

GHANA AND THE DISCOVERY OF OIL: FROM BOOM TO GLOOM

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BEFORE THE OIL

- Solid track record of macroeconomic stability with growth
- HIPC Relief
- Oil Discovery in August 2007 –
- Great Expectations –

PREPARATIONS FOR THE BOOM

- Stakeholder consultations- civil society, private sector, traditional rulers, etc.
- Learning from the experiences of countries such as Nigeria, Norway, etc.
- Passage of Ghana's Petroleum revenue Management Act (PRMA) and the Petroleum Commission Act in 2011 based on best practice across oil producing countries

FOUR YEARS AFTER OIL

- Oil has quickly become Ghana's second largest earner after gold, pushing cocoa into third place. By the end of 2013, Ghana's oil exports amounted to \$3.83 billion compared to gold exports of \$4.9 billion and cocoa exports of \$2.1 billion.

DETERIORATING PUBLIC FINANCES

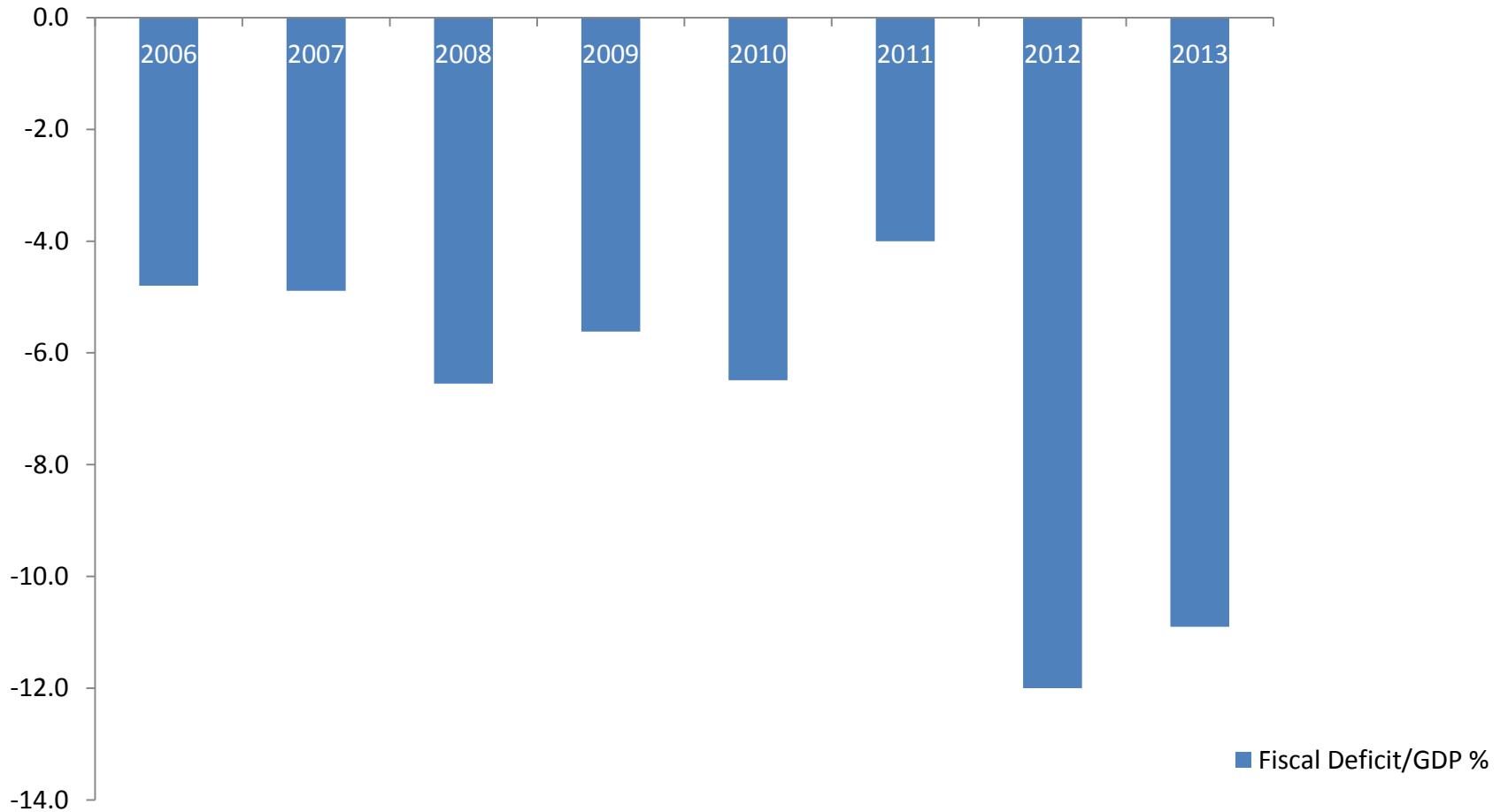
- a major increase in government expenditures relative to revenues in the 2012 and 2013.
- 2012 Election Expenditure: Deficit of the equivalent of \$4.5 billion or 12% of GDP
- While government tax revenue stayed constant at some 17.7% of GDP between 2011 and 2013, government expenditures increased by 6.6% of GDP from 20.1% of GDP in 2011 to 26.7% of GDP at the end of 2013.
- The bulk of the increase in government expenditure (94%) was in the area of recurrent expenditure (mainly wages and interest payments).

DETERIORATING PUBLIC FINANCES

- Wages, Interest and Statutory Payments account for some 102% of Government revenue!
- Corruption: Dubious payments under sole sourced contracts GYEEDA, SADA, SUBAH, and judgment debt payments (“Create, Loot and Share schemes ”)

Government Arrears on Statutory Payments,
Wages, Contractors, etc.

Figure 1: Fiscal Deficit/GDP % 2006-2013



Rising Public Debt:

- In the last five years the stock of public debt has seen a dramatic increase to from GHC9.5 billion in 2009 to a projected GH¢65.8 billion (64.2% of GDP) at the end of 2014.
- This is an increase in the stock of debt by **692%** over a six year period and is represents an average increase in the stock of debt by 115% a year. Increase in public debt stock by some \$20 billion in five years compared to HIPC debt relief of \$4.2 billion
- Memorandum of agreements signed with China in 2010 totalling \$14 billion
- A \$10 billion housing loan (collateralized on oil) from south Korea which was approved by parliament but did not materialize

Figure 2 :Total Debt (GHc billions) 2008-2013

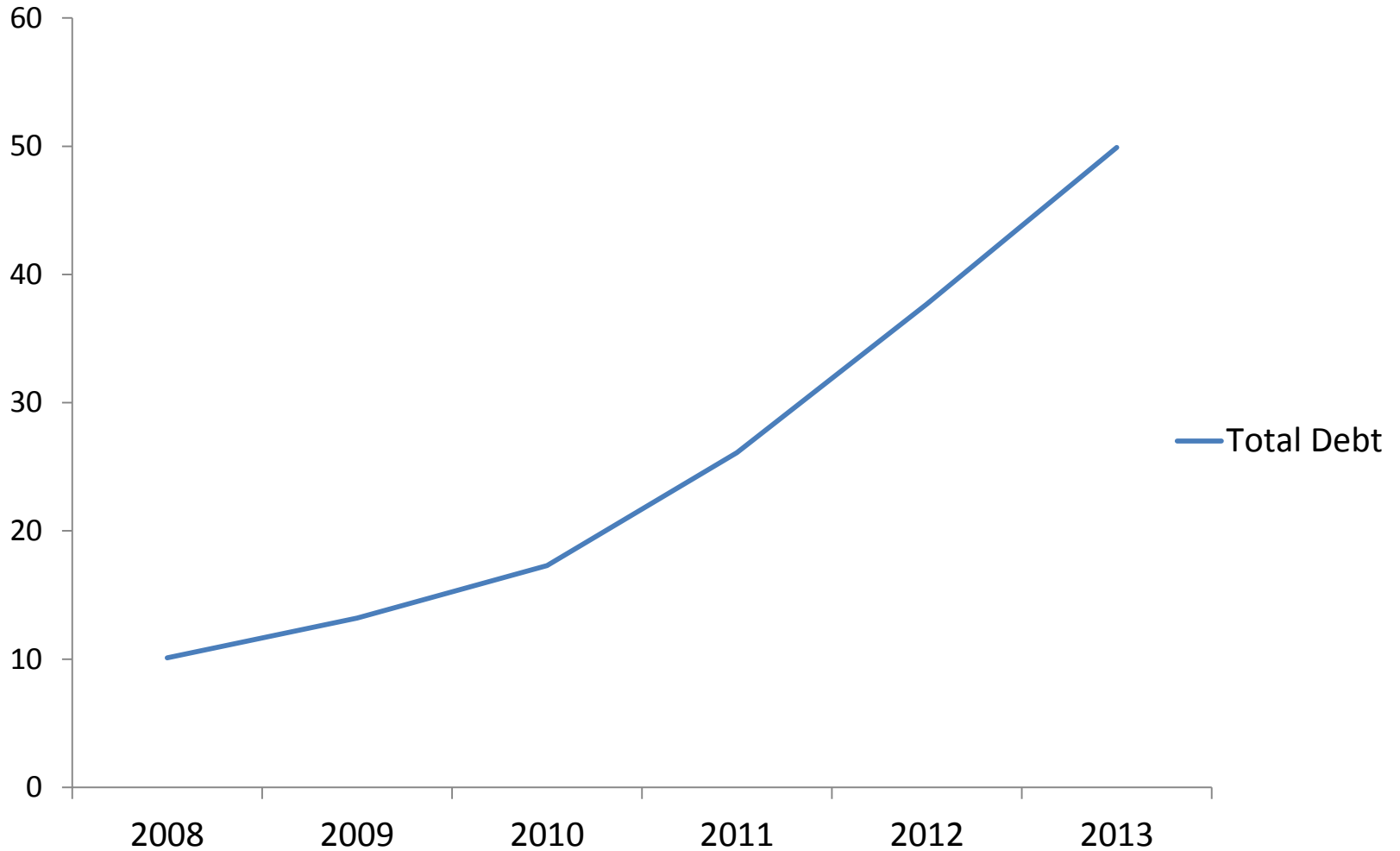


Figure 3 :Total Debt/GDP % 2006-2013

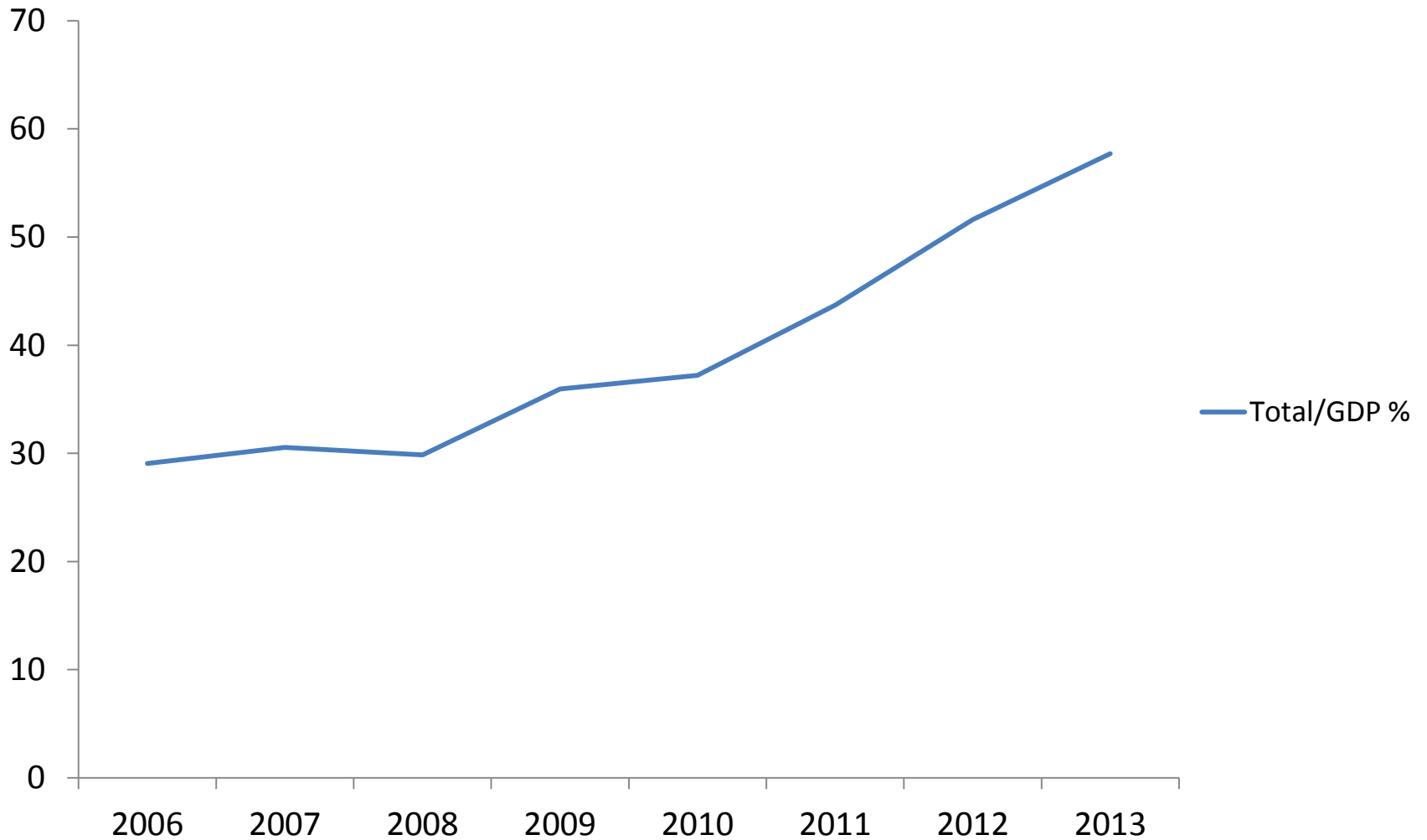
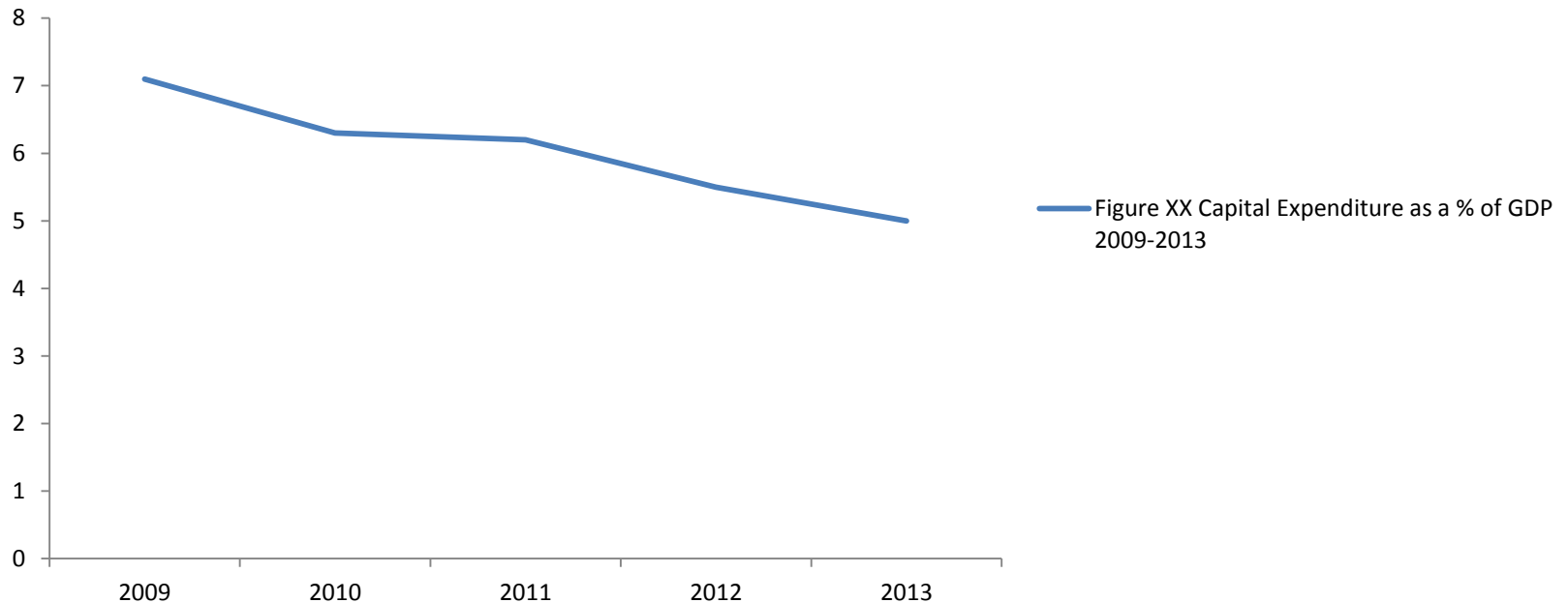


Figure 4: Where are the Projects? Declining Capital Expenditure/GDP

Figure 5 Capital Expenditure as a % of GDP 2009-2013



Debt Burden- SIGNS HIPC?

- The Debt Burden has compromised Ghana's oil discovery.
- Interest payment in 2014 would be 4 times Ghana's revenue from Oil
- Interest payment in 2014 would be three times what is allocated to six key ministries combined!
 - Roads and Highways, Trade and Industry , Fisheries, Food and Agriculture, Water Resources and Housing and Ministry of Transport.

Figure 5: Interest Payments/GDP% 2000-2014*

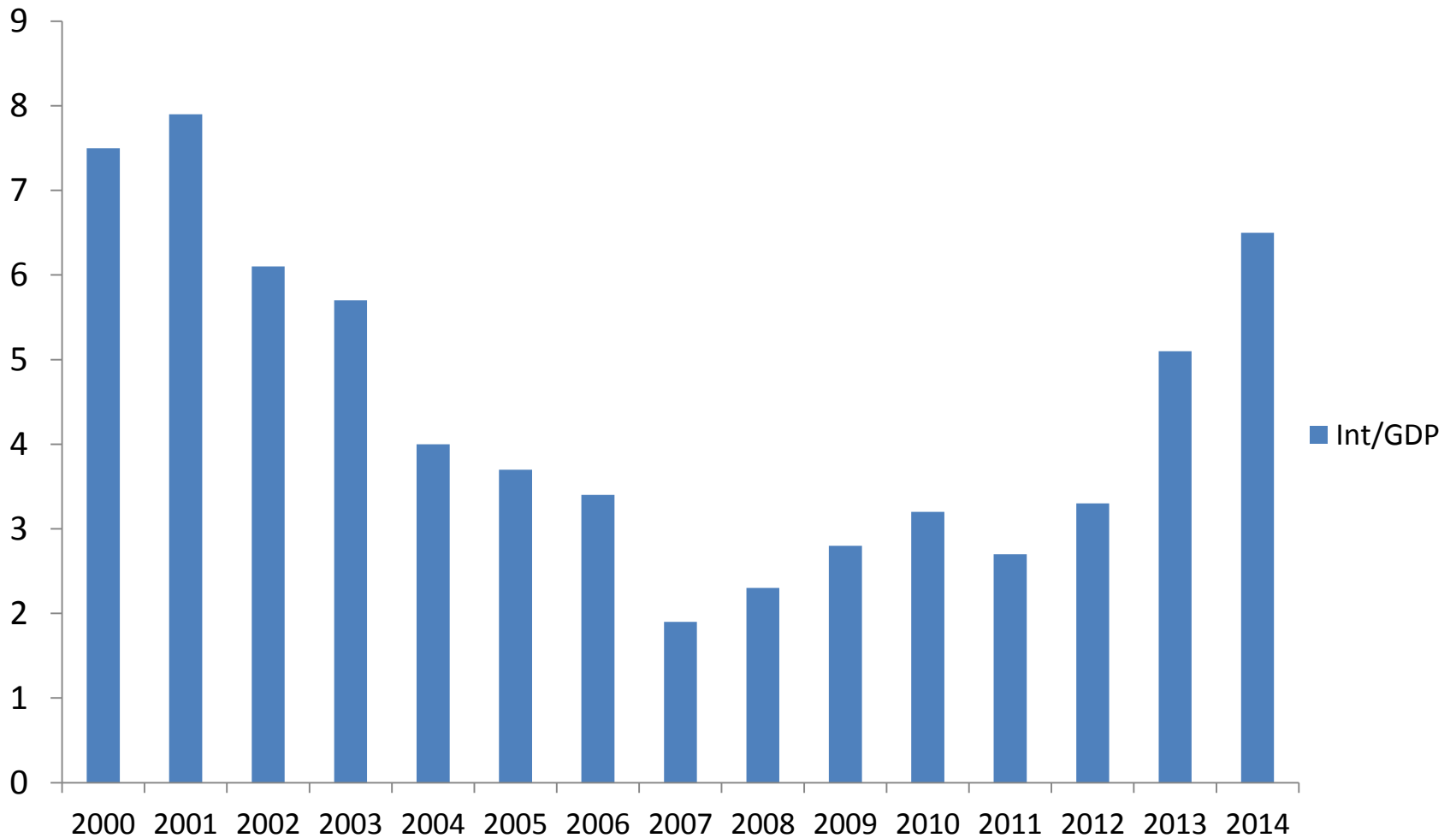


Figure 6: Central Bank financing of Deficit GHC Millions 2006-2013

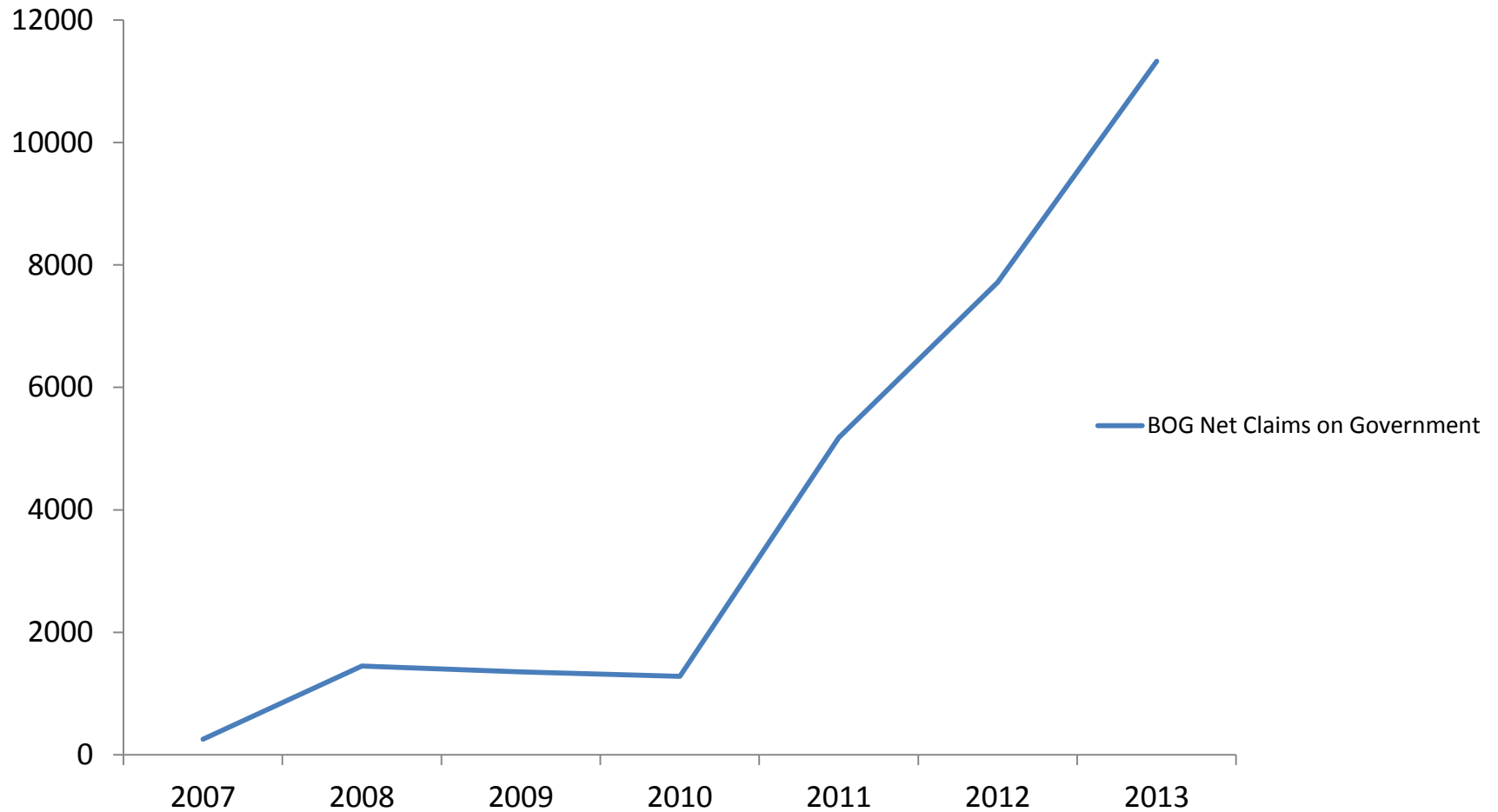


Figure 7: Inflation -Year on Year % 2011-2014

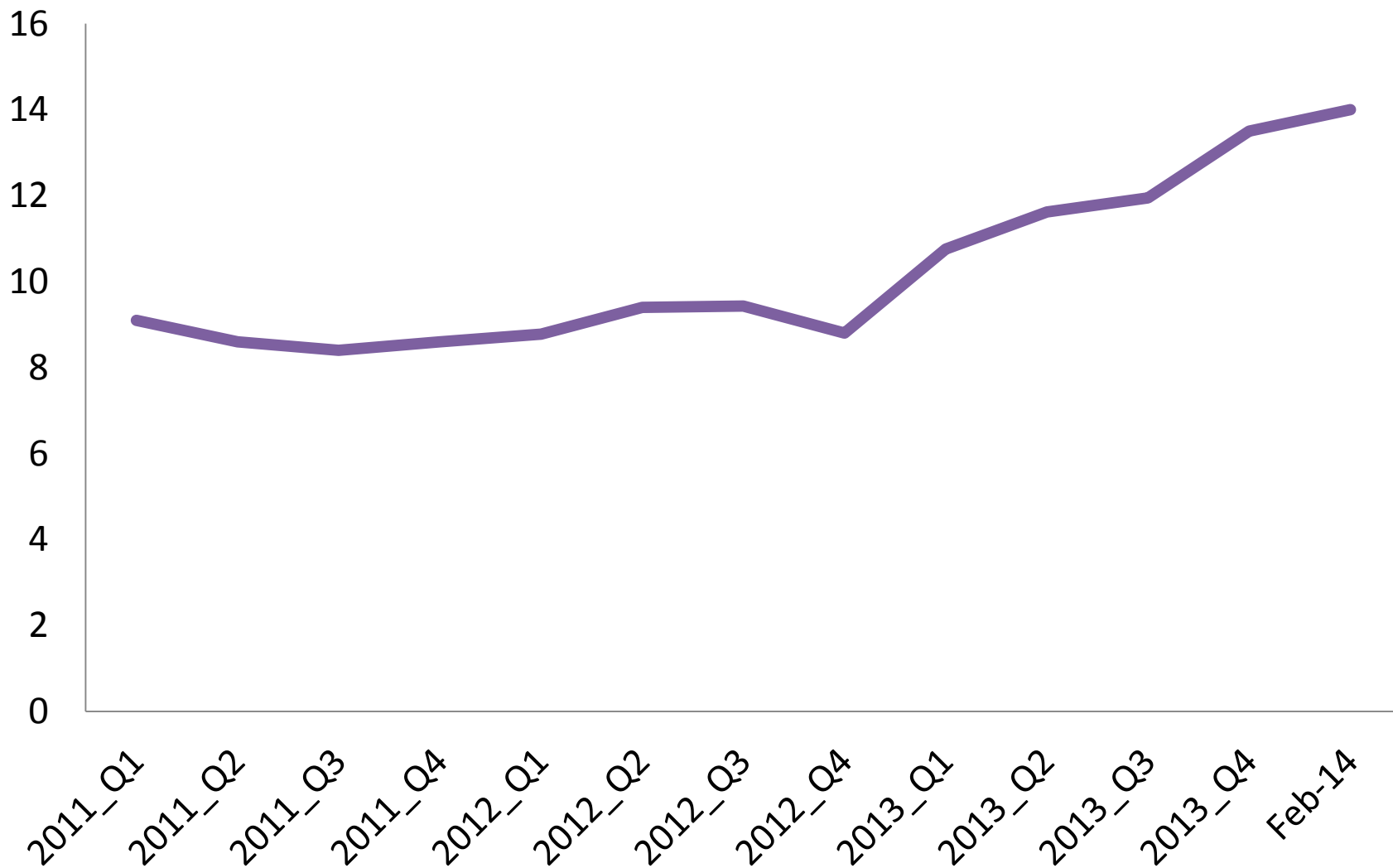


Figure 8: Current Account Deficit/GDP % 2009-2013

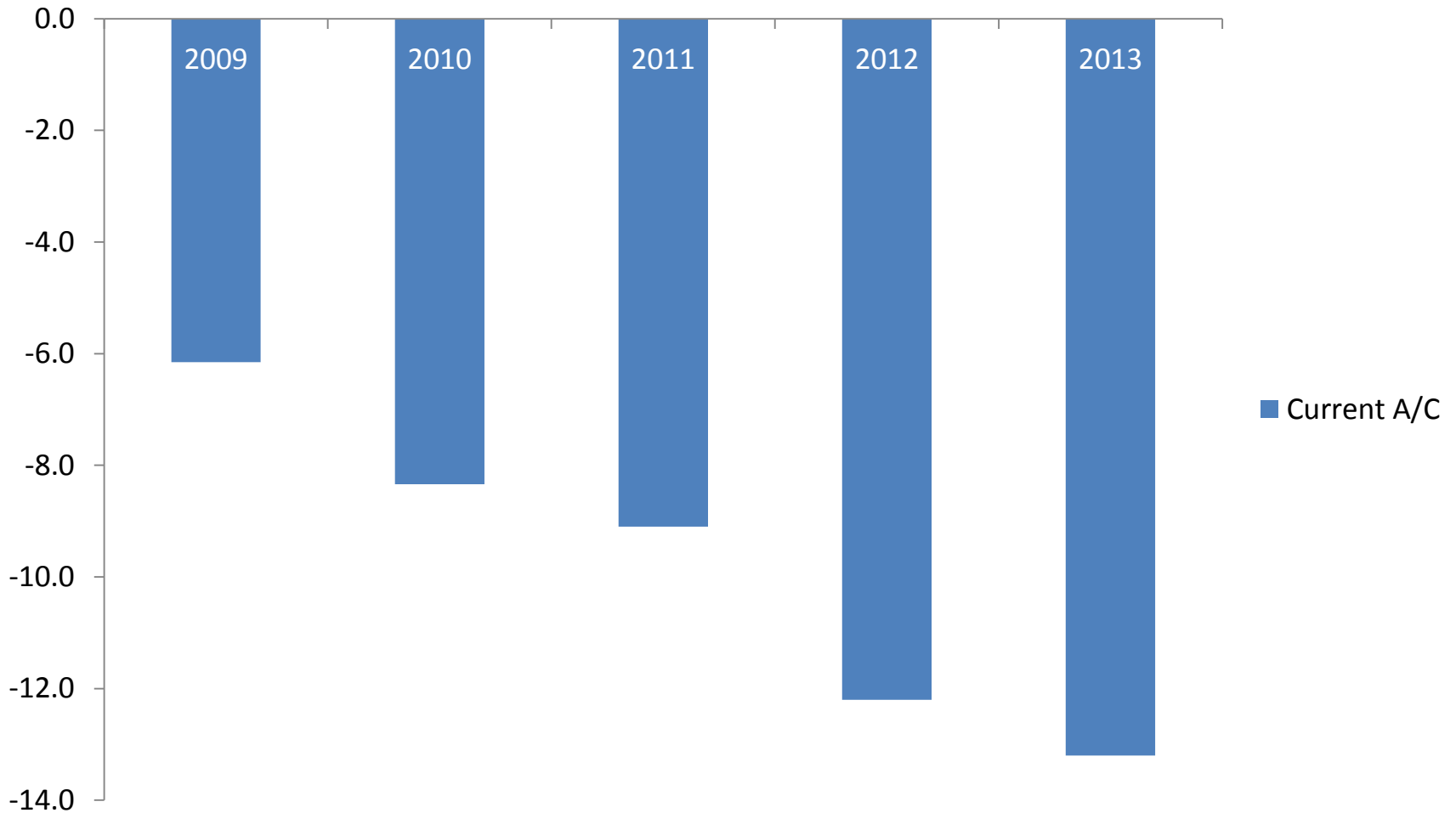


Figure 9: NIR in Months of Import Cover 2008-2014 (FEB)

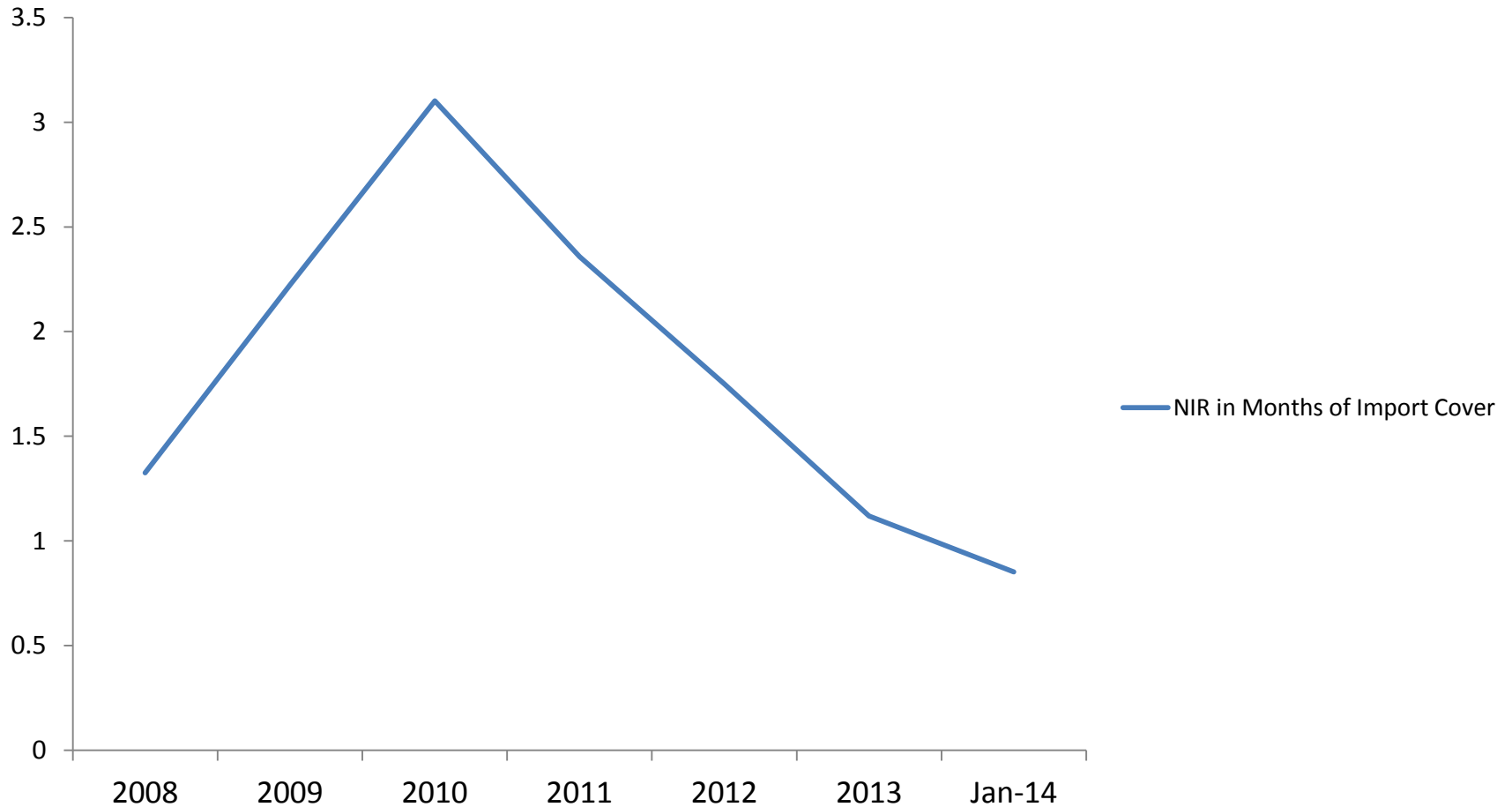


Figure 10: Months of Import Cover Country Comparison

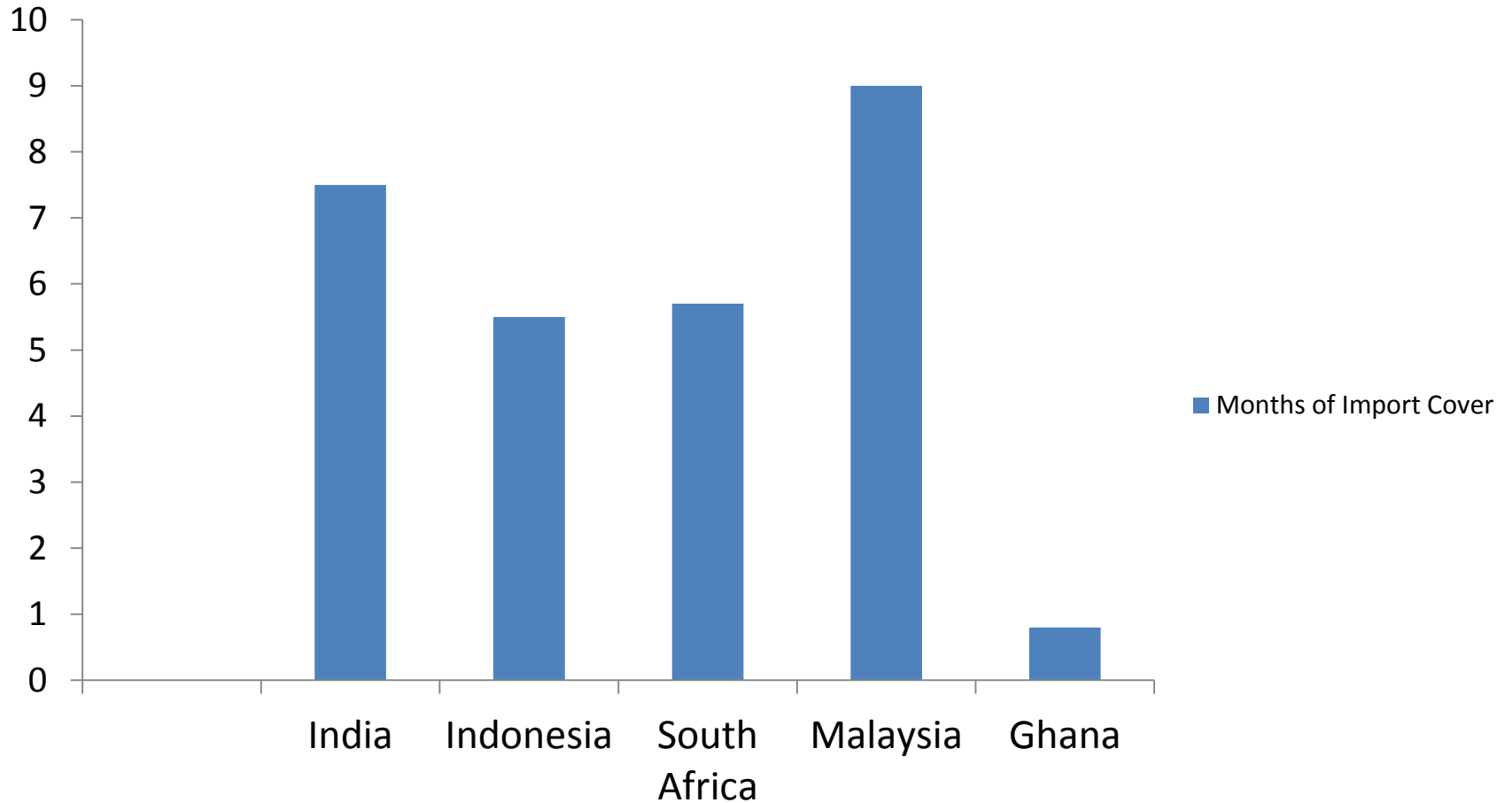
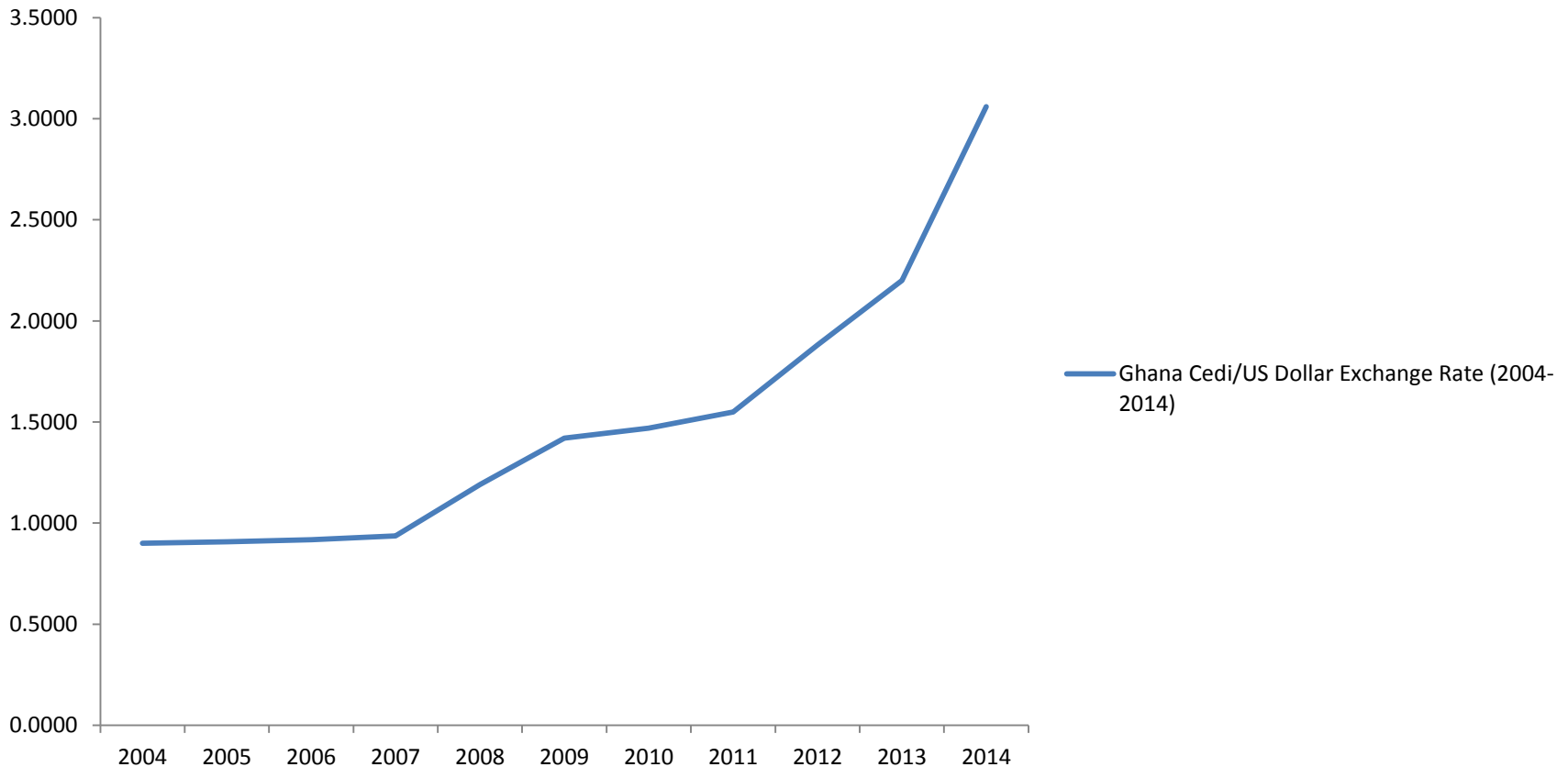


Figure: 11. THE EXCHANGE RATE IS IN FREE FALL

Ghana Cedi/US Dollar Exchange Rate (2004-2014-June)

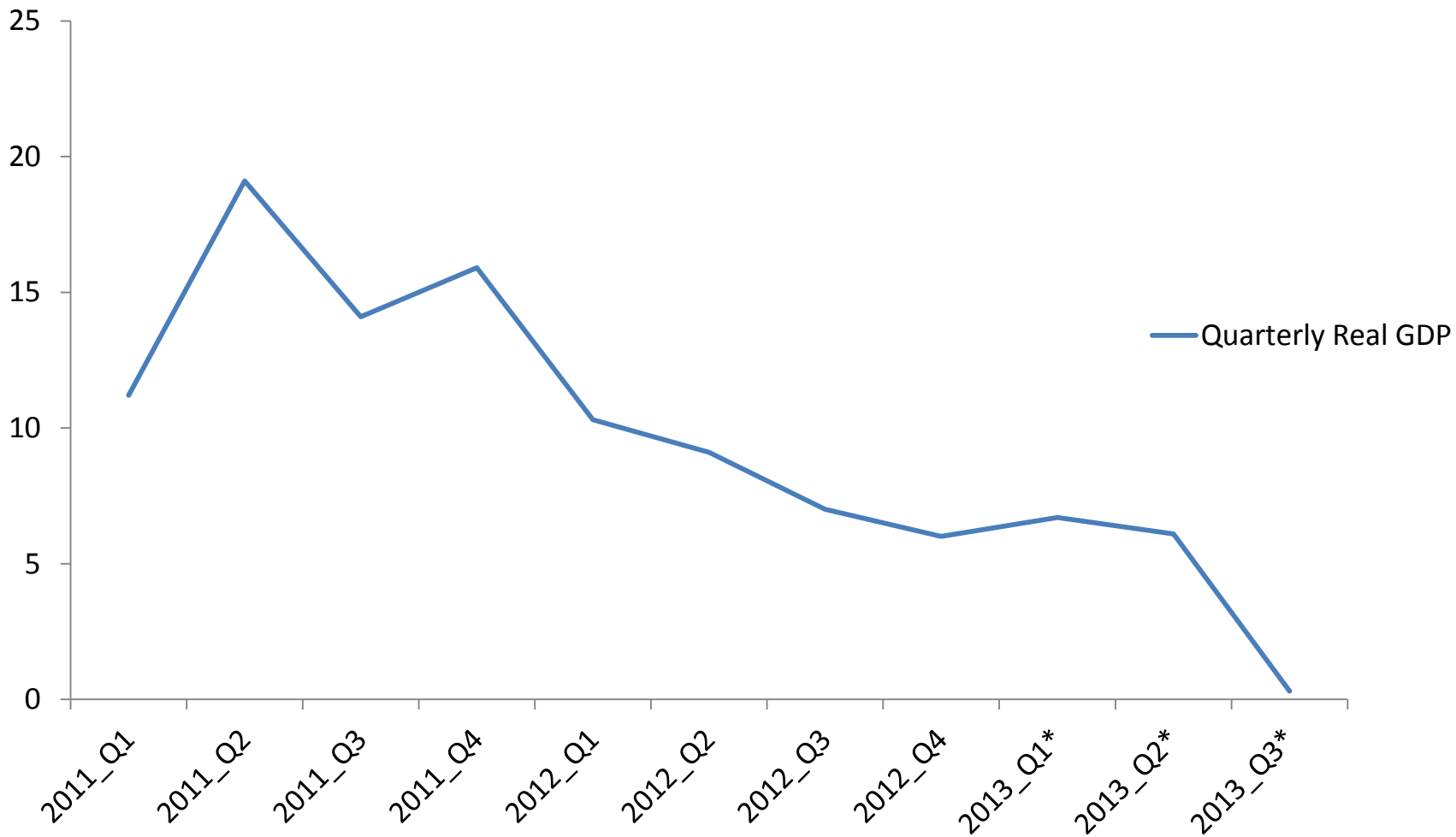


Deterioration in the investment Climate

- High taxes
- High Interest Rates
- Collapsing exchange rate
- Power Crisis
- Labour Unrest
- High Unemployment
- Increase in the cost of living
- Foreign Exchange Controls
- Loss of business and consumer confidence

Figure 12: Declining Growth

Quarterly Real GDP Growth . 2011-2013



Savings through the Petroleum Holding Funds

- Under Ghana's Petroleum Revenue Management Act. (PRMA):
-
- Up to 70% of expected revenue from petroleum operations may be utilized in any financial year . The excess revenue after the Budgetary allocation must be paid into the Petroleum Holding Fund
- At least 70% of the excess revenue, after budgetary allocation, must be transferred into the Heritage Fund and the balance is paid into the Stabilization Fund

Savings through the Petroleum Funds

Dwindling of Ghana's foreign exchange reserves has resulted in Government to start spending the Stabilization fund even though there is no shortfall in petroleum revenue .

- The first withdrawal of US\$177 million was made in May 2014 in violation of the PRMA. Furthermore, Government has also set its eyes on the foreign exchange saved in the Heritage Fund

TRANSPARENCY ISSUES

- Contracts for prospecting or exploration rights in Ghana's oil and gas sector are issued through an administrative process rather than through competitive tendering.
- Furthermore, Ghana does not have any mandatory contract disclosure provisions
- Example - Ghana National Gas Company – SINOPEC contract – no parliamentary approval
- -Gas Flaring has begun
- Right to Information Bill has not been passed

WHAT HAPPENED?

- Politically Motivated Spending Decisions
- Wealth Illusion on the part of Government and Citizens?
- Weak Institutions
- It is not clear who is in charge of policy decisions
- No real Commitment to the underlying Principles of the Natural Resource Charter

GHANA AT A CROSSROADS

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- IMF Bailout or to the International Capital Market?
- Apparently to Avoid a bailout by the IMF, Ghana has appointed transaction advisors to issue a new Eurobond of up to \$1.5 billion this year.
- Eurobond will be at a very high cost. Clearly meant for short term imperatives and not long term investment

GHANA AND THE NATURAL RESOURCE CHARTER.

- **Precept 2-** Resource governance requires decision makers to be accountable to an informed public.
- **Precept 3** -Government should aim to reduce geological uncertainty under a transparent licensing regime that efficiently allocates rights.
- **Precept 4** -Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to changing circumstances.

GHANA AND THE NATURAL RESOURCE CHARTER.

- **Precept 5** - Government should pursue opportunities for local benefits, and account for, mitigate and offset the environmental and social costs of resource projects.
- **Precept 7** - Government should invest revenues to achieve optimal and equitable outcomes, for current and future generations)
- **Precept 8**- Government should smooth domestic spending of revenues to take account of revenue volatility)
- **Precept 9** - Government should use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels.