



G-24 Technical Group Meeting

Coping with Global Uncertainties and the Global Safety Nets

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Outline

- Global Uncertainties and Impact on Africa
- Potential Policy Responses
- Strengthening the GFSN to help Manage Financial Volatility
- Exchange Rate and Macprudential Management
- GFSN – Ghana's Case
- Concluding Remarks

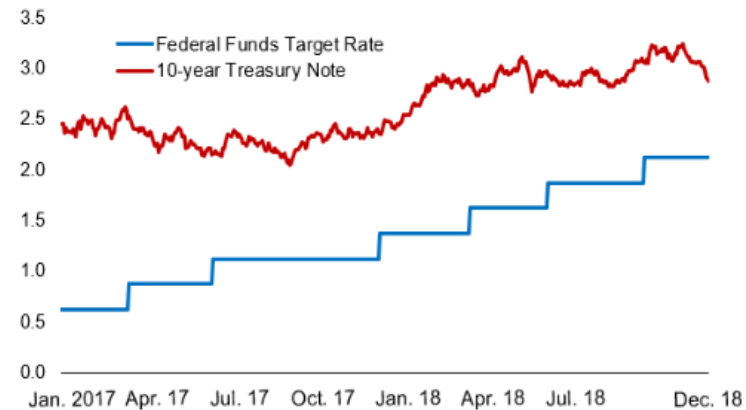


Global uncertainties have risen in recent times....

Gradually increasing

US policy rates have been rising steadily, while US 10-year bond rates have also increased but less so.

(percent)

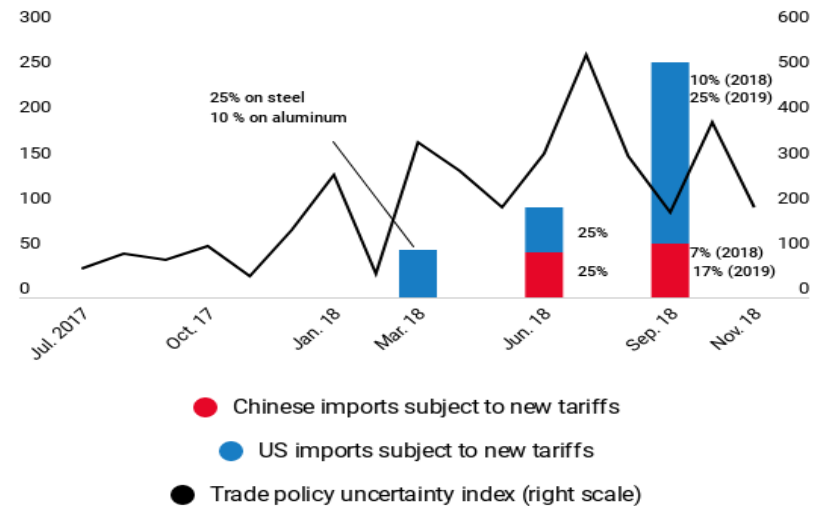


Source: Haver Analytics.

Trade tensions

Major trade actions have raised trade policy uncertainty.

(billion US dollars)



Source: Baker, Bloom, and Davis (www.PolicyUncertainty.com).

Note: Bars indicate value of imports affected by announced tariffs in billion US dollars. Labels indicate the tariff rate applied to the affected imports.



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- Recent trends suggest heightened global uncertainties – steady increase in US policy rates, trade tensions.....

Global uncertainties have risen in recent times....

Latest World Economic Outlook projections

The global expansion is weakening.
(percent change)

	Estimates		Projections	
	2018	2019	2020	
World Output	3.7	3.5	3.6	
Advanced Economies	2.3	2.0	1.7	
United States	2.9	2.5	1.8	
Euro Area	1.8	1.6	1.7	
Germany	1.5	1.3	1.6	
France	1.5	1.5	1.6	
Italy	1.0	0.6	0.9	
Spain	2.5	2.2	1.9	
Japan	0.9	1.1	0.5	
United Kingdom	1.4	1.5	1.6	
Canada	2.1	1.9	1.9	
Other Advanced Economies	2.8	2.5	2.5	
Emerging Market and Developing Economies	4.6	4.5	4.9	
Commonwealth of Independent States	2.4	2.2	2.3	
Russia	1.7	1.6	1.7	
Excluding Russia	3.9	3.7	3.7	
Emerging and Developing Asia	6.5	6.3	6.4	
China	6.6	6.2	6.2	
India	7.3	7.5	7.7	
ASEAN-5	5.2	5.1	5.2	
Emerging and Developing Europe	3.8	0.7	2.4	
Latin America and the Caribbean	1.1	2.0	2.5	
Brazil	1.3	2.5	2.2	
Mexico	2.1	2.1	2.2	
Middle East, North Africa, Afghanistan, and Pakistan	2.4	2.4	3.0	
Saudi Arabia	2.3	1.8	2.1	
Sub-Saharan Africa	2.9	3.5	3.6	
Nigeria	1.9	2.0	2.2	
South Africa	0.8	1.4	1.7	
Low-Income Developing Countries	4.6	5.1	5.1	

Source: IMF, World Economic Outlook Update, January 2019.

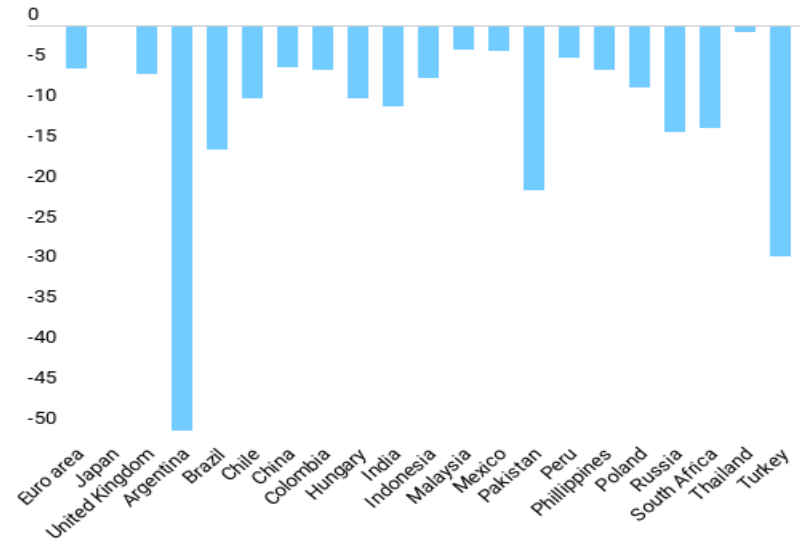


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Stronger than the rest

A strong US economy and higher US interest rates have strengthened the US dollar.

(nominal exchange rate vs. US dollar; percent; December 31, 2017 to latest)



Source: IMF staff calculations.



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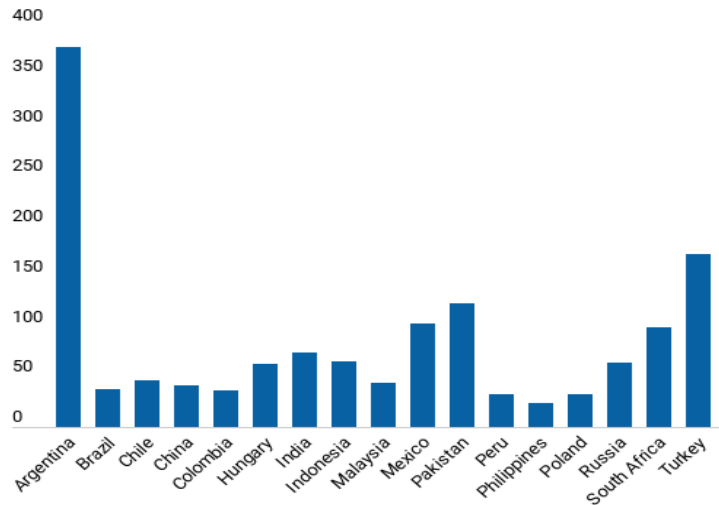
- Moderating global growth, stronger US dollar leading to increased volatility in currency markets, especially EMEs.....

Global uncertainties have risen in recent times....

Higher borrowing costs

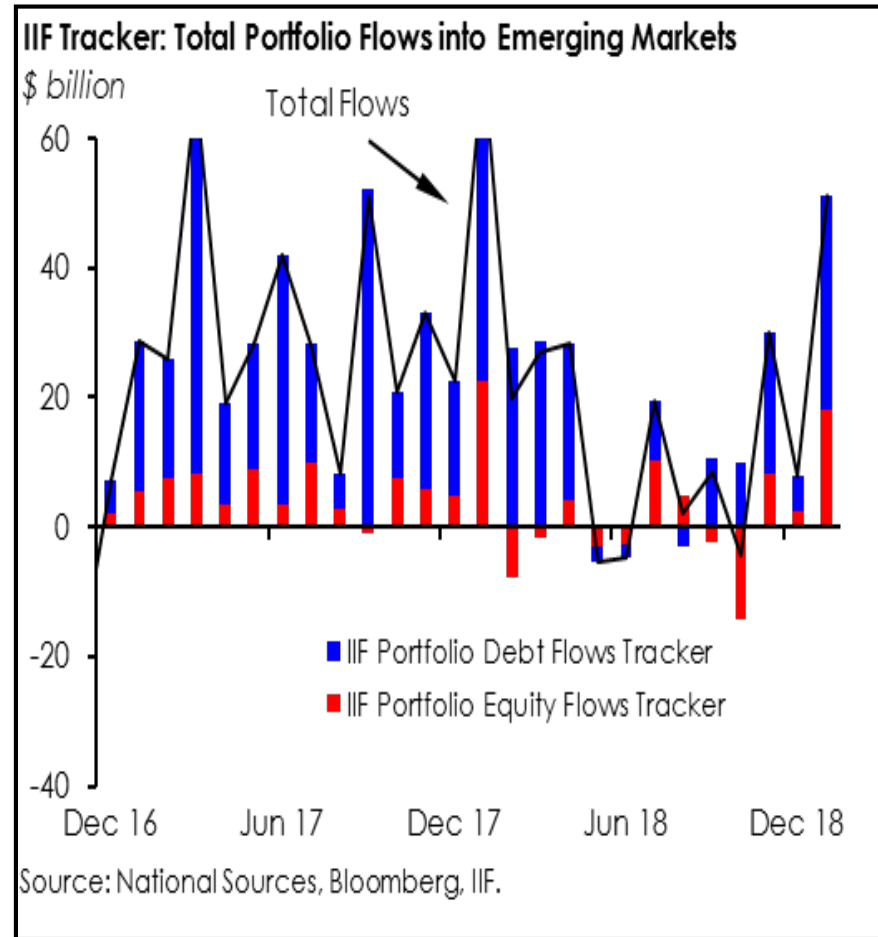
Spreads have widened over the past 12 months but by different amounts.

(change in basis points; December 31, 2017 to latest)



Source: Thomson Reuters Datastream.

Note: EMBI = J.P. Morgan Emerging Markets Bond Index. The spread is the EMBI yield over the yield of US Treasuries of comparable maturity.



- Higher borrowing costs as global financial conditions tighten alongside moderating portfolio inflows to emerging markets, especially during mid-2018....

Main Sources of Global Uncertainties and Implications

- ***Trade tensions between the US and China – Africa's two largest trading nations***
 - ✓ *could derail global economic recovery and dampen growth prospects for Africa*
 - ✓ *slow down demand for commodities and impact adversely on commodity prices*
 - ✓ *Estimated loss in SSA of up to 1½ percent of GDP during 2018–21 (IMF, 2018)*
- ***Fragility in commodity price recovery***
 - ✓ *Commodity prices are not yet at pre-crisis levels, suggesting slower recovery*
 - ✓ *dampening effect on growth, worsen fiscal and current account deficits*
- ***Tightening of global financial conditions***
 - ✓ *due on-going monetary policy normalization - interest rates rise in the US*
 - ✓ *shift in investors' preference from Africa's securities bond market*
 - ✓ *raise debt service burdens of and increase the cost of new borrowing*
 - ✓ *Increase exchange rate volatility*



Potential Policy ResponsesAt the Global Level

- *Urgent need to resolve on-going trade tensions and protectionist sentiments*
- *Intensify policy coordination between AE and EMDEs to reduce adverse spill-overs*
- *Strengthen global financial safety and deepen IMF's interventions in African countries*
- *International support for regional trade efforts by African countries (Africa Continental Free Trade Agreement)*



Potential Policy ResponsesRegional /Country level

- *Tax reforms to maximise domestic revenue mobilisation to open up fiscal space*
- *Fiscal consolidation: expenditure control; fiscal buffers, expenditure efficiency*
- *Further reforms to foster private investment and attract FDIs*
- *Need to increase FX Reserve buffers during commodity price booms*



Challenges with the GFSN... iro Africa

- *Limited Composition of GFSN: mainly FX external reserves and IMF resources*
- *Small Size of FX Reserves for African economies*
- *Costly GFSN*
 - *Efforts to raise exports and increase FX reserves resulting in price declines*
 - *African FX reserves kept in OECS banks with low returns*
- *Limited Accessibility of IMF resources*



Strengthening GFSN to help Manage Financial Volatility

- *Lender of last resort and provision of emergency liquidity support*
- *Inclusive participation of EMDEs, including Africa*
- *Provision of adequate policy incentives*
- *Reforms in the IMF to increase governance quota and emergency financing mechanisms*
- *Enhance speed and accessibility of IMF Support Toolkit*
- *Regional Financing Arrangements for African countries*



Exchange Rate Regimes to ensure financial stability

- *Lower inflation in SSA countries with fixed exchange rates, higher per capita output growth for countries with flexible exchange rate regimes [estimated at about 1–2 pps higher than those with fixed rates (IMF, 2016)]*
- *Fiscal deficits lower in countries with fixed and floating regimes than those with intermediate regimes.*
- *Higher cost of fiscal indiscipline in floating rate regimes in terms of sharp currency depreciation*
- *SSA economies with fixed exchange rates (monetary unions) deliver greater price stability*
- *Exposure to capital flows in SSA economies with intermediate regimes - greater output volatility*
- *In summary, the choice of exchange rate in Africa must be a balancing act with consideration to macro-stability, fiscal deficits and output volatility.*



Macprudential measures for financial stability

- *Africa's financial sector is predominantly bank-based*
- *Emergence of pan-African banks over the past decade*
- *Responsibility for financial stability - central banks in Africa*
- *Integration of macroprudential regulation with monetary policy*
 - *financial stability departments*
 - *financial stability councils*
 - *Deposit Protection Schemes*
- *Effective resolution mechanisms*



Rising Pan-African Banking and Financial Stability

- *About 10 African banks present in at least 10 African countries;*
- *One bank (Ecobank) operating in over 30 African countries, including Ghana*
- *In Ghana: 23 banks; 14 foreign banks (including 9 pan-African banks)*
- *Potential cross-country vulnerabilities associated appreciated*
- *Cooperation and collaboration through supervisory colleges*
- *Need for resolution frameworks and mechanisms on a regional basis*



Global Financial Safety Net – Ghana’s Case

- *In the past, Ghana relied solely on the IMF as a global safety net, with limited access to capital markets.*
- *Since the 2007 debut, Ghana has issued additional Eurobonds totaling US\$4.8 bn. Ghana’s access of the international capital market was induced by two key factors:*
 - ✓ *successful completion of the Highly Indebted Poor Country (HIPC) Programme provided the much-needed fiscal space as public debt-to-GDP ratio fell from 181 percent in 2000 to 25 percent in 2006;*
 - ✓ *rebasings of the country’s GDP that moved the country to a lower middle-income status and thus ineligible for most bilateral and multilateral concessionary loans.....*

Instruments	Issuance Date	Maturity Date	Amount Issued (US\$ millions)	Outstanding Amount (US\$ millions)	Coupon Rate
10-Year	Aug-13	Aug-23	1,000.00	1,000.00	7.875%
11-Year	Sep-14	Jan-26	1,000.00	1,000.00	8.125%
15-Year	Oct-15	Oct-30	1,000.00	930.11	10.750%
6-Year	Sep-16	Sep-22	750.00	750.00	9.250%
31-Year	May-18	Jun-49	1,000.00	1,000.00	8.625%
TOTAL			4,750.00	4,680.11	



Snapshot of Ghana's macro fundamentals

Strong improvement across all key indicators

Key Indicators	2016A	2017A	2018 E	2019 - 2022 (Avg)
Real GDP Growth	3.4%	8.1%	5.6%	7.0%
Inflation	15.4%	11.8%	9.4%	8±2%
Fiscal Deficit (% of GDP)	6.1%	4.8%	3.9%	3.0-5.0%
Trade Balance (% GDP)	-3.7%	2.0%	2.7%	2.0%
Primary Balance (%GDP)	-1.1%	0.5% ¹	1.4% ¹	2.0%
Import Cover	3.5months	4.3months	3.6months	≥ 4.0 months
Debt to GDP	56.9%	55.6%	58.0%	< 65.0%

**STANDARD
& POOR'S**

B - Stable

FitchRatings

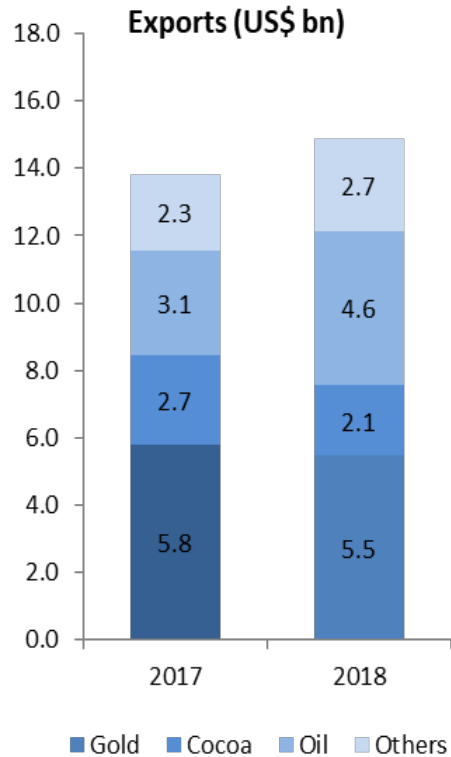
B - Stable

**MOODY'S
INVESTORS SERVICE**

B3 - Stable

Snapshot of Ghana's macro fundamentals

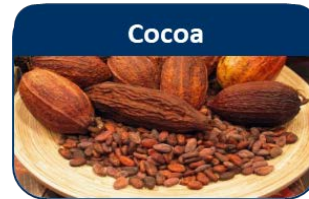
Significant growth in key commodity prices



Key Commodities



- ✓ 2nd largest gold producer in Africa
- ✓ Accounts for over 90% of mining sector
- ✓ Accounts for more than 36% of exports
- ✓ Est. reserves of ~2,000 tonnes
- ✓ Gold refinery – 2nd largest in Africa



- ✓ Main agricultural export
- ✓ 2nd largest producer of cocoa in the world
- ✓ Total hectares used of c.1.7 mn ha
- ✓ Target to increase production to 1.5m tonnes by 2020

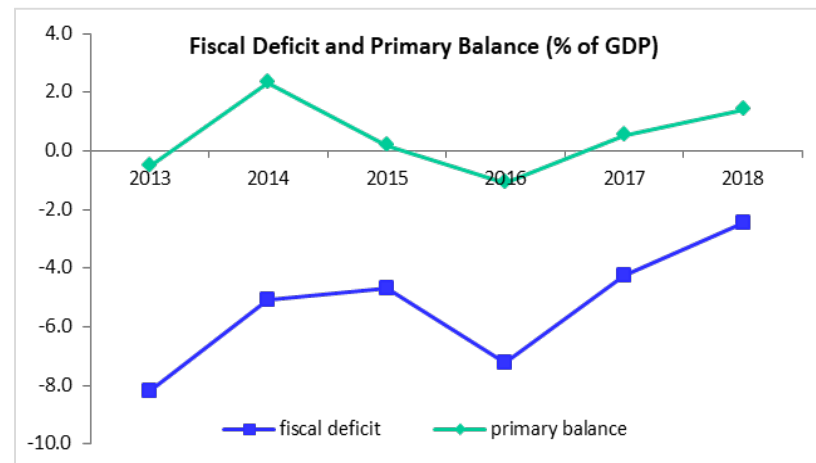
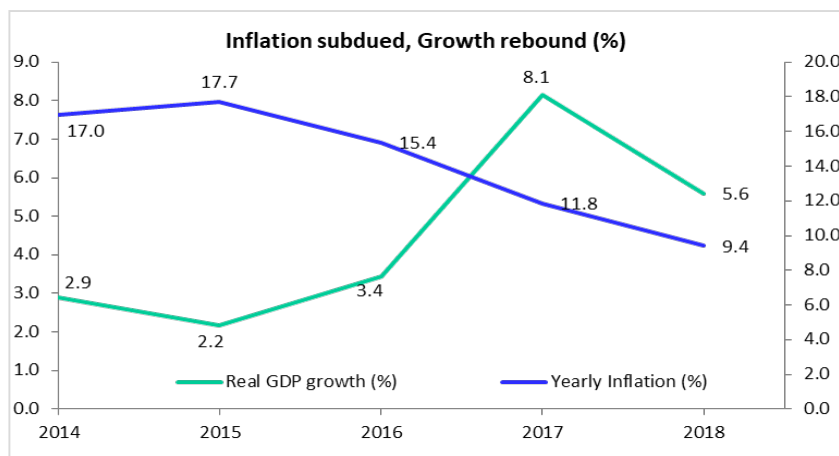
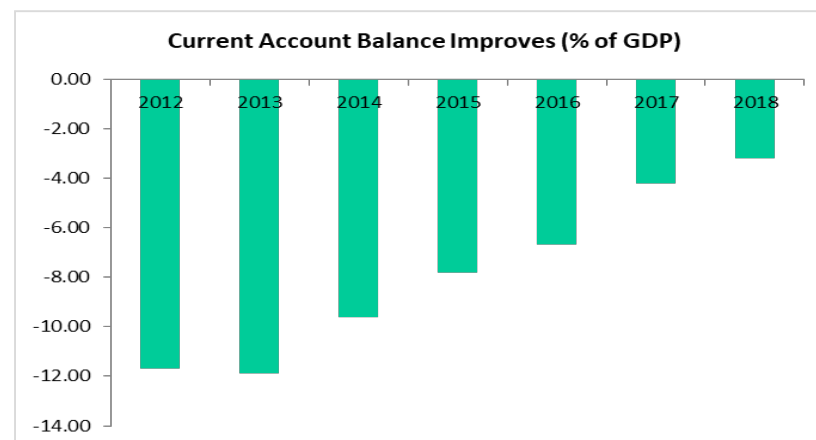
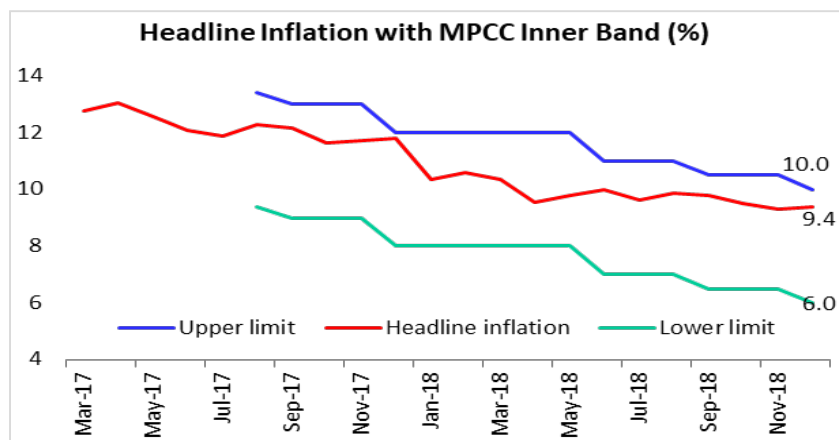


- ✓ Commercial quantities discovered in 2007
- ✓ 3 main oil fields (others in the pipeline)
- ✓ Won maritime dispute over Sankofa oil field
- ✓ Oil reserves of 3.7bn barrels
- ✓ Gas reserves of 41.6bn ft³ of gas
- ✓ Peak level of 285k barrels per day

Source: Ghana 2019 Budget; BoG Statistical Bulletin; Press Releases; Sentinel Global

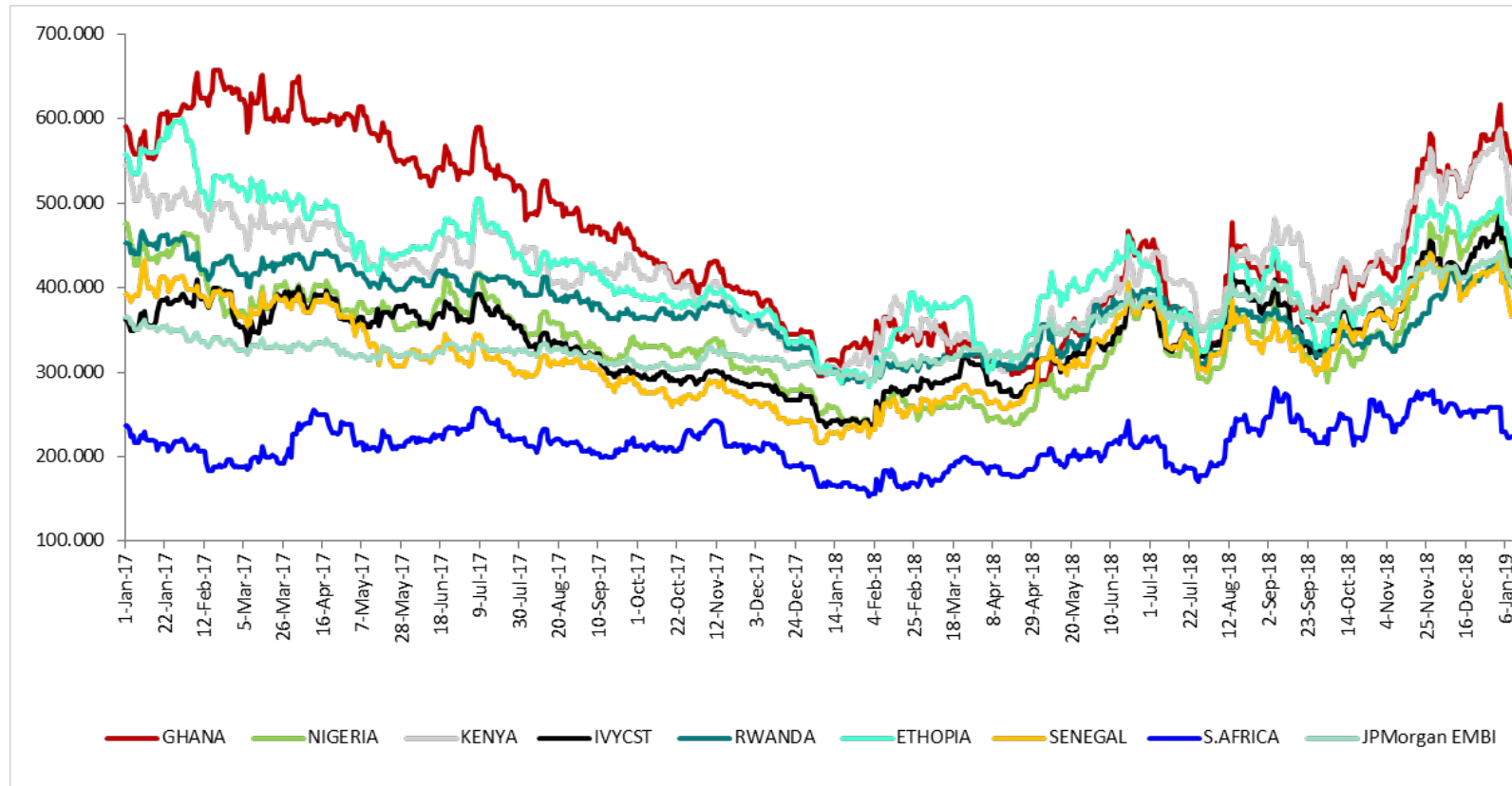
Favourable Macro Indicators

Strong improvement in inflation, current account deficits and fiscal deficits



Ghana Credit vs. Other SSA & Emerging Markets

Ghana performed better than peers on the back of prudent debt management, favourable economic prospects and increased fiscal stability.



Source: Bloomberg (16/01/2019)

JP Morgan Emerging Markets Bond Index (tracks the spread performance of 30+ EM country USD-denominated bonds)

Financial Stability: the case of Ghana

- *Macroprudential policies put in place include:*
 - ✓ *enhancing resilience of banking system, with higher capital requirements*
 - ✓ *strengthening corporate governance in banks*
 - ✓ *completed banking sector clean-up*
 - ✓ *Reduction in banks from 34 (year-end 2017) to 23.*
 - ✓ *bank consolidations and resolutions*
- *On-going clean-up in other deposit-taking FIs*
- *Other tools available: effective provisioning and write-off policies and mechanisms on a regional basis*



Concluding Remarks

- *Global uncertainties - potential to derail global growth recovery*
- *Implications for growth and stability in EMDEs, including Africa*
- *Global collaboration and cooperation needed to address uncertainties*
- *Need for more inclusive coordination with EMDEs, including Africa*
- *EMDEs and Africa need specific country/ regional policies to minimise the impact of the global uncertainties.*
- *Strengthening the GFSN and reforms of the IMF to provide greater support to Africa is paramount.*



For further information on the Ghanaian economy, visit
www.bog.gov.gh

Thank You

