The South American petro-state profiting from the Iran war

The boom is raising the risk that oil money devours the economy

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MISSILES AND DRONES feel a world away from Guyana. The tropical country of fewer than 1m people is perched on the north-eastern edge of South America. But with oil exports that are growing faster than anywhere else in the world, Guyana is benefitting tremendously from chaos in the Strait of Hormuz. Since starting production in recently discovered offshore oil fields in 2019, its economy has quintupled, the fastest growth globally. That happened despite placid oil prices, which averaged $69 per barrel in 2025. Today, prices hover around $100 per barrel.

High oil prices are just the latest in a string of examples of good news for Guyana. In September centrist president Irfaan Ali won re-election, reassuring investors worried about a far-right surge. Two months later he pitched the forested nation as a climate leader at the COP30 conference in Belém, in Brazil, with a vague promise to spend its oil bonanza on climate-change adaptation. Then, in January, American soldiers captured Nicolás Maduro, Venezuela's dictator. Having aggressively claimed a portion of Guyana's territory, Mr Maduro's departure has led to resumed exploration in previously-restricted portions of the Stabroek Block, the huge field 200km (120 miles) into the Atlantic from which Guyana gets its hydrocarbons.

The windfall is already arriving, says Raphael Trotman, a former minister for natural resources. According to one estimate, revenues have already gone up to $623m a week, from about $370m a week before the war. Seeking to milk the moment, Stabroek's operators–a consortium led by ExxonMobil, an American oil company–want to boost output by 2.5% to 940,000 barrels of oil per day. If they do, and prices stay above $100 per barrel in 2026, Guyana's oil fields will generate $33bn in revenue this year, three-quarters more than had been predicted before the war. It helps that two-thirds of the country's oil goes to Europe, which is paying fat premiums for energy. Factor in a modest $10 per barrell on top of the market price and Guyana's war-bonus tops 90%.

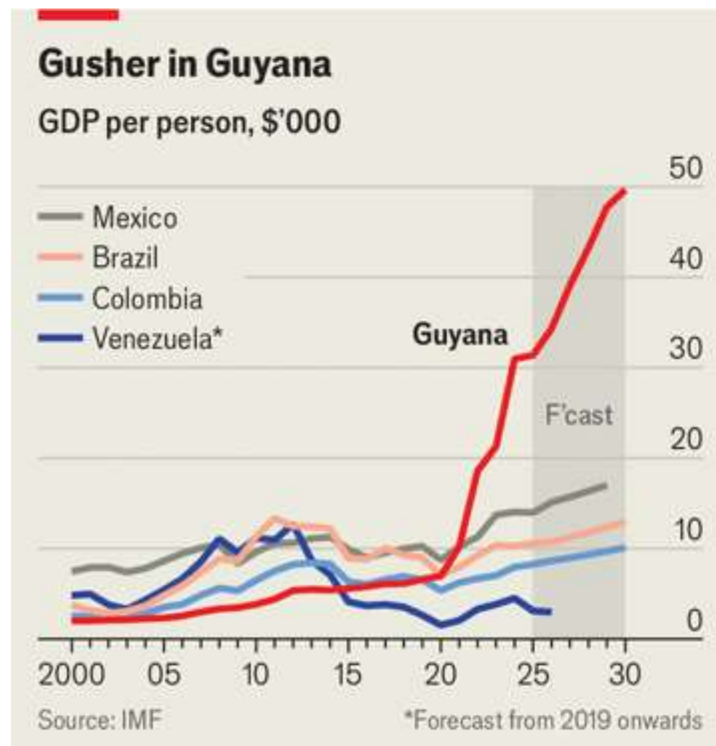

Chart: The Economist

It doesn't end there. The government only gets 14.5% of the value of each barrel right now, with the consortium taking the rest. But the conflict-induced price spike means the firms' historic costs are on track to be paid off by the end of 2026, a year earlier than anticipated, at which point the government's take increases. If the oil majors expanded no further, Guyana would start receiving 52% of the revenue. Enticed by disrupted supply, they are planning further exploration and development on the government's dime. This will contain revenue in the short term, but may lead to larger earnings in future.

The majors are moving fast. Each of the consortium's four existing projects is operated by a $2bn floating storage tank, known as an FPSO. ExxonMobil is trying to speed up the arrival of a fifth FPSO, which it wants to begin pumping in the coming months, a year ahead of schedule. A sixth FPSO is under construction and a seventh is being hurried along, with the aim of bringing it into production in 2028, also a year early. In March

the company submitted plans for an eighth project, the first in Guyana producing natural gas, and said it would file for a ninth within a year.

Even before the war, the government expected record oil revenues of $2.8bn this year. Fossil-fuel revenue accounted for about half of the annual budget in 2025, about the same as in Azerbaijan, and oil production comprised three-quarters of GDP, a higher share than in Libya. The price shock will deepen that dependency, says Radhika Bansal of Rystad Energy, a consultancy. While oil profits soar, increased energy costs hammer other sectors. The government has responded by setting fuel duty to zero and leaning on GuyOil, the state-owned distributor, to limit price increases. But private operators have been putting up prices, prompting Mr Ali to plead for economic patriotism.

Avoiding oiloboros

This awakens the spectre of the resource curse, whereby booming commodity exports inflict damage on the rest of an economy. Guyana's politicians understand the threat, and are trying to mitigate it. Much crucial infrastructure is either already under construction, including a highway to Brazil, or finished, like a massive bridge across the Demerara river. Despite spending eye-watering sums on roads, schools and hospitals, the government has also, so far, kept a rein on core inflation and the fiscal deficit, noted the IMF last year.

But there are clear problems. The cost of food and housing has increased by 75% since 2021. The oil industry poaches the best workers. The government's relations with the media have turned testy. A flood of petro-dollars has encouraged waste, if not outright clientelism. A flagship project to bring natural gas ashore so that it can be burned to generate electricity, replacing filthy oil-burning plants, is years behind schedule and six times over budget, partly due to a decision to put it in an area where people support the government but which has unsuitable ground conditions. ExxonMobil has refused to build a second set of pipelines, again into government-friendly terrain, until there is sufficient demand.

Winston Jordan, a former finance minister, says Guyana's sovereign wealth fund should save the current windfall and more besides. That would help to curb public spending. But as high oil prices start feeding through to government revenues, the temptation to splurge will be strong. For Guyana's sake, Mr Ali and his allies must resist. ■

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