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GHANA RESEARCH NOTE [REV]

The Article IV Mission - a guarded assessment

*Since the Article IV team had left Accra on October 11th, it could be inferred from the fact that the customary end-of-mission statement did not materialize until this afternoon that the **visit had not been without its challenges**. This of course, was entirely predictable, given the mission's timing - in the charged interval between the rather unsatisfactory mid-year fiscal review and the presentation of the budget for 2020, an election year.*

1) There was **an unmistakable red flag** on October 10th, following a meeting between the IMF team and the National Assembly's finance committee. This is when the committee chairman provided the local press with **a read-out so hyperbolic as to be immediately recognizable as 'spin' – and potentially, damage-limitation**.

2) One particularly egregious example was: *"As regards the banking sector clean-up, what I gathered from [the team] is that the whole process has been smooth and it really amazes them* (sic).*"* [1]

It is simply **inconceivable that an IMF team would ever issue such an assessment** – least of all when NIB[2] is still operating with a capital shortfall of GHC 1.2 billion.

3) The first detail that leaps from the post-mission statement released this afternoon is the fact that the **Article IV consultation was only concluded a few days ago**, in the context of the Fund's annual meeting. This means that it has taken the two sides the better part of a fortnight to reach agreement on a text that would ordinarily have been ready for publication before the team left Accra. **The delay speaks volumes**.

4) The document itself is a model of diplomatic tact, but it is **not difficult to spot the probable areas of contention**. The opening paragraph describes Ghana's macroeconomic outlook as *"remain(ing) favourable"*. However, this **upbeat assessment is promptly qualified** by the caveat, *"The primary risk to the outlook remains policy relaxation in the run-up to the 2020 elections."*[3]

5) Turning to the current state of play, the statement adopts a somewhat brisker tone, noting that ***"implementation of the 2019 budget has been challenging"***. The fact that the predicament is attributed to *"lower than expected revenues [and] frontloading of spending on some government flagship programs"*[4] strongly suggests that t**he fiscal-adjustment measures announced in the mid-year review are yet to bear fruit**[5].

6) The statement then dutifully reports that, *"the government is committed to keeping the budget deficit (excluding financial sector restructuring and energy costs) below 5% of GDP"*. However, in view of the point made in the preceding paragraph, this would appear to be **an improbable outcome** - especially given the significant fiscal overshoot - equivalent to 3.3% of GDP - registered during the first half of the year.

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[1] *"Those at the helm must be doing something fantastic,"* was another transparently fictitious encomium that Dr. Mark Assibey-Yebboah attributed to the IMF team. Both 'quotations' appear in *"Ghana's macro-economy is favourable – IMF"*, published by Joyonline, on Oct. 10, 2019.

[2] I.e. the largest of the five banks that were to be recapitalized under the ill-conceived Ghana Amalgamated Trust scheme.

[3] An obvious – if unwelcome - allusion to Ghana's quadrennial curse.

[4] In what is likely to have been a concession to the authorities, the statement also cites *"unexpected security expenditures"* occasioned by the Islamist threat in the sub-region. Although the same factor was highlighted in the mid-year budget review (see Para. 84), no actual figures were provided on the incremental outlay which, one suspects, was actually quite modest.

[5] This would appear to validate the scepticism expressed in our *"The Mid-year Review - a preliminary assessment"*, dated Aug. 1, 2019

7) With reference to the preparation of the 2020 budget[6], we learn that *"the mission underlined the need to adopt an appropriately tight budget to limit financing needs, contain debt build-up, and support the external position."* There then follows what the authorities will have regarded as **a less-than-welcome prescription**: *"This will likely require both spending and revenue measures."*[7]

8) Another item that was probably the subject of spirited debate is the recommendation to avoid *"spending and financing operations outside the budget"*. This looks like **a thinly veiled reference to the government's repeated use of special-purpose vehicles**, like the Ghana Amalgamated Trust Ltd., to keep specific financing transactions off-balance sheet.

9) On the subject of the banking sector clean-up, the statement is considerably more guarded than the deliberately misleading comments discussed in Para. 1. Indeed, **the team goes out of its way to point out the inconvenient fact that the exercise remains a work-in-progress**[8]: *"The recapitalization of the remaining locally-owned banks …. will be key to boosting credit to the private sector."*

So, the general take-away is that, a mere six months after Ghana "graduation" from its ECF programme, **hints of incipient recidivism are already detectable**. It will become clear, from Ken's presentation in three weeks' time, whether or not these can be nipped in the bud.

[6] Scheduled for presentation on Nov. 14th.
[7] Despite the compelling fiscal logic, this is likely to prove a particularly bitter pill especially since the finance minister has publicly ruled out introducing any new taxes.
[8] I.e. almost 10 months after the new minimal capital threshold of GHC 400 million came into effect.