GHANA | MACROECONOMIC UPDATE | POLICY ANALYSIS | INSIGHTS

FUNDAMENTALS

GHANA'S IMF PROGRAMME: WIND IN THE SAIL

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Head, Insights
Courage Kingsley Martey
+233 240 970 832
Courage.martey@ic.africa

IN BRIEF

- Ghanaian authorities received a confidence-boosting verdict from the Executive Board of the International Monetary Fund (IMF) on 19th January 2024, which triggered the immediate disbursement of the much-needed USD 600.0mn, and unlocks other sources of multilateral inflows including the World Bank (at least USD 550.0mn) and the African Development Bank (USD 103.0mn).

- Overall, we believe the IMF approval with its catalytic funding sources injects wind in the sail of the Treasury's finances and keeps the Ghanaian Cedi afloat as the authorities seek to navigate the choppy waters of the upcoming 2024 elections.

- Seemingly aligning with Ghana's election year fiscal performance, it appears the IMF has taken a slightly conservative posture with a 0.2% of GDP slippage baked into its 2024 deficit forecast (5.0%) compared to the authorities' target (4.8%). This forecast showed that the Fund expects revenue to underperform the authorities' target by 0.1% of GDP while expenditure overshoots the target by a similar margin. In general, we align with the IMF's conservative posture on fiscal outlook in the 2024 election year, reiterating our forecast FY2024 overall deficit (on commitment basis) at 5.4% and cash deficit at 6.3%.

- Ongoing improvement in external position will cap FX swings, but external debt restructuring is key. We note a USD 300.0mn reduction in the cumulative BOP funding gap to USD 14.8bn (2023 – 2026) in the updated framework as fiscal adjustment continues to correct the macroeconomic imbalances, pending external debt operation. Adjusting the BOP financing gap for the programme-related multilateral inflows, the estimated residual external financing gap narrows to USD 10.1bn (vs USD 10.5bn initially envisaged) over the programme duration, 2023 – 2026.

- Notwithstanding the slight narrowing, the residual BOP gap remains wide and underscores the importance of external debt restructuring in line with the IMF programme parameters to consolidate the fragile FX stability. Given the outcome of the bilateral debt negotiations, and subject to the comparability of treatment principle under the G20 Common Framework, we foresee Eurobond holders may be required to endure deeper cuts in debt service cash flows over 2023 – 2026.

IMF verdict: A spring in the policy step

Ghanaian authorities received a confidence-boosting verdict from the Executive Board of the International Monetary Fund (IMF) on 19th January 2024 as the Fund approved the first review of the ongoing USD 3.0bn Extended Credit Facility (ECF) arrangement. The Board approval was conditioned on the authorities securing an agreement with the Official Creditor Committee (OCC) for the restructuring of Ghana's USD 5.4bn bilateral debt in line with the Fund's programme parameters.

On 12th January 2024, the Ghanaian authorities reached a deal with the OCC for debt restructuring under the G20 Common Framework, paving the way for the much-anticipated IMF Board approval. More importantly, the OCC agreement included a pact for USD 2.8bn to be exempt from debt service for the period 2023 to end-2026. In our estimation, the agreed duration for debt service exemption aligns with the IMF programme duration which projects a residual BOP financing gap of USD 10.1bn over the programme duration (2023 – 2026) to be bridged with external debt relief.

The Board approval triggered the immediate disbursement of the much-needed USD 600.0mn which has a dual support for Ghana's Balance of Payments (BOP) position and budget execution. This brings total IMF disbursements under the programme to USD 1.2bn, completing the front-loaded phase of the programme execution and ushering in the modest execution phase. The Board approval also unlocks other sources of multilateral inflows including the World Bank (at least USD 550.0mn) and the African Development Bank (USD 103.0mn). We expect these multilateral inflows to strengthen the authorities' 2024 fiscal policy execution and the capacity to partly meet the external financing obligations for the year. Overall, we believe the IMF approval with its catalytic funding sources injects wind in the sail of the Treasury's finances and keeps the Ghanaian Cedi afloat as the authorities seek to navigate the choppy waters of the upcoming 2024 elections.

PERFORMANCE CRITERIA AND INDICATIVE TARGETS

Selected Performance Criteria and Indicative Targets	Target (June-2023)	Actual
Net forex Reserves - total Δ floor (USD mn)	99	856
BOG claims on Govt - total Δ ceiling (GHS bn)	0	-22
PV or new external debt - total ceiling (USD mn)	66	0
Primary balance - commitment total floor (GHS mn)	-4,008	2,245
Non-accumulation external arrears (USD mn)	0	0
New collateralized debt (USD mn)	0	0
Non-oil revenue - total floor (GHS mn)	49,843	50,142
Net Δ in payables to IPPs and of Gov't - ceiling (GHS mn)	0	3,371

SOURCES: MINISTRY OF FINANCE, IC INSIGHTS

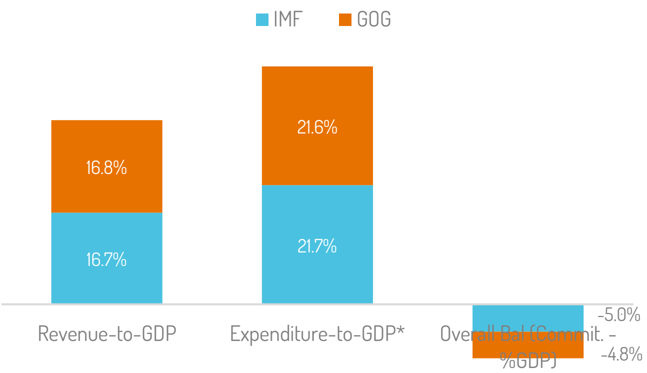
Did the IMF bake in election-related slippage?

We compared the IMF's updated macro-fiscal framework under the ECF programme with a special focus on 2024 fiscal year. Our observation revealed that the IMF's fiscal outlook for FY2024 projects overall budget deficit (on commitment basis) at 5.0% of GDP, resulting from forecast expenditure-to-GDP ratio of 21.7% and a revenue-to-GDP ratio of 16.7%.

However, the Ghanaian authorities had telegraphed a marginally lower overall budget deficit (on commitment basis) at 4.8% of GDP in the 2024 budget (presented in Nov-2023). The authorities signalled a revenue-to-GDP target of 16.8% against expenditure-to-GDP of 21.6%.

Seemingly aligning with Ghana's election year fiscal performance, it appears the IMF has taken a slightly conservative posture with a 0.2% of GDP slippage baked into its 2024 deficit forecast (5.0%) compared to the authorities' target (4.8%). This forecast showed that the Fund expects revenue to underperform the authorities' target by 0.1% of GDP while expenditure overshoots the target by a similar margin. In general, we align with the IMF's conservative posture on fiscal outlook in the 2024 election year, reiterating our forecast FY2024 overall deficit (on commitment basis) at 5.4% and cash deficit at 6.3%.

FY2024 FISCAL OUTLOOK (IMF vs GOG)



SOURCES: IMF, MINISTRY OF FINANCE, IC INSIGHTS
*External interest payment assumed pre-External debt restructuring

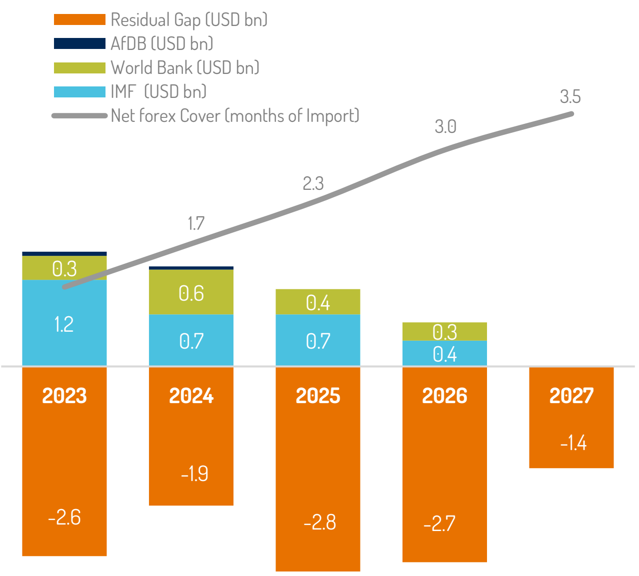
Improving external position will cap FX swings, but external debt restructuring is key

Encouragingly, the updated external sector framework showed a marginally improved outlook on the BOP gap despite maintaining a pre-restructuring assumption on external interest payments.

At the programme commencement in May 2023, the IMF's initial forecast on the cumulative BOP financing gap from 2023 – 2026 showed a gross funding need of USD 15.1bn. However, we note a USD 300.0mn reduction in the cumulative BOP funding gap to USD 14.8bn in the updated framework as fiscal adjustment continues to correct the macroeconomic imbalances, pending external debt operations. Adjusting the BOP financing gap for the programme-related multilateral inflows, the estimated residual external financing gap narrows to USD 10.1bn (vs USD 10.5bn initially envisaged) over the programme duration, 2023 – 2026. Notwithstanding the slight narrowing, the residual BOP gap remains wide and underscores the importance of external debt restructuring in line with the IMF programme parameters to consolidate the fragile FX stability.

Having secured agreement to restructure the USD 5.4bn bilateral debt, of which USD 2.8bn will be exempt from debt service over 2023 – 2026, we believe the authorities are on the right path to close the residual financing gap in line with the IMF targets. Given the outcome of the bilateral debt negotiations, and subject to the comparability of treatment principle under the G20 Common Framework, we foresee Eurobond holders may be required to endure deeper cuts in debt service cash flow over 2023 – 2026.

OUTLOOK FOR GHANA'S EXTERNAL FINANCING GAP



SOURCES: IMF, IC INSIGHTS

For more information contact your IC representative

Business Development & Client Relations

Derrick Mensah
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Dora Youri
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 50 137 6100
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu
Economist
+254 711 796 739
churchill.ogutu@ic.africa

Lydia Adzobu
Senior Analyst, Financial Sector
+233 24 656 8669
Lydia.adzobu@ic.africa

Investing

Isaac Adomako Boamah
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 24 292 2154
timothy.schandorf@ic.africa

Herbert Dankyi
Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+233 24 789 0452
Clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Emmanuel Amoah
Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah
Head, Global Markets
+233 24 220 6265
randy.mensah@ic.africa

Allen Anang
Trader, Equities
+233 54 084 8441
allen.anang@ic.africa

Daniel Asante
Trader, Fixed Income
+233 55 285 7164
daniel.asante@ic.africa