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## Ghana update

1. “*We regret the news of Mills’ death.*” Thus did former President Rawlings, the founder of the Ghana’s ruling NDC party, react on Tuesday to the demise of sitting President John Atta Mills<sup>1</sup>. Delivered from the Congolese capital Brazzaville, where Rawlings was attending the launch of *Forbes Africa*, his laconic words spoke volumes.
2. In the first place, Rawlings’ tone demonstrated his continuing resentment over the perceived indignity of seeing ‘his’ party select Atta Mills as its presidential candidate in 2008 over the candidate whom he, as NDC chairman, had attempted to anoint - his own wife, Nana Konadu Agyeman-Rawlings.
3. Viewed in the context of a number of other clues<sup>2</sup>, the matter-of-fact statement strongly suggests the active involvement of the Rawlingses in the emergence of a break-away NDC faction a fortnight ago, and the subsequent formation of the National Democratic Party, with Dr. Josiah Nii Armah Aryeh (a former General Secretary of the NDC) listed as *interim* Chairman.
4. In other words the ruling NDC faces an all but impossible task as it prepares for the December elections.
  - As will be recalled, it won the 2008 contest by the slimmest of margins - approximately 30,000 votes out of 9 million ballots cast. The failure of the Mills administration to deliver on its principal campaign pledges of higher social expenditure and job creation<sup>3</sup> will almost certainly have robbed it of these votes, and more.
  - The fact that the NDC candidate - will have to contest the elections<sup>4</sup> backed by a party in virtual disarray, casts him as the unmistakable underdog.
5. Under the circumstances, it is highly unlikely that the Mahama administration will be able to resist the temptation to pull out the fiscal stops and go for broke<sup>5</sup>. We should therefore expect that the lion’s share of a USD 178.74 final ECF disbursement<sup>6</sup> will be ploughed into initiatives promising short-term political dividends.

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<sup>1</sup> By contrast, Mills’ successor John Dramani Mahama had to fight back tears as he declared that he had “lost a father, a mentor and a senior colleague”. Even Nana Akuffo-Addo, the NPP’s presidential candidate whom Mills defeated in 2008, reacted to “the sad news” by expressing his condolences to the Mills family and then “call[ing] on all Ghanaians to stand united in this moment of national loss and grief”.

<sup>2</sup> Although the relevant filing included no reference to the former first couple, it has since emerged that at a meeting with Pres. Mills earlier this month, Rawlings pointedly declined to pledge his support for the incumbent’s re-election campaign.

<sup>3</sup> In his first radio interview, the organization’s spokesman declared that “(President Mills’) *Better Ghana* agenda has failed”. Ironically, the promised expenditures were precluded by the extreme budgetary pressure under which the incoming Mills administration found itself as a result of the staggering budgetary excesses of the outgoing Kuffuour government.

<sup>4</sup> Against the experienced Akuffo-Addo, leading a unified and disciplined NPP.

<sup>5</sup> Even though the IMF team warned, as recently as July 13<sup>th</sup>, that “The authorities will need to accelerate their ongoing efforts to complete the fiscal reform agenda.”

6. The Ghana *Cedi* has already depreciated by 18% year-to-date, fuelled in part by a yawning budget deficit whose full-year projection was revised only last week to 6.7% of GDP. Any additional budgetary overshoot is bound to impact the local currency, potentially replicating the melt-down four years ago.

7. And yet the battered *Cedi* has thus far shrugged off both the launch of the NDP and the President's sudden demise – for three simple reasons:

- First, the emergence of the NDP and the parallel fragmentation of the NDC have not fully entered the public discourse as the former's application to the Electoral Commission<sup>7</sup> is still being processed, as of the time of writing.

- Second, following sudden death of Pres. Mills – an event without precedent in Ghana's history – the immediate focus of concern was on the smoothness of the succession process, which proved exemplary<sup>8</sup>.

- Third, it is rumoured that the Government of Ghana will auction a fresh issue of 5-year bonds as early as August. Convinced that the transaction will attract significant offshore demand and an associated inflow of foreign exchange, Treasury dealers in Accra are bullish on the short-term outlook for the *Cedi*.

8. In our view, each of the three factors cited entails considerable *theta*<sup>9</sup> risk.

- Within a matter of days, the NDC will commence the process of selecting its presidential candidate – and confront in prime-time the awkward question of whether to anoint the relatively untested Mahama or opt for one of the more seasoned party barons.

- The imminent launch of the NDP as a duly registered party, and the disclosure of its sponsors and supporters will draw even more attention to the challenges facing the NDC in its bid to retain power – and the desperate measures to which it might have to resort.

- Independent of any endogenous factors, the time-frame mooted for the 5-year bond issue seems particularly inauspicious. This year, the traditional summer doldrums are likely to be supplanted by an explicitly risk-off mood in global markets<sup>10</sup> that would regard illiquid *Cedi* exposure as anathema.

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<sup>6</sup> i.e. under Ghana's Extended Credit Facility with the IMF, which was approved by the Board on July 13<sup>th</sup>.

<sup>7</sup> The application for registration as a political party eligible to field candidates in December's presidential and parliamentary elections was filed on July 6<sup>th</sup>, 2012.

<sup>8</sup> As prescribed under the Constitution, V.P. John Mahama sworn in within hours of Mills' death - with none of the drama that followed the death in office of Pres. Yar'Adua of Nigeria in 2008.

<sup>9</sup> i.e. time decay.

<sup>10</sup> i.e. in the run-up to the September 12<sup>th</sup> ruling from Germany's Constitutional Court upon which the viability of the

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