

PLEASE SEE **IMPORTANT DISCLOSURES** IN THE **APPENDIX**

Executive Summary

The defection of a member of the ruling coalition in Guyana caused a no confidence vote against the government. This has resulted in short-term political instability that has ramifications for the future of Guyana and its nascent oil resources. There is a morbid fear that the vote could trigger ethnic violence if the incumbent ruling party were to be voted out of office. Venezuela has seized on the sovereign's political challenges and is using the opportunity to step-up harassment of vessels operating in Guyana's exclusive economic zone in a bid to extort resources from Guyana over territorial claims that were settled in the last century. The emergence of a political champion would go a far way to assuage fears of state resources being used inappropriately and to bridge the fractious divide between the two main ethnic groups in Guyana.

*Guyana's socio-political issues aside, the country's economic future remains positive. **The country stands to receive US\$7 – US\$27 billion per year in gross revenues from the discovery of oil resources.** This will be a major boost to the government's coffers, which should go a far way to help the build-out of public infrastructure and provision of social services which will help lift the average Guyanese out of poverty. **The lack of vital support services for the expected influx of migrant workers and the long-term growth path of the sovereign indicate the availability of opportunities, which can be exploited by corporates and individuals.***

Ratings: N/A

Default: N/A

Table 1: SWOT

<p>Strengths</p> <ul style="list-style-type: none"> ✓ Stable democracy with free and fair elections held on a regular basis. ✓ Strong ties with the multilaterals that provide financial and technical assistance that has helped to engender the process of structural adjustments required to diversify the economy and induce higher levels of economic growth, fiscal and debt sustainability. 	<p>Weaknesses</p> <ul style="list-style-type: none"> ✓ Narrow economic base that is highly dependent on primary production – mining and agriculture. ✓ Frontier economy with a small population and limited access to modern technology. ✓ Vast amounts of the sovereign’s territory being claimed by Venezuela and Suriname, which could take a long time for the parties to reach a compromise
<p>Opportunities</p> <ul style="list-style-type: none"> ✓ Oil production is expected to commence in 2020. This is supposed to lead to an increase in the immigrant population and demand for goods and services that are not produced domestically. ✓ Higher GDP growth could boost job creation, per capita income and government spending on infrastructure. ✓ The government will likely start borrowing from developmental agencies at non-concessionary rates. An opportunity exists for financial institutions to help wean the government from developmental loans as the country moves up the economic ladder. 	<p>Threats</p> <ul style="list-style-type: none"> ✓ Ethnic division between the two main groups has led to political polarization along ethnic lines. ✓ Looming political uncertainty due to no confidence vote against the government. The makeup and the policy direction of the party that forms the next government is uncertain. ✓ Increase public expenditure and debt profile is predicated on expected higher tax intake; if this does not materialise it could adversely impact public finance in the long-run. ✓ The country is used a transshipment point for narcotics destined for North America and Europe. Increased violence coupled with narco trafficking and corruption could undermine economic and social stability.

Political Uncertainty could cause short-term volatility but long-term outlook remains positive

In late December amid all the flurry on the world market regarding oil prices and a potential trade war between the US and China, a political maelstrom was created in Guyana. Charrandas Persaud, a member of the Alliance for Change (AFC) and partner in the governing coalition, voted against the government in a no confidence motion brought by the Opposition. His vote proved to be decisive and broke the dead-lock in the National Assembly where the government held a 33-32 majority. The no confidence vote means that new elections will have to be held within the next 90-days. *The Constitution is unclear as to what transpires immediately after a no-confidence vote and as such the sovereign finds itself in political limbo.* What however is clear is that the government is unable to take any legislative actions until after the people have decided who will lead the nation into an expected brighter future enabled by petrocurrency flows.

There is however trepidation that the emergence of the opposition party as victor could usher in a cycle of ethnic violence and plundering of the public purse. While this is possible, at this time we hold the base case assumption that while short-term political instability is possible, with the aid of the negotiating skills of CARICOM, the country will enter a period, over the medium term at least, of stable economic growth enabled by its oil resources.

Earlier in the year in an opinion piece on Guyana, JMMB advised that one of the key risks facing the Caribbean nation is its deep ethnic division, which has led to political polarisation. The genesis of this is rooted in the sovereign's colonial history prior to the independence movement which began in the 1950's. Guyana has two main ethnic groups, Indians and Africans, and two main political parties, the People's Progressive Party (PPP) and People's National Congress (PNC), which are supported along ethnic lines. The PPP is supported mostly by Indo-Guyanese who make up 40% of the population while the PNC is supported mainly by Afro-Guyanese who comprise 30% of the population. To broaden its appeal the PNC rebranded itself as "A Partnership for National Unity" (APNU). In mid-2000 an offshoot of the PPP emerged as the Alliance for Change (AFC) after in-fighting within the party. Having been in control of the government for over two decades, the dominance of the PPP was broken in general elections held in 2015 where a coalition of the PNC and AFC won the majority seats in the National Assembly and was invited to form the government. The coalition held a slender 33-32 majority and David Granger of the APNU became President of Guyana.

In the run-up to the 2015 election, the coalition which was then in opposition exposed a number of grafts by the former PPP administration headed by President Donald Ramotar and used its political weight in the Assembly to block questionable dealings involving the government and third parties, mainly Chinese contractors.

Throughout Guyana's recent history, the spoils of politics, including government jobs, social programmes and contracts are widely thought to be distributed along ethnic lines. Wealth distribution is skewed and the country is heavily polarized. Indo-Guyanese dominate Guyana's business community while Afro-Guyanese are heavily and disproportionately represented in the military and police forces. This give rise to fears that the no-confidence vote could precipitate a national crises and spill over into the streets in the form of ethnic violence.

Other Issues Facing Guyana

In the lead up the no-confidence vote, there were concerns regarding Guyana's ability to utilise the expected windfall from oil flows in a transparent manner that is beneficial to the general populace. The weaknesses exposed in the previous government highlighted stress points in the sovereign's governance framework and the vulnerability of its institutions to political manipulation. However, under the coalition government some bright spots did emerge as the perception of public corruption declined and business confidence increased. The government circulated a "green paper" to facilitate public discourse on how to use the windfall from oil resources, and advanced plans to establish a sovereign wealth fund. There are factions however within the country who believe that the funds should be used to boost infrastructure and/or redistributed to the poor. A redistribution scheme without a proper developmental framework in our opinion is nothing short of vote buying and wasteful. Some individuals have asserted that the revenue sharing deal with Exxon Mobil was poorly negotiated and want the government to renegotiate terms with the multinational.

The collapse of the government could strengthen Venezuela's ambitions to reassert claims over disputed land and maritime territories as hostility from the economically weakened Maduro government has grown within the last few years. In the aftermath of the political crises triggered by the no confidence vote, the Venezuelan navy harassed a Norwegian seismographic ship carrying out work on behalf of Exxon-Mobil in Guyana's exclusive

economic zone, resulting in the ship temporarily halting operations. The act drew the condemnation of the international community including CARICOM, Great Britain and the US.

The Maduro government seems set to try and strong-arm Guyana into giving up a portion of its oil resources by using threatening tactics. In the absence of such concession, Venezuela may increase its hostilities towards the sovereign, especially if the government is severely weakened and the General Assembly is unable to agree on a set of principled positions to move the country forward. ***An agreement between Venezuela and Russia for the latter to construct a naval outpost on the Orchila Island could further strengthen Maduro's hand to increase hostilities towards Guyana and other regional partners.***

The United States has grown increasingly worried about the political regime in Venezuela and the construction of a Russian naval base has certainly infuriated Washington whose policy towards the Caribbean and Latin America is guided by the Munroe doctrine and the Washington Consensus. The presence of Russia in the region could result in a "cold" arms race in a relatively peaceful region with reminders of the Cold War that has long ended with the collapse of the Soviet Union. If history is anything to go by we expect Washington to make its presence felt in Guyana and the region in a show of force and unity with their partners in the region to counter Maduro ambitions. While military action by the US is possible, we assign a relatively low probability to this course of action at this time. We are however of the view that the US could impose enhanced economic sanctions on Venezuela. There are two plausible outcomes in our view: One is that the Maduro regime could cease its hostilities towards Guyana, and the other is that it could become even more hostile as a show of power to summon popular support domestically. Either way, the level of tension on the South America continent is likely to impact investor sentiments.

The Vote

With fresh elections set for March, the PPP is hopeful that it has a chance of forming the government. Its leader and former president Bharat Jagdeo has called for the government to resign, but this is a grey area that is not addressed by the Constitution. The government however is unable to pass any bill that could have meaningful impact on the sovereign's economic future. Thus there are concerns, as a proper framework for the use of the oil resource is not in place and with the government in paralysis, nothing is likely to be done until after the vote. These concerns are not unfounded as there are many persons in Guyana who think that the PPP was blatantly corrupt during its last stint in office, and fear that if the party were to gain power it would misappropriate state funds. In fact, it is being argued that Persaud was bribed to vote against the government, and an investigation is in earnest to discern the validity of these claims. Persaud, who is now in Canada, has denied any wrong doing and has asserted his innocence. The coalition is seeking a legal remedy to the no confidence vote, but this could be a very lengthy legal proceeding and that would further limit the government's ability to make important decisions pertaining to the sovereign's oil resources and possibly lead to increased hostilities from Venezuela.

President Granger has declared himself as the candidate for the coalition while the PPP will have to put up another candidate other than Jagdeo who is ineligible to run for a third term in office, as per Guyana's Constitution. The individual whose name is being suggested to run on the PPP ticket is a Jagdeo-loyalist and has been linked to corruption. He could face fierce opposition from the old guards within the party which could cause cracks to

rupture in a party that is already very fractious. It is not easy to discern what the post-election landscape would look like at this point. What we do know is that whoever the victor turns out to be would have to renew the process of building political consensus and stitch together the rift in social relations between the two major ethnic groups. This is required in order to engender tangible changes that would help to mend relationships within different communities. This is perhaps the most pragmatic way to allay sustained racial tensions that could undermine and stagnate Guyana's socio-economic progress.

Table 2: selected macroeconomic indicators for Guyana

Indicator Name	2013	2014	2015	2016	2017	2018 (e)	2019 (f)	2020 (f)	2021 (f)
Population, mn	0.76	0.76	0.77	0.77	0.78	0.78	0.79	0.79	0.80
GDP per capita, USD	3,350	3,397	3,491	3,599	3,866	4,058	4,045	4,221	4,457
Real GDP, y-o-y	5.2	3.8	3.1	3.3	2.1	3.5	3.7	29.2	21.7
Unemployment, % of labour force, ave	21.1	21.0	22.0	21.5	21.5	21.4	21.5	21.6	21.5
Inflation, % y-o-y, eop	0.9	1.2	-1.8	1.4	1.5	2.5	3.8	4.5	4.0
Exchange rate: GYD/USD, eop	207.00	206.80	207.20	207.20	204.90	219.30	222.00	224.75	227.70
Total revenue, % of GDP	26.8	25.8	28.2	28.1	29.7	29.1	29.9	29.6	29.3
Total revenue, USDbn	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.1	1.2
General government gross debt, % of GDP	57.9	51.9	50.3	50.7	50.7	53.9	56.1	48.3	42.4
Fiscal deficit, % of GDP	-3.2	-5.4	-1.2	-4.3	-4.4	-5.3	-5.2	-2.8	-0.9
Balance of trade in goods, % of GDP	-19.4	-23.4	-12.3	-0.2	-3.0	-2.9	-4.0	-2.5	-0.8
Current account balance, % of GDP	-13.3	-9.5	-5.1	0.3	-4.2	-5.2	-4.7	11.2	23.3
Foreign reserves ex gold, USDbn	0.8	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.8
Import cover, months	4.8	4.4	4.8	4.9	4.8	4.8	4.9	4.8	4.6
Total debt service, % of GDP	2.3	2.3	2.6	2.7	-	-	-	-	-
Interest payments, % of GDP	1.0	1.0	0.7	1.0	-	-	-	-	-

Source: BMI, IMF, and JMMBIR

Conclusion

Guyana in its recent political history is a state characterised by two political parties that are divided along ethnic lines. The recent no confidence vote in the Government has opened up old wounds that will take some time to heal. While there are uncertainties regarding who will become the next president and which party will form the government, what is clear is that the country needs a political champion to help mend relationships and push through needed reforms to strengthen the country's social, political and economic infrastructure. The absence of that could cause discontent across Guyana, and could fuel inflationary and wasteful spending from the oil revenues. The government is encouraged therefore to push ahead with needed reforms, some of which are already on the table including the creation of a sovereign wealth fund.

The Venezuela situation is not going to go away any time soon. Thus Guyana needs the support of international partners to help allay whatever fears that may exist regarding the escalation of tensions between the two neighbours. With the American oil company Exxon-Mobil being a major partner with Guyana, and the US

attitude toward Latin America and the Caribbean, we think that the strengthened of ties between Washington and Guyana, which is imminent, will cause the Maduro administration to temper its actions towards Guyana and infringement on its maritime borders.

Guyana's short-term political instability aside, we are bullish on the sovereign and our economic outlook remains positive. We envisage the sovereign moving beyond its current challenges and the government pressing ahead with building out the country's infrastructure and providing funding to support social programmes that will help to lift its citizens out of poverty. *The expected influx of migrant workers will need housing, financial and other services which are lacking in Guyana. We strongly feel that there are many business opportunities in the pipeline that Jamaican corporates and individuals could exploit.*

Sources:

Business Monitor International (BMI)

Bloomberg

Evan, Ellis. Global Americans, "Guyana at Risk: Ethnic politics, oil Venezuelan opportunism and why it should matter to Washington"

International Monetary Fund

<https://www.cia.gov/library/publications/the-world-factbook/geos/gy.html>

<http://parliament.gov.gy/branches-of-government/>

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

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