Economic and Market Insight

Policy Update: Ghana Seals Staff-Level Agreement with the IMF

GCB CAPITAL LTD
Research & Analytics

December 14, 2022

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Ghana Seals a Staff-Level Agreement for a US$3, 3-year Programme Supported by an Extended Credit Facility; Board Approval Predicated on Satisfactory Domestic Debt Operation

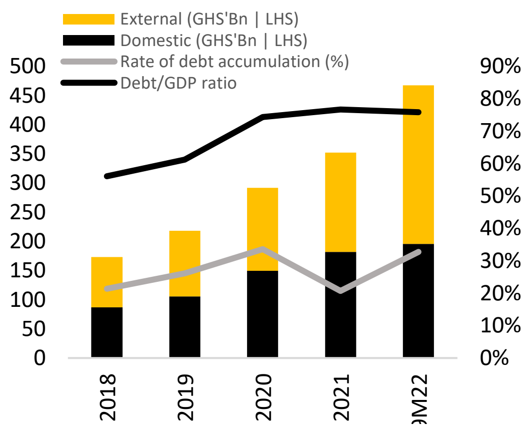
The government of Ghana and the Staff of the IMF reached a Staff-level agreement (SLA) on economic policies and reforms under a 3-year programme to be supported by the Extended Credit Facility (ECF). Against a highly challenging fiscal and macroeconomic backdrop in 2022 and the challenging outlook over the medium term, the IMF team and the Ghanaian authorities expedited the negotiations, culminating in this SLA in record time. The agreement is now awaiting the IMF Board's consideration and approval, subject to conditions precedent.

Programme scope and parameters: The programme seeks to restore macroeconomic stability and debt sustainability over the medium term while laying the foundation for more robust and inclusive growth and will disburse Special Drawing Rights (SDR) worth 2.242bn (about US$3bn) for a balance of payment and budgetary support. Consistent with the 2023 budget, the Staff statement indicated that the authorities envisage wide-ranging reforms that build on the Post-COVID-19 Program for Economic Growth (PC-PEG). The fiscal strategy will frontload revenue growth and expenditure controls over the medium term towards restoring sustainability in public finances while strengthening social safety nets. Additional structural reforms to anchor the fiscal strategy will target a medium-term plan to increase domestic revenue, enhance tax compliance and strengthen public expenditure commitment controls. Other policy objectives of the anticipated structural reforms include improving fiscal transparency, managing State-Owned Enterprises, bolstering governance and accountability and addressing lingering structural challenges in the energy and cocoa sectors.

Table 1: Summary of key Fiscal Ratios

	2022 (GoG)	2023 (GoG)	2024 -2026 average
Revenue/GDP	15.93%	18%	18.53%
Expenditure/GDP	22.20%	23%	23.6%
Interest/ Total Rev.	44.90%	36.50%	35.73%
Fiscal Deficit (cash)	7.20%	7.70%	5.8%
Primary Balance	-0.10%	0.70%	1.53%

Figure 1: Evolution of the public debt stock



Successful domestic debt exchange stands in the way of the executive board's approval: The SLA (achieved in record time) marks a significant milestone in Ghana's quest for policy support for its post-Covid-19 economic recovery efforts. As a precursor, the government launched an ambitious domestic debt restructuring programme as a first step towards restoring debt sustainability, which is a pre-condition for a staff-level agreement. We expect the Staff-level deal to pave the way for the government to engage commercial creditors on external debt treatment and development partners for financial commitment to fund the programme. However, board approval for the programme is subject to the Fund receiving a satisfactory financial commitment from Ghana's development partners for a fully funded programme and sufficient assurances and progress on domestic debt restructuring. Given the widespread resistance to the domestic debt exchange offer from the labour unions, Civil Society Organisations and other identifiable groups, it appears the authorities still have it all to do to secure the IMF executive board's approval for the programme to commence in good time.

Achieving a robust fiscal consolidation in 2023 hinges on a successful debt restructuring: The medium term fiscal strategy aims at achieving a credible consolidation to anchor fiscal and debt sustainability through revenue-enhancing and expenditure rationalization measures and other macro-critical structural reforms. While the revenue measures for 2023 are broad (targeting 1.35% of GDP), the 46.7% anticipated growth (relative to the projected outturn for 2022) to GH¢143.96 billion (18% of GDP) appears ambitious. On the expenditure side, the projected 39.5% growth in total expenditure to GH¢191bn (23% of GDP) increases budget rigidities as the large non-discretionary expenditure bill and the high recurrent expenditure tightens the scope for manoeuvre. Thus, achieving a credible fiscal consolidation in 2023 depends heavily on the success of the ongoing domestic debt exchange programme and the soon-to-be-announced external debt operation. Given the widespread resistance to the domestic debt exchange, we anticipate some compromise along the way in the form of the Treasury varying the terms of the exchange bonds, which may trim the expected gains from the programme. The overarching objective of the IMF board will be whether the overall debt strategy will be sufficient to restore debt sustainability over the medium term, which leaves the choice of debt instruments for treatment, the reliefs sought from creditors, and the negotiations with creditors in the domain of the government. We believe this leaves room for some adjustment and compromise on the proposed terms of the exchange bonds to ensure success. However, the scope for adjustment is limited as the overall debt strategy must achieve a debt/GDP ratio of 55% and an external debt service cost-to-total revenue ratio of 18% by 2028.

Government considering alternatives to the Common Framework for debt restructuring: Given the examples of Zambia, Ethiopia and Chad, who are using the Common Framework for debt restructuring amidst pronounced delays, the government is open to alternative approaches to the debt restructuring conversation. It appears securing financing assurances for a fully funded programme and progress with the ongoing domestic debt exchange are the key prior actions for board approval. Already the government is in the process of directly engaging domestic investors outside the Common Framework in the hope of expediting the process as the government targets end-January 2023 for board approval.

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