The Government of the Cooperative Republic of Guyana's Public Debt Policy 2021-2024

Outline

1. Introduction
2. Rationale for the Debt Policy
3. Objectives and Debt Profile
4. Governance and Managerial Structure
5. Government's Borrowing Policy and Guidelines
6. Optimising Financing

1. Introduction

This Public Debt Policy is intended to aid the Co-operative Republic of Guyana in the determination, establishment and upholding of the legal and institutional frameworks which govern sovereign borrowing. It is envisaged that this policy document would help to ensure the relevant systems and personnel are in place to guide the contracting of debt, negotiations with creditors, among other debt management functions. Notably, this debt policy addresses both external and domestic public and publicly guaranteed debt management in Guyana, and provides a broad framework to guide decisions that will ensure long-term debt sustainability and efficient portfolio management.

2. Rationale for the Debt Policy

a) Relevance

The graduation of Guyana's economy from lower middle-income to upper middle-income status has occasioned a decline in access to the concessional financing. This has necessitated a heightened focus on effective debt management in order to ensure the financing of Guyana's development initiatives in a manner which simultaneously ensures long term sustainability. The policy covers all external and domestic public and publicly guaranteed debt, from 2021-2024.

b) Consolidating a sustainable debt.

Guyana has benefitted from debt relief, made substantial repayments, and exercised prudent debt management, leading to a large decline in the country's debt ratios over the past decade – the debt-to-GDP ratio declined from 93 percent in 2006 to 47 percent in 2020. The latest debt sustainability analysis (DSA), conducted by the International Monetary Fund in 2019, concluded that the risk of external and overall debt distress is moderate, but debt dynamics will improve significantly as oil production begins.

c) Commitment to transparency.

The policy aims to enhance transparency and to provide guidance to the investor community, unveiling the government's expectations regarding the relation with creditors and preferred debt instruments. Transparency has increased with the publication of annual and quarterly debt reports covering all of Guyana's public and publicly guaranteed debt. The authorities believe that greater transparency and accountability standards would strengthen the decision-making process and lower borrowing costs over the medium term.

3. Objectives and Debt Profile

a) Objectives

i. Guyana's primary debt management objective is to ensure that the country's financing needs, and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

   Prudent risk management is integral to the cultivation of a stable macroeconomic outlook, as well as the avoidance of sharp increases in funding costs and dangerous debt structures and strategies (including monetary financing of the government's debt). Furthermore, Guyana's debt objectives shall be aligned with the need to cover its funding gap and the goal of long-term debt sustainability. The government's preferences and actions shall be translated into operational guidelines to address the types of risks to which the public debt is exposed and describe the means by which government would manage those risks.

ii. Guyana's secondary objective in public debt management is to promote development of the domestic financial market, through the issuance of government securities across a range of tenors. This would provide benchmarks for use by private entities in the pricing of financial products.

b) Debt Profile

i. *Exchange rate risk* is the most consequential risk to Guyana's public debt portfolio, with foreign currency debt comprising about 50 percent of total debt and representing almost 200 percent of international reserves. In this context, a depreciation of the Guyanese Dollar against the most prominent foreign currencies in the external debt portfolio, would increase the debt service cost and the debt-to-GDP ratio. However, Guyana's net exposure to exchange rate fluctuations is expected to be partially offset by a large and sustained stream of revenues from the oil and gas sector.

ii. *Regarding refinancing risk*, the short-term debt accounts for 15 percent of total public debt consisting primarily of T-bills sold to domestic financial institutions. As outlined in Budget 2021, government intends to securitise a sizeable overdraft at the Central Bank using interest-bearing instruments with maturities ranging from 1 to 20 years.

iii. *Furthermore, the Average Time to Maturity (ATM) and Average Time to Re-fixing (ATR)* for the total debt stock are relatively long (at about 10 years), reflecting a public debt portfolio with a significant component of multilateral and bilateral loans with very long maturities.

iv. *At 1.5 percent in 2020, the cost of borrowing* is very low, owing to Guyana's historic reliance on concessional financing from external sources, as well as a more recent increase in the use of domestic financing in the form of T-bills, which accrue an interest rate below the current policy rate of 5 percent.

v. As such, foreign exchange and refinancing risk represent the most important fragilities, and are therefore given special focus in the Debt Policy. Guyana plans to proactively manage such risks over the next 3-5 years through the pursuit of specific initiatives, including domestic debt market development of the domestic debt market, and the issuance of longer-term fixed rate securities.

4. Governance and Managerial Structure

a) Legal Framework

The current legal framework provides clear authority for the Minister to borrow and issue loan guarantees on behalf of the Government. It also outlines the purposes for which sovereign borrowing can be undertaken. Public Debt Management in Guyana is currently governed by seven pieces of legislation: the General Local Loan Act (1941), the Public Loan Act (1973), the Financial Administration and Audit Act (1961), the Guarantee of Loans Act (1974), the External Loans Act (1973), the Bank of Guyana Act (1998) and the Fiscal Management and Accountability Act (2003). Regarding debt management, key provisions are mostly found in the External Loans Act (1973), Public Loan Act (1973) and the FMAA (2003). With regard to loan guarantees, the FMAA states that only public entities are entitled to receive official guarantees and the Minister of Finance must authorise its issuance, followed by recording and reporting, specifying the beneficiaries, the creditors and debt service.[1]

b) Managerial structure

External debt operations and loan guarantees are centralised within the Ministry of Finance, who coordinates with the Bank of Guyana (BoG) regarding the domestic debt operations (mainly in the form of T-Bills). The Debt Management Division (DMD) has a complement of 7 staff, with responsibility for the management of the issuance of loan guarantees, government lending and on-lending, monitoring of all public debt, debt renegotiation and recording of external and domestic loans and securities. The Accountant General's Department collaborates with the DMD in executing debt recording, debt service and cash management functions, while the Project Cycle Management Division (PCMD) and the Ministry of Foreign Affairs and International Cooperation are responsible for the mobilisation of external financing. The DMD team reports on total debt and undertakes analytical work such as Debt Sustainability Analysis (DSA) and debt strategy formulation. As the government's fiscal agent, the Bank of Guyana performs domestic debt recording

[1] Besides including the main provisions described above, modern legal frameworks further require higher transparency standards towards the legislature and provide guidance on debt management objectives and strategy.

and auctioning of T-Bills, executes debt service payments, and operates as the clearing house and depository of T-Bills.

c) Recording and reporting

The DMD is responsible for debt recording and production of periodic reports covering all public and publicly guaranteed debt following a reconciliation process with the Accountant General's Department and the BoG. The two main debt publications are: a) the Annual Public Debt Report and b) the Quarterly Public Debt Statistical Bulletin[2]. These documents provide information on recent developments concerning domestic and external public debt by currency, creditor, and maturity. Importantly, the government will work on fully adopting an internationally recognised and widely utilised debt recording and management system by end-2022, in order to enhance the efficiency of debt administration and analysis functions.

5. Government's borrowing policy and guidelines

The broad guiding principles for raising domestic and external debt are categorised by type of liability (direct or contingent) and by sector of borrower.

a) Direct Liabilities

General Government

i. The purposes for which the Government of Guyana will contract development financing are: a. To finance budget deficits; b. To refinance a maturing debt or a loan paid before the redemption date; c. To maintain credit balances in the government's bank accounts; d. For on-lending to State Enterprises and other legal entities; e. Any other purposes approved by the Minister of Finance.

ii. The financing needs of the Government's development priorities shall be met through debt financing only after fully exhausting the possibilities of obtaining the required financing in the form of grants.

iii. When resorting to debt financing, the Government shall prioritize borrowings from concessional windows over other alternatives.

iv. The debt-financing decisions of the Government shall made on a needs basis, taking due consideration of absorptive capacity and requirement, and shall not be motivated by availability, prior commitments and concessions.

v. The Government shall ensure appropriate currency composition, interest rate and maturity structure of the debt stock to minimize refinancing and market related risks.

[2] https://finance.gov.gy/publications/public-debt-reports/ , https://www.bankofguyana.org.gy/bog/research-publications/quarterly-report-and-statistical-bulletin

Public Corporations

Borrowing by Public Corporations shall be permissible only after the written approval of the Minister of Finance is granted.
The Ministry of Finance and Public Corporations shall have a shared understanding of the objectives of public debt to ensure the overarching theme of sustainability permeates across the public sector.

Borrowings shall be based on the following principles and conditions:

i. Borrowing shall be undertaken only after all other alternative sources and options are exhausted; or after duly assessing the appropriate level of financial leverage that is required to maximize returns.

ii. Long-term borrowings shall only be for investment purposes and not for meeting recurrent expenditure.

iii. Public Corporations shall try to secure the most favourable borrowing terms while ensuring adequate return on investments.

iv. Due diligence and proper risk analysis of investment proposals must be carried out by the sector ministry and vetted by the Ministry of Finance before approval is granted.

v. Where direct borrowings by Public Corporations from external sources are difficult or not possible, the Government may borrow and on-lend to the Public Corporations under a separate subsidiary agreement.

vii. Lending from the Government shall only be for economically or socially beneficial projects, or for the purpose of pursuing established development priorities.

Bank of Guyana Monetary Policy

Debt contracted by the Bank of Guyana in the execution of monetary policy shall constitute a part of Guyana's total public debt. The Bank of Guyana and the Ministry of Finance shall have a shared understanding of the objectives of debt management, fiscal and monetary policies, and work together to ensure policy consistency and coherence. Furthermore, government intends to cease the use of the overdraft at the Bank of Guyana to finance the budget, instead relying on market-based securities to help meet borrowing requirements.

b) Contingent Liabilities

Sovereign Guarantees

The power to issue sovereign guarantees is vested in the office of the Minister of Finance. According to the Guarantee of Loans Act (Chapter 77:01), the current limit on the issuance of government guarantees is G$50 billion. As of end first quarter, 2021, publicly guaranteed debt stood at G$500 million. Government intends to retain rigorous prequalification criteria for the issuance of guarantees, so as to mitigate risks and preserve debt sustainability. Sovereign guarantees shall be provided to public corporations based on the following principles and conditions.

Principles and Conditions for Issuance of Sovereign Guarantees

Public Corporations shall be eligible for sovereign guarantees if their proposed investment meets one or more of the following principles: i. Serves the public interest and maximizes social benefit; ii. Supports the development priorities of the government; iii. Improves the financial viability of the entity. iv. Due diligence and proper risk analysis must be carried out before sovereign guarantees are issued.

Invocation of the Guarantee

In the event that the guarantee is invoked, the obligation shall be met by the Government as stipulated in the terms and conditions of issuance of the guarantee. ii. Any monies paid by the Minister of Finance pursuant to any guarantee shall constitute a debt due to the Government from the public corporation in respect of whom the guarantee was issued.

6. Optimising Financing

a) External borrowing

i. Multilateral (concessional/no-concessional). Key multilateral sources of financing have been the IDB and the CDB, representing 42 and 11 percent of total public external debt, respectively.

ii. Bilateral. On the bilateral side, China and Venezuela are the main sources of financing, accounting for 19 and 8 percent of total external debt (but 53 and 23 percent of bilateral debt), respectively.

iii. Commercial. This source of financing is negligible, accounting for only 1.3 percent of total external debt as at end-2020.

The government will persevere with the current strategy of maximizing concessional borrowing, which is characterised by low borrowing costs and long maturities. However, as the country progresses further along the development continuum, concessional windows are likely to diminish further, leading to higher borrowing costs and shorter maturities over time. Consequently, the Government intends to supplement traditional but increasingly scarce concessional financing with the increased use of domestic sources, as well as sustainable withdrawals from the country's Sovereign Wealth Fund. Further, diligent efforts will continue to negotiate mutually acceptable debt settlement agreements with non-Paris Club bilateral and commercial creditors.

b) Domestic borrowing

Domestic borrowing in Guyana has been focused on T-bills (ranging from 91 days to 364 days). This instrument has been issued by the BoG in coordination with the MoF. Other securities are being considered and, together with T-Bills, are projected to be the main domestic instruments used for government financing.

i. T-bills- The government will continue using this instrument to partially finance the fiscal deficit.

ii. Bonds - Government plans to issue longer-term bonds in the foreseeable future, for the purposes of stimulating domestic financial market development, and matching the maturity of instruments with expected returns on capital investments.

iii. Securitisation of the Overdraft. The Government of Guyana endeavours to securitise the overdraft at the BoG in 2021. This would be done through the issuance of debentures by central government to BoG, with tenors ranging from 1 to 20 years. Furthermore, as of Budget 2021, government has started to earmark specific domestic instruments to finance the budget. This move serves to mitigate the future accumulation of overdrafts, and is expected to constitute common practice going forward.

The current strategy of utilising T-bills as a funding instrument will continue in the near term. Government also intends to commence the issuance of longer-term bonds. This would help stimulate the modernisation and development of the domestic bond market, by providing benchmarks for the pricing of private domestic instruments.

Annex 1. Development of the Domestic Bond Market. Benefits and pre-requisites

- A market for medium-term government securities would constitute an important catalytic step in the development of Guyana's nascent financial markets.

- Government-issued securities would provide a countercyclical fiscal buffer, thus smoothing the impact of shocks.

- Importantly, they would also provide for a cleaner demarcation between monetary and fiscal policy, providing clear signal about the independence of the Central Bank, anchoring inflation expectations.

- A government securities market could help to strengthen financial system resilience by affording banks and other domestic institutions more options for portfolio diversification—presently, there are limited investment options denominated in local currency.

Market development is a medium-term process that requires a comprehensive approach to address sequentially and in parallel several elements, taking account of their interconnections

- The most critical high-level precondition for the development of a government securities market—macro-fiscal and financial system stability—are in place in Guyana.

- A comprehensive and integrated legal framework is a critical prerequisite for effective public debt management.

- A key factor regarding institutional arrangements is to consolidate and integrate debt management activities in a DMO or to enhance coordination with debt management entities.

- In addition, the authorities should prepare, adopt and publish an approved MTDS that sets out targets for annual borrowing plan (ABP) and auction calendar, which would increase the transparency and predictability for investors.

- Embark on a communication strategy that lays out government's reform objectives and strategy to upgrade and deepen the debt securities market.

- The development of a deep and diversified investor base with heterogenous objectives, risk tolerances and investment time horizons is a critical component of Guyana's debt management a strategy.

- The shift toward electronification of the financial system is a necessary condition to foster the development of the government securities market more broadly.

- Furthermore, financial market infrastructure is built around the central bank who establishes the Central Securities Depository (CSD), maintains a (real-time) gross settlement system, develops an auction platform used for issuing central bank bills, and in due course, government securities.