CREDENDO 100 YEARS

GUYANA: UPGRADE FROM 5/7 TO 4/7 FOR MEDIUM- TO LONG-TERM AND SHORT- TERM POLITICAL RISKS

8/06/2022

Filed under Country news

Second MLT political risk upgrade in a year

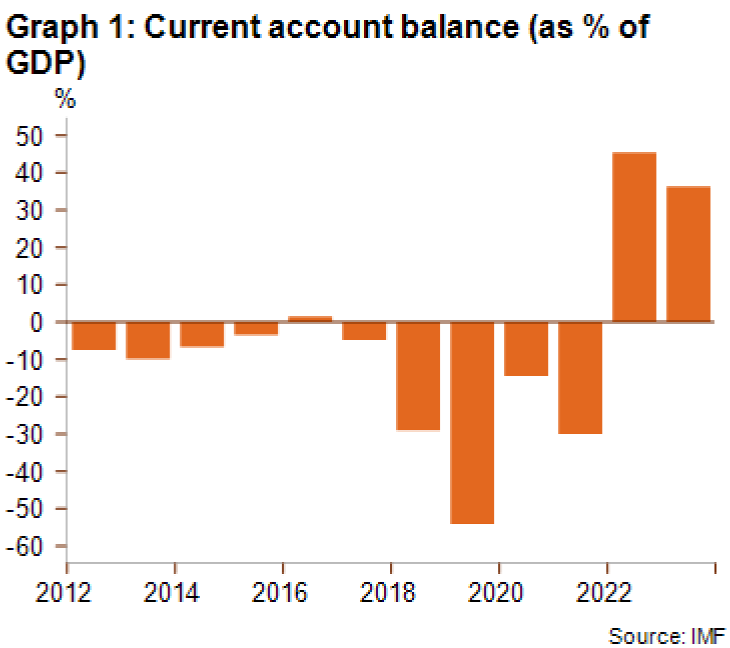
Guyana's **MLT political risk classification was upgraded last year to category 5/7** (from category 6/7). As large oil discoveries were exploited and exported, the small economy embarked on a significant economic transformation. The discovery of huge oil reserves in deep waters could even place Guyana as the third largest oil producer in Latin America (after Mexico and Brazil) in the coming years. Last year, as oil exports fast increased and oil prices went up, Guyana´s macro-economic fundamentals further improved – with falling debt (service)-to-current account revenues and to-GDP ratios and impressive projected current account surpluses as of this year –, while an investment mandate was approved for the Sovereign Wealth Fund (SWF). Hence, Credendo decided to upgrade the MLT political risk rating of Guyana from category 5/7 to 4/7.

Fastest growing economy in the world for a third year in a row

The world's newest oil producer is also the fastest growing economy in the world for the third year in a row with a forecast eye-popping 47% real GDP growth rate in 2022. And, for next year, a high real GDP growth rate of more than 30% is projected. Nevertheless, in spite of these impressive growth numbers, the non-oil sector has been suffering since 2020, due to severe coastal flooding, the Covid-19 pandemic and work stoppages in mining operations. Given the large windfall of oil revenues, the country will have to be very cautious not to fall in the resource trap and overly depend on the oil sector. In this regard, the government passed new local content legislation in December 2021, which will require the oil and gas sector to source more goods and services from local firms, likely to boost activity in these sectors. Looking ahead, **climate change** (as the country is vulnerable to coastal flooding) and a diversification of the economy away from oil (given the ongoing transition to clean energy) will be the main challenges. Furthermore, low vaccination rates make future waves of Covid-19 possible.

Current account surplus in the cards for 2022, for the first time in 6 years

Since 2021, oil exports have been the dominant source of export revenues, making the country highly vulnerable to international oil prices. Nevertheless, the EU and the USA's pivot away from Russian oil may prove to be an opportunity for Guyana in the coming year(s). The small economy historically posted elevated current account deficits of about 16% of GDP between 2012 and 2022 (see graph 1), due to large-scale imports of equipment for oil extraction before oil revenues came on stream in 2020. As of 2022, impressive current account surpluses are in the cards mainly thanks to quickly rising oil export revenues. Impressive current account surplus of 45% and 36% of GDP for 2022 and 2023 respectively are forecast. Looking ahead, a deterioration of the current balance is expected, as current account payments are likely to increase due to public infrastructure imports funded by the SWF.



SWF investment mandate finally established

A Sovereign Wealth Fund was established in 2020 and, so far, all of Guyana's oil revenues are held in it. The Guyana's Natural Resources Fund has seen a sharp rise in assets and since December 2021, a total of USD 608 million has been deposited (8% of GDP). Forecasts show that annual inflows could exceed USD 1 billion as soon as 2022. In December 2021, the government agreed on a framework for this SWF, which sets annual withdrawal ceilings, with an exception of 2022 where the full existing value of the SWF can be used. The government already announced that it will start using the SWF as of this year for infrastructure projects: from transport and energy infrastructure to education and housing infrastructure, while also trying to boost agricultural production. The investment plans will support future economic development and the non-oil sectors. In December 2021, legislation was also enacted to increase the SWF's transparency, but concerns around potential corruption and embezzlement remain.

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