IMF Country Report No. 14/294

GUYANA

September 2014

2013 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Guyana, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 9, 2013, following discussions that ended on October 4, 2013, with the officials of Guyana on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 21, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its December 9, 2013 consideration of the staff report that concluded the Article IV consultation with Guyana.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GUYANA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

November 21, 2013

KEY ISSUES

Background. The economy has experienced seven consecutive years of robust growth, buoyed by high commodity prices, foreign direct investment and expansion of private sector credit. As part of a strategy to sustain growth, reduce poverty and curtail dependence on imported oil, the authorities are pursuing the Amaila Falls Hydro-electric Project (AFHP), entailing investment of about 30 percent of GDP. However, steps by Parliament that delayed important approvals led the private sector partner to withdraw, which could delay the project while additional financing is sought. Meanwhile, public debt remains high—around 60 percent of GDP—limiting the room to finance inclusive growth.

Focus of consultation. Discussions focused on three key, interrelated objectives: (i) *fiscal sustainability* by developing a fiscal consolidation strategy that leaves room for key investment, in the context of a strengthened medium-term policy framework; (ii) *financial and price stability* entailing close monitoring of financial sector risks; and (iii) *sustainable and inclusive growth* with poverty reduction. Staff advised the authorities to continue fiscal consolidation, especially by improving the financial performance of public enterprises, with a view to reduce the risk of pro-cyclical policy, bolster fiscal and external reserve buffers, and preserve Guyana's moderate risk of debt distress. Staff urged the authorities to ensure that the AFHP is financially and economically viable and recommended strengthening the project and debt management framework. On the financial sector, staff advised vigilance against the backdrop of several years of rapid credit growth and urged the authorities and Parliament to press ahead with addressing the AML/CFT deficiencies identified by the CFATF. Staff advised maintaining appropriate nominal exchange rate flexibility and implementing a policy mix of continued fiscal consolidation and moderate monetary tightening coupled with structural reforms, to safeguard financial stability, bolster international reserves and contain inflationary pressures. On growth and poverty reduction, staff recommended modernizing traditional sectors and further diversifying the economy to spread the benefits of growth across the wider population, particularly those living in underprivileged areas in extreme poverty.

Approved By
Charles Kramer (WHD) and Dhaneshwar Ghura (SPR)

The team, comprising Wendell Samuel (Head), Kristine Vitola, Marcio Ronci, Jochen Schmittmann (all WHD) and Sarosh Khan (FIN), visited Guyana during September 23–October 4, 2013. Kevin Finch (OED, Senior Advisor) also participated in the policy discussions. The team met with Prime Minister Samuel Hinds, Minister of Finance Ashni Singh, Central Bank Deputy Governor Gobind Ganga, other senior government officials, representatives of the private sector, labor community, and members of the political opposition.

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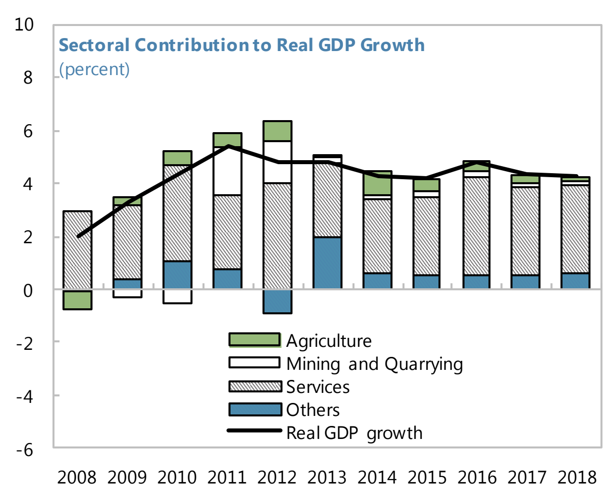
BACKGROUND

1. **Guyana has experienced seven consecutive years of solid growth buoyed by agriculture and extractive industries**. Still, its per capita GDP is the lowest in the English-speaking Caribbean and the debt burden, though low by Caribbean standards, remains elevated (Figure 1). The economy largely depends on the export of six commodities—sugar, gold, bauxite, shrimp, timber, and rice—which represent nearly 60% of the country's GDP and are highly susceptible to adverse weather conditions and fluctuations in commodity prices. As a result of the inward-looking, state-led development model pursued in the 1970s and 1980s, Guyana became heavily indebted, recording a total public debt of 186 percent of GDP at HIPC completion point at end-2003. In March 2007, the IDB, Guyana's principal donor, canceled its debt of nearly US$470 million (21 percent of GDP), which along with other debt forgiveness brought the debt-to-GDP ratio down to 65 percent by 2009.[1] Nevertheless, the government is still servicing a sizable external debt burden, against the urgent need for expanded public investment to boost economic capacity and reduce poverty.

2. **Since the completion of the PRGF in 2006, the authorities' policies have continued to be broadly in line with Fund advice.** A number of first generation technical assistance projects undertaken with the Fund, including VAT implementation, public financial management and statistics have been useful to the authorities. These reforms have contributed to the authorities' fiscal consolidation efforts that have helped to stabilize the public debt-to-GDP ratio. In recent years the Fund has recommended further fiscal consolidation to help reduce the debt and rebuild policy buffers (Box 1). The authorities view the pace of their fiscal consolidation as consistent with their objective of reducing the country's significant infrastructure deficit and addressing unmet social needs.

RECENT DEVELOPMENTS

3. **Macroeconomic developments in 2012 were driven by high commodity prices, foreign direct investment, and domestic credit expansion to the private sector.**

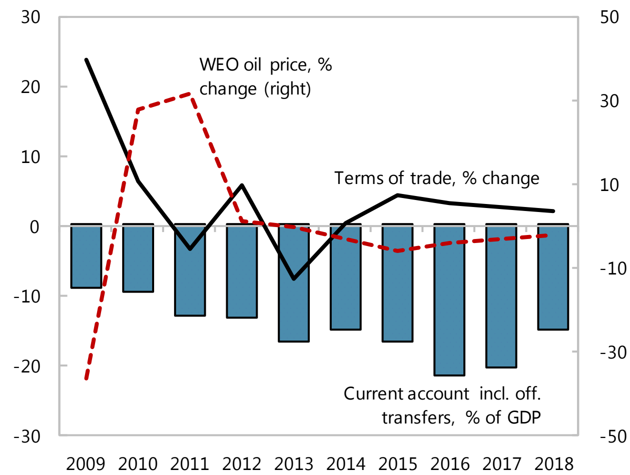


- ***Real sector and prices.*** Real GDP is projected to grow by around 4.8 percent this year, the same as the outturn in 2012 (Table 1 and Figure 2). This would reflect strength in agriculture, mining and quarrying, manufacturing, engineering and construction, and services. Inflation is

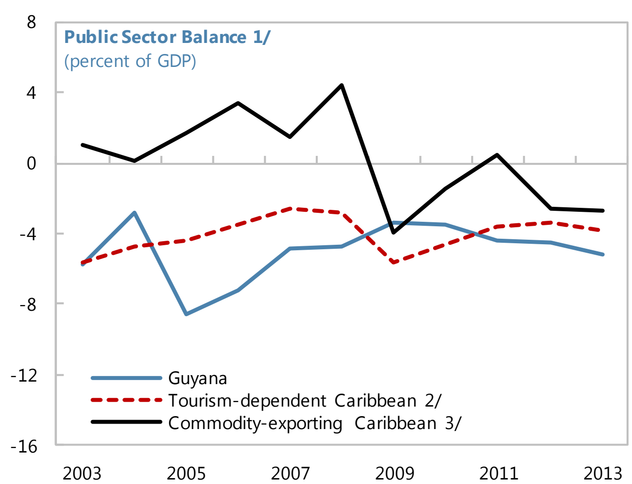
[1] Further debt relief under the HIPC and MDRI initiatives, as well as the effects of rebasing the GDP series, brought the debt to about 65 percent of GDP in 2009.

projected to remain low at around 3.5 percent by year-end, following subdued price increase through August 2013, notwithstanding higher import costs and seasonal rise in food prices.

- ***External sector.*** In the first half of 2013, the current account deficit widened to 9.3 percent of GDP compared with 8.4 percent of GDP in same period last year. Over the rest of the year, the current account deficit is expected to widen to 16.8 percent of GDP in 2013 from 13.3 percent in 2012, driven by a larger trade deficit due to higher fuel imports, lower commodity exports (mainly on account of falling gold prices, a main export), and lower remittances, which are projected to fall with slowing activity in major host countries (Table 2 and Figure 3). The financial account surplus is projected to increase with larger disbursements related to an ambitious public investment program and resilient FDI despite current political uncertainties and delays in the Amaila Falls Hydroelectric Project (AFHP). These developments will result in an overall deficit of 3 percent of GDP, but gross international reserves are projected to remain adequate at 3.6 months of imports compared to 4.2 months in 2012.



- ***Fiscal Sector.*** In FY2012 the authorities achieved an overall fiscal deficit of 4.5 percent of GDP, broadly in line with the 2011 deficit (Tables 3a, 3b and 3c and Figure 4). While growing strongly in nominal terms (7 percent), central government revenues net of grants declined by 0.8 percent of GDP, reflecting lower intake of income and consumption taxes.[2] Non-interest current expenditures rose by 1 percent of GDP on a rise in transfer payments to electricity and sugar companies, partly offset by a decline in spending on other goods and services. Capital expenditures rose by 0.2 percent of GDP due to the advancement of several key



1/ Caribbean region measured as simple averages of corresponding variables.
2/ Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

[2] Lower consumption tax revenues are related to VAT refunds, while income tax shortfalls reflect the lowering of corporate income tax rates and an increase in the non-taxable threshold for personal income tax. The lowering of the corporate tax-rate is an effort to improve competitiveness and the increase in the personal income threshold is aimed at poverty reduction.

development projects. Aided by subventions, public enterprises returned a surplus of 1.3 percent of GDP compared to a deficit of 0.6 percent a year ago.

- ***Financial Sector.*** The overall banking system appears well-capitalized, profitable and liquid (Figure 5). All banks report capital ratios well above the regulatory minimum requirement. NPLs have remained between 5 and 6 percent over the last three years and provisioning for bad loans stands at comfortable levels.

Financial Soundness Indicators, 2009-13
(In percent)

	2009	2010	2011	2012	2013Q1	2013Q2
Capital to risk-adjusted assets	18.3	18.9	19.1	19.3	20.8	20.1
NPLs to total loans	8.3	6.5	5.4	8.4	5.7	5.4
Provision for loan loss to NPLs	53.8	63.2	79.5	51.8	79.3	79.1
Return on assets	2.7	2.5	2.6	2.4	2.4	2.7
Return on equity	26.6	24.0	24.8	23.1	22.5	24.4
Liquid assets to total assets	30.9	30.0	31.1	31.5	28.4	32.4
Related party loans to total loans	4.5	4.0	2.9	3.7	3.9	3.7
Top 20 borrowers to total loans	35.5	23.1	16.9	17.1	17.2	17.4

Source: Bank of Guyana.

- ***Monetary policy.*** Monetary policy has been accommodative, but monetary conditions appear to have tightened somewhat in the first 5 months of 2013 (Table 4 and Figure 6). After accelerating to about 13 percent in 2012, twelve-month broad money growth has moderated to about 9 percent as of May 2013. Private credit growth remained high at 15.3 percent on an annual basis in May, following three years of credit growth close to 20 percent. Liquidity in the banking system remained at high levels with the ratio of liquid to total assets at 32.4 percent as of June. As a result, the benchmark 91-day T-bill rate, already negative in real terms for some years, continued to decline to 1.2 percent as of July. Lower interest rates, however, were not fully passed on by banks to lending rates, resulting in widening net interest margins.

- ***Exchange rate policy.*** While the real effective exchange rate is broadly in line with fundamentals, it has appreciated sharply and the external current account deficit has widened. The real effective exchange rate appreciated about 20 percent since 2008. This real appreciation occurred despite depreciation relative to the US dollar and reflects developments in the value of the US dollar (which the Guyanese dollar follows closely) against the euro and other major currencies, as well as higher inflation in Guyana relative to major trading partners. Noteworthy, the pace of depreciation relative to the US dollar has moderated sharply more recently, notwithstanding the deficit in the balance of payments and loss of international reserves. At the same time, adequate international reserves (Box 2) have provided a cushion to intervene in the foreign exchange market to smooth out exchange rate and price volatility. To avoid excessive volatility in the exchange rate, the Bank of Guyana intervened in the foreign exchange market in 2012.

- ***Social Sector.*** GDP per capita has been increasing, and Gini coefficients for Guyana showed improvement between 1992 and 2006.[3] Steady progress has been made in meeting the Millennium Development Goals (MDGs).

OUTLOOK AND RISKS

4. **The macroeconomic outlook is generally positive for 2013 and the medium term.** Policy making has become more complicated since the November 2011 elections. The political party of the President, who is the head of the government, does not control a majority in the Parliament, requiring lengthier debate to secure legislative approval. Over the medium term, infrastructure projects led by construction of the AFHP, along with private mining investments should sustain average growth levels at around 4.4 percent over the next five years, despite the political uncertainty.[4] However, the lack of a Parliamentary majority could add to delays, especially on crucial policy matters that require legislative approval.[5] Nevertheless, relatively high growth along with low concessional interest rates on external borrowing will help to place the debt-to-GDP ratio on a firmly declining path, and the large external current account deficit would be mostly financed by mining-related FDI inflows (Tables 5, 6 and 7).

5. **Against the backdrop of continued global uncertainty, risks are tilted to the downside.** On the upside, Guyana is poised to benefit from sales of climate services, capitalizing on the country's vast rainforests. Activity will also be supported by ongoing projects under the Low Carbon Development Strategy (LCDS), including hydropower to lower energy costs, as well as large private sector projects underway in oil and mining. However, deteriorating terms of trade, particularly for gold, and a slowing global economy could adversely impact external stability via shrinking export volumes and less robust inflows of remittances, increasing the risk of a widening current account deficit. Financing constraints could exacerbate downside risks if investment projects, portfolio inflows and official transfers do not materialize as expected. A sharp increase in oil prices could widen further the external current account deficit as well as result in fiscal slippages, particularly from the state-owned electricity company (GPL). Rapid credit growth in recent years and rising house prices warrant continued vigilance to mitigate a potential build-up of financial stability risks.

POLICY DISCUSSIONS

6. **The government continues to balance the need for fiscal prudence to maintain debt sustainability against the urgent need for expanded public investment to remove critical**

[3] See Guyana Poverty Reduction Strategy Paper (PRSP) 2011–2015, July 2011. The Gini (national average) declined from 0.44 to 0.35.

[4] The political uncertainty has led domestic investors to be more cautious in their investment plans, reducing growth projections.

[5] While the Parliament approved the 2013 budget that cut AFHP-related and other spending by about 4 percent of GDP, given the previous court ruling in 2012 these expenditure cuts are expected to be overturned in the revised 2013 budget.

infrastructure bottlenecks and reduce poverty. The non-financial public sector (NFPS) fiscal deficit remains relatively large, despite seven consecutive years of solid growth. Since the granting of debt relief under the HIPC initiative in 2007, public debt remained at around 65 percent of GDP. The authorities are advancing policies to transform the economy in the context of the LCDS by implementing large investments under this scheme, including the AFHP, with an aim to reduce exposure of the fiscal and external position to sharp increases in oil prices. However, the AFHP, in view of its magnitude and implementation as a PPP, poses potential fiscal risks in the presence of sovereign guarantees. Against this backdrop, the discussions with the authorities focused on the authorities' ongoing efforts at pursuing fiscal consolidation to ensure debt sustainability, mitigating risks to price and financial stability, and enhancing medium-term sustainable growth, while advancing gains made in reducing poverty and improving labor market outcomes. The mix of policies recommended are aimed at building fiscal and external reserves buffers to help cushion the economy should the shocks to the baseline scenario discussed in the Risk Assessment Matrix materialize (Table 8).

A. Policy Framework to Contain Fiscal Risks and Protect Debt Sustainability

Guyana weathered the global financial crisis relatively well and macroeconomic policy buffers have been broadly maintained. A strong medium-term policy framework is warranted to safeguard debt sustainability and enhance fiscal and external buffers.

Fiscal Policy

7. **The Parliament imposed expenditure cuts on the 2013 budget.** Citing insufficient information to assess the viability of AFHP, the Parliament approved a budget that cut AFHP-related and other spending by about 4 percent of GDP. The Parliament also delayed approval of the increase in the ceiling on government guarantees and amendments to the hydro-electric power bill which would have facilitated financing agreements. This led Sithe Global, the private sector partner, to withdraw from the AFHP, which could delay conclusion of the financing arrangement and eventual start of the project. Given the previous court ruling on the constitutionality of budget cuts initiated by the Parliament, which overturned expenditure cuts in 2012, fiscal outlays for 2013 are expected to be in line with this ruling.

8. **Staff estimates that the revised 2013 budget would yield a NFPS deficit of 5.2 percent of GDP, implying a primary deficit of 3.9 percent of GDP**. The revised budget incorporates an increase in central government non-grant revenue of 0.9 percent of GDP vis-à-vis the 2012 outturn (largely on account of higher VAT and excise tax receipts) and a notable cut in transfers (0.7 percent of GDP). Central government capital expenditure is projected to rise by 0.4 percent of GDP while the public wage bill as a percent of GDP will remain broadly stable. The deterioration in the overall fiscal balance is largely related to worsening performance of public enterprises which are projected to return a deficit of 0.4 percent of GDP compared to a surplus of

1.3 percent a year ago.[6] With the government gradually reducing expenditures on wages, goods and services, and transfers as a share of GDP, the NFPS fiscal deficit is expected to improve to 3.5 percent of GDP by 2018 (Table 9)[7].

9. **The mission cautioned that further delays of the AFHP would increase the costs and risks associated with the project and postpone development opportunities arising from it.** Should the financing agreements not be completed as planned, Guyana could lose access to GRIF[8] funds currently envisaged to finance US$80 million of government's share of the equity. Negotiating new funding arrangements from existing or alternative project financers might also result in less favorable lending terms. Contingent upon financial viability of the AFHP, to avoid further delays and advance the implementation of the project, staff recommended that the authorities continue to engage actively with the Parliament and all stakeholders. Staff assumes that the fiscal effects of the AFHP project would be shifted two years into the future to 2015–18, while the authorities aim to continue efforts to finalize the project as soon as possible.

10. **The mission also considered that given reduced fiscal space, medium-term risks, and robust external growth, a more ambitious fiscal consolidation strategy is warranted.** Staff is of the view that a gradual but slightly more front-loaded effort to lower the overall fiscal deficit to about 2.0–3.0 percent of GDP over the medium term, which is consistent with a primary deficit of about 1.0–2.0 percent of GDP, would help bolster fiscal and external reserve buffers. Achieving this primary deficit target would place the debt-to-GDP ratio on a firmly declining path reaching 55 percent by 2018, and help preserve Guyana's moderate risk of debt distress. Over the medium term, emphasis should be placed on increasing economic resilience within the context of a strengthened medium-term policy framework anchored on the public debt ratio, providing a cushion against external shocks as well as for conducting countercyclical policy. This would help to lower dependence on unpredictable grants, reduce the risk of pro-cyclical policy[9] and provide a cushion against any cost overruns in major infrastructure projects. Agreement on a medium-term fiscal framework, underpinned by strong policies aimed at safeguarding debt sustainability would boost credibility and reduce the political uncertainty of the current budgetary process. Maintaining current tax revenues (around 21 percent of GDP), while reducing transfers and containing expenditures on central government wages and other goods and services over the medium term would help provide fiscal space of about 1.2 percent of GDP annually on average in 2014–2018. This would help sustain capital expenditure at 10.7 percent of GDP on average over the same period to address Guyana's significant infrastructure needs and bolster social safety nets.

11. **Advancing far reaching reforms at the SOEs is key to stemming the drag on public finances.** Pursuing policies aimed at ensuring financial viability of the public enterprises, including

[6] Mainly due to lower production of sugar company GUYSUCO and higher payments to creditors.

[7] This would be achieved by restraining real outlays to grow at a slower rate than real GDP.

[8] Guyana REDD+ Investment Fund.

[9] While the economy has grown robustly over the last four years, the fiscal deficit as a percent of GDP has also widened, implying a pro-cyclical fiscal stance.

further strengthening of GPL's operational and administrative capacity and distribution network is warranted. Staff recommends reforming electricity tariffs to streamline subsidies and transfers to public enterprises and replacing them with a more targeted social safety net to address more directly the needs of the most vulnerable, and helping to reduce social imbalances.

12. **A 2012 actuarial review has recommended a set of urgent parametric reforms to restore the financial viability of the National Insurance Scheme (NIS).** In 2011, the scheme experienced its first deficit and the fund is expected to be exhausted in less than 10 years if specific measures are not taken immediately (within 1–2 years) and sustained over the medium term. Among the most urgent measures the report identified, were increasing the contribution rate and pension age, raising the insurable earnings ceiling, freezing pension increases, revising pension accrual rates, and updating the prudential investment framework. Staff welcomes the increase in NIS contribution rates and looks forward to the planned reforms based on the recommendations of the actuarial review to avoid the impact of these contingent liabilities on the central government budget and help put it on a sustainable footing.

Authorities' Views

13. **The authorities expressed confidence that policy efforts over the last decade have restored a degree of fiscal solvency and bolstered the economy's resilience to shocks**. Over the medium term, the government proposes to continue its fiscal consolidation efforts by gradually reducing the NFPS deficit to 3.5 percent of GDP by 2018 which would bring the public debt to about 60 percent of GDP over the same period. The envisioned measures are reducing expenditures on wages, goods and services, and transfers as a share of GDP. The authorities are determined to preserve fiscal sustainability but are of a view that a faster fiscal consolidation could jeopardize achievements made thus far. They consider that the current macro framework strikes the right balance between fiscal consolidation and addressing Guyana's developmental agenda.

14. **The authorities intend to keep the current energy pricing policy unchanged, and move to cost recovery once AFHP is in operation.** When the project comes on stream, the average cost of electricity generation—currently about 19 U.S. cents/kWh—would be reduced to 11 U.S. cents in the first year of operation and 9 U.S. cents over the 20 year PPA term. Once the company is transferred to GPL after 20 years, generation cost is expected to drop to less than 2 U.S. cents/kWh, largely on account of repayment of loans to the IDB and CDB. On completion of the project, fiscal costs would also be reduced by elimination of subsidies to GPL (US$30 million in 2012), which currently accounts for about 25 percent of end user tariffs. At the same time, the authorities believe that the current fuel pricing regime that allows limited pass-through of international prices has helped keep inflation low while minimizing the impact on the government's fiscal position[10].

[10] By adjusting ad valorem excise tax rates in inverse correlation with imported oil prices, the authorities have contained pass-through of international prices into domestic inflation. Taxes per liter for both diesel and gasoline have fallen since 2007, with the decline most marked in 2011, particularly for diesel. Excise taxes have varied between 7–60 percent for gasoline and 0–40 percent for diesel. There is no VAT imposed on petroleum products, and kerosene is not taxed.

15. **On the NIS, some measures have been adopted in response to the deficit.** Based on the recommendations of the 2012 actuarial review, NIS contribution rates have been increased in 2013 and public consultations are ongoing in advance of the implementation of the other measures. The authorities have also raised their vigilance on the review of benefit expenditures and implemented measures to reduce fraud. The NIS has also established a debt unit, and has been working with the Guyana Revenue Authority on sharing information to recover unpaid contributions.

Fiscal Risk and Debt Management

16. **Fiscal risks could result in an increase in public debt.** These risks stem from the economy's dependence on commodity prices. Regarding exports, volatility in the price of gold and other key export commodities would dampen growth and tax revenues. On the import side, the current dependence on oil imports exposes the fiscal position to sharp increases in oil prices which would depress demand, reduce tax revenues and increase transfers to GPL. In the absence of alternative energy sources, GPL's dependence on thermal power generation will continue and its finances will remain exposed to oil price fluctuations, creating vulnerability for the fiscal accounts. Implementation of the AFHP reduces these risks; however, a project of this magnitude and complexity poses its own risks. Going forward, Sithe Global could reengage and the AFHP would experience a short delay but is fully implemented (staff baseline scenario). This would result in lower growth, tax receipts, and capital spending in the period of delay. Over the construction phase of the project, real GDP growth could be higher by projected 1.0–1.5 percent of GDP per year, as well as higher over the medium term, increasing tax receipts. At the same time, government spending on subsidies to support GPL's operations could be reduced over the medium term. Under a worst case scenario, where the project does not go ahead, the government's direct liability would be limited to its contribution to the project in the form of equity amounting to US$100 million (3.5 percent of 2012 GDP). In this case, the government would also continue spending on subsidies (0.1 percent of GDP) to support GPL's operations through 2018. The project would also affect Guyana's external position–over the construction period driven by large AFHP investment-related imports, the external current account deficit is projected to be higher on average by about 4.5 percent of GDP, which would result in lower reserve coverage by about 0.2 months of imports on average over the same period.

17. **In order to limit public sector borrowing and encourage large scale private investment in infrastructure, the government is implementing the AFHP as a Private Public Partnership (PPP).** The cost of the project is estimated at US$858 million (about 30 percent of 2012 GDP). The government's preferred financing plan now appears to be uncertain with the apparent withdrawal of Sithe Global which was expected to contribute US$157 million. The remaining financing was expected from China Development Bank (CDB) and the IDB in the form of loans of US$500.8 million and US$100 million, respectively, and the government's investment in equity (US$100 million). It remains unclear whether Sithe Global will re-engage; if not, the government would face a challenge in sourcing alternative financing[11]. Under the draft contract, Guyana Power and Light (GPL) would

[11] Sithe Global has indicated that it would reengage if all political parties in the Parliament supported the project, which is currently not the case, although the project does currently enjoy the support of a parliamentary majority.

purchase the entirety of AFHP's energy output under a 20-year power purchase agreement (PPA) guaranteed by the government. Accordingly, the contingent fiscal liabilities of the guarantees for the PPA could amount to US$122 million[12] (3 percent of projected 2018 GDP) annually during the first 12 years after the construction period (end-2018). At the same time, GPL could save in excess of this amount on fuel and other power generation costs.

18. **Staff acknowledged the benefits of cheaper and more reliable electricity to help unlock the full potential of the economy and to realize savings on oil imports.** Staff also commended the authorities for their continued engagement with multilateral partners and recommended that efforts continue to ensure a viable and successful AFHP. It would be necessary to strengthen the finances and operations of GPL to enable the company to adequately handle its responsibilities under the project. It would also be essential to strengthen the project and debt management framework in view of the risks that PPPs can pose, particularly in the presence of sovereign guarantees. In this regard, the adoption of international best practices in the management of PPPs to manage potential risks of contingent fiscal liabilities is warranted, utilizing technical assistance to design the legal, accounting and fiscal risk management frameworks.

19. **Guyana's indicators of the risk of debt distress remain comfortably under the relevant thresholds.**[13] The results of the debt sustainability analysis (DSA) suggest that the NPV of external debt to GDP stabilizes at 26 percent of GDP over the medium term while debt service would decline to less than 5 percent of revenue. However stress tests underscore the vulnerability of the public debt to standard shocks, including the primary balance and growth as well as contingent liabilities from the AFHP. Staff and the authorities agreed that the goods-for-debt exchange has had a beneficial impact on the debt while stimulating agricultural production, although the terms of the program could change in the future.

Authorities' Views

20. **The authorities are confident that ongoing reforms and investment in the electricity sector will ensure that the AFHP project remains economically and financially viable.** Staff had comprehensive discussions with the authorities on the AFHP, and the authorities readily shared the relevant documents associated with the project. The authorities have retained a number of legal, financial, and electricity sector advisors to ensure the risks associated with the project remain manageable. While acknowledging that there is room to improve monitoring of public sector investment projects, they argue that projects go through an extensive consultation and rigorous vetting process to insure that the outcomes are optimal. Moreover, should Sithe Global re-engage, the fact that the government's private partner in the project has extensive experience in hydro sector projects will further mitigate some of the risks.

[12] "Amaila Falls Hydropower project", public presentation by the Government of Guyana, 31 July 2013.

[13] The unification of the discount rate has had a favorable effect on Guyana's debt sustainability.

21. **Reforms have started at the GPL to improve its efficiency and readiness for the AFHP.** The government has committed to invest US$90 million in GPL for capital expenses and US$15.3 million to cover company's operating costs over 2013–2017. Reforms also include enhancing the legal and regulatory structure of the GPL to enable it to reduce its technical and commercial losses in the distribution of electricity. On this front, a new billing system is being implemented and new tamper proof meters are supposed to record more accurately the use of electricity. Work has also started on the network (transmission and distribution) system.

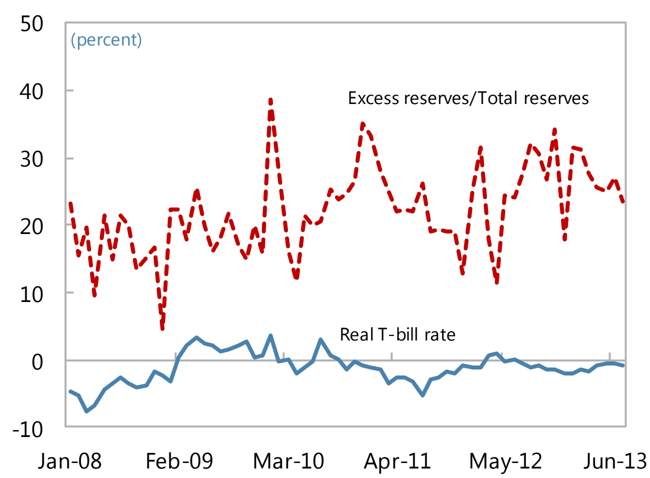
B. A Framework to Anchor Prices and Protect Financial Stability

After several years of accommodative monetary conditions, the authorities should guide sustainable credit growth to safeguard financial system soundness and monitor closely financial stability risks.

Monetary and Exchange Rate Policies

22. **The Bank of Guyana conducts monetary policy by targeting monetary aggregates consistent with output and inflation objectives.** The central bank's principal tool to achieve the targeted amount of broad money in the system are treasury bill auctions. The Open Market Operation Committee (OMOC) determines interventions through treasury bills on a weekly basis. In addition, the central bank deploys other instruments such as reserve requirements, the rediscount rate and moral suasion to fulfill its statutory objectives of promoting domestic price stability and growth.

23. **Monetary policy should be tightened to safeguard financial stability and stem appreciation of the REER.** In light of negative real T-bill rates, high levels of liquidity in the banking system, continued high credit growth, and closure of the output gap, staff sees room to tighten monetary conditions to help bring inflation more in line with its major trading partners. Abundant liquidity in the banking system has impaired the effectiveness of monetary policy and encouraged potentially risky investments by banks in CARICOM sovereign instruments. However, these remain within strict prudential exposure limits imposed by the Bank of Guyana.



24. **Staff stressed that greater exchange rate flexibility is needed, in view of the shocks to the terms of trade from volatile commodity prices.** Given wage and price rigidities, a somewhat greater degree of nominal exchange rate flexibility would help reduce the relatively appreciated real effective exchange rate. At the same time, the high pass-through of exchange rate changes to domestic prices along with the volatility of international commodity prices justifies smoothing out exchange rate and price volatility in the face of external shocks. Smoothing of the exchange rate

should be limited reducing the effects of temporary volatility in commodity prices while allowing the exchange rate to absorb permanent shocks. In view of the projected widening current account deficits and uncertainty about external financing sources, the authorities need to continue to implement a policy mix that safeguards international reserves and contains inflationary pressures (see Box 2 for a reserve adequacy assessment). This would also help to cushion the economy against shocks to the baseline scenario discussed in the Risk Assessment Matrix. Along with appropriate nominal exchange rate flexibility, the combination of fiscal consolidation, moderate monetary tightening, and structural reforms, including enhancing the supply of skilled labor and continued improvements in the business climate, would help to curb inflationary pressures, boost competitiveness, contain the external current account deficit, and reduce appreciation of the real effective exchange rate.

Authorities' Views

25. **The authorities acknowledged the importance of macroeconomic stability to attract investment and support sustainable growth.** In particular, they consider exchange rate stablility as an important anchor for investment decisions and competitiveness and emphasized that the currect arrangement has served them well. The authorities noted that the exchange rate is market determined, but underlined the significance of foreign exchange market intervention to alleviate shortages of foreign currency and avoid excessive volatility in the exchange rate as was the case in the second half of 2012. Going forward, the central bank expects the nominal exchange rate to depreciate on account of the inflation differential between Guyana and its trading partners, thus enabling it to maintain export competitiveness. However, the authorities pointed out that the high cost of electricity is a major impediment to improve external competitiveness.

26. **The authorities broadly agreed with staff that there is scope to tighten monetary policy without constraining growth.** Nevertheless, they emphasized the potential tension between promoting financial deepening and safeguarding financial stability. They stressed that the Bank of Guyana's strict financial oversight and regulation has safeguarded financial stability despite rapid credit growth in recent years.

Financial Sector

27. **The financial sector is dominated by commercial banks.** Three foreign banks and three local banks account for about 65 percent of financial sector assets. Among non-bank financial institutions, the New Building Society (NBS), a deposit taking institution that focuses primarily on mortgage loans, is the largest entity accounting for about 8 percent of financial sector assets and almost a third of non-bank financial institutions' assets. Other non-bank financial institutions include two trust companies, six finance companies including two micro-credit lenders, two asset management companies, a moderately sized insurance sector, and a large number of small credit unions. The central bank supervises commercial banks and the majority of non-bank financial

institutions. Credit unions are supervised by the Ministry of Labor and data to assess risks in this sector are not currently available.[14]

28. **Financial sector risks appear contained, but warrant vigilance particularly against the backdrop of several years of rapid credit growth.** The overall banking system appears well-capitalized, profitable and liquid. All banks report capital ratios well above the regulatory minimum requirement. NPLs have remained between 5 and 6 percent over the last three years and provisioning for bad loans stands at comfortable levels. A temporary increase in NPLs at end-2012 to 8.35 from 5.40 a year earlier was related to delays in loan classification at one bank, according to the authorities. The Bank of Guyana is currently conducting an investigation of the matter. Loan concentration, a source of potential concern raised in the 2006 FSAP, remains high due to the limited number of large borrowers. The risk stemming from maturity mismatches on banks' balance sheets due to funding with short-term deposits is mitigated by high levels of liquidity, but warrants close monitoring, in staff's view.

29. **Foreign exchange and interest rate risks appear limited.** Plausible negative exchange rate shocks actually improve the financial position of the overall banking system since banks in aggregate carry net long positions in foreign exchange (46 percent of capital and reserves as of June 2013). Interest rate risks are mitigated by banks' ability to adjust interest rates on existing loans.

30. **Staff welcomed the progress made in enhancing the supervisory framework and data provision.** Since the 2006 FSAP the authorities have brought insurance companies and the NBS under the central bank's supervision. In addition to issue-specific ad-hoc inspections of banks, comprehensive on-site inspections are conducted every two years. The Bank of Guyana conducts credit, liquidity and foreign exchange exposure stress tests on a quarterly basis. The authorities make financial soundness data available on the Bank of Guyana's website, including indicators for individual institutions. While substantial progress has been made, in staff's view more frequent comprehensive on-site inspections are advisable for larger institutions. Improved coordination of the supervision of insurers and banks that are part of the same business group would enhance supervision. In addition, staff welcomed the authorities' intention to bring credit unions under the supervisory authority of the Bank of Guyana.

31. **Enhancing financial development while safeguarding financial stability remains a challenge.** Banks maintain high levels of liquidity and the ratio of loans to deposits remains below the level in comparable countries despite rapid credit growth in recent years. Savers face very low nominal interest rates on deposits, and other savings products, such as mutual funds, are not available. To address impediments to financial intermediation, staff recommended speeding up the judicial process of collateral recovery and title registration at the land registry which can take up to 8 months, according to the financial sector. Staff welcomed the establishment of a credit bureau which could help improve financial intermediation and lower costs.

[14] In 2004, the last available data point, aggregate credit union assets were 0.8 percent of GDP.

32. **The Caribbean Financial Action Task Force (CFATF) in its 2011 assessment report has identified significant strategic AML/CFT deficiencies in Guyana.**[15] To tackle the legislative deficiencies identified, government has introduced an amendment bill in the Parliament. However, passage of the bill has been delayed at the request of the opposition for further deliberations. In case of insufficient progress by November 2013, the CFATF will call upon its members to consider implementing counter measures to protect their financial systems from the ongoing money laundering and terrorist financing risks emanating from Guyana, and will consider referring Guyana to the Financial Action Task Force International Cooperation Review Group (FATF ICRG).

33. **Staff urged the authorities and Parliament to press ahead with addressing the AML/CFT deficiencies identified by the CFATF by November 2013.** Non-compliance with the CFATF recommendations by that date could severely curtail the ability of banks and other companies (including gold exporters) to conduct business internationally. Some banks already reported losing correspondent accounts at major foreign institutions and a slowdown in foreign transactions as a result of the delay in enacting the AML/CFT amendment bill.

Authorities' Views

34. **The authorities were in broad agreement with staff and emphasized the progress made since the 2006 FSAP.** They stressed the supervisor's strong track record of maintaining financial stability. They concurred with staff on the need for financial development and deepening, while closely monitoring and regulating financial stability risks. Since the 2006 FSAP, the authorities have brought insurance companies and the NBS under the central bank's supervision, expanded staff in the supervision department, introduced a risk-based supervisory framework, and conducted stress tests of commercial banks on a quarterly basis. A credit bureau, one of the key recommendations of the FSAP, is expected to be fully operational early next year.

35. **On AML/CFT, the authorities shared staff's concern about the negative ramifications should Guyana not meet the CFATF's deadline to address deficiencies by November 2013.** They stressed that the necessary reforms are in place and the only outstanding issue is the passage of the amendment bill in Parliament.

C. Agenda for Supporting Sustainable Growth and Poverty Reduction

Two important policy priorities of the authorities are to: (a) sustain high growth rates with less volatility than in the past, which will require tackling infrastructure gaps, raising productivity, and increasing the economy's resilience to external shocks; and (b) promote more inclusive growth, better monitoring of MDGs, and targeting of social safety nets.

36. **Guyana has made considerable progress in sustainable growth and poverty reduction.** The country has reduced the poverty rate, one of its MDGs, from 43 percent in 1999 to 35 percent[16]

[15] Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

[16] Latest available data from United Nations Development Programme (UNDP).

in 2006. However, growth has been uneven geographically, warranting more efforts to further diversify the economy to spread the benefits of growth across the wider population, particularly those living in underprivileged areas, such as the hinterland, and in extreme poverty.

37. **There is a strong positive link between unemployment and poverty**. Underemployment, mostly due to skills mismatch, as well as informal employment appears prevalent. In addition, labor force participation remains low. Labor market policies that protect workers, such as restrictions on hiring and firing, paid leave, and severance payments reduce employment flexibility. Nonetheless, Guyana ranks 47 out of 144 countries in the world Economic Forum's wage flexibility index, the best performer in the Caribbean.

38. **Staff supported the authorities' view that investments to increase productivity in the traditional sectors, primarily agriculture and mining, should be an integral part of a medium-term inclusive growth strategy.** Major ongoing investments in the agriculture and mining sectors could support growth and employment and help lift the standard of living of the population in small villages. Advancing reforms and reducing transfers to public enterprises (averaging 5.6 percent of GDP in 2008–12) would create fiscal headroom for more efficiently targeted social safety net and support for small and medium enterprises to create employment, access major export markets, and maintain business growth in the face of frequent external volatility. Recent announcements of large investments in the extractive industries suggest major potential to diversify the economy and create jobs. Staff supported the authorities' intention to develop an appropriate framework to manage the associated sovereign wealth should the reserves be proven. In addition, staff noted ongoing efforts to build capacity, raise productivity and improve competitiveness to help further reduce poverty.

39. **It is important to address the mismatch between the outputs of the educational system and the skills demanded by the evolving Guyanese economy.** In general, the pace of change in the Guyanese economy has outstripped the pace of adjustment in the educational system. Secondly, there is potential for improvements in labor market mobility and flexibility which can be achieved by enhanced training opportunities. To that end, the authorities' initiatives that include vocational training in secondary schools, skill training programs, on-the-job training, and social programs that encourage labor force participation are worthwhile.

40. **To boost job creation, the authorities should continue to improve the business climate to encourage investment while reducing the cost of doing business, especially energy.** Improving labor productivity is key for job creation in the private sector. Structural reforms, such as investment in human capital, improvements in healthcare, and enhancements to the technical and vocational education and training, would help unlock further potential to grow formal private sector jobs with the pickup in real growth. The agenda should address any shortcomings in regulations to enhance flexibility and adaptability, as well as strengthen the legal framework for necessary reforms.

Authorities' Views

41. **The authorities broadly concurred with staff on the need to diversify the economy to spread the benefits of growth, address labor market issues, especially those pertaining to**

skills mismatch with a view to increase labor force participation, and modernize agriculture and mining. Specifically, steps are needed to encourage labor market participation by the Guyanese population to take advantage of the emerging opportunities in the expanding mining sector.

42. **The authorities project growth in agriculture, buoyed by expansion in rice production and stabilization of sugar production.** They stressed that innovations in rice production along with potential new agreements with countries in the region could expand exports. The authorities also emphasized that improvements in the new sugar factory Skeldon, which has not performed as expected so far, will boost exports and domestic sales.

D. Measures to Improve Official Data

43. **While data is broadly adequate for surveillance, further efforts are needed, notably on facilitating timeliness.** Although the authorities subscribed to the IMF's GDDS in early 2011, coverage of key macroeconomic variables needs improvement in terms of periodicity and timeliness.

Authorities' views

44. **The authorities acknowledged the existence of long lags in the dissemination of some data and are committed to resolving this situation immediately.** The authorities suggested and staff agreed to review the data dissemination schedule with a view to increasing the frequency and timeliness, and reducing the lags of data releases.

STAFF APPRAISAL

45. **Guyana's macroeconomic outlook remains positive for 2013 and the medium term, despite current political uncertainty**. Over the medium term, FDI financed projects in the mining sector and infrastructure investments, including the construction of the AFHP, should sustain growth levels at above trend. Against this backdrop, Guyana's minority government will be challenged to maintain the delicate balance between strengthening fiscal consolidation and protecting the budget from contingent liabilities and future debt distress, while promoting inclusive growth and reducing poverty on a sustainable basis.

46. **Continued fiscal consolidation within a strengthened medium-term policy framework is required to help safeguard debt sustainability and bolster fiscal and external reserve buffers.** In particular, gradually lowering the overall fiscal deficit to about 2.0–3.0 percent of GDP over the medium term would help bolster fiscal and external reserve buffers and provide fiscal space for capital expenditure to address Guyana's significant infrastructure and social safety needs. It would also help reduce the debt-to-GDP ratio to around 55 percent by 2018 and preserve Guyana's ranking of moderate risk of debt distress. To contain the NFPS deficit, the authorities need to advance far reaching reforms of SOEs, streamlining subsidies and transfers to public enterprises and replacing them with a more targeted social safety net.

47. **While acknowledging the potential benefits of cheaper and more reliable electricity to help transform the economy**, staff urged the authorities to use the delay in implementation of AFHP to ensure that the project remains financially and economically viable so as not to expose the budget to undue risks and future debt distress. To avoid further delays and advance the implementation of the project, the authorities should continue to engage actively with all stakeholders. Staff recommended that the authorities strengthen the project and debt management framework in view of the risks that PPPs can pose, particularly in the presence of sovereign guarantees. In this regard, the adoption of international best practices in the management of PPPs to manage potential risks of contingent fiscal liabilities is warranted.

48. **While the flexible exchange rate regime remains appropriate, the authorities need to continue to implement a policy mix that safeguards international reserves and contains inflationary pressures.** Along with appropriate nominal exchange rate flexibility, the combination of fiscal consolidation and moderate monetary tightening coupled with structural reforms would help to decrease inflationary pressures, boost competitiveness, contain the external current account deficit, and reduce appreciation of the real effective exchange rate.

49. **Financial sector risks appear contained, but warrant vigilance particularly against the backdrop of several years of rapid credit growth.** Staff welcomes the progress made in enhancing the supervisory framework and data provision of the financial sector. More frequent comprehensive on-site inspections are, however, advisable for larger institutions. Loan concentration, a source of potential concern raised in the 2006 FSAP, remains high due to the limited number of large borrowers. Improved coordination of the supervision of insurers and banks that are part of the same business group would also enhance supervision. Staff also urged the authorities and Parliament to press ahead with addressing the AML/CFT deficiencies identified by the CFATF by November 2013 to avoid potential impairment of the financial system.

50. **Sustaining poverty reduction and inclusive growth should remain a high priority.** Although GDP per capita has been steadily rising, greater efforts are needed to ensure a better geographical distribution, poverty reduction and social equity. In this regard, efforts to lower the cost of energy, reorienting training to match needed skills in the labor force, and other structural measures to lower the cost of doing business and improve business environment are well placed.

51. **Finally, the authorities should build on their efforts with the Fund's GDDS, through more timely dissemination of economic information.** While Guyana subscribed to the Fund's GDDS in 2011, periodicity and timeliness of key macroeconomic variables need improvement. Staff welcomed the authorities' commitment to reviewing the data dissemination schedule with a view to increasing the frequency and timeliness, and reducing the lags of data releases going forward.

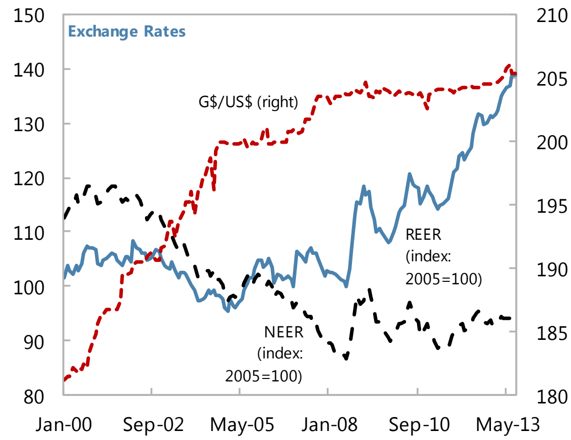
52. **Staff recommends that the next Article IV consultation with Guyana be held on the standard 12-month cycle.**

Box 1. Authorities' Response to Past IMF Policy Recommendations

(Scale – fully consistent, broadly consistent, or marginally consistent)

IMF 2012 Article IV Recommendations	Authorities' Response
Fiscal policy Continue fiscal consolidation to reduce the risk of pro-cyclical policy and to rebuild buffers. Improve public enterprise performance, with financial assistance conditional on achieving specific performance targets, and acceleration of plans to bolster operational and administrative capacity.	**Broadly consistent** The authorities are determined to preserve fiscal sustainability by gradually reducing the NFPS deficit to 3.5 percent of GDP by 2018. The current macro framework strikes the right balance between fiscal consolidation and addressing Guyana's developmental agenda.
Contingent fiscal liabilities Ensure that the AFHP is financially and economically viable so as not to expose the budget to undue risks and future debt distress.	**Broadly consistent** Ongoing reforms and investment in the electricity sector will ensure that the AFHP remains economically and financially viable. Authorities have retained legal, financial, and electricity sector advisors to ensure the risks associated with the project remain manageable.
Monetary and exchange rate policies Tighten monetary policy to protect foreign reserves and prevent a buildup of excessive leverage in the system. Over the medium term, gradually shift towards more flexible exchange rate to provide an additional buffer against shocks.	**Broadly consistent** While there is scope to tighten monetary policy, there is a potential tension between promoting financial deepening and safeguarding financial stability. The Bank of Guyana intervenes in the foreign exchange market to alleviate shortages of foreign currency and avoid excessive volatility in the exchange rate.
Financial sector policy Continue close monitoring of the financial system and stand ready to take preemptive actions, should credit growth threaten asset quality. Make further progress in the AML/CTF by making full use of the technical assistance provided to the Bank of Guyana and the FIU.	**Broadly consistent** The Bank of Guyana's strict financial oversight and regulation has safeguarded financial stability despite rapid credit growth in recent years. The necessary reforms in AML/CFT are in place and the only outstanding issue is the passage of the amendment bill in Parliament.
Sovereign Wealth Fund Implement a new fiscal framework to manage the expected wealth from extractive industries.	**Broadly consistent** The authorities are considering the establishment of a sovereign wealth fund to manage the expected wealth from extractive industries, should reserves be proven.
Structural reforms Modernize the traditional sectors, while creating an environment to nurture new enterprises. Lower the cost of doing business and improve business environment. Intensify efforts to reduce poverty and facilitate inclusive growth.	**Broadly consistent** Innovations in rice production and improvements in the Skeldon sugar factory will boost exports and domestic sales. Guyana has halved the poverty rate in advance of 2015; one of its MDGs. Lower cost of energy from the AFHP will reduce cost of doing business and help reduce poverty.

Box 2. Guyana: External Stability Assessment



In real effective terms, Guyana's real exchange rate has been on a fast appreciation path. The real effective exchange rate (REER) appreciated about 20 percent since 2008, notwithstanding nominal depreciation relative to the US dollar. This steady appreciation in the REER largely reflects developments in the value of the US dollar (which the Guyanese dollar follows closely) against the Euro and other major currencies and higher inflation in Guyana relative to price inflation in major trading partners.[1]

The CGER-type analysis suggests that the Guyanese REER is close to its equilibrium level, but some depreciation is necessary to contain projected widening current account deficit and build buffers against potential external shocks. Staff used the external sustainability (ES) and macroeconomic balance (MB) approaches to assess external stability in Guyana.[2] The ES approach suggests that the REER is 7.4 percent above the level that would stabilize the net foreign asset (NFA) position at its 2012 level (-107 percent of GDP). The MB approach suggests that the projected external current account deficit of 12.5 percent of GDP over the medium-term is lower than its norm level of 10.8 percent of GDP, translating into an appreciation of 4.1 percent. The current account norm is estimated based on a set of indicators using the generalized method of moments (GMM).[3] The main determinants of the current account norm for Guyana include the oil balance, the NFA position, the fiscal balance and the terms-of-trade. The current account deficit will gradually decrease over time—widening due to the AFHP project and higher imports of intermediate goods, accompanied by an increase in FDI inflows, before declining once the investment projects are completed. Some depreciation in the real effective exchange rate, coupled with fiscal consolidation and monetary tightening, would help stem the pace of import growth and boost export competitiveness to contain a widening current account deficit.

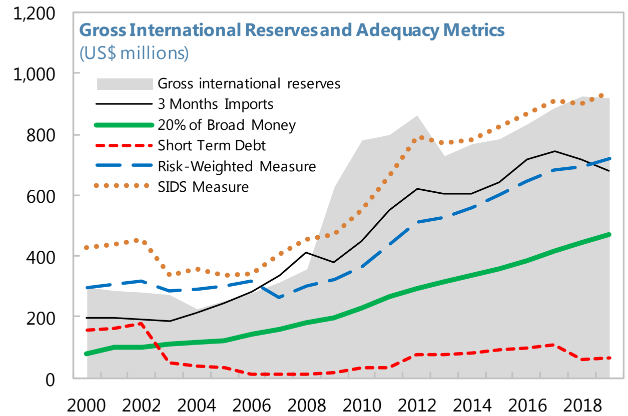
Assessment of the Real Exchange Rate Using CGER Methodologies

(In percent of GDP, unless otherwise indicated)

	Macroeconomic Balance Approach Underlying CA balance: baseline 2018 level	External Sustainability Approach Stabilizing NFA at its end-2012 level
Equilibrium external current account (CA) 1/	-10.8	-9.4
Underlying CA balance 2/	-12.5	-12.5
CA elasticity to REER 3/	-0.4	-0.4
Implied REER adjustment (in percent, "+" appreciation)	4.1	7.4

1/ Equilibrium external current account corresponds to a CA level that is consistent with a specific set of economic fundamentals.
2/ External current account in 2018, excluding AFHP-related imports.
3/ This elasticity is computed using the standard long-run real exchange rate elasticities for imports (0.92) and exports (-0.71), as well as the values of Guyana's exports and imports of goods and services (in percent of GDP).

Reserves adequacy is assessed based on traditional measures and two recently introduced risk-weighted metrics. Traditional metrics suggest that reserves would remain above the comfortable adequacy threshold in the medium term. Based on the three months of imports, twenty percent cover of broad money, and full cover of short-term debt for a year,[4] reserves are currently above the adequacy benchmark.



Ratios of Reserves to Optimal Reserves based on Various Measures
(In percent)

	Risk-Weighted Measure	SIDS Measure	3 months Import	20% of Broad Money	Short Term Debt
2002	87	62	147	273	159
2003	96	81	146	248	548
2004	78	63	105	196	573
2005	83	75	102	203	786
2006	87	81	98	194	1,976
2007	120	77	92	195	2,592
2008	119	78	87	198	2,848
2009	195	134	165	316	3,275
2010	212	141	173	340	2,575
2011	183	120	145	300	2,432
2012	168	109	139	292	1,154
2013	138	94	120	231	934
2014	137	98	127	229	924
2015	130	95	122	219	850
2016	129	96	116	215	842
2017	130	97	119	214	832
2018	133	102	129	209	1,574
2019	128	98	135	196	1,413
Adequate Range	100-150	75-100	100	100	100

New metrics capturing risk-weighted measures for small countries point to shortfall of reserves over the medium-term.[5] The first risk-weighted measure suggests that reserves stood at 168 percent in 2012, above the upper bound of adequacy threshold of 100–150 percent, but expected to decline to 128 percent by 2018. The second risk-weighted measure, adjusted for Small Island Developing States (SIDS) metric signals a similar trend – with current 109 percent ratio above the upper benchmark and projected decline to 98 percent, slightly below the upper bound, by 2018. The third measure is based on the IMF 2011 Optimal Reserve Metric for Low Income Countries. Factoring in the cost of holding reserves, the optimal level of reserves is 4.2 months of imports, indicating adequate coverage in 2012. However, foreign reserve coverage will decline to 3.7 months of imports on average during the construction of the AFHP, falling temporarily below the adequate coverage. In light of projected widening of the current account deficit and vulnerability associated with sources of external financing, projected decline of international reserves could pose a risk to Guyana's external stability.

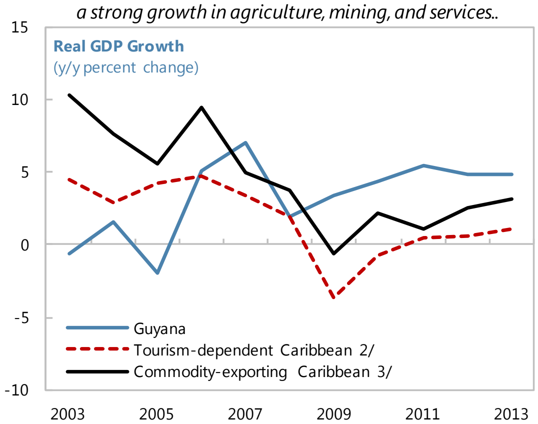
The external debt sustainability analysis (DSA) indicates that risks to the external stability remain moderate and debt service manageable. Debt indicators remain well below their respective thresholds over the projection period in the baseline scenario. The PV of external debt-to-GDP ratio increases moderately over the next 3 years due to large external borrowing in the medium term, before declining and leveling off at around 27 percent. Sensitivity analysis and bound tests show high vulnerability of debt to shocks in the case of new loans on less favorable terms and one-time 30 percent depreciation. Nevertheless, debt service would remain manageable reflecting the high concessionality of public borrowing, remaining at 6 percent and 9 percent of exports and government revenue, respectively.

[1] Guyana's exchange rate regime is a de facto stabilized arrangement, according to the most recent Fund classification.
[2] The equilibrium real exchange rate could not be estimated due to the lack of data on productivity indicators.
[3] See Beidas-Strom and Cashin (2011): "Are Middle Eastern Current Account Imbalances Excessive?" IMF WP/11/195. The regression is based on a sample of 67 countries, including Guyana.
[4] IMF, 2011, "Assessing Reserve Adequacy", IMF Policy Paper.
[5] Mwase, 2012, How Much Should I hold? Reserve Adequacy in Emerging Markets and Small Islands, IMF Working Paper 12/205.

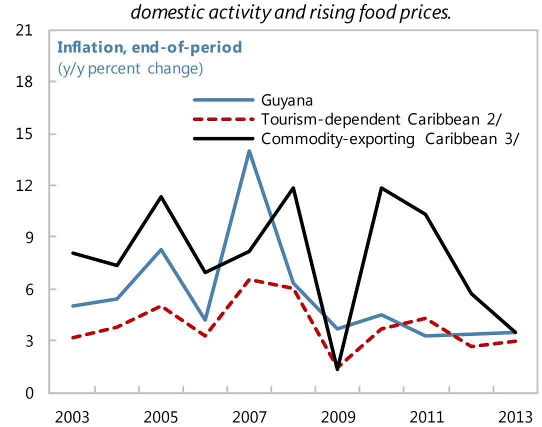
Figure 1. Guyana: Comparative Regional Developments 1/

Guyana continues to lead the region on growth performance, which has helped to contain, somewhat, the fiscal and debt performance.

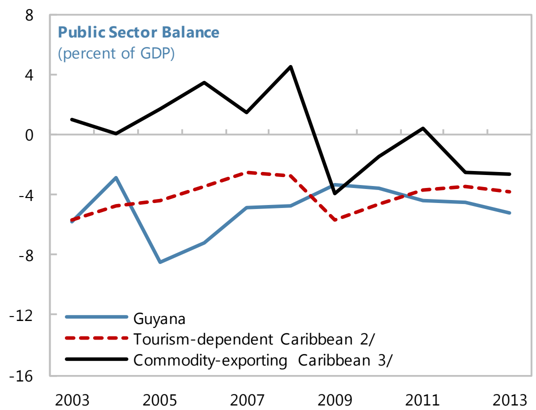
Guyana's growth performance is being sustained, thanks to a strong growth in agriculture, mining, and services..



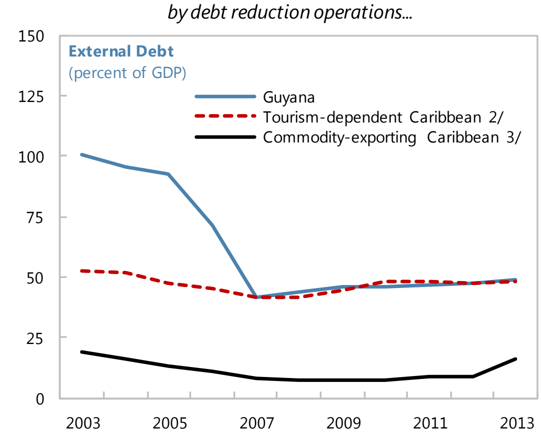
... while inflation picked up, somewhat, reflecting strong domestic activity and rising food prices.



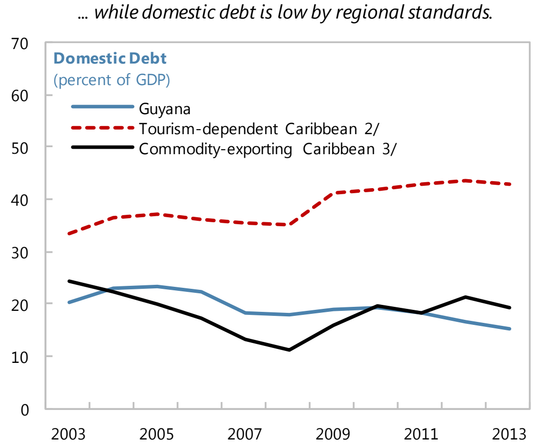
Fiscal deficit has widened.



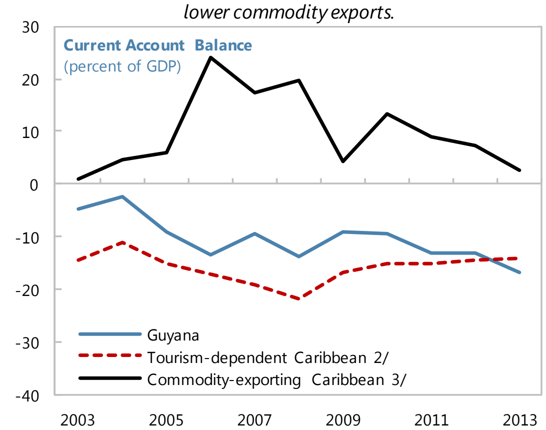
External debt has been brought to regional levels, supported by debt reduction operations...



... while domestic debt is low by regional standards.



The current account deficit is expected to widen in 2013, driven by surging import s of capital goods and fuels , and lower commodity exports.

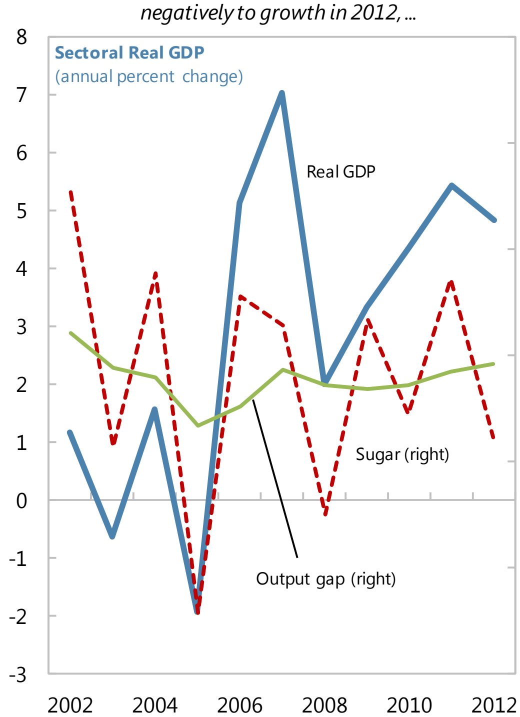


Sources: Country authorities; and Fund staff calculations.
1/ Caribbean region measured as simple averages of corresponding variables.
2/ Tourism-dependent Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
3/ Commodity-exporting Caribbean includes Suriname and Trinidad and Tobago.

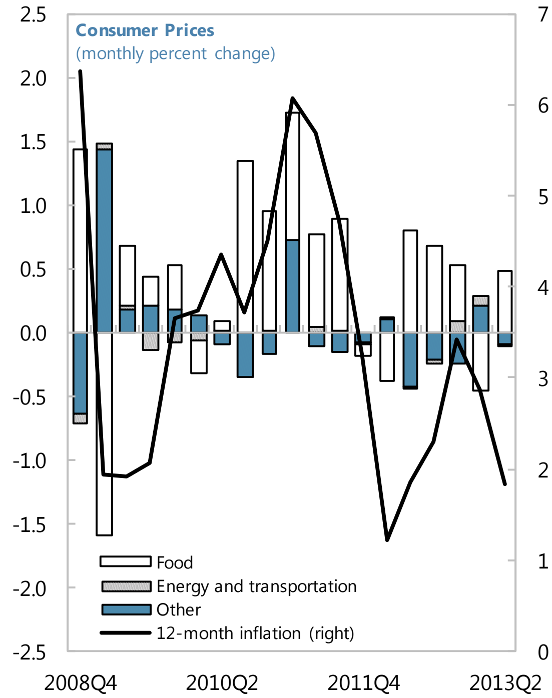
Figure 2. Guyana: Real Sector Indicators

Economic activity remains steady, and inflation is gaining momentum.

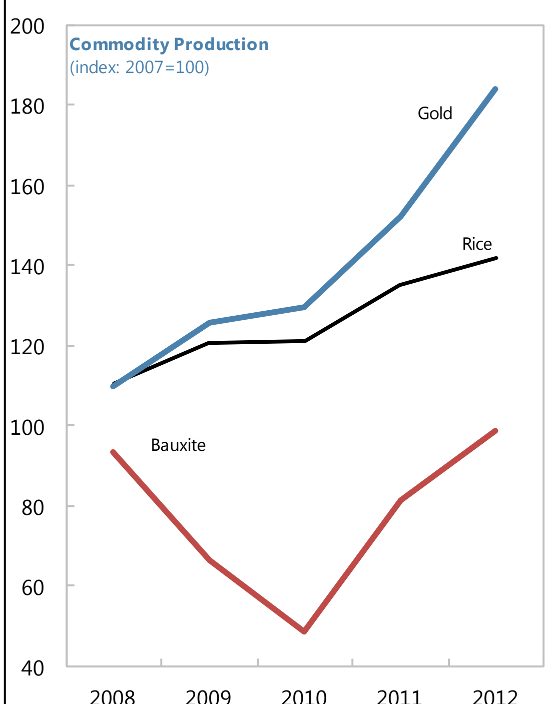
The influence of sugar has waned, contributing negatively to growth in 2012, ...



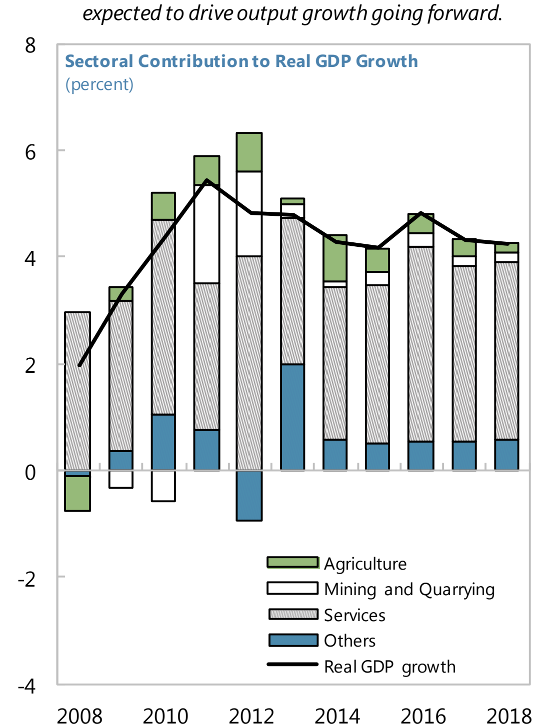
... while food price inflation picked up.



Commodity production is booming and ...



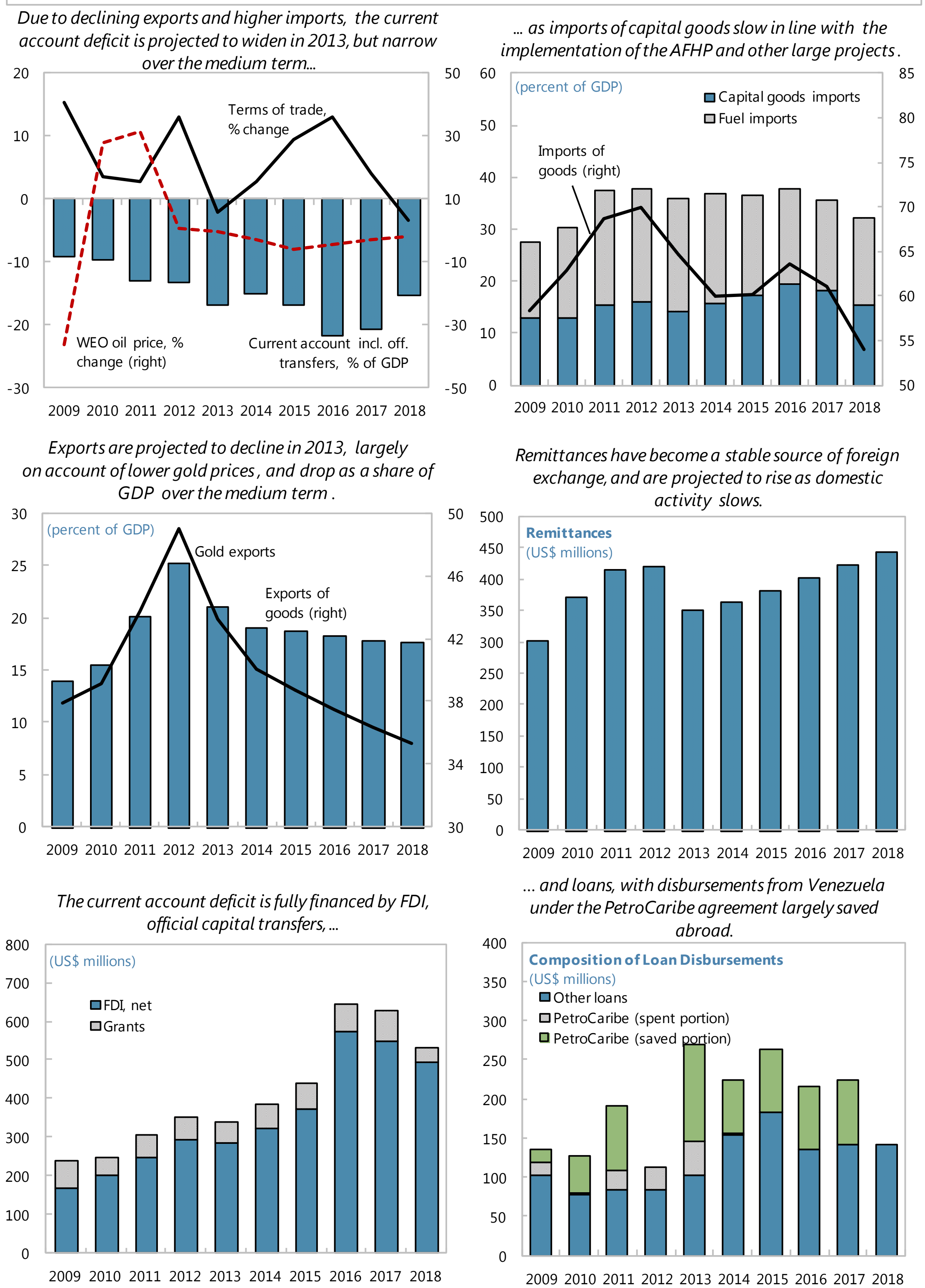
... large FDI inflows in mining and infrastructure are expected to drive output growth going forward.



Sources: Bank of Guyana; Ministry of Finance; and Fund staff estimates.

Figure 3. Guyana: External Sector Developments

The external position has weakened somewhat, as fuel and capital goods (financed by FDI) imports swell the current account deficit.

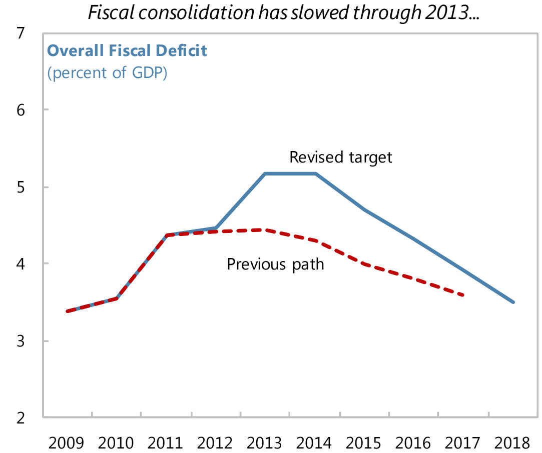


Sources: Bank of Guyana; and Fund staff estimates and projections.

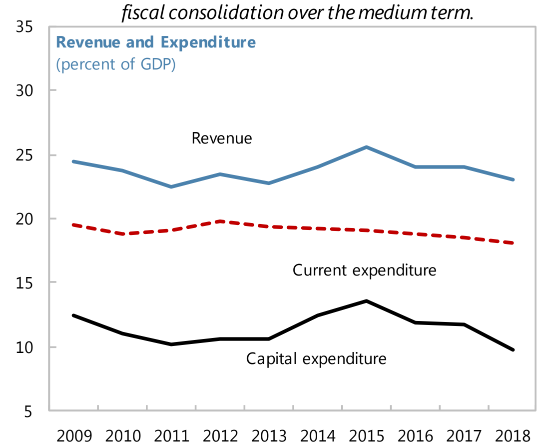
Figure 4. Guyana: Fiscal Sector Developments

A more ambitious fiscal consolidation strategy is warranted to create fiscal space and put public debt on a declining trajectory.

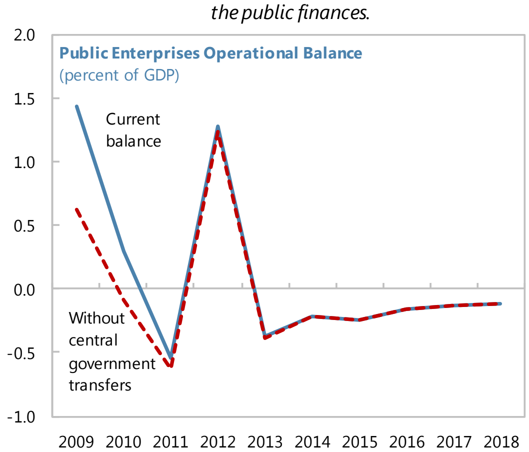
Fiscal consolidation has slowed through 2013…



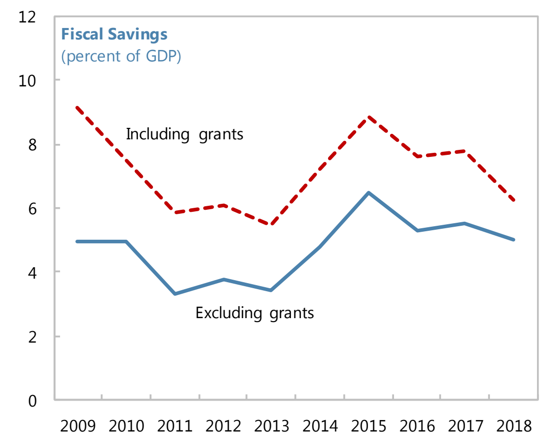
… however, a pick-up in revenues should contribute to fiscal consolidation over the medium term.



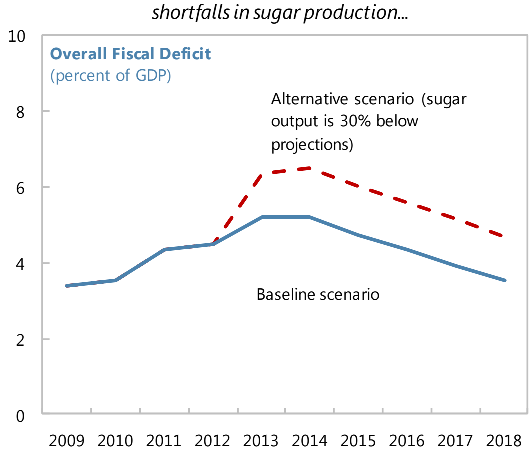
Weakining performance of sugar, electricity sectors and national insurance scheme will be a significant drag on the public finances.



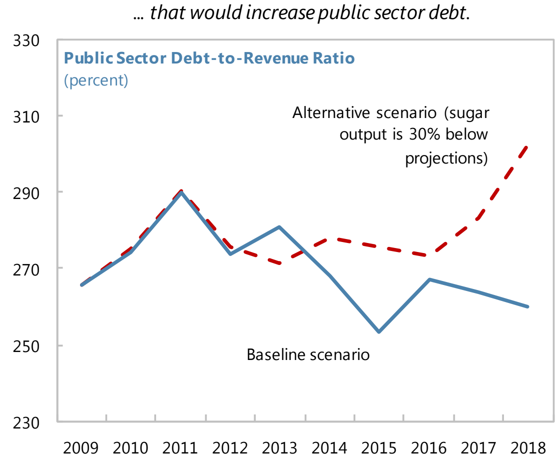
Fiscal savings net of grants would improve somewhat.



Guyana, however, faces significant risks ahead, such as shortfalls in sugar production…



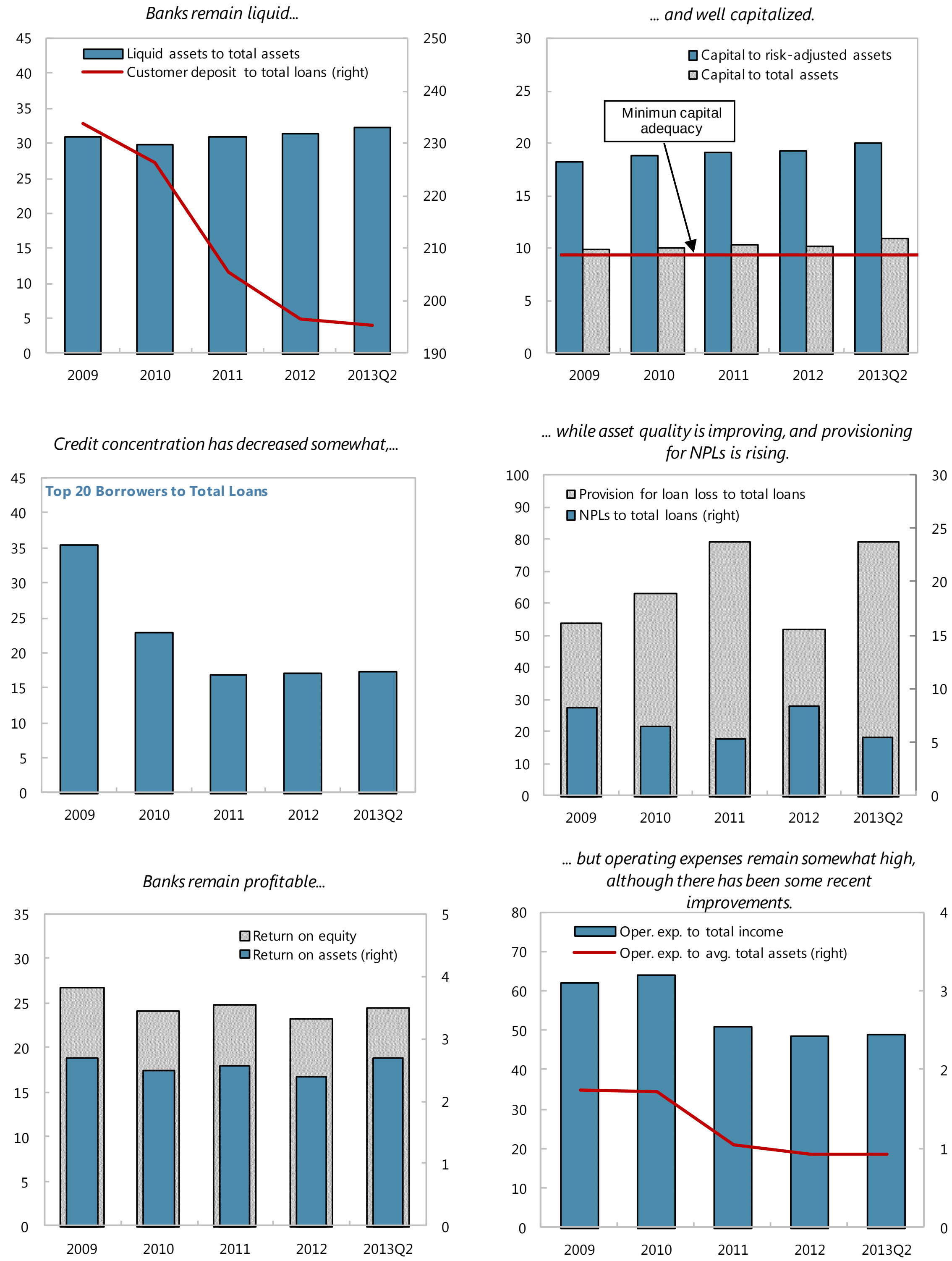
… that would increase public sector debt.



Sources: Ministry of Finance; and Fund staff estimates and projections.

Figure 5. Guyana: Financial Soundness Indicators

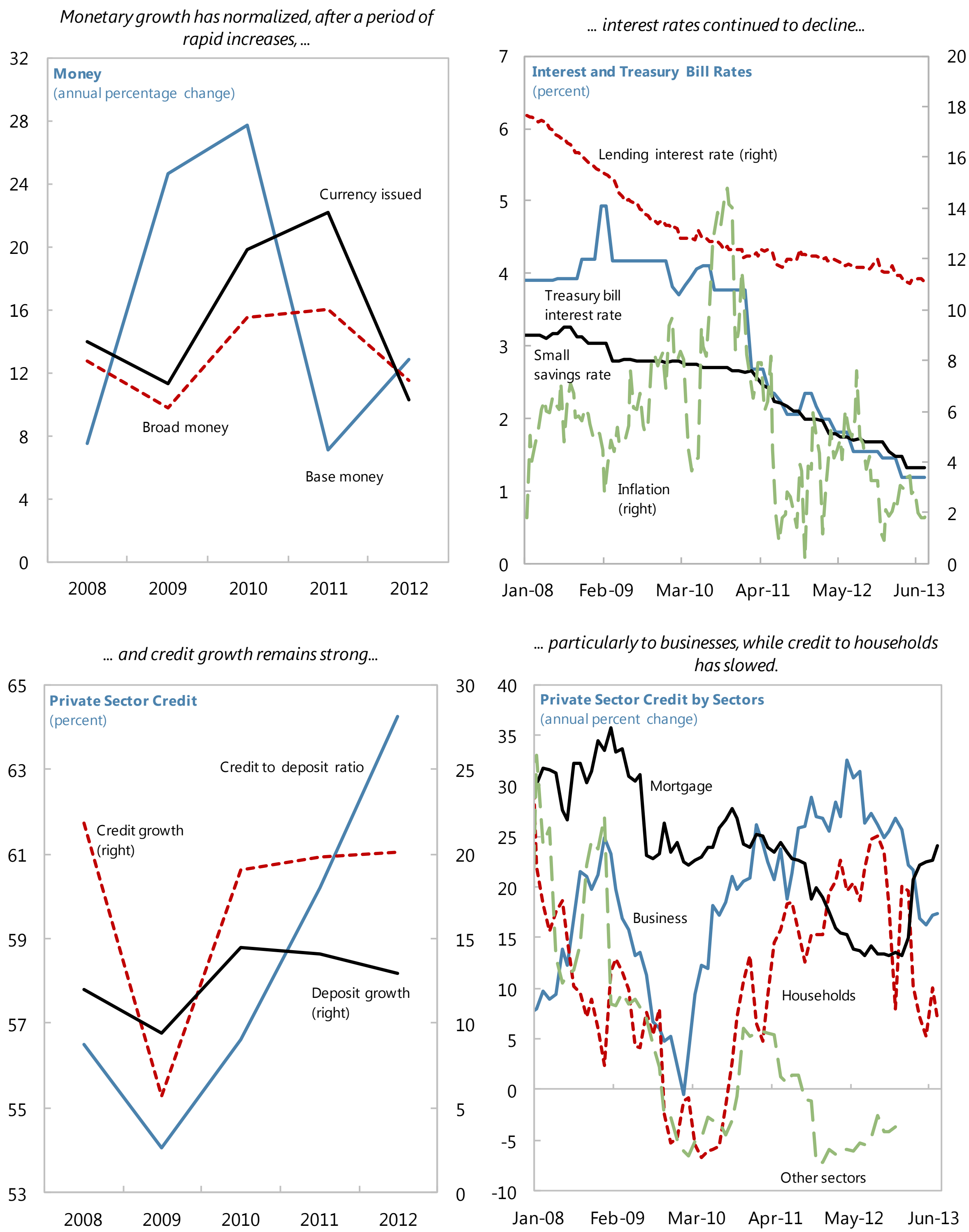
Monetary conditions are broadly supportive of growth.



Source: Bank of Guyana.

Figure 6. Guyana: Monetary Developments

Monetary conditions are broadly supportive of growth.



Source: Bank of Guyana Financial Statistics.

Table 1. Guyana: Selected Social and Economic Indicators

I. Social Indicators

Population, 2012 (thousands)	796.3	Population not using an improved water source (%), 2010	6.0
Life expectancy at birth (years), 2012	70.2	Gini index, 1992-2007	44.6
Under-five mortality rate (per 1,000 live births), 2010	30	HDI rank, 2012	118
Population living below the poverty line (%), 2000-06	35		

II. Economic Indicators

					Projections	
	2009	2010	2011	2012	2013	2014
			(Annual percent change)			
Production and prices						
Real GDP	3.3	4.4	5.4	4.8	4.8	4.3
Real GDP per capita	2.9	3.3	3.9	3.9	4.8	4.3
Consumer prices (average)	3.0	3.7	5.0	2.4	3.5	3.9
Consumer prices (end of period)	3.7	4.5	3.3	3.4	3.5	4.3
Terms of trade	23.9	6.5	-3.4	5.7	-7.6	0.4
			(In percent of GDP)			
National accounts						
Investment	16.5	16.7	19.7	19.1	18.7	19.8
Private sector	4.0	5.7	9.5	8.5	8.0	7.4
Public sector	12.5	11.0	10.2	10.5	10.6	12.4
National saving	7.4	7.1	6.6	5.8	1.8	4.7
Private sector	0.2	0.8	1.9	0.8	-2.8	-2.0
Public sector	7.2	6.3	4.7	5.0	4.6	6.7
External savings	9.1	9.6	13.1	13.3	16.8	15.1
Nonfinancial public sector						
Revenue and grants	28.6	26.3	25.0	25.8	24.8	26.5
Expenditure	32.0	29.8	29.4	30.3	30.0	31.7
Current	19.5	18.8	19.1	19.7	19.4	19.3
Capital	12.5	11.0	10.2	10.5	10.6	12.4
Overall balance (after grants) 1/	-3.4	-3.5	-4.4	-4.5	-5.2	-5.2
Total public sector gross debt (end of period)	64.8	65.2	65.1	64.3	63.9	64.6
External	45.8	46.0	46.7	47.7	48.7	50.6
Domestic	19.0	19.2	18.3	16.6	15.2	13.9
			(Annual percentage change, end of period)			
Money and credit						
Broad money	9.7	15.5	16.0	11.5	8.4	8.3
Domestic credit of the banking system	-13.7	16.3	52.9	7.5	17.8	17.3
Public sector (net)	-79.4	-24.1	37.0	-72.7	-3.4	-2.6
Private sector	5.7	19.0	19.9	20.1	13.8	13.6
			(In millions of U.S. dollars, unless otherwise indicated; end of period)			
External sector						
Current account balance 1/	-183.9	-217.2	-336.7	-378.5	-499.3	-475.0
Gross official reserves 2/	627.5	780.0	798.1	862.2	728.4	767.7
Months of imports of goods and services	5.0	5.2	4.3	4.2	3.6	3.8
Memorandum items:						
Nominal GDP (G$ billion)	413.1	460.1	525.7	582.7	621.1	670.2
Per capita GDP, US$	2,630	2,904	3,263	3,581	3,729	3,945
Guyana dollar/U.S. dollar (period average)	204.1	203.6	204.0	204.4	…	…
PetroCaribe loans savings (stock, in % of GDP)	4.9	4.0	1.8	6.7	8.9	9.0

Sources: Guyanese authorities; UNDP Human Development Report; and Fund staff estimates and projections.

1/ Including official transfers.

2/ Includes SDR allocation.

Table 2. Guyana: Balance of Payments

	2009	2010	2011	2012	Projections 2013	2014
(In millions of U.S. dollars)						
Current account (incl. official transfers)	**-183.9**	**-217.2**	**-336.7**	**-378.5**	**-499.3**	**-475.0**
Current account (excl. official transfers)	-230.9	-247.4	-372.5	-415.0	-539.8	-535.0
Merchandise trade (net)	**-411.5**	**-534.1**	**-641.7**	**-600.3**	**-636.9**	**-626.8**
Exports (f.o.b.)	768.0	885.0	1128.9	1396.4	1283.6	1259.7
Bauxite	79.5	114.2	133.3	150.8	129.9	135.0
Sugar	119.7	101.5	123.3	132.1	114.9	134.6
Gold	281.6	346.4	517.0	717.0	621.0	597.2
Timber	41.4	48.6	39.1	39.0	31.4	33.8
Other	245.8	274.3	316.2	357.5	386.4	359.1
Imports (c.i.f.)	1,179.5	1,419.1	1,770.6	1,996.7	1,920.6	1,886.6
Capital goods	259.2	291.0	396.1	459.8	421.0	496.5
Fuel and lubricants	296.7	395.5	573.0	619.0	648.5	658.6
Other	623.6	732.6	801.5	917.9	851.0	731.5
Services (net)	**-119.0**	**-84.1**	**-145.4**	**-233.9**	**-253.2**	**-271.2**
Net private transfers	**299.6**	**370.8**	**414.6**	**419.2**	**350.4**	**363.0**
Capital and financial accounts	**413.8**	**444.9**	**543.0**	**318.9**	**417.8**	**586.1**
Capital account 1/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**413.8**	**444.9**	**543.0**	**318.9**	**417.8**	**586.1**
Nonfinancial public sector (net)	181.8	172.3	267.5	10.2	188.0	211.9
Net official transfers	73.8	46.4	56.8	66.1	61.4	75.7
Net official borrowing	124.1	107.8	168.8	94.2	251.4	203.9
Other public sector (net) 2/	-16.0	18.1	41.8	-150.1	-124.7	-67.7
Private sector (net)	232.0	272.6	275.5	308.7	229.8	374.2
Foreign direct investment (net)	164.0	198.0	246.8	293.7	285.3	320.2
Portfolio investment (net)	44.0	71.7	61.0	80.0	40.0	60.0
Other (net) 3/	24.0	2.9	-32.3	-65.0	-95.5	-6.0
Errors and omissions, and short-term flows	-21.0	-42.5	-145.1	172.0	0.0	0.0
Overall balance	**162.0**	**155.0**	**25.3**	**76.0**	**-122.0**	**51.1**
Financing	**-162.0**	**-155.0**	**-25.3**	**-76.0**	**122.0**	**-51.1**
Bank of Guyana net foreign assets	-162.0	-155.0	-25.3	-76.0	122.0	-51.1
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:						
Current account, incl. off. transfers (in percent of GDP)	-9.1	-9.6	-13.1	-13.3	-16.8	-15.1
Current account, excl. off. transfers (in percent of GDP)	-8.7	-11.0	-14.5	-14.6	-18.2	-17.0
Gross international reserves	627.5	780.0	798.1	862.2	728.4	767.7
(in months of imports of goods and services)	5.0	5.2	4.3	4.2	3.6	3.8
(excl. AFHP, in months of imports of goods and servic	5.0	5.2	4.3	4.2	3.6	3.8
Oil price assumption (US$/b)	61.8	79.0	104.0	105.0	104.5	101.3
HIPC and MDRI debt service relief	38.8	36.4	36.6	33.9	22.3	21.0
GDP (US$ million)	2,024	2,259	2,577	2,851	2,970	3,142
(Annual percent change)						
Exports of goods	-4.5	15.5	27.0	23.9	-8.2	-1.9
Imports of goods	-10.7	20.3	24.8	12.8	-3.8	-1.8
Terms of trade	23.9	6.5	-3.4	5.7	-7.6	0.4

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes the IDB's stock of debt operation in 2007
2/ Includes capital flows of PetroCaribe financing.
3/ Includes capital flows to finance the Berbice bridge and short-term capital flows.
4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

Table 3a. Guyana: Nonfinancial Public Sector Operations

(In billions of Guyanese dollars)

	2009	2010	2011	2012	Projections 2013	2014	2015	2016	2017	2018
Revenue	**100.9**	**109.3**	**118.0**	**136.9**	**141.3**	**161.3**	**185.3**	**189.1**	**204.7**	**212.3**
Central government	94.9	108.1	120.9	129.4	143.6	162.7	187.1	190.4	205.9	213.3
Tax revenue	89.1	101.0	111.4	118.3	128.9	139.8	152.6	166.3	181.0	195.7
Non-tax revenue	5.8	6.9	9.5	11.1	13.2	13.9	12.8	13.1	13.8	17.6
GRIF	0.0	0.0	0.0	0.0	1.6	9.0	21.7	11.0	11.1	0.0
Capital revenue	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	5.9	1.2	-2.9	7.4	-2.3	-1.4	-1.8	-1.3	-1.1	-1.1
Expenditure	**132.1**	**137.2**	**154.4**	**176.4**	**186.3**	**212.2**	**236.4**	**241.3**	**257.7**	**256.2**
Current expenditure	80.4	86.4	100.6	114.9	120.2	129.2	138.1	147.5	157.6	166.2
Wages and salaries	26.2	28.4	31.3	34.8	38.0	41.0	43.8	47.0	50.2	53.5
Other goods and services 1/	25.9	26.8	33.7	34.2	36.9	39.8	42.8	46.0	49.5	53.0
Transfers	21.8	23.3	27.5	39.4	38.1	40.5	42.8	46.0	48.9	51.1
Interest 2/	6.6	7.9	8.1	6.5	7.2	7.9	8.7	8.6	9.0	8.7
Domestic	3.3	4.0	4.0	2.6	3.3	3.2	3.3	3.0	3.4	3.0
External	3.3	3.9	4.0	3.9	3.9	4.6	5.4	5.6	5.6	5.6
Capital expenditure	51.7	50.8	53.8	61.5	66.1	83.0	98.2	93.8	100.1	90.0
External PSIP	17.1	15.8	17.6	22.3	31.2	36.5	39.6	33.6	35.9	24.8
GRIF Projects	...	...	...	0.0	1.6	9.0	21.7	11.0	11.1	0.0
Local PSIP	25.9	27.4	24.9	26.5	19.3	26.8	25.8	48.0	57.1	62.1
Public enterprises	2.7	3.1	3.4	5.4	3.7	10.3	11.2	12.1	7.1	3.1
PetroCaribe projects	3.3	0.2	3.9	5.3	8.3	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	**-28.6**	**-25.0**	**-35.7**	**-39.1**	**-44.1**	**-50.9**	**-51.1**	**-52.2**	**-53.0**	**-43.9**
Grants 3/	17.3	11.6	13.5	13.5	12.8	16.1	16.9	18.2	19.5	11.6
Overall balance after grants	**-14.0**	**-16.3**	**-22.9**	**-26.0**	**-32.2**	**-34.7**	**-34.2**	**-34.0**	**-33.5**	**-32.3**
Financing	**14.0**	**16.3**	**22.9**	**26.0**	**32.2**	**34.7**	**34.2**	**34.0**	**33.5**	**32.3**
Net foreign financing 2/	20.3	14.4	11.4	25.6	49.8	39.6	47.5	38.7	40.7	24.0
Net domestic financing 4/	-2.7	1.5	5.1	5.3	-2.1	-1.2	-7.1	2.1	0.1	-3.0
PetroCaribe savings	-3.6	0.4	6.4	-4.9	-15.6	-3.7	-6.3	-6.8	-7.2	11.3
Memorandum items:										
NFPS wage bill	45.7	48.5	54.6	60.5	64.2	68.4	72.4	76.9	81.5	86.1
Total capital expenditure	51.7	50.8	53.8	61.5	66.1	83.0	98.2	93.8	100.1	90.0
Current balance before grants	20.4	22.9	17.4	21.9	21.1	32.1	47.2	41.6	47.1	46.1
Primary balance	-4.7	-5.5	-14.1	-19.1	-24.0	-26.8	-25.4	-25.4	-24.5	-23.6
Nominal GDP at market prices (G$ billion)	413.1	460.1	525.7	582.7	621.1	670.2	725.6	787.2	852.6	919.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.
2/ Reflects interest and amortization after debt stock operations.
3/ Includes debt service savings under the MDRI.
4/ Includes statistical discrepancies.

Table 3b. Guyana: Nonfinancial Public Sector Operations

(In percent of GDP)

	2009	2010	2011	2012	Projections 2013	2014	2015	2016	2017	2018
Revenue	**24.4**	**23.8**	**22.5**	**23.5**	**22.8**	**24.1**	**25.5**	**24.0**	**24.0**	**23.1**
Central government	23.0	23.5	23.0	22.2	23.1	24.3	25.8	24.2	24.1	23.2
Tax revenue	21.6	21.9	21.2	20.3	20.8	20.9	21.0	21.1	21.2	21.3
Non-tax revenue	1.4	1.5	1.8	1.9	2.1	2.1	1.8	1.7	1.6	1.9
GRIF	0.0	0.0	0.0	0.0	0.3	1.3	3.0	1.4	1.3	0.0
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	1.4	0.3	-0.6	1.3	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1
Expenditure	**32.0**	**29.8**	**29.4**	**30.3**	**30.0**	**31.7**	**32.6**	**30.7**	**30.2**	**27.9**
Current expenditure	19.5	18.8	19.1	19.7	19.4	19.3	19.0	18.7	18.5	18.1
Wages and salaries	6.3	6.2	6.0	6.0	6.1	6.1	6.0	6.0	5.9	5.8
Other goods and services 1/	6.3	5.8	6.4	5.9	5.9	5.9	5.9	5.8	5.8	5.8
Transfers	5.3	5.1	5.2	6.8	6.1	6.0	5.9	5.8	5.7	5.6
Interest 2/	1.6	1.7	1.5	1.1	1.2	1.2	1.2	1.1	1.1	0.9
Domestic	0.8	0.9	0.8	0.4	0.5	0.5	0.5	0.4	0.4	0.3
External	0.8	0.9	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.6
Capital expenditure	12.5	11.0	10.2	10.5	10.6	12.4	13.5	11.9	11.7	9.8
External PSIP	4.1	3.4	3.4	3.8	5.0	5.4	5.5	4.3	4.2	2.7
GRIF Projects	...	...	...	0.0	0.3	1.3	3.0	1.4	1.3	0.0
Local PSIP	6.3	6.0	4.7	4.5	3.1	4.0	3.6	6.1	6.7	6.8
Public enterprises	0.7	0.7	0.6	0.9	0.6	1.5	1.5	1.5	0.8	0.3
PetroCaribe projects	0.8	0.0	0.7	0.9	1.3	0.0	0.0	0.0	0.0	0.0
Overall balance before grants	**-6.9**	**-5.4**	**-6.8**	**-6.7**	**-7.1**	**-7.6**	**-7.0**	**-6.6**	**-6.2**	**-4.8**
Grants 3/	4.2	2.5	2.6	2.3	2.1	2.4	2.3	2.3	2.3	1.3
Overall balance after grants	**-3.4**	**-3.5**	**-4.4**	**-4.5**	**-5.2**	**-5.2**	**-4.7**	**-4.3**	**-3.9**	**-3.5**
Financing	**3.4**	**3.5**	**4.4**	**4.5**	**5.2**	**5.2**	**4.7**	**4.3**	**3.9**	**3.5**
Net foreign financing 2/	4.9	3.1	2.2	4.4	8.0	5.9	6.6	4.9	4.8	2.6
Net domestic financing 4/	-0.7	0.3	1.0	0.9	-0.3	-0.2	-1.0	0.3	0.0	-0.3
PetroCaribe savings	-0.9	0.1	1.2	-0.8	-2.5	-0.6	-0.9	-0.9	-0.9	1.2
Memorandum items:										
NFPS wage bill	11.1	10.5	10.4	10.4	10.3	10.2	10.0	9.8	9.6	9.4
Total capital expenditure	12.5	11.0	10.2	10.5	10.6	12.4	13.5	11.9	11.7	9.8
Current balance before grants	4.9	5.0	3.3	3.8	3.4	4.8	6.5	5.3	5.5	5.0
Primary balance	-1.1	-1.2	-2.7	-3.3	-3.9	-4.0	-3.5	-3.2	-2.9	-2.6
Nominal GDP at market prices (G$ billion)	413.1	460.1	525.7	582.7	621.1	670.2	725.6	787.2	852.6	919.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.
2/ Reflects interest and amortization after debt stock operations.
3/ Includes debt service savings under the MDRI.
4/ Includes statistical discrepancies.

Table 3c. Guyana: Nonfinancial Public Sector Operations (GFSM 2001 Format)
(In percent of GDP)

					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	**28.6**	**26.3**	**25.0**	**25.8**	**24.8**	**26.5**	**27.9**	**26.3**	**26.3**	**24.4**
Taxes	21.6	21.9	21.2	20.3	20.8	20.9	21.0	21.1	21.2	21.3
Grants	4.2	2.5	2.6	2.3	2.3	3.8	5.3	3.7	3.6	1.3
GRIF	0.0	0.0	0.0	0.0	0.3	1.3	3.0	1.4	1.3	0.0
Other grants	4.2	2.5	2.6	2.3	2.1	2.4	2.3	2.3	2.3	1.3
Other revenue	2.8	1.8	1.3	3.2	1.7	1.9	1.5	1.5	1.5	1.8
Of which: Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	1.4	0.3	-0.6	1.3	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1
Expenditure	**32.0**	**29.8**	**29.4**	**30.3**	**30.0**	**31.7**	**32.6**	**30.7**	**30.2**	**27.9**
Expense	20.1	19.4	19.3	19.8	19.5	19.3	19.0	18.7	18.5	18.1
Compensation of employees	6.3	6.2	6.0	6.0	6.1	6.1	6.0	6.0	5.9	5.8
Purchases of goods and services 1/	6.3	5.8	6.4	5.9	5.9	5.9	5.9	5.8	5.8	5.8
Interest 2/	1.6	1.7	1.5	1.1	1.2	1.2	1.2	1.1	1.1	0.9
Domestic	0.8	0.9	0.8	0.4	0.5	0.5	0.5	0.4	0.4	0.3
External	0.8	0.9	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.6
Grants 3/	0.6	0.6	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other expense 4/	5.3	5.1	5.2	6.8	6.1	6.0	5.9	5.8	5.7	5.6
Net acquisition of nonfinancial assets	11.9	10.4	10.1	10.5	10.5	12.4	13.5	11.9	11.7	9.8
External PSIP	4.1	3.4	3.4	3.8	5.0	5.4	5.5	4.3	4.2	2.7
GRIF Projects	...	...	...	0.0	0.3	1.3	3.0	1.4	1.3	0.0
Local PSIP	6.3	6.0	4.7	4.5	3.1	4.0	3.6	6.1	6.7	6.8
Public enterprises	0.7	0.7	0.6	0.9	0.6	1.5	1.5	1.5	0.8	0.3
PetroCaribe projects	0.8	0.0	0.7	0.9	1.3	0.0	0.0	0.0	0.0	0.0
Gross operating balance	**8.5**	**6.9**	**5.7**	**6.0**	**5.3**	**7.2**	**8.8**	**7.6**	**7.8**	**6.3**
Net lending/borrowing (overall balance)	**-3.4**	**-3.5**	**-4.4**	**-4.5**	**-5.2**	**-5.2**	**-4.7**	**-4.3**	**-3.9**	**-3.5**
Net financial transactions	**-3.4**	**-3.5**	**-4.4**	**-4.5**	**-5.2**	**-5.2**	**-4.7**	**-4.3**	**-3.9**	**-3.5**
Net acquisition of financial assets	0.9	-0.1	-1.2	0.8	2.5	0.6	0.9	0.9	0.9	-1.2
Currency and deposits 5/	0.9	-0.1	-1.2	0.8	2.5	0.6	0.9	0.9	0.9	-1.2
Net incurrence of liabilities	4.2	3.5	3.1	5.3	7.7	5.7	5.6	5.2	4.8	2.3
Net foreign financing 2/	4.9	3.1	2.2	4.4	8.0	5.9	6.6	4.9	4.8	2.6
Net domestic financing 6/	-0.7	0.3	1.0	0.9	-0.3	-0.2	-1.0	0.3	0.0	-0.3
Memorandum items:										
NFPS wage bill	11.1	10.5	10.4	10.4	10.3	10.2	10.0	9.8	9.6	9.4
Total capital expenditure	12.5	11.0	10.2	10.5	10.6	12.4	13.5	11.9	11.7	9.8
NLB before other grants	-6.9	-5.4	-6.8	-6.7	-7.1	-7.6	-7.0	-6.6	-6.2	-4.8
NLB after other grants	-2.7	-2.9	-4.2	-4.4	-5.0	-5.2	-4.7	-4.3	-3.9	-3.5
Primary balance	-1.8	-1.8	-2.8	-3.3	-4.0	-4.0	-3.5	-3.2	-2.9	-2.6
Nominal GDP at market prices (G$ billion)	413.1	460.1	525.7	582.7	621.1	670.2	725.6	787.2	852.6	919.4

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Includes fiscal consolidation measures.
2/ Reflects interest and amortization after debt stock operations.
3/ Grants include capital expenditure to Skeldon and includes debt service savings under the MDRI.
4/ Other expense includes social benefits.
5/ PetroCaribe savings.
6/ Includes statistical decrepancies.

Table 4. Guyana: Summary Account of the Bank of Guyana and Monetary Survey

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Projections					
(In billions of Guyanese dollars, end of period)										
I. Bank of Guyana										
Net foreign assets	86.6	118.3	123.6	139.5	116.2	129.4	137.1	150.6	164.8	175.9
Foreign assets	127.5	158.7	162.6	176.3	150.6	161.3	166.8	179.4	193.6	204.6
Foreign liabilities 1/	-40.9	-40.5	-39.0	-36.9	-34.4	-31.9	-29.7	-28.7	-28.7	-28.7
Net domestic assets	-70.3	-94.4	-88.8	-101.3	-51.9	-60.0	-61.9	-69.1	-76.6	-80.7
Of which:										
Credit to public sector (net) 1/	-65.8	-73.1	-63.1	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7
Liabilities to commercial banks	-33.7	-45.9	-41.5	-52.9	-56.4	-60.9	-65.9	-71.5	-77.5	-83.5
Other items (net)	49.3	42.9	25.5	29.6	82.5	79.0	82.0	80.4	78.9	80.9
Currency in circulation	38.4	46.0	56.9	60.3	64.3	69.4	75.1	81.5	88.3	95.2
Base money	68.4	87.4	93.6	105.6	112.6	121.5	131.5	142.7	154.6	166.7
Of which: Excess reserves	4.8	15.8	4.9	8.1	8.6	10.2	11.4	12.7	14.2	15.8
II. Monetary Survey										
Net foreign assets	142.0	173.1	184.9	214.3	192.6	204.3	214.1	215.6	234.3	231.1
Bank of Guyana 1/	86.6	118.3	123.6	139.5	116.2	129.4	137.1	150.6	164.8	175.9
Commercial banks	33.3	32.8	39.2	52.7	76.4	75.0	77.0	65.0	69.4	55.2
Net domestic assets	60.1	60.2	85.8	87.5	134.7	150.3	171.1	205.9	224.9	266.8
Credit to public sector (net) 1/ 2/	-33.3	-41.3	-26.0	-44.9	-46.4	-47.6	-54.8	-52.6	-52.5	-55.6
Private sector credit	94.4	112.3	134.6	161.6	184.0	209.0	243.0	291.0	345.0	400.0
Other items (net)	-1.0	-10.8	-22.9	-29.3	-2.9	-11.1	-17.1	-32.5	-67.6	-77.6
Broad money	202.1	233.4	270.7	301.8	327.3	354.6	385.2	421.5	459.2	497.9
(Percentage change, 12–month basis)										
Net foreign assets	50.8	21.9	6.8	15.9	-10.1	6.1	4.8	0.7	8.6	-1.3
Net domestic assets	-33.2	0.3	42.4	2.0	54.0	11.6	13.9	20.3	9.2	18.6
Domestic credit	-13.7	16.3	52.9	7.5	17.8	17.3	16.6	26.6	22.7	17.8
Of which:										
Private sector credit	5.7	19.0	19.9	20.1	13.8	13.6	16.3	19.8	18.6	15.9
Business sector	2.3	20.8	26.9	26.8	…	…	…	…	…	…
Household sector	-4.7	13.2	15.3	8.0	…	…	…	…	…	…
Mortgage sector	24.4	24.0	18.9	13.6	…	…	…	…	…	…
Other sectors	-5.0	5.2	-7.2	-3.7	…	…	…	…	…	…
Public sector net	-79.4	-24.1	37.0	-72.7	-3.4	-2.6	-15.0	3.9	0.2	-5.8
Broad money	9.7	15.5	16.0	11.5	8.4	8.3	8.6	9.4	8.9	8.4
(Contribution to changes in base money, 12–month basis)										
Base money	24.7	27.7	7.1	12.8	6.6	7.9	8.3	8.5	8.3	7.8
Net foreign assets	59.0	46.2	6.1	17.0	-22.0	11.7	6.3	10.3	10.0	7.2
Other including net credit to public sector	-34.3	-18.5	1.0	-4.2	28.6	-3.8	1.9	-1.8	-1.6	0.7
(In million of U.S. dollars, unless otherwise indicated)										
Memorandum items:										
Bank of Guyana's net foreign assets 1/	426.2	581.1	606.5	682.0	560.0	611.1	637.9	690.6	744.6	782.9
Commercial banks' net foreign assets	163.9	161.0	192.5	257.5	368.0	354.0	358.2	298.0	313.5	245.7
Money multiplier	3.0	2.7	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0
Income velocity of broad money	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8
Excess reserves (ratio to required reserves)	0.2	0.5	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Average lending rates, in percent	12.2	12.0	11.7	11.1	…	…	…	…	…	…

Sources: Bank of Guyana, and Fund staff estimates and projections.

1/ Includes Fund debt relief.

2/ Includes G$1.8 billion, a share of GUYMINE debt transferred from foreign assets to government credit in March 2006.

Table 5. Guyana: External Financing Requirements and Sources
(In millions of U.S. dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Projections					
Financing requirement	**404**	**421**	**420**	**509**	**436**	**605**	**677**	**918**	**932**	**722**
External current account deficit										
(excludes official transfers)	231	247	373	415	540	535	627	842	854	660
Debt amortization	-99	21	29	30	30	31	33	28	24	24
NFPS amortization 1/	11	18	22	18	18	19	23	24	24	24
Bank of Guyana amortization 2/	-110	2	7	12	12	12	10	4	0	0
Of which:										
IMF net credit	0	1	7	12	12	12	10	4	0	0
Gross international reserves (increase = +)	272	153	18	64	-134	39	16	48	54	38
Available financing	**404**	**421**	**420**	**509**	**436**	**605**	**677**	**918**	**932**	**722**
Capital transfers (MDRI)	0	0	0	0	0	0	0	0	0	0
Official transfers	74	46	57	66	61	76	78	83	87	51
NFPS loans	135	126	191	113	269	223	262	216	224	142
Other public sector net 3/	-16	18	42	-150	-125	-68	-79	-81	-83	0
Private sector (net) 4/	211	230	130	481	230	374	416	701	703	528
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: Fund staff estimates and projections.

1/ Scheduled amortization of NFPS before HIPC relief through 2003.
2/ For 2009 includes the SDR allocation of US$108.6 million.
3/ Includes the unspent portion of PetroCaribe financing.
4/ Including change of commercial banks NFA, short-term flows and trade credits, net foreign direct investment, and errors and omissions of balance of payments.

Table 6. Guyana: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

	2009	2010	2011	2012	Projections 2013	2014	2015	2016	2017	2018
Financial indicators										
Public sector debt-to-GDP 1/	64.8	65.2	65.1	64.3	63.9	64.6	64.7	64.1	63.3	60.1
NPV of public sector debt-to-GDP 1/	48.6	47.4	49.7	44.9	46.0	45.9	44.5	43.5	42.2	39.8
NPV of public sector debt-to revenue 1/	170.4	180.4	198.8	174.1	185.2	173.3	159.8	165.0	160.4	163.4
Share of nonperforming loans in total loans	8.3	6.5	5.4	8.4	…	…	…	…	…	…
Share of nonperforming loans to total assets	3.0	2.4	2.2	3.5	…	…	…	…	…	…
Loan loss provisions to nonperforming loans	53.8	63.2	79.5	51.8	…	…	…	…	…	…
Risk-based capital-asset ratio (end of period)	18.3	18.9	19.1	19.3	…	…	…	…	…	…
Return on assets	2.7	2.5	2.6	2.4	…	…	…	…	…	…
Three-month T-bill rate (end of period)	4.2	3.8	2.4	1.5	…	…	…	…	…	…
CPI-inflation (end of period)	3.7	4.5	3.3	3.4	3.5	4.3	4.3	4.5	4.3	3.8
External indicators										
Exchange rate (per US$, end of period)	203.3	203.5	203.8	204.5	…	…	…	…	…	…
REER appreciation (12-month basis, -=appreciation)	6.3	3.9	1.0	9.2	…	…	…	…	…	…
Current account balance-to-GDP	-9.1	-9.6	-13.1	-13.3	-16.8	-15.1	-16.9	-21.7	-20.6	-15.2
Gross official reserves (in millions of U.S. dollars)	627.5	780.0	798.1	862.2	728.4	767.7	784.2	832.5	886.5	924.7
Gross official reserves in months of imports 2/	5.0	5.2	4.3	4.2	3.6	3.8	3.7	3.5	3.6	3.9
Gross official reserves to short-term external public sector debt	5,021	3,778	2,123	1,932	2,444	2,511	2,349	2,930	3,665	3,880
External public sector debt to GDP 1/	45.8	46.0	46.7	47.7	48.7	50.6	52.8	52.9	52.9	50.8
NPV of external public debt (in millions of U.S. dollars) 1/3/	676	762	808	808	913	1,004	1,094	1,154	1,216	1,238
NPV of external public sector debt to exports 1/3/	70.3	69.2	56.7	49.2	59.2	65.5	68.9	69.8	70.6	69.4
NPV of external public debt-to-central government revenue 1/3/	136.8	142.1	139.8	120.7	135.1	132.7	127.8	134.1	132.5	132.1
NPV of external public debt-to-GDP 1/3/	33.4	33.7	31.4	28.3	30.7	31.9	32.6	32.2	31.8	30.5

Sources: Bank of Guyana; and Fund staff estimates and projections.

1/ Reflects debt relief under O-HIPC, E-HIPC and MDRI as of 2007.

2/ Imports of the current year excluding those related to the GUYSUCO investment project.

3/ Excludes the letter of credit used for financing the sugar restructuring project for comparability with the debt definition for the NPV of external debt threshold.

Table 7. Guyana: Medium-Term Balance of Payments

					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(In millions of U.S. dollars un less otherwise indicated)										
Current account (incl. official transfers)	**-183.9**	**-217.2**	**-336.7**	**-378.5**	**-499.3**	**-475.0**	**-566.0**	**-776.8**	**-785.8**	**-616.4**
Current account (excl. official transfers)	-230.9	-247.4	-372.5	-415.0	-539.8	-535.0	-627.4	-841.6	-854.0	-659.6
Merchandise trade (net)	**-411.5**	**-534.1**	**-641.7**	**-600.3**	**-636.9**	**-626.8**	**-715.6**	**-931.9**	**-947.3**	**-757.5**
Exports (f.o.b.)	768.0	885.0	1128.9	1396.4	1283.6	1259.7	1297.7	1343.4	1389.5	1433.7
Bauxite	79.5	114.2	133.3	150.8	129.9	135.0	141.8	148.5	154.5	160.0
Sugar	119.7	101.5	123.3	132.1	114.9	134.6	139.1	144.4	148.1	148.5
Gold	281.6	346.4	517.0	717.0	621.0	597.2	622.6	650.3	678.7	710.4
Timber	41.4	48.6	39.1	39.0	31.4	33.8	34.3	35.3	36.3	37.1
Other	245.8	274.3	316.2	357.5	386.4	359.1	359.8	364.9	371.9	377.6
Imports (c.i.f.)	1179.5	1419.1	1770.6	1996.7	1920.6	1886.6	2013.3	2275.3	2336.9	2191.1
Capital goods	259.2	291.0	396.1	459.8	421.0	496.5	576.9	698.2	698.3	621.6
Fuel and lubricants	296.7	395.5	573.0	619.0	648.5	658.6	647.9	652.9	663.6	680.0
Other	623.6	732.6	801.5	917.9	851.0	731.5	788.6	924.3	974.9	889.5
Services (net)	**-119.0**	**-84.1**	**-145.4**	**-233.9**	**-253.2**	**-271.2**	**-292.7**	**-310.4**	**-327.7**	**-344.3**
Net private transfers	**299.6**	**370.8**	**414.6**	**419.2**	**350.4**	**363.0**	**381.0**	**400.7**	**421.1**	**442.2**
Capital and financial accounts	**413.8**	**444.9**	**543.0**	**318.9**	**417.8**	**586.1**	**654.2**	**894.3**	**908.0**	**697.9**
Capital account 1/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**413.8**	**444.9**	**543.0**	**318.9**	**417.8**	**586.1**	**654.2**	**894.3**	**908.0**	**697.9**
Nonfinancial public sector (net)	181.8	172.3	267.5	10.2	188.0	211.9	238.0	193.6	204.6	169.4
Net official transfers	73.8	46.4	56.8	66.1	61.4	75.7	78.2	82.7	87.3	51.3
Net official borrowing	124.1	107.8	168.8	94.2	251.4	203.9	239.0	192.2	200.0	118.3
Other public sector (net) 2/	-16.0	18.1	41.8	-150.1	-124.7	-67.7	-79.2	-81.3	-82.8	-0.3
Private sector (net)	232.0	272.6	275.5	308.7	229.8	374.2	416.2	700.8	703.4	528.5
Foreign direct investment (net)	164.0	198.0	246.8	293.7	285.3	320.2	370.4	570.6	548.9	490.7
Portfolio investment (net)	44.0	71.7	61.0	80.0	40.0	60.0	60.0	50.0	50.0	50.0
Other (net) 3/	24.0	2.9	-32.3	-65.0	-95.5	-6.0	-14.2	80.2	104.5	-12.2
Errors and omissions, and short-term flows	**-21.0**	**-42.5**	**-145.1**	**172.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**162.0**	**155.0**	**25.3**	**76.0**	**-122.0**	**51.1**	**26.8**	**52.7**	**54.0**	**38.3**
Financing	**-162.0**	**-155.0**	**-25.3**	**-76.0**	**122.0**	**-51.1**	**-26.8**	**-52.7**	**-54.0**	**-38.3**
Bank of Guyana net foreign assets	-162.0	-155.0	-25.3	-76.0	122.0	-51.1	-26.8	-52.7	-54.0	-38.3
Change in NFPS arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Current account, incl. off. transfers (in percent of GDP)	-9.1	-9.6	-13.1	-13.3	-16.8	-15.1	-16.9	-21.7	-20.6	-15.2
Current account, excl.. off. transfers (in percent of GDP)	-8.7	-11.0	-14.5	-14.6	-18.2	-17.0	-18.7	-23.5	-22.3	-16.2
Gross international reserves	627.5	780.0	798.1	862.2	728.4	767.7	784.2	832.5	886.5	924.7
(in months of imports of goods and services)	5.0	5.2	4.3	4.2	3.6	3.8	3.7	3.5	3.6	3.9
(excl. AFHP, in months of imports of goods and services)		5.2	4.3	4.2	3.6	3.8	3.7	3.8	3.8	4.0
Oil price assumption (US$/b)	61.8	79.0	104.0	105.0	104.5	101.3	95.3	91.2	88.5	86.7
HIPC and MDRI debt service relief	38.8	36.4	36.6	33.9	22.3	21.0	20.3	19.3	18.0	17.3
GDP (US$ million)	2024.2	2,259	2,577	2,851	2,970	3,142	3,351	3,582	3,822	4,061
(Annual percent change)										
Exports of goods	-4.5	15.5	27.0	23.9	-8.2	-1.9	3.0	3.5	3.4	3.2
Imports of goods	-10.7	20.3	24.8	12.8	-3.8	-1.8	6.7	13.0	2.7	-6.2
Terms of trade	23.9	6.5	-3.4	5.7	-7.6	0.4	4.4	3.2	2.6	2.0

Sources: Bank of Guyana; Statistical Bureau of Guyana; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes the IDB's stock of debt operation in 2007.
2/ Includes capital flows of PetroCaribe financing.
3/ Includes capital flows to finance the Berbice bridge and short-term capital flows.
4/ Includes the debt forgiveness on IDB loans in 2007 as the result of the MDRI.

Table 8. Guyana: Risk Assessment Matrix

(Scale-high, medium, or low)

Source of Risks	Relative Likelihood	Impact if Realized	Contingent Policy Response
1. Delay or termination of the Amaila Falls Hydroelectric Project	**Medium** The ongoing uncertainty with concluding financial arrangements for the Amaila Falls Hydro-Project could delay the start or cause termination of the project before it comes into operation, and failure to adequately improve the administrative and technical readiness of GPL for increased power load.	**High** Delay in the start of the AFHP would entail lower growth, tax receipts, and investment, and likely external instability due to lower capital inflows. Contingent fiscal liabilities associated with the power purchase agreement (3 percent of GDP annually) during the first 12 years after the construction period could be offset by fuel imports and other power generating costs. In case of termination of the AFHP during construction phase, the government's direct liability would be limited to its contribution into equity (3.5 percent of GDP).	Strengthen the finances and operations of GPL to enable the company to adequately handle its responsibilities under the AFHP. Ensure the project is economically and financially viable before proceeding. Strengthen the project and debt management framework to handle potential risks of contingent fiscal liabilities. Build fiscal buffers.
2. Further reduction in non-oil commodity prices.	**Low** Global recovery may increase the likelihood of a decline in gold prices as risk aversion falls. Investor appetite for gold has recently dimmed in the wake of uncertainty over the effects of the exit from unconventional monetary policy. Guyana would be exposed to a decrease in demand for mineral resources (e.g. bauxite), but possibly an increase in the demand for gold.	**Medium** A fall in commodity prices would dampen foreign exchange earnings, reduce GDP growth, and increase the fiscal deficit. The high dependency of Guyana on commodity exports may imply increased unemployment and an increase in non-performing loans that would severely hurt banks' balance sheets.	Put in place a medium-term fiscal framework to cushion the shock of commodity price volatility. Allow greater flexibility in the exchange rate to absorb terms of trade shocks.
3. Financial stress in the euro area re-emerges.	**Medium** This could be triggered by stalled or incomplete delivery of national and euro area policy commitments.	**Medium** Direct effects through lower grants (currently 3 percent of GDP) could hike fiscal deficits and bring about a higher public debt ratio. Indirect effects through postponement of FDI projects as global confidence is sapped.	In the short-term allow automatic stabilizers to work. Put in place a medium-term expenditure framework to mitigate the volatility of grants and rebuild fiscal buffers.
4. Deterioration in Banks' Portfolio.	**Medium** NPLs have been very volatile and banks have rapidly increased lending to the private sector. It is conceivable that some bad loans are not properly classified in balance sheets, particularly for domestic banks, and credit unions.	**Medium** The recent rapid increase in credit could lead to rising NPLs in the future, which could in turn impact banks' balance sheets.	Monetary tightening to reduce rapid rate of credit growth. Strengthen monitoring of banks' prudential framework.
5. Global oil shock triggered by geopolitical events.	**Low** Heightened geopolitical uncertainties could trigger sharp oil price increase to $140 per barrel.	**Medium** Given Guyana's high dependency on oil imports for energy, higher oil prices could depress demand, and raise the fiscal and external current account deficit along with inflation.	Maintain a flexible fuel pricing regime along with social safety nets for the most vulnerable. Over the medium term AFHP would help reduce the dependence on oil.

Table 9. Guyana: Macro Framework

(In percent of GDP, unless otherwise indicated)

				Projections			
	2012	2013	2014	2015	2016	2017	2018
Baseline Scenario							
Output							
Real GDP growth (percent)	4.8	4.8	4.3	4.2	4.8	4.3	4.2
Prices							
Inflation, end of period (percent)	3.4	3.5	4.3	4.3	4.5	4.3	3.8
Nonfinancial public sector finances							
Revenue and grants	25.8	24.8	26.5	27.9	26.3	26.3	24.4
Expenditure	30.3	30.0	31.7	32.6	30.7	30.2	27.9
Primary balance	-3.3	-3.9	-4.0	-3.5	-3.2	-2.9	-2.6
Overall balance after grants	-4.5	-5.2	-5.2	-4.7	-4.3	-3.9	-3.5
Of which: AFHP	-0.7	0.0	0.0	-4.1	-1.4	-1.4	0.0
Overall balance after grants (excl. AFHP)	-3.8	-5.2	-5.2	-0.6	-2.9	-2.6	-3.5
Total public sector gross debt	64.3	63.9	64.6	64.7	64.1	63.3	60.1
Money and credit							
Credit to the private sector (percent change)	20.1	13.8	13.6	16.3	19.8	18.6	15.9
Balance of payments							
Current account balance 1/	-13.3	-16.8	-15.1	-16.9	-21.7	-20.6	-15.2
Of which: AFHP	0.0	0.0	0.0	-5.2	-6.5	-5.3	-1.2
Current account balance (excl. AFHP) 1/	-13.3	-16.8	-15.1	-11.7	-15.2	-15.3	-14.0
Gross official reserves (months of imports)	4.2	3.6	3.8	3.7	3.5	3.6	3.9
Gross official reserves (months of imports) (excl. AFHP)	4.2	3.6	3.8	3.7	3.8	3.8	4.0
Memorandum item:							
Nominal GDP at market prices (US$ million)	2,851	2,970	3,142	3,351	3,582	3,822	4,061
Active Scenario 2/							
Output							
Real GDP growth (percent)	4.8	4.8	4.0	3.9	4.8	4.7	4.6
Prices							
Inflation, end of period (percent)	3.4	3.5	3.7	4.3	3.9	4.1	3.7
Nonfinancial public sector finances							
Revenue and grants	25.8	24.8	26.5	27.9	26.4	26.3	24.4
Expenditure	30.3	30.0	31.0	31.7	29.4	28.8	26.3
Primary balance	-3.3	-3.9	-3.3	-2.5	-2.0	-1.4	-1.0
Overall balance after grants	-4.5	-5.2	-4.5	-3.8	-3.1	-2.5	-2.0
Of which: AFHP	-0.7	0.0	0.0	-4.1	-1.4	-1.4	0.0
Overall balance after grants (excl. AFHP)	-3.8	-5.2	-4.5	0.3	-1.6	-1.1	-2.0
Total public sector gross debt	64.3	63.9	63.7	62.1	59.8	56.8	54.8
Money and credit							
Credit to the private sector (percent change)	20.1	13.8	10.9	12.7	20.4	20.2	20.1
Balance of payments							
Current account balance 1/	-13.3	-16.8	-14.8	-14.8	-19.4	-18.3	-13.2
Of which: AFHP	0.0	0.0	0.0	-5.2	-6.5	-5.3	-1.2
Current account balance (excl. AFHP) 1/	-13.3	-16.8	-14.8	-9.7	-13.0	-13.1	-12.0
Gross official reserves (months of imports)	4.2	3.6	3.6	3.7	3.6	3.8	4.2
Gross official reserves (months of imports) (excl. AFHP)	4.2	3.6	3.6	3.7	3.9	4.1	4.4
Memorandum item:							
Nominal GDP at market prices (US$ million)	2,851	2,970	3,142	3,341	3,565	3,811	4,062

Sources: Guyanese authorities; Information Notice System; and Fund staff estimates and projections.

1/ Including official transfers.

2/ The active scenario assumes fiscal consolidation and tightening of monetary stance over 2014-2018. To this end, the primary deficit is targeted at 1–2 percent of GDP by reducing current expenditure. Monetary tightening reduces credit growth and brings inflation gradually down to 3.7 percent by 2018. This policy mix will help reduce imports and improve export competitiveness, reducing the current account deficit and allowing the accumulation of international reserves. GDP growth is expected to decline marginally as large infrastructure investments and increased exports will partly offset fiscal and monetary tightening.

INTERNATIONAL MONETARY FUND

GUYANA

November 21, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by Western Hemisphere Department

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FUND RELATIONS

(As of October 31, 2013)

SDR Department Membership Status: Joined: September 26, 1966; Article VIII.

General Resources Account:	**SDR Million**	**%Quota**
Quota	90.90	100.00
Fund holdings of currency	90.90	100.00
Reserve Tranche Position	0.00	0.00
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	87.09	100.00
Holdings	4.39	5.04
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	16.67	18.34

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep 20, 2002	Sep 12, 2006	54.55	54.55
ECF [1/]	Jul 15, 1998	Dec 31, 2001	53.76	24.88
ECF [1/]	Jul 20, 1994	Apr 17, 1998	53.76	53.76

[1/] Formerly PRGF

Projected Payments to Fund[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal		7.41	6.49	2.78	
Charges/Interest	0.02	0.07	0.09	0.08	0.07
Total	**0.02**	**7.49**	**6.57**	**2.85**	**0.07**

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Dec 1997	Nov 2000	
Assistance committed by all creditors (US$ Million)[1/]	256.40	334.50	
Of which: IMF assistance (US$ million)	34.50	40.00	
(SDR equivalent in millions)	25.56	31.07	
Completion point date	May 1999	Dec 2003	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	25.56	31.07	56.63
Interim assistance	--	15.35	15.35
Completion point balance	25.56	15.73	41.29
Additional disbursement of interest income[2/]	--	2.96	2.96
Total disbursements	**25.56**	**34.03**	**59.59**

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/] 45.06

Financed by: MDRI Trust 31.58

Remaining HIPC resources 13.48

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	45.06	45.06

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Previous Decisions and Article IV Consultation Cycle:

a. On December 18, 2003, the Executive Board determined that Guyana had reached the completion point under the enhanced HIPC Initiative (IMF Country Report No. 04/123).

b. On February 27, 2009, the Executive Board concluded the 2008 Article IV consultation.

c. On March 17, 2010, the Executive Board concluded the 2009 Article IV consultation (IMF Country Report No. 10/292).

d. On February 16, 2011, the Executive Board concluded the 2010 Article IV consultation (IMF Country Report No. 11/152).

e. On November 9, 2012, the Executive Board concluded the 2012 Article IV consultation (IMF Country Report No. 12/254). Guyana is on a 12-month cycle for Article IV consultations.

Safeguard Assessments

An updated safeguards assessment of the Bank of Guyana (BoG), related to the then expected PRGF arrangement, was completed in May 2007. The assessment found that the BoG had taken steps to improve its safeguards since the previous assessment in 2003. In particular, compliance with International Financial Reporting Standards (IFRS) in the annual financial statements have improved, although certain disclosures still do not meet requirements, and a new internal audit charter and associated practices have been adopted. The assessment recommended involvement of an audit firm with experience in International Standards on Auditing and IFRS in future BoG external audits to address professional capacity constraints in Guyana, and reconstitution of the Board of Directors to address governance shortcomings. The latter action was completed in May 2007.

Exchange Rate Arrangement

Guyana has accepted the obligations of Article VIII—Section 2, 3, and 4—and maintains an exchange system that does not have any multiple currency practices, and is free of restrictions on the making of payments and transfers for international transactions, with the only exception of certain exchange restrictions for the preservation of national and international security. Guyana's *de jure* exchange rate regime is floating. Guyana's *de facto* exchange rate regime is classified as a stabilized arrangement. The BoG conducts transactions on the basis of the weighted average quotations of the three largest dealers in the exchange market. The currency of Guyana is the Guyana dollar. The exchange rate was G$205.50 per U.S. dollar on October 31, 2013.

ROSC, FSAP, EPA Participation

a. A fiscal ROSC was undertaken in July 2002.

b. A WB/IMF FSAP took place in November 2005 and concluded in September 2006.

c. Ex-Post Assessment findings were discussed with the authorities in June 2006 and concluded on October 23, 2006.

Technical Assistance

Fiscal Affairs Department

May 2006	Develop program to prepare for VAT implementation.
Aug. 2006	Monitor preparation for VAT implementation.
Sep. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Monitor preparation for VAT implementation.
Dec. 2006	Update progress in strengthening the public expenditure management system.
Jun. 2007	VAT implementation follow-up.
Apr. 2008	CARTAC (budget management).
Feb. 2012	CARTAC (Guyana Revenue Authority, Customs enforcement).

Monetary and Capital Markets Department

Mar. 2009	CARTAC (Regulation of market risk capital charge).
Oct. 2009	CARTAC (Development of stress-testing).
Nov. 2009	CARTAC (Risk-based supervision training).
Dec. 2009	CARTAC (Development of stress-testing).
June 2010	CARTAC (Credit bureau-related regulation and training).

Statistics Department

Apr. 2005	Monetary and financial statistics, follow up.
Apr. 2005	Government Finance Statistics.
Apr. 2006	CARTAC (national accounts).
Apr. 2007	CARTAC (national accounts).
Oct. 2007	CARTAC: LTE: Improvement of Annual GDP Estimates—Review of Survey Instruments.
Nov. 2007	CARTAC (Macroeconomic Statistics for Economists course).
June 2009	CARTAC (Training in Balance of Payments).
June 2009	CARTAC (Needs assessment on National Accounts).
June 2009	CARTAC (CPI revision of Georgetown index).
June 2009	CARTAC (Training in CPI methods and procedures).
Aug. 2009	CARTAC (National accounts rebasing).
Aug. 2009	CARTAC (CPI revision of Georgetown index).
Oct. 2009	CARTAC (National accounts rebasing).
Nov. 2009	CARTAC (CPI revision of Georgetown index).
Jan. 2010	CARTAC (National accounts rebasing).
Apr. 2011	GDDS Metadata Development Mission.

Legal Department

May 2005	Tax legislation.
Aug. 2005	VAT regulations.
Sep. 2005	Update AML/CFT legislation.
Apr. 2006	Income-tax regulations.
Aug. 2006	Tax drafting.

Resident Representative

The office was closed in end-January 2009.

BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE BANK

A. Bank-Fund Collaboration Under the JMAP

1. **The World Bank Country Assistance Strategy (CAS), 2009–2012, compromised a program to support the Government's objective of accelerating and sustaining growth.** It was endorsed by the Bank's Board of Executive Directors in May 2009. The completion report for the CAS is underway. The current IBRD/IDA[1] portfolio is comprised of two projects totaling US$14.2 million. In addition, the IFC's committed portfolio in Guyana is $10.4 million (August 2013), up from $7.9 million (FY 09) and includes one project in the financial sector and one project in the mining sector. In March 2013, IFC extended its 6 year partnership with Guyana Goldfields Inc. by entering into an agreement that would give IFC an aggregate of 5.5 percent of the company.

2. **The work of the World Bank is aligned along the two main areas of the CAS:**

- **Environmental resilience and sustainability:** During the period of the CAS the Bank supported two projects. One project supported the reduction of vulnerability of coastal areas to flooding of coastal areas, the Conservancy Adaption Project (financed through a grant from the Global Environment Facility (GEF)). The second project, the Skeldon Bagasse Cogeneration Project, was aimed at supporting Guyana's climate mitigation efforts; however this project was not operational. Additionally, the Bank served as Trustee for the Guyana REDD + Fund (a US$2.5 million co-financing grant) for the Low-Carbon Development Strategy whose first project, the Cunha Canal Rehabilitation Project was approved in November 2011.

- **Education quality and social safety nets:** The Bank is helping Guyana to improve the quality of education delivered through three projects. The current projects Improving Teacher Education and University of Guyana Science and Technology Support total US$14.2 million. The third project, Education for All/ Fast Track Initiative, closed in December 2012.

[1] Financing to Guyana is usually done at concessionary rates and channeled through the International Development Association (IDA), the World Bank's fund for the poorest that provides interest-free loans and grants to low-income countries and through a series of trust funds managed by the Bank. Guyana's total indicative IDA 16 allocation for FY12–14 is 14.3 SDR/US$21.48 million. IDA 17 allocation for FY13–14 is 14.3 SDR/US$21.86.

B. Financial Relations

Statement of World Bank Projects (In millions of U.S. dollars, as of August 30, 2013)			
Operation	**Original Principal**	**Available[1]**	**Disbursed**
Improving Teacher Education (loan)	4.2	3.1	1.1
UG Science and Technology Support (loan)	10.0	9.3	0.7
Total	**14.2**	**12.4**	**1.8**

[1] Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Calendar Year)											
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013***
Total disbursements	20.2	6.8	2.3	12.6	2.6	5.7	8.3	3.0	0.9	1.1	1.4
Repayments	5.0	4.3	3.8	2.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net disbursements	15.2	2.5	-1.4	10.5	2.5	5.5	8.2	2.9	0.8	1.0	1.3
Interest and fees	1.8	1.8	1.8	0.9	0.1	0.1	0.1	0.1	0.1	0.08	0.04

*January–August 2013

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of September 2013)

2013 Highlights

- The SG lending pipeline 2013 contains one Policy Based Loan operation for a total of US$16.9 million.
- A robust program of Technical Assistance and Investment Grants will support the country's overarching Low Carbon Development Strategy (LCDS) framework, in specific sectors related to sustainable energy, water and sanitation, natural resources management, private sector development and public sector management.
- Net cash flows will remain positive in 2013, but will decline from the 2012 figure.

2013 Program

- The Bank is in the second year of implementing the Country Strategy for Guyana 2012–2016. The Strategy supports the priority areas of: sustainable energy, natural resources management, private sector development and public sector management as well as the strategic dialogue areas of transport, citizen security and water and sanitation.
- One SG PBL loan is expected to be approved: GY-L1039 - Environment Sector Strengthening-I (US$16.9 million) in the natural resources management sector of the CS.

Lending Program 2013	Amount (US$ million)
GY-L1039: Environment Sector Strengthening - I	16.9
Total 2013	**16.9**

- The TC program is aligned with the priority and strategic dialogue areas of the new CS. Six TCs are expected to be approved for a total of US$8.93 million. Two priority areas within the new CS are covered: (i) Public Sector Management: GY-T1101: Support for Management for Development Results (US$1.1 million) and (ii) Natural Resources Management: GY T1097: Forest Carbon Partnership Facility (FCPF) in Guyana (US$3.8 million) and GY-T1106: Supporting Technical Training in Extractive Industries (US$0.43 million). Additionally, three TCs are programmed in the CS Strategic Dialogue areas of Transport: GY-T1098: Guyana-Brazil Land Transport Link and Deep Water Port (US$1.5 million); Water and Sanitation: GY-T1090: Support for Preparation of Water Supply and Sanitation Infrastructure (US$0.5 million) and Citizen Security: GY-T1107: Support to the Preparation of the Security Strategy (US$1.6 million).

- The Investment Grant program supports initiatives in the Low Carbon Development Strategy (LCDS) focusing on micro and small enterprise development and in the area of sustainable energy by financing respectively: **GY-G1003**: Micro and Small Enterprise development (US$5 million, GRIF funded, approved 27 February 2013) and **GY-G1004**: Sustainable Energy Program for Guyana (US$5.5 million, GEF funded, approved 12 July 2013).

Portfolio in Execution

- The active portfolio consists of fourteen loans for an approved amount of US$272.2 million and one loan guarantee for US$2.5 million, with a total undisbursed balance of US$135.7 million. See table "Projects in Execution".

- By the end of 2013, three loans are expected to exit: GY-L1019: Justice Sector Program (US$10 million); GY-0071: Citizen Security Program (US$19.8 million) and GY-L1008: Transport Infrastructure (US$24.3).

Main portfolio indicators as of 13 September 2013	
Loans in Execution	
Number	14
Undisbursed balance[1] (US$ million)	133.2
% Undisbursed balance of total loan portfolio	51.0
Median age of portfolio (years)	4.2
Performance Index (No. of loans- 14)	
Problem (0-0.4) Alert(0.4-.0.8)	1 3
Satisfactory(>0.8) Outliers N/A	6 1 3
MIF in Execution	
Number	3
Undisbursed balance (US$ million)	1.24
TC and Investment Grants in Execution	
Guyana TCs Number	 12
Undisbursed balance (US$ million) Investment Grants (Number) Undisbursed balance US$ million) [1]Excludes the loan guarantee	5.19 3 13.1

- Net loan flows are projected to continue to be positive in 2013, accounted for by the high level of disbursement (absorptive capacity of GoG). In 2012, actual disbursements were US$51.4 million, while US$44.9 million is projected to be disbursed in 2013. However, net cash flow, while remaining positive is expected to fall quickly over the medium term. As of 13 September 2013, Guyana's total outstanding debt to the IDB is US$426.7 million.

Net Flow Convertible Currencies as at 13 September 2013 (US $Million)

	2010	2011	2012	2013p	2014p
a. Loan Disbursements	60.2	51.6	51.4	44.9	57.7
…….PBL Disbursements	10	13	9.9	16.9	0
b. Repayments (principal)	1.3	2	2.5	4.3	5.3
c. Net Loan Flow (a-b)	58.9	49.6	48.9	40.6	52.4
d. Subscriptions & Contributions	0.4	0.4	0.5	0	0
e. Interests & Charges	4	4.5	5.2	6.2	6.5
f. Net Cash Flow (c-d-e)	54.4	44.7	43.2	34.4	45.9

(p) Projected

Projects in Execution as of Sept 13, 2013 (US$ million)						
Project	Name	Approval Date	Current Approved	Disbursed	% Disbursed	Undisbursed
GY0055	Georgetown Solid Waste Management	3-May-06	18.1	11.5	63.6	6.6
GY-L1009	Justice Administration System	21-Jun-06	10	9.2	91.5	0.9
GY-L1006	Support for Competitiveness	28-Jun-06	8.7	5.3	61.1	3.4
GY-0071	Citizen Security	28-Jun-06	19.8	18.1	91.2	1.7
GY-L1008	Transport Infrastructure Rehabilitation Program	21-Nov-06	24.3	21.5	88.3	2.9
GY-L1007	Agricultural Export Diversification Program	5-Dec-07	20.9	14.7	70.2	6.2
GY-L1019	Second Low Income Settlement Program	17-Dec-08	27.9	22.6	80.8	5.4
GY-L1027	Road Improvement and Rehabilitation	28-Oct-09	24.8	11.8	47.7	13.0
GY-L1028	Expansion of Basic Nutrition Program	11-Dec-09	5	1.9	37.1	3.1
GY-L1025	Georgetown Sanitation Improvement Program	27-Oct-10	9.5	5.8	60.6	3.8
GY-L1030	EBD 4 Lane Extension Providence-Diamond	17-Nov-10	20	8.6	43	11.4
GY-L1036	Linden Water Supply Rehab. Program	15-Jun-11	12	6.5	53.8	5.6
GY-L1037	Sustainable Oper. Of the Electricity Sector & Improved Quality of Service	7-Sep-11	5	1.8	36.4	3.2
GY-L1031	Road Network Upgrade & Expansion Program	21-Jun-12	66.2	0.0	0	66.2
Total Loans 14			272.2	139.0	51%	133.2
	Guarantee Solid Waste Management		2.5	N.A.	N.A.	2.5
Total Loans plus Loan Guarantee 15			274.7	139.0	51%	135.7

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of September 30, 2013)

1. **CDB remains one of Guyana's most important development partners, accounting for over 20% of the country's multilateral debt stock.** Total loans and grants approved for Guyana from CDB's inception (January 26, 1970) to September 30, 2013 amounted to $296.6 million, representing 7.6 percent of CDB's total approvals for its 18 borrowing members, making Guyana CDB's fifth largest borrower. Of the total amount approved, $158.7 million (53.5%) went toward economic and social infrastructure projects, $82.8 million (27.9%) for productive sector projects, and $55.1 million (18.6%) for multi-sector projects. The transportation and communication subsector accounted for $101.4 million of lending for economic and social infrastructure and agriculture/rural and manufacturing projects for $64.3 million of productive sector lending.

2. **Of $215.4 million in loans approved for Guyana since 1970, outstanding balances totalled $139.9 million as of September 30, 2013.** As of that date, undisbursed balances remained of $40.5 million, detailed in the table below.

Summary Statement of Loan Approvals and Undisbursed Balances, September 30, 2013

(In US$ million)

Approval Date	Description	Approved	Undisbursed
May 12, 2003	Third Road Project	19.10	0.72
July 17, 2003	Skeldon Sugar Modernisation	28.36	0.95
December 10, 2008	Enhancement of TVET	7.50	0.55
July 22, 2010	Community Roads Improvement Programme	16.29	4.07
December 12, 2012	Fourth Road Project	34.20	34.18
Total		105.45	40.47

Source: Caribbean Development Bank.

3. **Reflecting the reduced volume of approvals observed since CDB's 2002-04 Country Strategy Paper (CSP) with Guyana expired, only one loan was approved for Guyana in 2012–13.** The West Coast Demerara Road Improvement (Fourth Road Project) was approved in December 2012, in the amount of US$34.2 million, with an additional amount of $0.2 million applied as a grant toward the project. Other grant funding in 2012–13, which totalled around $6.4 million, related mainly to the continued implementation of the seventh cycle of the Basic Needs Trust Fund (BNTF 7) poverty reduction programme in Guyana, as well as a small amount for a National Workshop on Financial Management Techniques for micro, small and medium enterprises (MSMEs) in Guyana under CDB's Caribbean Technological Consultancy Services (CTCS) programme. It is anticipated that approval activity will begin to pick up from the end of 2013, given the pipeline of projects in the recently approved 2013–17 CSP with Guyana.

STATISTICAL ISSUES

(As of October 31, 2013)

I. Assessment of Data Adequacy for Surveillance
General: Data provided to the Fund is broadly adequate for surveillance purposes, although timeliness, reliability, and coverage of selected data can be improved. Selected data are only available during missions and by telephone/email contacts by the staff. Monetary statistics, exchange rates, interest rates, and financial prudential indicators are available with a lag from the website of the Bank of Guyana (BOG). While specific areas of statistics have received technical assistance, including from the Fund, some limitations remain in the compiling and disseminating selected data in certain sectors. Comprehensive macroeconomic statistics and fiscal data are presented in the Mid Year Report on the annual budget which has been in place since 2007. Guyana has agreed to subscribe to the General Data Dissemination System (GDDS).
National Accounts: Considerable work has been completed to strengthen the national accounts. Building on significant structural changes in the economy since the launch of market-oriented reforms, GDP has been rebased with 2006 prices, reflecting more than sixty percent increase compared to the old GDP, based on 1988 prices. Caribbean Regional Technical Assistance Center (CARTAC) missions visited Georgetown in 2003, 2006, and 2007 and have since provided technical assistance on national accounts, which helped facilitate this exercise for the production side. Further work could entail reassessing the rebased GDP on the expenditure side. To this end, the Bureau of Statistics (BOS) could complete its register of enterprises and secure higher response rates for business surveys. Since January 2010, the BOS has adopted a new household income and expenditure survey (HIES) and launched a new CPI series, reflecting more items in the basket and revised weights. The CPI index reflects movements in prices in the Georgetown area.
Government finance statistics: A government finance statistics (GFS) mission, which visited Georgetown in May 2005, assisted the authorities in determining the sources of the discrepancy between the fiscal data and monetary and financial data. The mission recommended improvements in the compilation of GFS (such as expanding the coverage of central government operations to include important statutory bodies with their own revenue and accounts) and improving data on the details of domestic financing. The authorities have made progress in implementing these recommendations, including the compilation of quarterly data for the National Insurance Scheme (NIS), and five non-financial public enterprises. Progress on the medium term objective of adopting the methodology of the Government Finance Statistics Manual (GFSM 2001) is proceeding.

Monetary statistics: Monetary and financial statistics missions visited Georgetown in 2002, 2003, and 2005. The BOG has made significant progress in improving the quality of monetary statistics, especially as regards the institutional coverage. The monetary statistics currently include the BOG, other depositary corporations (commercial banks, the New Building Society, and trust companies), and other financial corporations (finance companies, life insurance companies, non-life insurance companies, pension funds, and asset management companies). The BOG's monetary statistics provide data for publication in the IFS Supplement, based on standardized report forms. The BOG publishes financial prudential indicators in its quarterly report and on its website on a regular basis.
Balance of payments: In 2003, a mission from CARTAC noted several weaknesses in the compilation of balance of payments statistics, including that external debt arrears were not recorded in line with the fifth edition of the Balance of Payments Manual, and important financial account transactions were not identified. It recommended that the BOG continue the development of the new reporting form for direct investment, revise the methodology for recording arrears, and seek new data sources for improving the coverage of services. At present, estimates for other services are derived from surveys and an annual survey of major enterprises is used to collect data on inward direct investment. The BOG maintains its own in-house capacity for processing customs data. The BOG does not report the international investment position (IIP) because it currently does not have the capacity to compile such statistics. This is one of the priority areas identified for technical assistance from CARTAC.
II. Data Standards and Quality
Participant in the General Data Dissemination System (GDDS) since 2011.
III. Reporting to STA (Optional)
No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *IFS*.

Guyana: Table of Common Indicators Required for Surveillance (As of October 31, 2013)					
	Date of Latest Observation (dd/mm/yy)	**Date Received (dd/mm/yy)**	**Frequency of Data[8]**	**Frequency of Reporting[8]**	**Frequency of Publication[8]**
Exchange Rates	30/09/13	31/10/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/12	04/13	M	M	M
Reserve/Base Money	04/13	09/13	M	M	M
Broad Money	04/13	09/13	M	M	M
Central Bank Balance Sheet[2]	04/13	09/13	M	M	M
Consolidated Balance Sheet of the Banking System[2]	04/13	09/13	M	M	M
Interest Rates[3]	07/13	09/13	M	M	M
Consumer Price Index	08/13	09/13	M	Half yearly	Half yearly
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2012 Q4	09/13	Q	Half yearly	Half yearly
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	2012 Q4	09/13	Q	Half yearly	Half yearly
Stocks of Central Government and Central Government-Guaranteed Debt[6]	06/2013	09/13	M	M	A
External Current Account Balance	2012	09/13	A	A	A
Exports and Imports of Goods[7]	2013 Q2	09/13	Q	Q	Q
GDP/GNP	2012	09/13	A	A	A
Gross External Debt	2012	09/13	A	A	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Balance sheet information of the Bank of Guyana and the consolidated balance sheet of the other depository corporations on standardized report forms are submitted to the Statistics Department of the IMF.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing (partial information).

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Only domestic debt, including currency and maturity composition (partial information).

[7] Quarterly data is only available for exports and imports of goods, not of services.

[8] Daily (D), Weekly (W), Monthly (M).

INTERNATIONAL MONETARY FUND

GUYANA

November 21, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Charles Kramer and Dhaneshwar Ghura (IMF), J. Humberto Lopez and Jeffrey D. Lewis (World Bank)

Prepared by the staff of the International Monetary Fund in consultation with the World Bank staff.

An updated debt sustainability analysis (DSA) yields results broadly in line with those reported in the 2012 Article IV.[1] *Guyana's risk of debt distress remains moderate and debt service manageable, but further fiscal consolidation is needed to reduce the vulnerability of debt sustainability to shocks. Debt indicators remain well below their respective thresholds over the projection period in the baseline scenario. The PV of external debt-to-GDP ratio increases moderately over the next 3 years, before declining and leveling off at around 27 percent. Sensitivity analysis and bound tests show high vulnerability of Guyana's debt to shocks in the case of new loans on less favorable terms and/or a one-time 30 percent depreciation. In light of risks associated with the large Public Private Partnership (PPP) project, Amaila Falls Hydroelectric Project (AFHP), as well as the possibility that Venezuela may renegotiate the terms of its Petrocaribe loans to finance Guyana's oil imports on less concessional terms, the authorities should advance their fiscal consolidation efforts, and continue investing in infrastructure and education to address the economy's bottlenecks and boost growth and productivity.*

[1] See Guyana – Staff Report for the 2012 Article IV Consultation – Debt Sustainability Analysis (SM/12/254).

BACKGROUND

1. **Debt relief and fiscal consolidation efforts have helped reduce Guyana's external debt burden significantly in recent years.** Total public sector debt has declined from 93.1 percent of GDP in 2006 to 64.3 percent in 2012. Under the Multilateral Debt Relief Initiative (MDRI), the Fund, the World Bank, and the IDB provided debt relief amounting to US$611 million in 2006–07. Paris Club bilateral creditors and some non-Paris Club creditors granted debt relief as part of the 2004 Paris Club agreement.[2] Negotiations with other non-Paris Club creditors about debt relief are protracted with the debt in question amounting to around 15 percent of total debt or 7 percent of GDP.[3] The non-financial public sector (NFPS) deficit declined from 8.6 percent of GDP in 2005 to 4.4 percent of GDP in 2011.

2. **Over the last four years, total gross public debt has increased slightly.** The debt-to-GDP ratio increased from 61.6 percent of GDP in 2008 to 64.3 percent of GDP in 2012. External debt has increased over the same period—from 43.7 percent of GDP in 2008 to 47.7 percent of GDP in 2012, in particular due to higher IDB and Venezuelan loans—while domestic debt declined from 17.9 percent of GDP in 2008 to 16.6 percent of GDP in 2012. Multilateral institutions—particularly the Inter-American Development Bank, the Caribbean Development Bank and the International Development Association—are the main external creditors, accounting for 50 percent of total debt, and bilateral creditors for 49 percent—with China and Venezuela as main creditors. The loan portfolio has a long maturity profile and low average interest rates (Text Figure 1).

3. **Over the years, Venezuela has become an important donor through Petrocaribe's concessional loans to finance Guyana's oil imports**. Although, these loan disbursements are large in the medium term, a large portion of these funds is deposited in an account at the Central Bank of Guyana to be used as a 'sinking fund', which on a net debt basis has a smaller impact and lowers debt vulnerabilities as it increases gross reserves available to service external debt. In addition, Guyana has initiated repayment of its Petrocaribe debt using rice exports and the accumulated savings under the financing arrangement.

4. **Guyana's external debt burden thresholds correspond to the ones associated with a medium policy performance rating.** The three-year average of the CPIA (Country Policy and Institutional Assessment) of Guyana has remained stable at 3.4, corresponding to a medium policy performance rating. This implies the following thresholds: (i) a PV of debt-to-GDP ratio of 40 percent; (ii) a PV of debt-to-exports ratio of 150 percent; (iii) a PV of debt-to-revenue ratio of 250 percent; and (iv) debt service-to-exports and revenue ratios of 20 percent, respectively.

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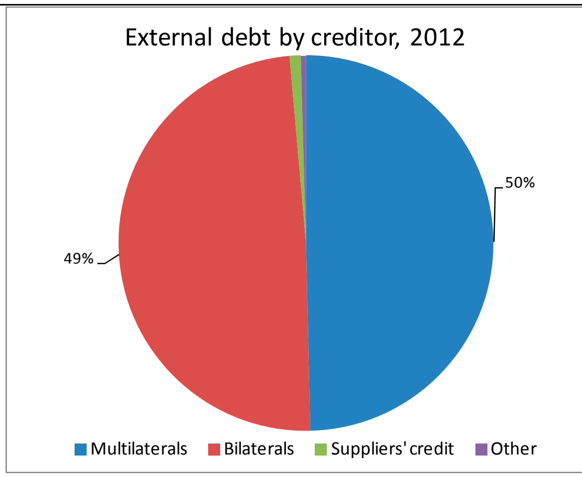
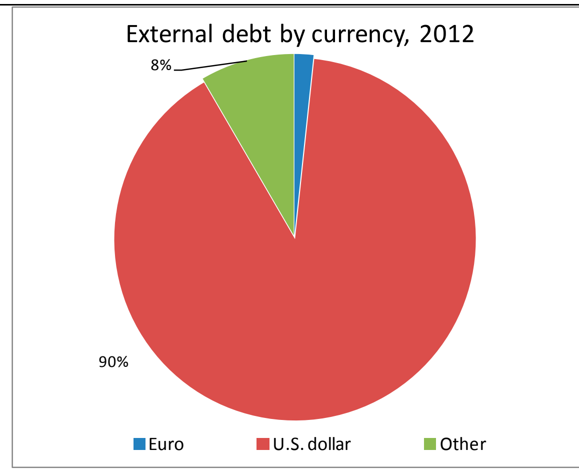
[2] Debt relief under the Heavily Indebted Poor Country (HIPC) Initiative was granted by all multilateral creditors except one, by Paris Club bilateral creditors, and four non-Paris Club creditors (China, India, Venezuela, and Cuba). Debt owed to Brazil and North Korea was paid off without relief.

[3] These creditors include Argentina, Bulgaria, Kuwait, Libya, United Arab Emirates, and Serbia, as well as a loan from an Indian commercial entity (Tata). In addition, the situation of the CARICOM Multilateral Clearing Facility (CMCF) debt has not been resolved yet.

Text Figure 1. Guyana: External Indicators





Average terms of new commitments

	2007	2008	2009	2010	2011
Official creditors					
Interest (%)	1.0	1.6	1.6	1.2	1.2
Maturity (years)	36.6	28.5	29.2	25.8	25.3
Grace period (years)	9.0	4.1	4.7	4.9	4.5

Source: Guyanese authorities, and *International Debt Statistics 2013*, World Bank.

MACROECONOMIC FRAMEWORK

A. Background

5. **Despite a deteriorating external environment, the Guyanese economy remains resilient, registering the seventh consecutive year of growth.** Real GDP grew by 4.8 percent in 2012 and is projected to grow at the same pace in 2013. GDP growth is driven by buoyant commodity exports and services sectors. Inflation is projected to remain at 4.0 percent on average during the medium term and decline to 3.6 percent on average during the long term. The external current account deficit is expected to widen to about 18 percent of GDP on average during the medium term, driven by higher oil imports and large AFHP investment-related imports, before declining to 9.9 percent of GDP on average in the long term. As a result of this and slightly lower net capital inflows, gross foreign reserves will decline to just below 3.5 months of imports by 2027.

6. **The fiscal deficit for 2013 will remain over 5 percent of GDP, before declining gradually over the medium term to 3.5 percent of GDP in 2018.** The higher fiscal deficit in 2013 is due to a worsening performance of public enterprises. At the same time, despite large disbursements in 2013,

public debt is expected to remain at about the same level as in 2012, reflecting in part a rice-for-debt agreement with Venezuela that provides for debt reduction in exchange for rice exports.[4]

B. Baseline Scenario: Projections and Assumptions

7. **The medium term outlook remains positive (Text Table).** The construction of the AFHP and investments in the mining sector accompanied by robust growth in the service sectors will raise growth rates to 4.4 percent on average in 2013–2018.[5] The construction of AFHP is estimated to add between 1 and 1.5 percentage points per year to growth during its construction phase. Compared to the 2012 Article IV Consultation, the growth path is similar, but due to the protracted negotiations around the project, construction is now assumed to start in the second half of 2015 and last until the second half of 2018. Subsequently, GDP growth will slowly converge back to about 3 percent over the long term (2019–2033).

8. **Over the medium term, the external current account deficit will widen as large investment projects will increase imports.** Imports associated with AFHP and mining sector projects will lead to a widening of the current account deficit to 18 percent of GDP on average in 2013–2018. In particular, imports of capital goods are projected to surge. While exports of gold and bauxite are expected to increase strongly over the medium term, in line with significant investments in the mining sector, import growth will outpace export growth.[6] As capital goods imports wind down after AFHP construction, oil imports decline due to shifting power production from oil to hydropower, and export growth remains strong, the external current account deficit is projected to decrease to around 9.7 percent of GDP on average over the long term (2019–2033). These developments, along with slightly lower net capital inflows, will result in international reserves decreasing to just over 3 months of imports in the long term.

9. **The external current account deficit is projected to be fully financed by foreign capital inflows.** FDI inflows will peak at around 17 percent of GDP in 2016, mostly driven by investments in the mining and power generation sectors, before declining to around 6 percent of GDP in the long term. Net official transfers are assumed to decrease from around 2 percent of GDP in the medium term to about 1 percent of GDP in the long term. Net official borrowing will remain high over the next 4 years, at 5.5 percent of GDP, before declining to around 1 percent of GDP over the medium and long term.

10. **Fiscal consolidation is expected to be insufficient to reduce debt ratios more rapidly in the long term.** The fiscal deficit will remain high over the medium term, as capital spending associated with infrastructure needs in the context of the AFHP project remains high, before gradually narrowing

[4] In addition, Russia agreed to cancel its outstanding debt of US$0.276 million in 2012.

[5] The projection includes two advanced investment projects in the gold and bauxite industry. It is likely that other investments in the mining sector (gold and manganese) will come on stream over the medium term. However, they are not accounted for as they are in an early preparatory stage.

[6] Bauxite and gold exports are expected to surge due to additional capacity in existing bauxite mines and the production start of a new large scale gold mine in 2014.

to 3.5 percent by 2018. Over the long term, gradual fiscal consolidation efforts will bring the fiscal deficit to an average 1 percent of GDP. Gross public debt is projected to remain above 64 percent of GDP over the medium, before declining to 48 percent of GDP in the long term. At the same time, the composition of debt will change with external debt increasing and domestic debt decreasing from around 17 percent of GDP in 2012 to around 9 percent of GDP in the long term.

Text Table. Guyana: Main Elements of the Macroeconomic Framework

	Medium Term						Averages		
	2013	2014	2015	2016	2017	2018	2013-18	2019-33	2013-33
(Annual percent change)									
Production and prices									
Real GDP	4.8	4.3	4.2	4.8	4.3	4.2	4.4	3.0	3.4
Consumer prices (end of period)	3.5	4.3	4.3	4.5	4.3	3.8	4.1	3.6	3.7
Terms of trade	-7.6	0.4	4.4	3.2	2.6	2.0	0.8	1.3	1.2
(Percent of GDP, unless otherwise indicated)									
National accounts									
Investment	18.7	19.8	23.2	28.2	32.3	26.0	24.7	18.2	20.1
Private sector	8.0	7.4	9.6	16.2	20.5	16.3	13.0	12.5	12.7
Public sector	10.6	12.4	13.5	11.9	11.7	9.8	11.7	5.7	7.4
National saving	1.8	4.7	6.3	6.5	11.7	10.9	7.0	8.3	7.9
Private sector	-2.8	-2.0	-2.1	-0.6	4.4	4.8	0.3	2.5	1.9
Public sector	4.6	6.7	8.3	7.1	7.3	6.1	6.7	5.8	6.1
External savings	16.8	15.1	16.9	21.7	20.6	15.2	17.7	9.9	12.1
Nonfinancial public sector									
Central government revenue and grants	24.8	26.5	27.9	26.3	26.3	24.4	26.0	22.4	23.4
Expenditure	30.0	31.7	32.6	30.7	30.2	27.9	30.5	22.1	24.5
Current	19.4	19.3	19.0	18.7	18.5	18.1	18.8	16.4	17.1
Capital	10.6	12.4	13.5	11.9	11.7	9.8	11.7	5.7	7.4
Overall balance (after grants)	-5.2	-5.2	-4.7	-4.3	-3.9	-3.5	-4.5	0.3	-1.0
Financing	5.2	5.2	4.7	4.3	3.9	3.5	4.5	-0.3	1.0
Net external financing	8.0	5.9	6.6	4.9	4.8	2.6	5.5	1.0	2.3
Net domestic financing	-0.3	-0.2	-1.0	0.3	0.0	-0.3	-0.3	-1.3	-1.0
PetroCaribe savings	-2.5	-0.6	-0.9	-0.9	-0.9	1.2	-0.7	0.0	-0.2
External sector									
Current account balance (incl. official transfe	-16.8	-15.1	-16.9	-21.7	-20.6	-15.2	-17.7	-9.9	-12.1
Terms of trade (percent change)	-7.6	0.4	4.4	3.2	2.6	2.0	0.8	1.3	1.2
Foreign direct investment (net)	9.6	10.2	11.1	15.9	14.4	12.1	12.2	5.7	7.6
Gross official reserves (in months of imports)	3.6	3.8	3.7	3.5	3.6	3.9	3.7	3.1	3.3
Memorandum items:									
Nominal GDP (G$ billion)	621	670	726	787	853	919	763	1,570	1,339
Per capita GDP, US$	3,729	3,945	4,196	4,471	4,757	5,039	4,356	7,329	6,479

Sources: Guyanese authorities; and Fund staff estimates and projections.

ASSESSMENT OF THE BASELINE SCENARIO: GROSS EXTERNAL DEBT

11. **The analysis suggests that Guyana's external debt remains sustainable under the baseline scenario and the country faces a moderate risk of debt distress, but external debt ratios are vulnerable to shocks (Table 1, Figure 1).** All sustainability indicators remain comfortably below their thresholds. The PV of gross external debt-to-GDP ratio peaks at 33 percent in 2015 because of large projected external borrowing in the medium term and levels off at around 27 percent in the long term. Most of the improvement in the PV of gross external debt-to-GDP ratio compared to the previous DSA was due to the increase in the discount rate as well as lower projected disbursements in the long term.[7] External debt remains manageable given the government's policy of borrowing on highly concessional terms: The debt service-to-exports and debt service-to-revenue ratios remain well below their respective thresholds, reflecting the concessionality of outstanding debt and new external borrowing in the near-term. In addition, the authorities have embarked on repaying Petrocaribe debt via rice exports. If this program continues over next few years, it could have positive effects on Guyana's foreign debt levels.

12. **Bound tests and alternative scenarios show that Guyana's external debt is vulnerable to large shocks and a deteriorated economic environment (Table 2, Figure 1).** In particular, the PV of debt-to-GDP ratio breaches the threshold in the most extreme combination of shocks (Figure 1) and a low probability one-time 30 percent depreciation (Table 2, B6). Stress tests provide some comfort about the repayment capacity of Guyana as they do not suggest any breach of the relevant thresholds for the PV of debt-to-exports and the PV of debt-to-revenue, even under the most extreme combination of shocks.

[7] The discount rate used for calculating PV of debt was 5 percent compared to 3 percent used in the previous DSA. The Executive Boards of the Fund and the Bank approved on October 11 the reform of the discount rate (SM/13/271) setting a unique discount rate at 5 percent, which will be used to (a) calculate the present value of the external debt of low-income countries in the DSF and (b) for purposes of assessing the concessionality of individual loans.

ASSESSMENT OF THE BASELINE SCENARIO: GROSS PUBLIC DEBT

13. **The analysis implies that Guyana's total gross public debt is sustainable and remains manageable (Tables 3 and 4).** Nominal public sector debt is projected to decline gradually over the projection period from 64 percent of GDP in 2013 to 48 percent of GDP in 2033. Further fiscal consolidation would be desirable to reduce debt ratios faster and place the debt on a downward trajectory. The PV of the public sector debt-to-GDP ratio is estimated to decline from 46 percent of GDP in 2013 to 36 percent in 2033.

14. **Total public debt is vulnerable to standard shocks underlining the importance of further fiscal consolidation and closer monitoring of Public Sector Investment Program (PSIP) projects to ensure they are financially viable and increase the economy's productivity, especially in high profile projects (Table 4, Figure 2).** The PV of debt-to-GDP ratio is most vulnerable to a growth shock, assuming real GDP growth at -0.1 percent, its historical average minus one standard deviation in 2013–2014 (Table 4, B1). In this case, the PV of debt-to-GDP ratio would increase to 51 percent during the medium term and 63 percent in 2033, which is 28 percentage points higher than the baseline scenario. Debt service payments would remain manageable reflecting the high concessionality of the public debt. Nevertheless, in some scenarios debt service could increase to as much as a third of revenues, which could limit significantly resources for public investment and social spending.

15. **Risks associated with AFHP may affect debt sustainability.** The illustrative AFHP scenario considers only the main risk resulting from the guarantee on the payment of the power purchase agreement (PPA). In the event the public electricity company Guyana Power and Light (GPL) is unable to pay the PPA payment of US$120 million a year,[8] the government would have to meet these obligations. In an illustrative scenario (Table 4, A4), we have assumed that the government has to take on the entire PPA payment over the 20 year contract period, which would increase public expenditure by the amount of the PPA payment. This is a worst case scenario, as part of GPL costs of oil imports would be greatly reduced by the electricity production from AFHP, allowing the government to reduce its financial support to GPL and consequently offset part of the PPA payments. We assume that the higher fiscal deficit in this case would be entirely financed by domestic debt. To separate the effects of the PPA guarantee on debt, this scenario makes the same assumptions as in the baseline scenario. This scenario would imply a sharp increase of the public debt-to-GDP ratio to 76 percent by 2033 compared to 35 percent in the baseline (Table 4, Figure 2). At the same time, debt service could increase up to 14 percent of revenues compared to 8 percent in the baseline, cutting significantly resources for public investment and social spending.

[8] PPA payment of US$120 million is provisional, and the actual number can be higher or lower depending on the terms of the financial closure.

CONCLUSION

16. **Guyana's risk of debt distress remains moderate and debt service manageable, but further fiscal consolidation is needed to reduce the vulnerability of debt sustainability to shocks.** Debt indicators remain well below their respective thresholds over the projection period in the baseline scenario. The PV of external debt-to-GDP ratio increases moderately over the next 3 years due to large external borrowing in the medium term, before declining and leveling off at around 27 percent. Sensitivity analysis and bound tests show high vulnerability of Guyana's debt to shocks, in particular, in the case of new loans on less favorable terms and one-time 30 percent depreciation. Nevertheless, debt service would remain manageable reflecting the high concessionality of public borrowing. However, under some scenarios and bound tests debt service could increase significantly, reducing the room to allocate resources for public investment and social spending. In light of additional risks stemming from the AFHP project and the possibility that Petrocaribe may renegotiate the terms of its loans to finance Guyana's oil imports on less concessional terms, the authorities should advance its fiscal consolidation efforts and continue to seize the opportunity of the debt-for-rice program with Venezuela to keep the debt ratio at a lower level.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**46.0**	**46.7**	**47.7**			**48.7**	**50.6**	**52.9**	**53.1**	**53.2**	**51.1**		**45.3**	**39.2**	
of which: public and publicly guaranteed (PPG)	46.0	46.7	47.7			48.7	50.6	52.9	53.1	53.2	51.1		45.3	39.2	
Change in external debt	0.2	0.7	1.0			1.0	2.0	2.2	0.2	0.1	-2.1		-1.0	-0.4	
Identified net debt-creating flows	-3.9	-2.2	-1.5			5.0	3.0	3.9	3.4	4.1	1.0		2.1	3.9	
Non-interest current account deficit	**9.1**	**12.6**	**12.8**	**9.1**	**4.0**	**16.3**	**14.5**	**16.2**	**21.1**	**20.0**	**14.6**		**8.8**	**9.3**	9.0
Deficit in balance of goods and services	27.9	30.2	29.2			29.6	28.1	29.6	34.3	33.1	27.0		19.7	18.6	
Exports	51.7	55.4	57.6			51.9	48.8	47.5	46.3	45.3	44.3		40.3	32.6	
Imports	79.6	85.5	86.9			81.5	76.9	77.0	80.6	78.4	71.3		60.0	51.2	
Net current transfers (negative = inflow)	-17.4	-17.3	-16.0	-15.1	4.3	-13.2	-13.5	-13.2	-13.0	-12.9	-12.0		-10.8	0.0	-9.7
of which: official	-1.0	-1.2	-1.3			-1.4	-1.9	-1.8	-1.8	-1.8	-1.1		-0.8	-0.8	
Other current account flows (negative = net inflow)	-1.4	-0.3	-0.4			-0.2	-0.1	-0.1	-0.2	-0.3	-0.4		-0.1	-9.2	
Net FDI (negative = inflow)	**-8.8**	**-9.6**	**-10.3**	**-7.2**	**2.9**	**-9.6**	**-10.2**	**-11.1**	**-16.0**	**-14.4**	**-12.2**		**-6.0**	**-5.0**	-5.8
Endogenous debt dynamics 2/	**-4.2**	**-5.2**	**-4.0**			**-1.7**	**-1.4**	**-1.3**	**-1.7**	**-1.4**	**-1.4**		**-0.6**	**-0.4**	
Contribution from nominal interest rate	0.5	0.5	0.5			0.5	0.6	0.7	0.7	0.7	0.7		0.7	0.7	
Contribution from real GDP growth	-1.8	-2.2	-2.0			-2.2	-2.0	-2.0	-2.4	-2.2	-2.1		-1.3	-1.1	
Contribution from price and exchange rate changes	-3.0	-3.5	-2.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**4.1**	**2.9**	**2.5**			**-4.0**	**-1.0**	**-1.6**	**-3.2**	**-3.9**	**-3.0**		**-3.1**	**-4.4**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	28.3			30.7	31.9	32.7	32.3	32.0	30.7		28.6	26.6	
In percent of exports	...	...	49.2			59.2	65.5	68.9	69.8	70.6	69.3		70.9	81.4	
PV of PPG external debt	**...**	**...**	**28.3**			**30.7**	**31.9**	**32.7**	**32.3**	**32.0**	**30.7**		**28.6**	**26.6**	
In percent of exports	**...**	**...**	**49.2**			**59.2**	**65.5**	**68.9**	**69.8**	**70.6**	**69.3**		**70.9**	**81.4**	
In percent of government revenues	**...**	**...**	**120.7**			**135.1**	**132.7**	**128.0**	**134.5**	**133.1**	**133.0**		**132.1**	**127.2**	
Debt service-to-exports ratio (in percent)	**2.5**	**2.8**	**2.6**			**5.6**	**6.0**	**6.4**	**6.8**	**7.1**	**7.4**		**5.2**	**5.7**	
PPG debt service-to-exports ratio (in percent)	**2.5**	**2.8**	**2.6**			**5.6**	**6.0**	**6.4**	**6.8**	**7.1**	**7.4**		**5.2**	**5.7**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**6.9**	**6.3**			**12.9**	**12.3**	**11.9**	**13.2**	**13.3**	**14.1**		**9.8**	**8.8**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.1			0.3	0.2	0.3	0.3	0.3	0.2		0.2	0.5	
Non-interest current account deficit that stabilizes debt ratio	8.9	11.8	11.9			15.3	12.6	14.0	20.9	19.8	16.6		9.8	9.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.4	5.4	4.8	3.1	2.8	4.8	4.3	4.2	4.8	4.3	4.2	4.4	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	6.9	8.2	5.6	6.2	2.8	-0.6	1.5	2.2	1.8	2.1	1.7	1.4	1.8	1.8	1.8
Effective interest rate (percent) 5/	1.3	1.3	1.1	1.1	0.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.6	1.9	1.7
Growth of exports of G&S (US dollar terms, in percent)	16.1	22.1	15.2	9.8	9.9	-6.2	-0.6	3.7	4.1	4.0	3.8	1.5	3.0	2.5	2.7
Growth of imports of G&S (US dollar terms, in percent)	18.4	22.5	12.4	13.0	10.0	-2.3	-0.2	6.7	11.7	3.5	-3.5	2.7	3.6	1.8	2.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	41.6	37.5	44.9	44.7	43.8	34.4	41.1	34.4	34.4	34.4
Government revenues (excluding grants, in percent of GDP)	23.8	22.5	23.5			22.8	24.1	25.5	24.0	24.0	23.1		21.6	20.9	21.4
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.2			0.3	0.2	0.3	0.3	0.3	0.1		0.1	0.1	
of which: Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.1	0.2	0.1			0.2	0.1	0.2	0.2	0.2	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.8	5.0	5.8	5.0	4.9	2.5		1.9	1.8	1.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			52.4	53.4	57.7	60.0	59.5	51.8		53.1	52.4	53.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	2.3	2.6	2.9			3.0	3.1	3.3	3.6	3.8	4.0		5.1	8.2	
Nominal dollar GDP growth	11.6	14.0	10.7			4.2	5.8	6.5	6.7	6.5	6.0	5.9	4.8	4.8	4.9
PV of PPG external debt (in Billions of US dollars)			0.8			0.9	1.0	1.1	1.2	1.2	1.2		1.5	2.2	
(PVt-PVt-1)/GDPt-1 (in percent)						3.9	3.1	2.9	1.8	1.7	0.6	2.3	1.0	1.1	1.1
Gross workers' remittances (Billions of US dollars)	0.4	0.4	0.4			0.4	0.4	0.4	0.4	0.4	0.4		0.5	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	24.7			27.5	28.6	29.4	29.1	28.8	27.7		26.0	24.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.2			48.3	53.0	55.6	56.2	56.8	55.6		56.8	64.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			4.6	4.9	5.2	5.5	5.7	5.9		4.2	4.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Guyana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	31	32	33	32	32	30	**28**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	31	30	28	25	22	20	**15**	2
A2. New public sector loans on less favorable terms in 2013-2033 2	31	33	36	37	38	37	**39**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	31	33	36	35	35	33	**31**	29
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	31	32	34	33	33	31	**29**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	31	32	32	32	31	30	**28**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	31	38	44	43	43	41	**39**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	31	33	35	35	34	33	**31**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	31	46	47	46	46	44	**41**	38
PV of debt-to-exports ratio								
Baseline	59	66	69	70	71	69	**71**	82
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	59	61	58	54	48	45	**37**	7
A2. New public sector loans on less favorable terms in 2013-2033 2	59	69	77	81	85	85	**96**	131
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	59	66	69	70	71	70	**72**	83
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	59	65	73	74	75	74	**76**	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	59	66	69	70	71	70	**72**	83
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	59	77	93	94	95	93	**96**	98
B5. Combination of B1-B4 using one-half standard deviation shocks	59	65	70	71	72	71	**73**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	59	66	69	70	71	70	**72**	83
PV of debt-to-revenue ratio								
Baseline	135	133	128	134	132	132	**132**	127
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	135	123	108	103	91	86	**69**	11
A2. New public sector loans on less favorable terms in 2013-2033 2	135	139	143	156	159	162	**178**	204
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	135	139	139	146	144	144	**143**	139
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	135	133	132	138	136	136	**136**	130
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	135	131	125	131	130	129	**129**	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	135	156	172	180	177	178	**178**	152
B5. Combination of B1-B4 using one-half standard deviation shocks	135	138	139	145	143	143	**143**	134
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	135	190	183	192	190	189	**188**	183

Table 2. Guyana: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (continued)

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports ratio								
Baseline	6	6	6	7	7	7	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	6	6	6	6	6	6	**3**	1
A2. New public sector loans on less favorable terms in 2013-2033 2	6	6	6	7	7	7	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	6	6	6	7	7	7	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	6	6	7	7	7	8	**5**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	6	6	6	7	7	7	**5**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	6	6	7	8	8	8	**6**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	6	7	7	7	**5**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	6	6	6	7	7	7	**5**	6
Debt service-to-revenue ratio								
Baseline	13	12	12	13	13	14	**10**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	13	12	11	12	11	11	**6**	2
A2. New public sector loans on less favorable terms in 2013-2033 2	13	12	12	13	13	14	**11**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	13	13	13	14	14	15	**10**	10
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	13	12	12	13	13	14	**10**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	13	12	12	13	13	14	**9**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	13	12	13	14	15	15	**11**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	13	12	12	13	14	14	**10**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	13	17	17	19	19	20	**14**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Guyana: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	65.2	65.1	64.3			63.9	64.6	64.8	64.4	63.7	60.6		54.5	48.4	
of which: foreign-currency denominated	46.0	46.7	47.7			48.7	50.6	52.9	53.1	53.2	51.1		45.3	39.2	
Change in public sector debt	0.4	-0.1	-0.8			-0.4	0.7	0.2	-0.4	-0.7	-3.1		-1.0	-0.4	
Identified debt-creating flows	-3.0	-3.7	-1.7			1.9	1.4	0.6	0.1	-0.1	-0.2		-2.1	-4.3	
Primary deficit	2.2	3.1	3.6	3.4	1.7	4.1	4.1	3.6	3.3	2.9	2.5	3.4	-0.4	-2.5	-1.2
Revenue and grants	26.3	25.0	25.8			24.8	26.5	27.9	26.3	26.3	24.4		22.6	21.8	
of which: grants	2.5	2.6	2.3			2.1	2.4	2.3	2.3	2.3	1.3		1.0	0.9	
Primary (noninterest) expenditure	28.4	28.1	29.4			28.9	30.6	31.5	29.6	29.2	26.9		22.2	19.3	
Automatic debt dynamics	-5.2	-6.8	-5.3			-2.2	-2.7	-3.0	-3.2	-3.0	-2.7		-1.7	-1.7	
Contribution from interest rate/growth differential	-3.0	-4.3	-3.8			-2.8	-2.8	-2.9	-3.3	-3.0	-2.9		-1.8	-1.8	
of which: contribution from average real interest rate	-0.3	-0.9	-0.8			0.2	-0.2	-0.3	-0.3	-0.3	-0.3		-0.2	-0.4	
of which: contribution from real GDP growth	-2.7	-3.4	-3.0			-2.9	-2.6	-2.6	-3.0	-2.7	-2.6		-1.6	-1.4	
Contribution from real exchange rate depreciation	-2.2	-2.5	-1.5			0.5	0.1	-0.1	0.1	0.0	0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.4	3.6	0.9			-2.2	-0.7	-0.4	-0.5	-0.6	-2.9		1.1	3.8	
Other Sustainability Indicators															
PV of public sector debt	...	...	44.9			46.0	45.9	44.6	43.6	42.5	40.2		37.7	35.7	
of which: foreign-currency denominated	...	...	28.3			30.7	31.9	32.7	32.3	32.0	30.7		28.6	26.6	
of which: external	...	...	28.3			30.7	31.9	32.7	32.3	32.0	30.7		28.6	26.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	21.3	22.2	22.0			23.1	21.7	20.0	17.8	16.9	15.9		10.6	7.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	174.1			185.2	173.3	160.0	165.6	161.4	165.0		166.9	163.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	191.3			202.0	190.6	174.7	181.5	176.8	174.0		174.6	171.1	
of which: external 3/	...	...	120.7			135.1	132.7	128.0	134.5	133.1	133.0		132.1	127.2	
Debt service-to-revenue and grants ratio (in percent) 4/	8.1	9.3	7.5			13.9	13.0	12.6	13.5	13.7	14.8		10.5	8.1	
Debt service-to-revenue ratio (in percent) 4/	9.0	10.3	8.2			15.2	14.3	13.7	14.8	15.0	15.6		11.0	8.5	
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	3.2	4.4			4.5	3.4	3.4	3.7	3.6	5.6		0.6	-2.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.4	5.4	4.8	3.1	2.8	4.8	4.3	4.2	4.8	4.3	4.2	4.4	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	1.3	1.3	1.1	1.1	0.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.6	1.9	1.7
Average real interest rate on domestic debt (in percent)	-1.5	-3.5	-2.9	-1.7	3.0	1.7	-0.1	-0.2	0.2	0.2	0.2	0.3	-0.2	-4.0	-1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.0	-5.8	-3.4	-3.8	2.3	1.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.7	8.4	5.7	6.9	2.8	1.7	3.5	3.8	3.3	3.6	3.2	3.2	3.3	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	41.6	37.5	44.9	44.7	43.8	34.4	41.1	34.4	34.4	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Guyana: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

(In percent)

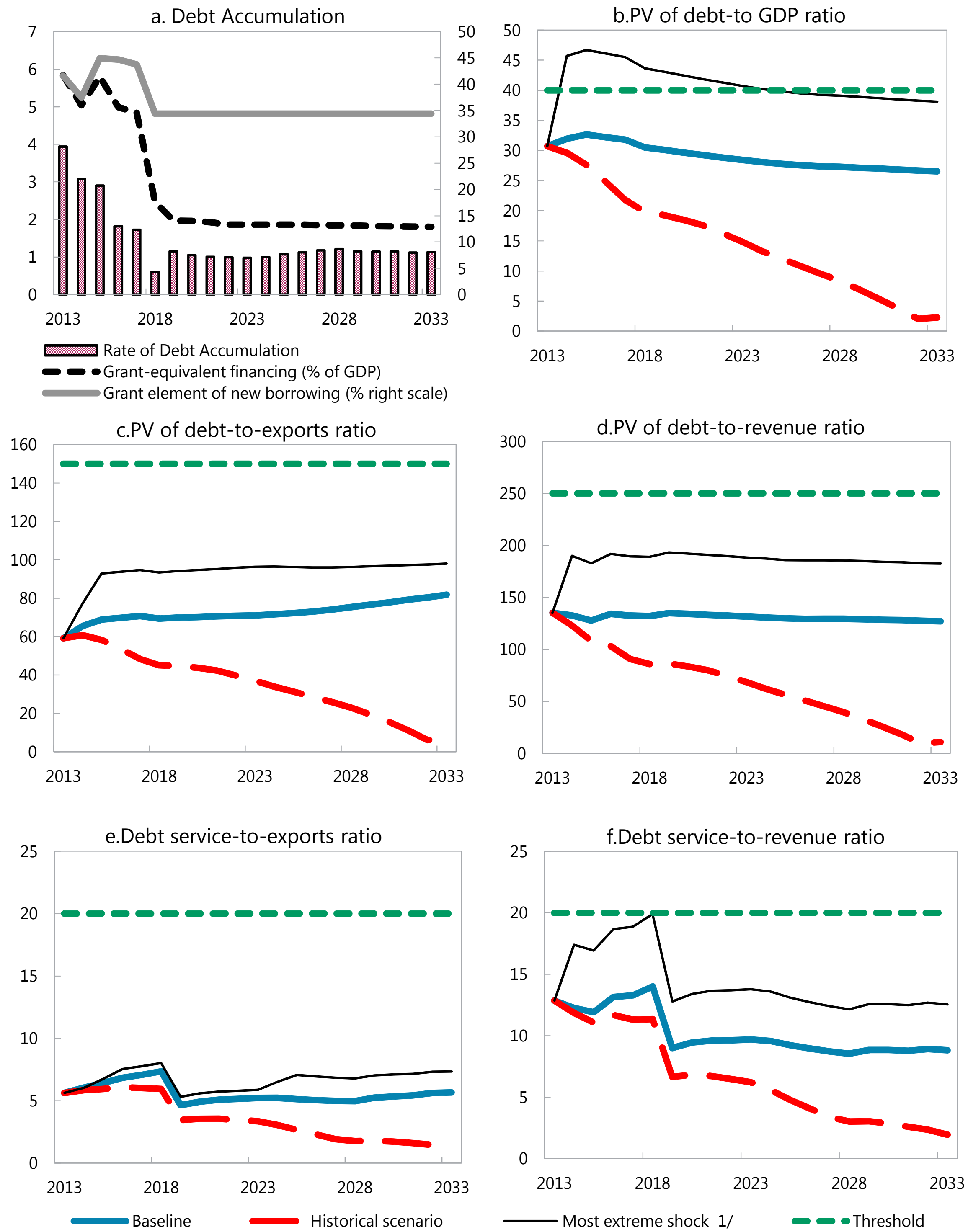
	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	46	46	45	43	42	40	37	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	46	45	44	44	42	54	89
A2. Primary balance is unchanged from 2013	46	46	45	45	44	43	58	98
A3. Permanently lower GDP growth 1/	46	46	45	45	44	43	46	62
A4. PPA payment guarantee drawn 2/	46	47	46	45	45	42	55	76
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	46	49	51	51	51	50	54	63
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	46	47	47	45	44	42	39	37
B3. Combination of B1-B2 using one half standard deviation shocks	46	47	47	47	47	45	47	52
B4. One-time 30 percent real depreciation in 2014	46	58	55	53	50	48	45	45
B5. 10 percent of GDP increase in other debt-creating flows in 2014	46	54	53	51	49	47	44	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	185	173	160	165	160	163	165	163
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	185	173	160	168	166	174	238	408
A2. Primary balance is unchanged from 2013	185	173	161	169	169	178	254	449
A3. Permanently lower GDP growth 1/	185	175	163	170	168	175	201	282
A4. PPA payment guarantee drawn 2/	185	176	165	172	169	174	242	350
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	185	183	180	192	193	204	236	287
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	185	176	167	172	167	171	173	169
B3. Combination of B1-B2 using one half standard deviation shocks	185	177	169	178	177	184	206	237
B4. One-time 30 percent real depreciation in 2014	185	220	198	200	191	195	200	206
B5. 10 percent of GDP increase in other debt-creating flows in 2014	185	204	189	193	188	192	195	189
Debt Service-to-Revenue Ratio 2/								
Baseline	14	13	13	13	14	15	10	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	13	13	13	14	15	19	32
A2. Primary balance is unchanged from 2013	14	13	13	14	14	16	21	37
A3. Permanently lower GDP growth 1/	14	13	13	14	14	16	14	19
A4. PPA payment guarantee drawn 2/	14	13	13	14	15	16	13	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	14	13	14	16	17	19	17	20
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	14	13	13	15	16	15	11	9
B3. Combination of B1-B2 using one half standard deviation shocks	14	13	13	14	15	17	14	15
B4. One-time 30 percent real depreciation in 2014	14	15	17	19	20	23	17	18
B5. 10 percent of GDP increase in other debt-creating flows in 2014	14	13	14	25	15	19	13	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

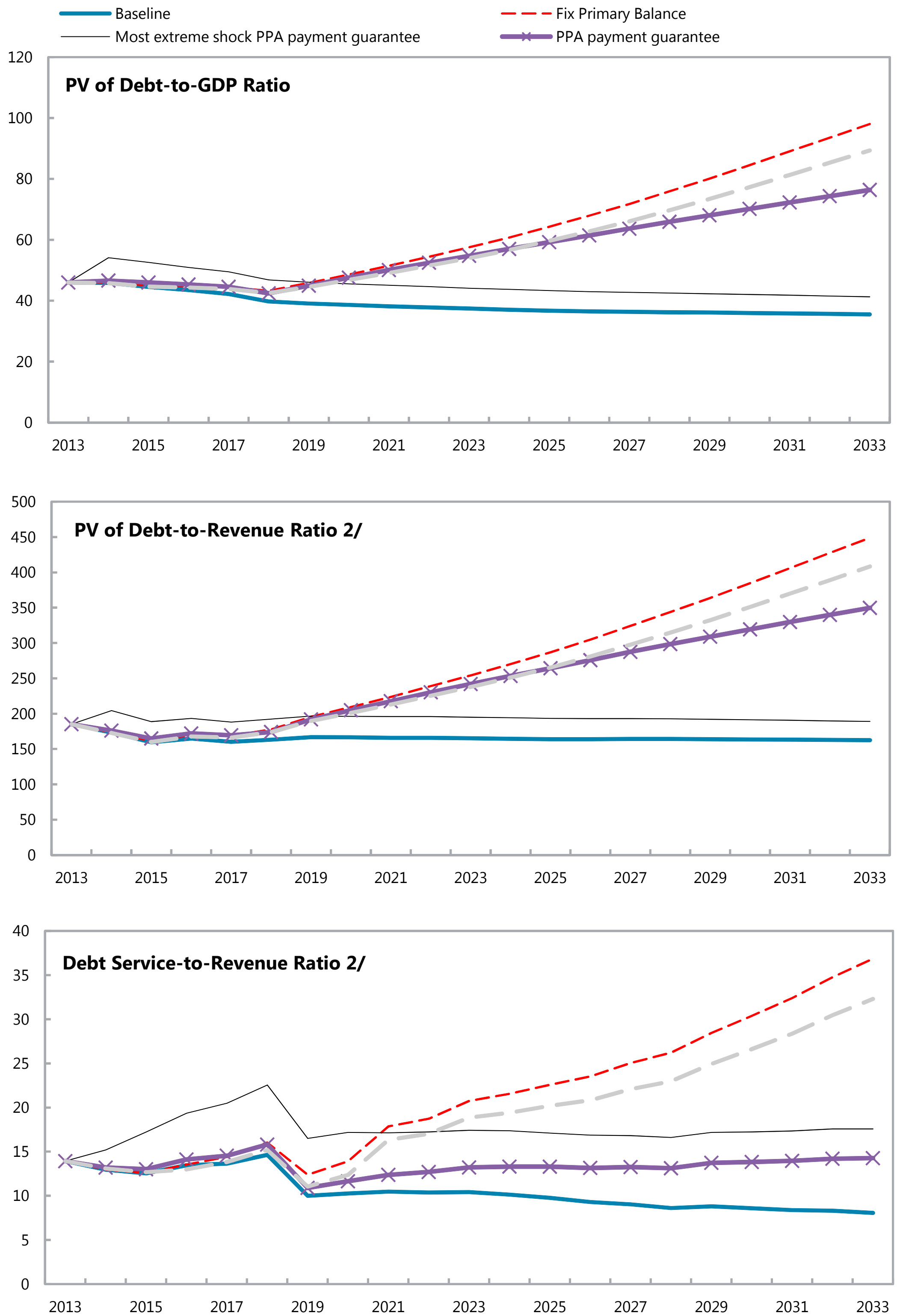
Figure 1. Guyana: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock

Figure 2. Guyana: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 13/534
FOR IMMEDIATE RELEASE
December 19, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Guyana

On December 9, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Guyana.

During the last decade, Guyana's strong macroeconomic performance has contributed to a reduction in public debt levels and sustained poverty reduction. The economy has experienced seven years of uninterrupted growth averaging about 4 percent annually. The key pillars of the macroeconomic resurgence have been sustained reforms, in particular the implementation of VAT, favorable commodity prices, significant inflows of Foreign Direct Investment (FDI) and debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) initiatives.

Real economic activity expanded by 4.8 percent in 2012 on the back of broad-based growth in agriculture, manufacturing, mining, construction and other services. Twelve-moth inflation remained low at 3.4 percent, notwithstanding higher energy and food prices. In FY2012, the overall fiscal deficit was 4.5 percent of Gross Domestic Product (GDP), virtually unchanged from the 2011 outturn. Central government revenues net of grants declined by 0.8 percent of GDP, reflecting lower income and consumption tax receipts, and non-interest current expenditures rose by 1 percent of GDP mainly on account of higher transfer payments to electricity and sugar companies. The deterioration in the central government balance was offset by improved performance of state-owned enterprises whose financial position shifted from deficit to surplus. The external current account balance was broadly unchanged from 2011 and gross international reserves stood at 4.2 months of imports at end-2012. Meanwhile, the banking soundness indicators have remained strong, with capital adequacy ratios well above the regulatory minimum requirement, non performing loans (NPLs) between 5 and 6 percent over the last three years and provisioning for bad loans at comfortable levels.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The macroeconomic outlook is generally positive for 2013 and the medium term. Growth is projected at 4.8 percent in 2013, continuing the broad-based robust expansion in economic activity. Twelve-month inflation is expected to remain low at around 3.5 percent by year-end. The revised 2013 budget envisages an overall fiscal deficit of 5.2 percent of GDP, largely related to worsening performance of public enterprises which are projected to return a deficit of 0.4 percent of GDP compared to a surplus of 1.3 percent in 2012. Higher VAT receipts are projected to raise central government non-grant revenue by 0.9 percent of GDP. Meanwhile, central government capital expenditure is projected to rise by 0.4 percent of GDP, while the public wage bill as a percent of GDP will remain broadly stable and transfers will decline by 0.7 percent of GDP. The current account deficit is expected to widen to 16.8 percent of GDP in 2013, driven by higher fuel imports, lower commodity prices, and lower remittances, which are projected to fall with slowing activity in major host countries. At the same time, with larger disbursements related to an ambitious public investment program and resilient FDI, gross international reserves are projected to remain adequate at 3.6 months of imports.

Executive Board Assessment[2]

Executive Directors welcomed Guyana's strong growth over the past several years, underpinned by favorable commodity prices and robust foreign direct investment. While the medium-term economic outlook remains positive, Directors encouraged the authorities to persevere in their commitment to sound policies and reforms to strengthen policy buffers, promote more inclusive growth, and further reduce poverty.

Directors underscored the importance of prudent fiscal consolidation anchored in a medium-term policy framework that safeguards debt sustainability, bolsters fiscal and external buffers, and addresses unmet development needs. Priority should continue to be given to implementing reforms to boost the efficiency of public enterprises and replacing universal subsidies with better-targeted social assistance.

Acknowledging the potential benefits of a more stable and reliable source of energy, Directors encouraged the authorities to ensure that the large hydroelectric project under consideration remains financially and economically viable to curb fiscal risks. In this context, they saw merit in strengthening the project and debt management framework, and pursuing international best practices as regard public-private partnerships.

Directors considered that a modestly tighter stance of monetary policy and continued exchange rate flexibility would help safeguard international reserves, contain inflationary pressures, and reduce the current account deficit.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Although risks appear generally limited, Directors recommended continued vigilance over the financial sector. In light of rapid credit growth in recent years and high loan concentration, they advised frequent on-site inspections for larger banks and a better integrated supervision of financial business groups. It is urgent to address remaining gaps in the regime to combat money laundering and the financing of terrorism.

Directors commended the authorities for the progress so far in poverty reduction. However, they considered that further efforts are needed to ensure a more even distribution of the benefits from economic growth. In this regard, efforts to lower the cost of energy, address skill mismatches, and improve the business environment represent important policy initiatives. Steps to increase productivity in traditional sectors, such as agriculture and mining, should also be part of a strategy to foster more inclusive growth. Directors also encouraged further improvements in data provision and dissemination.

Guyana: Selected Economic Indicators

	2010	2011	2012	Projections 2013	2014
(Annual percent change)					
Production and prices					
Real GDP	4.4	5.4	4.8	4.8	4.3
Real GDP per capita	3.3	3.9	3.9	4.8	4.3
Consumer prices (average)	3.7	5.0	2.4	3.5	3.9
Consumer prices (end of period)	4.5	3.3	3.4	3.5	4.3
Terms of trade	6.5	-3.4	5.7	-7.6	0.4
(In percent of GDP)					
National accounts					
Investment	16.7	19.7	19.1	18.7	19.8
Private sector	5.7	9.5	8.5	8.0	7.4
Public sector	11.0	10.2	10.5	10.6	12.4
National saving	7.1	6.6	5.8	1.8	4.7
Private sector	0.8	1.9	0.8	-2.8	-2.0
Public sector	6.3	4.7	5.0	4.6	6.7
External savings	9.6	13.1	13.3	16.8	15.1
Nonfinancial public sector					
Revenue and grants	26.3	25.0	25.8	24.8	26.5
Expenditure	29.8	29.4	30.3	30.0	31.7
Current	18.8	19.1	19.7	19.4	19.3
Capital	11.0	10.2	10.5	10.6	12.4
Overall balance (after grants) 1/	-3.5	-4.4	-4.5	-5.2	-5.2
Total public sector gross debt (end of period)	65.2	65.1	64.3	63.9	64.6
External	46.0	46.7	47.7	48.7	50.6
Domestic	19.2	18.3	16.6	15.2	13.9
(Annual percent change, end of period)					
Money and credit					
Broad money	15.5	16.0	11.5	8.4	8.3
Domestic credit of the banking system	16.3	52.9	7.5	17.8	17.3
Public sector (net)	-24.1	37.0	-72.7	-3.4	-2.6
Private sector	19.0	19.9	20.1	13.8	13.6
(In millions of U.S. dollars, unless otherwise indicated; end of period)					
External sector					
Current account balance 1/	-217.2	-336.7	-378.5	-499.3	-475.0
Gross official reserves 2/	780.0	798.1	862.2	728.4	767.7
Months of imports of goods and services	5.2	4.3	4.2	3.6	3.8
Memorandum items:					
Nominal GDP (G$ billion)	460.1	525.7	582.7	621.1	670.2
Per capita GDP, US$	2,904	3,263	3,581	3,729	3,945
Guyana dollar/U.S. dollar (period average)	203.6	204.0	204.4	…	…
PetroCaribe loans savings (stock, in % of GDP)	4.0	1.8	6.7	8.9	9.0

Sources: Guyanese authorities; and Fund staff estimates and projections.

1/ Including official transfers.
2/ Includes SDR allocation.