MINISTRY OF FINANCE

STATEMENT TO PARLIAMENT

Thursday, 28th March, 2019
Statement to Parliament – March, 2019

Introduction

1. Right Honourable Speaker, Hon. Members of Parliament, March 2019 has indeed been a remarkable month. I wish to, therefore, express my sincere gratitude for the opportunity to address the House on some key recent events that have occurred recently as we bring the First Quarter of 2019 to a close:

a. First, the formal completion of our Extended Credit Facility programme with the IMF;

b. Secondly, the historic US$3 billion Eurobond issuance;

c. Thirdly, the recent developments on the foreign exchange market and the Cedi; and

d. This week’s visit of the World Bank VP for Africa.

Mr. Speaker, and from the Holy Book’s Isaiah....

‘See, I am doing a new thing. Now it springs up. Do you not perceive it? I am making a way in the wilderness.”

We just want as a nation, to thank God for what He is doing.
IMF ECF Programme

2. Mr. Speaker, you will recall that in section 12 of the 2019 Budget Statement and Economic policy, I stated that we were on course to completing the Extended Credit Facility with the International Monetary Fund. Well, Mr Speaker, I am glad to announce that it is now a mission accomplished!

3. Mr Speaker, Ghanaians, who have been the victims of poor economic decisions of the past, know all so well that the healing process has not been easy, it has been austere, it has been tough, it has been restraining, but it was necessary. It was necessary because what had been broken had to be fixed by the Akufo-Addo government.

4. In August 2014, the Mahama government was compelled by the outcome of its (homegrown policies) and economic management to turn to the IMF for a bailout. The market, indeed the business community, had lost confidence in the capacity of the then government to steer the economy, with the requisite competence, care and discipline, back on track.

5. Mr Speaker, permit me to quote what the Financial Times wrote on August 3rd, 2014 in a report with the headline: “GHANA SEEKS IMF HELP AFTER CURRENCY FALLS 40%.”
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It reads: “Ghana, the country that epitomised the ‘Africa rising’ narrative of strong economic growth and improved governance, is to seek help from the International Monetary Fund.”

“... The West African nation will turn to the fund for financial assistance after its currency plunged roughly 40 per cent this year against the US dollar...

“Accra’s request for a bailout is likely to shake some investors, as Ghana was seen as a model of economic and political development in the continent. In 2007, under the Kufuor Administration, it became the first country in sub Saharan Africa, apart from South Africa, to tap the sovereign bond market, raising $750m through a 10-year bond...”

The FT report of 2014 reminds us further of how dire the situation was, “Ghana has this year repeatedly postponed a return to the bond market. But, Mr Terkper said the country still planned a $1bn, 10 year bond.” He was quoted as saying that the Capital market would find our bond attractive once Ghana entered the IMF programme. Even then, we needed the World Bank to provide a $400 million guarantee to support Ghana’s $1 billion sovereign. Despite this guarantee, the 15yr Eurobond
issued in 2015 unfortunately attracted the highest coupon rate ever in Ghana history at 10.75%.

6. The world, Mr Speaker, found our plunge shocking, perplexing. This was because, by 2011 Ghana had begun producing oil in commercial quantities. Hopes of a better Ghana were high. Sadly, Mr Speaker, by the end of the following year, 2012, the economy was already in a tailspin, spiralled by the excessive spending, particularly in the last four months to the 2012 general elections. This led to Ghana recording a deficit of 11.5% of GDP— highest deficit on record in the 4th republic. His Administration, Mr Speaker, never recovered from that 2012 deficit.

7. By February 2014, the IMF was calling for urgent measures to restore Macroeconomic stability. By the end of that year, Ghana’s economy was characterised by:

a) rising interest rates to around 26 percent on short term domestic debt (91-day Treasury Bills)
b) high policy interest rate of up to 21 percent
c) high year-on-year inflation of 17 percent
d) a cedi versus dollar depreciation of over 31 percent
e) a low net international reserves of 1.8 months imports cover
f) Delayed payments of statutory bills

g) mounting arrears as contractors’ bills could not be paid

h) large capital outflows, and

i) the ‘Dumsor’ continued to have a devastating impact on the social and economic lives of Ghanaians

Simply put, Mr. Speaker, the economy under the Mahama administration, was in severe crisis. Mr. Speaker, it is important to give this background, in order for the country to understand where we were, how we got there, the pills the people have had to swallow in our committed efforts to get us out and on the go.

8. **Mr. Speaker**, the economic situation left the government at the time with no choice but to sign up to a three-year ECF Programme in April 2015. This entailed a total of eight programme reviews twice a year. After each successful review, an agreed amount was to be disbursed as Balance of Payments support to improve the country’s international reserves. The total expected inflow for the three-year period was SDR664.20 million (approximately US$914 million).
9. Mr. Speaker, the programme primarily aimed to: (i) ensure prudent fiscal consolidation and debt sustainability, contain expenditures through wage restraint and limited net hiring and mobilise additional revenues; (ii) structurally reform to strengthen public finances and instil fiscal discipline by improving budget transparency, cleaning up and controlling public sector payroll, right-sizing the civil service, and improve domestic revenue collection; (iii) restore effective inflation targeting framework to help bring inflation back into single digit territory; and (iv) preserving financial sector stability.

10. When the President Akufo-Addo administration took over the Management of the Economy, it was confronted with a very difficult choice, continue with a derailed IMF - ECF programme or completely abandoned it due to the steep fiscal consolidation path that we needed to take. But Mr. Speaker we chose the difficult but sensible path to stabilize the economy. We resolved to do what we believe was a move in the National interest and fundamental to our National development goals. The Economy was not in good shape, the financial sector was reeling and we needed to rebuild the confidence of both Ghanaians and Foreign investors in Ghana and our economy.
Mr. Speaker, I am happy to announce today that the difficult choice we made has yielded the desired outcome. We have successfully completed the programme and the economic indicators are all looking very good.

11. However, Mr. Speaker, macro-economic performance in 2016, another election year under the previous government, was characterized by excessive fiscal dominance even worse than in 2012. The ECF Programme objectives had been derailed, the then government only managed to complete three Programme reviews against six scheduled. This, Mr speaker, meant that there was no way Ghana could have completed the programme as scheduled in April 2018.

12. Mr. Speaker, I am delighted to announce that the Executive Board of the IMF met on 20th March, 2019 to approve the combined seventh and eight reviews under the ECF supported arrangement, bringing an end to the Extended Credit Facility Programme.

13. This successful completion immediately made available to Ghana the amount of SDR132.84 million (about US$185.2 million). This brings the total cumulative disbursement under the ECF supported arrangement to SDR664.20 million (equivalent to US$934.4 million).
Mr. Speaker, the Executive Board issued a statement after the Board meeting in which they commended the Akufo-Addo Government for putting the Programme back on track and achieving significant macroeconomic gains over the course of the ECF supported programme, which has resulted in:

a. a rising and broad-based GDP growth momentum with the economy growing by 8.1% in 2017 (up from 2.2% -2015 and 3.4% - 2016) and 6.1% (end-Q3 2018 average);

b. effective monetary policy put in place and the sustained disinflation (inflation now at 9.2% from 15.4% -2015);

c. accelerated fiscal consolidation with deficit contraction of over 3% of rebased GDP (i.e. from 7.3% - 2016 to 3.9% - 2018);

d. a successful banking sector clean-up (with over 1 million depositors' funds saved).

e. Mr. Speaker, in 27 months, President Akufo-Addo's government has achieved the following;

a. It completed in 8 months, August 2017- April 2018, three reviews compared to the three reviews in 2 years in the previous administration.
b. It completed 2 back-to-back combined reviews (5th & 6th and 7th and 8th reviews)

c. It completed 12 structural bench marks

d. All our performance criteria were met

e. 7 prior actions met to conclude the programme

f. The government successfully worked with 3 mission chiefs and 2 resident represents of the IMF and

g. restored macro-economic stability

15. **Mr. Speaker,** while it is evident that significant macroeconomic gains have been achieved over the course of the ECF supported programme and especially over the last two years, some challenges remain. To ensure irreversibility, there is the need to:

a. Maintain fiscal discipline and avoid off-budget expenditure and fiscal dominance

b. Enhance public debt management;

c. Continue the prudent monetary policy to guard against upside risks to inflation;

d. Enhance the financial system's soundness and resilience.
e. Very crucially implement an aggressive revenue mobilization regime

16. **Mr. Speaker**, to this end, the codification of policies into laws and systems to promote fiscal discipline, debt sustainability and sanction offenders provides a strong platform to safeguard our gains and ensure irreversibility. These include:

a. Fiscal Responsibility Act which, will among others, cap the fiscal deficit at 5% of GDP whiles ensuring positive primary balance beginning from 2019;

b. Financial Stability Advisory Council & Fiscal Responsibility Advisory Council established to monitor the Government budget for coherence and compliance;

c. Economic Policy Coordination Committee co-chaired by the Finance Minister and the BoG Governor to coordinate Government’s macro-fiscal policy and address any challenges facing Government’s economic programme;

d. Public Financial Management Act ("PFMA") - to ensure care for the public purse with a strong sanctions regime, stricter oversight of SOEs, and mandatory timely reporting;
e. Tax Exemption Bill - A tax exemption bill has been laid before Parliament for passage to streamline tax exemptions and minimize its abuse; and

f. Zero Central Bank Financing - MoU between BoG and MoF on zero Central Bank financing to government extended through 2020 to strengthen inflation targeting regime.

17. Mr. Speaker, let me reiterate as I indicated in the 2019 Budget that, the completion of the ECF Programme notwithstanding, Ghana remains a member in good standing with the IMF and we will continue our productive policy and technical collaboration. We do have choices within the Article IV framework to ensure positive engagement of the IMF as a Trusted Advisor.

US$3.0 billion Eurobond Issuance

18. Mr. Speaker, as you may recall, we stated in the 2019 Budget that Government’s objective is to borrow at the least-cost and at a prudent level of risk. In line with this Mr Speaker, we have managed to buck the old trend by reducing the rate of debt accumulation from 22 percent per annum at 2016 to 14.5 percent as at 2018. Consequently, we sought and received your approval to issue sovereign bonds of up to US$3.0 billion.
19. Through an open bidding process, Government of Ghana selected Five (5) Lead Managers and Five (5) Co-Managers for the US$3 billion issuance programme. The lead managers advised Government of Ghana to issue a Eurobond in the shortest possible time to avoid the potential turbulence we experienced in 2018. In twenty-seven (27) days the Ministry of Finance team, assisted by the Bank of Ghana, Attorney General’s Office, Ghana Statistical Service and others, with the Lead Managers and Co-Managers, packaged the transaction, completed due diligence, commenced and completed the roadshow, and priced the deal. This must also be a record and I would like to commend the team and the Lead and Co-Managers for a job well done in record time.

20. Mr. Speaker, Ghana embarked on a 3-day roadshow in New York, Boston and London. On Tuesday 19th March, Ghana priced a US$ 3.0 billion tri-tranche bond with a weighted average of 7, 12 and 31 years. It is the first time Ghana has done a 3-tranch issuance.

21. The team met with over 130 fixed income investors face-to-face and via conference calls. The deal generated strong
interest, with peak orders in excess of US$ 21.0 billion, representing an over subscription of 7 times. Our final order-book closed at US$17.2 billion, which was the highest order-book achieved in sub-Sahara Africa. The next largest sub-Saharan order-book was Kenya’s $14 billion last year. The 31-year bond is also the longest-ever issuance in Africa.

To put this in context, Ghana issued its first Eurobond in September 2007 to raise $750 million; its order-book was nearly four times larger. The second Eurobond was issued in 2013 for $1 billion; its order-book was only two times larger. Moving forward to October 2015, a $1 billion Eurobond was issued; even at a very high coupon rate of 10.75%, its order-book was only two times larger at $2 billion. The last Eurobond of the previous government, of $750 million, was issued in 2016; the order-book was $4bn, over five times larger, but this came at a high cost of 9.25% for a 6-year bond, compared to this year’s 7.875% for a 7-year bond. Indeed, the size of this year’s order-book was truly unprecedented, especially when considering its competitive pricing.

Furthermore, Mr. Speaker, this multi-tranche bond offering was Ghana’s largest single transaction, by nominal size,
since its inaugural international debut in September 2007 to date. Leveraging the considerable demand, Ghana priced all the three tranches at or inside fair value, as follows:

a. US$750 million for a 7-year bond issued at 7.875%;
b. US$1.25 billion for a 12-year bond issued at 8.125%; and
c. US$1.0 billion for a 31-year bond issued at 8.95%.

24. These bonds were competitively priced, compared to recent issues from African peers with similar exchange rate regimes, for example in November 2018, Nigeria issues a 12-year bond at 8.75 percent compared to our 8.125 percent, and a 30 year bond at 9.25 percent, compared to our 8.95 percent. Comparisons to Senegal and Côte d'Ivoire are not appropriate, as they do not have their own currency. The currency of the Francophone countries, the CFA, is pegged to the Euro and guaranteed by the French Treasury. We can't compare apples with oranges.

25. Mr. Speaker, in terms of geographic participation, the USA and UK dominated the issuance. We, however, also observed an increase in participation from Asia from less than 1% to 4%, indicating the positive results from our investor
engagement within that region in 2018. In terms of investor type, the bonds were bought mainly by Asset Managers (~87%), followed by Hedge funds (~6%) and Banks (~5%).

26. **Mr. Speaker**, the transaction is incredibly beneficial for Ghana for a number of reasons:

a. It shows that Republic of Ghana has market access to long dated Eurobond financing in size;

b. It confirms long-term financial support from buy-and-hold high quality investors, including many first-time buyers of Ghana bonds from all 4 regions;

c. It validates the successful completion of the IMF programme and the inherent trust that the investor community has in our country.

d. The trading pattern of the bonds post issuance confirms the fact that they were fairly priced, meaning that Ghana did not leave any money on the table;
27. Mr. Speaker, now to the Cedi. The cedi suffered some turbulence during the first quarter of this year mainly as a result of a confluence of factors including:

a. Pressure on the current account as a result of income transfers by corporate as well as seasonal demands by importers;

b. Portfolio reversals by investors in our country's debt who were caught by surprise with the 100bps reduction in the MPC rate to 16% at the end of January and thus over reacted by selling off and externalising fourth quarter coupon payments; and

c. Statistical adjustments to the exchange rate calculation by the Bank of Ghana in efforts to improve market transparency.
d. Uncertainties on the future with Ghana’s conclusion of the IMF program

28. Mr. Speaker this turbulence happened despite the strong economic fundamentals and improvement in our balance of payments; which our Government has achieved in the last 2 years. We have done a lot of work to ensure that the economic fundamentals are robust and able to support economic growth and transformation. This is further evidenced, for example, by the following statistics:

a. Inflation declining from 15.4% in 2016 to 9.2% in 2018;
b. Fiscal deficit falling from 6.5% in 2016 to 3.9% in 2018;
c. Interest rate on 91-day treasury bill from 16.3% in 2016 to 14.6% in 2018; and
d. Current account deficit from 6.6% in 2016 to 3.2% in 2018.

29. Mr. Speaker, as they say the numbers don’t lie, as such it is clear from the data that the depreciation of the cedi was not due to weak economic fundamentals but rather a combination of structural rigidities and the apparent speculative behaviour of portfolio investors and market participants. It is also noteworthy
that while this is a challenge, the Cedi has however performed better over the last two years than when compared specifically to 2012 to 2016.

30. In 2012, the Cedi depreciated by 15.95%, 12.81% in 2013, peaked at 32.45% in 2014, halved to 15.68% in 2015 and depreciated by 9.65% end 2016. Cumulative depreciation from 2012 to 2016 was 65.423%. Between Dec 2017, through the whole of 2018 to Mar 21st, 2019, the Cedi had depreciated by 17.325% compared to 25.33% in 2015 and 2016.

31. Mr. Speaker, indeed the Cedi recovery had started even before the Eurobond was issued, and if I may add, before the Vice President’s trip to India. But what the Eurobond issuance did was confirm the confidence investors have in our economy, with their $21 billion rush, which supported the recovery; possible because of our successful macroeconomic turnaround as well as the implementation of various policy measures.

32. Mr. Speaker, the Cedi has made great strides towards recovery on the back of the successful issue of the US$3 billion Eurobond and the completion of the 7th and 8th IMF Reviews which restored confidence in the Ghanaian economy. Currently, the Cedi has
witnessed substantial gains and with the measures we have put in place, based on the existing sound economic fundamentals, we anticipate the stability of the Cedi going forward. Indeed, the Cedi has appreciated by 5.12% in March 2019 alone as against a depreciation of 2.71% in the same period last year.

33. It is this success that we need to build on and put in place the structures to strengthen the resilience of the Cedi against its major trading currencies. Mr. Speaker, we recognize the need to take the following steps:

a. enhance the transparency of our foreign exchange market to minimize information asymmetry and panic buying of currency by businesses and the public when there are seasonal blips in the currency;
b. develop our capital market, insurance and pension industries to ensure that Government domestic borrowing relies less on foreign portfolio investors.
c. Mr. Speaker, the President has directed that I investigate the structural causes for the depreciation of the Cedi and to propose measures to address the situation. The Governor and I will put a bipartisan committee together to proceed immediately.
34. Mr. Speaker, our current progress on the economy, sustained GDP growth and economic transformation will eventually ensure that the currency is stable over the medium term. The Bank of Ghana will remain vigilant in the short term to build adequate reserve buffers and promote market discipline in the FX market; and over the medium term, the Government will ensure that we have a transformed economy that will strengthen our trade, current and capital accounts.

35. We believe that our current efforts to boost exports and reduce imports by diversifying and deepening the economy through industrialization and developing the agri-business, and the improvements in our financial sector architecture will provide the needed scope to guarantee that our currency becomes even more resilient. In other words, Mr Speaker, we need to grow more, manufacture more, Buy Ghana, Wear Ghana, See Ghana, Eat Ghana, which means more Kenkey and Fish, more Waakye, more TZ, more Sobolo, more coconut juice, to make our cedi strong. For a proud and confident people, we should celebrate patriotism and not denigrate it.
36. If there is any lesson for us, our recent success in the Eurobond market demonstrates the clear confidence that the international community has in the work that we have done – it is hard work, and we know that this confidence resonates with our vision of a Ghana Beyond Aid.

Visit by the World Bank Vice President for the Africa Region

37. Mr. Speaker, as a sign of the continued confidence the international community has in our country, the World Bank Vice president for Africa Region, Dr. Hafez Ghanem, visited Ghana between 24th – 27th March, 2019. The objective of the visit was to discuss with the Government and other stakeholders, the World Bank’s assistance program for Ghana and explore areas of future collaboration that are more transformative and supportive of the country’s Ghana Beyond Aid vision.

38. The discussion centered on efforts to mobilize funds for sustainable economic transformation towards achievement of a Ghana Beyond Aid and of the SDGs. Specifically, areas of discussion included:
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a. How Ghana can take advantage of the Digital Economy
b. Building Human Capital; and
c. Support for Industrialization through access to
downstream energy capacity.

39. Mr. Speaker, thankfully, the World Bank Vice-President indicated the Bank's interest in supporting Ghana in all three areas.

Specifically:

a. On the Digital Economy, Dr. Ghanem said the Bank will be interested in supporting Ghana on: (a) infrastructure and connectivity; (b) regulations; and (c) digital platforms to support areas such as e-government, revenue mobilization, education, and fintech.

b. On Building Human Capital, World Bank support could be for: (a) the free SHS program, (b) quality improvements, and (c) interventions to improve education of girls, by providing incentives to parents to encourage them to keep their daughters in school rather than marrying them off at such young ages, and in doing so also reduce the incidence of stunting of children since educated mothers are more knowledgeable about nutrition.
c. On Industrialization, Dr. Ghanem indicated the Bank’s willingness to help Ghana take advantage of its current and prospective excess supply of power and gas by developing industries that are intensive in the use of these energy resources.

d. Furthermore, the Bank will be willing to assist Ghana to export some of its excess energy to other countries in West Africa.

e. The Bank has also indicated its willingness to increase our window by $2 billion including doubling budget support to $520 million subject to certain prior actions.

40. Mr Speaker, as I indicated during the 2019 Budget Statement, we recognize that while current resources are insufficient to meet every need and every demand of every Ghanaian, there are no limitations on our collective potential. So, Mr Speaker, we have been creative in our efforts to take Ghana Beyond aid through Social Partnerships and harnessing our entrepreneurial spirit as a country to build infrastructure, develop industry and support agriculture.
41. Mr. Speaker, Ghana is doing something right and it is time we all pulled in one direction. The Lord is indeed doing a new thing for Ghana and we should not be afraid. It is time we built a broad consensus on what is good for the Republic. As Edmund Burke told his electors in 1774, "Parliament is not a congress of ambassadors from different and hostile interests...parliament is a deliberative assembly of one nation, with one interest, that of the whole."

42. Mr Speaker, I believe as a nation, we are witnessing God's special regard for Ghana. In a space of one week, we saw a $21 billion rush for our Eurobond issuance; we successfully concluded the IMF program and we are experiencing an impressive recovery of the cedi; ending with the World Bank doubling what it had intended to support us with. The Lord has indeed given us hidden treasures stored in secret places, so we all know that He is the Lord.

43. Mr Speaker, we intend to continue with this discipline, competence, and compassionate management of the Ghanaian economy. And we are doing so by also protecting the public purse. So much so that the Public Procurement Authority has in the space of 24 months made savings on Procurement for goods, works and
services to the tune of GHC 1.9 billion cedis equivalent. This Mr Speaker, compares favourably, to the Zero savings made under the previous government.

44. Mr Speaker, we promised to deliver on the economy, and with the support of this house and the Ghanaian people, and with the Lord being our anchor, we shall continue to work in humility to defend our republic and make it great and strong.

45. Mr Speaker, let me end by sharing with you our Ministry’s weekly devotions at 6.30 am from Psalm 126;

“Our mouths are filled with laughter,
our tongues with songs of joy.
Then, it was said among many nations,
The Lord has done many things for them”.

And for me personally, Mr. Speaker, I say,

“Praise the Lord O my soul, all my inmost being, praise His Holy Name.”