

Review of the Guyana Budget for 2023

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Summary of the budget

Guyana's budget for 2023 is unprecedented in size and scope, fuelled by the country's growing petroleum related revenues. At G\$782 billion, or about US\$4 billion, it is 41 percent larger than the 2022 budget.²

Current revenue is budgeted to increase by 35 percent in 2023 mainly as a result of transfers from the NRF. Revenue other than that related to oil and carbon credits is expected to rise by 12 percent, broadly in line with the growth of the non-oil economy. Current expenditure is budgeted to grow by about 10 percent, with the wage bill and private transfers growing by 20 percent (13 percent in 2022), and 28 percent (15 percent in 2022) respectively. The rise in private transfers reflects continued increases in cash grants to students, the disabled, and public assistance recipients, as well as in pensions.

Capital expenditure, which had more than doubled in 2022, is budgeted to rise by a further 50 percent (or from 9 percent to 12 percent of GDP) in 2023. The budget contains an ambitious list of new infrastructure projects. These include a gas-to-shore pipeline that would feed into a new electricity generation plant, as well as the construction of several roads, bridges, schools and hospitals. In sectoral terms, most of the increased capital expenditure is allocated to transport and communication (G\$33 billion higher than in 2022), housing (\$26 billion), power generation (\$24 billion), and construction (\$19 billion). Significant increases were also allocated to education (\$10 billion), as well as environment and pure water, health, and administration.

The outturn for the budget and the indicative medium-term scenario

The outturn of the revenue and expenditure estimates in the budget is that in 2023 the government will experience a current account surplus that would be more than offset by capital expenditure, resulting in a deficit of G\$168 billion, financed by borrowing (Table 1). Consequently, the public debt will expand from about US\$4 billion in 2022 to almost US\$4.7 billion, or from 28 percent to 29 percent of GDP.

¹ An earlier draft of this paper benefited from comments from Keith Dublin and Sherwyn Williams.

² This figure includes principal and interest payments on the public debt.

Guyana: Projections of the Central Government Budget 2021-2026 1/

(In billions of Guyana dollars)

	2021	2022	2023	2024	2025	2026
Current revenue	266.2	429.5	578.5	625.4	672.2	692.5
Carbon credit inflows	--	--	31.2	18.2	20.9	10.4
Natural Resource Fund	--	126.5	208.9	241.4	261.9	264.8
Other revenue	266.2	303.0	338.4	365.8	389.4	417.3
Current Expenditure	282.6	334.7	368.2	396.4	425.2	454.6
Personal emoluments	78.7	88.6	106.7	114.3	120.0	124.8
Transfers to individuals	48.0	55.1	70.6
Other expenditure	155.9	191.0	190.9
Current balance	-16.4	94.8	210.3	229.0	247.0	237.9
Capital revenue	5.2	10.2	9.9	7.9	9.4	7.4
Capital expenditure	104.4	258.1	387.8	461.2	493.6	526.0
<i>(In percent of GDP)</i>	<i>5.8</i>	<i>8.8</i>	<i>11.8</i>	<i>12.4</i>	<i>10.9</i>	<i>9.6</i>
Total expenditure	387.0	592.8	756.0	857.6	918.8	980.6
<i>(In percent of GDP)</i>	<i>21.5</i>	<i>20.3</i>	<i>22.9</i>	<i>23.0</i>	<i>20.4</i>	<i>18.0</i>
Overall balance	-115.6	-153.1	-167.6	-224.3	-237.2	-280.7
<i>(In percent of GDP)</i>	<i>-6.4</i>	<i>-5.2</i>	<i>-5.1</i>	<i>-6.0</i>	<i>-5.3</i>	<i>-5.1</i>
Financing	115.6	153.1	167.6	224.3	237.2	280.7
External borrowing	11.4	31.1	87.2	126.7	121.0	137.1
Borrowing	23.5	43.8	101.4	141.8	143.8	159.4
Principal repayments	-12.1	-12.7	-14.2	-15.1	-22.8	-22.3
Domestic borrowing and residual	104.2	122.0	80.4	97.6	116.2	143.6
Memorandum items						
GDP at purchaser prices (billions of G\$) ^{2/}	1,799	2,919	3,298	3,727	4,510	5,457
GDP at purchaser prices (millions of US\$)	8,626	14,000	15,819	17,876	21,630	26,172
Total public debt end-year (millions of US\$) ^{3/}	3,127	3,861	4,665	5,741	6,878	8,225
Debt/GDP ratio	36	28	29	32	32	31
Deposits into the NRF (millions of US\$)	409	1,272	1,662	2,164	2,468	2,781
Withdrawals from the NRF (millions of US\$)	--	608	1,002	1,158	1,256	1,270
Balance at end-year (millions of US\$)	608	1,272	1,932	2,938	4,149	5,659

Sources: Ministry of Finance, IMF.

1/ All fiscal data are from the 2023 Budget Estimates, except that external borrowing is excluded from capital revenue and included in financing, and debt principal payments are excluded from current expenditure and included in financing.

2/ The rate of growth averages 13 percent a year in 2023-2024, and 21 percent a year in 2025-2026 in line with IMF projections in the September 2022 Country Report.

3/ From 2022 the debt at end-year is calculated as the debt stock in the previous year plus the financing in the current year.

For the period 2024-2026, the budget presents the ministry's indicative projections for revenue and expenditure. However, the assumptions underlying the projections are not noted, and the budget does not quantify the implications on how the deficits will be financed. Using those projections, Table 1 indicates that the budget will continue to run surpluses on the current account, offset by large capital spending, yielding overall deficits in the order of 5-6 percent of GDP. These will be financed by borrowing, which will raise the stock of public debt from about US\$4 billion at end-2022 to US\$8 billion at end-2026. In terms of total GDP, the increase is projected to be from 28 percent in 2022 to 31 percent in 2026.

Risks to the budget and the medium term

The budget and the scenario in Table 1 are exposed to a number of risks. These include weak oversight and audit capacity, lower than projected oil prices, issues affecting offshore oil production, project cost overruns, and climate-related risks. Moreover, the medium-term framework does not capture the operations of the state-owned enterprises, such as Guysuco, which carry risks of additional transfers and borrowing.

An important challenge is the capacity of the government to implement and manage the large infrastructure projects, as larger budgets incur increased risks of fraud, waste, and cost overruns. A 2018 report by the IDB noted that public expenditure had weak oversight, and that "... multiple capital projects are delayed, over-budgeted, or sub-standard in quality once completed."³ This was in a year when the capital budget was about one-sixth the size of the 2023 capital budget. Also, the recent annual reports of the Auditor General have pointed to multiple instances of overpayments, contracts terminated for underperformance, and contracts awarded to blacklisted contractors.⁴ Regarding the state enterprises, one of the larger entities, NICIL, has not produced audited financial statements since 2013.

Further, the capacity of the government to audit expenditure in the public sector is weak. The audit report on the Auditor General's Office for 2021 revealed that the office had 18 vacancies, most of which were not expected to be filled until the second quarter

³ <https://publications.iadb.org/publications/english/document/Strengthening-of-Guyana's-Fiscal-Framework-in-Anticipation-of-an-Oil-Boom.pdf>

⁴ <https://www.audit.org.gy/reports.html>

of 2023.⁵ The Office's expenditure increased by 1½ percent in 2022 and is budgeted to rise by 8.8 percent in 2023.

An additional risk is that increased government spending, particularly if accompanied by rising import prices, incomes, and housing costs, could add to price pressures. These, in turn, could feed into demands for wage increases, producing a cycle of rising prices and wages.

Conclusion

The budget for 2023 provides for an unprecedented level of spending, financed by oil revenues, to support improvements in infrastructure, housing, and energy, as well as in education, health, and water supply. In addition, it provides for a 20 percent increase in the wage bill and a 28 percent rise in transfers to individuals, including for pensioners, students, and the disabled.

The budget also presents an indicative path for revenue and expenditure through 2026 and sets out performance targets for some ministries. The implication of the indicative path is that the budgets for 2023-2026 will experience surpluses in the current account that would be more than offset by capital expenditure, yielding overall deficits of about \$200-300 billion a year, financed by domestic and external borrowing. The borrowing would result in an increase in the country's public debt from about US\$4 billion in 2022 to US\$8.9 billion in 2026. In terms of GDP, the debt would rise from 28 percent to 31 percent. The balance in the NRF is projected to rise from US\$1.3 billion at end-2022 to US\$5.7 billion at end-2026.

The budget and the indicative medium term fiscal path face risks. First, with the heavy reliance on oil revenues and the front-loading of many large projects, a fall in the world price of oil could lead to larger deficits and higher debt. Floods and other climate events could also lead to larger deficits. Second, the rapid expansion in government spending and high import prices could intensify price pressures. Third, the large number and size of capital projects will test severely the country's capacity to keep projects within budget, prevent waste and poor implementation, and ensure adequate accountability for expenditures.

⁵ <https://www.audit.org.gy/pubs/AuditedFinancialStatement2021.pdf>

The Auditor General's Office is understaffed. It needs to address this weakness promptly. Also, it should support greater accountability by including prominently in its annual reports a summary tabular list of expenditures/projects by ministry, which have not been properly accounted for, and an annual summary of the status of audits of state enterprises and other public entities. The reports and the performance targets in the national budgets should also indicate when the backlog of audits will be cleared.⁶

A natural evolution of the performance targets for ministries and agencies would be for future budgets to report on how ministries performed relative to targets, and to link targets more closely to key challenges, for example, poverty, infant and maternal mortality, crime, and how well Guyanese students perform relative to their peers in other countries.

According to latest IMF estimates published in the October 2022 World Economic Outlook, the size of the Guyana economy is about US\$17 billion, about the same as that of the Jamaican economy.⁷ By 2026, Guyana could have a US\$26 billion economy (Table 1). Rapid growth in Guyana's economy and budget combined with the associated risks noted above require a new institution with adequate resources to monitor and oversee the public finances. A US\$26 billion economy cannot be managed on the same basis and methods as a US\$5 billion economy—the size in 2019. A new institution—a fiscal review committee or advisory council with private sector participation—would bring a range of perspectives in monitoring the public finances, and addressing the risks facing the economy, while supporting the ministry of finance in its analytical and policy work.

⁶ In the budget statement for 2022-23, the minister of finance of Jamaica announced that additional resources had been allocated to the auditor general to clear the backlog of audited financial statements of state bodies.

⁷ <https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/CBO>