Guyana: Review of Fiscal Performance in 2022, the

2023 Budgetary Targets, and the Fiscal Profile for 2024-2026

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The main objective of this note is to conduct an analysis of the budgetary targets for 2023 and of the budgetary profile for the medium-term (2024-2026) as set out in the Government's 2023 budget documents. To provide context for this analysis, the note begins with a review of Guyana's fiscal performance in 2022, compared to the budgetary targets that were set out for the year. A review of the fiscal performance in 2022 provides a useful perspective for analyzing the 2023 budget targets due to the fact that 2022 was the year in which the Government made an initial attempt to implement a comprehensive capital expenditure program largely funded by oil revenues and aimed at transforming the structure of the economy.

1. The 2022 Fiscal Outturn

Guyana's fiscal performance in 2022 deviated significantly from the 2022 budgetary targets due to a number of unprogrammed developments. While total revenues were broadly consistent with the budget targets, despite a marked shortfall in value-added and excise taxes, total expenditures were 12 percent higher than budgeted, with the result that the overall deficit rose to $155.6 billion, which was $67.9 billion in excess of the budgetary projections, and equivalent to 5.6 percent of GDP (Table I). This compares with a budgetary target of 4.8 percent of GDP.

Revenues

Revenue receipts totaled $429.5 billion, including withdrawals from the Natural Resource Fund (NRF) and inflows from carbon credits and the GRIF, a program administered by the World Bank that finances activities identified under the Government of Guyana's Low Carbon Development Strategy. These receipts were broadly consistent with the budgeted total of $432 billion. The shortfall in receipts from excise taxes, due to the lowering of rates on petroleum products in March 2022, was more than offset by higher collections of corporate and personal income taxes, both of which benefitted from the enhanced efforts on the part of the Guyana Revenue Authority.

Expenditures

Current expenditures exceeded the budgeted provisions by 7.4 percent and were the result of developments in two areas—outlays on goods and services and transfers to the public sector (public enterprises and local organizations). Given the average rate of inflation of 7.6 percent in 2022, the budget allocation of $93.1 billion for 'other goods and services' proved to be inadequate, and revised estimates indicate that these expenditures totaled $109.7 billion.

The higher than budgeted transfers to the public sector (public enterprises and local organizations) were attributable to financial support provided to the Guyana Oil Company, the Guyana Power and Light (GPL),

[1] Michael DaCosta and Sherwyn provided comments on the draft versions of this note.

Table 1: Guyana: Central Government Financial Operations

(In billions of Guyana dollars)

		Budget	Revised	Budget	Estimates		
	2021	2022	2022	2023	2024	2025	2026
Total Revenue	**267.0**	**432.0**	**429.5**	**578.5**	**621.6**	**668.4**	**688.9**
Revenue	266.6	301.3	302.1	335.3	362.0	385.6	413.7
Tax	255.1	286.8	292.3	320.1	345.1	366.7	393.5
Income taxes	122.9	141.0	163.4	183.5	194.8	208.3	222.8
Value Added & Excise taxes	94.8	102.9	85.2	88.6	96.9	100.9	108.8
Trade taxes	25.6	30.4	30.3	33.5	37.4	40.3	43.4
Other	11.8	12.5	13.4	14.5	16.0	17.2	18.5
Non-tax	11.5	14.5	9.8	15.2	16.9	18.9	20.2
Private sector	8.1	7.4	6.2	8.0	9.2	10.7	11.2
Public enterprises and the Bank of Guyana	3.4	7.1	3.6	7.2	7.7	8.2	9.0
Withdrawal from the National Resource Fund (NRF)	--	126.7	126.5	208.9	241.4	261.9	264.8
GRIF inflows	0.4	4.0	0.9	3.0	--	--	--
Carbon Credit inflows	--	--	--	31.3	18.2	20.9	10.4
Total Expenditure	**387.3**	**529.9**	**593.2**	**756.0**	**857.6**	**918.8**	**980.6**
Current expenditure	282.9	312.1	335.1	368.2	396.4	425.2	454.6
Non-interest expenditure	275.0	302.2	326.1	354.1	380.3	407.6	436.8
Personal emoluments	77.8	89.9	87.7	105.7	114.4	120.0	124.8
Other goods and services	90.3	93.1	109.7	104.5	108.1	115.6	123.8
Transfer payments	106.9	119.2	128.7	143.9	157.8	172.0	188.2
to the private sector	...	54.4	54.2	69.7	81.0	92.4	105.5
to the public sector	...	64.8	74.5	74.2	76.8	79.6	82.7
Interest	7.9	9.9	9.0	14.1	16.1	17.6	17.8
External	5.1	6.0	5.1	9.8	10.9	12.4	12.8
Domestic	2.8	3.9	3.9	4.3	5.2	5.2	5.0
Current Balance	**-15.9**	**119.9**	**94.4**	**210.3**	**225.2**	**243.2**	**234.3**
Capital Expenditure	**104.4**	**217.8**	**258.1**	**387.8**	**461.2**	**493.6**	**526.0**
Grants	**5.4**	**10.2**	**8.1**	**9.8**	**7.4**	**8.9**	**7.4**
HIPC relief	0.2	--	--	--	--	--	--
Other	5.2	10.2	8.1	9.8	7.4	8.9	7.4
Project	3.4	10.2	8.1	9.8	7.4	8.9	7.4
Non-project	1.8	--	--	--	--	--	--
Overall balance after grants	**-114.9**	**-87.7**	**-155.6**	**-167.7**	**-228.6**	**-241.5**	**-284.3**
Net external borrowing	11.7	32.3	31.1	87.2	126.7	121.0	137.1
Disbursements	23.5	45.8	43.8	101.4	141.8	143.8	159.4
Repayments	11.8	13.5	12.7	14.2	15.1	22.8	22.3
Net Domectic Borrowing	103.2	55.4	124.5	80.5	101.9	120.5	147.2
Memorandum Items							
GDP at purchaser prices (G$ billions)	1,799	2,051	2,919	3,298	3,727	4,510	5,457
Overall Deficit as a % of GDP	-6.7	-4.8	-5.6	-5.4	-6.3	-5.6	-5.3
Total public debt end year (G$ billions)	652.0	739.7	807.6	975.2	1,203.8	1,445.3	1,729.6
Total public debt end year (US$ millions)	3,127.0	3,547.6	3,873.3	4,677.4	5,773.7	6,931.7	8,295.3
Debt/GDP ratio (%)	36.2	36.1	27.7	29.6	32.3	32.0	31.7
Average annual rate of Inflation (% change)	3.3	4.1	7.6	7.6	5.0	3.8	3.5
Deposits in the NRF (US $ millions)	409.3	957.8	1,271.8	1,661.9	2,163.9	2,467.5	2,780.6
Withdrawals from the NRF (US$ millions)	--	607.6	607.6	1,002.1	1,157.9	1,255.9	1,270.2
Balance in the NRF at end year (US $ millions)	607.6	957.8	1,271.8	1,931.5	2,937.5	4,149.1	5,659.4
Exchange rate (G$ per US$; end of period)	208.5	208.5	208.5	208.5	208.5	208.5	208.5

Sources: Ministry of Finance, Guyana, IMF and GuySuCo.[2] Transfers to the private sector totaled $54 billion, broadly in line with targets in 2022, and included increases in old age pensions of nearly 40 percent, as well as in cash grants to the parents of school children, and transfers to the poor and disabled. These transfers, which were introduced during the course of the year, were designed to address the erosion of purchasing power affecting the private sector and included the distribution of house lots to first time homeowners.

The category of expenditure in the 2022 budget that stood out was capital, where there was significant ramping up of funding for implementation of the infrastructure program. The objective was to increase capital expenditures to $217.8 billion, which would have represented a more than doubling of these expenditures compared with 2021. Expenditure of $217.8 billion was considered feasible, taking into account the planned withdrawal of oil revenues from the NRF and their transfer to the Consolidated Fund[3]. The expenditure targets in 2022 represented the initial phase of an ambitious program aimed at the development of infrastructure across a wide range of sectors that is considered necessary by the government to sustain growth in the medium term. Revised estimates indicate that expenditures on infrastructure were much larger, and rose to $258.1 billion in 2022, 18.5 percent above the budgeted target.

The following are the main sectors that benefitted from increased capital expenditures:

- **Energy**—Work commenced on the construction of an integrated natural gas liquid plant and a gas turbine power-plant in the Wales Development Zone to produce electricity at a reduced cost. In 2022, the government spent $24.6 billion to meet the start-up costs associated with this transformative project. In the area of solar power, the Government commissioned a number of solar farms that are intended to reduce the use of fossil fuels that contribute to climate change. These efforts to replace the use of fossil fuels are to be extended to other areas as part of the solar photovoltaic system that is under construction in several rural areas. This system is considered a necessary element that will support the government's plans for the development of hydro power as a reliable source of electricity. In this regard, the government plans to re-launch a Request for Proposals for the restart of the Amalia Falls Hydropower Project.
- **Transportation and Sea Defenses**—A total of $67.9 billion was expended to improve roads. Of this, $39.8 billion was spent on urban and rural roads, while $27.8 billion was used for the construction and rehabilitation of bridges. Work on the first phase of the Linden-Mabura Hill Road was also started. The upgrading of transportation projects included the construction of several airstrips in the hinterland. To mitigate the impact of the encroachment of rising ocean tides on productive agricultural areas, the government invested heavily in shoring up sea defenses. These efforts included the expenditure of $5.5 billion on the construction, rehabilitation, and maintenance of defense structures.
- **Housing**—$28.2 billion was spent on infrastructure work to provide access to new housing areas. In addition, the government created an innovative home ownership program, in collaboration with financial institutions, that will provide loans to homeowners.

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[2] The 2023 Budget Speech, Ministry of Finance, Guyana.
[3] https://finance.gov.gy/wp-content/uploads/2021/03/NRF-Act.pdf. The Natural Resource Act 2021 specifies that withdrawals from the NRF shall be deposited in the Consolidated Fund and shall be used only to finance national development priorities and essential projects.

- **Water and Sanitation**—New wells, costing $9.9 billion, were constructed across the country, which provide access to potable water to several underserved rural and hinterland communities.
- **Investment in Human Capital**—Investment in human capital specifically targeted improving healthcare and educational facilities. An amount of $11.9 billion was spent on the preparatory work required for the construction of several regional hospitals and a state-of-the-art pediatric and maternal hospital. In addition, $2.1 billion was spent to acquire equipment needed to enhance the delivery of healthcare. In the educational area, the government made investments in the construction of several nursery, primary and secondary schools in urban areas as well as in the hinterland. In keeping with the government's commitment to ensure that all children have access to adequate learning material, the government spent over $1.4 billion to distribute free textbooks.

With estimated total expenditures of $593.2 billion in 2022, which far exceeded the budget total of $529.9 billion, and total revenue receipts and grants of $437.6 billion, the estimated overall deficit was estimated to be $155.6 billion compared to a budgeted deficit of $87.7 billion. The worse-than-programmed outturn occurred in spite of $126.5 billion that was withdrawn from the NRF and transferred to the Consolidated Fund as programmed. The deficit, equivalent to 5.6 percent of GDP, was financed overwhelmingly by net domestic sources. As a result, public debt rose to $807.6 billion, but fell in terms of GDP from 36.2 percent in 2022 to 27.7 percent.

2. The 2023 Fiscal Targets

At $782 billion, the budget for 2023 is the largest ever, reflecting the nominal growth anticipated in the economy. While the budgetary targets for 2023 reflect a continuation of developments established in 2022, budgetary policies call for sharp increases in total revenues and expenditures. Within this framework, the further ramping up of capital expenditure, which is largely financed by withdrawals from the NRF, is noteworthy. While the overall deficit is budgeted to increase in nominal terms, as a proportion of GDP it is essentially unchanged from the previous year.

<u>Revenues</u>

The non-oil economy is projected to grow in real terms by 7.9 percent in 2023. With continued growth in the component sectors, receipts from taxes and nontaxes are projected to grow by 10.9 percent to $335.3 billion. Tax revenues are projected to rise by 9.5 percent to $320.1 billion, despite the increase in income tax relief at lower levels of income which is partially offset by the increase in income bands that attract higher marginal tax rates. Receipts from value added and excise taxes are projected to increase despite the planned removal of the 14 percent value-added tax (VAT) on the sale of residential property and on certain categories of motor vehicles, and tax concessions for financial institutions that provide low-income mortgages.

Non-tax revenues are projected to rise from $9.8 billion in 2022 to $15.2 billion in 2023, mainly on account of the higher forecasted collection of royalties, dividends of the non-financial public enterprises, and the profits of the Bank of Guyana. In combination with withdrawals of $208.9 billion from the NRF which are transferred to the Consolidated Fund, the budget will also benefit for the first time from the sale of carbon credits which will yield additional inflows of $31.3 billion.

With regard to oil revenues, the government is projecting receipts of US$1.7 billion in 2023. Consistent with existing legislation, these revenues will be deposited in the NRF, the account established at the Federal Reserve Bank to manage the natural resource wealth of Guyana. This projected increase in receipts of oil revenues, 30 percent above those of 2022, is based not only on the assumption that oil prices, on average, will exceed US$83 per barrel, but also on the sale of 14 additional offshore oil blocks to companies, which will be governed by a new production sharing arrangement (PSA) that imposes more onerous tax obligations on the oil companies. Total revenues are projected to be $578.5 billion, which compares with revised estimates of $429.5 billion in 2022.

Expenditures

Current expenditures are projected to be $368.2 billion in 2023, which compares with revised estimates of $335.1 billion in 2022. Notable expenditure categories contributing to this increase are 'personal emoluments' that are projected to rise by 20.5 percent, and increases in 'transfer payments' to individuals. These transfers, totaling $69.7 billion in 2023, include increased annual cash grants to parents of students, uniform grants for school-age children, higher old age pensions, and an increase in assistance to individuals with disabilities.

The most striking feature of the 2023 budget is the steep increase in the size of the capital expenditure program which is built around key projects such as the construction of the integrated Gas to Energy project, the Demerara River Bridge, and the Linden to Mabura Hill Road, the initial work for which commenced in 2022. Other projects that are expected to commence in 2023 are the Albion Packaging Plant, the Amalia Falls hydropower project, the construction of the Corentyne River Bridge, establishing a link between Guyana and Suriname, and the upgrading and widening of the Corentyne Highway. Taking into account all of these projects, total capital expenditure is projected to increase by 50.3 percent to $387.8 billion. The following are the main sectors that are expected to benefit from the program of enhanced capital expenditures in 2023:

- **Energy**—The most important project in this sector is the Gas to Energy project. An amount of $43.3 billion is budgeted for this purpose to facilitate the construction of the plant and associated facilities. Also, $1.8 billion will be spent on installing solar systems at 39 locations across the country. These power generation projects will be integrated into the electric power systems via specially designed substations and transmission lines.
- **Transportation**--Several projects are being implemented to address shortcomings that negatively impact the movement of people and the flow of goods across different parts of the country. One of the more important projects is the construction of the Linden-Mabura Hill Road for which an amount of $11.9 billion has been allocated. This follows up on the initial work on the first phase of this road that was started in 2022. Another priority project is advancing the construction of a new four-lane fixed-structure Demerara River Bridge for which preparatory work also commenced in 2022. An amount of $5.2 billion is allocated for this purpose. The bridge will be constructed by a consortium of Chinese engineering companies and will be largely financed with a loan approved by the Bank of China. Other projects include the upgrading and widening of the Corentyne Highway and the East Coast Railway embankment, and construction of the East Bank Highway following the acquisition of right-of-way access. This construction of roads and

bridges includes expanding the network of secondary roads that link villages and small communities for which $38.5 billion has been budgeted. Funds have also been allocated for other types of projects such as air and river transport. Several hinterland airstrips and related facilities are being rehabilitated at the cost of $1.6 billion, while $2 billion will be spent on dry-docking facilities and the rehabilitation of wharves to improve the operations of the ships that provide sea and river transport.

- **Sea Defenses**—Continuing government's efforts to protect coastal and riverain communities from the threat of flooding from rising ocean levels, an amount of $4.9 billion has been allocated to construct, rehabilitate, and maintain sea and river defense structures in various areas.
- **Housing**— $54.5 billion is budgeted for housing development. Resources will be devoted to the construction of roads, drains and bridges and the installation of connections to utilities. The plans also include the acquisition of more lands for new housing across the country.
- **Water and Sanitation**—Projects primarily concentrate on the drilling of new wells in rural areas to increase access to a reliable potable water-supply. $17.7 billion has been allocated for this purpose in the budget.
- **Investment in Human Capital**—Investment in human capital specifically targets improving healthcare and educational facilities. Regarding healthcare, $13.1 billion has been budgeted to finance ongoing work on the construction of regional pediatric and maternal hospitals and the upgrading of health centers. In education $12.4 billion has been allocated for infrastructure, including the construction of school buildings, especially in the rural areas and the hinterland.

The implementation of the infrastructure program of $387.8 billion in 2023 would represent a significant expansion of the scope of the broad-based capital expenditure program that was started in 2022. Non-traditional projects that are planned include the commencement of the construction of the sugar packaging plant at Albion and investments in new agro-processing facilities with cold storage capabilities.

Along with inflows from the GRIF and carbon credit sales, the resources withdrawn from the NRF and transferred to the Consolidated Fund total $243.2 billion in 2023 and are projected to cover over 60 percent of the infrastructure program. With total revenues and grants of $588.3 billion and total expenditures of $756.0 billion, the overall deficit is projected to be $167.7 billion, which represents a small increase in the absolute size of the overall deficit above that of 2022 (Table 1). When compared with 2022 as a percentage of GDP, however, the deficit in 2023 (5.4 percent), is almost unchanged. Based on budgetary estimates, the deficit in 2023 is expected to be financed with net external borrowing of $87.2 billion and domestic borrowing of $80.5 billion. As a result, the total public debt at the end of 2023 is projected to rise to $975.2 billion or 29.6 percent of GDP, compared with 27.7 percent in 2022.

3. The Medium--Term Scenario

The 2023 budget includes indicative annual fiscal profiles for the period 2024-2026. The revenue and expenditure projections are based on the expectation that the 2023 fiscal targets will be achieved. While detailed information on the assumptions underlying the revenue and expenditure projections is not provided, the fiscal targets for the period 2024-2026 appear to be extensions of the trends established in 2022 and 2023, which would imply no significant policy changes beyond those introduced in the 2023 budget. With respect to total revenues, the maximum annual contributions expected from withdrawals from the NRF are predetermined by legally binding formulas. Inflows from carbon credits are less significant, but their contribution to budgetary resources over time is consistent with present commitments for the sale of these credits.

Current expenditures are projected to grow each year in the medium-term, by 7.7 percent, by 7.3 percent, and by 6.9 percent in 2024, 2025, and 2026, respectively. Focusing on transfers to the private sector, which are projected to rise by 16.2 percent in 2024, by 14.1 percent in 2025, and by14.2 percent in 2026, they fall short of the increase of 28.6 percent in 2023. It is unclear if increases in transfers to individuals can be constrained in line with these projections in an environment in which the public is aware of the annual increases in inflows to the budget from the NRF. It is likely that pressures will grow for larger transfers to individuals and other private sector entities, resulting in larger overall current expenditures.

Following the initial increase in expenditures on infrastructure in 2022 and 2023, capital expenditures are projected to grow in subsequent years by 18.9 percent in 2024, by 7.0 percent in 2025, and by 6.6 percent in 2026. Although not specified in the budget document, the decline in the rate of growth of capital expenditures over the medium-term could indicate a winding down of the large, core projects of the investment program.

These medium-term budgetary profiles, when presented in an analytical framework, yield budgetary deficits of 6.3 percent of GDP in 2024, and 5.6 and 5.3 percent of GDP in 2025 and 2026, respectively. Financing these deficits from external and domestic borrowing implies a continued increase in public debt which is projected to rise from 29.6 percent of GDP in 2023 to 32.3 percent of GDP in 2024, before declining to 32.0 percent and 31.7 percent of GDP in 2025 and 2026, respectively.

4. Risks to the 2023 Budget and the Medium-term fiscal profile

The budgetary targets for 2023 and the annual fiscal profiles for the period 2024-2026 which are shown in Table 1 are subject to a number of risks. The main risks could arise from unfavorable developments in the oil sector that would have a dramatic impact on the ability of the government to implement the capital investment program, and from shortcomings in the capacity of government agencies to manage and supervise the large number of projects.

According to budgetary sources, oil prices are projected to average US$83 per barrel in 2023 and to decline by about 17 percent in 2024, followed by unspecified smaller declines in subsequent years.[4] A larger than projected decline in the world-market price of oil could, however, negatively impact inflows of petroleum tax revenues and deposits made to the NRF. Such a development could ultimately result in a reduction of transfers to the Consolidated Fund, which is the main source of financing of the capital expenditure program. A precipitous decline in oil prices below levels at which the operations of the oil companies would be profitable could also affect the volumes of projected oil exports. In such an environment, oil exports could fall short of projections, and this would have a negative impact on revenue receipts. An unanticipated decline in oil price would probably first affect oil companies operating in the additional 14 blocks that are currently being auctioned since they are subject to less favorable taxation terms. In particular, under the new production sharing arrangements, the royalty rate has been raised

[4] The 2023 Budget Speech, Ministry of Finance, Guyana.

from 2 percent of the value of production to 10 percent, and the 75 percent cost recovery ceiling has been lowered to 65 percent.[5]

Another key risk to the fiscal projections comes from the shortage of technical and management skills in the agencies of the central government, which, together with weak mechanisms of accountability, could lead to inadequate project appraisal, procurement, and monitoring, resulting in waste and corruption.[6] In this connection, the large sums of money allocated over a short time-period (the budgets of 2022 and 2023) for implementing an investment program that includes the gas-to-energy project, hydro-power plants, the construction and repair of roads and bridges, and the commencement of work on a four-lane fixed-span bridge across the Demerara River are demonstrative of the risks of a massive investment portfolio and an inability to prioritize, taking into account the limitations imposed by the availability of management skills in the responsible agencies.[7] A report of the IDB, published in 2018, noted that "…multiple capital projects are delayed, over-budgeted, or sub-standard in quality once completed."[8]

In the budgetary framework, the annual disbursement of external financing that supports the implementation of each project is identified. The roll-out of the capital expenditure program assumes an annual disbursement of external loans that is much larger during 2024-2026 than in 2023. There is a risk that this elevated level of external financing might not materialize, which would result in capital expenditures which are lower than the targets presented in the medium-term budget profile.

There is an additional risk that could come from a generalized rise in food prices during 2023 that leads to an increase in the rate of inflation beyond the 7.6 percent projected for the year. Such a development would increase pressure on the Government for more spending in 2023 and the medium-term on goods and services, transfers, and ultimately on public sector wages, as government workers demand larger wage increases to offset the ongoing erosion of purchasing power. This cycle of rising prices and wages could result in distortions in government spending patterns and the misallocation of resources.

Another potential risk to the fiscal scenarios shown in Table 1 can arise from the Local Content Laws that were passed at the end of 2021, which are designed to integrate more Guyanese nationals and entities into the country's emerging oil and gas industry.[9] This legislation compels oil companies, their contractors, and subcontractors to hire minimum levels of Guyanese staff and to do business with Guyanese entities. According to the legislation, companies must procure from Guyanese companies 90 percent of office space rental and accommodation services, 90 percent of janitorial services, laundry and catering services, 95 percent of pest-control services, 100 percent of local insurance services, 75 percent of local supply of food, and 90 percent of local accounting services. To this end, the Bill outlines penalties for companies which fail to meet the minimum targets of the legislation. These fines range from as low as $5 million to as high as $50 million. The legislation could result in a situation in which some companies may consider the local content requirements as too burdensome, and curtail or not initiate projects in Guyana.

[5] https://oilnow.gy/featured/breaking-news-guyana-hikes-royalty-to-10-in-major-overhaul-of-psa-fiscal-terms/. Oil Now, November3, 2023
[6] https:// geagonline.org/proposal-for-epab/. A Proposal for Economic Policy Advisory Body for Guyana
[7] https://geagonline.org/review-of-the-guyana-budget-for-2023. Da Costa--Review of the Guyana Budget for 2023
[8] https://publications.iadb.org/publications/english/document/Strengthening-of-Guyana%E2%80%99s-Fiscal-Framework-in-Anticipation-of-an-Oil-Boom.pdf
[9] https://www.parliament.gov.gy/publications/acts-of-parliament/local-content-act-2021-no.-18-of-2021

Finally, increased flooding of the productive agricultural areas, mainly on the coast, has become more frequent and could require the government to divert scare resources away from expenditures on productive infrastructure projects toward increased spending on goods and services and on transfers to the public and private sectors. The overall deficit, borrowing, and public debt could be relatively unchanged in this case. But the result would be a distortion in the allocation of resources. However, if the government maintains current expenditures at programmed levels in the medium term and is forced to increase capital expenditures on sea defense and drainage to mitigate the impact of flooding, the overall deficits would be larger than the projected levels shown in the fiscal profile, leading to an increased financing requirement and larger public debt.

5. Conclusion

The budgetary profiles for 2022 and subsequent years represent a break with the fiscal developments in previous years. The most significant element of the departure is the multi-year capital expenditure program which is distinguished by the number of projects started in 2022 and 2023, and by the overall size of the program which is financed mainly from oil revenues.

During 2022, while tax and non-tax revenues were comparable to the budgeted levels, the fiscal outturn deviated from the budgetary targets for a number of reasons. There was a sharp increase in unplanned transfers to the private sector, mainly individuals. At the same time, the government undertook a broad-based capital expenditure program, the size of which was determined by the perceived need to put in place infrastructure projects that would be a prerequisite for the sustained growth of the non-oil economy. At 5.6 percent of GDP, the overall deficit was larger than programmed, and was primarily financed by domestic financing, and to a lesser extent by foreign borrowing. While total public debt rose to $807.6 billion at the end of the year, it constituted only 27.7 percent of GDP, a smaller proportion than in the previous year.

The budget targets for 2023 and the medium term reflect a continuation of the trends established in 2022. The feature that stands out in 2023 is the sharp increase in the size of the capital expenditure program. The increases in the level of capital expenditures are continued in subsequent years but at lower rates. While the budgetary framework anticipates sharp increases in tax and non-tax revenues, it is envisaged that current expenditures will also rise sharply as a result of the continued elevated rate of inflation and in response to pressures from the private sector for increased transfers. The budget also provides for an associated increase in wages. Despite the marked rise in oil revenues in 2023, the overall fiscal deficit is projected to rise in absolute terms to $167.7 billion but falls to 5.4 percent of GDP. The foreign and domestic financing of this deficit raises the public debt ratio to 29.6 percent of GDP.

The medium-term budgetary targets are only indicative at this stage but appear to be projections of policies and trends established in 2022 and 2023. The reduction in the rate of growth of the capital expenditure program is worthy of note, and could reflect a slowdown in implementation of the public investment program. The result is that with the exception of 2024, the overall deficit is projected to be less than 6 percent of GDP. As the financing of the deficit continues to depend on domestic and foreign borrowing, public debt continues to rise in absolute terms, and is equivalent to 31.7 percent of GDP at the end of 2026.

There are a number of risks that threaten the achievement of the fiscal targets in 2023 and the fiscal profiles in the medium term. Prominent among these are uncertainties about the sustainability of high international prices for oil. An equally important risk arises from concerns about the capacity of the government to properly identify, assess, supervise, and monitor the wide range of projects that are currently being implemented in the infrastructure program. In addition, the multiyear roll out of the infrastructure program is dependent on an enhanced level of foreign borrowing which may not materialize. Should these risks become a reality, the consequences could be significant, with important impacts on the growth and transformation of the Guyana economy.

The risks to efficient project implementation and supervision that are attributable to capacity limitations in the technical and management skills in the agencies of the central government can be addressed by adopting policy decisions to spread the responsibility for the selection, assessment, supervising, and monitoring of capital projects to other groups that have the required technical skills. Some countries rely on a broad pool of expertise that can be found in advisory bodies that appraise, manage, and monitor capital expenditure projects on the economy. The case of the Economic Policy Oversight Committee (EPOC) in Jamaica is an example of an independent body that was set up in 2013 comprising persons from the private and public sectors, and civil society to assess information from the Government of Jamaica and to track the progress in complying with the targets under the Fund-supported program.[10] On completion of the program in 2019, EPOC was asked by the government to continue to monitor its reform program. This is an example of an advisory body on the economy that could be adopted by the Government of Guyana to broaden the pool of expertise that would be available to provide solutions to the range of challenges encountered in project implementation.

The rationale for advisory bodies is that as economies become larger and increasingly complex in their economic structures, governments need to consult on a structured and continuous basis with a broad range of expertise. The idea is that these bodies bring to bear a richer knowledge base, expertise, and practical experience from a wide range of working environments. The growing size and complexity of the economy in Guyana justify the institutionalization of such an advisory group, which would contribute toward an improved framework for policymaking.

[10] https://epocjamaica.com/about/