

# RE - A Financial Loss That Could Have Been Avoided

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On Tuesday, 7 April, 2015, the Institute for Fiscal Studies (IFS) and IMANI jointly issued a Press Statement in which the two think-tanks advanced a position that the loss of GH¢2.7 billion worth of revenue to the 2015 Budget from the decline in crude oil prices could have been avoided or mitigated, if the Minister of Finance had taken steps to resume the hedging program that was implemented in the 2010-2012 period.

On Wednesday, 8 April 2015, the Ministry of Finance issued a response signed by the Deputy Minister of Finance to the IFS/IMANI Press Statement on behalf of the government. In that response, first, the Ministry claimed that the 2012 fiscal outcome belies the IFS and IMANI's claim that the hedging programme was successful and contributed to one of the longest periods of monetary and fiscal stability in the history of Ghana.

Second, the Ministry stated that "it is wholly inaccurate for IFS and IMANI to claim that the hedging programme ended when the current Minister of Finance and his team were entrusted with reviving and managing the nation's economy from 2013". According to the Ministry, the hedging program continued well into 2013 before it was subjected to a review as part of government's broader review of the petroleum pricing formula. The review which was undertaken by an Inter-Ministerial Technical Team was concluded in September 2014 and the implementation of the hedging program resumed.

Third, the Ministry stated as follows: "Indeed deciding not to actually hedge for any given period, based on the peculiar circumstances of the oil market and the projected direction of prices in both short and medium term, can also constitute a hedge".

Finally, the Ministry stated for the records that Parliament has not approved any interest rate risk management program as mentioned in the IFS/IMANI Press Statement.

The IFS wishes to comment as follows:

On the impact of the hedging program on the economy, what was said in the Press Statement issued by the IFS and IMANI was that, the hedging program was tremendously successful and, together with other prudent policy measures pursued by the government, it brought about one of the longest periods of monetary and fiscal stability in the history of the country's economic management. Indeed, the hedging program was implemented over a three-year period, i.e., between 2010 and 2012. Therefore to judge the impact of the hedging program by the 2012 fiscal outcome only and also ignore the acknowledgement that **the hedging program, together with**

**other prudent policy measures pursued by the government**, brought about the monetary and fiscal stability in the country is rather unfortunate. In any case, the IFS is undertaking a comprehensive review of the 2012 fiscal outturn, including the allegation that petroleum and other subsidies as well as unpaid promissory notes and foreign exchange losses were the causes of the 2012 fiscal deficit, and will publish the results for the benefit of all Ghanaians when the work is completed. By the way, how do unpaid promissory notes cause a fiscal deficit?

It is also very interesting to note the disclosure by the Ministry that the hedging program continued well into 2013 and after September 2014. The IFS wants to ask the Ministry if the hedging program is still continuing and if so what is the likely impact of the program on oil revenues in 2015? The Institute also wants to ask the Ministry about the impact of the hedging program on oil revenue in 2013 and the period after September 2014.

The IFS will continue to maintain its position that the inaction of the Minister of Finance has dangerously exposed the country to avoidable risks and that the drop of GH¢2.7 billion in the 2015 expected oil revenue is a financial loss that could have been avoided, if convincing responses are not provided to the questions asked about the hedging program. Merely indicating that the program continued well in 2013 and also resumed after September 2014 without telling Ghanaians the outcome and the impact of the program on oil revenues is not enough.

The IFS also does not understand the logic of the Ministry's statement that "**deciding not to actually hedge for any given period....., can also constitute a hedge**".

On the issue of the interest rate risk management program, the IFS wishes to refer the Ministry to the 17 July 2013 Hansard of the national Parliament.

Finally, the IFS wishes to make it known that its mission is to contribute to Ghana's fiscal management and macroeconomic transformation. In so doing, the Institute will analyse in an independent and objective manner government's economic policies and provide independent comments on them as a way of providing the basis for public participation and discourse to ensure an efficient and effective management of the economy. The Institute deems this as a significant contribution to the shaping and management of economic policy of our country, and also as an exercise of its civic responsibility to demand accountability from our political leaders, including heads of the institutions charged with the fiscal and macroeconomic planning and management.