Don’t Starve the Public of Vital Information on the Economy

By

Professor Newman Kwadwo Kusi

Executive Director, Institute for Fiscal Studies

29 January 2016

The Issue

Since May 2015, the Bank of Ghana Monetary Policy Committee’s Press Releases have been very brief and without some vital information. The Committee’s comments on the country’s economic growth, fiscal performance, and developments in the external sector have been truncated to the point of rendering the Press Releases not too useful. The most worrisome aspect of this development is the complete omission of information on the country’s debt situation since May 2015 in spite of the fact that the Bank of Ghana is the institution that actually borrows from the domestic market through the sale of Treasury Bills on behalf of the government. Even on the broader fiscal issue, very scanty information is contained in the last four of the Bank’s Monetary Policy Committee Press Releases.

Context

According to subsection 3(1) of the Bank of Ghana Act, 2002 (Act 612), the primary objective of the Bank is to maintain stability in the general level of prices. Section 3(2) also states that “without prejudice to subsection 3(1), the Bank shall support the general economic policy of the Government and promote economic growth and effective and efficient operation of banking and credit systems in the country, independent of instructions from the Government or any other authority”. Subsection 52 also requires the Bank, in consultation with the Minister, to formulate exchange rate policy.

Although not specifically stated in the Bank of Ghana Act, improving the credit system, formulating appropriate interest rate policy, managing liquidity (establishing proper balance between demand for and supply of money), formulating exchange rate policy, managing the country’s debt and the balance of payments are all functions of the Bank of Ghana. All these functions are aspects of the foremost function of supporting the economic policy of the Government to maintain macroeconomic stability, promote economic growth and generate employment.

Public debt management is partly a responsibility of the Bank of Ghana, being the banker to the government and as the public institution that undertakes the selling of government bonds and supports the government to ensure their proper timing, stabilize their prices (interest rates) and minimize the cost of servicing public debt. When it comes to borrowing from the international market through the issuance of bonds, representatives of the Bank of Ghana (invariably including the Governor of the Bank himself) are always a part of the team that undertakes road shows to ensure successful issuance of the bonds. This means that the Bank of Ghana should have complete information at all times on the public debt.

Letters of Intent of the Government of Ghana which describe the policies that the government intends to implement in the context of requests for financial support from the International Monetary Fund (IMF) are always signed by the Minister of Finance and the Governor of the Bank of Ghana. This means that the Minister and the Governor are the joint owners of the letters and are therefore responsible for the successful implementation of the policies outlined in them, including the debt management strategy of the government.

As the Institute for Fiscal Studies (IFS) has indicated in its recent publication on "Ghana: Implications of the Rising Interest Costs to Government", total public debt more than doubled to GH₵35.1 billion between 2010 and 2012, causing the public debt-GDP ratio to increase to 48.4 percent and making the country to face a high risk of debt distress and increased overall debt vulnerability. By end-2014, total public debt had risen to GH₵76.1 billion, equivalent to 67.1 percent of GDP, and representing an increase of 116.8 percent from 2012. By June 2015, the total public debt stock had reached a high of GH₵96.9 billion, representing 72.7 percent of GDP. Ghana's public debt stock thus increased by GH₵4.9 billion in 2006-2008, GH₵25.3 billion in 2009-2012, and GH₵61.8 billion in 2013-June 2015. The provisional public debt stock as at September 2015 was GH₵92.2 billion, which was equivalent to 69.1 percent of GDP. This figure comprised GH₵54.5 billion external debt and GH₵37.7 billion domestic debt. This means that between 2007 and September 2015, the net increase in the public debt stock was GH₵87.3 billion.

According to the IFS, the stark reality of Ghana's public debt situation is that the debt-GDP ratio has not only risen astronomically in the last few years, but has reached a level considered to be above the sustainability threshold. Assuming no roll-overs and refinancing of existing debt, about US$8.5 billion is the projected requirement to service the country's external and domestic public debt in 2015. In 2016-2020, a total of US$12.7 billion will be required to service the country's debt and another US$7.7 billion in 2021-2025 to service debt. Together it is projected that Ghana will need about US$21.2 billion to service its debt between 2015 and 2020.

Debt service absorbed 16.8 percent of domestic revenue in 2008 (after debt forgiveness from the Multi-Lateral Debt Relief Initiative), rising sharply to 43.2 percent in 2012 and then to 78.8 percent in 2014. As a percentage of exports, however, total public debt experienced large swings over the period. It dropped from 153.2 percent in 2008 to 120.1 percent in 2011. Thereafter, the debt-exports ratio increased sharply to 173.1 percent in 2014.

The IMF Extended Credit Facility support-program currently being implemented in the country aims to restore debt sustainability and macroeconomic stability to foster a return to high growth and job creation, while protecting social spending (see IMF Press Release No. 16/07, January 13, 2016). In light of this, the IMF has cautioned about the growing public debt and financing constraints in both the first and second reviews of the program. In its Press Release on the second review of the program, the Fund advises that with government debt continuing to increase and financing remaining a challenge, the government should resolutely continue the fiscal consolidation efforts, pointing to the 2016 budget which aims at a stronger consolidation than originally envisaged as a right thing (see IMF Press Release No. 16/07, January 13, 2016).

Observations

The growing public debt and the associated debt-service costs to the country are serious issues of national interest. Unfortunately, the last four of the Bank of Ghana's Monetary Policy Committee Press Releases contain no information on the country's debt. The Press Release of January 2016 for instance does not go further than indicating that fiscal consolidation is on track and that for the first eleven months of 2015, the budget recorded a cash deficit of 5.6 percent of GDP against a target of 6.8 percent. Nothing was said about the overall deficit (including divestiture proceeds and discrepancy) and the state of the public debt. It is incomprehensible and indeed a disservice to Ghanaians for the Bank of Ghana to omit details of the state of the country's debt in its Press Releases. It may be a conscious decision of the Bank to issue short Press Releases, but this cannot be done at the expense of the provision of such vital information as on the public debt.

Also, comments by the Committee on the country's inflation trends in the last quarter of 2015 are very strange. According to the Bank, the marginal increase in inflation from 17.4 percent in October to 17.6 percent in November and further to 17.7 percent in December 2012 indicates some moderation in price movements over the previous months and reflects the tight monetary policy stance and the ongoing fiscal consolidation (see Bank of Ghana, Press Release, January 2016). After increasing the policy rate by 500 basis points to reach 26 percent in 2015, inflation continued to rise from 16.4 percent in January to 17.7 percent in December. Does this indicate that monetary policy is working? And what does the rising inflation mean for the Bank's inflation target of 8±2 percent? The Bank of Ghana should know by now that its inflation targeting framework is not working. And it is not working because the Bank is using a demand-restraint tool (policy rate) to address a supply-induced problem (cost-push inflation), and in the process contributing to the rising inflation.

Conclusion

In conclusion, we request the Bank of Ghana to publish for public consumption the state of the public debt at all times in its Monetary Policy Committee's Press Releases. It is also suggested that in future, invitations to the Bank's Press Conferences should be extended to economic think-tanks, labor, Chamber of Commerce, universities, and other key stakeholders in the country so that issues raised in the Press Statements can be probed further by the relevant specialists.