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Ghana secures IMF Board approval for the third review of its ECF programme

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Approval granted; diligence demanded

The Executive Board of the International Monetary Fund (IMF) approved the third review of Ghana's ongoing Extended Credit Facility (ECF) Programme on Monday 2nd December 2024 after the Ghanaian authorities secured a staff-level agreement in October 2024. The Board approval will trigger the disbursement of USD 360.0mn in the course of this week, providing additional forex inflows to Ghana's gross international reserves which stood at USD 7.9bn (3.5 months of imports) as of 22nd November 2024. We view this additional support for the external buffer as positive for the near-term outlook on the Ghanaian Cedi against the backdrop of recent intensive forex market operations by the Bank of Ghana.

The anticipated disbursement of USD 360.0mn this week will bring the cumulative IMF disbursements under the ECF programme to USD 1.9bn, equivalent to 63.3% of the programme size with just over half of the review period travelled.

Our key takeaways from the press statement and press engagement

- **Approval granted but diligence demanded:** The IMF expressed general satisfaction about Ghana's programme performance as all the six (6) quantitative performance criteria and the four (4) indicative targets for the third review period were met. While noting delays on implementation, the Fund indicated that "good progress" was also made on key structural reforms but emphasized the need for steadfast implementation of the policy and reform agenda despite the upcoming December 2024 elections.

  The Ghanaian authorities achieved five out of the seven structural benchmarks (SB) set for the review period. The other two SBs which were missed included: (1) a new methodology for computing the Bank of Ghana's reference exchange rate which was belatedly executed in September 2024 (vs end-August 2024 target), and (2) the cleansing of the taxpayers' register which the authorities expect to complete by end-December 2024 (vs end-June 2024 target).

  Based on our monitoring of the domestic foreign exchange market, we confirmed that the Bank of Ghana's execution of the new methodology for FX computation led to the unification of the interbank transactions FX rate and the BOG reference rate since mid-September 2024. In our view, the adoption of a new methodology, with the resultant unification of the interbank and reference rates, eliminated the distortions in forex pricing and enhanced price discovery on the Ghanaian foreign exchange market, supporting market confidence.

  Instructively, we note a steady softening in the language adopted by the IMF to describe Ghana's performance under the reforms programme. Following the Board approval of the first review, the Fund described Ghana's performance as "strong". However, this description softened to "generally strong" at the end of the second review and moderated further to "generally satisfactory" at this third review approval. Our comparative analysis suggests that the tone softening was occasioned by delays in the implementation of structural benchmarks for the second and third reviews. In our view, the slowing pace of reform implementation underscored the Fund's demand for steadfastness as we believe these structural reforms are crucial to lock-in the gains of the programme.

- **Fiscal projections suggest expenditure-led consolidation has been programmed for 2025:** Our analysis of the medium-term fiscal projections by the IMF showed that total revenue is projected at GHS 209.3bn (17.2% of GDP) in FY2025, representing a slower growth of 16.1% (vs +33.8% y/y estimated for FY2024). On the spending side, total expenditure (on commitment basis) is projected at GHS 240.9bn (19.8% of GDP) in FY2025, representing a sharper slowdown in expenditure growth to 10.4% y/y (vs +32.2% y/y estimated for FY2024). While the IMF explained that the expenditure forecast assumes full debt restructuring, the Fund also underscored the need to strengthen expenditure controls and implement enhanced fiscal responsibility framework. Within this context, we view the projected drop in expenditure-to-GDP ratio to 19.8% (from 20.7% in FY2024) amidst a broadly flat projected revenue-to-GDP ratio of 17.2% as indicating a consolidation based on post-election year expenditure controls.

- **The Fund's inclination for enhancing exchange rate flexibility while flagging upside risks to inflation suggests a cautious posture on monetary policy easing in 2025:** Unsurprisingly, the IMF stressed the need for enhanced exchange rate flexibility as we observed that the Fund typically recommends this approach to support the rebuild of forex reserves. This deepens our cautious stance about the ongoing aggressive FX sales by the Bank of Ghana and the sustainability of this strategy under the prevailing IMF programme, especially as external debt service ramps up in 2026. In addition to a possible pass-through of depreciation within a more flexible exchange rate regime, the IMF also flagged the recent upside risks to inflation in its recommendation for appropriately tight monetary stance. We interpret this contextual recommendation for appropriately tight monetary stance as a call on the authorities to exercise caution in the rate cutting path amidst the disinflation outlook in 2025.

- **The authorities unambiguously dispelled speculations of a possible restructuring of T-bills:** In our meeting with the Ministry of Finance this week and at the post-IMF press conference, we sought clarity on the Treasury's plan on T-bill issuances amidst renewed market speculation about a likely restructuring of the securities. The authorities were very clear to us that they do not intend to restructure T-bills as these securities are not part of the Debt Sustainability Analyses conducted for the comprehensive debt restructuring programme, which is nearing the end. In view of this reassurances and given our belief that T-bills are sacrosanct for financial stability, we reiterate our view that Ghanaian T-bills remain safe for short-term investment and liquidity management.

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