MACRO-FINANCE INTELLIGENCE

NON-TECHNICAL BRIEF
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FOREX SHORTAGES IN GUYANA

Collin M. Constantine

THE PARADOX OF PLENTY

Why can firms and households face FX shortages when the country enjoys balance-of-payments (BoP) surpluses?

This is the **paradox of plenty**: a situation in which Guyana records a BoP surplus, where foreign currency inflows exceed outflows, yet businesses and households still face foreign exchange (FX) shortages. In other words, despite the BoP surplus, the supply of FX available at the official exchange rate is insufficient to meet demand.

At first glance, this seems puzzling. Oil revenues and foreign borrowing are denominated in US dollars and finance part of government spending. When government spends these revenues in Guyana dollars (GYD), demand for FX may rise indirectly for imports, overseas travel, and other foreign currency transactions. However, this spending is backed by foreign exchange, so it raises FX supply as well as FX demand. Therefore, FX-financed spending cannot explain the paradox. The same is true of other inflows, e.g. oil-related investment.

Similarly, when domestic bonds finance public spending, households and firms use part of their savings to buy those bonds instead of spending the money elsewhere. This reduces private-sector demand for foreign exchange and transfers spending power to the government. As a result, bond-financed public spending does not increase the economy's overall demand for foreign exchange. This, too, cannot explain the paradox.

Officially, the government has financed a large share of its spending by "borrowing" from the domestic banking system. But much of this is circular: the central bank supplies reserves to the banking system when it finances government spending, and commercial banks then use those same reserves to purchase government bonds. As a result, private savings are not absorbed or withdrawn from the economy: households and firms retain their purchasing power and ability to demand FX. In effect, government spending has been financed through a form of **securitised monetary financing** rather than through conventional domestic borrowing.

So what explains the paradox of plenty? Figure 1 provides the answer. Column 1 shows that a BoP surplus creates **appreciation pressure** on the GYD against the US dollar. To maintain the exchange-rate peg at **G$/US$ 208.50**, however, the Bank of Guyana must absorb the excess foreign exchange (Column 2). At this stage, the local FX market remains balanced.

CORE MECHANISM

The FX imbalance emerges in Column 3. As the Bank of Guyana finances government spending, it expands GYD purchasing power and increases the demand for foreign exchange. But the local FX supply is constrained by the need to maintain the peg, so FX demand exceeds supply at the official peg—the result is a paradox of plenty.

Figure 1: *FX shortage emerges when monetary financing creates more GYD demand for FX than is released to the local market at the official exchange rate*

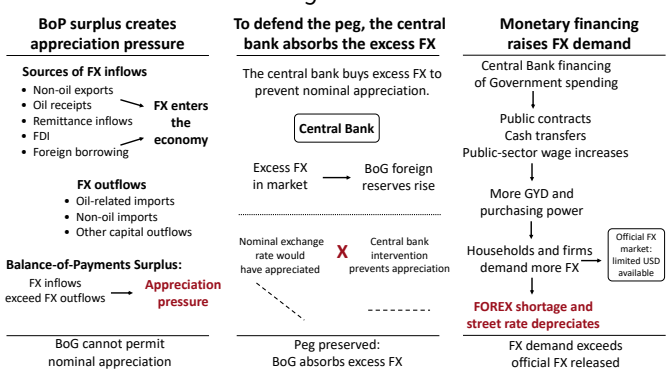
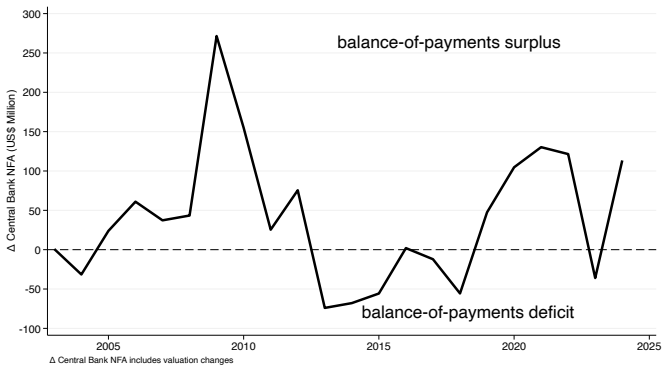


Figure 2: *Guyana: Balance-of-Payments, 2003–2024*



EMPIRICAL CONTEXT

Figure 2 shows that Guyana recorded recurrent, and often sizeable, balance-of-payments surpluses between 2003 and 2024, which were absorbed by the Bank of Guyana. The puzzle is therefore not a lack of foreign exchange, but a mismatch between the supply of FX available at the exchange-rate peg and the demand for foreign exchange generated by monetary financing.

A SIMPLE ILLUSTRATION

Table 1 outlines a simple illustration to fix ideas. Panel (a) presents a stylised accounting of the BoP in which FX inflows are $100 and FX outflows are $80. The resulting BoP surplus of $20 is accumulated by the central bank to maintain the exchange-rate peg.

Panel (b) shows how a local FX shortage can co-exist with a BoP surplus when there is monetary financing of public outlays. In this example, demand for FX reaches $120, while only $80 is available to the market. Therefore, the FX shortage is $40. Predictably, this creates **depreciation pressure** in the inter-bank and parallel markets, where foreign exchange trades at a premium. In other words, the paradox of plenty drives a wedge between the official exchange rate peg and the market exchange rate.

Table 1: *How a BoP surplus can co-exist with local FX shortages*

(a) Balance-of-payments	
FX inflows	$100
Realised imports and other FX outflows	$80
Change in central bank FX reserves	**+$20**
(b) Local FX market at the peg	
FX demand	$120
FX actually released to the local market	$80
of which: central bank net FX sales	$30
of which: other market net FX sales	$50
Local FX shortage	**$40**

EVIDENCE OF MONETARY FINANCING

Table 2 quantifies the extent of monetary financing in Guyana. In 2025, the government's financing was G$308,950 million. This was financed through foreign debt of G$135,947 million and domestic "borrowing" of G$173,002 million. However, a closer look reveals that much of the domestic "borrowing" was financed by the BoG. Specifically, the central bank directly financed spending by buying G$98,477.2 million in government securities. In addition, it indirectly financed G$97,171.0 million through securitised monetary financing, where commercial banks swap excess reserves for government bonds. Overall, the largest share of the fiscal financing need in 2025 was financed by the Bank of Guyana—not private savings or domestic borrowing.

Table 2: *Guyana: Central Government Fiscal Financing, 2025*

Financing item	G$ million
Total financing need	308,950
Net external financing	135,947
Net domestic financial system	173,002
Banking system	**196,925.0**
of which: **Direct monetary financing**	**98,477.2**
of which: **Securitised monetary financing**	**97,171.0**
Monetary financing sub-total	**195,648.2**
Stock-flow reconciliation	1,276.8
Non-bank borrowing	12,869.0
Other financing	-36,791.0

Notes. Direct monetary financing is the increase in the BoG's net claim on central government. Securitised monetary financing is the swap of excess bank reserves for government securities.

EXCESS BANK RESERVES AND STERILISATION

Where do excess bank reserves come from? Banks can obtain reserves from the Bank of Guyana (BoG) in four ways: (i) when the BoG finances government spending through the purchase of government securities, (ii) when it purchases gold locally, (iii) when it purchases foreign exchange from commercial banks, and (iv) when banks borrow reserves directly from the Bank of Guyana.

Bank reserves are used **only** for transactions between the Bank of Guyana and the banking system. Households and firms cannot use reserves to purchase goods, services, or foreign exchange. In practice, Guyanese banks have little need to borrow reserves from the BoG because reserves are supplied through the first three channels.

The BoG can offset or sterilise the creation of reserves by selling government securities to commercial banks. In effect, banks swap reserves for bonds. When this offset is complete, gold and foreign-exchange purchases do not increase reserves in the banking system. Persistent excess reserves therefore suggest either sustained BoG financing of government spending or limited sterilisation of gold and FX purchases.

Crucially, sterilisation removes reserves from banks, but it does not reduce the purchasing power of households and firms. Whether Samuel is paid for gold sold to the BoG or for work under a government contract financed by the BoG, his bank deposits increase and he has more money to spend. Because sterilisation withdraws excess reserves rather than bank deposits, it does not reduce the additional demand generated by monetary financing.

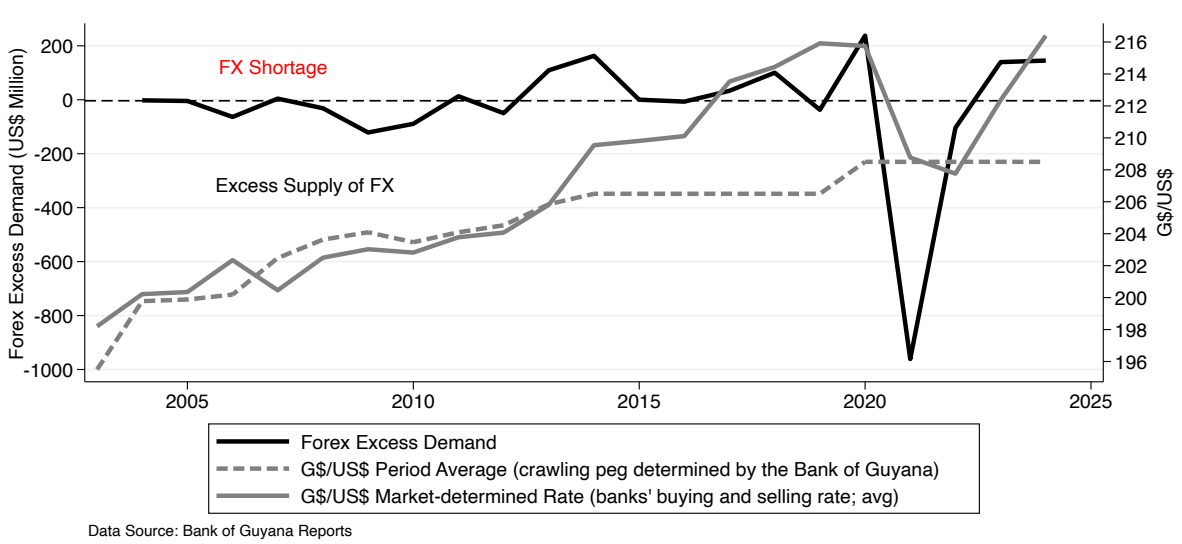
Instead, it allows banks to exchange non-interest-bearing reserves for interest-bearing securities, helping them manage the interest costs of bank deposits created by monetary financing. In effect, sterilisation maintains banks' net profitability without reducing purchasing power in the economy.

Maintaining banks' profitability is important because banks might otherwise raise lending rates, lower deposit rates, or widen the FX bid-ask spread to protect their profit margins. By allowing banks to earn interest income on securities, sterilisation supports bank profitability and helps preserve stable financial conditions.

NOT SIMPLY A BANK-HOARDING STORY

The FX shortage is not a case of commercial banks refusing to sell enough foreign exchange. Recall that the BoG absorbs surplus FX to maintain the peg, while monetary financing expands deposits and associated interest costs. Banks therefore hold foreign assets to help cover these costs and diversify risk. Given the sovereign and concentration risks of excessive exposure to government bonds, FX holdings reflect prudent balance-sheet management rather than mere FX hoarding.

Figure 3: *FX shortage: demand pressure minus net FX sales by banks, 2003–2024*



Data Source: Bank of Guyana Reports

MEASURING THE FX SHORTAGE IN GUYANA

KEY DIAGNOSTIC

An FX shortage emerges when households and firms demand more FX than the banking system supplies at the official exchange rate. The key question is: what creates the domestic purchasing power behind the excess demand for foreign exchange? There are two sources of net FX demand expansion: (i) the non-bank private sector, when bank credit grows faster than bank deposits, and (ii) the public sector, when the central bank finances government spending.

The previous section explained why monetary financing increases demand for foreign exchange; the next step is to understand the role of bank lending. When mortgages, credit-card lending, and business loans grow faster than households and firms accumulate savings through bank deposits, domestic purchasing power rises. This, in turn, increases demand for domestic goods and services and foreign assets.

Measuring the FX shortage therefore requires tracking the evolution of net credit growth and the extent of monetary financing. Together, these factors reveal both the size of the shortage and its underlying sources.

The solid black line in Figure 3 illustrates the FX shortage over time. This is measured as the sum of changes in monetary financing, net bank credit creation, and errors and omissions, minus the net sale of FX by the banking system. Errors and omissions are included because they capture unrecorded or mis-measured FX flows, some of which may reflect the underground economy or poorly recorded transactions.

Positive values show that demand for foreign exchange exceeds supply—an **FX shortage**—while negative values represent excess supply.

MAIN EMPIRICAL FINDING

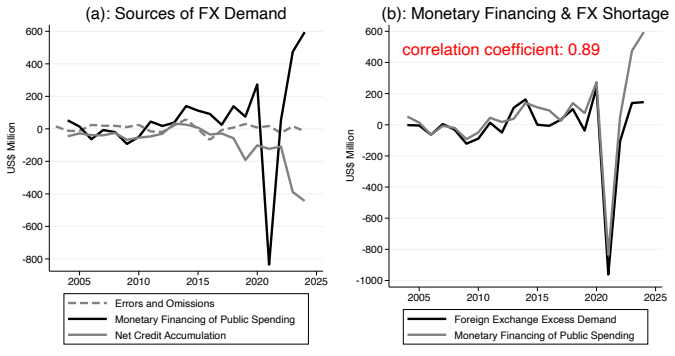
Figure 3 shows that **FX shortages became recurrent after 2012**, and dominated much of the subsequent period, with the notable exception of a large temporary FX surplus in 2021.

Complementary evidence is also presented in Figure 3. The dashed grey line depicts the period-average official exchange rate, while the solid grey line tracks the market-determined mid-rate at year-end, which is an average of banks' buying and selling rate.

MARKET VALIDATION

After 2013, the market mid-rate depreciates while the official peg remains virtually unchanged. This is consistent with a market premium over the official rate emerging from local FX shortages. Further, the temporary appreciation in 2021 coincides with a local FX surplus, exactly as standard economics predicts.

Figure 4: *Accounting for the FX Shortage, 2003–2024*



Data Source: Bank of Guyana Reports

PRIMARY EXPLANATION

Figure 4 shows that monetary financing of public spending closely mirrors the FX shortage, with a correlation coefficient of 0.89. Net credit expansion and errors and omissions display no comparable pattern. The evidence therefore identifies **monetary financing** as the principal source of the additional private-sector purchasing power that generates excess demand for foreign exchange.

CONCLUSION

The diagnosis points to the source of FX pressure.

The analysis does not imply that Guyana lacks foreign exchange or hoards the oil revenues withdrawn from the Natural Resource Fund (NRF). On the contrary, Table 3 shows that selected official FX outflows were equivalent to 91.5% of the US$2,463.0 million withdrawn from the NRF in 2025, including FX sales to banks, payments made on behalf of the Ministry of Finance, and external debt-service obligations.

Table 3: *Indicative Use of 2025 NRF Withdrawals*

Use of FX resources	US$ million	Share of NRF withdrawal
NRF withdrawal to finance Budget 2025	**2,463.0**	**100.0%**
Sales of foreign currency to commercial banks	1,620.2	65.8%
Payments on behalf of the Ministry of Finance	495.4	20.1%
Debt servicing costs	139.0	5.6%
Sub-total	**2,254.6**	**91.5%**
Other	208.4	8.5%
Total	**2,463.0**	**100.0%**

Notes. Data are sourced from the Bank of Guyana Annual Report (2025):90–91. The table compares the size of NRF withdrawals and selected official FX outflows; it does not trace individual NRF outlays in foreign currency.

The central issue is that monetary financing creates Guyana-dollar purchasing power that can chase foreign exchange, while the supply of FX released to the formal market is constrained by the exchange-rate peg. As a result, policies focused solely on FX sales, monitoring, enforcement, or sterilisation treat the symptoms rather than the underlying source of FX pressure. See Table 4 for an outline of the proposals.

Table 4: *Popular FX Measures*

Measure	What it helps with
Invoice checks	Identify duplicate, inflated, or poorly documented FX requests
Monitoring credit-card use	Makes FX users more visible and easier to verify
Prioritising import demand	Helps allocate scarce FX toward verifiable productive uses
Sectoral FX surveys	Shows which sectors need FX for imported inputs and working capital
Exporter FX accounts and dollarised public contracts	Helps exporters or selected firms retain access to FX needed for external payments
More sterilisation	Reduces excess bank reserves

These proposals can improve monitoring, reduce capital flight, absorb excess bank reserves, and prioritise access to scarce hard currency. However, **they do not absorb or withdraw the additional purchasing power created by the Bank of Guyana**. In other words, auditing the queue or redistributing FX access is not the same as closing the FX gap. If the peg is maintained and monetary financing continues, FX shortages will persist even under tighter screening, full sterilisation, and preferential access to foreign exchange.

MAIN POLICY MESSAGE

The FX shortage reflects an **incompatibility** between the peg and monetary financing. Accordingly, non-oil imports and credit-card spending are uses of FX, **not the source** of the domestic purchasing power that generates excess demand for hard currency. The central policy implication is straightforward: routine BoG financing should be eliminated. Adjusting the peg without addressing monetary financing would merely replace FX shortages with rapid depreciation and stronger inflationary pressures.

DETAILS AND MORE INFORMATION

MFI is an advisory firm founded by Collin M. Constantine. It provides macro-financial analysis and evaluates policy risks in emerging markets.

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