

AFRICA RISK CONSULTING

Ghana Monthly Briefing March 2015

Ghana Summary 25 March 2015

The government commits to austerity measures in securing a \$940m three-year International Monetary Fund (IMF) financial package starting in April, aimed at improving fiscal stability. However, President John Dramani Mahama (2012-present) will struggle to maintain some measures – that the electorate views as unpopular – in the lead up to the 2016 elections. The government revises the 2015 budget, confirming significantly reduced oil revenues and increasing the budget deficit target. Mahama pledges commitment to unspecified reforms in the power sector during his State of the Nation address.

IMF agrees financial package

After delayed negotiations, the government has secured a commitment from the **International Monetary Fund (IMF)** for a financial package to improve the economy. **Joel Toujas-Bernaté**, head of an IMF mission in **Ghana**, confirmed on 26 February that the IMF had agreed a \$940m three-year concessional facility with the government.¹ The IMF will present the plan to its board in April and it will release an initial \$100m payment as part of the facility.²

Toujas-Bernaté said the main objective of the programme is fiscal stability. It aims to reduce the fiscal deficit from 9.5% of gross domestic product (GDP) to 3.5-4% of GDP by 2017.³ In meeting conditions for the IMF agreement, the government has committed to a number of measures to raise revenue and reduce expenses, including:⁴

- a 17% petroleum tax;
- a freeze on hiring in the public sector; and
- removing energy subsidies.

The government has agreed to reduce the public sector wage bill and remove ‘ghost workers’, who have no formal position but receive a salary, from the payroll. The IMF programme requires the government to reduce the public sector wage bill to 7% of national output from the current 8.5% within three years.⁵

The IMF programme also aims to reduce inflation from the current 17% to 11-12% by the end of 2015. The IMF has reduced the economic growth forecast for 2015 to 3.5%, but says it will improve to 4-5% in 2016 and 5-6% in 2017.

The government has sought IMF assistance – referred to locally as a “*bail out*” – to halt the economic downturn due to the fall in commodity prices (particularly cocoa and gold) as well as rising government debt and increasing trade and fiscal balances. Government debt currently stands at over 60% of GDP and during 2014 the local currency (cedi) depreciated 31%. The agreement is one of the IMF’s first significant programmes for a **sub-Saharan** country since the fall in commodity prices in 2014.

President **John Dramani Mahama** (2012-present) has pursued the IMF agreement to improve the economy in the lead up to the December 2016 presidential elections in which he will seek re-election. However, at the same time, the IMF programme also commits the government to austerity measures unpopular in the electorate, such as the removal of energy subsidies.⁶

¹ Bloomberg, 26 Feb 2015.

² Bloomberg, 26 Feb 2015.

³ Financial Times, 26 Feb 2015.

⁴ Financial Times, 26 Feb 2015.

⁵ Reuters, 26 Feb 2015.

⁶ Reuters, 26 Feb 2015.

“Ordinary Ghanaians are indifferent towards Ghana-IMF partnership. They are overwhelmed by what many see as the main issue – the power crisis (see below).

But for the business community it was good news. They have lost confidence in the government’s strategy and during the week of the agreement the cedi recorded a drop which caused panic.”

Mahama has attempted to signal to workers that he will not yield or pander to the demands of unions during the election campaign. He has tried to send the message that he has become impervious to threats of strikes and demonstrations to force him to meet demands that could threaten the financial disciplinary measures with the IMF.”⁷

Revised budget confirms lower oil revenues and increases budget deficit target

Following the IMF commitment, the government presented the revised 2015 budget to parliament, primarily to address falling oil revenues as a result of the decline in international oil prices. On 12 March finance minister **Seth Terkper** confirmed the government had reduced the oil revenues forecast for 2015 to 1.5 billion cedis (\$417 million) from 4.2 billion cedis (\$1.17 billion) in the budget presented to parliament in November 2014.⁸

The government reduced the revenue and grants target to 29.7 billion cedis (\$8.3 billion), from 32.4 billion cedis (\$9 billion). The original forecast was based on oil prices averaging \$99.4 per barrel in 2015. The new forecast is based on the IMF projection of \$52.8 per barrel. Terkper said the oil production forecast remained unchanged at 102,033 barrels per day.

Subsequently, the revised budget reduced the budget deficit forecast to 7.5% of gross domestic product (GDP) from 6.5%.⁹ Terkper claims the government’s target of reducing the deficit to 3.5% by 2017 was “attainable”.¹⁰ The deficit was 9.4% in 2014 and has averaged 10% in the last three years.

“The budget revision was expected. In preparing the 2015 budget the government was not realistic. The budget was revised to fall in line with the disciplinary measures to be followed under the IMF deal. There is much pessimism as to whether the government can stick to its budget.”¹¹

The government will finance the deficit through at least three main sources. The agreement between the government and the IMF will include \$381m in aid. The government will also access 487.2m cedis (\$131m) from the **Ghana Stabilisation Fund**, a sovereign wealth fund to cushion the fiscal impact during periods of revenue shortfalls, on a quarterly basis. It also plans to issue a \$1 billion **Eurobond** in late 2015.¹²

Prior to the revised budget announcement the cedi reached its lowest level against the **United States (US)** dollar in six months. The cedi devalued 11% against the dollar in 2014.¹³

Mahama’s State of the Nation address focuses on improving electricity supply

Mahama has indicated that the government intends to implement reforms in the power sector, but failed to provide specific details of the planned reforms. On 26 February Mahama urged the government to pursue reforms to improve electricity supply, during the annual State of the Nation address to parliament.¹⁴ Mahama said that the continuing electricity outages had hampered economic growth and undermined the business sector.

The government intends to “completely restructure” the state-owned electricity transmission company **Electricity Company of Ghana (ECG)** with the aim of adding over 3,500 megawatts to the national grid in

⁷ Source, journalist, Ghana

⁸ Reuters, 12 Mar 2015.

⁹ Reuters, 12 Mar 2015.

¹⁰ Financial Times, 15 Mar 2015.

¹¹ Source, financial analyst, Ghana

¹² Reuters, 12 Mar 2015.

¹³ Bloomberg, 12 Mar 2015.

¹⁴ Bloomberg, 26 Feb 2015.

the next five years.¹⁵ The ECG reportedly has debts to power producers totaling around 1 billion cedis (\$310m).¹⁶ Privatisation is unpopular among the electorate in the short term and particularly among the ruling **National Democratic Congress (NDC)**'s nationalistic grass roots support base. Thus, the government's official line is that it will not privatise the ECG. However, in signing the **Ghana Power Compact II** \$500m five-year aid programme focused on the energy sector in August 2014 – part of the US government-funded **Millennium Challenge Corporation** – the government committed to accelerated private participation.¹⁷

Industrial power consumers continue to face regular 24-72 hour power outages as part of the government's electricity load-shedding programme. Currently, the key state-owned power producer **Volta River Authority** lacks natural gas for its plants. Low water levels at the **Akosombo** dam have also reduced supply.¹⁸

The power ministry – established in November 2014 – has told the press that the situation will improve from April. However, civil society groups organised another protest against power cuts at the **Sunon-Asogli** power plant in **Tema**, outside **Accra**, after severe power cuts in the area.¹⁹ This follows an opposition **National Patriotic Party (NPP)**-organised protest on 18 February in Accra.²⁰

“Most Ghanaians have resigned to their fate that it will take a long time before the government can fix the power situation. Sales of generators are booming and they are more widely used. There is growing displeasure on FM radio and social media, but there are still likely to be few protesting on the streets. It is typical of the Ghanaians to talk and complain but to take little or no action. Gatherings will mainly involve opposition party rallies and protests after companies feeling the impact of the power crisis lay off staff.”²¹

Implications

Following the IMF announcement and revised budget, the debate in business and politics centres is whether the government will maintain its commitment to fiscal discipline in 2016, the election year. Budgetary discipline typically slides in Ghana in an election year. The country's powerful unions will also place increasing pressure on the Mahama administration in the lead up to the vote to renege on unpopular measures such as reducing the public sector wage bill and removing energy subsidies. If implemented, these measures will further undermine the NDC's popularity and increase the prospect of a change of power to the NPP in 2016. However, the NDC is hoping that the measures will start to have an effect in the election year and enable the party to point to an economic recovery in the making during election campaigning. The IMF announcement has improved investor confidence and first disbursements will also improve the outlook.

The continuing power crisis remains the fundamental issue in the electorate and business. The NDC's prospects of a third consecutive term in power will inevitably rely on significant improvements in electricity supply in 2015 and 2016. Clearly the reforms that Mahama alludes to will include increasing private participation in the sector.

¹⁵ Bloomberg, 26 Feb 2015.

¹⁶ Citi FM online, 11 Dec 2014.

¹⁷ www.mcc.gov

¹⁸ Bloomberg, 26 Feb 2015.

¹⁹ Peace FM, 10 Mar 2015.

²⁰ Bloomberg, 18 Feb 2015.

²¹ Source, journalist, Ghana

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programs. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)