GHANA | MACROECONOMIC UPDATE | POLICY ANALYSIS | INSIGHTS

FUNDAMENTALS

GHANA'S IMF PROGRAMME: BUCKLE DOWN

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IN BRIEF

- As roundly expected by the market on 17 May 2023, the IMF Executive Board approved Ghana's request for a 36-month fiscal adjustment and reforms programme with an Extended Credit Facility (ECF) of USD 3.0bn.

- The Board approval triggered an immediate disbursement of USD 600mn (20% of the approved ECF), which we believe has been received by the Bank of Ghana. Subject to a successful first review, the Fund will disburse an additional USD 600mn to bring total disbursements in FY2023 to USD 1.2bn. We anticipate the first review with its conditional disbursement to be concluded in November 2023.

- Our analysis of the indicative targets confirms a front-loaded approach to fiscal consolidation as expected. Essentially, the bulk of the revenue-based fiscal consolidation will be felt in 2023 before easing-off in the subsequent years.

- We observed a forecast spike in the spending ratio by 1.0% of GDP to 25.3% in 2024 before reverting to a downward path in 2025. Our analysis suggests that the IMF projects a jump in interest payment to 8.5% of GDP in FY2024 (vs 7.0% in FY2023). This will widen the pre-restructuring overall budget deficit by 0.5% of GDP to 8.0%, emphasizing the need for a timely debt restructuring agreement.

- Without debt restructuring, we observed a downwardly sticky debt-to-GDP ratio, declining at a slow rate of 2.0% of GDP per year from 2025 to 86.1% in 2027 after the front-loaded consolidation drives an initial decline of 6.1% in 2024. This will leave Ghana's fiscal and debt situation on thin ice by the end of the IMF programme, unless the public debt is effectively restructured to lower interest payment and principal amortization. On external financing, the IMF estimates the total external funding gap at USD 10.5bn, averaging USD 2.6bn per year over 2023 – 2026. This funding gap indicates the total reliefs the Ghanaian authorities will target to secure under the debt restructuring negotiations with bilateral and commercial creditors.

Signed, Sealed, and Conditionally Delivered

As roundly expected by the market on 17 May 2023, the IMF Executive Board approved Ghana's request for a 36-month fiscal adjustment and reforms programme. The reforms programme will include a USD 3.0bn Extended Credit Facility (ECF) as a Balance of Payments support to be disbursed in tranches over the 3-year period, subject to achieving key performance benchmarks

The Board approval triggered an immediate disbursement of USD 600mn (20% of the approved ECF), which we believe has been received by the Bank of Ghana. Subject to a successful first review, the Fund will disburse an additional USD 600mn to bring total disbursements in FY2023 to USD 1.2bn. We anticipate the first review with its conditional disbursement to be concluded in November 2023.

The timing of the IMF approval aligns with our longstanding view that the Ghanaian authorities' earlier target of March 2023 was bullish and 2Q2023 appeared to be the most feasible for securing the IMF Board approval. Given the uniqueness of this reforms programme, the IMF expectedly stressed the need for timely debt restructuring agreements with external creditors as a necessary condition for a successful implementation of the programme.

Programme objectives

Given the recent inflation and exchange rate uncertainty amidst fiscal challenges, the new ECF programme will aim to restore macroeconomic stability and debt sustainability. The coverage areas will include:

Fiscal adjustment: Large and front-loaded fiscal consolidation to bring public finances back on a sustainable path.

Monetary policy tweaks: Appropriately tight monetary policy to bring down inflation to single digits while a flexible exchange rate policy will help rebuild forex reserves.

Preserving financial sector stability: The IMF noted the adverse impact of the Domestic Debt Exchange (DDE) on the balance sheets of financial institutions. In response, the programme will support the Ghanaian authorities to devise a comprehensive strategy to rapidly rebuild financial institutions' buffers to enable an exit from the temporary regulatory forbearance measures.

Reinvigorate private sector-led growth: The programme will implement structural reforms to improve governance, transparency, and public sector efficiency to revive private sector-led growth. We believe this objective aims to reduce government influence and correct its crowding-out effects. In addition, we expect the planned reforms in the cocoa and energy sectors to provide positive spillovers in the private sector for medium-term growth.

Buckling down to the hard adjustments ahead

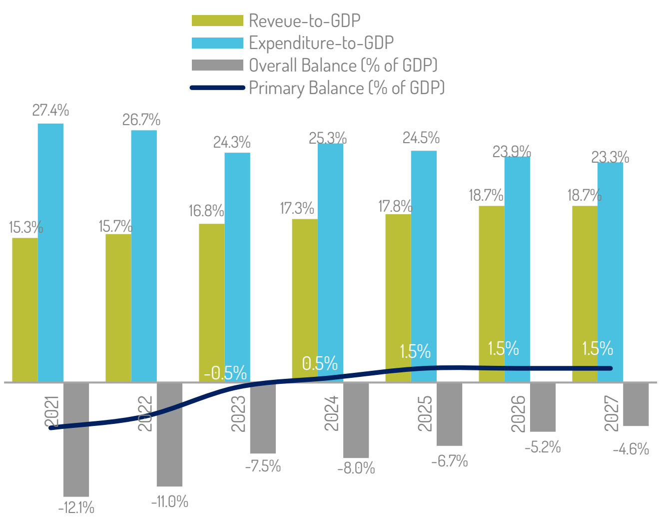
Fiscal adjustment is core. The government's attempt to narrow the budget deficit in 2022 was unsuccessful, partly due to revenue underperformance but largely occasioned by substantial spending overruns. While the revenue-to-GDP ratio turned out 15.7% in FY2022 (vs 16.4% target), public expenditure raced to 26.7% of GDP (vs 22.6% target).

We attribute this overrun to lax in spending controls as off-budget commitments by Ministries, Departments, and Agencies drove primary expenditure to 19.3% of GDP (vs 15.6% target). Interest payment was largely as planned at 7.4% of GDP (vs 7.0% target). We note, however, that interest payment remained elevated at 47.1% of total revenue, underscoring debt distress when principal amortization is added without market access for refinancing.

Our analysis of the indicative targets confirms a front-loaded approach to fiscal consolidation as expected. While total revenue is forecast to rise by 1.1% of GDP to 16.8% in FY2023, the subsequent years revealed an average growth equivalent to 0.6% of GDP to 18.7% in FY2026.

Essentially, the bulk of the revenue-based fiscal consolidation will be felt in 2023 before easing-off in the subsequent years. In value terms, we estimate that the IMF programme envisages total revenue of GHS 146.7bn in FY2023 (+51.9% y/y), signalling aggressive revenue drive despite the slowing aggregate demand. While we view the revenue target as ambitious amidst the weakening demand conditions, we expect implementation of the revised Tax Exemptions Act, new tax handles, and other revenue-enhancing structural reforms to partly mitigate the downside risk.

FISCAL ADJUSTMENTS UNDER THE IMF PROGRAMME



SOURCES: IMF, IC INSIGHTS

On the spending side, we observed a sharp compression in the expenditure-to-GDP ratio to 24.3% in FY2023 (vs 26.7% in 2022).

This translates into a faster compression in the spending ratio in 2023 by 2.4% of GDP before moderating to an average annual reduction of 0.1% of GDP from 2024 – 2026. However, we believe this sharp decline in 2023 reflects the suspension of external debt service as Ghana seeks to negotiate debt restructuring.

We observed a forecast spike in the spending ratio by 1.0% of GDP to 25.3% in 2024 before reverting to a downward path in 2025. Our analysis suggests that the IMF projects a jump in interest payment to 8.5% of GDP in FY2024 (vs 7.0% in FY2023). This will widen the pre-restructuring overall budget deficit by 0.5% of GDP to 8.0% in 2024, emphasizing the need for a timely debt restructuring agreement.

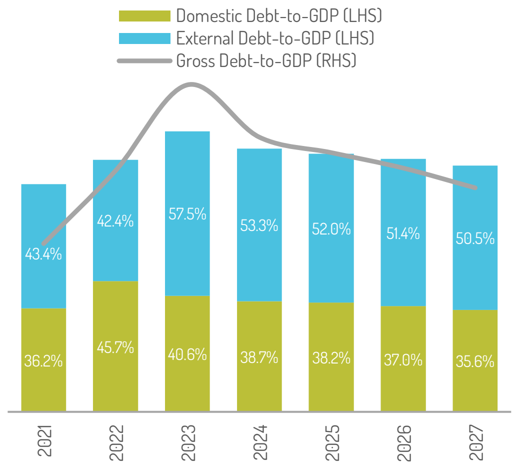
The broad-based roll-out of the Ghana Integrated Financial Management Information System (GIFMIS) has been set as a structural benchmark with specific target dates indicated from June 2023 – December 2024. We are positive and believe this will strengthen the authorities' commitment to spending controls in line with revenue performance, and enhance fiscal credibility.

Debt restructuring is key to fiscal sustainability. We observed that the indicative fiscal targets excluded the potential impact of debt restructuring as the outcome of ongoing negotiations with creditors will be determined. In view of this, the baseline forecast (without debt restructuring) show that the overall budget deficit will remain slightly above the 5.0% threshold stipulated in the Fiscal Responsibility Act by 2026.

On debt sustainability, the debt-to-GDP ratio (excluding debt restructuring) is forecast at 86.1% by FY2027, significantly above the post-restructuring target of 55% by FY2028. Without debt restructuring, we observed a downwardly sticky debt-to-GDP ratio, declining at a slow rate of 2.0% of GDP per year from 2025 to 2027 after the front-loaded consolidation drives an initial decline of 6.1% in 2024. This will leave Ghana's fiscal and debt situation on thin ice by the end of the IMF programme, unless the public debt is effectively restructured to lower interest payment and principal amortization.

If we extrapolate the rate of decline in the debt-to-GDP ratio into FY2028, we infer that additional adjustment equivalent to 29% of GDP would be required from the ongoing debt restructuring. Based on previous communication from the Ghanaian authorities, we expect external debt restructuring to deliver 16% of GDP while the remaining 13% will be obtained from the other domestic debt previously exempted from the standard DDE. Broadly, we expect this to be achieved on the back of various restructuring terms which could include lower coupon rates, principal haircuts, and maturity re-profiling on coupon and principals. The authorities indicated July 2023 as the target date to secure debt restructuring deals, ostensibly to underpin the mid-year budget review and supplementary estimates for legislative approval in the same month. However, we maintain an extremely cautious outlook on the debt restructuring negotiations against the backdrop of other sovereign delays.

PRE-RESTRUCTURING PATH OF PUBLIC DEBT

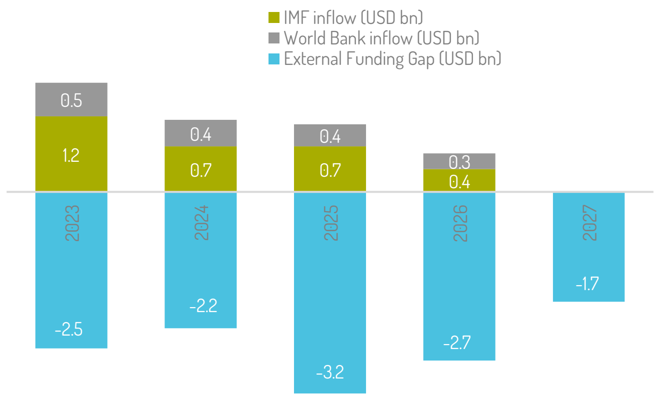


SOURCES: IMF, IC INSIGHTS

External financing need will remain elevated without debt restructuring. The external sector outlook under the IMF programme without debt restructuring shows persistently high external funding gap despite the projected inflows from the IMF (USD 3.0bn) and the World Bank (USD 1.6bn). Cumulatively, the IMF estimates the total external funding gap at USD 10.5bn, averaging USD2.6bn per year over 2023 – 2026. This funding gap indicates the total reliefs the Ghanaian authorities will target to secure under the debt restructuring negotiations ongoing with bilateral and commercial creditors.

Consequently, a sub-par outcome will undermine the successful implementation of the programme, especially in relation to the target rebuild of gross international reserves to 3.0-months of import cover by FY2026.

PRE-RESTRUCTURING EXTERNAL FUNDING GAP



SOURCES: IMF, IC INSIGHTS

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