Ghana and the Current Crisis: No way out?

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Current Debt Situation in Ghana

- Ghana's public debt stock was GH¢94.5billion as at June 2015; equivalent to 70.9 % of GDP (Bank of Ghana; Sept 2015) ;
- External debt = GH¢58.6billion =44 % of GDP
- Domestic debt=GH¢39.5billion=26.6 % of GDP
- In Sept 2015, issued an Eurobond to raise US$1.5billion from the international capital market.
- GH¢25.36billion is expected to be raised through the issuance of domestic securities during the second half of the 2015;

Current Debt Situation in Ghana cont.

- Part of Eurobond proceeds will be used to refinance maturing debts and finance more critical development projects
- *The IMF in its review of the 3-year Extended Credit Facility advised government against using part of the Eurobond proceeds to buy back part of the Eurobond maturing in 2017 at this stage, given the currently tight domestic liquidity conditions, and use all the proceeds to reduce domestic financing pressures and rebuild international reserves.*

Understanding where Ghana is coming from

- Ghana in 2001 signed the Highly Indebted Poor Country (HIPC) programme with debt stock of 78% of GDP in 2000.
- In 2004, Ghana met the full conditions of HIPC and in 2006, benefitted from the Multilateral Debt Relief Initiative (MDRI), which offered total relief from debts owed to the IMF, the International Development Association (IDA) of the World Bank, and the African Development Bank (AfDB).
- The HIPC and MDRI reliefs resulted in a sharp decline of Ghana's debt to about 26% of GDP, which was regarded as a sustainable level.
- Ghana issued first Eurobond in 2007
- By the end of 2008, it had a debt stock of GHc9billion=28.1 % of GDP (rising to 67.6 % of GDP in 2014)

Understanding where Ghana is coming from

- In 2010, Ghana rebased its GDP which resulted in an increase of 60 % making Ghana a lower middle income country
- Ghana's first commercial oil was produced in Dec 2010 which boosted economic growth of 14 % in 2011; making Ghana the fastest growing economy in the world.
- These developments increased Ghana's capacity to carry debt sustainably
- Ghana as a consequence diversified and increased its borrowing

Underlying reasons for the financial crisis

- Spillover of global financial, food & energy crisis in 2007/2008
  - High inflation -high food and fuel prices
  - High fiscal expenditure to address energy crisis, infrastructure demand (election year)- annual deficit in 2008 was 13.9 % of GDP compared to a projected of 6.1 % of GDP
  - Low FDI (reasons include anxiety in election years, persistent energy crisis & financial crisis)
- Excessive spending; particularly in election years – deficit in 2008 and 2012 were 13.9 % and 11.8 % of GDP respectively
  - Deficit was 9.4 % in 2014 and 10.4 % in 2013

Underlying reasons for the financial crisis cont.

- High wage bill relative to revenue. Implementation of new public sector pay structure in July 2010 increased the wage bill threefold from GH¢2 billion to almost GH¢7 billion
  - wage bill, including arrears payment ratios for 2014, were 51.6 % of tax revenue, 54.9 % of tax revenue (less exemptions), 67.6% of non-earmarked tax revenue, 8.7 %of GDP and 31.4 % of total expenditure (improvement from 73 %of tax revenue in 2011)
- Over-dependency on international commodities for foreign exchange (cocoa, gold & now oil= 75 % of exports)
- High trade deficits ($4bn in 2014)

Debt sustainability

- Debt sustainability implies maintaining a stable debt ratio, meaning that additions to the debt ratio from the primary deficit and interest payments are fully compensated by gains from seigniorage (or money printing) and real economic growth.
- In 2012, Ghana's debt threshold set by (IMF and WB) was 75 % (general) & 60 % (stringent) to GDP
- Ghana's debt to GDP as at June 2015 stood 70.9 % of GDP.

Debt sustainability issues

- Domestic debt has shortened with treasury bills rates around 25%
- Gross financing need remains elevated at around 25 percent of GDP, which is much higher compared with peer LICs or even EMs.
- Continues depreciation of the cedis possess challenges for debt sustainability (first half of 2015 was partly due to smaller-than-expected balance-of-payments adjustments).

Debt Sustainability

- The debt outlook remains sensitive to shocks to nominal exchange rates and net non-debt creating flows.
- The Sept 2015 Eurobond is guaranteed by the World Bank to reduce borrowing costs & lower the rollover and liquidity risks.
- To restore debt sustainability, it is essential that Ghana continues to achieve ambitious fiscal consolidation along with active debt management.

Selected Debt Indicators (BOG 2008)	**2004**	**2005**	**2006**	**2007**	**2008**
Debt stock (US$m)	6448	6379	2177	3590	3983
External debt service/exports (%)	7.2	7.7	4.5	4.6	5.8
External debt service/exports of goods & services (%)	5.7	5.5	3.3	3.2	4.3
External debt service/domestic revenue (%)	9.3	8.4	5.5	5.1	7.8
External debt services/GDP (%)	2.2	2	1.3	1.3	2.2
Debt stock/GDP (%)	73.1	59.6	17.2	24.9	28.1

Selected External Debt Indicators (BOG, 2014)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
External Debt stock (US$m)	5,007	6,320	7,589	8,835	11,461.	12,968.
External Debt Stock/GDP	19.4	20.5	20.8	21.7	27	33.4
External Debt Service/Exports of Good and Services	4.3	33.3	3.3	3.2	2.2	5.2
External Debt Service/Domestic Revenue	9.7	6.8	6.4	7.4	6.8	10.9
External Debt Service/GDP	1.3 0	1.0	1.3	1.4	0.8	2.0

Impact of Crisis on Economy

- The crisis in 2008 led government to opt for credit facility with World Bank in 2009 which resulted in :
  - Low spending leading to low GDP growth rate of 3.4 % (Revised GDP, GSS, 2015) in 2009 which was the lowest in five years.
  - The agreement was a accompanied with 57 conditions including ten on fiscal policy as a means to contain fiscal deficits.
    - phasing out of subsidies (implication on poverty reduction)
    - Freeze on public sector employment (low employment creation)
    - wage and payroll restructuring (resulting in high industrial unrest)
    - voluntary redundancy schemes, divestiture or commercialization of all ministries, departments and agencies.
  - Divestiture of state assets e.g. Ghana Telecom was sold in 2008 & Merchant Bank in 2013 leading to redundancy

Impact of Crisis on Economy

- Domestic liquidity crisis – the banking sector holds over 50% of Ghana domestic debt
  - government relied on the banking sector 1st half of 2015
  - Government was forced to use cash balance at BOG to finance deficit
- High interest rates (MPC rate was adjusted to 25 % in Sept 2015, the highest since 2003)
  - Borrowing rate is between 29 & 34 %
- Low private investments due to high interest rate
- High inflation – two digits inflation; Aug 2015 rate dropped to 17.3 % from 17.9 in July 2015
- Slow growth –projected GDP for 2015 was revised to 3.5 % (real GDP was 4.2 % in 2014)

Impact of Crisis on economy

- Shortage of basic commodities as government could not afford imports e.g. Fuel shortages in 2009 & 2014
- High unemployment and informalisation of jobs. as formal sector is not expanding enough to absorb new entrants into the job market.
- Weak currency –cedi lost 31.2 % of its value in 2014 & over 25 % in the 1st half of 2015
  - Causes: high deficits, low current account balance, high public debt etc
  - Bank of Ghana is supposed to be pumping $20m daily to artificially cushion the cedi
  - New forex regulations introduced by Bank of Ghana to restrict trading in foreign currencies exacerbated the situation and so was abandoned

Was Debt Relief helpful?

- Ghana on reaching HIPC completion point in July 2004, received debt relief of $3.7 bn spread over 20 yrs
- Funds targeted both at reducing poverty and enhancing growth of the economy
- Disbursement formula : 20% for the reduction of domestic debt and 80% for MDA and MMDA programmes and projects. Priority sectors :education, health, water and sanitation, and disaster management).
- Education :
  - construction of basic school classsrooms & introduction of capitation grant, upgrading of senior high school infrastrcuture , subsidized BECE exams fees, gender programmes & School feeding programme

Was Debt Relief helpful?

- Health Sector
  - establishment of District Mutual Health Schemes
  - Free maternal health care
  - community health nurses
- Infrastructure
  - rural electrification,
  - The bulk of 2005 releases for energy was for Ghana's Equity Contribution to the West Africa Gas Pipeline project
  - storm water drainage, construction of culverts, desilting of drains, sewerage works
  - road construction
- Social protection : micro finance programmes for women's groups, farmers' groups and the Emergency Social Relief Fund.

HIPC was helpful to the extent that funds complemented development initiatives. It helped in providing basic services

National Discourse on Ghana’s Debt Crisis

- Political debates- mainly raised by major opposition party (NPP)
  - Through public lectures, press conferences and radio discussions but was often met by the usual “policking”
  - Data on debt was scarce since completion of the World Bank programme in 2012
- Academia
  - Institute of Statistical, Social and Economic Research (ISSER) has in the yearly State of Ghanaian Economy highlighted trends and patterns
- Media engagement on debt issues prompted by political debates or publications by academia & CSOs

CSOs National Discourse on Ghana’s Debt Crisis

- Most CSOs in Ghana focused on debt management/sustainability issues during the HIPC period.
  - SEND-GHANA’s popular HIPC watch project tracked HIPC funds using social accountability tools like citizens report card, PET etc
- Most CSOs shifted attention to good governance indicators such as participation, transparency & accountability Post-HIPC
- Few CSOs have began advocacy work on debt issues in recent times
  - E.g. Institute Economic Affairs (IEA) &Centre for Economic Policy Analysis (CEPA)

Conclusion

- Ghana is described a high risk debt distress country.
- Maintaining sustainable debt depends on the ff:
  - High economic growth
  - keeping fiscal deficits under control,
  - Restructuring loans
  - Betters terms of borrowing
  - Using loans effectively to generate sufficient growth to reduce debt services burden & foster sustainability
- To the extent that HIPC funds complemented development initiatives, it was helpful.
- CSOs advocacy around debt sustainability remains low and adhoc
- CSOs requires funding to support advocacy activities
  - Most CSOs do not have core funding & therefore cannot decide agenda. CSOs in Ghana activities are largely driven by donors.

Thank you for your attention

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