 and, if necessary, it will respond to keep inflation rates stable.

The current account deficit rose from 8.4% of GDP in 2017 to 18.0% of GDP in 2018, largely as a result of increases in merchandise imports and net service payments, including large investments in oil and gas sector. The merchandise trade deficit widened from 5.8% of GDP to 11.9% of GDP, owing to higher payments for imports of fuel and lubricants and capital goods, as well as lower receipts from gold and sugar exports. The services trade deficit widened from 10.5% of GDP to 19.3% of GDP as a result of higher payments for other business services, including oil exploration services. The current account deficit is expected to contract in 2019, partly thanks to a recovery in gold and sugar exports.

2. Economic policy

(a) Fiscal policy

Commercial oil production in Guyana is expected to start in early 2020. In anticipation of an oil boom, the Government of Guyana is pursuing institution-building to ensure that oil revenues are invested in order to boost growth and create new industries and jobs. In 2019, the government is continuing to reform the tax administration, establishing a new public investment management framework and institutions to manage oil revenues, modernizing public procurement mechanisms, and improving government accounting processes and treasury management. The government is also committed to facilitating private sector development, promoting green economy initiatives, developing infrastructure and human capital, and enhancing public security.

According to the 2019 budget, total revenue (including grant receipts) is expected to increase by 9.7%, following a 9.8% increase in 2018, thanks to improved tax collection following the reform of the tax administration. Tax revenues are expected to increase by 12.6%, mainly driven by higher income tax (13.3%) and value-added tax and excise duty (13.3%) receipts. Meanwhile, non-tax revenue is projected to decline by 19.1%, as a result of a decline in revenue transfers from statutory bodies.

Total expenditure is expected to jump by 14.2% in 2019, up significantly on the 6.2% increase seen in 2018, as a result of hikes in personal emoluments (18.0%), other goods and services payments (16.7%) and capital expenditure (25.7%). The rise in personal emoluments is the result of the government's initiative to increase workers' income, while capital expenditure has been pushed up by infrastructure developments to facilitate economic activities and build resilience to natural disasters.

Although the current account balance is expected to maintain a surplus of 2.0% of GDP in 2019, the overall fiscal deficit is projected to deteriorate from 3.6% of GDP to 5.0% of GDP, owing to higher capital expenditure. As a result, the public debt-to-GDP ratio is expected to worsen slightly but remain below its 2017 level of 47.0%.

(b) Monetary policy

The Bank of Guyana has maintained an accommodative monetary policy stance since the 2008–2009 global financial crisis. Although the central bank lending rate, the bank rate, has remained at 5.00%, treasury bill rates declined in 2018, following the G$ 56.9 billion net redemptions of treasury bills issued for monetary purposes. For example, the 182-days treasury bill rate decreased from 1.11% in December 2017 to 0.96% in December 2018. The average small savings rate and the weighted average lending rate also fell from 1.11% to 1.04% and from 10.19% to 10.02%, respectively. Furthermore, during the first four months of 2019, most of the interest rates continued to follow this gradual downward trend.

Falling interest rates underpinned the surge in net domestic credit, up 15.7% in 2018, as more loans were granted to both the public and private sector. Private sector credit increased by 4.2% in 2018, mainly driven by higher credit to the distribution sector and real estate mortgage loans. Public sector credit expanded significantly by G$ 26.6 billion, mainly as a result of a worsening central government net credit position. Despite a 5.0% decline in net foreign assets, the broad measure of money supply, M2, increased by 7.5% in 2018 owing to the uptick in domestic credit.

While the monetary policy stance is expected to remain accommodative during the rest of 2019, it could start to tighten as economic growth and inflation will increase ahead of the oil boom in 2020.

(c) Exchange-rate policy

The central bank's exchange rate stood at G$ 208.5 to US$ 1 in December 2018, a 1% depreciation year-on-year. The official rate remained constant over the first five months of 2019, although the market exchange rate recorded a small depreciation. Throughout the rest of 2019, the exchange rate is expected to remain stable as the government seeks to stabilize prices.

(d) Other policies

The government is undertaking institutional reforms to build capacities to manage and monitor oil revenues. In 2018, the Green Paper on Managing Future Petroleum Revenues and Establishment of Fiscal Rule and a Sovereign Wealth Fund was published and the natural resource fund bill was submitted to parliament. Pursuant to the adoption of that bill, the government is in the process of establishing the Public Accountability and Oversight Committee to assess management of the sovereign wealth fund, including investment decisions and utilization of withdrawals from the Fund.

As part of the government's restructuring of GuySuCo, following continued losses, the workforce will be reduced three of its six sugar estates will be privatized. In addition, the focus of a new business plan for 2018–2020/21 will be on modernizing the three remaining estates by cogenerating electricity using sugar cane bagasse, producing value-added sugars and investing in packaging facilities. The ongoing recapitalization of these estates is anticipated to result in production rising from 98,000 tons by the end of 2018 to nearly 145,000 tons by 2021.

However, recent political uncertainty in Guyana could delay private sector investment decisions. On 21 December 2018, the National Assembly passed a motion of no confidence by a slim 33 to 32 majority, triggering a new general election within three months. However, the Attorney General filed legal proceedings in the High Court to determine whether the motion was validly passed. That Court found that it was, but the Court of Appeal overturned that ruling, stating that an absolute majority of 34 votes was required. On 18 June 2019, the Caribbean Court of Justice (CCJ), the final appellate court for Guyana, ruled that the motion was valid and ordered both parties to reach a consensus on a way forward. If the two parties cannot agree, the CCJ will fix an election date.

3. The main variables

(a) The external sector

The current account deficit widened from 8.4% of GDP in 2017 to 18.0% of GDP in 2018, as a result of temporary disruptions to sugar and gold exports, increases in imports and higher service payments, following large investments in oil and gas sector.

The merchandise trade deficit jumped from 5.8% of GDP to 11.9% of GDP, reflecting a 4.4% decline in merchandise exports and a 11.0% increase in merchandise imports. The drop in exports can be explained by a 6.2% decrease in gold exports, when heavy rainfalls made roads impassable, and a 44.1% fall in sugar exports, stemming from GuySuCo's restructuring. Meanwhile, there was a 20.6% surge in imports of fuel and lubricants, and capital goods imports rose by 12.0% as a result of large investments in the oil and gas sector.

The net services deficit expanded, up from 10.5% in 2017 of GDP to 19.3% of GDP in 2018, as the factor services account deficit increased slightly from 0.3% of GDP to 0.7% of GDP and that of the non-factor services account widened from 10.1% of GDP to 18.5% of GDP, due to higher payments for other business services, including oil exploration services.

Although net inflows on the capital account increased from 6.4% of GDP in 2017 to 14.8% of GDP in 2018, thanks to larger inflows of foreign direct investment to the mining and oil sector, the overall balance of payments deficit widened from 2.0% of GDP to 3.5% of GDP, due to the increase in the current account deficit. The balance of payments deficit was largely financed by a drawdown on the central bank's net foreign assets, bringing international reserves down to 2.3 months of import cover by the end of 2018.

A surplus in the balance of payments is expected in 2019 for the first time since 2012, against a backdrop of a lower current account deficit and continued net capital inflows. Projections for the current account deficit are that it will contract as gold and sugar exports recover and growth in imports slows. Meanwhile the capital account surplus is expected to remain high, although lower than in 2018, with net inflows of foreign direct investment in the energy sector. As a result of the recovery in exports, international reserves had improved to 2.9 months of import cover by the end of March 2019.

(b) Economic activity

Guyana's economic growth improved significantly, reaching 4.1% in 2018, up from 2.2% in 2017, based primarily on robust activity in the construction sector and an uptick in wholesale and retail trade and other services sectors. After posting 11.4% growth in 2017, the construction sector grew by 11.0% in 2018, driven by private sector investment. The wholesale and retail trade and other services sectors grew by 8.1% and 14.0%, respectively, on the back of continued consumer confidence and increased visitor arrivals linked to events including national celebrations.

In spite of the severe 23.8% contraction in sugar production as a result of the restructuring of GuySuCo, a drop in the supply of quality canes and poor weather conditions, the agriculture, fishing and forestry sector recorded positive overall growth of 1.5% thanks to the rebound in the livestock subsector due to strong consumer demand for poultry meat, as well as the influx of hardier breeds and the adoption of improved production practices by pork producers. The mining and quarrying sector also expanded by 2.9%, as the increase in the production of bauxite and other minerals offset the drop in gold extraction. Buoyant demand for bauxite led to a 31.9% increase in output, while higher demand for sand and stone in the construction sector and for diamonds also led to strong growth of 45.9% in other mining subsectors. Meanwhile, total gold declarations fell by 6.2% reflecting fewer declarations by small- and medium-scale miners, who were hampered by poor road conditions following heavy rain fall.

Growth is projected to be 4.6% in 2019, as the momentum in the key sectors looks set to continue and the negative effects of supply constraints in sugar production and gold extraction abate. Sugar production is expected to recover in the wake of the recapitalization of GuySuCo's three remaining estates and it is predicted that the construction sector will grow in response to an expansion of the public sector investment programme. However, the aforementioned domestic political uncertainty poses a risk to economic activity, as some private businesses have postponed their investment decisions.

(c) Prices, wages and employment

Inflation increased slightly from 1.5% in December 2017 to 1.6% in December 2018, reflecting higher food prices and fuel costs. Food prices rose by 3.1%, affected by the poor weather conditions. The housing component of the consumer price index, which includes domestic gas, kerosene and electricity, increased by 1.1%, while transport and communication rose by 1.9%, driven by higher operation and personal transport costs (tyres, gas, parts and repairs). Inflation is expected to rise moderately to 2.5% in 2019 on the back of further moderate increases in food and fuel prices.

The job cuts at GuySuCo (-39.2%) and other central government agencies (-0.9%) contributed to a 11.1% fall in total public sector employment in 2018In the private sector, employment in the local gold mining sector fell, but jobs were created in other major sectors such as construction, distribution and other services.

As the government is committed to improving wages and salaries, wage increases for public servants were announced in 2018, ranging from 7% for those earning less than G$ 100,000 a month to 0.5% for those with monthly salaries of G$ 1 million and above. This pledge was reiterated in the 2019 budget.

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	4.1	5.2	5.3	5.0	3.9	3.1	3.4	2.2	4.1
Per capita gross domestic product	4.0	4.8	4.7	4.3	3.2	2.4	2.7	1.6	3.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.0	2.8	3.6	2.4	5.7	2.3	-10.3	0.4	1.5
Mining and quarrying	-3.2	16.4	17.5	8.1	-11.3	8.2	46.1	-8.8	2.9
Manufacturing	0.3	6.8	2.4	7.9	10.7	5.5	-9.5	4.0	1.2
Electricity, gas and water	0.6	2.1	5.7	4.9	3.9	-0.2	9.5	4.5	0.3
Construction	10.7	2.8	-11.0	22.6	18.0	-10.0	6.3	11.4	11.0
Wholesale and retail commerce, restaurants and hotels	10.9	4.5	6.7	-0.9	-3.0	-0.6	-1.8	8.7	8.1
Transport, storage and communications	6.9	8.1	12.2	4.8	9.5	10.6	0.9	3.3	1.4
Financial institutions, insurance, real estate and business services	6.2	7.9	15.6	6.5	1.8	6.5	2.2	-0.9	4.4
Community, social and personal services	3.3	2.4	2.4	1.6	2.9	2.8	1.8	2.1	4.7
Balance of payments	**Millions of dollars**								
Current account balance	-246	-372	-367	-456	-385	-144	128	75	...
Goods balance	-534	-641	-581	-500	-624	-305	94	14	...
Exports, f.o.b.	885	1 129	1 415	1 375	1 167	1 170	1 434	1 042	...
Imports, f.o.b.	1 419	1 771	1 997	1 875	1 791	1 475	1 341	1 027	...
Services trade balance	-96	-136	-229	-338	-245	-280	-282	-32	...
Income balance	13	-9	24	29	27	25	-5	-15	...
Net current transfers	371	415	419	353	458	417	320	102	...
Capital and financial balance c/	51	318	256	505	408	169	-181	-119	...
Net foreign direct investment	198	247	278	201	238	117	6	141	...
Other capital movements	-147	71	-22	305	170	52	-187	-261	...
Overall balance	-195	-55	-111	49	22	25	-53	-45	...
Variation in reserve assets d/	158	22	80	-84	-59	-68	2	19	...
Other financing	37	33	31	34	37	43	51	25	...
Other external-sector indicators									
Net resource transfer (millions of dollars)	101	341	311	568	471	236	-134	-110	...
Gross external public debt (millions of dollars)	1 043	1 206	1 358	1 246	1 216	1 143	1 162	1 248	1 322
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	4.5	3.3	3.4	0.9	1.2	-1.8	1.4	1.5	1.6
Variation in nominal exchange rate (annual average)	-0.2	0.2	-0.6	2.9	-0.4	-0.4	0.1	0.0	0.4
Nominal deposit rate e/	2.7	2.3	1.8	1.4	1.3	1.3	1.3	1.2	1.1
Nominal lending rate f/	15.2	14.7	14.0	12.1	11.1	10.8	10.7	10.6	10.4
Central government	**Percentages of GDP**								
Total revenue	25.8	25.6	24.6	23.7	23.6	25.6	25.6	28.2	29.8
Tax revenue	21.8	21.2	20.2	20.6	21.4	21.6	21.0	23.3	26.0
Total expenditure	28.7	28.7	29.3	28.1	29.1	27.0	30.0	32.7	33.4
Current expenditure	18.7	19.1	19.7	19.9	21.1	22.4	23.5	24.7	26.2
Interest	1.7	1.5	1.1	1.0	1.0	1.0	0.9	1.1	1.1
Capital expenditure	10.1	9.5	9.7	8.2	8.0	4.6	6.4	8.0	7.2
Primary balance	-1.2	-1.6	-3.6	-3.4	-4.5	-0.4	-3.4	-3.4	-2.5
Overall balance	-2.9	-3.1	-4.7	-4.4	-5.5	-1.4	-4.4	-4.5	-3.6
Non-financial public sector debt	68.0	66.7	63.6	58.1	51.8	48.7	45.9	47.0	45.6

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	12.0	17.8	16.9	20.2	24.4	28.0	27.5	29.9	33.0
To the public sector	-8.9	-4.9	-7.7	-5.9	-4.1	-1.0	1.0	3.8	7.1
To the private sector	24.3	25.6	27.6	30.2	31.8	32.5	30.3	30.5	30.4
Others	-3.4	-2.9	-3.0	-4.1	-3.4	-3.6	-3.8	-4.5	-4.5
Monetary base	19.8	18.7	19.4	18.7	19.8	20.9	21.9	22.2	24.3
Money (M1)	17.5	18.5	19.2	18.8	20.6	19.7	20.0	21.4	22.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2006 prices.
c/ Includes errors and omissions.
d/ A minus sign (-) indicates an increase in reserve assets.
e/ Small savings rate.
f/ Prime lending rate.

Table 2

GUYANA: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	597	586	579	572	523	489	452	499	534	519 b/
Consumer prices										
(12-month percentage variation)	2.5	1.5	1.9	1.5	0.6	1.3	1.5	1.6	2.0	2.7 c/
Average nominal exchange rate										
(Guyana dollars per dollar)	207.2	207.2	207.2	206.9	206.2	208.0	208.7	208.6	208.8	209.3 b/
Nominal interest rates (average annualized percentages)										
Deposit rate d/	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0 b/
Lending rate e/	10.6	10.6	10.6	10.5	10.5	10.4	10.4	10.3	9.2	8.9 b/
Monetary policy rates	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0 b/
Domestic credit (variation from same										
quarter of preceding year)	11.7	6.6	7.8	11.0	13.2	22.7	22.5	18.0	14.3	12.8 b/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Figures as of May.
c/ Figures as of April.
d/ Small savings rate.
e/ Prime lending rate.

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