



# The Republic of Ghana

## **Preparation for Accessing the International Capital Market**

*Presentation at CMDSF Forum April 9 2008 in Washington D.C.*

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# Presentation Overview

- ◆ Introduction
- ◆ Why Ghana Sourced for International Capital Market Funds
  - Basics of Ghana and Background to Reforms
  - Reforms and Impact
  - Medium to Long Term Goals
- ◆ Legal and Institutional Arrangements
- ◆ Conclusions and Way Forward



# Presentation Overview

## ◆ INTRODUCTION

Ghana on September 27<sup>th</sup> 2007 became the first post-HIPC country to access the International Capital Markets with a benchmark issue of US\$750million, 10-year tenure and at a coupon rate of 8.5%

The deal was four times oversubscribed with high quality book of investors made up of 40% from the US market, 36% from UK market and the rest from European countries, Middle Eastern region and Asia

Prior to the bold step, external financing were from multilateral and bilateral sources which came with some challenges to address the bottlenecks constraining growth.

# The Republic of Ghana: A Snapshot

- ◆ 2007 GDP: US\$ 14.9 billion equiv.
- ◆ 2007 GDP per capita: \$ 665
- ◆ GDP Growth 2007: 6.3%
- ◆ Inflation 2007: 12.7%
- ◆ Population 2007: 22.4 million
- ◆ Life expectancy at birth: 57 years
- ◆ Literacy rate: 57.9%
- ◆ Bond ratings:
  - S&P: B+ (stable)
  - Fitch: B+ (stable)



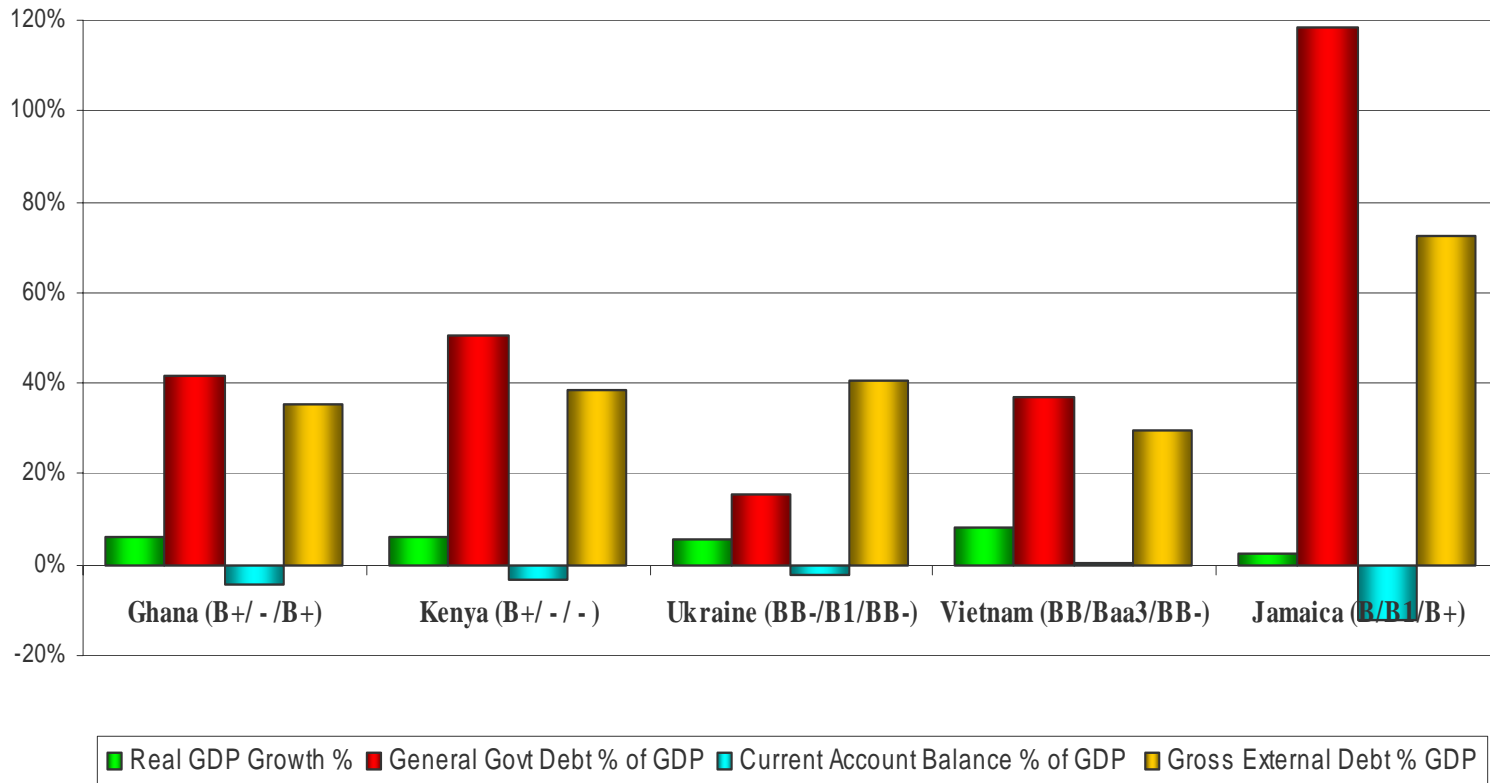


# Ghana is one of Africa's most developed democracies

- ◆ Open democratic political system
  - Ghana was the first sub-Saharan African country to gain independence from British colonial rule in 1957.
  - After a period of political instability, Ghana has now emerged as one of the more peaceful and stable democracies in Africa.
  - Since the restoration of multi-party democracy in 1992, good governance and the rule of law continues to deepen.
  - Ghana was the first country to submit to African Peer Review Mechanism (APRM) under NEPAD
  - First African country to submit to Statistical Peer Review
  - Ghana has a vibrant and free press.
  - Independent Judiciary – Rule of Law, property rights upheld.
  - Tolerant society where diversity is respected.
  - Economic stability has given the country greater political influence in the region (Chairmanship of African Union, Peacekeeping initiatives, etc.).

# Comparable Rated Sovereign Peer Group (2006)

## Debt Management Comparables



◆ Ghana performs well against its rated sovereign peers



# Background to Reforms

- ◆ Fiscal Vulnerabilities
- ◆ High Public Debt
- ◆ Subsidies to Petroleum Sector
- ◆ Large Budget deficits
- ◆ Vulnerabilities to external shocks

# Stabilization of Ghana's Economy - Fiscal and monetary policy reforms

## Fiscal Policy Reforms

- ◆ Improved budgeting and expenditure control procedures
- ◆ Revenue enhancement
  - New tax measures including NRL, health tax, and others.
- ◆ Expenditure control through full cost recovery
  - Petroleum pricing policy and public utility pricing.
- ◆ Reduced debt service payments resulting from HIPC and MDRI initiatives

## Monetary Policy Reforms

- ◆ Independence Central Bank
  - Promulgation of Bank of Ghana Act (2002)
  - Monetary Policy Committee (MPC) process
  - A New Monetary Policy Framework:
    - Price Stability underpinned by
    - Fiscal Consolidation
  - Development of interest rate policy financial instruments
  - Adoption of an Inflation Targeting Framework

# Financial Sector Reforms

- ◆ Credit Reporting Act
- ◆ Borrowers/Lenders Bill
- ◆ Know Your Customer (KYC)
- ◆ Anti-Money Laundering Bill
- ◆ Abolition of secondary reserve requirements
- ◆ Foreign Exchange Act (2006)
- ◆ Non-resident participation in domestic government securities
- ◆ Licensing of New Banks
- ◆ Re-denomination of the local currency (Cedi)
- ◆ Banking Amendment Act (2007) – IFSC
- ◆ Listing of Government Securities on the GSE
- ◆ Risk Based Supervision
- ◆ Reforms to Modernize Payment Systems
  - Establishment of a common National Payment System Platform under Gh-IPSS(Ghana Interbank Payments and Settlement system)
  - The Gh-IPSS comes with a biometric smartcard as a vehicle for financial inclusion of the unbanked and the underbanked
  - Promulgation of Payment System Law in 2006
  - Central Security Depository System established in 2004 to ensure security of title.

# Privatization: Key to Improving Efficiency and Reshaping Government

## ◆ Objectives

- modernize the economy
- job creation
- distribution of capital amongst large social classes
- stimulation of foreign direct investments
- develop partnerships with strategic players to ensure transfer of technology and management expertise
- revenue generation for the government

Total number of entities privatized:  
360 have either been divested or partially divested since 1991

## On-going Privatisations

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Ghana Oil Company (GOIL)

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Ghana Telecom (GT)

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State Insurance Company (SIC)

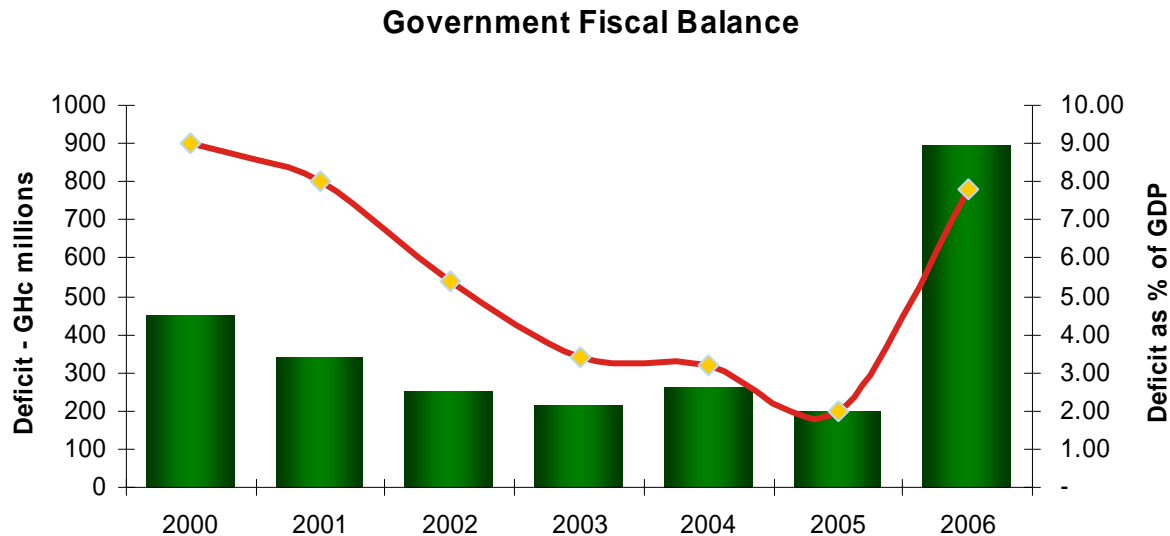
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Western Telesystems (Westel)

# Reforms with a human face: Millennium Development Goals (MDGs)

- ◆ Overarching theme of Ghana's reform efforts has been poverty alleviation and improvement in living conditions for all Ghanaians as expressed in MDGs
- ◆ MDGs form the core of Ghana's partnership with its foreign development partners and progress towards achieving those goals was the trigger for debt relief extended by Ghana's development partners
- ◆ Government recognizes that MDGs and growth are mutually reinforcing:
  - growth generates more resources to channel towards MDG achievement
  - MDG achievements ensures healthier, better educated workforce which is crucial to raising Ghana's economic productivity and accelerated growth
- ◆ MDGs encompass eight broad categories related to income distribution, health, education, gender equality, and environment
- ◆ Ghana is on track to reach specified goals in five of those eight categories, a sign of progress to date as well as an indication of work still to do \*

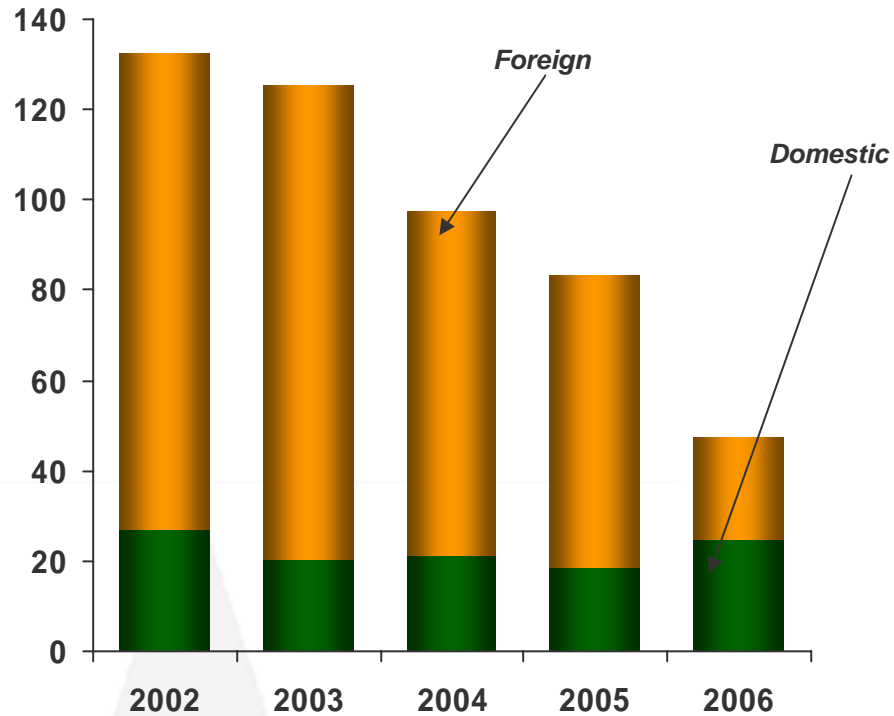
# Fiscal reforms and debt relief have strengthened Ghana's fiscal position



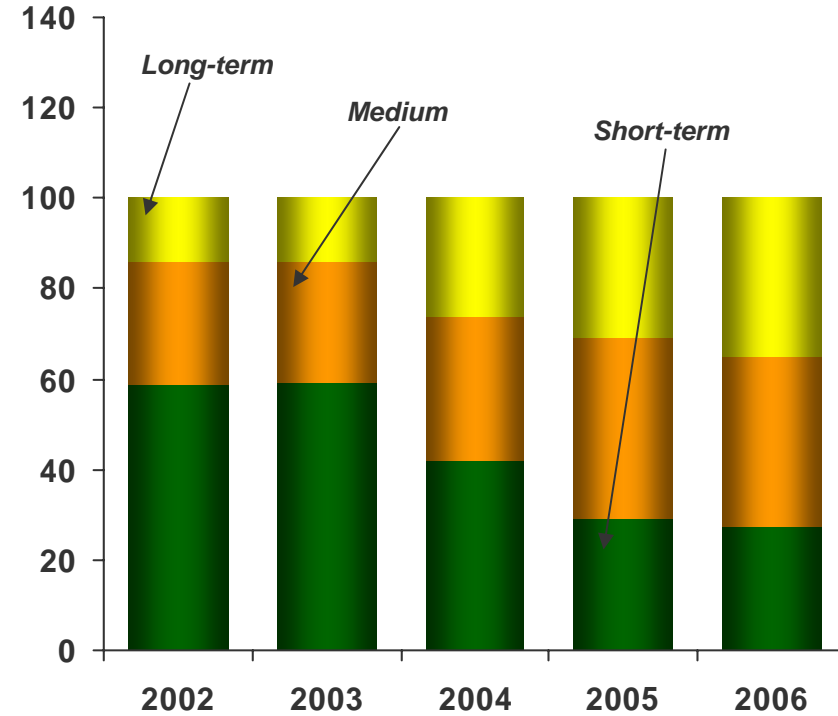
- ◆ Improved budgetary controls helped shrink budget deficits
- ◆ Slippage in 2006 caused by adjustments in public wages in health and education, increased subsidies to offset impact of increased use of oil-fired energy production caused by rain shortfall
- ◆ Measures contained in supplemental budget of July '07 will help rein in spending to achieve budget deficit target of 5.7% of GDP in 2007

# Government's balance sheet improved by debt relief and development of domestic bond market

Total Government Debt % of GDP



Maturity Structure of Domestic Debt



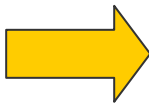
- ◆ Achievement of various policy goals agreed with official bilateral and multilateral creditors triggered a total of \$4.1 billion in debt relief for Ghana
- ◆ Total government debt now equal to 47.2% of GDP
- ◆ Government has steadily lengthened the maturity of its domestic debt

# Progress has been substantial but more work needed to fix vulnerabilities to ensure future success

## Vulnerability

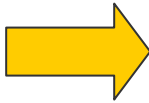
## Remedies

- ◆ Reliance on hydropower



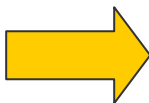
- ◆ More thermal facilities to be built
- ◆ Gas pipeline coming on stream
- ◆ Oil initial production within 3-5 years
- ◆ More hydro capacity will reduce vulnerability to low rainfall

- ◆ Narrow export product range



- ◆ Government investment program and stable macroeconomic conditions will facilitate diversification
- ◆ Initial changes are likely to come in area of value added to Ghana's commodity exports

- ◆ Reliance on concessional funding from abroad



- ◆ Increased domestic savings
- ◆ Domestic capital market development
- ◆ Huge capital funds for infrastructure sector

# Improvements in the conditions of the poor and social development

<b>Millennium Development Goals</b>	<b>1990</b>	<b>2004</b>	<b>2015</b>
Incidence of Poverty (percent)	52	35	26
Primary completion rate (percent)		47	100
Under -5 mortality (per 1000)	122	112	40
Maternal mortality (per 100,000)	740	503	185
Access to safe water (percent)	54	56	85
Access to sanitation (percent)	21	35	85



# The Goal: Middle Income Status by 2015

- ◆ Under the Ghana's Growth and Poverty Reduction Strategy (GPRS II) Government has a stated goal of reaching middle income status by 2015
- ◆ This requires that growth is accelerated from 6% to 8% per annum
- ◆ However there are risks and constraints to achieving higher growth

# Ghana's Strategy to address Constraints to Accelerated Growth...

## ◆ Constraints:

### ➤ Infrastructure gaps

- Energy crisis
- Water and sanitation crisis
- IT quality
- Very limited private sector participation in infrastructure
- Policy (energy and water tariffs) and institutional lacunae, SOE reform

### ➤ Low agricultural productivity

- Cocoa production/productivity rising but from low base
- Gains in maize; Pineapple growth significant but from low base
- Little productivity gains in the rest of agriculture



## ...And to Fix the Vulnerabilities

- ◆ Delays in resolving the energy crisis
- ◆ Relaxing the fiscal policy stance
- ◆ Failing to improve investment climate and attract additional private investments and PPP in infrastructure

# Ghana's Strategy in Achieving Middle Income Status – GPRS II

## Role of Government

- ◆ Enable, facilitate, regulate
- ◆ Invest in infrastructure
- ◆ Invest in people
- ◆ Maintain stable macro environment
- ◆ Deepen and broaden reforms
- ◆ Maintain debt sustainability

## Role of Private Sector

- ◆ The main driver of growth
- ◆ New products and services
- ◆ Management skills
- ◆ Capital



# The Next Phase of Reforms

- ◆ Reform of energy, mining, and agriculture sectors
- ◆ Reform of social benefits and pensions
- ◆ Utility pricing to full cost recovery
- ◆ IPPs and PPPs in the provision of infrastructure



# Goals for Ghana's public finances

- ◆ Keeping debt on sustainable basis
- ◆ Continued use of official funds
  - Traditional donors Ghana's essential partners
  - China playing constructive role, consistent with Ghana's development strategy
- ◆ Recourse to debt markets to be limited by sustainability constraints

# Legal and Institutional Arrangements for International Bond Market Funds

## LEGAL

- ◆ Approval was sought from regulatory authorities (Cabinet and Parliament) before the Road Show. This was in line with the 1992 Constitutional provisions and that of the 1970 Loans Act 335.

## INSTITUTIONAL ARRANGEMENTS

- ◆ Establishment of a Joint MoFEP and Bank of Ghana Capital Markets Committee (CMC) –to advise on government’s participation in international and domestic bond markets. This started in 2004 with technical assistance discussions with the IMF and own-country DSA with bond financing scenario in 2006. Tripartite DSA in March 2007 with the IMF and World Bank with high borrowing scenario.
- ◆ CMC held extensive consultations with international investment bankers to establish the feasibility of Ghana entering the global capital market. This includes sovereign credit rating that started in 2003.

# Legal and Institutional Arrangements

## ◆ INSTITUTIONAL ARRANGEMENTS

- ◆ CMC held consultations with MDAs on major priority infrastructure projects that could be funded with proceeds of the sovereign bond
- ◆ CMC evaluated and advised on the selection of Lead Managers, Co-Managers (Local Banks) and Legal Advisors. The selection was done using competitive tendering in line with Ghana's Procurement Law
- ◆ Citigroup Global Markets Limited and UBS Limited were the Lead Managers. Co-managers were EDC Stockbrokers, Databank Financial Services and New World investments
- ◆ Technical team for the Road Show in the US, London and Europe. included CMC members, Finance minister and his deputy, central bank Governor and his deputy.
- ◆ Ghana \$750Million Bond Prospectus was prepared by the CMC with support from Advisors and other government agencies.



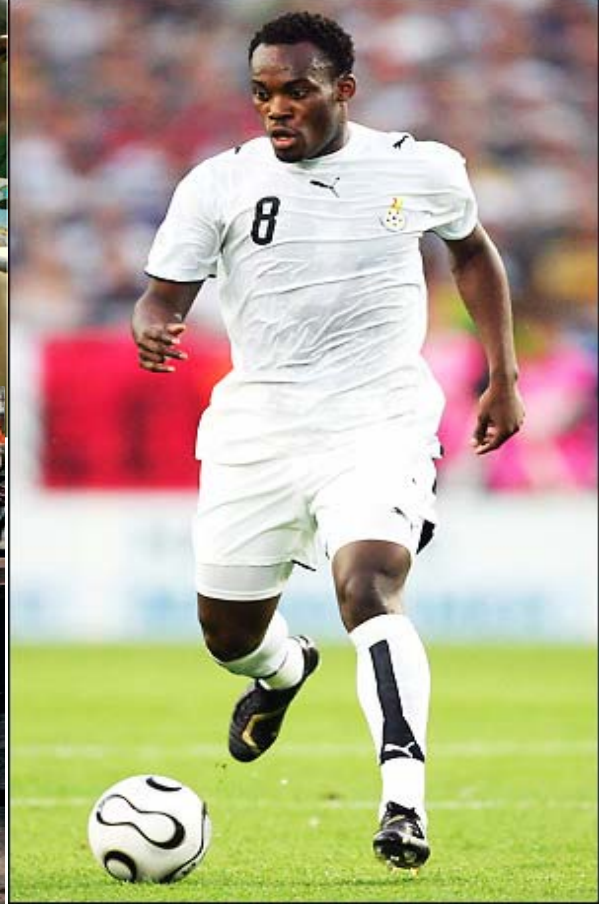
## Concluding Remarks

- ◆ Current leadership is committed to reforms, delivering on promises, implementing programs
- ◆ Considerable support from official partners such as, providing valuable advice and capital
- ◆ Strong momentum in the economy, higher growth on strong foundation
- ◆ Success has created political support for reforms
- ◆ Strategy for middle income status in 2015 underway, led by private sector, enabled by Government



## Concluding Remarks

- ◆ Access to the International Capital Markets capped a historic process of transformation in economic management based on disciplined policies, good governance, fiscal and monetary policy transparency, and structural reforms.
- ◆ It came as a next logical step after Ghana completed the HIPC/MDRI programme and successfully completed the PRGF programme with the IMF which classified Ghana as a matured stabilizer
- ◆ Accessing the international capital markets comes with flexibility in policies but it also comes with the market discipline which requires that we are able to maintain good policies for macroeconomic stability and debt sustainability
- ◆ The fiscal deficit has to be managed, keep inflation low and maintain exchange rate stability while pursuing accelerated growth. We need to achieve rapid growth with stability.





**THANK YOU FOR LISTENING**