

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

Table 1: SWOT

### Strength

- ✓ Stable democratic institutions with free and fair election held on a regular basis.
- ✓ Strong ties with the multilaterals that provide financial and technical support.
- ✓ Large amount of natural resources with significant supply of crude oil and natural gas.
- ✓ Guyana has a large diaspora residing in the US that will continue to send remittance back home and support private consumption.

### Weakness

- ✓ Narrow economic base that is highly dependent on primary production – mining and agriculture.
- ✓ Weak institutional framework, political stalemate may stall legislation to enhance these institutions over the short to medium term.
- ✓ Climate change poses a grave threat to Guyana’s development, as the country is prone to damage from bad weather.

### Opportunity

- ✓ Oil production started in Q2:19 and boosted GDP growth in 2020. We expect Guyana's per capita GDP to increase the immigrant population and lead to higher demand for goods and services.
- ✓ Higher GDP growth is likely to boost job creation and government spending on infrastructure over the medium to long term
- ✓ An opportunity exists for financial institutions to help wean the government from developmental loans, as the country moves up the developmental ladder.
- ✓ Strong demand for housing by migrant workers and Guyanese residing in overseas territories.

### Risk

- ✓ The division between the two main ethnic groups has led to political polarisation along ethnic lines.
- ✓ Guyana's increased 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 as 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.
- ✓ 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

Ratings: N/A

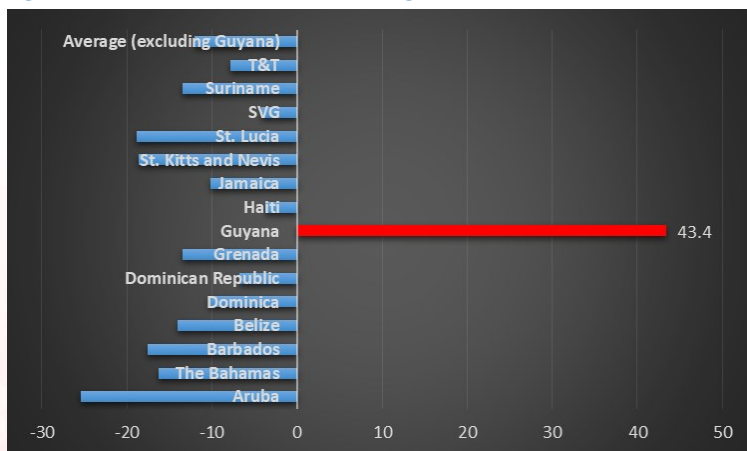
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## Summary

Over the next two years, we expect that a relatively favourable external environment will drive the demand for petroleum which will help fuel GDP growth. Government spending will support growth in the non-petroleum Industries. Agriculture and mining are two sectors that could benefit from government support. Guyana remains in the crosshairs of the Maduro administration, and with its porous borders and growing wealth, is a reservoir for Venezuelans escaping economic hardship and political repression. Guyana’s external position is expected to improve with the current account shifting to a surplus and increase in foreign currency reserves.

## Growth Outlook

Figure 1: Caribbean Countries Real GDP growth in 2020



Sources: IMF and JMMBIR

We expect Guyana's real GDP to grow by 24% in 2021 and 25% in 2022, driven by increased oil output. Growth contracted by over 8% across the Caribbean in 2020, but Guyana's economy expanded by 43.4%. Although crude oil price was relatively subdued during much of the period, output from the nascent oil industry drove GDP growth. Over the next two years, we expect that a relatively favourable external environment will drive the demand for petroleum which will help fuel GDP growth. Crude oil prices are likely to remain elevated given the outlook on global demand. We envisage modest expansion in Guyana's oil production and domestic consumption over the forecast horizon. The combination of both factors reinforces our growth outlook for the sovereign.

An increase in Guyana's per capita GDP and government spending on social support services are expected to help drive higher levels of output in the non-petroleum sector over the forecast period. We envisage expansion in commerce, agriculture and healthcare services. However, structural constraints in the economy will limit growth in these areas relative to the oil sector. Some challenges facing Guyana include low human capital, under-investment in capital and limited access to capital. The limited access to capital reflects a woefully under-developed financial sector and Guyana's large unbanked population. The non-oil sector contracted by around 7.3% in 2020. However, unlike the wider Caribbean, Guyana's non-oil sector is not tourism-dependent and is likely to recover much quicker over the medium term. It will take a longer time for tourism to recover in the Caribbean relative to other sectors. We assume that the government will prudently use oil resources to help drive growth in the non-oil sector, improve productive capacity and enhance the quality of the labour force. Higher spending by the government to improve Guyana’s crumbling infrastructure will also help to catalyse growth in the non-oil sector.

## Agriculture and Mining

Agriculture and mining are two areas where we expect to see increased activities over the medium term. However, there are structural impediments that may restrict growth in these sectors over the forecast horizon. We expect improvement in global commodity prices from which both sectors will benefit. As per agriculture, many farmers operate on small acreage and have difficulty sourcing credit. The increased unpredictability of the weather makes it relatively more challenging to determine if crops planted will come to maturity and generate sufficient revenue to cover operating costs. While the government has supported sugar production, it has not extended the same level of support to other farmers. We have not seen a plan regarding what steps the government will take to maintain the sector's viability over the long run. We hope that food security will rise to the top of the government's plan. For agriculture to achieve sustainable growth, the government would have to intervene and provide additional resources to farmers, including extension services and concessionary loans, allowing farmers to improve yield and quality of life.

Producers in Guyana's mining sector could not take advantage of the rise in commodity prices in 2020, especially gold. The size of mining assets in Guyana is relatively small, and with deplorable transportation infrastructure, investments in the sector were subdued. We do not expect any significant scaling-up in mining assets or operations over the medium term. However, over the long run, as the country builds out its road infrastructure into the hinterlands, opportunities in mining will present themselves, and the sector could grow. While mineral prices are a crucial component in the development of mining, we believe that growth in the sector in Guyana is tied to infrastructure development, as it is challenging to get mined resources to shipping ports.

## **Fiscal Operation and Infrastructure Development**

We expect government revenues to grow over the medium term due primarily to oil revenue receipts. In 2020, the government expanded social protection payments to the less vulnerable and increased healthcare expenditure. Expenditure grew by 13%, while revenue contracted by 3.6%. As a result, the fiscal deficit increased to 7.4% of GDP in 2020 compared to 2.6% in 2019. We expect the deficit to remain relatively elevated in 2021 and slowly decline through to 2023, primarily due to higher revenues. The government of Irfaan Ali has signalled that it will expand the outlay on social support and capital spending. For much of 2020, the government did not pass a budget. Guyana held an election in March, and it was not until August that Mr Ali took his position as President after a court ruling by the Caribbean Court of Justice and international pressure for the Granger administration to stand down. From March to August, the Granger administration acted as caretaker and could not pass a budget. With the election debacle out of the way, Mr Ali has a clear path to formulate his plan and use fiscal policy to help shape Guyana's future.

# MARKETCALL

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Table 2: Selected Macroeconomic Indicators

Indicator	2016	2017	2018	2019	2020	2021	2022	2023
Population, million	0.773	0.778	0.782	0.785	0.787	0.789	0.792	0.794
Nominal GDP per capita, USD	5,811	6,125	6,146	6,610	9,503	11,602	14,047	16,743
Real GDP growth, % y-o-y	3.3	2.2	4.1	4.7	43.4	24.0	25.0	17.0
Inflation, ave, % chg y-o-y	0.9	2.0	1.2	2.1	1.0	1.6	2.5	2.9
Lending rate, %, eop	10.7	13.0	13.0	10.3	8.9	9.1	9.0	9.0
Unemployment, % of labour force, ave	13.7	-	-	13.9	15.8	13.8	13.2	12.8
Current account balance, % of GDP	-3.7	-12.7	-29.8	-55.2	-11.5	-6.8	-3.2	1.0
Trade in goods balance, % of GDP	-0.5	-4.2	-21.4	-47.6	5.8	6.7	8.7	11.8
Goods exports, % of GDP	32.0	30.3	28.8	30.3	33.8	38.6	41.4	44.6
Total revenue, % of GDP	22.0	23.1	25.0	25.8	21.7	20.1	15.9	14.1
Total expenditure, % of GDP	25.3	26.5	27.8	28.4	29.0	25.9	20.9	18.3
Fiscal balance, % of GDP	-3.3	-3.3	-2.8	-2.6	-7.4	-5.8	-4.9	-4.3
Foreign reserves ex gold, USD	597.0	584.0	528.0	576.0	627.0	677.0	725.0	768.0
Import cover months	4.9	4.3	2.6	1.7	3.6	2.8	2.4	2.1
Foreign reserves ex gold, % of GDP	13.3	12.3	11.1	11.1	8.4	7.4	6.5	5.8
Government domestic debt, % of GDP	9.8	9.1	8.8	7.9	8.7	9.3	9.6	9.6
Total government debt, % of GDP	35.7	35.4	33.1	32.1	34.4	36.4	37.7	37.6
Interest payments, % of GDP	0.7	0.7	0.7	0.7	0.4	0.4	0.4	0.3

Sources: BMI, IMF, and JMMBIR  
e, estimate; and f, forecast

## External Account

Strong exports and capital inflows will help to shore up Guyana's external account, while the current account is likely to transform into a surplus by 2023. We expect increased oil exports to buoy inflows into the current account over the medium term. Subdued oil prices and lower than expected output in 2020 led to a current account deficit (CAD) of 11.5%. However, we expect a rebound in oil prices and increased output to help reverse the CAD and move the current account to a surplus over the forecast period.

The government has signalled its intent to solicit investments in the oil industry from the international community. We expect current and other interesting oil majors to increase their investment footprint in the industry over the medium to long run. Increased real GDP growth and improved job market conditions in the US will support higher remittance flows to Guyana. Although remittance flows as a percentage of GDP is likely to fall, we envisage higher nominal growth over the forecast horizon. We expect foreign reserves to rise but import cover to fall.

## Risks

The election debacle raises concern about the deep ethnic division in Guyana and its weak institutional framework, among them the election machinery. Guyana remains in the crosshairs of the flailing Maduro administration, and with its porous borders and growing wealth, is a reservoir for Venezuelans escaping economic hardship and political repression. With such a highly contentious election, it is likely that the ruling party - the People's Progressive Party/Civic (PPP/C) - could use oil resources to attract political support. There is nothing in the law to stop the government from channelling the country's newfound wealth into projects that yield low returns but very high political rewards at the poll. The opposition party will not favour such spending nor any semblance of favouritism in the distribution of national resources. Such action could

become the catalyst that inflames ethnic tensions and further polarise the country. Under such circumstances, we would expect ongoing protestations and work stoppages, which may stall investments flowing into Guyana. While we rule out the possibility of a civil war, the political atmosphere will remain tense in the absence of a national plan that galvanises Guyana's two main ethnic groups. Under the right circumstances, a rabble-rouser in the opposition party could set events into motion with adverse short- to medium-term economic consequences.

Venezuela maintains its territorial claims over Guyana and is not likely to relent on its position anytime soon, especially under the Maduro administration, looking for an outlet to channel Venezuelans' dismay with the current harsh economic environment. Although this issue remains a point of contention and warrant much attention, we believe that the biggest threat to Guyana from Venezuela over the medium term is the potential influx of migrants escaping the harsh economic situation that they face back home. US sanctions, a steep decline in investments and falling oil output before the covid-19 pandemic have adversely affected Venezuela's economy resulting in an increased incidence of poverty. Large numbers of Venezuelan migrants making their way into Guyana pose a risk to Guyana's social stability. The sovereign's already stressed infrastructure cannot accommodate such pressure.

## Outlook

We are estimating annualised double-digit growth in Guyana over the medium term. With that, the sovereign will experience a sharp rise in per capita GDP, which will help support spending in the non-oil sector. An increase in government spending on social support and infrastructure will complement higher output in the oil sector. We expect Guyana's fiscal deficit to close as revenue is expected to rise faster than the increase in spending. We expect the current account deficit to shift to a surplus by the end of the forecast period. Guyana is likely to maintain a healthy external balance over the medium term.

We see elevated short to medium term risks in the political arena, and an increase in illegal migrant flows from Venezuela. The ruling party could exploit the ethnic division in Guyana to win future elections by directing the country's resources to constituencies that support the party, which are majority Indo-Guyanese. The opposition and its supporters will not favour such disparity in spending. Any such action would lead to public discord in the form of public protests and possibly violent acts. Guyana is not immune to such activities, as we have seen glimpses of what the future could hold if spending across constituencies is unbalanced. Therefore, Mr Ali and his party must carefully navigate their spending plan to maintain political and racial harmony throughout his reign.

The economic situation in Venezuela is becoming even more unbearable. Venezuelans in search of a better life may travel to Guyana. The country, however, does not have the infrastructure or the support services to house a large migrant population. Were this to occur, it could pose a challenge to Guyana's public health system and security, which are already experiencing challenges.

**Sources:** Bloomberg; Fitch Connect; International Monetary Fund

## APPENDIX

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