

## GHANA RESEARCH-NOTE

## The 2nd ECF Review - a Change in Tone

10 days ago, Rhombus opined that the disbursement of the third credit tranche under Ghana's programme was a fait accompli<sup>1</sup>, now that the Executive Board had finally scheduled a meeting<sup>2</sup> to consider the draft report. **Yesterday the Board announced the completion of the second review and approved the disbursement of a credit tranche in the amount of USD 114.6 million.**

**1) Superficially, the relevant press statement<sup>3</sup> shares much in common with the upbeat announcement that marked the completion of the initial review.**

- Once again, for example, programme implementation by the Ghanaian authorities is described as *"broadly satisfactory"* - precisely the language employed in the August press release.
- As on the previous occasion, Ghana receives a waiver *"for the non-observance of the performance criterion regarding non-accumulation of ... arrears."*
- And yet again, the authorities are urged to *"resolutely continue their fiscal consolidation efforts."*

**2) However, a closer examination of today's document reveals a far more peremptory tone and a number of pointed allusions that shed light on why it took the Fund two fraught months<sup>4</sup> to wrap up this review.**

- Where the August report had awarded the authorities a pat on the back by hailing Ghana's performance - *"despite an unfavorable economic environment"* – no such pat on the back was forthcoming this time.
- Similarly, the earlier review characterized as *"minor and temporary [in] nature"* the authorities' failure to observe certain performance criteria. No such fig-leaf was provided yesterday.

---

<sup>1</sup> See *'Fuel prices rise - It's Mainly Fiscal'*, Ghana research note published Jan. 4, 2016.

<sup>2</sup> This development coincided almost to the day with the promulgation of the Emergency Energy Sector Levy Bill (2015).

<sup>3</sup> See *IMF Press Release No. 16/07*, issued on Jan. 13, 2016.

<sup>4</sup> i.e. Since the IMF staff completed its last visit to Accra, on Nov. 5, 2015.

- And, on the crucial subject of expenditure control, the statement resorts to phraseology that that is both peremptory and specific<sup>5</sup>, stressing the importance of *“the government stick[ing] firmly to its policy of strict expenditure controls, by maintaining the wage bill within the budget limits ...”*

**3) In our view, the wage bill is likely to prove the most challenging issue under the ECF programme** - this being an election year, and organized labour a key base of support for the embattled NDC, which faces an uphill fight to retain power.

- At a meeting with government officials last week, *the unions argued for a reversal of the spike in utility tariffs*<sup>6</sup> announced by PURC (the sector’s regulator ), in December.
- The talks quickly collapsed, prompting the TUC to announce plans to *demand an ‘offsetting’ wage increase of 50%*.<sup>7</sup>
- The labour minister has already ruled out any such increase, declaring:

*“We need to be able to offset the outstanding legacy debt of almost 4.5 billion Ghana cedis. A wage increase by 50 percent, is not just difficult but impossible.”*<sup>8</sup>

**4) The key take-away is that the IMF is determined to hold the authorities’ feet to the fire** (even though they are not yet prepared to throw Ghana under the proverbial bus). This position is conveyed most strongly in the statement,

*“The authorities’ commitment to implement corrective measures if fiscal risks materialize is welcomed.”*<sup>9</sup>

In other words, **the remaining reviews under the ECF programme are likely to prove an increasingly fraught affairs**. With the advent of the spring/summer season<sup>10</sup> due to coincide with the election campaign kicking into high gear, **this is bound to trigger renewed volatility in the Cedi** which has enjoyed a preternatural stability<sup>11</sup> since the beginning of September, last year. (*See price chart in the Appendix on page 5*)

---

<sup>5</sup> i.e. In place of the largely exhortatory language employed in the August statement.

<sup>6</sup> i.e. electricity, 59.2%, water, 67.2%. As will be recalled, these were followed on Jan. 1<sup>st</sup> by hikes in petrol and diesel prices amounting to 28% and 27%, respectively – directly attributable to the Emergency Energy Levy.

<sup>7</sup> Wilson Agana, chairman of the Tema District Council of Labour as quoted in *“Organised labour demands 50% increment in salaries”*, posted by *Citi-FMonline*, on Jan. 6, 2016.

<sup>8</sup> Hon. Haruna Iddrisu in an interview on *CitiFM*, as quoted by Marian Ansah in *“Government can’t increase salaries by 50% - Haruna Iddrisu”* posted by *CitiFMonline* on Jan. 8, 2016.

<sup>9</sup> This pointed allusion to the implementation of corrective measures – the second such mention in the statement – sheds light on the inordinate delay in completing the 2<sup>nd</sup> review.

<sup>10</sup> i.e. A period historically associated with *Cedi* weakness, as cocoa shipments taper off sharply in February, following the peak of the ‘main crop’ season.

<sup>11</sup> i.e. Price volatility of 9.882% vs. a reading of 42.533% for the interval Sept. 2014 to date.

5) The following tables summarize the key pronouncements of the IMF's Jan. 13<sup>th</sup> press release alongside the corresponding passages in the Aug. 2015 statement, and highlight the crucial changes in tone and content cited above.

Criterion	1st ECF Review	2nd ECF Review	Subtext
Overall Execution	Implementation of the ECF-supported program by the Ghanaian authorities has been broadly satisfactory, <b>despite an unfavorable economic environment</b> .	Implementation of the ECF-supported program by the Ghanaian authorities continues to be broadly satisfactory, <b>but the economic outlook remains difficult with risks tilted to the downside</b> .	A <b>pointed shift in emphasis to the magnitude of the challenges facing Ghana</b> , from earlier focus on the authorities' achievements
Compliance	Executive Board also granted waivers for the non-observance of performance criteria regarding gross credit to government, and non-accumulation of external arrears, <b>based on their minor and temporary nature and the corrective measures put in place by the authorities</b> .	The Executive Board also granted a waiver for the non-observance of the performance criterion regarding non-accumulation of external arrears, <b>based on the corrective measures being taken by the authorities</b> .	<b>No attempt to trivialize Ghana's failure</b> to meet performance criteria, this time around.
Fiscal consolidation	The government should firmly continue with its fiscal consolidation efforts to fully restore macroeconomic stability and mitigate financing risk.	The authorities should resolutely continue their fiscal consolidation efforts. <b>With government debt continuing to increase and financing remaining a challenge, the 2016 budget rightly aims at a stronger consolidation than originally envisaged</b> .	The <b>-5.3% deficit target for 2016 was adopted under pressure from the Fund</b> - almost certainly to offset slippages that occurred during the initial review period but only came to light later.
Expenditure control	It is crucial to <b>continue the policy of controlling the wage bill by adhering to the net hiring freeze</b> , excluding for health care and education, while further implementing the payroll clean-up plan.	<b>It is essential that the government sticks firmly to its policy of strict expenditure controls, by maintaining the wage bill within the budget limits</b> , while controlling discretionary spending and protecting priority spending.	Government is expected to <b>resist any new wage demands</b> triggered by the recent hikes in administered prices for utilities, fuel and transportation.

Criterion	1st ECF Review	2nd ECF Review	Subtext
Payment Arrears	The government should continue to adhere to the domestic arrears clearance plan <b>and avoid incurring any new arrears.</b>	It is also important to continue to adhere to the domestic arrears clearance plan and <b>avoid incurring new domestic or external arrears.</b>	<b>The authorities have been accumulating external arrears,</b> including payments of more than USD 180 million owed to the W. African Pipeline Co.
Wage negotiations	It is also <b>important that the ongoing wage negotiations result in a wage agreement consistent with the medium-term wage bill envelope.</b>	N. A.	N. A.
Debt management	<b>The externally-oriented financing envisaged in 2015 will help reduce the pressure on the domestic debt market.</b> The government should complement this strategy by striving to deepen the domestic debt market, as well as by seeking to <b>borrow externally on concessional terms as much as possible.</b>	<b>The new medium-term debt management strategy is a welcome step to help reduce near-term financing risks, while balancing domestic and external financing in a way that will not jeopardize debt sustainability.</b> The authorities should complement their strategy by stepping up work to deepen the domestic debt market.	Acknowledgement that the <b>IMF-approved strategy of funding the budget deficit externally</b> has proved <b>a costly mistake.</b>
Macro prudential supervision	Prompt implementation of two new banking laws currently under review by Parliament will help safeguard financial sector stability.	<b>Financial sector stability will need to be monitored closely in a context of deteriorating asset quality. The BoG should take immediate steps to increase resilience and address weaknesses in asset classification.</b> Prompt implementation of the new banking laws currently under review by Parliament is also essential to safeguard financial sector stability.	The Fund has identified <b>significant banking system vulnerabilities</b> and is sounding the alarm. They are also <b>losing patience with Parliament's</b> procrastination over the adoption of two draft banking laws that remain pending.

APPENDIX - Price performance of the Ghana Cedi



*This Report has been prepared purely for the purposes of information and neither constitutes, nor is intended to constitute an offer to sell or the solicitation of an offer to purchase securities. Although the statements of fact in this Report have been obtained from, and are based upon sources that Rhombus Advisors LLC believes to be reliable, the Firm does not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and forecasts included in this Report represent the Firm's judgement as of the date of the Report and are subject to change without notice.*