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## Synopsis of the Sovereign

### Strengths

- Large untapped quantity of mineral oil deposits, which has the potential to attract increased foreign investments, accelerate economic growth and advance infrastructure development.
- Strong ties with the multilaterals that provide financial and technical assistance to help engender the structural adjustments required to diversify the economy and drive higher levels of economic growth, as well as macroeconomic and fiscal sustainability.

### Weaknesses

- 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.
- Growing and sustained tension between the two main ethnic groups that has spilled over into the political arena resulting in polarization between the two main political parties demarcated along ethnic lines.
- Increased public expenditure and debt profile predicated on higher future expected tax intake, which if it does not materialise could adversely affect public finance in the long-run.
- 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 and therefore, could impede investment flows into the hydrocarbon sector.

**Ratings:** N/A

**Default:** N/A

## Introduction

Guyana is located on the northern tip of South America. The country is bordered by Venezuela to the west, Suriname to the east, Brazil to the south and the Pacific Ocean to the North. It was first settled by indigenous Indians, the area was thereafter occupied by Dutch settlers before coming under British control in the later part of the 18<sup>th</sup> century. Guyana became independent in 1966 and gained republic status in the Commonwealth of Nations in 1970. The remnants of British rule are reflected in the population diversity, the economy, political

structure and rule of law. The majority of the population is concentrated on the narrow pacific coast where the capital Georgetown is located while the interior is largely uninhabited.

## Political System

Guyana is governed by three separate, but complementary, branches of Government: the Legislature (National Assembly), the Executive (President, Cabinet and Government Departments) and the Judiciary (Courts). The sovereign operates a presidential representative democratic republic, whereas the president is the head of government, and of a multi-party system. Executive power resides with the president who is advised by a cabinet. Legislative power is vested in both the president and the National Assembly. The president is not directly elected, but is a member of the party that dominates the Assembly. There are 65 members in the National Assembly who are elected in multi-seat constituencies and a single nationwide constituency by proportional representation vote. Elected members serve a 5-year term.

The Judiciary is independent of the executive and the legislature. The legal system reflects mostly British common law system with some Roman-Dutch civil law influence. The highest court is the Supreme Court of Judicature, which consists of the Court of Appeal and the High Court. Final appeals are heard by the Caribbean Court of Justice (CCJ), which replaced the Judicial Committee of the Privy Council in 2009. Sub-ordinated courts include the Land Court and the Magistrates' Courts

## Macro-fiscal Profile

Agriculture and natural resources are important sources of economic activity in Guyana. In 2015 the agriculture, forestry, fishing and mining industries accounted for 28% of total GDP, and bauxite, sugar, rice, gold and timber made up 83% of exports. These sectors are also a large source of jobs (World Bank, 2016). The country has a per capita GDP estimated at US\$3,400 in 2016, the second lowest among Caribbean countries with average per capita GDP around US\$16,000 (simple average) for the similar period. For much of the last decade, the sovereign experienced real GDP growth of around 3.9% per annum resulting in real per capita GDP increasing by approximately 70% in 2016 relative to 2006. Notwithstanding, the sovereign remains one of the poorest countries in the Western Hemisphere and as such the fast pace of economic expansion has not been met by significant improvement in infrastructure. This in part is attributable to the relatively poor strength of the fiscal accounts and low economic base.

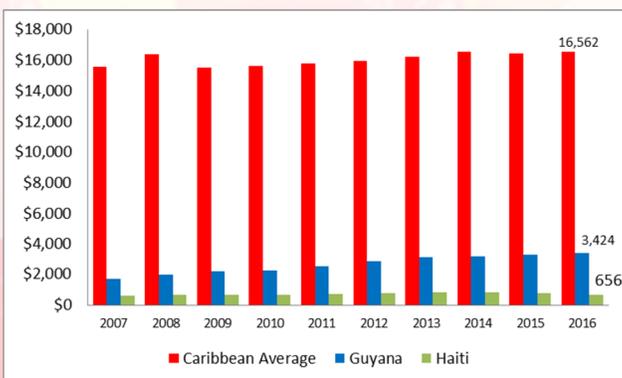


Figure 1: Per Capita GDP (US\$)

Guyana is one of several low income countries to benefit from the International Monetary Fund Highly Indebted Poor Country (HIPC) Initiative and the Enhanced HIPC in the late 1990's – early 2000. The Initiative was geared towards reducing the sovereign's debt to more sustainable levels. Consequently the IMF and World Bank provided concessionary loans to pay down high cost debt and facilitated

negotiations with creditors for debt relief while forcing the beneficiary to adopt structural adjustment programmes to help mitigate poverty and enhance fiscal discipline, which *inter alia* included public sector transformation and the divestment of state assets.

The sovereign's debt to GDP is estimated at around 48.2% and is likely to rise to around 58% by the end of 2020. The build-up in debt reflects higher fiscal deficits arising from the ambitious expenditure plan of the government to improve the country's infrastructure – road, bridges & ports – due to the positive economic outlook. Guyana's debt is comprised mostly of bank loans and multilateral and bilateral credit. The sovereign has no external bonds in its debt portfolio. The fiscal deficit is expected at around 6% of GDP in 2017 and should fall to around 4% at the end of the forecast horizon.

Following large bouts of currency depreciation in the 1990's the domestic currency has been well behaved in recent years and is likely to remain stable over the forecast horizon in light of improvements in the current account and a generally stable macro-fiscal path. However, no marked improvement is expected in reserves as some of the gains in the current account are likely to be offset by higher capital outflows associated with the buildout of the country's infrastructure. Under this scenario, reserves are expected to decline marginally.

## Medium Term Outlook: Growth and Current Account

Guyana has been growing at an annualized rate of around 4% since 2008. In 2016 Exxon Mobil discovered crude oil deposits off the shore of Guyana amounting to around 800 million – 1 billion barrels. This has the potential to be a game changer for the sovereign in terms of higher foreign direct investments and revenues to the government, increase job opportunities for locals and faster economic development. Our forecast incorporates oil production coming on stream in 2019 and a gradual increase in the prices of the main export commodities. Consequently, real output is likely to expand at an annualized rate of over 3% through to 2020.

Guyana maintained a high structural current account deficit, which fell precipitously in 2015 due in part to reductions in imports and a rise in exports occasioned in part by increased gold prices and output. The outlook is for the price of gold to remain elevated while output is expected to expand thereby leading to higher export earnings, which should keep the current account in positive territory for most of the forecast period. The sovereign is a net importer of hydrocarbons. Higher oil prices over the forecast horizon are not expected to erode the gains in export earnings, and the sovereign is likely to start producing the commodity by 2018 from its proven oil reserves.

**Table 1: Selected Macroeconomic Indicators for Guyana**

Economic Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016(e)	2017 (f)	2018 (f)	2019 (f)	2020 (f)
Population	775,736	781,056	786,126	790,881	795,368	799,615	803,676	807,611	811,397	815,014	818,501	821,905	825,267
GDP: GDP per capita, USD	1,954	2,204	2,248	2,495	2,850	3,172	3,221	3,316	3,424	3,555	3,640	3,783	3,984
GDP: Real GDP growth, % y-o-y	2.0	3.3	4.4	5.4	4.8	5.2	3.8	3.2	3.6	4.2	3.5	3.1	3.6
Foreign reserves ex gold, USDbn	0.4	0.6	0.8	0.8	0.9	0.8	0.7	0.5	0.7	0.7	0.6	0.5	0.6
Reserves/imports (months)	3.2	6.4	6.6	5.4	5.2	5.0	4.5	4.3	5.9	5.8	3.9	4.0	4.0
Current account balance, % of GDP	-18.8	-13.1	-12.6	-16.5	-14.5	-17.7	-14.5	-5.2	2.5	0.2	-2.1	1.2	0.7
Consumer price inflation, % y-o-y, eop	6.4	3.6	4.5	3.3	3.4	0.9	1.2	-1.8	1.2	2.6	4.0	4.6	4.5
GYD/USD, eop	205.2	203.9	204.2	202.7	204.0	207.0	206.8	207.2	207.2	216.6	219.3	222.0	224.8
Total revenue, % of GDP	28.5	31.2	29.9	29.2	28.1	27.0	27.1	29.5	31.4	31.8	32.0	32.1	31.6
Budget balance, % of GDP	-4.3	-4.2	-3.3	-3.6	-5.4	-5.0	-6.3	-1.6	-5.9	-5.6	-4.8	-4.3	-3.7
Public external debt stock, % of GDP	39.5	44.4	45.1	46.8	48.2	43.3	41.2	37.3	31.8	27.7	24.4	20.4	17.1
Use of IMF Credit, % of GDP	4.6	11.1	9.7	8.1	6.8	6.2	5.2	4.5	4.3	4.2	4.0	3.8	3.6
General government gross debt, % of GDP	61.6	64.8	65.3	65.2	62.5	57.2	51.2	48.2	48.4	50.6	53.1	55.3	57.5
Total debt service, % of GDP	1.6	1.2	1.6	2.0	6.0	3.0	2.5	3.2	-	-	-	-	-
Interest payments, % of GDP	0.6	0.7	0.7	0.8	0.9	1.8	1.2	1.3	-	-	-	-	-

Source: BMI, IMF, JMMBIR

## Territorial Dispute

Notwithstanding the relative positive outlook in the sovereign's macro-fiscal profile, Guyana is locked in a territorial dispute with Venezuela and Suriname. More than 150,000 square kilometres or over half of the sovereign's territory is being claimed by Venezuela while a portion of the western border is being claimed by Suriname. The border dispute with Venezuela was inherited from colonial times. The matter was brought before arbitration in 1896 which saw the tribunal ruling in Britain's favour but Venezuela subsequently rejected the ruling sighting undue influence by the British representatives, a claim that has been supported by some scholars. In 1966 the governments of Britain, Guyana and Venezuela signed the Treaty of Geneva to find an amicable solution to the territorial dispute. However, an agreement was not reached owing to differences in the interpretation of the treaty by the parties. Guyana subsequently made application to the United Nations to extend maritime boundaries off the disputed coast. Venezuela has sent its objection to the Commission granting Guyana said rights sighting the 1966 Treaty of Geneva.

While there has been no military dispute between both sovereigns, tension is high. In 2013 an oil exploration vessel under licence from the Government of Guyana was seized by the Venezuelan navy off the coast of the disputed territory. The vessel and its crew were released but the captain was detained on charges of violating Venezuela's exclusive economic zone. Against diplomatic protest by Venezuela, the government of Guyana granted Exxon Mobil an exploration license in 2015. The oil company discovered oil in an area called the Stabroek Block. Venezuela responded with a decree to extend its maritime sphere thereby extending naval patrol in the disputed area. Exxon announced that the area has vast oil reserves and is currently drilling additional wells. Amid the flurry of activities, it is unclear how the border dispute between Venezuela and Guyana will play out in the future.

## Conclusion and Recommendation

Guyana is a frontier economy with tailwinds from oil exploration and drilling. The infrastructure is underdeveloped; institutions such as the legal system and government bureaucracy are generally weak; and poverty is endemic. This however, could change over time if expected windfall from the nascent oil sector is put to proper use. The government is already cashing in from the potential upside from the oil industry, as reflected in increased outlays on infrastructure and an elevated fiscal deficit path. While increased spending is noteworthy, there are downside risks. Failure to develop the oil infrastructure in a timely manner could see the sovereign's debt rising at a fast pace and fiscal space contract owing to the high debt burden. The ongoing border dispute with Venezuela could result in full scale military intervention by Venezuela. While we are of the opinion that both parties would prefer to resolve the problem via diplomatic channels, this scenario cannot be ruled out.

There are no opportunities at this time for investor to participate in bond issuances by the sovereign. However, this could change over the medium to long run with the prospect of the sovereign using debt financing to buildout the country's infrastructure. **Until then, the opportunities in Guyana reside largely with corporates and individuals that can supply goods and services to the pool of immigrants and domestic workers that are likely to be employed in the oil sector over the medium-term.**

### Source:

Business Monitor International (BMI)

Bloomberg

International Monetary Fund

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

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

## 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



# MARKETCALL

JMMB INVESTMENT RESEARCH

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**OVERWEIGHT/BUY**—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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