Republic of Ghana

Oil export and import hedging strategy breaks new ground for Africa

Case Study

The Client

The Republic of Ghana is a West African country with a population of 26 million. Ghana's 2013 GDP was $48.1BN. The country's primary exports are gold, cocoa, manganese and timber products. Ghana's credit ratings as of April 2015 from S&P, Moody's and Fitch are B-, B3 and B respectively.

The Challenge

In 2007, a significant oil field was discovered in Ghana, prompting the government to establish a team to consider how revenues and risks associated with exports should be managed. During this process, which was initially focused on oil exports, the government saw an opportunity to manage the price volatility of fuel imports, which it subsidized at great cost to its budget.

The government sought to establish a hedging strategy to stabilize both its budgeted revenues and expenses related to oil by protecting its share of production revenue from the Jubilee field with a fixed floor price and guarding against increases in the oil price with a fixed ceiling.

The Solution

Having helped the government to develop its hedging strategy and risk management capacity, Citi was selected, as part of a panel of banks, to facilitate the export and import oil price hedging programs. The Republic's share of oil production is hedged on a quarterly basis using put options to achieve a predictable minimum price for exports and call options for its imports, also on a quarterly basis. The import and export programs are operated independently of each other. The cost of import hedging is financed by three-month promissory notes issued by the Bank of Ghana and is aligned with the term of the import letters of credit used to pay for the oil imports.

The Result

The Republic's export hedging strategy helped to stabilize government revenues as oil prices have fluctuated. Export hedging was discontinued by the government in 2013 but plans have recently been announced to resume the strategy. The import hedging strategy, which has operated continuously since 2010, has provided a welcome buffer for consumers from oil price increases. As importantly, it has enabled Ghana to effectively reduce and remove fuel subsidies with minimal political impact.

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