GUYANA

Table 1	2020
Population, million	0.8
GDP, current US$ billion	6.2
GDP per capita, current US$	7908.7
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	69.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2012); Life expectancy (2018).

Guyana grew at an extraordinary rate of 43.5 percent in 2020, having completed a year of oil production. The positive spillover effects were dampened by a deep contraction in the non-oil economy, triggered by measures to contain the COVID-19 pandemic. While oil production is boosting growth, significant risks related to the management of this new wealth remain. Guyana will be challenged to transform its burgeoning oil wealth into human capital, physical capital, and financial assets for broad-based welfare increases.

Key conditions and challenges

The transition of the Guyanese economy into a predominantly oil-producing country is underway. The production and export of oil is generating significant fiscal revenues, stimulating private sector investment and creating space for government investments in critical public goods. Maintaining a balance between the pace of resource inflows and the limited absorptive capacity requires prudent macroeconomic management to mitigate the impact of a potential resource curse. A transparent and efficient management framework for oil and gas revenues is crucial, given uncertainties regarding the implementation of the existing sovereign wealth fund (SWF).

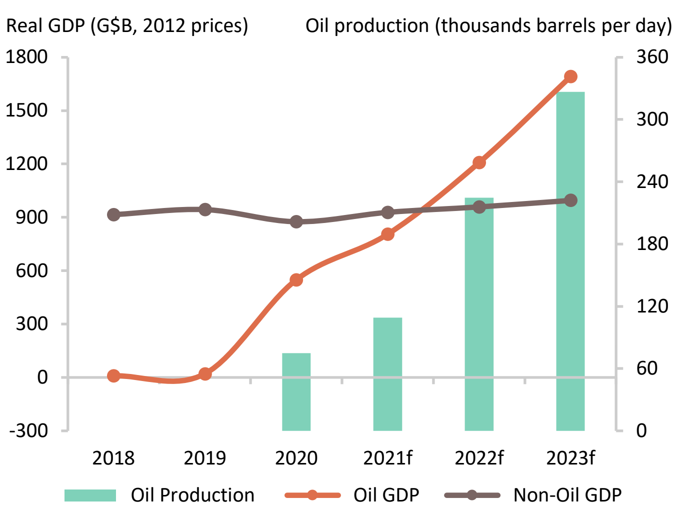
In a context characterized by ethnic and social polarization, Guyana's resource wealth stands in contrast to the welfare of the population. The limited information available suggest that poverty is high, given the country's income level, and inequality has risen. The 2017 Labor Force Survey (LFS) suggests that Guyana's poverty rate is among the highest in the region, at 43.4 percent in 2017, using the upper-middle income poverty line (US$5.5 a day 2011 PPP). Moreover, during the phase of sustained growth between 2006 and 2017, the income of the bottom 40 percent grew slower than the average, resulting in increased income inequality, with the Gini coefficient, rising from 0.46 to 0.48.

The COVID-19 pandemic has exacerbated challenges to tackle poverty effectively and has deepened inequity. Improving efficiency and effectiveness in public service delivery, especially services that enhance human capital, such as health, education, and digital connectivity, will be required for sustainable pro-poor growth including for the remote populations in Guyana's hinterland. Even as the non-oil economy starts an uncertain recovery, a more sophisticated and skilled workforce will be needed to maximize positive spillovers from the growing oil sector.

Recent developments

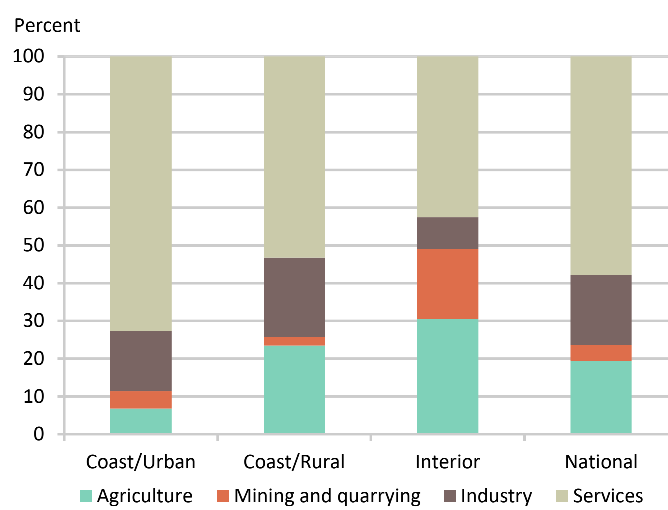
Real GDP in 2020 is estimated to have expanded by 43.5 percent driven primarily by developments in the oil sector, with production averaging 74,300 bbls/day.[1] The impact of the expansion of the oil sector was partly countered by a contraction of 7.3 percent in the non-oil economy. On account of the pandemic, disruptions in key services sectors likely impacted employment and raised poverty in the short term. Half of all employed workers in Guyana are engaged in the services sector, and this share rises to 70 percent in coastal urban areas. While systematic data on the pandemic's impact on households is not yet available, preliminary evidence suggests that movement restrictions adversely impacted livelihoods and inhibited access to markets. It also suggests that food prices

FIGURE 1 Guyana / Oil production and real oil and real non-oil GDP



Sources: WBG staff estimates. Note: f=forecast.

FIGURE 2 Guyana / Employment by sector and region – Services decline to affect coastal urban workers disproportionately



Sources: WBG staff estimates based on Guyana Labor Force Survey 2017.

increased and some households having to reduce their caloric intake. Overall inflation, however, remained subdued in the context of waning demand.

A higher fiscal deficit of 9.4 percent of non-oil GDP is estimated for 2020, primarily due to increased spending related to the pandemic. Revenues were also lower, given the fallout in demand. Notably, the oil proceeds are held in the SWF and have not yet materialized as fiscal revenues. Public debt climbed to 47.4 percent of GDP driven by the higher deficit and the inclusion of overdrafts with the central bank, previously not included in public debt reporting.

The current account deficit (CAD) narrowed to 10.5 percent of GDP in 2020, as oil exports commenced. This was sufficient to offset increased payments for foreign services, including those supporting the oil sector. Remittances remained relatively steady, potentially helping to cushion the impact of the pandemic on poor households. Almost 30 percent of poor households receive remittances, representing an average of 42 percent of their income. The CAD was financed primarily by foreign direct investment inflows.

Outlook

Guyana is expected to remain one of the fastest growing economy in the world over the medium term, as new oil fields are developed and production capacity expands. Oil output is expected to quadruple by 2023, leading to a doubling of GDP. The oil and gas sector are also expected to boost private investment and drive the growth of services, which could contribute to poverty alleviation by increasing demand for labor in the construction, transportation, food service, and hospitality subsectors. However, downside risks remain if the pace of fiscal and investment influx goes beyond the economy's absorptive capacity, generating price instability and macroeconomic distortions. The COVID-19 pandemic continues to pose risks to the poor and vulnerable households as well as the government's fiscal balance. Significant uncertainty remains in terms of the path of the pandemic and vaccine rollout, and supportive policy actions are necessary until a firm recovery is underway. A weaker rebound in the non-oil economy can have detrimental social costs. The fiscal deficit is expected to narrow as the economy recovers and oil revenue starts being transferred from the SWF in 2022.

Guyana also faces increased vulnerability to oil-related shocks including volatilities in price and output. While recent fluctuations in global oil prices did not significantly disrupt production or investment in Guyana's oil sector, an unexpected oil price slump could diminish fiscal revenues and inhibit investment in new oilfields. Guyana will also be challenged to address risks often faced by resource-dependent economies, such as the lack of diversification and inadequate institutions. Moreover, oil production entails environmental consequences that need to be considered carefully, and the sector may face additional risks in the medium term, as the world transitions toward a lower carbon dependence.

1/ Real GDP growth for 2020 is potentially overstated, on account of the base year (2012) used for the inclusion of the oil sector in GDP. The government is undertaking a rebasing exercise to better capture the value-added from the oil sector, which could result in significant downward revisions of oil GDP growth rates.

TABLE 2 Guyana / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices[a]	4.4	5.4	43.5	20.9	26.0	23.0
Real non-oil GDP growth at constant factor prices[b]	3.6	3.1	-7.3	6.1	3.3	3.8
Agriculture	6.6	-0.5	4.1	5.6	4.0	4.5
Industry (non-oil)	1.4	2.4	-8.9	8.0	2.2	2.0
Services	3.2	6.1	-13.5	5.1	3.6	4.7
Inflation (Consumer Price Index)	1.6	2.1	0.9	1.6	2.4	2.5
Current Account Balance (% of GDP)[c]	-57.3	-55.6	-10.5	0.8	15.0	27.3
Fiscal Balance (% of GDP)[d]	-2.7	-2.8	-9.4	-8.6	-4.0	-2.9
Debt (% of GDP)	35.8	32.6	47.4	42.7	38.8	37.5
Primary Balance (% of GDP)[d]	-1.9	-2.0	-8.6	-7.9	-2.9	-1.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Total GDP at 2012 prices. (b) Non-oil GDP at 2012 prices. (c) BOP definition in current US$. (d) Share of non-oil GDP.

Note: Real GDP growth for 2020 is potentially overstated, on account of the base year (2012) used for the inclusion of the oil sector in GDP. The government is undertaking a rebasing exercise to better capture the value-added from the oil sector, which could result in significant downward revisions of oil GDP growth rates.