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PRESS RELEASE ON THE FORMATION OF THE FISCAL COUNCIL AND FINANCIAL STABILITY COUNCIL

The Economic Governance Platform welcomes government’s decision to establish the Fiscal Responsibility Advisory Council (Fiscal Council) and the Financial Stability Advisory Council (Financial Stability Council) to offer independent advice on fiscal responsibility and to ensure the stability of the entire financial system across all the sub-sectors, respectively.

However, the Platform believes it is imperative for these Councils to conform to international best practices and be tailored to Ghana’s peculiar context (creating the environment that will make these institutions strong and effective).

Fiscal Councils are independent public institutions aimed at promoting sustainable public finances through various functions, including public assessments of fiscal plans and performance, and the evaluation or provision of macroeconomic and budgetary forecasts. By fostering transparency and promoting a culture of stability, they can raise reputational and electoral costs of undesirable policies and broken commitments (IMF, 2013).

All other things being equal, Fiscal Councils can promote stronger fiscal discipline as long as they are well-designed. The key features of effective Fiscal Councils across the world include:

- a strict operational independence from politics,
- the provision of public assessment of budgetary forecasts,
- a strong presence in the public debate (notably through an effective communication strategy), and
- an explicit role in monitoring compliance with fiscal policy rules.

Of course, the remit, tasks, and institutional models of Fiscal Councils should reflect country-specific characteristics, such as available human and financial capacities, political traditions and the specific causes for excessive deficits and debts.

The Platform has identified some pertinent issues with the two newly constituted Councils that require government’s attention to ensure Ghana derives maximum benefits from these Councils:

A. Fiscal Responsibility Advisory Council (Fiscal Council)

Ghana, since independence, has lacked her own agency of fiscal restraint and has invariably turned to the IMF to play that role (of agency of fiscal restraint). Given that the country is in the process of ending her 16th stabilization programme with the IMF, the establishment of a credible independent Fiscal Council is viewed as a positive step to help internalize fiscal discipline, sustain the gains of macroeconomic stability and avert another need for an IMF bailout in future.
Hence, it is important that the Fiscal Council be seen and recognized by the citizenry and the investor community as a reasonably credible substitute for the IMF as the agency of fiscal restraint. It must be seen as empowered to deal with issues such as strengthening policy credibility and investor confidence which impact on cost of credit. This is particularly important given the country’s large financing needs (about 40 percent of government domestic revenue is absorbed by interest payment on the public debt alone).

The best practices of Fiscal Councils have been more than advisory and we are concerned that the Fiscal Council being advisory may not be up to the task.

The Platform, therefore, makes the following suggestions to make Ghana’s Fiscal Council deliver its expected fiscal outcomes:

**Strong Legal Basis for Functional Independence and Well-defined Remit**

1. The two principal laws regulating the management of public finances in Ghana; the Public Financial Management Act, 2016 (Act 921) and the recently enacted Fiscal Responsibility Act, 2018 (Act 982) do not provide for the establishment of a Fiscal Council. Hence, an amendment to either Act 921 or Act 982 is imperative to give the Council legal guarantees to become established and build reputational capital.

2. There are ambiguities in the mandate and guarantees of strict operational independence as well as the relationship with the political principal which must be addressed.

3. The limitation of the tenure of office of the members of the Council to the term of the appointing President could inhibit the functional autonomy and effectiveness of the Council, more especially if there is no legal backing for its establishment.

4. Civil society does not believe that a “stand-alone” Fiscal Council, mandated to advice and report to the President is the right path to chart, given that the country already has an Economic Management Team (EMT) in place that should be able to counsel the President on such matters directly. Hence, no need to duplicate functions at the presidency.

5. Rather, in line with best practices, Ghana’s Fiscal Council should be structured or attached to Parliament to strengthen legislative oversight of the Executive by providing expertise on fiscal issues just like the Congressional Budget Office (CBO) does in the US for the US Congress which is the equivalent of our Parliament. This would be particularly relevant as we strive to move from the present hybrid (of the British Parliamentary and American Presidential) system towards the American Presidential system, making the Legislature less subservient to the Executive in line with the principle of separation of powers between the Executive, Legislature and the Judiciary.

6. To remain effective across political cycles, the Fiscal Council needs to actively develop its own non-partisan credentials and secure the buy-in of the major political actors.

**B. Financial Stability Advisory Council (Financial Stability Council)**

1. It is imperative for government to establish whether the problems that we are facing in the financial sector are blamable on the lack of collaboration between the regulatory agencies within the sector. Recent developments seem to suggest that some corporate entities may not have complied with the laws of the land. There have also been relevant questions about whether the regulatory agencies (Bank of Ghana and Securities and Exchange Commission) have delivered on their respective mandates. Investigations into these issues should provide solutions to sanitize the financial services sector and not in the setting up of a bigger oversight body.

2. Moreover, the Bank of Ghana, following the Asset Quality Review (developed with Technical Assistance from the IMF) and the banking sector roadmap (agreed with the IMF under the ECF-backed programme) has taken steps to strengthen its oversight of the financial sector and has made
good progress. Care must be taken to safeguard the functional autonomy of the Central Bank and the other regulatory agencies from political interference.

3. Finally, in line with best practices, the Financial Stability Council should not be composed solely of heads of the various regulatory bodies. In addition, there is a need to guarantee the independence of the Financial Stability Council to enable it evaluate, conduct and provide strategic overall assessment of the activities of the Bank of Ghana, the Securities and Exchange Commission, the National Insurance Commission and the National Pensions Regulatory Authority. This independent assessment will also be an important input for the various regulators and stakeholders.

In all, the inadequate stakeholder engagements on the formation of the Fiscal and Financial Stability Councils and the recently enacted Fiscal Responsibility Act, 2018 (Act 982) have resulted in some of the shortcomings highlighted above. Civil society urges government to be more open to engage with relevant stakeholders in the best interest of the country going forward.

Signed on behalf of the Group by:

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LIST OF ECONOMIC GOVERNANCE PLATFORM MEMBERS & PARTNERS

1. Financial Accountability and Transparency-Africa (FAT-Africa)
2. Imani Center for Policy & Education-Africa (Imani-Africa)
3. African Centre for Energy Policy (ACEP)
4. SEND Ghana
5. Ghana Center for Democratic Development (CDD-Ghana)
6. Ghana-Anti-Corruption Coalition (GACC)
7. Ghana Integrity Initiative (GII)
8. Penplusbytes
9. African Center for Parliamentary Affairs (ACEPA)
10. Integrated Social Development Centre (ISODEC)
11. Centre for Policy Analysis (CEPA)
12. Oxfam in Ghana
13. Civil Society Platform on the Sustainable Development Goals
14. Parliamentary Network Africa (PNAfrica)