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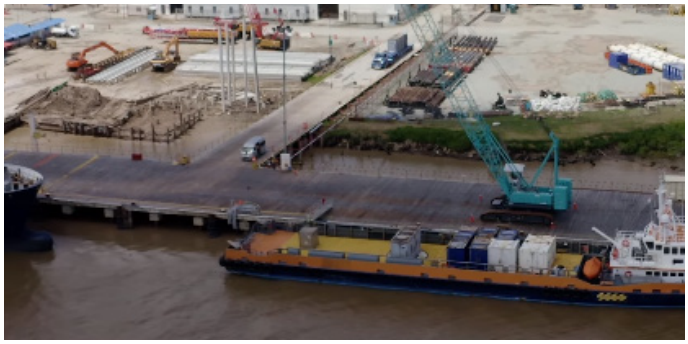
FEATURED Q&A

How Much Will Guyana's Growth Benefit its Citizens?



Guyana's new oil production is expected to be a major boon for the country's economy. An ExxonMobil facility in Guyana is pictured above. // File Photo: ExxonMobil.

Q Guyana will see economic growth soar to 86 percent next year, up from 4.4 percent this year, the International Monetary Fund predicted this month. Annualized real GDP is expected to dramatically increase due to the country's oil production, which is set to begin next month. How accurate is the IMF's projected economic growth for Guyana? How may political instability, as the country prepares for early elections in March, and other factors related to oil production affect the forecast? To what extent will Guyana's citizens receive the benefits of economic growth, and will the government be able to adequately manage their expectations?

A Riyad Insanally, ambassador of Guyana to the United States: "Given the relatively small size of Guyana's economy, the impact of the large petroleum finds is certain to be dramatic in mathematical terms and, with the date for first oil having been brought forward, estimates of GDP growth are being continuously revised. At 120,000 barrels per day and $50 per barrel, production in 2020 will be worth roughly $2.2 billion, or 56 percent of current GDP. This does not necessarily translate into an immediate and proportional rise in income levels, but there will be consequential growth in the non-oil sector. The IMF estimates that non-oil real GDP growth will be 4.8 percent in 2020, 4.6 percent in 2021, 4.7 percent in 2022, 4.9 percent in 2023 and 5.0 percent in 2024, reflecting significant spill-over onto the non-oil economy. An increase in government revenues by 25.9 percent is also projected, and this will obviously have an effect on growth. How these revenues are spent, particularly regarding public sector emoluments,

Continued on page 3

TODAY'S NEWS

POLITICAL

Chile Agrees to Referendum on New Constitution

The country's lawmakers agreed to ask voters in a referendum next April whether the country should rewrite its constitution and, if so, who should do it. The deal comes amid violent ongoing protests.

Page 2

ECONOMIC

Venezuela Doubles Amount of Euros it Gives Banks

The country's central bank has doubled the amount of the European currency that it distributes to banks as hyperinflation and U.S. sanctions have led to a surge in the use of the euro.

Page 2

ECONOMIC

Mexico's Central Bank Cuts Key Interest Rate

Mexico's central bank, led by Alejandro Díaz de León, cut its benchmark interest rate by 25 basis points, to 7.5 percent. The reduction is the bank's third consecutive cut and comes as the country's growth stagnates.

Page 3

Díaz de León // File Photo: Mexican Government.

POLITICAL NEWS

Chilean Lawmakers Agree to Referendum on New Constitution

Chilean lawmakers early this morning agreed to hold a nationwide referendum in April on replacing the country's constitution, which dates from the era of dictator Augusto Pinochet, Reuters reported. The referendum will ask voters whether they want a new constitution and whether current legislators should be part of the commission to revise the charter. Voters will be able to choose whether the commission will consist of all-elected representatives, political appointees or a combination of the two, BBC News reported. Under the agreement, voters will then cast ballots again next October to determine the members of the constitutional convention, Reuters reported. Chileans will then decide on the draft constitution itself in a mandatory vote. Lawmakers signed the two-page "Agreement for Peace and a New Constitution," which calls for a "commitment to re-establish peace and public order in Chile," following intense negotiations. The agreement came amid protests that have convulsed the country for a month. More than 20 people have been killed in the riots, which have also led to widespread damage, including by looters who have ransacked stores. The violence has led President Sebastián Piñera to order soldiers into the streets in an effort to restore calm, and the country's currency has fallen to a record low against the U.S. dollar. A new constitution has been among protesters' key demands. Legislators revised Chile's current 1980 constitution after the country returned to democracy a decade later, but many Chileans say the charter fails to provide citizens adequate health care and education and does not ensure citizens' participation in government. Supporters of the current constitution say it has meant stability for Chile, which has been among Latin America's strongest economies. [Editor's note: See related **Q&A** in the Oct. 28 issue of the Advisor.]

> **The agreement calls for a "commitment to re-establish peace and public order in Chile."**

ECONOMIC NEWS

Venezuela Doubles Amount of Euros it Distributes to Banks

Venezuela's central bank has doubled the amount of euros in cash that it provides to local banks as hyperinflation and U.S. sanctions have resulted in a surge in the use of the European currency, Reuters reported today, citing four sources familiar with central bank activities. Euros are increasingly being used since the bank started distributing them to financial institutions in February, following the Trump administration's tough sanctions, which were also imposed that month. Local companies use euros in cash to pay for imports or employee bonuses, easing pressure on the depreciated local bolivar currency. According to the sources, Venezuela's central bank began giving around 1 million euros ($1.10 million) per week to the country's main private banks, as well as nearly 500,000 euros to smaller banks, double the previous amounts. If that rate continues, euros could surpass within months the value of bolivars in circulation, which currently totals about $59 million, according to Venezuelan authorities, Reuters reported. Venezuela's economy has also become increasingly dollarized, a recent study by Caracas-based research firm Ecoanalítica shows, Bloomberg News reported. According to its survey, more than half of retail transactions in the South American country in October were in dollars. In Maracaibo, Venezuela's second-largest city, some 86 percent of all transactions were in dollars, the study said. [Editor's note: See related **Q&A** in the Feb. 28-March 13 issue of the Dialogue's biweekly Financial Services Advisor.]

NEWS BRIEFS

Bolivia's Interim Gov't Reportedly Reaches Deal With MAS on Election

Bolivia's caretaker government late on Thursday appeared to have reached an agreement with the Movement Toward Socialism (MAS) party of former President Evo Morales for a new presidential election, Reuters reported. New Senate President Mónica Eva Copa Murga, a member of MAS, said the two sides had agreed to hold a vote as soon as possible.

E.U. Launching Case Against Colombia Over Duties on Fries

The European Union is launching a case against Colombia at the World Trade Organization for slapping extra duties on fries from the bloc, the European Commission said today, the Associated Press reported. The commission said it has repeatedly asked Colombia to lift the tariffs, which range from 3 percent to 8 percent and which the commission calls illegal. The European body hopes the issue will be solved during a 60-day period of consultations, which makes up the first phase of the WTO process.

Brazil's BNDES Posts Third Quarter Profit of $648.5 Million

Brazilian development bank BNDES on Thursday posted a third-quarter profit of 2.7 billion reais ($648.5 million), an increase of nearly 70 percent as compared to the same period a year earlier, Reuters reported. An improved stock portfolio performance in large part drove the growth. "The result was stable compared to the second quarter, but we are doing well, reacting well to our repositioning," BNDES President Gustavo Montezano told reporters. Over the first three quarters, BNDES had a profit of 16.5 billion reais, up 160 percent over the same period last year.

Mexico's Central Bank Cuts Key Rate by Quarter Point

Mexico's central bank cut interest rates by 25 basis points on Thursday, continuing an easing cycle that started in August, as expected, El Universal reported. In its third consecutive cut, the Bank of Mexico, or Banxico, as the central bank is known, reduced the overnight interest-rate target to 7.5 percent, its lowest level since June of last year. The board's decision was not unanimous, with two of the five members voting for a larger cut of half a percentage point. The central bank cited tame inflation and a lack of economic growth, as well as a more stable peso, as its reasoning behind the latest decision, The Wall Street Journal reported. The fact that two members voted for more aggressive cuts indicates Mexico's easing cycle is likely to continue, at least at the next meeting in December, analysts said, The Wall Street Journal reported. Mexico's economic growth this and next year will likely be below the bank's current forecasts of 0.5 percent and 2 percent, respectively, the bank said in its policy statement. [Editor's note: See related **Q&A** in Wednesday's issue of the Advisor.]

BUSINESS NEWS

Lundin Gold Opens New Ecuador Mine

Canada-based Lundin Gold on Thursday inaugurated its Fruta del Norte gold mine in Ecuador's Amazon region, Reuters reported. The mine has proven reserves of 4.8 million ounces of gold and 6.3 million ounces of silver. During its 15-year lifespan, it is expected to produce approximately 310,000 ounces of gold and 400,000 ounces of silver. Ecuadorean government data show that the mine will involve investment of some $2.7 billion. In July, Ecuador inaugurated the Chinese-owned Mirador project, its first large-scale copper mine.

FEATURED Q&A / Continued from page 1

education, health, security and infrastructure, will determine how citizens benefit. Employment is a key determinant of income distribution, and labor's share of GDP will influence migration, skills availability and security. The government recently released a Green State Development Strategy: Vision 2040, as its roadmap for future development and growth, based on investment, jobs and environmental sustainability, with a key objective being the transition of the energy matrix from reliance on oil to renewable energy by 2040. Also, in August 2018, a Green Paper on Managing Petroleum Revenues and Establishment of a Fiscal Rule and a Sovereign Wealth Fund was released, and in January 2019, Parliament passed the Natural Resource Fund Bill, with a view to strengthening revenue management, mitigating the risk of 'Dutch disease,' securing and building 'the financial wealth of future generations, even as current generations benefit from scaled up budgetary investments.' Political uncertainty this year has, however, delayed the implementation of institutional arrangements to manage the new sector, the granting of contracts and the pursuit of development programs by the government. The March 2020 elections will therefore be critical for social and political stability and for ensuring that Guyana remains on the trajectory for accelerated and inclusive economic growth."

A **Jennapher Lunde Seefeldt, assistant professor of government and international affairs at Augustana University:** "The IMF's economic forecasts are optimistic for Guyana. However, the political instability this past year has cast concern on the potential for Guyana to actualize real benefits from the expanding oil industry. At a critical juncture of deciding oil leases and the creation and implementation of its sovereign wealth fund, Guyana has seen domestic turbulence that can inhibit growth and proper implementation of new development projects. And the potential for corruption and mismanagement could derail any positive returns for Guyanese citizens, who greatly need economic advancement. Guyana's opportunity hinges on appropriate management of revenue and ensuring greater political stability, with any incoming government officials actively negotiating for proper and fair terms of any new contracts and leases issued. While the sovereign wealth fund has been established, there are still no definite plans for how to spend it. The competing political parties, as well as vested economic stakeholders, have differing visions of how to best allocate the windfall. Others are hesitant to exude too much excitement for the incoming windfall because they have witnessed disastrous effects in neighboring Venezuela. Indeed, the extent to which Guyana's citizens can benefit from this new industry and subsequent economic growth depends entirely on the government's ability to procure and manage funds transparently and wisely and learn from other oil-rich states that long-term infrastructure development and investment in human capital reaps the greatest rewards."

A **Jan Mangal, oil and gas consultant and former petroleum advisor to the president of Guyana:** "Guyana is an opportunity for the oil industry to prove to the world that it does not have to be exploitative and predatory when operating in weak or fragile countries. The size of the initial spike in growth due to oil revenue is not a useful indicator of whether Guyana will evolve into a successful country (a Singapore) or into a disappointment (an Equatorial Guinea). Is Guyana less likely to succeed if the predicted growth rate was 46 percent instead of 86 percent, or more likely to succeed if it was 126 percent instead of 86 percent? The answer is no. The important question and the challenge facing Guyana is how to translate a spike in revenue into sustainable and equitable growth—growth that transforms the lives of the majority of the people,

Continued on page 4

FEATURED Q&A / Continued from page 3

especially those of the poor, and growth that heals our disabling ills (such as racial competition/conflict, high levels of inter-personal violence, rampant corruption, as well as ad-hoc and chaotic decision making). For Guyana to benefit from its oil revenue, we needed to have seen major changes over the last four years. We needed to have seen a sense of urgency and a different mode of behavior. But, unfortunately, Guyana's leaders do not seem to understand the situation and what is needed, and Guyana has not prepared or transformed itself so it can properly benefit from its oil. Our leaders have been passive and not active and seem to rely on trickle-down economics instead of implementing transformative policies. They have been bickering and fighting, which already is a sign of the resource curse. They have created false expectations as part of their electioneering, instead of creating and implementing a new realistic vision for Guyana. It is likely that the election results will spur even more fighting, and the international community will have less leverage to rein in our bickering leaders, who now think they are oil rich and can ignore Washington, London and Toronto (and instead can buy new friends in Beijing and Moscow, as well as in Lagos and Luanda)."

A Michael Matera, senior fellow and director of the Americas program at the Center for Strategic and International Studies (CSIS): "Guyana is certainly at a takeoff point in its economic growth as 'first oil' is scheduled to begin flowing in the very near future. Whether Guyana's economic growth in 2020 is 66 percent, 86 percent, or 106 percent, the country clearly is blessed in looking forward to a period when the country's resources will allow its leaders to plan a more prosperous future for Guyana's population. However, experience shows that many countries like Guyana that come into newly discovered natural resources face great challenges in smartly managing the growth that comes with such a resource development. Guyana's political leaders are all very aware of the challenges that face the country. Irrespective of party, Guyana's political leaders have made it clear that they intend to manage these resources wisely and to put into place a system of monitoring and control that will ensure that these resources are not squandered or misappropriated. The current Parliament's action in passing the Natural Resource Fund (NRF) legislation underlines its understanding of the need to use the country's natural resources in a fiscally responsible way and to preserve a significant part of these resources for future generations. Efforts to spend these resources too quickly could easily surpass the country's ability to absorb properly this spending. National elections scheduled to take place next March will allow the people of Guyana to choose for themselves which political representatives they want to trust in for the next electoral period for guiding decisions on which of the country's many competing needs for resources will be the highest priorities."

> **"Guyana's political leaders have made it clear that they intend to manage these resources wisely..."**
> **— Michael Matera**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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ebrand@thedialogue.org