

GHANA UPDATE**The IMF's 2nd ECF Review - another fudge**

1) Eyebrows were raised when it emerged earlier this week that the IMF team conducting the second review under Ghana's ECF program had been obliged to extend the exercise by 48 hours – reportedly due to unspecified disagreements with the authorities.

But there was **never any real prospect of their coming clean on Ghana's dismal performance in the fiscal space**. After all, this would have obliged the Fund to retract the triumphal verdict announced at the conclusion of its August review,

*"In particular, the government's fiscal consolidation efforts are on track"*¹

2) As will be recalled, by the time the above howler was delivered the Government's own figures² had already admitted the contrary. Far from paying down ca. GHS 640 million of the existing stock of debt³ (as agreed under the IMF program), Ghana had actually incurred ca. GHS 230 million in incremental arrears. In flow-of-funds terms this amounted to **a total of GHS 870 million in undeclared financing**.

3) Given this precedent, it was to be anticipated that the second review would merit another pinch of salt. Nor did the IMF disappoint, proclaiming that ***"Implementation of the program has so far been satisfactory with all end-August 2015 performance criteria met."***⁴

4) Even so, a hint of the unvarnished facts can be gleaned from the coy observation three paragraphs later that, *"Looking ahead, given the high level of public debt and financing constraints, the planned fiscal adjustment under the program will be strengthened in 2016."*

This is tantamount to confirming **the apparent nexus between the build-up of Government arrears in 2015/H1 and the Treasury's well-publicized problems rolling over high-cost treasury debt** during the same time-frame.⁵

5) Then, as if to divert attention from the payment arrears, two additional factors are cited as demanding further fiscal tightening next year, i.e. –

- costs related to the 2016 elections⁶; and,
- a projected wage bill higher than originally programmed⁷.

¹ See "IMF Completes First Review of Ghana's ECF and Approves US\$116.6 Million Disbursement" – IMF Press Release No. 15/393, issued August 31, 2015.

² Submitted to Parliament as part of the mid-year budgetary review.

³ Estimated at over GHC 6 billion as at 12/31/2014, the entire stock is to be eliminated by end-2017.

⁴ See "IMF Staff Concludes Review Mission to Ghana" – IMF Press Release No. 15/496, issued November 5, 2015.

⁵ For example, the Centre for Economic Policy Analysis in Accra has made the case that, *'The government experienced a financing shortfall of GHS 826 million [...] Faced with these difficulties, the government decided to focus on a cost-minimization strategy'* - see "First Review of Ghana's Three-Year Financial and Economic Program under the IMF Extended Credit Facility, 2015-2017"; CEPA, Aug. 31, 2015.

⁶ Given Ghana's established democratic tradition of quadrennial elections, it seems remarkable that the relevant expenses were not fully reflected in the Program *ab initio*.

⁷ The said discrepancy is almost certainly attributable to the Program's 12% inflation target for 2015 year-end. Naturally, the position of organized labor in the ongoing wage negotiations will be based on the reality of CPI running at 17.4% year-on-year, and climbing.

In this regard, the statement reports, the authorities have included a package of extra revenue and spending measures in the draft 2016 budget⁸, ***“to bring the fiscal deficit down to 5.3 percent of GDP next year, instead of 5.8 percent envisaged in the program”***.

6) In view of Ghana’s track record going back to 2008, **the Program’s deficit targets (of -7.5%, -5.8% and -3.7% for 2015, 2016 and 2017, respectively), have seemed quite optimistic from the outset.** And this was when the point of departure was the -9.4% provisionally estimated as the fiscal out-turn for 2014.

7) The fact that the latter figure has since been revised up, to -10.2%, will by definition have made the original deficit targets even more aspirational. As such, **the new target set for 2016 – an election year – simply defies credulity.**

We await Mr. Terkper’s presentation next week with bated breath.

⁸ The 2016 Budget is to be submitted to Parliament on November 13th.

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