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Local media report that the government is likely to extend its three-year \$918m extended credit facility (ECF) with the International Monetary Fund (IMF) until December 2018. Bank of Ghana (BoG) (central bank) governor Ernest Addison says that the BoG does not expect to help finance the 2017 budget deficit. The BoG orders commercial banks to increase minimum capital to at least 200m cedis (¢) (\$47.6m). Finance minister Ken Ofori-Atta announces that Ghana's debt-to-GDP ratio decreased 10.3% between 2016 and the end of April 2017. Ratings agency Fitch Ratings maintains its issuer default rating (IDR) at B for Ghana, but increases its outlook from negative to stable.

Government is likely to decide on IMF extension by end of May

Local media reported on 22 May that the **Ghanaian** government is likely to extend its three-year \$918m extended credit facility (ECF) with the **International Monetary Fund (IMF)** from April to December 2018.¹ The announcement highlights continued financial pressures on the government amid difficult international commodity price conditions, which could force continued borrowing from IMF. Ghana remains highly dependent on cocoa and gold in particular for state revenues. Parliamentary finance committee chair **Mark Assibey Yeboah** had confirmed on 10 May that the government is likely to decide on an ECF extension by the end of May.² Yeboah confirmed that the IMF is seeking to push government towards a one-year extension of the ECF,

*"We engaged the [IMF] when we commenced discussions with them in **Washington D.C. (United States (US))** during the spring meetings³ but we could not reach an agreement, so when they come in June then government will decide whether better to end the programme in April 2018 or extend to December of the same year."*⁴

However, Yeboah stressed that the government is not necessarily seeking to renew the deal,

*"The government is not keen on extending the IMF agreement but officials from the [IMF] are coming in June for discussions on extension."*⁵

Finance minister **Ken Ofori-Atta** had in previous months stated that the government would seek to end the deal, as scheduled, in April 2018.⁶ However, Yeboah's statements appear to increase doubt surrounding Ofori-Atta's pledge. The previous **National Democratic Congress (NDC)** government of former president **John Dramani Mahama** (2012-2017) received significant criticism from the public for signing the ECF, due to its fiscal spending constraints. The IMF has also been highly critical of the recent increase in debt financing in the newly appointed **New Patriotic Party (NPP)** government.⁷ According to a source at the finance ministry, the government will seek to avoid the IMF option if it can,

¹ Reuters, 22 May 2017.

² Ghana Business News, 10 May 2017.

³ An annual round of meetings between the IMF and the **World Bank Group**

⁴ Ghana Business News, 10 May 2017.

⁵ Ghana Business News, 10 May 2017.

⁶ Ghana Business News, 10 May 2017.

⁷ Ghana Business News, 10 May 2017.

“IMF is definitely for [an extension of the ECF]. Ghana is not obligated to extend, and all things being equal will probably not. The market expects an extension because of the significant misses in targets last year, so Ghana probably needs it. Can Ghana do something else to avoid it? If it can, it probably will. Can Ghana and the IMF reach a consensus to extend? It is possible.”⁸

Other sources believe that Ghana will almost certainly require IMF aid,

“Does the government want this? Probably not. Does the government need this? Probably yes, given potential market reaction.”⁹

The IMF had in early April, announced the completion of its Article IV consultation and begun discussions for its fourth review under the current ECF.¹⁰ The IMF stressed the need for tighter fiscal discipline, increased transparency and accountability, and better access to credit in the private sector.¹¹ The IMF highlighted a volatile macroeconomic environment, which it said requires stabilisation measures from the government.¹² The IMF also said that the government’s efforts since Akufo-Addo assumed the presidency to respect the budget and cut taxes have led to significant public financial management improvements.¹³ The IMF appeared positive about the NPP government’s standing among the investor community, highlighted by a record \$2.2 billion domestic government bond issuance in recent weeks.¹⁴

On the other hand, the IMF emphasised challenges that the government faces. One major concern is the increase in government debt, with the budget deficit reaching 8.7% of gross domestic product (GDP) in 2016.¹⁵ The IMF said that the Mahama government had overspent on the 2016 presidential elections, something the IMF had explicitly advised against in the lead-up to the elections.¹⁶ One of the IMF’s observations included a reduction in high public wage bills (see above), which “*severely constrain fiscal space.*”¹⁷ Finally, the IMF commended improvements in the **Bank of Ghana’s (BoG)** (central bank) monetary policy. The IMF said that the BoG had already improved the inflation-targeting framework, in order to ensure that inflation stays within its target range.¹⁸ However, the IMF did not appear to approve of the recent BoG 200 basis point interest rate cut, deeming it too unexpected a change.¹⁹ Concerning exchange rate policy, the IMF called for a more effective policy that would mitigate exchange rate volatility rather than support the value of the cedi.²⁰

The extension of the IMF programme appears not to be the government’s preferred option. However, pressures on government finances in the form of commodity prices and poor tax collection could force an extension to the programme. An extension to the ECF will force the government to follow IMF policy recommendations, and may complicate execution of the NPP election manifesto.

BoG not expecting to finance budget deficit

The government already appears to be addressing the recommendations the IMF raised during its Article IV consultation. BoG governor **Ernest Addison** said on 21 April that the BoG does not expect to help finance the 2017 budget deficit.²¹ The move may improve the government’s fiscal management

⁸ Source, finance ministry employee, Accra

⁹ Source, journalist, Accra

¹⁰ www.imf.org

¹¹ www.imf.org

¹² www.imf.org

¹³ www.imf.org

¹⁴ www.imf.org

¹⁵ www.imf.org

¹⁶ www.imf.org

¹⁷ www.imf.org

¹⁸ www.imf.org

¹⁹ www.imf.org

²⁰ www.imf.org

²¹ Reuters, 22 Apr 2017.

reputation among foreign lenders and donors, and the IMF in particular. At the IMF spring meetings in Washington Addison said that BoG financing of the deficit should not be necessary,

*"We are staying on course... we do not expect that we would have a situation where the government will ask for financing from the central bank."*²²

Parliament in August 2016 voted for the **Bank of Ghana Amendment Bill 2016**.²³ The legislation allowed the BoG to finance as much as 5% of the budget deficit, which was allegedly in breach of the ECF's proscriptions.²⁴ The IMF had suggested a total prohibition on BoG financing to government ministries, departments and agencies. However, the bill was an improvement on the prior legislation, which allowed for the BoG to finance as much as 10% of the budget deficit.²⁵ Commentators viewed this as evidence that the BoG was not entirely independent,

*"The BoG is independent of government to a large extent on paper, but not in reality. The governor [previously **Abdul-Nashiru Issahaku**] was part of the NDC and not insulated from political control from the party and government."*²⁶

In addition to this, the BoG has brought about tighter regulatory measures in the banking sector to improve domestic lending. On 2 May the BoG ordered commercial banks to increase minimum capital to at least 200m cedis (¢) (\$47.6m) from the previous ¢120m (\$28.5m) requirement, a 66.7% increase.²⁷ The new rules will lead to the emergence of larger banks in the commercial banking sector. According to local commercial banks, the new rules will lead to an increase in mergers in the commercial banking sector. **Zenith Bank (Ghana) Ltd** managing director **Henry Oroh**, says that the reform was put forward in order to force the creation of larger banks,

*"I think the minimum capital resetting was done deliberately by the government and the central bank to create bigger banks in the economy. We have a lot of banks that have very little capital and when your capital is very little, there is very little you can do and when there are shocks, you'll have some problems."*²⁸

At present, 33 banks operate in the commercial banking sector.²⁹ This figure appears likely to decrease with the implementation of the new regulation. According to Oroh, countries with significantly larger populations than Ghana, such as **Nigeria** and **South Africa**, have a far smaller number of banks.³⁰ A source at the BoG claims that oversaturation of the market is affecting banks' ability to lend,

*"Because capital levels are low, the banks are not able to lend big time to big business in the oil and gas industry for instance. Also, the banks are unable to recover loans given out – the rate of non-performing loans is 20%. This has been eroding the banks' capital... It is the view that minimum capital requirements will force some banks to merge. However, the new governor has stated that he wants to have a second look at the new capital requirement.... This has not been communicated to the public."*³¹

According to another source,

*"The banks likely to merge will be local banks... and to a certain extent the Nigerian banks [operating in Ghana]. The huge banks like **Standard Chartered Plc**, **Stanbic Bank Ghana Ltd***

²² Reuters, 22 Apr 2017.

²³ Reuters, 3 Aug 2016.

²⁴ Reuters, 3 Aug 2016.

²⁵ Citi FM, 21 Jul 2016.

²⁶ Source, journalist, Accra

²⁷ Ghana Business News, 2 May 2017.

²⁸ Ghana Business News, 2 May 2017.

²⁹ Ghana Business News, 2 May 2017.

³⁰ Ghana Business News, 2 May 2017.

³¹ Source, BoG employee, Accra

and **Barclays Bank Ghana Ltd** are more capable of meeting the new target... My sources tell me that all banks are feverishly looking for investors (cash) in anticipation of the new regulation.”³²

... as Ofori-Atta announces 10.3% decrease in debt to GDP at the end of April

Ofori-Atta announced on 16 May that Ghana’s debt-to-GDP ratio decreased 10.3% between 2016 and the end of April 2017.³³ The announcement reveals tight budget management in the first few months of Akufo-Addo’s government.³⁴ Ofori-Atta confirmed that debt to GDP had dropped from 73% in 2016, to 62.7% at the end of April.³⁵ The government forecasts an end-of-year debt to GDP ratio of 70.9%.³⁶ Ofori-Atta admitted that although positive, identical periods for comparison would be more useful,

“The ministry intends to pursue the possibility of using monthly or quarterly GDP so we can compare oranges to oranges.”³⁷

Ofori-Atta claims that the government has made savings of €612m (\$141.4m) through debt re-profiling, reducing total domestic interest payments from €11.23 billion (\$2.59 billion) to €10.6 billion (\$2.45 billion),

“Our potential savings on domestic interest cost and therefore the creation of fiscal space currently stands at €612m. Part of the solution is in re-profiling our debt to reduce the risk in our debt portfolio and give us space to operate and we have begun that process.”³⁸

The evidence of a more debt-light government financing strategy is extensive. Vice president **Mahamudu Bawumia** said on 23 April that the government would not issue further **Eurobonds** in 2017.³⁹ Bawumia said,

“We have made a strategic decision this year not to issue a Eurobond ... We do not want to issue a Eurobond – we want to bring down the debt and manage them better ... What we want is investments in the Ghanaian economy.”⁴⁰

Economists, including **Lord Mensah**, senior lecturer at the **University of Ghana Business School (UGBS)**, have commended the government’s decision to restrict foreign debt issuances,⁴¹

“They have been able to hit on the same investors who are likely to invest in the Eurobond. Since you can invest in [a] Eurobond, why do you not equally invest into the economy in the form of foreign direct investment (FDI).”⁴²

Bawumia’s statement is viewed as “a certainty”.⁴³ Local commentators believe that the debt reduction in this first period of 2017 is indicative of the government’s strong management,

“The economic management strategy adopted by this government is showing signs of addressing the economic challenges. 2017 remains a difficult year judging from the economic indicators at the end of 2016. Stabilising the economic indicators for 2016 and improving them is a herculean task and will take the new government time to make visible progress.”⁴⁴

The NPP will look to improve the government’s debt profile through a mixture of a broader tax base and tax cuts, focusing on industry as its primary driver of growth, seeking to capitalise on a weak cedi

³² Source, journalist, Accra

³³ B&FT Online, 16 May 2017.

³⁴ B&FT Online, 16 May 2017.

³⁵ B&FT Online, 16 May 2017.

³⁶ B&FT Online, 16 May 2017.

³⁷ B&FT Online, 16 May 2017.

³⁸ B&FT Online, 16 May 2017.

³⁹ Citi FM, 23 Apr 2017.

⁴⁰ Citi FM, 23 Apr 2017.

⁴¹ Citi Business News, 24 Apr 2017.

⁴² Citi Business News, 24 Apr 2017.

⁴³ Source, journalist, Accra

⁴⁴ Source, newspaper editor, Accra

environment. However, local commentators believe that an increase in the tax base policy will be difficult to achieve,

“The expected increase in tax revenues will be difficult to realise, as the budget contains significant tax cuts aimed at boosting the business climate. Ghana has historically underperformed in its budgeted revenue projections. On the expenditure side, interest costs will continue to exert upward pressure.”⁴⁵

Additionally, the finance ministry had on 18 April announced it will save ₵250m (\$60.5m) from the government’s public sector wage bill in 2017.⁴⁶ Tighter public financial management could prove unpopular, resulting in decreased support for president Akufo-Addo’s government. The finance ministry announced that it has removed 26,589 public sector ‘ghost’ workers and suspended 23,029 payments from the state-owned **Social Security and National Insurance Trust (SSNIT)**.⁴⁷ It is unclear whether there is significant overlap in the removed and suspended names. The finance ministry statement explained that the reason for the suspensions included a failure to comply with mandatory SSNIT biometric enrolment.⁴⁸ The most recently available data shows that Ghana’s public sector workforce totals 690,652– or 7.5% of the national workforce.⁴⁹ As such, the proposed savings could potentially affect between 3.9% and 7.2% of the public sector workforce.⁵⁰

Early signs of a stronger performing economy stem from government efforts to shore up state finances. These efforts will improve relations with creditors and afford the government more favourable financing opportunities. The Akufo-Addo government has earned a highly credible reputation among investors. There are numerous signs of economic recovery in 2018. Meanwhile, it appears the NPP strategy is to clean up government finances. The risk in the medium term will be among the Ghanaian public, as policies of public sector cuts and reduced spending could lead to increased unpopularity for Akufo-Addo.

Fitch maintains B rating, with outlook stable

Ratings agency **Fitch Ratings** maintained its issuer default rating (IDR) at B for Ghana, but increased its outlook from negative to stable, on 12 May.⁵¹ The rating revision shows increased optimism surrounding the Ghanaian economy’s recovery in 2017. Fitch noted progress in economic growth, decreased inflation, a more stable cedi, and an increase in hard currency reserves.⁵² Fitch commended the Akufo-Addo government’s efforts to reduce the budget deficit, currently at 8.9%, and expects it to decrease to 7.5% in 2017, and 5.5% in 2018.⁵³ Concerning the debt-to-GDP ratio, Fitch estimates that it will decline to 71% at the end of 2017. Fitch predicts that GDP growth will reach 6% in 2017, up from 3.6% in 2016.⁵⁴ Fitch welcomed the interest rate cut from the BoG in March, to 23.5%.⁵⁵ However, Fitch stressed the importance of adherence to the IMF’s \$918m ECF, which Fitch says is “a key support for the sovereign ratings”.⁵⁶ Fitch acknowledged that although the government is on track for successful completion of the IMF programme, Ghana’s external finances are a notable weakness, which prevent a change in the current B rating.⁵⁷

⁴⁵ Source, journalist, Accra

⁴⁶ Citi FM, 18 Apr 2017.

⁴⁷ Citi FM, 18 Apr 2017.

⁴⁸ Citi FM, 18 Apr 2017.

⁴⁹ www.statsghana.gov.gh

⁵⁰ www.statsghana.gov.gh

⁵¹ Reuters, 12 May 2017.

⁵² Reuters, 12 May 2017.

⁵³ Reuters, 12 May 2017.

⁵⁴ Reuters, 12 May 2017.

⁵⁵ Reuters, 12 May 2017.

⁵⁶ Reuters, 12 May 2017.

⁵⁷ Reuters, 12 May 2017.

Fitch's outlook for Ghana is encouraging. Its ability to source lower interest debt gives greater financing options to the government. This may steer the government away from an IMF deal, although this is difficult to predict.

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