

# Pension Strategy Conference 2020

## Courage Kingsley Martey

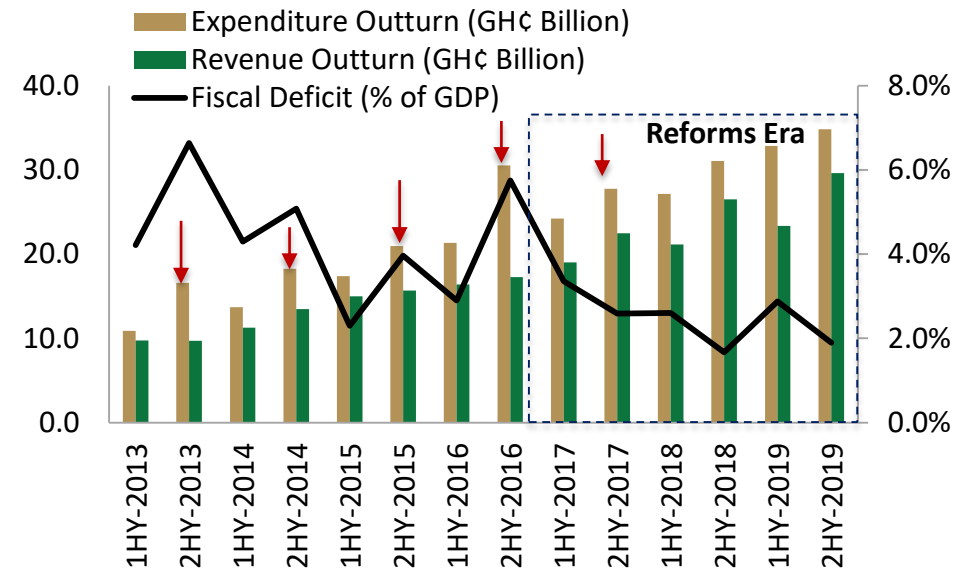


# Content

Section #	Section	Slide #
I	Historical Budget Performance	3
II	Public Debt Issues	5
III	The 2020 Fiscal Outlook	6
IV	The Ghana Fixed Income Market	7
V	Broad Economic Outlook for 2020	9

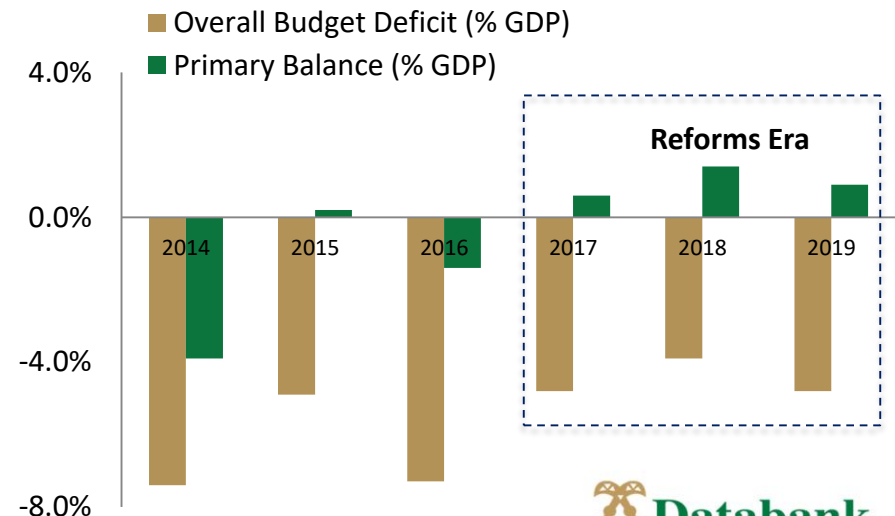
# Historical Budget Performance – Fiscal risks better managed since 2017

- Second half spikes in public expenditure and deficit
- Fiscal management improves since 2017
- Revenue underperformance remains a risk to the fiscal outlook in 2020



## Despite revenue shortfalls.....

- Overall deficit below 5% since 2017
- Positive primary balance since 2017



**Key Takeaway:** Fiscal management improves but risks to the outlook persist

# Summarized Fiscal Table – Fiscal ratios indicate elevated fiscal risks in 2019

## Due to shortfalls in revenue collection.....

- Overall deficit widened and primary surplus contracted in 2019
- Higher liability ratios but weaker asset ratios in 2019

Depends on improved revenue

	FY-2019 Key Fiscal Ratios	FY-2018 Key Fiscal Ratios	Y/Y Change (%)	2020 Budget Target Fiscal Ratios
Employee Compensation/Revenue	41.59%	41.17%	0.42%	39.6%
Interest payment/Revenue	37.29%	33.21%	4.08%	32.3%
Statutory Allocations/Revenue	21.56%	22.65%	-1.08%	23.3%
Goods & services/Revenue	11.65%	10.76%	0.88%	12.4%
CAPEX/Revenue	11.61%	9.95%	1.67%	13.8%
External debt/Export revenue	1.42x	1.30x	0.12x	-
Revenue/GDP	15.31%	15.85%	-0.53%**	16.9%
Expenditure/GDP	19.56%	19.36%	0.20%**	21.2%
Debt/GDP	62.10%	57.60%	4.50%	-
Overall Fiscal Deficit (% of GDP)	4.80%	3.90%	0.90%	4.7%
Primary Balance (% of GDP)	0.90%	1.40%	-0.50%	0.7%

**Key Takeaway:** Weak fiscal balances in 2019 is a risk to election year budget

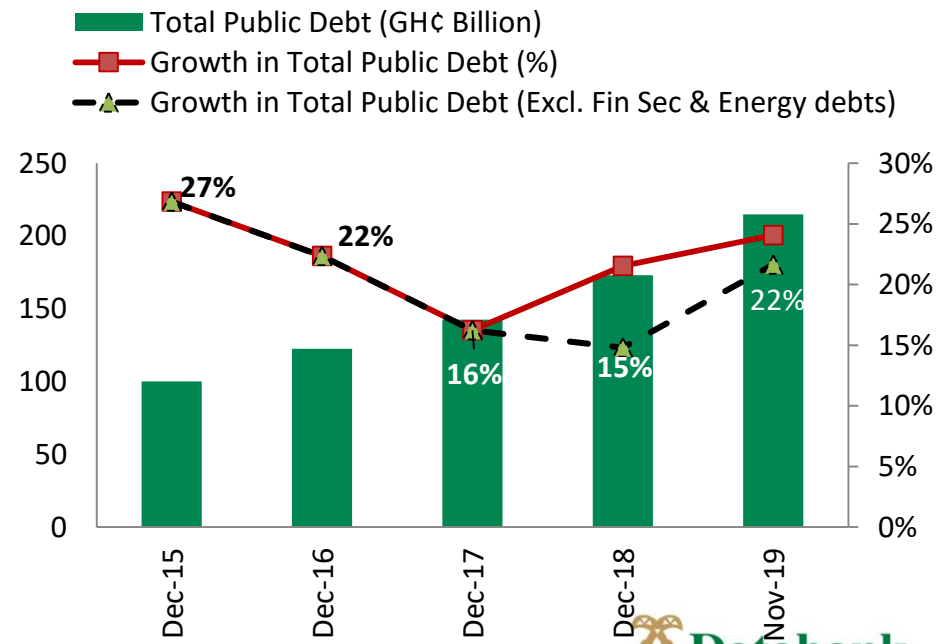
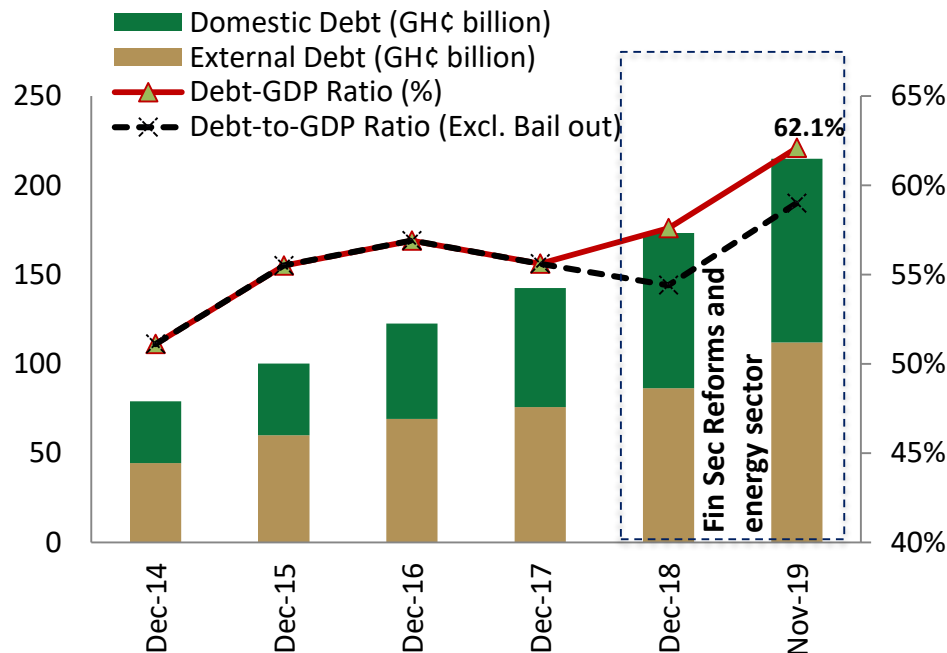


# Public Debt Issues – FX pressures and contingent liabilities the key concerns

*Contingent liabilities elevate borrowing since 2018.... But fiscal risk also heightened in 2019*

## Key pressure points in the borrowing outlook for 2020:

- Fiscal cost from financial sector clean-up
- Energy sector obligations (2020 payment risk: Between \$550m to \$850m)
- FX pressures influence growth in total public debt (External debt: 52% share)
- Maturity refinancing risks



**Key Takeaway:** Fiscal risks heightened in 2019 but contingent liabilities the key shock

# The 2020 Fiscal Outlook– Revenue and expenditure analysis

- Similar CAGR between 2014 and 2019
- Tighter expenditure controls in 2017, but spending pressures have mounted in recent years
- Decreasing growth in revenue (2018 & 2019) vs. increasing growth in expenditure (2018 & 2019)



+26%

GOG's 2020  
Expectations

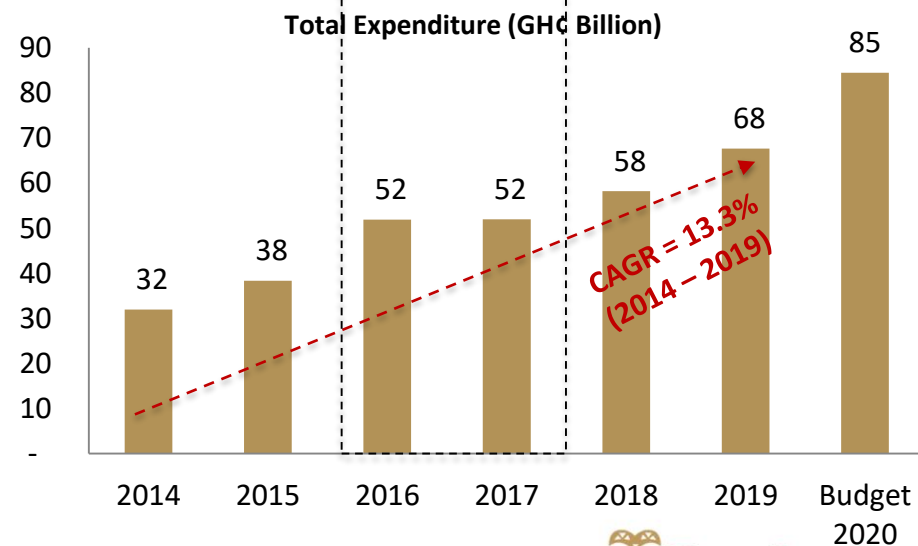
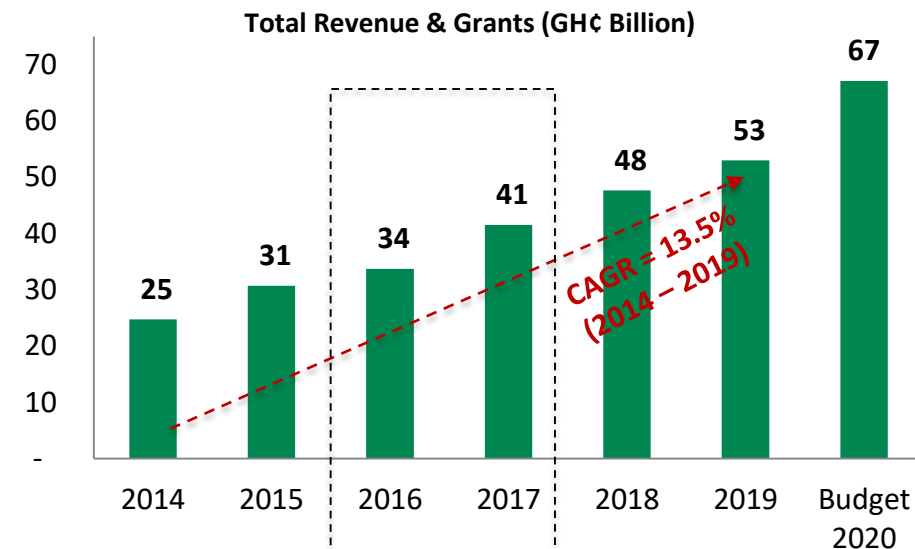
Funding Risk?



+25%

## Key risks to the revenue outlook in 2020:

- **Oil revenue risk:** Production shortfalls at Jubilee & TEN (30% cut in Jubilee output)
- Potential shortfall in non-tax revenue
- Political considerations in election year

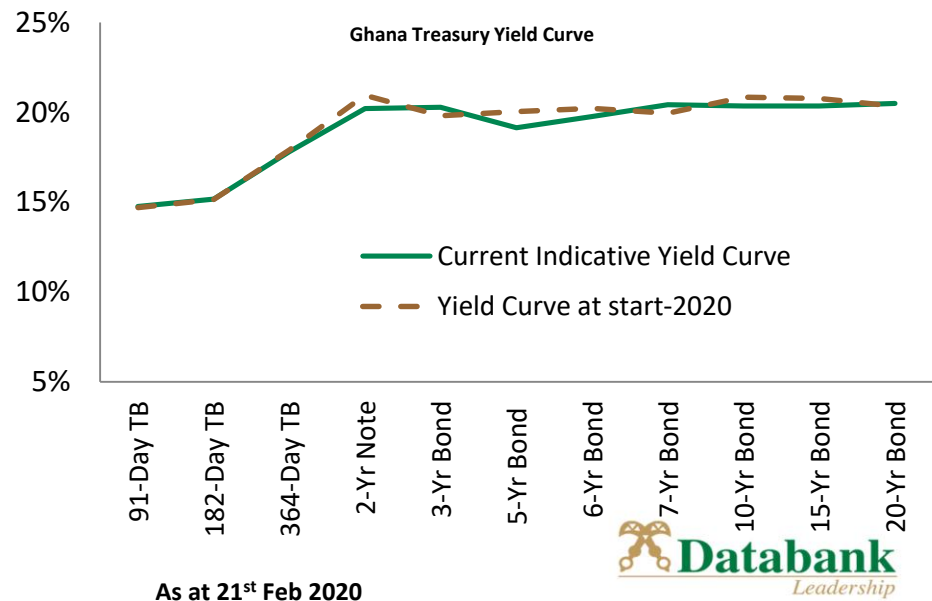
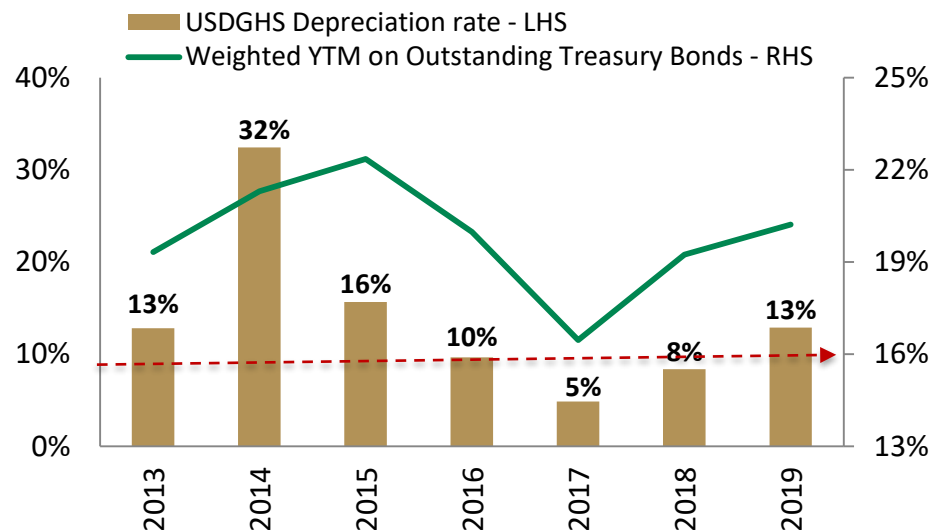


# Ghana Fixed Income Market – The Treasury Yield



- Positive correlation between domestic yields and USDGHS depreciation
- Average FX premium of 9.4% (2015 – 2019)

- Treasury yield curve flattens at the mid to back-end
- Investor preference around the shorter term-to-maturities: 2020s – 2023s

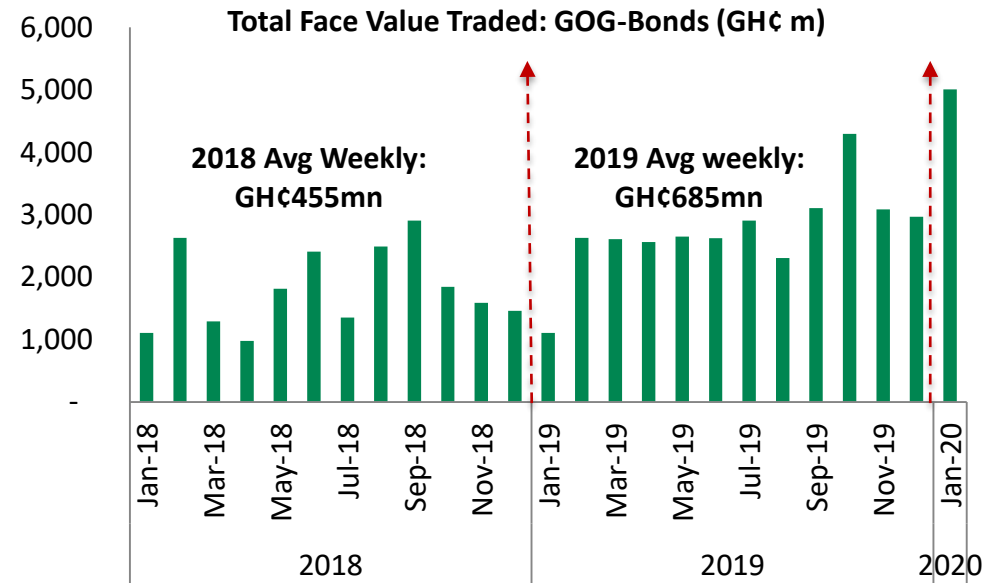


As at 21<sup>st</sup> Feb 2020



# Ghana Fixed Income Market – Secondary market liquidity improves

- Secondary market liquidity increased in 2019 (50% rise in avg weekly trade vol.)
  - Increased tap transactions and size of outstanding securities
  - Ever increasing AUMs of local pension funds



## Fixed Income Outlook for 2020

- Government's MTDS seeks to:
  - Manage cost of funding
  - Deepen secondary market trading and liquidity (taps and longer tenors)
- Yield Expectations for 2020:
  - Short-term: stable within current range
  - Medium to long: FX influenced (19.0% – 21.50%)



# The Broad Economic Outlook for 2020

Metrics	2019 Actual	2020 Budget	2020 Databank Forecast
Real GDP Growth (%)	6.0 <sup>1</sup>	6.8	6.9 ± 0.5
Annual Inflation (%)	7.0%	8.0 ±2.0	8.8 ± 1.0%
Year-on-Year Rate of GHS Depreciation against USD (%)	12.9	-	8.6 1.5
Fiscal Balance (% GDP)	(4.8)	(4.7)	(4.9) ± 0.5
Primary Balance (% GDP)	0.9	0.7	-
Gross Public Debt (% GDP)	62.1*	-	-
Interest Rate (91 Day T-Bill period end, %)	14.70	-	14.5 ± 1.0
Current Account Balance (% GDP)	(2.5)	-	-
Gross International Reserves (Months of Import Cover)	4.0	≥3.5	≥3.5

1 → 9 months 2019

## Views on the economic outlook for 2020

- ← Continued recovery in private sector credit, aided by monetary policy and improving asset quality
- ← Zero financing of deficit by BOG & FX support  
Ex-pump prices and election-induced public spending
- ← Better start to 2020 likely to persist in Q1-2020.  
Election pressures and fiscal issues are major risks
- ← Revenue mobilization challenges likely to persist in addition to expenditure pressures in 2020
- ← Government to remain committed to primary surplus as mandated by the Fiscal Responsibility Act
- ← Contingent liabilities remain upside risk in 2020
- ← Stable yields expected for T-bills as Govt seeks to balance high funding needs with MTDS
- ← Trade surplus expected to persist to contain the current account deficit in 2020. Lower oil price is a risk
- ← Foreign portfolio inflows and continued trade surplus would be key support, despite high external obligations

