

AFRICA RISK CONSULTING

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The International Monetary Fund (IMF) Executive Board approves a three-year \$918m financial assistance package focused on fiscal stability and reining in public debt. Moody's Investors Service follows other ratings agencies in downgrading the economy, reflecting continuing investor concerns over the government's ability to implement fiscal reforms. A maritime border dispute with Côte d'Ivoire threatens to delay oil and gas exploration in Ghana, although international arbitration will probably rule in Ghana's favour. State-owned Tema Oil Refinery (TOR) shuts down operations due to a mechanical fault caused by a lack of investment.

IMF approves three-year reform programme

The **International Monetary Fund (IMF)** Executive Board approved a three-year \$918m financial assistance package under the IMF's **Extended Credit Facility** on 3 April.¹ The IMF immediately disbursed \$115m to increase foreign reserves to support the cedi and control the budget deficit before a planned \$1 billion Eurobond issue in June. The IMF will make further disbursements conditional on reviews every six months through 2017.

The IMF said the programme aims to restore macroeconomic stability to boost growth and job creation while protecting social spending.² According to the IMF, the main pillars of the reform programme are:

- Fiscal adjustment: "to restore debt sustainability", with a focus on reducing expenditure through the public sector wage bill and mobilising unspecified additional revenues;
- Structural reforms: focused on fiscal discipline through improving budget transparency, notably through "cleaning up and controlling the payroll, right-sizing the civil service, and improving revenue collection";
- Targeting inflation: bringing inflation down to single digits; and
- Preserving financial sector stability.³

IMF Ghana mission chief **Joel Toujas-Bernate** reiterated the IMF's emphasis on decreasing expenditure on the public sector wage bill and subsidies. He claims that President **John Dramani Mahama** (2012-present) and his administration are dedicated to meeting the objectives of the plan, including in the lead up to the December 2016 elections. Toujas-Bernate said improving transparency of public financial management is another major goal of the programme.

The IMF has promised to publish soon "all the program documents ... so it will be for everyone to see ...the objectives and conditions".⁴ Local wariness around the package conditions remains:

"We are waiting to see the conditionalities attached [to the loan]. The IMF has only issued a statement but the real conditionalities will come in a bulk document, which we expect this week. It will be interesting reading – the devil is in the detail."⁵

The IMF staff mission to **Accra** agreed the package in February.⁶ The government turned to the IMF in 2014 to help it address increasing inflation, an expanding budget deficit and the depreciating cedi, which has

¹ IMF, 3 Apr 2015.

² IMF, 3 Apr 2015.

³ IMF, 3 Apr 2015.

⁴ Toujas-Bernate press interview, 3 Apr 2015.

⁵ Source, journalist, Accra

significantly reduced economic growth. Falling oil revenues as a result of the decline in international oil prices forced the government to revise its 2015 budget and increase the budget deficit target to 7.5% of gross domestic product (GDP), up from 6.5%, on 12 March.⁷ In February inflation increased to 16.5%. The cedi has fallen a further 9% in 2015 after a 31% decline in 2014. The economic growth forecast for 2015 remains at 3.9%, below the **sub-Saharan Africa** average, and down from 9% in 2011.⁸

Moody's downgrade reflects business scepticism

Despite the IMF agreement, ratings agencies continue to lower Ghana's credit rating. On 20 March **Moody's Investors Service** reduced Ghana's foreign currency rating one step to B3, six levels below investment grade, and kept a negative outlook.⁹ Moody's said:

"The negative outlook reflects further downside risk to the country's debt dynamics and liquidity pressure in the short-term if the country's policies fail to successfully contain its fiscal deficit, stabilize its currency and address current impediments to higher economic growth."

The downgrade reflects wide-ranging scepticism about the government's ability to implement austerity measures and reforms it has committed to as part of the IMF agreement. However, in reaction to the downgrade, finance minister **Seth Terkper** said the medium term economic outlook remained good due to further oil and gas production coming online, and improvements in the services sector and agriculture.¹⁰ He said the government would ensure continuing fiscal consolidation.

The downgrade is Moody's second for Ghana in less than a year and follows a number of warnings from ratings agencies in recent months. In October **Standard & Poor's (S&P)** downgraded Ghana's economic outlook, citing concerns over the fallout of fiscal consolidation. On 4 December **Fitch Ratings** said the government would struggle to meet its 2015 revenue and fiscal deficit targets. At the time it said that a 2015 budget deficit target would reach 8% and that raising revenue in the economic downturn would prove difficult.¹¹

The government is now committed to a \$1 billion **Eurobond** issue in June, while it has shelved plans to borrow up to \$1 billion from **Bank of America**.¹² **James Klutse Avedzi**, chairman of the parliamentary finance committee, told the press on 10 April that the finance ministry had withdrawn its proposal for "bridge finance" loans from Bank of America. He said that parliament had approved the Eurobond sale and the government had started the issue process.

*"It's too early to predict a positive impact in the business sector from the IMF deal. The released funds are going to the **Bank of Ghana** to sew up their overdrawn position."*

There are other underlying economic problems, notably the energy crisis. The economic structure is also import-dependent and unless corruption is reduced, the economy faces major challenges."¹³

Maritime dispute with Côte d'Ivoire threatens oil exploration

A maritime border dispute with **Côte d'Ivoire** threatens to delay oil and gas exploration in Ghana. On 29 March the Ivorian government submitted a request to the **International Tribunal of the Law of the Sea (ITLOS)** in **Hamburg (Germany)** to halt oil exploration in a disputed offshore area pending a maritime boundary ruling at the ITLOS.¹⁴ The ITLOS is expected to decide on the Ivorian's request in late April

⁶ See ARC Ghana March 2015 Briefing

⁷ Reuters, 12 Mar 2015.

⁸ See ARC Ghana March 2015 Briefing

⁹ Bloomberg, 20 Mar 2015.

¹⁰ Reuters, 20 Mar 2015.

¹¹ Bloomberg, 4 Dec 2014.

¹² Bloomberg, 10 Apr 2015.

¹³ Source, journalist, Accra

¹⁴ Reuters, 29 Mar 2015.

2015. Its final ruling could reportedly take three years. The Ivorian government said that allowing the Ghanaian exploration projects to continue would significantly undermine its economy and energy policy.¹⁵

The disputed offshore area includes **Tullow Oil's Tweneboa-Enyenra-Ntomme (TEN)** project. Tullow aims to complete exploration work and start oil production by mid-2016. The Ghanaian government views the prospect that the ITLOS will grant the stop-work request as “*highly unlikely*”.¹⁶ Several sources in Ghana claim that the Ivorian government is unlikely to gain any of the disputed territory through international arbitration. The Ghanaian legal team says that the Ivorian government had accepted the demarcation that the Ghanaian government considers to be the border for the last 40 years.¹⁷ Attorney general and justice minister **Marietta Brew Oppong-Appiah** said that the Ivorian government was “*trying to move a long and established boundary*”.¹⁸

Both sides announced plans to take the dispute to international arbitration after several attempts to resolve the dispute through bilateral meetings failed. On 23 September the Ghanaian government confirmed it had filed for international arbitration under the **United Nations Convention on the Laws of the Sea (UNCLOS)** at the ITLOS.¹⁹

Accelerating the development of the oil sector was not a priority of former Ivorian president **Laurent Gbagbo's** (2000-2011) government. There was also a perception that ethnic ties made Gbagbo's administration close to the Ghanaian government:

*“Gbagbo didn't care about the oil concessions. It's rumoured that he made a deal with Ghanaians that he wouldn't challenge the Ghanaian concessions near the border in exchange for political support. Gbagbo was close to Ghanaians. There was a lot of intermarriage between the elites then, they were close on many levels – ethnicity, evangelical Christianity, anti-colonialism sentiment.”*²⁰

Relations deteriorated when Ivorian president **Alassane Ouattara** (2011-present) came to power. However, President Mahama improved the relationship after he came to power in 2012. Both governments have committed to resolving the boundary dispute peacefully.

Tema Oil Refinery (TOR) shuts down

State-owned **Tema Oil Refinery (TOR)**, the country's major oil refinery, confirmed on 7 April that it has shut down operations due to a mechanical fault.²¹ Spokesperson **Aba Lokko** said TOR would be closed for approximately a month. Lack of maintenance due to a shortage of investment and the unreliable power supply caused the shut down.²² TOR claims that it needs \$38m to fix the problem.²³ In 2014 President Mahama said the government was seeking an external partner for TOR amid negotiations with **Saudi Arabia-based Petro Saudi**.²⁴

The heavily subsidised TOR has faced several closures since 2009 and has accumulated significant debts. Political commentators say the situation at TOR is indicative of Ghana's current economic situation.

TOR has supplied around 30% of petroleum products in the Ghanaian market since January 2015.²⁵ Before the most recent closure it produced 45,000 barrels of oil per day (bpd). Imported finished products supply most of the country's fuel needs. In 2014 TOR processed only 18% of Ghana's 3.7m metric tonnes of fuel imports.²⁶ TOR does not process any of the approximately 100,000 barrels per day produced at Ghana's offshore **Jubilee** field.²⁷ TOR's shutdown will thus not affect local fuel supply.

¹⁵ Reuters, 29 Mar 2015.

¹⁶ Reuters, 29 Mar 2015.

¹⁷ Reuters, 29 Mar 2015.

¹⁸ My Joyonline, 30 Mar 2015.

¹⁹ Daily Guide, 23 Sep 2014.

²⁰ Source, journalist, Cote d'Ivoire

²¹ Reuters, 7 Apr 2015.

²² Reuters, 7 Apr 2015.

²³ The Finder, 7 Apr 2015.

²⁴ Reuters, 10 Apr 2015.

²⁵ The Finder, 7 Apr 2015.

²⁶ According to Ghana Chamber of Bulk Oil Distributors figures.

²⁷ Reuters, 10 Apr 2015.

“TOR workers have always held a grand conspiracy theory that the government has neglected the refinery because officials with interest in the oil business are able to import refined crude.”

Mahama inherited the Tema refinery problem although his government has not been able to turn around the fortunes of the company. It has been an albatross around the neck of this country. It has too many overheads and problems with the business structure. [However], it should come back online before the end of the month.”²⁸

Implications

The IMF agreement improves the economic outlook, however investor confidence remains low due to the wide-ranging structural problems as well as questions over the Mahama administration’s ability to implement fiscal reforms as the December 2016 presidential and parliamentary elections approach. In addition, the announcement of the second \$1 billion Eurobond sale in two years raises new debt concerns. The government’s service costs will rise when interests rates eventually rise in the **United States**. Lower oil revenues due to the fall in oil prices will also constrain debt servicing.

The maritime border dispute with Côte d’Ivoire compounds fiscal pressure on the government. The dispute risks disrupting development of the oil and gas sector, specifically the TEN development, a significant future government revenue source. However, local sources believe that international arbitrators will lean towards Ghana’s case.

The TOR shutdown highlights the continuing debt issues at the state company. Despite inheriting the problem, the Mahama administration has failed to improve the situation. Subsidising TOR further undermines the government’s fiscal reform measures.

²⁸ Source, journalist, Accra

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