PRESS RELEASE

AGI's CONCERNS ON THE IMPLEMENTATION OF THE DOMESTIC DEBT EXCHANGE PROGRAM (DDEP)

The Association of Ghana Industries (AGI) has been following, with keen interest, developments on the Domestic Debt Exchange Program as a key condition for the IMF intervention. We appreciate the urgent need for the IMF intervention to help bring stability to the economy. We also acknowledge that this program will allow Ghana to gradually reduce its debt-to-GDP metrics towards sustainable levels and AGI therefore affirms its support to the IMF program. We, however, wish to draw attention to the DDE component as presently designed.

Indeed, we have had engagements with our members, especially those in the Insurance and Banking sectors and we appreciate their cooperation in this journey and the fact that they have expressed their commitment to the DDE program to move the process forward. However, AGI wishes to bring to the fore some key challenges that needs to be addressed for the DDEP to yield the expected impact.

1.0 Impact of DDEP on Local Industry

The AGI membership constitutes businesses in 23 sectors, including Banks, Insurance companies and Manufacturers across Ghana who play critical roles in the productive sector of the economy and therefore we have strong interest in the implementation of this program. AGI is concerned that the current state of the program will impact the liquidity and solvency position of financial institutions and limit their ability to support the real sector of the economy, and this requires maximum attention.

1.1 Liquidity

The AGI envisages liquidity constraints the banks will face under the DDEP and its impact on business access to finance. It is important to stress that in the wake of potential challenges, the productive sectors of the economy are not denied access to much needed funds to increase their production. In view of this, we welcome Government's intention to establish the Ghana Financial Stability Fund (GFSF) to provide liquidity support. It is however acutely imperative that Government or the mandated Government institution publishes the framework including terms and conditions for accessing the Fund.

We also appreciate the Bank of Ghana's responsiveness to move the cash reserve ratio (CRR) from 14% to 12%. The CRR effectively reduces liquidity and adversely impacts cost and availability of credit to businesses. In this regard, the AGI calls on the Bank of Ghana to reduce the ratio further to 9% in a similar fashion as the Central Bank did during the height of covid-19 in 2020 and 2021.

1.2 Solvency

The current structure of the DDE Program will not only impact liquidity and profitability of our financial institutions but more importantly on their solvency as a result of huge impairment losses on their balance sheet. These economic losses will potentially erode the capital of our financial institutions and affect their going concern status. These have the potential of damping the confidence of shareholders and investors and impact on the banks' ability to engage in foreign transactions.

We therefore request that the Bank of Ghana comes up with clear modalities, for supporting such banks whose minimum capital requirement will be impacted because of this program.

Government should also ensure that the GFSF, being established to mitigate the impact of the DDEP, will be well resourced to play its intended role effectively in order not to further erode the confidence of the business community. Recent data from the AGI Business Barometer Index already indicates a significant drop in business confidence from 87.0 to 74.3 in Q3 2022. This doesn't send good signal to the investment community.

1.3 Access to Finance

Industrialization remains the most important engine of economic growth and there is the need to grow local industries to reduce the over dependency on foreign exchange for imports. We believe that as the financial sector goes through this turmoil, access to funds particularly for the productive sectors would be affected. This will worsen the perennial difficulties encountered by the business community in accessing finance for their operations. The AGI is therefore urging Government and all stakeholders to consider this challenge as an opportunity to support the productive sector of Ghana to produce more of our essential goods and limit reliance on importation to ease pressure on the local currency. In this respect, AGI expects that, Government will pursue policies that reduce interest rates to reduce cost of credit to industry. This will encourage medium to long-term borrowing by industry to expand their operations and produce the goods needed.

Furthermore, we urge Government to also consider the potential impact of the program on SMEs. The program should ensure that our SMEs will have access to bank loans at a reasonable rate for their operations. Indeed, the DDEP should also critically consider the ramifications on SMEs whose bonds have been affected by the program. We call for a special dispensation for such SMEs to have reasonable access to their funds to enable them stay in business. This is even more critical with the advent of the AfCFTA, which requires our industries to produce on a large scale and at competitive rates in order to harness opportunities in the single African market.

1.4 Government expenditure

Under the current circumstance, fiscal prudence is crucial to restore confidence in the economy and therefore a review of Government's expenditure is necessary. The budget deficit projection in the 2023 budget statement ought to be reviewed significantly to align with the 5% provision in the Fiscal Responsibility Act. We are confident that an IMF Program will help instill fiscal prudence that will not warrant the setting aside of the Act. An increase in budget deficit from 7.4% (as at September, 2022) to 7.7% of GDP as contained in the 2023 budget does not inspire confidence among the business community.

Businesses are already over stretched with multiplicity of taxes and hence we propose that Government should consider reducing the budget deficit by significantly cutting expenditure and not additional revenue through taxation. The 2023 National Budget proposed a total expenditure of GHC 205.4 bn, an increment of 87.75% from the 2022 total expenditure. We expect Government's expenditure for this year, to reflect the exigencies of the time. Government should therefore demonstrate its commitment to a program that seeks to cut down on its intended expenditure.

2.0 Conclusion

In conclusion, AGI would like to call on Government and all relevant stakeholders to see this crisis as an opportunity to introduce reforms that would enhance the development of agriculture and industry on a long-term basis and link it with other productive sectors such as the mining and construction sectors to bolster sustainable growth of our economy.

We would like to see Government's excessive borrowing from the banks, which tends to crowd out the private sector, become a thing of the past.

Signed: *Seth Twum-Akwaboah*
Chief Executive Officer
For and on behalf of Association of Ghana Industries

If you need further information, please contact the Chief Executive Officer on 0302 251266/986730
Website: www.agighana.org

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