

GUYANA

1. General trends

The Guyanese economy is estimated to have grown by 62.3% in 2022, the highest growth rate in the world. A significant expansion in oil production and an increase in international prices contributed to this result. Production increased as a result of the introduction of a second floating production, storage and offloading (FPSO) vessel, the Liza Unity, last year, which led to a 139% expansion in crude oil exports. Meanwhile, energy prices were high because of the conflict between the Russian Federation and Ukraine, driving up the value of exports and prompting oil companies to bring forward planned investments to benefit from increased revenue. Non-oil sector GDP grew by 11.5%, benefiting from growth in the agriculture and construction sectors. Nominal GDP expanded by 47%, which affected many indicators calculated as a percentage of GDP. For 2023, growth is estimated at 25.1%, with the energy sector growing by 35.6% and the non-energy sector growing by 7.9%.

The Government of Guyana is capitalizing on the ongoing oil boom to invest heavily in infrastructure upgrades through a public sector investment programme. In addition, several tax cuts were implemented, to benefit importers and low-income earners. This expansionary fiscal policy in 2022 produced a deficit of 5.0% of GDP. To limit increases in external debt, 20% of the deficit was financed with external sources and 80% from domestic sources, including withdrawals from the Natural Resource Fund. Total public and publicly guaranteed debt fell to 24.6% of GDP owing to increased nominal GDP. In 2023, the Government hopes to introduce a revised production sharing agreement model, to increase the share it receives from oil exploration contracts.

The Bank of Guyana maintained its accommodative monetary policy in 2022, prioritizing price stability. The official discount rate was unchanged at 5.0%, while the reserve requirement rate was increased to 12.0%, reversing a reduction applied during the coronavirus disease (COVID-19) pandemic. The official exchange rate remained at 208.5 Guyana dollars (G\$) to US\$ 1. The year-on-year inflation rate fluctuated over the course of 2022, reflecting upward pressure on food prices from the conflict in Ukraine and on import prices in general from increased shipping costs and fuel prices. In response, the Government lowered taxes on fuels and custom duties to mitigate the impact on consumers.

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary in 2022; in the 2022 budget statement the Government announced several tax cuts to stimulate the economy, including on equipment for the energy sector. To benefit lower-income earners, the personal income tax threshold was increased from G\$ 65,000 to G\$ 75,000. In response to rising fuel prices, the excise taxes on gasoline and diesel were reduced from 20% to 10% and later removed. In addition, to assist importers with higher shipping prices, the Government declared that customs duties, excise tax and value added tax would be calculated on pre-pandemic freight costs until December 2022. On the expenditure side, the Government continued with infrastructure spending and increased expenditure on several social assistance programmes, including the Old Age Pension and Public Assistance (for persons with disabilities).

These policies resulted in a fiscal deficit of 5.0% of GDP for 2022, down from 6.9% in 2021 and 7.9% in 2020. Total revenue and total expenditure both declined as percentages of GDP; revenue from 16.2% in 2021 to 14.1% in 2022 and expenditure from 23.1% to 19.2%. The considerable nominal GDP growth was responsible for these declines (as percentages of GDP). In absolute terms, total revenue grew by 61.3%, fuelled by a 14.6% rise in tax revenue and a 1,169.6% increase in non-tax revenue. Total expenditure grew by 53.1%, driven by a 15.3% increase in current expenditure and a 147% increase in capital expenditure, the latter reflecting the Government's public sector investment programme. By sectors, the largest share of the investment programme went to construction. The goods and services, wages and salaries, transfer payments and interest payments subcomponents of current expenditure grew by 20.3%, 12.8%, 21.3% and 13.2% respectively. Within the interest payments subcomponent, domestic interest grew by 38.9% while external interest payments continued a three-year downward trend, falling by 0.8%.

With regard to the fiscal deficit, 20% was financed from external sources and 80% from domestic sources. The domestic sources included withdrawals from the Natural Resource Fund. Total public and publicly guaranteed debt grew by 12.8% in absolute terms but fell as a percentage of GDP to 24.6% in 2022 from 38.9% at the end of 2021.

The government's 2023 budget statement maintained some of the changes implemented in 2022 or expanded on them. The personal income tax threshold was increased to G\$ 85,000, bringing its increase from 2021 to 30.1%. Expenditure on social assistance programmes was also increased again, including the student grant, Old Age Pension and Public Assistance. The budget proposed eliminating VAT on residential properties and new electric vehicles.

(b) Monetary policy

Monetary policy remained accommodative in 2022, with the Bank of Guyana focused on maintaining price stability. The central bank's discount rate was unchanged at 5.0% in 2021, while its reserve requirement rate was again raised, this time to 12.0% in September 2022. The rate was lowered to 10.0% in August 2020 as part of financial relief measures during the COVID-19 pandemic. The interest rates of commercial banks trended downward over 2022: the small savings (deposit) rate fell by 2 basis points to 0.81%, the weighted average lending rate decreased by 48 basis points to 8.54% and the prime lending rate fell by 50 basis points to 8.38%. However, the weighted time deposit rate increased by 3 basis points to 0.94%.

With respect to the monetary aggregates, reserve money grew by 14.7% while M2 increased by 14.5%. The rise in M2 was due to 13.9% growth in domestic credit, which was in turn driven by credit to the private sector expanding by 14.6%. This growth was indicative of broad-based economic growth, as credit increased to all sectors except rice milling. Credit to the construction and engineering, manufacturing and agriculture sectors grew by 41.0%, 31.9% and 15.5% respectively. Credit to the other services sector grew by 19.2%, owing to a 68.4% rise in credit for professional services.

The Government was again a net depositor in the banking system with net deposits (or negative credit) of 0.54% of GDP, an increase from 0.2% in 2021. Several public enterprises increased their deposits at local banks, including the Central Housing and Planning Authority and the Guyana Geology and Mines Commission.

(c) Exchange-rate policy

The Bank of Guyana is committed to maintaining the exchange rate to preserve price stability. As a result, Guyana's official exchange rate remained at G\$ 208.5 to US\$ 1 over the course of 2022 and the first four months of 2023 and is expected to remain stable over the rest of the year. The total volume of foreign-exchange transactions declined by 12.3% owing to lower non-oil exports and imports.

(d) Other policies

Most of the remaining restrictions to curb the spread of COVID-19 were relaxed or removed in 2022, including travel requirements such as a negative COVID-19 test for entry into the country.

Guyana's Local Content Act 2021, which received presidential assent on 31 December 2021, came into effect in 2022. The purpose of the Act is to increase the number of Guyanese nationals participating in the oil sector and improve their related expertise. It requires that every contractor, sub-contractor or licensee operating in the petroleum industry hire a certain percentage of Guyanese nationals in their operations or be subject to fines. The intended impact of the Act is for local businesses to benefit from the oil boom.

The Government drafted a new model for production sharing agreements on new offshore oil exploration contracts for energy companies. The new model, which should come into effect in 2023, proposes an increase in the royalty rate to 10%, from 2% under the current arrangement, and a reduction in the cost recovery ceiling from 75% to 65%. The new model would also institute a 10% corporate tax rate under such agreements.

3. The main variables**(a) The external sector**

Guyana's external accounts benefited from the significant expansion in production and exports of crude oil, as well as higher prices for commodities in general. The current account moved from a deficit of 24.8% of GDP in 2021 to a surplus of 25.7% in 2022, driven by a vastly larger trade surplus (51.7% of GDP) outweighing a wide services deficit (24.0% of GDP). The merchandise trade surplus expanded significantly, due to a 159.2% rise in exports and a 17.2% decline in imports. The increase in crude oil exports evidently contributed the most to export growth; the volume of oil produced increased by 139% while the value grew 231% because of higher oil prices. Sales of several other commodities benefited from higher international prices. Although the volumes of bauxite, sugar and timber exported from Guyana all fell, their export values all grew. The difference was most significant for sugar exports, which declined 18.8% in volume and increased 18.4% in value. The export values of Guyana's other main commodities, rice and gold, fell 2.9% and 3.3% respectively. The value of imports into Guyana declined by 17.2% following a large increase in 2021 owing to imports of mining machinery for the Liza Unity FPSO. While the value of capital goods imports fell by 61.4%, consumption goods imports increased by 8.1% and intermediate goods imports grew by 38.4%. The services deficit widened by 37.9% in 2022, due to a 32.4% increase in debits and a 20.1% decline in credits. The balance of transfers grew marginally, by 0.3%.

The overall balance of payments showed a surplus of 0.8% of GDP, as a result of a current account surplus outweighing a capital account deficit. This surplus resulted in the gross international reserves growing to 1.1 months of import cover.

(b) Economic activity

In 2022 the Guyanese economy expanded by 62.3% on the strength of expansions in the oil and non-oil sectors. The mining and quarrying subsector, which includes oil activities, expanded by 109.7%, bolstered by a 137.6% increase in crude oil production. Oil production expanded to 278,000 barrels per day (bpd) on average, following the start-up of ExxonMobil's second FPSO which added 169,000 bpd in production capacity. Moreover, planned investments by the energy companies were brought forward into 2022 to benefit from high international prices.

The non-oil sector expanded by 11.5%, benefitting from increased output in all major subsectors. The agriculture subsector expanded by 11.9%, despite some lingering effects of the severe floods in 2021. Increases of 9.2% in production of rice and other crops outweighed an 18.9% decrease in sugar production. The livestock and forestry subsectors grew by 9.0% and 13.4% respectively. The growth in the wider economy led to continued expansion in construction, by 26.3%. Government infrastructure projects, increased private sector expenditure on private housing and the hospitality sector also contributed to construction growth. Electricity supply grew by 9.3% to match the growing needs from this new construction as well as expanded business activity. Activity in the services subsector increased by 9.0%, driven by increased social activity boosting production in the accommodation and food services and arts, entertainment and recreation subsectors.

For 2023, the government projects the energy sector to grow by 35.6% and the non-energy sector to grow by 7.9%. The oil sector is expected to expand on account of increased oil production from the Stabroek Block, while the main driving factors in the non-oil sector will be government investment and increased demand for services, including tourism products. As a result, real growth is projected to be 25.1%.

(c) Prices, wages and employment

Inflation in Guyana fluctuated throughout 2022 but remained elevated. The year-on-year change in the Georgetown consumer price index rose from 5.8% in January 2022 to 7.5% in April 2022 before falling to 5.0% in June. From there, it increased again, reaching 7.2% at the end of the year, before falling to 4.9% by March 2023. The rise in prices was driven by food inflation over most of the period under review. Severe flooding in July 2021 affected agricultural production and caused food prices to rise. Food inflation remained above 10% until June 2022, one year after the price shock. Following this, food inflation began to rise again owing to the impact of the conflict in Ukraine on global food prices. The conflict also drove up other components of the price index. In 2022, the Government of Guyana implemented the fiscal policies outlined above to prevent inflation from rising too steeply.

Public sector workers received an 8.0% increase in income in 2022, and central government expenditure on wages and salaries grew by 12.8%; central government employment increased by 6.3%. The Bank of Guyana estimates private sector employment increased in the service industries with the opening of new businesses.